IN THE UNITED STATES DISTRICT COURT
FOR THE DISTRICT OF DELAWARE

LAKITA BLAIR, LINDA FRAZIER, BONNIE WRIGHT, CHRISTOPHER SHULL, CHERYL MAXEY, LAWRENCE D. MEYER, JACOB EVANS, CLAUDE EDMONDS, BRIAN CAREY, JOHN EARLE, KATHLEEN HALL, and OLGA VAYSMAN, Individually and as Class Representatives,	)	C.A. No. 09 Civ. 295 (SLR)
Plaintiffs,	)	ECF CASE
v.	)	
INFINEON TECHNOLOGIES AG, INFINEON TECHNOLOGIES NORTH AMERICA CORP., and QIMONDA AG,	)	
Defendants.	)	

MOTION OF INFINEON TECHNOLOGIES AG AND INFINEON TECHNOLOGIES NORTH AMERICA CORP. TO DISMISS THE COMPLAINT, OR, IN THE ALTERNATIVE, TO STAY THE ACTION, OR TO REQUIRE A MORE DEFINITE STATEMENT

Pursuant to Rule 12(b)(6) of the Federal Rules of Civil Procedure, Defendants Infineon Technologies AG and Infineon Technologies North America Corp. (collectively, the "Infineon Defendants") hereby move to dismiss the Complaint in the above-captioned action on the grounds that it fails to state a claim upon which relief can be granted. In the alternative, the Infineon Defendants move to stay the action pursuant to the Court's inherent case-management authority, or, in the further alternative for a more definite statement pursuant to Rule 12(e) of the Federal Rules of Civil Procedures. The grounds for Defendants' motions are set forth in the Infineon Defendants' Opening Brief and the

~~accompanying Declaration of Alan E. Schoenfeld and exhibits thereto, filed herewith.~~

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October 16, 2009

CERTIFICATE OF SERVICE

The undersigned hereby certifies that on October 16, 2009, he caused to be served the Motion Of Infineon Technologies AG And Infineon Technologies North America Corp. To Dismiss The Complaint, Or, In The Alternative, To Stay The Action, Or To Require A More Definite Statement on the following counsel of record by electronic filing:

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Defendants.	)	

OPENING BRIEF OF INFINEON TECHNOLOGIES AG AND INFINEON TECHNOLOGIES NORTH AMERICA CORP. IN SUPPORT OF THEIR MOTION TO DISMISS THE COMPLAINT, OR, IN THE ALTERNATIVE, TO STAY THE ACTION, OR TO REQUIRE A MORE DEFINITE STATEMENT

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Defendants Infineon Technologies AG ("Infineon AG") and Infineon Technologies North America Corp. ("IFNA") (collectively, the "Infineon Defendants") submit this brief in support of their motion to dismiss the Complaint, or, in the alternative, to stay the action, or to require a more definite statement. Plaintiffs have alleged no legal basis to hold the Infineon Defendants liable for the alleged statutory and common-law obligations of Qimonda North America Corp. and/or Qimonda Richmond LLC (collectively, the "Qimonda Subsidiaries"). Specifically, plaintiffs have failed to plead sufficient facts to state a plausible claim that the Infineon Defendants are the alter ego of Qimonda AG and the Qimonda Subsidiaries, or that the Infineon Defendants, Qimonda AG, and the Qimonda Subsidiaries collectively function as a "single employer" of the plaintiffs-employees.

Accordingly, the Complaint should be dismissed in its entirety as against the Infineon Defendants.

SUMMARY OF ARGUMENT

1. The Complaint fails to allege that any fraud or injustice would result from the Court's recognition of the Qimonda Subsidiaries' corporate form, and therefore fails to state a claim for veil-piercing.

2. The Complaint fails to plausibly allege that the Infineon Defendants are the alter ego of Qimonda AG and the Qimonda Subsidiaries because the few facts alleged that are germane to the alter-ego inquiry are equally consistent with the conceded parent/subsidiary relationship among the companies as with the alleged alter-ego status.

3. The Complaint fails to plausibly allege that the Infineon Defendants, Qimonda AG, and the Qimonda Subsidiaries are a "single employer" under the federal

Worker Adjustment and Retraining Notification Act ("WARN Act") and state analogues because the facts alleged either are consistent with an ordinary parent/subsidiary relationship or wholly fail to satisfy the Third Circuit's balancing test for inter-corporate WARN Act liability.

4. In the alternative, the Court should stay this action pending resolution of the bankruptcy proceedings for the Qimonda Subsidiaries and Qimonda AG, because the predicate question of the Qimonda Subsidiaries' liability for the WARN Act violations alleged in the instant litigation will be resolved before the Bankruptcy Court in Delaware. This Court does not need to address whether the corporate veils of Infineon AG and IFNA must be pierced until and unless the Bankruptcy Court in Delaware determines the amount of any employee-related liability and the Bankruptcy Court in Virginia determines whether Qimonda AG's corporate veil may be pierced.

5. In the further alternative, assuming plaintiffs are permitted to proceed on their claims in this Court, plaintiffs should be required pursuant to Federal Rule of Civil Procedure 12(e) to plead with clarity and precision precisely which allegations are made against Infineon AG, IFNA, and Qimonda AG.

STATEMENT OF FACTS

These facts are drawn, as they must be on a motion to dismiss, from the Complaint and from public documents relied upon therein. *See DiLorenzo v. Edgar*, No. 03 Civ. 841, 2004 WL 609374, at *2 (D. Del. Mar. 24, 2004) (Robinson, J.) ("In considering a motion to dismiss, a court may consider Securities and Exchange Commission documents that are expressly relied upon in the complaint. Further, on a motion to dismiss the court may take judicial notice of the contents of documents required by law to be filed, and actually filed, with federal or state officials.").

I. Infineon and Qimonda

Infineon AG was formed in 1999 as a spin-off from Siemens AG, a German corporation. Compl. ¶ 8. IFNA is a subsidiary of Infineon AG. *Id.* ¶ 2. Beginning in 2003, IFNA expanded its presence in the United States, opening a facility in North Carolina in 2003 and expanding in Virginia in 2005. *Id.* ¶¶ 16-17. In 2006, Infineon AG spun off its memory-technology division, forming Qimonda AG as a separate corporate entity. *Id.* ¶ 18.

The Complaint recites that many details of the spin-off were disclosed in Infineon AG's public filings. *Id.* ¶¶ 18, 21. As reported to the Securities and Exchange Commission ("SEC"), the purpose of the spin-off was to afford Infineon AG and Qimonda AG "increased market responsiveness through an exclusive focus on our respective customers; access to separate and distinct investor bases; employee incentives more directly tied to the performance of the individual companies; and increased flexibility to pursue strategic options." Declaration of Alan E. Schoenfeld ("Schoenfeld Decl."), Exh. 1 (Infineon Technologies AG Form 20-F (Dec. 7, 2007)), at 52. The Complaint alleges that another purpose animating the spin-off was Infineon AG's desire

to "insulate itself from any down-side risks associated with the semiconductor industry." Compl. ¶ 21 (citing "Infineon's filings" at n.5).[1]

Infineon AG and Qimonda AG, are separate corporations with separate management and supervisory boards. Each has traded separately on the New York Stock Exchange, and each has made its own filings with the SEC. *See id.* ¶ 22 (citing Infineon and Qimonda filings). While Infineon AG has maintained a majority stake in Qimonda AG, it publicly announced its intent to reduce its stake in Qimonda to "significantly below 50 percent" by 2009. Schoenfeld Decl., Exh. 3 (Qimonda AG Form 20-F (Nov. 16, 2007)), at 127; *see* Compl. ¶ 22. In the interim, Infineon AG and Qimonda AG have entered into several contracts governing shared support services, as reported to the SEC in Infineon AG's and Qimonda AG's respective public disclosures. *See* Compl. ¶¶ 21-22 (citing Infineon and Qimonda SEC filings).

Qimonda performed well during the 2006 fiscal year. *Id.* ¶ 23. In late 2007, however, it began to experience a "cyclical decline." *Id.* ¶ 27. The difficulties continued into 2008. In mid-October 2008, Qimonda announced that it would close its Richmond, Virginia facility within three months, and that the employment of all facility workers

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[1] Infineon AG's March 31, 2006 press release (filed with the SEC as a Form 6-K) announced that the spin-off would create "a leading memory products company" (Qimonda), while "transform[ing] Infineon Technologies AG." The release also stated that, with the spin-off, "both forceful players will operate in their own markets as industry leaders. . . . We are in good shape to press ahead in our efforts to increase value for our shareholders, employees and customers." Schoenfeld Decl., Exh. 2 (Infineon Technologies AG Form 6-K (Mar. 31, 2006)), at 1-3. To the extent the plaintiffs' characterization differs, it is based on "conclusory allegations," which, when "contradicted by documents incorporated in the pleadings," need not be accepted. *Muti v. Schmidt*, 96 Fed. App'x 69, 74 n.2 (3d Cir. 2004) (citing 5A Charles A. Wright & Arthur R. Miller, Federal Practice and Procedure § 1363, at 464-65 (2d ed. 1995)), *superseded on other grounds*, 118 Fed. App'x 646 (3d Cir. 2004). But even accepting the plaintiffs' characterization, their alter-ego claim fails as a matter of law.

would be terminated. *Id.* ¶ 30. On November 7, 2008, the New York Stock Exchange de-listed Qimonda AG because its average closing price had fallen below $1 over a thirty-day consecutive trading period. *Id.* ¶ 32. On January 23, Qimonda AG filed for insolvency in Germany. *Id.* ¶ 37. Weeks later, the Qimonda Subsidiaries filed for bankruptcy in Delaware. *Id.* ¶ 40.[2]

The Complaint does not allege that IFNA has any direct relationship to Qimonda AG or to the Qimonda Subsidiaries. The Complaint alleges only that the parent of IFNA, Infineon AG, is also a majority shareholder in the parent of the Qimonda Subsidiaries, Qimonda AG. *Id.* ¶ 2. Aside from that, the Complaint does not allege that IFNA has any other indirect relationship to Qimonda. That is, the Complaint does not allege a single fact concerning IFNA's role in the events at issue in this suit.

II. The Lawsuit

Plaintiffs are former employees of the Qimonda Subsidiaries who worked in facilities in California, North Carolina, and Virginia. Compl. ¶ 1. The Qimonda Subsidiaries closed those facilities in 2008, and most of the employees working there were laid off. *Id.* ¶¶ 30, 39. Some employees were given prior notice that their employment would be terminated and were allegedly promised severance benefits; others

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2 *See In re Qimonda Richmond, LLC*, No. 09-10589 (Bankr. D. Del.); *In re Qimonda North America Corp.*, No. 09-10590 (Bankr. D. Del.). Many of the named plaintiffs in the instant action are also named plaintiffs in adversary proceedings against the Qimonda Subsidiaries in the Bankruptcy Court. *See Jackson et al. v. Qimonda North America Corp. and Qimonda Richmond LLC*, No. 09-50192 (Bankr. D. Del.); *Blair et al v. Qimonda North America Corp. and Qimonda Richmond LLC*, No. 09-50193 (Bankr. D. Del.); *Maxey v. Qimonda North America Corp. et al.*, No. 09-50199 (Bankr. D. Del.); *Carey et al. v. Qimonda North America Corp. et al.*, No. 09-50200 (Bankr. D. Del.). Those actions concern the Qimonda Subsidiaries' liability for the same WARN Act violations alleged in the instant lawsuit. The Infineon Defendants are not parties to the Delaware Bankruptcy Court proceedings.

claim they were never provided with notice that the facilities would be shuttered and that their employment would be terminated. *Id.* ¶ 3. On April 24, 2009, they filed this action on behalf of themselves and similarly situated individuals, claiming that the Qimonda Subsidiaries had violated various employment-law statutes and breached contracts and promises made with the employees. *Id.* Among the statutes relied on by plaintiffs is the WARN Act, a federal statute that, subject to certain exceptions, generally requires employers to provide employees with sixty days' notice that a plant will be shut down and mass layoffs will result. *See* 29 U.S.C. § 2101 *et seq.*

This action does not name the Qimonda Subsidiaries as defendants. Rather, this action seeks to hold Qimonda AG and the Infineon Defendants responsible for the Qimonda Subsidiaries' employment-related liabilities to their former workers. Compl. ¶¶ 3, 13. The Complaint alleges that these defendants are liable under an alter-ego theory for most of the claims, and accordingly seeks to pierce the corporate veils separating the Qimonda Subsidiaries from the defendants. *Id.* As to the WARN Act claims, plaintiffs invoke a provision of the Act that makes a non-employer corporation liable for the employer's statutory violation if the entities function as a "single employer." *See* 20 C.F.R. § 639.3(a)(2).

Qimonda AG was named as a defendant in this action, but it has not appeared and is not represented by counsel for Infineon. In June 2009, Qimonda AG filed a petition in the Bankruptcy Court for the Eastern District of Virginia seeking recognition pursuant to Chapter 15 of the Bankruptcy Code that its German insolvency proceeding be deemed the "foreign main proceeding" for purposes of adjudicating issues arising from Qimonda AG's bankruptcy filing. *In re Qimonda AG*, No. 09-14766 (Bankr. E.D. Va.). The

Virginia Bankruptcy Court issued an injunction staying litigation against Qimonda AG and requiring that creditors' claims (except those specified in the Court's order) be adjudicated in Germany. *In re Qimonda AG*, No. 09-14766 (Bankr. E.D. Va. June 15, 2009), Dkt. Nos. 56, 57. The plaintiffs in the action in this Court moved for relief from that injunction. Their motion was denied on October 1, 2009. *In re Qimonda AG*, No. 09-14766, 2009 WL 2210771 (Bankr. E.D. Va. June 16, 2009), Dkt. No. 94. The Infineon Defendants are not parties to the Virginia Bankruptcy Court proceedings.

ARGUMENT

I. The Complaint Fails To Plead Adequately Any Theory Of The Infineon Defendants' Derivative Liability.

To survive a motion to dismiss, the Complaint must plausibly allege that the Infineon Defendants were the alter ego of Qimonda AG and the Qimonda Subsidiaries, or that the Infineon Defendants, Qimonda AG, and the Qimonda Subsidiaries collectively functioned as a "single employer." The Complaint fails to carry its burden. A complaint challenged on a motion to dismiss "must contain sufficient factual matter, accepted as true, to state a claim to relief that is plausible on its face." *Ashcroft v. Iqbal*, 129 S. Ct. 1937, 1949 (2009) (internal quotation marks and citation omitted). "The plausibility standard is not akin to a 'probability requirement,' but it asks for more than a sheer possibility that a defendant has acted unlawfully." *Id.* (internal quotation marks and citation omitted). "[T]he tenet that a court must accept as true all of the allegations contained in a complaint is inapplicable to legal conclusions. Threadbare recitals of the elements of a cause of action, supported by mere conclusory statements, do not suffice." *Id.* Thus, the court must engage in a two-step inquiry: First, a court "begin[s] by identifying pleadings that, because they are no more than conclusions, are not entitled to

the assumption of truth." *Id.* at 1950. Second, "[w]hen there are well-pleaded factual allegations, a court should assume their veracity and then determine whether they plausibly give rise to an entitlement to relief." *Id.*

The standard articulated in *Iqbal* means that "mere consistency with liability is insufficient." *Cafaro v. HMC Int'l, LLC*, No. 07 Civ. 2793, 2009 WL 1622825, at *2 (D.N.J. June 10, 2009). Where allegations are equally susceptible to inferences of defendants' liability and non-liability, defendants are entitled to a presumption that they are not liable. "[A] complaint must do more than allege the plaintiff's entitlement to relief. A complaint has to 'show' such an entitlement with its facts." *Fowler v. UPMC Shadyside*, 578 F.3d 203, 211 (3d Cir. 2009). "But where the well-pleaded facts do not permit the court to infer more than the mere possibility of misconduct, the complaint has alleged—but it has not 'shown'—that the pleader is entitled to relief." *Iqbal*, 129 S. Ct. at 1950 (internal quotation marks and alteration omitted). Here, the facts pleaded are "not only compatible with, but indeed . . . more likely explained by" the conventional parent/subsidiary relationship shared by the Infineon Defendants and the Qimonda Subsidiaries, and the Complaint should be dismissed.

A. The Complaint Fails To Plausibly Allege That The Infineon Defendants Are The Alter Ego Of Qimonda AG And The Qimonda Subsidiaries.

"[P]iercing the corporate veil is an exception reserved for extreme situations, rather than the rule." *Trustees of the Nat'l Elevator Indus. Pension, Health Benefit & Educ. Funds v. Lutyk*, 332 F.3d 188, 197 (3d Cir. 2003). This is more so here because the plaintiffs must pierce *at least two* corporate veils: the one between the Qimonda

Subsidiaries and Qimonda AG,[3] and then the one between Qimonda AG and either Infineon AG or IFNA. Plaintiffs do not meet that pleading challenge. Instead, they obfuscate the boundaries separating the various entities, grouping Qimonda AG and the Qimonda Subsidiaries into one undifferentiated "Qimonda" entity, and the two Infineon Defendants into one undifferentiated "Infineon" entity. *See* Compl. ¶ 2. Plaintiffs thus disregard the distinct corporate identity of the entities, and treat as a definitional, housekeeping matter the very legal conclusion they seek through this litigation: that the defendant entities are one and the same. But the corporate separateness of the Qimonda Subsidiaries must be respected absent a showing that the corporate veil should be pierced.[4] Even assuming that the Qimonda Subsidiaries and Qimonda AG form one undifferentiated corporate entity, the Complaint fails to plausibly allege that the Infineon Defendants are the alter ego of "Qimonda," and does not plead sufficient facts to pierce the corporate veil between "Qimonda" and the Infineon Defendants.

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[3] The Infineon Defendants do not concede that the Qimonda Subsidiaries are indistinguishable, or that they have the same relationship to the entities named as defendants in this lawsuit. But for purposes of this motion, given that plaintiffs treat the two subsidiaries as one, the Infineon Defendants will do the same.

[4] The plaintiffs' disregard of the distinct Qimonda entities is not just wrong as a legal matter, it ignores the practical and operational distinction between those entities. In July 2009, the creditors committee of the Qimonda Subsidiaries sued Qimonda AG in Delaware Bankruptcy Court seeking a declaratory judgment that hundreds of patent applications filed in the United States, Germany, China, and elsewhere are owned by the Qimonda Subsidiaries. *See Official Committee of Unsecured Creditors, Qimonda Richmond, LLC and Qimonda North America Corp. v. Qimonda AG*, No. 09-51060 (Bankr. D. Del.). The Qimonda Subsidiaries' creditors committee recently brought a second adversary proceeding against Qimonda AG for turnover of the Qimonda Subsidiaries' electronic information, which Qimonda AG had refused to release. *See Qimonda North America Corp. v. Michael Jaffé, as Insolvency Administrator for Qimonda AG, and Qimonda AG*, No. 09-52207 (Bankr. D. Del.).

1. The Complaint Fails To Allege That Qimonda's Corporate Form Was Created Or Used To Perpetrate Fraud Or Injustice.

"Delaware public policy does not lightly disregard the separate legal existence of corporations." *BASF Corp. v. POSM II Props. P'ship, L.P.*, C.A. No. 3608-VCS, 2009 WL 522721, at *8 n.50 (Del. Ch. Mar. 3, 2009) (dismissing alter ego claims.) Accordingly, to pierce the corporate veil, plaintiffs must show that some fraud, inequity, or injustice would result from recognition of an entity's corporate form. *See Carpenters Health & Welfare Fund v. Kenneth R. Ambrose, Inc.*, 727 F.2d 279, 284 (3d Cir. 1983) ("[T]he alter ego theory is a tool of equity [that] is appropriately utilized when the court must prevent fraud, illegality or injustice, or when recognition of the corporate entity would defeat public policy or shield someone from public liability for a crime.") (internal quotations omitted), *overruled on other grounds*, *McMahon v. McDowell*, 794 F.2d 100 (3d Cir. 1986); *Crosse v. BCBSD, Inc.*, 836 A.2d 492, 497 (Del. 2003) ("To state a veil-piercing claim, the plaintiff must plead facts supporting an inference that the corporation, through its alter-ego, has created a sham entity designed to defraud investors and creditors.").[5]

To state a claim for piercing the corporate veil under an alter-ego theory, the complaint must adequately plead "(1) that the corporation and its shareholders operated as a single economic entity, and (2) that an overall element of injustice or unfairness is present." *Trevino v. Merscorp, Inc.*, 583 F. Supp. 2d 521, 528 (D. Del. 2008) (dismissing

[5] Qimonda North America Corp. is a Delaware corporation, and Qimonda Richmond LLC is a Delaware limited liability corporation. Accordingly, Delaware law applies to the veil-piercing inquiry. *See Mobil Oil Corp. v. Linear Films, Inc.*, 718 F. Supp. 260, 267 (D. Del. 1989) (holding Delaware law applies "when it is a Delaware corporation that would be ignored"); *HMG/Courtland Props., Inc. v. Gray*, 729 A.2d 300, 309 (Del. Ch. 1999) ("[T]his court has looked to the law of the entity in determining whether the entity's separate existence is to be disregarded.").

alter-ego claims). The fraud or injustice that must be demonstrated in order to pierce the corporate veil must "be found in the defendants' use of the corporate form." *Id.* at 530 (internal quotation marks and citation omitted); *see also Sears, Roebuck & Co. v. Sears*, 744 F. Supp. 1297, 1304 (D. Del. 1990) ("In order to reach a parent corporation under the alter-ego theory, the plaintiff must show fraud, injustice, or inequity in the use of the corporate form."). In addition, a plaintiff must plead the fraud element of an alter-ego claim with particularity. *See* Fed. R. Civ. P. 9(b); *Kaplan v. First Options of Chicago, Inc.*, 19 F.3d 1503, 1522 (3d Cir. 1994).

Delaware courts have not hesitated to dismiss complaints where they fail to adequately plead the elements of a veil-piercing claim. *See, e.g.*, *Trevino*, 583 F. Supp. 2d at 531; *C.R. Bard, Inc. v. Guidant Corp.*, 997 F. Supp. 556, 559-60 (D. Del. 1998) (dismissing veil-piercing claim where the complaint included no allegations of "fraud, injustice, or inequity in the use of the corporate form"); *Maloney-Refaie v. Bridge at Sch., Inc.*, 958 A.2d 871, 881 (Del. Ch. 2008) (dismissing alter-ego claim of personal jurisdiction where "nothing suggests that the [alter-ego defendant] used [the primary defendant's] corporate form to perpetrate a fraud"); *Medi-Tec of Egypt Corp. v. Bausch & Lomb Surgical*, C.A. No. 19760-NC, 2004 WL 415251, at *3-4 (Del. Ch. Mar. 4, 2004) (dismissing "Medi-Tec's alter ego argument . . . because it has not alleged that the corporate form in and of itself operates to serve some fraud or injustice").

Plaintiffs have not alleged with the requisite particularity that the relationship between the Infineon Defendants and Qimonda would work a "fraud, injustice, or inequity." *Sears*, 744 F. Supp. at 1304. The Complaint's sole allegation of injustice is in the alter-ego cause of action, where plaintiffs allege that an "overall element of injustice

is present because, *inter alia*, Infineon has mishandled and/or misdirected Qimonda funds and wrongfully taken actions to prevent the Qimonda subsidiaries from obtaining proper financing and/or honoring their obligations to Qimonda employees." Compl. ¶ 67. This conclusory assertion fails to establish the necessary injustice because it is not a "well-pleaded" allegation directed to the requirement that "fraud or injustice be found in the defendants' use of the corporate form." *Mobil Oil*, 718 F. Supp. at 269.

Nowhere in the Complaint do plaintiffs assert that Qimonda was created to visit fraud upon them or anyone else. *Mason v. Network of Wilmington*, C.A. No. 19434-NC, 2005 WL 1653954, at *3 (Del. Ch. July 1, 2005) (to pierce the corporate veil "the corporation must be a sham and exist for no other purpose than as a vehicle for fraud") (internal quotation marks omitted). Indeed, plaintiffs concede that "Qimonda" was formed for a legitimate purpose. The Complaint repeatedly alleges that "Qimonda" was spun off from Infineon in 2006 "as part of an apparent attempt to insulate itself from possible liabilities from its semiconductor operations." Compl. ¶ 2; *see also id.* ¶ 18 ("The stated reason for the 'spin off' was to limit the company's financial exposure in the memory chip market."); *but see supra* n.1. This is the classic justification for the corporate form. *See Lutyk*, 332 F.3d at 195 (observing that the corporate form exists to "limit the liability of investors to the capital they pay in"); *Mobil Oil*, 718 F. Supp. at 269 ("[L]imiting one's personal liability is a traditional reason for a corporation. Unless done deliberately, with specific intent to escape liability for a specific tort or class of torts, the cause of justice does not require disregarding the corporate entity. The corporate form itself works no fraud on a [tort victim] who has never elected to deal with the corporation."); *see also Trevino*, 583 F. Supp. 2d at 530 (rejecting as a ground for

piercing the corporate veil plaintiffs' contention that a corporation was created to "limit [defendants'] liability").

The concession that Qimonda was established for legitimate purposes mandates dismissal of the Complaint. *See Pauley Petroleum Inc. v. Continental Oil Co.*, 239 A.2d 629, 633 (Del. 1968) (refusing to pierce the veil where the record indicated that the corporation served a legitimate business purpose); *Crosse*, 836 A.2d at 497 ("To state a 'veil-piercing claim,' the plaintiff must plead facts supporting an inference that the corporation, through its alter-ego, has *created a sham entity designed to defraud investors and creditors*.") (emphasis added).

Finally, it bears mention that the plaintiff-employees' alter-ego claim against the parent of its employer is an unconventional use of the theory of derivative liability. As this Court has observed, "cases where the corporate veil is pierced invariably involve some degree of *reliance* by plaintiff, contributing to the fraud or accenting the injustice." *Mobil Oil*, 718 F. Supp. at 268 n.11 (internal citation omitted). Accordingly, the vast majority of veil-piercing cases involve disappointed creditors filing suit against the shadow debtor who is responsible for the nominal debtor's default. *See Zubik v. Zubik*, 384 F.2d 267, 273 (3d Cir. 1967). This is not such a case: The plaintiff-employees were employed by the Qimonda Subsidiaries, and do not allege any reliance on the Infineon Defendants supporting a claim that an injustice would be done absent veil-piercing.

Putting aside the fact that plaintiffs nowhere raise this argument, the notion that the corporate form of the Qimonda Subsidiaries somehow worked a fraud on the plaintiffs is untenable in light of the Infineon Defendants' repeated disclosure of the nature of their relationship with "Qimonda." The elements of that relationship were

spelled out in public filings, including the transitional human resources and other support that Infineon AG provided for Qimonda. *See, e.g.*, Schoenfeld Decl., Exh. 3 (Qimonda AG, Annual Report (Form 20-F)), at 131-32 (certain transitional services, including purchasing services and other back-office support services, were being provided by Infineon to Qimonda only until Qimonda "reached full staffing levels" or until Qimonda's existing staff "develop[ed] expertise to operate independently").

2. The Complaint Does Not Allege The Multiple Factors Considered By Courts In Veil-Piercing Claims.

The rigorous standard for piercing the corporate veil is "notoriously difficult for plaintiffs to meet." *Pearson v. Component Tech. Corp.*, 247 F.3d 471, 485 (3d Cir. 2001). This is because "[i]t is a general principle of corporate law deeply ingrained in our economic and legal systems that a parent corporation . . . is not liable for the acts of its subsidiaries." *United States v. Bestfoods*, 524 U.S. 51, 61 (1998) (internal quotation marks and citation omitted); *see BASF Corp.*, 2009 WL 522721, at *8 n.50 (same, under Delaware law).

Even where a conceded subsidiary or affiliate relationship exists between entities, disregarding the corporate form is disfavored under Delaware law. As this Court has observed, "[a] parent company is not liable for the actions of a subsidiary solely because of the parent-subsidiary relationship." *Ethypharm S.A. France v. Bentley Pharm., Inc.*, 388 F. Supp. 2d 426, 432 (D. Del. 2005) (Robinson, J.). A complaint alleging veil-piercing must adequately plead that the corporation and its shareholders operated as a single economic entity. *Trevino*, 583 F. Supp. 2d at 528. Whether multiple, independent corporate entities constitute a "single economic entity" for veil-piercing purposes turns on a multi-factor test. *Id.* These factors are: (1) undercapitalization; (2) failure to

observe corporate formalities; (3) non-payment of dividends; (4) the insolvency of the debtor corporations at the time; (5) siphoning of the corporation's funds by the dominant stockholder; (6) absence of corporate records; and (7) the fact that the corporation is merely a facade for the operations of the dominant stockholder or stockholders. *United States v. Pisani*, 646 F.2d 83, 88 (3d Cir. 1981). "'While no single factor justifies a decision to disregard the corporate entity,' some combination of the above is required, and 'an overall element of injustice or unfairness must always be present, as well.'" *Trevino*, 583 F. Supp. 2d at 529 (quoting *United States v. Golden Acres, Inc.*, 702 F. Supp. 1097, 1104 (D. Del. 1988)). The Complaint fails to allege six of these seven factors, making no claims of Qimonda's undercapitalization, failure to observe corporate formalities, nonpayment of dividends, or failure to maintain corporate records, and nowhere alleging that Qimonda was merely a facade for the Infineon Defendants' own operations.

The sole factor that plaintiffs even mention—Qimonda's insolvency—is pleaded in wholly unsatisfactory terms. As a threshold matter, the Qimonda Subsidiaries' insolvency is not itself probative of whether the corporate veil should be pierced. As the Third Circuit noted in *Lutyk*, "[c]ompanies commonly become insolvent, then bankrupt; piercing the corporate veil is an exception reserved for extreme situations, rather than the rule." *Lutyk*, 332 F.3d at 197. Accordingly, "insolvency, without more, is not a factor which can justify piercing a corporate veil." *Id.* at 195. While Plaintiffs assert that the Infineon Defendants siphoned funds from Qimonda, resulting in Qimonda's insolvency, each such allegation is either made "on information or belief," or is speculative or

conclusory. None of these allegations—taken independently or together—plausibly alleges that the Infineon Defendants siphoned funds from the Qimonda Subsidiaries.

Most troublingly, the Complaint makes its most crucial allegations "on information and belief," and by alleging that "Infineon ***and/or*** Qimonda AG" performed some crucial act. The Complaint alleges "[o]n information and belief" that after Qimonda AG's insolvency filing, "resources were shifted from the Qimonda Subsidiaries to Qimonda AG," Compl. ¶ 37, and that "assets and revenues from the Qimonda Subsidiaries were transferred ***and/or*** used in an inappropriate manner by Infineon ***and/or*** Qimonda AG, rather than being used to cover employment-related obligations or providing Qimonda Subsidiaries' employees with appropriate notice under U.S. law," *id.* ¶ 39 (emphasis added). But using the evasive "and/or" formulation sidesteps plaintiff's pleading requirements, and amounts to precisely the sort of "formulaic recitation of the elements" that the pleading standards articulated in *Twombly* were meant to protect against. *See Bell Atlantic Corp. v. Twombly*, 550 U.S. 544, 555 (2007). Further, the allegation of a "critical element" of a cause of action—here, the Infineon Defendants' supposed exploitation of Qimonda's corporate form—when "alleged on information and belief . . . is insufficient to withstand a motion to dismiss." *Triemer v. Bobsan Corp.*, 70 F. Supp. 2d 375, 377 (S.D.N.Y. 1999); *cf. Rose v. Goldman, Sachs & Co., Inc.*, 163 F. Supp. 2d 238, 242 (S.D.N.Y. 2001) (holding that conclusory allegations based on information and belief are insufficient to withstand a motion to dismiss).

Similarly, the Complaint concludes, with no factual support, that "[d]uring 2008 and 2009, Qimonda AG, at Infineon's direction, began to bleed the Qimonda Subsidiaries dry." Compl. ¶ 36. According to the Complaint, "Infineon had *apparently* made the

decision . . . that it would prop up Qimonda AG for possible sale." *Id.* (emphasis added). There is no suggestion that any such decision was *actually* made, nor any allegation about what role Infineon played in allocating revenue between the various Qimonda entities.

These allegations highlight both the inappropriateness of plaintiffs' blurred approach to pleading and the speciousness of their factual allegations. As discussed above, from the outset of the Complaint, plaintiffs treat the individual defendant entities as interchangeable and aggregate. These highlighted allegations likewise elide the corporate distinctions between the Infineon Defendants and Qimonda AG. They simply allege (in conclusory fashion) that Qimonda AG did things, and then attribute those actions to Infineon.

The remaining allegations do nothing more than describe in conclusory terms the nature of a parent/subsidiary relationship, formulaically reciting the elements of a veil-piercing claim in contravention of *Iqbal*. *See, e.g.*, Compl. ¶ 2 (alleging that Infineon "report[ed] Qimonda's earnings and losses on its own financial statements, allocated portions of its overhead and other expenses to Qimonda, maintained direct responsibility for Qimonda's strategic, financial, human resources and benefits functions, and exercised control over Qimonda's business plans and decisions to obtain financing, declare bankruptcy, layoff employees and/or dissolve the company"); *id.* ¶ 26 (discussing the "interconnectivity" of the companies' intellectual property); *id.* ¶ 27 (discussing common recruiting of employees). Consolidated financial statements are required by Generally Accepted Accounting Principles ("GAAP") when the parent entity owns a majority of the voting common shares of the subsidiary. *See* Financial Accounting Standards Board,

Accounting Research Bulletin No. 51, Consolidated Financial Statements; *see also AT&T v. Compagnie Bruxelles Lambert*, 94 F.3d 586, 591 (9th Cir. 1996) (describing consolidated financial statements as indicative of "a normal parent-subsidiary relationship"); *BASF Corp.*, 2009 WL 522721, at *8. Likewise, the arrangements the Complaint describes were all publicly disclosed years ago pursuant to arms-length service agreements entered into by the parties. *See* Schoenfeld Decl., Exh. 3 (Qimonda AG, Annual Report (Form 20-F)), at 131-32.

Plaintiffs' allegations shed no light on whether the Infineon Defendants are Qimonda's alter ego. The question on an alter-ego claim is whether the corporation whose veil plaintiffs seek to pierce is "little more than a legal fiction." *Lutyk*, 332 F.3d at 194. For the purposes of this motion, the Infineon Defendants do not dispute that they were in a position as majority shareholders to potentially exercise some control over Qimonda's affairs; indeed, that is the prerogative of a majority shareholder. But a parent's legitimate exercise of control over a subsidiary does not expose the parent to the subsidiary's liability. *See American Bell Inc. v. Federation of Tel. Workers of Pa.*, 736 F.2d 879, 887 (3d Cir. 1984) ("The district court, to the extent it applied a theory of corporate veil piercing, apparently did so only because of the parent-subsidiary relationship. This is not enough. As another court has explained, there is no policy of federal labor law, either legislative or judge-made, that a parent corporation is bound by its subsidiary's labor contracts simply because it controls the subsidiary's stock and participates in the subsidiary's management."). Particularly in light of the teachings of *Iqbal*, plaintiffs' factual allegations, which are equally compatible with a conventional

parent/subsidiary relationship as with an alter ego, must be construed against a finding of the Infineon Defendants' liability.

B. The Complaint Fails To Plausibly Allege That The Qimonda Subsidiaries, Qimonda AG, And The Infineon Defendants Constitute A "Single Employer" Under The WARN Act.

Based on little more than allegations that, at the time of the spin-off *in 2006*, Infineon AG provided Qimonda with certain transitional support services, plaintiffs seek to hold the Infineon Defendants liable for the Qimonda Subsidiaries' alleged failure *in 2009* to timely notify certain workers of "plant closings" in California, North Carolina, and Virginia.[6] Plaintiffs' anachronistic, conclusory allegations fail to show that the Infineon Defendants, Qimonda AG, and the Qimonda Subsidiaries functioned as a "single employer" under the Third Circuit's stringent test for inter-corporate WARN Act liability. *See* 20 C.F.R. § 639.3(a)(2).

The standard for inter-corporate liability under the WARN Act rests on whether the relevant companies have become "so entangled with [one another's] affairs," *Pearson*, 247 F.3d at 491, that the separate companies "are not what they appear to be, [and] in truth they are but divisions or departments of a single enterprise," *NLRB v. Browning-Ferris Indus. of Pa., Inc.*, 691 F.2d 1117, 1122 (3d Cir. 1982). The necessary level of entanglement requires plaintiffs to show not only a "high degree of integration," but also that the entities failed to operate "at arm's length." *Pearson*, 247 F.3d at 505; *see also Childress v. Darby Lumber Inc.*, 357 F.3d 1000, 1005 (9th Cir. 2004) (holding

[6] The WARN Act requires that "an employer" provide its employees with sixty days notice before a plant closing or mass layoff, absent a showing of unforeseeable business circumstances or other applicable defenses. *See* 29 U.S.C. §§ 2102(a), 2103. The Complaint concedes that the Qimonda Subsidiaries provided timely notifications of plant closures to the "first set of Qimonda employees working in Richmond, [Virginia]," as well as to certain Qimonda employees in Cary, North Carolina. *See* Compl. ¶¶ 30-31 & 33.

that whether companies constitute a "single-employer" under the WARN Act ultimately depends on whether the absence of an arms-length relationship is established).

The Third Circuit applies a five-prong balancing test enumerated in Department of Labor regulations to assess whether the requisite level of entanglement and high degree of integration exist. *See Pearson*, 247 F.3d at 496. Here, the five factors require plaintiffs to sufficiently allege: (1) that the Infineon Defendants exercised de facto control of the Qimonda Subsidiaries; (2) a unity of personnel policies in the companies and that those policies emanated from a common source; (3) a dependency of operations between the companies; (4) common directors and officers; and (5) common ownership. Plaintiffs have failed to properly allege any of the five factors.

1. The Complaint Fails To Allege That The Infineon Defendants Exercised De Facto Control Of The Qimonda Subsidiaries.

The de facto control test centers on whether the parent corporation was responsible for the events giving rise to the WARN Act claims. *See In re APA Transp. Corp. Consol. Litig.*, 541 F.3d 233, 245 (3d Cir. 2008) ("The core of this factor is whether one company was the decision-maker responsible for the employment practice giving rise to the litigation.") (internal quotation marks omitted); *see also Pearson*, 247 F.3d at 504 (focusing the de facto control test on "the extent [of the alter-ego defendant's] involvement in the decision to close the plant"); *cf. Frank v. U.S. West, Inc.*, 3 F.3d 1357, 1363 (10th Cir. 1993) (holding that, to determine whether a parent and subsidiary are considered a "single employer" for purposes of employment discrimination laws, "[t]he critical question is, what entity made the final decisions regarding employment matters related to the person claiming discrimination") (internal quotations omitted).

Plaintiffs have failed to plausibly plead that the Infineon Defendants made or directed the decision to close the Qimonda Subsidiaries' facilities, pleading only that, "On information and belief, Infineon was responsible for the decisions at issue in the instant matter, including, without limitation, the decision not to provide Plaintiffs with notice under the WARN Act." Compl. ¶ 13. This "[t]hreadbare recital[] of an element of a cause of action" is not entitled to be assumed true. *See Iqbal*, 129 S. Ct. at 1941. And, alleging a "critical element" such as this "on information and belief" is insufficient to withstand a motion to dismiss. *See Rose*, 163 F. Supp. 2d at 242 (holding that conclusory allegations based on information and belief are insufficient to withstand a motion to dismiss).

To impose WARN Act liability on the Infineon Defendants, plaintiffs must demonstrate that the Infineon Defendants were responsible for the employment decisions at issue in this lawsuit. But, with the exception of the singular conclusory allegation just discussed, plaintiffs' allegations of the Infineon Defendants' control are generic and do not suffice to carry plaintiffs' pleading burden. For example, the Complaint states that Infineon AG holds a majority equity interest in Qimonda, such that it "may, as a practical matter, be in a position to control many or all actions that require shareholder approval." Compl. ¶ 22. The de facto control test is not intended to support liability based on a parent's ability to exercise control pursuant to the ordinary incidents of stock ownership. *See Pearson*, 247 F.3d at 503.

The few remaining facts alleged are compatible with, and indeed more likely explained by, the ordinary parent/subsidiary relationship shared by the Infineon Defendants and the Qimonda Subsidiaries. *See Iqbal*, 129 S. Ct. at 1949. The Complaint

alleges that Infineon exercised control over Qimonda's operations because it consolidated Qimonda's earnings on Infineon AG's financial statements, Compl. ¶ 2, but, as already discussed, consolidation of financial reporting statements is mandated by GAAP. *See* Financial Accounting Standards Board, Accounting Research Bulletin No. 51, Consolidated Financial Statements; *see also AT&T v. Compagnie Bruxelles Lambert*, 94 F.3d 586, 591 (9th Cir. 1996); *BASF Corp.*, 2009 WL 522721, at *8.

The Complaint also asserts that Qimonda was dependent on the Infineon Defendants for financing, and that the Infineon Defendants loaned Qimonda money to keep it afloat. Compl. ¶ 22 (alleging that Qimonda was unable "to obtain financing to sustain its operations other than through Infineon; due to Qimonda's lack of *independent* credit history"). But loans from a parent to a subsidiary and the financial dependence that necessitated the loan in the first place do not engender WARN Act liability. *See Pearson*, 247 F.3d at 503 ("We surely do not want to discourage companies from attempting to keep their subsidiary operations afloat with temporary loans by holding that the mere fact that loans were even necessary . . . give[s] rise to liability"). Moreover, the fact that a parent "may have made certain loans" to a subsidiary or, as also alleged by plaintiffs, that a parent and subsidiary shared certain administrative functions, is not sufficient to establish de facto control where there is no allegation that the parent played a role in the plant-closure decision giving rise to the WARN Act claim. *See, e.g.*, *APA Transport*, 541 F.3d at 245 ("While APA Truck Leasing may have made certain loans to APA Transport and shared certain administrative functions, it was not 'controlling' APA Transport and played no role in APA Transport's decision to close the facilities.").

2. The Complaint Fails To Allege That A Unity of Personnel Policies Emanated From A Common Source.

Plaintiffs failed to plausibly plead that the Infineon Defendants and the Qimonda Subsidiaries "functioned as a single entity with regard to its relationships with employees." *Pearson*, 247 F.3d at 499. In particular, plaintiffs failed to plead any facts concerning the alleged unity of personnel policies at the time the employment decisions at issue in this case were made. This utter lack of contemporaneous allegations is fatal to their WARN Act claim.

Qimonda AG and the Infineon Defendants disclosed at the time of the spin-off that certain employment services were initially to be provided by Infineon AG. But those services were expressly transitional, and in 2007, in a Qimonda AG filing referenced in the Complaint, Qimonda AG stated: "The employment relationships that Infineon had with its Memory Products employees, including all rights and obligations relating to these relationships, were automatically transferred to us to the extent employees did not object to that transfer." *See* Schoenfeld Decl., Exh. 3 (Qimonda AG, Annual Report (Form 20-F)), at 131-32. Likewise, the Qimonda AG filing stated that "pension liabilities and related assets were legally transferred to Qimonda" after the spin-off. *Id.* at F-46.

Plaintiffs' failure to identify a time-frame for their allegations is critical given that the time of the alleged unnoticed plant closure is the operative date when assessing potential inter-corporate liability. *See Pearson*, 247 F.3d at 497, 501. Plaintiffs merely assert that that the Infineon Defendants—at some unspecified point in time—were responsible for Qimonda's human resources and benefits functions, and shared certain benefit plans. Compl. ¶¶ 21, 31. The Complaint further alleges that the companies shared recruitment activities because Infineon—again, at some unspecified time—accepted resumes on its website for certain Qimonda plants. Compl. ¶ 27.

Even beyond the lack of a sufficient temporal allegation, the facts as alleged are simply insufficient to find a "unity" of personnel "policy." *See APA Transport*, 541 F.3d at 245 ("While the two companies did share certain benefit plans and some employee monitoring functions . . . and machinists at both companies were given the opportunity to bid for positions at the other company, there is no evidence that the two companies actually functioned as a single entity with regard to their respective employees.") (internal quotations omitted); *Pearson*, 247 F.3d at 500 (holding that a unity of personnel policy was not established when lender controlled the hiring and firing of the subsidiary's president and CEO, as well as monitored the hiring of "a few other high-level managers"). To properly allege a unity of personnel policies requires more than what is alleged by plaintiffs. The unity prong is properly pleaded when a plaintiff alleges, for example, that "on a regular, day-to-day basis," *id.* at 490, the parent and subsidiary require employees to report to the same supervisors and pay employees from the same payroll, as well as share labor contracts, jointly report tax obligations to the federal government, agree on who to fire, or that the parent is empowered to prevent the subsidiary from hiring particular employees. *See APA Transport*, 541 F.3d at 245; *Pearson*, 247 F.3d at 500; *see also Childress*, 357 F.3d at 1006. No facts remotely approaching that standard are alleged here.

The Third Circuit's decision in *NLRB v. Browning-Ferris Industries*, 691 F.2d 1117 (3d Cir. 1982), is instructive. There, the court held that a refuse company and a trucking entity were "joint employers" within the meaning of the National Labor Relations Act—a test that parallels the Third Circuit's unity of personnel policies inquiry. *See Pearson*, 247 F.3d at 490 ("The DOL factors [that determine inter-corporate WARN

Act liability] are quite similar to the integrated enterprise test [under the National Labor Relations Act], which is understandable because the integrated enterprise test was also specifically intended to deal with labor relations."). The court concluded that the entities qualified as "joint employers" because (1) the two entities shared the right to hire and fire employees, (2) the refuse company established the work hours for drivers of the trucking company, (3) the refuse company provided drivers of the trucking company with the same uniforms provided to its employees, (4) the two companies together determined the drivers' compensation, and (5) the two companies shared in the day-to-day supervision of the drivers. *Browning-Ferris Indus.*, 691 F.2d at 1124-25. Plaintiffs' allegations stand in stark contrast to those present in *Browning-Ferris*, as well as the illustrations of a unity of personnel policies offered by the Third Circuit in *Pearson* and *APA Transport*. Hence, the Complaint lacks sufficient factual matter to plausibly state a claim that, on a daily basis, the Qimonda Subsidiaries and the Infineon Defendants functioned as a single entity with regard to their employee relationships.

3. The Complaint Fails To Allege A Dependency Of Operations Between The Infineon Defendants And The Qimonda Subsidiaries.

Plaintiffs wholly failed to allege the central factor of the dependency of operations test: that is, that the "daily functioning" of the companies justify their treatment as a single employer. *Pearson*, 247 F.3d at 501; *see also Childress*, 357 F.3d at 1006-07 (holding a dependency of operations exists where "the main purpose" of a subsidiary was to provide support services for a parent company, ninety percent of the subsidiary's activities and revenues were derived from the parent, and employees of the parent worked at the subsidiary's job site).

Plaintiffs merely ground their allegations on facts that are indicative of a normal parent/subsidiary relationship or on the relationship between Qimonda AG and the Qimonda Subsidiaries, the latter of which is entirely irrelevant to the Infineon Defendants' liability. And, as with other portions of the Complaint, plaintiffs allege that a dependency of operations existed in April 2009 by pointing to *transitional* support services that Infineon provided immediately after the spin-off in May 2006. These pleading deficiencies are fatal to plaintiffs' WARN Act claims.

First, plaintiffs allege that the Infineon Defendants could limit and possibly block Qimonda's ability to obtain financing, as well as pursue acquisitions. Compl. ¶ 22. However, a parent's ability to approve large-scale expenditures, restructurings, or similarly significant corporate transactions cannot form the basis for a dependency of operations. *See Pearson*, 247 F.3d at 502. Rather, it must be alleged that the parent—in addition to approving and disproving such transactions—was "involved in the details or manner of implementation" of those business plans. *Id.* The Complaint, however, includes no such allegations as to the Infineon Defendants.

Second, plaintiffs point to a rescue package assembled in December 2008 by lenders Infineon, the German State of Saxony, and Portugal in an attempt to avert the Qimonda bankruptcies. Compl. ¶¶ 34-35. "[I]t is believed," the Complaint recites, that the rescue loans were never actually made. *Id.* ¶ 35. The Complaint says nothing about the alleged terms of these proposed loans. Regardless, the Third Circuit has held that "loans—even from a parent to a subsidiary—cannot be sufficient to satisfy this prong." *Pearson*, 247 F.3d at 503. It instead must be alleged that the loans were not a bona fide arm's length transaction because, for example, the loan was unsupported by formal

documentation between the companies. *See id.* Yet, plaintiffs allege no more than that the Infineon Defendants had attempted to assemble a rescue package, along with two governments, to prevent the Qimonda bankruptcies. Nowhere is it alleged that this package included especially favorable terms to Infineon or bore other indicia of a lack of legitimacy.

Third, plaintiffs further allege that the Qimonda Subsidiaries were "captive sellers to Qimonda AG; they could not subsist without Qimonda AG and were entirely dependent on Qimonda AG to 'purchase' their products. . . . During 2008 and 2009, Qimonda AG, at Infineon's direction, began to bleed the Qimonda Subsidiaries dry." Compl. ¶ 36. While the Complaint then proceeds to discuss the alleged sales between *Qimonda AG and the Qimonda Subsidiaries*, *id.*, it says nothing of *Infineon*'s role in these transactions. Substituting conclusions for factual allegations fails, as a matter of law, to establish that a dependency of operations existed as between the Infineon Defendants and the Qimonda Subsidiaries. *See Iqbal*, 129 S. Ct. at 1949.

Plaintiffs' allegation that Qimonda and the Infineon Defendants shared certain administrative and sales support services also fails to plausibly allege a dependency of operations. Plaintiffs allege that at the time of Infineon's spin-off and as of an annual report that Qimonda filed with the SEC on November 16, 2007, Qimonda and Infineon shared select support services. Compl. ¶ 24. While for purposes of inter-corporate WARN Act liability the "more relevant time" period is the time of the plant closings at issue, *Pearson*, 247 F.3d at 501, the Complaint includes no allegations as to whether, in or around *April 2009*, Infineon and Qimonda continued to share select support services.

The Complaint's citation to the disclosure in Qimonda AG's annual report that the shared "administrative, financial, risk management, information tech & other services . . . may be *less favorable to us* [Qimonda] than they might have been had they been negotiated with unaffiliated third parties," Compl. ¶ 24, supports no inference of actionable conduct in 2009. First, the fact that a disclosure says that something *may* be the case does not mean that it actually was the case. Plaintiffs do not allege that any services actually were provided on unfavorable terms or, if so, when, or in what way. Moreover, the remainder of the annual report makes clear that this potential for the provision of services on possibly unfavorable terms was a transitional, stopgap circumstance that might exist for a limited time. The annual report states that Infineon had agreed to provide these services "for as long as we [Qimonda AG] have not reached full staffing levels." *See* Schoenfeld Decl., Exh. 3 (Qimonda AG, Annual Report (Form 20-F)), at 132. Likewise, Qimonda's annual report states that "purchasing services" were being provided only "at locations and/or with respect to areas of expertise where [Qimonda] do[es] not have sufficient purchasing resources." *Id.* at 131. Plaintiffs fail to address this as well, never stating when the allegedly unfavorable services were phased out. Because the entirety of the annual report relied on by plaintiffs contradicts the allegation of a less than arms-length arrangement and reflect the critical gaps in those contentions, plaintiffs' allegation is not entitled to the presumption of truth. *See Muti*, 96 Fed. App'x at 74 n.2.

4. The Complaint Fails To Adequately Allege That Common Directors And Officers And Common Ownership Existed Between All The Infineon Defendants And Qimonda.

Alleging only that a parent and subsidiary had common owners *and* common officers and directors typically is insufficient to establish inter-corporate WARN Act

liability. *See Pearson*, 247 F.3d at 497-99. In addition, given that the "common ownership" prong inherently is met in an ordinary parent/subsidiary relationship, it is considered the "least important" of the five-factor test. *See id.* at 494 (quoting *International Bhd. of Teamsters Local 952 v. American Delivery Service*, 50 F.3d 770, 775 (9th Cir. 1995)).

Here, plaintiffs allege that an Infineon AG Board member serves as "Qimonda's" Chief Executive Officer, and that at the time of the spin-off of Qimonda AG from Infineon some three years ago, "Infineon's" General Counsel and Chief Financial Officer were installed on "Qimonda's" supervisory board. Compl. ¶ 20. With good reason, the Complaint includes no allegation that Infineon's General Counsel and Chief Financial Officer remain on Qimonda's supervisory board: the Qimonda SEC filings relied on in the Complaint make clear that Infineon AG's General Counsel (Michael von Eickstedt) resigned from the supervisory board in July 2007, well before the plant closures at issue. *See* Schoenfeld Decl., Exh. 3 (Qimonda AG, Annual Report (Form 20-F)), at 118. Similarly, Infineon's Chief Financial Officer (Peter J. Fischl) retired from Infineon in March 2008, nearly a year before the plant closures. *See* Schoenfeld Decl., Exh. 1 (Infineon Technologies AG, Form 20-F), at 91. Plaintiffs' effort to point to past overlap on the supervisory board is insufficient and irrelevant.

Plaintiffs' group pleading strategy also obfuscates whether plaintiffs are alleging that Qimonda AG, the Qimonda Subsidiaries, Infineon AG, and/or IFNA share common directors and officers. Similarly, the Complaint alleges that "Infineon"—that is, Infineon Technologies AG and its U.S. subsidiary—own 77.5% of the outstanding stock of Qimonda AG. Compl. ¶ 18. This Court need not tarry on this issue given that, even

assuming that plaintiffs have adequately pled that common ownership exists (and that Infineon and Qimonda share common directors and officers), alleging these factors alone ordinarily will not establish inter-corporate liability under the WARN Act. *See Pearson*, 247 F.3d at 497-99.[7]

* * *

As the foregoing discussion makes clear, plaintiffs have failed to carry their burden of pleading facts demonstrating that the Infineon Defendants and the Qimonda Subsidiaries functioned as a "single employer" during the relevant time period—that is, at the time the decision was made to close the plants where the plaintiff-employees worked. Having failed to plead sufficient facts to "nudge[] their claims across the line from conceivable to plausible," *Twombly*, 550 U.S. at 570, plaintiffs' single-employer claim should be dismissed.

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[7] While the Complaint's group pleading approach does not delineate which Infineon entity owns shares in which Qimonda entity, nor which Infineon entity might have common directors and officers with which Qimonda entity, the Qimonda SEC filings cited by plaintiffs make clear that IFNA owns no shares of Qimonda AG or the Qimonda Subsidiaries. *See* Schoenfeld Decl., Exh. 3 (Qimonda AG, Annual Report (Form 20-F)), at 126. In addition, the alleged overlap in officers and directors referenced in plaintiffs' Complaint relates to an alleged commonality between Infineon AG and Qimonda AG, neither of which employed the plaintiffs in this action. *Id.* at 122-23. No commonality of ownership or officers and directors exists between IFNA and Qimonda AG or the Qimonda Subsidiaries. In the event that this Court concludes that the WARN Act claims might proceed against Infineon AG, the Court should dismiss those claims as they relate to IFNA given that plaintiffs cannot prove the foundational factors necessary for inter-corporate WARN Act liability as to IFNA. *See Pearson*, 247 F.3d at 478 (holding that because common ownership is inherent in most claims for inter-corporate WARN Act liability, "particular weight must be accorded, where applicable, to a lack of ownership interest between corporations").

II. In The Alternative, This Court Should Stay This Action Pending The Outcome Of The Qimonda Subsidiaries' And Qimonda AG's Bankruptcy Proceedings.

Before even considering the relationship between Qimonda AG and the Infineon Defendants, two predicate legal determinations must be made: First, the Qimonda Subsidiaries must be deemed liable for some statutory or common-law violation alleged in the Complaint. Second, the veil separating the Qimonda Subsidiaries from Qimonda AG must be pierced. Should this Court determine that the plaintiffs have adequately pleaded either an alter-ego or single-employer cause of action against the Infineon Defendants, the Court should nonetheless stay these proceedings pending the outcome of the Qimonda Subsidiaries' bankruptcy proceeding because the Qimonda Subsidiaries' WARN Act liability is before the Bankruptcy Court, and the Infineon Defendants cannot be held liable under either an alter-ego or single-employer theory without a finding of the Qimonda Subsidiaries' primary liability for the common-law or statutory violations alleged in the Complaint. The instant proceedings might ultimately be rendered superfluous if the Bankruptcy Court in Delaware determines that the Qimonda Subsidiaries are not liable for the causes of action charged in the Complaint, or if the Bankruptcy Court in Virginia determines that Qimonda AG is not responsible for liabilities of any Qimonda Subsidiary.

This Court has broad discretionary authority to stay this proceeding pending the outcome of another proceeding. *E.I. duPont de Nemours & Co. v. Rhodia Fiber & Resin Intermediates, S.A.S.*, 197 F.R.D. 112, 128 (D. Del. 2000), *aff'd in part and appeal dismissed in part*, 269 F.3d 187 (3d Cir. 2001). Factors relevant to the Court's decision to stay include whether a stay would unduly prejudice or present a clear tactical advantage to the non-movant; whether a stay will simplify the issues raised by the parties;

and whether discovery is complete and a trial date has been set. *Maloney v. Gordon*, 328 F. Supp. 2d 508, 511 n.7 (D. Del. 2004).

A stay would not prejudice plaintiffs in this action. Many of the named plaintiffs in this case are also named plaintiffs in adversary proceedings in the bankruptcy court concerning the Qimonda Subsidiaries' liability under the WARN Act. *See supra* n.2. They will suffer no prejudice if this action is stayed, because the litigation in the Bankruptcy Court will continue, and the Qimonda Subsidiaries' liability for the WARN Act claims—which are plaintiffs' primary claims in this lawsuit—will be determined before the Bankruptcy Court. This must occur before plaintiffs can win any meaningful relief in this action. Any finding by this Court of single-employer liability would be an empty victory if the Bankruptcy Court determines there was no liability to begin with.

As to the second factor, a stay pending resolution in the Bankruptcy Courts will simplify this action substantially. Should the Bankruptcy Court in Delaware determine that the Qimonda Subsidiaries are not liable for any WARN Act violations, then the question of the Infineon Defendants' derivative liability on those complex claims is moot. Should the Chapter 15 proceedings in Virginia determine that Qimonda AG is not responsible for the liability of the Qimonda Subsidiaries, again, this action would be rendered moot. The parties will be spared burdensome and costly discovery into the inter-corporate relations of numerous companies, most of which are headquartered in Germany. Finally, given this early stage of the litigation, the third factor weighs in favor of a stay.

III. In The Further Alternative, This Court Should Require That Plaintiffs Provide A More Definite Statement As To Which Allegations Are Made Against Infineon AG, Infineon Technologies North America Corp., And Qimonda AG.

Plaintiffs' claims largely hinge on piercing the corporate veils of five distinct corporations and in demonstrating that those five corporations collectively functioned as a "single employer" for purposes of the WARN Act. Yet, at the outset of the Complaint, plaintiffs obfuscate the boundaries separating these five corporations by grouping Qimonda AG and the two Qimonda Subsidiaries into one undifferentiated "Qimonda" entity, and by grouping Infineon AG and its U.S. subsidiary into one undifferentiated "Infineon" entity. Compl. ¶ 2. And, in certain instances plaintiffs go even further by grouping all five companies together as the Infineon Group. *Id.* Plaintiffs' pleading perfunctorily dispatches with the corporate veils differentiating these entities, and groups them in certain instances as if they were a single employer, thereby presupposing the very legal conclusions that plaintiffs seek through this litigation.

In so doing, the Complaint obfuscates which allegations relate to which defendant. In circumstances such as this Rule 12(e) requires a more definite statement, to permit some reasonable opportunity to frame a responsive pleading. *See* Fed. R. Civ. P. 12(e) ("A party may move for a more definite statement of a pleading to which a responsive pleading is allowed but which is so vague or ambiguous that the party cannot reasonably prepare a response."); *see also Thomas v. Independence Twp.*, 463 F.3d 285, 301 (3d Cir. 2006) ("The Rule 12(e) motion for a more definite statement is perhaps the best procedural tool available to the defendant to obtain the factual basis underlying a plaintiff's claim for relief."). Accordingly, should plaintiffs be permitted to proceed on their claims in this Court, plaintiffs should be required to plead with clarity and precision

precisely which allegations are made against Infineon AG, Infineon Technologies North America Corp. and Qimonda AG.

CONCLUSION

For the foregoing reasons, the Infineon Defendants respectfully move this Court to:

(1) dismiss this action with prejudice for failure to state a claim upon which relief may be granted;

(2) in the alternative, stay these proceedings pending resolution of the bankruptcy proceedings in Delaware and Virginia with respect to the employee claims relating to this litigation;

(3) in the further alternative, require plaintiffs to replead their complaint with the requisite particularity as to each named defendant; and

(4) grant whatever further relief the Court deems just.

Respectfully submitted,

MORRIS, NICHOLS, ARSHT & TUNNELL LLP

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October 16, 2009

CERTIFICATE OF SERVICE

The undersigned hereby certifies that on October 16, 2009, he caused to be served the Opening Brief Of Infineon Technologies AG And Infineon Technologies North America Corp. In Support Of Their Motion To Dismiss The Complaint, Or, In The Alternative, To Stay The Action, Or To Require A More Definite Statement on the following counsel of record by electronic filing:

Michael W. Yurkewicz
Klehr, Harrison, Harvey Branzburg & Ellers LLP
919 Market Street, Suite 1000
Wilmington, DE 19801

David J. Teklits (#3221)

2951666.1

IN THE UNITED STATES DISTRICT COURT
FOR THE DISTRICT OF DELAWARE

LAKITA BLAIR, LINDA FRAZIER, BONNIE WRIGHT, CHRISTOPHER SHULL, CHERYL MAXEY, LAWRENCE D. MEYER, JACOB EVANS, CLAUDE EDMONDS, BRIAN CAREY, JOHN EARLE, KATHLEEN HALL, and OLGA VAYSMAN, Individually and as Class Representatives,	)	C.A. No. 09 Civ. 295 (SLR)
Plaintiffs,	)	ECF CASE
v.	)	
INFINEON TECHNOLOGIES AG, INFINEON TECHNOLOGIES NORTH AMERICA CORP., and QIMONDA AG,	)	
Defendants.	)	

DECLARATION OF ALAN E. SCHOENFELD IN SUPPORT OF THE MOTION OF INFINEON TECHNOLOGIES AG AND INFINEON TECHNOLOGIES NORTH AMERICA CORP. TO DISMISS THE COMPLAINT, OR, IN THE ALTERNATIVE, TO STAY THE ACTION, OR TO REQUIRE A MORE DEFINITE STATEMENT

Alan E. Schoenfeld hereby declares, under penalty of perjury, as follows:

1. I am admitted to this Court *pro hac vice*. I am an associate at the law firm of Wilmer Cutler Pickering Hale and Dorr LLP, of counsel to defendants Infineon Technologies AG and Infineon Technologies North America Corp. I submit this declaration in support of the Motion of Infineon Technologies AG and Infineon Technologies North America Corp. to Dismiss the Complaint, or, in the Alternative, to Stay the Action, or to Require a More Definite Statement.

2. Attached hereto as Exhibit 1 is a true and correct copy of Infineon Technologies AG, Form 20-F (Dec. 7, 2007).

3. Attached hereto as Exhibit 2 is a true and correct copy of Infineon Technologies AG, Form 6-K (Mar. 31, 2006).

4. Attached hereto as Exhibit 3 is at true and correct copy of Qimonda AG Annual Report, Form 20-F (Nov. 16, 2007).

Executed on October 16, 2009

Alan E. Schoenfeld

EXHIBIT 1

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

FORM 20-F

REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR (g)
OF THE SECURITIES EXCHANGE ACT OF 1934 ☐
OR
ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934 ☒
For the fiscal year ended September 30, 2007
OR
TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from _____to _____. ☐
OR
SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934 ☐
Date of event requiring this shell company report _____.

Commission file number: 1-15000

Infineon Technologies AG

(Exact name of Registrant as specified in its charter)

Federal Republic of Germany
(Jurisdiction of incorporation or organization)

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

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

Title of each class	Name of each exchange on which registered
American Depositary Shares, each representing one ordinary share, notional value €2.00 per share	New York Stock Exchange
Ordinary shares, notional value €2.00 per share*	New York Stock Exchange

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

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

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

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the annual report. 749,728,635 ordinary shares, notional value €2.00 per share

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

Yes ☒ No ☐

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

Yes ☐ No ☒

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

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

Yes ☒ No ☐

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

Large accelerated filer ☒ Accelerated filer ☐ Non-accelerated filer ☐

Indicate by check mark which financial statement item the registrant has elected to follow.

Item 17 ☐ Item 18 ☒

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

Yes ☐ No ☒

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

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

Yes ☐ No ☐

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INFINEON TECHNOLOGIES AG

ANNUAL REPORT ON FORM 20-F
FOR THE FISCAL YEAR ENDED
SEPTEMBER 30, 2007

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CROSS REFERENCES TO FORM 20-F

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PRESENTATION OF FINANCIAL AND OTHER INFORMATION

Our consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States ("U.S. GAAP"). Our consolidated financial statements are expressed in Euro. In this annual report, references to "Euro" or "€" are to Euro and references to "U.S. dollars" or "$" are to United States dollars. For convenience, this annual report contains translations of Euro amounts into U.S. dollars at the rate of €1.00 = $1.4219, the noon buying rate of the Federal Reserve Bank of New York for Euro on September 28, 2007. The noon buying rate for Euro on December 6 , 2007 was €1.00 = $1.4638. Our fiscal year ends on September 30 of each year. References to any fiscal year refer to the year ended September 30 of the calendar year specified. In this annual report, references to:

- "our company" are to Infineon Technologies AG; and
- "we", "us" or "Infineon" are to Infineon Technologies AG and, unless the context otherwise requires, to its subsidiaries including Qimonda, and its predecessor, the former semiconductor group of Siemens AG; and
- "Qimonda" are to Qimonda AG and its subsidiaries, and its predecessor, the former memory products segment of Infineon.

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

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

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

Forward-Looking Statements

This annual report contains forward-looking statements. Statements that are not historical facts, including statements about our beliefs and expectations, are forward-looking statements. These statements are based on current plans, estimates and projections, and you should not place too much reliance on them. Forward-looking statements speak only as of the date they are made, and we undertake no obligation to update any of them in light of new information or future events. Forward-looking statements involve inherent risks and uncertainties. We caution you that a number of important factors could cause actual results or outcomes to differ materially from those expressed in any forward-looking statement. These factors include those identified under the heading "Risk Factors" and elsewhere in this annual report.

Use of Non-U.S. GAAP Financial Measures

This document contains non-U.S. GAAP financial measures. Non-U.S. GAAP financial measures are measures of our historical or future performance, financial position or cash flows that contain adjustments that exclude or include amounts that are included or excluded, as the case may be, from the most directly comparable measure calculated and presented in accordance with U.S. GAAP in our consolidated financial statements. Earnings before interest and taxes ("EBIT") is an example of a non-U.S. GAAP financial measure. For descriptions of these non-U.S. GAAP financial measures and the adjustments made to the most directly comparable U.S. GAAP financial measures to obtain them, please refer to "Operating and Financial Review".

Principal Business Address

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

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SELECTED CONSOLIDATED FINANCIAL DATA

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

We have derived the selected consolidated statement of operations and cash flow data for the 2003 through 2007 fiscal years and the selected consolidated balance sheet data at September 30, 2003 through 2007 from our consolidated financial statements, which have been prepared in accordance with U.S. GAAP and audited by KPMG Deutsche Treuhand-Gesellschaft Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, an independent registered public accounting firm.

	For the years ended September 30,[1]					
	2003	2004	2005	2006	2007	2007[2][3]
	(in millions, except per share data)					
Selected Consolidated Statement of Operations data						
Net sales	€ 6,152	€ 7,195	€ 6,759	€ 7,929	€ 7,682	$ 10,923
Cost of goods sold	4,614	4,670	4,909	5,854	6,092	8,662
Gross profit	1,538	2,525	1,850	2,075	1,590	2,261
Research and development expenses	1,089	1,219	1,293	1,249	1,169	1,662
Selling, general and administrative expenses	679	718	655	751	700	995
Restructuring charges[4]	29	17	78	23	45	64
Other operating expense, net	85	257	92	108	46	66
Operating income (loss)	(344)	314	(268)	(56)	(370)	(526)
Interest expense, net	(52)	(41)	(9)	(92)	(33)	(46)
Equity in earnings (losses) of associated companies, net	18	(14)	57	78	117	166
Gain (loss) on subsidiaries and associated company share issuance, net[5]	(2)	2	—	19	—	—
Other non-operating income (expense), net	21	(64)	26	(33)	13	18
Minority interests	8	18	2	(23)	19	27
Income (loss) before income taxes	(351)	215	(192)	(107)	(254)	(361)
Income tax (expense) benefit	(84)	(154)	(120)	(161)	(79)	(112)
Loss before extraordinary loss	(435)	61	(312)	(268)	(333)	(473)
Extraodinary loss, net of tax	—	—	—	—	(35)	(50)
Net income (loss)	€ (435)	€ 61	€ (312)	€ (268)	€ (368)	$ (523)
Basic and diluted earnings (loss) per share:						
Net (loss) income before extraordinary loss	€ (0.60)	€ 0.08	€ (0.42)	€ (0.36)	€ (0.45)	$ (0.64)
Net (loss) income	€ (0.60)	€ 0.08	€ (0.42)	€ (0.36)	€ (0.49)	$ (0.70)
Weighted average shares outstanding — basic (millions)	721	735	748	748	749	749
Weighted average shares outstanding — diluted (millions)	721	737	748	748	749	749
Selected Consolidated Balance Sheet data						
Cash and cash equivalents	€ 969	€ 608	€ 1,148	€ 2,040	€ 1,819	$ 2,586
Marketable securities	1,784	1,938	858	615	475	675
Working capital (deficit), excluding cash and cash equivalents and marketable securities	419	(124)	186	(279)	137	196
Total assets	10,875	10,864	10,284	11,185	10,679	15,184
Short-term debt and current maturities	149	571	99	797	336	478
Long-term debt, excluding current portion	2,343	1,427	1,566	1,208	1,376	1,957
Shareholders' equity	5,666	5,978	5,629	5,315	4,914	6,987
Selected Consolidated Cash Flow data[6]						
Net cash provided by operating activities	731	1,857	1,090	1,003	1,207	1,716
Net cash used in investing activities	(1,522)	(1,809)	(289)	(853)	(867)	(1,233)
Depreciation and amortization expenses	€ 1,437	€ 1,320	€ 1,316	€ 1,405	€ 1,276	$ 1,814

Notes

(1) Columns may not add up due to rounding.

(2) Unaudited.

(3) Converted from Euro into U.S. dollars at an exchange rate of €1 = $1.4219, which was the noon buying rate on September 28, 2007.

(4) These charges relate to the implementation of cost-reduction programs.

(5) In 2003, ProMOS Technologies, Inc. ("ProMOS") initiated a share repurchase program. In 2004, Inotera Memories, Inc. ("Inotera") distributed employee bonuses in the form of shares. As a result of these share issuances (repurchases), our interest was diluted (increased), while our proportional share of the shareholders' equity of these companies increased (decreased). In 2006 Inotera completed an initial public offering on the Taiwanese Stock Exchange and a public offering on the Luxembourg Stock Exchange. As a result of these transactions, we recognized a non-operating gain of €72 million, which was partially offset by a non-operating loss of €53 million resulting from the dilution of our interest in Qimonda following its initial public offering on the New York Stock Exchange.

(6) Dividends received from associated companies, previously reported as part of cash flows from investing activities in the consolidated statements of cash flows, have been reclassified to cash flows from operating activities.

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OPERATING AND FINANCIAL REVIEW

This discussion and analysis of our consolidated financial condition and results of operations should be read in conjunction with our audited consolidated financial statements and other financial information included elsewhere in this annual report. Our audited consolidated financial statements have been prepared on the basis of a number of assumptions more fully explained in Note 1 (Description of Business and Basis of Presentation) and Note 2 (Summary of Significant Accounting Policies) to our audited consolidated financial statements appearing elsewhere in this annual report.

Overview of the 2007 Fiscal Year

In our 2007 fiscal year, which ended September 30, both the global economy generally and the semiconductor market (other than for memory products) were slightly stronger than in the prior year. Nevertheless, our results of operations were negatively affected by the strength of the Euro (primarily against the U.S. dollar) and by continued pricing pressure, particularly in our Qimonda segment.

The following were the key developments in our business during the 2007 fiscal year:

- Despite unfavorable currency exchange rates and pricing pressure, we were able to maintain net sales in our combined logic segments at approximately the same level as in the 2006 fiscal year. In fact, our Automotive, Industrial & Multimarket segment was able to significantly increase net sales in the 2007 fiscal year despite wide pricing pressure. Furthermore, during the 2007 fiscal year, our Communication Solutions segment began to compensate for the decrease in revenues in the wireless business that had resulted from the insolvency of BenQ's German subsidiary in the 2006 fiscal year. This was achieved by increased shipments of complete mobile phone platform solutions to other leading customers. Overall, our net sales decreased by 3 percent, from €7,929 million in the 2006 fiscal year to €7,682 million in the 2007 fiscal year, primarily due to a 29 percent decline in DRAM prices and the weakening of the U.S. dollar against the Euro, which resulted in a €207 million decrease in net sales in our Qimonda segment.
- EBIT in our Automotive, Industrial & Multimarket segment further improved primarily due to an increase in net sales. Also, in our Communication Solutions segment, EBIT continued to improve despite a further decline in net sales, as no significant charges were recognized and further cost reduction measures were successfully implemented. The unfavorable market conditions in our Qimonda segment and the loss we incurred from further sales of our interest in Qimonda negatively impacted our results of operations in the 2007 fiscal year. Our net loss increased by 37 percent, from €268 million in the 2006 fiscal year to €368 million in the 2007 fiscal year. Earnings before interest and taxes (EBIT) were negative €15 million in the 2006 fiscal year and negative €256 million in the 2007 fiscal year.
- Our cash flow from operations increased from €1,003 million in the 2006 fiscal year to €1,207 million in the 2007 fiscal year.
- In October 2006, we announced our plan to focus our mobile communication activities on business with recently acquired and future customers following the insolvency of BenQ's German subsidiary. As a result, during the 2007 fiscal year we successfully increased shipments of complete mobile phone platform solutions to several leading customers, including LG Electronics Inc., Seoul, Korea ("LG"), Panasonic Mobile Communications Co. Ltd., Yokohama, Japan ("Panasonic") and ZTE Corporation, Shenzhen, China ("ZTE").
- In addition, we announced that Nokia Oyj, Espoo, Finland ("Nokia"), selected our single-chip solution E-GOLD™voice for selected future entry level mobile phones, that Ericsson Mobile Platforms, a business unit of Ericsson AB, Stockholm, Sweden, selected our RF transceiver SMARTi® 3G for their U310 and U360 EDGE/HSDPA

platforms and that we signed an agreement with Motorola Inc., Schaumburg, Illinois, USA, to develop a 3G RF transceiver.

- In April 2007, we entered into a definitive agreement with Avago Technologies, Ltd., San José, California, USA ("Avago") under which Avago acquired our Polymer Optical Fiber ("POF") business, based in Regensburg, Germany.

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- During 2007, we announced two acquisitions to further strengthen our activities in communication fields. In June 2007, we entered into an agreement with Texas Instruments Inc. ("TI") to acquire its DSL Customer Premises Equipment ("CPE") business. The transaction closed in the fourth quarter of the 2007 fiscal year. In August 2007, we announced the planned acquisition of the mobility products business of LSI Corporation ("LSI"). The transaction closed in October 2007.
- In September 2007, we executed a combined capital markets offering to further reduce our equity interest in Qimonda. One part of the transaction was a secondary sale by us of 28.75 million Qimonda American Depositary Shares ("ADSs"), reducing our interest in Qimonda to 77.5 percent. In addition, Infineon Technologies Investment B.V., a wholly owned subsidiary of Infineon Technologies AG, issued exchangeable subordinated notes supported by a share lending agreement. The notes are exchangeable for Qimonda ADSs during the exchange period through maturity on August 31, 2010. If all noteholders were to exercise their exchange rights, we would deliver an aggregate of 20.5 million Qimonda ADSs for the redemption of the exchangeable subordinated notes — equivalent to approximately 6 percent of Qimonda's share capital.
- In August 2007, we and International Business Machines Corporation, New York, USA ("IBM") signed an agreement in principle to divest our respective shares in ALTIS Semiconductor S.N.C., Essonnes, France ("ALTIS") via a sale to Advanced Electronic Systems AG ("AES"). Under the terms of the agreement in principle, AES will purchase the equity, which includes the real estate and technology assets of ALTIS, from us and IBM, and AES agreed to maintain the level of industrial activity of ALTIS. Pursuant to the agreement, we will enter into a two-year supply contract with ALTIS, and IBM and we will license certain manufacturing process technologies to AES for use by ALTIS. The agreement is subject to governmental and regulatory approval and works council consultation.
- We strengthened our research and development ("R&D") activities through a strategic cooperation for the development of automotive electronics with Hyundai Motor Company ("Hyundai") and the expansion of our R&D center in Singapore to better serve the growing demand for products in the energy efficiency, communications and security areas.
- As part of our ongoing efforts to improve our production processes and expand our production capabilities, we:
  - continued to invest in our first Asian-based front-end power fabrication facility located in Kulim Hi-Tech Park, Malaysia. The maximum capacity will be approximately 100,000 wafer starts per month using 200-millimeter wafers. At the end of the 2007 fiscal year aggregate capital expenditures to date were €379 million and the production was running at 30,000 wafer starts per month. The new facility produces power and logic chips used in industrial and automotive power applications;
  - qualified our 65-nanometer technology at several manufacturing partners and began transfer of our 45-nanometer technology to one of our manufacturing partners;
  - extended our joint development agreements with IBM and its development and manufacturing partners to the 32-nanometer generation. This agreement builds on the success of earlier joint development and manufacturing agreements at 65-nanometer and 45-nanometer;
  - we signed a memorandum of understanding ("MoU") with Hindustan Semiconductor Manufacturing Corporation ("HSMC"), a newly established semiconductor company, whereby HSMC would license our leading-edge 130-nanometer CMOS process technology. This MoU will help build a foundation for the production of integrated circuits for mobile phones, ID cards and automotives in India for the Indian market.

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- We continued to invest heavily in research and development and achieved a number of significant milestones and product developments during the year:

Energy Efficiency

- the presentation of the HybridPACK™ power module technology, using the IGBT (Insulated Gate Bipolar Transistor) chip technology, which increases energy efficiency of hybrid drives;
- the introduction of CIPOS™ (Control Integrated Power System) modules, a new family of highly integrated intelligent power modules that contain nearly all of the semiconductor components required to drive electronically controlled variable-speed electric motors, designed to enable energy-efficient operation of consumer appliances such as washing machines and air conditioners, offering efficiencies of up to 94 percent;
- the announcement of an 8-bit embedded flash microcontroller product family, XC866Hot, that is qualified for high-temperature applications of up to +140°C, diminishing cooling requirements and thus reducing overall system cost in high temperature applications such as motor controls for heating and furnace systems, and electronic controls embedded inside motor drives;

Security

- the selection of our 32-bit security chip card flash microcontroller family as a winner of the 2006 Sesames Award in the category of Best Hardware for the unique combination of high-security and flash memory at the Cartes Trade Show in Paris;
- Infineon supplied secure memories and microcontrollers to government ID projects worldwide such as E-Passports in USA, Scandinavia and Hong Kong. By this, Infineon holds a leading position in the Government ID market.
- the announcement of a new software suite version for the management of computers using Trusted Platform Modules ("TPM") in enterprise environments, which builds a comprehensive and Windows Vista ready secure solution compliant with the Trusted Computing Group's ("TCG") 1.2 specification;

Communications

- the introduction of the S-GOLD®radio, a single-chip solution for EDGE mobile phones. The S-GOLD®radio significantly reduces system component count, the modem printed circuit board area and the overall engineering bill-of-material;
- the presentation of two new single-chip RF CMOS transceivers, the SMARTi® PM+ and SMARTi® UE for EDGE and multi-mode 3G mobile phones, respectively;
- the introduction of Amazon-SE, a new ADSL2+ system-on-a-chip solution for DSL modems and routers that will help drive broadband penetration in emerging markets.

Qimonda

Qimonda likewise achieved a number of significant milestones during the 2007 fiscal year, including:

- the validation of Qimonda's DDR3 Memory components and modules on Intel reference platforms;
- the announcement of an agreement with SanDisk Corporation ("SanDisk") to jointly develop and manufacture MCPs (Multi-Chip Packages) utilizing SanDisk's NAND flash and controllers, and Qimonda's low power mobile DRAM;

- the sampling of ultra-low power 512 Mbit Mobile-RAM for mobile applications. Qimonda uses a specifically designed 75-nanometer low-power trench technology platform that is the basis for an entire Mobile DRAM product family in this node. The new Mobile-RAM is available as DDR and SDR via bond option and comes with two interfaces (x16/x32) and a single/dual sided pad out to fit any component, MCP, or system in package ("SIP");

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- the announcement of plans to build a new DRAM module manufacturing facility in Johor, Malaysia. The overall investment for this new DRAM module manufacturing facility, including IT integration, infrastructure and equipment, is expected to total up to €150 million over the next five years;
- the announcement of plans to build a new 300-millimeter front-end manufacturing facility in Singapore. Depending on the growth and development of the world semiconductor market, Qimonda plans to invest approximately €2 billion in the site over the next five years. With 20,000 square meters of clean room space, the new fab is expected to add 60,000 wafer starts per month to Qimonda's overall front-end capacity when fully ramped.

Our Business

We design, develop, manufacture and market a broad range of semiconductors and complete system solutions used in a wide variety of microelectronic applications, including computer systems, telecommunications systems, consumer goods, automotive products, industrial automation and control systems, and chip card applications. Our products include standard commodity components, full-custom devices, semi-custom devices, and application-specific components for memory, analog, digital, and mixed-signal applications. We have operations, investments, and customers located mainly in Europe, Asia and North America.

Our business is organized into three principal operating segments serving various markets in the semiconductor industry:

- Our Automotive, Industrial & Multimarket segment designs, develops, manufactures and markets semiconductors and complete system solutions primarily for use in automotive, industrial and security applications, and applications with customer-specific product requirements.
- Our Communication Solutions segment designs, develops, manufactures and markets a wide range of ICs, other semiconductors and complete system solutions for wireline and wireless communication applications.
- Our majority-owned subsidiary Qimonda designs memory technologies and develops, manufactures, and markets a large variety of memory products on a module, component and chip level.

We have two additional segments for reporting purposes, our Other Operating Segments, which includes remaining activities for certain product lines that have been disposed of, as well as other business activities, and our Corporate and Eliminations segment, which contains items not allocated to our operating segments, such as certain corporate headquarters' costs, strategic investments, unabsorbed excess capacity and restructuring costs.

The Semiconductor Industry and Factors that Impact Our Business

Our business and the semiconductor industry generally are highly cyclical and are characterized by constant and rapid technological change, rapid product obsolescence and price erosion, evolving standards, short product life-cycles and wide fluctuations in product supply and demand. Although these factors affect all segments of our business, they are especially pronounced for Qimonda, are increasingly true for our Communication Solutions segment, and have the least impact on our Automotive, Industrial & Multimarket segment.

Cyclicality

The industry's cyclicality results from a complex set of factors, including, in particular, fluctuations in demand for the end products that use semiconductors and fluctuations in the

manufacturing capacity available to produce semiconductors. This cyclicality is especially pronounced in the memory portion of the industry. Semiconductor manufacturing facilities (so-called fabrication facilities, or “fabs”) can take several years to plan, construct, and begin operations. Semiconductor manufacturers have in the past made capital investments in plant and equipment during periods of favorable market conditions, in response to anticipated demand growth for semiconductors. If more than one of these newly built fabs

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comes on-line at about the same time, the supply of chips to the market can be vastly increased. Without sustained growth in demand, this cycle has typically led to manufacturing over-capacity and oversupply of products, which in turn has led to sharp drops in semiconductor prices. When prices drop, manufacturers have in the past cut back on investing in new fabs. As demand for chips grows over time, without additional fabs coming on-line, prices tend to rise, leading to a new cycle of investment. The semiconductor industry has generally been slow to react to declines in demand, due to its capital-intensive nature and the need to make commitments for equipment purchases well in advance of planned expansion.

We and Qimonda attempt to mitigate the impact of cyclicality by investing in manufacturing capacities throughout the cycle and entering into alliances and foundry manufacturing arrangements that provide flexibility in responding to changes in the cycle. We believe that Qimonda, in particular, can improve its gross margin by focusing on two key areas: the continuous improvement of cost structure and productivity through the introduction of advanced memory process technologies and the development and marketing of a broader range of memory products, focusing particularly on higher margin and less volatile applications such as infrastructure, high-end graphics, consumer and mobile applications.

Substantial Capital and R&D Expenditures

Semiconductor manufacturing is very capital-intensive. The manufacturing capacities that are essential to maintain a competitive cost position require large capital investments. The top 10 capital spenders in the industry, of which we rank number 9 according to IC Insights, account for more than 60 percent of the industry's projected 2007 capital spending budgets. Manufacturing processes and product designs are based on leading-edge technologies that require considerable research and development expenditures. A high percentage of the cost of operating a fab is fixed; therefore, increases or decreases in capacity utilization can have a significant effect on profitability.

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

To reduce total costs, we and Qimonda also aim to share the costs of research and development and manufacturing facilities with third parties, either by establishing alliances or through the use of foundry facilities for manufacturing. We believe that cooperation in alliances for R&D, as well as manufacturing and foundry partnerships, provide us with a number of important benefits, including the sharing of risks and costs, reductions in our own capital requirements, acquisitions of technical know-how, and access to additional production capacities. Qimonda, for example, is developing future DRAM technologies with feature sizes of 58-nanometer together with Nanya Technology Corporation ("Nanya"). In addition, Qimonda has established foundry relationships with partners in Asia, including Semiconductor Manufacturing International Corporation, Beijing, China ("SMIC") and Winbond Electronics Corp., Taichung, Taiwan ("Winbond"), to increase its manufacturing capacities, and therefore its potential revenues, without investing in additional manufacturing assets. In our logic business, our principal alliances are with IBM, Chartered Semiconductor Manufacturing Ltd., Singapore ("Chartered Semiconductor") and Samsung Electronics Co. Ltd., Seoul, Korea ("Samsung") for CMOS development and manufacturing at 65-nanometer and 45-nanometer process technologies. In May 2007, we extended the joint development agreements with IBM and its development and manufacturing partners to include the 32-nanometer generation. Further, we have established foundry relationships with United Microelectronics Corporation, Taipei, Taiwan ("UMC") for 130-nanometer and 90-nanometer manufacturing.

We expect to continue to increase unit production output through improvements in manufacturing, which is achieved by producing chips with smaller structure sizes (more bits per chip) and by producing more chips per silicon wafer (by using larger wafers). For DRAM process technology, the majority of Qimonda's capacity is based on 90-nanometer structure

sizes. In addition, 80- and 75-nanometer technologies are currently in ramp-up at Qimonda. Qimonda has extended its 300-millimeter capacity share during the 2007 fiscal year with the continuous ramp-up of the facilities of Inotera Memories Inc. Taoyuan, Taiwan ("Inotera"), its joint venture with Nanya, and the ramp-up of foundry capacities at SMIC in Beijing, China, Winbond in Taichung, Taiwan, and Qimonda's own facility in Richmond, Virginia, USA.

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Qimonda plans to further extend the share of its memory production on 300-millimeter wafers with the continuous ramp-up of the 300-millimeter line in Richmond. In addition, Qimonda has announced plans to start the construction of a new 300-millimeter manufacturing facility in Singapore.

In our logic business, a substantial portion of our capacity is based on 130-nanometer structure sizes. Our 130-nanometer logic process technology, with up to eight layers of copper metallization, is in full production at several manufacturing sites, including our Dresden facility. Additional 130-nanometer process options have been developed to fulfill the needs of specialty applications. Also, our 90-nanometer logic technology is in production. The 65-nanometer technology has been qualified at several manufacturing sites, and the 45-nanometer technology is already undergoing transfer to one of our manufacturing partners.

Within our logic segments, about half of the fab capacity is used for the manufacture of power semiconductors used in automotive and industrial applications. We have manufacturing sites in Regensburg, Germany, in Villach, Austria and are currently ramping-up our new fab in Kulim, Malaysia. We continue to focus on innovation for power semiconductors, introducing power copper metallization and special processes to fabricate ever thinner wafers to optimize electrical resistance.

With our planned additional investment in the Kulim power manufacturing facility, we will increase our manufacturing capacity mainly for automotive and industrial power products by up to 100,000 wafer starts per month using 200-millimeter wafers. At full capacity, this manufacturing facility is expected to employ more than 1,500 people.

Technological Development and Competition

Sales prices per unit are volatile and generally decline over time due to technological developments and competitive pressure. DRAM products, in particular, are to a large extent commodities. Since most specifications are standardized, customers can switch between suppliers on short notice. This leads to strong competition within the market, especially for standard DRAM products for PC applications, and causes manufacturers to pass cost savings on to their customers in an effort to gain market share. Logic products are generally not commodities, but rather have a certain degree of application specification. Although generally less volatile than those for commodity memory products, unit sales prices for logic products typically decline over time as technological developments occur.

We aim to offset the effects of declining unit sales prices on total net sales by optimizing product mix, by increasing unit sales volume and by continually reducing per-unit production costs. The growth in volume depends in part on productivity improvements in manufacturing. By moving to ever-smaller structure sizes, the number of functional elements has historically doubled approximately every two years. In the area of DRAM products, this trend, often referred to as Moore's Law, has led to an average growth rate of bit-volumes of between 40 percent and 45 percent per year and, assuming constant costs per square inch of silicon, to an approximately 30 percent cost reduction per bit per year.

Seasonality

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

Product Development Cycles

For logic products, the cycle for test, evaluation and adoption of our products by

customers before the start of volume production can range from several months to more than one year. Due to this lengthy cycle, we may experience significant delays from the time we incur expenses for research and development, marketing efforts, and investments in inventory, to the time we generate corresponding revenue, if any.

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Development cycles affect memory products to a lesser extent due to the higher degree of standardization for memory products.

Acquisition and Divestiture Strategy

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

Intellectual Property

Due to the high-technology nature of the semiconductor industry, intellectual property ("IP"), meaning intangible assets relating to proprietary technology, is of significant importance. We do not record assets on our balance sheet for self-developed IP. Only IP licensed from others or acquired through a business acquisition is reflected on our balance sheet, and reduced through amortization over its expected useful life. The value of such acquired IP is often complex and difficult to estimate. We also derive modest revenues from the licensing of our IP, generally pursuant to cross licensing arrangements.

Challenges that Lie Ahead

Going forward, our success will remain highly dependent on our ability to stay at the leading edge of technology development, and to continue to optimize our product portfolio. We must achieve both objectives to ensure that we have the flexibility to react to fluctuations in market demand for different types of semiconductor products. We believe that the ability to offer and the flexibility to manufacture a broad portfolio of products will be increasingly important to our long-term success in many markets within the semiconductor industry. Establishing and maintaining advantageous technology, development and manufacturing alliances, including the use of third-party foundries, and continuing our efforts to broaden our product portfolio will make it easier for us to respond to changes in market conditions and to improve our financial performance.

Semiconductor Market Conditions in the 2007 Fiscal Year

The growth of the semiconductor market decelerated through the first three quarters of the 2007 calendar year following growth of 9 percent in the 2006 calendar year, according to WSTS. In November 2007, WSTS predicted a growth rate of 4 percent for the full 2007 calendar year. According to WSTS, sales in North America are expected to decrease by 5 percent in the 2007 calendar year. The semiconductor market in Asia/Pacific (excluding Japan) is expected to increase by 7 percent; the Japanese market is expected to grow by 5 percent; and the European market is expected to increase by 3 percent. Sales of non-memory products (logic chips, analog, and discretes), which accounted for 77 percent of the entire market in the first nine months of the 2007 calendar year, are predicted to grow by 4 percent compared with the 2006 calendar year. Sales of memory products are predicted to grow by 2 percent compared with the 2006 calendar year. Gartner Dataquest predicts worldwide growth in the 2007 calendar year of 9 percent for semiconductors in the automotive business. Sales of semiconductors for industrial electronics are predicted to grow by 4 percent, for communication (wireless and wireline) by 1 percent, for data processing by 4 percent and for consumer electronics by 7 percent.

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Results of Operations

Results of Operations as a Percentage of Net Sales

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

	For the years ended September 30,[1]		
	2005	2006	2007
Net sales	100.0%	100.0%	100.0%
Cost of goods sold	(72.6)	(73.8)	(79.3)
Gross profit	27.4	26.2	20.7
Research and development expenses	(19.1)	(15.8)	(15.2)
Selling, general and administrative expenses	(9.7)	(9.5)	(9.1)
Restructuring charges	(1.2)	(0.3)	(0.6)
Other operating expense, net	(1.4)	(1.4)	(0.6)
Operating loss	(4.0)	(0.8)	(4.8)
Interest expense, net	(0.1)	(1.2)	(0.4)
Equity in earnings of associated companies, net	0.9	1.0	1.5
Gain on subsidiaries and associated company share issuance, net	0.0	0.2	0.0
Other non-operating income (expense), net	0.4	(0.4)	0.2
Minority interests	0.0	(0.3)	0.2
Loss before income taxes	(2.8)	(1.5)	(3.3)
Income tax expense	(1.8)	(2.0)	(1.0)
Loss before extraordinary loss	(4.6)	(3.5)	(4.3)
Extraordinary loss, net of tax	0.0	0.0	(0.5)
Net loss	(4.6)%	(3.5)%	(4.8)%

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

Reorganization

Our current organizational structure became effective on May 1, 2006, following the legal separation of our memory products business into the stand-alone legal company Qimonda. The results of prior periods have been reclassified to conform to the current period presentation, as well as to facilitate analysis of current and future operating segment information. As a result of the reorganization, certain corporate overhead expenses are no longer apportioned to Qimonda and are instead allocated to Infineon's logic segments.

We operate primarily in three major operating segments, two of which are application focused: Automotive, Industrial & Multimarket, and Communication Solutions; and one of which is product focused: Qimonda. Further, certain of our remaining activities for product lines sold, for which there are no continuing contractual commitments subsequent to the divestiture date, as well as new business activities also meet the FASB Statement of Financial Accounting Standards ("SFAS") No. 131 "*Disclosure about Segments of an Enterprise and Related Information*" definition of an operating segment, but do not meet the requirements of a reportable segment as specified in SFAS No. 131. Accordingly, these segments are combined and disclosed in the "Other Operating Segments" category pursuant to SFAS No. 131.

Following the completion of the Qimonda carve-out, the Other Operating Segments also include net sales and earnings that Infineon's 200-millimeter production facility in Dresden records from the sale of wafers to Qimonda under foundry agreements. The Corporate and Eliminations segment reflects the elimination of these intra-group net sales and earnings.

Certain amounts in the prior years have been reclassified to conform to the current year presentation. Dividends received from associated companies, previously reported as part of

cash flows from investing

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activities in the consolidated statements of cash flows, have been reclassified to cash flows from operating activities. The consolidated results of operations and overall cash flows have not been affected by these reclassifications.

Net Sales

We generate our revenues primarily from the sale of our semiconductor products and systems solutions. Our semiconductor products include two main categories of semiconductors:

- Our logic products, which include a wide array of chips and components used in electronic applications ranging from wireless and wireline communication systems, chip cards, automotive electronics and industrial applications.
- Our memory products, such as DRAM products, which are used in computers and other electronic devices.

We made the majority of our product sales in the 2007 fiscal year through our direct sales force, with approximately 24 percent of net sales from our logic segments and approximately 12 percent of Qimonda's net sales derived from sales made through distributors.

We derive our license revenue from royalties and license fees earned on technology that we own and license to third parties. This enables us to recover a portion of our research and development expenses, and also often allows us to gain access to manufacturing capacity at foundries through joint licensing and capacity reservation arrangements.

Our net sales fluctuate in response to a mix of factors, including the following:

- The market prices for our products, particularly our memory products;
- Our overall product mix and sales volumes;
- The stage of our products in their respective life cycles; and
- The effects of competition and competitive pricing strategies.

	For the years ended September 30,		
	2005	2006	2007
	(€ in millions, except percentages)		
Net sales	6,759	7,929	7,682
Changes year-on-year		17%	(3)%
Of which:			
License income	175	29	28
% of net sales	3 %	0%	0 %
Effect of foreign exchange over prior year	(177)	142	(174)
% of net sales	(3)%	2%	(2)%
Impact of acquisitions over prior year	2	40	16
% of net sales	0 %	0%	0 %

In the 2007 fiscal year, net sales decreased primarily as a result of the continued revenue decrease in the wireless business of the Communication Solutions' segment and by the decline of DRAM prices of 29 percent in the Qimonda segment. These effects were not fully offset by volume growth, particularly for automotive and industrial power applications. In the 2006 fiscal year, net sales increased primarily as a result of higher demand for memory products, especially for graphics, mobile and consumer DRAM, as well as healthy growth in the Automotive, Industrial & Multimarket segment, particularly in the automotive and industrial power applications businesses. The decrease in license income in the 2006 fiscal year was mainly driven by the non-recurring license fees from ProMOS recognized in the 2005 fiscal year. The strength of the Euro (primarily against the U.S. dollar) during the 2007 fiscal year negatively impacted net sales, whereas net sales in the 2006 fiscal year were positively impacted by the effect of foreign exchange rates. The effect of foreign exchange over the prior year is calculated as the estimated change in current year sales if the average exchange rate for the preceding year is applied as a constant rate in the current year. The

increase in net sales from entities we acquired since the beginning of the prior year reflects

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primarily the inclusion of a full-year consolidation of sales in the year after the initial acquisition. Net sales for the 2007 fiscal year include the effect of the TI DSL Customer Premises Equipment ("CPE") acquisition starting August 1, 2007. The main effect in the 2006 fiscal year resulted from the initial consolidation of ALTIS as of December 31, 2005.

Net Sales by Segment

	For the years ended September 30,					
	2005		2006		2007	
	(€ in millions, except percentages)					
Automotive, Industrial & Multimarket	2,516	37 %	2,839	36 %	3,017	39 %
Communication Solutions[1]	1,391	21	1,205	15	1,051	14
Other Operating Segments[2]	285	4	310	4	219	3
Corporate and Eliminations[3]	(258)	(4)	(240)	(3)	(213)	(3)
Subtotal	3,934	58	4,114	52	4,074	53
Qimonda	2,825	42	3,815	48	3,608	47
Total	6,759	100 %	7,929	100 %	7,682	100 %

[1] Includes inter-segment sales of €30 million for fiscal year ended September 30, 2007, and none in the 2005 and 2006 fiscal years, from sales of wireless communication applications to Qimonda.

[2] Includes inter-segment sales of €273 million, €256 million and €189 million for fiscal years ended September 30, 2005, 2006 and 2007, respectively, from sales of wafers from Infineon's 200-millimeter facility in Dresden to Qimonda under foundry agreements.

[3] Includes the elimination of inter-segment sales of €273 million, €256 million and €219 million for fiscal years ended September 30, 2005, 2006 and 2007, respectively.

- *Automotive, Industrial & Multimarket* — In the 2006 fiscal year, the segment experienced healthy growth as sales volumes increased, particularly for automotive and industrial power applications, more than offsetting ongoing pricing pressure caused by technological developments and competition. We experienced strong pricing pressure in the market for chipcard ICs throughout the 2006 fiscal year. Despite continued segment wide pricing pressure we were able to increase net sales in the 2007 fiscal year. The sales growth was mainly driven by continuing strong demand for high power products in industrial applications, an increase of sales for energy efficient devices in industrial and multimarket applications and increasing demand for government ID applications.

- *Communication Solutions* — In the 2006 fiscal year, net sales in the Communication Solutions segment declined year-on-year due to a decrease in revenues in the wireless business mainly due to a continued decline in demand for baseband products, as well as ongoing pricing pressure. This decline was partly compensated by a strong increase in revenues in the wireline business. The decline in net sales in the 2007 fiscal year was primarily caused by a continued decrease in revenues in the wireless business mainly driven by the insolvency of BenQ's German subsidiary as well as ongoing pricing pressure that could not be compensated by increased shipments of complete mobile phone platform solutions to leading customers such as LG, Panasonic, and ZTE. In addition, revenues in the wireline business declined mainly due to the phase-out of our fiber optics business during the 2006 fiscal year.

- *Qimonda* — Net sales in the 2006 fiscal year increased compared to the previous year mainly due to increased bit shipments and a favorable U.S. dollar/Euro exchange rate. The higher bit shipments resulted from the ramp-up of Qimonda's 300-millimeter manufacturing facility in Richmond, the conversion of an increasing share of capacities to 90-nanometer technology, and access to additional capacities of Qimonda's joint venture partners and foundry partners, as well as the overall demand growth in the DRAM market and Qimonda's successful diversification in new market segments, particularly with graphic DRAM products. These positive effects were partly offset by price declines in the DRAM market. The majority of Qimonda's memory products sales reflected 512 Mbit DRAMs in the 2006 fiscal year. Net sales in the 2007 fiscal year decreased by €207 million, or 5 percent, compared to the prior year, primarily due to

the 29 percent decline in DRAM prices and the weakening in the U.S. dollar/Euro exchange rate. Offsetting these effects in part were higher bit

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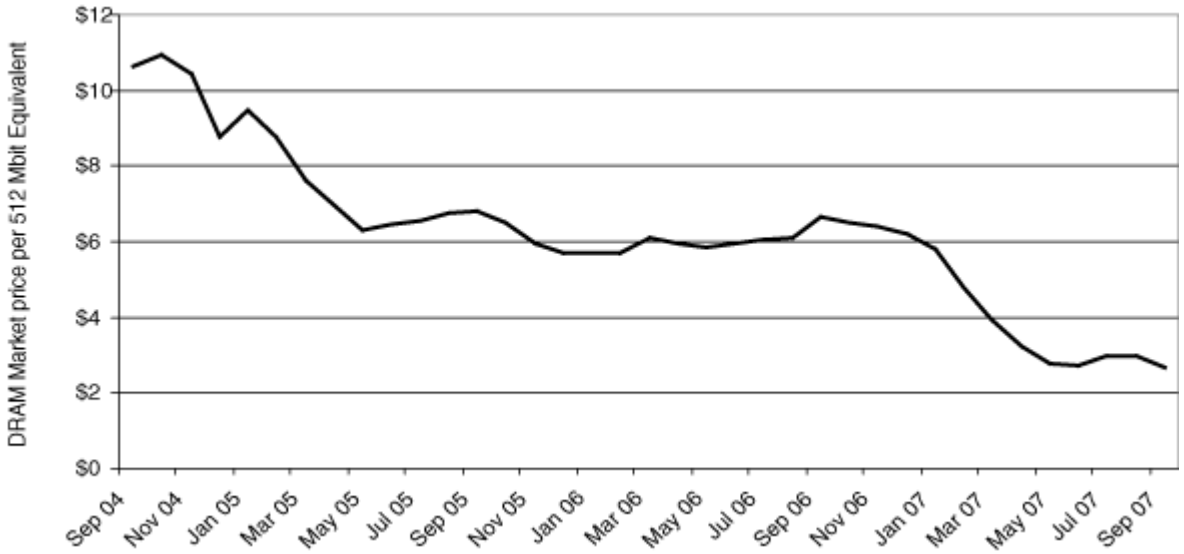
shipments, which increased 44 percent. In the 2007 fiscal year, considerable progress was made with Qimonda's diversification strategy by increasing the share of net sales of infrastructures, graphics, mobile and consumer DRAMs, which generally command higher and more stable prices than standard DRAMs. The share of net sales from DRAMs for these products increased to 60 percent in the 2007 fiscal year as compared to 51 percent in the 2006 fiscal year.

The following graph shows the average monthly market prices for DRAM (expressed in 512 Mbit equivalents), as reported by WSTS, for the three years ended September 30, 2007.

DRAM Price Development



The 2007 fiscal year was characterized by steep price declines for DRAM products. After remaining stable until the end of December 2006, prices declined significantly thereafter. We believe that a part of this price decline, especially towards the end of March 2007, was driven by seasonal demand weakness, the effects of an earlier build-up of inventories at original equipment manufacturers ("OEMs") ahead of the introduction of the new Windows Vista computer operating system, and capacity conversions from NAND to DRAM by some competitors. During the three months ended June 30, 2007, the price decline continued and was amplified by strong DRAM output growth across the industry, driven, we believe, mostly by capacity increases and technology conversions to more efficient technologies. In the three months ended September 30, 2007, prices initially showed signs of improvement, but then resumed their decline and were ultimately on average at the same low level as during the previous three months.

- *Other Operating Segments* — Net sales in the 2005, 2006, and 2007 fiscal years were mainly inter-segment sales of wafers from Infineon's 200-millimeter facility in Dresden to Qimonda under foundry agreements which are eliminated in the Corporate and Eliminations segment.

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Net Sales by Region and Customer

	For the years ended September 30,					
	2005		2006		2007	
	(€ in millions, except percentages)					
Germany	1,354	20%	1,327	17%	1,164	15%
Other Europe	1,210	18	1,360	17	1,218	16
North America	1,504	22	2,126	27	1,887	25
Asia/Pacific	2,223	33	2,498	31	2,632	34
Japan	332	5	461	6	661	9
Other	136	2	157	2	120	1
Total	6,759	100%	7,929	100%	7,682	100%

In the 2006 fiscal year, our net sales increased in nearly every region, primarily due to higher demand for semiconductor products, in particular for specialty memory products in the consumer electronics and game-console businesses in North America. In the 2007 fiscal year, we experienced a decrease of €247 million in net sales primarily due to general pricing pressure in the Communication Solutions and Qimonda segments. The regional sales decrease in Germany is primarily due to the insolvency of BenQ's German subsidiary and lower DRAM sales, while the sales increase in the Asia/Pacific region was driven by higher sales volumes, particularly in the Automotive, Industrial & Multimarket and Communication Solutions segments.

The net sales in our Automotive, Industrial & Multimarket segment increased in all regions, with a particularly strong increase in Asia/Pacific and North America. The number of customers in this segment remained stable in the 2007 fiscal year. The top 20 customers in this segment accounted for approximately 62 percent of the segment's sales in the 2007 fiscal year.

In the Communication Solutions segment, we have seen a further shift of net sales from Europe and North America to the Asia/Pacific region in the 2007 fiscal year. Our top 20 customers in this segment accounted for over 70 percent of its net sales in the 2007 fiscal year.

In the 2007 fiscal year, net sales of Qimonda declined overall due to lower average selling prices, which could not be offset by higher bit shipments. Qimonda's net sales increased in Asia, due to OEM customers shifting their production to that region, and increased particularly in Japan due to a growth in sales of specialty memory products to consumer electronics and graphics applications. Sales in North America declined correspondingly. Qimonda's top 20 customers accounted for nearly 77 percent of its net sales in the 2007 fiscal year.

Cost of Goods Sold and Gross Margin

Our cost of goods sold consists principally of:

- Direct materials, which consist principally of raw wafer costs;
- Labor costs;
- Overhead, including maintenance of production equipment, indirect materials, utilities and royalties;
- Depreciation and amortization;
- Subcontracted expenses for assembly and test services;
- Production support, including facilities, utilities, quality control, automated systems and management functions; and
- Foundry production costs.

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

- Factory utilization rates and related idle capacity costs;
- Amortization of purchased intangible assets;
- Product warranty costs;

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- Provisions for excess or obsolete inventories; and
- Government grants, which are recognized over the remaining useful life of the related manufacturing assets.

We include in cost of goods sold the cost of inventory purchased from our joint ventures and other associated and related companies such as ALTIS (consolidated since December 31, 2005) and Inotera. Our purchases from these associated and related companies amounted to €615 million in the 2005 fiscal year, €575 million in the 2006 fiscal year, and €593 million in the 2007 fiscal year.

	For the years ended September 30,		
	2005	2006	2007
	(€ in millions, except percentages)		
Cost of goods sold	4,909	5,854	6,092
Changes year-on-year		19%	4%
% of net sales	73%	74%	79%
Gross margin	27%	26%	21%

In the 2006 fiscal year our gross margin worsened slightly compared to the 2005 fiscal year due to the lower gross margin of the Qimonda segment primarily as a result of lower levels of license income and strong pricing pressure for DDR2 memories in the first quarter of the 2006 fiscal year. This effect was largely offset by improved gross margin in the Automotive, Industrial & Multimarket and the Communication Solutions segments, particularly due to lower idle capacity costs. Our gross margin decreased in the 2007 fiscal year, primarily as a result of a strong deterioration of the gross margin in the Qimonda segment, resulting from exchange rate effects, DRAM price development in the 2007 year, and inventory devaluations. The gross margin in our other segments remained broadly unchanged from the prior year.

- *Automotive, Industrial & Multimarket* — In the 2006 fiscal year, our gross margin increased mainly due to a reduction in idle capacity costs. The gross margin remained on the same level in the 2007 fiscal year, as pricing pressure and certain corporate overhead expenses that resulted from the Qimonda carve out were compensated with productivity measures.
- *Communication Solutions* — In the 2006 fiscal year, gross margin improved, mainly as a result of lower idle capacity costs and the successful implementation of productivity measures, which more than offset the inventory write-downs resulting from the insolvency of BenQ's German subsidiary. In the 2007 fiscal year, the gross margin of this segment remained stable.
- *Qimonda* — The gross margin decreased slightly during the 2006 fiscal year, primarily as a result of the lower level of license income. The Qimonda gross margin was under particular pressure early in the 2006 fiscal year when pricing pressure was higher, and improved later in the fiscal year. The gross margin decreased from 20 percent in the 2006 fiscal year to 6 percent in the 2007 fiscal year, primarily due to lower average selling prices, the weakening of the U.S. dollar, and inventory write downs of €85 million. These negative effects could not be offset by lower production costs per unit resulting from increased manufacturing productivity.

Research and Development Expenses

Research and development ("R&D") expenses consist primarily of salaries and benefits for research and development personnel, materials costs, depreciation and maintenance of equipment used in our research and development efforts, and contracted technology development costs. R&D expenses also include our joint technology development arrangements with partners such as Nanya and IBM.

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

	For the years ended September 30,		
	2005	2006	2007
	(€ in millions, except percentages)		
Research and development expenses	1,293	1,249	1,169
Changes year-on-year		(3)%	(6)%
% of net sales	19%	16 %	15 %
Government subsidies	50	67	115
% of net sales	1%	1 %	1 %

Some of our R&D projects qualify for subsidies from local and regional governments where we do business. If the criteria to receive a grant are met, the subsidies received reduce R&D expenses over the project term as expenses are incurred.

- *Automotive, Industrial & Multimarket* — In the 2006 fiscal year, R&D expenses remained approximately on the same level as in the 2005 fiscal year in absolute terms and slightly decreased as a percentage of net sales. In the 2007 fiscal year, R&D expenses remained stable as a percentage of net sales and slightly increased in absolute terms mainly driven by automotive and industrial applications.
- *Communication Solutions* — In the 2006 fiscal year, R&D expenses declined in absolute terms but remained stable as a percentage of net sales as the effect of previously implemented efficiency programs was realized. In the 2007 fiscal year, R&D expenses continued to decline in absolute terms and remained stable as a percentage of net sales, reflecting the implementation of cost reduction measures in response to the insolvency of BenQ's German subsidiary.
- *Qimonda* — In the 2006 fiscal year, R&D expenses increased in absolute terms due to Qimonda's effort to strengthen its development capabilities with respect to next-generation memory technologies and the further diversification of its portfolio of memory products, but decreased as a percentage of net sales due to the growth in net sales. In the 2007 fiscal year, R&D expenses decreased due to the completion of R&D work on 80-nanometer and 75-nanometer technology platforms earlier in the 2007 fiscal year, and the focus on production support research before development efforts on 58-nanometer technology platform took off towards the end of the 2007 fiscal year. Qimonda also initiated cost saving measures in order to increase the productivity of development efforts.

Selling, General and Administrative (SG&A) Expenses

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

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

	For the years ended September 30,		
	2005	2006	2007
	(€ in millions, except percentages)		
Selling, general and administrative expenses	655	751	700
Changes year-on-year		15%	(7)%
% of net sales	10%	9%	9 %

Selling and administrative expenses in the 2006 fiscal year increased primarily due to charges of €28 million incurred in connection with the insolvency of BenQ's German subsidiary, expenses of €16 million related to the formation and carve-out of Qimonda, and stock-based compensation costs of €12 million. In the 2007 fiscal year, selling and administrative expenses decreased in absolute terms as

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a result of cost saving measures and the non-recurrence of the unusual charges from the 2006 fiscal year. As a percentage of net sales, selling and administrative expenses remained unchanged in 2007.

Other Items Affecting Earnings

	For the years ended September 30,		
	2005	2006	2007
	(€ in millions, except percentages)		
Restructuring charges	78	23	45
% of net sales	1%	0 %	1 %
Other operating expense, net	92	108	46
% of net sales	1%	1 %	1 %
Equity in earnings of associated companies, net	57	78	117
% of net sales	1%	1 %	2 %
Gain on subsidiaries and associated company share issuance, net	—	19	—
% of net sales	0%	0 %	0 %
Other non-operating income (expense), net	26	(33)	13
% of net sales	0%	0 %	0 %
Extraordinary loss, net of tax	—	—	(35)
% of net sales	0%	0 %	0 %

Restructuring Charges. During the 2005 fiscal year, we announced restructuring measures aimed at reducing costs, downsizing certain portions of our workforce, and consolidating certain functions and operations. As part of the restructuring measures, we agreed upon plans to terminate approximately 350 employees. The terminations were primarily the result of the close down of fiber optics operations in Germany and the United States, and were completed in the 2006 fiscal year. In addition, we took measures to restructure our chip manufacturing within the manufacturing cluster Munich-Perlach, Regensburg and Villach. Production from Munich-Perlach was transferred primarily to Regensburg and to a lesser extent to Villach. Manufacturing at Munich-Perlach was phased out in March 2007. As part of the restructuring, we reduced our workforce by approximately 600 employees. During the 2006 fiscal year, we announced restructuring plans to downsize our workforce at ALTIS and at our chip card back-end activities in order to maintain competitiveness and reduce cost. As part of these restructuring measures, we agreed upon plans to terminate approximately 390 employees and recorded restructuring charges in the 2007 fiscal year. During the 2007 fiscal year, we took further restructuring measures, mainly in response to the insolvency of one of our largest mobile phone customers, BenQ Mobile GmbH & Co. OHG, and in order to further streamline certain research and development locations. Approximately 280 jobs are affected worldwide, thereof approximately 120 in the German locations Munich, Salzgitter and Nuremberg. A large portion of these restructuring measures have been completed during the 2007 fiscal year. The Infineon Complexity Reduction program ("ICoRe") was launched in the first quarter of the 2007 fiscal year to reduce costs and seek added efficiencies by optimizing process flows. This program is expected to have only limited impact on our workforce.

Other Operating Expense, net. In the 2005 fiscal year, other operating expense, net included a net charge of €96 million resulting primarily from the reorganization of certain communication businesses and goodwill and other intangible assets impairment charges. In the 2006 fiscal year, other operating expense, net consisted mainly of goodwill and intangible assets impairment charges of €38 million, antitrust related charges of €23 million, the settlement of litigation with Tessera of €37 million, and a loss of €12 million in connection with our sale of Qimonda ADSs following its initial public offering. In the 2007 fiscal year, other operating expense, net consisted primarily of gains from the sale of the POF business of €17 million and from the sale of the Sci-Worx business of €3 million, and losses of €84 million from the sale of an additional 28.75 million Qimonda ADSs.

Equity in Earnings of Associated Companies, net. Our principal associated company is currently Inotera. Inotera is a DRAM manufacturer and our equity in its earnings has been sensitive to fluctuations in

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the price of DRAM and is reflected in the results of Qimonda. In each of the 2005, 2006 and 2007 fiscal years, Inotera contributed the majority of our equity in earnings from associated companies, reflecting the start of volume production by that joint venture in the 2005 fiscal year. In the 2007 fiscal year, equity in earnings of associated companies, net were €117 million.

Gain on Subsidiaries and Associated Company Share Issuance, net. In August 2006, Qimonda successfully completed an initial public offering on the New York Stock Exchange of 42 million ADSs, together with 6.3 million ADSs from Infineon in an over-allotment option, at a price of US$13 per share. We realized a non-operating loss of €53 million from the dilution of our interest in Qimonda in connection with its initial public offering.

In March and May 2006, Inotera successfully completed an initial public offering on the Taiwanese Stock Exchange of 200 million ordinary shares and a public offering on the Luxembourg Stock Exchange of 40 million global depositary shares (representing 400 million ordinary shares), each at an issuance price of NT$33 per ordinary share. As a result of these transactions, we recognized a non-operating gain of €72 million.

Other Non-Operating Income (Expense), net. Other non-operating income and expense consists of various items in different periods not directly related to our principal operations, including gains and losses on sales of marketable securities. In the 2005 fiscal year, other non-operating income, net included €40 million related to net gains from foreign currency derivatives and foreign currency transactions and a gain of €13 million realized on the sale of our venture capital activities, partially offset by investment-related impairment charges of €29 million. In the 2006 fiscal year, other non-operating expense, net consisted mainly of €31 million related to net losses from foreign currency derivatives and foreign currency transactions and investment-related impairment charges of €13 million. In the 2007 fiscal year, other non-operating income, net included primarily gains and losses from financial instruments transactions.

Extraordinary Loss, net of tax. During the quarter ended March 31, 2007, we entered into agreements with Molstanda Vermietungsgesellschaft mbH ("Molstanda") and a financial institution. Molstanda is the owner of a parcel of land located in the vicinity of our headquarters south of Munich. Pursuant to FASB Interpretation No. 46 (revised December 2003), *"Consolidation of Variable Interest Entities — an Interpretation of ARB No. 51"* ("FIN 46R"), we determined that Molstanda is a variable interest entity since it does not have sufficient equity to demonstrate that it could finance its activities without additional financial support, and as a result of the agreements we became its primary beneficiary. Accordingly, we consolidated the assets and liabilities of Molstanda beginning in the second quarter of the 2007 fiscal year. Since Molstanda is not considered a business pursuant to FIN 46R, the €35 million excess in fair value of liabilities assumed and consolidated of €76 million, over the fair value of the newly consolidated identifiable assets of €41 million, was recorded as an extraordinary loss during the second quarter of the 2007 fiscal year. Due to our cumulative loss situation no tax benefit was provided on this loss. We subsequently acquired the majority of the outstanding capital of Molstanda during the fourth quarter of the 2007 fiscal year. In August 2007, we entered into an agreement to sell part of the acquired parcel of land to a third party developer-lessor in connection with the construction and lease of Qimonda's new headquarters office in the south of Munich.

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Earnings Before Interest and Taxes (EBIT)

We define EBIT as earnings (loss) before interest and taxes. Our management uses EBIT as a measure to establish budgets and operational goals, to manage our business and to evaluate its performance. We report EBIT information because we believe that it provides investors with meaningful information about our operating performance and especially about the performance of our separate operating segments. Because many operating decisions, such as allocations of resources to individual projects, are made on a basis for which the effects of financing the overall business and of taxation are of marginal relevance, we find a metric that excludes the effects of interest on financing and tax expense useful. In addition, in measuring operating performance, particularly for the purpose of making internal decisions, such as those relating to personnel matters, it is useful for us to consider a measure that excludes items over which the individuals being evaluated have minimal control, such as enterprise-level taxation and financing. EBIT is determined from the consolidated statements of operations as follows:

	For the years ended September 30,		
	2005	2006	2007
		(€ in millions)	
Net loss	(312)	(268)	(368)
Add: Income tax expense	120	161	79
Interest expense, net	9	92	33
EBIT	(183)	(15)	(256)

EBIT of our separate reporting segments were as follows:

	For the years ended September 30,		
	2005	2006	2007
		(€ in millions)	
Automotive, Industrial & Multimarket	134	246	300
Communication Solutions	(295)	(231)	(160)
Other Operating Segments	4	4	(12)
Corporate and Eliminations	(137)	(236)	(177)
Subtotal	(294)	(217)	(49)
Qimonda[1]	111	202	(207)
Total	(183)	(15)	(256)

[1] EBIT of Qimonda for the period following its IPO are reported net of minority interest's results.

EBIT reflects the combined effects of the following EBIT developments of our reporting segments:

- *Automotive, Industrial & Multimarket* — The EBIT improvement in the 2006 fiscal year was mainly due to higher sales volumes and improved gross margin, partially offset by continued strong price pressure especially in the automotive and chipcard businesses, costs related to product transfers in connection with the phase-out of production at Munich-Perlach, and costs incurred in connection with our production site in Kulim, Malaysia. In the 2007 fiscal year, EBIT further improved due to an increase in net sales and despite being negatively impacted by additional corporate expense allocations subsequent to the Qimonda carve out. In addition, a €17 million gain was realized from the sale of our POF business in June 2007 to Avago, which also had a positive impact on EBIT in the 2007 fiscal year.
- *Communication Solutions* — In the 2006 fiscal year, EBIT was negatively impacted by charges aggregating €91 million, primarily in connection with allowances recorded in response to the insolvency of BenQ's German subsidiary. Despite these charges, EBIT improved in the 2006 fiscal year mainly due to lower idle capacity costs and the implementation of cost reduction measures. In the 2007 fiscal year, EBIT continued to improve despite a further decline in net sales, as no significant charges were recognized and further cost reduction measures were successfully implemented.

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- *Qimonda* — In the 2006 fiscal year, EBIT increased primarily due to sales volume growth, higher bit shipments and a favorable U.S. dollar/Euro exchange rate compared to the 2005 fiscal year. In the 2007 fiscal year, EBIT decreased significantly primarily due to deteriorating conditions in the DRAM market and inventory write-downs, resulting from negative DRAM price development and the weakening of the U.S. dollar with respect to the Euro.
- *Other Operating Segments* — EBIT in the 2005 fiscal year was positively impacted by a gain of €13 million realized on the sale of our venture capital activities. EBIT in the 2006 fiscal year remained unchanged compared to the 2005 fiscal year. In the 2007 fiscal year, EBIT was negatively impacted by a downward adjustment of transfer prices resulting from the 200-millimeter wafer supply agreement between Infineon and Qimonda.
- *Corporate and Elimination* — EBIT declined in the 2006 fiscal year mainly due to aggregate charges of approximately €80 million incurred in connection with the formation of Qimonda, the dilution of our interest in Qimonda following its IPO, and our sale of Qimonda shares in that offering. In the 2007 fiscal year, EBIT of this segment was positively impacted by a reduction in idle production capacities at ALTIS compared to the 2006 fiscal year, a revision to accrued personnel costs of €22 million, and a decrease in stock option expenses of €13 million. On the other hand, we incurred a loss of €84 million from the sale of an additional 28.75 million Qimonda ADSs in the 2007 fiscal year, which was recorded in this segment. Also, restructuring expenses increased by €22 million in comparison to the 2006 fiscal year.

Interest Expense, Net

We derive interest income primarily from cash and cash equivalents and marketable securities. Interest expense is primarily attributable to bank loans and convertible/exchangeable notes, and is net of interest capitalized on manufacturing facilities under construction.

	For the years ended September 30,		
	2005	2006	2007
	(€ in millions, except percentages)		
Interest expense, net	(9)	(92)	(33)
% of net sales	0 %	(1)%	0 %

Interest expense in the 2005, 2006 and 2007 fiscal years relates principally to the convertible subordinated notes that we issued in February 2002 and in June 2003. The increase in interest expense, net in the 2006 fiscal year primarily reflects the drawdown of US$345 million under our syndicated credit facility to finance the expansion of Qimonda's Richmond manufacturing facility and a reduction in income from interest rate swaps resulting from increased variable interest rates and, to a lesser extent, interest on outstanding tax obligations and a reduction in capitalized interest. In February 2007, we redeemed the remaining outstanding principal of the convertible subordinated notes issued in 2002, which resulted in a decrease in interest expense in the 2007 fiscal year.

Income Taxes

	For the years ended September 30,		
	2005	2006	2007
	(€ in millions, except percentages)		
Income tax expense	(120)	(161)	(79)
% of net sales	(2)%	(2)%	(1)%
Effective tax rate	(63)%	(150)%	(31)%

Generally, deferred tax assets in tax jurisdictions that have a three-year cumulative loss are subject to a valuation allowance excluding the impact of forecasted future taxable income. In the 2005, 2006, and 2007 fiscal years we continued to have a three-year

cumulative loss in certain tax jurisdictions and, accordingly, we recorded increases to the valuation allowance of €192 million, €292 million, and

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€226 million in those periods, respectively. We assess our deferred tax asset position on a regular basis. Our ability to realize benefits from our deferred tax assets is dependent on our ability to generate future taxable income sufficient to utilize tax loss carry-forwards or tax credits before expiration. We expect to continue to recognize no tax benefits in these jurisdictions until we have ceased to be in a cumulative loss position for the preceding three-year period.

Net Loss

In the 2005 fiscal year, the net loss incurred resulted primarily from the combination of lower revenues and gross margin, long-term asset impairments, restructuring measures and tax expense. In the 2006 fiscal year, the net loss incurred was primarily due to charges resulting from allowances recorded in response to the insolvency of BenQ's German subsidiary, losses recognized in connection with the initial public offering of Qimonda, and the settlement of litigation. In addition, in the 2006 fiscal year we began to recognize the fair value of employee stock options in earnings, which further contributed to the net loss incurred. In the 2007 fiscal year, the most significant factor contributing to the increase in net loss was the significant deterioration in EBIT of Qimonda, from positive €202 million in the 2006 fiscal year to negative €207 million in the 2007 fiscal year, which resulted from the deterioration in memory product prices and a weaker U.S. dollar, and a consequent significant decrease in Qimonda's gross margin. Also contributing to the net loss incurred in the 2007 fiscal year were the loss of €84 million resulting from the sale of an additional 28.75 million Qimonda ADSs, restructuring charges of €45 million, and the extraordinary loss of €35 million resulting from the consolidation of Molstanda.

Financial Condition

	As of September 30,		
	2006	2007	% Change year-on-year
	(€ in millions, except percentages)		
Current assets	5,681	5,278	(7)%
Non-current assets	5,504	5,401	(2)%
Total assets	11,185	10,679	(5)%
Current liabilities	3,305	2,847	(14)%
Non-current liabilities	1,725	1,885	9 %
Total liabilities	5,030	4,732	(6)%
Minority Interests	840	1,033	23 %
Shareholders' equity	5,315	4,914	(8)%

As of September 30, 2007, our total assets and current assets decreased in comparison to the prior year end, primarily due to decreased trade accounts receivable and decreased cash and cash equivalents. Trade accounts receivable decreased primarily as a result of the decrease in fourth quarter sales by €452 million to €1,838 million compared with the fourth quarter of the 2006 fiscal year. The decrease of cash and cash equivalents resulted primarily from the redemption during the 2007 fiscal year of convertible subordinated notes due 2007 in the principal outstanding amount of €640 million.

Non-current assets decreased slightly at the end of the 2007 fiscal year compared with the prior year end, as capital expenditures were more than offset by depreciation, amortization, and impairment charges during the year.

Total liabilities and current liabilities decreased as of September 30, 2007 compared with the prior year end, mainly due to the redemption of convertible subordinated notes due 2007 in the principal outstanding amount of €640 million. The increase in non-current liabilities is primarily due to the issuance during the 2007 fiscal year of subordinated notes exchangeable for Qimonda ADSs in the principal amount of €215 million. The increase in minority interests resulted primarily from the sale of an additional 28.75 million Qimonda ADSs, for net proceeds of €216 million.

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Financial Ratios

	As of September 30,		
	2005	2006	2007
Non-current asset intensity[1]	56 %	49 %	51 %
Current asset intensity[2]	44 %	51 %	49 %
Degree of wear of fixed assets[3]	67 %	72 %	72 %
Depreciation rate of fixed assets[4]	11 %	10 %	9 %
Inventory intensity[5]	10 %	11 %	11 %
Inventory turnover[6]	6.8	7.1	6.4
Inventory turnover in days[7]	53	50	57
Days sales outstanding[8]	53	50	50
Equity ratio[9]	55 %	48 %	46 %
Return on equity[10]	(5)%	(5)%	(7)%
Return on assets[11]	(3)%	(2)%	(3)%
Equity-to-fixed-assets ratio[12]	150 %	141 %	135 %
Debt-to-equity ratio[13]	30 %	38 %	35 %

The aforementioned financial condition ratios are calculated as follows:

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

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

(3) Degree of wear of fixed assets = accumulated depreciation on fixed assets / historical costs of fixed assets at the end of the fiscal year

(4) Depreciation rate of fixed assets = annual depreciation of fixed assets / historical costs of fixed assets at the end of the fiscal year

(5) Inventory intensity = inventory / total assets

(6) Inventory turnover = annual net sales / average inventory

(7) Inventory turnover in days = average inventory x 360 days / annual net sales

(8) Days sales outstanding = average accounts receivable x 360 days / annual net sales

(9) Equity ratio = equity / total assets

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

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

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

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

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

In the 2006 fiscal year, our equity ratio decreased principally due to the net loss during the year. At September 30, 2006, our equity ratio was 48 percent, a 7 percentage point decrease from September 30, 2005. At September 30, 2007, our equity ratio was 46 percent, a 2 percentage point decrease from September 30, 2006, principally due to the net loss incurred.

In the 2006 fiscal year, the return on equity remained unchanged at negative 5 percent and the return on assets improved to negative 2 percent due to a smaller net loss and increased total assets compared to the 2005 fiscal year. In the 2007 fiscal year, the return on equity decreased to negative 7 percent and the return on assets decreased to negative 3 percent, due to a higher net loss and decreased total assets compared to the 2006 fiscal year.

The equity-to-fixed-assets ratio decreased to 141 percent in the 2006 fiscal year from 150 percent in the prior year as a result of the net loss. In the 2007 fiscal year, the equity-to-fixed-assets ratio further decreased to 135 percent, mainly as a result of the net loss.

In the 2006 fiscal year, the increase in debt-to-equity ratio to 38 percent, compared to 30 percent in the 2005 fiscal year, was mainly attributable to the drawdown of US$345 million

under our syndicated credit facility during the 2006 fiscal year to finance the expansion of our Richmond manufacturing facility. In the 2007 fiscal year, the debt-to-equity ratio decreased to 35 percent, primarily due to the full redemption of the

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principal outstanding amount of €640 million of convertible subordinated notes, partially offset by the issuance of €215 million in exchangeable subordinated notes due in 2010.

Liquidity

Cash Flow

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

Cash flows from investing and financing activities are both indirectly determined based on payments and receipts. Cash flows from operating activities are determined indirectly from net loss. The changes in balance sheet items have been adjusted for the effects of foreign currency exchange fluctuations and for changes in the scope of consolidation. Therefore, they do not conform to the corresponding changes in the respective balance sheet line items.

	For the years ended September 30,		
	2005	2006	2007
		(€ in millions)	
Net cash provided by operating activities	1,090	1,003	1,207
Net cash used in investing activities[1]	(289)	(853)	(867)
Net cash provided by (used in) financing activities	(266)	762	(521)
Cash and cash equivalents at end of year	1,148	2,040	1,819

(1) In the 2006 fiscal year the amount includes a €119 million cash increase as a result of the initial consolidation of ALTIS.

Cash provided by operating activities in the 2007 fiscal year resulted mainly from the net loss of €368 million, which is net of non-cash charges for depreciation and amortization of €1,276 million and impairment charges of €40 million. Cash provided by operating activities was positively impacted by a decrease of trade accounts receivable and other current assets of €386 million, and negatively impacted by an increase in inventories and a decrease in other current liabilities aggregating to €185 million.

Cash used in investing activities in the 2007 fiscal year mainly reflects capital expenditures of €1,375 million, principally to expand and equip our manufacturing facilities in Kulim, Malacca, Batam, Villach and Regensburg in the logic segments and the DRAM manufacturing facilities in Richmond, Dresden and Porto, as well as net proceeds from net sales of marketable securities of €133 million, proceeds from sale of business activities and interests in subsidiaries of €273 million, and cash inflows of €156 million from a sale and leaseback transaction of 200-millimeter equipment that Qimonda entered into in September 2007.

Cash used in financing activities in the 2007 fiscal year principally relates to the redemption of convertible subordinated notes due 2007 in the principal outstanding amount of €640 million, which was in part offset by the proceeds of the issuance of €215 million in exchangeable subordinated notes due 2010.

Free Cash Flow

We define free cash flow as cash from operating and investing activities excluding purchases or sales of marketable securities. Since we hold a substantial portion of our available monetary resources in the form of readily available marketable securities, 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. It is not intended to represent the residual cash flow available for

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discretionary expenditures, since debt service requirements or other non-discretionary expenditures are not deducted. The free cash flow is determined as follows from the consolidated statements of cash flows:

	For the years ended September 30,		
	2005	2006	2007
		(€ in millions)	
Net cash provided by operating activities	1,090	1,003	1,207
Net cash used in investing activities[1]	(289)	(853)	(867)
Sales of marketable securities, net	(1,082)	(238)	(133)
Free cash flow	(281)	(88)	207

[1] In the 2006 fiscal year, the amount includes a €119 million cash increase as a result of the initial consolidation of ALTIS.

Net Cash Position

The following table presents our gross and net cash positions and the maturity of debt. It is not intended to be a forecast of cash available in future periods.

	Payments due by period						
As of September 30, 2007	Total	Less than 1 year	1-2 years	2-3 years	3-4 years	4-5 years	After 5 years
			(€ in millions)				
Cash and cash equivalents	1,819	1,819	—	—	—	—	—
Marketable securities	475	475	—	—	—	—	—
Gross cash position	2,294	2,294	—	—	—	—	—
Less							
Long-term debt	1,376	—	207	1,002	95	26	46
Short-term debt and current maturities	336	336	—	—	—	—	—
Total financial debt	1,712	336	207	1,002	95	26	46
Net cash position	582	1,958	(207)	(1,002)	(95)	(26)	(46)

Our gross cash position — representing cash and cash equivalents, plus marketable securities — decreased to €2,294 million at September 30, 2007, compared with €2,655 million at the prior year end. The decrease was mainly due to the net effect of the redemption of convertible subordinated notes due 2007 in the principal outstanding amount of €640 million and the proceeds from the issuance of €215 million in subordinated notes due 2010 exchangeable for Qimonda ADSs.

Long-term debt principally consists of convertible and exchangeable subordinated notes that were issued in order to strengthen our liquidity position and allow us more financial flexibility in conducting our business operations. The total outstanding convertible and exchangeable notes as of September 30, 2007 amounted to €915 million.

On February 6, 2002, we issued €1,000 million in convertible subordinated notes due 2007 at par in an underwritten offering to institutional investors in Europe. During the 2004 fiscal year we redeemed €360 million of these notes. On February 6, 2007, we redeemed the remaining notes at the principal outstanding amount of €640 million.

On June 5, 2003, we issued €700 million in convertible subordinated notes due 2010 at par in an underwritten offering to institutional investors in Europe. The notes are convertible, at the option of the holders of the notes, into a maximum of 68.4 million ordinary shares of our company, at a conversion price of €10.23 per share through maturity.

On September 26, 2007, we issued €215 million in exchangeable subordinated notes due 2010 at par in an underwritten offering to institutional investors in Europe. The notes are unsecured and accrue interest at 1.375 percent per year. The notes are exchangeable for a maximum of 20.5 million Qimonda ADSs, at an exchange price of €10.48 per ADS at any time during the exchange period through maturity, corresponding to an exchange premium of 35 percent.

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Our net cash position — meaning cash and cash equivalents, plus marketable securities, less total financial debt — decreased by €68 million to €582 million at September 30, 2007, compared with €650 million at September 30, 2006, principally due to dividend payments to minority interest holders.

To secure our cash position and to keep flexibility with regards to liquidity, we have implemented a policy with risk limits for the amounts deposited with respect to the counterparty, credit rating, sector, duration, credit support and type of instrument.

Capital Requirements

We require capital in our 2008 fiscal year to:

- Finance our operations;
- Make scheduled debt payments;
- Settle contingencies if they occur; and
- Make planned capital expenditures.

We expect to meet these requirements through:

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

As of September 30, 2007, we require funds for the 2008 fiscal year aggregating €1,658 million, consisting of €336 million for short-term debt payments and €1,322 million for commitments. In addition, we may need up to €150 million for currently known and estimable contingencies. We also plan to invest between approximately €1.1 billion and €1.2 billion in capital expenditures. We have a gross cash position of €2,294 million as of September 30, 2007, and also the ability to draw funds from available credit facilities of €946 million.

Commitments and Contingencies

	Payments Due/Expirations by Period						
As of September 30, 2007[1][2]	**Total**	**Less than 1 year**	**1-2 years**	**2-3 years**	**3-4 years**	**4-5 years**	**After 5 years**
	(€ in millions)						
Contractual commitments:							
Operating lease payments	870	90	78	65	62	57	518
Unconditional purchase commitments	1,212	1,161	29	11	6	1	4
Other commitments	77	71	2	2	1	1	—
Total commitments	2,159	1,322	109	78	69	59	522
Other contingencies:							
Guarantees[3]	209	25	22	1	14	30	117
Contingent government grants[4]	462	125	40	56	171	30	40
Total contingencies	671	150	62	57	185	60	157

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

(2) Product purchase commitments associated with capacity reservation agreements are not included in this table, since the purchase prices are based, in part, on future market prices, and are accordingly not quantifiable at September 30, 2007. Purchases under such agreements aggregated €1,165 million for the year ended September 30, 2007.

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

(4) Contingent government grants refer to amounts previously received, related to the construction and financing of certain production facilities, which are not guaranteed otherwise and could be refundable if the total project requirements are not met.

The above table should be read together with note 35 to our consolidated financial statements for the year ended September 30, 2007.

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Off-Balance Sheet Arrangements

We issue guarantees in the normal course of business, mainly for the payment of import duties, rentals of buildings and contingent obligations related to government grants received. As of September 30, 2007, the undiscounted amount of potential future payments for guarantees was €209 million.

Capital Expenditures

	For the years ended September 30,		
	2005	2006	2007
		(€ in millions)	
Non-memory businesses[1]	442	567	496
Qimonda	926	686	879
Total	1,368	1,253	1,375

[1] Includes elimination of inter-segment transfers of €149 million, €37 million and €2 million for fiscal years ended September 30, 2005, 2006 and 2007, respectively.

Depending on our business situation we currently expect to invest between approximately €1.1 billion and €1.2 billion in capital expenditures in the 2008 fiscal year, principally for our manufacturing facilities in Richmond, Virginia, and Kulim, Malaysia. We also constantly seek to improve productivity and upgrade technology at existing facilities, especially in Dresden, Germany. As of September 30, 2007, €361 million of this amount was committed and included in unconditional purchase commitments. Due to the lead times between ordering and delivery of equipment, a substantial amount of capital expenditures typically is committed well in advance. Approximately 60 percent of these expected capital expenditures will be made in the front-end and back-end facilities of Qimonda.

Credit Facilities

We have established both short- and long-term credit facilities with a number of different financial institutions in order to meet our anticipated funding requirements. These facilities, which aggregate €1,620 million, of which €946 million remained available at September 30, 2007, comprise the following:

			As of September 30, 2007		
Term	Nature of financial institution commitment	Purpose/intended use	Aggregate facility	Drawn	Available
				(€ in millions)	
Short-term	firm commitment	working capital, guarantees	164	127	37
Short-term	no firm commitment	working capital, cash management	336	28	308
Long-term[1]	firm commitment	general corporate purposes	766	165	601
Long-term[1]	firm commitment	project finance	354	354	—
Total			1,620	674	946

[1] Including current maturities.

In September 2004, we executed a US$400/€400 million syndicated credit facility with a five-year term, which was subsequently reduced to US$345/€300 million in August 2006. The facility consists of two tranches. Tranche A is a term loan intended to finance the expansion of the Richmond, Virginia, manufacturing facility. In January 2006, we drew US$345 million under Tranche A, on the basis of a repayment schedule that foresees equal installments falling due in March and September each year. At September 30, 2007, US$235 million was outstanding under Tranche A. Tranche B, which is a €300 million multicurrency revolving facility to be used for general corporate purposes, remained available and undrawn at September 30, 2007. The facility has customary financial covenants, and drawings bear interest at market-related rates that are linked to financial performance. The lenders of this

credit facility

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have been granted a negative pledge relating to the future financial indebtedness of our company with certain permitted encumbrances. In September 2007, we extended our credit lines by €300 million in additional short-term bilateral commitments from lenders of the facility described above under the same terms and conditions applicable to Tranche B.

In September 2007, Qimonda entered into a sale and leaseback transaction of 200-millimeter equipment. The four-year lease is accounted for as a capital lease, whereby the present value of the lease payments is reflected as a capital lease obligation.

At September 30, 2007, we were in compliance with our debt covenants under the relevant facilities.

We plan to fund our working capital and capital requirements from cash provided by operations, available funds, bank loans, government subsidies and, if needed, the issuance of additional debt or equity securities. We have also applied for governmental subsidies in connection with certain capital expenditure projects, but can provide no assurance that such subsidies will be granted on a timely basis or at all. We can provide no assurance that we will be able to obtain additional financing for our research and development, working capital or investment requirements or that any such financing, if available, will be on terms favorable to us.

Taking into consideration the financial resources available to us, including our internally generated funds and currently available banking facilities, we believe that we will be in a position to fund our capital requirements in the 2008 fiscal year.

Pension Plan Funding

Our projected pension benefit obligation, which considers future compensation increases, amounted to €469 million at September 30, 2007, compared to €518 million at September 30, 2006. The fair value of plan assets as of September 30, 2007 was €412 million, compared to €320 million as of September 30, 2006.

The actual return on plan assets between the last measurement dates amounted to 9.6 percent, or €27 million, for domestic (German) plans and 9.8 percent, or €4 million, for foreign plans, compared to the expected return on plan assets for that period of 6.1 percent for domestic plans and 6.9 percent for foreign plans. We have estimated the return on plan assets for the next fiscal year to be 6.5 percent, or €24 million, for domestic plans and 7.0 percent, or €3 million, for foreign plans.

At September 30, 2006 and 2007, the combined funding status of our pension plans reflected an under-funding of €198 million and €57 million, respectively. Due to the significant improvement of the combined funding status of our pension plans, we intend to make lower contributions to our pension plans during the 2008 fiscal year, compared to those made during the 2007 fiscal year.

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

Our asset allocation targets for pension plan assets are based on our assessment of business and financial conditions, demographic and actuarial data, funding characteristics, related risk factors, market sensitivity analyses and other relevant factors. The overall allocation is expected to help protect the plans' level of funding while generating sufficiently

stable real returns (i.e., net of inflation) to meet current and future benefit payment needs. Due to active portfolio management, the asset allocation may differ from the

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target allocation up to certain limits. As a matter of policy, our pension plans do not invest in Infineon or Qimonda shares.

Financial Instruments

We periodically enter into derivatives, including foreign currency forward and option contracts as well as interest rate swap agreements. The objective of these transactions is to reduce the impact of interest rate and exchange rate fluctuations on our foreign currency denominated net future cash flows. We do not enter into derivatives for trading or speculative purposes.

Employees

The following table indicates the composition of our workforce by function and region at the end of the fiscal years indicated.

	As of September 30,		
	2005	2006	2007
Function:			
Production	25,114	29,641	30,210
Research & Development	7,401	7,745	8,339
Sales & Marketing	2,016	2,101	2,223
Administrative	1,909	2,164	2,307
Total	36,440	41,651	43,079
Region:			
Germany	16,119	15,736	15,223
Europe	5,482	7,244	7,739
North America	3,193	3,295	3,536
Asia/Pacific	11,451	15,148	16,365
Japan	158	187	216
Other	37	41	—
Total	36,440	41,651	43,079

Of the total workforce, 9,606, 11,802 and 13,481 as of September 30, 2005, 2006 and 2007, respectively, were employees of Qimonda.

In the 2005 and 2006 fiscal years, our headcount increased principally due to the expansion of manufacturing capacities in Malaysia and China. The increase of our headcount in Europe during the 2006 fiscal year resulted mainly from the first-time consolidation of ALTIS as of December 31, 2005. In the 2007 fiscal year, the number of employees in our logic segments decreased in Germany primarily as a result of the phase out of manufacturing at Munich-Perlach, and the restructuring program initiated following the insolvency of BenQ's German subsidiary, but increased in the Asia/Pacific region due to expansion of production in Kulim, Malaysia, and research and development in Malaysia and China. With respect to Qimonda, its number of employees increased by approximately 1,700 principally due to capacity increases especially in the production areas in Suzhou, Porto and Dresden.

Critical Accounting Policies

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

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Revenue Recognition

We generally market our products to a wide variety of customers and a network of distributors. Our policy is to record revenue when persuasive evidence of an arrangement exists, the price is fixed or determinable, shipment is made and collectibility is reasonably assured. We record reductions to revenue for estimated product returns and allowances for discounts and price protection, based on actual historical experience, at the time the related revenue is recognized. We establish reserves for sales discounts, price protection allowances and product returns based upon our evaluation of a variety of factors, including industry demand. This process requires the exercise of substantial judgments in evaluating the above-mentioned factors and requires material estimates, including forecasted demand, returns and industry pricing assumptions.

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

We have entered into licensing agreements for our technology in the past, and anticipate that we will increase our efforts to monetize the value of our technology in the future. As with certain of our existing licensing agreements, any new licensing arrangements may include capacity reservation agreements with the licensee. Such transactions could represent multiple element arrangements pursuant to SEC Staff Accounting Bulletin ("SAB") 104, *"Revenue Recognition"*, and Emerging Issues Task Force ("EITF") Issue No. 00-21, *"Revenue Arrangements with Multiple Elements"*. The process of determining the appropriate revenue recognition in such transactions is highly complex and requires significant judgment, which includes evaluating material estimates in the determination of fair value and the level of our continuing involvement.

Recoverability of Long-Lived Assets

Our business is extremely capital-intensive, and requires a significant investment in property, plant and equipment. Due to rapid technological change in the semiconductor industry, we anticipate the level of capital expenditures to be significant in future periods. During the 2007 fiscal year, we spent €1,375 million on purchases of property, plant and equipment. At September 30, 2007, the carrying value of our property, plant and equipment was €3,647 million. We have acquired other businesses, which resulted in the generation of significant amounts of long-lived intangible assets, including goodwill. At September 30, 2007, we had long-lived intangible assets of €232 million.

In accordance with the provisions of Financial Accounting Standards Board ("FASB") Statement of Financial Accounting Standards ("SFAS") No. 142, *"Goodwill and Other Intangible Assets"*, we test goodwill and indefinite life intangible assets for impairment at least once a year.

We also review long-lived assets, including intangible assets, for impairment when events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying value of an asset to future net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment recognized is measured by the amount by which the carrying value of the assets exceeds the fair value of the assets. Estimated fair value is generally based on either appraised value or discounted estimated future cash flows. Considerable management judgment is necessary to estimate discounted future cash flows.

We tested goodwill for impairment and recognized impairment charges of €18 million and €7 million during the fiscal years ended September 30, 2005 and 2006, respectively. The goodwill impairment charges in the 2006 fiscal year related primarily to our acquisition of Savan and Sci-Worx, while the impairment charges in the 2005 fiscal year related primarily to goodwill arising from our acquisition of ADMtek Inc. in 2004. We did not recognize any

material goodwill impairment charges in the 2007 fiscal year.

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Valuation of Inventory

Historically, the semiconductor industry has experienced periods of extreme volatility in product demand and in industry capacity, resulting in significant price fluctuations. Since semiconductor demand is concentrated in such highly-volatile industries as wireless communications, wireline communications and the computer industry, this volatility can be extreme. This volatility has also resulted in significant fluctuations in price within relatively short time-frames. The average daily "spot" market price for 512 Mbit DRAM as reported by DRAMeXchange fell from US$6.36 on December 29, 2006 to US$1.70 on May 22, 2007, a drop of 73.3 percent in less than five months. We believe that a part of this price decline, especially towards the end of March 2007, was driven by seasonal demand weakness, the effects of an earlier build-up of inventories at OEMs ahead of the introduction of the new Windows Vista computer operating system, and capacity conversions from NAND to DRAM by some competitors, following severe price erosion in the NAND flash area. During the three months ended June 30, 2007, the price decline continued and was amplified by strong DRAM output growth across the industry, driven, we believe, mostly by capacity increases and technology conversions to more efficient technologies. Although prices for DRAM products improved slightly in July 2007 as compared to June 2007, in August 2007 market prices resumed the decline and the average daily "spot" market price for 512 Mbit DRAM as reported by DRAMeXchange declined to US$1.45 on September 27, 2007.

As a matter of policy, we value inventory at the lower of cost or market price. We review the recoverability of inventory based on regular monitoring of the size and composition of inventory positions, current economic events and market conditions, projected future product demand, and the pricing environment. This evaluation is inherently judgmental and requires material estimates, including both forecasted product demand and pricing environment, both of which may be susceptible to significant change. At September 30, 2007, total inventory was €1,217 million.

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

Recoverability of Long-Term Investments

We have made a series of investments in companies that are principally engaged in the research and development, design, and manufacture of semiconductors and related products. At September 30, 2007, the carrying value of our long-term investments totaled €652 million.

Our accounting policy is to record an impairment of investments when the decline in fair value below carrying value is other-than-temporary. We assess declines in the value of investments to determine whether such decline is other-than-temporary, thereby rendering the investment impaired. This assessment is made by considering available evidence including changes in general market conditions, specific industry and investee data, the length of time and the extent to which the fair value has been less than cost, and our intent and ability to hold the investment for a period of time sufficient to allow for any anticipated recovery in fair value. We did not incur any material impairment charges of long-term investments in the 2007 fiscal year as a result of such impairment tests.

At September 30, 2007, our most significant long-term investment was Qimonda's investment in Inotera, which is a publicly traded joint venture with Nanya.

The high cyclicality in the semiconductor industry could adversely impact the operations of these investments and their ability to generate future net cash flows. Furthermore, to the extent that these investments are not publicly traded, further judgments and estimates are required to determine their fair value. As a result, potential impairment charges to write-down

such investments to net realizable value could adversely affect our future operating results.

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While we have recognized all declines that are believed to be other-than-temporary, it is reasonably possible that individual investments in our portfolio may experience an other-than-temporary decline in value in the future if the underlying investee experiences poor operating results or the global equity markets experience future broad declines in value.

Realization of Deferred Tax Assets

At September 30, 2007, total net deferred tax assets were €598 million. Included in this amount are the tax benefits of net operating loss and credit carry-forwards of approximately €456 million, net of the valuation allowance. These tax loss and credit carry-forwards generally do not expire under current law.

We evaluate our deferred tax asset position and the need for a valuation allowance on a regular basis. The assessment requires the exercise of judgment on the part of our management with respect to, among other things, benefits that could be realized from available tax strategies and future taxable income, as well as other positive and negative factors. The ultimate realization of deferred tax assets is dependent upon our ability to generate the appropriate character of future taxable income sufficient to utilize loss carry-forwards or tax credits before their expiration. Since we have incurred a cumulative loss in certain tax jurisdictions over the three-year period ended September 30, 2007, the impact of forecasted future taxable income is excluded from such an assessment. For these tax jurisdictions, the assessment was therefore based only on the benefits that could be realized from available tax strategies and the reversal of temporary differences in future periods.

As a result of this assessment, we increased the deferred tax asset valuation allowance in the 2006 and 2007 fiscal years by €292 million and €226 million, respectively, in order to reduce the deferred tax asset to an amount that is more likely than not expected to be realized in the future. We expect to continue to recognize low levels of deferred tax benefits in the 2008 fiscal year, until such time as taxable income is generated in tax jurisdictions that would enable us to utilize our tax loss carry-forwards in those jurisdictions.

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

Purchase Accounting

We have acquired businesses, including the DSL CPE business of TI in the 2007 fiscal year. This acquisition did not result in any in-process research and development costs, but generated long-lived intangible assets and goodwill.

Accounting for business combinations requires the allocation of the purchase price to identifiable tangible and intangible assets and liabilities based upon their fair value. The allocation of purchase price is highly judgmental, and requires the extensive use of estimates and fair value assumptions, which can have a significant impact on operating results.

Pension Plan Accounting

Our pension benefit costs are determined in accordance with actuarial computations using the projected-unit-credit method, which rely on assumptions including discount rates and expected return on plan assets. Discount rates are established based on prevailing market rates for high-quality fixed-income instruments that, if the pension benefit obligation were settled at the measurement date, would provide the necessary future cash flows to pay the benefit obligation when due. The expected return on plan assets assumption is determined on a uniform basis, considering long-term historical returns, asset allocation, and future estimates of long-term investment returns. Other key assumptions for our pension costs are based on current market conditions. A significant variation in one or more of these underlying assumptions could have a material effect on the measurement of our long-term obligation.

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We account for our pension-benefit liabilities and related postretirement benefit costs pursuant to SFAS No. 87, *"Employers' Accounting for Pensions"*. We offer defined benefit pension plans, which generally specify the amount of pension benefit that each employee will receive for services performed during a specified period of employment. The amount of the employer's periodic contribution to a defined benefit pension plan is based on the total pension benefits that could be earned by all eligible participants.

Generally, if our total contribution to our pension plans for the period is not equal to the amount of net periodic pension cost as determined by the provisions of SFAS No. 87, we recognize the difference either as a liability or as an asset. Effective September 30, 2007, we adopted the recognition provision of SFAS No. 158, "*Employer's Accounting for Defined Benefit Pension and Other Postretirement Plans — an amendment of FASB Statements No. 87, 88, 106, and 132(R)*", whereby we recognize the over-funded or under-funded status of our defined benefit postretirement plans as an asset or liability in our consolidated balance sheet. Changes in funded status will be recognized in the year in which the changes occur through other comprehensive income.

Consolidated Balance Sheets. Defined benefit plans determine the entitlements of their beneficiaries. The net present value of the total fixed benefits for service already rendered is represented by the actuarially calculated accumulated benefit obligation ("ABO").

An employee's final benefit entitlement at regular retirement age may be higher than the fixed benefits at the measurement date due to future compensation or benefit increases. The net present value of this ultimate future benefit entitlement for service already rendered is represented by the projected benefit obligation ("PBO"), which is actuarially calculated with consideration for future compensation increases.

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

Differences between actual experience and the assumptions made for the compensation increase rate and projected future pension increases, as well as the differences between actual and expected returns on plan assets, generally result in the unrecognized actuarial gains or losses, which are reflected as a separate component of shareholders' equity.

Consolidated Statements of Operations. The recognized expense related to pension plans and similar commitments in the consolidated statements of operations is referred to as net periodic pension cost ("NPPC") and consists of several separately calculated and presented components, including service cost, which is the actuarial net present value of the part of the PBO for the service rendered in the respective fiscal year; the interest cost for the expense derived from the addition of accrued interest on the PBO at the end of the preceding fiscal year on the basis of the identified discount rate; and the expected return on plan assets in the case of funded benefit plans. Actuarial gains and losses, resulting for example from an adjustment of the discount rate, and asset gains and losses, resulting from a deviation of actual and expected return on plan assets, are included in the net pension cost for the fiscal year if, as of the beginning of the fiscal year, the unrecognized net gains or losses exceed 10 percent of the greater of the projected benefit obligation or the market value of the plan assets. The amortization is the excess divided by the average remaining service period of active employees expected to receive benefits under the plan.

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

In the consolidated statements of operations, NPPC expenses before income taxes for our pension plans for the fiscal years ended September 30, 2005, 2006 and 2007, were €28 million, €37 million and €41 million, respectively.

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

	As of September 30,	
	2006	2007
	(€ in millions)	
Accumulated other comprehensive income	87	42
Less income tax effect	—	3
Accumulated other comprehensive income, net of income taxes	87	45
Non-current pension assets	—	60
Current pension liabilities	—	5
Non-current pension liabilities	134	111

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

In the consolidated statements of cash flows, our principal pension and other postretirement benefits resulted in net cash used in operating activities of €4 million, €5 million and €8 million in the fiscal years ended September 30, 2005, 2006 and 2007, respectively.

Pension benefits — Sensitivity Analysis. A one percentage point change in the established assumptions used for the calculation of the NPPC for the 2008 fiscal year would result in the following impact on the NPPC for the 2008 fiscal year:

	Effect on net periodic pension costs	
	One percentage increase	One percentage decrease
	(€ in millions)	
Discount rate	(5)	3
Rate of compensation increase	3	(4)
Rate of projected future pension increases	1	(2)
Expected return on plan assets	(4)	4

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

For a discussion of our current funding status and the impact of these critical assumptions, see note 32 to our consolidated financial statements for the year ended September 30, 2007.

Contingencies

We are subject to various legal actions and claims, including intellectual property matters, that arise in and outside the normal course of business. Current proceedings are described under the heading “Business — Legal Matters”.

We regularly assess the likelihood of any adverse outcome or judgments related to these matters, as well as estimating the range of possible losses and recoveries. Liabilities, including accruals for significant litigation costs, related to legal proceedings are recorded when it is probable that a liability has been incurred and the associated amount of the loss can be reasonably estimated. Where the estimated amount of loss is within a range of amounts and no amount within the range is a better estimate than any other amount or the

range cannot be estimated, the minimum amount is accrued. Accordingly, we have accrued

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a liability and charged operating income in the accompanying consolidated financial statements related to certain asserted and unasserted claims existing as of each balance sheet date. As additional information becomes available, any potential liability related to these actions is assessed and the estimates are revised, if necessary. These accrued liabilities would be subject to change in the future based on new developments in each matter, or changes in circumstances, which could have a material impact on our results of operations, financial position and cash flows.

Recent Accounting Pronouncements

In June 2006, the FASB issued Interpretation No. 48, *"Accounting for Uncertainty in Income Taxes — an Interpretation of FASB Statement 109"* ("FIN 48"), which defines the threshold for recognizing the benefits of tax return positions in the financial statements as "more-likely-than-not" to be sustained by the taxing authority. The recently issued literature also provides guidance on the derecognition, measurement and classification of income tax uncertainties, along with any related interest and penalties. FIN 48 also includes guidance concerning accounting for income tax uncertainties in interim periods and increases the level of disclosures associated with any recorded income tax uncertainty. The differences between the amounts recognized in the statements of financial position prior to the adoption of FIN 48 and the amounts reported after adoption will be accounted for as a cumulative-effect adjustment recorded to the beginning balance of retained earnings. The provisions of FIN 48 are effective for us as of October 1, 2007. We are in the process of determining the impact, if any, that the adoption of FIN 48 will have on our company's consolidated financial position and results of operations.

In September 2006, the FASB released SFAS No. 157, *"Fair Value Measurements"*, which provides guidance for using fair value to measure assets and liabilities. SFAS No. 157 defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurements. The standard also responds to investors' requests for more information about the extent to which companies measure assets and liabilities at fair value, the information used to measure fair value, and the effect that fair value measurements have on earnings. SFAS No. 157 will apply whenever another standard requires (or permits) assets or liabilities to be measured at fair value. The standard does not expand the use of fair value to any new circumstances. SFAS No. 157 is effective for our company in the fiscal year beginning on October 1, 2008, and interim periods within that fiscal year. We will adopt SFAS No. 157 on October 1, 2008 on a prospective basis.

In September 2006, the FASB issued SFAS No. 158, *"Employer's Accounting for Defined Benefit Pension and Other Postretirement Plans — an amendment of FASB Statements No. 87, 88, 106, and 132(R)",* which requires an employer to recognize the overfunded or underfunded status of a defined benefit postretirement plan (other than a multiemployer plan) as an asset or liability in its statement of financial position and to recognize changes in that funded status in the year in which the changes occur through comprehensive income of a business entity or changes in unrestricted net assets of a not-for-profit organization ("Recognition Provision"). We adopted the Recognition Provision of SFAS No. 158 as of the end of the fiscal year ended September 30, 2007. The incremental effects of the implementation of the Recognition Provision on the individual line items in the September 30, 2007 consolidated balance sheet are shown in note 32 to our consolidated financial statements. SFAS No. 158 also requires an employer to measure the funded status of a plan as of the date of its year-end statement of financial position, with limited exceptions ("Measurement Date Provision"). We currently measure the funded status of our plans annually on June 30. The Measurement Date Provision is effective for our company as of the end of the fiscal year ending September 30, 2009. We do not expect the change in the annual measurement date to September 30 to have a significant impact on our consolidated financial position and results of operations.

In February 2007, the FASB issued SFAS No. 159, "*The Fair Value Option for Financial Assets and Financial Liabilities — including an amendment of FASB Statement No. 115*". SFAS No. 159 permits entities to choose to measure certain financial assets and liabilities

and other eligible items at fair value, which are not otherwise currently required to be measured at fair value. Under SFAS No. 159, the decision to measure items at fair value is made at specified election dates on an irrevocable instrument-by-instrument basis. Entities electing the fair value option would be required to recognize changes in fair value in

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earnings and to expense upfront cost and fees associated with the item for which the fair value option is elected. Entities electing the fair value option are required to distinguish on the face of the statement of financial position, the fair value of assets and liabilities for which the fair value option has been elected and similar assets and liabilities measured using another measurement attribute. If elected, SFAS No. 159 is effective as of the beginning of the first fiscal year that begins after November 15, 2007, with earlier adoption permitted as of the beginning of a fiscal year provided that the entity also early adopts all of the requirements of SFAS No. 157. We are currently evaluating whether to elect the option provided for in this standard.

International Financial Reporting Standards (IFRS)

Pursuant to a regulation of the European Union (the "EU") and the German Commercial Code, we will be required to report our consolidated financial statements in accordance with International Financial Reporting Standards ("IFRS") no later than for the fiscal year ending September 30, 2008.

We will prepare our first IFRS consolidated statements as of September 30, 2008 as required by the EU and the German Commercial Code. As of the date of this report, we have substantially completed the identification of differences between U.S. GAAP and IFRS with respect to accounting standards that were final and effective as of September 30, 2007. However, the impact of the adoption of IFRS on our company will be subject to the issuance of final versions of IFRS standards that currently have draft status, and the degree of convergence achieved between U.S. GAAP and IFRS by the date of adoption. Accordingly, we are not yet in a position to provide a complete quantitative analysis of the impact that the adoption of IFRS will have on our consolidated financial statements.

The primary differences between U.S. GAAP and IFRS standards that were final and effective as of September 30, 2007, which would have impacted our company's consolidated financial statements as of and for the year ended September 30, 2007, are the following:

- Under U.S. GAAP, development costs are expensed as incurred. IFRS requires capitalization and amortization of development costs when specific criteria are met.
- Our convertible and exchangeable subordinated notes are accounted for differently under U.S. GAAP and IFRS. Under U.S. GAAP, the convertible and exchangeable subordinated notes are recorded in their entirety as debt and accreted to face value through maturity. In contrast to U.S. GAAP, under IFRS the convertible and exchangeable notes are considered hybrid financial instruments that require bifurcation into a debt component which is accreted through maturity, and a conversion right component which is classified as equity.
- Employee benefits are accounted for differently under U.S. GAAP and IFRS. We currently intend to adopt the so called SoRIE approach ("Statement of Recognized Income and Expense") under IAS 19, *"Employee Benefits",* for accounting for pension and other post employment benefits. Under the SoRIE approach, the funded status of defined benefit plans is recognized in the consolidated balance sheets, and actuarial gains and losses are recorded in a "consolidated statement of recognized income and expense" which is presented in lieu of a statement in changes of equity. Unlike U.S. GAAP, under the IFRS application of the SoRIE approach there is no recycling of actuarial gains and losses previously recorded in the statement of other comprehensive income (loss) through the consolidated statements of operations in subsequent periods.
- The adjustments described above will also result in differences between the carrying amount of assets and liabilities in the consolidated financial statements and their tax bases, which will give rise to additional deferred tax assets and liabilities. Furthermore, there are additional differences between U.S. GAAP and IFRS in areas of accounting such as deferred tax treatment of intra-group transfers and temporary differences arising at the initial recognition of certain assets and liabilities.

The above listing of differences between U.S. GAAP and IFRS standards that are expected to impact our company is not intended to be all-inclusive. We caution you that a number of important factors could cause actual results or outcomes to differ materially from those expressed above.

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Quantitative and Qualitative Disclosure about Market Risk

The following discussion should be read in conjunction with notes 2, 33 and 34 to our consolidated financial statements for the year ended September 30, 2007.

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

Commodity Price Risk

A significant portion of the business of Qimonda is exposed to fluctuations in market prices for standard DRAM products. For these products, the sales price responds to market forces in a way similar to that of other commodities. This price volatility can be extreme and has resulted in significant fluctuations within relatively short time-frames. Qimonda attempts to mitigate the effects of volatility by continuously improving its cost position, by entering into new strategic partnerships and by focusing its product portfolio on application-specific products that are subject to less volatility, such as DRAM products for infrastructure, graphics, mobile and consumer applications.

We are also exposed to commodity price risks with respect to raw materials used in the manufacture of our products. We seek to minimize these risks through our sourcing policies (including the use of multiple sources, where possible) and our operating procedures. We do not use derivative financial instruments to manage any exposure to fluctuations in commodity prices remaining after the operating measures we describe above.

Foreign Exchange and Interest Risk

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

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The table below provides information about our derivative financial instruments that are sensitive to changes in foreign currency exchange and interest rates as of the end of our 2007 fiscal year. For foreign currency exchange forward contracts related to certain sale and purchase transactions and debt service payments denominated in foreign currencies, the table presents the notional amounts and the weighted average contractual foreign exchange rates. At September 30, 2007, our foreign currency forward contracts mainly had terms up to one year. Our interest rate swaps expire in 2008. We do not enter into derivatives for trading or speculative purposes.

Derivative Financial Instruments

	Contract amount buy/(sell) (€ in millions)	Average contractual forward exchange rate	Fair value September 28, 2007 (€ in millions)
Foreign currency forward contracts:			
U.S. dollar	356	1.34147	(20)
U.S. dollar	(735)	1.37113	25
Japanese yen	73	157.56630	(2)
Japanese yen	(17)	159.56780	—
Singapore dollar	24	2.07241	—
Great Britain pound	6	2.10100	—
Malaysian ringgit	83	4.74346	(2)
Malaysian ringgit	(3)	4.78000	—
Norwegian krone	7	7.94509	—
Norwegian krone	(2)	7.92011	—
Other currencies	1		—
Interest rate swaps	700	n/a	(10)
Other	231	n/a	20
Fair value, net			11

Our policy with respect to limiting short-term foreign currency exposure generally is to economically hedge at least 75 percent of our estimated net exposure for a minimum period of two months in advance and, depending on the nature of the underlying transactions, a significant portion for the periods thereafter. Part of our foreign currency exposure cannot be mitigated due to differences between actual and forecasted amounts. We calculate this net exposure on a cash-flow basis considering balance sheet items, actual orders received or made and all other planned revenues and expenses.

We record our derivative instruments according to the provisions of SFAS No. 133, "*Accounting for Derivative Instruments and Hedging Activities*", as amended. SFAS No. 133 requires all derivative instruments to be recorded on the balance sheet at their fair value. Gains and losses resulting from changes in the fair values of those derivatives are accounted for depending on the use of the derivative instrument and whether it qualifies for hedge accounting. Our economic hedges are generally not considered hedges under SFAS No. 133. Under our economic hedging strategy we report derivatives at fair value in our consolidated financial statements, with changes in fair values recorded in earnings.

In the 2007 fiscal year, foreign exchange transaction losses were €47 million and were offset by gains from our economic hedge transactions of €39 million, resulting in net foreign exchange losses of €8 million. This compares to foreign exchange losses of €65 million, fully offset by economic hedge transactions of €65 million in the 2006 fiscal year. A large portion of our manufacturing, selling and marketing, general and administrative, and research and development expenses are incurred in currencies other than the Euro, primarily the U.S. dollar and Japanese yen. Fluctuations in the exchange rates of these currencies to the Euro had an effect on profitability in the 2005, 2006 and 2007 fiscal years.

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Interest Rate Risk

We are exposed to interest rate risk through our debt instruments, fixed term deposits and loans. During the 2003 fiscal year, we issued convertible subordinated notes and in the 2007 fiscal year we issued subordinated notes exchangeable for Qimonda shares. Due to the high volatility of our core business and to maintain high operational flexibility, we keep a substantial amount of cash and marketable securities. These assets are mainly invested in instruments with contractual maturities ranging from three to twelve months, bearing interest at short-term rates. To reduce the risk caused by changes in market interest rates, we attempt to align the duration of the interest rates of our debts and current assets by the use of interest rate derivatives.

Fluctuating interest rates have an impact on parts of each of our marketable securities, debt obligations and standby lines of credit. We make use of derivative instruments such as interest rate swaps to hedge against adverse interest rate developments. We have entered into interest rate swap agreements that primarily convert the fixed interest rate on our convertible subordinated notes to a variable interest rate based on the relevant European Interbank Offering Rate (“EURIBOR”).

Outlook

Industry Environment and Outlook

Most analysts expect the semiconductor market growth to accelerate in 2008. WSTS, for instance, projects the market to grow on the basis of the U.S. dollar by 9 percent in 2008 (2007: 4 percent), and then by 6 percent in 2009 (WSTS projection, November 2007). Automotive and industrial applications, and within those particularly solutions to increase energy efficiency and security, continue to account for a large portion of this growth. Cell phones continue to drive growth in the wireless communications business, boosted by the shift to UMTS technology. Analysts expect the wireline communications business to be positively influenced by the market for broadband and home network equipment. This business is expected to contribute positively to growth. PCs remain the driving force behind the data technology arena. The new applications of nearly all new PCs serve to increase hardware requirements and thus the demand for a large number of components. The area of entertainment and consumer electronics is also expected to grow over the next two years.

Outlook for Infineon excluding Qimonda

Significant planning assumptions: When preparing this outlook, we made certain important planning assumptions for Infineon excluding Qimonda. In particular, we assumed a U.S. dollar/Euro exchange rate of 1.40 in our business excluding Qimonda. If the U.S. dollar remains weaker than estimated, it would further negatively impact our results of operations. Furthermore, all projections made herein exclude the effect of any non-ordinary gains or losses that may be incurred, since the amount of such non-ordinary gains or losses cannot be reliably estimated. We can only identify significant events which could lead to non-ordinary gains or losses. These include, among others, gains or losses that may be realized from potential sales of Qimonda shares or other investments and activities, impairments of investments or other long-term assets, as well as gains or losses resulting from general restructuring measures. Finally, it should be noted that subsequent to the initial public offering of our majority-owned subsidiary Qimonda, forecasts for this segment are prepared by Qimonda, and are presented separately in this report. We believe that the individual analysis of our memory products business is also meaningful with respect to the price development of our shares. We believe that the results of Qimonda will have a significant impact on the price development of our shares for as long as we continue to hold a significant equity interest in Qimonda.

Net Sales of Infineon excluding Qimonda: Based on our current plans, we expect net sales for Infineon excluding Qimonda in the 2008 fiscal year, consisting of the segments Automotive, Industrial & Multimarket, Communication Solutions, Other Operating Segments and Corporate & Eliminations, to increase by up to ten percent compared to the 2007 fiscal

year. In Automotive, Industrial & Multimarket, we expect sales to be down slightly in the 2008 fiscal year relative to the 2007 fiscal year. Within that, healthy growth rates in the industrial business should continue despite adverse effects from the deconsolidation of

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our high power bipolar activities. We expect roughly stable sales within our automotive business. Sales in the Security & ASIC business should decline given a full year of lower turnover levels for hard-disk ICs due to weak demand from our main customer in this business and a full year of lower sales levels in chip card ICs given deliberate portfolio adjustments with less emphasis on SIM card products. Finally, the overall adverse development of the exchange rate of the U.S. dollar against the Euro in the 2007 fiscal year will have a negative effect on the revenue development of the Automotive, Industrial & Multimarket segment. Sales for our Communication Solutions segment are expected to increase strongly in the 2008 fiscal year compared to the 2007 fiscal year. The growth is expected to be driven primarily by strong demand for our mobile phone products. In addition, consolidation effects will have a positive impact on total sales. We expect a full year's revenue from the DSL CPE activities of TI that we acquired on July 31, 2007. In addition, our acquisition of the mobile phone activities of LSI closed on October 24, 2007. We expect a sales contribution of between €200 million and €250 million from the LSI business. Finally, we expect the net sales contribution of Other Operating Segments and Corporate & Eliminations to be negligible.

In the 2008 fiscal year and beyond, demand for our products is expected to be driven by three strong overriding challenges for society that we help address: Energy Efficiency, Communications and Security. As natural resources become scarce, as the costs of energy generation and energy consumption continue to rise, and as environmental awareness continues to increase, people and businesses are seeking to economize on energy usage. Our semiconductor solutions, particularly in our automotive and our industrial businesses, enable improved energy efficiency. At the same time, people want to communicate and have access to the internet in any place and at any time. We contribute to this trend through our products and solutions in our Communication Solutions segment. Finally, as there are more and more complex means to access data anywhere and at any time, the need to secure data and protect intellectual property is growing. Likewise, the need to securely authenticate and identify users and travelers continues to grow. We cater to this trend in our Security and ASIC activities within our Automotive, Industrial & Multimarket segment. All in all, we anticipate continuing industry growth and expect our revenues in such an environment to continue to increase relative to the 2008 fiscal year.

EBIT of Infineon excluding Qimonda: In the 2007 fiscal year, reported EBIT for Infineon excluding Qimonda was €(49) million. Included in EBIT in the 2007 fiscal year were positive effects of €53 million, of which €29 million related to a revision of accrued personnel cost and €20 million related to the sale of our subsidiary Sci-Worx and the sale of our POF activities. Included in EBIT in the 2007 fiscal year were also charges of €(181) million, of which € (84) million arose from the sale of part of our interest in Qimonda and €(80) million were related to various restructuring measures affecting, among others, our ALTIS manufacturing facility in France and the streamlining of our R&D locations, and an asset write-down. In our 2009 fiscal year, we expect an EBIT margin before non-ordinary gains and losses for Infineon excluding Qimonda of approximately 10 percent, and we plan to make meaningful progress towards this goal in our 2008 fiscal year.

In our Automotive, Industrial & Multimarket segment, we reported EBIT of €300 million for the 2007 fiscal year. Included therein were gains of €20 million relating primarily to the sale of our POF activities, and losses of €4 million from asset impairments. We currently expect EBIT excluding non-ordinary gains and losses to decrease slightly in the 2008 fiscal year in comparison to the 2007 fiscal year. Our EBIT will continue to benefit from ongoing productivity increases and the ongoing ramp-up of our manufacturing facility in Kulim, Malaysia. Such positive effects are likely to be more than offset by negative effects resulting from the unfavorable development of the U.S. dollar to Euro exchange rate relative to the 2007 fiscal year, and from normal price reductions that we grant our customers. In the Communication Solutions segment, we reported EBIT of €(160) million in the 2007 fiscal year. The balance of non-ordinary gains and losses included in this EBIT was negligible. In the 2008 fiscal year, production ramp-ups at new customers will have a positive effect on EBIT. We still expect the EBIT in the wireless business within Communication Solutions to break-even in the first quarter of our 2008 fiscal year. Overall in Communication Solutions, despite significant headwinds generated by the unfavourable development of the U.S. dollar

to Euro exchange rate relative to the 2007 fiscal year, we are aiming for positive EBIT before non-ordinary gains and losses in the 2008 fiscal year. This projection already includes the impact of the acquisitions of the DSL

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Customer Premises Equipment activities of TI and the mobile phone activities of LSI. For both activities combined, we expect to incur a low to mid double digit million Euro amount per annum in amortization of intangible assets resulting from the purchases of these businesses. We have included such amortization amounts into our EBIT projection for the Communication Solutions segment. In our Other Operating Segments and Corporate & Eliminations combined, we reported EBIT of €(189) million for the 2007 fiscal year. Included in this EBIT were positive effects amounting to €25 million relating mainly to a revision of accrued personnel cost. Also included in this EBIT figure were charges of €(173) million, of which €(84) million arose from the sale of a portion of our interest in Qimonda, and € (80) million were related to various restructuring measures affecting, for example, our ALTIS manufacturing facility in France and the streamlining of our R&D locations, and an asset write-down. We currently estimate the aggregate EBIT of Other Operating Segments and Corporate & Eliminations to be in the region of €(50) million for the 2008 fiscal year prior to inclusion of non-ordinary gains and losses.

As stated above, we are targeting an EBIT margin of 10 percent for Infineon excluding Qimonda for the 2009 fiscal year prior to inclusion of non-ordinary gains and losses. Within that, we believe that EBIT margins in both the Automotive, Industrial & Multimarket and the Communication Solutions segments will have room for improvement relative to the 2008 fiscal year. EBIT in the Communication Solutions segment will continue to include amortization of intangible assets in the low to mid double digit million Euro range per annum resulting from the acquisitions of the DSL customer premises equipment activities and the mobile phone products activities from TI and LSI, respectively. We expect EBIT in Other Operating Segments and Corporate & Eliminations combined to remain comparable to the levels seen in the 2008 fiscal year.

Fixed assets investment and depreciation for Infineon excluding Qimonda: We are pursuing a differentiated manufacturing strategy for our Automotive, Industrial & Multimarket and Communication Solutions segments. In the context of this strategy, we will continue to invest in manufacturing capacities for special processes, in particular in the power semiconductor arena. In contrast, we do not plan to invest in our own manufacturing capacities starting with 65-nanometer structure sizes for the standard semiconductor manufacturing process, so called CMOS technology. We anticipate that our annual fixed assets capital investment will be within the €400 million to €500 million range in the 2008 fiscal year, and approximately €500 million per year thereafter. In the 2008 fiscal year, depreciation expense is expected to fall between €550 million and €600 million. In subsequent fiscal years we expect annual depreciation expense to decrease further.

Expenditures for research & development for Infineon excluding Qimonda: We expect expenditures for research and development for Infineon excluding Qimonda in the 2008 fiscal year to increase slightly compared to the 2007 fiscal year, driven primarily by the impact of the consolidation of the acquired businesses for DSL customer premises equipment and mobile phone ICs. We expect slight increases in R&D expenditures in our Automotive, Industrial & Multimarket segment, predominantly in the automotive and the industrial businesses. The introduction of new products and the widening of the existing product portfolio within automotive power, sensors and controls and power management are examples of areas of emphasis within research and development. Similarly, R&D expenses in the Communication Solutions segment are likely to increase slightly relative to the 2007 fiscal year. However, excluding the consolidation effect of the two purchased businesses, we expect that R&D expenses would decline slightly. This is due to efficiency gains and cost reduction measures initiated after the insolvency of one of our major customers taking effect for a full fiscal year in 2008. The slight increase in overall Communication Solutions' R&D expenses expected for the 2008 fiscal year results solely from the consolidation of the acquired activities for DSL customer premises equipment and mobile phone ICs. In the Communication Solutions segment, our R&D spending is focused for example on developing next generation system-on-a-chip products and system solutions for the mobile phone as well as the broadband access market. Another important area of our R&D activities is process technologies that we develop in alliances with several partners and consortia in order to maintain a competitive technology roadmap at an affordable cost level. Beyond the 2008 fiscal year, slight increases in expenditures for R&D are possible, in line with

anticipated sales increases.

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Qimonda Segment

Qimonda's revenues are a function of the bit volume it ships and the selling price it achieves for its products. While Qimonda has an influence over its production growth, through capacity additions and productivity improvements, its sales volume depends on the extent to which its product offerings match market demand. Qimonda's selling prices are a function of the supply and demand relationship in the DRAM market. These market forces are beyond Qimonda's control and, accordingly, it cannot reliably estimate what these future sales prices, and the resulting revenues and the contribution to its earnings will be.

In the first quarter of the 2008 fiscal year, Qimonda expects its bit production to grow by approximately 5 percent, mainly due to productivity improvements from the ongoing conversion to 80-nanometer and 75-nanometer technologies and including effects from declining 200-millimeter capacities.

For the 2008 fiscal year, Qimonda expects bit demand to be driven by the continued strong growth for DRAM in graphics, consumer and communication applications, by price elasticity and the move to higher density modules in the PC market. For the 2008 fiscal year, Qimonda estimates an increase in bit production of approximately 50 percent. Qimonda targets the share of its bit shipments for non-PC applications to be more than 50 percent for the full fiscal year.

Qimonda is continuously taking steps to reduce its cost-per-bit in manufacturing, such as the introduction of advanced process technologies featuring smaller die-sizes, the ramp-up of more productive 300-millimeter capacities and other cost saving and productivity improvement measures. By the end of the first quarter of the 2008 fiscal year, Qimonda expects more than 50 percent of its manufacturing capacity to be using 80-nanometer and smaller die sizes, and Qimonda is targeting to increase this share to approximately 75 percent by the end of the second quarter.

Qimonda expects to make capital expenditures in the 2008 fiscal year ranging between €650 million and €750 million. In the years thereafter, its aim is to have capital expenditures of approximately 15 percent to 25 percent of revenues on average over the DRAM cycle.

Depreciation and amortization during the 2008 fiscal year is estimated to range between €700 million and €800 million, and for the years thereafter to be in line with capital expenditures.

Research and development expenses are anticipated to be between €450 million and €490 million for the 2008 fiscal year, and approximate 10 percent of sales on average over the DRAM cycle for the years thereafter.

Subsequent Events

On October 2, 2007, Sony Corporation and Qimonda announced that they had signed an agreement to found the joint venture Qreatic Design. The scope of the joint venture is the design of high-performance, low power, embedded and customer specific DRAMs for consumer and graphic applications. According to the agreement, the 50:50 joint venture is intended to start with up to 30 specialists from Sony and Qimonda, bringing together their engineering expertise for the mutual benefit of both companies. Qreatic Design, which will be located in Tokyo, Japan, is planned to start operations by the end of calendar year 2007, subject to regulatory approvals and other closing conditions, and to substantially expand its capacities by hiring additional designers.

On October 8, 2007, Qimonda entered into a rental agreement for a new headquarters office south of Munich, Germany. The agreement provides for the construction of a building by a third-party developer-lessor, and includes a 15 year non-cancelable lease term, which is expected to start in early 2010. Qimonda has an option to extend the lease for two 5 year periods at similar lease terms to the initial non-cancelable lease term. The minimum rental payments aggregate €96 million over the initial lease term. The lease provides for rent escalation in line with market-based increases in rent. The agreement will be accounted for

as an operating lease with monthly lease payments expensed on a straight-line basis over the lease term.

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On October 15, 2007, the court entered an order denying the motions to dismiss in the Unisys and the DRAM Claims Liquidation Trust case with prejudice. On October 29, 2007, we answered the Unisys complaint, denying liability and asserting a number of affirmative defenses. On November 1, 2007, we answered the DRAM Claims Liquidation Trust complaint, denying liability and asserting a number of affirmative defenses.

On October 24, 2007, we completed our acquisition of the mobility products business of LSI.

On October 25, 2007, 1.25 million Qimonda ADSs that had been borrowed by an affiliate of J.P. Morgan Securities Inc. in connection with the exchangeable subordinated notes due 2010 were returned to us.

On October 31, 2007, Wi-LAN Inc. filed suit in the U.S. District Court for the Eastern District of Texas against Westell Technolgies, Inc. and 16 other defendants, including Infineon Technologies AG and Infineon Technologies North America Corp. The complaint alleges infringement of 3 U.S. patents by certain wireless products compliant with the IEEE 802.11 standards and certain ADSL products compliant with the ITU G.992 standards, in each case supplied by certain of the defendants.

On November 30, 2007, Qimonda cancelled its agreement with Infineon for the production of wafers at Infineon's Dresden production facility. The agreement will terminate on March 1, 2008.

On November 30, 2007, we completed the sale of a 40 percent interest in our subsidiary Bipolar to Siemens.

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RISK FACTORS

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

Risks related to the semiconductor industry

We operate in a highly cyclical industry and our business could suffer from periodic downturns.

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

Following a severe downturn in 2001, worldwide sales of all semiconductor products grew by 28 percent in 2004, 7 percent in 2005 and 9 percent in 2006. WSTS estimates growth of approximately 4 percent for the full 2007 calendar year.

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

Industry overcapacity could require us to lower our prices, particularly for Qimonda's memory products.

Both semiconductor companies with their own manufacturing facilities and semiconductor foundries, which manufacture semiconductors designed by others, have added significant capacity in recent years and are expected to continue to do so. In the past, the net increases of supply sometimes exceeded demand requirements, leading to oversupply situations and downturns in the industry.

The average "spot" market price for 512 Mbit DDR2 DRAM as reported by DRAMeXchange fell in the first nine months of the 2007 calendar year from $6.36 to $1.45, a drop of 77 percent. Downturns have severely hurt the profitability of the industry in general, including the DRAM business of Qimonda. Given the volatility of the semiconductor industry, we are likely to face downturns in the future, which would likely have similar effects. Fluctuations in the rate at which industry capacity grows relative to the growth rate in demand for semiconductor products may in the future put pressure on our average selling prices and hurt our results of operations.

The semiconductor industry, particularly in the memory products arena, is characterized by intense competition, which could reduce our sales or put continued pressure on our prices.

The semiconductor industry is highly competitive, particularly in the memory products arena, and has been characterized by rapid technological change, short product lifecycles, high capital expenditures, intense pricing pressure from major customers, periods of oversupply and continuous advancements in process technologies and manufacturing facilities. Our subsidiary Qimonda competes globally with other major DRAM suppliers, including Samsung, Micron Technology Inc., Hynix Semiconductor Inc., Elpida Memory Inc. and Nanya, which is its joint venture partner in Inotera Memories, Inc. Some of Qimonda's

competitors have substantially greater capital, human and other resources and manufacturing capacities, more efficient cost structures, higher brand recognition, larger customer bases and more diversified product lines than Qimonda has. Competitors with greater resources and more diversified operations may have long-term advantages, including the ability to better withstand future downturns in the DRAM market

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and to finance research and development activities. In addition, unfair price competition, government support or trade barriers by or for the benefit of our competitors would adversely affect Qimonda's competitive position.

To compete successfully in the DRAM market, Qimonda must:

- design and develop new products and introduce them in a timely manner;
- develop and successfully implement improved manufacturing process technologies to reduce its per-megabit costs; and
- broaden its DRAM customer base, to reduce its dependence on a small number of customers and position itself to increase its market share.

Other factors affecting Qimonda's ability to compete successfully are largely beyond Qimonda's control. These include:

- the extent to which and the pace at which customers incorporate its memory products into their devices;
- whether electronics manufacturers design their products to use DRAM configurations or new types of memory products that Qimonda does not offer;
- the number and nature of its competitors; and
- general economic conditions.

Increased competitive pressure or the relative weakening of Qimonda's competitive position caused by these factors, or other developments Qimonda has not anticipated, could materially and adversely affect Qimonda's and our business financial condition and results of operations.

A mismatch between the specific DRAM chips Qimonda or the DRAM industry generally are producing and the platforms for which equipment manufacturers require DRAMs can lead to declining prices for the DRAMs Qimonda produces and consequently to material inventory write-downs.

Which DRAMs are required by the market at any particular time depends on the platforms the manufacturers of PCs and other electronic devices are using in their products at that time. In general, DRAMs are designed, manufactured and assembled into modules for use on a specified platform or logic chipset and its associated interfaces. If DRAM manufacturers are producing DRAMs for which there is not enough demand because the supply of the related platforms is low, the supply of these DRAMs may exceed the demand for them, causing prices for the affected DRAM products to fall.

Given the significant risk of demand and supply mismatches characteristic of our industry, Qimonda may find it necessary to write down the carrying value of inventories in the future depending on market conditions. Any such write-downs could have a material adverse effect on our business, financial condition and results of operations.

Risks related to our operations

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

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

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

Our results may suffer if we are not able to match our production capacity to demand.

It is difficult to predict growth in the markets we serve, making it hard to estimate requirements for production capacity. If the market does not grow as we have anticipated, we risk underutilization of our facilities. This may also result in future write-offs of inventories and losses on products for which demand is lower than current forecasts may indicate.

During periods of increased demand we may not have sufficient capacity to meet customer orders. Such constraints affect our customers’ ability to deliver products in accordance with their planned manufacturing schedules, straining relationships with affected customers. During periods of industry overcapacity and declining selling prices, customers do not generally order products as far in advance of the scheduled shipment date as they do during periods when our industry is operating closer to capacity.

In the past we have responded to fluctuations in industry capacity and demand by adapting production levels, closing existing production facilities, opening new production facilities or entering into strategic alliances, which in many cases resulted in significant expenditures. We have also purchased an increasing number of processed wafers from semiconductor foundries to meet higher levels of demand and have incurred higher cost of goods sold as a result. In order to expand or reduce our production capacity in the future, we may have to spend substantial amounts, which could hurt our results of operations.

Qimonda may be unable to reduce its per megabit manufacturing costs at the same rate as in the past.

Historically, Qimonda’s financial results have benefited from period-to-period decreases in per bit manufacturing costs achieved through improvements in manufacturing processes, including increases in wafer sizes and reductions in structure geometries. In future periods, Qimonda may be unable to reduce its per bit manufacturing costs or to reduce these costs at historical rates due to strategic product diversification decisions affecting product mix, continued increases in the complexity of manufacturing processes, changes in process technologies or the introduction of products that may inherently require relatively larger chip sizes. Per bit manufacturing costs may also be affected by the relatively smaller production quantities and shorter product lifecycles of certain specialty memory products.

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

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

Our business could suffer from problems with manufacturing.

The semiconductor industry is characterized by the introduction of new or enhanced products with short life cycles in a rapidly changing technological environment. We manufacture our products using processes that are highly complex, require advanced and costly equipment and must continuously be modified to improve yields and performance. Difficulties in the manufacturing process can reduce yields or interrupt production, and as a

result of such problems we may on occasion not be able to deliver products on time or in a cost-effective, competitive manner.

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

We outsource production of some of our products to third-party suppliers, including semiconductor foundry manufacturers and assembly and test facilities. Using third-party suppliers exposes us to manufacturing problems experienced by those suppliers and may be less cost-effective than manufacturing at our own facilities.

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

We have acquired other companies, businesses and technologies from time to time. We intend to continue to make acquisitions of, and investments in, other companies. We face risks resulting from the expansion of our operations through acquisitions, including the risk that we might be unable to integrate new businesses with our culture and strategies. We also cannot be certain that we will be able to achieve the benefits we expect from a particular acquisition or investment. Acquisitions may also strain our managerial and operational resources, as the challenge of managing new operations may divert our managers and employees from monitoring and improving operations in our existing businesses. Our business, financial condition and results of operations may suffer if we fail to coordinate our resources effectively to manage both our existing businesses and any businesses we acquire.

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

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

We intend to continue to invest in leading-edge process technologies such as power, embedded flash and RF technologies. At the same time, in standard CMOS below 90-nanometers, we will continue to share risks and expand our access to leading-edge technology through long-term strategic partnerships with other leading industry participants and by making more extensive use of manufacturing at silicon foundries. However, the decision to develop our own solution or to cooperate with third party suppliers could result in disadvantages if the assumptions for cost developments later proved to be incorrect.

Our business could suffer due to decreases in the volume of demand of our customers.

Our sales volume depends significantly on the market success of our customers in developing and selling end-products that incorporate our products. The fast pace of technological change, difficulties in the execution of individual projects and other factors may limit the market success of our customers, resulting in a decrease in the volume of demand for our products and adversely affecting our results of operations. This risk is particularly acute in our Communication Solutions segment, in which we also face significant pricing and margin pressures.

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

In several of our business areas we focus on winning competitive bid selection processes, known as “design wins”, to develop products for use in our customers’ products. These selection processes can be

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lengthy and can require us to incur significant design and development expenditures. We may not win the competitive selection process and may never generate any revenues despite incurring significant design and development expenditures.

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

We have a limited number of suppliers of manufacturing equipment and raw materials, and we could suffer shortages if they were to interrupt supply or increase prices.

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

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

Our success depends significantly on the recruitment and retention of highly skilled personnel. This includes research and development, marketing, production management, staff functions as well as general management staff. The competition for such highly skilled employees is intense and the loss of the services of key personnel without adequate replacement or the inability to attract new qualified personnel could have a material adverse effect on us. There can be no absolute certainty that we will be able to successfully retain and/or recruit the key personnel we require.

Our business could suffer if we do not have adequate access to capital.

Like all semiconductor companies that operate their own manufacturing facilities, we require significant amounts of capital to build, expand, modernize and maintain such facilities. Likewise, we also require significant amounts of capital to fund research and development. We used cash in our investing activities of €289 million in the 2005 fiscal year, €853 million in the 2006 fiscal year and €867 million in the 2007 fiscal year. Our research and development expenses were €1,293 million in the 2005 fiscal year, €1,249 in the 2006 fiscal year and €1,169 in the 2007 fiscal year. Our capital expenditures in the 2005, 2006 and 2007 fiscal years were €1,368 million, €1,253 million and €1,375 million, respectively. We intend to continue to invest in research and development and manufacturing facilities, while continuing our policy of cooperation with other semiconductor companies to share these costs with us. Qimonda, in particular, intends to continue to invest heavily in its manufacturing facilities, including in the new manufacturing facility Qimonda plans to construct in Singapore.

We believe that the carve-out of our memory products business into the separate legal entity Qimonda, and that company's separate stock market listing, allow both companies to gain direct access to additional sources of capital. Nevertheless, we or Qimonda may experience difficulties in raising the amount of capital required for our businesses on acceptable terms due to a number of factors, such as general market and economic conditions, inadequate cash flow from operations or unsuccessful asset management. Our business may be hurt if we or Qimonda are not able to make necessary capital expenditures

and finance necessary research and development.

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

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

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

As part of our strategy, we have entered into a number of long-term strategic alliances with leading industry participants, both to manufacture semiconductors and to develop new manufacturing process technologies and products. If our strategic partners encounter financial difficulty or change their business strategies, they may no longer be able or willing to participate in these alliances. Some of the agreements governing our strategic alliances allow our partners to terminate the agreement if our equity ownership changes so that a third party gains control of our company or of a significant portion of our company's shares. Our business could be harmed if any of our strategic partners were to discontinue its participation in a strategic alliance or if the alliance were to otherwise terminate. To the extent we rely on alliances and third-party design and/or manufacturing relationships, we face the risks of:

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

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

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

We operate globally, with numerous manufacturing, assembly and testing facilities on three continents, including three that we operate jointly with partners. In the 2007 fiscal year, 85 percent of our revenues were generated outside Germany and 69 percent were generated outside Europe. Our business is therefore subject to risks involved in international business, including:

- negative economic developments in foreign economies and instability of foreign governments, including the threat of war, terrorist attacks, epidemic or civil unrest;
- changes in laws and policies affecting trade and investment; and

- varying practices of the regulatory, tax, judicial and administrative bodies in the jurisdictions where we operate.

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Substantial changes in any of these conditions could have an adverse effect on our business and results of operations. Our results of operations could also be hurt if demand for the products made by our customers decreases due to adverse economic conditions in any of the regions where they sell their own products.

Threats of disease outbreaks or pandemics, such as the avian flu and Severe Acute Respiratory Syndrome (SARS) outbreaks, in regions where we have manufacturing sites may negatively effect our operations by limiting the productivity of our workforce, inhibiting transportation or the shipment of products or reducing the ability of local suppliers to provide adequate goods and services. Furthermore, the purchasing patterns of our customers located in these regions may suffer if there is an epidemic outbreak. This could negatively impact our operations.

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

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

- the overall cyclicality of, and changing economic and market conditions in, the semiconductor industry, as well as seasonality in sales of consumer products into which our products are incorporated;
- our ability to scale our operations in response to changes in demand for our existing products and services or demand for new products requested by our customers;
- intellectual property disputes, customer indemnification claims and other types of litigation risks;
- the gain or loss of a key customer, design win or order;
- the timing, rescheduling or cancellation of significant customer orders and our ability, as well as the ability of our customers, to manage inventory; and
- additional changes in accounting rules, such as the change requiring the recording of expenses for employee shares options and other stock-based compensation expense, which commenced in the 2006 fiscal year.

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

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

Our results of operations can be hurt by changes in exchange rates, particularly between the Euro and the U.S. dollar or the Japanese yen. In addition, the balance sheet impact of currency translation adjustments has been, and may continue to be, material.

Further information on foreign currency derivative and transaction gains and losses can be found in the section headed “Operating and Financial Review — Qualitative and Quantitative Disclosure about Market Risk — Foreign Exchange and Interest Risk”.

Changes in tax regulations could result in lower earnings and cash flows.

We operate in numerous countries throughout the world, and therefore are subject to numerous tax regimes. Changes in tax regulations in any applicable jurisdiction could result

in higher tax expenses and payments, and could adversely impact our tax liabilities and deferred tax assets.

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

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

A directive in the EU imposes a “take-back” obligation on manufacturers to finance the collection, recovery and disposal of electrical and electronic equipment. Because of unclear statutory definitions and interpretations in individual member states, we are unable at this time to determine in detail the consequences of this directive for us. Additional European legislation has restricted the use of lead and other hazardous substances in electrical and electronic equipment from July 2006. Another EU directive describes ecodesign requirements for energy-using products, including information requirements for components and sub-assemblies. Furthermore the European regulatory framework for chemicals, called REACH, deals with the registration, evaluation, authorization and restriction of chemicals. These directives may complicate our research and development activities and may require us to change certain of our manufacturing processes to utilize more costly materials or to incur substantial additional costs. In addition, in 2004, an EU directive on environmental liability with regard to the prevention and remedying of environmental damage became effective. We could face increased environmental liability, which may result in higher costs and potential damage claims.

The Chinese government restricts the use of lead and other hazardous substances in electronic products. Because not all implementing measures nor the key product catalog are in place, the consequences for our company cannot currently be determined in detail. Similar regulations on substance bans are being proposed or implemented in various countries of the world. We are not able at this time to estimate the amount of additional costs that we may incur in connection with these regulations.

As with other companies engaged in similar activities, we face inherent risks of environmental liability in our current and historical manufacturing locations. Costs associated with future additional environmental compliance or remediation obligations could adversely affect our business.

For a further description of environmental issues that we face see “Business — Environmental Protection and Sustainable Management”.

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

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

Qimonda may face difficulties in shifting to new memory technologies that are not based on silicon.

In the longer term, Qimonda faces the potential risk of a fundamental shift from the silicon-based technology on which the memory industry has long been based. Although we do not believe that any technology to rival silicon-based memory is likely to prove feasible in at least the near- to medium-term, and although Qimonda devotes resources to basic research in order to keep abreast of a wide range of potential new memory technologies, the

fundamental technology of the semiconductor memory business may not continue to be broadly based on current technology. Qimonda may be unable to respond quickly

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enough to any fundamental technological shift in the industry. Qimonda's failure to implement successfully subsequent technology generations or respond to technology developments may materially and adversely affect our business, financial condition and results of operations.

We are subject to the risk of loss due to explosion and fire because some of the materials we use in our manufacturing processes are highly combustible.

We use highly combustible materials such as silane and hydrogen in our manufacturing processes and are therefore subject to the risk of loss arising from explosion and fire which risk cannot be completely eliminated. Although we maintain comprehensive fire and casualty insurance up to policy limits, including insurance for loss of property and loss of profit resulting from business interruption, our insurance coverage may not be sufficient to cover all of our potential losses. If any of our fabs were to be damaged or cease operations as a result of an explosion or fire, it could reduce our manufacturing capacity and cause us to lose important customers.

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

As is the case with many other semiconductor companies, our reported expenses have been reduced in recent years by various subsidies received from governmental entities. In particular, we have received, and expect to continue to receive, subsidies for investment projects as well as for research and development projects. We recognized governmental subsidies as a reduction of R&D expenses and cost of sales in an aggregate amount of €171 million in the 2005 fiscal year, €153 million in the 2006 fiscal year and €248 million in the 2007 fiscal year. In addition, we reduced the carrying value of fixed assets by €0 million, €49 million and €1 million during the 2005, 2006 and 2007 fiscal years, respectively.

As the general availability of government funding is outside our control, we cannot assure you that we will continue to benefit from such support, that sufficient alternative funding would be available if necessary or that any such alternative funding would be provided on terms as favorable to us as those we currently receive.

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

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

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

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

In April 2003 we received a request for information regarding DRAM industry practices from the European Commission (the “Commission”) and in May 2004 we received a notice of a formal inquiry into

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alleged DRAM industry competition law violations from the Canadian Competition Bureau. We are cooperating with the Commission and the Canadian Competition Bureau in their inquiries.

Subsequent to the commencement of the DOJ investigation, a number of purported class action lawsuits were filed against us and other DRAM suppliers in U.S. federal courts and in state courts in various U.S. states, as well as in different Canadian provinces. The complaints allege violations of U.S. federal and state or Canadian antitrust and competition laws and seek significant damages on behalf of the plaintiffs. In July 2006 the state attorneys general of a number of U.S. states filed actions against us and other DRAM suppliers in U.S. federal courts. The claims involve allegations of DRAM price fixing and artificial price inflation and seek to recover three times actual damages and other relief.

In connection with these matters as well as for legal expenses relating to the securities class action described in “Business — Legal Matters” and in accordance with U.S. GAAP, as of September 30, 2007 we have accrued liabilities in the amount of €95 million. Because these matters remain ongoing, we cannot predict at this time whether the reserves will be adequate to cover any further potential liabilities that we may incur.

An adverse final resolution of the matters described above could result in significant financial liability to, and other adverse effects upon us, which would have a material adverse effect on our business, results of operations and financial condition. Irrespective of the validity or the successful assertion of the above-referenced claims, we could incur significant costs with respect to defending against or settling such claims, which could have a material adverse effect on our results of operations or financial condition or cash flows. See “Business — Legal Matters” for a description of these matters.

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

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

We might be faced with product liability or warranty claims.

Despite extensive quality assurance measures, such as our Automotive Excellence program, there remains a risk that defects may occur in our products. The occurrence of such defects — particularly in consumer areas and areas in which personal injury could result, such as our automotive business group — could give rise to warranty claims or to liability for damages caused by such defects. We could also incur consequential damages and could, moreover, experience limited acceptance of our products in the market. This could have a material adverse effect on our business and financial condition. In addition, customers have from time to time notified us of potential contractual warranty claims in respect of products supplied by us, and may do so in the future.

Siemens exercises partial control over some of our intellectual property rights and could use these rights to compete with us.

In connection with our formation as a legal entity, Siemens transferred approximately 20,000 patent rights to us. Under the terms of these transfers and the related agreements, however, Siemens retained the right to use those patent rights within the scope of its business for an unlimited period of time, subject to various restrictions in the case of patents

relating to information handling systems. A non-competition agreement between us and Siemens, entered into in connection with our formation as a separate company, expired in March 2004. Siemens is no longer prevented from competing with us, and may utilize the patent rights it retained at the time of our company's formation to do so.

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Siemens also retained the right to assert infringement claims against third parties with respect to approximately 15 percent of the patent rights that it transferred to us, insofar as those patents relate to the technical field of the Siemens group's business activities. Siemens has agreed that it will not exercise that right against any of our customers in respect of any part of such customer's products that contains one of our products, unless that right is asserted for defensive purposes. Nevertheless, we can provide no assurance that such safeguards will be sufficient to protect all of our customers against claims by Siemens with respect to those of their products that incorporate technology covered by the patents at issue. It may therefore be difficult for us to sell our products or grant licenses of such patents to third parties, and third parties may not be able to use our products without infringing those patents or incurring license fees to Siemens.

As the majority shareholder in Qimonda we may be negatively impacted by adverse developments in the business of Qimonda or declines in the market price of its securities.

Because we will continue to fully consolidate the financial results of Qimonda in our financial statements for so long as Infineon remains the majority shareholder of that company, fluctuations in Qimonda's results of operations will be reflected in our operating results. Our company's results of operations will therefore be significantly affected by the success or failure of the management of Qimonda and, although we will have control over Qimonda for so long as we remain its majority shareholder, we will not have the ability to direct its operations on a day-to-day basis. The value of our holding in Qimonda and our ability to realize significant cash from any further sales of Qimonda securities held by Infineon will be substantially dependent on the market performance of Qimonda's stock, which will in turn depend on the business success of Qimonda and the development of the market for semiconductor memory products, both of which are substantially outside our control.

The carve-out of Qimonda and its subsequent public listing may fail to produce the long-term strategic, operational and financing benefits we envision.

We and Qimonda believe that the carve-out of Qimonda will continue to provide a number of strategic benefits for both companies, including:

- increased market responsiveness through an exclusive focus on our respective customers;
- access to separate and distinct investor bases;
- employee incentives more directly tied to the performance of the individual companies; and
- increased flexibility to pursue strategic options.

These benefits may not continue or may not prove to be as significant as anticipated, which could negatively affect our results of operations or our ability to achieve maximum value from our remaining equity interest in Qimonda. In addition, in executing our strategic plan to further divest our interest in Qimonda, we may elect to sell some or all of the Qimonda shares we continue to hold at a loss, which may adversely affect our results of operations in the period of sale. We may also experience unanticipated disadvantages that are not fully offset by any resulting benefits, including a loss of synergies and economies of scale.

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BUSINESS

Overview

We are one of the world's leading semiconductor companies. We have been at the forefront of the development, manufacture and marketing of semiconductors for more than fifty years, first as the Siemens Semiconductor Group and, since 1999, as an independent company. We have been a publicly traded company since March 2000.

We design, develop, manufacture and market a broad range of semiconductors and complete system solutions used in a wide variety of microelectronic applications. Our core business is conducted through our Automotive, Industrial & Multimarket segment and our Communication Solutions segment. Our memory products business is conducted through our majority-owned subsidiary, Qimonda. According to market research company iSuppli, we were the fifth-largest semiconductor company worldwide in the first nine months of 2007 — with our non-memory businesses alone ranked number 10 in that period and Qimonda alone ranked number 16.

The address of our principal executive offices is: Am Campeon 1-12, D-85579, Neubiberg, Germany, and our main telephone number is +49-89-234-0.

The principal developments during the 2007 fiscal year included the following:

Corporate Developments

Infineon Logic

- In February 2007, we signed an agreement with Nokia to supply baseband and RF chips for GSM mobile handsets. The highly integrated single-chip E-GOLD™voice will be incorporated in selected future entry-level Nokia phones.
- In March 2007, we and Hyundai announced a strategic cooperation for the development of automotive electronics, pursuant to which we will develop automotive electronic system solutions for Hyundai and Kia vehicles. Under the agreement, the companies will also open a joint innovation center for further development in this regard.
- In March 2007, we entered into a definitive agreement with Avago Technologies, under which Avago acquired our POF business, based in Regensburg, Germany. The transaction closed in the third quarter of the 2007 fiscal year.
- In April 2007, we decided to expand our R&D operations in Singapore with an investment of approximately €200 million. We will focus on next-generation home-networking technologies, Customer Premises Equipment ("CPE"), Integrated Access Devices ("IAD"), mobile phone platforms (ultra-low cost), Digital Video Broadcasting ("DVB") for mobile TV, digital power control for power management, microcontroller for automotive and industrial applications, process technologies for wafer fabrication and packaging, and Application Specific IC ("ASIC") design.
- In May 2007, we expanded technology agreements with IBM, Chartered, Samsung and Freescale. The most recent agreement is in effect through 2010, and includes 32-nanometer bulk complementary metal oxide semiconductor ("CMOS") process technology and joint development of process design kits ("PDK") to support product designs in those advanced technologies.
- In June 2007, we entered an agreement with Texas Instruments Inc. to acquire its DSL CPE business. We plan to continue supporting Texas Instruments Inc.'s product portfolio and existing customer designs while leveraging the acquired experience in future product generations. The transaction closed in the fourth quarter of the 2007 fiscal year.
- In August 2007, we entered into an agreement to acquire the Mobility Products Group

of LSI Corporation, which will further strengthen our wireless communications business. The transaction closed in the first quarter of the 2008 fiscal year.

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- Also in August 2007, we, IBM and Advanced Electronic Systems AG ("AES") entered into an agreement under which AES will acquire ALTIS Semiconductor S.N.C. from Infineon and IBM, each of which currently holds a 50 percent interest. The agreement is subject to governmental and regulatory approval, and works-council consultation, and is expected to close in the first quarter of the 2008 fiscal year. We further agreed to enter into a two-year supply contract with ALTIS, and IBM and we agreed to license key manufacturing process technologies to AES for use by ALTIS.
- In September 2007, we entered into a joint venture agreement with Siemens AG ("Siemens"), whereby we would contribute all assets and liabilities of our high power bipolar business (including licenses, patents, and front-end and back-end production assets) into a newly formed legal entity called Infineon Technologies Bipolar GmbH & Co. KG ("Bipolar") and Siemens would acquire a 40 percent interest in Bipolar for €37 million. The transaction closed in the first quarter of the 2008 fiscal year.
- In September 2007, we sold an additional 28.75 million Qimonda ADSs' (including the underwriters' over-allotment option) for an offering price of $10.92 per ADS, resulting in net proceeds of €216 million. As a result, our ownership interest in Qimonda decreased to 77.5 percent. In parallel, our fully owned subsidiary Infineon Technologies Investment B.V. issued notes exchangeable into ADSs of Qimonda in the amount of €215 million (including the underwriters' over-allotment option).
- In September 2007, we entered into an agreement with Motorola to develop a new multi-mode, single-chip 3G radio frequency ("RF") transceiver based on Infineon's SMARTi® UE chip. The new RF chip will address the growing market for 3G services by offering maximum HSDPA and HSUPA performance, efficient power consumption and slim design.

Qimonda

- In March 2007, Qimonda announced plans to construct a new DRAM module manufacturing facility in Johor, Malaysia. The overall investment for this new facility, including IT integration, infrastructure and equipment, is expected to total up to €150 million over the next five years.
- In April 2007, Qimonda and Spansion signed a strategic supply agreement to deliver optimized memory subsystems to mobile customers by combining Qimonda's low-power specialty DRAM with Spansion® MirrorBit® NOR and ORNAND™ devices into Multi-Chip Packages ("MCP") memory solutions for mobile devices.
- In April 2007, Qimonda and SanDisk entered into an agreement to jointly develop and manufacture MCPs utilizing SanDisk's NAND flash and controllers and Qimonda's low power mobile DRAM.
- In April 2007, Qimonda announced plans to build a new 300-millimeter front-end manufacturing facility in Singapore. Depending on the growth and development of the world semiconductor market, Qimonda plans to invest approximately €2 billion in the site over the next five years. The 20,000 square meter clean room space is expected to add 60,000 wafer starts per month to Qimonda's overall front-end capacity when fully ramped.
- In June 2007, Qimonda extended its foundry agreement with Winbond. Under the terms of this agreement, Qimonda will transfer its 75-nanometer and 58-nanometer DRAM trench technology to Winbond's 300-millimeter facility in Taichung, Taiwan. In return, Winbond will manufacture DRAMs for computing applications using these technologies exclusively for Qimonda.
- In August 2007, Qimonda expanded its foundry agreement with SMIC. Under the terms of the agreement, Qimonda will transfer its 80-nanometer DRAM trench technology to SMIC's 300-millimeter facility in Beijing and SMIC will manufacture DRAMs for computing applications using this technology exclusively for Qimonda. Furthermore, the agreement includes the option to transfer Qimonda's 75-nanometer

technology to SMIC in the future.

- In August 2007, Qimonda announced its plans to set up a new Development Center for the development of memory products in Suzhou, China. The additional development capacities will

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serve Qimonda's target to further expand and diversify its product portfolio. The Development Center started operations in October 2007.

Technical and Product Developments

Infineon Logic

- Our stand-alone FlexRay™ communication controller CIC-310 for high-speed in-vehicle communications passed the FlexRay conformance test. We are one of the first semiconductor suppliers to deliver high-volumes of FlexRay-enabled microcontroller solutions in conformance with the FlexRay protocol specification V2.1.
- We successfully ramped-up our 32bit TriCore (TM) AUDO-NG products in our 130-nanometer embedded flash technology in the Dresden (Germany) facility. The AUDO-NG product family comprising of TC1796, TC1766 and further derivatives is optimized for mid-range to highest-end powertrain applications. With the successful ramp-up to high volume production at highest quality, we have enabled our automotive customer base to introduce new engine platforms at the car manufactures to increase fuel efficiency.
- We began to supply our highly-secure contact-less smartcard microcontrollers in connection with MasterCard's PayPass deployments in 13 countries worldwide, including Taiwan, Malaysia, Australia and the US.
- We introduced our new "miniature" silicon microphone for consumer and computer communication devices. It is approximately one-half the size and operates on just one-third the power of conventional microphones and contains silicon MEMS (micro-electrical-mechanical system) technology. The new microphone achieves the same acoustic and electrical properties as conventional microphones, but is more rugged and exhibits higher heat resistance.
- We announced our next-generation family of power semiconductors used for DC/DC converter applications in computers, telecommunications and consumer electronic devices, enabling significant power savings.
- We introduced the first two members of our new family of electronic power modules designed for hybrid electric vehicle ("HEV") motor drive systems: the HybridPACK1™ and HybridPACK2™ power modules. These systems reduce electrical power losses by one-fifth, enabling simpler cooling systems.
- We introduced the SMARTi® WiMAX, a single-chip multi-mode dual-band CMOS RF-transceiver for WiMAX/WiFi applications that supports the entire spectrum of licensed WiMAX frequencies, allowing for worldwide implementation and seamless roaming using a single RF device.
- We introduced S-GOLD® radio, a single-chip solution for EDGE mobile phones. The S-GOLD® radio significantly reduces system component count, the modem printed circuit board area and the overall engineering bill-of-materials.
- We presented two new single-chip RF CMOS transceivers, the SMARTi® PM+ and SMARTi® UE for EDGE and multi-mode 3G mobile phones, respectively.
- We introduced Amazon-SE, a new ADSL2+ system-on-a-chip solution for DSL modems and routers that will help drive broadband penetration in emerging markets.
- We introduced a wireless broadband integrated access device ("IAD") reference design for Digital Home Network.

Qimonda

- Qimonda launched the industry's first Mobile-RAM with 183MHz performance.

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- Intel validated Qimonda's Advanced Memory Buffer Chip, supporting next-generation server memory.
- Qimonda introduced the industry's first quad-rank, 8GB DDR2 Fully-Buffered Dual-In-Line Memory Modules ("FB-DIMMs"), an enabling technology to drive the next generation of multi-core server performance while lowering server power consumption.
- Qimonda DDR3 Memory components and modules were validated on Intel reference platforms.
- Qimonda sampled ultra-low power 512 Mbit Mobile-RAM for mobile applications. Qimonda uses a specifically designed 75-nanometer low-power trench technology platform that is the basis for an entire Mobile DRAM product family in this node.

Industry Background

Semiconductors power, control and enable an increasing variety of electronic products and systems. Improvements in semiconductor process and design technologies continue to result in ever more powerful, complex and reliable devices at a lower cost per function. As their performance has increased and size and costs have decreased, semiconductors have become common components in products used in everyday life, including personal computers, telecommunications systems, wireless handheld devices, automotive products, industrial automation and control systems, digital cameras, digital audio devices, digital TVs, chip cards, security applications and game consoles.

The market for semiconductors has historically been volatile. Supply and demand have fluctuated cyclically and have caused pronounced fluctuations in prices and margins. Following a severe downturn in 2001, the industry experienced a further period of low demand and ongoing worldwide overcapacity during 2002. In 2003 and in particular in 2004, the semiconductor market showed stronger performance. During 2005, global semiconductor market growth slowed significantly to 7 percent. In 2006 market growth slightly accelerated to 9 percent according to WSTS. For the 2007 calendar year, WSTS anticipates a growth rate of 4 percent for the global semiconductor market.

Strategy

Following the carve-out of our memory products business into the separately publicly listed company Qimonda, we now focus on the following core businesses: automotive, industrial & multimarket and security & ASICs in our Automotive, Industrial & Multimarket ("AIM") segment and mobile phone platforms, RF solutions, and broadband access in our Communication Solutions ("COM") segment. In particular, we strive to achieve profitable growth in these businesses by maintaining and expanding our leadership position in semiconductor solutions for energy efficiency, security, and communication.

To achieve these goals in our non-memory businesses we seek to:

- ***Build on our market leadership position in the field of semiconductors, in particular by helping to improve energy efficiency.*** We believe that our success to date has been based on a deep understanding of a wide range of applications for the automotive and industrial sectors as well as for personal computers and other consumer devices. Our leading position in these areas is built on high-performance products, superior process technologies and optimized in-house manufacturing capabilities. We see significant growth potential for our power business, driven by high energy costs and the need for ever longer battery lifetimes in mobile devices.
- ***Provide the technology to be connected every day & everywhere — from home, in the office or on the way.*** We seek to continue to profit from our key strengths in areas such as RF technology and wireline access. In order to benefit from the ever-increasing need for mobility and communication in all aspects of day-to-day life, we intend to broaden our customer base and to focus on the most promising solutions for

future profitable growth, such as cellular phone platforms and broadband customer premises equipment.

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- ***Strengthen our leadership position in security solutions.*** We intend to leverage our know-how to address applications in new areas, and believe we are well positioned to benefit from future trends like the transition to e-passports and the implementation of digital rights management in consumer devices. We believe that the ever-increasing digitalization and increasing mobility in daily life will be a key driver for our security & safety business.
- ***Selectively strengthen our core businesses through strategic acquisitions.*** Following the carve-out of the Qimonda business, we have been seeking to expand the breadth and depth of our core operations in automotive and industrial applications and communications, in particular through selective acquisitions of other businesses and technologies. We anticipate that we will use a portion of the proceeds of any further sales of Qimonda shares to pursue additional acquisition opportunities.
- ***Manage carefully the mix of make-versus-buy in manufacturing and process technology development.*** We intend to continue to invest in those process technologies where Infineon has a clear competitive advantage such as power, embedded flash and RF technologies. At the same time, in standard CMOS below 90-nanometer, we will continue to share risks and expand our access to leading-edge technology through long-term strategic partnerships with other leading industry participants. We do not intend to invest in in-house capacity for standard-CMOS processes below the 90-nanometer node, and we will make more extensive use of manufacturing at silicon foundries.

Regarding our memory business, we strive to benefit as Qimonda implements its strategy, including its plans to:

- Improve its average selling prices by increasing its focus on DRAM products for advanced infrastructure, graphics, mobile and consumer applications.
- Leverage its technology leadership and increase its presence in low-cost regions to continue to reduce unit costs.
- Improve profitability and return on capital throughout the memory product industry's business cycle.

We aim to reduce our interest in Qimonda to less than 50 percent by no later than our 2009 general meeting of shareholders. We will continue executing this strategy to reduce our interest in Qimonda through secondary offerings and other capital market measures, making any cash inflow from such sales of shares available for selective acquisitions to strengthen our core business or to repurchase our shares. In addition, we intend to amend our Articles of Association at our 2008 general meeting of shareholders to authorize a payment of dividends in kind to our shareholders. A distribution of Qimonda shares as dividend in kind would then be possible after our 2009 general meeting of shareholders, provided that we have distributable profits.

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Products and Applications

The following summary provides an overview of some of the more significant products and applications, and the four largest customers of each of our three segments, in the 2007 fiscal year.

Principal Products, Applications and Customers

Segment	Principal Products	Principal Applications	Four Largest Customers in the 2007 Fiscal Year
Automotive, Industrial & Multimarket	Power semiconductors (discretes, ICs and modules), sensors and microcontrollers (8-bit, 16-bit, 32-bit) with and without embedded memory, silicon discretes, chip card and security ICs, ASIC design solutions including secure ASICs, Trusted Platform Modules	Automotive: Powertrain (engine control, transmission control, hybrid), body and convenience (comfort electronics, air conditioning), safety and vehicle dynamics (ABS, airbag, stability control), infotainment (wireless communication, telematics/navigation) Industrial & Multimarket: Power management & supplies, lighting, drives, power generation and distribution, industrial control, discrete commodity products (e.g., handsets) Security & ASICs: Chip card and security ICs (e.g., for mobile communication, identification, finance), platform security for computers and in networks (i.e., Trusted Platform Modules), hard disks, game consoles, hearing aids, computer peripherals	Avnet, Bosch, Siemens, Silicon Application Corporation
Communication Solutions	Baseband ICs, RF transceivers, power management ICs, single chip ICs integrating these components, mobile phone platform solutions including software, DECT chipsets, tuner ICs, RF-power transistors, ICs for voice access and core access (e.g., CODECs, SLICs, ISDN, T/E), broadband access ICs for xDSL CO/CPE, VoIP, switch and PHY, system solutions for DSL-modems, home-gateways	Mobile telephone systems for major standards (GSM, GPRS, EDGE, UMTS), cordless telephone systems for major standards (WDCT, DECT), RF connectivity solutions (e.g., Bluetooth, GPS), cellular base stations, voice access and core access, broadband access solutions for central office, broadband customer premises equipment and home networking equipment	Avnet, LG, Nokia, Siemens
Qimonda	Standard DRAM components (DDR, DDR2)	Memory modules, components-on-mainboards, consumer devices (digital TV, set-top boxes, DVD recorders)	Dell, HP, Kingston, Sony
	Personal system DRAM modules (Unbuffered DIMMs with and without ECC, SO-DIMMs, Micro-DIMMs)	Desktop computers, workstations, entry-level servers, notebook computers, sub-notebooks, ultra-mobile PCs	
	Infrastructure DRAM modules (Registered DIMMs, FB-DIMMs, VLP-DIMMs)	Servers, Workstations, blade servers	
	Networking, storage and industrial DRAM products	Networking, telecom and industrial equipment, storage	
	Graphics (DDR2, GDDR3)	Graphic cards in desktop and notebook computers, game consoles	
	Mobile and Consumer (Mobile-RAM, Cellular-RAM)	Top- and mid-range mobile phones (2.5G/3G), PDAs, digital still	

cameras, digital audio players, GPS

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Automotive, Industrial & Multimarket

The Automotive, Industrial & Multimarket segment designs, develops, manufactures and markets semiconductors and complete system solutions primarily for use in automotive, industrial and security applications, in addition to applications with customer-specific product requirements. Our automotive and industrial business units focus on microcontrollers and power semiconductors (which handle higher voltage and higher current than standard semiconductors), discrete semiconductors, modules and sensors. According to Strategy Analytics, we were the second largest producer of ICs for automotive electronics worldwide in 2006, with more than 9 percent of the market, and the largest in Europe. Within the fragmented market for industrial semiconductor applications, we focus on power management and supply, as well as drives and power generation and distribution. IMS Research reported that we were the number one supplier worldwide for power semiconductors in 2006, with a market share of more than 8 percent. Our broad portfolio addressing consumer, computing and communication applications ranges from discrete semiconductors and power devices to chip card and security ICs and ASIC design solutions.

Automotive

The market for semiconductors for automotive applications has grown substantially in recent years, reflecting increased electronic content in automotive applications in the areas of safety, power train, body, and convenience systems. This growth also reflects increasing substitution of mechanical devices such as relays by semiconductors, in order to meet more demanding reliability, space, weight, and power reduction requirements.

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

- Semiconductors for power train applications, which perform functions such as engine and transmission control and hybrid power trains;
- Semiconductors for safety management, which manage tasks such as the operation of airbags, anti-lock braking systems, electronic stability systems, power steering systems and tire pressure monitoring systems;
- Semiconductors for body and convenience systems, which include light modules, heating, ventilation and air conditioning systems, door modules (power windows, door locks, mirror control) and electrical power distribution systems; and
- Semiconductors for infotainment, such as those used for wireless communication and navigation/telematics.

According to Strategy Analytics, safety and vehicle-dynamics systems comprise the largest portion of the market, followed by body and convenience systems, power train applications, such as transmission, engine and exhaust control, in-car entertainment, and driver information.

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

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

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In order to strengthen our position in all areas of automotive electronics, we seek to further develop our strong relationships with world-wide leading car manufacturers and their suppliers, with a particular focus on those at the forefront in using electronic components in cars. We also seek to further strengthen our presence in the United States and to expand in other geographic areas, notably Japan. We believe that our ability to offer complete semiconductor solutions integrating power, analog and mixed-signal ICs and sensor technology is an important differentiating factor among companies in the automotive market. We also believe that our strength in this relatively stable market complements our strengths in other markets that may be subject to greater market volatility.

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

Industrial & Multimarket

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

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

We have a strong position in power applications within industrial and automotive segments. According to the annual market reports of IMS Research, we have been the global market leader for power semiconductors for the past four years, with 8.5 percent market share in 2006.

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

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

Our portfolio of semiconductor discretes includes:

- AF (audio frequency) discretes (general purpose diodes and transistors, switching diodes, digital transistors);

- RF (radio frequency) discretes (diodes, transistors, Small Scale Integrated Circuits (“SSICs”), Monolithic ICs);

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- HIPAC™ (High Performance Active and Passive Integration) devices offering ESD/EMI (Electro Static Discharge/Electro Magnetic Interference) protection and high integration in advanced applications (e.g. in mobile communication devices); and
- SMM (Silicon MEMS Microphone): acoustical sensors based on MEMS (Micro-Electro-Mechanical System) semiconductor technology (for use in mobile phone applications, for example).

Security & ASICs

Our chip card and security unit designs, develops, manufactures and markets a wide range of security controllers and security memories for chip card and security applications. According to Frost & Sullivan, in the 2006 calendar year we remained the market leader in ICs for smart card applications, with a market share of 29 percent, the same as in 2005.

Our products include security memory ICs, security microcontroller ICs for identification documents, payment cards, SIM cards, prepaid telecom cards, access and transportation cards, as well as radio frequency identification ("RFID") ICs for object identification and access.

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

Within our ASIC design & security business we focus on customer-specific products integrating intellectual property from our customers with our own IP.

These products are used in a variety of markets, with a special focus on systems for mobility, data storage and security.

The main products of this business unit include:

- Systems on Chip ("SoC") for hard disk drive ("HDD") applications;
- Products for computer and gaming peripherals (e.g., in wireless control pads or memory sticks);
- Secure ASICs, taking advantage of our security know-how (e.g., for authentication or copy protection);
- Trusted Platform Module ("TPM") products (hardware-based security for trusted computing); and
- Customer designs manufactured by us on a foundry basis.

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

Communication Solutions

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

Wireless Communications

In wireless communications, our principal products include baseband ICs, RF transceivers and single-chip ICs for the major standards (GSM, GPRS, EDGE, UMTS and DECT), power management ICs, radio-frequency products such as Bluetooth ICs, GPS ICs, and tuner ICs, as well as RF-power components for wireless infrastructure (base stations).

Our principal solutions include hardware system design and software solutions for mobile telephone systems (addressing primarily the GSM, GPRS, EDGE, and UMTS standards) and Bluetooth as well as DECT/WDCT systems.

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According to Gartner Dataquest, in the 2006 calendar year we held the number seven position in subscriber RF and baseband semiconductor devices, with a worldwide market share of 4 percent. For RF transceivers for digital subscriber devices, we held the number two position in 2006, with a market share of 12 percent, according to Gartner Dataquest.

The markets for products in which our cellular communication ICs and systems are utilized are characterized by trends towards lower cost, increasingly rapid succession of product generations, and increased system integration. According to Strategy Analytics, over 1 billion cellular handsets were produced in the 2006 calendar year, compared with approximately 817 million units in 2005. This growth was to a large extent driven by a strong demand in emerging markets. Increasing demand for connectivity and multimedia capability is expected to increase the IC content of mobile phones. However, despite such increased demand, the average selling prices for cellular phone ICs have declined in recent years. We expect that a further price decline of entry-level handset models, often referred to as “Ultra Low Cost” telephones, will generate additional demand in emerging markets. We expect these trends to create both opportunities and threats for suppliers of cellular communication semiconductors and systems.

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

- GSM, or Global System for Mobile Communication, which is the de facto wireless telephone standard in Europe and available in more than 120 countries. GSM is a wireless mobile telecommunication standard that includes General Packet Radio Service (“GPRS”), Enhanced Data rate for GSM Evolution (“EDGE”), and Universal Mobile Telecommunications System (“UMTS”). We offer products and solutions such as baseband ICs, RF transceivers, power management ICs, single-chip ICs integrating these components, mobile software, and reference designs addressing all of these wireless communication standards;
- UMTS, a GSM-based standard for third-generation (“3G”) broadband, packet-based transmission of text, digitized voice, video, and multimedia at data rates up to 2 megabits per second (“Mbps”). We offer complete multimedia mobile phone platforms, RF transceivers and mobile software for UMTS and also for the next generation HSDPA standard (High-Speed Downlink Packet Access) that supports data rates of up to 7.2 Mbps;
- DECT (Digital Enhanced Cordless Telecommunications) and WDCT (Worldwide Digital Cordless Telecommunications) standards for digital cordless phones. We offer complete WDCT system solutions for the 2.4 GHz ISM frequency band, which is available worldwide, as well as complete DECT system solutions for the whole range of telephone models required from the market — from low-featured entry models to high-featured comfort models. This includes all necessary RF components, including low-noise transceivers and power amplifiers, as well as all baseband components such as residential handset and base station controllers;
- DVB (Digital Video Broadcasting), covering a number of generally accepted protocol standards for digital television. DVB-T (Digital Video Broadcasting — Terrestrial) and DVB-H (Digital Video Broadcasting — Handhelds) are television protocol standards that enable digital transmission of digital content for moving reception devices, such as mobile phones and PDAs (Personal Digital Assistants). We offer tuner ICs for stationary, portable and mobile television receivers for the analog (PAL, NTSC) and digital (DVB-C/T, ISDB, ATSC, DAB, DVB-H, T-DMB, ISDB-T) TV standards;
- The Global Positioning System (“GPS”), a location system based on a network of satellites. GPS is widely used in automotive, wireless, mobile computing and consumer applications. Together with a development partner we have introduced the Hammerhead product family, a single-chip Assisted Global Positioning System (“A-GPS”) receiver for mobile telephones, smart phones and PDAs;
- Bluetooth, a computing and telecommunications industry specification that allows mobile phones, computers and PDAs to connect with each other and with home and business phones and computers using a short-range wireless connection. We offer

BlueMoon UniCellular, a fast and energy-efficient Bluetooth-chip which supports the Bluetooth enhanced data rate ("EDR") protocol; and

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Wireline Communications

The market for wireline communications is currently characterized by:

- a growing demand for a single network offering voice, video and data ("triple play") applications, which creates increasing demand for high performance broadband access products;
- the convergence of voice and data networks into a single Internet Protocol network infrastructure, which we believe will drive demand for DSLAM/digital loop carrier ("DLC") integrated voice and data ("IVD") line-card products, particularly in the North American market; and
- increased investment by carriers in MAN (Metropolitan Area Network) core infrastructure to support increased data bandwidth requirements.

We focus on broadband access solutions for both the central office and the customer premises equipment ("CPE"). In the market for central office applications we offer high-performance xDSL, high-quality voice as well as IVD solutions. In the customer-premise market we provide low-cost Ethernet switches and Ethernet PHYs, wired and wireless LAN NICs, low power consumption network processors and controllers, VoIP ICs and xDSL transceivers. This portfolio of products allows a complete, end-to-end access solution that enables the "triple play" of voice, video, and data applications.

According to Gartner Dataquest, we were the number four supplier of application-specific wireline communication ICs worldwide in 2006, with a 5.6 percent market share. We held the number four position in the wireline access network ICs market segment in 2006, with a market share of 15 percent, according to Gartner Dataquest.

The primary applications for our wireline communication products include:

- voice access, core access and enterprise applications, e.g., analog line cards, ISDN, T/E, ATM and PBX;
- broadband access solutions for the central office, such as xDSL line cards; and
- broadband CPE and home networking equipment such as DSL/VoIP routers, gateways and WLAN access points.

During the fourth quarter of the 2007 fiscal year we acquired the DSL CPE business of Texas Instruments, Inc. This acquisition will enable us to combine our innovative broadband CPE roadmap with Texas Instruments, Inc.'s large DSL CPE deployment base at major carriers worldwide.

Qimonda

Qimonda designs semiconductor memory technologies and develops, manufactures, and markets a large variety of memory products with various packaging and configuration options, architectures and performance characteristics on a chip, component and module level. Qimonda currently offers more advanced DRAM products for infrastructure, graphics, mobile and consumer applications, as well as standard DRAM products for PCs, notebooks and workstations. In its 2007 fiscal year, it also offered a small number of non-volatile NAND-compatible flash memory products, but has recently discontinued production of those products.

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The global market for DRAM has experienced strong cyclicality in the past and is expected to continue to do so in the future. Historically, the average price per bit of DRAM experienced an annual decrease of approximately 30 percent. Price and therefore revenue volatility depends on the relation between supply and demand, leading to strong price declines in times of oversupply and relative stability or even increases in times of shortage. However, visibility for both supply and demand is restricted and therefore market development is difficult to predict. The table below presents revenue and bit data as well as calendar year-over-year price-per-bit development for the DRAM market since 2001 (source: WSTS).

Calendar Year	2001	2002	2003	2004	2005	2006
DRAM market in billion $	11	15	17	27	26	34
DRAM market in billion megabits	400	563	785	1,260	1,912	2,809
Year-over-year change average price per bit	(76)%	(3)%	(22)%	0%	(37)%	(10)%

The substantial price decline in the 2001 calendar year, which resulted from worldwide oversupply due to strongly increased capacity, combined with reduced demand, especially in the PC segment, resulted in a substantial reduction in revenues from this business. In the 2002 calendar year, prices for Qimonda's DRAM products stabilized due to increased demand and consolidation within the industry. In the 2003 calendar year prices dropped again due to slow demand development. In the 2004 calendar year, prices remained flat. In the 2005 calendar year, prices declined more strongly than the historical average due to slow demand development especially in the first half of the year. During the 2006 calendar year, prices stabilized due to reduced growth in DRAM supply as some DRAM manufacturers focused capacity growth on NAND flash. In the 2007 calendar year, prices declined severely in the first half due to seasonal demand weakness, the effects of an earlier build-up of inventories at OEMs ahead of the introduction of the new Windows Vista computer operating system, and capacity conversions from NAND to DRAM by some competitors, following severe price erosion in the NAND flash area. Supply growth across the industry was strong, driven by capacity increases and technology conversions to more efficient technologies.

DRAMs for Infrastructure, Graphics, Mobile and Consumer Applications

Qimonda designs, manufactures and sells technologically advanced DRAM components and modules for use in servers, networking and storage equipment, including specialty DRAMs for use primarily in graphics applications, as well as in mobile and consumer applications.

Infrastructure Applications. Qimonda's current portfolio of DRAMs for use in servers, networking and storage equipment includes FB-DIMMs, which Qimonda believes will serve as the next generation of memory device used in high-end servers, and very-low-profile-DIMMs, intended for the blade server market. DRAM consumption in entry level servers is expected to see a 60 percent compound annual growth rate ("CAGR") based on bits shipped from 2006 to 2011, according to iSuppli. We believe that Qimonda is the only FB-DIMM supplier that has in-house capabilities to design a key component of this module, a logic chip called Advanced Memory Buffer, or AMB. This allows Qimonda to customize the AMB design specifically for its memory modules, providing better know-how transfer from chip-level to system-level and vice versa. Qimonda also provides customized modules to server manufacturers, in each case specifically designed to meet the individual customer's unique platform requirements. Qimonda expects the market for servers to grow substantially in the next few years, and Qimonda is currently engaged in the development of products it believes will address that growth. For example, Qimonda is developing new generations of standard DRAM with 2 gigabits of capacity for use in future IT infrastructure applications.

Graphics Applications. Qimonda offers a broad portfolio of graphics DRAMs that support applications with performance ranging from entry level to very advanced. Due to their speed, low power consumption and limited heat generation, Qimonda's graphics DRAM components are used in game consoles, graphics cards and PC and notebook

computers. In some cases, Qimonda makes customized products for use in entertainment applications, including game consoles and imaging devices. Qimonda believes that the trend toward the extensive use of sophisticated graphics

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applications will result in strong growth in high performance graphics systems, which it believes will in turn drive the demand for its graphics DRAM products.

Mobile and Consumer Applications. Qimonda offers low-power specialty DRAM products, such as Mobile-RAM and CellularRAM™ that are suited for use in a variety of mobile and consumer applications, such as:

- mobile phones;
- mobile consumer products, such as digital still cameras and digital audio players; and
- stationary consumer products, such as digital televisions and DVD recorders.

Qimonda's Mobile-RAM is specifically designed for ultra-low power consumption, which is increasingly demanded by today's battery powered mobile communication devices, especially in high end phones and handheld consumer products. Qimonda intends to focus further on driving technological innovation in this area and believes it was the first both to produce chips with a temperature sensor integrated onto the chip and to introduce a DDR interface for a Mobile-RAM to further reduce power consumption or alternatively offer higher performance. Qimonda also expects that new consumer products that combine more features will require DRAMs that consume very low power yet operate at adequate speeds. Qimonda believes that the trench-architecture-based products it currently offers allow for significantly longer battery life and reduced heat dissipation, both important features for potential customers and their end users.

Qimonda's CellularRAM™ is designed to be the best choice of memory for entry and midrange handset models. This market segment is characterized by stringent low-power requirements but more moderate density and bandwidth needs. CellularRAM™ balances low power efficiency with high data throughput. Qimonda is also a founding member of the CellularRAM™ specification co-development team and, together with six other industry members, creates common specifications for high-performance pseudo-SRAM devices, enabling it to take an active role in the development of DRAM memory products for one of the fastest-growing technology sectors.

Both Qimonda's Mobile-RAM and CellularRAM™ products are offered as components and as so-called Known-Good-Dies, or KGDs, for use in Multi-Chip-Packages, or MCPs. MCPs combine different memory chips, usually a non-volatile flash chip, and a faster, volatile RAM chip, and are increasingly used in mobile communication and consumer devices due to their lower space consumption. Qimonda supplies its Mobile-RAM and CellularRAM™ as KGDs on wafer level to MCP manufacturers.

Qimonda also offers a broad range of DRAM products for consumer applications, some of which are of smaller memory densities or older interface generations, such as SDRAM. These are often referred to as "legacy" DRAM products. For example, the manufacturers of hard disk drives, DVD players, home gateways and some printers do not require large amounts of DRAM, but do require a DRAM product that is guaranteed to be available for the product's entire life cycle, which may be many years. In addition, Qimonda sells products with industrial-level tolerance for cases where consumer applications require a broader guaranteed temperature range. For high-end digital televisions, Qimonda offers modules with up to DDR2 800. Demand for these 'dedicated' consumer DRAM products is often less volatile, and their prices are relatively more steady compared to other standard DRAM products.

Standard DRAMs for PC, Notebook and Workstation Applications

In addition to DRAMs for infrastructure, graphics, mobile and consumer applications, we believe Qimonda offers a complete portfolio of standard DRAM products that provide a variety of speeds, configurations and densities suited to particular end uses. In the 2007 fiscal year, Qimonda sold the majority of its standard DRAM products for use in PCs and workstations to desktop and notebook computer manufacturers and to distributors who sell DRAMs to smaller OEMs and contract manufacturers. Qimonda's standard modules, including Unbuffered DIMMs and SO-DIMMs, are used primarily for PCs and notebooks,

while its more specialized modules such as High-Density SO-DIMMs and Micro-DIMMs are typically used in high-end notebook computers and sub-notebooks. We believe Qimonda's

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engineering capabilities permit it to offer these specialized modules and differentiate it from suppliers focused primarily on standard DRAM products. Many of its customers that produce PCs and workstations also produce servers, networking and storage equipment or graphics, mobile and consumer products. We believe these customers expect Qimonda to offer both standard DRAM products and other types of DRAM products so that Qimonda can supply their entire product ranges. Qimonda intends to invest in technology development and anticipates playing an active role in the development of future DRAM architectures, including third-generation DDR, or DDR3.

Other Products

In the beginning of the 2007 fiscal year, Qimonda ramped down the production of its flash products and converted the capacity to DRAM, as had been decided in the prior fiscal year following the significant price decline for data flash memories. Qimonda continues to be engaged in technology development for non-volatile memories to address a potential future system flash market with a competitive platform.

Qimonda conducts its non-volatile memory development activities at facilities in Dresden and Munich, Germany and Padua, Italy. Qimonda has stopped the development of NAND-compatible flash memory products based on proprietary NROM technology that was licensed from Saifun Semiconductors when it purchased its remaining interest in its former joint venture with that company. Qimonda continues to develop non-volatile memory technologies based on alternative technology platforms, including MRAMs, PCRAMs, CBRAMs and charge trapping technologies.

Qimonda also sells a small volume of embedded memories, which are systems-on-a-chip designed for special applications.

Customers, Sales and Marketing

Customers

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

We target our sales and marketing efforts on demand creation at approximately 530 direct customers worldwide (including distributor and Electronic Manufacturing Services (“EMS”) accounts, as well as customers acquired through our recent acquisition of the DSL CPE business of TI and the mobility products business of LSI) of which approximately 120 are solely customers of Qimonda.

On a group wide basis, no customer accounted for more than 10 percent of our sales in the 2007 fiscal year, and our top 20 customers accounted for approximately 56 percent of our sales.

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

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

We believe that a key element of our success is our ability to offer a broad portfolio of technological capabilities and competitive services to support our customers in providing innovative and competitive

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products to their customers and markets. This ability permits us to balance variations in demand in different markets and, in our view, is a significant factor in differentiating us from many of our competitors.

Below we provide more detailed information on the customers of each of our principal segments:

Automotive, Industrial & Multimarket

Automotive

In the automotive business, which includes sales of microcontrollers, power devices and sensors, our customer base includes most of the world's major automotive suppliers. Our two largest customers in the 2007 fiscal year were Bosch and the Siemens group. Bosch purchases products mainly for automotive applications. The Siemens group purchases semiconductors for automotive and industrial applications. Sales of automotive products are made primarily in Europe and, to an increasing extent, in the United States, China, Korea and Japan.

Industrial & Multimarket

In the industrial & multimarket businesses, the Siemens group is the largest OEM customer, but the bulk of our sales of industrial products are made in small volumes to customers that are either served directly or through third-party distributors like Arrow, AVNET or Silicon Application Corporation. Our sales of industrial products vary by type of product, with devices for drive and power conversion applications sold primarily in Europe and the United States, and devices for power management and supply sold primarily in Asia (other than Japan) and Europe. Our wide variety of discrete commodity products is targeted at customers in all major fields of applications, including consumer, computing and communication.

Security & ASICs

Our chip card and security business derives a large portion of its revenues from large-scale projects like ePassport projects. Within the chip card business, three card manufacturers — Gemalto, Giesecke & Devrient and Oberthur Card Systems — accounted for a significant portion of sales. We maintained our strong worldwide position in the security business during the 2007 fiscal year.

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

Communication Solutions

Wireless Communications

In the field of wireless communications we sell a wide variety of products addressing applications such as cellular phones, cordless phones, transmission technologies for short, middle and long distances, tuners, positioning systems and wireless infrastructure to most of the world's leading wireless device and equipment suppliers. In cellular phone applications, customers purchase products that range from ASSPs and customized ASSPs that we produce to customer design and specifications to complete system solutions including mobile software. With complete system solutions, we target OEMs as well as design houses and ODMs. Our largest cellular phone customer in the 2007 fiscal year was Nokia, which primarily sources RF semiconductors from us. With the insolvency of BenQ's German subsidiary in the 2006 fiscal year, we lost a major customer for our baseband ICs. Nevertheless, we successfully increased shipments of complete mobile phone platform solutions to other leading customers such as LG, Panasonic and ZTE. These mobile phone platform solutions contain our baseband IC, RF IC and power management IC or a single-

chip IC integrating these components, as well as the corresponding mobile software. During the 2007 fiscal year, Nokia, the largest cellular phone OEM with a 35 percent market share in 2006 according to Strategy Analytics, announced that it will expand its use of commercially available chipsets and has chosen our E-GOLDvoice single-chip for selected future entry level GSM cellular phones. Our cordless telephone customers typically purchase complete system IC kits including baseband ICs, RF ICs and

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power amplifiers. To our wireless infrastructure customers, such as Ericsson, we supply RF-power products.

Wireline Communications

The wireline communications business sells IC products for telecommunication and data communication applications to a world-wide customer base, targeted at system providers of broadband communication applications. Our product portfolio includes ICs for voice and core access solutions (for example, CODECs, SLICs, ISDN, T/E), broadband access system solutions for xDSL and VoIP, as well as system solutions for broadband CPE and home networking equipment.

In the 2007 fiscal year, Nokia Siemens Networks was the largest OEM customer of the wireline communications business. Our leading telecommunications and data communications customers also include Ericsson, Huawei, Siemens and Sphairon. We deliver our semiconductor solutions to our customers either directly, via distributors such as Avnet, or via system manufacturers such as Hon Hai Precision.

During the fourth quarter of the 2007 fiscal year, we acquired the DSL CPE business of TI. This acquisition will enable us to combine our innovative broadband CPE roadmap with TI's large DSL CPE deployment base at major carriers worldwide.

Qimonda

Qimonda's customers include the world's largest suppliers of computers and electronic devices. Qimonda's current principal customers include major computing OEMs, or OEMs in the PC and server markets, including HP, Dell, IBM, Sun Microsystems and Sony. To expand customer coverage and breadth, Qimonda also sells a wide range of products to memory module manufacturers that have diversified customer bases, such as Kingston, and to a number of distributors. More recently and in connection with the ongoing expansion of its product portfolio, especially into graphics applications, Qimonda has added customers with a strong focus on enabling these applications, such as nVidia and AMD, and customers who are active in the game console market, such as Microsoft, Sony and Nintendo. In addition, Qimonda has added customers in the area of consumer and mobile applications, such as LG, Spansion and SanDisk. Qimonda believes that having a close relationship with these customers can benefit it in the development of future memory generations by making it easier to develop memory solutions for future end applications and improve its product designs.

Sales and Marketing

As of September 30, 2007, we had approximately 2,225 sales and marketing employees (including approximately 390 Qimonda employees) worldwide.

Infineon Logic

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

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

To serve the broader market and expand our indirect sales, a dedicated organization develops, maintains and interacts with a strong network of distribution partners.

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This optimized network includes globally active distributors, strong regional partners and committed niche specialists. In addition, third-party sales representatives help to identify and create business, particularly in the United States.

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

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

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

Qimonda

Qimonda makes memory-product sales primarily through direct sales channels and makes use of distributors in order to ensure the best possible customer coverage. It focuses its principal sales and marketing efforts on the technology leaders in each of the DRAM markets it serves. We believe Qimonda has strong customer relationships and that its customers, many of which are leaders in their respective fields, provide Qimonda with special insights into the current state of their respective markets. Qimonda's engineering experts work directly with its customers to tailor products to each of their specific needs as well as to the needs of their quality and supply chain experts.

Qimonda's regional sales teams are located in Europe, North America, Asia/Pacific and Japan, and are supported by headquarters staff in Germany. These regional sales centers enable Qimonda to bring its business to its customer base and to provide local contact and support to the teams in those regions.

Qimonda's marketing teams work closely with its customers and with its sales and R&D organizations. The product marketing groups help plan Qimonda's product roadmap, to enable it to develop and manufacture products that meet customers' changing requirements.

Backlog

Standard Products

Cyclical industry conditions — in the memory products market, in particular — make it undesirable for many customers to enter into long-term, fixed-price contracts to purchase standard (i.e., non-customized) semiconductor products. As a result, the market prices of our standard semiconductor products, and our revenues from sales of these products, fluctuate very significantly from period to period. Most of our standard non-memory products are priced, and orders are accepted, with an understanding that the price and other contract terms may be adjusted to reflect market conditions at the delivery date. It is a common industry practice to permit major customers to change the date on which products are delivered or to cancel existing orders. For these reasons, we believe that the backlog at any time of standard products, such as memory products, is not a reliable indicator of future sales.

Non-Standard Products

Logic products are more customized than memory products. Therefore, orders are generally made well in advance of delivery. Quantities and prices of logic products may

nevertheless change between the times they are ordered and when they are delivered, reflecting changes in customer needs and industry

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conditions. During periods of industry overcapacity and falling sales prices, customer orders are generally not made as far in advance of the scheduled shipment date as during periods of capacity constraints, and more customers request logistics agreements based on rolling forecasts. The resulting lower levels of backlog reduce our management's ability to forecast optimum production levels and future revenues. As a result, we do not rely solely on backlog to manage our business and do not use it to evaluate performance.

Competition

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

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

Key Competitors by Segment

Automotive, Industrial & Multimarket	Freescale, International Rectifier, Mitsubishi, NXP, Renesas, Samsung, ST Microelectronics, Texas Instruments
Communication Solutions	Broadcom, Conexant, Freescale, NXP, Qualcomm, Texas Instruments
Qimonda	Elpida Memory, Hynix Semiconductor, Micron Technology, Nanya Technology (with which we also have a joint venture), Samsung Electronics

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

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

- successful and timely development of new products, services and manufacturing processes;
- product performance and quality;
- manufacturing costs, yields and product availability;
- pricing;
- our ability to meet changes in our customers' demands by altering production at our facilities;
- our ability to provide solutions that meet our customers' specific needs;
- the competence and agility of our sales, technical support and marketing organizations; and
- the resilience of our supply chain for services that we outsource and the delivery of

products, raw materials and services by third party providers needed for our manufacturing capabilities.

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Manufacturing

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

Front-end

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

We believe that we are one of the leaders in the semiconductor industry in terms of the structure size on our wafers. Structure size refers to the minimum distances between electronic structures on a chip. Smaller structure sizes increase production efficiencies in the production of memory and logic products. The structure size of our current logic products is as small as 90-nanometers and we have qualified 65-nanometer technology at multiple manufacturing sites. The structure size of the memory products of Qimonda is as small as 75-nanometers and Qimonda is currently developing production processes for memory products with structure sizes as small as 58-nanometers.

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

High-end mask technology is a prerequisite for achieving small structure sizes. Since May 2002, the Advanced Mask Technology Center (“AMTC”), our joint venture with Advanced Micro Devices and Toppan Photomasks in Dresden, Germany, has developed advanced masks. Since 2004, the joint venture’s mask foundry has produced high-end masks at AMTC’s Dresden production facility. Infineon and Qimonda expect to continue to purchase most of their masks from AMTC and Toppan Photomasks under cooperative arrangements.

Back-end

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

Our back-end facilities are equipped with state-of-the-art equipment and highly automated manufacturing technology, enabling us to perform assembly and test on a cost-effective basis. We have improved our cost position by moving significant production volumes to lower-cost countries such as Malaysia and China. Our back-end facilities also provide us with the flexibility needed to customize products according to individual customer specifications (giving us “System in Package” capabilities). We continued the process of converting our packages to comply with new international environmental requirements for lead-and/or halogen-free “green packages” in the 2007 fiscal year.

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Manufacturing Facilities

We operate manufacturing facilities around the world, including through joint ventures in which we participate. The following table shows selected key information with respect to our current major manufacturing facilities:

Manufacturing Facilities in 2007

	Year of commencement of first production line	Principal products or functions
Front-end facilities — wafer fabrication plants		
***Infineon Logic*:**		
Dresden, Germany	1996	DRAM, ASICs with embedded flash memory, logic ICs
Essonnes, France[1]	1963[2]	Logic ICs and ASICs with embedded flash memory
Horten, Norway	1985	MEMS
Kulim, Malaysia	2006	Power, smart power
Regensburg, Germany	1986	Power, smart power, sensors, mixed signal
Villach, Austria	1979	Power, smart power and discretes
Warstein, Germany	1965[2]	High power
***Qimonda*:**		
Dresden 300mm, Germany	2001	DRAM
Richmond 200mm, Virginia	1998	DRAM
Richmond 300mm, Virginia	2005	DRAM
Taoyuan, Taiwan[3]	2004	DRAM
Back-end facilities — assembly and final testing plants		
Infineon Logic:		
Batam, Indonesia	1996	Leaded power and non-power ICs
Cegléd, Hungary	1997	High power
Morgan Hill, California	2002	RF-power
Regensburg, Germany	2000	Chip card modules, sensors and pilot lines
Singapore	1970	Leadless and leaded non-power ICs, wafer test
Skoppum, Norway	1991	Sensors
Warstein, Germany	1965[2]	High power
Wuxi, China	1996	Discretes, chip card modules
Malacca, Malaysia	1973	Discretes, power packages, sensors, logic ICs
***Qimonda*:**		
Dresden, Germany	1996	DRAM components and modules
Malacca, Malaysia	1973	DRAM components and modules
Porto, Portugal	1997	DRAM components and modules
Suzhou, China[4]	2004	DRAM components and modules

[1] ALTIS, our joint venture with IBM. We and IBM entered into an agreement in August 2007 to sell ALTIS to AES.

[2] The current main production line began operations in 1991.

[3] Inotera Memories, Qimonda's joint venture with Nanya.

[4] Qimonda Technologies Suzhou Co. Ltd., Qimonda's joint venture with CSVC.

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

Logic Manufacturing

Front-end

Our logic front-end facilities currently have a capacity of approximately 280,000 200-millimeter equivalent wafer starts per month. In implementing our ’fab-light’ strategy, we have begun to shift the focus of our in-house manufacturing toward power logic products and to shift manufacturing of advanced logic products to foundries. In this context we pursued the sale of our share in ALTIS. In August 2007, Infineon, IBM and Advanced Electronic Systems AG (“AES”), entered into an agreement, under which AES would acquire the equal 50 percent stakes in ALTIS Semiconductor S.N.C. from Infineon and IBM.

To reflect this change we initiated a reorganization of our operations in the 2007 fiscal year. As a result of these reorganization measures, we expect to achieve additional synergies between Power and Advanced CMOS front-ends and back-ends, respectively.

In 2007, in-house production of advanced logic wafers (with structure sizes of 250-nanometers or less) was carried out at our 200-millimeter manufacturing facility in Dresden and at our ALTIS joint-venture with IBM in Essonnes, France, while in-house production of power logic wafers (with structure sizes of more than 250-nanometers) was largely carried out at our front-end manufacturing facilities in Kulim, Regensburg, and Villach.

Generally, we use foundries to provide flexibility in meeting demand, as well as managing investment expenditures. In recent years, we have enhanced our manufacturing cooperation with United Microelectronics Corporation (“UMC”), particularly with respect to leading-edge CMOS products for wireless communications down to 90-nanometer.

We have entered into a joint development agreement with IBM, Chartered Semiconductor and Samsung, to accelerate the move to 65-nanometer and 45-nanometer process technologies. The 65-nanometer technology has been qualified at several manufacturing sites and the 45-nanometer technology is undergoing transfer to one of our manufacturing partners. In May 2007, we extended the joint development agreements with IBM and its development and manufacturing partners to include the 32-nanometer generation. Starting with 65-nanometer technology, our advanced logic front-end manufacturing will be solely sourced from manufacturing partners, optimizing capital investment and business flexibility.

We continued the ramp up of our new power-logic plant in the Kulim Hi-Tech Park in the north of Malaysia in the 2007 fiscal year and plan to further increase our production capacity at that site. This will allow us to further expand our presence in the growing Asian market, as well as to strengthen our cost and competitive positions. We expect to ramp-up capacity at Kulim according to market demand. We expect that maximum capacity could reach approximately 100,000 wafer starts per month.

Back-end

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

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Qimonda Manufacturing

Front-end

In the 2007 fiscal year, Qimonda continued to increase the share of its DRAM manufacturing on 300-millimeter diameter wafers. The ramp-up of the second manufacturing module at Inotera, Qimonda's 300-millimeter manufacturing joint venture with Nanya, was completed and the total capacity in both manufacturing modules at Inotera reached 120,000 wafer starts per month in September 2007. Qimonda and Nanya are each entitled to 50 percent of Inotera's capacity. In addition, Qimonda's 300-millimeter facility at Richmond ramped up production to a capacity of approximately 30,000 wafer starts per month by September 2007. The maximum capacity of this facility is expected to amount to 50,000 wafer starts per month and is planned to be ramped up depending on market developments. Qimonda's foundry and development partner Winbond has continued the ramping up of its 300-millimeter production since its opening in April 2006. The increasing share of 300-millimeter production and the conversion to 80-nanometer and 75-nanometer technologies should substantially reduce Qimonda's overall per-unit cost for memory chips.

In April 2006, Qimonda entered into an agreement with Infineon for the production of wafers in the Dresden 200-millimeter fab. Pursuant to the agreements, as amended in January 2007, Infineon has agreed to manufacture specified semiconductor memory products at the Dresden 200-millimeter fab, using Qimonda's manufacturing technologies and masks, and to sell them to Qimonda at prices based on the cost of manufacture. Qimonda is required under this agreement to pay for idle costs resulting from its purchasing fewer wafers from Infineon than agreed upon, if Infineon cannot otherwise utilize the capacity. Qimonda is also obliged to indemnify Infineon against any third party claims based on or related to any products manufactured for Qimonda under this agreement and against any intellectual property infringement claims related to the products covered by the agreement. In addition, Qimonda agreed in principle to share equally with Infineon potential restructuring costs that might be incurred in connection with the potential ramp down of production in one module of the Dresden 200-millimeter fab.

On November 30, 2007, as part of its measures aimed at further focusing its production on 300-millimeter capacities, Qimonda announced that it will discontinue the purchase of 200-millimeter wafers from Infineon Dresden. The last wafers for Qimonda are planned to enter production at the end of February 2008.

Back-end

Qimonda has its own back-end operations at its lead fab in Dresden as well as in Porto, Portugal and Malacca, Malaysia. In addition, Qimonda sources back-end capacities from its joint venture Qimonda Suzhou, China and uses third party subcontractors for part of the back-end volumes to balance the load in its own fabs. Package development is mainly done at Dresden, whereas the back-end sites in Porto, Malacca and Suzhou focus on volume manufacturing of components as well as DRAM modules. In the 2007 fiscal year, Qimonda and EEMS Italia S.p.A. entered into a partnership dedicated to the assembly and testing of memories. EEMS will manufacture components in a dedicated manufacturing facility in Suzhou, China, that is currently under construction and scheduled to start operations early in the 2008 calendar year. In addition, Qimonda announced plans to construct a new facility for module manufacturing in Johor, Malaysia in which it expects to invest €150 million over the next five years.

Qimonda "Fab Cluster" System

Qimonda has structured and organized its memory fabrication facilities worldwide in its so-called "fab cluster". Through this organizational approach, Qimonda seeks to use best processes to maximize quality and consistency across facilities. This allows it to ship many products from multiple sites, and therefore supply products to anywhere in the world from multiple facilities. In addition, by locating facilities in different areas, Qimonda can also recruit talent globally. The fab cluster includes Qimonda's front-end facilities in Dresden and

Richmond and corresponding back-end sites in Dresden, Malacca and Porto, as well as its front-end manufacturing joint venture Inotera, back-end manufacturing joint venture Qimonda Suzhou and its front-end foundry partners Winbond and SMIC, and the dedicated back-end facility in Suzhou, China, of

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EEMS Italia S.p.A. that is currently under construction and scheduled to start operations early in the 2008 calendar year.

Manufacturing joint ventures and partnerships

We have established the following manufacturing ventures and arrangements with partners:

Infineon Joint Ventures and Partnerships

ALTIS. In 1991 we entered into an arrangement with IBM, under which IBM manufactured DRAM products in its facility in Essonnes, France and we received a share of the production. Later we agreed with IBM to convert the Essonnes facility to the production of logic devices and to convert the existing production cooperation arrangement into a joint venture called ALTIS. In 2007, we owned 50 percent of the joint venture's shares plus one share and IBM owned the rest. Following an amendment in December 2005 we began to fully consolidate ALTIS whereby IBM's 50 percent ownership interest has been reflected as a minority interest. During the 2006 fiscal year, restructuring plans were announced to downsize the workforce at ALTIS in order to maintain competitiveness and reduce costs. Our allocated percentage of the output of ALTIS was 89 percent in the 2007 fiscal year.

In August 2007, Infineon, IBM and Advanced Electronic Systems AG ("AES") entered into an agreement, under which AES would acquire the equal 50 percent stakes in ALTIS from Infineon and IBM. Pursuant to the agreement, Infineon will enter into a two-year supply contract with ALTIS and we and IBM will license key manufacturing process technologies to AES for use in ALTIS. The transaction is expected to close during the first quarter of the 2008 fiscal year, subject to governmental and regulatory approval and works council consultation.

Qimonda Joint Ventures and Partnerships

CSVC. Qimonda Technologies (Suzhou) Co., Ltd. is Qimonda's consolidated joint venture with China-Singapore Suzhou Industrial Park Venture Co., Ltd. ("CSVC") in Suzhou, China, which has constructed a back-end facility for the assembly and testing of Qimonda's products. The joint venture agreement was entered into in July 2003 and has an initial term of 50 years. It can generally be terminated upon material breach by the other party, a party's bankruptcy or insolvency and various other events relating to a party's financial condition. The facility officially opened in September 2004 and is scheduled to have capacity of up to one billion chips per year. The facility will be ramped in a number of stages as dictated by growth and trends in the global semiconductor memory market. Qimonda is required to purchase the entire output of the facility. We and Qimonda have invested $155 million in the venture and Qimonda expects to invest a further $86.5 million in the venture by the end of its 2008 fiscal year pursuant to the current contractual obligations. Qimonda currently holds 63 percent of the outstanding capital stock of Qimonda Suzhou and plans to increase its investment in this venture such that it will hold approximately 72.5 percent of its share capital by the end of 2008, with CSVC owning the remaining 27.5 percent. Qimonda has the option to acquire the remaining CSVC stake at the nominal investment value plus accrued and unpaid return. The joint venture intends to arrange external financing for any further investment required to purchase additional equipment. There can be no assurance that this external financing can be obtained at favorable terms or at all.

SMIC. In December 2002, we entered into a Product Purchase and Capacity Reservation Agreement, as most recently amended in October 2007, with Semiconductor Manufacturing International Corporation ("SMIC"), a Chinese foundry. As amended, this agreement provides Qimonda access to additional DRAM manufacturing capacity. Under the terms of this agreement, SMIC agreed to manufacture, and Qimonda has agreed to purchase, up to 20,000 wafers per month at SMIC's 200-millimeter manufacturing facility in Shanghai at least until 2007 and up to 15,000 wafers per month at SMIC's 300-millimeter manufacturing facility in Beijing at least until 2009. The agreement remains in effect until December 31, 2010 and may be extended. Qimonda has the unilateral right to terminate this

agreement in the event that one of its competitors acquires 50 percent of SMIC's voting shares. In addition, either party may terminate the

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agreement upon material breach by the other party of any obligation under this or the ancillary know-how transfer agreement or upon bankruptcy or insolvency of the other party.

Winbond. In May 2002, we entered into a Product Purchase and Capacity Reservation Agreement with Winbond, a Taiwanese foundry. This agreement provides Qimonda access to additional DRAM production capacity. Under the terms of this agreement, Winbond agreed to manufacture, and Qimonda has agreed to purchase, up to 19,000 wafer starts per month from Winbond's 200-millimeter production facility in Hsinchu, Taiwan until 2007.

In August 2004, we entered into an extended Product Purchase and Capacity Reservation Agreement, as most recently amended in August 2006, with Winbond. This agreement gives Qimonda access to additional DRAM production capacity of up to 15,000 wafers per month in Winbond's 300-millimeter manufacturing facility in Taiwan until 2009. Qimonda has exceeded this level from time to time. Under the terms of this agreement Qimonda agreed to provide its 80-nanometer DRAM trench technology to Winbond's 300-millimeter manufacturing facility and Winbond agreed to manufacture DRAMs for computing applications using this technology exclusively for Qimonda.

In June 2007, Qimonda signed agreements with Winbond to expand its existing cooperation with Winbond and its reservation of capacity at Winbond's facility for up to 24,000 300-millimeter wafer starts per month. Under the terms of the agreement, Qimonda will provide its 75-nanometer and 58-nanometer DRAM trench technology to Winbond's 300-millimeter manufacturing facility. In return, Winbond will manufacture DRAMs for computing applications using these technologies exclusively for Qimonda.

Each agreement remains in effect until the last shipment of, and payment for, products manufactured under the agreement unless it is earlier terminated for breach.

Inotera. We entered into agreements with Nanya relating to a strategic cooperation in the development of DRAM products and assigned these agreements to Qimonda. We have also established a joint venture, Inotera Memories, with Nanya. Inotera has constructed and operates a 300-millimeter manufacturing facility in Taiwan. Pursuant to the agreements, we and Nanya developed advanced 90-nanometer and 75-nanometer technology and have begun development of 58-nanometer technology. Research is conducted in Dresden and Munich, and manufacturing is conducted in Taoyuan, Taiwan.

Inotera's 300-millimeter manufacturing facilities in Taiwan employ the production technology developed under our joint development agreement with Nanya. Ramp-up of manufacturing at the first facility was completed during the 2006 fiscal year. In May 2005, the groundbreaking for the second manufacturing module took place. Construction of this manufacturing module was completed in the 2006 fiscal year and the ramp-up of capacities in this module was completed in September 2007 with a capacity of 120,000 300-millimeter wafer starts per month in total for both modules. Qimonda is entitled to half of the production capacity of Inotera. Inotera has been listed on the Taiwanese Stock Exchange since March 2006 and has conducted a capital increase based on global depository receipts in May 2006. We completed the transfer of our shares in Inotera to Qimonda on March 13, 2007, excluding less than one percent of the total Inotera shares which we hold in trust for Qimonda due to Taiwanese legal restrictions. Qimonda currently owns 35.6 percent of Inotera.

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Research and Development

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

Research and Development Expenditures

	For the years ended September 30,		
	2005	2006	2007
	(€ in millions, except percentages)		
Expenditures (net of subsidies received)	1,293	1,249	1,169
As a percentage of net sales	19%	16%	15%

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

Infineon Logic Research and Development

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

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

In 2007 we entered a strategic cooperation with Hyundai Motor Company for the development of automotive electronics. The two companies opened a joint Hyundai Infineon Innovation Center ("HIIC") which will work on the functional and cost optimization of car electronics systems, as well as develop automotive electronic system architecture. The innovation center is located at the Yangjae-dong headquarters of the Hyundai-Kia Automotive Group in Seoul and is co-managed by both companies.

Also in 2007, we announced the expansion of our R&D activities in Singapore. This expansion will enable us to better serve the growing demand for products in the energy efficiency, connectivity and security areas. We will invest approximately €200 million and add approximately 150 new positions in R&D over a three-year period.

Process technologies are another important focus of our R&D activities. We continuously develop our power technologies in order to support our number one position in the power market. Requirements for automotive and industrial applications, such as high-temperature, high switching power and reliability allow for differentiation through in-house R&D. For advanced logic technologies we are following a strategy of alliances with several partners and consortia to maintain a competitive technology roadmap at an affordable cost level. This includes a joint development agreement with IBM, Chartered Semiconductor and Samsung, to accelerate the move to 65-nanometer and 45-nanometer process technology. The 65-nanometer technology has been qualified at several manufacturing sites and the 45-nanometer technology is undergoing transfer to our manufacturing partner. In May 2007, we

extended our joint development agreements with IBM and its development and manufacturing partners to the 32-nanometer generation.

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Our process technologies benefit from many modular characteristics, including special low-power variants, analog options and high-voltage capabilities.

Qimonda Research and Development

Qimonda's R&D activities are broadly divided into two major steps. First, Qimonda develops a manufacturing process technology and a design platform in conjunction with a "lead" product. Subsequently, the rest of the product portfolio is developed as "follower" products that utilize the design platform established in the first step. The goal of Qimonda's technology development efforts is to support its product designers to meet the customer requirements for memory products regarding high performance, low power consumption and small form factors (i.e., structure sizes) at a competitive cost level.

In the area of memory process technology, Qimonda started commercial production of DRAM products based on 75-nanometer technology during the 2006 fiscal year. In addition, Qimonda developed an 80-nanometer technology dedicated to its standard DRAM product portfolio that was released for production in October 2006. Both technologies have been in ramp-up during the 2007 fiscal year. A strategic development alliance with Nanya for DRAM technologies allows Qimonda to share development costs and resources. After having successfully finalized the development of 75-nanometer process technology for DRAM products in the 2006 fiscal year, the development alliance is currently developing 58-nanometer process technologies for DRAM products. Qimonda is at the same time working on designs beyond this technology node with an open platform approach and a range of architectures and technologies under review. Qimonda is also engaged in the research and development of various emerging memory technologies. All of Qimonda's memory technology development takes place at its memory technology development center in Dresden, Germany.

Qimonda's product development activities focus on those specialized and advanced memory products that it believes provide more stable and higher selling prices than standard DRAMs. To enable this, Qimonda has increased the number of product development engineers from around 560 at the end of the 2003 fiscal year to more than 1,100 worldwide at the end of the 2007 fiscal year. Qimonda believes these enhanced resources have resulted in recent successes in developing new products. For example, Qimonda expanded its graphic DRAM product portfolio from a single product in 2003 to a range of seven products that are currently offered in different densities, interfaces and speeds for the full range of graphics applications from entry level to high-end. Qimonda defines its products in close cooperation with lead customers and industry partners and is actively driving new standards and participating in standardization committees such as the Joint Electron Device Engineering Council ("JEDEC"). Qimonda's worldwide operating Application Engineering team helps its customers to design in Qimonda products into their systems.

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Locations

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

Principal Research and Development Locations

Location	Areas of Competence
Infineon Logic:	
Bangalore, India	IC, software and system development for wireless, wireline, automotive and industrial products, CAD flow and library development
Bucharest, Romania	Power mixed signal semiconductors, chip card ICs, RF IC development for wireless products
Dresden, Germany	Advanced technology development
Duisburg, Germany	IC and system development for wireless products, RF IC development, customer support for wireline products
Graz, Austria	Contactless systems, automotive power systems, sensor products
Linz, Austria	RF IC and software development for wireless and sensor products
Morgan Hill, California, USA	RF IC development for high power applications
Munich, Germany	Main product development site; Technology integration, CAD flow, library development, IC, software and system development for wireline products, microcontrollers, ASICs with embedded DRAM, chip card ICs, automotive power and industrial products, process technology development
Nuremberg, Germany	Software and system development for wireless products
Regensburg, Germany	Package development, process technology development
Shanghai, China	System development for wireless products
Singapore	IC, software and system development for wireline, wireless and industrial products, package development
Sophia Antipolis, France	IC development for wireless products, library development, CAD flow
Villach, Austria	IC development for power semiconductor products, mixed signal IC development for automotive and communication products
Xi'an, China	IC development for automotive and communication products
Qimonda:	
Burlington, Vermont, USA	Low power and mobile and consumer DRAMs
Dresden, Germany	DRAM technology, Flash technology and package technology development
Munich, Germany	Computing and graphic DRAMs, emerging memory research, Flash product development
Padua, Italy	Flash product development
Raleigh, North Carolina, USA	Product development for standard and specialty DRAM
Xi'an, China	Computing and legacy DRAMs

As of September 30, 2007, our research and development staff consisted of approximately 8,340 employees working in our R&D units throughout the world (including approximately 2,505 Qimonda employees), a net increase of approximately 595 from September 30, 2006 (including a net increase of approximately 750 Qimonda employees). We have given particular emphasis in recent years to the expansion of our R&D resources in cost-attractive locations with good access to lead markets and lead

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customers. We believe that appropriate utilization of skilled R&D personnel in lower-cost locations will improve our ability to maintain our technical position while controlling expenses.

Intellectual Property

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

At September 30, 2007, on a group-wide basis we owned more than 43,000 patent applications and granted patents (both referred to as “patents” below) in over 40 countries throughout the world, of which approximately 20,000 were held by Qimonda. These patents belong to approximately 14,000 “patent families” (each patent family containing all patents originating from the same invention), of which more than 6,000 were patent families held by Qimonda. At September 30, 2007, approximately 86 percent of our patent families included patents in Europe, approximately 72 percent included patents in the United States and approximately 34 percent included patents in Asia. We filed first patent applications for approximately 1,150 inventions during the 2007 fiscal year, of which approximately 430 related to the Qimonda business. National and regional patent offices examine whether our patent applications meet the necessary requirements. Owing to the complex nature of our patent applications this examination process typically takes several years until grant of a patent.

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

Our success depends in part on our ability to obtain patents, licenses and other intellectual property rights covering our products and their design and manufacturing processes. To that end, we have obtained many patents and patent licenses and intend to continue to seek patents on our developments. The process of seeking patent protection can be lengthy and expensive, and there can be no assurance that patents will be issued from currently pending or future applications or that, if patents are issued, they will be of sufficient scope or strength to provide us with meaningful protection or a commercial advantage. In addition, effective copyright and trade secret protection may be limited in some countries or even unavailable.

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

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Strategic Alliances

Infineon Logic Strategic Alliances

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

R&D in advanced process technology nodes for wafer manufacturing is a particular focus for multi-party alliances. During the 2007 fiscal year, we expanded our technology agreements with our alliance partners IBM, Chartered and Samsung (the "ICIS alliance") in this area and Freescale joined the ICIS alliance. Pooling of human and technological resources supports a high level of innovation coupled with mutual learning and fast feedback, which in turn increases efficiencies, improves economies of scale and reduces time to market for new products.

The current alliance agreement covers 32-nanometer bulk complementary metal oxide semiconductor ("CMOS") process technology and joint development of process design kits ("PDKs") to support product designs in those advanced technologies. Collaboration on design, development and manufacturing in advanced technologies has been committed through 2010.

The 90-nanometer, 65-nanometer and 45-nanometer technologies developed to date through this alliance will be used for a broad range of systems including, for example, next generation hand-held products. Future technologies are intended to solve real life problems in fields such as medicine, communications, transportation and security. Advanced technology nodes are intended to support energy efficient, high performance and cost conscious solutions.

Since advanced products include digital, analog, RF and embedded memory circuitry, it is important for Infineon to stay involved in leading edge technology development in order to be able to bridge the requirements for wafer manufacturing and optimum design. This need is independent of our manufacturing strategy, whether in house or outsourced.

Our principal advanced CMOS process technology development alliance is backed by appropriate contracts on CMOS manufacturing with Chartered, UMC, and IBM, amongst others.

In March 2007, we announced a strategic cooperation with Hyundai for the development of automotive electronics. We and Hyundai also opened a joint innovation center with the goal of developing automotive electronic system solutions for Hyundai and Kia vehicles. The cooperation includes the development of automotive electronics system architecture and related semiconductors, along with enhancements of Hyundai's current automotive electronic systems, based on the synergy of Hyundai's automotive electronics technology and our semiconductor know-how.

Qimonda Strategic Alliances

In order to achieve and maintain technological leadership in the DRAM market and to share start-up costs inherent in developing successive generations of memory products, we have entered into a number of strategic alliances over the years with selected partners for research and development and manufacturing activities in relation to memory products.

In November 2002, we entered into agreements with Nanya to establish a strategic cooperation in the development of DRAM products and to form Inotera, a joint venture to construct and operate a 300-millimeter manufacturing facility with two manufacturing modules in Taiwan. Under the terms of the initial development agreement, we have developed 90- and 75-nanometer DRAM technologies. In September 2005, we entered into another agreement with Nanya for the joint development of advanced 58-nanometer

production technologies for 300-millimeter wafers. The development is being conducted at Qimonda's R&D centers in Dresden and Munich.

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Qimonda also has a number of long-term strategic arrangements with leading industry participants to manufacture products. See “Business — Manufacturing — Qimonda Joint Ventures and Partnerships.”

Acquisitions and Dispositions

Reflecting our commitment to achieve profitability, we continued to dispose of non-core assets in the 2007 fiscal year. In addition, we also started to strengthen our businesses through selective acquisitions. The principal transactions completed in the 2007 fiscal year were as follows:

Sale of Sci-Worx GmbH (“Sci-Worx”)

In January 2007, we sold Sci-Worx, a multimedia consumer electronics and mobile telecommunications company in which we had acquired an initial majority stake in the 2000 fiscal year. On January 3, 2007, we sold all our shares in Sci-Worx to Silicon Image Inc. (“Silicon Image”). As a part of the transaction, we received approximately €11.9 million. The sale was a consequence of our efforts to streamline our R&D capabilities.

Sale of Polymer Optical Fiber (“POF”) Business

In March 2007, we and Avago Technologies Ltd. (“Avago”) entered into an agreement under which Avago acquired our POF business, based in Regensburg, Germany. The POF business is a provider of automotive multimedia infotainment networks and transceivers for safety systems and also provides transmitters and receivers for transportation switching and home broadband services. The transaction included all POF employees and was completed in June 2007. The sale was a consequence of our withdrawal from fiber optic activities.

Acquisition of Texas Instruments Inc.’s CPE DSL business

We acquired Texas Instruments Inc.’s (“TI”) CPE DSL business during July 2007. With this acquisition, we expect to become the leader in the ADSL market in terms of revenue share. This acquisition will enable us to combine our innovative broadband CPE roadmap with TI’s large DSL CPE deployment base at major carriers worldwide. We paid cash consideration of €45 million for the acquired business, which is subject to an upward or downward contingent consideration adjustment of up to $16 million, based on revenue targets of the CPE business during the nine months following the acquisition date.

Acquisition of Mobility Product Group of LSI

In August 2007, we entered into an agreement to acquire the mobility products business of LSI Corporation (“LSI”) for $450 million plus a contingent performance-based payment of up to $50 million. Through the first six months of 2007, LSI’s Mobility Products Group reported sales of approximately €150 million. LSI’s Mobility Products Group consists mainly of mobile radio baseband processors and platforms that complement our existing portfolio. We took on approximately 630 LSI employees as part of the transaction, which closed on October 24, 2007. This acquisition will strengthen our position with leading mobile phone customers, especially Samsung, and our R&D activities for mobile phone platform solutions.

Planned Sale of our interest in ALTIS Semiconductor S.N.C.

In August 2007, we and International Business Machines Corporation (“IBM”) signed an agreement in principle to divest our respective shares in ALTIS Semiconductor S.N.C., Essonnes, France (“ALTIS”) via a sale to Advanced Electronic Systems AG (“AES”). ALTIS, which has been our joint venture with IBM since 1999, manufactures semiconductor components for communication, automotive and security applications in 250-nanometer to 130-nanometer technologies at its manufacturing site in Essonnes, France. Under the terms of the agreement in principle, AES will purchase the equity, which includes the real estate and technology assets of ALTIS from us and IBM, and AES agreed to maintain the level of

industrial activity in ALTIS. Pursuant to the agreement, we will enter into a two-year supply contract with ALTIS and IBM and we

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will license certain manufacturing process technologies to AES for use in ALTIS. The agreement is subject to governmental and regulatory approval and works council consultation.

Sale of 40 percent of High Power Bipolar business

In September 2007, we entered into a joint venture agreement with Siemens AG ("Siemens"), whereby we would contribute all assets and liabilities of our high power bipolar business (including licenses, patents, and front-end and back-end production assets) into a newly formed legal entity called Infineon Technologies Bipolar GmbH & Co. KG ("Bipolar") and Siemens would acquire a 40 percent interest in Bipolar for €37 million. We and Siemens already had an ongoing technology cooperation, and this joint venture was a logical next step in that partnership to secure our international competitiveness in this area. The transaction closed in the first quarter of the 2008 fiscal year.

Employees

We employed a total of 43,079 employees as of September 30, 2007 (including 13,481 Qimonda employees). For a further description of our workforce by location and function over the past three years, see "Operating and Financial Review — Employees".

A significant percentage of our employees, especially in Germany, are covered by collective bargaining agreements determining remuneration, working hours and other conditions of employment, and are represented by works councils. Works councils are employee-elected bodies established at each location in Germany and also at the parent company-wide level (Infineon Technologies AG). Furthermore, works councils exist at our subsidiaries in Austria and France (including ALTIS). In Germany, works councils have extensive rights to notification and of codetermination in personnel, social and economic matters. Under the German Works Constitution Act ("*Betriebsverfassungsgesetz*"), the works councils must be notified in advance of any proposed employee termination, they must confirm hirings and relocations and similar matters, and they have a right to codetermine social matters such as work schedules and rules of conduct. Management considers its relations with the works councils to be good. The members of the senior management of Infineon Technologies AG are represented by a senior management committee ("*Sprecherausschuss*").

In October 2005, the relevant union organized a work stoppage in connection with our plans to shut down our Munich-Perlach facility. This work stoppage lasted one week and was ended following an agreement to financially compensate those employees whose contracts were not continued following the closing of this manufacturing facility in March 2007.

Other than this incident, we have not experienced any labor disputes resulting in major work stoppages in the last three fiscal years.

Legal Matters

Allocation of Litigation Exposure between Infineon and Qimonda

We are the subject of a number of governmental investigations and civil lawsuits that relate to the operations of our memory products business prior to the carve-out of Qimonda. Under the contribution agreement between us and Qimonda, Qimonda is required to indemnify us, in whole or in part as specified below, for any liability we incur in connection with the matters described below (other than the disputes with Dr. Schumacher and Wi-Lan).

All potential liabilities and risks in connection with legal matters existing as of the carve-out date are generally to be borne by the business unit which caused the risk or liability or wherein the risk or liability arose. Except to the limited extent described below for the securities class action litigation, Qimonda has agreed to indemnify us for all liabilities arising in connection with the legal matters specifically described below (other than the disputes with Dr. Schumacher and Wi-Lan), including court costs and legal fees. We will not settle or

otherwise agree to any of these liabilities without Qimonda's prior consent.

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Liabilities and risks relating to the securities class action litigation, including court costs, will be equally shared by us and Qimonda, but only with respect to the amount by which the total amount payable exceeds the amount of the corresponding accrual that we transferred to Qimonda. Any expenses incurred in connection with the assertion of claims against the provider of directors' and officers' ("D&O") insurance covering our two current or former officers named as defendants in the suit will also be equally shared. The D&O insurance provider has so far refused coverage.

Antitrust Matters

U.S. Department of Justice Investigation. In September 2004, we entered into a plea agreement with the Antitrust Division of the U.S. Department of Justice ("DOJ") in connection with its ongoing investigation into alleged antitrust violations in the DRAM industry. Pursuant to this plea agreement, we agreed to plead guilty to a single count of conspiring with other unspecified DRAM manufacturers to fix the prices of DRAM products between July 1, 1999 and June 15, 2002, and to pay a fine of $160 million. The fine plus accrued interest is being paid in equal annual installments through 2009. We have a continuing obligation to cooperate with the DOJ in its ongoing investigation of other participants in the DRAM industry. The price fixing charges related to DRAM sales to six Original Equipment Manufacturer ("OEM") customers that manufacture computers and servers. We have entered into settlement agreements with five of these OEM customers and are considering the possibility of a settlement with the remaining OEM customer, which purchased only a very small volume of DRAM products from us. We have secured individual settlements with eight direct customers in addition to those OEMs identified by the DOJ.

U.S. Civil Litigation. Subsequent to the commencement of the DOJ investigation, a number of putative class action lawsuits were filed against us, Infineon Technologies North America Corporation ("IF North America") and other DRAM suppliers.

Direct Purchaser Litigation. Sixteen cases were filed between June and September 2002 in several U.S. federal district courts, purporting to be on behalf of a class of individuals and entities who purchased DRAM directly from the various DRAM suppliers during a specified time period (the "Direct U.S. Purchaser Class"), alleging price-fixing in violation of the Sherman Act and seeking treble damages in unspecified amounts, costs, attorneys' fees, and an injunction against the allegedly unlawful conduct.

In September 2002, the Judicial Panel on Multi-District Litigation ordered that these federal cases be transferred to the U.S. District Court for the Northern District of California for coordinated or consolidated pre-trial proceedings as part of a Multi District Litigation ("MDL").

In September 2005, we and IF North America entered into a definitive settlement agreement with counsel to the Direct U.S. Purchaser Class (subject to approval by the U.S. District Court and to an opportunity for individual class members to opt out of the settlement). The settlement was approved on November 1, 2006. The court entered final judgment and dismissed the class action claims with prejudice in November 2006. Under the terms of the settlement agreement we agreed to pay approximately $21 million. In addition to this settlement payment, we agreed to pay an additional amount if it is proven that sales of DRAM products to the settlement class (after opt-outs) during the settlement period exceeded $208.1 million. The additional amount payable would be calculated by multiplying by 10.53 percent the amount by which those sales exceed $208.1 million. We do not currently expect to pay any additional amount to the class.

In April 2006, Unisys Corporation ("Unisys") filed a complaint against us and IF North America, among other DRAM suppliers, alleging state and federal claims for price fixing and seeking recovery as both a direct and indirect purchaser of DRAM. On May 5, 2006, Honeywell International, Inc. ("Honeywell") filed a complaint against us and IF North America, among other DRAM suppliers, alleging a claim for price fixing under federal law, and seeking recovery as a direct purchaser of DRAM. Both Unisys and Honeywell opted out of the Direct U.S. Purchaser Class and settlement, so their claims are not barred by our settlement with the Direct U.S. Purchaser Class. Both of these complaints were filed in the Northern District

of California and have been related to the MDL described above. In April 2007 the court dismissed the initial complaint with leave to amend. Unisys filed a First Amended Complaint in May 2007. We, IF North America, and the

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other defendants again filed a motion to dismiss certain portions of the Unisys First Amended Complaint in June 2007. After Honeywell had filed a stipulation of dismissal without prejudice of its lawsuit against Infineon, the court entered the dismissal order in April 2007.

In February and March 2007 four more opt-out cases were filed by All American Semiconductor, Inc., Edge Electronics, Inc., Jaco Electronics, Inc., and DRAM Claims Liquidation Trust, by its Trustee, Wells Fargo Bank, N.A. The All American Semiconductor complaint alleges claims for price-fixing under the Sherman Act. The Edge Electronics, Jaco Electronics and DRAM Claims Liquidation Trust complaints allege state and federal claims for price-fixing. All four cases were filed in the Northern District of California and have been related to the MDL described above. As with Unisys, the claims of these plaintiffs are not barred by our settlement with the Direct U.S. Purchaser Class, since they opted out of the Direct U.S. Purchaser Class and settlement.

Based upon the court's order dismissing portions of the initial Unisys complaint described above, the plaintiffs in all four of these opt-out cases filed amended complaints in May 2007. In June 2007, Infineon and IF North America answered the amended complaints filed by All American Semiconductor, Inc., Edge Electronics, Inc., and Jaco Electronics, Inc. and along with its co-defendants filed a joint motion to dismiss certain portions of the DRAM Claims Liquidation Trust amended complaint.

On October 15, 2007, the court entered an order denying the motions to dismiss in the Unisys and the DRAM Claims Liquidation Trust cases with prejudice. On October 29, 2007, we answered the Unisys complaint, denying liability and asserting a number of affirmative defenses. On November 1, 2007, we answered the DRAM Claims Liquidation Trust complaint, denying liability and asserting a number of affirmative defenses.

Indirect Purchaser Litigation. Sixty-four additional cases were filed between August and October 2005 in numerous federal and state courts throughout the United States. Each of these state and federal cases (except for one relating to foreign purchasers, which was subsequently dismissed with prejudice and as to which the plaintiffs have filed notice of appeal) purports to be on behalf of a class of individuals and entities who indirectly purchased DRAM in the United States during specified time periods commencing in or after 1999. The complaints variously allege violations of the Sherman Act, California's Cartwright Act, various other state laws, unfair competition law and unjust enrichment and seek treble damages in generally unspecified amounts, restitution, costs, attorneys' fees and injunctions against the allegedly unlawful conduct.

Twenty-three of the state and federal court cases were subsequently ordered transferred to the U.S. District Court for the Northern District of California for coordinated and consolidated pre-trial proceedings as part of the multi-district litigation described above. Nineteen of the twenty-three transferred cases are currently pending in the MDL litigation. The pending California state cases were coordinated and transferred to San Francisco County Superior Court for proceedings. The plaintiffs in the indirect purchaser cases outside California agreed to stay proceedings in those cases in favor of proceedings on the indirect purchaser cases pending as part of the MDL pre-trial proceedings. The defendants have filed two motions for judgment on the pleadings directed at several of the claims. Hearing on those motions took place in December 2006.

The court entered an order in June 2007 granting in part and denying in part the defendants' motions for judgment on the pleadings. The order dismissed a large percentage of the indirect purchaser plaintiffs' claims, and granted leave to amend with regard to claims under three specific state statutes. The court ruled that the indirect purchaser plaintiffs must file a motion for leave to amend the complaint with regard to any of the other dismissed claims. In June 2007, the indirect purchaser plaintiffs filed both a First Amended Complaint and a motion for leave to file a Second Amended Complaint that attempts to resurrect some of the claims that were dismissed. On August 17, 2007, the court entered an order granting the motion to file the Second Amended Complaint, which repleaded part of the previously dismissed claims.

State Investigations. In July 2006, the New York state attorney general filed an action

in the U.S. District Court for the Southern District of New York against us, IF North America and several other

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DRAM manufacturers on behalf of New York governmental entities and New York consumers who purchased products containing DRAM beginning in 1998. The plaintiffs allege violations of state and federal antitrust laws arising out of the same allegations of DRAM price-fixing and artificial price inflation practices discussed above, and seek recovery of actual and treble damages in unspecified amounts, penalties, costs (including attorneys' fees) and injunctive and other equitable relief. In October 2006, the New York case was made part of the MDL proceeding. In July 2006, the attorneys general of Alaska, Arizona, Arkansas, California, Colorado, Delaware, Florida, Hawaii, Idaho, Illinois, Iowa, Louisiana, Maryland, Massachusetts, Michigan, Minnesota, Mississippi, Nebraska, Nevada, New Mexico, North Dakota, Ohio, Oklahoma, Oregon, Pennsylvania, South Carolina, Tennessee, Texas, Utah, Vermont, Virginia, Washington, West Virginia and Wisconsin filed a lawsuit in the U.S. District Court for the Northern District of California against us, IF North America and several other DRAM manufacturers on behalf of governmental entities, consumers and businesses in each of those states who purchased products containing DRAM beginning in 1998. In September 2006, the complaint was amended to add claims by the attorneys general of Kentucky, Maine, New Hampshire, North Carolina, the Northern Mariana Islands and Rhode Island. This action is based on state and federal law claims relating to the same alleged anticompetitive practices in the sale of DRAM and plaintiffs seek recovery of actual and treble damages in unspecified amounts, penalties, costs (including attorneys' fees) and injunctive and other relief. In October 2006, we joined the other defendants in filing motions to dismiss several of the claims alleged in these two actions. On August 31, 2007, the court entered orders granting the motions in part and denying the motions in part. The court's order dismissed the claims on behalf of consumers, businesses and governmental entities in a number of states, and dismissed certain other claims with leave to amend, with any amended complaints to be filed by October 1, 2007. Between June 25 and August 15, 2007, the state attorneys general of four states, Alaska, Ohio, New Hampshire and Texas, filed requests for dismissal of their claims without prejudice.

European Commission Investigation. In April 2003, we received a request for information from the European Commission (the "Commission") to enable the Commission to assess the compatibility with the Commission's rules on competition of certain practices of which the Commission has become aware in the European market for DRAM products. In light of our plea agreement with the DOJ, we made an accrual during the 2004 fiscal year for an amount representing the probable minimum fine that may be imposed as a result of the Commission's investigation. Any fine actually imposed by the Commission may be significantly higher than the reserve established, although we cannot more accurately estimate the amount of the actual fine. We are fully cooperating with the Commission in its investigation.

Canadian Competition Bureau Investigation. In May 2004, the Canadian Competition Bureau advised IF North America that it, its affiliates and present and past directors, officers and employees are among the targets of a formal inquiry into an alleged conspiracy to prevent or lessen competition unduly in the production, manufacture, sale or supply of DRAM, contrary to the Canadian Competition Act. No formal steps (such as subpoenas) have been taken by the Competition Bureau to date. We are fully cooperating with the Canadian Competition Bureau in its inquiry.

Canadian Civil Litigation. Between December 2004 and February 2005 two putative class proceedings were filed in the Canadian province of Quebec, and one was filed in each of Ontario and British Columbia against us, IF North America and other DRAM manufacturers on behalf of all direct and indirect purchasers resident in Canada who purchased DRAM or products containing DRAM between July 1999 and June 2002, seeking damages, investigation and administration costs, as well as interest and legal costs. Plaintiffs primarily allege conspiracy to unduly restrain competition and to illegally fix the price of DRAM.

U.S. Securities Class Action. Between September and November 2004, seven securities class action complaints were filed against us and current or former officers in U.S. federal district courts, later consolidated in the Northern District of California, on behalf of a putative class of purchasers of our publicly-traded securities who purchased them during

the period from March 2000 to July 2004. The consolidated amended complaint alleges violations of the U.S. securities laws and asserts that the defendants made materially false and misleading public statements about our historical and projected

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financial results and competitive position because they did not disclose our alleged participation in DRAM price-fixing activities and that, by fixing the price of DRAM, defendants manipulated the price of our securities, thereby injuring our shareholders. The plaintiffs seek unspecified compensatory damages, interest, costs and attorneys' fees. In September 2006, the court dismissed the complaint with leave to amend. In October 2006, the plaintiffs filed a second amended complaint. In March 2007, pursuant to a stipulation agreed with the defendants, the plaintiffs withdrew the second amended complaint and were granted a motion for leave to file a third amended complaint. Plaintiffs filed a third amended complaint in July 2007. A hearing is scheduled for November 19, 2007.

Our directors' and officers' insurance carriers have denied coverage in the securities class action, and as a result we filed suit against the carriers in December 2005 and August 2006. Our claims against one D&O insurance carrier were finally dismissed in May 2007. The claim against the other insurance carrier is still pending.

Other matters

In April 2007, Lin Packaging Technologies, Ltd. ("Lin") filed a lawsuit against us, IF North America and an additional DRAM manufacturer in the U.S. District Court for the Eastern District of Texas, alleging that certain DRAM products infringe two Lin patents.

On October 31, 2007, Wi-LAN Inc. filed suit in the U.S. district court for the Eastern District of Texas against Westell Technologies, Inc. and 16 other defendants, including our company and Infineon Technologies North America Corp. The complaint alleges infringement of 3 U.S. patents by certain wireless products compliant with the IEEE 802.11 standards and certain ADSL products compliant with the ITU G.992 standards, in each case supplied by certain of the defendants.

At the end of March 2004, Dr. Ulrich Schumacher resigned his position as CEO and Chairman of our Management Board. Following his resignation, a cancellation agreement was signed in December 2004 that entitled Dr. Schumacher to a severance payment in the gross amount of €5.3 million, payable in two equal installments at the end of March and October 2005. The first installment was paid to Dr. Schumacher in accordance with the cancellation agreement.

During 2005, German public prosecutors started an investigation against the owner of a motor sport sponsoring agency with which we had a business relationship, Dr. Andreas von Zitzewitz, a former member of our Management Board, and others for bribery, corruption and other criminal offenses. When we became aware that the public prosecutors had also started an investigation against Dr. Schumacher in connection with our former motor sport sponsoring activities, we decided to withhold the second installment of Dr. Schumacher's severance payment. Based on further facts that came to light during the course of subsequent internal investigations, we decided to terminate the cancellation agreement with Dr. Schumacher. In December 2005, Dr. Schumacher filed a lawsuit against us for the payment of the second installment under the cancellation agreement. In September 2006, a court ruled that Dr. Schumacher was entitled to receive the second installment. In October 2006, we filed an appeal and sought other judicial remedies against the judgment. In February 2007, the appellate court overruled and revoked the previous judgment of the court from September 2006 and rejected the original claim of Dr. Schumacher.

In addition, in March 2006, Dr. Schumacher filed a lawsuit against us alleging that three statements made by the Chairman of our Supervisory Board in the media were incorrect and applying for a declaratory judgment that Dr. Schumacher was entitled to damages. That lawsuit is still pending.

Accruals and the Potential Effect of these Lawsuits on Our Business

Liabilities related to legal proceedings are recorded when it is probable that a liability has been incurred and the associated amount can be reasonably estimated. Where the estimated amount of loss is within a range of amounts and no amount within the range is a better estimate than any other amount, the minimum amount is accrued. As of

September 30, 2007, we had accrued liabilities in the amount of €95 million related to the DOJ and European antitrust investigations and the direct and indirect purchaser

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litigation and settlements described above, as well as for legal expenses for the DOJ and securities class action complaints.

As additional information becomes available, the potential liability related to these matters will be reassessed and the estimates revised, if necessary. These accrued liabilities would be subject to change in the future based on new developments in each matter, or changes in circumstances, which could have a material adverse effect on our financial condition and results of operations.

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

Other

We are subject to various other lawsuits, legal actions, claims and proceedings related to products, patents and other matters incidental to our businesses. We have accrued a liability for the estimated costs of adjudication or settlement of various asserted and unasserted claims existing as of the balance sheet date. Based upon information presently known to management, we do not believe that the ultimate resolution of such other pending matters will have a material adverse effect on our financial position, although the final resolution of such matters could have a material adverse effect on our results of operations or cash flows in the period of settlement.

Environmental Protection and Sustainable Management

In 2005, we instituted IMPRES — the Infineon Integrated Management Program for Environment, Safety and Health. IMPRES is a dynamic framework integrating our safety, health, and environmental protection processes, strategy, and objectives, using high standards and at a global scale. IMPRES fulfills the requirements of OHSAS 18001 and EN ISO 14001, while enabling synergies throughout our company.

IMPRES is designed to minimize or eliminate the possible negative impact of our manufacturing processes on the environment, our employees and third parties. Most of our production sites worldwide are already included in our multi-site certification according to EN ISO 14001 and OHSAS 18001.

Hazardous substances or materials are to a certain extent necessary in the production of semiconductors. However, most of our processes are carried out in closed loops and systems that eliminate the impact of hazardous substances or materials on our employees' health and the environment. We regularly test and monitor employees whose work may expose them to hazardous substances or materials, in order to detect any potential health risks and to take appropriate remedial measures by an early diagnosis. As part of IMPRES, we train our employees in the proper handling of hazardous substances.

Where we are not able to eliminate adverse environmental impact entirely, we aim to minimize the impact. For example, we need to utilize PFCs (perfluorinated compounds) as etching agents in the production of semiconductors. As early as 1992, we started to install exhaust air filter systems to reduce PFC emissions. We are signatories to the Memorandum of Agreement, a voluntary commitment by the European Semiconductor Industry, and also to the Memorandum of Understanding (in the United States of America) both of which have the goal of reducing overall PFC emissions by 2010 by approximately 10 percent from the emission level of 1995, calculated in CO_2 equivalents. We have signed a similar commitment

for Germany, with a normalized target of 8 percent emission reduction on basis of CO_2 equivalents.

We believe that we are in substantial compliance with environmental as well as health and safety laws and regulations. There is, nevertheless, a risk that we may become the subject of environmental, health or

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safety liabilities or litigation. Environmental, health, and safety claims or the failure to comply with current or future regulations could result in the assessment of damages or imposition of fines against us, suspension of production or a cessation of operations. Significant financial reserves or additional compliance expenditures could be required in the future due to changes in law or new information regarding environmental conditions or other events, and those expenditures could adversely affect our business or financial condition.

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

Since July 1, 2006, another relevant European Commission Directive, 2002/95/EC, has restricted the use of lead and other hazardous substances in electrical and electronic equipment. Because of this directive ongoing compliance expenditures could be required in the future.

Directive 2005/32/EC on the eco-design of Energy-using Products (“EuP”) establishes ecologically sound development for electrical and electronic devices. It also provides for the possibility that manufacturers of components and sub-assemblies may be subject to specific information requirements regarding environmentally relevant product characteristics. Because the Directive defines conditions and criteria for setting such requirements through subsequent implementing measures, but does not introduce directly binding requirements for specific products, the consequences for our company cannot currently be determined in detail. As a result, we are not able at this time to estimate the amount of additional costs that we may incur in connection with this legislation.

A European Union regulatory framework for chemicals, called REACH, dealing with the registration, evaluation, authorization and restriction of chemicals, became effective on June 1, 2007. Subsequent obligations will become effective in stages over the next few years. This regulation could have a considerable impact not only on producers and importers of chemical substances, but also on downstream users like the semiconductor industry. The availability of chemical substances could be significantly reduced in the European Union, which could have a negative impact on our production as well as research and development activities. We are in close contact with our suppliers and consider ourselves prepared according to the current status of REACH obligations. However, we cannot exclude the possibility of significant future costs in connection with this regulation.

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

The Chinese government restricts the use of lead and other hazardous substances in electronic products. Because not all implementing measures nor the key product catalog are in place, the consequences to us cannot currently be determined. As a result, we are not able to estimate the impact, including the additional costs, in connection with these regulations.

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

Because the damage and loss caused by fire, natural hazards, supply shortage, or other disturbance at a semiconductor facility can be severe, we have constructed and operate our facilities in ways that minimize the specific risks and that enable a quick response if such an

event should occur. We expect to continue to invest in prevention and response measures at our facilities.

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

Real Estate

We own approximately 2.5 million square meters of land and approximately 1.1 million square meters of building space, including at our facilities at Cegléd (Hungary), Dresden (Germany), Essonnes (France), Horten (Norway), Munich (Germany), Regensburg (Germany), Villach (Austria), Warstein (Germany) and Wuxi (China). This includes approximately 1.2 million square meters of land and 370,000 square meters of building space for Qimonda facilities at Dresden (Germany), Porto (Portugal), Richmond (Virginia, USA) and Suzhou (China).

In addition, we have long-term rental and lease arrangements covering approximately 1.2 million square meters of land at our facilities at Batam (Indonesia), Kulim (Malaysia), Malacca (Malaysia), Munich (Germany), Singapore (Singapore) and Suzhou (China), and approximately 460,000 square meters of building space in various locations in Asia/Pacific, Europe and North America. This includes approximately 0.3 million square meters of land and 86,000 square meters of building space for Qimonda facilities. We believe that these properties are rented or leased on ordinary market terms and conditions.

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MANAGEMENT

Supervisory Board Members

The current members of our Supervisory Board, the Supervisory Board position held by them, their occupation, their principal external positions and their ages are as follows:

Name	Age	Term expires	Occupation	Membership of other Supervisory Boards and comparable governing bodies of domestic and foreign companies during the fiscal year ended September 30, 2007
Max Dietrich Kley *Chairman*	67	2010	Lawyer	Chairman of the Supervisory Board of SGL Carbon AG, Wiesbaden Member of the Supervisory Board of BASF AG, Ludwigshafen HeidelbergCement AG, Heidelberg Schott AG, Mainz Member of the Board of Directors of UniCredito Italiano S.p.A., Milan, Italy
Gerd Schmidt[1] Deputy Chairman *(since February 15, 2007)*	53	2009	Chairman of the Infineon Central Works Council Chairman of the Infineon Works Council, Regensburg	
Wigand Cramer[1]	54	2009	Labor union clerk IG Metall, Berlin	
Alfred Eibl[1]	58	2009	Chairman of the Infineon Works Council, Munich-Campeon (since November 8, 2006)	
Prof. Johannes Feldmayer	51	2010	Member of the Corporate Executive Committee of Siemens AG, Munich (until September 30, 2007)	Member of the Supervisory Board of Exxon Mobil Central Europe Holding GmbH, Hamburg Until May 24, 2007: Chairman of the Board of Administration of Siemens A.E., Athens, Greece Chairman of the Supervisory Board of Siemens Rt., Budapest, Hungary Siemens Sp. zo.o., Warsaw, Poland Chairman of shareholders' representatives committee of Siemens s.r.o., Prague, Czech Republic Deputy Chairman of the Board of Administration of Siemens S.A., Madrid, Spain Siemens S.p.A., Milan, Italy Siemens Schweiz AG, Zurich, Switzerland Member of the Board of Administration of Siemens France S.A., Saint-Denis, France Siemens A.S., Istanbul, Turkey Siemens A.S., Copenhagen, Denmark Siemens A.S., Oslo, Norway (from October 1, 2006) Member of the Supervisory Board of Siemens Holdings plc, Bracknell, Great Britain Siemens AB, Stockholm, Sweden Siemens AG, Vienna, Austria

Siemens Nederland N.V., Den Haag,
The Netherlands (from October 1, 2006)

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Name	Age	Term expires	Occupation	Membership of other Supervisory Boards and comparable governing bodies of domestic and foreign companies during the fiscal year ended September 30, 2007
Jakob Hauser[1]	55	2009	Chairman of the Works Council Qimonda AG, Munich	
Gerhard Hobbach[1] *(since February 15, 2007)*	45	2009	Deputy Chairman of the Infineon Works Council, Munich-Campeon	
Prof. Dr. Renate Köcher	55	2010	Managing Director of Institut für Demoskopie Allensbach GmbH, Allensbach	Member of the Supervisory Board of Allianz SE, Munich BASF AG, Ludwigshafen MAN AG, Munich
Dr. Siegfried Luther	63	2010	Managing Director of Reinhard Mohn Verwaltungs GmbH, Gütersloh	Member of the Supervisory Board of Druck- und Verlagshaus Gruner & Jahr AG, Hamburg (until August 28, 2007) WestLB AG, Duesseldorf/Muenster Wintershall Holding AG, Kassel (since November 21, 2006) Chairman of the Board of Administration of RTL Group S.A., Luxembourg Member of the Board of Administration of Compagnie Nationale à Portefeuille S.A., Loverval, Belgium (since April 19, 2007)
Michael Ruth[1] *Representative of Senior Management*	47	2009	Corporate Vice President Reporting, Planning and Controlling, Infineon Technologies AG	
Prof. Dr. rer. nat. Doris Schmitt-Landsiedel	54	2010	Professor at the Munich Technical University, Munich	
Kerstin Schulzendorf[1]	45	2009	Member of the Works Council Infineon Dresden	
Dr. Eckart Sünner *(since August 2, 2007)*	63	2010	President Legal, Taxes & Insurance BASF AG, Ludwigshafen	Chairman of the Supervisory Board of Lucura Rückversicherungs AG, Ludwigshafen Member of the Supervisory Board of K+S AG, Kassel Member of the Board of Directors of BASF Corporation, Florham Park, New Jersey, USA
Alexander Trüby[1]	37	2009	Member of the Works Council Infineon Dresden	

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Name	Age	Term expires	Occupation	Membership of other Supervisory Boards and comparable governing bodies of domestic and foreign companies during the fiscal year ended September 30, 2007
Prof. Dr. rer. nat. Martin Winterkorn	60	2010	Chairman of the Management Board of Audi AG, Ingolstadt (until December 31, 2006) Volkswagen AG, Wolfsburg (since January 1, 2007)	Chairman of the Supervisory Board of Audi AG, Ingolstadt (since January 1, 2007) Member of the Supervisory Board of Salzgitter AG, Salzgitter FC Bayern München AG, Munich TÜV Süddeutschland Holding AG, Munich Chairman of the Board of Administration of SEAT S.A., Barcelona, Spain (until June 14, 2007) Automobili Lamborghini Holding S.p.A., Sant'Agata Bolognese, Bologna, Italy (until February 12, 2007) Member of the Board of Administration of SEAT S.A., Barcelona, Spain (since June 14, 2007)
Prof. Dr.-Ing. Dr.-Ing. E.h. Klaus Wucherer	63	2010	Member of the Corporate Executive Committee of Siemens AG, Munich	Member of the Supervisory Board of Deutsche Messe AG, Hanover BSH Bosch und Siemens Hausgeräte GmbH, Munich Leoni AG, Nuremberg (since May 3, 2007) SAP AG, Walldorf (since May 10, 2007) Chairman of the Board of Administration of Siemens Ltd., Beijing, People's Republic of China Siemens K.K., Tokyo, Japan (until February 26, 2007) Siemens S.A., Lisbon, Portugal Siemens Ltd., Mumbai, India
Klaus Luschtinetz[1] *Deputy Chairman (resigned February 15, 2007)*	64	2007	Employee of Infineon Technologies AG	
Dr. Stefan Jentzsch *(resigned August 2, 2007)*	46	2007	Member of the Management Board of Dresdner Bank AG, Frankfurt	Member of the Supervisory Board of Premiere AG, Munich

[1] Employee representative.

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The Supervisory Board maintains the following Principal Committees:

Committee	Members
Executive Committee	Max Dietrich Kley Klaus Luschtinetz (resigned February 15, 2007) Gerd Schmidt (since February 15, 2007) Prof. Dr. rer. nat. Martin Winterkorn
Investment, Finance and Audit Committee	Max Dietrich Kley Dr. Siegfried Luther Klaus Luschtinetz (resigned February 15, 2007) Gerd Schmidt (since February 15, 2007)
Mediation Committee	Max Dietrich Kley Klaus Luschtinetz (resigned February 15, 2007) Gerd Schmidt (since February 15, 2007) Alexander Trüby Prof. Dr. rer. nat. Martin Winterkorn
Nomination Committee	Max Dietrich Kley Prof. Johannes Feldmayer Prof. Dr. Renate Köcher Dr. Siegfried Luther Prof. Dr. rer. nat. Doris Schmitt-Landsiedel Dr. Eckart Sünner Prof. Dr. rer. nat. Martin Winterkorn Prof. Dr.-Ing. Dr.-Ing. E.h. Klaus Wucherer
Strategy and Technology Committee	Alfred Eibl Jakob Hauser Alexander Trüby Prof. Dr. rer. nat. Doris Schmitt-Landsiedel Prof. Dr. rer. nat. Martin Winterkorn Prof. Dr.-Ing. Dr.-Ing. E.h. Klaus Wucherer

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Management Board Members

The current members of our Management Board, their positions and their ages are as follows:

Name	Age	Term expires	Position	Memberships of Supervisory Boards and comparable governing bodies of domestic and foreign companies during the fiscal year ended September 30, 2007
Dr. Wolfgang Ziebart	57	August 31, 2009	Chairman of the Management Board, President and Chief Executive Officer	Member of the Board of Directors of Infineon Technologies China Co., Ltd., Shanghai, People's Republic of China Infineon Technologies Asia Pacific Pte., Ltd., Singapore Infineon Technologies Japan K.K., Tokyo, Japan Infineon Technologies North America Corp., Wilmington, Delaware, USA
Peter Bauer	47	September 30, 2008	Member of the Management Board and Executive Vice President	Member of the Supervisory Board of Infineon Technologies Austria AG, Villach, Austria (from April 30, 2007 until June 1, 2007, Chairman)
Prof. Dr. Hermann Eul	48	August 31, 2012	Member of the Management Board and Executive Vice President	Member of the Supervisory Board of 7Layers AG, Ratingen
Peter J. Fischl *(resigned April 30, 2007; reappointed as of August 7, 2007)*	61	March 31, 2008	Member of the Management Board, Executive Vice President and Chief Financial Officer	Chairman of the Supervisory Board of Qimonda AG, Munich Infineon Technologies Austria AG, Villach, Austria (until April 30, 2007) Member of the Board of Directors of Infineon Technologies Asia Pacific Pte., Ltd., Singapore (until May 1, 2007; reappointed September 10, 2007) Infineon Technologies China Co., Ltd., Shanghai, People's Republic of China (until May 1, 2007; reappointed August 22, 2007) Infineon Technologies North America Corp., Wilmington, Delaware, USA (until May 1, 2007; reappointed August 6, 2007) Infineon Technologies Japan K.K., Tokyo, Japan (until May 1, 2007)
Dr. Reinhard Ploss *(since June 1, 2007)*	51	May 31, 2012	Member of the Management Board and Executive Vice President	Chairman of the Supervisory Board of Infineon Technologies Austria AG, Villach, Austria (since June 1, 2007) Member of the Board of Directors of Infineon Technologies (Kulim) Sdn. Bhd., Kulim, Malaysia Chairman of the Executive Board of Infineon Technologies Austria AG, Villach, Austria (until May 31, 2007)

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Name	Age	Term expires	Position	Memberships of Supervisory Boards and comparable governing bodies of domestic and foreign companies during the fiscal year ended September 30, 2007
Resigned Members of the Management Board				
Rüdiger Andreas Günther *(from April 1, 2007 until August 6, 2007)*	49		Member of the Management Board, Executive Vice President (from May 1, 2007 until August 6, 2007, Chief Financial Officer)	Member of the Supervisory Board of Infineon Technologies Austria AG, Villach, Austria (from May 16, 2007 until August 22, 2007) Member of the Board of Directors of Infineon Technologies Asia Pacific Pte., Ltd., Singapore (from May 22, 2007 until August 23, 2007) Infineon Technologies China Co., Ltd., Shanghai, People's Republic of China (from May 18, 2007 until August 22, 2007) Infineon Technologies North America Corp., Wilmington, Delaware, USA (from May 1, 2007 until August 6, 2007) Infineon Technologies Japan K.K., Tokyo, Japan (from May 15, 2007 until August 27, 2007)

Dr. Wolfgang Ziebart has been our Chairman, President and Chief Executive Officer since September 2004. Before that, he was deputy chairman of the Management Board of Continental AG, an automotive supplier, and head of its Automotive Systems Division, focusing on automotive electronics and electronic brake systems. Previously, until 1999, he was a member of the Management Board of automobile manufacturer BMW, where he started his professional career in 1977 and held a number of different positions, including responsibility for the development of electronics. Dr. Ziebart holds a degree in engineering and received his Ph.D. in engineering from the Munich Technical University.

Peter Bauer has been our Executive Vice President and Chief Sales and Marketing Officer since the inception of our company in April 1999. Since January 2005 he has served as the Head of the Automotive, Industrial & Multimarket Segment and of Central Sales Functions. He was President and Chief Executive Officer of Siemens Microelectronics, Inc. from 1998 to April 1999. From 1997 to 1999, Mr. Bauer was also President, Sales and Solution Centers for Siemens Semiconductor Group. Mr. Bauer began his career with Siemens Semiconductor Group in 1986 as a development engineer. Mr. Bauer holds a degree in electrical engineering from the Munich Technical University.

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

Peter J. Fischl was our Executive Vice President and Chief Financial Officer from the inception of our company in April 1999 to April 2007. Mr. Fischl re-assumed office on August 7, 2007 for an interim period ending March 31, 2008. Since May 2006, he has also served as the Chairman of the Supervisory Board of our majority-owned subsidiary Qimonda AG, which has been listed on the New York Stock Exchange since August 2006. From October 1996 to March 1999, Mr. Fischl served as Executive Vice President and Chief

Financial Officer of Siemens Semiconductor Group. From 1995 to 1996, Mr. Fischl was General Manager and Vice President of Siemens Mobile Network Division. Prior to that, he was Vice President, Finance and

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Business Administration at other Siemens divisions. He started working at Siemens Telecommunications Group in 1971 as a project manager.

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

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

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

Overview of Corporate Governance Structure

In accordance with the German Stock Corporation Act *(Aktiengesetz)*, our company has a Supervisory Board and a Management Board. The two boards are separate and no individual may simultaneously exercise functions or serve as a member of both boards. The Management Board is responsible for managing our business in accordance with applicable laws, our Articles of Association and the rules of procedure of the Management Board. It represents us in our dealings with third parties. The Supervisory Board appoints and removes the members of the Management Board and oversees the management of our company but is not permitted to make management decisions.

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

The Supervisory Board has comprehensive monitoring functions. To ensure that these functions are carried out properly, the Management Board must, among other things, regularly report to the Supervisory Board with regard to current business operations and future business planning. The Supervisory Board is also entitled to request special reports at any time. The Management Board is required to ensure appropriate risk management within our company and must establish an internal monitoring system.

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

Supervisory Board

Our Supervisory Board consists of 16 members. The shareholders, by a majority of the votes cast in a general meeting, elect eight members and the employees elect the remaining eight members. Among the eight employee representatives on the Supervisory Board is one member from the ranks of the executive employees (*Leitende Angestellte*), five members are from the ranks of the employees (excluding executive employees) and two representatives are of the trade unions represented in the Infineon group in Germany. Seven shareholder

representatives on the Supervisory Board were elected at the general shareholders'

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meeting held on January 25, 2005, one was elected at the general shareholders' meeting held on February 16, 2006. The term of all shareholder representatives ends with the annual general meeting to be held in 2010. Seven of the employee representatives on the Supervisory Board took office on January 20, 2004, one trade union representative was appointed by the lower district court of Munich on April 20, 2006. The term of all employee representatives ends with the annual general meeting to be held in 2009.

The shareholders, by a majority of the votes cast at a general meeting, may remove any member of the Supervisory Board they have elected at a general meeting. The employee representatives may be removed by those employees that elected them by a vote of three-quarters of the votes cast. The Supervisory Board elects a chairman and a deputy chairman from among its members. If no candidate is elected by a vote of two-thirds of the members of the Supervisory Board, the shareholder representatives elect the chairman and the employee representatives elect a deputy chairman. The Supervisory Board normally acts by simple majority vote, with the chairman having a deciding vote in the event of a deadlock in a second vote on the same matter.

The Supervisory Board meets at least once a quarter. Its main functions are:

- to monitor our management;
- to appoint our Management Board;
- to approve decisions of our Management Board in relation to the following:
  - financial and investment planning, including both budgets and the establishment of limits for financial indebtedness;
  - any investment or disposition that exceeds 10 percent of our total investment budget; and
  - the taking of any financial risk vis-à-vis third parties in an amount exceeding 5 percent of our share capital plus capital reserves.
- to approve matters in areas that the Supervisory Board has made generally subject to its approval; and
- to approve matters that the Supervisory Board decides on a case-by-case basis to make subject to its approval.

Our Supervisory Board has established an Investment, Finance and Audit Committee, comprising the chairman of the Supervisory Board and two other members of the Supervisory Board, one of whom is elected from the shareholder representatives and the other from the employee representatives on the Supervisory Board. The Investment, Finance and Audit Committee carries out the functions normally carried out by the audit committee of a U.S. company including, among other duties:

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

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

and Audit Committee require a simple majority.

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According to German law, the shareholders may determine the term of each shareholder-elected member of the Supervisory Board. The maximum term of office of shareholder-elected Supervisory Board members expires at the end of shareholders' general meeting in which the shareholders discharge the Supervisory Board members for the fourth fiscal year after the start of their term as a Supervisory Board member.

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

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

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

Management Board

Our Management Board currently consists of five members. Under our Articles of Association, our Supervisory Board determines the Management Board's size, although it must have at least two members.

Under our Articles of Association and German law, the Management Board adopts rules of procedure for the conduct of its affairs, and may amend them at any time. The adoption and amendment of these rules require the unanimous vote of the Management Board and the consent of the Supervisory Board. The Supervisory Board may, however, decide to adopt rules of procedure for the Management Board instead.

Our Management Board has adopted rules of procedure. Our Supervisory Board approved these rules and resolved that the following decisions of the Management Board require the consent of the Supervisory Board:

- Decisions relating to financial and investment planning, including both budgets and the establishment of limits for financial indebtedness;
- Decisions relating to any investment or disposition that exceeds 10 percent of our total investment budget; and
- Decisions relating to the taking of any financial risk vis-à-vis third parties in an amount exceeding 5 percent of our share capital plus capital reserves.

In addition, the rules of procedure provide that the chairman of the Management Board must notify the chairman of the Supervisory Board of any pending matter that is significant. The chairman of the Supervisory Board must, at the next meeting of the Supervisory Board, notify the other members of the Supervisory Board of such matter, and the Supervisory Board may, on a case-by-case basis, designate such matter as one requiring Supervisory Board approval.

The Management Board members are jointly responsible for all management matters and pursuant to the current rules of procedure must jointly decide on a number of issues, including:

- the annual financial statements;
- the calling of the shareholders' general meeting;
- matters for which the consent of the shareholders' general meeting or of the Supervisory Board must be obtained; and
- matters involving basic organizational, business policy and investment and financial planning questions for our company.

The rules of procedure provide that the Management Board take action by unanimous vote.

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The chairman of the Management Board must propose a plan that allocates responsibilities among the Management Board members and must obtain the consent of the Supervisory Board without delay once the Management Board has adopted the plan. This consent has been obtained.

The Supervisory Board appoints the members of the Management Board for a maximum term of five years. Members of the Management Board may be reappointed or have their term extended for one or more terms of up to five years each. The Supervisory Board may remove a member of the Management Board prior to expiration of such member's term for good cause, for example, in the case of a serious breach of duty or a bona fide vote of no confidence by the shareholders' general meeting. A member of the Management Board may not deal with, or vote on, matters that relate to proposals, arrangements or contracts between such member and our company.

Significant Differences between our Corporate Governance Practices and those of U.S. Companies Listed on the New York Stock Exchange

A brief, general summary of the significant differences between our corporate governance practices under German law and the practices applicable to U.S. companies listed on the New York Stock Exchange is available in the corporate governance section of our website, www.infineon.com.

Compensation

In compliance with legal requirements and the recommendations of the German Corporate Governance Code as amended on June 14, 2007, this report provides information on the principles for determining the compensation of the Management Board and Supervisory Board of Infineon Technologies AG and the amount of compensation paid to the individual members of the Management Board and Supervisory Board.

Compensation of the Management Board

Compensation structure

The Executive Committee of the Supervisory Board, which includes the chairman of the Supervisory Board Max Dietrich Kley, the deputy chairman of the board Gerd Schmidt, and board member Prof. Dr. Martin Winterkorn, is responsible for determining the compensation of the Management Board. The compensation of the members of the Management Board is intended to reflect the company's size and global presence, its economic condition and performance, and the level and structure of the compensation paid to management boards of comparable companies within Germany and abroad. Additional factors taken into account are the duties and responsibilities as well as the contributions of each member of the Management Board. Their compensation complies with the stipulations of Section 87 of the German Stock Corporation Act and is calculated to be competitive both nationally and internationally and thus to provide an incentive for dedicated and successful work within a dynamic environment. The level of compensation is reevaluated every two years, taking into account an analysis of the income paid to executives of comparable companies.

The compensation of the Management Board comprises the following elements:

- ***Fixed annual base salary.*** The non-performance-related annual base salary is contractually fixed. It is partly paid in 12 equal monthly installments, and partly paid as a lump sum at the end of each fiscal year (in the following referred to as "Annual Lump Sum").
- ***Performance-related compensation.*** The annual bonus is dependent on the return on assets, which we define as earnings before interest and taxes (EBIT) adjusted for exceptional effects, in proportion to capital employed. This ensures that a bonus is earned only if the business develops positively. The annual bonus is determined by the Executive Committee in a two-phase process. In a first step, a target bonus

amount is determined on the basis on the return on assets. The Executive Committee subsequently evaluates the personal performance of each individual board member over the past fiscal year, and then determines the actual bonus amount. In addition to the

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bonus dependent on the return on assets, Management Board contracts provide for a possible special bonus awarded in recognition of special business achievements.

- ***Infineon Technologies AG stock options.*** Management Board members are eligible to receive stock options under the 2006 Stock Option Plan approved by the Infineon Technologies AG Shareholders' Annual General Meeting on February 16, 2006, as a variable compensation element with a long-term incentive effect and a risk character. Each stock option guarantees the right to acquire one share at a fixed exercise price. The options are valid for six years and may be exercised only after an initial waiting period of three years and not during specified black-out periods. The exercise price at which a share may be acquired upon exercise of an option is equal to 120 percent of the average Infineon opening prices on the Frankfurt Stock Exchange in the XETRA trading system over the five trading days preceding the date that the option is granted. The exercise of the options is dependent on the attainment of absolute and relative performance targets. The precondition for the exercise of the option rights is that the Infineon share price on the Frankfurt Stock Exchange in the XETRA trading system equals or exceeds the exercise price on at least one trading day during the option life. Furthermore, the options can only be exercised if the Infineon share price exceeds the performance of the comparative index Philadelphia Semiconductor Index for three consecutive days on at least one occasion during the life of the option. These absolute and relative performance targets serve to ensure that the options are only exercised if the value of the company significantly increases. The Supervisory Board is responsible for all decisions on granting options to members of the Management Board. The fair value of the options granted during the 2007 fiscal year was €2.03 per option, determined according to the Monte Carlo simulation model. The main provisions of our 2006 stock option plan are described in note 28 to our consolidated financial statements for the year ended September 30, 2007, and are available in full text on the Internet at www.infineon.com.

Compensation of the Management Board in the 2007 fiscal year

In the 2007 fiscal year, the active members of the Management Board received a total cash compensation of €5,349,206 (previous year[1]: €4,391,438). No performance-related bonuses were paid for the 2007 fiscal year. The total compensation amounts to €6,465,706 (previous year[2]: €5,667,438). This includes stock options with a fair value of €1,116,500 (previous year: €1,276,000), which were granted to the Management Board members pursuant to the 2006 stock option plan.

The individual members of the Management Board who were active in the 2007 fiscal year received the following compensation (gross without statutory deductions)[3]:

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Overview of the total compensation

Management Board	Fiscal year	Cash compensation in €	Stock-based compensation in €	Total compensation in €[4]
Dr. Wolfgang Ziebart (Chairman)	2007	1,636,828	406,000	2,042,828
	2006	1,735,563	510,400	2,245,963
Peter Bauer	2007	920,146	203,000	1,123,146
	2006	916,438	255,200	1,171,638
Prof. Dr. Hermann Eul	2007	729,815	203,000	932,815
	2006	709,058	255,200	964,258
Peter J. Fischl	2007	1,027,130	304,500	1,331,630
	2006	1,030,379	255,200	1,285,579
Rüdiger A. Günther	2007	799,628	—	799,628
	2006	—	—	—
Dr. Reinhard Ploss	2007	235,659	—	235,659
	2006	—	—	—
Total	**2007**	**5,349,206**	**1,116,500**	**6,465,706**
	2006	**4,391,438**	**1,276,000**	**5,667,438**

(1) This amount includes the Annual Lump Sum for the 2006 fiscal year paid in October 2006.

(2) This amount includes the Annual Lump Sum for the 2006 fiscal year paid in October 2006 and the fair value of the stock options granted in the 2006 fiscal year.

(3) Each in accordance with the duration of the respective Management Board service contract during the 2007 fiscal year.

(4) This amount includes the fair value of the stock options granted in the respective fiscal year.

Cash compensation

The cash compensation listed in the overview above comprises the following elements (in €):

		Non-performance-related compensation			Performance-related compensation	
		Annual Base Salary				
Management Board	Fiscal year	Amount paid in 12 monthly installments	Annual lump sum[2]	Other[1]	Bonus	Total cash compensation
Dr. Wolfgang Ziebart (Chairman)	2007	800,000	800,000	36,828	—	1,636,828
	2006	800,000	800,000	35,563	100,000	1,735,563
Peter Bauer	2007	367,500	532,500	20,146	—	920,146
	2006	360,000	540,000	16,438	—	916,438
Prof. Dr. Hermann Eul	2007	358,333	358,333	13,149	—	729,815
	2006	350,000	350,000	9,058	—	709,058
Peter J. Fischl	2007	400,000	600,000	27,130	—	1,027,130
	2006	400,000	600,000	30,379	—	1,030,379
Rüdiger A. Günther	2007	325,000	425,000[3]	49,628	—	799,628
	2006	—	—	—	—	—
Dr. Reinhard Ploss	2007	116,667	116,667	2,325	—	235,659
	2006	—	—	—	—	—
Total	**2007**	**2,367,500**	**2,832,500**	**149,206**	**—**	**5,349,206**
	2006	**1,910,000**	**2,290,000**	**91,438**	**100,000**	**4,391,438**

(1) The compensation included under "Other" comprises primarily the monetary value of the provision of a company car and insurance contributions, and, in the case of Mr. Günther, the repayment of relocation expenses.

(2) This amount includes the Annual Lump Sum for the 2006 and 2007 fiscal years to be paid in the subsequent fiscal year before the preparation of the prior year consolidated financial statements.

(3) This amount comprises the Annual Lump Sum (pro rata) as well as a guaranteed bonus in the amount of €100,000.

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Stock-based compensation

The stock-based compensation listed in the overview above reflects the following stock options granted in the 2007 fiscal year to members of the Management Board pursuant to the 2006 Stock Option Plan:

Management Board	Fiscal Year	Stock options granted in the 2007 fiscal year[1]	Fair value at grant date in €
Dr. Wolfgang Ziebart (Chairman)	2007	200,000	406,000
	2006	160,000	510,400
Peter Bauer	2007	100,000	203,000
	2006	80,000	255,200
Prof. Dr. Hermann Eul	2007	100,000	203,000
	2006	80,000	255,200
Peter J. Fischl	2007	150,000	304,500
	2006	80,000	255,200
Rüdiger A. Günther	2007	—	—
	2006	—	—
Dr. Reinhard Ploss	2007	—	—
	2006	—	—
Total	**2007**	**550,000**	**1,116,500**
	2006	**400,000**	**1,276,000**

[1] For the 2007 grants, the exercise price equals €13.30 per share, while the fair value determined in accordance with the Monte Carlo simulation model as of the grant date amounts to €2.03. The fair value underlying the amounts of the previous year determined in accordance with the Black-Scholes option pricing model was €3.19 per share.

Commitments to the Management Board upon termination of employment

Allowances and pension entitlements in the 2007 fiscal year

The pension agreement with the chairman of the Management Board sets the monthly pension payment at 70 percent of the last monthly base salary. The other members of the Management Board are contractually entitled to a fixed pension payment, which increases by €5,000 annually (with the exception of Mr. Fischl) until a maximum amount is attained. In accordance with U.S. GAAP, a total of €3,146,830 was added to pension reserves in the 2007 fiscal year (previous year: €2,908,481). Upon termination of membership in the Management Board, pension entitlements normally begin from age 60 at the earliest. Exceptions are provided for in cases such as departures from the board for health reasons and surviving dependents' pensions. Dr. Ziebart and Mr. Bauer deviate from this model and are entitled to a pension before age 60 if their contracts are not renewed, provided that there is no good cause for a revocation of the appointment in accordance with section 84, paragraph 3 of the German Stock Corporation Act. In such a case, however, their incomes from other employment and self-employed activities would be set off against up to one half of their pension entitlements.

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The following overview represents the annual pension entitlements, as of the beginning of retirement, for Management Board members active through the end of the 2007 fiscal year, on the basis of the entitlements through September 30, 2007:

Management Board	Pension entitlements (annual) as of beginning of pension period in €	Maximum amount in €	Transfer to pension reserves in the fiscal year (U.S. GAAP) in €
Dr. Wolfgang Ziebart (Chairman)	560,000	—	2,234,745
Peter Bauer	210,000	270,000	240,854
Prof. Dr. Hermann Eul	195,000	270,000	186,662
Peter J. Fischl	300,000	300,000	484,569
Dr. Reinhard Ploss	170,000	210,000	—
Total	**1,435,000**		**3,146,830**

The contracts of Dr. Ziebart and Mr. Bauer, furthermore, allow for a one-off transitional allowance upon termination of employment. This transitional allowance is equivalent to one year's income, composed of the last 12 basic monthly installments, and a sum amounting to the average of the bonus sums received over the last three fiscal years prior to termination. There is no right to the payment of a transitional allowance in the event of termination by a member of the Management Board not prompted by the company, and if the company has good cause for the termination. Subsequent to his temporary departure, Mr. Fischl received a transitional allowance of €1,133,333 in the 2007 fiscal year; he is not entitled to any further transitional allowance.

Early termination of employment

In the 2007 fiscal year, Management Board contracts were modified to include change-of-control clauses: A change-of-control within the meaning of this clause occurs when a third party, individually or in cooperation with another party, holds 30 percent of voting rights in Infineon Technologies AG as stipulated by section 30 of the German Securities Acquisition and Takeover Act (*Wertpapiererwerbs- und Übernahmegesetz*). In case of such a change-of-control, the Management Board members have the right to resign and terminate their contracts if the exercise of their office and the fulfillment of their service contract become unacceptable, due, for example, to considerable restrictions in their areas of responsibility. In such an event, board members are entitled to a continuation of their annual target income for the full remaining duration of their contracts and a minimum of two years. This amount is based on the annual target income for the year of termination and the variable components assuming a return on assets of 6 percent. In the event of a termination of the contract by Infineon Technologies AG within 12 months after the announcement of a change of control, the members of the Management Board are entitled to a continuation of their annual target income for the full remaining duration of their contracts and a minimum of three years. Mr. Fischl, as an exception to this rule, is entitled to a severance payment equivalent to two years of annual target income in the event of his resignation/termination of contract, and is entitled to a severance payment equivalent to four years of annual target income in the event of the termination of his contract by the company. The Management Board members' pension entitlements remain unaffected. These rights in the event of a change of control, however, only exist if there is no serious breach of duty.

Management Board contracts, furthermore, do not foresee severance payments in the event of an early termination of contract. Severance payments may, however, be stipulated in individual termination agreements.

Fringe benefits and other awards in the 2007 fiscal year

- The members of the Management Board received no fringe benefits besides the elements listed under "Other" in the compensation table.
- The members of the Management Board do not receive any loans from the company.

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- The members of the Management Board received no compensation or promise of compensation with regard to their activities on the board from third parties in the 2007 fiscal year.
- The company maintains a directors' and officers' group liability insurance (D&O insurance). The insurance covers the personal liability risk in the event of claims raised against members of the Management Board for indemnification of losses incurred in the exercise of their duties, if the claimed loss exceeds 25 percent of the non-performance-related annual salary of the board member involved (which constitutes a deductible as defined by the German Corporate Governance Code, clause 3.8, para. 2).

Payments to former members of the Management Board in the 2007 fiscal year

Former members of the Management Board received total payments of €1.3 million (severance and pension payments) in the 2007 fiscal year. This includes a severance payment of €1.2 million to Mr. Günther.

According to U.S. GAAP, a total of €1,442,276 was added to pension reserves for current pensions and entitlements to pensions by former Management Board members; as of September 30, 2007, these pension reserves amount to €13,587,269.

Compensation of the Supervisory Board

Compensation structure

The compensation of the Supervisory Board is determined in the company's Articles of Incorporation. It is intended to reflect the company's size, the duties and responsibilities of the members of the Supervisory Board, and the company's economic condition and performance. The compensation of the Supervisory Board is governed by Section 11 of the Articles of Incorporation and comprises two elements:

- **fixed compensation** of €25,000 per year and
- a **variable element** in the form of 1,500 **share appreciation rights** per annum, which are granted and may be exercised on the same terms as provided for by the Infineon Stock Option Plan 2006 approved by the Shareholders' Annual General Meeting, which is valid in the fiscal year in which these rights are granted. These share appreciation rights, however, do not entitle the holder to purchase shares but only to a settlement in cash. The share appreciation rights expire six years from the date of grant, and can be exercised only following a waiting period of three years. The exercise price per share appreciation right amounts to 120 percent of the average Infineon opening price on the Frankfurt Stock Exchange in the XETRA trading system over the five trading days preceding the date the respective share appreciation right is granted. The exercise of share appreciation rights is dependent on the attainment of absolute and relative performance targets as stipulated in the 2006 Stock Option Plan. Basic principles of our 2006 Stock Option Plan are described in note 28 to the consolidated financial statements for the year ended September 30, 2007 and are available in full text on the Internet at www.infineon.com. The fair value of the share appreciation rights granted in the 2007 fiscal year amounts to €2.03 per share appreciation right, as determined in accordance with the Monte Carlo simulation model.

Additional compensation is paid for certain functions within the Supervisory Board. The Chairman of the Supervisory Board receives an additional 100 percent of the fixed compensation. Furthermore, each Vice-Chairman and each other member of a Supervisory Board committee, with the exception of the committees stipulated by law, receives an additional 50 percent of their fixed compensation.

Members of the Supervisory Board, moreover, receive compensation for all expenses incurred in connection with their duties, as well as the value-added tax apportioned to their

compensation, to the extent that they can charge for it separately and do so.

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Compensation of the Supervisory Board in the 2007 fiscal year

The share appreciation rights granted to the members of the Supervisory Board in the 2007 fiscal year follow the terms of the company's 2006 Stock Option Plan. The Supervisory Board compensation otherwise remained unchanged from the previous year. The individual members of the Supervisory Board received the following cash compensation, including 19 percent VAT, in the 2007 fiscal year:

Supervisory Board member	Base compensation in €	Additional compensation for special functions in €	Total payment in €
Max Dietrich Kley	29,750	29,750	59,500
Wigand Cramer	29,750	—	29,750
Alfred Eibl	29,750	14,875	44,625
Prof. Johannes Feldmayer	29,750	—	29,750
Jakob Hauser	29,750	14,875	44,625
Gerhard Hobbach[1]	19,833	—	19,833
Dr. Stefan Jentzsch[2]	24,792	—	24,792
Prof. Dr. Renate Köcher	29,750	—	29,750
Klaus Luschtinetz[3]	12,396	6,198	18,594
Dr. Siegfried Luther	29,750	14,875	44,625
Michael Ruth	29,750	—	29,750
Gerd Schmidt	29,750	9,917	39,667
Prof. Dr. Doris Schmitt-Landsiedel	29,750	14,875	44,625
Kerstin Schulzendorf	29,750	—	29,750
Dr. Eckart Sünner[4]	4,958	—	4,958
Alexander Trüby	29,750	14,875	44,625
Prof. Dr. Martin Winterkorn	29,750	14,875	44,625
Prof. Dr.-Ing. Klaus Wucherer	29,750	14,875	44,625
Total	**478,479**	**149,990**	**628,469**

(1) Pro rata from appointment (February 15, 2007).

(2) Pro rata to retirement from office (August 2, 2007).

(3) Pro rata to retirement from office (February 15, 2007).

(4) Pro rata from appointment (August 2, 2007).

Other

The members of the Supervisory Board do not receive any loans from the company.

The company maintains a directors' and officers' group liability insurance (D&O insurance). The insurance covers the personal liability risk in the event of claims raised against members of the Supervisory Board for indemnification of losses incurred in the exercise of their duties, if the claimed loss exceeds 100 percent of the annual base salary of the board member involved (which constitutes a deductible as defined by the German Corporate Governance Code, section 3.8, paragraph 2).

Long-Term Incentive Plans

2006 Stock Option Plan. In February 2006, we adopted and our shareholders approved the Infineon Technologies AG 2006 Stock Option Plan, which we refer to as the 2006 plan. Under the 2006 plan, we have the authority over a three-year period to grant non-transferable share options to members of our Management Board, members of senior management of our subsidiaries, and other key managers and employees at Infineon Technologies AG and our domestic and foreign subsidiaries. We may grant options covering up to 1.625 million shares to members of our Management Board, 1.3 million shares to senior management of our domestic and foreign subsidiaries, and 10.075 million shares to other key managers

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and employees at levels below the Management Board of Infineon Technologies AG and senior management of our domestic and foreign subsidiaries. No more than 40 percent of the options available for grant to one of those three groups may be issued during one fiscal year, and we may not grant options under the 2006 plan covering more than 13 million shares in the aggregate. As of September 30, 2007, options to purchase an aggregate of 2.25 million shares were outstanding under the 2006 plan, of which options to purchase 550,000 shares were granted to members of our Management Board during their membership on the Management Board.

Under the 2006 plan, the Supervisory Board decides annually within a period of 45 days after publication of the results for the fiscal year then ended or of the first or second quarter of a fiscal year, but no later than two weeks before the end of the quarter, how many options to grant to the Management Board. During that same period the Management Board may grant options to other eligible persons.

The exercise price of the options granted under the 2006 plan is 120 percent of the average opening share price of our shares on the Frankfurt Stock Exchange over the five trading days preceding the date of grant. Options granted under the 2006 plan have a term of six years after the date of grant and may be exercised after the third anniversary of the date of grant, at the earliest. In addition, options may be exercised only if both (a) the share price of our company has reached the exercise price at least once during a trading day, and (b) the share price of our company has exceeded for at least three consecutive days, on at least one occasion since the date of grant, the trend of the Philadelphia Semiconductor Stock Index, a comparative index of the share price of companies in a similar sector to Infineon Technologies AG. If the Philadelphia Semiconductor Index is discontinued or is fundamentally altered so as not to provide an appropriate means for comparison, then the Management Board will either select another index to serve as a comparative index or use a new index including as many as possible of the individual prices previously tracked by the Philadelphia Semiconductor Stock Index. In addition, holders may not exercise an option within a fixed time period prior to or following publication of our quarterly or annual results.

2001 International Long-Term Incentive Plan. In April 2001, we adopted the Infineon Technologies AG 2001 International Long-Term Incentive Plan, which we refer to as the 2001 plan.

Under the 2001 plan, we granted non-transferable share options to members of our Management Board, to the members of the top management of our subsidiaries, and to other senior level executives and employees with exceptional performance. As of September 30, 2007, options to purchase an aggregate of 33.6 million shares were outstanding under the 2001 plan, of which options to purchase 1.5 million shares were held by members of our Management Board. No further options will be granted under the 2001 plan.

The exercise price of the options granted under the 2001 plan is 105 percent of the average closing share price of our company's shares on the Frankfurt Stock Exchange over the five trading days preceding the date of grant. Options granted under the 2001 plan have a term of seven years from the date of grant and may be exercised at the earliest after the second anniversary of the date of grant, but only if the share price of our company has reached the exercise price at least once during a trading day. In addition, holders may not exercise an option within fixed time periods prior to or following publication of our quarterly or annual results.

1999 Stock Option Plan. Under our 1999 Stock Option Plan we granted non-transferable share options to members of our Management Board, directors of subsidiaries and affiliates, managers and key employees.

As of September 30, 2007, options to purchase an aggregate of 3.5 million shares were outstanding under the 1999 plan, of which options to purchase 133,000 shares were held by members of our Management Board. The 1999 plan was discontinued and, accordingly, we no longer grant options under that plan.

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The exercise price of the options granted under the 1999 plan is 120 percent of the average closing price of our company's shares on the Frankfurt Stock Exchange over the five trading days preceding the date of grant. Holders of options may exercise them during the seven-year period following the date of grant but only if the share price of our company has reached the exercise price at least once during a trading day in XETRA or its successor during the duration of the option and only after the second anniversary of the date of grant. In addition, holders may not exercise an option within fixed time periods prior to or following publication of our quarterly or annual results. When options are exercised, we may either issue new shares from its conditional capital or deliver previously issued shares.

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PRINCIPAL SHAREHOLDERS

The following table shows the beneficial ownership, as of September 30, 2007, of our company's share capital by (1) the principal shareholders (each person or entity that has reported to us, as required by applicable German law, that it beneficially owns 5 percent or more of our shares) and (2) the members of our Management Board and Supervisory Board, each as a group. We are not directly or indirectly owned or controlled by any foreign government.

	Shares owned	
	Number	%
Brandes Investment Partners, L.P.[1]	38,371,696	5.1
Dodge & Cox Investment Managers[2]	37,927,800	5.1
Templeton Global Advisors Limited[3]	38,674,360	5.2
Members of the Management Board as a group[4]	*	*
Members of the Supervisory Board as a group[4]	*	*

(1) The business address of Brandes Investment Partners, L.P. is 11988 El Camino Real, Suite 500, San Diego, California 92130, USA. Based solely on a notification to Infineon by the shareholder on March 9, 2006 pursuant to the requirements of the German Securities Trading Act.

(2) The business address of Dodge & Cox Investment Managers is 555 California Street, 40th Floor, San Francisco, California 94104, USA. Based solely on a notification to Infineon by the shareholder on February 8, 2007 pursuant to the requirements of the German Securities Trading Act.

(3) The business address of Templeton Global Advisors Limited is Templeton Building, Lyford Cay, PO Box N7759, Nassau, Bahamas. Based solely on a notification to Infineon by the shareholder on April 24, 2006 pursuant to the requirements of the German Securities Trading Act.

(4) Represents less than 1 percent of our outstanding share capital.

The German Securities Trading Act *(Wertpapierhandelsgesetz)* requires each person whose shareholding of a listed German company reaches, exceeds or, after exceeding, falls below 3 percent, 5 percent, 10 percent, 15 percent, 20 percent, 25 percent, 30 percent, 50 percent or 75 percent voting rights thresholds to notify the corporation and the German Federal Supervisory Authority for Financial Services in writing without undue delay, at the latest within four trading days after they have reached, exceeded or fallen below such a threshold. In their notification, they must also state the number of shares they hold.

Other than as disclosed above, we have not been notified by any party holding 5% or more of our shares as of September 30, 2007.

Major shareholders do not have differing voting rights. Significant changes in the percentage ownership held of record by major shareholders in the last three fiscal years were as follows: Wachovia Trust Company NA held 18.2 percent of our shares in trust for Siemens AG as of September 30, 2004, which were transferred to Siemens AG and held by Siemens AG as of September 30, 2005. On April 3, 2006, Siemens AG sold the remaining shares in our company held by it and it is no longer one of our shareholders.

To our knowledge, as of September 30, 2007, there were 116,457,784 of our American Depositary Shares outstanding (representing an equivalent number of our ordinary shares), which represented approximately 15.5 percent of our issued and outstanding share capital, and there were approximately 149 holders of record of our American Depositary Shares.

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RELATED PARTY TRANSACTIONS AND RELATIONSHIPS

Qimonda

In connection with the formation of Qimonda as a separate legal entity, Infineon and Qimonda entered into a number of agreements governing the carve-out of the memory products business, the licensing of intellectual property, the use of Infineon's 200-millimeter fabrication facility in Dresden, and ongoing support services in the areas of general support, IT services and research and development services. These agreements are described in detail in the annual report of Qimonda on Form 20-F (Commission File No. 001-32972), filed with the Securities and Exchange Commission on November 16, 2007, under the heading "Related Party Transactions and Relationships — With Infineon", which section is hereby incorporated herein by reference.

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ARTICLES OF ASSOCIATION

This section summarizes the material rights of holders of the shares of our company under German law and the material provisions of the Articles of Association of our company. This description is only a summary and does not describe everything that the Articles of Association contain. Copies of the Articles of Association are publicly available at our website, www.infineon.com, and from the Commercial Register in Munich, Germany. An English translation has been filed with the Securities and Exchange Commission in the United States.

Equity

The issued share capital of our company consists of €1,499,457,270 divided into 749,728,635 individual shares in registered form with a notional value of €2.00 each. Since our formation, changes in our share capital have been as follows:

- At our formation, our share capital consisted of €400,000,000, represented by 200,000,000 shares.
- On January 26, 2000, we increased our share capital from €400,000,000 to €800,000,000 by issuing 200,000,000 shares for a €400,000,000 transfer of corporate funds to capital. The new shares were issued to Siemens and Siemens Nederland N.V. in proportion to their respective ownership interests in our company at that time.
- On February 14, 2000, we increased our share capital from €800,000,000 to €1,200,000,000 by issuing 200,000,000 shares for a €400,000,000 transfer of corporate funds to capital. The new shares were issued to Siemens and Siemens Nederland N.V. in proportion to their respective ownership interests in our company at that time.
- On March 8, 2000, we increased our share capital by €33,400,000 to €1,233,400,000 for cash contributions by issuing 16,700,000 shares with full dividend entitlement for the 2000 fiscal year. The shares were sold in our initial public offering.
- On April 28, 2000, we increased our share capital by €15,184,860 by issuing to Intel Corporation 7,592,430 shares with full dividend entitlement for the 2000 fiscal year. After the execution of the capital increase, our share capital consisted of €1,248,584,860.
- On June 28, 2000, we increased our share capital by €2,418,154 against a contribution in kind by issuing 1,209,077 shares with full dividend entitlement for the 2000 fiscal year to Savan Communications Ltd. After execution of the capital increase our share capital consisted of €1,251,003,014.
- On March 16, 2001, we increased our share capital by €886,976 against a contribution in kind by issuing 443,488 shares with full dividend entitlement for the 2001 fiscal year in connection with our investment in Ramtron International Corporation. After execution of the capital increase our share capital consisted of €1,251,889,990.
- On April 11, 2001, we increased our share capital by €1,413,428 against a contribution in kind by issuing 706,714 shares with full dividend entitlement for the 2001 fiscal year in connection with our acquisition of Ardent Technologies Incorporated. After the execution of the capital increase our share capital consisted of €1,253,303,418.
- In July 2001, we increased our share capital by €120,000,000 by issuing 60,000,000 shares (with full dividend entitlement for the 2001 fiscal year) in our secondary public offering. After the execution of the capital increase our share capital consisted of €1,373,303,418.
- On July 25, 2001, we increased our share capital by €12,746,870 against a contribution in kind by issuing 6,373,435 shares with full dividend entitlement for the 2001 fiscal year in connection with our acquisition of Catamaran Communications

Incorporated. After the execution of the capital increase, our share capital consisted of €1,386,050,288.

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- On November 29, 2001, we increased our share capital by €24,000 by issuing 12,000 shares with full dividend entitlement for the 2002 fiscal year to group employees in connection with our 2001 employee share purchase program. After the execution of the capital increase, our share capital consisted of €1,386,074,288.
- On July 24, 2002, we increased our share capital by €686,920 by issuing 343,460 shares with full dividend entitlement for the 2002 fiscal year to group employees in connection with our 2002 employee share purchase program. After the execution of the capital increase, our share capital consisted of €1,386,761,208.
- On August 30, 2002, we increased our share capital by €55,000,000 against a contribution in kind by issuing 27,500,000 shares with full dividend entitlement for the 2002 fiscal year in connection with our acquisition of Ericsson Microelectronics AB, Stockholm, Sweden. After the execution of the capital increase, our share capital consisted of €1,441,761,208.
- On March 23, 2004, we increased our share capital by €53,358,510 against a contribution in kind by issuing 26,679,255 shares with full dividend entitlement for the 2004 fiscal year in connection with the acquisition of the remaining interest in Infineon Technologies SC300 GmbH & Co. KG, Dresden. After the execution of the capital increase our share capital consisted of €1,495,119,718.
- During the 2005 fiscal year, our share capital increased by €19,000 as a result of the exercise of 9,500 employee stock options. After these exercises our share capital consisted of €1,495,138,718.
- During the 2006 fiscal year, our share capital increased by €79,870 as a result of the exercise of 39,935 employee stock options. After these exercises our share capital consisted of €1,495,218,588.
- During the 2007 fiscal year, our share capital increased by €4,238,682 as a result of the exercise of 2,119,341 employee stock options. After these exercises our share capital consisted of €1,499,457,270.

Registrar Services GmbH, the transfer agent and registrar of our company in Germany, registers record holders of shares in the share register on our behalf pursuant to a transfer agent agreement. The transfer agent also maintains the register of our shareholders.

Authorized Capital

Under the German Stock Corporation Act, a stock corporation's shareholders can authorize the Management Board to issue shares in a specified aggregate nominal amount of up to 50 percent of the issued share capital at the time the resolution is passed. The shareholders' authorization may extend for a period of no more than five years.

The Articles of Association of our company authorize the Management Board to increase the share capital with the Supervisory Board's consent. The Management Board may use these authorizations to issue new shares in one or more tranches:

- in an aggregate nominal amount of up to €30 million to issue shares to employees of the Infineon group companies (in which case preemptive rights of the existing shareholders are excluded) until January 19, 2009 (Authorized Capital II/2004); and
- in an aggregate nominal amount of up to €224 million to issue shares for cash (in which case preemptive rights of existing shareholders may be excluded under certain circumstances by the Management Board with the consent of the Supervisory Board) or in exchange for contributions in kind (in which case preemptive rights of the existing shareholders may be excluded by the Management Board with the consent of the Supervisory Board) until February 14, 2012 (Authorized Capital 2007).

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Conditional Capital

Under the German Stock Corporation Act, a stock corporation's shareholders can authorize conditional capital of up to 50 percent of the issued share capital at the time of the resolution. Our Articles of Association provide for the following conditional capital as approved by our shareholders:

- Conditional Capital I in an aggregate nominal amount of €91.7 million that may be used to issue up to 45.8 million new registered shares in connection with our 1999 and our 2001 long-term incentive plans;
- Conditional Capital III in an aggregate nominal amount of €29 million that may be used to issue up to 14.5 million new registered shares in connection with our 2001 and 2006 long-term incentive plan;
- Conditional Capital IV/2006 in an aggregate nominal amount of €24.5 million that may be used to issue up to 12.25 million new registered shares in connection with our 2006 long-term incentive plan;
- Conditional Capital 2002 in an aggregate nominal amount of €152 million that may be used to issue up to 76 million new registered shares upon conversion of debt securities issued in June 2003; and
- Conditional Capital 2007 in an aggregate nominal amount of €248 million that may be used to issue up to 124 million new registered shares upon conversion of debt securities, which we may issue at any time prior to February 14, 2012.

All of these shares will have dividend rights from the beginning of the fiscal year in which they are issued.

Preemptive Rights

Under the German Stock Corporation Act, an existing shareholder in a stock corporation has a preferential right to subscribe for issuances of new shares by that corporation in proportion to the number of shares he holds in the corporation's existing share capital. These rights do not apply to shares issued out of conditional capital. Preemptive rights also apply to securities that may be converted into shares, securities with warrants, profit sharing certificates and securities with dividend rights. The German Stock Corporation Act allows the exclusion of this preferential right only in limited circumstances. At least three fourths of the share capital represented at the relevant shareholders' meeting must vote for exclusion. In addition to approval by the shareholders, the exclusion of preemptive rights requires a justification. The justification must be based on the principle that the interest of the company in excluding preemptive rights outweighs the shareholders' interest in their preemptive rights.

Preemptive rights resulting from a capital increase may generally be transferred and may be traded on any of the German stock exchanges upon which our shares are traded for a limited number of days prior to the final date on which the preemptive rights may be exercised.

Shareholders' Meetings and Voting Rights

A general meeting of the shareholders of Infineon may be called by the Management Board or the Supervisory Board. Shareholders holding in the aggregate at least 5 percent of our issued share capital may also require the Management Board to call a meeting. The annual general meeting must take place within the first eight months of the fiscal year. The Management Board calls this meeting upon the receipt of the Supervisory Board's report on the annual financial statements.

Under German law and the Articles of Association of our company, our company must publish notices of shareholder meetings in the electronic edition of the German Federal Gazette *(elektronischer Bundesanzeiger)* at least one month before the last day on which the shareholders must notify our company that they intend to attend the meeting.

A shareholder or group of shareholders holding a minimum of either 5 percent of the share capital of our company or shares representing at least €500,000 of its registered

capital may require that additional or modified proposals be made at our shareholders' general meeting.

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Shareholders who are registered in the share register may participate in and vote at the shareholders' general meeting. A notice by a shareholder of his or her intention to attend a shareholders' general meeting must be given to our company at least six days (or a shorter period, if so determined by the Management Board) before the meeting, not counting the day of notice and the day of the meeting. Following receipt of a notice of this type, our company will not enter a transfer of the related shares in the share register until after the conclusion of the shareholders' general meeting. In certain cases, a shareholder can be prevented from exercising his or her voting rights. This would be the case, for instance, for resolutions on the waiver or assertion of a claim by our company against the shareholder.

Each share carries one vote at general meetings of the shareholders. Resolutions are generally passed with a simple majority of the votes cast. Resolutions that require a capital majority are passed with a simple majority of the issued capital, unless statutory law or the Articles of Association of our company require otherwise. Under the German Stock Corporation Act, a number of significant resolutions must be passed by a majority of the votes cast and at least 75 percent of the share capital represented in connection with the vote taken on that resolution. The majority required for some of these resolutions may be lowered by the Articles of Association. The shareholders of our company have lowered the majority requirements to the extent permitted by law.

Although our company must notify shareholders of an ordinary or extraordinary shareholders' meeting as described above, neither the German Stock Corporation Act nor our Articles of Association fixes a minimum quorum requirement. This means that holders of a minority of our shares could control the outcome of resolutions not requiring a specified majority of our outstanding share capital.

According to our Articles of Association, a resolution that amends the Articles of Association must be passed by a majority of the votes cast and at least a majority of the nominal capital represented at the meeting of shareholders at which the resolution is considered. However, resolutions to amend the business purpose stated in our Articles of Association also require a majority of at least three quarters of the share capital represented at the meeting. The 75 percent majority requirement also applies to the following matters:

- the exclusion of preemptive rights in a capital increase;
- capital decreases;
- a creation of authorized capital or conditional capital;
- a dissolution;
- a merger or a consolidation with another stock corporation or another corporate transformation;
- a transfer of all or virtually all of the assets of our company; and
- the conclusion of any direct control, profit and loss pooling or similar inter-company agreements.

Dividend Rights

Shareholders participate in profit distributions in proportion to the number of shares they hold.

Under German law, we may declare and pay dividends only from balance sheet profits as they are shown in our unconsolidated annual financial statements prepared in accordance with applicable German law. In determining the distributable balance sheet profits, the Management Board and the Supervisory Board may allocate to profit reserves up to one half of the annual surplus remaining after allocations to statutory reserves and losses carried forward.

The shareholders, in determining the distribution of profits, may allocate additional amounts to profit reserves and may carry forward profits in part or in full.

Dividends approved at a shareholders' general meeting are payable on the first stock exchange trading day after that meeting, unless otherwise decided at the shareholders' general meeting. Where shareholders hold physical certificates, we will pay dividends to

those shareholders who present us or the paying agent or agents that we may appoint from time to time, with the appropriate dividend coupon. If a shareholder holds shares that are entitled to dividends in a clearing system, the dividends will be paid

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according to that clearing system's rules. We will publish notice of dividends paid and the paying agent or agents that we have appointed in the German Federal Gazette.

Liquidation Rights

In accordance with the German Stock Corporation Act, if we are liquidated, any liquidation proceeds remaining after all of our liabilities have been paid off would be distributed among our shareholders in proportion to their holdings.

Shareholders' Other Rights and Obligations

Our shareholders have other rights and obligations, for example the right to participate in the general discussion at the annual meeting of shareholders and ask questions of our management. If shareholders believe that our company has been harmed by members of the Management Board or Supervisory Board they can initiate proceedings against those persons under certain conditions. If a German court determines that members of the Management Board or Supervisory Board have violated their obligations towards our company, then they are liable for damages to our company, but generally not to the shareholders directly. Such direct claims would be successful under very rare circumstances, for example upon a finding that the member of the Management Board or the Supervisory Board has engaged in willful misconduct with the intention of harming shareholders.

Disclosure Requirement

The German Securities Trading Act requires each person whose shareholding of a listed company reaches, exceeds or, after exceeding, falls below 3 percent, 5 percent, 10 percent, 15 percent, 20 percent, 25 percent, 30 percent, 50 percent or 75 percent voting rights thresholds to notify the corporation and the German Federal Supervisory Authority for Financial Services in writing without undue delay, at the latest within four trading days after they have reached, exceeded or fallen below such a threshold. In their notification, they must also state the number of shares they hold. Such holders cannot exercise any rights associated with those shares until they have satisfied this disclosure requirement. In addition, the German Securities Trading Act contains various rules designed to ensure the attribution of shares to the person who has effective control over the exercise of the voting rights attached to those shares.

Repurchase of Our Own Shares

We may repurchase our own shares pursuant to the authorization granted by the shareholders' general meeting on February 15, 2007 or in other very limited circumstances set out in the German Stock Corporation Act. The authorization granted by our shareholders' general meeting expires on August 14, 2008. Shareholders may grant a new authorization at our 2008 shareholders' general meeting. Shareholders may not grant a share repurchase authorization lasting for more than 18 months. The rules in the German Stock Corporation Act generally limit repurchases to 10 percent of our share capital and resales must be made either on the stock exchange, in a manner that treats all shareholders equally or in accordance with the rules that apply to preemptive rights relating to a capital increase.

Corporate Purpose of Our Company

The corporate purpose of our company, described in section 2 of the Articles of Association, is direct or indirect activity in the field of research, development, manufacture and marketing of electronic components, electronic systems and software, as well as the performance of related services.

Registration of our company with the Commercial Register

Our company was entered into the commercial register of Munich, Germany, as a stock corporation on July 14, 1999 under the number HRB 126492.

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ADDITIONAL INFORMATION

Organizational Structure

Infineon Technologies AG is the parent company of the Infineon group, including Qimonda, with subsidiaries incorporated in jurisdictions throughout Europe and Asia, as well as in the United States. Our most significant subsidiaries are set out below. Unless otherwise indicated, all of the subsidiaries in the Infineon group (including Qimonda) were directly or indirectly 100 percent owned by Infineon Technologies AG, and all of the subsidiaries in the Qimonda group were directly or indirectly 100 percent owned by Qimonda AG, as of September 30, 2007.

Principal Subsidiaries as of September 30, 2007

Corporate name	Registered office	Principal activity
Infineon Group:		
ALTIS Semiconductor S.N.C[1]	Essonnes, France	Production
Infineon Technologies Asia Pacific Pte. Ltd.	Singapore	Production, distribution
Infineon Technologies Austria AG	Villach, Austria	Production
Infineon Technologies Bipolar GmbH & Co. KG	Warstein, Germany	Production and development
Infineon Technologies China Co. Ltd.	Shanghai, China	Holding
Infineon Technologies Dresden GmbH & Co. OHG	Dresden, Germany	Production
Infineon Technologies Finance GmbH	Neubiberg, Germany	Financial services
Infineon Technologies France S.A.S.	Saint Denis, France	Distribution
Infineon Technologies Holding B.V.	Rotterdam, The Netherlands	Holding
Infineon Technologies Investment B.V.	Rotterdam, The Netherlands	Holding
Infineon Technologies Japan K.K.	Tokyo, Japan	Distribution
Infineon Technologies North America Corp.	Delaware, USA	Research, development and distribution
Infineon Technologies SensoNor AS	Horten, Norway	Production
Infineon Technologies (Advanced Logic) Sdn. Bhd.	Malacca, Malaysia	Production
Infineon Technologies (Kulim) Sdn. Bhd.	Kulim, Malaysia	Production
Infineon Technologies (Malaysia) Sdn. Bhd.	Malacca, Malaysia	Production
Qimonda Group:		
Inotera Memories Inc.[2]	Taoyuan, Taiwan	Production
Qimonda AG[3]	Munich, Germany	Research, development, production and distribution of semiconductor memory products and related services
Qimonda Asia Pacific Pte. Ltd.	Singapore	Distribution
Qimonda Dresden GmbH & Co. OHG	Dresden, Germany	Production
Qimonda Europe GmbH	Munich, Germany	Distribution, sales and marketing
Qimonda Holding B.V.	Rotterdam, The Netherlands	Holding
Qimonda Japan K.K.	Tokyo, Japan	Sales and marketing
Qimonda Investment B.V.	Rotterdam, The Netherlands	Holding
Qimonda Malaysia Sdn. Bhd.	Malacca, Malaysia	Production
Qimonda Module (Suzhou) Co. Ltd.	Suzhou, China	Production
Qimonda North America Corp.	Delaware, USA	Distribution, sales and marketing, research and development
Qimonda Portugal S.A.	Vila do Conde, Portugal	Production
Qimonda Richmond, LLC	Delaware, USA	Production
Qimonda Technologies (Suzhou) Co. Ltd.[4]	Suzhou, China	Production

(1) 50 percent interest plus one share held by Infineon. In August 2007, Infineon, IBM and Advanced Electronic Systems AG ("AES") entered into an agreement, under which AES is to acquire the interests in ALTIS from Infineon and IBM.

(2) 35.4 percent ownership interest held by Qimonda.

(3) 77.5 percent beneficially owned by Infineon.

(4) 62.8 percent interest held by Qimonda.

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Dividend Policy

Under the German Stock Corporation Act (*Aktiengesetz*), the amount of dividends available for distribution to shareholders is based on the level of earnings (*Bilanzgewinn*) of the ultimate parent, Infineon Technologies AG, as determined in accordance with HGB, the German Commercial Code. All dividends must be approved by the shareholders. The ordinary shareholders meeting held in February 2007 did not authorize a dividend. No earnings are available for distribution as a dividend for the 2007 fiscal year, since Infineon Technologies AG on a stand-alone basis as the ultimate parent incurred a cumulative loss (*Bilanzverlust*) as of September 30, 2007. Subject to market conditions, we intend to retain future earnings for investment in the development and expansion of our business. In connection with our strategy to reduce our stake in Qimonda AG we intend to amend our Articles of Association at our 2008 general meeting of shareholders to enable a payment of dividends in kind to our shareholders. A distribution of Qimonda shares as dividend in kind would then be possible after our 2009 general meeting of shareholders, provided that we have distributable profits.

Significant Changes

Except as discussed elsewhere in this annual report on Form 20-F, no significant change has occurred since the date of the annual financial statements included in this annual report on Form 20-F.

Market Information

General

The principal trading market for our shares is the Frankfurt Stock Exchange under the trading symbol IFX. Options on the shares trade on the German options exchange (Eurex Deutschland) and other exchanges. All of our shares are in registered form. ADSs, each representing one share, are listed on the New York Stock Exchange and trade under the symbol IFX. The depositary for the ADSs is Deutsche Bank.

Trading on the Frankfurt Stock Exchange

Our shares have traded on the Frankfurt Stock Exchange since March 13, 2000. The table below sets forth, for the periods indicated, the high and low closing sales prices for our company's shares on the Frankfurt Stock Exchange, as reported by the Frankfurt Stock Exchange Xetra trading system:

	Price per share in Euro	
	High	Low
Fiscal year ended September 30, 2003	13.79	5.34
Fiscal year ended September 30, 2004	13.65	7.80
Fiscal year ended September 30, 2005	9.00	6.43
Fiscal year ended September 30, 2006	9.95	7.60
Fiscal year ended September 30, 2007	13.44	9.25
October 2005 through December 2005	8.51	7.60
January 2006 through March 2006	8.93	7.62
April 2006 through June 2006	9.95	8.22
July 2006 through September 30, 2006	9.76	8.21
October 2006 through December 2006	10.68	9.25
January 2007 through March 2007	12.27	10.66
April 2007 through June 2007	12.81	10.88
July 2007 through September 30, 2007	13.44	10.70
June 2007	12.81	11.34
July 2007	13.44	12.15
August 2007	11.87	10.70
September 2007	12.12	11.54
October 2007	11.95	10.13
November 2007	9.82	7.62
December 2007[(1)]	8.75	8.07

(1) Up to and including December 6, 2007.

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On December 6, 2007, the closing sales price per share on the Frankfurt Stock Exchange, as reported by the Xetra trading system, was €8.67, equivalent to $12.69 per share (translated at the noon buying rate on December 6, 2007).

Trading on the New York Stock Exchange

ADSs representing our shares have traded on the New York Stock Exchange since March 13, 2000. The table below sets forth, for the periods indicated, the high and low closing sales prices for the ADSs on the New York Stock Exchange:

	Price per ADS in U.S. dollars	
	High	Low
Fiscal year ended September 30, 2003	15.35	5.25
Fiscal year ended September 30, 2004	15.87	9.39
Fiscal year ended September 30, 2005	11.74	8.40
Fiscal year ended September 30, 2006	12.68	8.95
Fiscal year ended September 30, 2007	18.68	11.77
October 2005 through December 2005	10.03	8.95
January 2006 through March 2006	10.28	9.18
April 2006 through June 2006	12.68	10.24
July 2006 through September 30, 2006	12.49	10.37
October 2006 through December 2006	14.03	11.77
January 2007 through March 2007	16.26	13.94
April 2007 through June 2007	17.28	14.75
July 2007 through September 30, 2007	18.68	14.36
June 2007	17.28	15.14
July 2007	18.68	16.37
August 2007	16.37	14.36
September 2007	17.18	15.81
October 2007	17.13	14.52
November 2007	14.27	11.29
December 2007[(1)]	12.77	11.86

[(1)] Up to and including December 6, 2007.

On December 6, 2007, the closing sales price per ADS on the New York Stock Exchange was $12.76.

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Exchange Rates

Fluctuations in the exchange rate between the Euro and the U.S. dollar will affect the U.S. dollar amounts received by owners of shares or ADSs on conversion of dividends, if any, paid in Euro on the shares and will affect the U.S. dollar price of the ADSs on the New York Stock Exchange. In addition, to enable you to ascertain how the trends in our financial results might have appeared had they been expressed in U.S. dollars, the table below states the average exchange rates of U.S. dollars per Euro for the periods shown. The annual average exchange rate is computed by using the Federal Reserve noon buying rate for the Euro on the last business day of each month during the period indicated.

Annual average exchange rates of the U.S. dollar per Euro

Fiscal year ended September 30,	Average
2003	1.0919
2004	1.2199
2005	1.2727
2006	1.2364
2007	1.3415

The table below shows the high and low Federal Reserve noon buying rates for Euro in U.S. dollars per Euro for each month from April 2007 through September 2007:

Recent high and low exchange rates of the U.S. dollar per Euro

	High	Low
April 2007	1.3660	1.3363
May 2007	1.3616	1.3419
June 2007	1.3526	1.3295
July 2007	1.3831	1.3592
August 2007	1.3808	1.3402
September 2007	1.4219	1.3606

The noon buying rate on September 28, 2007 was €1.00 = $1.4219, and on December 6, 2007 was €1.00 = $1.4638.

Taxation

German Taxation

The following is a summary discussion of the material German tax consequences for shareholders who are not resident in Germany for income tax purposes and who do not hold shares or ADSs as business assets of a permanent establishment or fixed base in Germany ("Non-German Shareholders"). The discussion does not purport to be a comprehensive description of all the tax considerations that may be relevant to a decision to invest in or hold our shares or ADSs. The discussion is based on the tax laws of Germany as in effect on the date of this annual report, which may be subject to change at short notice and, within certain limits, possibly also with retroactive effect. You are advised to consult your tax advisors in relation to the tax consequences of the acquisition, holding and disposition or transfer of shares and ADSs and in relation to the procedure which needs to be observed in the event of a possible reduction or refund of German withholding taxes. Only these advisors are in a position to duly consider your specific tax situation.

Taxation of the Company

In Germany the Corporate Tax Reform Act of 2008 introduced several changes to the taxation of German business activities, including a reduction of the combined corporate and trade tax rate for the Company from approximately 37 percent to approximately 28 percent.

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In principle, German corporations are subject to corporate income tax at a rate of 25 percent (15 percent after 2007). This tax rate applies irrespective of whether profits are distributed or retained. In addition, a solidarity surcharge of 5.5 percent is levied on the assessed corporate income tax liability, so that the combined effective tax burden of corporate income tax and solidarity surcharge is 26.375 percent (15.825 percent after 2007). Certain foreign source income is exempt from corporate income tax. Generally, dividends received by us and capital gains realized by us on the sale of shares in other corporations will also be exempt from corporate income tax. However, 5 percent of such dividends and capital gains are considered non deductible business expenses.

In addition, German corporations are subject to a profit-based trade tax, the exact amount of which depends on the municipality in which the corporation conducts its business. With effect for fiscal years ending after December 31, 2007, the basic factor for the calculation of trade tax applicable to corporations will be reduced from 0.05 to 0.035. As a compensation, trade tax is no longer a deductible item in calculating the corporation's tax base for corporate income and trade tax purposes.

Tax losses carried forward in respect of German corporate and trade tax have an indefinite life. According to a minimum taxation regime applicable as of 2004, not more than €1 million plus 60 percent of the amount exceeding €1 million of the income of one fiscal year may be offset against tax losses carried forward.

The Corporate Tax Reform Act of 2008 provides certain new rules regarding the computation of profits which shall broaden the tax base for corporate income tax and trade tax. *Inter alia*, the deductibility of interest expenses of the company (payable to shareholders or to third parties) may be limited to 30 percent of the company's taxable income before interest payable and capital allowances, provided that the net interest expense of the company (interest payable less interest receivable) exceeds €1 million.

Taxation of Dividends

Tax must be withheld at a rate of 20 percent plus solidarity surcharge of 5.5 percent (in total 21.1 percent) on dividends paid (if any). In 2009, the rate will increase to 25 percent plus solidarity surcharge (in total 26.375 percent).

Pursuant to most German tax treaties, including the income tax treaty between Germany and the United States (the "Treaty"), the German withholding tax may not exceed 15 percent of the dividends received by Non-German Shareholders who are eligible for treaty benefits. The difference between the withholding tax including solidarity surcharge that was levied and the maximum rate of withholding tax permitted by an applicable tax treaty is refunded to the shareholder by the German Federal Tax Office (*Bundeszentralamt für Steuern,* An der Küppe 1, D-53225 Bonn, Germany) upon application. Forms for a refund application are available from the German Federal Tax Office and German embassies and consulates. A further reduction applies pursuant to most tax treaties if the shareholder is a corporation which holds a stake of 25 percent or more, and in some cases (including under the Treaty) of 10 percent or more, of the registered share capital (or according to some tax treaties of the votes) of a company.

Withholding Tax Refund for U.S. Shareholders

U.S. shareholders who are eligible for treaty benefits under the Treaty (as discussed below in "United States Taxation") are entitled to claim a refund of the portion of the otherwise applicable 20 percent German withholding tax and 5.5 percent solidarity surcharge on dividends that exceeds the applicable Treaty rate (generally 15 percent).

For shares or ADSs kept in custody with the Depository Trust Company in New York or one of its participating banks, the German tax authorities have introduced a collective procedure for the refund of German dividend withholding tax and solidarity surcharge thereon. Under this procedure, the Depository Trust Company may submit claims for refunds payable to U.S. shareholders under the Treaty collectively to the German tax authorities on behalf of these U.S. shareholders. The German Federal Tax Office will pay the refund

amounts on a preliminary basis to the Depository Trust Company, which will redistribute these

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amounts to the U.S. shareholders according to the regulations governing the procedure. The Federal Tax Office may review whether the refund was made in accordance with the law within four years after making the payment to the Depository Trust Company. Details of this collective procedure are available from the Depository Trust Company. This procedure is currently permitted by German tax authorities but that permission may be revoked, or the procedure may be amended, at any time in the future.

Individual claims for refunds may be made on a special German form, which must be filed with the German Federal Tax Office (*Bundeszentralamt für Steuern*, An der Küppe 1, D-53225 Bonn, Germany) within four years from the end of the calendar year in which the dividend is received. Copies of the required forms may be obtained from the German tax authorities at the same address or from the Embassy of the Federal Republic of Germany, 4645 Reservoir Road, NW, Washington D.C. 20007-1998. As part of the individual refund claim, a U.S. shareholder must submit to the German tax authorities the original withholding certificate (or a certified copy thereof) issued by the paying agent documenting the tax withheld and an official certification of United States tax residency on IRS Form 6166. IRS Form 6166 generally may be obtained by filing a properly completed IRS Form 8802 with the Internal Revenue Service, Philadelphia Service Center, U.S. Residency Certification Request, P.O. Box 16347, Philadelphia, PA 19114-0447. Requests for certification must include the U.S. shareholder's name, Social Security Number or Employer Identification Number, the type of U.S. tax return filed and the tax period for which the certification is requested. The Internal Revenue Service will send the certification on IRS Form 6166 to the U.S. shareholder who then must submit the certification with the claim for refund.

Taxation of Capital Gains

Generally, capital gains from the disposition of shares and ADSs realized by a Non-German shareholder other than a corporation are only subject to German tax if (i) such shareholder at any time during the five years preceding the disposition held directly or indirectly an interest of 1 percent or more in a company's issued share capital; if the shareholder has acquired the shares or ADSs without consideration, the previous owner's holding period and size of shareholding will also be taken into account, or (ii) the shareholder has acquired the shares no earlier than 12 months before the disposition. After 2008, the disposition of shares acquired after December 31, 2008 will be generally subject to German tax.

If the shareholder is an individual, one half of the capital gain will generally be taxable. After 2009, 100 percent of the capital gain will be taxable, but generally at a uniform tax rate of 25 percent plus solidarity surcharge of 5.5 percent (in total: 26.375 percent). If the shareholder is a corporation, effectively 5 percent of the capital gain will generally be taxable. However, most German tax treaties, including the Treaty, provide that Non-German shareholders who are beneficiaries under the respective treaty are generally not subject to German tax even under the circumstances described in the preceding paragraph. See the discussion regarding shareholders that generally are eligible for benefits under the Treaty in "United States Taxation," below.

Special rules may apply to certain companies of the finance or insurance sector (including pension funds) that are not protected from German tax under a tax treaty.

Inheritance and Gift Tax

Under German domestic law, the transfer of shares or ADSs will be subject to German inheritance or gift tax on a transfer by reason of death or as a gift if:

(a) the donor or transferor or the heir, donee or other beneficiary is resident in Germany at the time of the transfer, or, if a German citizen, was not continuously outside of Germany and without German residence for more than five years; or

(b) at the time of the transfer, the shares or ADSs are held by the decedent or donor as assets of a business for which a permanent establishment is maintained or a permanent representative is appointed in Germany; or

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(c) the decedent or donor has held, alone or together with related persons, directly or indirectly, 10 percent or more of a company's registered share capital at the time of the transfer.

The few presently existing German estate tax treaties (e.g. the Estate Tax Treaty with the United States) usually provide that German inheritance or gift tax may only be imposed in cases (a) and (b) above.

Other Taxes

There are no transfer, stamp or similar taxes which would apply to the sale or transfer of the shares or ADSs in Germany. Net worth tax is no longer levied in Germany.

United States Taxation

The following discussion is a summary of the material United States federal tax consequences of the purchase, ownership and disposition of shares or ADSs. This summary addresses only U.S. Holders (as defined below) that hold shares or ADSs as capital assets for United States federal income tax purposes and that use the U.S. dollar as their functional currency.

As used in this document, the term "U.S. Holder" means a beneficial owner of shares or ADSs that is for United States federal income tax purposes:

- an individual who is a citizen or resident of the United States;
- a corporation, or other entity taxable as a corporation, formed under the laws of the United States or any state thereof or the District of Columbia; or
- an estate or trust, the income of which is subject to United States federal income taxation regardless of its source.

The tax consequences to a partner in a partnership holding shares or ADSs will generally depend on the status of the partner and the activities of the partnership. If you are a partner in a partnership that holds shares or ADSs, you are urged to consult your own tax advisor regarding the specific tax consequences of the purchase, ownership and disposition by the partnership of shares or ADSs.

The following summary is of a general nature and does not address all of the tax consequences that may be relevant to you if you are a member of a special class of holders, some of which may be subject to special rules, such as banks or other financial institutions, insurance companies, regulated investment companies, securities brokers-dealers, traders in securities that elect to use a mark-to-market method of accounting for security holdings, persons who are owners of an interest in a partnership or other pass-through entity that is a holder of shares or ADSs, tax-exempt entities, holders owning directly, indirectly or by attribution 10 percent or more of our voting shares, persons holding shares or ADSs as part of a hedging, straddle, conversion or constructive sale transaction or other integrated investment, persons who receive shares or ADSs as compensation, or persons who are resident in Germany for German tax purposes, hold the shares or ADSs in connection with the conduct of business through a permanent establishment in Germany, or perform personal services through a fixed base in Germany.

In addition, this summary does not discuss the tax consequences of the exchange or other disposition of foreign currency in connection with the purchase or disposition of shares or ADSs.

This summary is based on the Internal Revenue Code of 1986, as amended, its legislative history, existing and proposed regulations thereunder, published rulings and court decisions, as well as on the Treaty, all as currently in effect and all subject to change at any time, possibly with retroactive effect, or to different interpretation. There can be no assurance that the U.S. Internal Revenue Service (the "IRS") will not challenge one or more of the tax consequences described in this summary, and we have not obtained, nor do we intend to

obtain, a ruling from the IRS with respect to the United States federal income tax consequences of the purchase, ownership or disposition of shares or ADSs. In addition, this discussion is based in part upon the representations of the depositary and the assumption that each obligation in the deposit agreement and any related agreement will be performed in accordance with its terms.

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In general, for U.S. federal income tax purposes and for purposes of the Treaty, holders of ADSs will be treated as the owners of our shares represented by those ADSs. Exchanges of shares for ADS, and ADS for shares, generally will not be subject to United States federal income tax.

Taxation of Dividends

For United States federal income tax purposes, the gross amount of cash distributions (including the amount of foreign taxes, if any, withheld therefrom) paid out of our current or accumulated earnings and profits (as determined for United States federal income tax purposes) will be includible in your gross income as dividend income on the date of receipt. Dividends paid by us will be treated as foreign source income and will not be eligible for the dividends received deduction generally allowed to corporate shareholders under United States federal income tax law. Distributions in excess of our earnings and profits will be treated, for United States federal income tax purposes, first as a nontaxable return of capital to the extent of your tax basis in the shares or ADSs, and thereafter as capital gain. The amount of any dividend paid in a non-United States currency will be equal to the United States dollar value of the non-United States currency on the date of receipt, regardless of whether you convert the payment into United States dollars. You will have a tax basis in the non-United States currency distributed equal to such United States dollar amount. Gain or loss, if any, recognized by you on the sale or disposition of the non-United States currency generally will be United States source ordinary income or loss.

Dividend income is generally taxed as ordinary income. However, a maximum United States federal income tax rate of 15 percent will apply to “qualified dividend income” received by individuals (as well as certain trusts and estates) in taxable years beginning before January 1, 2011, provided that certain holding period requirements are met. “Qualified dividend income” includes dividends paid on shares of United States corporations as well as dividends paid on shares of “qualified foreign corporations” if, among other things: (i) the shares of the foreign corporation are readily tradable on an established securities market in the United States; or (ii) the foreign corporation is eligible with respect to substantially all of its income for the benefits of a comprehensive income tax treaty with the United States which contains an exchange of information program (a “qualifying treaty”). ADSs backed by our shares are readily tradable on an established securities market in the United States. In addition, the Treaty is a qualifying treaty. Accordingly, we believe that dividends paid by us with respect to our shares and ADSs should constitute “qualified dividend income” for United States federal income tax purposes, provided that the holding period requirements are satisfied and none of the other special exceptions applies.

Any foreign tax withheld from a distribution will generally be treated as a foreign income tax that you may elect to deduct in computing your United States federal taxable income or, subject to certain complex conditions and limitations which must be determined on an individual basis by each U.S. Holder, credit against your United States federal income tax liability. The limitations include, among others, rules that may limit foreign tax credits allowable with respect to specific classes of income to the United States federal income taxes otherwise payable with respect to each such class of income. Dividends paid by us generally will be foreign source “passive income” or “financial services income” for United States foreign tax credit purposes. However, recently enacted legislation will modify the foreign tax credit rules by reducing the number of classes of foreign source income to two for taxable years beginning after December 31, 2006. Under such legislation, dividends distributed by us would generally constitute “passive category income,” but could, in the case of certain U.S. Holders, constitute “general category income.”

Taxation of Sales or Other Taxable Dispositions

Sales or other taxable dispositions by U.S. shareholders of shares or ADSs generally will give rise to capital gain or loss equal to the difference between the U.S. dollar value of the amount realized on the disposition and the U.S. shareholder’s U.S. dollar basis in the shares or ADSs. Any such capital gain or loss will be a long-term capital gain or loss, subject to taxation at reduced rates for non-corporate taxpayers, if the shares or ADSs were held for

more than one year. The deductibility of capital losses is subject to limitations.

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Information Reporting and Backup Withholding

Dividends paid in respect of shares or ADSs, and payments of the proceeds of a sale, exchange, redemption or other disposition of shares or ADSs, paid within the United States or through certain U.S.-related financial intermediaries are subject to information reporting and may be subject to backup withholding unless the holder (i) is a corporation or other exempt recipient or (ii) provides a taxpayer identification number and certifies that no loss of exemption from backup withholding has occurred. Holders that are not U.S. persons generally are not subject to information reporting or backup withholding. However, such a holder may be required to provide a certification to establish its non-U.S. status in connection with payments received within the United States or through certain U.S.-related financial intermediaries (generally an IRS Form W-8BEN). Backup withholding is not an additional tax. Amounts withheld as backup withholding may be credited against a holder's U.S. federal income tax liability. A holder may obtain a refund of any excess amounts withheld under the backup withholding rules by filing the appropriate claim for a refund with the IRS and furnishing any required information.

United States Gift and Estate Taxes

An individual U.S. Holder generally will be subject to United States gift and estate taxes with respect to the shares or ADSs in the same manner and to the same extent as with respect to other types of personal property.

Exchange Controls and Limitations Affecting Shareholders

Germany does not currently restrict the movement of capital between Germany and other countries, except for prohibitions on the provision of financial aid or capital to certain individuals and in connection with banned weapons-related transactions to Belarus, Burma/Myanmar, Iran, Ivory Coast, Democratic Republic of the Congo, Lebanon, Liberia, Democratic People's Republic of Korea, Somalia, Sudan, Uzbekistan and Zimbabwe. Germany also imposes certain restrictions on the movement of capital to Iraq, as well as the provision of financial aid or capital to the Taliban and Al Qaeda. Similar provisions have been imposed with regard to certain individuals in order to support the mandate of the International Criminal Tribunal for the Former Yugoslavia ("ICTY"). These restrictions were established to coincide with resolutions adopted by the United Nations and the European Union.

More information can be found in German at:
http://www.bundesbank.de/finanzsanktionen/finanzsanktionen_allgemein.php.

For statistical purposes, with some exceptions, every corporation or individual residing in Germany must report to the German Central Bank any payment received from or made to a non-resident corporation or individual if the payment exceeds €12,500 (or the equivalent in a foreign currency). Additionally, corporations and individuals residing in Germany must report to the German Central Bank any claims of a resident corporation or individual against, or liabilities payable to, a non-resident corporation or individual exceeding an aggregate of €5.0 million (or the equivalent in a foreign currency) at the end of any calendar month.

Neither German law nor our Articles of Association restrict the right of non-resident or foreign owners of shares to hold or vote the shares.

Change of Control Provisions

The credit facilities entered into by us in September 2004 and August 2007 each contain a so-called change of control clause (for further information please see note 23 to our consolidated financial statements for the fiscal year ended September 30, 2007). In the event of a change of control of our company, the lenders under those facilities are entitled to terminate the facility and to demand repayment of any outstanding sums. A change of control for this purpose occurs if a third party or a group acting in concert obtains control over

Infineon Technologies AG.

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The subordinated convertible notes issued by our company as guarantor through its subsidiary Infineon Technologies Holding B.V. in June 2003 with a nominal value of 700 million due in 2010 and the subordinated convertible notes issued by our company as guarantor through its subsidiary Infineon Technologies Investment B.V. in September 2007 with a nominal value of €215 million due in 2010 (for further information see note 23 to our consolidated financial statements), each contain a change of control clause, which grants the note holders an early redemption option in the event of a change of control (as defined). A corporate reorganization resulting in a substitution of the guarantor will not constitute as change of control for such purpose.

In addition, some of the cross-license agreements and development agreements of our company contain change of control clauses pursuant to which the counterparty is entitled to terminate the agreement which require the other party's approval of the change of control.

Documents on Display

Our company is subject to the reporting requirements of the U.S. Securities Exchange Act of 1934, as amended. In accordance with these requirements, we file reports and other information with the U.S. Securities and Exchange Commission. These materials, including this annual report and the exhibits thereto, may be inspected and copied at the SEC's Public Reference Room at 100 F Street, N.E., Washington, DC 20549, and at the SEC's regional offices in Chicago, Illinois and New York, NY. The public may obtain information on the operation of the SEC's Public Reference Room by calling the SEC in the United States at 1-800-SEC-0330. The SEC also maintains a web site at http://www.sec.gov that contains reports and other information regarding registrants. Material filed by us with the SEC can also be inspected at the offices of the New York Stock Exchange at 20 Broad Street, New York, New York 10005 and at the offices of Deutsche Bank as depositary for our ordinary shares, at 60 Wall Street, New York, NY 10005.

Controls and Procedures

Disclosure Controls and Procedures

Our management, with the participation of our chief executive officer and chief financial officer, evaluated the effectiveness of our company's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) as of September 30, 2007. Based on this evaluation, our chief executive officer and chief financial officer concluded that, as of September 30, 2007, our company's disclosure controls and procedures were (1) designed to ensure that material information relating to Infineon, including its consolidated subsidiaries, is made known to our chief executive officer and chief financial officer by others within those entities, particularly during the period in which this report was being prepared, and (2) effective, in that they provide reasonable assurance that information required to be disclosed by Infineon in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms.

Management's Annual Report on Internal Control over Financial Reporting

Our management is also responsible for establishing and maintaining adequate internal control over financial reporting. Internal control over financial reporting is defined in Rule 13a-15(f) or 15d-15(f) promulgated under the Exchange Act as a process designed by, or under the supervision of, our chief executive and chief financial officers and effected by our board, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with U.S. generally accepted accounting principles, and includes those policies and procedures that:

- pertain to the maintenance of records that in reasonable detail accurately and fairly

reflect the transactions and dispositions of the assets of our company;

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- provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of our company are being made only in accordance with authorizations of management and board of our company; and
- provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of our company's assets that could have a material effect on our financial statements.

Our management assessed the effectiveness of our internal control over financial reporting as of September 30, 2007. In making this assessment, our management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in the Internal Control Integrated Framework. Based on our assessment, management concluded that, as of September 30, 2007, our internal control over financial reporting is effective based on those criteria.

Our independent registered public accounting firm has issued an attestation report on our management's assessment of our company's internal control over financial reporting. This report appears on page F-2 of this Annual Report on Form 20-F.

Changes in Internal Controls Over Financial Reporting

No change in our internal control over financial reporting occurred during the fiscal year ended September 30, 2007 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Limitations

There are inherent limitations to the effectiveness of any system of disclosure and internal controls, including the possibilities of faulty judgments in decision-making, simple error or mistake, fraud, the circumvention of controls by individual acts or the collusion of two or more people, or management override of controls. Accordingly, even an effective disclosure and internal control system can provide only reasonable assurance with respect to disclosures and financial statement preparation. Furthermore, because of changes in conditions, the effectiveness of a disclosure and internal control system may vary over time.

Audit Committee Financial Expert

Our Supervisory Board has determined that Mr. Kley is an "audit committee financial expert", as such term is defined by the regulations of the Securities and Exchange Commission issued pursuant to Section 407 of the Sarbanes-Oxley Act of 2002, and is "independent", as such term is defined in Rule 10A-3 under the Exchange Act.

Code of Ethics

We have adopted a code of ethics (as a part of our "Business Conduct Guidelines") that applies to all of our employees worldwide, including our principal executive officer, principal financial officer and principal accounting officer within the meaning of Item 16B of Form 20-F. These guidelines provide rules and conduct guidelines aimed at ensuring high ethical standards throughout our organization. You may obtain a copy of our code of ethics, at no cost, by writing to us at Infineon Technologies AG, Am Campeon 1-12, D-85579 Neubiberg, Germany, Attention: Legal Department.

Principal Accountant Fees and Services

Audit Fees. KPMG, our independent auditors, charged us an aggregate of €7.3 million in

the 2006 fiscal year and €5.9 million in the 2007 fiscal year in connection with professional services rendered for the

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audit of our annual consolidated financial statements and of internal control over financial reporting and services normally provided by them in connection with statutory and regulatory filings or other compliance engagements. These services consisted of quarterly review engagements and the annual audit.

Audit-Related Fees. In addition to the amounts described above, KPMG charged us an aggregate of €1.0 million in the 2006 fiscal year and €0.6 million in the 2007 fiscal year for assurance and related services in connection with the performance of the audit of our annual consolidated financial statements. These services consisted of transaction and accounting advisory services, IT system audits, professional services in connection with the filing of Qimonda's registration statement, and services related to the transition to IFRS.

Tax Fees. In addition to the amounts described above, KPMG charged us an aggregate of €0.1 million in the 2006 fiscal year and less than €0.1 million in the 2007 fiscal year for professional services related primarily to tax compliance.

All Other Fees. Fees of less than €0.1 million were charged by KPMG in 2006 fiscal year and €0.1 million in 2007 fiscal year for other services.

The above services fall within the scope of audit and permitted non-audit services within the meaning of section 201 of the Sarbanes-Oxley Act of 2002. Our Investment, Finance and Audit Committee has pre-approved KPMG's performance of these audit and permitted non-audit services and set limits on the types of services and the maximum cost of these services in any fiscal year. KPMG reports to our Investment, Finance and Audit Committee on a quarterly basis on the type and extent of non-audit services provided during the period and compliance with these criteria.

Exemptions from the Listing Standards for Audit Committees

As permitted by the rules of the Securities and Exchange Commission, our audit committee includes one member who is a non-executive employee of our company and who is named to our Supervisory Board pursuant to the German law on employee co-determination.

Material Contracts

This section provides a summary of material contracts not in the ordinary course of business to which we are a party and that have been entered into during the two immediately preceding fiscal years. The agreements described below, or English translations thereof, where applicable, have been filed as exhibits to this Annual Report on Form 20-F. Our Annual Reports on Form 20-F for the 2000 to 2006 fiscal years contain summaries of additional material contracts entered into prior to October 1, 2006, some of which may still be in effect.

Commercial Agreements

The descriptions of our joint venture and strategic alliance agreements set out under the headings "Business — Manufacturing — Manufacturing joint ventures and partnerships" and "Business — Strategic Alliances" and at note 17 to our consolidated financial statements for the year ended September 30, 2007 are incorporated herein by reference.

Related Party Transactions

In addition, please see Related-Party Transactions and Relationships for a summary of contracts with certain of our related parties.

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GLOSSARY

200-millimeter manufacturing, 300-millimeter manufacturing	The size refers to the diameter of the wafers being processed in a front-end fab.
75-nanometer technology, 80-nanometer technology	The size refers to the feature size of the manufacturing process used in a front-end fab.
A-GPS	Assisted Global Positioning System. GPS uses a network of satellites to triangulate a receiver's position and provide latitude and longitude coordinates. Assisted GPS, or A-GPS, is a technology that uses an assistance server to cut down the time needed to find the location.
ADSL	Asymmetric Digital Subscriber Line. A form of Digital Subscriber Line (see "xDSL") in which the bandwidth available for downloading data is significantly larger than for uploading data. This technology is well suited for web browsing and client server applications as well as for emerging applications such as video on demand.
AMB	Advanced Memory Buffer. This is a dedicated logic chip used on FB-DIMMs (see "FB-DIMM"). The AMB operates as the interface between the system bus and the memory chips.
analog	A continuous representation of phenomena in terms of points along a scale, each point merging imperceptibly into the next. Analog signals vary continuously over a range of values. Real world phenomena, such as heat and pressure, are analog. See also "digital".
ASIC	Application Specific Integrated Circuit. A logic or mixed-signal circuit designed for a specific use and for a specific customer.
ASSP	Application Specific Standard Product. A logic or mixed-signal circuit designed for a specific application market, and sold to more than one customer, and thus, standard.
Back-end	The packaging, assembly and testing stages of the semiconductor manufacturing process, which take place after electronic circuits are imprinted on silicon wafers in the front-end process.
Baseband IC	The baseband IC is an essential part of a cell phone. It includes a digital signal processor, a microcontroller, some on-chip memory, interfaces to several external devices, and mixed-signal functionality like coder/decoder for speaker and microphone.
Bit	A unit of information; a computational quantity (binary pulse) that can take one of two values, such as true and false or 0 and 1; also the smallest unit of storage sufficient to hold one bit.
Broadband	Any network technology that combines and sorts multiple, independent network frequencies onto a single cable. Commonly used to refer to high-bandwidth copper or fiber cables with a bandwidth of 1 Mbit per second and above.
Byte	A unit of storage measurement equal to eight bits.

Chip cards	Cards that contain an IC. Frequently used for telephone cards, debit cards, SIM cards, social cards, identification cards and PayTV cards.

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CMOS	Complementary Metal Oxide Substrate technology. A process technology that uses complementary MOS transistors (NMOS and PMOS) to make a chip that will consume relatively low power and permit a high level of integration.
CO	Central Office. A common carrier switching office in which users' lines terminate. The nerve center of a telephone system.
Contactless chip card	In contrast to contact-based chip cards, contactless chip cards communicate with the card reader through induction technology. Contactless cards require only close proximity to an antenna to complete transaction.
CODEC	Coder/Decoder. Hardware used to code and decode digital signals.
CPE	Customer Premises Equipment. CPE is telephone or other service provider equipment, that is located on the customer's premises (physical location) rather than on the provider's premises or in between.
DDR SDRAM	Double data rate Synchronous Dynamically RAM. It activates output on both the rising and falling edge of the system clock rather than on just the rising edge, potentially doubling output. See also "RAM" and "SDRAM".
DDR2 800	A memory device with a DDR2 interface and clocked with a 400 MHz clock.
DECT	Digital Enhanced Cordless Telecommunications. A standard used for pan-European digital cordless telephones.
Digital	The representation of data by a series of bits or discrete values such as 0 and 1. See also "analog".
DIMM	Dual In-line Memory Module. A memory module with contact rows on both sides and more bandwidth than a SIMM (single in-line memory module).
Discrete semiconductors	Semiconductor devices that involve only a single device like a transistor or a diode.
DLC	Digital Loop Carriers. A technology that makes use of digital techniques to bring a wide range of services to users via twisted-pair copper phone lines.
DRAM	Dynamic Random Access Memory. The most common type of solid state memory. Each bit of information is stored as an amount of electrical charge in a storage cell consisting of a capacitor and a transistor. The capacitor discharges gradually due to leakage and the memory cell loses the information stored. To preserve the information, the memory has to be refreshed periodically and is therefore referred to as "dynamic". DRAM is a widespread memory technology because of its high packing density and consequently low price.
DSL	See "xDSL".
DSLAM	Digital Subscriber Line Access Multiplexers. A network device, usually located in a telephone company central office, that receives signals from multiple customers' digital subscriber line connections (see "xDSL") and puts the signals on a high-speed backbone line using multiplexing technologies (see "multiplexing").

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DVB-C	Digital Video Broadcasting — Cable.
DVB-H	Digital Video Broadcasting — Handheld.
DVB-S	Digital Video Broadcasting — Satellite.
DVB-T	Digital Video Broadcasting — Terrestrial.
EDGE	Enhanced Data rate for GSM Evolution. Also referred to as 2.75G, where GSM is 2G, GPRS is 2.5G and UMTS is 3G.
Embedded DRAM, Embedded flash	A process technology that combines DRAM or flash, respectively, and logic functions on a single chip.
Ethernet	A protocol for high speed communications, principally used for LAN networks.
Fab	A semiconductor fabrication facility, in which the front-end manufacturing process takes place. (see also “Front-end”.)
FB-DIMM	Fully Buffered Dual In-line Memory Module. A variant of standard DDR2 memory designed for server applications where both large amounts of memory and memory coordination and accuracy at high speeds are essential.
Flash memory	A type of non-volatile memory that can be erased and reprogrammed. See “NAND”.
FlexRay	FlexRay is a new automotive network communications protocol. It is positioned above CAN (controller area network) and MOST (media oriented systems transport) in terms of both performance and price.
Front-end	The wafer processing stage of the semiconductor manufacturing process, in which electronic circuits are imprinted onto raw silicon wafers. This is followed by the packaging, assembly and testing stages, which comprise the back-end process.
Foundry	A semiconductor manufacture that makes chips for third parties.
GDDR3, GDDR5	Graphic Double Data Rate. Third or fifth generation, respectively. See “GraphicsRAM”.
Gigabit (Gbit)	Approximately one billion bits; precisely 2 to the power of 30 bits.
Gigabyte	Approximately one billion bytes; precisely 2 to the power of 30 bytes.
GPRS	General Packet Radio Services. A packet based wireless communication service that promises data rates from 56 up to 114 Kbps and continuous connection to the Internet for mobile phone and computer users. GPRS is based on GSM communication.
GraphicsRAM	High-performance DRAM chip, especially designed for graphics applications like 3D graphics boards and game consoles. See “GDDR3, GDDR5”.
GSM	Global System for Mobile communication. A digital mobile telephone system that is the de facto wireless telephone standard in Europe and widely used in other parts of the world. GSM digitizes and compresses data, then sends it down a channel with two other streams of user data, each in its own

time slot. It operates at either the 900 MHz or 1800 MHz frequency band.

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IC	Integrated Circuit. A semiconductor device consisting of many interconnected transistors and other components like resistors, capacitors and diodes.
ISDN	Integrated Services Digital Network. A type of online connection that speeds up data transmission by handling information in a digital form. Traditional modem communications translate a computer's digital data into an analog wave form and send the signal, which then must be converted back to an analog signal. ISDN can be thought of as a direct digital connection.
ISO	International Standards Organization. The international organization responsible for developing and maintaining worldwide standards for manufacturing, environmental protection, computers, data communications, and many other fields.
ITU	International Telecommunication Union. The ITU is an international organization established to standardize and regulate international radio and telecommunications.
Mask	A transparent glass or quartz plate covered with an array of patterns used in the IC manufacturing process to create circuitry patterns on a wafer. Each pattern consists of opaque and transparent areas that define the size and shape of all circuit and device elements. The mask is used to expose selected areas, and defines the areas to be processed. Masks may use emulsion, chrome, iron oxide, silicon or other material to produce the opaque areas.
Megabit (Mbit)	Approximately one million bits; precisely 2 to the power of 20 bits.
Megabyte (MB)	Approximately one million bytes; precisely 2 to the power of 20 bytes.
Memory	Any device that can store data in machine-readable format.
Microcontroller	A microprocessor combined with memory and interfaces integrated on a single circuit and intended to operate as an embedded system.
Micron (µm)	A metric unit of linear measure which equals one millionth of a meter. A human hair is about 100 microns in diameter. There are 1000 microns in 1 millimeter.
Micro DIMM	Dual in-line memory module. A small-factor memory module specifically used in notebooks.
Mixed-signal IC	An integrated circuit that includes both analog and digital signal processing circuitry on a single semiconductor die. Typically, mixed-signal chips perform some whole function of sub-function in a larger assembly such as the radio subsystem of a cell phone. They often contain an entire system-on-a-chip.
NAND	NAND flash architecture is one of two flash technologies (the other being NOR) used in memory cards. It is also used in USB flash drives, MP3 players, and provides the image storage for digital cameras. NAND is best suited to flash devices requiring high capacity data storage.
Nanometer (nm)	A metric unit of linear measure which equals one billionth of a meter. There are 1000 nanometers in 1 micron.

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Non-volatile memory	A memory storage device whose contents are preserved when its power is off. See also “volatile memory”.
ODM	Original Device Manufacturer. A company which manufactures a product which ultimately will be branded by another firm for sale.
OHSAS	Occupational Health and Safety Assessment Series. The discipline concerned with protecting the safety, health and welfare of employees, organizations, and others affected by the work they undertake (such as customers, suppliers, and members of the public).
PBX	Private Branch eXchange. A telephone exchange that is owned by a private business, as opposed to one owned by a common carrier or by a telephone company.
PDA	Personal Digital Assistant. A term used to refer to any small mobile hand-held device that provides computing and information storage and retrieval capabilities for personal or business use, often for keeping schedule calendars and address book information handy.
PFC	Perfluorinated Compounds. Compounds derived from hydrocarbons by replacement of hydrogen atoms by fluorine atoms.
PHY	Physical Layer. A part of the electrical or mechanical interface to the physical medium. For example, the PHY determines how to put a stream of bits from the upper (data link) layer on to the pins for a parallel printer interface or network line card.
POF	Polymer Optical Fiber.
RAM	Random access memory. A type of data storage device for which the order of access to different locations does not affect the speed of access. This is in contrast to, for example, a magnetic disk or magnetic tape where it is much quicker to access data sequentially because accessing a non sequential location requires physical movement of the storage medium rather than electronic switching.
REACH	Registration, Evaluation and Authorization of Chemicals. A framework for regulation of chemicals in the European Union.
RF transceiver	Radio-frequency transceiver. A high-frequency used in mobile telecommunications. The term radio frequency refers to electromagnetic waves having characteristics such that, if the current is input to an antenna, an electromagnetic field is generated suitable for wireless broadcasting and/or communications.
RFID	Radio frequency identification. Systems that read or write data to RF tags that are present in a radio frequency field projected from RF reading/writing equipment. Data may be contained in one or more bits for the purpose of providing identification and other information relevant to the object to which the tag is attached. It incorporates the use of electromagnetic, or electrostatic coupling in the radio frequency portion of the spectrum to communicate to or from a tag through a variety of modulation schemes.
SDRAM	Synchronous DRAM. The most common type of DRAM

memory today. Data are transferred synchronously to a clock signal. See also “DRAM”.

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Semiconductor	Generic name for devices, such as transistors and integrated circuits, that control the flow of electrical signals. More generally a material, typically crystalline, that can be altered to allow electrical current to flow or not flow in a pattern. The most common semiconductor material for use in integrated circuits is silicon.
Server	A computer that provides some service for other computers connected to it via a network. The most common example is a file server which has a local disk and services requests from remote clients to read and write files on that disk.
Silicon	A type of semiconducting material used to make a wafer. Silicon is the most widely used semiconductor material in the semiconductor industry (other than Germanium) as a base material.
SIM card	Subscriber identification module card. Used in mobile handsets for subscriber authentication.
SLIC	Subscriber line interface circuit. A circuit in a telephone company switch to which a customer's telephone line is connected.
SMARTi 3GE	Infineon's product name for a CMOS RF transceiver with worldwide compatibility.
SO-DIMM	Small-Outline Dual In-line Memory Module.
SoC	System-on-a-chip. The packaging of all the necessary electronic circuit and parts for a "system" (such as a cell phone or digital camera) on a single IC.
SRAM	Static RAM. A type of memory that is more expensive and much faster than DRAM but has much lower power consumption than DRAM. SRAM are used in cell phones because of low power consumption and in PCs as a fast first-level memory buffer.
Structure size	A measurement (generally in micron or nanometer) of the width of the smallest patterned feature on a semiconductor chip.
T/E	T1/E1, T3/E3. A data transmission technology based on copper wires. Various speed classes are available: T1: 1,544 Mbit/s; E1: 2,048 Mbit/s; T3: 44,736 Mbit/s; E3: 34,368 Mbit/s. The T standards are prevalent in NAFTA. The E standards are European standards.
T-DMB	Terrestrial Digital Multimedia Broadcasting. A system for broadcasting a variety of digital content to mobile devices, such as cellular phones.
Telematics	The combination of telecommunications and data processing.
UMTS	Universal Mobile Telecommunications Service. A so-called "third-generation (3G)," broadband, packet based transmission of text, digitized voice, video, and multimedia at data rates up to two megabits per second (Mbps), that is based on the GSM communication standard. UMTS aims to offer a consistent set of services to mobile computer and phone users no matter where they are located in the world.
VDSL	Very high bit-rate Digital Subscriber Line. A form of digital subscriber line similar to ADSL but providing higher speeds at

reduced distances. See also “xDSL”.

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VoIP	Voice Over Internet Protocol. The routing of voice conversations over the Internet or any other IP-based network.
Volatile memory	A memory storage device whose contents are not preserved when its power is off. Most common types are DRAM and SRAM. See also “non-volatile memory”.
Wafer	A disk made of a semiconducting material such as silicon, currently usually either 150-millimeters or 200-millimeters or 300-millimeters in diameter, used to form the substrate of a chip. A finished wafer may contain several thousand chips.
WDCT	Worldwide Digital Cordless Telecommunications.
WLAN	Wireless LAN. A wireless data communications network covering a small area, usually within the confines of a building or floors within a building.
xDSL	Digital Subscriber Line (where “x” represents the type of technology, e.g. ADSL, VDSL, SHDSL). A family of digital telecommunications protocols designed to allow high speed data communication over existing copper telephone lines between end-users and the telephone company. See also “VDSL”.
Yield	When used in connection with manufacturing, the ratio of the number of usable products to the total number of produced products.

INFINEON TECHNOLOGIES AG AND SUBSIDIARIES
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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Supervisory Board
Infineon Technologies AG:

We have audited the accompanying consolidated balance sheets of Infineon Technologies AG and subsidiaries (the "Company") as of September 30, 2006 and 2007, and the related consolidated statements of operations, shareholders' equity, and cash flows for each of the years in the three-year period ended September 30, 2007. We also have audited management's assessment, included in the accompanying Item 15: Controls and Procedures — Management's Annual Report on Internal Control over Financial Reporting, that Infineon Technologies AG and subsidiaries maintained effective internal control over financial reporting as of September 30, 2007, based on criteria established in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"). The Company's management is responsible for these consolidated financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on these consolidated financial statements, an opinion on management's assessment, and an opinion on the effectiveness of the Company's internal control over financial reporting based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the consolidated financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with U.S. generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with U.S. generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Infineon Technologies AG and subsidiaries as of September 30, 2006 and 2007, and the results of their operations and their cash flows for each of the years in the three-year period ended September 30, 2007, in conformity with

U.S. generally accepted accounting principles. Also, in our opinion, management's assessment that Infineon Technologies AG and subsidiaries maintained

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effective internal control over financial reporting as of September 30, 2007, is fairly stated, in all material respects, based on criteria established in *Internal Control — Integrated Framework* issued by COSO. Furthermore, in our opinion, Infineon Technologies AG and subsidiaries maintained, in all material respects, effective internal control over financial reporting as of September 30, 2007, based on criteria established in *Internal Control — Integrated Framework* issued by COSO.

As discussed in Note 2 to the consolidated financial statements, the Company adopted the recognition provision of Statement of Financial Accounting Standards No. 158, "*Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans — an amendment of FASB Statements No. 87, 88, 106, and 132(R)*", effective September 30, 2007.

Munich, Germany
November 13, 2007, except as to note 37,
which is as of November 30, 2007

KPMG DEUTSCHE TREUHAND-GESELLSCHAFT
AKTIENGESELLSCHAFT
WIRTSCHAFTSPRÜFUNGSGESELLSCHAFT

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Infineon Technologies AG and Subsidiaries
Consolidated Statements of Operations
For the years ended September 30, 2005, 2006 and 2007
(in millions, except for share data)

	Notes	2005	2006	2007	2007
		(€ millions)	(€ millions)	(€ millions)	($ millions)
Net sales:					
Third parties		5,843	7,546	7,625	10,842
Related parties	31	916	383	57	81
Total net sales		6,759	7,929	7,682	10,923
Cost of goods sold	8	4,909	5,854	6,092	8,662
Gross profit		1,850	2,075	1,590	2,261
Research and development expenses		1,293	1,249	1,169	1,662
Selling, general and administrative expenses		655	751	700	995
Restructuring charges	9	78	23	45	64
Other operating expense, net	8	92	108	46	66
Operating loss		(268)	(56)	(370)	(526)
Interest expense, net		(9)	(92)	(33)	(46)
Equity in earnings of associated companies, net	17	57	78	117	166
Gain on subsidiaries and associated company share issuance, net	17	—	19	—	—
Other non-operating income (expense), net		26	(33)	13	18
Minority interests	26	2	(23)	19	27
Loss before income taxes		(192)	(107)	(254)	(361)
Income tax expense	10	(120)	(161)	(79)	(112)
Loss before extraordinary loss		(312)	(268)	(333)	(473)
Extraordinary loss, net of tax	4	—	—	(35)	(50)
Net loss		(312)	(268)	(368)	(523)
Basic and diluted loss per share before extraordinary loss		(0.42)	(0.36)	(0.45)	(0.64)
Basic and diluted loss per share	11	(0.42)	(0.36)	(0.49)	(0.70)

See accompanying notes to the consolidated financial statements.

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Infineon Technologies AG and Subsidiaries
Consolidated Balance Sheets
September 30, 2006 and 2007

	Notes	2006	2007	2007
		(€ millions)	(€ millions)	($ millions)
Assets:				
Current assets:				
Cash and cash equivalents		2,040	1,819	2,586
Marketable securities	12	615	475	675
Trade accounts receivable, net	13	1,245	894	1,271
Inventories	14	1,202	1,217	1,731
Deferred income taxes	10	97	66	94
Other current assets	15	482	807	1,148
Total current assets		5,681	5,278	7,505
Property, plant and equipment, net	16	3,764	3,647	5,186
Intangible assets, net	19	230	232	330
Long-term investments	17	659	652	927
Restricted cash		78	77	109
Deferred income taxes	10	627	593	843
Pension assets	32	—	60	85
Other assets	18	146	140	199
Total assets		11,185	10,679	15,184
Liabilities and shareholders' equity:				
Current liabilities:				
Short-term debt and current maturities	23	797	336	478
Trade accounts payable	20	1,245	1,285	1,827
Accrued liabilities	21	525	526	748
Deferred income taxes	10	26	15	21
Short-term pension liabilities	32	—	5	7
Other current liabilities	22	712	680	967
Total current liabilities		3,305	2,847	4,048
Long-term debt	23	1,208	1,376	1,957
Pension liabilities	32	134	111	158
Deferred income taxes	10	60	46	65
Long-term accrued liabilities	24	46	36	51
Other liabilities	25	277	316	449
Total liabilities		5,030	4,732	6,728
Minority interests	26	840	1,033	1,469
Shareholders' equity:				
Ordinary share capital	27	1,495	1,499	2,131
Additional paid-in capital		5,828	5,864	8,338
Accumulated deficit		(1,780)	(2,148)	(3,054)
Accumulated other comprehensive loss	29	(228)	(301)	(428)
Total shareholders' equity		5,315	4,914	6,987
Total liabilities and shareholders' equity		11,185	10,679	15,184

See accompanying notes to the consolidated financial statements.

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Infineon Technologies AG and Subsidiaries
Consolidated Statements of Shareholders' Equity
For the years ended September 30, 2005, 2006 and 2007
(in millions of Euro, except for share data)

	Notes	Issued Ordinary shares		Additional paid-in capital	Accumulated deficit	Foreign currency translation adjustment	Additional minimum pension liability/ Defined benefit plans	Unrealized gain (loss) on securities	Unrealized gain (loss) on cash flow hedge	Total
		Shares	Amount							
Balance as of October 1, 2004		747,559,859	1,495	5,800	(1,200)	(122)	—	4	1	5,978
Net loss		—	—	—	(312)	—	—	—	—	(312)
Other comprehensive income (loss)	29	—	—	—	—	64	(84)	8	(25)	(37)
Total comprehensive loss										(349)
Issuance of ordinary shares:										
Exercise of stock options	27	9,500	—	—	—	—	—	—	—	—
Balance as of September 30, 2005		747,569,359	1,495	5,800	(1,512)	(58)	(84)	12	(24)	5,629
Net loss		—	—	—	(268)	—	—	—		(268)
Other comprehensive income (loss)	29	—	—	—	—	(69)	(3)	(7)	5	(74)
Total comprehensive loss										(342)
Issuance of ordinary shares:										
Exercise of stock options	27	39,935	—	—	—	—	—	—	—	—
Stock-based compensation	28	—	—	28	—	—	—	—	—	28
Balance as of September 30, 2006		747,609,294	1,495	5,828	(1,780)	(127)	(87)	5	(19)	5,315
Net loss		—	—	—	(368)	—	—	—	—	(368)
Other comprehensive (loss) income	29	—	—	—	—	(105)	90	(12)	2	(25)
Total comprehensive loss										(393)
Issuance of ordinary shares:										
Exercise of stock options	27	2,119,341	4	15	—	—	—	—	—	19
Stock-based compensation	28	—	—	17	—	—	—	—	—	17
Deferred compensation, net		—	—	4	—	—	—	—	—	4
Adjustment to initially apply SFAS No. 158, net of tax	32	—	—	—	—	—	(48)	—	—	(48)
Balance as of September 30, 2007		749,728,635	1,499	5,864	(2,148)	(232)	(45)	(7)	(17)	4,914

See accompanying notes to the consolidated financial statements.

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Infineon Technologies AG and Subsidiaries
Consolidated Statements of Cash Flows
For the years ended September 30, 2005, 2006 and 2007

	2005	2006	2007	2007
	(€ millions)	(€ millions)	(€ millions)	($ millions)
Net loss	(312)	(268)	(368)	(523)
Adjustments to reconcile net loss to cash provided by operating activities:				
Depreciation and amortization	1,316	1,405	1,276	1,814
Provision for (recovery of) doubtful accounts	3	23	(19)	(27)
Gains on sales of marketable securities	(8)	(3)	(8)	(11)
Losses (gains) on sales of businesses and interests in subsidiaries	(39)	10	63	90
Gains on disposals of property, plant, and equipment	(8)	(9)	(13)	(18)
Equity in earnings of associated companies, net	(57)	(78)	(117)	(166)
Dividends received from associated companies	51	29	61	87
Gain on subsidiaries and associated company share issuance, net	—	(19)	—	
Minority interests	(2)	23	(19)	(27)
Impairment charges	134	57	40	57
Stock-based compensation	—	28	17	24
Deferred income taxes	88	(6)	58	82
Changes in operating assets and liabilities:				—
Trade accounts receivable, net	119	(334)	331	471
Inventories	(25)	(145)	(76)	(108)
Other current assets	(2)	31	55	78
Trade accounts payable	(52)	222	29	41
Accrued liabilities	(115)	85	4	6
Other current liabilities	1	52	(109)	(157)
Other assets and liabilities	(2)	(100)	2	3
Net cash provided by operating activities	1,090	1,003	1,207	1,716
Cash flows from investing activities:				
Purchases of marketable securities available for sale	(2,228)	(492)	(224)	(319)
Proceeds from sales of marketable securities available for sale	3,310	730	357	508
Proceeds from sales of businesses and interests in subsidiaries	101	72	273	388
Business acquisitions, net of cash acquired	—	—	(45)	(64)
Investment in associated and related companies	(135)	(6)	(2)	(3)
Cash increase from initial consolidation of ALTIS	—	119	—	—
Purchases of intangible assets	(27)	(44)	(39)	(55)
Purchases of property, plant and equipment	(1,368)	(1,253)	(1,375)	(1,955)
Proceeds from sales of property, plant and equipment	58	21	188	267
Net cash used in investing activities	(289)	(853)	(867)	(1,233)
Cash flows from financing activities:				
Net change in short-term debt	(20)	—	30	43
Net change in related party financial receivables and payables	18	7	(3)	(4)
Proceeds from issuance of long-term debt	192	400	245	348
Principal repayments of long-term debt	(500)	(56)	(744)	(1,058)
Change in restricted cash	21	10	1	1
Proceeds from issuance of ordinary shares	—	—	23	33
Proceeds from issuance of shares to minority interest	23	—	4	6
Proceeds from issuance of shares of Qimonda	—	406	—	—
Dividend payments to minority interests	—	(5)	(77)	(110)
Net cash (used in) provided by financing activities	(266)	762	(521)	(741)
Effect of foreign exchange rate changes on cash and cash equivalents	5	(20)	(40)	(57)
Net increase (decrease) in cash and cash equivalents	540	892	(221)	(315)
Cash and cash equivalents at beginning of year	608	1,148	2,040	2,901
Cash and cash equivalents at end of year	1,148	2,040	1,819	2,586

See accompanying notes to the consolidated financial statements.

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Infineon Technologies AG and Subsidiaries
Notes to the Consolidated Financial Statements

1. Description of Business and Basis of Presentation

Description of Business

Infineon Technologies AG and its subsidiaries (collectively, the "Company") design, develop, manufacture and market a broad range of semiconductors and complete systems solutions used in a wide variety of microelectronic applications, including computer systems, telecommunications systems, consumer goods, automotive products, industrial automation and control systems, and chip card applications. The Company's products include standard commodity components, full-custom devices, semi-custom devices and application-specific components for memory, analog, digital and mixed-signal applications. The Company has operations, investments and customers located mainly in Europe, Asia and North America. The fiscal year-end for the Company is September 30.

Basis of Presentation

The accompanying consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP"). Infineon Technologies AG is incorporated in Germany. The German Commercial Code ("*Handelsgesetzbuch*" or "HGB") requires the Company to prepare consolidated financial statements in accordance with the HGB accounting principles and regulations ("German GAAP"). Pursuant to the German Commercial Code Implementation Act ("*Einführungsgesetz zum HGB-EGHGB*"), Article 58, paragraph 5, the Company is exempt from this requirement, if consolidated financial statements are prepared and issued in accordance with a body of internationally accepted accounting principles (such as U.S. GAAP). Accordingly, the Company presents the U.S. GAAP consolidated financial statements contained herein.

All amounts herein are shown in Euro (or "€") except where otherwise stated. The accompanying consolidated balance sheet as of September 30, 2007, and the consolidated statements of operations and cash flows for the year then ended are also presented in U.S. dollars ("$"), solely for the convenience of the reader, at the rate of €1 = $1.4219, the Federal Reserve noon buying rate on September 28, 2007. The U.S. dollar convenience translation amounts have not been audited.

Certain amounts in prior year consolidated financial statements and notes have been reclassified to conform to the current year presentation. Dividends received from Associated Companies (as defined below), previously reported as part of cash flows from investing activities in the consolidated statements of cash flows, have been reclassified to cash flows from operating activities. The Company's consolidated results of operations and overall cash flows have not been affected by these reclassifications.

2. Summary of Significant Accounting Policies

The following is a summary of significant accounting policies followed in the preparation of the accompanying consolidated financial statements.

Basis of Consolidation

The accompanying consolidated financial statements include the accounts of the Company and its significant subsidiaries that are directly or indirectly controlled on a consolidated basis. Control is generally conveyed by ownership of the majority of voting rights. Additionally, the Company evaluates its relationships with entities to identify whether they are variable interest entities ("VIE's"), and to assess whether it is the primary beneficiary of such entities. If the determination is made that the Company is the primary beneficiary, then that entity is included in the consolidated financial statements. VIE's are entities for which either the equity investment at risk is not sufficient to permit the entity to finance its activities without additional subordinated financial support, the investors lack an essential

characteristic of a controlling financial interest, or the investors' economic interests are disproportionate to the attached voting rights

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Infineon Technologies AG and Subsidiaries
Notes to the Consolidated Financial Statements

and substantially all of the entity's activities involve or are conducted for an investor with disproportionately few voting rights.

Investments in companies in which the Company has the ability to exercise significant influence over operating and financial policies, generally through an ownership interest of 20 percent or more and that are not controlled by the Company ("Associated Companies") are accounted for using the equity method of accounting (see note 17). The equity in earnings of Associated Companies with fiscal year ends that differ by not more than three months from the Company's fiscal year end are recorded on a three month lag. Other equity investments ("Related Companies"), generally in which the Company has an ownership interest of less than 20 percent, are recorded at cost. The effects of all significant intercompany transactions are eliminated.

The Company group consists of the following numbers of entities:

	Consolidated subsidiaries	Associated companies	Total
September 30, 2006	66	7	73
Additions	8	—	8
Disposals	(5)	(2)	(7)
September 30, 2007	69	5	74

Reporting and Foreign Currency

The Company's reporting currency is the euro, and therefore the accompanying consolidated financial statements are presented in euro.

The assets and liabilities of foreign subsidiaries with functional currencies other than the euro are translated using period-end exchange rates, while the revenues and expenses of such subsidiaries are translated using average exchange rates during the period. Differences arising from the translation of assets and liabilities in comparison with the translations reported in the previous periods are included in other comprehensive income (loss) and reported as a separate component of shareholders' equity.

The exchange rates of the primary currencies used in the preparation of the accompanying consolidated financial statements are as follows in Euro:

		Exchange Rate		Annual average exchange rate	
Currency:		September 29, 2006	September 28, 2007	2006	2007
U.S. dollar	1$ =	0.7899	0.7052	0.8117	0.7497
Japanese yen	100 JPY =	0.6696	0.6124	0.6978	0.6297
Great Britain pound	1 GBP =	1.4756	1.4300	1.4595	1.4806
Singapore dollar	1 SGD =	0.4981	0.4728	0.5016	0.4904

Revenue Recognition

Sales

Revenue from products sold to customers is recognized, pursuant to U.S. Securities and Exchange Commission ("SEC") Staff Accounting Bulletin ("SAB") 104, "*Revenue Recognition*", when persuasive evidence of an arrangement exists, the price is fixed or determinable, shipment is made and collectibility is reasonably assured. The Company records reductions to revenue for estimated product returns and allowances for discounts, volume rebates and price protection, based on actual historical experience, at the time the

related revenue is recognized. In general, returns are permitted only for quality-related

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Notes to the Consolidated Financial Statements

reasons within the applicable warranty period. Distributors can, in certain cases, apply for stock rotation or scrap allowances and price protection. Allowances for stock rotation returns are accrued based on expected stock rotation as per the contractual agreement. Distributor scrap allowances are accrued based on the contractual agreement and, upon authorization of the claim, reimbursed up to a certain maximum of the average inventory value. Price protection programs allow distributors to apply for a price protection credit on unsold inventory in the event the Company reduces the standard list price of the products included in such inventory. In some cases, rebate programs are offered to specific customers or distributors whereby the customer or distributor may apply for a rebate upon achievement of a defined sales volume. Distributors are also partially compensated for commonly defined cooperative advertising on a case-by-case basis.

License Income

License income is recognized when earned and realizable (see note 6). Lump sum payments are generally non-refundable and are deferred where applicable and recognized over the period in which the Company is obliged to provide additional service. Pursuant to Emerging Issues Task Force ("EITF") Issue No. 00-21, "*Revenue Arrangements with Multiple Deliverables*", revenues from contracts with multiple elements are recognized as each element is earned based on the relative fair value of each element and when there are no undelivered elements that are essential to the functionality of the delivered elements and when the amount is not contingent upon delivery of the undelivered elements. Royalties are recognized as earned.

Grants

Grants for capital expenditures include both tax-free government grants (*Investitionszulage*) and taxable grants for investments in property, plant and equipment (*Investitionszuschüsse*). Grants receivable are established when a legal right for the grant exists and the criteria for receiving the grant have been met. Tax-free government grants are deferred and recognized over the remaining useful life of the related asset. Taxable grants are deducted from the acquisition costs of the related asset and thereby reduce depreciation expense in future periods. Other taxable grants reduce the related expense (see notes 7, 22 and 25).

Product-related Expenses

Shipping and handling costs associated with product sales are included in cost of sales. Expenditures for advertising, sales promotion and other sales-related activities are expensed as incurred. Provisions for estimated costs related to product warranties are generally made at the time the related sale is recorded, based on estimated failure rates and claim history. Research and development costs are expensed as incurred.

Income Taxes

Income taxes are accounted for under the asset and liability method pursuant to FASB Statement of Financial Accounting Standards ("SFAS") No. 109, "*Accounting for Income Taxes*". Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Valuation allowances are recorded to reduce deferred tax assets to an amount that is more-likely-than-not to be realized in the future. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates

is recognized in income in the period that includes the enactment date. Investment tax credits are accounted for under the flow-through method.

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Infineon Technologies AG and Subsidiaries
Notes to the Consolidated Financial Statements

Stock-based Compensation

Prior to the adoption of SFAS No. 123 (revised 2004) "*Share-Based Payment*", the Company accounted for stock-based compensation using the intrinsic value method pursuant to Accounting Principles Board ("APB") Opinion 25, "*Accounting for Stock Issued to Employees*", recognized compensation cost over the pro rata vesting period, and adopted the disclosure-only provisions of SFAS No. 123, "*Accounting for Stock-Based Compensation*" as amended by SFAS No. 148 "*Accounting for Stock-Based Compensation — Transition and Disclosure, an Amendment of FASB Statement No. 123*".

Effective October 1, 2005, the Company adopted SFAS No. 123 (revised 2004) under the modified prospective application method. Under this application, the Company records stock-based compensation expense for all awards granted on or after the date of adoption and for the portion of previously granted awards that remained unvested at the date of adoption. Stock-based compensation cost is measured at the grant date, based on the fair value of the award, and is recognized as expense over the period during which the employee is required to provide service in exchange for the award. SFAS No. 123 (revised 2004) eliminates the alternative method of accounting for employee share-based payments previously available under APB No. 25. Periods prior to October 1, 2005 have not been restated and do not reflect the recognition of stock-based compensation (see note 28).

Issuance of shares by Subsidiaries or Associated Companies

Gains or losses arising from the issuances of shares by subsidiaries or Associated Companies, due to changes in the Company's proportionate share of the value of the issuer's equity, are recognized in earnings pursuant to SAB Topic 5:H, "*Accounting for Sales of Stock by a Subsidiary*" (see notes 3 and 17).

Cash and Cash Equivalents

Cash and cash equivalents represent cash, deposits and liquid short-term investments with original maturities of three months or less. Cash equivalents as of September 30, 2006 and 2007 were €1,926 million and €1,653 million, respectively, and consisted mainly of bank term deposits and fixed income securities with original maturities of three months or less.

Restricted Cash

Restricted cash includes collateral deposits used as security under arrangements for deferred compensation, business acquisitions, construction projects, leases and financing (see note 35).

Marketable Securities and Investments

The Company's marketable securities are classified as available-for-sale and are stated at fair value as determined by the most recently traded price of each security at the balance sheet date. Unrealized gains and losses are included in accumulated other comprehensive income, net of applicable income taxes. Realized gains or losses and declines in value, if any, judged to be other-than-temporary on available-for-sale securities are reported in other non-operating income or expense. For the purpose of determining realized gains and losses, the cost of securities sold is based on specific identification.

The Company assesses declines in the value of marketable securities and investments to determine whether such decline is other-than-temporary, thereby rendering the marketable security or investment impaired. This assessment is made by considering available evidence including changes in general market conditions, specific industry and investee data, the

length of time and the extent to which the fair value has been less than cost, and the Company's intent and ability to hold the marketable security or investment for a period of time sufficient to allow for any anticipated recovery in fair value.

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Infineon Technologies AG and Subsidiaries
Notes to the Consolidated Financial Statements

Inventories

Inventories are valued at the lower of cost or market, cost being generally determined on the basis of an average method. Cost consists of purchased component costs and manufacturing costs, which comprise direct material and labor costs and applicable indirect costs.

Property, Plant and Equipment

Property, plant and equipment are stated at cost less accumulated depreciation. Spare parts, maintenance and repairs are expensed as incurred. Depreciation expense is recognized using the straight-line method. Construction in progress includes advance payments for construction of fixed assets. Land and construction in progress are not depreciated. The cost of construction of certain long-term assets includes capitalized interest, which is amortized over the estimated useful life of the related asset. During the years ended September 30, 2006 and 2007 capitalized interest was less than €1 million. The estimated useful lives of assets are as follows:

	Years
Buildings	10-25
Technical equipment and machinery	3-10
Other plant and office equipment	1-10

Leases

The Company is a lessee of property, plant and equipment. All leases where the Company is lessee that meet certain specified criteria intended to represent situations where the substantive risks and rewards of ownership have been transferred to the lessee are accounted for as capital leases pursuant to SFAS No. 13, "*Accounting for Leases*", and related interpretations. All other leases are accounted for as operating leases.

Goodwill and Other Intangible Assets

The Company accounts for business combinations using the purchase method of accounting pursuant to SFAS No. 141, "*Business Combinations*". Intangible assets acquired in a purchase method business combination are recognized and reported apart from goodwill, pursuant to the criteria specified by SFAS No. 141.

Intangible assets consist primarily of purchased intangible assets, such as licenses and purchased technology, which are recorded at acquisition cost, and goodwill resulting from business acquisitions, representing the excess of purchase price over fair value of net assets acquired. Intangible assets other than goodwill are amortized on a straight-line basis over the estimated useful lives of the assets ranging from 3 to 10 years. Pursuant to SFAS No. 142, "*Goodwill and Other Intangible Assets*", goodwill is not amortized, but instead tested for impairment at least annually in accordance with the provisions of SFAS No. 142. The Company tests goodwill annually for impairment in the fourth quarter of the fiscal year, whereby if the carrying amount of a reporting unit with goodwill exceeds its fair value, the amount of impairment is determined as the excess of recorded goodwill over the fair value of goodwill. The determination of fair value of the reporting units and related goodwill requires considerable judgment by management.

Impairment of Long-lived Assets

The Company reviews long-lived assets, including property, plant and equipment and intangible assets subject to amortization, for impairment whenever events or changes in

circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is

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Infineon Technologies AG and Subsidiaries
Notes to the Consolidated Financial Statements

measured by a comparison of the carrying amount of an asset to future net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. Estimated fair value is generally based on either market value, appraised value or discounted estimated future cash flows. Considerable management judgment is necessary to estimate discounted future cash flows.

Financial Instruments

The Company operates internationally, giving rise to exposure to changes in foreign currency exchange rates. The Company uses financial instruments, including derivatives such as foreign currency forward and option contracts as well as interest rate swap agreements, to reduce this exposure based on the net exposure to the respective currency. The Company applies SFAS No. 133, "*Accounting for Derivative Instruments and Hedging Activities*", as amended, which provides guidance on accounting for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities. Derivative financial instruments are recorded at their fair value and included in other current assets or other current liabilities. Generally the Company does not designate its derivative instruments as hedge transactions. Changes in fair value of undesignated derivatives that relate to operations are recorded as part of cost of sales, while undesignated derivatives relating to financing activities are recorded in other non-operating expense, net. Changes in fair value of derivatives designated as fair value hedges and the related changes in the hedged item are reflected in earnings. Changes in the fair value of derivatives designated as cash flow hedges are, to the extent effective, deferred in accumulated other comprehensive income and subsequently reclassified to earnings when the hedging transaction is reflected in earnings and, to the extent ineffective, included in earnings immediately. The fair value of derivative and other financial instruments is discussed in note 33.

Pension Plans

The measurement of pension-benefit liabilities is based on actuarial computations using the projected-unit-credit method in accordance with SFAS No. 87, "*Employers' Accounting for Pensions*". The assumptions used to calculate pension liabilities and costs are shown in note 32. Prior to the adoption of the recognition provision of SFAS No. 158, "*Employer's Accounting for Defined Benefit Pension and Other Postretirement Plans — an amendment of FASB Statements No. 87, 88, 106, and 132(R)*", changes in the amount of the projected benefit obligation or plan assets resulting from experience different from that assumed and from changes in assumptions could result in gains or losses not yet recognized in the Company's consolidated financial statements. Amortization of an unrecognized net gain or loss is included as a component of the Company's net periodic benefit plan cost for a year if, as of the beginning of the year, that unrecognized net gain or loss exceeds 10 percent of the greater of the projected benefit obligation or the fair value of that plan's assets. In that case, the amount of amortization recognized by the Company is the resulting excess divided by the average remaining service period of the active employees expected to receive benefits under the plan.

Effective September 30, 2007, the Company adopted the recognition provision of SFAS No. 158, whereby the Company recognizes the overfunded or underfunded status of its defined benefit postretirement plans as an asset or liability in its statement of financial position. Changes in funded status will be recognized in the year in which the changes occur through other comprehensive income. The incremental effects of the adoption of the recognition provision on the individual line items of the September 30, 2007 consolidated balance sheet are shown in note 32. See also *Recent Accounting Pronouncements* below.

The Company also records a liability for amounts payable under the provisions of its various defined contribution plans.

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Infineon Technologies AG and Subsidiaries
Notes to the Consolidated Financial Statements

Use of Estimates

The preparation of the accompanying 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 period. Actual amounts could differ materially from such estimates made by management.

Recent Accounting Pronouncements

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

In June 2006, the FASB issued Interpretation No. 48, "*Accounting for Uncertainty in Income Taxes — an Interpretation of FASB Statement 109*" ("FIN 48"), which defines the threshold for recognizing the benefits of tax return positions in the financial statements as "*more-likely-than-not*" to be sustained by the taxing authority. The recently issued literature also provides guidance on the derecognition, measurement and classification of income tax uncertainties, along with any related interest and penalties. FIN 48 also includes guidance concerning accounting for income tax uncertainties in interim periods and increases the level of disclosures associated with any recorded income tax uncertainty. FIN 48 is effective for fiscal years beginning after December 15, 2006. The difference between the amounts recognized in the statements of financial position prior to the adoption of FIN 48 and the amounts reported after adoption will be accounted for as a cumulative-effect adjustment recorded to the beginning balance of retained earnings. The provisions of FIN 48 are effective for the Company as of October 1, 2007. The Company is in the process of determining the impact, if any, that the adoption of FIN 48 will have on its consolidated financial position and results of operations.

In September 2006, the FASB released SFAS No. 157, "*Fair Value Measurements*", which provides guidance for using fair value to measure assets and liabilities. SFAS No. 157 defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurements. The standard also responds to investors' requests for more information about the extent to which companies measure assets and liabilities at fair value, the information used to measure fair value, and the effect that fair value measurements have on earnings. SFAS No. 157 will apply whenever another standard requires (or permits) assets or liabilities to be measured at fair value. The standard does not expand the use of fair value to any new circumstances. SFAS No. 157 is effective for the Company in the fiscal year beginning on October 1, 2008, and interim periods within that fiscal year. The Company will adopt SFAS No. 157 on October 1, 2008 on a prospective basis.

In September 2006, the FASB issued SFAS No. 158, "*Employer's Accounting for Defined Benefit Pension and Other Postretirement Plans — an amendment of FASB Statements No. 87, 88, 106, and 132(R)*", which requires an employer to recognize the overfunded or underfunded status of a defined benefit postretirement plan (other than a multiemployer plan) as an asset or liability in its statement of financial position and to recognize changes in that funded status in the year in which the changes occur through comprehensive income of a business entity or changes in unrestricted net assets of a not-for-profit organization ("Recognition Provision"). The Company adopted the Recognition Provision of SFAS No. 158

as of the end of the fiscal year ended September 30, 2007. The incremental effects of the implementation of the Recognition Provision on the individual line items in the September 30, 2007 consolidated balance

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sheet are shown in note 32. SFAS No. 158 also requires an employer to measure the funded status of a plan as of the date of its year-end statement of financial position, with limited exceptions ("Measurement Date Provision"). The Company currently measures the funded status of its plans annually on June 30. The Measurement Date Provision is effective for the Company as of the end of the fiscal year ending September 30, 2009. The Company does not expect the change in the annual measurement date to September 30 to have a significant impact on its consolidated financial position and results of operations.

In September 2006, the SEC issued SAB No. 108, "*Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements*". SAB No. 108 provides interpretive guidance on how the effects of prior-year uncorrected misstatements should be considered when quantifying misstatements in the current year financial statements. SAB No. 108 requires registrants to quantify misstatements using both an income statement ("rollover") and balance sheet ("iron curtain") approach and evaluate whether either approach results in a misstatement that, when all relevant quantitative and qualitative factors are considered, is material. If prior year errors that had been previously considered immaterial are now considered material based on either approach, no restatement is required so long as management properly applied its previous approach and all relevant facts and circumstances were considered. If prior years are not restated, the cumulative effect adjustment is recorded in opening accumulated earnings (deficit) as of the beginning of the year of adoption. SAB No. 108 is effective for fiscal years ending on or after November 15, 2006. The Company adopted SAB No. 108 during the fourth quarter of the fiscal year ended September 30, 2007. The adoption of SAB No. 108 did not have an impact on the Company's consolidated financial position or results of operations.

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

3. Separation of Memory Products Business

Effective May 1, 2006, substantially all of the memory products-related assets and liabilities, operations and activities of Infineon were contributed to Qimonda AG ("Qimonda"), a stand-alone legal company (the "Formation"). In conjunction with the Formation, the Company entered into contribution agreements and various other service agreements with Qimonda. In cases where physical contribution (ownership transfer) of assets and liabilities was not feasible or cost effective, the monetary value was transferred in the form of cash or debt. At the Formation, Qimonda's operations in Japan and Korea were initially held in trust for Qimonda's benefit by Infineon until the legal transfer to Qimonda could take place. Qimonda's Korea operations were legally transferred to Qimonda in October 2006. Infineon legally transferred the Japanese operations to Qimonda during the year ended

September 30, 2007. Qimonda's investment in Inotera Memories Inc. ("Inotera"), previously held in trust by Infineon, was transferred to Qimonda in March 2007 (see note 17). The Company's investment in Advanced Mask Technology Center

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GmbH & Co. KG ("AMTC") is intended to be transferred to Qimonda after approval by the other shareholders in the venture (see note 17).

The contribution agreements include provisions pursuant to which Qimonda agreed to indemnify Infineon against any claim (including any related expenses) arising in connection with the liabilities, contracts, offers, incomplete transactions, continuing obligations, risks, encumbrances, guarantees and other matters relating to the memory products business that were transferred to it as part of the Formation. In addition, the contribution agreements provide for indemnification of Infineon with respect to certain existing and future legal claims and potential restructuring costs incurred in connection with the potential rampdown of production in one module of Infineon Technologies Dresden GmbH & Co. OHG. Although no restructuring has been established for the respective module of Infineon Technologies Dresden GmbH & Co. OHG, these costs could be material and could adversely impact the financial condition and results of operations of Qimonda and of the Company. With the exception of the securities and certain patent infringement and antitrust claims identified in note 35, Qimonda is obligated to indemnify Infineon against any liability arising in connection with claims relating to the memory products business described in that section. Liabilities and risks relating to the securities class action litigation, including court costs, will be equally shared by Infineon and Qimonda, but only with respect to the amount by which the total amount payable exceeds the amount of the corresponding accrual that Infineon transferred to Qimonda at Formation. Qimonda has agreed to indemnify Infineon for 60 percent of any license fee payments to which Infineon may agree in connection with ongoing negotiations relating to licensing and cross-licensing arrangements with a third party. These payments could be substantial and could remain in effect for lengthy periods.

Qimonda fully repaid its short-term loan from Infineon of €344 million during the 2007 fiscal year.

On August 9, 2006 Qimonda completed its IPO on the New York Stock Exchange through the issuance of 42 million ordinary shares which are traded as American Depositary Shares ("ADSs") under the symbol "QI", for an offering price of $13.00 per ADS. As a result, the Company's ownership interest in Qimonda was diluted to 87.7 percent and its proportional share of Qimonda's equity decreased by €53 million, which loss the Company reflected as part of non-operating expenses under gain on subsidiaries and associated company share issuance, net during the year ended September 30, 2006. The net offering proceeds amounted to €406 million (before tax benefits available to Qimonda of €9 million) and were classified as proceeds from issuance of shares of Qimonda within cash flows from financing activities in the accompanying consolidated statement of cash flows for the year ended September 30, 2006. In addition, Infineon sold 6.3 million Qimonda ADSs upon exercise of the underwriters' over-allotment option. As a result, the Company's ownership interest in Qimonda decreased to 85.9 percent and the Company recognized a loss of €12 million, which was reflected as part of other operating expenses, net during the year ended September 30, 2006. The net over-allotment proceeds amounted to €58 million and were classified as proceeds from sale of businesses and interests in subsidiaries within cash flows from investing activities in the accompanying consolidated statement of cash flows for the year ended September 30, 2006. Qimonda used the offering proceeds to finance investments in its manufacturing facilities and for research and development.

On September 25, 2007, Infineon sold an additional 28.75 million Qimonda ADSs (including the underwriters' over-allotment option) for an offering price of $10.92 per ADS. As a result, the Company's ownership interest in Qimonda decreased to 77.5 percent and the Company recognized a loss on sale of €84 million, which is reflected in other operating expenses, net during the year ended September 30, 2007. The net proceeds from this transaction amounted to €216 million and are classified as proceeds from sale of businesses

and interests in subsidiaries within cash flows from investing activities in the accompanying consolidated statement of cash flows for the year ended September 30, 2007.

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In addition, on September 26, 2007, Infineon Technologies Investment B.V., a wholly owned subsidiary of Infineon Technologies AG, issued notes exchangeable into ADSs of Qimonda in the amount of €215 million (including the underwriters' over-allotment option). The coupon of the three-year exchangeable note is 1.375 percent per year. The exchange price is €10.48 for each Qimonda ADS, corresponding to an exchange premium of 35 percent. If all noteholders exercise their exchange rights, Infineon will deliver 20.5 million Qimonda ADSs, equivalent to approximately 6.0 percent of Qimonda's share capital (see notes 23 and 26).

On January 26, 2007 Infineon and Qimonda extended their agreement for the production of wafers in Infineon Technologies Dresden GmbH & Co. OHG production facility through September 30, 2009 (see note 37).

On April 25, 2007, Qimonda and SanDisk Corporation ("SanDisk") entered into an agreement to jointly develop and manufacture multichip packages ("MCPs") utilizing SanDisk's NAND flash and controllers and Qimonda's low power mobile DRAM. The jointly owned company, SanQi Solutions Lda., based in Portugal, targets the need for high capacity, integrated memory solutions for data-intensive mobile applications.

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

4. Acquisitions

During December 2004, Saifun Semiconductors Ltd. ("Saifun") and the Company modified their existing flash memory cooperation agreement. As a consequence, the Company consummated the acquisition of Saifun's remaining 30 percent share in the Infineon Technologies Flash joint venture in January 2005 and was granted a license for the use of Saifun's NROM® technologies, in exchange for $95 million (subsequently reduced to $46 million) to be paid in quarterly installments over 10 years and additional purchase consideration primarily in the form of net liabilities assumed aggregating €7 million (see note 6). The assets acquired and liabilities assumed were recorded in the accompanying consolidated balance sheet based upon their estimated fair values as of the date of the acquisition. The excess of the purchase price over the estimated fair values of the underlying assets acquired and liabilities assumed amounted to €7 million and was allocated to goodwill. Qimonda has sole ownership and responsibility for the business and started to account for its entire financial results in the three months ended March 31, 2005. In light of the weak market conditions for commodity NAND flash memories in the three months ended September 30, 2006, Qimonda decided to ramp down its flash production and stop the development of NAND compatible flash memory products based on Saifun's technology. Qimonda and Saifun amended the above license agreement to terminate the payment of quarterly installments as of December 31, 2006. As a result, Qimonda reduced payables, goodwill and other intangible assets, and recognized an impairment charge of €9 million related to license and fixed assets that were not considered to be recoverable as of September 30, 2006.

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 is subject to an upward or downward contingent consideration adjustment of up to $16 million, based on revenue targets of the CPE business during the nine months following the acquisition date. The Company plans to continue supporting the acquired product portfolio and existing customer designs while leveraging the acquired experience in future

product generations. The results of operations of the CPE business have been included in the consolidated financial statements starting August 1, 2007.

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On August 20, 2007, the Company announced that it plans to acquire the mobility products business of LSI Corporation ("LSI") for a price of $450 million plus a contingent performance-based payment of up to $50 million in order to further strengthen its activities in the field of communications. The mobility products business designs semiconductors and software for cellular telephone handsets. The assets and liabilities to be acquired consist primarily of customer relationships, goodwill, fixed assets and current assets and liabilities. The Company is in the process of obtaining an appraisal of the estimated fair value of the assets and liabilities of the business to be acquired, the exact amount of which is not currently determinable. Pending the approval of the corresponding authorities, the transaction is expected to close in the first quarter of the 2008 fiscal year (see note 37).

During the quarter ended March 31, 2007, the Company entered into agreements with Molstanda Vermietungsgesellschaft mbH ("Molstanda") and a financial institution. Molstanda is the owner of a parcel of land located in the vicinity of the Company's headquarters south of Munich. Pursuant to FASB Interpretation No. 46 (revised December 2003), "*Consolidation of Variable Interest Entities — an interpretation of ARB No. 51*" ("FIN 46R"), the Company determined that Molstanda is a variable interest entity since it does not have sufficient equity to demonstrate that it could finance its activities without additional financial support, and as a result of the agreements the Company became its primary beneficiary. Accordingly, the Company consolidated the assets and liabilities of Molstanda beginning in the second quarter of the 2007 fiscal year. Since Molstanda is not considered a business pursuant to FIN 46R, the €35 million excess in fair value of liabilities assumed and consolidated of €76 million, over the fair value of the newly consolidated identifiable assets of €41 million, was recorded as an extraordinary loss during the second quarter of the 2007 fiscal year (see note 30). Due to the Company's cumulative loss situation described in note 10 no tax benefit was provided on this loss. The Company subsequently acquired the majority of the outstanding capital of Molstanda during the fourth quarter of the 2007 fiscal year. In August 2007, the Company entered into an agreement to sell part of the acquired parcel of land to a third-party developer-lessor in connection with the construction and lease of Qimonda's new headquarters office in the south of Munich (see note 37).

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The following table summarizes the Company's business acquisitions during the years ended September 30, 2005 and 2007 (there were no significant business acquisitions during the 2006 fiscal year):

	2005	2007
	Flash	CPE
Acquisition Date	**January 2005**	**July 2007**
Segment	**Qimonda**	**Communication Solutions**
	(€ in millions)	
Cash	1	—
Other current assets	16	6
Property, plant and equipment	4	1
Intangible assets		
Core technology	58	—
Other	—	7
Goodwill	7	31
Other non-current assets	3	—
Total assets acquired	89	45
Current liabilities	(45)	—
Non-current liabilities	(2)	—
Total liabilities assumed	(47)	—
Net assets acquired	42	45
Cash paid (Purchase Consideration)	—	45

The above acquisitions have been accounted for by the purchase method of accounting and, accordingly, the consolidated statements of operations include the results of the acquired companies from their respective acquisition dates. For each significant acquisition the Company engaged an independent third party to assist in the valuation of net assets acquired.

Pro forma financial information relating to these acquisitions is not material either individually or in the aggregate to the results of operations and financial position of the Company and has been omitted.

5. Divestitures

On December 23, 2004, the Company agreed to sell its venture capital activities, reflected in the Other Operating Segments, to Cipio Partners, a venture capital company. Under the terms of the agreement, the Company sold its interest in Infineon Ventures GmbH including the majority of the venture investments held therein. The transaction closed on February 23, 2005. As a result of the sale, the Company realized a gain before tax of €13 million which was recorded in other non-operating expense, net in the 2005 fiscal year.

On January 25, 2005, Finisar Corporation ("Finisar") and the Company entered into an agreement under which Finisar acquired certain assets of the Company's fiber optics business. Under the terms of the agreement, the Company received 34 million shares of Finisar's common stock valued at €40 million as consideration for the sale of inventory, fixed assets and intellectual property associated with the design and manufacture of fiber optic transceivers. The Company also committed to provide Finisar with contract manufacturing services under separate supply agreements for up to one year following the closing. The transaction did not require shareholder or regulatory approval and closed on January 31, 2005. As a result of the transaction, the Company realized a gain before tax of €21 million which was recorded in other operating expense, net in the 2005 fiscal year.

On April 8, 2005, the Company sold to VantagePoint Venture Partners its entire share interest in Finisar's common stock. As a result of the sale, the Company recorded an other-than-temporary

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impairment of €8 million in other non-operating expense during the second quarter of the 2005 fiscal year, to reduce the investment's carrying value to the net sale proceeds.

The Company retained ownership of its remaining fiber optics businesses consisting of Bi-Directional Fiber Transmission ("BIDI") components for Fiber-To-The-Home ("FTTH") applications, Parallel Optical Components ("PAROLI") and Polymer Optical Fiber ("POF") components that are used in automotive applications, which were reclassified from held for sale to held and used during the second quarter of the 2005 fiscal year, and were restructured. The reclassification of the retained fiber optic businesses into the held and used category was measured at the lower of their carrying amount before they were classified as held for sale, adjusted for depreciation expense that would have been recognized had the retained fiber optic businesses been continuously classified as held and used, or the fair value of the assets on January 25, 2005. Accordingly, the Company recognized an impairment charge of €34 million in other operating expenses during the second quarter of the 2005 fiscal year.

On August 2, 2005, the Company sold the long-term assets utilized in the design and manufacture of BIDI components to EZConn Corporation ("EZConn") for cash consideration of €3 million. The Company also committed to provide EZConn with contract manufacturing services through March 2006. As a result of the transaction, the Company realized a gain before tax of €2 million, which was recorded in other operating income in the 2005 fiscal year, and deferred €1 million which was realized over the term of the contract manufacturing agreement until June 2006.

On April 7, 2005, the Company and Exar Corporation ("Exar") entered into an agreement whereby the Company sold to Exar a significant portion of its optical networking business unit for $11 million cash. The sale included assets relating to multi-rate TDM framer products, Fiber Channel over SONET/SDH, Resilient Packet Ring ("RPR"), as well as certain intellectual property for Data Over SONET products. As a result of the sale, the Company reclassified related non-current assets into assets held for sale during the second quarter of the 2005 fiscal year and recorded an impairment of €3 million to reduce their carrying value to the net sale proceeds. The sale of the assets was consummated during the 2005 fiscal year.

On June 29, 2007, the Company sold its POF business, based in Regensburg, Germany, to Avago Technologies Ltd. The POF business operates in the market for automotive multimedia infotainment networks and transceivers for safety systems. As a result of the sale, the Company realized a gain before tax of €17 million which was recorded in other operating expense, net during the 2007 fiscal year.

On August 8, 2007 the Company and International Business Machines Corporation ("IBM") signed an agreement in principle to divest their respective shares in ALTIS Semiconductor S.N.C., Essonnes, France ("ALTIS") via a sale to Advanced Electronic Systems AG ("AES"). Under the terms of the agreement in principle, AES will purchase the equity, which includes the real estate and technology assets of ALTIS, from the Company and IBM, and AES agreed to maintain the level of industrial activity in ALTIS. Pursuant to the agreement, the Company will enter into a two-year supply contract with ALTIS and IBM and Infineon will license certain manufacturing process technologies to AES for use in ALTIS. The agreement is subject to governmental and regulatory approval and works council consultation. As a result of the agreement, the Company reclassified related non-current assets and liabilities into assets and liabilities held for sale during the fourth quarter of the 2007 fiscal year.

At September 30, 2007, other current assets included assets held for sale relating to ALTIS (see note 15). These assets include land, buildings and equipment, and current

assets associated with the production facility located in Essonnes, France. Related liabilities are included in other current liabilities (see note 22). Pursuant to SFAS 144, "*Accounting for Impairment or Disposal of Long-lived Assets*", the recognition of depreciation expense ceased as of August 1, 2007. The Company performed an impairment assessment and concluded that no impairment was necessary.

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Summarized balance sheet information for ALTIS is set forth below:

	September 30, 2007
	(€ in millions)
Current assets	103
Non-current assets	169
Total assets held for sale (note 15)	272
Current liabilities	110
Non-current liabilities	7
Total liabilities related to assets held for sale (note 22)	117

Summary financial information for the divested businesses (through the date of divestiture) for the years ended September 30, 2005, 2006 and 2007, are as follows:

	2005	2006	2007
		(€ in millions)	
Sales:			
Fiber Optics	23	—	—
BIDI	6	—	—
POF	28	26	14
Total	57	26	14
EBIT:			
Infineon Ventures GmbH	(3)	—	—
Fiber Optics	(27)	—	—
BIDI	(20)	—	—
POF	(7)	(1)	(6)
Total	(57)	(1)	(6)
Gain (loss) on sale before tax:			
Infineon Ventures GmbH	13	—	—
Fiber Optics	21	—	—
BIDI	2	—	—
POF	—	—	17
Other	3	—	3
Total	39	—	20

On September 28, 2007, the Company entered into a joint venture agreement with Siemens AG (“Siemens”), whereby the Company would contribute all assets and liabilities of its high power bipolar business (including licenses, patents, and front-end and back-end production assets) into a newly formed legal entity called Infineon Technologies Bipolar GmbH & Co. KG (“Bipolar”) and Siemens would acquire a 40 percent interest in Bipolar for €37 million. The Company contributed all assets and liabilities of its high power bipolar business into Bipolar effective September 30, 2007. The joint venture agreement will grant Siemens certain contractual participating rights which will inhibit the Company from exercising control over the newly formed entity. Accordingly, the Company will account for its 60 percent interest in Bipolar under the equity method of accounting and will recognize the excess of the consideration received over the carrying value of the interests sold as other operating income. Pending the approval of the applicable authorities, the transaction is expected to close in the first quarter of the 2008 fiscal year (see note 37).

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6. Licenses

During the years ended September 30, 2005, 2006 and 2007, the Company recognized revenues related to license and technology transfer fees of €175 million, €29 million and €28 million, respectively, which are included in net sales in the accompanying statements of operations. Included in these amounts are previously deferred license fees of €33 million, €12 million and €8 million, which were recognized as revenue pursuant to SAB 104 in the years ended September 30, 2005, 2006 and 2007, respectively, since the Company had fulfilled all of its obligations and the amounts were realized.

On November 10, 2004, the Company and ProMOS Technology Inc. ("ProMOS") reached an agreement regarding ProMOS' license of the Company's previously transferred technologies, pursuant to which ProMOS may continue to produce and sell products using those technologies and to develop its own processes and products. The Company has no continuing involvement with the licensing of these products to ProMOS. As full consideration, ProMOS agreed to pay the Company $156 million in four installments through April 30, 2006, against which the Company's accrued liability for DRAM products from ProMOS of $36 million was offset. The parties agreed to withdraw their respective claims, including arbitration. The present value of the settlement amounted to €118 million and was recognized as license income during the 2005 fiscal year.

In connection with its joint technology development with Nanya Technology Corporation ("Nanya"), in 2003 the Company granted Nanya a license to use its 110-nanometer technology and to do joint development on the 90-nanometer and 70-nanometer technologies. On September 29, 2005, the Company and Nanya signed an agreement to expand their development cooperation with respect to the joint development of advanced 58-nanometer production technologies for 300-millimeter wafers (see note 17). On September 24, 2007, Qimonda and Nanya entered into an agreement for further know-how transfer from Qimonda to Nanya. License income related to the technology is recognized over the estimated life of the technology.

In connection with a capacity reservation agreement with Winbond Electronics Corp. ("Winbond") in August 2004, the Company granted Winbond a license to use its 110-nanometer technology and for the production and sale of Winbond's proprietary Specialty DRAM products to third parties. In August 2006, Qimonda entered into an agreement with Winbond whereby Qimonda transferred its 80-nanometer DRAM technology to Winbond to manufacture DRAM using this technology exclusively for Qimonda. On June 27, 2007, Qimonda signed agreements with Winbond to expand their existing cooperation and capacity reservation. Under the terms of the agreements, Qimonda agreed to transfer its 75-nanometer and 58-nanometer DRAM trench technologies to Winbond. In return, Winbond will manufacture DRAM using these technologies exclusively for Qimonda. Winbond will also use the 58-nanometer technology to develop and sell proprietary Specialty DRAM products to third parties, for which Qimonda would receive license fees and royalties.

On March 18, 2005 the Company and Rambus Inc. ("Rambus") reached an agreement settling all claims between them and licensing the Rambus patent portfolio for use in current and future Company products. Rambus granted to the Company a worldwide license to existing and future Rambus patents and patent applications for use in the Company's memory products. In exchange for this worldwide license, the Company agreed to pay $50 million in quarterly installments of $6 million between November 15, 2005 and November 15, 2007. As of March 31, 2005, the Company recorded a license and corresponding liability in the amount of €37 million, representing the estimated present value of the minimum future license payments. After November 15, 2007, and only if Rambus enters into additional specified licensing agreements with certain other DRAM manufacturers, Qimonda would make additional quarterly payments which may accumulate

up to a maximum of an additional $100 million. Because Rambus' ability to conclude the agreements is not within the Company's control, the Company is not able to estimate whether additional payment obligations may arise. The agreement also provides the Company an option for

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acquiring certain other licenses. All licenses provide for the Company to be treated as a "most-favored customer" of Rambus. The Company simultaneously granted to Rambus a fully-paid perpetual license for memory interfaces. In addition to the licenses, the two companies agreed to the immediate dismissal of all pending litigation and released each other from all existing legal claims. The license of €37 million is being amortized over the expected useful life of the related technologies of ten years (see note 19).

In January 2005, the Company was granted a license for the use of Saifun's NROM® technologies. The estimated fair value of the license and minimum future license payments of €58 million were recorded as an asset and liability, respectively. The Company retained the option to terminate the entire license, or parts thereof, at any time without penalty. During the three months ended June 30, 2005, the Company exercised its termination option and cancelled the portion of the license encompassing NROM® Code Flash products. As a result of the partial termination, the license asset and related liability were reduced to €28 million and €29 million, respectively. Effective September 30, 2006, the Company and Saifun amended the license agreement (see note 4). As a result of the amendment, the related liability was reduced to €3 million as of September 30, 2006.

On June 14, 2006, Infineon and Qimonda reached agreements with MOSAID Technologies Inc. ("MOSAID") settling all claims between them and licensing the MOSAID patent portfolio for use in current and future Company products. MOSAID granted to Infineon and Qimonda a six-year license to use any MOSAID patents in the manufacturing and sale of semiconductor products, as well as a "lives of the patents" license to certain MOSAID patent families. In exchange for these licenses, the Company and Qimonda agreed to make license payments commencing on July 1, 2006 over a six-year term (see note 19).

On August 1, 2006, Infineon and Qimonda entered into settlement agreements with Tessera Inc. ("Tessera") in respect of all of Tessera's patent infringement and antitrust claims and all counterclaims and other claims Infineon and Qimonda had raised against Tessera. As part of the settlement, Infineon and Qimonda entered into license agreements with Tessera, effective July 1, 2006, that provide the companies world-wide, nonexclusive, non-transferable and non-sublicensable licenses to use a portfolio of Tessera patents relating to packaging for integrated circuits in Infineon's and Qimonda's production. The license agreements have a six-year term and can be extended. Under the license agreements, Infineon and Qimonda agreed to pay Tessera an initial upfront fee and additional royalty payments over a six year period based on the volume of components they sell that are subject to the license. The Company recognized the litigation settlement portion of €37 million as other operating expense during the year ended September 30, 2006. The remaining license portion is being amortized over the term of the agreement and the royalty payments are recognized as the related sales are made.

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7. Grants

The Company has received economic development funding from various governmental entities, including grants for the construction of manufacturing facilities, as well as grants to subsidize research and development activities and employee training. Grants and subsidies included in the accompanying consolidated financial statements during the fiscal years ended September 30, 2005, 2006 and 2007, are as follows:

	2005	2006	2007
		(€ in millions)	
Included in the consolidated statements of operations:			
Research and development	50	67	115
Cost of sales	121	86	133
	171	153	248
Construction grants deducted from the cost of fixed assets (note 30)	—	49	1

Deferred government grants amounted to €212 million and €182 million as of September 30, 2006 and 2007, respectively. The amounts of grants receivable as of September 30, 2006 and 2007 were €138 million and €104 million, respectively.

8. Supplemental Operating Cost Information

The costs of services and materials are as follows for the years ended September 30:

	2005	2006	2007
		(€ in millions)	
Raw materials, supplies and purchased goods	1,867	2,244	2,382
Purchased services	1,166	1,330	1,352
Total	3,033	3,574	3,734

Personnel expenses are as follows for the years ended September 30:

	2005	2006	2007
		(€ in millions)	
Wages and salaries	1,664	1,827	1,880
Social levies	285	319	341
Pension expense (note 32)	28	37	41
Total	1,977	2,183	2,262

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Other operating expense, net is as follows for the years ended September 30:

	2005	2006	2007
		(€ in millions)	
Gains (losses) from sales of businesses and interests in subsidiaries	39	(10)	(63)
Goodwill and intangible assets impairment charges (note 19)	(57)	(38)	(2)
Long-lived asset impairment charges	(39)	(6)	(4)
Litigation settlement charges, net of recoveries (note 35)	(20)	(60)	9
Other	(15)	6	14
Other operating expense, net	(92)	(108)	(46)

Litigation settlement charges refer to the settlement of an antitrust investigation by the U.S. Department of Justice and related settlements with customers (see note 21), as well as, during the year ended September 30, 2006, the settlement of the Tessera litigation (see note 6).

Total rental expenses under operating leases amounted to €125 million, €151 million and €134 million for the years ended September 30, 2005, 2006 and 2007, respectively.

The average number of employees by geographic region is as follows for the years ended September 30:

	2005	2006	2007
Germany	16,334	15,822	15,449
Other Europe	5,606	7,455	7,479
North America	3,108	3,283	3,433
Asia/Pacific	10,919	14,285	15,964
Japan	147	180	202
Other	44	41	22
Total	36,158	41,066	42,549

Of the total average number of employees listed above, 10,332, 11,003 and 12,775 for the years ended September 30, 2005, 2006 and 2007, respectively, were employees of Qimonda.

9. Restructuring

During the 2005 fiscal year, the Company announced restructuring measures aimed at reducing costs, downsizing certain portions of its workforce, and consolidating certain functions and operations. As part of the restructuring measures, the Company agreed upon plans to terminate approximately 350 employees. The terminations were primarily the result of the close down of fiber optics operations in Germany and the United States, and were completed in the 2006 fiscal year. In addition, the Company took measures to restructure its chip manufacturing within the manufacturing cluster Munich-Perlach, Regensburg and Villach. Production from Munich-Perlach was transferred primarily to Regensburg and to a lesser extent to Villach. Manufacturing at Munich-Perlach was phased out in March 2007. As part of the restructuring, the Company reduced its workforce by approximately 600 employees.

During the 2006 fiscal year, restructuring plans were announced to downsize the workforce at ALTIS and the Company's chip card back-end activities in order to maintain competitiveness and reduce cost. As part of these restructuring measures, the Company

agreed upon plans to terminate approximately 390 employees and recorded restructuring charges in the 2007 fiscal year.

During the 2007 fiscal year, further 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

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in order to further streamline certain research and development locations. Approximately 280 jobs are affected worldwide, thereof approximately 120 in the German locations Munich, Salzgitter and Nuremberg. A large portion of these restructuring measures have been completed during the 2007 fiscal year.

During the years ended September 30, 2005, 2006 and 2007, charges of €78 million, €23 million and €45 million, respectively, were recognized as a result of the above-mentioned restructuring initiatives.

The development of the restructuring liability during the year ended September 30, 2007 is as follows:

	September 30, 2006 Liabilities	Restructuring Charges	Payments	September 30, 2007 Liabilities
		(€ in millions)		
Employee terminations	57	39	(58)	38
Other exit costs	6	6	(6)	6
Total	63	45	(64)	44

10. Income Taxes

Income (loss) before income taxes and minority interest is attributable to the following geographic locations for the years ended September 30, 2005, 2006 and 2007:

	2005	2006	2007
		(€ in millions)	
Germany	(298)	(378)	(453)
Foreign	104	294	180
Total	(194)	(84)	(273)

Income tax expense (benefit) for the years ended September 30, 2005, 2006 and 2007 are as follows:

	2005	2006	2007
		(€ in millions)	
Current taxes:			
Germany	31	126	14
Foreign	1	41	7
	32	167	21
Deferred taxes:			
Germany	66	(21)	88
Foreign	22	15	(30)
	88	(6)	58
Income tax expense	120	161	79

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Total income taxes for the years ended September 30, 2005, 2006 and 2007 were allocated as follows:

	2005	2006	2007
		(€ in millions)	
Income tax expense	120	161	79
Goodwill and intangible assets, for initial recognition of acquired tax benefits that were previously included in the valuation allowance	(30)	—	—
Shareholder's equity, for other comprehensive income (loss)	—	—	5
	90	161	84

The Company's corporate statutory tax rate in Germany is 25 percent in the 2005, 2006 and 2007 fiscal years. Additionally, a solidarity surcharge of 5.5 percent is levied. The trade tax decreased in respect of Infineon Technologies AG from 13 percent in 2005 to 11 percent in 2006 due to the move of the Company's headquarters in 2006. Therefore, the combined statutory tax rate is 39 percent in 2005, and 37 percent in 2006 and 2007, respectively.

On August 17, 2007 the Business Tax Reform Act 2008 was enacted in Germany including several changes to the taxation of German business activities, including a reduction of the Company's combined statutory corporate and trade tax rate in Germany from 37 percent to 28 percent. Most of the changes will come into effect for the Company in its 2008 fiscal year. Pursuant to SFAS No. 109, the Company recorded a deferred tax charge of €53 million as of September 30, 2007, reflecting the reduction in value of the Company's deferred tax assets in Germany upon enactment.

A reconciliation of income taxes for the fiscal years ended September 30, 2005, 2006 and 2007, determined using the German corporate tax rate plus trade taxes, net of federal benefit, for a combined statutory rate of 39 percent for 2005 and 37 percent for 2006 and 2007 is as follows:

	2005	2006	2007
		(€ in millions)	
Expected expense (benefit) for income taxes	(76)	(31)	(101)
Increase in available tax credits	(5)	(36)	(35)
Non-taxable investment (income) loss	(26)	(31)	4
Tax rate differential	(18)	(50)	(107)
Non deductible expenses	29	13	28
Change in German tax rate	—	3	53
Increase in valuation allowance	192	292	226
Other	24	1	11
Actual provision for income taxes	120	161	79

The Company has operations in a jurisdiction which grants a tax holiday from the 2005 fiscal year onwards, which has a remaining term of two years. Compared to ordinary taxation in this jurisdiction, this resulted in tax savings of €0, €16 million and €6 million for the years ended September 30, 2005, 2006 and 2007, respectively, which are reflected in the tax rate differential.

In the 2006 fiscal year, the Company reached an agreement with German tax authorities on certain tax matters relating to prior years. As a result, the timing of the deductibility of certain temporary differences was revised, which led to an increase in the valuation allowance for the 2006 fiscal year in the amount of €50 million.

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Deferred income tax assets and liabilities as of September 30, 2006 and 2007 relate to the following:

	2006	2007
	(€ in millions)	
Deferred tax assets:		
Intangible assets	95	62
Property, plant and equipment	264	197
Deferred income	94	57
Net operating loss and tax credit carry-forwards	1,350	1,319
Other items	179	272
Gross deferred tax assets	1,982	1,907
Valuation allowance	(1,091)	(1,050)
Deferred tax assets	891	857
Deferred tax liabilities:		
Intangible assets	4	—
Property, plant and equipment	103	75
Accounts receivable	17	43
Accrued liabilities and pensions	118	113
Other items	11	28
Deferred tax liabilities	253	259
Deferred tax assets, net	638	598

Net deferred income tax assets and liabilities presented in the accompanying consolidated balance sheets as of September 30, 2006 and 2007, are as follows:

	2006	2007
	(€ in millions)	
Deferred tax assets:		
Current	97	66
Non-current	627	593
Deferred tax liabilities:		
Current	(26)	(15)
Non-current	(60)	(46)
Deferred tax assets, net	638	598

At September 30, 2007, the Company had in Germany tax loss carry-forwards of €3,295 million (relating to both trade and corporate tax, plus an additional loss carry-forward applicable only to trade tax of €1,375 million); in other jurisdictions the Company had tax loss carry-forwards of €220 million and tax effected credit carry-forwards of €149 million. Such tax loss carry-forwards and tax effected credit carry-forwards are generally limited to use by the particular entity that generated the loss or credit and do not expire under current law. The benefit for tax credits is accounted for on the flow-through method when the individual legal entity is entitled to the claim. In connection with the formation of Qimonda, the net operating losses related to the memory products segment have been retained by Infineon Technologies AG.

Pursuant to SFAS No. 109, the Company has assessed its deferred tax asset and the need for a valuation allowance. Such an assessment considers whether it is more likely than not that some portion or all of the deferred tax assets may not be realized. The assessment requires considerable judgment on the part of management, with respect to, among other factors, benefits that could be realized from available tax strategies and future taxable income, as well as other positive and negative factors. The ultimate realization of deferred

tax assets is dependent upon the Company's ability to generate the appropriate

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character of future taxable income sufficient to utilize loss carry-forwards or tax credits before their expiration. Since the Company had incurred a cumulative loss in certain tax jurisdictions over a three-year period as of September 30, 2007, which is significant evidence that the more likely than not criterion is not met pursuant to the provisions of SFAS No. 109, the impact of forecasted future taxable income is excluded from such an assessment. For these tax jurisdictions, the assessment was therefore only based on the benefits that could be realized from available tax strategies and the reversal of temporary differences in future periods. As a result of this assessment, the Company increased the deferred tax asset valuation allowance as of September 30, 2005, 2006 and 2007 by €192 million, €292 million, and €226 million, respectively, to reduce the deferred tax asset to an amount that is more likely than not expected to be realized in future.

The changes in valuation allowance for deferred tax assets during the years ended September 30, 2005, 2006 and 2007 were as follows:

	2005	2006	2007
		(€ in millions)	
Balance, beginning of the year	567	740	1,091
Applicable to continuing operations	192	292	226
Purchase accounting adjustments	(30)	—	—
Change in tax rate	—	—	(298)
Adjustment in corresponding net operating loss carry-forward	11	59	31
Balance, end of the year	740	1,091	1,050

In the 2006 and 2007 fiscal years, the Company recorded adjustments to certain net operating loss carry-forwards mainly as a result of final tax assessment reconciliations. As the adjustments were made in jurisdictions in which the Company is in cumulative loss positions, such adjustments were recorded directly to the valuation allowance and approximated €11 million, €59 million and €31 million in the 2005, 2006 and 2007 fiscal years, respectively.

The Company did not provide for income taxes or foreign withholding taxes on cumulative earnings of foreign subsidiaries as of September 30, 2006 and 2007, as these earnings are intended to be indefinitely reinvested in those operations. It is not practicable to estimate the amount of unrecognized deferred tax liabilities for these undistributed foreign earnings.

The Company reorganized certain businesses in different tax jurisdictions which resulted in deferred intercompany transactions. As of September 30, 2006 and 2007, deferred tax charges related to these transactions amounted to €63 million and €56 million, respectively, of which €56 million and €50 million, respectively are non-current (see note 18).

11. Earnings (Loss) Per Share

Basic earnings (loss) per share ("EPS") is calculated by dividing net loss by the weighted average number of ordinary shares outstanding during the year. 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 for the years ended September 30, 2005, 2006 and 2007, is as follows:

	2005	2006	2007
Numerator (€ in millions):			
Net loss before extraordinary loss	(312)	(268)	(333)
Extraordinary loss, net of tax	—	—	(35)
Net loss	(312)	(268)	(368)
Denominator (shares in millions):			
Weighted-average shares outstanding — basic	747.6	747.6	748.6
Effect of dilutive instruments	—	—	—
Weighted-average shares outstanding — diluted	747.6	747.6	748.6
Basic and diluted loss per share (in €):			
Net loss before extraordinary loss	(0.42)	(0.36)	(0.45)
Extraordinary loss, net of tax	—	—	(0.04)
Net loss	(0.42)	(0.36)	(0.49)

The weighted average of potentially dilutive instruments that were excluded from the diluted 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 39.4 million, 46.7 million and 41.2 million shares underlying employee stock options for the years ended September 30, 2005, 2006 and 2007, respectively. Additionally, 86.5 million, 86.5 million and 74.7 million ordinary shares issuable upon the conversion of the convertible subordinated notes for the years ended September 30, 2005, 2006 and 2007, respectively, were not included in the computation of diluted earnings (loss) per share as their impact would have been antidilutive.

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12. Marketable Securities

Marketable securities at September 30, 2006 and 2007 consist of the following:

	2006				2007			
	Cost	Fair Value	Unrealized Gains	Unrealized Losses	Cost	Fair Value	Unrealized Gains	Unrealized Losses
	(€ in millions)							
Foreign government securities	9	11	2	—	9	11	2	—
Floating rate notes	156	162	6	—	—	—	—	—
Fixed term securities	460	453	—	(7)	491	477	1	(15)
Other debt securities	14	18	4	—	18	22	4	—
Total debt securities	639	644	12	(7)	518	510	7	(15)
Equity securities	4	5	1	—	5	6	1	—
Total marketable securities	643	649	13	(7)	523	516	8	(15)
Reflected as follows:								
Current assets	616	615	6	(7)	490	475	—	(15)
Non-current assets (note 18)	27	34	7	—	33	41	8	—
Total marketable securities	643	649	13	(7)	523	516	8	(15)

Unrealized losses relating to securities held for more than 12 months as of September 30, 2006 and 2007, were €7 million and €8 million, respectively.

Realized (losses) gains, net are reflected as other non-operating income (expense), net and were as follows for the years ended September 30:

	2005	2006	2007
	(€ in millions)		
Realized gains	8	3	7
Realized losses	—	—	—
Realized gains, net	8	3	7

As of September 30, 2007, there were no significant fixed term deposits with contractual maturities between three and twelve months.

Debt securities as of September 30, 2007 had the following remaining contractual maturities:

	Cost	Fair Value
	(€ in millions)	
Less than 1 year	160	152
Between 1 and 5 years	133	130
More than 5 years	225	228
Total debt securities	518	510

Actual maturities may differ due to call or prepayment rights.

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13. Trade Accounts Receivable, net

Trade accounts receivable at September 30, 2006 and 2007 consist of the following:

	2006	2007
	(€ in millions)	
Third party — trade	1,304	916
Associated and Related Companies — trade (note 31)	8	16
Trade accounts receivable, gross	1,312	932
Allowance for doubtful accounts	(67)	(38)
Trade accounts receivable, net	1,245	894

Activity in the allowance for doubtful accounts for the years ended September 30, 2006 and 2007 is as follows:

	2006	2007
	(€ in millions)	
Allowance for doubtful accounts at beginning of year	44	67
Provision for (recovery of) bad debt, net	23	(29)
Allowance for doubtful accounts at end of year	67	38

14. Inventories

Inventories at September 30, 2006 and 2007 consist of the following:

	2006	2007
	(€ in millions)	
Raw materials and supplies	125	123
Work-in-process	777	665
Finished goods	300	429
Total Inventories	1,202	1,217

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15. Other Current Assets

Other current assets at September 30, 2006 and 2007 consist of the following:

	2006	2007
	(€ in millions)	
Assets held for sale (note 5)	—	272
VAT and other tax receivables	189	174
Grants receivable (note 7)	125	104
Associated and Related Companies — financial and other receivables (note 31)	1	59
Third party — financial and other receivables	61	57
Financial instruments (note 33)	22	49
Prepaid expenses	36	42
License fees receivable	14	13
Employee receivables (note 31)	7	8
Intangible pension asset (note 32)	13	—
Other	14	29
Total other current assets	482	807

16. Property, Plant and Equipment, net

A summary of activity for property, plant and equipment for the years ended September 30, 2006 and 2007 is as follows:

	Land and buildings	Technical equipment and machinery	Other plant and office equipment	Construction in progress	Total
			(€ in millions)		
Cost					
September 30, 2006	1,554	9,173	2,309	218	13,254
Additions	61	618	105	646	1,430
Impairments	—	(3)	—	—	(3)
Disposals	(15)	(162)	(180)	(4)	(361)
Reclassifications	13	424	25	(462)	—
Transfers	(101)	(971)	(24)	(7)	(1,103)
Foreign currency effects	(56)	(224)	(20)	(9)	(309)
September 30, 2007	1,456	8,855	2,215	382	12,908
Accumulated depreciation					
September 30, 2006	(732)	(6,749)	(2,009)	—	(9,490)
Depreciation	(103)	(933)	(187)	—	(1,223)
Disposals	9	155	175	—	339
Reclassifications	—	(5)	5	—	—
Transfers	41	880	18	—	939
Foreign currency effects	18	139	17	—	174
September 30, 2007	(767)	(6,513)	(1,981)	—	(9,261)
Book value September 30, 2006	822	2,424	300	218	3,764
Book value September 30, 2007	689	2,342	234	382	3,647

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On December 8, 2004, the Company announced plans to build a new front-end production plant in Kulim High Tech Park, Malaysia. The facility mainly produces power and logic chips used in automotive and industrial power applications. The construction started in early 2005 and production started in September 2006. At full capacity, the facility is expected to employ more than 1,500 people. Maximum capacity will be about 100,000 wafer starts per month using 200-millimeter wafers. As of September 30, 2007, the Company had invested a total of €379 million in this production plant.

17. Long-term Investments

A summary of activity for long-term investments for the years ended September 30, 2006 and 2007, is as follows:

	Investment in Associated Companies	Investment in Related Companies	Total
		(€ in millions)	
Balance at September 30, 2005	758	21	779
Additions	5	1	6
Disposals	—	(3)	(3)
Dividend payments	(29)	—	(29)
Capitalized interest	(1)	—	(1)
Impairments	(13)	—	(13)
Equity in earnings	78	—	78
Consolidation of ALTIS	(202)	4	(198)
Gain on share issuance	72	—	72
Reclassifications	10	1	11
Foreign currency effects	(43)	—	(43)
Balance at September 30, 2006	635	24	659
Additions	—	2	2
Disposals	(25)	(3)	(28)
Dividend payments	(61)	—	(61)
Capitalized interest	(1)	—	(1)
Impairments	—	(2)	(2)
Equity in earnings	117	—	117
Reclassifications	(12)	4	(8)
Foreign currency effects	(26)	—	(26)
Balance at September 30, 2007	627	25	652

Investments in Related Companies principally relate to investment activities aimed at strengthening the Company's future intellectual property potential.

The following Associated Companies as of September 30, 2007 are accounted for using the equity method of accounting:

Name of the Associated Company	Direct and indirect ownership[1]
Advanced Mask Technology Center GmbH & Co. KG, Dresden, Germany ("AMTC")	25.8%
Inotera Memories Inc., Taoyuan, Taiwan ("Inotera")	27.6%

[1] Direct and indirect ownership percentages are net of Qimonda's minority interest.

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The Company has accounted for these investments under the equity method of accounting due to the lack of unilateral control (see note 2). The above companies are principally engaged in the research and development, design and manufacture of semiconductors and related products.

On May 16, 2002, the Company entered into the AMTC joint venture with its partners Advanced Micro Devices Inc., USA ("AMD"), and DuPont Photomasks Inc., USA ("DuPont"), with the purpose of developing and manufacturing advanced photo masks. In addition, the Company agreed to sell specified photomask equipment to DuPont, and entered into a long-term purchase agreement through 2011. Accordingly, as of September 30, 2007, €12 million was deferred which is being recognized over the term of the purchase agreement. Toppan Printing Co., Ltd. acquired DuPont in April 2005 which led to a name change; former DuPont is now named Toppan Photomasks Inc., Ltd.

On November 13, 2002, the Company entered into agreements with Nanya relating to a strategic cooperation in the development of DRAM products and the foundation of a joint venture (Inotera) to construct and operate a 300-millimeter manufacturing facility in Taiwan. Pursuant to several agreements, the Company and Nanya developed advanced 90-nanometer and have been developing 75-and 58-nanometer technology. The 300-millimeter fabrication facility, which employs the technology developed under the aforementioned agreements to manufacture DRAM products, was completed in the 2006 fiscal year and was funded by Inotera. The ramp-up of the second manufacturing module at Inotera was completed and the total capacity in both manufacturing modules reached 120,000 wafer starts per month in September 2007. The second module was also fully funded by Inotera. The joint venture partners are obliged to each purchase one-half of the facility's production based, in part, on market prices.

On March 17, 2006, Inotera successfully completed an IPO on the Taiwanese stock exchange of 200 million ordinary shares, representing 7.97 percent of its outstanding share capital before IPO, for an issuance price of NT$33 per share. As a result, the Company's ownership interest was diluted to 41.4 percent while its proportional share of Inotera's equity increased by approximately €30 million, which gain the Company recognized as part of non-operating income during the third quarter of the 2006 fiscal year.

On May 10, 2006, Inotera successfully completed a public offering on the Luxembourg Stock Exchange of 40 million global depositary shares (representing 400,000,000 ordinary shares) which are traded on the Euro MTF market and represent 14.8 percent of its outstanding share capital before the offering, for an issuance price of NT$33 per ordinary share. As a result, the Company's ownership interest was diluted to 36.0 percent (30.9 percent net of Qimonda's minority interest) while its proportional share of Inotera's equity increased by €42 million, which gain the Company reflected as part of non-operating income during the fourth quarter of the 2006 fiscal year.

The agreement governing the joint venture with Nanya allowed Infineon to transfer its shares in Inotera to Qimonda. However, under Taiwanese law, Infineon's shares in Inotera are subject to a compulsory restriction on transfer (lock-up) as a result of Inotera's IPO. Infineon may only transfer these shares to Qimonda gradually over the four years following Inotera's IPO. The Company sought an exemption from this restriction that would permit the immediate transfer of all of these shares to Qimonda. In connection with the Formation, Infineon and Qimonda entered into a trust agreement under which Infineon held its Inotera shares in trust for Qimonda until the shares could be transferred. This trust agreement provided for Infineon to transfer the shares to Qimonda as and when the transfer restrictions expire or Qimonda received the exemption from the lock-up. In March 2007, the Inotera shares (except for the portion representing less than 1 percent of the total shares) were

transferred to Qimonda. The Inotera shares remain subject to Taiwanese lock-up provisions related to the Inotera IPO through January 2008, after which the remaining shares are to be transferred to Qimonda.

ALTIS is a joint venture between the Company and IBM, with each having equal voting representation. During the year ended September 30, 2003, the Company and IBM amended the original shareholders

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agreement. Pursuant to the amendment, the Company agreed to ratably increase its capacity reservation in the production output of ALTIS from 50 percent to 100 percent during fiscal years 2004 through 2007.

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

Under the December 2005 amendment, the Company and IBM also agreed a number of administrative matters regarding the governance and management of ALTIS, as well as related cost-allocation and accounting matters. The Company evaluated the amendment in accordance with FIN 46R and concluded that it held an interest in a variable interest entity in which the Company is determined to be the primary beneficiary. Accordingly, the Company began to fully consolidate ALTIS following the December 19, 2005 amendment whereby IBM's 50 percent ownership interest has been reflected as a minority interest.

The following table summarizes the elimination of the investment in ALTIS as previously accounted for under the equity method of accounting, and the Company's initial consolidation of ALTIS during first quarter of the 2006 fiscal year (see note 5):

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

In November 2003, the Company, together with United Epitaxy Company, Ltd. ("UEC"), Hsinchu, Taiwan, founded a joint venture company ParoLink. The Company initially invested €6 million, held a 56 percent ownership interest in ParoLink and accounted for its investment in ParoLink using the equity

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method, since substantive participating minority rights prevented the exercise of unilateral control. In connection with the Company's disposal of its fiber optics business (see note 5), the Company acquired the minority interest in ParoLink, terminated the joint venture with UEC and recorded an impairment to reduce the investment to its estimated fair value of €3 million. During January 2006, the joint venture partners decided to dissolve and liquidate ParoLink. The liquidation was completed in the 2007 fiscal year.

On October 1, 2002, the Company, Agere Systems Inc. and Motorola Inc. incorporated StarCore, LLC ("StarCore"), based in Austin, Texas. StarCore focused on developing, standardizing and promoting Digital Signal Processor ("DSP") core technology. In the 2006 fiscal year the shareholders decided by consensus to pursue their objectives in DSP core technology individually and to liquidate StarCore. As a consequence the Company recorded an impairment of €13 million during the 2006 fiscal year.

On November 13, 2006 Qimonda sold its investment in Ramtron International Corp., Colorado, USA ("Ramtron") through a private placement. As a result of the sale, Qimonda recorded a gain of €2 million as part of other non-operating income during the 2006 fiscal year.

The Company recognized impairment charges related to certain investments for which the carrying value exceeded the fair value on an other-than-temporary basis of €29 million, €13 million and €2 million during the years ended September 30, 2005, 2006 and 2007, respectively.

There was no goodwill included in the amount of long-term investments at September 30, 2006 and 2007, respectively.

For the Associated Companies as of September 30, 2007, the aggregate summarized financial information for the fiscal years 2005, 2006 and 2007, is as follows:

	2005	2006	2007
		(€ in millions)	
Sales	439	894	1,122
Gross profit	137	312	381
Net income (loss)	72	208	277

	2005	2006	2007
		(€ in millions)	
Current assets	520	1,084	714
Non-current assets	1,883	1,811	2,810
Current liabilities	(334)	(524)	(661)
Non-current liabilities	(891)	(637)	(1,133)
Shareholders' equity	1,178	1,734	1,730

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18. Other Assets

Other non-current assets at September 30, 2006 and 2007 consist of the following:

	2006	2007
	(€ in millions)	
Deferred tax charges (note 10)	56	50
Marketable securities (note 12)	34	41
Long-term receivables	20	27
Employee receivables (note 31)	2	1
Grants receivable (note 7)	13	—
Other	21	21
Total	146	140

19. Intangible Assets

A summary of activity for intangible assets for the years ended September 30, 2006 and 2007 is as follows:

	Goodwill	Other Intangibles	Total
		(€ in millions)	
Cost			
September 30, 2005	125	448	573
Additions	—	56	56
Impairment charges (note 8)	(7)	(31)	(38)
Disposals	(11)	(26)	(37)
Foreign currency effects	(6)	(1)	(7)
September 30, 2006	101	446	547
Additions	31	45	76
Impairment charges (note 8)	—	(2)	(2)
Disposals	(6)	(46)	(52)
Foreign currency effects	(9)	(4)	(13)
September 30, 2007	117	439	556
Accumulated amortization			
September 30, 2005	—	(258)	(258)
Amortization	—	(67)	(67)
Disposals	—	5	5
Foreign currency effects	—	3	3
September 30, 2006	—	(317)	(317)
Amortization	—	(52)	(52)
Disposals	—	42	42
Foreign currency effects	—	3	3
September 30, 2007	—	(324)	(324)
Carrying value September 30, 2005	125	190	315
Carrying value September 30, 2006	101	129	230
Carrying value September 30, 2007	117	115	232

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The estimated aggregate amortization expense relating to other intangible assets for each of the five succeeding fiscal years is as follows: 2008 €37 million; 2009 €22 million; 2010 €17 million; 2011 €16 million; 2012 €11 million.

In connection with the acquisition of Saifun's remaining 30 percent share in the Infineon Technologies Flash joint venture, the Company was granted a license for the use of Saifun's NROM® technologies (see note 4). During the three months ended March 31, 2005 the Company recorded the license of €58 million and a corresponding liability in the amount of €58 million, representing the estimated fair value of the license and minimum future license payments, respectively. The Company retained the option to terminate the entire license, or parts thereof, at any time without penalty. During the three months ended June 30, 2005, the Company exercised its termination option and cancelled the portion of the license encompassing NROM® Code Flash products. Effective September 30, 2006, the Company and Saifun amended the license agreement (see note 4). As a result of the amendment, the related liability was reduced to €3 million as of September 30, 2006.

In March 2005, the Company and Rambus reached an agreement settling all claims between them and licensing the Rambus patent portfolio. The license of €37 million is being amortized over the expected useful life of the related technologies of ten years (see note 6).

On June 14, 2006, Infineon and Qimonda reached agreements with MOSAID settling all claims between them and licensing the MOSAID patent portfolio for use in current and future Company products. The license of €32 million is being amortized over the expected useful life of the related technologies of six years (see note 6).

During the years ended September 30, 2005, 2006 and 2007, the Company recognized intangible assets impairment charges of €57 million, €38 million and €2 million, respectively.

During the year ended September 30, 2005, the Company concluded that sufficient indicators existed to require an assessment of whether the carrying values of goodwill and certain other intangible assets in the Customer Premises Equipment, Wireless Infrastructure, Short Range Wireless, RF Engine and Optical Networking reporting units within the Communication Solutions segment might not be recoverable. Recoverability of these intangible assets was measured by a comparison of the carrying amount of the assets to the future net cash flows expected to be generated by the assets. Impairments of €57 million were recognized in other operating expenses, representing the amount by which the carrying amount of the assets exceeded their fair value.

During the year ended September 30, 2006, partially as a result of the insolvency of one of the Company's largest mobile phone customers, BenQ Mobile GmbH & Co. OHG, the Company concluded that sufficient indicators existed to require an assessment of whether the carrying values of goodwill and certain other intangible assets principally in reporting units within the Communication Solutions segment might not be recoverable. Recoverability of these intangible assets was measured by a comparison of the carrying amount of the assets to the future net cash flows expected to be generated by the assets. Impairments of €38 million were recognized in other operating expenses, representing the amount by which the carrying amount of the assets exceeded their fair value.

During the year ended September 30, 2007, the Company did not recognize any impairments of goodwill.

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20. Trade Accounts Payable

Trade accounts payable at September 30, 2006 and 2007 consist of the following:

	2006	2007
	(€ in millions)	
Third party — trade	1,165	1,128
Associated and Related Companies — trade (note 31)	80	157
Total	1,245	1,285

21. Accrued Liabilities

Accrued liabilities at September 30, 2006 and 2007 consist of the following:

	2006	2007
	(€ in millions)	
Personnel costs	353	381
Warranties and licenses	54	44
Settlement for antitrust related matters (note 35)	53	38
Other	65	63
Total	525	526

On September 15, 2004 the Company entered into a plea agreement with the United States Department of Justice in connection with its antitrust investigation (see note 35) and agreed to pay a fine aggregating $160 million over a five-year period. The related amount due within one year is included in accrued liabilities and other current liabilities, and the long-term portion is reflected as other non-current liabilities (see note 25). As a result of this agreement and other antitrust related investigations and customer settlements (see note 35), the Company recorded other operating (expenses) income with an aggregate of € (20) million, €(23) million and €9 million during the years ended September 30, 2005, 2006 and 2007, respectively (see note 8).

A tabular reconciliation of the changes in the aggregate product warranty liability for the year ended September 30, 2007 is as follows:

	2007
	(€ in millions)
Balance as of September 30, 2006	51
Accrued during the year, net	29
Settled during the year	(36)
Balance as of September 30, 2007	44

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22. Other Current Liabilities

Other current liabilities at September 30, 2006 and 2007 consist of the following:

	2006	2007
	(€ in millions)	
Deferred income	62	124
VAT and other taxes payable	212	109
Liabilities related to asset held for sale (note 5)	—	117
Payroll obligations to employees	128	88
Deferred government grants (note 7)	95	69
Restructuring (note 9)	63	44
Financial instruments (note 33)	11	38
Interest	37	20
Settlement for anti-trust related matters (note 35)	24	20
Associated and Related Companies — financial and other payables (note 31)	9	12
Other	71	39
Total	712	680

Other deferred income includes amounts relating to license income (see note 6) and deferred revenue. The non-current portion is included in other liabilities (see note 25).

23. Debt

Debt at September 30, 2006 and 2007 consists of the following:

	2006	2007
	(€ in millions)	
Short-term debt:		
Loans payable to banks, weighted average rate 4.55%	51	155
Convertible subordinated notes, 4.25%, due 2007	638	—
Current portion of long-term debt	108	153
Capital lease obligation	—	28
Total short-term debt and current maturities	797	336
Long-term debt:		
Exchangeable subordinated notes, 1.375%, due 2010	—	215
Convertible subordinated notes, 5.0%, due 2010	692	695
Loans payable to banks:		
Unsecured term loans, weighted average rate 4.82%, due 2009 — 2013	458	318
Secured term loans, weighted average rate 1.99%, due 2013	7	4
Other loans payable, weighted average rate 4.35%, due 2011	3	—
Notes payable to governmental entity, rate 2.02%, due 2010 — 2027	48	44
Capital lease obligation	—	100
Total long-term debt	1,208	1,376

Short-term loans payable to banks consist primarily of borrowings under the terms of short-term borrowing arrangements.

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On September 26, 2007, the Company (as guarantor), through its subsidiary Infineon Technologies Investment B.V. (as issuer), issued €215 million in exchangeable subordinated notes due 2010 at par in an underwritten offering to institutional investors in Europe. The notes accrue interest at 1.375 percent per year. The notes are exchangeable into a maximum of 20.5 million Qimonda ADSs, at an exchange price of €10.48 per ADS any time during the exchange period, as defined, through maturity, corresponding to an exchange premium of 35 percent. The notes are unsecured and rank pari passu with all present and future unsecured subordinated obligations of the issuer. The noteholders have a negative pledge relating to future capital market indebtedness, as defined, and an early redemption option in the event of a change of control, as defined. The Company may, at its option, redeem the outstanding notes in whole, but not in part, at the principal amount thereof together with accrued interest to the date of redemption, if the issuer has determined that, as a result of a publicly announced transaction, there is a substantial likelihood that the aggregate ownership of the share capital of Qimonda AG by the issuer, the guarantor and any of their respective subsidiaries will be less than 50 percent plus one share. In addition, the Company may, at its option, redeem the outstanding notes in whole, but not in part, at their principal amount together with interest accrued to the date of redemption, if the share price of the ADSs on each of 15 trading days during a period of 30 consecutive trading days commencing on or after August 31, 2009, exceeds 130 percent of the exchange price. The exchangeable notes are listed on the Frankfurt Stock Exchange. At September 30, 2007, unamortized debt issuance costs amount to €6 million. Concurrently with this transaction, the Company loaned an affiliate of J.P. Morgan Securities Inc. 3.6 million Qimonda ADSs ancillary to the placement of the exchangeable subordinated notes. The affiliate of J.P. Morgan Securities Inc. sold these ADSs as part of the Qimonda ADSs sale on September 25, 2007 (see note 3).

On June 5, 2003, the Company (as guarantor), through its subsidiary Infineon Technologies Holding B.V. (as issuer), issued €700 million in convertible subordinated notes due 2010 at par in an underwritten offering to institutional investors in Europe. The notes are convertible, at the option of the holders of the notes, into a maximum of 68.4 million ordinary shares of the Company, at a conversion price of €10.23 per share through maturity. The notes accrue interest at 5.0 percent per year. The notes are unsecured and rank pari passu with all present and future unsecured subordinated obligations of the issuer. The noteholders have a negative pledge relating to future capital market indebtedness, as defined. The note holders have an early redemption option in the event of a change of control, as defined. A corporate reorganization resulting in a substitution of the guarantor shall not be regarded as a change of control, as defined. The Company may redeem the convertible notes after three years at their principal amount plus interest accrued thereon, if the Company's share price exceeds 125 percent of the conversion price on 15 trading days during a period of 30 consecutive trading days. The convertible notes are listed on the Luxembourg Stock Exchange. On September 29, 2006 the Company (through the issuer) irrevocably waived its option to pay a cash amount in lieu of the delivery of shares upon conversion. At September 30, 2007, unamortized debt issuance costs amount to €5 million.

On February 6, 2007, the Company (as guarantor), through its subsidiary Infineon Technologies Holding B.V. (as issuer), fully redeemed its convertible subordinated notes due 2007 at the principal outstanding amount of €640 million.

In September 2004, the Company executed a $400/€400 million syndicated credit facility with a five-year term, which was subsequently reduced to $345/€300 million in August 2006. The facility consists of two tranches. Tranche A is a term loan intended to finance the expansion of the Richmond, Virginia, manufacturing facility. In January 2006, the Company drew $345 million under Tranche A, on the basis of a repayment schedule that foresees equal installments falling due in March and September each year. At September 30, 2007,

$235 million was outstanding under Tranche A. Tranche B, which is a €300 million multicurrency revolving facility to be used for general corporate purposes, remained available and undrawn at September 30, 2007. The facility has customary financial covenants, and drawings bear interest at market-related rates that are linked to financial performance. The lenders of this credit facility

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have been granted a negative pledge relating to the future financial indebtedness of the Company with certain permitted encumbrances. In September 2007, the Company extended its credit lines by €300 million in additional short-term bilateral commitments from lenders of the facility described above under the same terms and conditions applicable to Tranche B.

In September 2007, Qimonda entered into a sale and leaseback transaction of 200-millimeter equipment. The four-year lease is accounted for as a capital lease, whereby the present value of the lease payments is reflected as a capital lease obligation.

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

Term	Nature of financial Institution Commitment	Purpose/intended use	As of September 30, 2007		
			Aggregate facility	Drawn	Available
			(€ in millions)		
Short-term	firm commitment	working capital, guarantees	164	127	37
Short-term	no firm commitment	working capital, cash management	336	28	308
Long-term[1]	firm commitment	general corporate purposes	766	165	601
Long-term[1]	firm commitment	project finance	354	354	—
Total			1,620	674	946

[1] Including current maturities.

At September 30, 2007, the Company was in compliance with its debt covenants under the relevant facilities.

Interest expense for the years ended September 30, 2005, 2006 and 2007 was €83 million, €109 million and €89 million, respectively.

Aggregate amounts of debt maturing subsequent to September 30, 2007 are as follows:

Fiscal year ending September 30,	Amount (€ in millions)
2008	336
2009	207
2010	1,002
2011	95
2012	26
Thereafter	46
Total	1,712

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24. Long-term Accrued Liabilities

Long-term accrued liabilities at September 30, 2006 and 2007 consist of the following:

	2006	2007
	(€ in millions)	
Asset retirement obligations	33	24
Post-retirement benefits	4	3
Personnel costs	6	6
Other	3	3
Total	46	36

25. Other Liabilities

Other non-current liabilities at September 30, 2006 and 2007 consist of the following:

	2006	2007
	(€ in millions)	
Deferred income	40	114
Deferred government grants (note 7)	117	113
Settlement for antitrust related matters (note 35)	62	37
License fees payable	41	27
Deferred Compensation	—	13
Other	17	12
Total	277	316

26. Minority Interest

On July 28, 2003, the Company entered into a joint venture agreement with China-Singapore Suzhou Industrial Park Venture Company ("CSVC") for the construction of a back-end manufacturing facility in the People's Republic of China. Pursuant the joint venture agreement, the capital invested by CSVC earns an annual return and has a liquidation preference, while all accumulated earnings and dividend rights accrue to the benefit of the Company. Accordingly, the Company has fully consolidated the joint venture from inception, and the capital invested and annual return of the minority investor is reflected as minority interest.

ALTIS is a joint venture between the Company and IBM, with each having equal voting representation. In December 2005, the Company further amended its agreements with IBM in respect of the ALTIS joint venture and began to fully consolidate ALTIS, whereby IBM's 50 percent ownership interest is reflected as minority interest (see note 5 and 17).

Effective May 1, 2006, the Company contributed substantially all of the operations of its memory products segment, including the assets and liabilities that were used exclusively for these operations, to Qimonda, a stand-alone legal company. On August 9, 2006, Qimonda completed an initial public offering on the New York Stock Exchange through the issuance of 42 million ADSs which are traded under the symbol "QI", for an offering price of $13 per ADS. In addition, the Company sold 6.3 million Qimonda ADSs upon exercise of the underwriters' over-allotment option. As a result of these transactions, the Company reduced its shareholding in Qimonda to 85.9 percent. During the fourth quarter of the 2007 fiscal year, Infineon sold an additional 28.75 million Qimonda ADSs (including underwriters' over-allotment option), further reducing its ownership interest in Qimonda to 77.5 percent. The minority investors' ownership interest in Qimonda of 14.1 percent and 22.5 percent as of

September 30, 2006 and 2007, respectively, is reflected as minority interest (see note 3).

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27. Ordinary Share Capital

As of September 30, 2007 the Company had 749,728,635 registered ordinary shares, notional value of €2.00 per share, outstanding. During the years ended September 30, 2006 and 2007 the Company increased its share capital by €0.08 million and €4 million, respectively, by issuing 39,935 and 2,119,341 ordinary shares, respectively, in connection with the Company's Long-Term Incentive Plans.

Authorized and Conditional Share Capital

In addition to the issued share capital, the Company's Articles of Association authorize the Management Board to increase the ordinary share capital with the Supervisory Board's consent by issuing new shares. As of September 30, 2007, the Management Board may use these authorizations to issue new shares as follows:

- Through January 19, 2009, Authorized Share Capital II/2004 — in an aggregate nominal amount of up to €30 million to issue shares to employees (in which case the pre-emptive rights of existing shareholders are excluded).
- Through February 14, 2012, Authorized Share Capital 2007 — in an aggregate nominal amount of up to €224 million to issue shares for cash, where the pre-emptive rights of shareholders may be partially excluded, or in connection with business combinations (contributions in kind), where the pre-emptive rights of shareholders may be excluded for all shares.

The Company has conditional capital of up to an aggregate nominal amount of €92 million (Conditional Share Capital I), of up to an aggregate nominal amount of €29 million (Conditional Share Capital III) and up to an aggregate nominal amount of €24.5 million (Conditional Share Capital IV/2006) that may be used to issue up to 72.6 million new registered shares in connection with the Company's long-term incentive plans (see note 28). These shares will have dividend rights from the beginning of the fiscal year in which they are issued.

The Company has conditional capital of up to an aggregate nominal amount of €152 million (Conditional Share Capital 2002) that may be used to issue up to 76 million new registered shares upon conversion of debt securities, issued in June 2003 and which may be converted at any time until May 22, 2010 (see note 23). These shares will have dividend rights from the beginning of the fiscal year in which they are issued.

The Company has further conditional capital of up to an aggregate nominal amount of €248 million (Conditional Share Capital 2007) that may be used to issue up to 124 million new registered shares upon conversion of debt securities which may be issued before February 14, 2012. These shares will have dividend rights from the beginning of the fiscal year in which they are issued.

Dividends

Under the German Stock Corporation Act (*Aktiengesetz*), the amount of dividends available for distribution to shareholders is based on the level of earnings (*Bilanzgewinn*) of the ultimate parent, as determined in accordance with the HGB. All dividends must be approved by shareholders.

The ordinary shareholders meeting held in February 2007 did not authorize a dividend. No earnings are available for distribution as a dividend for the 2007 fiscal year, since Infineon Technologies AG on a stand-alone basis as the ultimate parent incurred a cumulative loss (*Bilanzverlust*) as of September 30, 2007.

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28. Stock-based Compensation

Effective October 1, 2005, the Company adopted SFAS No. 123 (revised 2004) under the modified prospective application method. Under this application, the Company records stock-based compensation expense for all awards granted on or after the date of adoption and for the portion of previously granted awards that remained unvested at the date of adoption. Stock-based compensation cost is measured at the grant date, based on the fair value of the award, and is recognized as expense over the period during which the employee is required to provide service in exchange for the award. Amounts in periods prior to the adoption of SFAS No. 123 (revised 2004) have not been restated and do not reflect the recognition of stock-based compensation.

Infineon Stock Option Plan

In 1999, the shareholders approved a long-term incentive plan ("LTI 1999 Plan"), which provided for the granting of non-transferable options to acquire ordinary shares over a future period. Under the terms of the LTI 1999 Plan, the Company could grant up to 48 million options over a five-year period. The exercise price of each option equals 120 percent of the average closing price of the Company's stock during the five trading days prior to the grant date. Granted options vest at the latter of two years from the grant date or the date on which the Company's stock reaches the exercise price for at least one trading day. Options expire seven years from the grant date.

In 2001, the Company's shareholders approved the International Long-Term Incentive Plan ("LTI 2001 Plan") which replaced the LTI 1999 Plan. Options previously issued under the LTI 1999 Plan remain unaffected as to terms and conditions; however, no additional options may be issued under the LTI 1999 Plan. Under the terms of the LTI 2001 Plan, the Company could grant up to 51.5 million options over a five-year period. The exercise price of each option equals 105 percent of the average closing price of the Company's stock during the five trading days prior to the grant date. Granted options have a vesting period of between two and four years, subject to the Company's stock reaching the exercise price on at least one trading day, and expire seven years from the grant date.

Under the LTI 2001 Plan, the Company's Supervisory Board decided annually within 45 days after publication of the financial results how many options to grant to the Management Board. The Management Board, within the same period, decided how many options to grant to eligible employees.

In 2006, the Company's shareholders approved the Stock Option Plan 2006 ("SOP 2006") which replaced the LTI 2001 Plan. Under the terms of SOP 2006, the Company can grant up to 13 million options over a three-year period. The exercise price of each option equals 120 percent of the average closing price of the Company's stock during the five trading days prior to the grant date. Granted options are only exercisable if the price of a share exceeds the trend of the comparative index Philadelphia Semiconductor Index ("SOX") for at least three consecutive days on at least one occasion during the life of the option. Granted options have a vesting period of three years, subject to the Company's stock reaching the exercise price on at least one trading day, and expire six years from the grant date.

Under the SOP 2006, the Supervisory Board will decide annually within a period of 45 days after publication of the annual results or the results of the first or second quarters of a fiscal year, but no later than two weeks before the end of the quarter, how many options to grant to the Management Board. During that same period the Management Board may grant options to other eligible employees.

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A summary of the status of the LTI 1999 Plan, the LTI 2001 Plan, and the SOP 2006 as of September 30, 2007, and changes during the fiscal year then ended is presented below (options in millions, exercise price in euro, intrinsic value in millions of euro):

	Number of options	Weighted-average exercise price	Weighted-average remaining life (in years)	Aggregated Intrinsic Value
Outstanding at September 30, 2006	44.8	18.12	3.54	14
Granted	2.3	13.30		
Exercised	(2.1)	8.91		
Forfeited and expired	(5.6)	33.58		
Outstanding at September 30, 2007	39.4	16.17	2.99	66
Vested and expected to vest, net of estimated forfeitures at September 30, 2007	39.1	16.20	2.97	66
Exercisable at September 30, 2007	25.8	19.52	2.06	31

Options with an aggregate fair value of €42 million, €51 million and €32 million vested during the fiscal years ended September 30, 2005, 2006 and 2007, respectively. Options with a total intrinsic value of €0, €0 and €6 million were exercised during the fiscal years ended September 30, 2005, 2006 and 2007, respectively.

Changes in the Company's unvested options for the fiscal year ended September 30, 2007 are summarized as follows (options in million, fair values in euro, intrinsic value in millions of euro):

	Number of options	Weighted-average grant date fair value	Weighted-average remaining life (in years)	Aggregated Intrinsic Value
Unvested at September 30, 2006	19.2	4.11	5.11	11
Granted	2.3	2.03		
Vested	(7.0)	4.63		
Forfeited	(0.9)	3.91		
Unvested at September 30, 2007	13.6	3.50	4.77	35
Unvested options expected to vest	13.2	3.53	4.81	34

The fair value of each option grant issued pursuant to the 1999 and 2001 Long-Term Incentive Plans was estimated on the grant date using the Black-Scholes option-pricing model. Prior to the adoption of SFAS No. 123 (revised 2004), Infineon relied on historical volatility measures when estimating the fair value of stock options granted to employees. Following the implementation of SFAS No. 123 (revised 2004), Infineon uses a combination of implied volatilities from traded options on Infineon's ordinary shares and historical volatility when estimating the fair value of stock options granted to employees, as it believes that this methodology better reflects the expected future volatility of its stock. The expected life of options granted was estimated based on historical experience.

The fair value of each option grant issued pursuant to the Stock Option Plan 2006 was estimated on the grant date using a Monte Carlo simulation model. This model takes into account vesting conditions relating to the performance of the SOX and its impact on stock option fair value. The Company uses a combination of implied volatilities from traded options on Infineon's ordinary shares and historical volatility when estimating the fair value of stock options granted to employees, as it believes that this methodology

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better reflects the expected future volatility of its stock. The expected life of options granted was estimated using the Monte Carlo simulation model.

Beginning on the date of adoption of SFAS No. 123 (revised 2004), forfeitures are estimated based on historical experience; prior to the date of adoption, forfeitures were recorded as they occurred. The risk-free rate is based on treasury note yields at the time of grant for the estimated life of the option. Infineon has not made any dividend payments during the fiscal year ended September 30, 2007.

The following weighted-average assumptions were used in the fair value calculation:

	2005	2006	2007
Weighted-average assumptions:			
Risk-free interest rate	3.02%	3.08%	3.91%
Expected volatility, underlying shares	58%	43%	40%
Expected volatility, SOX index	—	—	36%
Forfeiture rate, per year	—	—	3.40%
Dividend yield	0%	0%	0%
Expected life in years	4.50	5.07	3.09
Weighted-average fair value per option at grant date in €	4.03	3.19	2.03

As of September 30, 2007, there was a total of €12 million in unrecognized compensation expense related to unvested stock options of Infineon, which is expected to be recognized over a weighted-average period of 1 year.

Qimonda's Stock Option Plan

Qimonda shareholders approved a stock option plan ("Qimonda 2006 SOP") during the 2006 fiscal year. Under the terms of the Qimonda 2006 SOP, Qimonda can grant up to 6 million non-transferable option rights over a three-year period which grant the holder the right to receive ordinary shares issued by Qimonda. The exercise price of each option equals 100 percent of the average closing price of Qimonda's ADSs on the New York Stock Exchange during the five trading days prior to the grant date. Granted options are only exercisable if the price of Qimonda ADSs as quoted on the New York Stock Exchange exceeds the trend of the comparative index SOX for at least three consecutive days on at least one occasion during the life of the option. Granted options have a vesting period of three years, subject to Qimonda's ADSs reaching the exercise price on at least one trading day, and expire six years from the grant date. On November 24, 2006, Qimonda granted 1.9 million stock options to its employees under the Qimonda 2006 SOP.

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A summary of the status of the Qimonda 2006 SOP as of September 30, 2007, and changes during the fiscal year then ended, is presented below (options in millions, exercise prices in U.S. dollar, fair value in euro):

	Number of options	Weighted-average exercise price	Weighted-average remaining life (in years)	Aggregated Intrinsic Value
Outstanding at September 30, 2006	—	—	—	—
Granted	1.9	15.97	6.00	—
Exercised	—	—	—	—
Forfeited and expired	—	—	—	—
Outstanding at September 30, 2007	1.9	15.97	5.16	—
Expected to vest, net of estimated forfeitures, at September 30, 2007	1.7	15.97	5.16	—
Exercisable at September 30, 2007	—	—	—	—

Changes of the Qimonda 2006 SOP unvested options for the fiscal year ended September 30, 2007 are summarized as follows (options in million, fair values in euro, intrinsic value in millions of euro):

	Number of options	Weighted-average grant date fair value	Weighted-average remaining life (in years)	Aggregated Intrinsic Value
Unvested at September 30, 2006	—	—	—	—
Granted	1.9	3.23	6.00	—
Vested	—	—	—	—
Forfeited	—	—	—	—
Unvested at September 30, 2007	1.9	3.23	5.16	—
Unvested options expected to vest	1.7	3.23	5.16	—

The fair value of each option grant issued pursuant to the Qimonda 2006 SOP was estimated on the grant date using a Monte Carlo simulation model. This model takes into account vesting conditions relating to the performance of the SOX and its impact on stock option fair value. Following the implementation of SFAS No. 123 (revised 2004), Qimonda uses a combination of implied and historical volatilities from traded options on Qimonda's peer group when estimating the fair value of stock options granted to employees, as it believes that this methodology better reflects the expected future volatility of its stock. The peer group is a group of publicly listed companies deemed to reflect the fundamentals of Qimonda's stock. Forfeitures are estimated based on historical experience. The expected life of options granted was estimated using the Monte Carlo simulation model. The risk-free rate is based on treasury note yields at the time of grant for the estimated life of the option. Qimonda has not made any dividend payments during the fiscal year ended September 30, 2007.

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The following weighted average assumptions were used in the fair value calculation:

	2007
Weighted-average assumptions:	
Risk-free interest rate	4.62%
Expected volatility, underlying ADS	45%
Expected volatility, SOX	29%
Forfeiture rate, per year	3.40%
Dividend yield	0%
Expected life in years	4.62
Weighted-average fair value per option at grant date in €	3.23

As of September 30, 2007, there was a total of €4 million in unrecognized compensation expense related to unvested stock options of Qimonda 2006 SOP, which is expected to be recognized over a weighted average period of 2.27 years.

Stock-Based Compensation Expense

Stock-based compensation expense was allocated as follows for the fiscal years ended September 30, 2006 and 2007:

	2006	2007
	(€ in millions)	
Compensation expense recognized:		
Cost of goods sold	7	4
Selling, general and administrative expenses	12	7
Research and development expenses	9	6
Total stock-based compensation expense	28	17
Stock-based compensation effect on basic and diluted loss per share in €	(0.04)	(0.02)

Cash received from stock option exercises was €0 and €19 million during the fiscal years ended September 30, 2006 and 2007, respectively. The amount of stock-based compensation expense which was capitalized and remained in inventories for the fiscal years ended September 30, 2005, 2006 and 2007 was immaterial. Stock-based compensation expense does not reflect any income tax benefits, since stock options are granted in tax jurisdictions where the expense is not deductible for tax purposes.

Prior to the 2006 fiscal year, the Company applied the provisions of APB No. 25, as permitted under SFAS No. 148.

If the Company had accounted for stock option grants and employee stock purchases under its plans according to the fair value method of SFAS No. 123, and thereby recognized compensation expense based on the above fair values over the respective option vesting periods, net loss and loss per share

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would have been increased to the *pro forma* amounts indicated below, pursuant to the provisions of SFAS No. 148:

	2005 (€ in millions)
Net loss:	
As reported	(312)
Deduct: Stock-based employee compensation expense included in reported net loss, net of related tax effects	—
Add: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects	(39)
Pro forma	(351)
Basic and diluted loss per share in €:	
As reported	(0.42)
Pro forma	(0.47)

29. Other Comprehensive Loss

The changes in the components of other comprehensive loss for the years ended September 30, 2005, 2006 and 2007 are as follows:

	2005			2006			2007		
	Pretax	Tax effect	Net	Pretax	Tax effect	Net	Pretax	Tax effect	Net
	(€ in millions)								
Unrealized (losses) gains on securities:									
Unrealized holding (losses) gains	13	(1)	12	6	(1)	5	(7)	—	(7)
Reclassification adjustment for losses (gains) included in net income or loss	(4)	—	(4)	(13)	1	(12)	(6)	1	(5)
Net unrealized (losses) gains, net	9	(1)	8	(7)	—	(7)	(13)	1	(12)
Unrealized gains (losses) on cash flow hedges	(25)	—	(25)	5	—	5	2	—	2
Additional minimum pension liability/Defined benefit plans	(85)	1	(84)	(3)	—	(3)	95	(5)	90
Foreign currency translation adjustment	64	—	64	(69)	—	(69)	(105)	—	(105)
Other comprehensive loss	(37)	—	(37)	(74)	—	(74)	(21)	(4)	(25)

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30. Supplemental Cash Flow Information

	2005	2006	2007
		(€ in millions)	
Cash paid for:			
Interest	91	116	100
Income taxes	79	117	134
Non-cash investing activities:			
Construction grants deducted from cost of fixed assets (note 7)	—	49	1
Molstanda (note 4)	—	—	(41)
Non-cash financing activities:			
Molstanda (note 4)	—	—	76

31. Related Parties

The Company has transactions in the normal course of business with Associated and Related Companies ("Related Parties"). The Company purchases certain of its raw materials, especially chipsets, from, and sells certain of its products to, Related Parties. Purchases and sales to Related Parties are generally based on market prices or manufacturing cost plus a mark-up.

Transactions between the Company and ALTIS subsequent to the consolidation of ALTIS during the first quarter of the 2006 fiscal year are no longer reflected as Related Party transactions (see notes 5 and 17).

On April 3, 2006, Siemens disposed of its remaining shareholding in the Company. Transactions between the Company and Siemens subsequent to this date are no longer reflected as Related Party transactions.

Related Party receivables at September 30, 2006 and 2007 consist of the following:

	2006	2007
	(€ in millions)	
Current:		
Associated and Related Companies — trade (note 13)	8	16
Associated and Related Companies — financial and other receivables (note 15)	1	59
Employee receivables (note 15)	7	8
	16	83
Non-current:		
Employee receivables (note 18)	2	1
Total Related Party receivables	18	84

Related Party payables at September 30, 2006 and 2007 consist of the following:

	2006	2007
	(€ in millions)	
Associated and Related Companies — trade (note 20)	80	157
Associated and Related Companies — financial and other payables (note 22)	9	12
Total Related Party payables	89	169

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Related Party receivables and payables as of September 30, 2007, have been segregated first between amounts owed by or to companies in which the Company has an ownership interest, and second based on the underlying nature of the transactions. Trade receivables and payables include amounts for the purchase and sale of products and services. Financial and other receivables and payables represent amounts owed relating to loans and advances and accrue interest at interbank rates.

At September 30, 2007, current Associated and Related Companies — financial and other receivables included a revolving term loan of €52 million due from ALTIS.

Transactions with Related Parties during the years ended September 30, 2005, 2006 and 2007, include the following:

	2005	2006	2007
		(€ in millions)	
Sales to Related Parties:			
Siemens group companies	861	322	—
Associated and Related Companies	55	61	57
Total sales to Related Parties	916	383	57
Purchases from Related Parties:			
Siemens group companies	226	73	—
Associated and Related Companies[1]	615	575	593
Total purchases from Related Parties	841	648	593

[1] The decrease during the fiscal year ended September 30, 2006 is primarily related to the initial consolidation of ALTIS.

Purchases from Associated and Related Companies during the years ended September 30, 2005, 2006 and 2007 are principally related to products purchased from Inotera.

Sales to Siemens group companies include sales to the Siemens group sales organizations for resale to third parties of €38 million and €21 million for the years ended September 30, 2005 and 2006, respectively. Purchases from Siemens group companies primarily include purchases of fixed assets, inventory, IT services, and administrative services.

32. Pension Plans

Pension benefits provided by the Company are currently organized primarily through defined benefit pension plans which cover a significant portion of the Company's employees. Plan benefits are principally based upon years of service. Certain pension plans are based on salary earned in the last year or last five years of employment, while others are fixed plans depending on ranking (both salary level and position). The measurement date for the Company's pension plans is June 30.

In February 2007, the Company transferred the majority of its existing domestic (German) pension plans into a new Infineon pension plan with effect from October 1, 2006. Under the new plan, employee benefits are predominantly based on contributions made by the Company, although defined benefit provisions are retained. The plan qualifies as a defined benefit plan and, accordingly, the change from the previous defined benefit plans is treated as a plan amendment pursuant to SFAS No. 87. In comparison to the existing domestic pension obligation, the additional impact on projected benefit obligation consists of unrecognized prior service cost about €4 million and is reflected as a separate component of accumulated other comprehensive income (see note 29), which will be amortized as part of

net periodic pension cost over the expected years of future service.

As a result of the adoption of SFAS No. 158 as of the end of the fiscal year ending September 30, 2007, the Company must recognize the overfunded or underfunded status of a defined benefit postretirement

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plan as an asset or liability in its consolidated balance sheet and recognize the change in that funded status in the year in which the changes occur through comprehensive income ("Recognition Provision"). Actuarial gains and losses and unrecognized prior service costs are to be recognized as a component of other comprehensive income, net of tax.

The following table summarizes the incremental effect as of September 30, 2007 resulting from the initial adoption of SFAS No. 158.

	Before adoption of SFAS No. 158	Adjustments to initially apply SFAS No. 158	After adoption of SFAS No. 158
		(€ in millions)	
Prepaid pension costs	108	(108)	—
Current deferred income taxes	2	(5)	(3)
Intangible asset	4	(4)	—
Non-current pension asset	—	60	60
Short-term pension liability	—	(5)	(5)
Pension liabilities	(125)	14	(111)
Accumulated other comprehensive loss, net of tax	(3)	48	45

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Information with respect to the Company's pension plans for the years ended September 30, 2005, 2006 and 2007 is presented for German ("Domestic") plans and non-German ("Foreign") plans:

	2005		2006		2007	
	Domestic plans	Foreign plans	Domestic plans	Foreign plans	Domestic plans	Foreign plans
	(€ in millions)					
Accumulated benefit obligations end of year	(337)	(64)	(378)	(61)	(372)	(60)
Change in projected benefit obligations:						
Projected benefit obligations beginning of year	(271)	(78)	(392)	(85)	(443)	(75)
Service cost	(16)	(7)	(24)	(5)	(26)	(3)
Interest cost	(15)	(4)	(17)	(4)	(21)	(4)
Actuarial gains (losses)	(89)	(2)	(13)	8	94	(1)
Divestitures	1	4	—	—	2	—
Plan amendments	(8)	—	—	—	(4)	—
Benefits paid	2	2	3	2	5	3
Curtailment gain	4	1	—	7	—	1
Foreign currency effects	—	(1)	—	2	—	3
Projected benefit obligations end of year	(392)	(85)	(443)	(75)	(393)	(76)
Change in fair value of plan assets:						
Fair value at beginning of year	174	30	208	35	282	38
Contributions and transfers	17	4	63	4	65	5
Actual return on plan assets	19	2	14	2	27	4
Benefits paid	(2)	(2)	(3)	(2)	(5)	(3)
Foreign currency effects	—	1	—	(1)	—	(1)
Fair value at end of year	208	35	282	38	369	43
Funded status	(184)	(50)	(161)	(37)	(24)	(33)
Unrecognized actuarial (gains) losses	138	4	144	(8)	33	(7)
Unrecognized prior service cost (benefit)	14	(2)	13	—	16	—
Post measurement date contributions	16	1	16	1	1	—
Net asset (liability) recognized	(16)	(47)	12	(44)	26	(40)

The above amounts are recognized as follows in the accompanying consolidated balance sheets as of September 30:

	2005		2006		2007	
	Domestic plans	Foreign plans	Domestic plans	Foreign plans	Domestic plans	Foreign plans
	(€ in millions)					
Prepaid pension cost	—	—	—	1	—	—
Intangible asset (note 15)	14	—	13	—	—	—
Non-current pension asset	—	—	—	—	57	3
Current pension liability	—	—	—	—	(5)	—
Pension liabilities	(115)	(47)	(89)	(45)	(75)	(36)
Accumulated other comprehensive income	85	—	88	—	49	(7)
Net asset (liability) recognized	(16)	(47)	12	(44)	26	(40)

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The amounts in accumulated other comprehensive income that are expected to be recognized as components of the net periodic benefit cost in the 2008 fiscal year are actuarial losses in an amount of less than €1 million and prior service cost in an amount of €1 million.

Information for pension plans with projected benefit obligations and accumulated benefit obligations in excess of plan assets are as follows:

	2005		2006		2007	
	Domestic plans	Foreign plans	Domestic plans	Foreign plans	Domestic plans	Foreign plans
			(€ in millions)			
Projected benefit obligation	392	85	443	64	108	63
Fair value of plan assets	208	35	282	26	27	26
Accumulated benefit obligations	337	57	378	54	99	47
Fair value of plan assets	208	26	282	26	27	19

The weighted-average assumptions used in calculating the actuarial values for the pension plans are as follows:

	2005		2006		2007	
	Domestic plans	Foreign plans	Domestic plans	Foreign plans	Domestic plans	Foreign plans
Discount rate	4.5%	4.8%	4.8%	5.3%	5.5%	5.6%
Rate of compensation increase	2.5%	3.1%	2.5%	1.8%	2.5%	2.2%
Projected future pension increases	1.3%	2.2%	1.8%	2.2%	1.8%	2.7%
Expected return on plan assets	7.3%	6.9%	6.5%	6.9%	6.1%	6.9%

Discount rates are established based on prevailing market rates for high-quality fixed-income instruments that, if the pension benefit obligation were settled at the measurement date, would provide the necessary future cash flows to pay the benefit obligation when due. The Company believes short-term changes in interest rates should not affect the measurement of the Company's long-term obligation.

Investment strategies

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

Expected long-term rate of return on plan assets

Establishing the expected rate of return on pension assets requires judgment. The Company's approach in determining the long-term rate of return for plan assets is based upon historical financial market relationships that have existed over time, the types of

investment classes in which pension plan assets are invested, long-term investment strategies, as well as the expected compounded return the Company can reasonably expect the portfolio to earn over appropriate time periods.

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The Company reviews the expected long-term rate of return annually and revises it as appropriate. Also, the Company periodically commissions detailed asset/liability studies to be performed by third-party professional investment advisors and actuaries.

Plan asset allocation

As of September 30, 2006 and 2007 the percentage of plan assets invested and the targeted allocation in major asset categories are as follows:

	2006		2007		Targeted Allocation	
	Domestic plans	Foreign plans	Domestic plans	Foreign plans	Domestic plans	Foreign plans
Equity securities	33%	59%	38%	58%	52%	57%
Debt securities	33%	26%	35%	24%	21%	22%
Other	34%	15%	27%	18%	27%	21%
Total	100%	100%	100%	100%	100%	100%

The Company's asset allocation targets for its pension plan assets are based on its assessment of business and financial conditions, demographic and actuarial data, funding characteristics, related risk factors, market sensitivity analysis and other relevant factors. The overall allocation is expected to help protect the plans' funded status while generating sufficiently stable real returns (i.e., net of inflation) to meet current and future benefit payment needs. Due to active portfolio management, the asset allocation may differ from the target allocation up to certain limits for different classes. As a matter of policy, the Company's pension plans do not invest in shares of Infineon or Qimonda.

The components of net periodic pension cost for the years ended September 30, 2005, 2006 and 2007 are as follows:

	2005		2006		2007	
	Domestic plans	Foreign plans	Domestic plans	Foreign plans	Domestic plans	Foreign plans
			(€ in millions)			
Service cost	(16)	(7)	(24)	(5)	(26)	(3)
Interest cost	(15)	(4)	(17)	(4)	(21)	(4)
Expected return on plan assets	13	2	13	3	17	3
Amortization of unrecognized prior service (cost) benefits	—	—	(1)	2	(1)	—
Amortization of unrecognized actuarial gains (losses)	(3)	—	(7)	—	(8)	1
Curtailment gain recognized	1	1	—	3	—	1
Net periodic pension cost (note 8)	(20)	(8)	(36)	(1)	(39)	(2)

The prior service costs relating to the pension plans are amortized in equal amounts over the expected years of future service of each active employee who is expected to receive benefits from the pension plans.

Unrecognized gains or losses are included in the net pension cost for the year, if as of the beginning of the year, the unrecognized net gains or losses exceed 10 percent of the greater of the projected benefit obligation or the market value of the plan assets. The amortization is the excess divided by the average remaining service period of active employees expected to receive benefits under the plan.

Actuarial gains (losses) amounted to €(91) million, €(5) million and €93 million for the fiscal years ended September 30, 2005, 2006 and 2007, respectively. The decrease in actuarial losses in the 2006 fiscal year was primarily the result of the increase in the discount rate used to determine the benefit

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obligation. The increase in actuarial gains in the 2007 fiscal year was primarily the result of the increase in the discount rates used to determine the benefit obligation.

It is not planned nor anticipated that any plan assets will be returned to any business entity during the next fiscal year.

In September 2006, Qimonda established a separate pension trust for the purpose of funding future pension benefit payments for its employees in Germany. A portion of the Company's pension plan assets have been allocated to Qimonda for periods prior to its formation based on the proportion of Qimonda's projected benefit obligation to the total Company's projected benefit obligation. Accordingly, the Company transferred €26 million in cash from its Pension Trust into the Qimonda pension trust.

The effect of employee terminations, in connection with the Company's restructuring plans (see note 9), on the Company's pension obligation is reflected as a curtailment in the years ended September 30, 2005, 2006 and 2007 pursuant to the provisions of SFAS No. 88 "*Employers Accounting for Settlements and Curtailments of Defined Benefit Pension Plans and for Termination Benefits*".

The future benefit payments, which reflect future service, as appropriate, that are expected to be paid from the Company's pension plan for the next five fiscal years and thereafter are as follows:

Years ending September 30,	Domestic plans	Foreign plans
	(€ in millions)	
2008	19	1
2009	17	2
2010	23	2
2011	26	2
2012	20	2
2013 - 2017	135	18

During the year ended September 30, 2002, the Company established a deferred savings plan for its employees in Germany, whereby a portion of the employee's salary is invested for a lump sum benefit payment including interest upon retirement. The liability for such future payments of €17 million and €26 million as of September 30, 2006 and 2007, respectively, is actuarially determined and accounted for on the same basis as the Company's other pension plans.

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33. Financial Instruments

The Company periodically enters into derivatives, including foreign currency forward and option contracts as well as interest rate swap agreements. The objective of these transactions is to reduce the impact of interest rate and exchange rate fluctuations on the Company's foreign currency denominated net future cash flows. The Company does not enter into derivatives for trading or speculative purposes. Gains and losses on derivative financial instruments are included in determining net loss, with those related to operations included primarily in cost of goods sold, and those related to financial activities included in other non-operating income (expense).

The euro equivalent notional amounts in millions and fair values of the Company's derivative instruments as of September 30, 2006 and 2007 are as follows:

	2006		2007	
	Notional amount	Fair value	Notional amount	Fair value
	(€ in millions)			
Forward contracts sold:				
U.S. dollar	682	1	735	25
Japanese yen	30	—	17	—
Great Britain pound	1	—	—	—
Malaysian ringgit	6	—	3	—
Norwegian krone	—	—	2	—
Forward contracts purchased:				
U.S. dollar	209	(1)	356	(20)
Japanese yen	24	—	73	(2)
Singapore dollar	27	—	24	—
Great Britain pound	7	—	6	—
Malaysian ringgit	35	—	83	(2)
Norwegian krone	—	—	7	—
Other currencies	—	—	1	—
Currency Options sold:				
U.S. dollar	259	(5)	—	—
Currency Options purchased:				
U.S. dollar	252	2	—	—
Interest rate swaps	1,200	5	700	(10)
Other	218	9	231	20
Fair value, net		11		11

The Company entered into interest rate swap agreements with independent financial institutions during the year ended September 30, 2004, which were designated as a cash flow hedge of interest rate fluctuations on forecasted future lease payments during the first 10 years of the Campeon lease agreement (see note 35). The ineffective portion of the cash flow hedge was €0 for the years ended September 30, 2005, 2006, and 2007. The effective portion of €(22) million was deferred in other comprehensive income until the commencement of the lease in the first quarter of the 2006 fiscal year, and is being amortized ratably into lease expense over the lease term of 15 years.

Fair values of financial instruments are determined using quoted market prices or discounted cash flows. The fair value of the Company's unsecured term loans and interest-bearing notes payable approximate their carrying values as their interest rates approximate those which could be obtained currently. At September 30, 2007, the subordinated convertible and exchangeable notes, both due 2010, were trading at a 22.1 percent and a 2.5 percent premium to par, respectively, based on quoted market values. The fair values of

the Company's cash and cash equivalents, receivables and payables, as well as

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related-party receivables and payables and other financial instruments approximated their carrying values due to their short-term nature. Marketable securities are recorded at fair value (see note 12).

34. Risks

Financial instruments that expose the Company to credit risk consist primarily of trade receivables, cash equivalents, marketable securities and financial derivatives. Concentrations of credit risks with respect to trade receivables are limited by the large number of geographically diverse customers that make up the Company's customer base. The Company controls credit risk through credit approvals, credit limits and monitoring procedures, as well as comprehensive credit evaluations for all customers. Related Parties account for a considerable portion of sales and trade receivables. The credit risk with respect to cash equivalents, marketable securities and financial derivatives is limited by transactions with a number of large international financial institutions, with pre-established limits. The Company does not believe that there is significant risk of non-performance by these counterparties because the Company monitors their credit risk and limits the financial exposure and the amounts of agreements entered into with any one financial institution.

In order to remain competitive, the Company must continue to make substantial investments in process technology and research and development. Portions of these investments might not be recoverable if these research and development efforts fail to gain market acceptance or if markets significantly deteriorate.

Due to the high-technology nature of the Company's operations, intellectual property is an integral part of the Company's business. The Company has intellectual property which it has self-developed, purchased or licensed from third parties. The Company is exposed to infringements by others of such intellectual property rights. Conversely, the Company is exposed to assertions by others of infringement by the Company of their intellectual property rights.

The Company, through its use of third-party foundry and joint venture arrangements, uses a significant portion of manufacturing capacity that is outside of its direct control. As a result, the Company is reliant upon such other parties for the timely and uninterrupted supply of products and is exposed, to a certain extent, to fluctuations in product procurement cost.

The Company has established policies and procedures which serve as business conduct guidelines for its employees. Should these guidelines not be adhered to, the Company could be exposed to risks relating to wrongful actions by its employees.

Approximately 8,600 of the Company's employees are covered by collective bargaining agreements. The collective bargaining agreements pertain primarily to certain of the Company's non-management employees in Germany (affecting approximately 4,900 employees), Austria (affecting approximately 2,500 employees) and France (affecting approximately 1,200 employees, including ALTIS). The agreement in Germany is perpetual, but can be terminated by the trade union with a notice of two months prior to October 31, 2008. The agreement in Austria expires on May 1, 2008. The minimum salaries stipulated in the agreement in France are subject to yearly revision coming into effect on January 1 each year. The provisions of these agreements generally remain in effect until replaced by a subsequent agreement. Agreements for periods after expiration are to be negotiated with the respective trade unions through a process of collective negotiations.

35. Commitments and Contingencies

Litigation and Investigations

In September 2004, the Company entered into a plea agreement with the Antitrust Division of the U.S. Department of Justice ("DOJ") in connection with its investigation into alleged antitrust violations in the

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DRAM industry. Pursuant to this plea agreement, the Company agreed to plead guilty to a single count of conspiring with other unspecified DRAM manufacturers to fix the prices of DRAM products between July 1, 1999 and June 15, 2002, and to pay a fine of $160 million. The fine plus accrued interest is being paid in equal annual installments through 2009. The Company has a continuing obligation to cooperate with the DOJ in its ongoing investigation of other participants in the DRAM industry. The price fixing charges related to DRAM sales to six Original Equipment Manufacturer ("OEM") customers that manufacture computers and servers. The Company has entered into settlement agreements with five of these OEM customers and is considering the possibility of a settlement with the remaining OEM customer, which purchased only a very small volume of DRAM products from the Company. The Company has secured individual settlements with eight direct customers in addition to those OEM customers.

Subsequent to the commencement of the DOJ investigation, a number of putative class action lawsuits were filed against the Company, its U.S. subsidiary Infineon Technologies North America Corporation ("IF North America") and other DRAM suppliers.

Sixteen cases were filed between June and September 2002 in several U.S. federal district courts, purporting to be on behalf of a class of individuals and entities who purchased DRAM directly from the various DRAM suppliers during a specified time period (the Direct U.S. Purchaser Class), alleging price-fixing in violation of the Sherman Act and seeking treble damages in unspecified amounts, costs, attorneys' fees, and an injunction against the allegedly unlawful conduct. In September 2002, the Judicial Panel on Multi-District Litigation ordered that these federal cases be transferred to the U.S. District Court for the Northern District of California for coordinated or consolidated pre-trial proceedings as part of a Multi District Litigation ("MDL").

In September 2005, the Company and IF North America entered into a definitive settlement agreement with counsel to the Direct U.S. Purchaser Class (subject to approval by the U.S. District Court and to an opportunity for individual class members to opt out of the settlement). The settlement was approved on November 1, 2006. The court entered final judgment and dismissed the class action claims with prejudice in November 2006. Under the terms of the settlement agreement the Company agreed to pay approximately $21 million. In addition to this settlement payment, the Company agreed to pay an additional amount if it is proven that sales of DRAM products to the settlement class (after opt-outs) during the settlement period exceeded $208.1 million. The additional amount payable would be calculated by multiplying by 10.53 percent the amount by which those sales exceed $208.1 million. The Company does not currently expect to pay any additional amount to the class.

In April 2006, Unisys Corporation ("Unisys") filed a complaint against the Company and IF North America, among other DRAM suppliers, alleging state and federal claims for price fixing and seeking recovery as both a direct and indirect purchaser of DRAM. On May 5, 2006, Honeywell International, Inc. ("Honeywell") filed a complaint against the Company and IF North America, among other DRAM suppliers, alleging a claim for price fixing under federal law, and seeking recovery as a direct purchaser of DRAM. Both Unisys and Honeywell opted out of the Direct U.S. Purchaser Class and settlement, so their claims are not barred by the settlement with the Direct U.S. Purchaser Class. Both of these complaints were filed in the Northern District of California and have been related to the MDL described above. In April 2007 the court dismissed the initial complaint with leave to amend. Unisys filed a First Amended Complaint in May 2007. The Company, IF North America, and the other defendants again filed a motion to dismiss certain portions of the Unisys First Amended Complaint in June 2007. After Honeywell had filed a stipulation of dismissal without prejudice of its lawsuit against Infineon, the court entered the dismissal order in April 2007.

In February and March 2007 four more opt-out cases were filed by All American Semiconductor, Inc., Edge Electronics, Inc., Jaco Electronics, Inc., and DRAM Claims Liquidation Trust, by its Trustee, Wells Fargo Bank, N.A. The All American Semiconductor complaint alleges claims for price-fixing under the

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Sherman Act. The Edge Electronics, Jaco Electronics and DRAM Claims Liquidation Trust complaints allege state and federal claims for price-fixing. All four cases were filed in the Northern District of California and have been related to the MDL described above. As with Unisys, the claims of these plaintiffs are not barred by the settlement with the Direct U.S. Purchaser Class, since they opted out of the Direct U.S. Purchaser Class and settlement.

Based upon the court's order dismissing portions of the initial Unisys complaint described above, the plaintiffs in all four of these opt-out cases filed amended complaints in May 2007. In June 2007, Infineon and IF North America answered the amended complaints filed by All American Semiconductor, Inc., Edge Electronics, Inc., and Jaco Electronics, Inc. and along with its co-defendants filed a joint motion to dismiss certain portions of the DRAM Claims Liquidation Trust amended complaint (see note 37).

Sixty-four additional cases were filed between August and October 2005 in numerous federal and state courts throughout the United States. Each of these state and federal cases (except for one relating to foreign purchasers, which was subsequently dismissed with prejudice and as to which the plaintiffs have filed notice of appeal) purports to be on behalf of a class of individuals and entities who indirectly purchased DRAM in the United States during specified time periods commencing in or after 1999 (the Indirect U.S. Purchaser Class). The complaints variously allege violations of the Sherman Act, California's Cartwright Act, various other state laws, unfair competition law and unjust enrichment and seek treble damages in generally unspecified amounts, restitution, costs, attorneys' fees and injunctions against the allegedly unlawful conduct.

Twenty-three of the state and federal court cases were subsequently ordered transferred to the U.S. District Court for the Northern District of California for coordinated and consolidated pretrial proceedings as part of the multi-district litigation described above. Nineteen of the twenty-three transferred cases are currently pending in the MDL litigation. The pending California state cases were coordinated and transferred to San Francisco County Superior Court for pre-trial proceedings. The plaintiffs in the indirect purchaser cases outside California agreed to stay proceedings in those cases in favor of proceedings on the indirect purchaser cases pending as part of the MDL pre-trial proceedings. The defendants have filed two motions for judgment on the pleadings directed at several of the claims. Hearing on those motions took place in December 2006.

The court entered an order in June 2007 granting in part and denying in part the defendants' motions for judgment on the pleadings. The order dismissed a large percentage of the indirect purchaser plaintiffs' claims, and granted leave to amend with regard to claims under three specific state statutes. The court ruled that the indirect purchaser plaintiffs must file a motion for leave to amend the complaint with regard to any of the other dismissed claims. In June 2007, the indirect purchaser plaintiffs filed both a First Amended Complaint and a motion for leave to file a Second Amended Complaint that attempts to resurrect some of the claims that were dismissed. On August 17, 2007, the court entered an order granting the motion to file the Second Amended Complaint, which re-pleaded part of the previously dismissed claims.

In July 2006, the New York state attorney general filed an action in the U.S. District Court for the Southern District of New York against the Company, IF North America and several other DRAM manufacturers on behalf of New York governmental entities and New York consumers who purchased products containing DRAM beginning in 1998. The plaintiffs allege violations of state and federal antitrust laws arising out of the same allegations of DRAM price-fixing and artificial price inflation practices discussed above, and seek recovery of actual and treble damages in unspecified amounts, penalties, costs (including attorneys' fees) and injunctive and other equitable relief. In October 2006, this action was made part of

the MDL proceeding described above. In July 2006, the attorneys general of Alaska, Arizona, Arkansas, California, Colorado, Delaware, Florida, Hawaii, Idaho, Illinois, Iowa, Louisiana, Maryland, Massachusetts, Michigan, Minnesota, Mississippi, Nebraska, Nevada, New Mexico, North Dakota, Ohio, Oklahoma, Oregon, Pennsylvania, South Carolina, Tennessee, Texas, Utah, Vermont, Virginia, Washington,

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West Virginia and Wisconsin filed a lawsuit in the U.S. District Court for the Northern District of California against the Company, IF North America and several other DRAM manufacturers on behalf of governmental entities, consumers and businesses in each of those states who purchased products containing DRAM beginning in 1998. In September 2006, the complaint was amended to add claims by the attorneys general of Kentucky, Maine, New Hampshire, North Carolina, the Northern Mariana Islands and Rhode Island. This action is based on state and federal law claims relating to the same alleged anticompetitive practices in the sale of DRAM and plaintiffs seek recovery of actual and treble damages in unspecified amounts, penalties, costs (including attorneys' fees) and injunctive and other relief. In October 2006 Infineon joined the other defendants in filing motions to dismiss several of the claims alleged in these two actions. On August 31, 2007, the court entered orders granting the motions in part and denying the motions in part. The court's order dismissed the claims on behalf of consumers, businesses and governmental entities in a number of states, and dismissed certain other claims with leave to amend, with any amended complaints to be filed by October 1, 2007. Between June 25 and August 15, 2007, the state attorneys general of four states, Alaska, Ohio, New Hampshire and Texas, filed requests for dismissal of their claims without prejudice.

In April 2003, the Company received a request for information from the European Commission (the "Commission") to enable the Commission to assess the compatibility with the Commission's rules on competition of certain practices of which the Commission has become aware in the European market for DRAM products. In light of its plea agreement with the DOJ, the Company made an accrual during the 2004 fiscal year for an amount representing the probable minimum fine that may be imposed as a result of the Commission's investigation. Any fine actually imposed by the Commission may be significantly higher than the reserve established, although the Company cannot more accurately estimate the amount of the actual fine. The Company is fully cooperating with the Commission in its investigation.

In May 2004, the Canadian Competition Bureau advised IF North America that it, its affiliates and present and past directors, officers and employees are among the targets of a formal inquiry into an alleged conspiracy to prevent or lessen competition unduly in the production, manufacture, sale or supply of DRAM, contrary to the Canadian Competition Act. No formal steps (such as subpoenas) have been taken by the Competition Bureau to date. The Company is fully cooperating with the Competition Bureau in its inquiry.

Between December 2004 and February 2005 two putative class proceedings were filed in the Canadian province of Quebec, and one was filed in each of Ontario and British Columbia against the Company, IF North America and other DRAM manufacturers on behalf of all direct and indirect purchasers resident in Canada who purchased DRAM or products containing DRAM between July 1999 and June 2002, seeking damages, investigation and administration costs, as well as interest and legal costs. Plaintiffs primarily allege conspiracy to unduly restrain competition and to illegally fix the price of DRAM.

Between September and November 2004 seven securities class action complaints were filed against the Company and current or former officers in U.S. federal district courts, later consolidated in the Northern District of California, on behalf of a putative class of purchasers of the Company's publicly-traded securities who purchased them during the period from March 2000 to July 2004 (the "Securities Class Actions"). The consolidated amended complaint alleges violations of the U.S. securities laws and asserts that the defendants made materially false and misleading public statements about the Company's historical and projected financial results and competitive position because they did not disclose the Company's alleged participation in DRAM price-fixing activities and that, by fixing the price of DRAM, defendants manipulated the price of the Company's securities, thereby injuring its

shareholders. The plaintiffs seek unspecified compensatory damages, interest, costs and attorneys' fees. In September 2006, the court dismissed the complaint with leave to amend. In October 2006 the plaintiffs filed a second amended complaint. In March 2007, pursuant to a stipulation agreed with the defendants, the plaintiffs withdrew the second amended complaint and were granted a motion for leave to file a third amended

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complaint. Plaintiffs filed a third amended complaint in July 2007. A hearing is scheduled for November 19, 2007.

The Company's directors' and officers' insurance carriers have denied coverage in the Securities Class Actions and the Company filed suit against the carriers in December 2005 and August 2006. The Company's claims against one D&O insurance carrier were finally dismissed in May 2007. The claim against the other insurance carrier is still pending.

In April 2007, Lin Packaging Technologies, Ltd. ("Lin") filed a lawsuit against the Company, IF North America and an additional DRAM manufacturer in the U.S. District Court for the Eastern District of Texas, alleging that certain DRAM products infringe two Lin patents.

Accruals and the Potential Effect of these Lawsuits

Liabilities related to legal proceedings are recorded when it is probable that a liability has been incurred and the associated amount can be reasonably estimated. Where the estimated amount of loss is within a range of amounts and no amount within the range is a better estimate than any other amount, the minimum amount is accrued. As of September 30, 2007, the Company had accrued liabilities in the amount of €95 million related to the DOJ and European antitrust investigations and the direct and indirect purchaser litigation and settlements described above, as well as for legal expenses for the DOJ related and securities class action complaints.

As additional information becomes available, the potential liability related to these matters will be reassessed and the estimates revised, if necessary. These accrued liabilities would be subject to change in the future based on new developments in each matter, or changes in circumstances, which could have a material adverse effect on the Company's financial condition and results of operations.

An adverse final resolution of the investigations or lawsuits described above could result in significant financial liability to, and other adverse effects on, the Company, which would have a material adverse effect on its results of operations, financial condition and cash flows. In each of these matters, the Company is continuously evaluating the merits of its respective claims and defending itself vigorously or seeking to arrive at alternative resolutions in the best interest of the Company, as it deems appropriate. Irrespective of the validity or the successful assertion of the claims described above, the Company could incur significant costs with respect to defending against or settling such claims, which could have a material adverse effect on its results of operations, financial condition and cash flows.

The Company is subject to various other lawsuits, legal actions, claims and proceedings related to products, patents, environmental matters, and other matters incidental to its businesses. The Company has accrued a liability for the estimated costs of adjudication of various asserted and unasserted claims existing as of the balance sheet date. Based upon information presently known to management, the Company does not believe that the ultimate resolution of such other pending matters will have a material adverse effect on the Company's financial position, although the final resolution of such matters could have a material adverse effect on the Company's results of operations or cash flows in the period of settlement.

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Contractual Commitments

The following table summarizes the Company's commitments with respect to external parties as of September 30, 2007[1][2]:

	Payments Due by Period						
	Total	Less than 1 year	1-2 years	2-3 years	3-4 years	4-5 years	After 5 years
	(€ in millions)						
Contractual commitments:							
Operating lease payments	870	90	78	65	62	57	518
Unconditional purchase commitments	1,212	1,161	29	11	6	1	4
Other long-term commitments	77	71	2	2	1	1	—
Total Commitments	2,159	1,322	109	78	69	59	522

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

(2) Product purchase commitments associated with continuing capacity reservation agreements are not included in this table, since the purchase prices are based, in part, on future market prices, and are accordingly not accurately quantifiable at September 30, 2007. Purchases under such arrangements aggregated €1,165 million for the year ended September 30, 2007.

The Company has capacity reservation agreements with certain Associated Companies and external foundry suppliers for the manufacturing and testing of semiconductor products. These agreements generally are greater than one year in duration and are renewable. Under the terms of these agreements, the Company has agreed to purchase a portion of their production output based, in part, on market prices.

Purchases under these agreements are recorded as incurred in the normal course of business. The Company assesses its anticipated purchase requirements on a regular basis to meet customer demand for its products. An assessment of losses under these agreements is made on a regular basis in the event that either budgeted purchase quantities fall below the specified quantities or market prices for these products fall below the specified prices.

Other Contingencies

The following table summarizes the Company's contingencies with respect to external parties, other than those related to litigation, as of September 30, 2007[1]:

	Expirations by Period						
	Total	Less than 1 year	1-2 years	2-3 years	3-4 years	4-5 years	After 5 years
	(€ in millions)						
Maximum potential future payments:							
Guarantees[2]	209	25	22	1	14	30	117
Contingent government grants[3]	462	125	40	56	171	30	40
Total contingencies	671	150	62	57	185	60	157

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

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

(3) Contingent government grants refer to amounts previously received, related to the construction and financing of certain production facilities, which are not otherwise guaranteed and could be refundable if the total project

requirements are not met.

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The Company has received government grants and subsidies related to the construction and financing of certain of its production facilities. These amounts are recognized upon the attainment of specified criteria. Certain of these grants have been received contingent upon the Company maintaining compliance with certain project-related requirements for a specified period after receipt. The Company is committed to maintaining these requirements. Nevertheless, should such requirements not be met, as of September 30, 2007, a maximum of €462 million of these subsidies could be refundable.

On December 23, 2003, the Company entered into a long-term operating lease agreement with MoTo Objekt Campeon GmbH & Co. KG ("MoTo") to lease an office complex constructed by MoTo south of Munich, Germany. The office complex, called Campeon, enables the Company to centralize the majority of its Munich-area employees in one central physical working environment. MoTo was responsible for the construction, which was completed in the second half of 2005. The Company has no obligations with respect to financing MoTo and has provided no guarantees related to the construction. The Company occupied Campeon under an operating lease arrangement in October 2005 and completed the gradual move of its employees to this new location in the 2006 fiscal year. The complex was leased for a period of 20 years. After year 15, the Company has a non-bargain purchase option to acquire the complex or otherwise continue the lease for the remaining period of five years. Pursuant to the agreement, the Company placed a rental deposit of €75 million in escrow, which was included in restricted cash as of September 30, 2007. Lease payments are subject to limited adjustment based on specified financial ratios related to the Company. The agreement was accounted for as an operating lease, in accordance with SFAS No. 13, with monthly lease payments expensed on a straight-line basis over the lease term.

The Company through certain of its sales and other agreements may, in the normal course of business, be obligated to indemnify its counterparties under certain conditions for warranties, patent infringement or other matters. The maximum amount of potential future payments under these types of agreements is not predictable with any degree of certainty, since the potential obligation is contingent on conditions that may or may not occur in future, and depends on specific facts and circumstances related to each agreement. Historically, payments made by the Company under these types of agreements have not had a material adverse effect on the Company's business, results of operations or financial condition. A tabular reconciliation of the changes in the aggregate product warranty liability for the year ended September 30, 2007 is presented in note 21.

36. Operating Segment and Geographic Information

The Company has reported its operating segment and geographic information in accordance with SFAS No. 131, "*Disclosure about Segments of an Enterprise and Related Information*".

The Company's current organizational structure became effective on May 1, 2006, following the legal separation of its memory products business into the stand-alone legal entity, Qimonda AG. The results of prior periods have been reclassified to conform to the current period presentation, as well as to facilitate analysis of current and future operating segment information. As a result of the reorganization, certain corporate overhead expenses are no longer apportioned to Qimonda and are instead allocated to Infineon's logic segments.

The Company operates primarily in three major operating segments, two of which are application focused: Automotive, Industrial & Multimarket, and Communication Solutions; and one of which is product focused: Qimonda. Further, certain of the Company's remaining activities for product lines sold, for which there are no continuing contractual commitments

subsequent to the divestiture date, as well as new business activities also meet the SFAS No. 131 definition of an operating segment, but do not meet the requirements of a reportable segment as specified in SFAS No. 131. Accordingly, these segments are combined and disclosed in the “Other Operating Segments” category pursuant to SFAS No. 131.

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Following the completion of the Qimonda carve-out the Other Operating Segments for the 2005, 2006 and 2007 fiscal years include net sales and earnings that Infineon's 200-millimeter production facility in Dresden records from the sale of wafers to Qimonda under foundry agreements. The Corporate and Eliminations segment reflects the elimination of these intra-group net sales and earnings.

The accounting policies of the segments are substantially the same as described in the summary of significant accounting policies (see note 2). Each of the segments has a segment manager reporting directly to the Chief Executive Officer and Chief Financial Officer, who have been collectively identified as the Chief Operating Decision Maker ("CODM"). The CODM makes decisions about resources to be allocated to the segments and assesses their performance using revenues and EBIT. The CODM does not review asset information by segment nor does he evaluate the segments on these criteria on a regular basis, except that the CODM is provided information regarding certain inventories on an operating segment basis. The Company does, however, allocate depreciation expense to the operating segments based on production volume and product mix using standard costs. Information with respect to the Company's operating segments follows:

Automotive, Industrial & Multimarket

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

Communication Solutions

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

Qimonda

Qimonda designs memory technologies and develops, manufactures, and markets a large variety of memory products on a module, component and chip level.

Other Operating Segments

Remaining activities for certain product lines that have been disposed of, as well as other business activities, are included in the Other Operating Segments.

Selected segment data for the years ended September 30, 2005, 2006 and 2007 is as follows:

	2005	2006	2007
		(€ in millions)	
Net sales:			
Automotive, Industrial & Multimarket	2,516	2,839	3,017
Communication Solutions[1]	1,391	1,205	1,051
Other Operating Segments[2]	285	310	219
Corporate and Eliminations[3]	(258)	(240)	(213)
Subtotal	3,934	4,114	4,074
Qimonda	2,825	3,815	3,608
Infineon Group	6,759	7,929	7,682

(1) Includes inter-segment sales of €30 million for fiscal year ended September 30, 2007, none in fiscal years 2005 and 2006, respectively, from sales of wireless communication applications to Qimonda.

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(2) Includes inter-segment sales of €273 million, €256 million and €189 million for fiscal years ended September 30, 2005, 2006 and 2007, respectively, from sales of wafers from Infineon's 200-millimeter facility in Dresden to Qimonda under foundry agreements.

(3) Includes the elimination of inter-segment sales of €273 million, €256 million and €219 million for fiscal years ended September 30, 2005, 2006 and 2007, respectively.

	2005	2006	2007
		(€ in millions)	
EBIT:			
Automotive, Industrial & Multimarket	134	246	300
Communication Solutions	(295)	(231)	(160)
Other Operating Segments	4	4	(12)
Corporate and Eliminations	(137)	(236)	(177)
Subtotal	(294)	(217)	(49)
Qimonda(1)	111	202	(207)
Infineon Group	(183)	(15)	(256)

(1) EBIT results of Qimonda for the period following its IPO are reported net of minority interest results.

	2005	2006	2007
		(€ in millions)	
Depreciation and Amortization:			
Automotive, Industrial & Multimarket	431	411	401
Communication Solutions	309	246	186
Other Operating Segments	48	45	22
Corporate and Eliminations	—	—	—
Subtotal	788	702	609
Qimonda	528	703	667
Infineon Group	1,316	1,405	1,276

	2005	2006	2007
		(€ in millions)	
Equity in earnings (losses) of Associated Companies:			
Automotive, Industrial & Multimarket	—	—	—
Communication Solutions	4	(2)	—
Other Operating Segments	(2)	—	—
Corporate and Eliminations	10	—	—
Subtotal	12	(2)	—
Qimonda	45	80	117
Infineon Group	57	78	117

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	2005	2006	2007
		(€ in millions)	
Inventories:			
Automotive, Industrial & Multimarket	336	365	402
Communication Solutions	201	214	243
Other Operating Segments	1	1	(47)
Corporate and Eliminations	—	—	—
Subtotal	538	580	598
Qimonda	484	622	619
Infineon Group	1,022	1,202	1,217

As of September 30, 2005, 2006 and 2007, all inventories were attributed to the respective operating segment, since they were under the direct control and responsibility of the respective operating segment managers.

	2006	2007
	(€ in millions)	
Goodwill:		
Automotive, Industrial & Multimarket	—	—
Communication Solutions	22	52
Other Operating Segments	6	—
Corporate and Eliminations	1	1
Subtotal	29	53
Qimonda	72	64
Infineon Group	101	117

Certain items are included in Corporate and Eliminations and are not allocated to the logic segments, consistent with the Company's internal management reporting. These include certain corporate headquarters costs, certain incubator and early stage technology investment costs, non-recurring gains and specific strategic technology initiatives. Additionally, restructuring charges and employee stock-based compensation expense are included in Corporate and Eliminations and not allocated to the logic segments for internal or external reporting purposes, since they arise from corporate directed decisions not within the direct control of segment management. Furthermore, legal costs associated with intellectual property and product matters are recognized by the segments when paid, which can differ from the period originally recognized by Corporate and Eliminations. The Company allocates excess capacity costs based on a foundry model, whereby such allocations are reduced based upon the lead time of order cancellation or modification. Any unabsorbed excess capacity costs are included in Corporate and Eliminations. Significant components of Corporate and Eliminations' EBIT for the years ended September 30, 2005, 2006 and 2007 are as follows:

	2005	2006	2007
		(€ in millions)	
Corporate and Eliminations:			
Unabsorbed excess capacity costs	(12)	(33)	(7)
Restructuring charges (note 9)	(78)	(23)	(45)
Stock-based compensation expense	—	(25)	(12)
Other, net[1]	(47)	(155)	(113)
Total	(137)	(236)	(177)

[1] Includes aggregate charges of approximately €80 million and €84 million in the 2006 and 2007 fiscal years, respectively, incurred primarily in connection with the issuance and/or sale of Qimonda ADSs.

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The following is a summary of net sales and of property, plant and equipment by geographic area for the years ended September 30:

	2005	2006	2007
		(€ in millions)	
Net sales:			
Germany	1,354	1,327	1,164
Other Europe	1,210	1,360	1,218
North America	1,504	2,126	1,887
Asia/Pacific	2,223	2,498	2,632
Japan	332	461	661
Other	136	157	120
Total	6,759	7,929	7,682

	2005	2006	2007
		(€ in millions)	
Property, plant and equipment:			
Germany	1,625	1,279	1,067
Other Europe	516	638	639
North America	1,093	1,105	1,100
Asia/Pacific	515	737	838
Japan	2	4	3
Other	—	1	—
Total	3,751	3,764	3,647

Revenues from external customers are based on the customers' billing location. Regional employment data is provided in note 8.

Except for sales to Siemens, which are discussed in note 31, no single customer accounted for more than 10 percent of the Company's sales during the fiscal year ended September 30, 2005. Sales to Siemens were made primarily by the logic segments. No single customer accounted for more than 10 percent of the Company's sales during the fiscal years ended September 30, 2006 and 2007.

The Company defines EBIT as earnings (loss) before interest and taxes. The Company's management uses EBIT, among other measures, to establish budgets and operational goals, to manage the Company's business and to evaluate its performance. The Company reports EBIT information because it believes that it provides investors with meaningful information about the operating performance of the Company and especially about the performance of its separate operating segments. Because many operating decisions, such as allocations of resources to individual projects, are made on a basis for which the effects of financing the overall business and of taxation are of marginal relevance, management finds a metric that excludes the effects of interest on financing and tax expense useful. In addition, in measuring operating performance, particularly for the purpose of making internal decisions, such as those relating to personnel matters, it is useful for management to consider a measure that excludes items over which the individuals being evaluated have minimal control, such as enterprise-level taxation and financing.

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For the fiscal years ended September 30, 2005, 2006 and 2007, EBIT is determined as follows from the consolidated statements of operations:

	2005	2006	2007
		(€ in millions)	
Net loss	(312)	(268)	(368)
Adjust: Income tax expense	120	161	79
Interest expense, net	9	92	33
EBIT	(183)	(15)	(256)

37. Subsequent Events

On October 2, 2007, Sony Corporation and Qimonda announced that they had signed an agreement to found the joint venture Qreatic Design. The scope of the joint venture is the design of high-performance, low power, embedded and customer specific DRAMs for consumer and graphic applications. According to the agreement, the 50:50 joint venture is intended to start with up to 30 specialists from Sony and Qimonda, bringing together their engineering expertise for the mutual benefit of both companies. Qreatic Design, which will be located in Tokyo, Japan, is planned to start operations by the end of calendar year 2007, subject to regulatory approvals and other closing conditions, and to substantially expand its capacities by hiring additional designers.

On October 8, 2007, Qimonda entered into a rental agreement for a new headquarters office south of Munich, Germany. The agreement provides for the construction of a building by a third-party developer-lessor, and includes a 15 year non-cancelable lease term, which is expected to start in early 2010. Qimonda has an option to extend the lease for two 5 year periods at similar lease terms to the initial non-cancelable lease term. The minimum rental payments aggregate €96 million over the initial lease term. The lease provides for rent escalation in line with market-based increases in rent. The agreement will be accounted for as an operating lease with monthly lease payments expensed on a straight-line basis over the lease term (see note 4).

On October 15, 2007, the court entered an order denying the motions to dismiss in the Unisys and the DRAM Claims Liquidation Trust cases with prejudice. On October 29, 2007, the Company answered the Unisys complaint, denying liability and asserting a number of affirmative defenses. On November 1, 2007, the Company answered the DRAM Claims Liquidation Trust complaint, denying liability and asserting a number of affirmative defenses (see note 35).

On October 24, 2007, the Company completed its acquisition of the mobility products business of LSI (see note 4).

On October 25, 2007, 1.25 million Qimonda ADSs that had been borrowed by an affiliate of J.P. Morgan Securities Inc. in connection with the exchangeable subordinated notes due 2010 described in note 23 were returned to the Company.

On October 31, 2007, Wi-LAN Inc. filed suit in the U.S. District Court for the Eastern District of Texas against Westell Technolgies, Inc. and 16 other defendants, including the Company and Infineon Technologies North America Corp. The complaint alleges infringement of 3 U.S. patents by certain wireless products compliant with the IEEE 802.11 standards and certain ADSL products compliant with the ITU G.992 standards, in each case supplied by certain of the defendants.

On November 30, 2007, Qimonda cancelled its agreement with Infineon for the production of wafers at the Infineon Technologies Dresden GmbH & Co. OHG production facility. The agreement will terminate on March 1, 2008 (see note 3).

On November 30, 2007, the Company completed the sale of a 40 percent interest in its subsidiary Bipolar to Siemens (see note 5).

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SIGNATURES

The registrant hereby certifies that it meets all of the requirements for filing on Form 20-F and has duly caused and authorized the undersigned to sign this annual report on its behalf.

December 7, 2007
Neubiberg, Germany

INFINEON TECHNOLOGIES AG

/s/ WOLFGANG ZIEBART

Dr. Wolfgang Ziebart
Member of the Management Board and
Chief Executive Officer

/s/ PETER J. FISCHL

Peter J. Fischl
Member of the Management Board and
Chief Financial Officer

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Exhibit Index

Exhibit Number	Description of Exhibit	Form	Exhibit Number	Filing Date with SEC	SEC File Number
1.1	Articles of Association (as of November 2007) (English translation)	Filed herewith.			
1.2	Rules of Procedure for the Management Board (as of November 2007) (English translation)	Filed herewith			
1.3	Rules of Procedure for the Supervisory Board (as of November 2007) (English translation)	Filed herewith			
1.4	Rules of Procedure for the Investment Finance and Audit Committee of the Supervisory Board (as of November 2007) (English translation)	Filed herewith			
2	The total amount of long-term debt securities of Infineon Technologies AG authorized under any instrument does not exceed 10% of the total assets of the group on a consolidated basis. Infineon Technologies AG hereby agrees to furnish to the SEC, upon its request, a copy of any instrument defining the rights of holders of long-term debt of Infineon Technologies AG or of its subsidiaries for which consolidated or unconsolidated financial statements are required to be filed.				
4.3	Patent Cross License Agreement between Infineon and Siemens AG, dated as of February 11, 2000	F-1	10.7	February 18, 2000	333-11508
4.9	Shareholder Agreement of ALTIS Semiconductor between Infineon Technologies Holding France and Compagnie IBM France, dated as of June 24, 1999	F-1	10.15	February 18, 2000	333-11508
4.18†	Joint Venture Agreement between Infineon and Nanya Technology Corporation, executed on November 13, 2002	20-F	4.38	December 4, 2002	1-15000
4.19†	Amendments No 1, 2 and 3 to the Joint Venture Agreement between Infineon and Nanya Technology Corporation, executed on November 13, 2002	20-F	4.19	November 23, 2005	1-15000
4.19.1†	Amendment No. 4 to the Joint Venture Agreement between Infineon and Nanya Technology Corporation, executed on November 13, 2002	Filed as exhibit 10(i)(I) to the registration statement on form F-1 of Qimonda AG dated August 8, 2006 (file 333-135913) and incorporated herein by reference			
4.20	Terms and Conditions of 5% Guaranteed Subordinated Convertible Notes due 2010 in the aggregate nominal amount of EUR 700,000,000 (the "2010 Notes") issued on June 5, 2003 by Infineon Technologies Holding B.V.	20-F	4.30	November 21, 2003	1-15000
4.21	Undertaking for Granting of Conversion Rights from Infineon to JPMorgan Chase Bank for the benefit of the holders of the 2010 Notes, dated June 2, 2003	20-F	4.31	November 21, 2003	1-15000
4.22	Subordinated Guarantee of Infineon, as Guarantor, in favor of the holders of 2010 Notes, dated June 2, 2002	20-F	4.32	November 21, 2003	1-15000
4.23	Loan Agreement dated June 2, 2003, between Infineon Technologies Holding B.V., as Issuer, and Infineon	20-F	4.33	November 21, 2003	1-15000
4.24	Assignment Agreement dated June 2, 2003, among Infineon Technologies Holding B.V., Infineon and JPMorgan Chase Bank for the benefit of the holders of the 2010 Notes	20-F	4.34	November 21, 2003	1-15000
4.25†	Amendment 1, dated June 26, 2003, to Shareholder Agreement of ALTIS Semiconductor between Infineon Technologies Holding France and Compagnie IBM France, dated as of June 24, 1999	20-F	4.35	November 21, 2003	1-15000
4.25.1†	Amendment 2 effective as of December 31, 2005 to Shareholder Agreement of ALTIS Semiconductor between Infineon Technologies Holding France and IBM XXI SAS dated as of June 24, 1999.	20-F	4.25.1	November 30, 2006	1-15000
4.25.2	Framework Agreement dated as of August 8, 2007 among GlobalInformService, International Business Machines Corporation and Infineon Technologies AG, related to ALTIS Semiconductor	Filed herewith			

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Exhibit Number	Description of Exhibit	Form	Exhibit Number	Filing Date with SEC	SEC File Number
4.26†	Real Estate Leasing Contract between MoTo Object CAMPEON GmbH & Co. KG and Infineon dated as of December 23, 2003, with Supplementary Agreements No 1 and 2 (English translation)	20-F	4.28	November 26, 2004	1-15000
4.27.1	Contribution Agreement *(Einbringungsvertrag)* between Infineon Technologies AG and Qimonda AG, dated as of April 25, 2006, and addendum thereto, dated as of June 2, 2006 (English translation).	Filed as exhibit 10(i)(A) to the registration statement on form F-1 of Qimonda AG dated August 8, 2006 (file 333-135913) and incorporated herein by reference			
4.27.2	Contribution Agreement *(Einbringungsvertrag)* between Infineon Holding B.V. and Qimonda AG, dated as of May 4, 2006 (English translation).	Filed as exhibit 10(i)(B) to the registration statement on form F-1 of Qimonda AG dated August 8, 2006 (file 333-135913) and incorporated herein by reference			
4.27.3	Addenda No. 2 and 3 to Contribution Agreement *(Einbringungsvertrag)* between Infineon Technologies AG and Qimonda AG, dated as of April 25, 2006 (English translation).	Filed as exhibit 4(i)(W) to the annual report on form 20-F of Qimonda AG dated November 21, 2006 (file 1-32972) and incorporated herein by reference			
4.27.5	Master Loan Agreement between Qimonda AG and Infineon Technologies Holding B.V., dated April 28, 2006.	Filed as exhibit 10(i)(D) to the registration statement on form F-1 of Qimonda AG dated August 8, 2006 (file 333-135913) and incorporated herein by reference			
4.27.6	Global Services Agreement between Infineon Technologies AG and Qimonda AG, effective May 1, 2006.	Filed as exhibit 10(i)(E) to the registration statement on form F-1 of Qimonda AG dated August 8, 2006 (file 333-135913) and incorporated herein by reference			
4.27.7	Master IT Cost Sharing Agreement by and between Infineon Technologies AG and Qimonda AG, effective May 1, 2006	Filed as exhibit 10(i)(Q) to the registration statement on form F-1 of Qimonda AG dated August 8, 2006 (file 333-135913) and incorporated herein by reference			
4.28.1	Terms and Conditions of the 1.375% Guaranteed Subordinated Notes due 2010 in the aggregate nominal amount of EUR 215,000,000 (the "2007/2010 Notes") issued by Infineon Technologies Investment B.V., on September 26, 2007	Filed herewith.			
4.28.2	Subordinated Guarantee by Infineon Technologies AG in Favor of the Holders of the 2007/2010 Notes	Filed herewith.			
4.29	Asset Purchase Agreement by and between LSI Corporation and Infineon Technologies AG dated as of August 20, 2007	Filed as exhibit 2.1 to the current report on form 8-K of LSI Corporation dated October 24, 2007 (file 1-10317) and incorporated herein by reference. Infineon Technologies AG agrees to furnish supplementally a copy of any omitted schedule to the Securities and Exchange Commission upon request.			
8	List of Significant Subsidiaries and Associated Companies of Infineon	See "Additional Information — Organizational Structure"			
12.1	Certification of chief executive officer pursuant to Exchange Act Rule 13a-14(a)	Filed herewith.			
12.2	Certification of chief financial officer pursuant to Exchange Act Rule 13a-14(a)	Filed herewith.			
13	Certificate pursuant to 18 U.S.C. section 1350, as adopted pursuant to section 906 of the Sarbanes-Oxley Act of 2002	Filed herewith.			
14.1	Consent of KPMG Deutsche Treuhand-Gesellschaft AG	Filed herewith			

† Confidential treatment requested as to certain portions, which portions have been filed separately with the Securities and Exchange Commission

EXHIBIT 2

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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

March 31, 2006

INFINEON TECHNOLOGIES AG

Am Campeon 1-12
D-85579 Neubiberg/Munich
Federal Republic of Germany
Tel: +49-89-234-0
(Address of principal executive offices)

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

Form 20-F ☑ 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 ☑

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 March 31, 2006 contains a press release of Infineon Technologies AG, announcing the acceleration of its Memory carve-out.

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

INFINEON TECHNOLOGIES AG

Date: March 31, 2006

By: /s/ WOLFGANG ZIEBART
Dr. Wolfgang Ziebart
Member of the Management Board
and Chief Executive Officer

By: /s/ PETER J. FISCHL
Peter J. Fischl
Member of the Management Board and
Chief Financial Officer

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News Release/Presseinformation

Infineon has accelerated its Memory carve-out:
New memory company Qimonda will start operations on May 1st, 2006

Munich, Germany – March 31st, 2006 – Infineon Technologies AG (FSE/NYSE: IFX) announced today another milestone in its strategic realignment. The carve-out of its memory products business group into a new company will be effective on May 1st, 2006, two months ahead of schedule. On that date, the new company named Qimonda will start its operations. Qimonda, headquartered in Munich, will have the legal form of a German Aktiengesellschaft (AG). The new company will initially remain a wholly owned subsidiary of Infineon. It is the clear intention of Infineon to launch an Initial Public Offering (IPO) of Qimonda as the preferred next step. The separation on organizational and technical levels has made quick progress, enabling Infineon to carve out Qimonda earlier than it had originally planned.

Two major players with clear focus
Infineon Technologies AG and Qimonda AG will be two highly focused companies with clearly defined strategies, each providing its customers, employees, and investors with a clear company vision. “Through the strategic realignment, Infineon is significantly strengthening its competitive position. From May 1st onwards, both forceful players will operate in their own markets as industry leaders”, said Dr. Wolfgang Ziebart, CEO of Infineon Technologies AG. “Various teams have been working hard and at full speed to accomplish the carve-out two months ahead of the original schedule. We are in good shape to press ahead in our efforts to increase value for our shareholders, employees and customers.”

Qimonda – a leading creative memory products company
The CEO-designate of Qimonda AG is Kin Wah Loh, who has been head of the Memory Products business group since last summer and a member of the Management Board of Infineon Technologies AG since the end of 2004. Before becoming a member of the Infineon board, he was president and managing director of Infineon Technologies Asia Pacific. Kin Wah Loh has almost 30 years of global managerial experience in

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the semiconductor industry. He said: “From the carve-out emerges a leading creative memory products company. We will leverage our strong engineering expertise to expand our product and customer portfolio. We will constantly push the limits in technology and manufacturing.” He concluded: “From a strategic point of view, this simply means that we believe this new company has the right recipe for sustained profitable growth.” Designated chairman of the supervisory board is Peter J. Fischl, Executive Vice President and CFO of Infineon Technologies AG.

Qimonda with strong global footprint
From May 1st, 2006, onwards, Qimonda will operate from a strong market position as a Top 4 DRAM company worldwide (according to Gartner Dataquest, February 2006) and will be fully equipped for further growth. The new company will have access to five 300mm manufacturing sites on three continents and will operate five major R&D facilities, including the lead R&D-center in Dresden. Qimonda is a leader in 300mm manufacturing and a leading supplier of DRAM products for the PC and Server markets. The company is successfully diversifying into the graphics, mobile communication and consumer segments driven by its low power trench technology. Qimonda intends to accelerate its manufacturing efficiency through a faster transition from the 90nm to the 75nm technology node. Qimonda will have approximately 12,000 employees worldwide.

The new brand of Qimonda
The name and brand identity of Qimonda express the philosophy and personality of the new company, illustrating the vision and values that will drive it. “Qimonda” has universal qualities that work across the globe: “Qi” stands for breathing and flowing energy. In the West, where languages are largely based on Latin and have been widely influenced by English, the interpretation as “Key to the World” (key-monda) is intuitive. While purple, the primary colour of the new logo, stands for leadership, the secondary colours, the cursive typeface, the round and organic shape of the logo and its impulsively spreading shape all emphasize Qimonda’s values: being creative, passionate and fast. “Creativity is one of the key driving factors for us in order to be successful in our business”, explains Kin Wah Loh. “Passion is the spirit that runs through our company and being fast is what Qimonda will be all about in the dynamic memory market.”

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Future strategic focus of Infineon
The carve-out not only creates a leading memory products company, but it will also transform Infineon Technologies AG. The company will continue to follow a clearly defined strategic direction. “We intend to leverage our technological expertise further and we are focusing on becoming a world leader in semiconductor solutions for reducing energy consumption, increasing mobility, for the networked society and for security”, comments CEO Dr. Wolfgang Ziebart. Already today, Infineon’s logic business has leading market positions in important segments such as Automotive Electronics, Industrial Electronics and Power Management, Chip Cards and Security ICs, RadioFrequency solutions, platforms for Mobile Telecommunications and Broadband Communications.

These materials are not an offer of securities for sale in the United States. Securities may not be offered or sold in the United States absent registration with the U.S. Securities and Exchange Commission or an exemption from such registration. Any public offering of securities of Qimonda to be made in the United States will be made by means of a prospectus that may, if such an offering takes place and at that time, be obtained from Qimonda or Infineon Technologies AG and that will contain detailed information about the company and its management, as well as financial statements.

About Infineon
Infineon Technologies AG, Munich, Germany, offers semiconductor and system solutions for automotive, industrial and multimarket sectors, for applications in communication, as well as memory products. With a global presence, Infineon operates through its subsidiaries in the US from San Jose, CA, in the Asia-Pacific region from Singapore and in Japan from Tokyo. In fiscal year 2005 (ending September), the company achieved sales of Euro 6.76 billion with about 36,400 employees worldwide. Infineon is listed on the DAX index of the Frankfurt Stock Exchange and on the New York Stock Exchange (ticker symbol: IFX). Further information is available at www.infineon.com.

This news release and pictures are available online at http://www.infineon.com/news/.

For the Business and Trade Press: INFXX200603.050

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EXHIBIT 3

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As filed with the Securities and Exchange Commission on November 16, 2007

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

Form 20-F

(Mark One)

- ☐ **REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR 12(g) OF THE SECURITIES EXCHANGE ACT OF 1934**

OR

- ☑ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
  For the fiscal year ended September 30, 2007.

OR

- ☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

OR

- ☐ **SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
  Date of event requiring this shell company report

For the transition period from _____ to _____

Commission file number 001-32972

QIMONDA AG

(Exact name of Registrant as specified in its charter)

Gustav-Heinemann-Ring 212
81739 Munich, Germany
+(49)(89) 60088-0
(Address of principal executive offices)

Securities registered or to be registered pursuant to Section 12(b) of the Act.

Title of Each Class:	Name of Each Exchange on Which Registered:
American Depositary Shares representing Qimonda AG ordinary shares of no par value	New York Stock Exchange
Qimonda AG ordinary shares of no par value	New York Stock Exchange*

* Not for trading, but only in connection with the registration of American Depositary Shares.

Securities registered or to be registered pursuant to Section 12(g) of the Act.
None
(Title of class)

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

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the annual report.

As of September 30, 2007, 342,000,001 ordinary shares, of no par value, of Qimonda AG were outstanding.

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.
Yes ☑ No ☐

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.
Yes ☐ No ☑

Note — Checking the box above will not relieve any registrant required to file reports pursuant to Section 13 or 15(d) of

the Securities Exchange Act of 1934 from their obligations under those Sections.

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

Yes ☑ No ☐ Not applicable ☐.

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

☑ Large accelerated filer ☐ Accelerated filer ☐ Non-accelerated filer

Indicate by check mark which financial statement item the registrant has elected to follow:

Item 17 ☐ Item 18 ☑

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

Yes ☐ No ☑

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

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

Yes ☐ No ☐

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CROSS REFERENCES TO FORM 20-F

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CONTENT OVERVIEW

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PRESENTATION OF FINANCIAL AND OTHER INFORMATION

Our combined and consolidated financial statements are prepared in accordance with U.S. GAAP and expressed in euro, the single currency of the participating member states in the Third Stage of the European Economic and Monetary Union (EMU) of the Treaty Establishing the European Community, as amended from time to time. In this annual report, references to "euro" or ''€" are to euro and references to "U.S. $" or "$" are to U.S. dollars. In this annual report, for convenience only, we have translated the euro amounts reflected in our combined and consolidated financial statements as of and for the financial year ended September 30, 2007, into U.S. dollars at the rate of €1.00 = $1.4219, the noon buying rate of the Federal Reserve Bank of New York for euro on September 28, 2007, the last currency trading day in September 2007. You should not assume that, on these or on any other dates, one could have converted these amounts of euros into dollars at these or any other exchange rates.

Our financial year ends on September 30 of each year. References to any financial year refer to the year ended September 30 of the calendar year specified.

This annual report contains market data that have been prepared or reported by DRAMeXchange, Gartner Inc. (Gartner), International Data Corporation (IDC), iSuppli Corporation (iSuppli) and World Semiconductor Trade Statistics (WSTS).

The trademarks Qimonda™, TwinFlash®, AENEON® and RLDRAM® have been assigned to us by Infineon in connection with our carve-out. Pursuant to a co-development agreement between Infineon and Micron Technology, Inc., Micron has trademark rights to CellularRAM® used on or in connection with products sold inside the United States, whereas Infineon has those rights with respect to products sold outside the United States. All other trademarks, trade names or service marks appearing in this annual report are the property of their respective owners.

Figures presented in tabular format may not add up to 100% due to rounding.

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

Forward-looking statements and market data

This annual report, including particularly the sections entitled "Risk Factors", "Selected Combined and Consolidated Financial Data", "Operating and Financial Review", "The Semiconductor Memory Industry", "Our Business", "Management","Related Party Transactions and Relationships" and "Additional Information" contains forward-looking statements. These forward-looking statements include statements regarding our financial position; our expectations concerning future operations, margins, profitability, liquidity and capital resources; our business strategy and other plans and objectives for future operations; and all other statements that are not historical facts. In some cases, you can identify forward-looking statements by terminology such as "may", "will", "should", "expects", "intends", "plans", "anticipates", "believes", "thinks", "estimates", "seeks", "predicts", "potential", and similar expressions. Although we believe that these statements are based on reasonable assumptions, they are subject to numerous factors, risks and uncertainties that could cause actual outcomes and results to be materially different from those projected. These factors, risks and uncertainties include those listed under "Risk Factors" and elsewhere in this annual report. Those factors, among others, could cause our actual results and performance to differ materially from the results and performance projected in, or implied by, the forward-looking statements. As you read and consider this annual report, you should carefully understand that the forward-looking statements are not guarantees of performance or results.

These factors expressly qualify all subsequent oral and written forward-looking statements attributable to us or persons acting on our behalf. New risks and uncertainties arise from time to time, and we cannot predict those events or how they may affect us. Except for any ongoing obligations to disclose material information as required by the federal securities laws, we do not have any intention or obligation to update forward-looking statements after we distribute this annual report.

In addition, this annual report contains information concerning the semiconductor memory products market generally and the DRAM market in particular, that is forward-looking in nature and is

based on a variety of assumptions regarding the ways in which the semiconductor market and the DRAM market in particular will develop. These assumptions have been derived from independent market research and industry reports referred to in

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this annual report. Some data are also based on our good faith estimates, derived from our review of internal surveys and the independent sources listed above.

If any of the assumptions regarding the market are incorrect, actual market results may differ from those predicted. Although we do not know what impact any such differences may have on our business, our future results of operations and financial condition and the market price of our ADSs may be materially adversely affected.

Company Information

We were registered in the commercial register of the local court of Munich on May 25, 2004 as Invot AG, a German stock corporation and wholly-owned subsidiary of Infineon Technologies AG, under number HRB 152545. We changed our name to Qimonda AG on April 6, 2006. Our principal executive offices are located at Gustav-Heinemann-Ring 212, 81739 Munich, Germany, and our telephone number is +49-89-60088-0. Our website is http://www.qimonda.com. This website address is included in this annual report as an inactive textual reference only. The information and other content appearing on our website are not part of this annual report. Our agent for service of process in the United States is Qimonda North America Corp., Corporation Trust Center, 1209 Orange Street, Wilmington, County of New Castle, Delaware 19801.

Use of Non-U.S. GAAP Financial Measures

This document contains non-U.S. GAAP financial measures. Non-U.S. GAAP financial measures are measures of our historical or future performance, financial position or cash flows that contain adjustments that exclude or include amounts that are included or excluded, as the case may be, from the most directly comparable measure calculated and presented in accordance with U.S. GAAP in our combined and consolidated financial statements. Earnings before interest and taxes (“EBIT”) is an example of a non-U.S. GAAP financial measure. For descriptions of these non-U.S. GAAP financial measures and the adjustment made to the most directly comparable U.S. GAAP financial measures to obtain them, please refer to “Operating and Financial Review”.

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RISK FACTORS

Investing in our ADSs involves a high degree of risk. You should carefully consider the risk factors set forth below and all other information contained in this annual report, including our combined and consolidated financial statements and the related notes, before making an investment decision regarding our securities. The risks described below are those significant risk factors, currently known and specific to us that we believe are relevant to an investment in our securities. If any of these risks materialize, our business, financial condition or results of operations could suffer, the price of our ADSs could decline and you could lose part or all of your investment. Additional risks not currently known to us or that we now deem immaterial may also harm us and adversely affect your investment in our ADSs.

Risks related to the semiconductor memory industry

The DRAM industry is subject to cyclical fluctuations, including recurring periods of oversupply, which result in large swings in our operating results, including large losses.

The market for DRAM products is highly cyclical, with frequently mismatched demand and supply cycles. Because the majority of DRAM products shipped, especially those for the PC market, is of a commodity nature, DRAM prices are driven primarily by changes in worldwide DRAM supply, which in turn is driven by manufacturing capacity and, in part, by fluctuations in demand for the end products that use memory semiconductors. A typical DRAM market cycle is characterized by an initial period of high demand for DRAM products, resulting in rising DRAM prices. Higher prices and suppliers' perception of increasing demand lead many suppliers and manufacturers to decide to construct, equip or contract new facilities to increase capacity. We and our competitors are currently bringing new capacity on-stream, in our case through the ramp-up at our DRAM manufacturing facility in Richmond, Virginia. Several of our competitors and we have announced the construction of new capacity, in our case a new DRAM manufacturing facility in Singapore, which we expect will commence production in 2009. However, the lead times for new or improved facilities to become operational average one to two years. By the time these facilities come on-stream, demand growth may have slowed or even reversed. When many suppliers' additional manufacturing capacity comes on-stream, which may occur almost simultaneously, industry-wide supply often rises to exceed demand and DRAM prices fall, sometimes precipitously. This in turn can cause DRAM manufacturers to incur losses. As a result of this cyclicality, our results of operations have historically been volatile from year to year and we expect them to remain so. The cyclicality of the DRAM market is evidenced through the development of market prices for the higher volume standardized memory products. The average "spot" market price for 512Mb DDR2 DRAM as reported by DRAMeXchange fell from $6.36 on December 29, 2006, to $1.45 on September 28, 2007, a drop of 77.2%. We believe that part of this price decline, especially towards the end of March 2007, was driven by seasonal demand weakness, the effects of an earlier build-up of inventories at original equipment manufacturers (OEMs) ahead of the introduction of the Windows Vista computer operating system and capacity conversions from NAND to DRAM by some competitors following severe price erosion in the NAND flash area. During the three months ended June 30, 2007, the price decline continued and was amplified by strong DRAM output growth across the industry, driven, we believe, mostly by capacity increases and technology conversions to more efficient technologies. Although prices for DRAM products improved slightly in July 2007 compared to June 2007, in August 2007, prices resumed the decline that has characterized the calendar year to date. These price declines may have significant negative impact on operating results of DRAM suppliers, including ours.

The reluctance of DRAM manufacturers to run their facilities at less than full capacity can cause oversupply-driven downturns to last for prolonged periods, keeping DRAM prices low.

Because the fixed costs of building, equipping and operating DRAM manufacturing facilities, or fabs, are very high and constitute a high proportion of the costs of producing each DRAM chip, DRAM manufacturers normally operate their factories at full capacity, 24 hours per day and seven days per week, even when prices are low or falling. A manufacturer would typically continue production of DRAM products at full capacity at a DRAM facility as long as the average selling price of the DRAM chips the facility produces remains above that facility's variable cost of producing chips

and provided that the facility cannot be cost-effectively converted to manufacture a more profitable product. For this reason, there is typically little capacity or supply shrinkage in response to a market downturn. Oversupply has in a number of periods contributed to substantial declines in average selling prices. It did

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so in the nine months ended September 30, 2007, and is likely to do so again in the future. DRAM prices only begin to recover when demand growth strengthens sufficiently to match supply. While lower prices may lead to acceleration in demand if PC manufacturers, in particular, increase the amount of DRAM "bits per box", or the amount of memory included in each device, the absorption of the oversupply may require a substantial increase in demand. As a result, oversupply-driven downturns can last for prolonged periods. It is likely that the DRAM industry will continue to suffer from cyclical downturns in the future and that we will be adversely affected by these downturns. Such downturns can have material adverse effects on our business, financial condition and results of operations for extended periods.

We expect the average selling prices of the semiconductor memory products we sell to continue to decline irrespective of cyclical fluctuations in the industry, and if prices decrease faster than we are able to reduce our costs, our margins will be adversely affected.

The average selling prices of semiconductor memory products, including DRAMs, have declined in general for many years and we expect that they will, irrespective of industry-wide fluctuations, continue to decline as a result of, among other factors, technological advancements and cost reductions. Although we may from time to time be able to take advantage of higher selling prices typically associated with new products and technologies, the prices of new products also generally decline over time, and in certain cases very rapidly, in the face of market competition. Accordingly, we need to reduce our per-megabit manufacturing costs even as we seek to maintain our technological position. Despite our significant investments in research and development and in modern manufacturing facilities, the product and process technologies that we develop may fail to keep pace with the industry's continuous drive towards more powerful, smaller devices with lower per-megabit costs. If our development fails to keep pace, our competitors may be able to offer their products on a more profitable basis. If the average per-megabit selling price for DRAMs and other memory chips that we produce decreases faster than we are able to reduce our per-megabit manufacturing costs, our gross margins would decrease and our business, financial condition and results of operations may be materially and adversely affected.

To reduce our costs, we need to make investments to implement improvements and developments in our process technologies quickly. If we are unable to do so, we may not be able to reduce per-megabit manufacturing costs quickly enough to keep pace with declines in average selling prices for DRAMs and other memory products.

Implementing a significant new process technology, such as the migration to a new process technology node (for example, from 90nm to 75nm), requires very significant long-term investments and often many years of development effort. In addition, each successive improvement in process technology generally involves an increase in complexity that may increase the required level of investment and demand more development effort. In 2003, we experienced difficulties in our transition from the 140nm to the 110nm technology node because, at the same time, we moved our development work from East Fishkill, New York to Dresden, Germany and began to convert to 193nm lithography, both of which introduced complexities to the technology node transition. Product yields tend to be at relatively lower levels when new process technologies are being implemented. If we experience delays in implementing these technologies, we may not be able to reduce our per-megabit manufacturing costs quickly enough to avoid falling margins or keep our prices competitive. Our business, results of operations and financial condition could be hurt if we experience substantial delays in developing new process technologies or if we do not implement production technology transitions efficiently.

Demand weakness in any of the end markets that use our products, especially the personal computer industry, could have a material adverse effect on our results of operations.

We sell our products for use in a variety of applications such as PCs, servers, game consoles and mobile and consumer devices. Our revenue growth depends not only on continued growth in the number of these products sold into our customers' end markets, but also on the amount of DRAM "bits per box". We are likely to suffer slower growth or a decline in demand for our products if our customers' end markets do not continue to grow or if the "bits per box" do not continue to increase or if either decline. If this occurs during a period already characterized by DRAM oversupply, our

business can suffer especially severe downturns. This occurred most recently in 2001, when

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worldwide DRAM sales dropped from $29 billion in 2000, to $11 billion in 2001, according to WSTS. According to Gartner, 256Mb equivalent DRAM was priced at $36 in the third quarter of 2000, but by the fourth quarter of 2001, this price had fallen below $4. These declines had a material adverse effect on our financial condition and results of operations and those of our competitors in 2001 and 2002. Any sustained decline in our customers' markets for our products that may occur in the future could have a material adverse effect on our business, financial condition and results of operations.

A mismatch between the specific DRAM chips we or the DRAM industry generally are producing and the platforms for which equipment manufacturers require DRAMs can lead to declining prices for the DRAMs we produce and consequently to material inventory write-downs.

Which DRAMs are required by the market at any particular time depends on the platforms the manufacturers of PCs and other electronic devices are using in their products at that time. In general, DRAMs are designed, manufactured and assembled into modules for use on a specified platform, or logic chipset and its associated interfaces. If DRAM manufacturers are producing DRAMs for which there is not enough demand because the supply of the related platforms is low, the supply of these DRAMs may exceed the demand for them, causing prices for the affected DRAM products to fall. For example, the DDR2 generation of DRAMs is designed to work together with a DDR2 logic chipset to operate a PC. In the first quarter of our 2006 financial year, we and many of our competitors were producing large volumes of DDR2 DRAMs, but the PC manufacturers sourced far fewer DDR2 logic chipsets than would permit the manufacture of enough PCs to absorb all of the DDR2 DRAMs being produced. The result was a dramatic oversupply and price decline in DDR2 DRAMs industry-wide. A portion of the DDR2 DRAMs that we produced remained unsold and in our inventory until supply of appropriate logic chipsets created sufficient demand for these accumulated DDR2 DRAMs.

Given the significant risk of demand and supply mismatches characteristic of our industry, we may find it necessary to write down the carrying value of inventories in the future depending on market conditions. For some of our products, the significant price decline in our 2007 financial year resulted in the write-down of inventory of those products to market value in an amount of €85 million in accordance with our policy. Due to the volatility of the DRAM market, write-downs of this nature may continue to occur in periods of sharp price decline. Any such write-downs could have a material adverse effect on our business, financial condition and results of operations.

We may not respond quickly enough to the rapid technological change in our industry.

The semiconductor memory industry is characterized by rapid technological change, both in the design of memory chips and in the manufacturing processes used to produce them. The following technological developments are continuously driving the improvements in the performance standards of most DRAM products:

- increasing the amount of data storage capacity per DRAM chip, or density (DRAM manufacturers have generally doubled the density of DRAM chips approximately every 24 months);
- increasing data transfer rates, or bandwidth, between the DRAM and the central processing unit, or CPU, of the host device, such as a PC;
- decreasing operating voltage and power consumption of the DRAM; and
- reducing and tailoring the form factor of DRAM chips and components with a given density,

In 2000, the industry-standard DRAM chip had a density of 64 megabits. By 2006, the density of the standard DRAM chip had increased to 512 megabits with the 1 gigabit generation in ramp-up phase and higher densities in development. In the same period, the interface generation has evolved from SDRAM past DDR to DDR2, with DDR3 in the development phase. At the same time, operating voltage has declined from 3.3 volts for SDRAM to 1.5 volts for DDR3. DRAM manufacturers have continuously reduced the feature size of their technologies to enable them to manufacture higher density memory offering higher speeds and requiring lower operating voltages.

In addition, from time to time industry participants are able to reduce the overall size of the storage cells on DRAM chips, which could be a factor in reducing manufacturing costs by increasing the number of chips that can be

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manufactured on a wafer, and is becoming increasingly important for certain applications that require very small and specifically tailored form factors.

For us to maintain or increase the competitiveness of our products, we must continually develop or acquire the technologies that allow us to increase memory capacity while shrinking the size of our chips and to do so faster than our competition. Our commitment to the development of new products and process technologies, including making the substantial investments that are required for these developments, must be made well in advance of the introduction of those products and technologies into the market. As part of this commitment, we must continually be reviewing the technologies, architectures and processes we use to make sure that they have the technological properties and robustness to permit volume manufacturing at competitive costs. Technology and industry standards or customer demands may change during the development process, rendering our products outdated or uncompetitive. Our failure to keep pace with the technological advancements, to anticipate changes that might render our technologies, architectures and processes uncompetitive or to respond quickly to market changes may materially and adversely affect our business, financial condition and results of operations.

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

The semiconductor memory industry is highly competitive and has been characterized by rapid technological change, short product lifecycles, high capital expenditures, intense pricing pressure from major customers, periods of oversupply and continuous advancements in process technologies and manufacturing facilities. We compete globally with other major DRAM suppliers, including Samsung Electronics, Hynix Semiconductor, Elpida Memory, Micron Technology and Nanya Technology Corporation (Nanya), which is our joint venture partner in Inotera Memories, Inc. Some of our competitors have substantially greater capital, human and other resources and manufacturing capacities, more efficient cost structures, higher brand recognition, larger customer bases and more diversified product lines than we have. See “Our Business — Competition”. Competitors with greater resources and more diversified operations may have long-term advantages, including the ability to better withstand future downturns in the DRAM market and to finance research and development activities. In addition, unfair price competition, government support or trade barriers by or for the benefit of our competitors can adversely affect our competitive position.

To compete successfully in the DRAM market, we must:

- design and develop new products and introduce them in a timely manner;
- develop and successfully implement improved manufacturing process technologies to reduce our per-megabit costs; and
- broaden our DRAM customer base, to reduce our dependence on a small number of customers and position us to increase our market share.

Other factors affecting our ability to compete successfully are largely beyond our control. These include:

- the extent to which and the pace at which customers incorporate our memory products into their devices;
- whether electronics manufacturers design their products to use DRAM configurations or new types of memory products that we do not offer;
- the number and nature of our competitors; and
- general economic conditions.

Increased competitive pressure generally or the relative weakening of our competitive position caused by these factors, or other developments we have not anticipated, could materially and adversely affect our business, financial condition and results of operations.

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Our results of operations are subject to the effects of seasonal sales patterns that apply to the demand for the products our customers sell and these seasonal sales patterns may interact with existing DRAM supply and demand dynamics in a way that further harms our results.

Retail demand for our customers' products fluctuates throughout the year and typically varies from region to region. For example, as our product mix shifts towards applications used in consumer electronics, we are increasingly exposed to the seasonal sales patterns around the Christmas season. In addition, demand in the retail sector of the PC market is often stronger during the last three months of the calendar year as a result of the Christmas holiday season. Many of the factors that create and affect seasonal trends are beyond our control. Further, if DRAM prices are relatively low, our customers may react to reduced demand for their products by increasing "bits per box" to offer the end-user a higher performing product in an attempt to spur demand, such as when a PC or notebook manufacturer offers to upgrade the amount of memory included in a product at no additional cost. However, if DRAM prices are relatively high at that time, our customers may not increase the "bits per box" but instead use another method to spur demand for their products. Alternatively, if DRAM prices are high during a period in which retail demand is relatively high, our customers may seek to limit the growth of the "bits per box", which may in turn slow or reduce demand for DRAM and cause DRAM prices to fall. Measures like these can easily obscure the seasonal factors. These uneven sales patterns, especially when combined with the existing dynamics of DRAM demand and supply cyclicality, make prediction of net sales for each financial period difficult and increase the risk of unanticipated variations in our results and financial condition on a quarterly basis.

Risks related to our operations

Some of our agreements with strategic partners, such as our Inotera Memories, Inc. joint venture with Nanya, have restrictions on transfers of the shares of the ventures they create that could cause our ownership or equity interest in these ventures to revert to Infineon, if Infineon ceases to be our majority owner.

Our joint venture with Nanya, Inotera Memories, Inc. manufactures DRAM products on the basis of technology jointly developed by Nanya and us pursuant to a separate joint development agreement. Infineon has transferred its shares in Inotera to us, other than a portion representing 0.24% of the total Inotera shares, which Infineon holds in trust for us due to Taiwanese legal restrictions.

If Infineon were to reduce its shareholding in Qimonda to a minority level before the fifth anniversary of our carve-out from Infineon and the early mass production using 58nm process technology at our manufacturing site in Dresden has not been achieved by that time, the joint venture agreement with Nanya, as amended, could require us to retransfer these Inotera shares to Infineon. We have agreed with Infineon that, in the event Nanya requests a retransfer, we would transfer the Inotera shares to Infineon in compliance with a trust agreement pursuant to which Infineon has agreed it would hold the Inotera shares in trust for us until they could be transferred back to us. If Infineon acquires our shares in Inotera to hold in trust for us, we would have to exercise our shareholder rights, including board membership and voting rights, only through Infineon, which would be required under the trust agreement to act according to our instructions. This process is a more cumbersome and less efficient method of exercising these rights than if we held the shares directly. We do not believe that these administrative complexities would have a material adverse effect on our business, financial condition and results of operations.

Although the trust agreement was drafted in a manner designed under German law to ensure that Qimonda could force the transfer to it of the Inotera shares if Infineon were to become the subject of insolvency proceedings, there is, in the absence of any clear statutory provision or directly applicable judicial interpretation on the issue, a risk that the shares would remain subject to the insolvency proceeding in such a case. Were this to occur, we would lose a portion or all of our investment in Inotera.

In addition, our limited partnership agreement with Advanced Micro Devices (AMD) and Toppan Photomasks Inc. relating to the Advanced Mask Technology Center (AMTC) and the Maskhouse Building Administration Company (BAC) in Dresden requires prior written consent from the other partners before Infineon can assign its partnership interest. In the case of a transfer to an affiliate, the consent may not be unreasonably withheld. Under the current agreement, the interest must be transferred back to Infineon should Infineon cease to be our majority shareholder. This could lead to

similar administrative complexities as described above in the case of Inotera.

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Infineon and we are currently finalizing negotiations with AMD and Toppan concerning an agreement that would include the consent to the assignment to us and address Infineon's intention to reduce its stake in us below 50%. Under this agreement, a "change of control" that could lead to termination of the agreements with AMD and Toppan would only be deemed to occur if a direct competitor of AMD or Toppan becomes the beneficial owner of 30% or more of our equity interests or obtains the power to appoint the majority of the members of our Supervisory Board.

We have suffered substantial losses in the recent past. Even during profitable years, we have suffered losses in individual quarters. Losses in the future and the unpredictability of our results may cause our share price to fall.

We have suffered substantial losses in prior periods, when the price of our products has dropped at a rate for which we could not compensate through volume increases or reduced costs. For example, in our 2001 and 2002 financial years, we incurred net operating losses of €962 million and €626 million. In addition, we have incurred quarterly losses in net income and EBIT terms for individual quarters within financial years in which we were profitable, including in our 2006 financial year, in which we experienced significant losses in the first quarter. In our 2007 financial year we experienced significant losses in the third and fourth quarters. We may also incur losses in future periods. If we sustain losses like these, it would materially and adversely affect our business, financial condition and results of operations. In addition, our share price is likely to fall if we incur losses in the future or if we report quarterly or annual results that do not meet the expectations of industry analysts or are weaker than those reported by our competitors.

The average selling prices of our principal DRAM products may fluctuate significantly from quarter to quarter or even from month to month. This may cause us to experience significant fluctuations in our revenues. However, we have high fixed costs of operations, resulting in large part from the capital-intensive nature of our business. As a result, our reported financial results can and often do fluctuate significantly from period to period.

A high proportion of our revenues are derived from sales of standard DRAM products for PC and workstation applications, which accounted for 51% of our revenues in our 2005 financial year, 47% of our revenues in our 2006 financial year and 39% in our 2007 financial year. While we are, as part of our strategy to reduce over-reliance on standard DRAMs, seeking to better balance our product portfolio by offering a wider range of application-specific DRAMs and to diversify our customer base by focusing on customer-specific DRAMs, these products remain to a greater or lesser extent exposed to the dynamics exemplified by the standard DRAM market. Finally, after our carve-out, we are no longer able to offer customers a range of logic products in addition to memory products. Due to these factors, in the event of a downturn in the DRAM market, our ability to offer alternative products is very limited.

Some of our competitors have diversified production among DRAMs, flash memory, image sensors and logic ICs, while at present we remain generally focused on DRAMs. These competitors may be able to offset the negative effects of DRAM downturns by selling non-DRAM products, including flash memory. They may, when they then perceive better pricing conditions in the DRAM market, be able to quickly convert production to DRAM products, significantly increasing their DRAM capacities in response to positive environments and significantly decreasing their DRAM capacities in response to negative environments. Conversely, if the pricing for non-DRAM products such as flash memory deteriorates, they can convert production back to DRAM products. Because our production is narrowly focused on DRAMs, we are less able to adjust our capacities in response to cyclical developments. This lower ability to adjust capacity could adversely affect our business, financial condition and results of operations.

In addition, the potential ability of these competitors to offset the negative effects of DRAM downturns by shifting their sales to non-DRAM products may permit them to use the proceeds from those sales to invest in their DRAM business. This may cause us to be at a competitive disadvantage with regard to technological advancements taking place in the DRAM industry and reduce our relative ability to keep pace with these competitors. This could adversely affect our business, financial condition and results of operations.

The ability of some of our competitors to shift their production among memory products may leave us relatively more exposed to downturns in the DRAM industry and less able to finance

technological advancement.

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Our results may suffer if we are not able to adequately forecast demand for our products.

It is not industry practice to enter into firm, long-term purchase commitments with respect to standard DRAMs. We primarily use internal forecasts to determine the number and mix of products that we manufacture. Although we also consult with major customers, who typically provide us with short-term rolling forecasts of their product requirements on a monthly basis, customers may cancel orders or reduce quantities for a number of reasons or discontinue their relationship with us at any time. Customers frequently place orders requesting product delivery almost immediately after the order is made, which makes forecasting customer demand even more difficult. Other customers also purchase chips on consignment, withdrawing from our stock of products kept on our premises. They may reduce their anticipated withdrawals from these stocks on very short notice. Based on past experience, if we over-estimate demand for a particular product, we may need to significantly reduce the price for that product in order to sell our excess inventory. In addition, due to the high fixed costs of operating manufacturing facilities, it is not industry practice to reduce production in response to or anticipation of demand slumps, which may lead to excess inventory and cause us to incur additional inventory carrying costs or write-downs. If we are unable to predict accurately the appropriate amount of products needed to meet customer requirements, or if our customers were to unexpectedly cancel or reduce a large number of orders simultaneously, we could fail to match our production with our customers' demand. This could materially and adversely affect our business, financial condition and results of operations.

In addition, because our markets are volatile and subject to rapid technological and price changes, our forecasts may be incorrect, and we may make too many or too few of certain products. For example, in the first quarter of our 2006 financial year, we produced an excess of DDR2 DRAMs because the corresponding DDR2 logic chipsets, which are produced by logic semiconductor manufacturers, were not available in quantities sufficient for PC manufacturers to absorb the supply of DDR2 DRAMs in the market. A portion of the DDR2 DRAMs that we produced remained unsold and in our inventory until supply of appropriate logic chipsets created sufficient demand for our accumulated DDR2 DRAMs.

If we are unable to respond to customer demand for diversified DRAM products or are unable to do so in a cost efficient manner, we may fail to gain, or even lose, market share.

The DRAM product needs of manufacturers of servers, networking and storage equipment and graphics, mobile and consumer devices are becoming increasingly diverse in terms of product specifications. This diversification requires us to devote significant resources to product design and development in cooperation with our customers. If we are unable to invest sufficient resources to meet our customers' specialized needs, if we do so in an inefficient or untimely manner, or if our working relationships with our customers otherwise deteriorate, we may lose business opportunities or market share as a result. We also may encounter difficulties penetrating markets where our relationship with manufacturers is less developed. In addition, our competitors may be able to implement similar strategies more effectively than we can.

We may be unable to recoup our investments if we bring new production facilities on-stream in times of overcapacity.

It is difficult to predict future supply and demand in the market for DRAM and other memory products. Because it takes one to two years to plan, finance, construct and equip a new facility, we must make a decision to build a new facility, or to re-equip an existing facility, with no reliable forecast of what the supply and demand ratio is likely to be when the facility is scheduled to come on-stream. The capital expenditures required to construct and equip a semiconductor facility with competitive economies of scale are typically between $2 to $3 billion.

In the 2005 financial year, commercial DRAM production began at the 300mm facilities of our fab in Richmond, Virginia. In the same year, our foundry partner SMIC ramped up its new 300mm facility, in Beijing, China with our DRAM technology. In the 2006 financial year, our foundry partner Winbond ramped up a new 300mm fab in Taichung, Taiwan with our DRAM technology. In addition, Inotera Memories, Inc. our joint venture with Nanya, increased its capacity at its 300mm fab in Taoyuan, Taiwan in the 2006 financial year, and has started manufacturing in its second 300mm manufacturing module in December 2006. We are also continuing the ramp-up at our 300mm

manufacturing facility in Richmond, Virginia.

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We recently announced plans to build a new 300mm manufacturing facility in Singapore with production expected to start there in 2009. A number of our competitors have also opened, or announced their intentions to open, new 300mm production facilities. If several new 300mm DRAM manufacturing plants come on-stream at the same time, there is a risk that the resulting supply growth might exceed demand at that point in time. This could result in strongly reduced prices for our DRAM products at a time when we have just made very substantial investments in new production. If this happens, it may take longer for us to recoup our investments, or we may not be able to do so at all. This could materially and adversely affect our business, financial condition and results of operations.

If prices are significantly declining during the time when we are ramping up production at new facilities, we may take measures to limit our cash outflows. These measures could include cancelling or delaying the delivery of manufacturing equipment at those facilities. As a consequence, these facilities might not ramp up to their expected capacity in the short term. This could prevent them from achieving the economies of scale they were designed to achieve, such that the costs of manufacture at these facilities might exceed the revenues from the sales of the products produced there. This could force us to decide to suspend manufacturing at these facilities. This would also prevent us from recouping our investments as planned or at all, which could have a material and adverse effect on our business, financial condition and results of operations.

We may lose sales or customers or incur losses if we are unable to successfully modify existing production facilities or bring new production facilities on-stream in times of high demand.

We may experience difficulty in ramping up production at new or existing facilities in a timely manner, such as our 300mm fab in Richmond, Virginia. Similarly, our joint ventures with Nanya and CSVC, as well as SMIC and Winbond, foundry manufacturers who provide some of our manufacturing capacity may experience similar difficulties in ramping up production at their production facilities. We may also experience delays in converting to the next step in the technology improvements that enable us to reduce the feature sizes on chips. This could be due to a variety of factors, including an inability to hire and train new personnel in a timely fashion, the unavailability of equipment, difficulties or delays in implementing new fabrication processes and an inability to achieve required yield levels.

In the future, we may face delays in the construction, equipping or ramp-up of new facilities or the conversion of existing facilities to new process technologies. Our failure to ramp up our production on a timely basis may result in loss of sales or customers and a loss of market share, which in turn could reduce our ability to exploit economies of scale, negatively affecting our cost position and our ability to finance investments in the future. This failure could also prevent us from recouping our investments in a timely manner or at all. Any of these effects could materially and adversely affect our business, financial condition and results of operations.

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

Historically, we have relied on a limited number of customers, primarily among the largest PC manufacturers, for a substantial portion of our total sales. In our 2007 financial year, our five largest customers accounted for approximately 48% of our total sales. HP, our largest customer accounted for approximately 17% of our sales and Dell, our second largest customer accounted for approximately 12% of our sales in that period. These major customers generally purchase products on short-term purchase orders, can easily cancel these orders and have no long-term obligations to purchase products from us. Although we are seeking to broaden our customer base, there are a limited number of major manufacturers that purchase standard DRAM products in large quantities, and most of them are existing customers of ours. Our major customers generally seek to maintain multiple sources of supply, and it may be difficult for us to meaningfully increase our current sales volumes of existing products to them. The loss of one of our major customers, or any substantial reduction in sales to any of these customers, could have a material adverse effect on our business, financial condition and results of operations.

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Sanctions in the United States and other countries against us and other DRAM producers for anticompetitive practices in the DRAM industry and related civil litigation may have a direct or indirect material adverse effect on our operations.

In September 2004, Infineon entered into a plea agreement with the Antitrust Division of the U.S. Department of Justice (DOJ) in connection with the DOJ's investigation of alleged antitrust violations in the DRAM industry. Pursuant to this plea agreement, Infineon agreed to plead guilty to a single count of conspiring with other unspecified DRAM manufacturers to fix the prices of DRAM products between July 1, 1999 and June 15, 2002, and pay a fine of $160 million. The plea agreement requires Infineon to pay the fine (plus accrued interest) in equal annual installments through 2009. Subsequent to the commencement of the DOJ investigation, a number of putative class action lawsuits were filed against Infineon, its principal U.S. subsidiary and other DRAM suppliers in various state and federal courts in the United States alleging violations of the Sherman Act, California's Cartwright Act, other state laws and unfair competition law as well as unjust enrichment in connection with the sale and pricing of memory products. Each of the cases purports to be on behalf of a class of individuals and entities who purchased DRAMs directly or indirectly from Infineon in periods commencing in or after 1999. Infineon reached a settlement agreement in the class action cases filed by direct U.S. purchasers that were transferred to the U.S. District Court for the Northern District of California for coordinated proceedings. Under the terms of the settlement agreement Infineon agreed to pay approximately $21 million. We recorded a corresponding charge to other operating expense in our financial year ended September 30, 2005. In addition to this settlement payment, Infineon agreed to pay an additional amount if it is proven that sales of DRAM products to the settlement class after opt-outs during the settlement period exceeded $208.1 million. We would also be responsible for this payment. The additional amount payable is calculated by multiplying the amount by which these sales exceed $208.1 million by 10.53%. We do not currently expect to pay any additional amount to the class. In November 2006, the District Court for the Northern District of California approved the settlement with the direct U.S. purchasers, entered final judgment and dismissed the class action claims with prejudice. Between March 2006 and March 2007, six separate lawsuits were filed by six direct and indirect purchasers of DRAM against Infineon and various other DRAM suppliers seeking unspecified damages and other relief based on the same allegations. One of those lawsuits was voluntarily dismissed on April 26, 2007, pursuant to a settlement. In October 2006, these six plaintiffs along with a number of other individuals and entities gave notice that they are opting out of the direct U.S. purchaser class and settlement. As a consequence their claims were not released by that settlement. As of the date hereof, 62 indirect U.S. purchaser class action cases are still pending in federal and state courts. A putative class action brought on behalf of non-U.S. direct purchasers of DRAM was dismissed with prejudice by the court. In July 2006, plaintiffs filed their opening brief on appeal in that case and defendants filed their joint opening brief in September 2006. No hearing date has yet been scheduled for the appeal. Furthermore, in July and September 2006, the state attorneys general of New York, California and 39 other states and territories filed two separate actions in federal court in New York and California against Infineon, its principal U.S. subsidiary and several other DRAM manufacturers on behalf of governmental entities and consumers who purchased products containing DRAM beginning in 1998. The plaintiffs' claims involve the same allegations of DRAM price-fixing and artificial price inflation practices discussed above. The plaintiffs are seeking to recover actual and treble damages in unspecified amounts, penalties, costs and other relief. In August 2007, the court granted the defendants' motion to dismiss in part, dismissing the claims on behalf of consumers, businesses and governmental agencies in a number of states and dismissing certain other claims with leave to amend. The plaintiffs in both actions filed amended complaints in October 2007.

Between December 2004 and February 2005, two putative class proceedings were also filed in the Canadian province of Quebec and one was filed in each of Ontario and British Columbia against Infineon, its principal U.S. subsidiary and other DRAM manufacturers on behalf of all direct and indirect purchasers resident in Canada who purchased DRAM or products containing DRAM between July 1999 and June 2002. Plaintiffs primarily allege conspiracy to unduly restrain competition and to illegally fix the price of DRAM. In the British Columbia action, the certification motion has been scheduled for August 2007 and will resume in November 2007. In one Quebec class action, a tentative date for the motion for authorization (certification) has been set for May 2008 (with the possibility of a March 2008 date if the court calendar opens); the other Quebec action has been stayed pending developments in the one that is going forward.

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Infineon received a request for information regarding DRAM industry practices from the European Commission in April 2003 and a notice of formal inquiry into alleged DRAM industry competition law violations from the Canadian Competition Bureau in May 2004. Infineon is fully cooperating with the Commission's investigation and the Competition Bureau's inquiry.

In the contribution agreement we entered into with Infineon, we agreed to indemnify Infineon for all of the potential liabilities and risks in connection with the civil and criminal antitrust proceedings, including the costs of defending these proceedings. As of June 30, 2007, we have accrued liabilities in the amount of €101 million related to potential liabilities and risks with respect to the DOJ and European antitrust investigations and the direct and indirect purchaser litigation and settlements described above, as well as for legal expenses relating to the securities class actions and the Canadian antitrust investigation and litigation described in "Our Business — Legal Matters". As additional information becomes available, the potential liability related to these matters will be reassessed and the estimates revised, if necessary. These accrued liabilities would be subject to change in the future based on new developments in each matter, or changes in circumstances, which could have a material adverse effect on our financial condition and results of operations.

An adverse final resolution of the investigations or the civil claims described above could cause us to bear significant financial liability and other adverse effects. Irrespective of the validity or the successful assertion of the above claims, Infineon could incur significant costs in connection with the defense or settlement of these claims, for which we are required to indemnify Infineon under the contribution agreement. An adverse final resolution or the incurrence of significant costs could have a material adverse effect on our business, financial condition and results of operations. See "Our Business — Legal Matters" for more information on these matters.

An unfavorable outcome in the pending securities litigation against Infineon or the incurrence of significant costs in the defense of this litigation may have a direct or indirect material adverse effect on our operations.

A consolidated putative class action lawsuit is pending against Infineon and its U.S. subsidiary, and three of Infineon's current and former officers, one of which is currently the chairman of our Supervisory Board, in U.S. federal court on behalf of a putative class of purchasers of Infineon's shares who purchased them during the period from March 2000 to July 2004. The plaintiffs allege violations of the U.S. securities laws arising out of an alleged failure to disclose Infineon's alleged participation in DRAM price fixing activities and seek unspecified damages. In September 2006, the court dismissed the complaint with leave to amend and in October 2006, the plaintiffs filed a second amended complaint. In March 2007, the plaintiffs withdrew the second amended complaint and were granted a motion for leave to file a third amended complaint. The plaintiffs filed a third amended complaint in July 2007 and Infineon filed a further brief in support of its motion to dismiss in October 2007. The court has scheduled a hearing on the motion in November 2007. In the contribution agreement we entered into with Infineon, we agreed to share any future liabilities arising out of this lawsuit equally with Infineon, including the cost of defending the suit.

We are currently unable to provide an estimate of the likelihood of an unfavorable outcome to us or of the amount or range of potential loss arising from the action. An adverse final resolution of the class action litigation could cause us to bear significant financial liability and other adverse effects. Irrespective of the validity or the successful assertion of the securities claims, Infineon could incur significant costs in connection with the defense of these claims, and we are required to indemnify Infineon for one-half of these, as stated above. An adverse final resolution or the incurrence of significant costs could have a material adverse effect on our business, financial condition and results of operations. Infineon's directors' and officers' insurance carriers have denied coverage in the securities class action and Infineon filed suit against the carriers in December 2005 and August 2006. Infineon's claims against one D&O insurance carrier were finally dismissed in May 2007. The claims against the other insurance carrier were dismissed in November 2006; Infineon filed an appeal against this decision. See "Our Business — Legal Matters" for more information on this matter.

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We may not be able to protect our proprietary intellectual property or obtain rights to intellectual property of third parties needed to operate our business.

Our success depends on our ability to obtain and maintain patents, licenses and other intellectual property rights covering our products and our design and manufacturing processes. The process of seeking patent protection can be long and expensive. Patents may not be granted on currently pending or future applications or may not be of sufficient scope or strength to provide us with meaningful protection or commercial advantage. In addition, effective copyright and trade secret protection may be unavailable or limited in some countries, and our trade secrets may be vulnerable to disclosure or misappropriation by employees, strategic partners and other persons. See " — Risks related to our carve-out as a stand-alone company and our continuing relationship with Infineon — We may lose rights to intellectual property arrangements if Infineon's ownership in our company drops below certain levels."

Infineon transferred to us substantially all of the patents attributable to the Memory Products segment of Infineon in connection with the carve-out of our company, while Infineon retained ownership of all other Infineon patents. Qimonda's patent portfolio at the end of September 2007 included approximately 20,000 patents and patent applications (representing approximately 6,000 patent families) compared to more than 23,000 patents and patent applications remaining with Infineon at the time of the carve-out. Each of we and Infineon has granted the other a perpetual, royalty free license to use these patents in each of our respective businesses. However, our rights to use these patents are subject to the limitations and restrictions described in "Our Business — Intellectual Property".

We also may require rights to use patented technology owned by third parties, including other semiconductor manufacturers, and have entered into licenses and cross-license agreements to obtain such rights (ourselves or through Infineon). We anticipate that we will continue to enter into more of these agreements in the future. If we are unable to enter into or renew our technology licensing agreements on acceptable terms, or not at all, we may lose the legal right to use some of the processes we require to produce our products, which may prevent us from manufacturing and selling some of our products, including our key products. In addition, we could be at a disadvantage if our competitors obtain licenses for protected technologies on more favorable terms than we do, or if we are unable to acquire on favorable terms any licenses we require for patented technologies which we may determine we need to obtain from third parties in order to maintain our competitive situation.

In addition, our rights to use some third party patents are currently based on cross-license agreements between Infineon and those third parties. Some of these cross-license agreements will terminate with respect to us if we cease to be a controlled subsidiary of Infineon. Although our own patent portfolio may provide us with leverage in negotiating cross-license agreements with third parties, these agreements may be less favorable to us than the existing Infineon agreements. If we are unable to protect our intellectual property, or retain or obtain the intellectual property we need from third parties to operate our business, our business, financial condition and results of operations could be materially and adversely affected.

We may be accused of infringing the intellectual property rights of others.

Our industry is characterized by a complex series of license and cross license agreements covering technology used in our products and manufacturing processes and those of our competitors. Accordingly, other companies have developed and will continue to develop technologies that are protected by patents and other intellectual property rights and that we may require to manufacture our products. These technologies may become unavailable to us or be offered to us only on unfavorable terms and conditions. In other cases, other companies may claim technology as theirs and seek to force us to stop using it, even if we believe that we have developed or otherwise have rights to exploit the technology in question. In either case, litigation, which could require substantial financial and management resources, is often necessary to defend against claims of infringement of intellectual property rights brought against us by others. In some cases, we might be able to avoid or settle litigation on favorable terms because we in turn possess patents that we could assert against a plaintiff or potential plaintiff. In other cases, the plaintiffs are engaged principally in the development and licensing of technology, and do not require access to other parties' patent portfolios, such as ours. For example, in August 2006, we entered into a six year license agreement with Tessera under which Tessera granted us a worldwide, non exclusive, non transferable and non sublicensable license to use a

portfolio of Tessera patents. We paid Tessera a one time fee of $40 million and are required to pay additional royalties based on volume of components we sell that are subject to the license.

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At any given time, Infineon and we are engaged in negotiations with a number of third parties regarding assertions that technologies we are using infringe those parties' rights. Infineon and we are currently in negotiations in a small number of matters of this nature. In part as a result of the complex series of license and cross-license agreements and the uncertainty, time and expense of litigation, it is sometimes in our interests to settle with these claimants in a way that avoids litigation. These settlements may involve the payment of license fees, royalties or other consideration over lengthy periods in amounts that could be material for us. In the contribution agreement we entered into with Infineon, we agreed to indemnify Infineon for all of the potential liabilities and risks in connection with any such settlement or litigation relating to our business, and to bear 60% of the combined license fee payments that Infineon and we must or may have to pay in the future related to two of these negotiations, one of which is still ongoing.

If any intellectual property infringement claims that may be asserted against us in the future are successful, we may be forced to refrain from selling DRAM products in certain markets, seek to develop non-infringing technology, which may not be feasible, license the underlying technology upon economically unfavorable terms and conditions, and/or pay damages for prior use of the technology at issue. In addition, our insurance excludes liability arising out of claims that we have infringed the patent or other intellectual property rights of third parties. Any of these results may have a material and adverse effect on our business, financial condition and results of operations.

We may face difficulties in implementing next generations of our proprietary DRAM trench cell architecture.

We manufacture our products using our "trench" DRAM architecture. In 2006, approximately 24% of DRAM chips produced worldwide were manufactured using trench cell architecture, of which we produced approximately two-thirds, according to Gartner. The remaining 76% were produced using different kinds of an alternative architecture known as "stack" architecture. Although we believe that the physical characteristics of trench cell technology can be exploited during the 90nm node, which currently accounts for more than half of our production, and during the next several technology nodes, including the 58nm node that is currently in development, to yield advantages over the various stack architectures, this technology may not continue to perform as well as, or better than, stack technology when migrating to smaller chip feature sizes. As part of our commitment to the development of new products and process technologies, we must continually be reviewing the technologies, architectures and processes we use to make sure that they provide the technological properties, regarding performance, power consumption and form factor as well as the robustness to permit volume manufacturing at competitive costs. If we were required to transition from trench to other technology platforms, the transition could require a substantial period of time and a substantial investment of capital, and may require us to acquire rights to additional technology.

To manufacture our trench cells, we need etching equipment that is specially modified to etch the deep trench capacitors. We cannot be certain that equipment manufacturers will continue to develop and supply such equipment on favorable terms, if at all.

We may face difficulties in shifting to new memory technologies that are not based on silicon

In the longer term, we face the potential risk of a fundamental shift from the silicon-based technology on which the memory industry has long been based. Although we do not believe that any technology to rival silicon-based memory is likely to prove feasible in at least the near- to medium-term, and although we devote resources to basic research in order to keep abreast of a wide range of potential new memory technologies, the fundamental technology of the semiconductor memory business may not continue to be broadly based on current technology. We may be unable to respond quickly enough to any fundamental technological shift in the industry. Our failure to implement successfully subsequent technology generations or respond to technology developments may materially and adversely affect our business, financial condition and results of operations.

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We may misallocate our research and development resources or have insufficient resources to conduct the necessary level of research and development to remain competitive.

We may also devote research and development resources to technologies or products that turn out to be unsuccessful. Commitments to developing any new product must be made well in advance of sales, and customer demands and technology may change while we are in development, rendering our products outdated or uncompetitive before their introduction. We must therefore anticipate both future demand and the technology features that will be required to supply such demand. If we incur losses as a result of a market downturn or otherwise, we may not be able to devote sufficient resources to the research and development needed to remain competitive. Our failure to properly allocate research and development resources could materially and adversely affect our business, financial condition and results of operations.

We have a limited number of suppliers of manufacturing equipment and raw materials, and our business would be harmed if they were to interrupt supply or increase prices.

Our manufacturing operations depend upon obtaining deliveries of the equipment used in our manufacturing facilities and adequate supplies of raw materials, including silicon wafers, masks, chemicals and resists, at reasonable prices and on a timely basis.

Although there are multiple sources for most types of equipment that we use, the equipment is sophisticated and complex and it is difficult for us to rapidly substitute one supplier for another or one piece of equipment for another. We currently have only one significant sole-source equipment supplier, Advantest, which supplies some of our testing equipment. If we were to experience supply or quality problems with Advantest, it could take a long time for us to locate a secondary source of supply for that equipment.

The expansion of fabrication facilities by us, our joint venture counterparts, our foundry partners and other semiconductor companies may put additional pressure on the supply of equipment. Shortages of equipment could result in an increase in prices and longer delivery times. The lead time for delivery of some equipment may be as long as six to twelve months. If we are unable to obtain equipment in a timely manner, we may be unable to ramp up production according to our plan or fulfill our customer orders, which could negatively impact our business, financial condition and results of operations.

We generally have more than one source available for raw materials, but materials meeting our standards are in some cases available only from a limited number of vendors. The principal suppliers for our silicon wafers are Siltronic, SEH, MEMC and SUMCO. Our revenues and earnings could decline if we were unable to obtain adequate supplies of high-quality raw materials in a timely manner (for instance, due to interruption of supply or increased industry demand) or if there were significant increases in the costs of raw materials that we could not pass on to our customers. In addition, the raw materials we need for our business could become scarcer or more expensive as worldwide demand for semiconductors and other products also produced with the same raw materials increases. If we are unable to obtain sufficient raw materials in a timely manner, we may experience interruptions in production, which could in turn, leave us unable to fulfill our customer orders, which could negatively impact our business, financial condition and results of operations.

The success of our business may be dependent on our ability to maintain our third-party foundry relationships.

In 2002, Infineon entered into agreements with each of SMIC, a Chinese foundry, and Winbond, a Taiwanese foundry, for the production of some of our memory products in their fabs. We sourced 22% of our DRAM capacity from these unaffiliated foundry partners in the 2006 financial year compared to 25% in the 2007 financial year and plan to reduce those levels somewhat in the coming months as we increase the proportion of our capacity sourced from Inotera. In addition, we sourced about 7% of our capacity from Infineon's 200mm fab in Dresden. We intend to source at least 50% of our production capacity from our own facilities to enable us to continue to develop our manufacturing process technologies. There are relatively few foundries that could manufacture our products, and we might not be able to secure an agreement with an alternative foundry on acceptable terms, particularly in a period of industry-wide under-capacity. In the event that manufacturing capacity is reduced or eliminated at one or more foundry facilities, or if we are unsuccessful in negotiating additional

capacity with our existing foundry partners or

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in obtaining new foundry partners, we could have difficulties fulfilling our customer's needs, and our sales could decline.

Our reliance on third-party manufacturing relationships also subjects us to the following risks:

- the potential inability of our manufacturing partners to develop manufacturing methods appropriate for our products;
- inability of our partners to construct and equip manufacturing facilities or to ramp up production in a timely manner;
- unwillingness or inability of partners to devote adequate capacity to the manufacture of our products;
- potential product quality issues, where we do not have sufficient control to resolve them quickly or at all;
- our partners' inability to acquire manufacturing machinery and equipment required to manufacture our products due to controls on the export or import of technology into the country where the partner is located or limited supply of the necessary equipment; and
- reduced control over delivery schedules and product costs.

If any of these events, or others we have not foreseen, were to occur, we could experience an interruption in our supply chain or an increase in costs, which could delay or decrease our sales or otherwise adversely affect our business, financial condition and results of operations.

While building new capacity of our own would require significantly higher capital expenditures than purchasing products from foundries, purchasing products from foundries may result in lower profit margins than we could obtain by manufacturing the products on our own because we base the price we pay for wafers from our foundry partners on a margin sharing principle. Therefore, in times of high DRAM prices, the prices we pay for wafers produced by our foundry partners are likely to be higher than the cost of manufacturing using our own capacities, resulting in lower profit margins.

If our strategic alliance partners or joint ventures fail to meet their business or technological goals we may lose the value of our investments in them, and we may fail to keep pace with the rapid developments in our industry.

As part of our strategy, we have entered into a number of long-term strategic alliances with leading industry participants, both to manufacture memory products and to develop new manufacturing process technologies and products. For example, we have entered into development agreements with Nanya to develop the 75nm and 58nm process technology nodes and have formed a joint venture with Nanya called Inotera Memories, Inc. to manufacture DRAM. We participate in a joint venture with Advanced Micro Devices and Toppan Photomasks to develop and manufacture lithographic masks. We also established a joint venture with China Singapore Suzhou Industrial Park Venture Co. in Suzhou, China pursuant to which we constructed a facility for assembly and testing of our memory products. We expect that our investments in our Chinese joint venture until the end of our 2008 financial year, pursuant to our current contractual obligations will be $86.5 million.

These strategic relationships and joint ventures are subject to various risks that could cause us to lose the value of these investments and damage our business. Some of those risks are:

- our alliance partners could encounter financial difficulties;
- our interests could diverge from those of our alliance partners in the future;
- we may not be able to agree with a joint venture or alliance partner on the amount or timing of further investments in our joint projects;
- the management of one of our joint ventures may not be able to control costs;
- a joint venture may experience ramp up or manufacturing problems;
- a joint venture may experience delays or difficulties in reaching its research and development targets;

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- political instability may occur in the countries where our joint ventures and/or alliance partners are located; and
- economic instability, including currency devaluations or exchange rate fluctuations, may occur in the countries where our joint ventures and/or alliance partners are located.

For example, the failure of Inotera Memories, Inc. to successfully reach and continue production at anticipated output levels could leave us with inadequate capacity to meet customers' needs and our growth targets. If any of our strategic alliances do not accomplish our intended goals, we may fail to keep pace with the rapid technological developments in our industry, our revenues could be reduced and our business, financial condition and results of operations could be materially and adversely affected.

We may be unable to fund our research and development efforts and capital expenditures if we do not have adequate access to capital.

We require significant amounts of capital to build, expand, modernize and maintain our sophisticated manufacturing facilities and to fund our research and development efforts. For example, we invested €686 million in property, plant and equipment in our 2006 financial year and a further €879 million in our 2007 financial year, largely for capacity expansion of our 300mm facility in Richmond, Virginia and for equipment upgrades at our 300mm facility in Dresden, Germany. Due to the lead times between ordering and delivery of equipment, a substantial amount of capital expenditures typically is committed well in advance. As of September 30, 2007, approximately €237 million of capital expenditures have been included in unconditional purchase commitments, mostly for investments to be made in our front-end and back-end manufacturing facilities. While we have reduced our planned capital expenditures for the 2008 financial year, through increased focus on our partnership model, we still expect to spend between €650 million and €750 million during the year.

Because of the cyclical nature of DRAM demand, the need to invest in manufacturing facilities may arise at a time when our cash flow from operations is low. We used net cash in our investing activities of €972 million in our 2005 financial year, €801 million in our 2006 financial year and €847 million in the 2007 financial year. Our research and development expenses were €390 million in our 2005 financial year, €433 million in our 2006 financial year and €401 million in our 2007 financial year. We intend to continue to invest heavily in our manufacturing facilities, including in the new manufacturing facility we plan to construct in Singapore, and research and development, while continuing the policy of cooperation with other semiconductor companies to share these costs with us where appropriate.

As of September 30, 2007, our external financial debt included €148 million resulting from a dedicated financing for our manufacturing facility in Portugal and a note payable to a government entity related to our production facility in Richmond, Virginia. We plan to service these financings from cash generated from our operations beginning in 2008 and to refinance them upon their maturities in 2013 and 2027. In August 2006, we entered into a committed multicurrency revolving loan facility in an aggregate principal amount of €250 million, which we then voluntarily terminated on September 28, 2007. We decided to terminate this facility, under which we had made no drawdowns, because its restrictions on asset dispositions were inconsistent with the sale and leaseback transactions we had decided to enter into covering some of our manufacturing equipment in our Richmond facility. For more details on this termination and on the sale and leaseback transactions, see *"MD&A — Liqidity and Capital Requirements"*.

In the future, we may not be able to raise the amount of capital required for our business or the repayment of our existing financial obligations on acceptable terms due to a cyclical or other downturn in the semiconductor memory industry, general market and economic conditions, inadequate cash flow from operations, unsuccessful asset management or other factors. Because of the high risk profile of DRAM manufacturers (due largely to the volatility of the DRAM market cycle) and our lack of an independent credit history, we may be unable to secure debt financing on acceptable terms. In general, our access to capital on favorable terms may also be more limited now that we are a stand-alone entity than it was when we operated as a segment of the Infineon Group. In particular, we no longer have access to Infineon's pool of capital. Our business, financial condition and results of operations may be

materially and adversely affected if we are not able to fund necessary capital expenditures and research and development expenses.

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If our manufacturing processes are delayed or disrupted, our business, financial condition and results of operations could be materially adversely affected.

We manufacture our products using processes that are highly complex and require advanced and costly equipment that must continuously be maintained and modified to improve yields and performance when implementing new technology generations.

We may face interruptions due to human error in the operation of the machines, power outages, earthquakes and other natural disasters or other incidences that have an impact on the productive availability of machines, material or manpower. Difficulties encountered in the manufacturing process can reduce production yields or interrupt production and may make it difficult for us to deliver products on time or in a cost-effective, competitive manner.

In addition, semiconductors must be produced in a tightly controlled, clean environment. Even small impurities in the manufacturing materials, difficulties in the wafer fabrication process, defects in the masks used to print circuits on a wafer, the use of defective raw materials, defective vendor-provided lead frames or component parts, or other factors can cause a substantial percentage of wafers to be rejected or numerous chips on each wafer to be non-functional. We may experience problems in achieving an acceptable yield rate in the production of chips. Reduced yields will reduce our sales revenues, which could have a material adverse effect on our business, financial condition and results of operations.

Our business can be hurt by changes in exchange rates.

Our business, financial condition and results of operations have been and may in the future be adversely affected by changes in exchange rates, particularly between the euro and the U.S. dollar. We are exposed both to the risk that currency changes will reduce our revenues or margins on the products we sell and the risk arising in connection with the translation into euro of the results of subsidiaries using non-euro currencies. In addition, we could lose money on the currency transactions, such as currency hedging contracts that we use to help us manage our exchange rate risk.

We prepare our combined and consolidated financial statements in euro. However, most of our sales volumes, as well as costs relating to our design, manufacturing, selling and marketing, general and administrative, and research and development activities are denominated in other currencies, principally the U.S. dollar.

Memory products are generally priced worldwide in U.S. dollars, even if invoices are denominated in another currency, while 50% of our expenses in our 2007 financial year, were denominated in euro and other currencies. In addition, the balance sheet impact of currency translation adjustments has been material in some periods and varies widely, and we expect these characteristics to continue. Net foreign currency derivative and transaction gains totaled €17 million in our 2005 financial year, while net foreign currency derivative and transaction losses were €2 million in our 2006 financial year. Net foreign currency derivative and transaction losses were €14 million in our financial year 2007. We attempt to mitigate the effects of foreign currency fluctuations on our business by entering into foreign currency hedging contracts. These contracts can subject us to risks of losses if the values of the hedged currencies move in the opposite direction from what we expected when we entered into the contracts.

Since its introduction in 1999, the euro has fluctuated in value against the U.S. dollar, ranging from a high of €1.00 = $1.4691 on November 8, 2007 to a low of €1.00 = $0.8270 on October 25, 2000. The relative weakness of the euro against the dollar positively affected our revenues and results of operations in the 2001 and 2002 financial years. Since the beginning of 2003, the dollar has weakened sharply against the euro, which has had a substantial negative effect on our revenues and profitability, as reported in euro. The exchange rate varied in our 2006 financial year between €1.00 = $1.1667 on November 14, 2005, and €1.00 = $1.2953 on June 5, 2006. On September 29, 2006, the last currency trading day in September 2006, the noon buying rate of the Federal Reserve Bank of New York for euro was €1.00 = $1.2687. The dollar continued to weaken during our 2007 financial year. On September 28, 2007, the last currency trading day in September 2007, the noon buying rate of the Federal Reserve Bank of New York for euro was €1= $1.4219. Any further weakening of the dollar against the euro would negatively affect our reported results of operations.

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Our business could suffer as a result of negative economic developments, political instability, unfavorable legal environments or negative currency developments in the different parts of the world in which we operate, especially in the United States, Taiwan and the developing markets of China and Malaysia.

We operate in many locations around the world, with manufacturing, assembly and testing, and research and development facilities in eight countries on three continents, including in Taiwan and the developing markets of China and Malaysia. Manufacturing, assembly and testing sometimes take place in different countries and even on different continents. In the 2007 financial year 45% of our revenues were invoiced in the Asia-Pacific region (including Japan), 37% were invoiced in North America, 18% were invoiced in the Rest of Europe (including Germany and in other regions), as described in "Our Business — Customers, Sales and Marketing"). In many cases, our products were shipped to different countries than those from which our invoices were paid. Our business is subject to risks involved in international business, including:

- negative economic developments in foreign economies, in particular the United States, China, Malaysia and Taiwan, where we have or share substantial manufacturing facilities;
- political instability, including the threat of war, terrorist attacks, epidemic or civil unrest, in particular in Taiwan, which experiences recurring tensions with China;
- uncertainties as to the effectiveness of intellectual property protection, especially in China;
- devaluations of local currencies, especially in Asia;
- changes in laws and policies affecting trade and investment, including exchange controls and expropriation, particularly in China; and
- varying laws and varying practices of the regulatory, tax, judicial and administrative bodies in the jurisdictions where we operate, especially in developing Asian countries.

Any of these factors could have a material adverse effect on our business, financial condition and results of operations.

Reductions in the amount of government subsidies we receive or demands for repayment could increase our reported expenses.

As is the case with many other semiconductor companies, our reported expenses have been reduced in recent years by various subsidies received from governmental entities. In particular, we have received, and expect to continue to receive, subsidies for investment projects as well as for research and development projects, including our 300mm manufacturing facility in Dresden, Germany, and our fab in Porto, Portugal. We recognized governmental subsidies as a reduction of research and development and of cost of goods sold in aggregate amounts of €112 million in the 2006 financial year and €100 million in the 2007 financial year. In addition, we had received grants of €179 million and €146 million as of September 30, 2006 and 2007, respectively, which are deferred and will be recognized in earnings over the useful life of the related assets in future periods.

The availability of government subsidies is largely outside our control. We may not continue to benefit from such support, sufficient alternative funding may not be available on a timely basis if necessary and any alternative funding would probably be provided to us on terms less favorable to us than those we currently receive. As a general rule, we believe that government subsidies are becoming less available in each of the countries in which we have received funding in the past, and the competition for government funding is intensifying.

The application for and implementation of such subsidies often involves compliance with extensive regulatory requirements, including, in the case of subsidies to be granted within the European Union, notification to the European Commission of the contemplated grant prior to disbursement. In particular, establishment of compliance with project related ceilings on aggregate subsidies defined under European Union law often involves highly complex economic evaluations. Many of the legal and other criteria for receiving subsidies are more stringent than they were in the past. If we fail to meet applicable formal or other requirements, we may not be able to receive the relevant subsidies or may be obliged to repay them, which could have a material and adverse effect on our business, financial condition and results of operations.

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

An inability to attract and retain skilled technical personnel could adversely impact our business.

Competition for qualified employees among companies that rely heavily on engineering and technology is intense, and the loss of qualified employees or an inability to attract, retain and motivate additional highly skilled employees required for the operation and expansion of our business could hinder our ability to conduct research activities successfully and to develop marketable products. The availability of highly skilled workers, while generally constrained worldwide, is particularly constrained in places such as Singapore, China, Germany and Japan where the need for qualified employees in our industry is strong. Since our carve-out, we have been competing, and will continue to compete, directly with other semiconductor companies for qualified personnel in certain geographic markets, which may make our recruitment and retention efforts even more difficult.

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

As with other companies engaged in similar activities, we face inherent risks of environmental liability in our current and historical manufacturing activities. The manufacturing of semiconductors involves the use of metals, solvents and other chemical substances that, if handled improperly, can cause damage to the environment or to the people working with them. Recently, there has been increased media scrutiny and reporting regarding a potential link between working in semiconductor manufacturing clean room environments and certain illnesses, primarily different types of cancers. Regulatory agencies and associations have begun to study the issue to see if any actual correlation exists. While we have monitored our employees using bio-monitoring programs since 1990, we cannot be certain that in the future no link between working in a clean room environment and certain illnesses will be established.

Our operations are subject to many environmental laws and regulations wherever we operate that govern, among other things, air emissions, wastewater discharges, the use and handling of hazardous substances, waste disposal and the investigation and remediation of soil and ground water contamination. A recent directive in the European Union known as Waste Electrical and Electronic Equipment Directive, or WEEE, imposes “take-back” obligations on manufacturers for the financing of the collection, recovery and disposal of electrical and electronic equipment. The implementation of the WEEE directive has not been completed in most EU Countries and therefore the potential costs are not foreseeable. We have begun supplying WEEE-compliant products in the German market. The related cost impact is minor in Germany, but could be higher in other countries depending on their implementations of the directive.

The Registration, Evaluation and Authorization of Chemicals used in the European Union, or REACH Regulation, is a regulatory framework that concerns the registration, evaluation and authorization of certain chemicals. This regulatory framework came into effect in December 2006. While it has not been fully determined which chemicals will fall under these regulations, we believe the regulation is targeted towards chemical companies and industries in which significant volumes of chemicals are used. As we use very few chemicals whose volume exceeds 100 tons per year, we are classified as a “downstream user category II” under this legislation. Furthermore, this legislation contains a proposal to exempt companies who meet certain standards from the authorization process. Due to these uncertainties, we believe it is premature to estimate the potential costs this regulation could impose on us.

In 2006 a European directive on the Restriction of the use of Hazardous Substances, or RoHS, restricting the usage of lead-based and other chemicals and compounds in products went into effect and we were successful in limiting the cost impact of this new legislation upon our business. A similar set of rules has recently been implemented in the People’s Republic of China. These rules impose labeling requirements on all electronic information products, as defined in those rules that are sold in the Chinese retail market. In addition, a self-declaration containing details on the affected chemicals and compounds must be created and communicated within

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the supply chain. The future implementation obligations of this new law may impose additional costs upon our business or may have an effect on our ability to timely meet customer demand for our products in China.

Costs associated with future additional environmental compliance, with remediation obligations or the costs of litigation if claims were made with respect to damages resulting from our operations or the former operations of Infineon or Siemens at a site that we currently own or operate could have a material and adverse effect on our business, financial condition and results of operations. For a further description of environmental issues that we face, see "Our Business — Environmental Protection, Safety and Health." For more information on our ongoing relationship with Infineon, see "Related Party Transactions and Relationships — with Infineon" and note 27 "Related Parties" to the combined and consolidated financial statements, and for more information on our ongoing relationship with Siemens see "Related Party Transactions and Relationships — with Siemens" and note 27 "Related Parties" to the combined and consolidated financial statements appearing elsewhere in this annual report.

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

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

We may be unable to make desirable acquisitions or to integrate successfully any businesses we acquire.

Our future success may depend in part on the acquisition of businesses or technologies intended to complement, enhance or expand our current business or products or that might otherwise offer us growth opportunities. Our ability to complete such transactions may be hindered by a number of factors, including potential difficulties in obtaining financing or in issuing our own securities as payment in acquisitions. In particular, as long as Infineon is our majority shareholder, it will have substantial control over our ability to incur certain debt or to issue equity, and may seek to limit any dilution of its interest in our company. In addition, we may wish to avoid any securities issuances that would dilute Infineon's interest in our company below the levels that would trigger adverse consequences under any intellectual property licenses or other third-party agreements from which we benefit as a majority-owned subsidiary of Infineon.

Any acquisition that we do make would pose risks related to the integration of the new business or technology with our business. We cannot be certain that we will be able to achieve the benefits we expect from a particular acquisition or investment. Acquisitions may also strain our managerial and operational resources, as the challenge of managing new operations may divert our staff from monitoring and improving operations in our existing operations. Our business, financial condition and results of operations may be materially and adversely affected if we fail to coordinate our resources effectively to manage both our existing operations and any businesses we acquire.

We are subject to the risk of loss due to explosion and fire because some of the materials we use in our manufacturing processes are highly combustible.

We use highly combustible materials such as silane and hydrogen in our manufacturing processes and are therefore subject to the risk of loss arising from explosion and fire which cannot be completely eliminated. Although we maintain comprehensive fire and casualty insurances, including insurance for loss of property and loss of profit resulting from business interruption, our insurance coverage may not

be sufficient to cover all of our potential losses. If any of our fabs were to be damaged or cease operations as a result of an explosion and fire, it could reduce our manufacturing capacity and may cause us to lose important customers.

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Risks related to our carve-out as a stand-alone company and our continuing relationship with Infineon

We have limited experience operating as an independent company.

Our company was formed as a wholly-owned subsidiary of Infineon in May 2004 as Invot AG. Substantially all of the assets and liabilities of the Memory Products segment of Infineon were contributed to our company on May 1, 2006. This excluded the Memory Products operations in Korea and Japan, which have since been transferred to us. Legal transfer of Infineon's investment in AMTC and BAC is subject to approval by the other shareholders in the venture. Although we operated as a separate segment within the Infineon Group, we had no experience in conducting our operations on a stand-alone basis until May 2006. We may encounter operational, administrative and strategic difficulties as we adjust to operating as a stand-alone company, which may cause us to react more slowly than our competitors to market conditions, may divert our management's attention from running our business or may otherwise harm our operations.

While we were, as a business within Infineon, indirectly subject to requirements to maintain an effective internal control environment, and Infineon, as a U.S. listed company, is currently in the process of ensuring that its own internal control procedures comply with the regulatory requirements, our management has been evaluating and continues to evaluate the applicability of those procedures to Qimonda in light of our new status as an independent company, and has been implementing necessary changes to those procedures to account for that status. We cannot guarantee that we will be able to do so in a timely and effective manner.

Our ability to operate our business effectively may suffer if we do not, quickly and cost-effectively, establish our own financial, administrative and other support functions in order to operate as a stand-alone company, and we cannot assure you that the transitional services Infineon has agreed to provide us will be sufficient for our needs.

Historically, we have relied on financial, administrative and other resources of Infineon to operate our business. In conjunction with our carve-out, we will need to create our own financial, administrative and other support systems or contract with third parties to replace Infineon's systems, as well as establish our own independent internal controls referred to above. We have entered into agreements with Infineon under which Infineon provides certain transitional services to us, including services related to information technology systems and financial and accounting services. See "Related Party Transactions and Relationships — with Infineon" for a description of these services. These services may not be sufficient to meet our needs, and, after these agreements with Infineon expire, we may not be able to replace these services at all or obtain these services at prices and on terms as favorable as we currently have. Any failure or significant downtime in our own financial or administrative systems or in Infineon's financial or administrative systems during the transitional period could impact our results and prevent us from paying our suppliers and employees, executing foreign currency transactions or performing other administrative services on a timely basis and could materially harm our business, financial condition and results of operations.

Our pre-carve-out financial information may not be representative of our results as an independent company.

The combined financial information included in this annual report for periods prior to the legal carve-out of our company has been prepared on a carve-out basis. We have made numerous estimates, assumptions and allocations in our financial information because Infineon did not account for us, and we did not operate, as a single stand-alone business for any period prior to May 1, 2006. The historical financial information included in this annual report for these periods does not reflect many significant changes that have occurred since we have begun to operate as a separate company. The primary categories of assumptions we have made relate to our allocation of expenses that could not be specifically identified as belonging to the Memory Products business.

Use of these assumptions and estimates means that the combined financial statements for periods prior to our carve-out presented in this annual report are likely not to be representative of what our financial condition, results of operations and cash flows would have been had we been a separate, stand-alone entity during the periods presented. Furthermore, the combined financial statements

cannot be used to forecast or predict our future financial condition, results of operations or cash flows.

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We may lose rights to intellectual property arrangements if Infineon's ownership in our company drops below certain levels.

As a majority-owned subsidiary of Infineon, we are the beneficiary of some of Infineon's intellectual property arrangements, including cross-licensing arrangements with other semiconductor companies and licenses from third parties of technology incorporated in our products and used to operate our business. We will no longer be a beneficiary under some of these agreements if Infineon's direct or indirect equity ownership in our company no longer exceeds 50%. Infineon has publicly announced that it aims to reduce its stake in Qimonda to significantly below 50% by the time of Infineon's Annual Shareholder Meeting in 2009, at the latest.

With Infineon's support, we are engaged in negotiating assignments of existing agreements as well as our own agreements and arrangements with some third parties for intellectual property and technology that is important to our business and that was previously obtained through our relationship with Infineon. We may be unable to enter into these agreements successfully. If we do not successfully conclude such agreements and Infineon's direct or indirect equity ownership of our company no longer exceeds 50%, we may be exposed to infringement claims or lose access to important intellectual property and technology. We may not then be able to obtain or renegotiate licensing arrangements or supply agreements on favorable terms or at all. our patent portfolio at the end of September 2007 included approximately 20,000 patents and patent applications (representing approximately 6,000 patent families) compared to more than 23,000 patents and patent applications remaining with Infineon at the time of the carve-out. This smaller patent portfolio may make it more difficult for us to negotiate third-party patent cross licenses on terms that are as favorable to us as those previously negotiated by Infineon, especially since partners under existing cross-license agreements with Infineon will generally be able to continue to use patents transferred to us as part of the carve-out under these agreements even after Infineon's ownership in us no longer exceeds 50%. If as a result we were to infringe intellectual property rights of others or otherwise lose access to intellectual property or technology important in the conduct of our business, it could have a material and adverse effect on our business, financial condition and results of operations. We could, for example, be forced to agree to make substantially higher royalty payments to continue using that intellectual property or technology or, if we are unable to agree on licensing terms on our own, could have to cease manufacturing products that use that intellectual property or technology. For a detailed description of the intellectual property rights contributed to us and retained by Infineon and the circumstances under which our access to the rights retained by Infineon may be affected if we cease to be a controlled subsidiary of Infineon, see "Our Business — Intellectual Property."

We may not be successful in establishing a brand identity.

We are still in the early stages of establishing our own brand identity. Prior to our carve-out, all memory products sold by the Infineon Group were sold under either the Infineon or AENEON® brand names. The Infineon and AENEON® brand names are well known by memory customers, suppliers and potential employees. We will need to expend significant time, effort and resources to continue to establish the Qimonda brand name in the marketplace. This effort may not be successful. If we are unsuccessful in establishing our brand identity, our business, financial condition or results of operations may be materially adversely affected. We have applied for protection of our Qimonda brand as a trademark, domain and company name, but may not be successful in actually gaining much protection in some jurisdictions.

We may face additional costs under our agreements with Infineon relating to Infineon's 200mm fab in Dresden.

During our 2004 financial year, we transferred ownership of the entire 200mm fab in Dresden to Infineon's Communications segment. We continue to own the newer 300mm fab and the research and development center in Dresden.

In April 2006, we entered into an agreement with Infineon for the production of wafers in the Dresden 200mm fab. Pursuant to the agreement, as amended in January 2007, Infineon has agreed to manufacture specified semiconductor memory products at the Dresden 200mm fab, using our manufacturing technologies and masks, and to sell them to us at prices specified in the agreement. These prices are based on the cost of manufacture. We are required under this agreement to pay for

idle costs resulting from our purchasing fewer wafers from Infineon than

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agreed upon, if Infineon cannot otherwise utilize the capacity. We are also obligated to indemnify Infineon against any third party claims based on or related to any products manufactured for us under this agreement and against any intellectual property infringement claims related to the products covered by the agreement. In addition, we agreed to share equally with Infineon any potential restructuring costs that might be incurred in connection with the ramp-down of production in the Dresden 200mm fab if neither company can use that capacity. Restructuring costs may include severance payments. Although no restructuring plan has been established, these costs could be material and adversely affect our financial condition and results of operations. The capacity arrangements terminate on September 30, 2009, unless we terminate them earlier.

We may experience increased costs resulting from a decrease in the purchasing power we have historically had as a segment of Infineon.

We have historically been able to take advantage of Infineon's size and purchasing power in procuring goods, technology and services, including insurance, employee benefit support and audit services. Following our carve-out from Infineon, we are a smaller and less diversified company than Infineon. Although we anticipate that, while we are a majority-owned subsidiary of Infineon, we will be able to continue to take advantage of many of these benefits, we cannot guarantee that this will continue to be the case. As a separate, stand-alone company, we may be unable to obtain goods, technology and services at prices and on terms as favorable as those available to us prior to the carve-out, which could have a material adverse effect on our business, financial condition and results of operations.

Our agreements with Infineon relating to our carve-out may be less favorable to us than similar agreements negotiated between unaffiliated third parties.

We entered into our contribution and related agreements with Infineon while we were a wholly owned subsidiary of Infineon, and they may be less favorable to us than would be the case if they were negotiated with unaffiliated third parties. Pursuant to our contribution agreement with Infineon, we agreed to indemnify Infineon for, among other things, liabilities arising from litigation and other contingencies related to our business such as guarantee commitments, and assumed these liabilities as part of our carve-out from Infineon. The allocation of assets and liabilities between Infineon and our company may not reflect the allocation that would have been reached by two unaffiliated parties.

Infineon will initially control the outcome of shareholder actions in our company, and may thereby limit our ability to obtain additional financing or make acquisitions.

Infineon currently holds, directly or indirectly, a 77.5% equity interest in our company. This includes shares equal to 1% of the equity interests in our company that Infineon loaned to an affiliate of J.P. Morgan Securities Inc. in connection with Infineon's placement of bonds exchangeable into shares of our company. Infineon has advised us that J.P. Morgan has already returned some of these shares. The remainder must be returned no later than August 31, 2010 upon the termination of the loan. Infineon has publicly announced that it aims to reduce its stake in our company to significantly below 50% by the time of Infineon's Annual Shareholder Meeting in 2009, at the latest. Its equity shareholding gives it the power to control actions that require shareholder approval, including the election of the four shareholder representatives on our Supervisory Board, which appoints our Management Board.

Even if Infineon ceases to own or control more than 50% of our shares, for so long as it continues to have a substantial equity interest in our company it may, as a practical matter, be in a position to control many or all actions that require shareholder approval. Under German law, for so long as Infineon holds more than 25% of our shares, it will be in a position to block shareholder action on any capital increase or decrease, merger, consolidation, spin-off, sale or other transfer of all or substantially all of our assets, a change in the corporate form or business purpose of our company or the dissolution of our company.

Significant corporate actions, including the incurrence of material indebtedness or the issuance of a material amount of equity securities, may require the consent of our shareholders. Infineon might oppose any action that would dilute its equity interest in our company, and may be unable or unwilling to participate in a future financing of our company. Infineon, as our majority shareholder, could block

any such action and thereby materially harm our business or prospects.

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We may have conflicts of interest with Infineon and, because of Infineon's controlling ownership interest in our company, may not be able to resolve such conflicts on favorable terms for us.

Conflicts of interest may arise between Infineon and us in a number of areas relating to our past and ongoing relationships. Potential conflicts of interest that we have identified include the following:

- *Indemnification arrangements in connection with our carve-out from Infineon.* We have agreed to indemnify Infineon with respect to lawsuits and other matters as part of our carve-out from Infineon. These indemnification arrangements could result in us having interests that are adverse to those of Infineon, for example different interests with respect to settlement arrangements in a litigation matter. In addition, under these arrangements, we agreed to reimburse Infineon for liabilities incurred (including legal defense costs) in connection with certain litigation, while Infineon will be the party prosecuting or defending the litigation.
- *Employee recruiting and retention.* Because we operate in many of the same geographical areas, we expect to compete with Infineon in the hiring and retention of employees, in particular with respect to highly-skilled technical employees. We have no agreement with Infineon that would restrict either Infineon or us from hiring any of the other's employees.
- *Members of our Supervisory Board and Management Board may have conflicts of interest.* Certain members of our Supervisory Board and Management Board own shares in Infineon or options to purchase Infineon shares. In addition, Peter Fischl, a member of our Supervisory Board, is the Chief Financial Officer of Infineon and a member of its Management Board. These relationships could create, or appear to create, conflicts of interest when these persons are faced with decisions with potentially different implications for Infineon and us, even though these persons owe a duty of loyalty to take into account only our interests.
- *Sale of shares in our company.* Infineon may decide to sell all or a portion of the shares that it holds in us to a third party, including to one of our competitors, thereby giving that third party substantial influence over our business and our affairs. Such a sale could be contrary to the interests of certain of our stakeholders, including our employees or our public shareholders.
- *Allocation of business opportunities.* Business opportunities may arise that both we and Infineon find attractive, and which would complement our respective businesses. Infineon may decide to take the opportunities itself, which would prevent us from taking advantage of the opportunity ourselves.

Although our company is an independent entity, we expect to operate for as long as Infineon is our majority shareholder as a part of the Infineon Group. Infineon may from time to time make strategic decisions that it believes are in the best interests of its business as a whole, including our company. These decisions may be different from the decisions that we would have made on our own. Infineon's decisions with respect to us or our business may be resolved in ways that favor Infineon and therefore Infineon's own shareholders, which may not coincide with the interests of our company's other shareholders. We may not be able to resolve any potential conflicts and, even if we do so, the resolution may be less favorable to us than if we were dealing with an unaffiliated party. Even if both parties seek to transact business on terms intended to approximate those that could have been achieved among unaffiliated parties, this may not succeed in practice.

Third parties may seek to hold us responsible for liabilities of Infineon that we did not assume in the contribution agreement.

Pursuant to the contribution agreement we entered into with Infineon, Infineon agreed to retain all of its liabilities that we do not expressly assume under that agreement. Liabilities we expressly assumed include those arising out of legal matters that relate to the business that was transferred to us at the time of our carve-out. See "Our Business — Legal Matters" for a description of the relevant indemnification provisions.

Third parties may seek to hold us responsible for Infineon's retained liabilities. Under the contribution agreement, Infineon agreed to indemnify us for claims and losses relating to these retained liabilities. However, if those liabilities are significant and we are ultimately held liable for them, we might not be able to recover the full amount of our losses from Infineon.

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We may experience difficulty in separating our assets and resources from Infineon.

We may face difficulty in completing the final steps in the separation of our assets and resources from Infineon's assets and resources. In particular, we may experience additional costs and delay in finalizing the transfers to us of our interest in AMTC and BAC. Our business, financial condition and results of operations could be harmed if we incur unexpected costs in completing the separation.

Risks related to the securities markets and ownership of our shares or ADSs

Sales of substantial numbers of shares or ADSs in the public market could adversely affect the market price of our securities.

Infineon holds, directly or indirectly, a 77.5% equity interest in our company. Infineon does not anticipate owning a majority of our shares over the long term and has publicly announced that it intends to reduce its stake in our company to significantly below 50% by the time of Infineon's Annual Shareholders Meeting in 2009, at the latest. In connection with an offering of our shares in September 2007, Infineon agreed not to sell or transfer any of the remaining shares they hold until November 19, 2007. The underwriters may, however, waive this restriction in their discretion. However, sales of substantial numbers of the shares of our company by Infineon, either in the public market or in private transactions, or the perception that such sales may occur, could adversely affect the market price of the shares and ADSs and could adversely affect our ability to raise capital through subsequent offerings of equity or equity-related securities.

The price of our ADSs may be subject to wide fluctuations.

The trading price of our ADSs may fluctuate widely and may fall below the price at which ADSs were sold in our IPO or below our net asset value. Among the factors that could affect the price of our ADSs are the risk factors described in this section and other factors, including:

- the volatility of DRAM prices and therefore of our revenues;
- changes in market valuations of technology companies in general and memory product companies in particular;
- variations in our operating results;
- changes in demand for, and supply of, our products;
- technological changes that hurt our competitive position;
- unfavorable developments in litigation or governmental investigations in which we are involved;
- strategic moves by us or our competitors, such as acquisitions or restructurings;
- failure of our quarterly operating results to meet market expectations;
- changes in expectations as to our future financial performance, including financial estimates by securities analysts;
- review of the long-term values of our assets, which could lead to impairment charges that could reduce our earnings;
- dispositions or anticipated dispositions by Infineon of shares in our company; and
- general market conditions.

Stock markets have experienced extreme volatility in recent years that has often been unrelated to the operating performance of a particular company. These broad market fluctuations may adversely affect the trading price of our securities.

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Exchange rate fluctuations may reduce the amount of U.S. dollars you receive in respect of dividends or other distributions in respect of your ADSs.

Exchange rate fluctuations will affect the amount of U.S. dollars our shareholders receive upon the payment of cash dividends or other distributions paid in euro, if any. Therefore, such fluctuations could also adversely affect the value of our ADSs, and, in turn, adversely affect the U.S. dollar proceeds holders receive from the sale of our ADSs.

You may not be able to participate in rights offerings and may experience dilution of your holdings as a result.

We may from time to time distribute rights to our shareholders, including rights to acquire our securities. Under the deposit agreement for the ADSs, the depositary will not offer those rights to ADS holders unless both the rights and the underlying securities to be distributed to ADS holders are either registered under the Securities Act or exempt from registration under the Securities Act with respect to all holders of ADSs. We are under no obligation to file a registration statement with respect to any such rights or underlying securities or to endeavor to cause such a registration statement to be declared effective. In addition, we may not be able to take advantage of any exemptions from registration under the Securities Act. Accordingly, holders of our ADSs may be unable to participate in our rights offerings and may experience dilution in their holdings as a result.

If the depositary is unable to sell the rights that are not exercised or not distributed or if the sale is not lawful or reasonably practicable, it will allow the rights to lapse, in which case you will receive no value for these rights.

You may not be able to exercise your right to vote the ordinary shares underlying your ADSs.

Holders of ADSs may exercise voting rights with respect to the ordinary shares represented by our ADSs only in accordance with the provisions of the deposit agreement. The deposit agreement provides that, upon receipt of notice of any meeting of holders of our common shares, the depositary will, as soon as practicable thereafter, fix a record date for the determination of ADS holders who shall be entitled to give instructions for the exercise of voting rights. Upon timely receipt of notice from us, the depositary shall distribute to the holders as of the record date (i) the notice of the meeting or solicitation of consent or proxy sent by us, (ii) a statement that such holder will be entitled to give the depositary instructions and a statement that such holder may be deemed, if we have appointed a proxy bank as set forth in the deposit agreement, to have instructed the depositary to give a proxy to the proxy bank to vote the ordinary shares underlying the ADSs in accordance with the recommendations of the proxy bank and (iii) a statement as to the manner in which instructions may be given by the holders.

You may instruct the depositary of your ADSs to vote the ordinary shares underlying your ADSs but only if we ask the depositary to ask for your instructions. Otherwise, you will not be able to exercise your right to vote, unless you withdraw our ordinary shares underlying the ADSs you hold. However, you may not know about the meeting far enough in advance to withdraw those ordinary shares. If we ask for your instructions, the depositary, upon timely notice from us, will notify you of the upcoming vote and arrange to deliver our voting materials to you. We cannot guarantee you that you will receive the voting materials in time to ensure that you can instruct the depositary to vote your ordinary shares. In addition, the depositary and its agents are not responsible for failing to carry out voting instructions or for the manner of carrying out voting instructions. This means that you may not be able to exercise your right to vote, and there may be nothing you can do if the ordinary shares underlying your ADSs are not voted as you requested.

Under the deposit agreement for the ADS, we may choose to appoint a proxy bank. In this event, the depositary will receive a proxy which will be given to the proxy bank to vote our ordinary shares underlying your ADSs at shareholders' meetings if you do not vote in a timely fashion and in the manner specified by the depositary.

The effect of this proxy is that you cannot prevent our ordinary shares underlying your ADSs from being voted, and it may make it more difficult for shareholders to influence the management of our company, which could adversely affect your interests. Holders of our ordinary shares are not subject to this proxy.

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You may not receive distributions on our ordinary shares represented by our ADSs or any value for them if it is illegal or impractical to make them available to holders of ADSs.

The depositary of our ADSs has agreed to pay to you the cash dividends or other distributions it or the custodian receives on our ordinary shares or other deposited securities after deducting its fees and expenses. You will receive these distributions in proportion to the number of our ordinary shares your ADSs represent. However, the depositary is not responsible if it decides that it is unlawful or impractical to make a distribution available to any holders of ADSs. We have no obligation to take any other action to permit the distribution of our ADSs, ordinary shares, rights or anything else to holders of our ADSs. This means that you may not receive the distributions we make on our ordinary shares or any value from them if it is illegal or impractical for us to make them available to you. These restrictions may have a material adverse effect on the value of your ADSs.

You may be subject to limitations on transfer of your ADSs.

Your ADSs, which may be evidenced by ADRs, are transferable on the books of the depositary. However, the depositary may close its books at any time or from time to time when it deems expedient in connection with the performance of its duties. The depositary may refuse to deliver, transfer or register transfers of your ADSs generally when our books or the books of the depositary are closed, or at any time if we or the depositary think it is advisable to do so because of any requirement of law or government or governmental body, or under any provision of the deposit agreement, or for any other reason.

The rights of shareholders in German companies differ in material respects from the rights of shareholders of corporations incorporated in the United States.

Our company is incorporated in Germany, and the rights of our shareholders are governed by German law, which differs in many respects from the laws governing corporations incorporated in the United States. For example, individual shareholders in German companies do not have standing to initiate a shareholder derivative action, either in Germany or elsewhere, including the United States unless they meet thresholds set forth under German corporate law. Therefore, our public shareholders may have more difficulty protecting their interests in the face of actions by our management, directors or controlling shareholders than would shareholders of a corporation incorporated in a jurisdiction in the United States.

It may be difficult for you to bring any action or enforce any judgment obtained in the United States against our company or members of our Supervisory Board or Management Board, which may limit the remedies otherwise available to our shareholders.

Our company is incorporated in Germany and the majority of our assets are located outside the United States. In addition, most of the members of our Supervisory Board, Management Board and other senior management, named in this annual report, are nationals and residents of Germany. Most or all of the assets of these individuals are located outside the United States. As a result, it may be difficult or impossible for you to bring an action against us or against these individuals in the United States if you believe your rights have been infringed under the securities laws or otherwise. In addition, a German court may prevent you from enforcing a judgment of a United States court against us or these individuals based on the securities law of the United States or any state thereof. A German court may not allow you to bring an action in Germany against us or these individuals based on the securities laws of the United States or any state thereof.

We have no present intention to pay dividends on our ordinary shares in the foreseeable future and, consequently, your only opportunity to achieve a return on your investment during that time is if the price of our ADSs appreciates.

We have no present intention to pay dividends on our ordinary shares in the foreseeable future. No earnings were available for distribution as a dividend for our 2007 financial year, since Qimonda AG, on a stand alone basis, as parent company, incurred a cumulative loss (*Bilanzverlust*) as of September 30, 2007. Any determination by our Supervisory and Management Boards to pay dividends will depend on many factors, including our financial condition, results of operations, legal requirements and other factors. Accordingly, if the price of our ADSs falls in

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the foreseeable future, you will lose money on your investment, without the likelihood that this loss will be offset in part or at all by cash dividends.

The effect of Infineon's loan of our ADSs to J.P. Morgan, any exercise of the exchange rights under the exchangeable notes Infineon Technologies Investment B.V. has offered or any sales of our ADSs in short sale transactions by the investors in the exchangeable notes may have a negative effect on the market price of our ADSs. In addition, purchases of ADSs in connection with the termination of Infineon's loan of shares in our company to J.P. Morgan may result in a temporary increase in the market price of our ADSs during the loan unwind period.

In September 2007, Infineon Technologies Investment B.V. offered, in sales it has advised us were exempt from registration under the U.S. Securities Act of 1933, as amended, pursuant to Regulation S thereunder, notes exchangeable into shares it currently holds in our company. We have been advised by J.P. Morgan Securities Inc. that, in connection with that offering, its affiliate has facilitated and expects to continue to facilitate the establishment by the investors in the exchangeable note of hedged positions in the exchangeable notes through the entry into privately negotiated derivative transactions with those investors. Infineon also loaned approximately 3.5 million shares to an affiliate of J.P. Morgan Securities, Inc. in connection with these anticipated transactions. The increase in the number of our ADSs outstanding upon exchanges of the exchangeable notes could have a negative effect on the market price of our ADSs. The market price of our ADSs also could be negatively affected by other short sales of our ADSs by or on behalf of the investors in the exchangeable notes to hedge their investments in the exchangeable notes. In addition, purchases of ADSs in connection with the termination of the loan may result in a temporary increase in the market price of our ADSs during the loan unwind period.

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SELECTED COMBINED AND CONSOLIDATED FINANCIAL DATA

The following table presents summary historical combined and consolidated financial data for the periods indicated. We derived the summary combined and consolidated financial data as of and for the years ended September 30, 2004, 2005, 2006 and 2007 from our combined and consolidated financial statements for those years. These combined and consolidated financial statements have been audited by our independent registered public accounting firm, KPMG Deutsche Treuhand-Gesellschaft Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, whom we refer to as KPMG. The combined and consolidated financial statements as of September 30, 2006 and 2007 and for each of the years in the three year period ended September 30, 2007, are included elsewhere in this annual report. We derived the summary combined financial data as of and for the year ended September 30, 2003, from our unaudited combined financial statements for that year. In the opinion of our management, these unaudited condensed combined and consolidated financial statements include all adjustments necessary to present fairly the financial information for the periods they represent.

We have been a segment of Infineon for all of the periods indicated. Infineon did not allocate most non-operating financial statement line items among its segments during the periods prior to our carve-out from Infineon. This financial data was prepared in accordance with U.S. GAAP and on a basis consistent with the financial data for the later periods we have presented. Infineon contributed our business to our company on May 1, 2006. We refer to this contribution as our carve-out. Our combined financial information for all periods before the date of our carve-out from Infineon may not be representative of what our results would have been had we been a stand-alone company during any of those periods. In addition, historical results are not necessarily indicative of the results that you may expect for any future period.

In particular, the combined financial statements do not reflect estimates of one-time and ongoing incremental costs required for us to operate as a separate company. Infineon allocated to our company costs it incurred relating to research and development, logistics, purchasing, selling, information technology, employee benefits, general corporate functions and other costs. General corporate functions include accounting, treasury, tax, legal, executive oversight, human resources and other services. These and other allocated costs totaled €387 million for our 2004 financial year, €305 million for our 2005 financial year and €203 million before the carve-out for our 2006 financial year. Following our carve-out from Infineon, we are responsible for substantially all of these items, subject to Infineon's continued provision of some of these services pursuant to service agreements. These agreements are described in "Related Party Transactions and Relationships — with Infineon". As a result, costs are no longer allocated after the carve-out, but rather charged on the basis of these agreements. Had we been incurring these costs directly during these periods before the carve-out, they may have been materially different than the allocated amounts in the combined financial statements.

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	As of and for the financial year ended September 30,					
	2003	2004	2005	2006	2007	2007[1]
	(Unaudited)	(in millions, except share and per share data)				(Unaudited)
Selected Combined and Consolidated Statement of Operations data:						
Net sales	€ 2,544	€ 3,008	€ 2,825	€ 3,815	€ 3,608	$ 5,130
Cost of goods sold	2,090	2,063	2,164	3,048	3,390	4,820
Gross (loss) profit	454	945	661	767	218	310
Research and development expenses	298	347	390	433	401	570
Selling, general and administrative expenses	209	232	206	215	199	283
Restructuring charges	3	2	1	—	—	—
Other operating expenses (income), net	16	194	13	60	(18)	(26)
Operating (loss) income	(72)	170	51	59	(364)	(517)
Interest (expense) income, net	(35)	(30)	(7)	(25)	7	10
Equity in earnings (losses) of Associated companies	22	(16)	45	80	117	166
Gain (loss) on associated company share issuance	(2)	2	—	72	—	—
Other non-operating income (expense), net	56	(11)	13	8	7	10
Minority interests	11	17	2	(6)	(6)	(9)
Income (loss) before income taxes	(20)	132	104	188	(239)	(340)
Income tax (expense) benefit	(55)	(211)	(86)	(114)	(10)	(14)
Net (loss) income	€ (75)	€ (79)	€ 18	€ 74	€ (249)	$ (354)
Net (loss) income per share and ADS (unaudited)[2]:						
Basic and diluted	€ (0.25)	€ (0.26)	€ 0.06	€ 0.24	€ (0.73)	$ (1.03)
Number of shares used in earnings per share computation[2]:						
Basic (in thousands)	300,000	300,000	300,000	305,984	342,000	342,000
Diluted (in thousands)	300,000	300,000	300,000	305,984	342,000	342,000
Summary Combined and Consolidated Balance Sheet data:						
Cash and cash equivalents	€ 544	€ 577	€ 632	€ 932	€ 746	$ 1,061
Marketable securities	23	2	—	138	265	377
Working capital, net[3]	787	78	437	1,328	1,013	1,440
Total assets	4,634	4,750	4,861	5,861	5,381	7,651
Short-term debt, including current portion of long-term debt	51	551	524	344	77	109
Long-term debt, excluding current portion	516	27	108	151	227	323
Business/shareholders' equity	2,736	2,779	2,967	3,871	3,517	5,001
Summary Combined and Consolidated Cash Flow data:						
Net cash provided by operating Activities	€ 300	€ 693	€ 484	€ 326	€ 980	$ 1,395
Net cash used in investing Activities	(242)	(1,048)	972	(801)	(847)	(1,205)
Depreciation and amortization	815	752	528	703	666	946

(1) Translated into U.S. dollars solely for convenience of the reader at the rate of €1.00 = $1.4219, the noon buying rate of the Federal Reserve Bank of New York for euro on September 28, 2007, the last currency trading day in September 2007.

(2) Before the carve-out, the Memory Products business was wholly owned by Infineon, and there were no earnings (loss) per share for our company. Following the carve-out, earnings (loss) per share reflects the contributed capital structure and the additions due to the IPO for all periods presented. For presentation purposes, we used the number of shares outstanding at the carve-out date for the presentation of earnings (loss) per share for periods prior to our carve-out.

(3) Calculated by subtracting current liabilities from current assets.

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OPERATING AND FINANCIAL REVIEW

This discussion and analysis of our financial condition and results of operations is based on, and should be read in conjunction with, our audited combined and consolidated financial statements as of and for the years ended September 30, 2005, 2006, 2007 and the other financial information included elsewhere in this annual report. We have prepared our combined and consolidated financial statements in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP").

This discussion and analysis of our financial condition and results of operations contains forward-looking statements. Statements that are not statements of historical fact, including expressions of our beliefs and expectations, are forward-looking in nature and are based on current plans, estimates and projections. Forward-looking statements are applicable only as of the date they are made, and we undertake no obligation to update any of them in light of new information or future events. Forward-looking statements involve inherent risks and uncertainties. We caution you that a number of important factors could cause actual results or outcomes to differ materially from those expressed in any forward-looking statement. These factors include those identified under the headings "Risk Factors" and "Special Note Regarding Forward-Looking Statements and Market Data".

Executive Summary

We are one of the world's leading suppliers of semiconductor memory products. We came into being as Qimonda effective May 1, 2006 when Infineon contributed substantially all of the assets, liabilities, operations and activities, as well as the employees, of its former Memory Products segment to us. On August 9, 2006 we completed our IPO on the New York Stock Exchange under the symbol QI. Infineon's shareholding in our company was 77.5% as of September 30, 2007, and Infineon has announced that it wants to reduce its stake in Qimonda to significantly less than 50 percent by the time of its 2009 annual shareholders' meeting.

We prepared our combined and consolidated financial statements on the basis of a number of assumptions and estimates. We believe these assumptions and estimates to be reasonable. In addition, there are a number of critical accounting policies which we believe are essential to understanding our financial statements. However, our financial statements may not be indicative of our future performance. Several additional factors, particularly the volatility of DRAM prices, strongly affect our capital intensive business. We aim to increase profitability by maintaining our product portfolio diversity in applications outside the standard PC market, by reducing our costs per bit and through strategic cooperations.

The single most important factor affecting our results of operations in our 2007 financial year was the high rate of decline of prices for the DRAM products we sell. While our business model is premised on managing the continuous price decline that characterizes our industry, the price declines in 2007 exceeded our ability to compensate through improvements in technology and efficiency. After falling precipitously during our second and third financial quarters — the average "spot" market price for 512Mb DRAM as reported by DRAMeXchange fell by nearly three-quarters in the first five months of calendar year 2007 — prices stabilized and increased briefly in July 2007 before resuming their decline through our financial year end. The effects of these price declines pushed us into a loss in the 2007 financial year after a profitable 2006 financial year. However, in both financial years, we believe we benefited strongly from the major elements of our strategy, and that our implementation of that strategy has helped us to reduce the impact of the very rough recent market conditions and has enabled us to achieve strong results when market conditions were less severe.

Our strategic responses to market conditions in both years has been generally to increase our volumes of memory sold, to maintain our efforts to push our product mix towards the relatively higher priced infrastructure, graphics, consumer and mobile DRAM products and to enhance our productivity. In particular, the volume of memory we sold, based on bits of data storage (which we refer to as our bit shipments) grew by 79% in our 2006 financial year and 44% in our 2007 financial year. We grew the share of our bit shipments for non-PC applications from less than 50% on average in the 2006 financial year to more than 50% in the 2007 financial year, which, we believe, caused the overall decline in our average selling prices to be smaller than it would have been had our product mix

remained unchanged from its level of several years ago. In our production, we increased the share of our capacities based on 300mm wafers to approximately 75% in our 2007 financial year and enhanced our

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productivity in other ways, primarily through conversion of capacities to the 90nm process node in the 2006 financial year and to the 80nm and 75nm process nodes in the 2007 financial year.

Despite the continuous price pressure, we were able to retain positive operating income in both our 2005 and 2006 financial years and in the first six months of our 2007 financial year. However, due to the significant price decline for DRAM products described above, we incurred operating losses in the second half our 2007 financial year and for the full financial year. In our 2007 financial year, we incurred a net loss of €249 million, compared to net income of €74 million in our 2006 financial year.

We generated significant amounts of cash from operations in each of our 2006 and 2007 financial years. We invested this cash, together with proceeds from our IPO, in our manufacturing facilities and on R&D, as we continued our migration to 300mm wafers and for the technical conversion to the 80nm and smaller technology nodes. We also repaid the remainder of our outstanding debt to Infineon during 2007 and entered into our first sale and leaseback transaction, both in furtherance of our strategy of developing a strong and independent capital structure.

Overview

Business Overview

We are one of the world's leading suppliers of semiconductor memory products. We design semiconductor memory technologies and develop, manufacture, market and sell a large variety of semiconductor memory products on a chip, component and module level. For the full calendar year 2006, we were the world's third largest supplier of DRAM by revenue and bit shipments, with a market share of approximately 16%, according to Gartner. For the first nine months of the 2007 calendar year, we remained the third largest supplier of DRAM by revenue and were the fourth largest supplier of DRAM by bit shipments with market shares of approximately 13% according to iSuppli's preliminary report in November 2007. Although our market share fluctuates, in each of the past five calendar years, we captured between 12% and 16% of the worldwide DRAM market based on revenues, according to Gartner, and remained among the four largest DRAM suppliers worldwide based on revenues.

Our principal products are DRAM components and modules for use in a wide variety of electronic products. In our 2007 financial year 39% of our net sales were of standard DRAMs for use in PC, notebook and workstation applications and 60% were of DRAM products for more advanced infrastructure applications and graphics, mobile and consumer DRAMs. Flash memory, other products and licensing revenue accounted for the remaining 1%.

For the financial year ended September 30, 2007, our net sales were €3.608 million, our earnings before interest and taxes (abbreviated as "EBIT") was a loss of €246 million and our net loss was €249 million. For the financial year ended September 30, 2006, our net sales were €3,815 million, our EBIT was €213 million and our net income was €74 million.

Our Carve-Out from Infineon

Effective May 1, 2006, Infineon contributed substantially all of the assets, liabilities, operations and activities, as well as the employees, of its former Memory Products segment to us. We refer to this event as the "carve-out". This temporarily excluded the Memory Products operations in Korea and Japan, which have since been transferred to us. While Infineon's investment in the Advanced Mask Technology Center (AMTC) and the Maskhouse Building Administration Company (BAC) in Dresden has been contributed to us, the legal transfer of this investment is not yet effective because Infineon's co-venturers have not yet given the required consent to the transfer of the AMTC and BAC interest. While pursuant to the AMTC and BAC limited partnership agreements, such consent may not be unreasonably withheld, we, Infineon and Infineon's co-venturers are finalizing negotiations on agreement that provides such consent and also addresses Infineon's intention to reduce its stake in us to below 50%. Infineon is obligated under the contribution agreement to hold the AMTC and BAC interest for our economic benefit. For as long as Infineon holds our interest in AMTC and BAC, we must exercise our shareholder rights through Infineon, which is a more cumbersome and less efficient method of exercising these rights than if we held the interest directly. A similar arrangement was in place for our joint venture with Nanya, Inotera Memories, Inc., where Infineon held our shares in trust until March 2007. Infineon transferred nearly all of these shares to us on March 13, 2007. Only a

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portion of shares representing less than 1% of the total Inotera share capital remains in the trust. We do not expect these administrative complexities to have a material adverse effect on our business, financial condition and results of operations. We refer to the former segment's assets, liabilities, operations and activities as the "Memory Products business".

In connection with our carve-out, some agreements (including licensing, purchase and shareholding agreements) and investments of Infineon relating to our business could not be transferred to us. In other cases, as outlined above, the transfer of such agreements and investments were delayed due to legal restrictions. In the future, some of our interests could revert to Infineon or be terminated. Any such reversion or termination could materially adversely affect our financial condition and results of operations. See "Risk Factors — Risks related to our operations — Some of our agreements with strategic partners, such as our Inotera Memories, Inc. joint venture with Nanya, have restrictions on transfers of the shares of the ventures they create that could cause our ownership or equity interest in these ventures to revert to Infineon, if Infineon ceases to be our majority owner".

On August 9, 2006 we completed our initial public offering, or IPO, on the New York Stock Exchange through the issuance of 42 million ordinary shares, which commenced trading as American Depositary Shares (ADSs) under the symbol QI. We used the offering proceeds of €415 million, net of offering costs and tax benefits thereon, to finance investments in our manufacturing facilities and for research and development. In our 2007 financial year we invested these proceeds primarily in our 300mm front-end manufacturing sites in Richmond, Virginia and Dresden, Germany for capacity expansion and new equipment for the technical conversion to the 80nm and smaller technology nodes as well as approximately €77 million in our ongoing research and development activities. After our IPO and Infineon's sale of 6.3 million shares upon the exercise of the underwriters' over-allotment option, Infineon's shareholding in our company was 85.9%.

On September 25, 2007, Infineon sold 28,750,000 Qimonda shares to the public from its shareholdings in a secondary public offering. On September 26, 2007 Infineon Technologies Investment B.V. placed bonds exchangeable for up to 20.5 million Qimonda shares, equivalent to approximately 6.0% of our share capital. At the same time, Infineon loaned 3,550,098 Qimonda shares to an affiliate of J.P. Morgan Securities, Inc. in connection with the placement of the exchange bonds. These shares must be returned to Infineon no later than August 31, 2010. Some of these shares have already been returned to Infineon. As of September 30, 2007, Infineon's shareholding in our company was 77.5%. For more information, see "Risk Factors — Risks related to the securities markets and ownership of our shares or ADSs"

In August 2007, Infineon announced that it intends to reduce its stake in Qimonda to significantly less than 50% by the time of its 2009 annual shareholders' meeting.

Basis of Presentation of Our Combined Financial Statements

Our combined and consolidated financial statements have been prepared in accordance with U.S. GAAP. These financial statements are presented on a "carve-out" or combined basis for all periods prior to our carve-out and comprise the combined historical financial statements of the transferred Memory Products business assuming that we had existed as a separate legal entity for all of the financial periods presented. Our financial statements are presented on a consolidated basis for all periods thereafter. The combined financial statements have been derived from the consolidated financial statements and historical accounting records of Infineon, employing the methods and assumptions we describe below and in note 1 to the combined and consolidated financial statements. Most of the assets, liabilities, operations and activities of the Memory Products business are those that comprised the Memory Products segment of Infineon during the financial periods presented.

Methodology. Infineon took two broad steps to reflect the structure of the Memory Products business in the historical financial data for the periods presented in this annual report. The first step was to determine which companies and business areas of Infineon belong to the Memory Products business. The second step was to combine these companies and business areas for accounting purposes.

The combined financial statements differ from the segment data in Infineon's consolidated financial statements in terms of their stated objectives as well as in aspects of the information they convey. The objective of Infineon's segment reporting was to present its Memory Products business as

an integral part of Infineon. Infineon

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historically allocated most financial statement items among its segments, including the Memory Products segment. However, for purposes of reporting segment data, Infineon did not allocate some items among its various segments, including certain corporate overhead costs that supported Infineon's businesses overall, including the Memory Products business. The combined financial statements are intended to present the Memory Products business on a "carve-out" basis, which means as if it had been a separate legal entity during all of the periods presented in this annual report. In other words, the combined financial statements present our historical financial condition, statements of operations and cash flows based on the fictitious assumption that our structure as it stands after the carve-out had already existed in the past. The combined financial statements therefore reflect further allocations to us, consistent with our post-carve-out operation as a separate legal entity.

Statements of Operations. The combined statements of operations reflect all revenues and expenses that were attributable to the Memory Products business. Operating expenses or revenues of the Memory Products business that could be specifically identified as pertaining to the Memory Products business were charged or credited directly to it without allocation or apportionment. This was the case for all of the revenues appearing on the combined statements of operations. Operating expenses that could not be specifically identified as pertaining solely to the Memory Products business were allocated to us to the extent they were related to us. The combined statements of operations include expense allocations for certain corporate functions historically provided to us by Infineon, including basic research costs, employee benefits, incentives and pension costs, interest expense, restructuring costs, the costs of our share of central departments such as finance and treasury and controlling and other costs. These allocations were made on a specifically identifiable basis or using the relative percentages, as compared to Infineon's other businesses, of total sales, cost of goods sold, other cost measures, headcount or other reasonable methods. We and Infineon considered these allocations to be a reasonable reflection of the utilization of services provided. Our expenses as a separate, stand-alone company may be higher or lower than the amounts reflected in the statement of operations for historical periods. We describe the allocation methods we used in note 1 to the combined and consolidated financial statements.

Balance Sheets. As a general rule, the assets and liabilities attributable to the Memory Products business were contributed to us at their historical book values as shown in Infineon's balance sheet. Unless otherwise noted, all assets and liabilities specifically identifiable as pertaining to the Memory Products business are included in the combined financial statements. Where legal entities and their businesses are wholly allocable to the Memory Products business, the shares of these entities were transferred to the Memory Products business. In some cases, including at the Infineon parent company level, the memory-related assets and liabilities were identified and carved out by means of asset and liability transfer transactions.

The assets and liabilities that were directly identifiable as pertaining to Infineon's Memory Products business include inventories, fixed assets and accounts receivable. The assumptions and allocations used for assets and liabilities that were not specifically identifiable as being part of Infineon's Memory Products business are set forth in note 1 to the combined and consolidated financial statements.

Investments by and Advances from Infineon and our Capital Structure. Because a direct ownership relationship did not exist among the various entities comprising the Memory Products business prior to our carve-out, Infineon's investments in and advances to the Memory Products business represent Infineon's interest in the recorded net assets of the Memory Products business. These are shown as business equity in lieu of shareholder's equity in the combined financial statements. All intercompany transactions, including purchases of inventory and charges and cost allocations for facilities, functions and services performed by Infineon for the Memory Products business, are reflected in this business equity. After we became a separate company and Infineon contributed the Memory Products business to us, this business equity in the amount of €3,372 million became our shareholders' equity.

Capital Structure. The Memory Products business has historically relied on Infineon to provide financing of its operations. Because we have historically used more cash in our investing activities than we have generated through our operations, we have historically relied on Infineon to provide a portion of the financing necessary to fund our capital expenditures. These financings were reflected in our short-term debt (which included €344 million of interest-bearing advances to us from Infineon at September 30, 2006) and in our business equity before the carve-out. The capital structure attributed to

the Memory Products business in connection with the preparation of the

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combined financial statements was based on the business equity, and as such, is neither indicative of the capital structure that the Memory Products business would have required had it been an independent company during the financial periods presented before the carve-out, nor is it indicative of the capital structure that we may require in future. In April 2007, we completely repaid our shareholder loan from Infineon.

The preparation of the accompanying combined and consolidated financial statements required us to make estimates and assumptions, as described in "— Critical Accounting Policies" below. We believe that the estimates and assumptions underlying the combined financial statements are reasonable. However, the combined financial statements included herein may not necessarily reflect our results of operations, financial position and cash flows in the future or what our results of operations, financial position and cash flows would have been had we been a separate, stand-alone company during the periods presented.

Factors that Affect our Results of Operations

Relationship between DRAM prices and reduced unit costs

The average selling prices of standard DRAMs and, to a certain extent, other semiconductor memory products, have generally declined throughout the semiconductor memory industry during the past ten years. We expect them to continue to do so in future periods irrespective of industry-wide fluctuations as a result of, among other factors, technological advancements and cost reductions. Although we may from time to time be able to take advantage of higher selling prices typically associated with new products and technologies, we nevertheless expect the prices of new products to also decline over time, in certain cases very rapidly, primarily as a result of market competition. We have adopted enhancements to our technology to reduce our per-megabit manufacturing costs. These efforts have included the introduction of new technology such as smaller feature sizes and manufacturing using 300mm wafers. We expect that these measures will enable us to reduce our costs per chip and thereby offset declining chip prices. We will realize the full effects of these manufacturing unit cost reductions after our conversion to the 80nm and 75nm technology nodes. In the meantime, we are incurring higher per-unit costs in connection with this conversion which is expected to extend through our 2008 financial year. We have also increased our production in Asia, where we can take advantage of lower-cost economies. Our margins are to a significant extent dependent on the extent to which we can reduce our unit manufacturing costs as prices decline.

Relationship between the Capital Intensive Nature of our Business and the Industry's Cyclicality

Declining prices have driven manufacturers, including ourselves, to invest substantial sums to shrink die sizes and to construct modern manufacturing facilities that permit the manufacture of DRAM products using larger wafers at lower costs per chip. We have made significant investments, individually and together with the other companies with which we cooperate, to meet the challenges these lower prices have brought. We invested a total of €879 million in our 2007 financial year, a total of €686 million during our 2006 financial year and a total of €926 million in our 2005 financial year in property, plant and equipment. As a result of this investment we have substantially increased our ratio of bits manufactured using 300mm wafers to the point where we believe we are ahead of our major competitors on this measure. However, as we continue to ramp up our 300mm capacity, many of our competitors are expanding their own capacities. To the extent that demand for DRAM does not keep pace with these capacity increases, an oversupply situation could arise in the industry, as has occurred on a cyclical basis in the past and as, we believe, occurred during most of our 2007 financial year.

We recently announced plans to construct a new 300mm manufacturing facility in Singapore, which we plan to fully own. Depending on the growth and development of the world semiconductor market, we intend to invest approximately €2 billion in this facility over the next five years. This facility may contribute to oversupply in the industry in the future and we may have difficulty recovering our investment.

While we have reduced our planned capital expenditures for the 2008 financial year, through increased focus on our partnership model, we still expect to spend between €650 million to €750 million.

Exchange Rate Fluctuations

We are subject to two categories of exchange rate risks, transaction and translation risk.

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Transaction risk

Transaction risk arises where sales of a product are generated in one currency but costs relating to those revenues are incurred in a different currency. In the case of transaction risk, changes in the value of the euro relative to the U.S. dollar and other currencies generally have interrelated consequences. For example, an increase in the value of the euro relative to the U.S. dollar and other currencies generally has these effects:

- our margins (in euros) decline or become negative to the extent our costs were incurred in euros and the sales were generated in currencies weaker than the euro, and
- Additionally our competitiveness may decline as compared with competitors based in countries with weaker currencies while our products manufactured in Europe will have been produced at constant costs (in euro), their (constant) costs denominated in weaker currencies will appear to have declined.

Conversely, as the value of the euro relative to the U.S. dollar and other currencies decreases, generally has these effects:

- our margins (in euros) increase to the extent our costs were incurred in euros and the sales were generated in currencies stronger than the euro, and
- our competitiveness may increase as compared with competitors based in countries with stronger currencies because our products manufactured in Europe will have been produced at constant costs (in euro) while their (constant) costs denominated in stronger currencies will appear to have increased.

We prepare our combined and consolidated financial statements in euro. However, most of our sales volumes, as well as many of our worldwide costs, primarily those relating to our design, manufacturing, selling and marketing, general and administrative, and research and development activities, are denominated in other currencies, principally the U.S. dollar. The portions of our sales and costs denominated in currencies other than the euro are exposed to exchange rate fluctuations in the values of these currencies relative to the euro. If our non-euro denominated expenses do not match our non-euro denominated sales, this currency difference may have an adverse effect on our operating result.

Over time, transaction risk could adversely affect our cash flows and results of operations to the extent we are unable to reflect changes in exchange rates in the pricing of the products in local currency. Given our revenue and expense structure, in which most of our revenues are denominated in dollars but a substantial portion of the costs relating to those revenues are in euro, we experienced pressure, on our gross margin in particular, in our 2004 and 2005 financial years and in the financial year ended September 30, 2007. In our 2006 financial year we benefited from changes in exchange rates. The effects of transaction risk are not quantified in our combined and consolidated financial statements.

Translation risk

Translation risk refers to the fact that the euro-denominated amounts in our consolidated financial statements will differ based on the exchange rates we use to prepare our euro-denominated financial statements. Our subsidiaries located outside the euro zone prepare their financial statements in their local functional currencies. For us the most important currency outside the euro zone is the U.S. dollar. The U.S. dollar depreciated against the euro during our 2004 and 2005 financial years and appreciated against the euro during our 2006 financial year, based on the average exchange rates we use in our financial statements. The U.S. dollar depreciated again during our 2007 financial year. The noon buying rate of the Federal Reserve Bank of New York for euro rose from €1.00=$1.2687 on September 29, 2006, the last currency trading day in September 2006, to €1.00=$1.4219 on September 28, 2007, the last currency trading day in September 2007. Since the end of our financial year, the noon buying rate has continued to rise to a high of €1.00=$1.4691 on November 8, 2007. When we prepare our financial statements, we translate the local functional currency financial statements of our non-euro zone subsidiaries into euro. Changes in the value of these currencies relative to the euro from period to period therefore affect our results of operations and financial condition as expressed in euro. Currency translation risks do not affect local functional currency cash

flows or results of operations, but do affect our consolidated annual financial statements. In general, an increase in the euro value relative to the U.S. dollar and other currencies will result in a lower euro value of the

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sales generated in currencies that have depreciated relative to the euro. Even if the margin on these sales remains constant in a non-euro currency, its value translated into euro will be reduced.

Additional information on transaction and currency translation risks and our efforts to manage them are contained in "— Quantitative and Qualitative Disclosure About Market Risk".

Strategic Cooperations

We believe that cooperations, such as alliances for research and development, and manufacturing and foundry partnerships, provide us with access to several benefits that can be derived from improved economies of scale. These benefits include sharing risks and costs with our business partners, reducing our capital requirements, developing a broader range of products, gaining inter-cultural know-how and accessing additional production capacities. We have invested substantial sums in these cooperations in past periods. In addition, we have extensive commitments to purchase products from our manufacturing partners. These commitments can not be precisely quantified because they are dependent on future market prices for memory products. These purchases aggregated to approximately €520 million in our 2005 financial year, €1,185 million in our 2006 financial year and €1,282 million in our 2007 financial year, as we increased our share of foundry purchases from Winbond and SMIC, and other purchases from Inotera.

The most significant of our current cooperations in terms of impact on our financial statements are:

- *Nanya.* Our strategic cooperation with Nanya Technology Corporation, a Taiwanese corporation, encompasses the joint development of DRAM products and DRAM process technology as well as a joint venture called Inotera Memories, Inc. that owns and operates a 300mm manufacturing facility in Taiwan. Inotera uses production technology developed under our joint development agreements with Nanya. We initially developed advanced 90nm and 75nm process technologies together with Nanya and shared the related development costs. In September 2005, we agreed to continue developing advanced 58nm technologies together. Under the terms of the joint venture, Nanya and we each purchase 50% of Inotera's output. Inotera completed an initial public offering of its common stock in Taiwan in March 2006. In May 2006, Inotera listed Global Depositary Receipts, or GDRs, on the Luxembourg Stock Exchange. After these transactions we owned 35.6% of Inotera's shares. We account for Inotera using the equity method. Because of Inotera's significance for us within the meaning of Rule 3-09 of the SEC's Regulation S-X, we have incorporated by reference in this annual report, Inotera's audited consolidated financial statements as of and for the years ended December 31, 2005 and 2006.
- *CSVC.* In July 2003, Infineon established a venture with China Singapore Suzhou Industrial Park Ventures Co., Ltd. (CSVC) in Suzhou, China. CSVC is a limited liability company organized under the laws of the People's Republic of China. The venture, renamed Qimonda Technologies (Suzhou) Co., Ltd. after our carve-out and herein referred to as Qimonda Suzhou, constructed a back-end facility for the assembly and testing of our products, which officially opened in September 2004. We are required to purchase the entire output of the facility. We currently hold 63% of Qimonda Suzhou's share capital, representing 72.5% of the voting rights. We expect to invest a further $86.5 million in Qimonda Suzhou by the end of July 2008 pursuant to our current contractual obligations, and will hold approximately 72.5% of its share capital and voting rights by that date, with CSVC owning the remaining 27.5%. We consolidate Qimonda Suzhou into our combined and consolidated financial statements, because we have exercised voting control over this venture from the outset. Dividends from this venture belonging to CSVC are shown as minority interests in our combined and consolidated financial statements. We have the option to acquire CSVC's stake at the nominal investment value plus accrued and undistributed returns on that investment.

In March 2007, we announced plans to expand capacity at our Qimonda Suzhou venture, for which we expect to make capital expenditures of €250 million over the next three years. The venture intends to arrange external financing for any additional investment required to purchase further equipment. We cannot assure you that this external financing can be obtained on favorable terms or at all.

- *SMIC*. In December 2002 Infineon entered into an agreement with Semiconductor Manufacturing International Corporation (SMIC), a Cayman Islands corporation with head offices in Shanghai, China. This

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agreement was assigned to us as part of the carve-out. As most recently amended in October 2007, the agreement provides us access to additional DRAM manufacturing capacity.

- *Winbond.* In May 2002 and August 2004, Infineon entered into product purchase and capacity reservation agreements with Winbond Electronics Corporation, a Taiwanese corporation, which give us access to additional DRAM production capacity. These agreements were assigned to us as part of the carve-out. In 2006 and 2007, we entered into additional agreements with Winbond, enabling 80mm, 75nm and 58nm DRAM manufacturing for us.

Please see "Our Business" and "Arrangements between Qimonda and the Infineon Group" for more details on these strategic cooperations.

Critical Accounting Policies

The preparation of our combined and consolidated financial statements required us to apply accounting policies, and make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements and revenues and expenses during the years reported. We have identified the following critical accounting policies and related assumptions, estimates and uncertainties, which we believe are essential to understanding the underlying financial reporting risks and the impact that these accounting methods, assumptions, estimates and uncertainties have on our reported financial results. These policies have the potential to have a significant impact on our combined and consolidated financial statements, either because of the significance of the combined and consolidated financial statement item to which they relate or because they require judgment and estimation due to the uncertainty involved in measuring, at a specific point in time, events which are continuous in nature. Actual results may differ from our estimates under different assumptions and conditions. Our critical accounting policies include:

- those made in connection with our initial preparation of the combined financial statements;
- recoverability of long-lived assets;
- valuation of inventory;
- pension plan accounting;
- realization of deferred tax assets;
- revenue recognition; and
- contingencies.

Assumptions and Estimates We Made in Preparing Our Combined Financial Statements

The preparation of our combined financial statements requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities, as well as disclosure of contingent amounts and liabilities, at the dates of the financial statements and the reported amounts of revenues and expenses during the financial periods we present. Actual results could differ materially from these estimates. In addition, due to the significant relationship between Infineon and our company, the terms of the carve-out transactions, the allocations and estimations of assets and liabilities and of expenses and other transactions between our business and Infineon are not the same as those that would have resulted from transactions among unrelated third parties. We believe that the assumptions underlying the combined financial statements are reasonable.

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Allocations from Infineon during the financial year ended September 30, 2005, and the seven months ended April 30, 2006 are reflected in the combined statements of operations as follows:

	For the financial year ended September 30, 2005	For the seven months ended April 30, 2006
	(in millions)	
Cost of goods sold	€ 168	€ 111
Research and development expenses	27	17
Selling, general and administrative expenses	109	75
Restructuring charges	1	—
	€ 305	€ 203

The allocation during the 2006 financial year relates to the seven-month period between October 1, 2005 and April 30, 2006. After our carve-out on May 1, 2006, costs were charged according to agreements with Infineon, which amounted to €33 million for the five months period ended September 30, 2006, and €56 million for the year ended September 30, 2007. See note 1 to the combined and consolidated financial statements for a description of the assumptions used for periods prior to the carve-out. However, these transactions, allocations and estimates are not indicative of those that would have obtained had our company actually operated on a stand-alone basis, nor are they indicative of our future transactions or of our expenses or results of operations. In addition, the process of preparing the combined financial statements does not permit the revaluation of historical transactions to attempt to introduce an arms' length relationship where one did not at the time exist. We believe that it is not practicable to estimate what the actual costs of our company would have been on a stand-alone basis if it had operated as an unaffiliated entity. Rather than allocating the expenses that Infineon actually incurred on behalf of our business, we would have had to choose from a wide range of estimates and assumptions that could have been made regarding joint overhead, joint financing, shared processes and other matters. Any of these assumptions may have led to unreliable results and would not have been more useful as an indicator of historical business development and performance than the methods employed in preparing the combined financial statements.

Recoverability of Long-Lived Assets

Our business is extremely capital-intensive, and requires significant investment in property, plant and equipment. Due to rapid technological change in the semiconductor industry, we anticipate the level of capital expenditures to be significant in future periods. We invested a total of €879 million in our 2007 financial year, a total of €686 million during our 2006 financial year and a total of €926 million in our 2005 financial year in property, plant and equipment. At September 30, 2007, the carrying value of our property, plant and equipment was €2,186 million.

Prior to our carve-out Infineon acquired other businesses to augment the Memory Products business. These acquisitions resulted in the generation of significant amounts of long-lived intangible assets, including goodwill. At September 30, 2007 we had long-lived intangible assets of €143 million.

We apply the provisions of Financial Accounting Standards Board ("FASB") Statement of Financial Accounting Standards ("SFAS") No. 142, *"Goodwill and Other Intangible Assets"*, and perform a test for impairment at least once a year.

We also review long-lived assets, including intangible assets, for impairment when events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying value of an asset to future net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment recognized is measured by the amount by which the carrying value of the assets exceeds the fair value of the assets. Estimated fair value is generally based on either appraised value or discounted estimated future cash flows. Considerable judgment is necessary to estimate discounted future cash flows.

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In applying this policy we did not recognize any goodwill impairment charges during our 2005 or 2007 financial years. However, in light of the weak market conditions for commodity NAND flash memories in the three months ended September 30, 2006, we decided to ramp down our flash production and stop the current development of NAND-compatible flash memory products based on Saifun's proprietary NROM technology. We and Saifun amended the license agreement relating to this technology to terminate the payment of quarterly installments as of December 31, 2006. As a result of the partial termination, we reduced payables, goodwill and other intangible assets, and recognized an impairment charge as of September 30, 2006 in the aggregate amount of €9 million related to the license (€7 million) and fixed assets (€2 million) that were not considered to be recoverable.

Valuation of Inventory

The memory industry has historically experienced periods of extreme volatility in product demand and in industry capacity, resulting in significant price fluctuations. See "— Factors that Affect our Results of Operations" and "Risk Factors — Risks related to the semiconductor memory industry — The DRAM industry is subject to cyclical fluctuations, including recurring periods of oversupply, which result in large swings in our operating results, including large losses." These significant price fluctuations have often occurred within relatively short timeframes. For example, the average "spot" market price for 512Mb DDR2 DRAM as reported by DRAMeXchange fell from $6.36 on December 29, 2006 to $1.45 on September 28, 2007, a drop of 77% in nine months. Rapid price increases can also occur. For example, the average "spot" market price for 512Mb DDR2 DRAM as reported by DRAMeXchange increased from $3.75 on January 2, 2006, to $5.15 on February 2, 2006, a gain of over 37% in just one month. Over the long term, however, DRAM prices have generally tended to decline.

We value inventory on a quarterly basis at the lower of cost or market value. Market value of inventory represents the net realizable value for finished goods and work-in-process. As of September 30, 2006 and 2007, we had inventory of €622 million and €619 million, respectively. We review the recoverability of inventory based on regular monitoring of the size and composition of inventory positions, current economic events and market conditions, projected future product demand and the pricing environment. This evaluation is inherently judgmental and requires material estimates. These estimates relate both to forecasted product demand and to the pricing environment. Both of these are susceptible to rapid and significant change.

In each of our three most recent financial years, we recorded recurring adjustments to value our inventory according to this policy. In the 2007 financial year, these adjustments amounted to €85 million. These adjustments offset an increase in the volume of inventory relating to the decision on our part later in the 2007 financial year to hold finished products in our inventory rather than sell them into an oversupplied market characterized by swiftly falling prices. Our inventory in euro terms was substantially the same as of September 30, 2006 and 2007 due to these offsetting factors. In future periods write-downs on inventory may also be necessary due to one or more of the following:

- temporary or fundamental price declines as a consequence of an imbalance of demand and supply, which can occur due to weak demand and/or greatly increased supply;
- technological obsolescence due to rapid developments of new products and technological improvements; and
- changes in economic circumstances or in other conditions that impact the market price for our products.

These factors could result in adjustments to the valuation of inventory in future periods, and have a material adverse effect on our consolidated financial statements.

Pension Plan Accounting

We account for our pension-benefit liabilities and related postretirement benefit costs in accordance with SFAS No. 87 *"Employers' Accounting for Pensions"* and SFAS No. 158 *"Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans — an amendment of FASB Statements No. 87, 88, 106, and 132(R)"*.

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Prior to our carve-out, our employees participated in Infineon's defined benefit pension plans. The pension costs and liabilities included in our combined and consolidated financial statements for periods prior to the carve-out include the portion of the Infineon pension costs and liabilities that relate to our employees' participation in the respective Infineon pension plans. With the carve out, these pension liabilities and related assets were legally transferred to us.

In September, 2006, we established the Qimonda Pension Trust for the purpose of funding future pension benefit payments for our employees in Germany. Subsequently, Infineon's pension trust transferred €26 million of cash, representing our actuarially determined proportion of the funding in Infineon's pension trust as of the carve-out date, to this trust for use in funding these pension benefit obligations. The Qimonda Pension Trust's investment strategy is to invest this cash in a well-diversified portfolio of investments aimed at maximizing long-term returns.

In February 2007,we established a uniform Qimonda Pension Plan for Germany with effect from October 1, 2006, into which the substantial majority of the employees were transferred, representing more than 90% of the existing pension obligations. The Qimonda Pension Plan is available to new employees. The previous Infineon plan regulations continue to apply to existing retirees and employees who did not consent to the new plan. The Qimonda Pension Plan for Germany qualifies as a defined benefit plan and, accordingly, the change from the previous defined benefit plans is treated as a plan amendment pursuant to SFAS No. 87, which increased the projected benefit obligation by €4 million. This will be amortized as part of net periodic pension cost in future periods.

The Infineon pension plan regulations continue to apply to our foreign employees, although all respective assets and obligations have been transferred to us.

Our pension costs and liabilities are actuarially calculated using various assumptions, including discount rates, expected return on plan assets, rate of compensation increase and rate of projected future pension increases. These assumptions are based on prevailing market conditions, long-term historical averages, and estimates of future developments of rates of returns. Please see note 28 to the combined and consolidated financial statements for a quantification of the major assumptions underlying our pension plan accounting, information on our plan asset allocations and a discussion of our current funding status. A significant variation in one or more of the underlying assumptions could have a material effect on the measurement of our long-term obligation or our pension cost and therefore our financial condition or results of operations.

If the assumptions used to calculate the pension liabilities and expected return on plan assets turn out to be accurate, we will pay our recorded net liability as pension benefits to our employees after they retire, and no adjustments to our balance sheet accrual will be necessary. Prior to September 30, 2007, however, our actual experience differed from those assumptions. This resulted in differences between our recorded net liability and the related actuarially calculated amount. Those differences, also referred to as actuarial gains and losses, were generally not recognized in the consolidated statements of operations as they occurred. Instead, due to the long-term nature of pensions and the related assumptions, they affected pension costs over the remaining service years of the relevant employees.

We adopted the recognition provision of SFAS No. 158, *"Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans"*, as of September 30, 2007, pursuant to which the overfunded or underfunded status of a defined benefit postretirement plan is recognized as an asset or liability in the balance sheet and changes in that funded status in the year in which the changes occur through comprehensive income. As of September 30, 2007 the adoption of the Recognition Provision of SFAS No. 158 resulted in a decrease in other non-current liabilities of €5 million, an increase in non-current deferred tax liabilities of €2 million and an increase in accumulated other comprehensive income of €3 million.

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Pension Benefits — Sensitivity Analysis

The expense related to pension plans and similar commitments we recognize in our consolidated financial statements is referred to as net periodic pension cost ("NPPC") and consists of several separately calculated components. We estimate that our NPPC for our 2008 financial year will be €6.2 million. A one percentage point change in the major assumptions mentioned above would result in the following impact on the estimated pension cost for the 2008 financial year:

	Effect on net periodic pension costs	
	One percent increase	One percent decrease
	(in millions)	
Discount rate	€ (0.8)	€ 1.0
Rate of compensation increase	0.5	(0.5)
Rate of projected future pension increases	0.2	(0.1)
Expected return on plan assets	(0.3)	0.3

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

Our pension plans were underfunded by an aggregate of €29 million as of September 30, 2006, and after adjusting for unrecognized actuarial losses as described above of €7 million, we recognized the remaining €22 million as a liability on our balance sheet. Our pension plans were underfunded by an aggregate of €25 million as of September 30, 2007. After adopting the recognition provision of SFAS No. 158 as described above, we recognized this underfunded status as a liability on our balance sheet. Since the present value of future benefits we expect to pay over the next five financial years totals €9 million as of September 30, 2007, we do not perceive a need to increase our plan funding in the immediate future.

Realization of Deferred Tax Assets

Income taxes as presented in the accompanying combined and consolidated financial statements are determined on a separate return basis. Although in numerous tax jurisdictions, including Germany, the company was included in the consolidated tax returns of Infineon before the carve-out, where the Memory Products business was only a part of an Infineon entity, the tax provision was prepared on an as-if separate company basis except that, pursuant to the terms of the contribution agreement between us and Infineon, any net operating losses generated by the Memory Products business and carried forward are treated as a reduction of equity at the end of the year, as such losses were retained by Infineon. Infineon evaluates its tax position and related tax strategies for its entire group as a whole, which may differ from the tax strategies we would have followed as a stand-alone company.

We recognize deferred income tax assets only if we determine that it is more-likely-than-not that we will be able to realize the tax benefits in the future from accumulated temporary differences and net operating loss and credit carry-forwards. At September 30, 2006 and 2007, our total net deferred tax assets were €153 million and €151 million, respectively. Our gross deferred tax assets increased from €316 million as of September 30, 2006 to €438 million as of September 30, 2007, principally due to the tax benefits of net operating loss and credit carry-forwards of approximately €32 million as of September 30, 2006 and of approximately €187 million as of September 30, 2007. These net operating loss and credit carry-forwards are generally limited to the amount used by the particular entity that generated the loss or credit and in certain circumstances do not expire under current law. Because as a general matter net operating loss and credit carry-forwards are not transferable, certain net operating loss and credit carry-forwards remained on Infineon's balance sheet because they were generated by legal entities not transferred to us in connection with our carve-out. In the future, Infineon will be able to offset its tax expense with these carry-forwards. The retention of these carry-forwards is shown on our balance sheets prior to our carve-out as a reduction in our business equity of €6 million as of September 30, 2005. We provided valuation allowance

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against our total deferred tax assets of €70 million and €204 million, as of September 30, 2006 and 2007, respectively.

We evaluate our deferred tax asset position and the need for a valuation allowance on a regular basis. The assessment requires the exercise of judgment on the part of our management with respect to, among other things, benefits that can be realized from available tax strategies and future taxable income. Our ability to realize deferred tax assets depends on our ability to generate future taxable income sufficient to use tax loss carry-forwards or tax credits before their expiration. The assessment is based on the benefits that could be realized from available tax strategies, the reversal of taxable temporary differences in future periods and, to the extent applicable, the impact of forecasted future taxable income. If we do not expect to be able to realize all of these benefits to the extent the deferred tax asset would indicate, we increase the deferred tax valuation allowance accordingly. As a result of this assessment, we increased the deferred tax asset valuation allowance for our 2007 financial year by €134 million and in the 2006 financial year by €11 million to reduce the deferred tax asset to an amount that we believe is more likely than not expected to be realized in the future. The 2006 amount excluded tax losses of €101 million before the carve-out that could not be transferred to us and will instead be available to Infineon in the future. The highly subjective character of many of the determinations Statement of Financial Accounting Standards ("SFAS") No. 109 *"Accounting For Income Taxes"* requires in measuring the valuation allowance means that our deferred tax assets may be subject to further reduction if our expectations, especially those relating to the future taxable income from operations (and to benefits from available tax strategies), prove to be too optimistic.

Revenue Recognition

We sell our memory products throughout the world. Our policy is to record revenue when persuasive evidence of an arrangement to sell products exists, the price is fixed or determinable, delivery has occurred and collectibility is reasonably assured. In general, persuasive evidence of an arrangement exists when the customer's written purchase order has been accepted. More judgment is required in the case of our licensing agreements, whereas the revenues from most of our DRAM business can be recognized using standardized processes.

We record reductions to revenue for estimated product returns and allowances for discounts and price protection, based on actual historical experience, at the time the related revenue is recognized. We also establish reserves for sales discounts, price protection allowances and product returns based upon our evaluation of a variety of factors, including industry demand. This process requires the exercise of substantial judgment in evaluating the above-mentioned factors and requires material estimates, including forecasted demand, returns and industry pricing assumptions.

We have entered into licensing agreements for our technology in the past, and anticipate that we will continue our efforts to monetize the value of our technology in the future. As with certain of our existing licensing agreements, any new licensing arrangements may include capacity reservation agreements with the licensee. Such transactions could represent multiple element arrangements pursuant to SEC Staff Accounting Bulletin ("SAB") 104, *"Revenue Recognition"*, and Emerging Issues Task Force ("EITF") Issue No. 00-21, *"Revenue Arrangements with Multiple Deliverables"*. This treatment can have the result of deferring license revenues and recognizing them over the period in which we are purchasing products from the licensee. The process of determining the appropriate revenue recognition in such transactions is highly complex and requires significant judgment, which includes evaluating material estimates in the determination of fair value and the level of our continuing involvement.

Contingencies

We are subject to various legal actions and claims that arise in the normal course of business. In particular, we are subject to significant civil lawsuits that relate to the operations of the Memory Products business prior to the carve-out, including the civil antitrust litigation in the United States and Canada, securities class actions and patent litigation. These matters are described in "Our Business — Legal Matters". As part of our carve-out, we agreed to indemnify Infineon with respect to claims (including any related expenses) arising in connection with certain matters, which are described under "Arrangements between Qimonda and the Infineon Group".

We regularly assess the likelihood of any adverse outcome or judgments related to these matters

and, where appropriate, estimate the range of possible losses and recoveries. We record liabilities, including accruals for

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significant litigation costs related to legal proceedings, when it is probable that a liability has been incurred and the associated amount of the loss can be reasonably estimated. Where the estimated amount of loss is within a range of amounts and no amount within the range is a better estimate than any other amount or the range cannot be estimated, we accrue the minimum amount. Accordingly, we have accrued a liability and charged operating income in our combined and consolidated financial statements related to certain asserted and unasserted claims existing as of each balance sheet date. As additional information becomes available, we assess any potential liability related to these actions and revise the estimates, if necessary. These accrued liabilities may be insufficient and are subject to change in the future based on new developments in each matter, or changes in circumstances. Any change we make in them could have a material impact on our results of operations, financial position and cash flows. See "Risk Factors — Risks related to our operations — Sanctions in the United States and other countries against us and other DRAM producers for anticompetitive practices in the DRAM industry and related civil litigation may have a direct or indirect material adverse effect on our operations" and "— An unfavorable outcome in the pending securities litigation against Infineon or the incurrence of significant costs in the defense of this litigation may have a direct or indirect material adverse effect on our operations."

Results of Operations

The following table presents the various line items in our combined and consolidated statements of operations expressed as percentages of net sales for the periods indicated.

	For the financial year ended September 30,		
	2005	2006	2007
	(in percent)		
Net sales	100.0%	100.0%	100.0%
Cost of goods sold	76.6	79.9	94.0
Gross profit	23.4	20.1	6.0
Research and development expenses	13.8	11.3	11.1
Selling, general and administrative expenses	7.3	5.6	5.5
Restructuring charges	—*	—	—
Other operating (expenses) income, net	0.5	1.6	0.5
Operating income	1.8	1.6	(11.1)
Interest (expense) income, net	(0.2)	(0.7)	0.2
Equity in earnings of associated companies	1.6	2.1	3.2
Gain on associated company share issuance	—	1.9	—
Other non-operating (expense) income, net	0.4	0.2	0.2
Minority interests	0.1	(0.2)	(0.2)
Income before income taxes	3.7	4.9	(6.6)
Income tax (expense) benefit	(3.1)	(3.0)	(0.3)
Net (loss) income	0.6	1.9	(6.9)

* less than 1%

Net Sales

We generate our net sales primarily from the sale of our memory products. Our memory products consist primarily of dynamic random access memory (DRAM) components and modules, which are used in a wide variety of electronic products including PC, notebook and workstation applications, more advanced infrastructure applications as well as graphics, mobile and consumer electronic devices. In 2007 we ceased offering the limited range of non-volatile flash memory products we had previously marketed and sold. The vast majority of our memory product sales are made through our direct sales force, whereas approximately 12% of our total sales in our 2007 financial year were made through distributors.

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We also generate a small stream of revenues from royalties and license fees earned on technology that we own and license to third parties. This often enables us to gain access to manufacturing capacity at foundries through licensing and capacity reservation arrangements, and also permits us to recover a small portion of our research and development expenses.

The following table presents data on our net sales for the periods indicated.

	For the financial year ended September 30,		
	2005	2006	2007
	(in millions, except percentages)		
Net sales			
Memory products	€2,665	€3,808	€3,600
% of net sales	94%	100%	100%
License revenue	€ 160	€ 7	€ 8
% of net sales	6%	0%	0%
Total net sales	€2,825	€3,815	€3,608
Effect of foreign exchange over prior period	€ (132)	€ 117	€ (298)
% of net sales	5%	3%	8%

In our 2007 financial year our total net sales decreased by €207 million, or 5%, to €3,608 million from €3,815 million in our 2006 financial year. Primarily responsible for the decrease were:

- DRAM price declines of 29%; and
- an 8% decrease in the average exchange rate of dollars for euro.

Offsetting these decreases in part were increases related to higher bit shipments, which increased 44%

In our 2006 financial year our total net sales increased by €990 million, or 35%, to €3,815 million from €2,825 million in the 2005 our financial year. Primarily responsible for the increase were:

- higher bit shipments, which increased 79%; and
- a 3% increase in the average exchange rate of dollars for euro.

Offsetting these increases in part were decreases related to:

- DRAM price declines of 20%; and
- the positive effect in our 2005 financial year of license income from ProMOS of €118 million.

Price declines and increases. While we generally expect prices for DRAM products to decline over time, and this in fact occurred during each of our 2005, 2006 and 2007 financial years, our 2007 financial year was characterized by particularly steep price declines for DRAM products. After remaining stable until the end of December 2006, prices declined significantly thereafter. We believe that a part of this price decline, especially towards the end of March 2007, was driven by seasonal demand weakness, the effects of an earlier build-up of inventories at original equipment manufacturers (OEMs) ahead of the introduction of the new Windows Vista computer operating system and capacity conversions from NAND to DRAM by some competitors, following severe price erosion in the NAND Flash area. During the three months ended June 30, 2007 the price decline continued and was amplified by strong DRAM output growth across the industry driven, we believe, mostly by capacity increases and technology conversions to more efficient technologies. In the three months ended September 30, 2007, prices initially showed signs of improvement, but then resumed their decline and ended up on average at the same low level as during the previous three months. The average daily "spot" market price for 512Mb DRAM as reported by DRAMeXchange fell from $6.36 on December 29, 2006 to $1.45 on September 28, 2007, a drop of 77%.

In our 2007 financial year we continued to focus on our diversification strategy, as indicated by the relative portions of our product mix comprising DRAMs for PC applications, on the one hand, and for infrastructure, graphics, consumer and mobile applications, on the other. Measured in bit shipments, our share of DRAMs for non-

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PC applications was well above 50% during the seasonally stronger December and September quarters and close to 50% in the second and third quarters when there was a greater emphasis on DRAMs for PC applications. The share of our net sales for non-PC applications, which generally command higher and more stable prices than standard DRAMs, increased to 60% in our 2007 financial year as compared to 51% in the 2006 financial year. This increase was due both to seasonal factors and our ability to increase bit shipments of DRAMs for non-PC applications.

Due, we believe, largely to our careful focus on market trends and attention to our product mix, our average per-megabit selling prices were 29% lower in the 2007 financial year than in the 2006 financial year, a significantly smaller decline than average market price decline for DRAM of 35%, based on data reported by WSTS, over the same period.

DRAM prices were under substantial pressure during the first quarter of our 2006 financial year, after which they recovered over the remaining three quarters. Our average per-megabit selling prices for DRAM products in the 2006 financial year were approximately 20% less than they had been in with the 2005 financial year. The per-megabit selling prices in U.S. dollars in the spot market of our major products with DDR2 interfaces declined sharply at the start of our 2006 financial year, declining around 26% over the first three months. During this quarter, we produced an excess of DDR2 DRAMs because the corresponding DDR2 logic chipsets, which are produced by logic semiconductor manufacturers, were not available in quantities sufficient for PC manufacturers to absorb the supply of DDR2 DRAMs in the market. A portion of the DDR2 DRAMs that we produced remained unsold and in our inventory until supply of appropriate logic chipsets created sufficient demand for our accumulated DDR2 DRAMs. After December 2005 prices recovered somewhat and remained relatively stable until May, when DDR2 pricing experienced some erosion until July before again rising through to September 30, 2006 due to tight market supply. DDR prices recovered steadily, albeit more slowly than DDR2 prices, from the December 2005 low points, continuing to increase through to the end of our 2006 financial year.

In our 2006 financial year sales of DRAM products for use in game consoles drove significant growth in bit shipments of graphic products. This contributed to the increased share of net sales from DRAMs for infrastructure, graphics, mobile and consumer applications to 50% as compared to 38% in the 2005 financial year. Our average per-bit selling prices in the 2006 financial year were 27% lower than in our 2005 financial year.

DRAM prices remained relatively stable for most of the 2006 financial year. Towards the end of the year prices increased, we believe, due to strong demand exceeding supply (our fourth quarter has proven in recent years to be the strongest for DRAM products for consumer electronics such as gaming consoles in advance of the end-year peak retailing season). Early in our 2007 financial year, DRAM suppliers started to heavily increase their output and bit growth rates, causing prices to come under more pressure and to fall precipitously during our second and third financial quarters.

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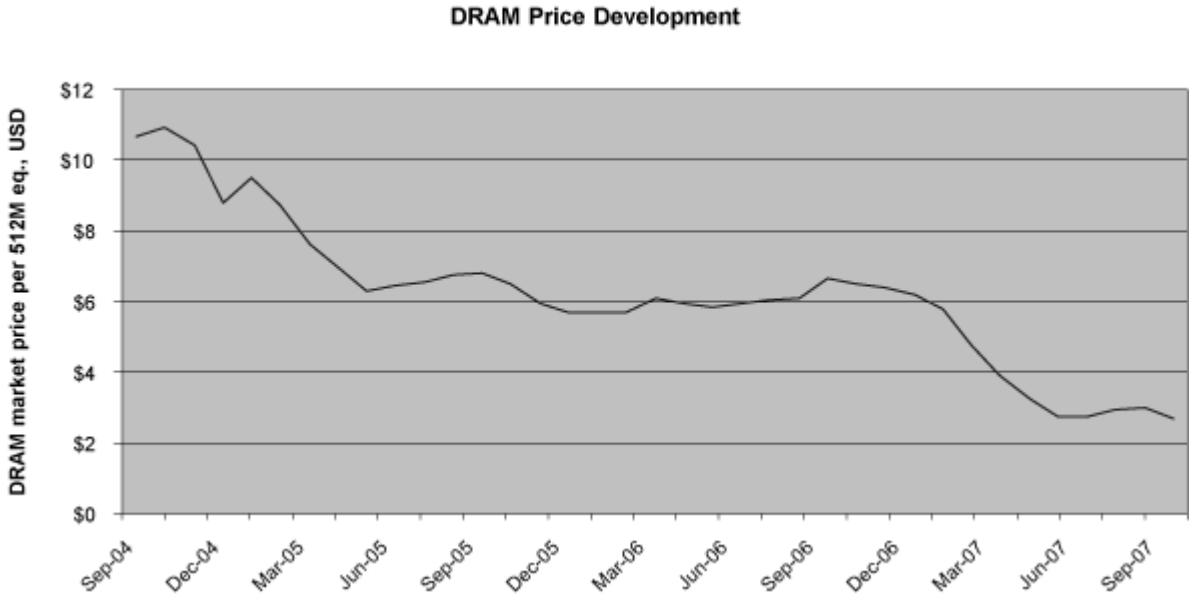
The following graphic shows the average monthly market prices for DRAM (expressed in 512Mb equivalents), as reported by WSTS, for the three years ended September 30, 2007.



(Source: WSTS)

Increase in bit shipments. Our bit shipments increased by 44% during the 2007 financial year compared to the 2006 financial year due to:

- our progress in increasing the yield of our manufacturing technologies,
- the conversion of an increasing share of our capacities to our 80nm and 75nm technologies,
- the increase of production volumes at our Richmond 300mm facility.
- our access to additional capacities of our joint venture partners and our foundries, and
- growth in demand, particularly for PCs, increased “bits per box” and our continued diversification in new market areas, especially with our consumer DRAM products.

The growth in our bit shipments was offset in part by our decision, later in the financial year, to hold some products in our inventory rather than sell them into a particularly unfavorable market.

Our bit shipments increased by 79% during the 2006 financial year as compared to the 2005 financial year. This growth was primarily a result of:

- our progress in increasing the yield of our 110nm technology,
- the conversion of an increasing share of our capacities to our 90nm technology,
- our access to additional capacities of our joint venture partners and our foundries,
- the overall demand growth in the DRAM market and our successful diversification in new market segments, particularly with our graphic DRAM products, and
- the ramp-up of production volumes at our Richmond 300mm facility.

Exchange rate effects. The U.S. dollar weakened against the euro in the 2007 financial year, with the average exchange rate for the period 8% lower than it was for the 2006 financial year. This unfavorable U.S. dollar euro exchange rate negatively affected our revenues during our 2007 financial year. We have calculated the effect of this change in exchange rate on our revenues as follows: we would have achieved €298 million more in net sales in the

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2007 financial year had the average exchange rates we used to translate our non-euro denominated sales into euros been the same in the 2007 financial year as they were in the 2006 financial year.

The U.S. dollar/euro exchange rate had an opposite effect in our 2006 financial year. Although the U.S. dollar was slightly weaker on September 30, 2006 than it had been one year earlier, the average exchange rate of U.S. dollars for euro over the financial year was 3% higher than it was for the 2005 financial year. We have calculated the effect of this change in exchange rate on our revenues as follows: we would have achieved €117 million less in net sales in our 2006 financial year had the average exchange rates we used to translate our non-euro denominated sales into euros been the same in the 2006 financial year as they were in the 2005 financial year.

Decline in license revenue. In the 2005 financial year our license revenue increased to €160 million, primarily due to the settlement Infineon reached with ProMOS in November 2004. Under this agreement, which resolved an intellectual property dispute that had begun in 2003, Infineon licensed DRAM technology to ProMOS for ongoing use by ProMOS, resulting in recognition of €118 million in revenue during the 2005 financial year. We recorded significantly less license revenue in our 2006 and 2007 financial years, and do not expect license revenues in future periods to be as substantial as they were in our 2005 financial year.

Net Sales by Region

The following table sets forth our sales by region for the periods indicated. We categorize our sales geographically based on the location where the customer chooses to be billed. Delivery might be to another location and the customer may ship the products on for further use.

Net sales by region

	For the financial year ended September 30,					
	2005		2006		2007	
	(in millions, except percentages)					
Germany	€ 232	8%	€ 316	8%	€ 256	7%
Rest of Europe*	333	12%	482	12%	399	11%
North America	1,067	38%	1,591	42%	1,323	37%
Asia/Pacific	1,091	38%	1,174	31%	1,182	33%
Japan	102	4%	252	7%	448	12%
Total	€2,825	100%	3,815	100%	€3,608	100%

* The Rest of Europe region also includes other countries and territories in the rest of the world outside of the listed main geographic regions with aggregate sales representing no more than 2% of total sales in any period.

The increased sales in Japan during our financial year ended September 30, 2007 resulted from a strong growth in demand for our specialty products, in particular for graphics and consumer applications, as well as additional demand for standard DRAM products for PC applications through an expansion of our customer base. The decrease in sales in North America for 2007, as compared to the previous period, was primarily caused by OEM customers shifting their production to Asia.

The percentage of net sales in the Asia/Pacific region were relatively high in our 2005 financial year due to the recognition of license revenue of €118 million relating to the ProMOS license agreement.

Cost of Goods Sold and Gross Margin

Our cost of goods sold consists principally of expenses relating to:

- direct materials, principally raw wafers;
- employee costs;
- overhead, including maintenance of production equipment, indirect materials (such as photomasks) and royalties;

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- depreciation and amortization;
- subcontracted assembly and testing services;
- production support, including facilities, utilities, quality control, automated systems and management functions; and
- foundry production (including purchases from our joint ventures and other associated and related companies, such as Inotera).

In addition to factors that affect our revenues and those affecting the components of cost of goods sold listed above, the following factors, not all of which were material in the periods under review, affected our gross margin:

- foreign currency conversion gains (or losses) on transactions in non-euro currencies and translations into euro;
- amortization of purchased intangible assets;
- product warranty costs;
- provisions for excess or obsolete inventories and write-downs to market value; and
- government grants, which we recognize over the remaining useful life of the related manufacturing assets.

The following table sets forth our cost of goods sold and related data for the periods indicated.

	For the financial year ended September 30,		
	2005	2006	2007
	(in millions, except percentages)		
Cost of goods sold	€(2,164)	€(3,048)	€(3,390)
% of net sales	77%	80%	94%
Gross margin	23%	20%	6%

Cost of goods sold increased by €342 million, or 11%, from €3,048 million in our 2006 financial year to €3,390 million in our 2007 financial year. The increase in our cost of goods sold was due primarily to:

- higher bit shipments; and
- inventory revaluation and reserves.

Offsetting these increases in part were

- improvements in our productivity; and
- exchange rate effects.

Cost of goods sold increased by €884 million, or 41%, from €2,164 million in our 2005 financial year to €3,048 million in our 2006 financial year. The increase in our cost of goods sold was due primarily to:

- higher bit shipments;
- higher absolute costs from production ramp-up and increased purchases from foundries; and
- exchange rate effects.

Offsetting these increases in part were improvements in our productivity.

Higher bit shipments. The 44% increase in bit shipments in our 2007 financial year and the 79% increase in bit shipments in our 2006 financial year were due primarily to the increase of production volumes at our Richmond 300mm facility, at Inotera and at those of our foundry partners manufacturing on 300mm wafers. In our 2006 financial year, we sourced in bits over 198% more chips from these partners than we had during our 2005 financial year. As discussed below, we believe that productivity improvements were partially responsible for holding the percentage increase in costs

below the percentage increase in bit shipments, as was the spreading out of our fixed costs over a greater level of bit shipments.

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Inventory revaluation and reserves. We value our inventory on a quarterly basis at the lower of cost or market value. If the market price declines below the full production cost of a particular product, then all inventories of that product are written down to its market price. For some of our products, the significant price decline in our 2007 financial year resulted in the write-down of inventory to market value in an amount of €85 million in accordance with our policy. Due to the volatility of the DRAM market, write-downs of this nature may occur in periods of sharp price decline and negatively impact our cost of sales and margins.

Productivity improvements. Similar to our 2006 financial year, we achieved productivity improvements in our 2007 financial year through the increased conversion of capacities to 90nm, 80nm and 75nm process technologies and the increasing share of our chips produced on 300mm wafers. The increase of 300mm capacities at our Richmond facility, our joint venture Inotera and our foundry partners SMIC and Winbond contributed to the increased share of production on 300mm wafers. Measured in wafer starts, 75% of our total production (including capacity sourced from our joint ventures and foundry partners) was on 300mm wafers in our 2007 financial year as compared to 68% of our production in our 2006 financial year. We believe that productivity improvements helped to increase our bit shipments so that although our absolute costs increased, we could achieve unit cost reductions because of the larger sales volume over which our fixed costs are spread.

In our 2006 financial year we achieved productivity improvements through the conversion of capacities to 110nm and 90nm process technologies and the increasing share of our chips produced on 300mm wafers. The ramp-up of 300mm capacities at our manufacturing facility at Richmond, Virginia, at our joint venture Inotera and at our foundry partner SMIC contributed to the increased share of production on 300mm wafers. Measured in wafer starts, 68% of our total production (including capacity sourced from our strategic and foundry partners) was on 300mm wafers in our 2006 financial year as compared to 53% of our production in our 2005 financial year.

Exchange rate effects. The weaker exchange rate of U.S. dollars for euro in the 2007 financial year, as compared to the 2006 financial year, decreased the euro value of our costs that are denominated in U.S. dollars by approximately €188 million. This means that we would have incurred approximately €188 million more in costs of goods sold in our 2007 financial year, had the average exchange rates we use to translate our non-euro expenses into euros been the same in the 2007 financial year as they were in the 2006 financial year. However, given the decrease in our net sales due to foreign exchange effects, foreign currency movements overall had a negative net effect on our gross margin during the 2007 financial year.

The relative strength of the exchange rate of the U.S. dollar against the euro in the 2006 financial year, as compared to the 2005 financial year, increased the euro value of our costs that are denominated in U.S. dollars by approximately €45 million. This means that we would have incurred approximately €45 million less in costs of goods sold in our 2006 financial year, had the average exchange rates we use to translate our non-euro expenses into euros been the same in the 2006 financial year as they were in the 2005 financial year. However, given the increase in our net sales due to foreign exchange effects, foreign currency movements overall had a positive net effect on our gross margin during the 2006 financial year.

Purchases from foundries. Our purchases from our joint ventures and other associated and related companies, such as Inotera, amounted to €546 million in the 2007 financial year, €438 million in our 2006 financial year and €247 million in our 2005 financial year. In addition, we purchased €736 million of inventory from our foundry partners in our 2007 financial year as compared to €747 million in our 2006 financial year and €273 million in our 2005 financial year.

Our gross margin decreased to 6% in our 2007 financial year, from 20% in our 2006 financial year, primarily due to lower average selling prices and inventory write downs. These could not be offset by lower production cost per unit resulting from increased manufacturing productivity and lower unit costs from foundry partners.

Research and Development (R&D) Expenses

Research and development (R&D) expenses consist primarily of salaries and benefits for research and development personnel, materials costs, depreciation and maintenance of equipment used in our research and development efforts and contracted technology development costs. Materials costs

include expenses for development wafers and costs relating to pilot production activities prior to the commencement of commercial

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production. R&D expenses also include our joint technology development arrangements with partners such as Nanya. Some of our research and development projects qualify for subsidies from local and regional governments in the countries where we do business. If the criteria to receive a grant are met, the subsidies received reduce R&D expenses over the project term as expenses are incurred.

The following table sets forth our R&D expenses and government subsidies for the periods indicated:

	For the financial year ended September 30,		
	2005	2006	2007
	(in millions, except percentages)		
Research and development expenses	€(390)	€(433)	€(401)
% of net sales	14%	11%	11%
Government subsidies	€ 16	€ 17	€ 24
% of net sales	1%	*	1%

* less than 1%

In our 2007 financial year, R&D expenses decreased by 7%, from €433 million to €401 million, due to the completion of R&D work on our 80nm and 75nm technology platforms earlier in the 2007 financial year and due to our focus on production support research before development efforts took off on our 58nm technology platform towards the end of the 2007 financial year. We also initiated cost saving measures in an effort to increase the productivity of our development efforts. Furthermore, the increase in governmental subsidies from €17 million in our 2006 financial year to €24 million in our 2007 financial year reduced the development expenses.

In our 2006 financial year, R&D expenses increased by 11%, from €390 million to €433 million, due to our effort to strengthen the development capabilities with respect to the next generation of memory technologies and further diversify our portfolio of memory products. We also paid €10 million for research services provided by Infineon during the five months after the carve-out to our 2006 financial year end, and €28 million during our 2007 financial year.

Selling, General and Administrative (SG&A) Expenses

Selling expenses consist primarily of salaries and benefits for personnel engaged in sales and marketing activities, costs of customer samples, non-R&D costs related to developing prototypes, distribution center costs, other marketing incentives and related marketing expenses.

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

The following table sets forth information on our selling, general and administrative (SG&A) expenses for the periods indicated.

	For the financial year ended September 30,		
	2005	2006	2007
	(in millions, except percentages)		
Selling, general and administrative expenses	€(206)	€(215)	€(199)
% of net sales	7%	6%	6%

During the 2007 financial year SG&A expenses decreased by 7% as compared to the 2006 financial year, from €215 million to €199 million. The primary reason for the decline was that during the 2007 financial year the combined costs under our post carve-out service agreements with Infineon and to build out our corporate functions were less than the costs Infineon allocated to us for the 2006 financial year. We also incurred lower costs in the 2007 financial year than we did for the same period one year earlier for special projects, such as our carve-out and IPO.

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Due to the decrease in net sales during our 2007 financial year, SG&A expenses relative to net sales remained constant compared to our 2006 financial year.

During the 2006 financial year SG&A expenses increased by 4% as compared to the 2005 financial year, from €206 million to €215 million. The increase was driven by higher cost allocations from Infineon through April 30, 2006 and project costs related to the carve-out and IPO. We also paid €14 million for corporate services provided by Infineon during the five months after the carve-out to our 2006 financial year end, and €15 million during our 2007 financial year.

In addition, in the 2006 financial year we had expenses of €8 million relating to stock-based compensation, of which €3 million are included in SG&A expenses. The remaining portion is reflected in different expense categories based on the cost centers of the employees concerned. These employees received these options on Infineon shares when they were Infineon employees in periods prior to our carve-out. We issued our own stock options for the first time in our 2007 financial year. Together with the cost of Infineon stock options, we had total stock-based compensation expenses in our 2007 financial year of €6 million, of which €2 million are included in SG&A expenses.

Restructuring Charges

We did not incur any restructuring charges in our 2006 or 2007 financial years. In our 2005 financial year, we accrued charges of €1 million for restructuring and cost-saving efforts taken by Infineon, which included downsizing our workforce and consolidating certain functions and operations.

In March 2007, we announced the building of a new DRAM module manufacturing facility in Johor, Malaysia. Following the construction of this facility, we plan to move the backend production from our existing Malacca plant to this new backend production facility. As of September 30, 2007 we have implemented a restructuring plan pursuant to SFAS No. 88, but we cannot yet make a reasonable estimate of the amount of involuntary benefits to be paid.

Other Operating (Expenses) Income, Net

Other operating (expenses) income, net contains various items related to our operations, and may fluctuate from period to period due to the more or less infrequent nature of these items, which include subsidies, grants, insurance proceeds and accruals for legal matters.

The following table sets forth information on our other operating (expenses) income, net for the periods indicated.

	For the financial year ended September 30,		
	2005	2006	2007
	(in millions, except percentages)		
Other operating (expenses) income, net	€(13)	€(60)	€ 18
% of net sales	0%	2%	0%

Other operating income, net in our 2007 financial year related primarily to subsidies, proceeds from insurance claims and the adjustment of accruals for legal matters to reflect current estimates. In our 2006 financial year other operating expenses, net reflected expenses related to litigation settlement charges of €54 million as well as impairment charges of €9 million related to our decision to ramp down our flash production and NROM development activities. Other operating expenses, net in our 2005 financial year principally reflected expenses related to antitrust matters.

Equity in Earnings of Associated Companies

The equity in earnings of associated companies with financial year ends that differ by not more than three months from the Company's financial year end is recorded with a three month delay. This applies in particular to our joint venture Inotera Memories, which has a December 31 financial year-end.

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The following table sets forth information on our equity in losses or earnings of associated companies for the periods indicated.

	For the financial year ended September 30,		
	2005	2006	2007
	(in millions, except percentages)		
Equity in earnings of associated companies	€ 45	€ 80	€117
% of net sales	2%	2%	3%

In the last three financial years, Inotera contributed most of our equity in earnings from associated companies. This increased in the 2006 financial year and the beginning of 2007, primarily due to the increased volume production by Inotera and selling prices that were at that time, on average, higher and stable. Our equity in Inotera's earnings is, however, sensitive not only to fluctuations in the price of DRAM and production volumes, but also to changes in the portion of our inventory which we purchased from Inotera and that remains unsold. This is because we eliminate Inotera's profit from the inventory we have not yet sold.

Gain on Associated Company Share Issuance

The following table sets forth information on Gain on associated company share issuance for the periods indicated.

	For the financial year ended September 30,		
	2005	2006	2007
	(in millions, except percentages)		
Gain on associated company share issuance	€ 0	€ 72	€ 0
% of net sales	0%	2%	0%

On March 17, 2006 Inotera successfully completed its initial public offering on the Taiwanese stock exchange of 200 million ordinary shares. On May 10, 2006 Inotera successfully completed a public offering on the Luxembourg stock exchange of 40 million global depositary shares (representing 400,000,000 common shares). As a result, our ownership was diluted from 45.9% to 36.0% while our proportional share of Inotera's equity increased by €72 million. We reflected this gain as part of non-operating income during the 2006 financial year.

Other Non-Operating Income, Net

Other non-operating income, net consists of various items from period to period not directly related to our principal operations, including gains and losses on sales of marketable securities.

The following table sets forth information on other non-operating expenses or income for the periods indicated.

	For the financial year ended September 30,		
	2005	2006	2007
	(in millions, except percentages)		
Other non-operating income, net	€ 13	€ 8	€ 7
% of net sales	0%	0%	0%

In the 2007 financial year other non-operating income related principally to valuation of derivatives, dividend income and a gain of €2 million on the sale of our investment in Ramtron. In the 2006 financial year, other non-operating income related principally to non-operating foreign currency transaction gains. In the 2005 financial year, other non-operating income, net included €18 million related principally to non-operating foreign currency transaction gains, which were partially offset by investment-related impairment charges of €6 million.

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Earnings Before Interest and Taxes ("EBIT")

We define EBIT as net income (loss) plus interest expense and income tax expense. EBIT is not defined under U.S. GAAP and may not be comparable with measures of the same or similar title that are reported by other companies. Under SEC rules, EBIT is considered a non-GAAP financial measure. It should not be considered as a substitute for, or confused with, any U.S. GAAP financial measure. We believe the most comparable U.S. GAAP measure is net income. Our management uses EBIT as a measure to establish budgets and operational goals, to manage our business and to evaluate its performance. Because many operating decisions, such as allocations of resources to individual projects, are made on a basis for which the effects of financing the overall business and of taxation are of marginal relevance, management finds a metric that excludes the effects of interest on financing and tax expense useful. In addition, in measuring operating performance, particularly for the purpose of making internal decisions such as those relating to personnel matters, it is useful for management to consider a measure that excludes items over which the individuals being evaluated have minimal control, such as enterprise-level taxation and financing. We report EBIT information because we believe that it provides investors with meaningful information about our operating performance in a manner similar to that which management uses to assess and direct the business. EBIT is not a substitute for net income, however, because the exclusion of interest and tax expense is not appropriate when reviewing the overall profitability of our company. Although EBIT is our primary measure of evaluating operating performance, we also evaluate the costs and benefits associated with various financing structures and the income tax consequences, where relevant and material independent of the operational assessment.

EBIT is determined from the consolidated statements of operations as follows:

	For the financial year ended September 30,		
	2005	2006	2007
	(in millions, except percentages)		
Net income (loss)	€ 18	€ 74	€(249)
Add: interest expense (income)	€ 7	€ 25	€ (7)
Add: income tax expense (benefit)	€ 86	€114	€ 10
EBIT	€111	€213	€(246)

Interest Income (Expense), Net

We derive interest income primarily from cash, cash equivalents and marketable securities. Interest expense is primarily attributable to loans from Infineon and external banks and excludes interest capitalized on manufacturing facilities under construction.

The following table sets forth information on our net interest income (expense) for the periods indicated.

	For the financial year ended September 30,		
	2005	2006	2007
	(in millions, except percentages)		
Interest income (expense), net	€ (7)	€(25)	€ 7
% of net sales	0%	(1)%	0%
Capitalized interest	€ 7	€ 0	€ 0

We earned interest income on cash and cash equivalents and marketable securities in the 2007 financial year. Our interest expense decreased in the 2007 financial year as compared to the 2006 financial year, due to our lower average borrowings from Infineon, as we fully repaid a total of €344 million of outstanding debt to Infineon. Our interest expense increased in the 2006 financial year as compared to the 2005 financial year, due to our higher average borrowings from Infineon.

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We no longer have any outstanding debt to Infineon. With the establishment of our own independent capital structure, including our recent capital lease of 200mm equipment, we expect interest expense to increase in future periods compared to the 2007 financial year. See "-Capital Requirements".

Income Taxes

The following table sets forth information on our income taxes for the periods indicated.

	For the financial year ended September 30,		
	2005	2006	2007
	(in millions, except percentages)		
Income tax expense	€ 86	€114	€ 10
Percent of net sales	3%	3%	0%
Effective tax rate	83%	61%	(4)%

We assess our deferred tax asset and the need for a valuation allowance pursuant to SFAS No. 109. As a result of this assessment, we have increased our deferred tax asset valuation allowance in our 2005, 2006 and 2007 financial years to reduce the net deferred tax asset to an amount that is more likely than not expected to be realized in future periods. Our effective tax rate in the 2006 financial year was substantially higher than our statutory tax rate due to increases in our valuation allowances, for losses which can not be utilized by us and have been retained by Infineon. In the 2007 financial year our effective rate decreased but was still higher than our statutory rate, due to losses in jurisdictions for which tax benefits could not be recognized.

Net Income (Loss)

Our net income had improved from a net income of €18 million in the 2005 financial year to €74 million in the 2006 financial year before falling to a net loss of €249 million in the 2007 financial year.

Financial Condition

The following table sets forth selected items from our consolidated balance sheets for the periods indicated.

	As of September 30,		
	2006	2007	Change[1]
	(in millions, except percentages)		
Current assets	€2,807	€2,257	(20)%
Non-current assets	€3,054	€3,124	2%
Total assets	€5,861	€5,381	(8)%
Current liabilities	€1,479	€1,244	(16)%
Non-current liabilities	€ 511	€ 620	21%
Total liabilities	€1,990	€1,864	(6)%
Shareholders' equity	€3,871	€3,517	(9)%

(1) Percentage changes from September 30, 2006 to September 30, 2007.

As of September 30, 2007, our current assets decreased significantly as compared to September 30, 2006, primarily due to lower trade accounts receivables which resulted from lower revenues and faster collections in the 2007 financial year compared to the 2006 financial year. This effect was partially offset by investments made in marketable securities pending use in capital expenditures and an increase of other current assets mainly due to an increase of income tax refunds and the fair value of derivatives. Inventory was essentially unchanged as compared to September 30, 2006. While bit production growth exceeded bit shipments during the financial year, and we held

some unsold inventory late in the year rather than sell it into a very unfavorable market, these factors were offset by

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the reduction in our manufacturing costs and our write-down of inventory during the year ended September 30, 2007. Non-current assets increased slightly because capital expenditures exceeded the corresponding depreciation in the 2007 financial year.

As of September 30, 2007, current liabilities decreased as compared to September 30, 2006 primarily as a result of the full repayment of €344 million on our short-term loan due to Infineon during the year ended September 30, 2007. As of September 30, 2007, non-current liabilities increased compared to September 30, 2006, mainly due to the increase in capital lease obligations following the sale and lease back of 200mm equipment.

As of September 30, 2007, our shareholders' equity decreased as compared to September 30, 2006 mainly due to our net loss of €249 million and additional foreign currency translation losses affecting equity of €124 million during the 2007 financial year.

Liquidity

Cash Flows

Our combined and consolidated statement of cash flows shows the sources and uses of cash during the reported periods. It is of key importance for the evaluation of our financial position. Although our combined statements of operations and balance sheets prior to our carve-out include allocations of financial statement line items from Infineon's financial statements, the combined and consolidated statements of cash flows are determined indirectly from these statements and do not reflect any additional allocations.

Cash flows from investing and financing activities are both indirectly determined based on payments and receipts. Cash flows from operating activities are determined indirectly from net income (loss). In accordance with U.S. GAAP, the line items on the cash flow statement that reflect changes in balance sheet items have been adjusted for the effects of foreign currency exchange fluctuations and for changes in the scope of consolidation. Therefore, they do not conform to the corresponding changes you will find between the balance sheets themselves.

	For the financial year ended September 30,		
	2005	2006	2007
	(in millions, except percentages)		
Net cash provided by operating activities	€ 484	€ 326	€ 980
Net cash used in investing activities	€(972)	€(801)	€(847)
Net cash provided by (used in) financing activities	€ 538	€ 773	€(307)
Effect of foreign exchange rate changes on cash and cash equivalents	€ 5	€ 2	€ (12)
Cash and cash equivalents at end of period	€ 632	€ 932	€ 746

Financial Year Ended September 30, 2007 Compared to Financial Year Ended September 30, 2006

Our operating cash flow increased from an inflow of €326 million in the 2006 financial year to an inflow of €980 million in the 2007 financial year. The growth in cash generated was primarily due to working capital improvements resulting from the substantial decrease in our trade accounts receivable (which had increased in our 2006 financial year). The working capital improvements also result from faster collections and improved payment terms with various customers and suppliers and include some prepayments to secure supply. Also positively affecting cash flow from operations as compared with the prior year were the effect of, non-cash inventory write-downs taken during the 2007 financial year and with comparably larger decreases in other current assets and larger increases in other liabilities. The effect of these increases in operating cash flow was partially offset by our net loss in the 2007 financial year, a comparably smaller increase in trade accounts payable and decreases in accrued liabilities.

Cash used in investing activities in these periods principally reflect the capital expenditures and investments in associated companies during this period. Our cash used in investing activities increased in the 2007 financial year, mainly because we had higher capital expenditures than in the 2006 financial year. This outflow was partially offset

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by proceeds received of €156 million from our sale and leaseback of 200mm equipment in Richmond in September 2007.

Cash used in financing activities in our 2007 financial year mainly reflects the full repayment of our short term loan from Infineon, By comparison, cash provided by financing activities in the 2006 financial year mainly came from our IPO proceeds of €415 million and advances by Infineon prior to our carve-out.

Financial Year Ended September 30, 2006 Compared to Financial Year Ended September 30, 2005

Our operating cash flow in the 2006 financial year declined from an inflow of €483 million to a €326 million inflow. The reduction in cash generated was primarily due to increases in our trade accounts receivable, inventory and trade accounts payable, reflecting our sales growth. This was in part offset by our higher net income and by depreciation and amortization, which increased by €175 million mainly as a result of our new facilities in Richmond, Virginia and Suzhou.

Cash used in investing activities in both periods reflect the capital expenditures and investments in associated companies during both periods. Our cash used in investing activities was lower in the 2006 financial year, mainly because we had lower capital expenditures compared to the 2005 financial year, which was partially offset by increased investments in marketable securities.

Cash provided by financing activities in both periods relates principally to investments by and advances from Infineon and, in the 2006 financial year, our IPO proceeds of €415 million, net of offering costs and tax benefits thereon. Infineon advanced €484 million to us in the 2006 financial year, as compared to €500 million in the same period one year earlier. We repaid €163 million to Infineon in the 2006 financial year.

Free Cash Flow

We define free cash flow as cash from operating and investing activities excluding purchases or sales of marketable securities. Free cash flow is not defined under U.S. GAAP and may not be comparable with measures of the same or similar title that are reported by other companies. Under SEC rules, “free cash flow” is considered a non-GAAP financial measure. It should not be considered as a substitute for, or confused with, any U.S. GAAP financial measure. We believe the most comparable U.S. GAAP measure is net cash provided by operating activities. Since we 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. It is not intended to represent residual cash flow available for discretionary expenditures, since debt service requirements or other non-discretionary expenditures are not deducted. Free cash flow is determined as follows from our combined and consolidated statements of cash flows:

	For the financial year ended September 30,		
	2005	2006	2007
	(in millions, except percentages)		
Net cash provided by operating activities	€ 484	€ 326	€ 980
Net cash used in investing activities	€(972)	€(801)	€(847)
Purchases of marketable securities, net	€ (1)	€ 138	€ 133
Free Cash Flow	€(489)	€(337)	€ 266

Free cash flow was negative in our 2005 and 2006 financial years because capital expenditures exceeded the cash provided by operating activities. Prior to our carve-out this shortfall was financed principally by advances from Infineon and subsequent to our carve-out was financed by our available cash balances.

Our free cash flow in the 2007 financial year was positive mainly due to working capital improvements that increased our operating cash flow by an amount in excess of our capital expenditures.

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Net Cash Position

The following table presents our gross and net cash positions and the maturity of our debt. It is not intended to be a forecast of cash available to us in future periods.

	Payments due by period						
As of September 30, 2007	Total	Less than 1 year	1-2 years	2-3 years	3-4 years	4-5 years	After 5 years
				(in millions)			
Cash and cash equivalents	€ 746	€ 746	€ —	€ —	€ —	€ —	€ —
Marketable securities	€ 265	€ 265	€ —	€ —	€ —	€ —	€ —
Gross cash position	€1,011	€ 1,011	€ —	€ —	€ —	€ —	€ —
Less:							
Long-term debt	€ 276	€ 49	€ 51	€ 54	€ 57	€ 21	€ 44
Short-term debt	€ 28	€ 28	€ —	€ —	€ —	€ —	€ —
Total financial debt	€ 304	€ 77	€ 51	€ 54	€ 57	€ 21	€ 44
Net cash position	€ 707	€ 934	€ (51)	€ (54)	€ (57)	€ (21)	€ (44)

Our gross cash position (which we define as cash and cash equivalents plus marketable securities) amounted to €1.011 million at September 30, 2007, compared to €1.070 million at September 30, 2006. As part of Infineon, our historical capital structure was based on the assumption that our net cash position was zero. Our net cash position increased to €707 million at September 30, 2007, compared to €575 million at September 30, 2006 mainly as a result of our positive free cashflow during the 2007 financial year. We fully repaid the shareholder loan from Infineon by April 2007.

Long-term debt at September 30, 2007 principally consists of an unsecured bank loan of €124 million related to our Porto, Portugal backend facility, and a capital lease obligation of €128 related to the sale and lease back of 200mm equipment.

To secure our cash position and to maintain flexibility with regards to liquidity, we have implemented a risk management policy with risk limits with respect to counterparty, credit rating, sector, duration, credit support and type of instrument. See note 30 to the combined and consolidated financial statements included elsewhere in this annual report.

Return on Capital Employed (RoCE)

In addition to EBIT, our management has committed itself since the beginning of the 2007 financial year to focus on measuring the profitability of the Company using a measure that compares net income, with adjustments it believes necessary to make the measure a meaningful assessment tool, to the capital that has been required for the business. We began calculating and reporting the financial indicator Return on Capital Employed or "RoCE" for this purpose.

RoCE and its constituents, earnings before interest, capital employed are non-GAAP financial measures, which means they are not defined under U.S. GAAP and may not be comparable with measures of the same or similar title that are reported by other companies. Under SEC rules, "Return on Capital Employed" is considered a non-GAAP financial measure. It should not be considered as a substitute for, or confused with, any U.S. GAAP financial measure. Reconciliations to the closest GAAP measures net (loss) income to shareholders' equity ratio, net (loss) income and shareholders' equity are presented below. We calculate our capital employed as our end period shareholders' equity less the net cash position on that data. RoCE is calculated as earnings before interest divided by capital employed. RoCE is determined as follows from the consolidated financial statements:

	As of September 30,		
	2005	2006	2007
Shareholder's equity	€2,967	€3,871	€3,517
Less: net cash position	€ 0	€ (575)	€ (707)
Capital employed	€2,967	€3,296	€2,810

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	For the financial year ended September 30,		
	2005	2006	2007
Net income	€ 18	€ 74	€(249)
Adjust: interest income (expense), net	€ 7	€ 25	€ (7)
Earnings (loss) before interest	€ 25	€ 99	€(256)
Return on Capital Employed	1%	3%	(9)%
Net income (loss) in percent of shareholder's equity	1%	2%	(7)%

Capital Requirements

We require capital in our 2008 financial year to:

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

We expect to meet these requirements through:

- cash flow generated from operations;
- cash on hand and securities we can sell;
- available credit facilities and
- capital market and other financing transactions in which we may engage in the future.

As of September 30, 2007, we required funds for our 2008 financial year aggregating €905 million. This consisted of €828 million for commitments and €77 million of short term debt. In addition, known contingencies of less than one year as of September 30, 2007 totaled €126 million. In our 2007 financial year we spent €879 million in capital expenditures. Approximately €237 million capital expenditures have been committed and included in unconditional purchase commitments for the 2008 fiscal year. We had a gross cash position of €1,070 million as of September 30, 2006 and €1,011 million as of September 30, 2007. Our sources of funding, in addition to this cash position, include our cash flows from operations — we generated cash flows from operations of €326 million in our 2006 financial year and €980 million during the financial year ended September 30, 2007. We can also draw, for short-term purposes, on the working capital lines we maintain in several locations in an aggregate amount of €161 million.

We are also exploring whether other kinds of longer term financing transactions may be arranged on favorable terms. One kind of transaction that is common in our industry is a sale and leaseback involving manufacturing equipment. We entered into such an agreement as of September 28, 2007 for a part of the 200mm equipment of our Richmond, Virginia, plant which resulted in net proceeds of €156 million. We are currently discussing further potential transactions of this nature and evaluating whether to engage in other bilateral or syndicated financing arrangements. Whether we do so depends on market conditions and the attractiveness of the terms we are able to achieve.

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Commitments and Contingencies

The following table sets forth information on our commitments and known contingencies by due date or expiration.

	Payments due/expirations by period[1]						
As of September 30, 2007[2][3]	Total	Less than 1 year	1-2 years	2-3 years	3-4 years	4-5 years	After 5 years
				(in millions)			
Other contractual liabilities reflected on the balance sheet:							
Settlement for antitrust related matters[4]	€ 63	€ 22	€ 21	€ 20	€ —	€ —	€ —
Contractual commitments:							
Operating lease payments	€ 95	€ 27	€ 25	€ 17	€ 9	€ 8	€ 9
Unconditional purchase commitments[5]	787	737	43	5	2	—	—
Other long-term commitments	€ 70	€ 64	€ 2	€ 2	€ 1	€ 1	—
Total contractual commitments	€952	€ 828	€ 70	€ 24	€ 12	€ 9	€ 9
Other contingencies:							
Guarantees[6]	€128	€ 19	€ 16	€ 1	€ 9	€ 30	€ 53
Contingent government grants[7]	€406	€ 107	€ 22	€ 45	€ 166	€ 26	€ 40
Total contingencies	€534	€ 126	€ 38	€ 46	€ 175	€ 56	€ 93

(1) The above table should be read together with note 31 to our combined and consolidated financial statements.

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

(3) Product purchase commitments associated with capacity reservation agreements are not included in this table, since the purchase prices are based in part on future market prices, and are accordingly not quantifiable as of September 30, 2007. Purchases under these agreements aggregated approximately €1.131 million for the 2007 financial year and €1,185 million for the 2006 financial year.

(4) These amounts are recorded as accrued, other current or other non-current liabilities on our balance sheet and reflect payments to be made under settlement agreements relating to antitrust matters.

(5) Primarily purchase orders that have been placed with suppliers of fixed assets, raw materials and services. Fixed price orders for products from our foundry partners are also shown here.

(6) Guarantees are mainly issued by the parent company for the payment of import duties, rentals of buildings, contingent obligations related to government grants received.

(7) "Contingent government grants" refers to amounts previously received that are related to the construction and financing of certain production facilities, but that are not guaranteed otherwise. These could be repayable if the total project requirements are not met.

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Capital Expenditures

	For the financial year ended September 30,		
	2005	2006	2007
	(in millions)		
Purchases of property, plant and equipment	€926	€686	€879

Our capital expenditures of €879 million for the 2007 financial year consisted primarily of equipment upgrades at our 300mm facility in Dresden, Germany capacity expansion at our 300mm facility in Richmond, Virginia and extension of our wafer test and component capacities in Porto, Portugal. During the 2006 financial year we invested primarily in the capacity expansion at our 300mm facility in Richmond, our 300mm facility in Dresden and our back-end venture in Suzhou, China. In our 2005 financial year, we completed the construction of the 300mm facility in Richmond, ramped up production there and also invested in our back-end venture in Suzhou.

We have reduced our planned capital expenditures for the 2008 financial year to a range between €650 million to €750 million and aim to increase our collaboration with our partners. As of September 30, 2007, approximately €237 million of capital expenditures have been committed and included in unconditional purchase commitments for our 2008 financial year. Due to the lead times between ordering and delivery of equipment, a substantial amount of capital expenditures typically is committed well in advance. The majority of these expected capital expenditures will be made in our front-end and back-end manufacturing facilities.

In March 2007, we announced plans to expand capacity at our back-end manufacturing facility in Suzhou, China for which we expect capital expenditures of €250 million over the next three years. We also plan to invest up to €150 million over the next five years to build a new DRAM module manufacturing facility in Johor, Malaysia. In April 2007, we also announced plans to construct a new front-end manufacturing facility in Singapore, for which we plan to invest approximately €2 billion over the next five years.

Credit Facilities

We have historically relied (directly or indirectly) on Infineon to provide financing for a portion of our financing and capital requirements. Under our Master Loan Agreement with Infineon Technologies Holding B.V., we had $435 million (€344 million) drawn at September 30, 2006 with initial maturities in July and August 2007. We fully repaid this shareholder loan by April 2007. We have also agreed not to draw further amounts under the agreement.

In addition we have established both short- and long-term credit facilities with a number of different financial institutions in order to meet our anticipated funding requirements. We can draw, for short term purposes, on the working capital lines we maintain in several locations in an aggregate amount of €161 million as of September 30, 2007. We already drew €28 million under this short-term facility for working capital purposes in China and fully repaid it on October 10, 2007.

In August 2006 we entered into a multicurrency revolving loan facility in an aggregate principal amount of €250 million which we voluntarily cancelled on September 28, 2007. Before cancellation, we did not have any drawdown at any time from this revolving loan facility. This cancellation was due to certain restrictions on asset dispositions which limited us from pursuing engagements in sale and leaseback transactions involving manufacturing equipment. We entered into such an agreement on September 28, 2007 for a portion of the 200mm equipment in our Richmond, Virginia, USA plant and are considering further potential transactions of this nature.

Subject to conditions in the capital markets, we expect from time to time (but subject to the lock-up agreement we have agreed with the underwriters for the secondary offering of our ADSs on September 20, 2007 by Infineon) to consider engaging in additional financing transactions.

A €124 million non-recourse project financing facility for the expansion of the Porto, Portugal manufacturing facility was fully drawn as of September 30, 2007.

A €24 million note payable to a government entity in connection with our Richmond, Virginia,

USA plant had been fully drawn as of September 30, 2007.

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We plan to fund our working capital requirements from cash provided by operations, available funds, bank loans, other potential financing transactions, government subsidies and, if needed, the issuance of additional debt or equity securities. We have also applied for governmental subsidies in connection with certain capital expenditure projects, but can provide no assurance that such subsidies will be granted on a timely basis or at all. We can provide no assurance that we will be able to obtain additional financing for our research and development, working capital or investment requirements or that any such financing, if available, will be on terms favorable to us.

Taking into consideration the financial resources available to us, including our internally generated funds and currently available borrowing facilities, we believe that we will be in a position to fund our capital requirements in our 2008 financial year.

Pension Plan Funding

The following table sets forth the status of our pension plan funding for the periods indicated.

	As of September 30,		
	2006	2007	Change
	(in millions)		
Projected benefit obligations	€(56)	€(54)	€ 2
Fair value of plan assets	€ 27	€ 29	€ 2
Funded status	€(29)	€(25)	€ 4

As of September 30, 2006, we recognized the funded status, net of €7 million unrecognized actuarial losses as a liability on our balance sheet. As of September 30, 2007 we adopted SFAS No. 158 and recognized the funded status as a liability on our balance sheet and recorded an actuarial gain and prior service cost of €5 million as part of equity. Since the present value of future benefits we expect to pay over the next five financial years totals €9 million as of September 30, 2007, we do not perceive a need to increase our plan funding in the immediate future.

We have estimated the return on plan assets for the next financial year to be 6.3% for domestic plans and 6.4% for foreign plans. The actual return on plan assets between the last measurement dates amounted to 8.8% for domestic plans and 9.6% for foreign plans, compared to the expected return on plan assets for that period of 5.9% for domestic plans and 6.4% for foreign plans.

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

Our asset allocation targets for pension plan assets are based on our assessment of business and financial conditions, demographic and actuarial data, funding characteristics, related risk factors, market sensitivity analyses and other relevant factors. The overall allocation is expected to help protect the plans' level of funding while generating sufficiently stable real returns (i.e., net of inflation) to meet current and future benefit payment needs. Due to active portfolio management, the asset allocation may differ from the target allocation up to certain limits. As a matter of policy, our pension plans are not permitted to invest in our company or Infineon Technologies AG shares. The Qimonda Pension Trust has adopted an asset allocation strategy similar to that of the Infineon Pension Trust, which employs a mix of active and passive investment management programs. In September and October 2006 Infineon Pension Trust transferred €26 million of cash to the Qimonda Pension Trust for use in funding these pension benefit obligations, thereby reducing accrued pension liabilities. In October 2006 the Qimonda Pension Trust invested this cash in a diversified portfolio of investments aimed at maximizing long term returns.

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Research and Development

Research and development form a significant part of our operations. Our research and development expenses were €401 million in the 2007 financial year and €433 million in the 2006 financial year. We intend to fund these expenditures in the normal course of business through cash provided by operating activities. For a description of our research and development policies, please see "Our Business — Research and Development".

Quantitative and Qualitative Disclosure About Market Risk

Market risk is the risk of loss related to adverse changes in market prices, including commodity prices, foreign exchange rates and interest rates, of financial instruments. We are exposed to various financial market risks in our ordinary course of business transactions, primarily from changes in commodity prices, foreign exchange rates and interest rates.

We use financial instruments, including derivatives, to manage foreign exchange rate risks and interest rate risks. Since our carve-out from Infineon, we have set up a separate financial risk management function. We enter into diverse financial transactions with several counterparties to limit our risk. Derivative instruments are only used for hedging purposes and not for speculative purposes.

You should read the following discussion of categories of market risk to which we are exposed in conjunction with notes 2, 29 and 30 to our combined and consolidated financial statements.

Commodity Price Risk

A significant portion of our business is exposed to fluctuations in market prices for standard DRAM products. For these products, the sales price responds to market forces in a way similar to that of other commodities. This price volatility can be extreme and has resulted in significant fluctuations within relatively short time-frames. We attempt to mitigate the effects of volatility by continuously improving our cost position, by entering into new strategic partnerships and by focusing our product portfolio on application-specific products that are subject to less volatility, such as DRAM products for infrastructure, graphics, mobile and consumer applications.

We are also exposed to commodity price risks with respect to raw materials used in the manufacture of our products. We seek to minimize these risks through our sourcing policies (including the use of multiple sources, where possible) and our operating procedures.

We do not use financial instruments to manage any exposure to fluctuations in commodity prices remaining after the operating measures we describe above.

Foreign Exchange Rate Risk

Although we prepare our combined and consolidated financial statements in euro, most of our sales volumes, as well as slightly over one-half of our costs, (primarily those relating to design, manufacturing, selling, marketing, general and administrative functions, and research and development of products), are denominated in other currencies, primarily U.S. dollars. The portions of our sales and expenses denominated in currencies other than the euro are exposed to exchange rate fluctuations in the values of these currencies relative to the euro. We are therefore subject to both transaction and translation risk. For more information on these risks, please refer to "— Factors that Affect our Results of Operations — Exchange Rate Fluctuations". Exchange rate fluctuations may have substantial effects on our sales, our costs and our overall results of operations. Although the U.S. dollar was weaker on September 30, 2006 than it had been one year earlier, the average exchange rate of U.S. dollars for euro over the 2006 financial year was stronger than it had been in the 2005 financial year, increasing 3% from U.S. $1.00 = €0.7869 to U.S. $1.00 = €0.8117. During the 2007 financial year, by contrast, the average exchange rate decreased by 8% from U.S. $1.00 = €0.8117 to U.S. $1.00 = €0.7497.

The table below provides information about derivative financial instruments as of September 30, 2006 and as of September 30, 2007, including those foreign currency forward contracts sensitive to changes in foreign currency exchange and interest rates. For foreign currency forward contracts related to certain sale and purchase transactions, the table presents the notional amounts and the weighted average contractual foreign exchange rates.

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The euro equivalent notional amounts in millions and fair values of our derivative instruments as of September 30, 2006 and as of September 30, 2007 are as follows:

	As of September 30, 2006		As of September 30, 2007	
	Notional amount	Fair value	Notional amount	Fair value
	(in millions)			
Forward contracts sold:				
U.S. dollar	€ 168	€ (1)	€ 475	€ 11
Japanese yen	26	—	2	*
Forward contracts purchased:				
U.S. dollar	17	—	72	(1)
Japanese yen	22	—	70	(2)
Singapore dollar	3	—	5	—
Malaysian ringgit	5	—	17	—
Other currencies	—	—	1	—
Other	94	5	108	11
Fair value, net		€ 4		€ 19

*) less then 1 million

Our policy with respect to limiting short-term foreign currency exposure generally is to economically hedge at least 75% of our estimated net exposure for a minimum period of two months in advance and, depending on the nature of the underlying transactions, a significant portion of the period thereafter. Our foreign currency exposure resulting from differences between actual and forecasted amounts cannot be mitigated. We calculate this net exposure on a cash-flow basis taking into account balance sheet items, actual orders received or made and all other planned revenues and expenses.

We record our derivative instruments according to the provisions of SFAS No. 133 *"Accounting for Derivative Instruments and Hedging Activities"*, as amended.

SFAS No. 133 requires all derivative instruments to be recorded on the balance sheet at their fair value. Gains and losses resulting from changes in the fair values of those derivatives are accounted for depending on the use of the derivative instrument and whether it qualifies for hedge accounting. Our economic hedges are generally not considered hedges under SFAS No. 133. We report these derivatives at fair value in our combined and consolidated financial statements, with changes in fair values recorded on our statement of operations.

In the 2007 financial year, our allocated foreign exchange transaction loss amounted to €39 million and was offset by gains from our economic hedge transactions of €25 million, resulting in a net loss of €14 million. This compares to foreign exchange gains of €2 million, offset by hedging losses of €4 million, resulting in a net loss of €2 million in the 2006 financial year. For purposes of the carve-out, foreign exchange gains and losses were allocated based on Infineon's segments' proportions of total costs.

Interest Rate Risk

We are exposed to interest rate risk through our fixed term deposits and loans. Due to the high volatility of our core business and to maintain high operational flexibility, we have historically kept a substantial amount of cash and cash equivalents. These assets are mainly invested in instruments with contractual maturities ranging from three to twelve months, bearing interest at short-term rates. To reduce the risk caused by changes in market interest rates, we attempt to align the duration of the interest rates of our debts and current assets by the use of interest rate derivatives. We had no outstanding interest rate derivatives at September 30, 2007. However, we anticipate making use of such instruments depending on the nature of our debt financing in the future.

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Fluctuating interest rates have an impact on parts of our financial instruments such as cash and marketable securities as well as our interest-bearing debt obligations.

Based on our long and short term debt outstanding on September 30, 2007 and the interest rates in effect at that time for those loans, a 1% increase or decrease in our overall interest rate environment would (keeping all other variables constant) have increased or decreased our annualized debt service cost by an estimated €3 million.

Off-Balance Sheet Arrangements

We have no off-balance sheet arrangements other than operating leases in respect of office space, manufacturing land and office equipment including PCs and workstations. As of September 30, 2006, we had contractual commitments for operating lease payments of €107 million. As of September 30, 2007, those contractual commitments decreased to €95 million.

Recent Accounting Pronouncements

Adopted in the year ended September 30, 2007

In September 2006, the FASB issued SFAS No. 158, *"Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans — an amendment of FASB Statements No. 87, 88, 106, and 132(R)"*, which requires an employer to recognize the overfunded or underfunded status of a defined benefit postretirement plan (other than a multiemployer plan) as an asset or liability in its statement of financial position and to recognize changes in that funded status in the year in which the changes occur through comprehensive income of a business entity or changes in unrestricted net assets of a not-for-profit organization ("Recognition Provision"). SFAS No. 158 does not change the basic approach to measuring net periodic pension cost. We adopted the Recognition Provision of SFAS No. 158 as of September 30, 2007 as described above in ''— Critical Accounting Policies — Pension Plan Accounting".

In September 2006, the SEC issued SAB No. 108, *"Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements"*. SAB No. 108 provides interpretive guidance on how the effects of prior-year uncorrected misstatements should be considered when quantifying misstatements in the current year financial statements. SAB No. 108 requires us to quantify misstatements using both an income statement ("rollover") and balance sheet ("iron curtain") approach and to evaluate whether either approach results in a misstatement that, when all relevant quantitative and qualitative factors are considered, is material. If prior year errors that had been previously considered immaterial are considered material upon adoption based on either approach, no restatement is required so long as management properly applied its previous approach and all relevant facts and circumstances were considered. If prior years are not restated, the cumulative effect adjustment is recorded in opening accumulated earnings (deficit) as of the beginning of the year of adoption. We adopted SAB No. 108 as of the year ended September 30, 2007 which did not result in restatement or cumulative effect adjustment.

Issued but principally applicable in future financial years

In July 2006, the FASB issued FASB Interpretation No. 48, *"Accounting for Uncertainty in Income Taxes — an interpretation of FASB Statement No. 109"* ("FIN 48") which defines the threshold for recognizing the benefits of tax return positions in the financial statements as "more-likely-than-not" to be sustained by the taxing authority. FIN 48 also provides guidance on the de-recognition measurement and classification of income tax uncertainties, along with any related interest and penalties. FIN 48 also includes guidance concerning accounting for income tax uncertainties in interim periods and increases the level of disclosures associated with any recorded income tax uncertainties. FIN 48 is effective for us from our financial year beginning October 1, 2007. The differences between the amounts recognized in the statements of financial position prior to the adoption of FIN 48 and the amounts reported after adoption will be accounted for as a cumulative-effect adjustment recorded to the beginning balance of retained earnings. We are in the process of determining the impact, if any, that the adoption of FIN 48 will have on our consolidated financial position and results of operations.

In September 2006, the FASB released SFAS No. 157, *"Fair Value Measurements"*, which

provides guidance for using fair value to measure assets and liabilities. SFAS No. 157 defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value

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measurements. The standard also responds to investors' requests for more information about the extent to which companies measure assets and liabilities at fair value, the information used to measure fair value, and the effect that fair value measurements have on earnings. SFAS No. 157 will apply whenever another standard requires (or permits) assets or liabilities to be measured at fair value. SFAS No. 157 does not expand the use of fair value to any new circumstances. SFAS No. 157 is effective for us from our financial years beginning after October 1, 2008, and interim periods within those financial years. We are in the process of evaluating the impact that the adoption of SFAS No. 157 will have on our consolidated financial position and results of operations.

SFAS No. 158 also requires an employer to measure the funded status of a plan as of the date of its year-end statement of financial position, with limited exceptions ("Measurement Date Provision"). We currently measure the funded status of our plans annually on June 30. The Measurement Date Provision is effective for us as of the end of the fiscal year ending September 30, 2009. We do not expect the application of the Measurement Date Provision of SFAS No. 158 annually on September 30 to have a significant impact on our results of operations or financial position.

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

Recent Events

The following significant events occurred after September 30, 2007:

On October 2, 2007 we and Sony Corporation announced that we have signed an agreement to found the joint venture Qreatic Design. The scope of the joint venture is the design of high-performance, low power, embedded and customer specific DRAMs for consumer and graphic applications. According to the agreement, the 50:50 joint venture is intended to start with up to 30 specialists from Sony and Qimonda, bringing together their engineering expertise for the mutual benefit of both companies. Qreatic Design, which will be located in Tokyo, Japan, is planned to start operations by the end of the 2007 calendar year, subject to regulatory approvals and other closing conditions, and to substantially expand its capacities by hiring additional designers.

On October 8, 2007, we entered into a rental agreement for new headquarter offices south of Munich, Germany. The agreement involves the construction of a building by a third party lessor, and includes a 15 year non-cancelable lease term, which is expected to start in early 2010. We have an option to extend the lease for two 5 year periods at similar lease terms to the initial non-cancelable lease term. The minimum rental payments aggregate €96 million over the initial lease term. The lease contract provides for rent escalation in line with market-based increases in rent. The agreement will be accounted for as an operating lease with monthly lease payments expensed on a straight-line basis over the lease term.

On October 15, 2007, the court entered an order denying the motion to dismiss in the Unisys and the DRAM Liquidation Trust cases without prejudice. On October 29, 2007, Infineon answered the Unisys complaint, denying liability and asserting a number of affirmative defenses. On November 1, 2007, Infineon answered the DRAM Claims Liquidation Trust complaint, denying liability and asserting a number of affirmative defenses. See "Our Business — Legal Matters" for more information on these matters.

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On November 9, our Supervisory Board allocated 200,000 options for grant to our Management Board in the 2008 financial year.

Outlook

Our revenues are a function of the bit volume we ship and the selling price we achieve for our products. While we have an influence over our production growth, through capacity additions and productivity improvements, our sales volume depends on the extent to which our product offerings match market demand. Our selling prices are a function of the supply and demand relationship in the DRAM market. These market forces are beyond our control and accordingly, it is difficult for us to reliably estimate what these future sales prices, and the resulting revenues and the contribution to our earnings will be.

In the first quarter of the 2008 financial year, we expect our bit production to grow by approximately 5%, mainly based on productivity improvements from the ongoing conversion to 80nm and 75nm technologies and including effects from declining 200mm capacities.

For the full 2008 financial year, we expect bit demand for DRAM to be driven by the continued strong growth in graphics, consumer and communication applications, by price elasticity and the move to higher density modules in the PC market. For the 2008 financial year, we estimate an increase in bit production of approximately 50%. We target our share of bit shipments to non-PC applications to be more than 50% for the full financial year.

We are continuously taking steps to reduce our cost-per-bit in manufacturing, such as the introduction of advanced process technologies featuring smaller die-sizes, the ramp-up of more productive 300-mm capacities and other cost savings and productivity improvement measures. By the end of the first quarter of our 2008 financial year we expect more than 50% of our manufacturing capacity to be using 80nm and smaller die sizes, and we are targeting to increase this share to approximately 75% by the end of the second quarter.

We expect to make capital expenditures in the 2008 financial year of between €650 and €750 million. In the years thereafter our aim is to have capital expenditures of approximately 15% to 25% of revenues on average over the DRAM cycle.

Depreciation and amortization is estimated to range between €700 million and €800 million for the 2008 financial year. For the years thereafter depreciation and amortization is expected to be in line with capital expenditures.

Research and development expenses are anticipated to be between €450 million and €490 million for the 2008 financial year. In the years thereafter our aim is to have research and development expenses of approximately 10% of sales on average over the DRAM cycle.

Selling, general and administrative expenses are expected to range between €210 million and €230 million for the 2008 financial year. In the years thereafter our aim is to have selling, general and administrative expenses of approximately 5% of sales on average over the DRAM cycle.

We anticipate that our number of employees will increase moderately in certain areas in the current year due to the expansion of our business and the diversification of our product portfolio.

We no longer have any outstanding debt to Infineon. With the establishment of our own independent capital structure, such as the recent sale and leaseback of 200mm equipment, we expect interest expense to increase in future periods compared to the 2007 financial year.

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THE SEMICONDUCTOR MEMORY INDUSTRY

Semiconductor devices, generally referred to as integrated circuits, or ICs, enable a wide variety of everyday electronic products and systems to capture, process, store and transmit data. In addition to their familiar use in computers, semiconductors also increasingly enable or control functions in mobile telephones, digital still cameras, digital audio players, GPS devices, DVD recorders, digital TVs, electronic gaming consoles and other telecom, consumer, automotive and industrial electronic devices.

Semiconductor devices generally fall within three broad categories: processors, which process instructions; logic devices, which capture, manipulate and transmit data or monitor or control functions within electronic devices; and memory devices, which store data in digital form. Electronic devices generally require a combination of processing, logic and memory functions. Although these may be combined on a single chip, the three are more typically produced on separate chips and then integrated in a module or chipset or in an end product through hardware and software interfaces.

There are three major types of semiconductor memory:

- Dynamic Random Access Memory, or DRAM, products, which are the most common volatile memories. A “volatile” memory IC retains information only while electrical power is switched on, while a “non-volatile” memory IC retains its data content after the power supply is switched off. DRAM products offer large densities at low cost with relatively fast access times and virtually unlimited endurance for the life of the product. They are “dynamic” because they must be electronically refreshed frequently in order to retain the stored data;
- “Flash” memory products, which are non-volatile memories offering large densities at low cost with slower access times and limited endurance; and
- Static Random Access Memory, or SRAM, products, which are volatile memories offering low densities at relatively higher cost with very fast access times and virtually unlimited endurance for the life of the product.

DRAM manufacturers can sell either individual DRAM chips, known as dies, or components, which are packaged dies, or DRAM modules, which are printed circuit boards generally containing between four and thirty-six components.

According to Gartner, DRAM sales in calendar year 2006 were $34 billion, representing 56% of the $61 billion semiconductor memory industry, which in turn represented 23% of the $263 billion semiconductor industry. Sales of NAND flash memory reached $14 billion or 22% of the semiconductor memory industry in calendar year 2006.

Semiconductor Memory Product Features

The increasing complexity of the electronic devices in which memory ICs are used, including the ever more sophisticated software needed to operate them, has required growing amounts of memory to permit efficient and high-speed operation. At the same time, many of these electronic devices are themselves becoming smaller or more portable, with limited room to accommodate, and limited power to operate, the additional semiconductors they contain. These factors have driven continuous efforts to improve semiconductor design and process technologies over the years to enable manufacturers to produce ever smaller, more complex and more powerful memory products at a lower cost-per-megabit.

The principal technical features that DRAM suppliers have focused on to meet these requirements are:

Memory density

Density of a DRAM chip is the amount of data it can store and is usually measured in megabits (Mb) or gigabits (Gb). Density of a DRAM module is measured in megabytes (MB) and gigabytes (GB), where each byte contains eight bits. DRAM chips are currently offered in a variety of densities for different end uses, generally ranging from 4Mb to 2Gb per chip, or 128MB to 8GB per module for high-end modules. In recent years, the maximum density of standard DRAM chips has generally

doubled every 24 months. Smaller amounts of older generations of DRAM (4Mb, 16Mb, 64Mb and 128Mb densities) continue to be supplied for applications where memory density is less

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critical, such as printers. The industry has migrated from a 256Mb standard density to a 512Mb standard density. According to Gartner, the percentage of standard chips produced with 512Mb was 14% in calendar year 2004 and increased to 75% in 2006.

The following table shows the percentage of worldwide DRAM bit shipments in the period from 2000 to 2006, according to Gartner.

	Year ended December 31						
	2000	2001	2002	2003	2004	2005	2006
4Mb	0.3%	0.1%	0.1%	—	—	—	—
16Mb	5.9%	2.4%	1.5%	0.8%	0.7%	0.4%	0.3%
64Mb	51.4%	16.8%	7.0%	3.8%	2.5%	1.3%	0.9%
128Mb	37.3%	61.8%	35.7%	14.2%	7.7%	4.2%	2.5%
256Mb	5.0%	18.8%	55.5%	78.9%	74.0%	48.0%	17.9%
512Mb	—	—	0.2%	2.2%	14.3%	43.2%	74.9%
1Gb	—	—	—	0.1%	0.9%	2.8%	3.5%
2Gb	—	—	—	—	—	—	0.1%

Data transfer rates and interfaces

Data transfer rate is the rate at which the IC transfers data and is usually measured either in megabytes per second or by the clock frequency, which is measured in megahertz. DRAM interfaces have constantly developed towards increasing the data transfer rate from the DRAM to a device's CPU, or central processing unit, over the last decade. Data transfer rate is important because it affects overall system performance, causing loss of CPU speed if the data transfer rate is low compared to the computation power of CPU. The rate of data transfer between the DRAM and the CPU is governed by the clock frequency, which operates in a wave-like cycle and has driven increasing clock frequencies for CPUs and demand for faster data transfer from the DRAM. In a synchronous DRAM (SDRAM) interface, data is transferred from the DRAM to the CPU according to the system clock rate. The most common current interfaces are double data rate (DDR) SDRAM and double data rate 2 (DDR2) SDRAM. DDR SDRAM supports data transfer on both edges of each clock cycle. Clock frequencies for DDR reach a maximum of 200MHz, resulting in a data transfer rate of approximately 3.2GB per second for a standard PC module. The industry standard DRAM chip interface has transitioned from DDR to DDR2. The DDR2 interface further improves data transfer rates to a maximum of 6.4GB per second for a standard PC module operating at the highest clock frequencies. In the area of high-end specialty DRAM products, such as graphics DRAM, clock frequencies today reach up to 1GHz, resulting in data transfer rates of 32GB per second on a high end graphic card. According to Gartner, the percentage of chips produced with the DDR2 interface was 7% in calendar year 2004 and increased to 55% in calendar year 2006. The next generation, higher bandwidth interface, double data rate 3 (DDR3), is currently in the early production phase at some manufacturers, including ourselves.

The following table shows the percentage of worldwide DRAM bit shipments by interface generation in the period from 2000 to 2006, according to Gartner.

	Year ended December 31,						
	2000	2001	2002	2003	2004	2005	2006
FPM/EDO DRAM	9.9%	3.2%	0.9%	0.4%	0.2%	0.1%	0.0%
SDR SDRAM	87.0%	81.0%	55.5%	22.4%	17.6%	12.3%	9.7%
DDR SDRAM	—	8.6%	37.9%	72.5%	72.6%	58.2%	31.4%
DDR2 SDRAM	—	—	0.0%	1.3%	6.6%	26.3%	55.1%
DDR3 SDRAM	—	—	—	—	—	—	0.1%
RDRAM	2.7%	6.4%	4.2%	1.9%	0.9%	0.4%	0.1%
Other	0.3%	0.8%	1.5%	1.6%	2.1%	2.7%	3.5%

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Voltage and power consumption

Another trend that is becoming increasingly important for DRAM products is the continuous reduction of operating voltage and power consumption. Whereas SDR SDRAM products are operated at 3.3 Volt, the voltage has been reduced to 2.5 Volt for DDR SDRAM and to 1.5 Volt for DDR3 SDRAM products, thus constantly reducing the power consumption by mainstream DRAMs. With the increasing number of battery powered mobile applications such as mobile phones, smart handheld devices and digital audio players, the demand for ultra low-power memories has increased significantly. Specifically designed DRAM products, such as “mobile DRAM”, include active power saving features that allow the further reduction of power consumption and thus an increase in battery life for mobile applications. Recently, heat dissipation has become an additional important driver for low-power demand for DRAM products. The heat produced by high density DRAM content in server farms and the related expenditures for electricity has reached a level that has driven server manufacturers to focus on low power DRAM products in the market. Heat dissipation is also an important topic for non-portable consumer applications such as digital TVs that use slim cases and must avoid noisy cooling systems such as fans for aesthetic reasons.

DRAM Technologies

DRAM architecture

A DRAM storage cell consists of a capacitor and a transistor, and a key element in the physical layout of DRAM chips produced today is the arrangement of capacitors and transistors on the chip. In early DRAM chips, capacitors and transistors were arranged in a plane across the surface of the chip. As DRAM feature sizes have become smaller, the planar space for the capacitor has become too small to hold a sufficient amount of charges and the capacitor had to move in the third dimension. Two different technological approaches have evolved to address this issue, one in which the capacitor is laid into holes etched into the surface of the silicon, commonly referred to as the “trench” process, and another in which the capacitor is laid on top of the silicon, commonly referred to as the “stack” process. In the market today, each of several manufacturers using stack technology has developed a unique stack architecture, while all manufacturers using trench architecture use technology first developed by Infineon, Toshiba and IBM during the 1990s. We later advanced the trench technology and have been developing it further in cooperation with Nanya. Both stack and trench cell technology have to date been accepted in the market. According to Gartner, based on bit shipments, in 2006, trench-based DRAMs accounted for approximately 24% of the worldwide DRAM market, while the various stack technologies accounted for the remainder.

Feature size

DRAM technology development has generally followed “Moore’s Law”, which estimates that the number of transistors per square inch of silicon doubles every two years. Manufacturers have achieved this progress in chip productivity by “shrinking” the circuitry on chips — that is, by reducing the minimum distance between circuits, known as the feature size. Smaller feature sizes require increasingly sophisticated manufacturing process technology, including advanced masks and photolithography techniques for printing the circuitry on the chip. The distance between circuits on a standard DRAM chip is measured in nanometers (nm) where one nm equals one-billionth of a meter. The minimum feature size has declined from 250nm in 1998 to 75nm today. The future shrinkage of feature sizes is estimated by the International Technology Roadmap for Semiconductors, or ITRS, which provides details and naming conventions for upcoming feature sizes called “technology nodes”. The current and next technology nodes outlined by the ITRS also generally referred to as the “shrinkage roadmap”, are 90nm, 80nm, 70nm, 65nm, 57nm and 50nm. However, the actual feature sizes of the technology nodes that individual industry participants implement may differ from the node naming convention because each participant adjusts its technology to meet its manufacturing and capital requirements. Industry participants are currently introducing and ramping process technology for 75/70nm and are in the advanced stages of developing process technology for 65/60nm feature sizes. They anticipate the development down to approximately 50nm in the coming years. We believe that industry participants are currently working on concepts for smaller process technologies and alternative platforms. The transition from one generation to the next, for example from 170nm to 140nm technology, has typically occurred every 12 to 18 months. Due to increasing space restrictions necessitated by feature sizes of 70nm and below, transistors are starting to move into the third

dimension in future feature size generations of both trench

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and stack architectures. It is not yet clear if either approach will produce greater space or cost efficiencies as chips become still smaller and memory densities continue to increase.

The Semiconductor Manufacturing Process

Semiconductor manufacturing is a very capital intensive process, with substantial fixed costs for fabrication facilities, known as “fabs”, and for manufacturing equipment. Moreover, given the rapid technology transitions in the industry, manufacturers must depreciate this equipment over short periods of time, increasing the ratio of fixed costs to variable costs per chip produced. The manufacturing process, which is substantially the same for both DRAM and flash memory products, is generally divided into two steps, referred to as the front-end process and the back-end process.

The front-end process

In the front-end process, electronic circuits are produced on a silicon wafer. This process involves several hundred process steps and takes place over a period of approximately two months in a clean room environment in which humidity, temperature and particle contamination are precisely controlled. Because of the very small geometries involved in wafer processing, highly complex and specialized equipment, materials and techniques are used. The main process steps to build the circuit structures include oxidation or deposition steps, photolithography, etching and ion implantation. At the end of the front-end process the chips are tested on the wafer for functionality.

Wafer processing is conducted in specialized fabrication facilities, or fabs. A fab’s capacity is generally stated in terms of the number of wafers on which processing can begin in a given period, or “wafer starts per” week or month. The standard diameter of silicon wafers used to produce semiconductors increased from 50mm in 1970, to 100mm by 1980, 150mm by 1990 and 200mm by 1995, and has increased to 300mm since 2000, although the industry transition to 300mm wafers is still underway. To transition a fabrication facility to larger wafer sizes requires the acquisition of adequate equipment and a lengthy testing and ramp-up period to achieve satisfactory manufacturing yields. The transition to still larger 450mm wafers, if and when it occurs, will likely require a similarly long transition and substantial investments.

While larger silicon wafers cost more than smaller ones and the equipment used to manufacture chips on larger wafers costs more than equipment used for smaller wafers, these additional costs are more than offset by the productivity gains provided by the larger wafer. These productivity gains are primarily driven by the increase in the number of chips produced from each wafer. For example, the surface area of 300mm wafers is approximately 2.25 times greater than that of 200mm wafers, which yields approximately 140% more chips per wafer. Because the cost of labor and certain other fixed costs are largely independent of the size of the wafers used, the use of larger wafers results in reduction of the costs per chip.

Increasing complexity and capital intensiveness of front-end processing has facilitated emergence of front-end foundries, who partner with semiconductor designers or manufacturers to perform front-end processing services.

The back-end process

In the back-end process, also called the packaging, assembly and test phase, processed wafers are diced into individual chips, which, after having interconnecting pins added, are encapsulated into a packaged component using a compound material. Packaged components are tested extensively to ensure quality and technical specifications are maintained. After final testing, components are often soldered onto printed circuit boards to create modules, which themselves undergo application testing. Increasing requirements for higher component performance and smaller size have led to development of back-end processing technologies and innovative package types that optimize speed and reliability of device interconnects while reducing the extra size added by a chip’s packaging. Because back-end processing can take place in a different location than the front-end processing, several back-end foundries have emerged to specialize on back-end processing and offer outsourced services to semiconductor manufacturers who desire to specialize in front-end processing alone or augment their in-house back-end capacity.

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DRAM Applications

DRAM, the most common type of memory IC, is found in a wide variety of electronic devices, including servers and workstations, personal and notebook computers, upgrade modules, graphic cards, game consoles, mobile phones, printers, digital TVs, set-top boxes and other consumer electronic devices. Because these applications require different DRAM products, we believe the DRAM's intended application determines its pricing and competitive dynamics. We have identified the following main applications for DRAMs:

Standard DRAMs for PC and Workstation Applications

PCs, workstations and other computing applications were the first users of DRAM and have historically represented the majority of DRAM sales. DRAM components and modules for use in desktop and notebook PCs and workstations accounted for approximately 54% of global DRAM bit shipments in 2006, according to Gartner's report for the third quarter of the 2007 calendar year. These components and modules can be best described as "standard DRAMs", because they are standardized across suppliers with respect to performance and package specifications and trade like a commodity in a relatively liquid market. They combine high-density and high-speed data storage and retrieval with the lowest cost per-megabit of any volatile memory product.

Typical customers of these standard DRAMs are large PC manufactures, such as Dell, HP and Lenovo, either directly or through contract manufacturers that assemble PCs for the large manufacturers, as well as local original equipment manufacturers, or OEMs, and module manufacturers, such as Kingston. We believe that these customers tend to select their standard DRAM suppliers on the basis of price and ability to supply high volumes of product reliably. Some standard DRAM customers also produce infrastructure equipment such as servers, and networking and storage equipment, and we believe a supplier's ability to offer other DRAM products is an additional factor that may influence these customers' selection of standard DRAM suppliers.

The market for standard DRAMs has been characterized by intense competition, often involving price cuts, and significant volatility of revenues and operating results of market participants. The major DRAM manufacturers typically have contracts with each of their major OEM customers, with specific prices negotiated twice per month. However, there are many suppliers in the standard DRAM market, including module manufacturers and smaller DRAM manufacturers, whose DRAM sales prices are often based on spot market average selling prices, or ASPs, which fluctuate daily.

DRAMs for Infrastructure Applications

The high performance equipment that forms the backbone of the Internet, such as servers and other networking and storage equipment, also use DRAMs. DRAMs for these applications accounted for approximately 18% of global DRAM bit shipments in 2006, according to Gartner's report for the third quarter of the 2007 calendar year. Due to the large data volume that is handled by these applications, these customers usually demand DRAM products with higher memory capacities. DRAM modules for infrastructure applications differ from the modules used in PCs by providing extra high densities and error correction features to provide highest reliability. We believe that, because these high-performance products often perform critical tasks, their producers select DRAM suppliers whose DRAMs display advanced features and reliability and whose manufacturing processes have proven to be of high quality. In addition there is also demand for customized products by some customers, who typically provide their product specifications to DRAM suppliers, who in turn design and produce the requested product. The customer will "validate" the DRAM supplied, testing it rigorously over a process that may last several months. DRAM products for infrastructure applications such as Registered DIMMs generally command a higher per-unit price than standard DRAM products. Typical customers who purchase DRAM products for infrastructure applications are server producers such as Sun Microsystems and network and storage equipment vendors such as Cisco Systems and EMC.

Because DRAMs used in infrastructure applications tend to be less standardized and more customer- or application-specific, interchangeability is lower relative to standard DRAMs and consequently the level of competition among suppliers is less intense. In addition, there are fewer suppliers of these types of DRAM products than standard DRAMs and these suppliers typically sell

infrastructure DRAM products pursuant to

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contract. The smaller number of suppliers and high percentage of these products sold pursuant to contract tends to result in the prices for these DRAM products being less volatile than those for standard DRAM products.

DRAMs for Other Applications including Graphics, Mobile and Consumer Applications

With the growth of the mobile communication industry and the digitalization of consumer products during the last decade, the range of applications using DRAM products has significantly broadened. Graphics applications such as game consoles and graphics cards are requiring and driving demand for high-performance graphics DRAMs that support the increasingly advanced graphics in computer games. The increasing number of communication and consumer mobile devices, including mobile phones and digital still cameras and audio players, has driven growth in demand for low-power DRAM products that allow for longer battery lifetimes. As a result, a variety of specialty DRAM components have been developed to address the specific needs of these applications. In addition there are a growing number of other consumer applications such as digital TVs, DVD players and recorders and set-top boxes that require a whole range of standard or even customized DRAM products. Products for graphics, mobile and consumer applications accounted for about 19% of DRAM bit shipments in 2006, according to Gartner's report for the third quarter of the 2007 calendar year.

Successful DRAM suppliers maintain close relationships with mobile phone, game console and consumer electronic device producers, to understand the customer's requirements early in their product development stage. Many of these customers expect their DRAM suppliers to be able to proactively provide advanced products so that customers can integrate them into their product design. As a result, compared to standard DRAMs with the same density, these DRAMs tend to be relatively higher in price. Typical customers of these types of DRAMs include mobile handset manufacturers such as Motorola, Nokia and Sony Ericsson, graphic card manufacturers such as AMD and nVidia, game console manufacturers such as Microsoft, Sony and Nintendo and major consumer electronics manufacturers.

Unlike standard DRAMs, DRAM products for graphics, mobile and consumer applications tend to be customer- and application-specific, and, therefore, prices for these DRAM products tend to be more stable, with prices fixed by comparatively long-term contracts.

Drivers of DRAM Demand and Recent Trends

According to Gartner's report for the third quarter of the 2007 calendar year, between calendar years 1998 and 2006, bit shipments grew at a CAGR of 55% over the period. Historically, growth of DRAM bit shipments was driven by DRAM's primary application, computing, and depended on growth in units shipped and DRAM content per unit. Rapid adoption of PCs by business and home users, combined with operating system upgrades that demanded more DRAM per unit, drove strong growth in bit demand. However, as more DRAM components began to be used in a broader range of applications, DRAMs for infrastructure and graphics, mobile and consumer applications began to represent a larger share of total DRAM bit shipments. In calendar year 2006, PCs, workstations and memory modules and upgrades represented only 54% of total DRAM consumption as compared to 66% in 2001.

Current estimates by Gartner predict continued strong growth in DRAM bit shipments at a CAGR of 52% between calendar years 2006 and 2011, according to Gartner's report for the third quarter of the 2007 calendar year. Overall semiconductor memory sales were $61 billion in 2006, and DRAM sales were $34 billion in that year. Market research firms expect DRAM sales to remain volatile, as increases in bit shipments are offset to varying levels of declines in the average selling prices for DRAM products. Key drivers of the growth in DRAM bit demand include the following:

- ***Emergence of mobile phones as a significant consumer of DRAM.*** While mobile phones consumed nearly no DRAM six years ago, in calendar year 2006, this application represented 3% of DRAM consumption and is expected to reach 6% in calendar year 2011, according to Gartner. The 11% CAGR of units shipped between calendar years 2006 and 2011, combined with 55% CAGR in megabytes per unit, is expected to lead to 71% CAGR of total DRAM consumption by mobile phones. Rapid growth in DRAM content in phones is driven by emergence of multimedia phones and adoption of sophisticated digital audio and video functions into handsets.

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- ***New or increased DRAM consumption by graphics applications and digital consumer devices.*** Evolution of consumer electronics has created several device categories that offer sophisticated functionality and require substantial amount of DRAM to operate. These devices, including digital TVs and digital audio players, are often characterized by strong unit growth and represent a significant incremental opportunity for DRAM suppliers. In addition, technological advances in established consumer devices have led newer models to require more advanced DRAM and consume more DRAM per unit. Such devices include game consoles, where the latest products include 512 or 256 MB of highly specialized GDDR3 DRAM. All three major game console developers introduced new consoles using these technologies within the last twelve months. Newer DVD technologies, including advanced optical drives that demand more discrete DRAM chips per DVD player or recorder are also expected to contribute to this growth. These and other trends are expected to drive 36% CAGR of DRAM consumption in consumer devices between calendar years 2006 and 2011, according to Gartner.
- ***Continuing strong growth in DRAMs for infrastructure.*** DRAM consumption in servers is expected to grow at a 49% CAGR between 2006 and 2011 and for Infrastructure at 53%, according to Gartner, driven by an estimated increase of DRAM content per unit at a CAGR of over 39% and continued unit growth of entry-level servers. Evolution of processor architectures, combined with increasing complexity of systems, places significant demands on DRAM components used in these systems, including power efficiency, speed and density. However, demand for such DRAMs tends to be contract-based and therefore relatively steady, resulting in more stable and favorable pricing than the overall DRAM market.
- ***Multiple drivers of growth in DRAMs for PC and workstations.*** PCs, workstations and memory modules and upgrades are expected to increase DRAM consumption at a 55% CAGR between 2006 and 2011, according to Gartner. One of the drivers of this growth involves increasing adoption of dual-core and 64-bit processors, which are expected to be incorporated in almost half of total PC shipments by the end of 2007, according to IDC. In addition, Microsoft's first mainstream 64-bit operating system, Windows Vista, which was launched in January 2007, is expected to stimulate DRAM demand by facilitating higher DRAM per unit and by triggering PC upgrades by consumers, followed by companies. Gartner expects mobile PCs to play an important role in DRAM demand as their strong unit growth is expected to continue at 21% CAGR in the period between calendar years 2006 and 2011, driven by improved power efficiency, wireless and multimedia functionality and other trends, including substitution of desktop PCs. Given the space and power constraints present in mobile devices, this is expected to lead to increase in demand for advanced DRAM components that address the above constraints. Significant DRAM market potential also exists in desktop PC penetration in emerging markets such as China and India.

Drivers of DRAM Supply and Recent Trends

Given the standardized nature of a significant share of DRAM bit shipments, supply plays a crucial role in determining DRAM selling prices, which, in turn, drive industry revenues and the financial performance of suppliers. Historically, DRAM supply has grown at high rates to meet the increasing bit demand, although time lags associated with increasing supply, coupled with unexpected changes in demand have resulted in periods of excess DRAM supply or demand. These mismatches of supply and demand have caused severe price fluctuations that, in turn have led to revenue fluctuations, such as the 51% increase in DRAM revenues from calendar years 1998 to 1999, the 63% decline from calendar years 2000 to 2001 and the 50% increase from calendar years 2003 to 2004, according to Gartner. Further, DRAM supply is relatively inelastic. In periods of declining selling prices, suppliers nonetheless continue production at full capacity as long as prices exceed their variable costs of production, whereas in periods of increasing selling prices, suppliers usually need a long time, up to two years, to bring new capacities on-stream.

Supply of DRAM components involves constructing and equipping complex and expensive fabrication, assembly and test facilities as well as developing and continuously improving semiconductor manufacturing technologies. Growth of DRAM supply is driven by several factors, including:

- ***Capacity additions.*** DRAM suppliers periodically build new manufacturing facilities or

upgrade existing facilities to increase their overall capacity. Historically, periods of supply shortages led many market

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participants to decide to add more capacity or accelerate existing capacity addition plans. Given the long time required to bring new capacity on-stream, these capacity additions may result in excess supply if a significant amount of capacity comes on-stream simultaneously, in particular when demand had subsided. Recently, several market participants have experienced strong revenue growth and have announced (or completed) increased investment in new manufacturing capacities. However, some of these capacities have been or will be used to produce non-DRAM products as well, as discussed below.

- ***Wafer size, process technology and other manufacturing improvements.*** Successive generations of semiconductor manufacturing technology enable higher output and productivity, resulting in growth of supply without investments in incremental capacity. For example, the transition from 200mm to 300mm wafer-based manufacturing yields higher output given the larger size of wafers being processed. The production capacity on 300mm wafers has increased almost eight fold since the beginning of calendar year 2004. According to iSuppli, the worldwide percentage of DRAM bits output on 300mm wafers was 19% in the first quarter of calendar year 2004. By the end of the fourth quarter of calendar year 2005, the percentage of bit output produced on 300mm wafers was 49%, according to iSuppli, which further reported that this percentage had increased to 66% in the fourth quarter of the 2006 calendar year. In addition, transition to smaller process technology, for example from 110nm to 90nm and then to 75nm nodes, reduces the die size and increases the density per unit of die surface. As a result, more chips are produced from the same wafer and higher bit shipments are achieved without adding incremental capacity. When these major transitions occur in DRAM manufacturing, lithography methods or materials used, initial manufacturing yields tend to be low, resulting in output below full potential. Over time, as DRAM suppliers solve the manufacturing problems and increase their yield, a higher proportion of usable components are produced per wafer and bit supply increases.

We have observed the following trends in DRAM supply in recent periods:

- ***Consolidation among DRAM suppliers.*** Market dynamics have driven significant consolidation in the DRAM industry, as a number of major manufacturers have withdrawn from the industry. NEC and Hitachi combined their DRAM operations into Elpida Corporation in December 1999, later consolidating some of Mitsubishi's DRAM development activities. Texas Instruments sold its DRAM operations to Micron Corporation in calendar year 1998 and Toshiba sold its U.S. DRAM fab to Micron in calendar year 2002. In January 2006, Micron combined its flash activities with Intel. Hyundai merged its DRAM operations with those of LG in calendar year 1999 (later renaming its DRAM operations as Hynix). According to Gartner, market share (measured by revenues in U.S. dollars) commanded by the four largest vendors has increased during the last decade from 46% in calendar year 1995 to 72% in calendar year 2006.
- ***Increasing cost of technology development and manufacturing facilities.*** The level of complexity increases with each successive generation of semiconductor manufacturing technology, as the leading edge processes are nearing limits caused by the physical properties of materials employed in the process. To solve such problems and to successfully introduce technologically advanced manufacturing capacity, DRAM suppliers need to consistently make significant investments in research and development and in expensive manufacturing equipment.
- Increasing use of foundries, joint ventures and licensing agreements. In recent years, the high costs of constructing fabs have led to the expansion of the use of semiconductor foundries, which are contract manufacturers that produce chips to the specifications of others. Historically, foundries have produced chips for what are known as "fabless semiconductor companies", which are firms that design chips but that do not have their own manufacturing facilities. Increasingly, however, even large semiconductor companies that do have their own facilities are supplementing their capacity by making use of foundries. Using foundries involves less capital investment and may provide greater flexibility to increase or decrease output in a volatile market.

  Among companies seeking to share the risks and costs of manufacturing investments, these factors have likewise increased the attractiveness of joint venture and partnership arrangements, as well as of licensing and cross-licensing arrangements. For companies with substantial intellectual property portfolios, including manufacturing know-how, licensing arrangements

present an opportunity to supplement income from

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manufacturing semiconductors. Because technological know-how is very concentrated in the semiconductor memory industry, many manufacturers would be unable to produce memory chips were it not for their access to the relevant technology through licensing. For example, we estimate that four of the nine largest DRAM suppliers today license most of their technology from the other top-nine suppliers.

- ***Expansion of DRAM suppliers into flash memory products.*** Driven by the historical and projected strong growth in the NAND flash market, and taking advantage of similarities between DRAM and NAND flash manufacturing, some DRAM suppliers have entered or expanded their presence in particular in the NAND flash market by adding new NAND flash manufacturing capacity or converting existing DRAM capacity to the manufacture of NAND flash memory. DRAM manufacturing capacity can generally be transferred to NAND flash and back without major cost or investment and in relatively short time. We believe that this gives suppliers flexibility to allocate capacity away from a product in periods of excess supply. As suppliers convert capacity from DRAM to NAND flash, the impact may be beneficial to DRAM producers because the resulting reduced rate of growth in the supply of DRAM could operate to moderate price declines for DRAM products that would likely have occurred had the new capacity been dedicated to DRAM production. After capacity conversions from DRAM to NAND flash memory products in the calendar year 2006, the industry has recently seen capacity conversions back to DRAM in reaction to the severe price erosion for NAND flash products. We believe that capacity conversions will continue to take place in both directions whenever substantial differences arise in margins between those product types.

We believe that the above trends are having an effect on the fundamentals of the DRAM industry and may be facilitating a reduction in the severity of supply and demand imbalances, and of price fluctuations, in the future.

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OUR BUSINESS

Overview

We are one of the world's leading suppliers of semiconductor memory products. We design semiconductor memory technologies and develop, manufacture, market and sell a large variety of semiconductor memory products on a chip, component and module level. We began operations within the Semiconductor Group of Siemens AG, whose roots in semiconductor R&D and manufacturing date back to 1952, and operated as the Memory Products segment of Infineon Technologies AG since its carve-out from Siemens AG in 1999. In each of the past five calendar years, we captured between 12% and 16% of the worldwide DRAM market based on revenues, according to industry research firm Gartner. Although our market share fluctuates, and we may gain or lose market share quarter-to-quarter (for example, we lost market share in the fourth quarter of the 2006 calendar year and in the first quarter of the 2007 calendar year) or year-to-year, in each of those five years, we remained among the four largest DRAM suppliers worldwide based on revenues. For the full calendar year 2006, we were the world's third largest supplier of DRAM, with market share of approximately 16% both in revenues and bit shipments, according to Gartner. For the first nine months of the 2007 calendar year, we remained the third largest supplier of DRAM by revenue and were the fourth largest supplier of DRAM by bit shipments with market shares of approximately 13%, according to iSuppli's preliminary report in November 2007.

Our revenues are derived from:

- Technologically advanced DRAM products used in infrastructure, graphics, mobile and consumer applications. Our infrastructure DRAMs address the high reliability requirements of servers, networking and storage equipment. Our graphics, mobile and consumer DRAMs principally include "specialty DRAMs" that are designed for high performance or incorporate logic circuitry to enable low power consumption. Our graphics DRAMs deliver advanced performance to graphics cards and game consoles, and our mobile and consumer DRAMs provide low power consumption benefits to mobile phones, digital audio players, GPS devices, televisions, set-top boxes, DVD recorders and other consumer electronic devices. Sales of infrastructure, graphics, mobile and consumer DRAM products accounted for approximately 38% of our net sales in our 2005 financial year, for approximately 50% of our net sales in our 2006 financial year and for approximately 60% of our net sales for our 2007 financial year;
- Standard DRAM products used in personal computers, or PCs and workstations. Sales of these standard DRAM products accounted for approximately 51% of our net sales in our 2005 financial year, approximately 47% of our net sales in our 2006 financial year and approximately 39% of our net sales in our 2007 financial year; and
- Other products, including embedded DRAM, technology licensing and NAND-compatible flash memory products. We ramped down flash memory products during the 2007 financial year. Sales of these products and revenues from technology licensing and royalties accounted for approximately 11% of our net sales in our 2005 financial year, for approximately 3% of our net sales in our 2006 financial year and for approximately 1% of our net sales in our 2007 financial year.

The memory products business of Infineon, substantially all of which Infineon has contributed to us, had a long-standing reputation as a supplier of high-quality DRAMs. We intend to continue to build on this reputation to broaden our product portfolio and, in turn, our customer base, by focusing on DRAM products for infrastructure and for graphics, mobile and consumer applications. In our experience, demand for DRAM products used in these applications is generally more stable than the demand for standard DRAM products due to their customized nature and advanced features, making them subject to relatively less price volatility. We believe that increasing the share of our revenues from these products will improve our average selling price and make our operating results more stable.

Our customers include the world's largest suppliers of computers and electronic devices. Our current principal customers include major computing original equipment manufacturers, or OEMs in the PC and Server markets, including HP, Dell, IBM, Sun Microsystems and Sony. To expand our customer coverage and breadth, we also sell a wide range of products to memory module

manufacturers that have diversified customer bases such as Kingston, and to a number of distributors. More recently and in connection with the ongoing expansion of our product

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portfolio, especially into graphics applications, we have added customers with a strong focus on enabling these applications, such as nVidia, AMD and customers who are active in the game console market, such as Microsoft, Sony and Nintendo. In addition, we have added customers in the area of consumer and mobile applications, such as LG, Spansion and SanDisk. We believe that having a close relationship with these customers can benefit us in the development of future memory generations by making it easier to develop memory solutions for future end applications and improve our product designs.

We supply our customers through our own front-end facilities in Germany and the United States, and through our back-end facilities in Germany, Portugal and Malaysia. We supplement our manufacturing capacity through two joint ventures, Inotera Memories, Inc. and Qimonda Technologies (Suzhou) Co., Ltd., China, and through supply agreements with the DRAM foundries SMIC and Winbond. In addition, we supplement our back-end manufacturing through agreements with several subcontractors. We operate these facilities as a coherent unit via our "fab cluster" concept, which enables us to share manufacturing best practice and gain operational flexibility through customer qualification of our entire cluster of fabs.

Our Strengths

We believe that we are well positioned to benefit from the projected growth in the semiconductor memory industry and to remain at its technological forefront. We consider our key strengths to include the following:

- ***We are a leading supplier of DRAM products.*** We have grown our operations significantly over the last decade and, as the suppliers in our industry have continued to consolidate, we have increased our market share from 3% to 16% (based on revenues) between calendar years 1995 and 2006, according to Gartner. Although our market share fluctuates from quarter-to-quarter and year-to-year, by the end of calendar year 2006, we were among the four largest DRAM suppliers, which together accounted for 72% of the global DRAM market that year. For the calendar year 2006, we were the world's third largest supplier of DRAM with market share of approximately 16% both in revenues and bit shipments, according to Gartner. For the first nine months of calendar year 2007, we remained the third largest supplier of DRAM by revenue and were the fourth largest supplier of DRAM by bit shipments, with market shares of approximately 13%, according to iSuppli's preliminary report in November 2007. We believe that our size and scale will enable us to continue to improve our position as a prominent developer of leading semiconductor memory technologies, as a manufacturer with facilities among the most modern in our industry and as a supplier of an increasingly broad portfolio of competitive products to customers worldwide.
- ***We possess one of the broadest product portfolios in the DRAM industry.*** We have in recent years significantly broadened our product portfolio of DRAM products for infrastructure, graphics, consumer and mobile applications, which we believe offer on average higher and less volatile prices than those for standard PC applications. In our 2007 financial year, our product portfolio included over 100 distinct products in these application areas that each accounted for revenues in excess of €1 million, as compared with about 70 such products in our 2005 financial year. Within these application areas, we have focused on products that we design to meet the particular specifications customers identify for individual applications (which we refer to as "design ins"). We believe that this focus on individual applications and customers can help us mitigate the effects of price declines. In addition, our broadened product portfolio has enabled us to strengthen our customer base, both by adding new customers and expanding existing customer relationships to encompass more products.
- ***We demonstrate strong application and product design know-how.*** We believe that strong application and product design know-how is necessary to achieve design wins in applications outside the PC area, and that this know-how is not widely available in the market. We have strengthened our product design know-how in recent years through experienced design teams, and have continued to view the further strengthening of our capabilities in these areas as a priority. We believe that our application and design know-how has been instrumental in being selected as a lead supplier in many of the more technologically advanced applications in the graphics, consumer and mobile areas in recent years. For example, the number of our customers

who are among the leading suppliers in the area of consumer and mobile applications increased from 5 in the 2005 financial year to 19 in the 2007 financial year.

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- ***We are a leading developer of semiconductor process technologies and an active innovator.*** We have successfully developed and implemented several generations of process technologies. We believe that our accumulated experience, including that which we have acquired through our strategic alliances, is enabling us to introduce new memory technology platforms with smaller feature sizes on a schedule and at costs that enable us to remain among the leaders in standardized DRAMs while focusing on the more specialized products and designins described above. For example, we achieved the qualification of our 75nm node in approximately 30% less time than we did when shrinking from the 110nm to the 90nm node and have fully converted the production of standard DRAM products in our lead manufacturing facility in Dresden to the latest 80nm and 75nm technologies. We are also maintaining, as a focus of our continuing research and development efforts, the development of process technologies and architectures that possess physical characteristics that can be utilized to yield advantages for customer specific applications in terms of performance and power consumption. We believe these characteristics are important in DRAM products for use in applications such as infrastructure, graphics, mobile and consumer devices and have enabled us to achieve important design wins for products for use in applications ranging from game consoles and MP3 players to advanced servers. In this context, we are currently preparing for the qualification of our trench technology at the 58nm technology node by the end of our 2008 financial year. At the same time we are working on designs beyond this technology node with an open platform approach and a range of architectures and technologies under review.
- ***We are among the leaders in the transition to manufacturing on 300mm wafers.*** We were among the first DRAM suppliers to transition a substantial portion of our manufacturing to 300mm technology and began volume production on this basis in 2001. Today, we own and operate two 300mm facilities and have access through our Inotera Memories, Inc. joint venture to one of the largest 300mm facilities in the world, according to Gartner. In the second quarter of the calendar year 2007, about 81% of the DRAM bits we produced were manufactured using 300mm wafers. This compares favorably to the industry average of 75%, as reported by iSuppli for the same quarter. We believe this places us ahead of our major competitors, many of which still manufacture to a larger extent on 200mm technology. We believe the primary benefit of this early transition to 300mm has been and will continue to be a reduction in our costs per bit, as our fixed costs of production can be spread over a higher number of chips per wafer. Because implementation of 300mm technology is complex and requires time and substantial capital investments, we expect our 300mm leadership to give us an advantage relative to competitors who have not yet transitioned as great a proportion of their capacity to 300mm as we have.
- ***Our business model leverages strong strategic alliances.*** We have entered into strategic alliances that leverage our research and development capabilities and augment our front- and back-end manufacturing capacity in a capital-efficient manner. We believe that we use strategic alliances to a greater extent than our competitors and that the continued success of our “fab cluster” concept is a key element of our business model. We believe that our strategic alliances, including our Inotera and Qimonda Suzhou joint ventures, as well as our foundry partnerships with SMIC and Winbond, enable us to benefit from significant economies of scale at a reduced level of capital expenditures, even as we seek, through productivity improvements and new capacity such as the manufacturing facility we plan to construct in Singapore, to maintain at least half of our production capacity in house. We also believe that these arrangements increase our operating flexibility by reducing our fixed costs, which, in turn, can help us reduce volatility in our operating margins throughout our industry’s business cycle.

Our Strategy

In formulating our strategy, we aim to leverage our key strengths to address our target markets and emerging opportunities that we have identified. The key elements of our strategy include the following:

- ***Improve our average selling price by maintaining our focus on technologically advanced, customer and application specific DRAM products for infrastructure, graphics, mobile and consumer applications.*** We believe significant growth opportunities exist for application-specific DRAMs used in servers, graphics cards, game consoles, mobile phones, digital audio

players, GPS devices, televisions, set-top boxes, DVD

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recorders and other consumer electronic devices. Our customers and the other original equipment manufacturers we target in these areas increasingly require DRAM products with higher performance, lower power consumption and smaller form factors, all at an attractive price. We intend to focus on memory products for applications in these areas as we seek to develop, frequently together with research and development partners, new solutions to the physical and economic challenges posed by the ever-increasing technical and financial demands of these customer requirements. We plan to meet and drive this demand by continuing to exploit our strengths in technology innovation, not only in the form of our trench technology but also in the form of new architectures and platforms that may result from these research and development activities. We have enhanced our product development capabilities and have recruited a significant number of product development engineers, many of whom work directly with customers on application- and customer-specific product designs. This has already enabled us to substantially expand our product offerings and market share in these areas. Because in our experience these application-specific products generally command higher and more stable prices, we believe that these efforts will result in a higher blended average selling price for our DRAMs as compared with the industry as a whole and reduced volatility of our operating results.

- ***Leverage our technology leadership and increase our presence in low cost regions to continue to reduce unit costs.*** We believe that our leadership in the transition to 300mm manufacturing technology will enable us to realize the potential benefits of reduced unit costs offered by this transition earlier than our major competitors. We intend to remain ahead of our major competitors in this process and plan to substantially complete our transition to manufacturing on 300mm wafers within the next few years. We are also seeking to successfully ramp up manufacturing yield on the 80nm and the 75nm technology nodes and to introduce a 58nm technology by the end of our 2008 financial year, which we believe will enable us to derive unit cost improvements. We further intend to successfully develop and implement future process technology nodes by leveraging our accumulated expertise, R&D capabilities and strategic alliances. In addition, we are actively increasing the proportion of our manufacturing located in low cost Asian regions. We expect our focus on Asia to remain a key part of our strategy as we seek further opportunities to reduce our fixed and variable production costs.
- ***Improve profitability and return on capital throughout our industry's business cycle.*** We believe that we will achieve significantly improved profitability throughout our industry's business cycle through the average selling price improvement and unit cost reduction strategies outlined above. We also believe that we will reduce the volatility of our operating results by increasing the flexibility of our operations through our foundry partnerships and by maintaining or expanding the share of our revenues that are from advanced infrastructure, graphics, mobile and consumer DRAM products. While we intend to maintain at least half of our production capacity in-house, through productivity improvements and new capacity such as the manufacturing facility we plan to construct in Singapore, we plan to continue to focus on our strategic alliances and our fab cluster-based business model to optimize capital efficiency of our operations. We believe this capital efficiency, combined with our targeted profitability, will enable us to significantly improve our return on capital employed.

Our History

We began operations as a part of Siemens's Semiconductor Group, whose roots in semiconductor R&D and manufacturing date back to 1952, four years after the invention of the transistor. In 1999, Siemens contributed substantially all of its Semiconductor Group, including both logic and memory semiconductor activities, to its subsidiary, Infineon Technologies AG. Following the formation of Infineon, we continued operations as the Memory Products segment of Infineon. Infineon contributed substantially all of the assets, liabilities, operations and activities, as well as the employees, of its Memory Products segment to our company effective May 1, 2006. This excluded the Memory Products operations in Korea and Japan, which were placed in trust for us by Infineon pending their contribution and transfer. The operations in Korea and Japan have since been transferred to us. While Infineon's investment in the Advanced Mask Technology Center (AMTC) and the Maskhouse Building Administration Company (BAC) in Dresden has been contributed to us, the legal transfers of these investments are not yet effective, since Infineon's co-venturers have not yet given the required

consent to the transfer of the AMTC and

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BAC interest. While pursuant to the AMTC and BAC limited partnership agreements, such consent may not be unreasonably withheld. Infineon and we are currently finalizing negotiations with AMD and Toppan concerning an agreement that provides the consent to the assignment to us and addresses Infineon's intention to reduce its stake in us below 50%. The AMTC and BAC interest is held by Infineon for our economic benefit pursuant to the contribution agreement. For as long as Infineon holds our interests in AMTC and BAC, we must exercise our shareholder rights with respect to these investments through Infineon, which is a more cumbersome and less efficient method of exercising these rights than if we held the interests directly. We do not expect these administrative complexities to have a material adverse effect on our business, financial condition and results of operations.

Benefits of our Carve-out

We believe that operating as an independent company allows us to realize the following benefits:

- ***Increased market responsiveness through an exclusive focus on the memory products business:*** DRAMs are subject to different market dynamics compared to Infineon's other products. By operating as a separate business we are able to react more effectively to the dynamics of the memory market through simplified decision-making processes independent from the requirements of Infineon's remaining businesses. We believe that this independence permits us to focus exclusively and quickly on our customers, and anticipate their specific needs.
- ***Direct access to a distinct investor base:*** We believe that as a stand-alone U.S.-listed semiconductor memory company, with distinct opportunities and risk characteristics, we appeal more readily to those investors interested in a focused semiconductor memory company. Furthermore, as a stand-alone company, we enjoy direct access to the capital markets.
- ***Incentives for our employees directly tied to our own performance:*** We believe that our share price reflects our performance more accurately than Infineon's share price did and therefore can be used as a more effective compensation tool for our employees. Our shareholders have authorized the Supervisory Board to grant to the members of the Management Board, and the Management Board to grant to certain key executives in our group, through September 30, 2009, a total of 6,000,000 non-transferable option rights to receive our ordinary shares in the form of ADSs. As of September 30, 2007, a total of 1,883,400 options were outstanding. We have not granted any options since that date.
- ***Increased flexibility to pursue strategic cooperations:*** We believe that by becoming an independent business, we have substantially increased our flexibility to engage in strategic cooperations such as alliances or joint ventures of particular benefit to the semiconductor memory business. In addition, we are in a position to issue our own securities, which may enable us to participate more readily in the further consolidation of the memory business should opportunities, which are attractive from a strategic, operating and financial perspective, arise.

Products and Applications

We design semiconductor memory technologies and develop, manufacture, market and sell a large variety of semiconductor memory products with various packaging and configuration options, architectures and performance characteristics on a chip, component and module level. We currently offer technologically more advanced DRAM products for infrastructure, graphics, mobile and consumer applications, as well as standard DRAM products for PCs, notebooks and workstations. We also offered a small number of non-volatile NAND-compatible flash memory products, but discontinued production of these products in our 2007 financial year.

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The following table sets forth our revenues provided by category of activity for the periods indicated:

	For the financial year ended September 30,					
	2005		2006		2007	
	(in millions)	(in percent of total)	(in millions)	(in percent of total)	(in millions)	(in percent of total)
DRAMs:						
Standard DRAMs for PCs, Notebooks and workstations	€ 1,435	51%	€ 1,784	47%	€ 1,407	39%
DRAMs for infrastructure, graphics, mobile and consumer applications	1,089	38%	1,928	50%	2,160	60%
Total DRAMs	2,524	89%	3,712	97%	3,567	99%
Other products and services[1]	301	11%	103	3%	41	1%
Total	€ 2,825	100%	€ 3,815	100%	€ 3,608	100%

(1) Primarily includes embedded DRAM products, flash memory products and technology licensing revenues. Technology licensing revenues consists of revenues from licensing our technology to third parties in connection with manufacturing agreements that provide us with access to manufacturing capacity. See "— Strategic Alliances and Agreements."

Brands

Most of our products are sold under our Qimonda brand, and we are working to establish a brand identity for ourselves using the Qimonda name. See "Risk Factors — Risks related to our carve-out as a stand-alone company and our continuing relationship with Infineon — We may not be successful in establishing a brand identity." We have applied for protection of our Qimonda brand as a trademark, domain and company name, but may not gain protection in all jurisdictions. Qimonda is intended to be the market brand for memory products exclusively sold to OEMs (Original Equipment Manufacturers) in the IT industry. We also sell DRAM products under our AENEON® brand. Our AENEON brand is positioned as a separate memory brand, dedicated to serving the needs of the "channel" & "retail" market. "Channel" refers to the hundreds of small PC manufacturers and systems integrators or system builders worldwide. They typically assemble and install PC systems serving both consumer and corporate segments that require these services. "Retail" refers typically to retail storefronts or online retail that sell computer systems, components and upgrade parts to consumers. It also covers specialists who configure individual PCs and sell memory upgrades to consumers. The products sold under the AENEON brand include DRAM modules for notebooks, PC desktops and servers; as well as flash based products such as USB sticks, SD cards and MicroSD cards. We test the quality of our AENEON® products through testing the compatibility with major PC and notebook platforms. This process is often shorter and more cost-efficient than the testing required by high-end applications of our OEM customers. We sell our AENEON® products via an extensive network of distributors and retailers worldwide, and have recently begun to offer them through a dedicated online sales channel.

DRAMs for Infrastructure, Graphics, Mobile and Consumer Applications

We design, manufacture and sell technologically advanced DRAM components and modules for use in servers, networking and storage equipment and a variety of specialty DRAMs for use primarily in graphics, as well as in mobile and consumer applications.

Infrastructure Applications

Our current portfolio of DRAMs for use in servers, networking and storage equipment includes FB-DIMMs, which we believe will serve as the next generation of memory used in high-end servers, and very-low-profile-DIMMs, intended for the blade server market. DRAM consumption in entry level servers is expected to enjoy 60%

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compound annual growth rate (CAGR) (based on bits shipped) from 2006 to 2011, according to iSuppli. We believe we are the only FB-DIMM supplier who has in-house capabilities to design a key component of this module, a logic chip called Advanced Memory Buffer, or AMB. This allows us to customize the AMB design specifically for our memory modules, providing us better know-how transfer from chip to system level and vice versa. We also provide customized modules to server manufacturers, in each case specifically designed to meet the individual customer's unique platform requirements. We expect the markets for servers to grow substantially in the next few years, and we are currently engaged in the development of products we believe will address that growth. For example, we are developing new generations of standard DRAM with 2 gigabits of capacity for use in future IT infrastructure applications.

Graphics Applications

We offer a broad portfolio of graphics DRAMs that support applications with performance ranging from entry level to very advanced. Due to their speed, low power consumption and limited heat generation, our graphics DRAM components are used in game consoles, graphics cards, PCs and notebook computers. In some cases, we make customized products for use in entertainment applications, including game consoles and imaging devices. We believe that the trend towards the extensive use of sophisticated graphics applications will result in strong growth in high performance graphics systems which we believe will in turn drive the demand for our graphics DRAM products.

Mobile and Consumer Applications

We offer low-power specialty DRAM products, such as Mobile-RAM and CellularRAM®, that are suited for use in a variety of mobile and consumer applications, such as:

- mobile phones;
- mobile consumer products, such as digital still cameras and digital audio players; and
- stationary consumer products, such as digital televisions and DVD recorders.

Our Mobile-RAM is specifically designed for ultra-low power consumption that is increasingly demanded by today's battery powered mobile communication, especially in high end phones and handheld consumer products. We intend to focus further on driving technological innovations in this area and we believe we were the first to produce chips with a temperature sensor integrated onto the chip as well as the first to introduce a DDR interface for a Mobile-RAM to further reduce power consumption or alternatively offer higher performance. We also expect that new consumer products that combine more features will require DRAMs that consume very low power, yet operate at adequate speeds. We believe that the trench-architecture-based products we currently offer allow for a significantly longer battery life and reduced heat dissipation, both important features for potential customers and their end users.

Our CellularRAM® is designed to be the best choice of memory for entry and mid range handset models. This market segment is characterized by stringent low power requirements, but more moderate density and bandwidth needs. CellularRAM balances low power efficiency with high data throughput. We are also a founding member of the CellularRAM® specification co-development team and together with six other industry members, we create common specifications for high-performance pseudo-SRAM devices, enabling us to take an active role in the development of DRAM memory products for one of the fastest-growing technology sectors.

Both our Mobile-RAM and CellularRAM® products are offered as components and as so-called Known-Good-Dies, or KGDs, for use in Multi-Chip-Packages, or MCPs. MCPs combine different memory chips, usually a non-volatile flash chip, and a faster, volatile RAM, and are increasingly used in mobile communication and consumer devices due to their lower space consumption. We supply our Mobile-RAM and CellularRAM® as KGDs on wafer level to MCP manufacturers.

We also offer a broad range of DRAM products for consumer applications, some of which are of smaller memory densities or older interface generations, such as SDRAM. These are often referred to as "legacy" DRAM products. For example the manufacturers of hard disk drives, DVD players, home gateways and some printers do not

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require large amounts of DRAM, but do require a DRAM product that is guaranteed to be available for the printer's entire life cycle, which may be many years. In addition, we sell products with industrial-level tolerance for cases when consumer applications require a broader guaranteed temperature range. For high-end digital televisions, we offer modules with up to DDR2 800. Demand for these 'dedicated' consumer DRAM products is often less volatile, and their prices are relatively steadier, as compared to other standard DRAM products.

Standard DRAMs for PC, Notebook and Workstation Applications

In addition to the DRAMs for infrastructure, graphics, mobile and consumer applications, we believe we offer a complete portfolio of standard DRAM products that provide a variety of speeds, configurations and densities suited to particular end uses. We sell the majority of our standard DRAM products, to desktop and notebook computer manufacturers for use in PCs and workstations and to distributors who sell DRAMs on to smaller original equipment manufacturers and contract manufacturers. Our standard modules, including Unbuffered DIMMs and SO-DIMMs, are used primarily for PCs and notebooks, while our more specialized modules such as High-Density SO-DIMMs and Micro-DIMMs are typically used in high-end notebook computers and sub-notebooks. We believe our engineering capabilities permit us to offer these specialized modules and differentiate us from suppliers focused primarily on standard DRAM products. Many of our customers that produce PCs and workstations also produce servers, networking and storage equipment or graphics, mobile and consumer products. We believe these customers expect us to offer both standard DRAM products and other types of DRAM products so that we can supply their entire product ranges. We intend to invest in technology development and anticipate playing an active role in the development of future DRAM architectures, including third-generation DDR, or DDR3.

The large size of the standard DRAM market has made possible the substantial capital investments required to achieve ever more advanced manufacturing capabilities. Being active in the high-volume standard DRAM market enabled us to build our current scale and develop our existing manufacturing capabilities forming the basis to expand our production of DRAMs for advanced infrastructure applications and specialty DRAM products.

Other Products and Technology Licensing

In the 2006 financial year, we offered data flash memory products, primarily in the form of cards and to a lesser extent in component form, for use in digital still cameras, USB flash drives, digital audio players and mobile phones. Due to the significant price decline for data flash memory since the beginning of the 2006 calendar year, we decided to ramp down the production of our flash products during our 2007 financial year and to convert our flash production capacities to DRAM production capacities. We stopped developing NAND-compatible flash memory products based on Saifun's proprietary NROM technology, which we licensed from Saifun when we purchased its remaining interest in our joint venture. See "— Intellectual Property — Amendment and Partial Termination of Our License Agreement with Saifun".

We continue to be engaged in technology development for non-volatile memories to address a market, if one develops, in which we can provide a competitive platform for flash systems (which are modules containing flash memory and a controller). We conduct our non-volatile memory development activities through our wholly-owned subsidiary Qimonda Flash at our facilities in Dresden and Munich, Germany and Padua, Italy.

We sell a relatively small volume of embedded DRAM products in the form of "system-on-chip" ICs that integrate memory and logic circuitry on a single chip.

In addition, we grant technology licenses of our intellectual property to our alliance partners, including Winbond and Nanya. These licenses are often granted as part of cross licensing arrangements. They often enable us to gain access to manufacturing capacity at foundries through these kinds of cross licenses and capacity reservation arrangements.

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The following table presents summary information regarding our principal products.

	Products	Principal features	Principal applications
Standard DRAM Components	Memory components in different package configurations with different interfaces (DDR, DDR2) and densities (128Mb, 256Mb, 512Mb and 1Gb)	• Mainstream bandwidths from DDR-333 to DDR2-800 • Organization: x4, x8, x16	• Memory modules • Components-on-mainboards
Personal Systems DRAM Modules	Unbuffered Dual Inline Memory Modules (DIMMs) based on DDR and DDR2 components, with densities ranging from 256MB to 2GB	• Mainstream bandwidths from DDR-333 to DDR2-800	• Desktop computers • Workstations
	Unbuffered Dual Inline Memory Modules (DIMMs) with ECC (Error Correction Code) based on DDR and DDR2 components, with densities ranging from 256MB to 2GB	• Mainstream bandwidths from DDR-333 to DDR2-800 • Error correction code	• Workstations • Entry-level Servers
	SO (Small-Outline)-DIMMs based on DDR or DDR2 components, with densities ranging from 256MB to 2GB	• Mainstream bandwidths from DDR-333 to DDR2-800	• Notebook computers
	Micro-DIMMs based DDR2 components, with densities ranging from 256MB to 1GB	• Bandwidths from DDR2-400 to DDR2-667 • 35% smaller than standard SO-DIMMs	• Sub-Notebooks • Ultra-mobile PCs
Infrastructure DRAM modules	Registered DIMMs and customized DIMMs based on DDR and DDR2 components, with densities ranging from 256MB to 8GB	• Mainstream bandwidths from DDR-266 to DDR2-800	• Servers
	FB (Fully Buffered) DIMMs based on DDR2 components, with densities from 512MB to 4GB	• Bandwidths from DDR2-533 to DDR2-800 • Advanced Memory Buffer technology	• Servers • Workstations
	Very-low-profile-Registered DIMMs based on DDR2 components, with densities ranging from 512MB to 4GB	• Bandwidths from DDR2-533 to DDR2-800 • Reduced height	• Blade servers

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	Products	Principal features	Principal applications
Networking, Storage and Industrial DRAM Products	Memory components and modules in different package configurations with different interfaces (SDR, DDR, DDR2) and densities (128Mb, 256Mb, 512Mb, 1Gb, 2Gb) High Density DIMMs (DDR1, DDR2) and Fully Buffered DIMMs (DDR2)	• Industrial temperature Capabilities • Lead-containing DRAM packages • Low power self refresh • Mainstream bandwidths from DDR-266 to DDR2-800 • Bandwidth per pin from 0.8Gb per second up to 2Gb per second • Organization: x16, x32	• Networking, Telecom and Industrial equipment • Storage
Graphics	Graphics RAM (256Mb, 512Mb) based on DDR2 and GDDR3 interfaces	• Manufactured in 75nm, 80nm, 90nm and 110nm process technology	• Graphics cards in desktop and note-book computers • Game consoles
	Customized DRAM components	Application specific DRAM configurations in terms of memory density and memory interface	Gaming application and Digital TV applications
Mobile and Consumer[1]	Mobile-RAM (128Mb, 256Mb, 512Mb, 1Gb) based on SDR and DDR interfaces; also available as "known good dies"	• Ultra low power • FGBA-package • Organization: x16, x32 (Mobile RAM) • Low operating current • Low standby current • Low power consumption	• Top range mobile phones (2.5G/3G) • PDAs • Digital still cameras • Digital audio players
	CellularRAM® (64Mb, 128Mb); also available as "known good dies"	• Manufactured in 110nm process Technology	• Mid-range mobile phones (2.5G/3G) • GPS

(1) We also sell our range of standard DRAM components to customers who manufacture infrastructure equipment and consumer electronic devices including digital televisions, set-top boxes and DVD recorders.

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DRAM Density and Interface Development

We believe we are an industry leader in transitioning to next generation memory density and interface. According to iSuppli, we were the largest supplier of 512M DDR2 products, based on bits shipped, during the ramp-up phase of this product density in the market, which occurred in the first half of the 2006 calendar year. The following table sets forth the percentage of our total DRAM bit shipments (by density and interface) for the periods indicated:

	For the financial year ended September 30,		
DRAM:	**2005**	**2006**	**2007**
		(in percent)	
By density:			
128Mb	1	0	0
256Mb	51	24	12
512Mb	47	74	86
1Gb	1	2	2
By interface:			
SDRAM	5	3	2
DDR	60	30	15
DDR2	27	51	64
Specialty DRAMs	8	16	19

We believe we were one of the first suppliers to deliver DDR3 components and modules in the third quarter of our 2007 financial year, to leading motherboard vendors and manufacturers of overclocking memory modules. In addition, our DDR3 products have been validated on Intel reference platforms.

Customers, Sales and Marketing

Our customers include the world's largest suppliers of computers and electronic devices. Our current principal customers include major computing original equipment manufacturers, or OEMs in the PC and Server markets, including HP, Dell, IBM, Sun Microsystems and Sony. To expand our customer coverage and breadth, we also sell a wide range of products to memory module manufacturers that have diversified customer bases such as Kingston, and to a number of distributors. More recently and in connection with the ongoing expansion of our product portfolio, especially into graphics applications, we have added customers with a strong focus on enabling these applications, such as nVidia, AMD and customers who are active in the game console market, such as Microsoft, Sony and Nintendo. In addition, we have added customers in the area of consumer and mobile applications, such as LG, Spansion and SanDisk. We believe that having a close relationship with these customers can benefit us in the development of future memory generations by making it easier to develop memory solutions for future end applications and improve our product designs.

We have been a primary DRAM supplier to major OEMs, including HP and Dell, in a number of recent years. These customers generally provide relatively more stable demand for standard DRAM than is available on the spot market, and we believe they are good partners for product development. In the infrastructure area, we believe that we have been able to establish a strong presence based on our high performance and high quality products, including application-specific and customized products. For example, we have received supplier awards from Sun Microsystems in each of the last five years.

The number of customers we serve has increased over recent years from about 150 in our 2003 financial year to about 170 in our 2006 financial year as we continued to diversify our product portfolio. In our 2007 financial year the number of customers we serve declined slightly compared to our 2006 financial year due to the phase out of our flash production and of our support to certain Infineon customers. In our 2007 financial year, our five largest customers accounted for 48% of our total sales. HP, our largest customer, accounted for 17% of our sales and Dell, our second largest customer, accounted for 12% of our sales during that period. In our 2006 financial year five largest customers accounted for 49% of our total sales. HP, our largest customer, accounted for 18% of our sales and Dell, our second largest customer, accounted for 16% of our sales during that period. In our 2005 financial year, our

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five largest customers accounted for 52% of our sales and our 20 largest customers accounted for nearly 76% of our sales. HP accounted for nearly 19% of our sales, Dell accounted for 14% of our sales and three additional customers each accounted for more than 5% of our sales during that period.

We sell our semiconductor memory products throughout the world, primarily in the United States, Europe and the Asia/Pacific region. We make our sales primarily through direct sales channels and, in order to ensure best possible customer coverage and reach, make use of distributors. We focus our principal sales and marketing efforts on the technology leaders in each of the DRAM markets we serve. We believe we have strong customer relationships and that our customers, many of which are leaders in their respective fields, provide us with special insights into the current state of their respective markets. Our sales strategy has three main focus points, which we believe will continue to position us to better serve our customers:

- ***Key Account approach:*** Via our Key Account Centers, we tailor our sales approach to our customers, serving our largest customers, primarily global PC and Server OEMs, and serve our local OEMs, module manufacturers and distributors via our regional sales organizations. Each Key Account Center team is responsible for the needs of its customers on a global basis, and we expect them to achieve or maintain a position as a top supplier of DRAM to that customer in terms of quality and volume. We believe that our key account approach assists us in developing and maintaining strong relationships with our major customers, which is particularly important for customers who purchase primarily standard DRAMs who could easily migrate to other suppliers.
- ***Leveraging our existing relationships to expand the applications with which we serve our customers:*** Because many of our Key Accounts in the PC and Server markets also produce graphics, mobile and consumer products, we work with our existing customer base to sell a wider range of our products and applications. For example, during the last year, we have been increasing our efforts to market customer- and application-specific DRAMs for graphics, mobile and consumer applications, because we believe the market for these applications will be attractive with respect to price, stability and demand growth.
- ***Leveraging our strong technical skills to work directly with customers to design specific memory products:*** The third key focus of our sales strategy is to continue to expand the product portfolio we deliver to each of our customers by leveraging our strong technical skills and working directly with them to design specific memory products for use in their end products. Our development engineering teams, composed of trained engineers, work directly with customers, creating products specifically designed for particular customers in a process we call “design-in”. In some cases, several DRAM producers may attempt to design their product into the customer’s application, each vying to best meet the customer’s requirements. Our development engineering teams play a key role in this regard.

Our regional sales teams are located in Europe, North America, Asia/Pacific and Japan, and are supported by our headquarters in Germany. These regional sales centers enable us to bring our business to our customer base and to provide local contact and support to the Key Account Center teams in those regions. Each of our regional sales centers is equipped to perform all key sales support, and each of our regional sales organizations is responsible for acquiring new customers and managing the region’s product mix and inventory.

We generally enter into agreements with our customers specifying the terms and conditions under which they agree to purchase our products and the terms and conditions under which we agree to supply them. The period of time over which prices and volume are fixed depends on the application market in which the customer operates. In general, prices and volumes are negotiated for periods ranging from a few days, for standard DRAMs for PC, notebook and workstation products in the spot market, up to one year for customer- and application-specific DRAMs used in graphics, mobile and consumer applications. The majority of our sales volume, however, is based on contracts in which prices and volumes are re-negotiated twice a month. The majority of our customer agreements require our customers to provide us with a regular forecast of their DRAM demand. Our determination of the mix of products to be manufactured is primarily based on our own internal forecasts in combination with the forecasts our customers provide.

We categorize our sales geographically based on chosen billing location.

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In many cases, our customers then choose to ship our products to locations other than the billing locations. Accordingly, we do not believe that the geographical distribution of our sales are necessarily indicative of where our products are actually used. The geographical distribution of our sales by percentage during the periods indicated was as follows:

Sales by Region

	For the financial year ended September 30,		
	2005	2006	2007
Germany	8	8	7
Rest of Europe[1]	12	12	11
North America	38	42	37
Asia/Pacific	38	31	33
Japan	4	7	12
	100%	100%	100%

(1) The Rest of Europe region also includes other countries and territories in the rest of the world outside of the listed main geographic regions with aggregate sales representing no more than 2% of total sales in any period.

The increased sales in Japan during the 2007 financial year resulted from a strong growth in demand for our specialty products, in particular for graphics and consumer applications, as well as additional demand for standard DRAM products for PC applications during the 2007 financial year. The decrease in sales in North America for the 2007 financial year, as compared to the previous period, was primarily caused by OEM customers shifting their production to Asia.

As of September 30, 2007, we had 391 sales and marketing employees worldwide. In connection with our focus on expanding our customer and product portfolios, we have added employees to our marketing teams in recent years, many of which are directly engaged with our customers.

Our marketing teams determine the products required to meet our customers' needs and support both our Key Account Centers and regional sales forces. Our marketing organization is divided into product marketing groups and various regional marketing groups, and both groups work closely with our customers and with our sales and R&D organizations. Our product marketing groups help plan our product roadmap, to enable us to develop and manufacture products that we believe will meet our customers' changing requirements. Our regional marketing teams collect local customer requirements, work together with the product marketing groups and support their respective regional sales organization. A large portion of our product marketing organization is based in Germany, complemented with product marketing teams in North America and Asia.

Competition

We compete generally on the basis of price, product design, technical performance, production capacity, product features, product system compatibility, quality, product reliability, and support. Production capacity and quality, in addition to the ability to deliver products reliably and within a very short period of time, play particularly important roles. The importance, however, of these factors varies based on the market for the product group in question.

- ***Standard DRAMs for PC and workstation applications.*** We compete in this market on the basis of price, delivery reliability and logistical support. We consider a strong reputation in delivery reliability to be vital for this market.
- ***DRAMs for infrastructure, graphics, mobile and consumer applications.*** We compete in these markets on the basis of product quality, performance, reliability and engineering support. Logistical support is particularly important for infrastructure applications. Our engineering teams are able to design customer-specific products based on our DRAM trench technology, with high performance for uses such as in graphics

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applications, and with relatively lower power consumption, which enables longer battery life and lower heat generation in mobile and consumer electronics devices, key areas of concern for our customers. We believe the Sun Microsystems (Best In Class Memory Supplier) award we earned in 2007 for the third consecutive year is an indicator of the high quality and reliability of our products geared toward infrastructure applications.

The markets for our products, especially our standard DRAM products, are intensely competitive. Our principal competitors include other major international DRAM producers as well as many smaller manufacturers that manufacture DRAM using design and manufacturing technologies licensed from the major DRAM producers. Several of these companies license technology from us and, in some cases, we purchase a portion of their DRAM output, while at the same time competing with them for sales. See "— Strategic Alliances and Agreements" for a description of our manufacturing arrangements with strategic partners.

The following table sets forth the market share in percentage based on DRAM revenues in the 2006 calendar year of our principal competitors, according to Gartner, and the primary areas in which we believe we compete with them:

Principal Competitor	Areas of competition	Market share
Samsung Electronics	Standard, infrastructure, graphics, mobile and consumer DRAMs	29%
Hynix Semiconductor, Inc.	Standard, infrastructure, graphics, mobile and consumer DRAMs	17%
Micron Technology, Inc.	Standard, infrastructure, mobile and consumer DRAMs	11%
Elpida Memory, Inc.	Standard, infrastructure, mobile and consumer DRAMs	10%
Nanya Technology Corporation[(1)]	Standard DRAMs	6%

(1) Nanya Technology Corporation is our joint venture partner in Inotera Memories, Inc.

According to Gartner, we had the third largest market share based on DRAM revenue and bits in the 2006 calendar year, with a 16% share. For the first nine months of the 2007 calendar year, we remained the third largest supplier of DRAM by revenue and were the fourth largest supplier of DRAM by bit shipments with market shares of approximately 13% according to iSuppli's preliminary report in November 2007.

Research and Development

We believe that research and development, or R&D, will continue to be critical in developing technologically advanced products that are sought after by our customers, as well as manufacturing processes that improve our productivity. Our R&D efforts are intended to build upon our past successes. We believe that we remain at the forefront of our industry in the process of converting DRAM manufacturing from 200mm wafers to 300mm wafers and we were the first to implement 193nm lithography in mass production. In the late 1990s, we were among the first to introduce the 256Mb density generation to the market, and we believe we were among the leaders in the industry's transition to 512Mb DDR2 DRAM and are currently in a leading position for the introduction of 512Mb DDR3 DRAM. We believe we were the first DRAM developer to bring DDR MobileRAM to the market in October 2004 and we believe that as of the end of our 2007 financial year, we are the only DRAM supplier that has developed and is producing an Advanced Memory Buffer Chip for use in FB-DIMMs for server applications.

Our R&D activities are broadly divided into two major steps. First we develop a manufacturing process technology and a design platform in conjunction with a "lead" product. Subsequently, the rest of the product portfolio is developed as "follower" products which utilize the design platform established in the first step

Product Development

Our product development activities focus on those specialized and advanced products that we believe provide us more stable and higher selling prices than standard DRAMs. To enable this, we

have increased the number of

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product development engineers from around 560 at the end of the 2003 financial year to more than 1,100 worldwide by the end of the 2007 financial year. We believe these enhanced resources have resulted in the recent successes we have had developing new products. For example, we expanded our graphic DRAM product portfolio from a single product in 2003 to a range of seven products we currently offer in different densities, interfaces and speed for the full range of graphics applications from entry level to high-end.

We have placed particular emphasis in recent years to the expansion of our R&D resources in lower cost locations. For example, we rapidly built up our team in Xi'an, China, in the 2005 financial year. In addition, we are setting up a new development center for the development of memory products in Suzhou, China, that started activities in October 2007. We believe that appropriate use of skilled R&D personnel in lower-cost locations will improve our ability to maintain our technical position while managing costs.

We define our products in close cooperation with lead customers and industry partners. We actively drive new standards and participate in standardization committees such as the Joint Electron Device Engineering Council (JEDEC). Our worldwide operating Application Engineering teams help our customers to design in our products into their systems. These teams provide technical support to our customers and work to qualify our memory components and modules for inclusion in our customers' products. They also work with the suppliers of components designed to function together with DRAMs to ensure that our products are validated for use with their products.

Process Technologies

Process technologies have been a key focus for our R&D activities, as we seek to reduce feature sizes and develop new processes. We have successfully developed and implemented several generations of process technologies. We believe that our accumulated experience, including that which we have acquired through our strategic alliances, is enabling us to introduce new memory technology platforms with smaller feature sizes on a schedule and at costs that enable us to remain among the leaders in standardized DRAMs while focusing on more specialized products and design-ins for applications in the graphics, consumer and mobile areas. The goal of our technology development efforts is to support our product designers in meeting customer requirements regarding high performance, low power consumption and small form factors at a competitive cost level.

To maintain a competitive technology roadmap at an affordable cost level, we have been pursuing strategic alliances with several partner companies and consortia. Strategic development alliances, such as the one we maintain with Nanya for DRAM technology and lead product development, allow us to share costs and resources. In particular, our Nanya alliance finalized the process technology development of the 75nm process technology in 2006. Since September 2005, this alliance has been developing 58nm process technology for DRAM products, including the lead products which will use these new technologies. We also cooperate with Advanced Micro Devices Inc. and Toppan Photomasks Inc. in the joint ventures AMTC and BAC. AMTC is currently developing and pilot manufacturing the next generation of photomasks. BAC operates and leases the facility in which AMTC and Toppan Photomasks Germany GmbH are located. All of our DRAM and flash technology development takes place at our DRAM and Flash technology development center in Dresden, Germany.

We are also maintaining as a focus of our continuing research and development efforts, the development of process technologies that possess physical characteristics that can be utilized to yield advantages for customer specific applications in terms of performance and power consumption. We believe these characteristics are important in DRAM products for use in applications such as infrastructure, graphics, mobile and consumer devices and have enabled us to achieve important design wins for products for use in applications ranging from game consoles and MP3 players to advanced servers. In this context, we are currently preparing for the qualification of our trench technology at the 58nm technology node by the end of our 2008 financial year.

We are at the same time working on designs beyond this technology node with an open platform approach and a range of architectures and technologies under review. We are also engaged in the research and development of various emerging memory technologies. We are focusing primarily on Phase Change Random Access Memories (PCRAM), Conductive Bridging RAM (CBRAM) and Magnetoresistive RAM (MRAM). These emerging memories use alternative methods to store

information. These technologies may be candidates to replace existing mainstream memory technologies in the long-term, although it is too early for us to make any prediction about the potential for any of these technologies.

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Packaging Technology

Since 2002, we have concentrated our development activities for packaging technology in Dresden, at our back-end pilot fab, where work focuses on both development of new packages and assembly innovation. The development of follower packages or products is conducted at our high volume backend sites in Porto, Portugal, Suzhou, China and Malacca, Malaysia. We also cooperate with Infineon on various aspects of package development as well as with United Test and Assembly Center, Singapore on the development of multichip packages. In August 2007, we established a jointly owned company with SanDisk for the development of multichip packages for use in mobile communication applications such as mobile phones.

Cooperation with Infineon

In connection with our carve-out, we have entered into various agreements with respect to our R&D activities. In particular, the Framework Agreement on Research and Development Services defines the parameters of our cooperation with Infineon with respect to certain R&D areas. See "Related Party Transactions and Relationships — with Infineon" for more details on these parameters. Under the Framework Agreement on Research and Development Services, we will continue to work together with Infineon on various common development activities, including jointly funded R&D projects that focus on process development and packaging technologies. We anticipate that most of these projects will be carried out in Germany. We expect to continue to cooperate with Infineon, sharing equipment and making use of synergies at our Reliability Lab, and failure analysis, both of which help us reduce yield loss, or manufacturing errors, in production.

Locations

We conduct R&D activities in various locations around the world. The following table shows our major R&D locations and their areas of competence, including the principal R&D joint ventures in which we participate:

Principal Research and Development Locations

Location	Areas of competence
Burlington, Vermont	Low power and mobile and consumer DRAMs
Dresden, Germany[(1)]	DRAM technology, flash technology, emerging memory technology, package technology and photomask technology development
Munich, Germany[(2)]	Computing and graphic DRAMs, as well as emerging memory research; flash product development
Padua, Italy	Flash product development and design
Raleigh, North Carolina	Product development for standard and specialty DRAM
Xi'an, China	Computing and consumer DRAMs

(1) Includes our own research and research conducted in conjunction with our development partner, Nanya ,our photomask related research and development conducted in conjunction with AMD and Toppan, our process and tool development in the Center for Nanoelectronic Technologies together with AMD and the Fraunhofer Society and our material research conducted in "namlab" in cooperation with the Technical University of Dresden.

(2) Includes our own research and research conducted in conjunction with our development partner, Nanya.

In addition to our principal locations, we have smaller locations in San Jose, California, Milan, Italy and Tokyo, Japan, where we support development of specific applications or specific customers' lead products. At our back-end location in Porto, Portugal, we support high speed test and back-end technology development. We have established an additional development center in Suzhou, China focused on product development for computing and consumer DRAM that started activities in October 2007.

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We conduct DRAM product and process technology development on three continents at a number of major development centers. Our Dresden 300mm fab has an R&D center integrated directly into it, enabling us to conduct R&D at the production site, which we believe enables us to quickly transfer know-how from development into manufacturing. Our Research and Development Center, where we conduct manufacturing process technology development, is located at the Dresden center. The Center for Nanoelectronic Technology, operated in cooperation with the Fraunhofer Society and Advanced Micro Devices, is also located at our Dresden facility. The Center further strengthens our research capabilities with respect to both DRAM and non-volatile memory process technology. Also, the AMTC, the Advanced Mask Technology Center operated together with AMD and Toppan, is located at Dresden. Together with the Technical University of Dresden, we operate the new Nanoelectronic Materials Laboratory (namlab) at the university campus focusing on material research.

Our development center in Munich, Germany focuses on lead products for computing and graphics applications. The design center in Raleigh, North Carolina, focuses on “follower” products for computing and graphics, while our design center at Burlington, Vermont, focuses on mobile products. Our design center in Xi’an, China focuses on computing and consumer DRAM products. In addition to DRAM products, we also design and develop flash memory products in Padua, Italy, and Munich, Germany, and develop high speed AMB chips in Munich, Germany. Additional customer specific product development work is done in smaller development centers. Finally, we maintain an extensive network of cooperation arrangements with technical institutes and universities to remain current with technological developments.

At September 30, 2007, our research and development staff consisted of 2,506 employees working in our R&D units throughout the world, a net increase of 750 compared to 1,756 at September 30, 2006. The net increase of R&D employees in the 2007 financial year resulted mainly from organizational changes implemented at the beginning of our 2007 financial year dedicating the activities of existing employees to the R&D field. Moreover, we strengthened our R&D force in the area of product and technology development.

Strategic Alliances and Agreements

Our strategic alliances include both research and development and manufacturing alliances. We believe that these strategic alliances confer a number of important benefits, including:

- worldwide access to the expertise of other industry participants, including manufacturing competence in new locations and additional experienced R&D employees;
- sharing the risks inherent in the development and manufacture of new products;
- sharing costs, including the costs of R&D and production ramp-up; and
- efficiency gains, including reduced time-to-market of new generations of semiconductor devices and greater economies of scale.

We believe that a key element of the success of our strategic alliances and foundry agreements results from our philosophy that these alliances should be mutually beneficial. For example, our foundry agreements provide us access to flexible manufacturing capacity, while our partners can benefit from access to our technology and manufacturing expertise.

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The following table shows our principal strategic manufacturing and R&D alliances, as well as their respective activities and locations, as of September 30, 2007:

Principal Strategic Alliances

Partner	Relationship	Principal Activity	Location
Nanya	Joint venture participant in Inotera, in which we hold a 35.6% interest(1)	DRAM manufacturing at Inotera's new 300mm facility	Taoyuan, Taiwan
Nanya	Joint R&D activities	R&D in both product and technology development for 90nm, 75nm and 58nm process technologies	Dresden and Munich, Germany
CSVC	Joint venture participant in Qimonda Suzhou in which we hold a 72.5% economic interest(2)	Back-end assembly and test at the joint venture's new facility	Suzhou, China
SMIC	Foundry manufacturing	Manufacturing capacity at SMIC's facilities	Shanghai and Beijing, China
Winbond	Foundry manufacturing	Manufacturing capacity at Winbond's facilities	Hsinchu, and Taichung, Taiwan

(1) Nanya holds slightly more Inotera shares than we do, and the public and employees of Inotera own the remainder.

(2) We are obligated to inject additional equity of $86.5 million into the joint venture by July 2008 financial year. This would increase our ownership percentage accordingly.

In addition to these principal alliances, we also participate or have participated in a number of smaller alliances, especially in the area of emerging memory development. These include a development alliance with IBM on Phase Change Memories (PCRAM) and development activities with Altis concerning Conductive Bridging (CBRAM) and Magnetoresistive RAM (MRAM). We are also cooperating with Advanced Micro Devices, Inc., (AMD), and Toppan Photomasks (formerly DuPont Photomasks Inc.) on the development and production of photomasks at the Advanced Mask Technology Center GmbH & Co. KG, (AMTC), in Dresden, Germany. We maintain an equity investment in Maskhouse Building Administration GmbH & Co. KG, (BAC) a German limited partnership company that owns the premises used by AMTC described below and Toppan Photomasks Germany. Infineon's co-venturers have not yet given the required consent to the transfer of the AMTC and BAC interest to us. While pursuant to the AMTC and BAC limited partnership agreements, such consent may not be unreasonably withheld, we, Infineon and Infineon's co-venturers are finalizing an agreement that provides such consent and also addresses Infineon's intention to reduce its stake in us below 50%. The AMTC and BAC interest is held in trust by Infineon for our economic benefit pursuant to the contribution agreement.

We also had an equity investment in Hwa-Keng, a Taiwanese company formed for the purpose of facilitating the distribution of Inotera shares to Inotera's employees. This company was liquidated because its business purpose has been fulfilled with the completion of the initial public offering of Inotera's shares. We and Nanya purchased half of the Inotera shares held by Hwa-Keng. Upon completion of the liquidation, Hwa-Keng's assets (principally the proceeds from the sale of the shares) were distributed to its shareholders, Nanya and Infineon. As required by the contribution agreement, Infineon has transferred these assets to us.

Research and Development Alliances

Infineon has entered into a number of agreements to cooperate with industry participants to conduct R&D related to the development of new products and manufacturing process technologies. These agreements enable us to benefit from the expertise of other industry participants and to share the costs and risks inherent in the development

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of new products and process technologies. Our principal R&D alliance is with Nanya Technology Corporation, a Taiwanese company with which we also have a manufacturing collaboration through our Inotera joint venture.

In November 2002, Infineon entered into agreements with Nanya to establish a strategic cooperation for the development of DRAM products and to form Inotera Memories, Inc. Inotera is a joint venture the purpose of which is to construct and operate a 300mm manufacturing facility with two manufacturing modules in Taiwan. Under the terms of the initial development agreement, we were jointly developing and sharing development costs with Nanya for advanced 90nm and 75nm process technologies. By June 2005, we and Nanya had qualified the 90nm DRAM technology and achieved validation by Intel. By September 2006, we and Nanya had qualified the 75nm DRAM technology and achieved validation by Intel.

In September 2005, Infineon entered into another agreement with Nanya to expand their joint development cooperation on DRAM process technologies. The new agreement provides for the joint development of advanced 58nm production technologies for 300mm wafers. Joint development began upon signing the agreement. The research is being conducted in Dresden and Munich. We believe the extension of the existing co-development of projects could help us expand our position in the DRAM market and reduce our up front development costs.

The November 2002 agreement, as amended, entitles Nanya to receive from us or our then-existing foundry partners 60% of the amount of our foundry capacity that is in excess of the foundry capacity we receive as of December 2006. Nanya may also receive 50% of our foundry capacity for which we contract after March 1, 2006, with new foundry partners. Our obligation to provide foundry capacity is capped at one third of our total 90nm foundry capacity. In combination, the 2002 and 2005 agreements, also entitle Nanya to receive from us or our foundry partners one third of our 75nm foundry capacity and one third of our 58nm foundry capacity. As of the end of our 2007 financial year, we have not contracted for foundry capacity that would require us to cede capacity to Nanya under these agreements. We do not expect that any foundry capacity that we may be required to provide to Nanya will have a material adverse effect on our business, financial condition or results of operations.

Infineon was free to assign the agreements mentioned above to us and has done so in connection with the carve-out. The 2002 development agreement remains in effect until the date of completion of the last technical cooperation project, but may be terminated by either party for cause, such as a material breach by the other party, insolvency or bankruptcy of the other party, or the acquisition, by a third party, of at least half of the voting stock or control of the other party. The 2005 development agreement remains in effect at least until December 2007, at which point, if the goals of the cooperation project have not been completed, the parties agree to continue working for an additional six months and then discuss the extension of the timeframe for the project. The agreement may also be terminated by either party for cause, such as a material breach by the other party, insolvency or bankruptcy of the other party, or the acquisition, by a third party, of at least half of the voting stock or control of the other party.

Inotera completed an initial public offering of its shares on March 17, 2006 and an offering of its global depositary shares on May 10, 2006. Its shares are now listed on the Taiwan Stock Exchange and its global depositary shares are listed on the Luxembourg Stock Exchange. The initial public offering of shares and the offering of global depositary shares raised approximately $619 million which will, together with debt financing, be used to fund the second manufacturing module.

Manufacturing Alliances

We also have a number of long-term strategic agreements with leading industry participants to manufacture products. We intend to use these agreements to assist us in maintaining our strong technological position and sharing start-up costs inherent in transitioning to successive generations of semiconductor memory products. We believe these alliances allow us to reduce the capital we would have had to invest if we were to engage in these activities alone. In addition, they provide us with access to modern manufacturing capacity in low cost regions. Our manufacturing alliances are part of our global “fab cluster”. This concept permits us to share engineering know-how, manufacturing and quality control best practices and common rollouts of process improvements among all of the facilities in which our products are produced.

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Inotera

As described above, in November 2002 Infineon entered into agreements with Nanya to establish a strategic cooperation in the development of DRAM products and to form Inotera Memories, Inc., a joint venture to construct and operate a 300mm manufacturing facility with two manufacturing modules in Taiwan.

We expect that Inotera's 300mm manufacturing facility in Taiwan will employ the production technology developed under our separate joint development agreement with Nanya. The construction of the first Inotera module was completed and mass production began in the 2004 financial year. The capacity ramp-up of this first module with a capacity of up to 62,000 wafer starts per month, was completed during our 2006 financial year. Inotera broke ground for the second manufacturing module in May 2005 and completed construction in our 2006 financial year. The total capacity of both modules reached 120,000 300mm wafer starts per month by the end of the third quarter of the 2007 calendar year. Under the terms of the venture, Nanya and we each purchase 50% of Inotera's output. The joint venture agreement does not have a fixed term. It can be terminated by either party upon material breach by the other party of the agreement, the 2002 development agreement, the product purchase agreement or the ancillary know-how transfer agreement, if the 2002 development agreement is terminated, upon bankruptcy or liquidation of the other party or if the other party's share ownership in Inotera drops below 30%. The party serving termination notice under the agreement can choose to either sell its shares to the other party at 120% of the higher of either the net asset value or market value, or purchase the other party's shares at 80% of the lower of either the net asset value or market value. The joint venture agreement is automatically terminated when one of the parties transfers or sells all of its shares in Inotera unless such shares are transferred to an affiliate or were previously offered to the other party on the same terms as any proposed sale or transfer and any third-party purchaser has agreed to enter into the joint venture agreement.

The purchase price per DRAM wafer we pay to Inotera is calculated using a profit and loss sharing formula set forth in the product purchase and capacity reservation agreement we have entered into with Nanya and Inotera. The calculation is performed monthly and the purchase price is equal to the sum of:

- an amount representing the front-end cost per wafer Inotera incurs, plus
- a fixed percentage of the notional total profit (or loss) the buyers realize when they sell the wafer.

The profit (or loss) per wafer is calculated by subtracting the following items from the average selling price per wafer the buyers realize when they sell to their customers the functional chips on the wafer:

- the front-end cost per wafer Inotera incurred (including its cost of goods sold and research and development expenses,
- the back-end cost per wafer the buyers incurred (including the costs of back-end assembly and testing processes); and
- a fixed percentage of the average selling price per wafer we realize to cover overhead costs we incur, which is in line with other companies in the industry.

This profit and loss sharing formula, including the fixed percentages, cannot be modified without the consent of the three parties and the approval of such change by the Board of Directors of Inotera. The product purchase and capacity reservation agreement remains in effect for as long as the joint venture agreement is in effect. It can also be terminated upon material breach by the other party of this agreement or by both parties concurrently with the termination for cause of the joint venture agreement or 2002 development agreement.

The agreement governing our joint venture with Nanya allowed Infineon to transfer its shares in Inotera to us. However, under Taiwanese law, Infineon's shares in Inotera were subject to a compulsory restriction on transfer (lock-up) as a result of Inotera's IPO in March 2006. For that reason we established a separate trust agreement pursuant to which Infineon agreed to hold title to the Inotera shares in trust for us until they could be transferred. In October 2006, the Taiwanese authorities granted an exemption to Infineon permitting it to transfer the shares. The transfer from Infineon to us

was completed on March 13, 2007 other than a portion representing 0.24% of the total Inotera shares which Infineon holds in trust for us due to Taiwanese legal restrictions.

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If Infineon were to reduce its shareholding in our company to a minority level before the earlier of the fifth anniversary of our carve-out from Infineon and the achievement of early mass production using 58nm process technology at our manufacturing site in Dresden, the joint venture agreement with Nanya, as amended, could require us to transfer these Inotera shares back to Infineon. We agreed with Infineon that, in this event, we would transfer the Inotera shares back to the trust. The trust agreement provides for Infineon to again hold the Inotera shares in trust for us until they could be transferred back to us.

CSVC

Infineon established a joint venture, Infineon Technologies Suzhou Co., Ltd. (recently renamed Qimonda Technologies (Suzhou) Co., Ltd., and referred to herein as Qimonda Suzhou) with China Singapore Suzhou Industrial Park Venture Co., Ltd. (CSVC) in Suzhou, China and constructed a back-end facility for the assembly and testing of our products. The joint venture agreement was entered into in July 2003 and has an initial term of 50 years. Infineon contributed this agreement to us in the carve-out. It can generally be terminated upon material breach by the other party, a party's bankruptcy or insolvency and various other events relating to a party's financial condition. The facility officially opened in September 2004 and is scheduled to have capacity of up to one billion chips per year. The facility is being ramped up in a number of stages as dictated by growth and trends in the global semiconductor memory market. We are required to purchase the entire output of the facility. We have invested $155 million in Qimonda Suzhou and expect to invest a further $86.5 million in the venture by the end of our 2008 financial year pursuant to our current contractual obligations. Infineon contributed its ownership in Qimonda Suzhou to us in the carve-out effective May 1, 2006 (45% of the venture's share capital, representing 72.5% of the voting rights in the venture). We currently hold 63% of Qimonda Suzhou. We plan to increase our investment in Qimonda Suzhou such that we will hold approximately 72.5% of its share capital by July 2008, with CSVC owning the remaining 27.5%. We have the option to acquire the remaining CSVC stake at the nominal investment value plus accrued and unpaid return. The joint venture intends to arrange external financing for any further investment required to purchase additional equipment. There can be no assurance that this external financing can be obtained at favorable terms or at all. We have always consolidated Qimonda Suzhou as a subsidiary due to our management and voting right control and eliminate income or losses as minority interests.

In March 2007, we announced plans to expand capacity at our back-end manufacturing facility in Suzhou, China for which we expect capital expenditures of €250 million over the next three years. The joint venture intends to arrange external financing for any further investment required to purchase additional equipment. We cannot assure you that this external financing can be obtained on favorable terms or at all.

SMIC

In December 2002, we entered into a Product Purchase and Capacity Reservation Agreement, as most recently amended in October 2007, with Semiconductor Manufacturing International Corporation (SMIC), a Chinese foundry. As amended, this agreement provides us access to additional DRAM manufacturing capacity. Under the terms of this agreement, SMIC agreed to manufacture, and we have agreed to purchase, up to 20,000 wafers per month at SMIC's 200mm production facility in Shanghai until at least 2007 and up to 15,000 wafers per month at SMIC's 300mm production facility in Beijing until at least 2010. The agreement remains in effect until December 31, 2010 and may be extended. We have the unilateral right to terminate this agreement in the event that one of our semiconductor competitors acquires 50% of SMIC's voting shares. In addition, either party may terminate the agreement upon material breach by the other party of any obligation under this or the ancillary know-how transfer agreement or upon bankruptcy or insolvency of the other party.

Under the terms of the agreements, Infineon was free to assign the agreement to us and has done so in connection with the carve-out.

Winbond

In May 2002, we entered into a Product Purchase and Capacity Reservation Agreement with Winbond, a Taiwanese foundry. This agreement provides us access to additional DRAM production capacity. Under the terms of this agreement, Winbond agreed to manufacture, and we agreed to purchase, up to 19,000 wafer starts per month from Winbond's 200mm production facility in Hsinchu, Taiwan until 2007. We have now phased out our purchases of 200mm wafers from Winbond.

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In August 2004, we entered into an extended Product Purchase and Capacity Reservation Agreement, as most recently amended in August 2006, with Winbond. This agreement gives us access to additional DRAM production capacity of up to 18,000 wafers per month in Winbond's 300mm facility in Taiwan until 2009. We have exceeded this level from time to time. Under the terms of this agreement we agreed to provide our 80nm DRAM trench technology to Winbond's 300mm-wafer facility and Winbond agreed to manufacture DRAMs for computing applications using this technology exclusively for us. Under the terms of these agreements, Infineon was free to assign these agreements to us and has done so in connection with the carve-out. Each agreement remains in effect until the last shipment of, and payment for, products manufactured under the agreement unless it is earlier terminated for breach.

On June 27, 2007, we signed agreements with Winbond to expand our existing cooperation with Winbond and our reservation of capacity at Winbond's facility for up to 24,000 300mm wafer starts per month. Under the terms of the agreements, we will provide our 75nm and 58nm DRAM trench technology to Winbond's 300mm-wafer facility. In return, Winbond will manufacture DRAMs for computing applications using this technology exclusively for us.

Facilities and Manufacturing

Manufacturing Facilities

Including our joint ventures and foundry relationships, we operate manufacturing facilities in Europe, North America and Asia. The following table shows information with respect to our current manufacturing facilities and our facilities that are either under construction or in the ramp up phase and the portion of the output of the facility to which we are entitled. Output is measured in wafer starts per month, or "wspm".

Current and Planned Manufacturing Facilities

	Year production line came or is expected to come on-stream	Clean room m^2	Output to which we are entitled
Front-end facilities (wafer fabrication):			
Our Own Facilities			
300mm facility, Dresden, Germany	2001	10,177	All
200mm facility, Richmond, Virginia	1998	16,771	All
300mm facility, Richmond, Virginia	2005	12,218	All
300mm facility, Singapore[1]	2009	20,000	All
Joint Venture Facilities			
300mm Inotera Memories facility, first module, Taiwan[2]	2004	N/A	Half
300mm Inotera Memories facility, second module, Taiwan[2]	2006	N/A	Half
Foundry Capacity			
200mm Infineon facility, Dresden, Germany[3]	1996	—	Variable corridor
200mm Winbond facility, Taiwan[4]	1999	—	up to 19,000 wspm
300mm Winbond facility, Taiwan[4]	2006	—	up to 24,000 wspm
200mm SMIC facility, Shanghai, China[4]	2003	—	up to 20,000 wspm
300mm SMIC facility, Beijing, China[4]	2004	—	up to 15,000 wspm
Back-end facilities (packaging, assembly and testing):[5]			
Dresden, Germany	1996	3,211	All
Malacca, Malaysia[6]	1973	12,163	All
Porto, Portugal	1997	17,697	All
Suzhou, China[7]	2004	14,124	All
Johor, Malaysia[8]	2008	25,000	All

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(1) On April 25, 2007, we announced plans to construct a fully-owned manufacturing facility in Singapore. Depending on the growth and development of the world semiconductor market, we plan to invest approximately €2 billion in the facility over the next five years.

(2) Owned by Inotera Memories, Inc., our joint venture with Nanya in which we and Nanya each own minority shares. We own 35.6% of the shares as of September 30, 2007. Our share in the production of the joint venture is 50%. The 35.6% of the shares we own include 0.24% of the share capital that remained held by Infineon Technologies Investment B.V. at the time of the carve-out. These shares cannot be transferred to us because of Taiwanese legal restrictions, and Infineon Investments holds them in trust for us.

(3) During our 2007 financial year, approximately 57% of this facility's capacity was used for the production of our products. As described under "Related Party Transactions and Relationships — with Infineon", we use capacity at Infineon's 200mm manufacturing facility in Dresden pursuant to an agreement with Infineon, as amended in January 2007. Under this agreement we have agreed to share equally with Infineon any potential restructuring costs that might be incurred in connection with the ramp-down of production, if neither company can use that capacity.

(4) We own no equity interest in this facility but have licensed technology to the third-party owner. We are contractually entitled to a stated amount of the facility's DRAM output, which is manufactured using our technology. See "— Strategic Alliances and Agreements" for more detail on these arrangements. We have recently phased out capacity utilization at the 200mm line at Winbond.

(5) In addition, we have agreements with EEMS Italia SpA and UTAC, which provide additional back-end subcontracting services at their facilities in Italy and China and Singapore. We have also entered into a partnership with EEMS Italia SpA for the assembly and testing of memories in a dedicated facility in Suzhou, China.

(6) Includes about 2,000m^2 cleanroom and 10,000m^2 not cleanroom classified production area.

(7) We constructed this facility pursuant to our joint venture agreement with CSVC. See "— Strategic Alliances and Agreements" for more detail on these arrangements. We recently announced plans to construct a second manufacturing module with an additional cleanroom area of about 10,000m^2 in calendar year 2007 for which we expect capital expenditures of €250 million over the next three years.

(8) We recently announced plans to construct a new facility for module manufacturing in Johor, Malaysia for which we expect to invest €150 million over the next five years.

In the fourth quarter of our 2007 financial year we had access to a total front-end capacity of about 193,000 wafer starts in 300mm equivalents per month (equivalent to approximately 435,000 wafer starts in 200mm equivalents) through our own facilities, our joint venture and our foundry agreements. The capacities provided by our joint venture Inotera constituted 30%, the capacities sourced from our non-affiliated foundry partners SMIC and Winbond together constituted about 24% and the capacities sourced from Infineon's 200mm facility at Dresden constituted about 7% of these capacities.

Process technology

In the front-end process, electronic circuits are produced on a silicon wafer. This process involves several hundred process steps and takes place over a period of approximately two months in a clean room environment in which humidity, temperature and particle contamination are precisely controlled. Because of the very small geometries involved in wafer processing, highly complex and specialized equipment, materials and techniques are used. The main process steps to build the circuit structures include oxidation or deposition steps, photolithography, etching and ion implantation. At the end of the front-end process the chips are tested on the wafer for functionality.

Our trench architectures requires a special deep trench etch process to etch the holes for the capacitors into the bare silicon wafer surface, a process which is undertaken early in the chip manufacturing process. These holes can be etched into silicon with very high aspect ratios (depth divided by the diameter of the hole). As a result, the trench capacitor has a very high surface area and therefore a high capacitance, or ability to store electrical charges. The higher the capacitance, the higher the number of electric charges a capacitor can store. We have used the high capacitance of the chips we have been manufacturing to reduce the voltage required to power the cell array.

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Front-End Manufacturing

In the front-end manufacturing process, chips are produced on silicon wafers. Our front-end fabs generally operate 24 hours per day, 7 days per week, not including scheduled maintenance downtime (which generally involves only individual pieces or clusters of equipment, rather than entire facilities) and unscheduled stoppages. We do not generally adjust our manufacturing schedule in response to changes in demand. Maximum utilization of our facilities allows us to spread our high fixed-costs over a larger number of chips. In addition, given the complexity involved, our manufacturing processes are more stable if operated continuously. We had no significant unplanned production stoppages at our own front-end fabs during our 2006 financial year or our 2007 financial year.

Wafer Size Roadmap

In our efforts to continue to reduce our per-unit manufacturing costs, we continue to ramp up our volume of production on 300mm wafers. In the 2006 financial year, we continued to increase our share of DRAM manufacturing on 300mm wafers. Our 300mm Dresden facility has started commercial production using 75nm technology. In addition, our 300mm facility at Richmond, Virginia started commercial production in September 2005 and completed the first phase of its ramp-up to a capacity of approximately 25,000 wafer starts in April 2006. The maximum capacity of this facility is expected to amount to 50,000 wafer starts per month and we plan to ramp up production based on market developments. While we targeted a capacity of 36,000 wafer starts per month by the end of the 2007 financial year we decided to hold this capacity at 30,000 wafers per month. The first manufacturing module of Inotera, our 300mm manufacturing joint venture with Nanya, reached a maximum of 62,000 wafer starts per month during the 2006 financial year. The second manufacturing module of Inotera was constructed in the 2006 financial year and completed its ramp up in September 2007. With this, Inotera reached an aggregate capacity of 120,000 wafer starts per month by the end of the third quarter of the 2007 calendar year. Qimonda and Nanya are each entitled to 50% of Inotera's capacity. Our foundry and development partner Winbond has officially opened its new 300mm facility in Taiwan end of April 2006 and began volume production in 2006. In April 2007 we announced plans to construct a fully-owned 300mm manufacturing facility in Singapore. Construction of the new facility is expected to start by the end of the 2007 calendar year, with the first wafer produced in the 2009 calendar year. We are planning a cleanroom size for a maximum capacity of 60,000 wafer starts per month. Given the cost efficiencies of production on larger wafer sizes, we believe that increasing the share of our 300mm production will substantially reduce our overall per-unit production cost for memory chips.

We believe that, among our principal competitors we are one of only two that have made substantial progress in ramping up 300mm production. With 81% of the DRAM bits we produced in the second quarter of the 2007 calendar year taking place on 300mm wafers, we believe, based on iSuppli research, that we have the highest percentage of bit production on 300mm wafers of the three largest DRAM suppliers. Through our early ramp-up, we have gained expertise in 300mm manufacturing techniques and technologies. We believe that, as we equip our remaining owned facilities with 300mm wafer technology, we will be able to gain additional cost advantages over competitors that have not yet switched a substantial portion of their manufacturing to 300mm technology.

Feature Size Roadmap

The increase in memory density and resulting reduction of chip feature sizes through the introduction of advanced process technologies is one of the key factors in reducing manufacturing costs. Innovations in process technologies and continual reductions in per-bit manufacturing costs have been driven largely by the needs of the standard DRAM market. The dynamics of this market have caused continuous evolution of process technologies, with an ongoing race for smaller die sizes and higher memory densities at lower prices. During the 2006 financial year, we increased the capacity share based on 90nm DRAM technology and started commercial production based on our 75nm DRAM technology. In addition, we developed and released for production in October 2006 an 80nm technology, which contains fewer technological upgrades than previous new technologies, but which we believe will improve the number of dies we are able to produce per wafer. In the fourth quarter of our 2007 financial year, approximately 25% of our capacities used to manufacture DRAMs had been converted to 80nm and 75nm technologies. With our joint venture partner Nanya, we are

currently developing the 58nm technology node and we are targeting its introduction by the end of the 2008 financial year.

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We intend to leverage the advantageous physical characteristics provided by our trench technology to develop three different platforms that address the specific needs of different customers for DRAM products that emphasize high performance, low-power consumption or low cost. We believe the ability to offer customers products tailored to their specific application requirements will increase our flexibility and help us improve the breadth of our product design-ins.

Back-End Manufacturing

In back-end manufacturing, chips are packaged, assembled and tested. We believe that our back-end facilities are equipped with state-of-the-art equipment and highly automated manufacturing technology, enabling us to perform assembly and test on a cost-efficient basis. In an effort to further enhance our back-end manufacturing efficiency and improve our cost position, we have increased our production volumes in lower-cost countries such as Malaysia and China. In March 2007, we announced plans to further expand our backend operations at Suzhou, China, with the construction of a second manufacturing module. In addition, we announced the construction of a new module house at Johor, Malaysia to increase our capacities for module manufacturing. Our back-end facilities provide us with the flexibility needed to customize products according to individual customer specifications.

To ensure the commercial viability of our products, we have completed the conversion of all Qimonda product packages to comply with the European Directive on the restriction of use of certain hazardous substances in electronic and electrical equipment, or RoHS Directive. In particular, the RoHS Directive sets forth lead-free standards for many types of electronic and electrical equipment. The obligation to comply with the RoHS Directive ultimately lies with the equipment's producer. These customers therefore require us to supply lead-free products, and we regularly provide certificates that document our products' compliance with the RoHS Directive's lead-free standards.

To address the needs of electronic equipment manufacturers whose products require an exemption from the application of the RoHS Directive, typically for technical or economic reasons, exemptions are available which permit the use of lead-containing parts for specific applications. In addition, certain manufacturers have been individually exempted from compliance with the RoHS Directive by the relevant governmental authorities. We continue to supply a small number of lead-containing products for these exempted applications and manufacturers. Additionally, we have a number of customers who require delivery of lead-containing products to non-European markets, where the RoHS Directive does not apply.

"Fab Cluster" System

In 1998, we introduced our fab cluster system, through which we link and coordinate activities at our own front-end and back-end sites with those sites that are operated by our alliance, foundry and back-end partners. We operate these facilities as a cohesive unit which enables us to align these facilities through synchronized technical, quality and reporting guidelines. This system allows us to:

- implement identical technology roadmaps at all sites where the equipment permits this;
- synchronize manufacturing processes and quality control at all sites; and
- quickly move "best practices" developed at one facility to all operations, which helps us to maximize quality and accelerate ramp-up times. For example, we continuously monitor yield at each of the sites in our fab cluster. Differences in yield lead to a comparison of practices and to an identification of each site's comparative strengths. This results in our ability to set best practices for the entire fab cluster.

When one of our fab cluster's facilities is qualified by a customer to make a specific product, qualification of the remaining fabs in the cluster is typically easy to achieve. By qualifying the entire cluster to a customer, we can supply that customer with products from any of our fabs, which affords us significant operational flexibility. Further, by maintaining access to facilities around the world, we are also able to attract highly skilled workers on a more global basis, and maintain access to lower-cost workers as required. This system permitted our joint venture Inotera to complete its first fab ramp-up to 50,000 wafer starts per month in four quarters which we believe is the benchmark in the industry.

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Currently, our fab cluster includes our own front-end facilities in Dresden and Richmond, Virginia, our back-end facilities in Dresden, Malacca and Porto, as well as our front-end manufacturing joint venture Inotera, our back-end manufacturing joint venture Qimonda Suzhou, our front-end foundry partners Winbond, SMIC and Infineon (Dresden 200mm) and the dedicated back-end facility in Suzhou, China, of EEMS Italia SpA that is currently under construction and scheduled to start operations early in the 2008 calendar year.

Mask Manufacturing

High-end photomask technology is a prerequisite for achieving small feature size. Since May 2002, the Advanced Mask Technology Center, or AMTC, Infineon's joint venture with Advanced Micro Devices and Toppan Photomasks in Dresden, Germany, has developed advanced photomasks. Since 2004 the joint venture has developed and produced high-end photomasks at AMTC's pilot production facility. We purchase some of our mask supply from that pilot production facility. We also purchase masks from Toppan Photomasks under a cooperative arrangement with Infineon, and expect to continue to do so for as long as Infineon is our majority shareholder.

ISO Certification

We have held ISO 9001 certification since 1986 and ISO/TS 16949 certification (which elaborates on particular requirements for the application of ISO 9001) since 2004. Qimonda has passed the re-certification audit in December 2006, with the result that the certification for ISO 9001 will be valid until end of December 2009 and the certification for ISO/TS 16949 will be valid until March 2010. Annual surveillance audits are performed by our Third Party Body, DNV Det Norske Veritas Zertifizierung und Umweltgutachter GmbH, Essen, Germany.

ISO quality management standards are developed by the International Organization for Standardization (ISO), the world's leading developer of international standards to specify the requirements for state-of-the-art products, processes and managerial practices. ISO quality management certification is an indispensable condition to enjoying sound relationships with our customers.

Intellectual Property

Our intellectual property rights include patents, copyrights, trade secrets, trademarks, utility models, designs and maskwork rights. The subjects of our patents primarily relate to IC designs and process technologies. We believe that our intellectual property is a valuable asset which protects our investment in technology, and supports our licensing efforts with third parties.

Allocation of Existing Patents

In connection with our carve-out, the Infineon Group transferred to us ownership of all those patents and patent applications (which we refer to simply as patents in this section) attributable to the Memory Products business. The ownership of all other patents remained with the Infineon Group. Qimonda's patent portfolio at the end of September 2007 included more than 20,000 patents and patent applications (representing more than 6,000 patent families) compared to more than 23,000 patents and patent applications that remained on the side of Infineon at the time of the carve-out.

Pursuant to the contribution agreement, the Infineon Group may continue to use any patents transferred to us outside the memory products business for their lifetimes. The contribution agreement likewise permits us to use those patents remaining with the Infineon Group within the memory products business under terms corresponding to those we extended to Infineon under this agreement.

Cross-License Under Future Patents

We will own any patents that have been or will be applied for in our name after the carve-out.

As part of the contribution agreement, we agreed to the following terms with respect to patents applied for by either party and its subsidiaries within five years of the effective date of the carve-out or as long as Infineon owns a majority of the shares of our company, whichever period is longer.

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The Infineon Group will receive royalty-free licenses to use our patents outside the memory products business for the lifetimes of the patents or until a change of control of Infineon occurs. If a change of control of Infineon occurs, the licenses would continue if we received corresponding licenses for the memory products field from the third party then controlling Infineon.

The contribution agreement likewise permits us to use those patents applied for by Infineon in the memory products business, under terms equivalent to those we extended to Infineon under this agreement, including a mechanism for handling any change of control equivalent to the one described above.

Sublicense Rights

In connection with a spin-off or the creation of a joint venture, Infineon has the right to sub-license any patents transferred to us as part of the carve-out, as well as any Qimonda patents subject to the cross-license arrangements between Infineon and us, as described above, as long as:

- the patents are used outside the memory products business;
- we receive a grant-back license from the spin-off or joint venture and its majority shareholder in the memory products business; and
- such majority shareholder has no pending patent law suit with us.

In connection with a spin-off or joint venture involving Qimonda, the contribution agreement likewise permits us to sub-license those patents remaining with Infineon, as well as any of Infineon's patents subject to the cross-license arrangements, described above, within the memory products business, under terms equivalent to those we extended to Infineon under this agreement.

As long as we are a Majority-Owned Subsidiary of Infineon

Infineon is permitted to license any patents for which we apply while Infineon is our majority shareholder within cross-license agreements it had already concluded with third parties as of the carve-out date and which require the licensing of patents of subsidiaries.

Furthermore, as long as Infineon holds a majority share in our company, Infineon is permitted to license any patents created by us within cross-license agreements it concludes with third parties after the carve-out, subject to our consent, which we may not unreasonably withhold.

Patent Licensing Negotiations with Third Parties

Under the contribution agreement, Infineon is entitled to raise claims against third parties with respect to a small number of transferred patents that are the subject of licensing negotiations between Infineon and these third parties. We agreed to take the steps necessary to enable Infineon to make such claims. For as long as these negotiations have not been completed and we remain a majority-owned subsidiary of Infineon, we may not license the relevant patents to such third parties or pursue claims against such parties without Infineon's consent.

Cross-License Agreements with Third Parties

It is common in the semiconductor industry for companies, including competitors, to enter into patent cross-license agreements with each other. In the event of an imbalance in the size of the respective portfolios of two companies or other factors, such as revenue, such an agreement may also provide for a cash payment from one party to the other. Infineon is a party to a number of patent cross-license agreements from which we benefit as a majority-owned subsidiary of Infineon. Although we believe that our own substantial patent portfolio will position us to conclude patent cross-license agreements on favorable terms and conditions with other semiconductor companies, we may find that our bargaining position is substantially less than that of the Infineon Group as a whole. In addition, if Infineon ceases to own at least a majority of our shares, we will lose the benefit of coverage under certain of Infineon's cross-license agreements with other parties while the parties may continue to be licensed under the patents Infineon has transferred to us. We are currently in patent cross-license negotiations with several major

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semiconductor industry participants and expect to enter into additional patent cross-license agreements with other parties in the future.

If Infineon ceases to own the majority of our shares, our rights to use patents under some of these cross licensing agreements will terminate. See “Risk Factors — Risks related to our operations — We may not be able to protect our proprietary intellectual property or obtain rights to intellectual property of third parties needed to operate our business” and “Risk Factors — Risks related to our carve-out as a stand-alone company and our continuing relationship with Infineon — We may lose rights to intellectual property arrangements if Infineon’s ownership in our company drops below certain levels.”

Protecting Our Intellectual Property

Our success depends in part on our ability to obtain patents, licenses and other intellectual property rights covering our products and their design and manufacturing processes. To that end, we have obtained many patents and patent licenses and intend to continue to seek patents on our developments. The process of seeking patent protection can be lengthy and expensive. Patents might not be issued from currently pending or future applications or if patents are issued, they may not be of sufficient scope or strength to provide us with meaningful protection or a commercial advantage. In addition, effective copyright and trade secret protection may be limited in some countries or even unavailable.

Many of our competitors also seek to protect their technology by obtaining patents and asserting other forms of intellectual property rights. Third-party technology that is protected by patents and other intellectual property rights may be unavailable to us or available only on unfavorable terms and conditions. Third parties may also claim that our technology infringes their patents or other intellectual property rights, and they may bring suit against us to protect their intellectual property rights. From time to time, it may also be necessary for us to initiate legal action to enforce our own intellectual property rights. We believe that, while as a stand-alone company we may enjoy more flexibility to vigorously defend our intellectual property, we also will not be able to make use in litigation of those patents that remained with the Infineon Group. Furthermore, litigation can be very expensive and can divert financial resources and management attention from other important uses. It is difficult or impossible to predict the outcome of most litigation matters, and an adverse outcome can result in significant financial costs that can have a material adverse effect on the losing party. We are currently engaged in several material disputes over intellectual property rights. Several disputes were settled in 2006, in particular those relating to MOSAID and Tessera.

While it may be possible that Infineon could compete with us on the basis of those patents that remained with Infineon we do not view this possibility as a material threat to our business. Infineon transferred all patents to us that were attributable to the Memory Products business and are licensed to use those patents in the future only outside of the memory products business. In addition, since Infineon transferred to us all of the assets and development resources attributable to the Memory Products business, Infineon would need to make very substantial investments or independently acquire technology to re-enter and compete with us in the memory products business.

Settlement Agreement with Rambus

In March 2005, Infineon reached an agreement with Rambus Inc., settling all claims between them and licensing the Rambus patent portfolio for use in current and future Infineon products. Rambus has granted to Infineon a worldwide license to existing and future Rambus patents and patent applications for use in Infineon memory products. The agreement provides that the duration of the license shall continue until the last of the licensed Rambus patents has expired. The license includes an unspecified number of patents, which expire on different dates over a period ending in 2026. Neither party may terminate the agreement for any reason prior to its expiration. In exchange for this worldwide license, Infineon agreed to pay $50 million in quarterly installments of $6 million between November 15, 2005 and November 15, 2007. After November 15, 2007, and only if Rambus enters into additional specified licensing agreements with certain other DRAM manufacturers, Infineon would be required to make additional quarterly payments which may total an additional $100 million. Because Rambus’ ability to conclude the agreements is not within our control, we are not able to estimate whether additional payment obligations may arise. The agreement also provides Infineon an option for

acquiring certain other licenses. All licenses provide for Infineon to be treated as a “most-favored customer” of Rambus. Infineon has simultaneously

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granted to Rambus a fully-paid perpetual license for memory interfaces. These contingencies were assigned to us pursuant to the contribution agreement.

Amendment and Partial Termination of Our License Agreement with Saifun

In April 2001, we established the Infineon Technologies Flash joint venture with Saifun in which we held a 51% ownership interest. In the 2003 financial year, we increased our ownership interest to 70% by contributing additional capital and converting existing shareholder loans to equity. The joint venture operated through two companies, Infineon Technologies Flash GmbH & Co. KG, located in Dresden, Germany, and Infineon Technologies Flash Ltd., located in Netanya, Israel. During December 2004, we modified the cooperation agreement with Saifun. As a consequence, we consummated the acquisition of Saifun's remaining 30% share in the joint venture in January 2005 and were granted a license for the use of Saifun NROM® technologies, in exchange for $95 million to be paid in quarterly installments over 10 years and additional purchase consideration primarily in the form of net liabilities assumed aggregating €7 million. We retained the option to terminate the entire license or parts thereof at any time without penalty. During the quarter ended June 30, 2005, we exercised our termination option and cancelled the portion of the license encompassing NROM® Code Flash products. As a result of the partial termination, the license asset and related liability were reduced to €28 million and €29 million, respectively, as of June 30, 2005. In light of the weak market conditions for commodity NAND flash memories in the fourth quarter of our 2006 financial year, we decided to ramp down our Flash production and cease the current development of NAND-compatible flash memory products based on Saifun's proprietary NROM® technology. We and Saifun amended the license agreement to terminate quarterly installment payments as of December 31, 2006. As a result, we reduced our payables, goodwill and other intangible assets, and recognized an impairment charge of €9 million related to license and fixed assets which were not considered to be recoverable as of September 30, 2006.

Equipment

We purchase most of our front-end equipment from Applied Materials, ASM Lithography and Tokyo Electron. In periods of high market demand, the lead times from order to delivery of such specialized equipment can be as long as six to twelve months. We seek to manage this process through early reservation of appropriate delivery slots and constant communication with our suppliers, as well as by pursuing a multiple-vendor strategy to avoid undue dependence on a single supplier. Because we manufacture DRAMs using trench cell technology, we require special equipment for etching the ultra deep trenches into the silicon. These so called "trench etchers" are based on common etch tools that we have modified together with our equipment suppliers to suit our special needs. We currently source our trench etch equipment from two etch equipment suppliers.

We purchase testing equipment for front-end and back-end principally from Advantest. In addition to specialized testing equipment, we maintain a variety of other types of equipment that are used in the testing process.

Raw Materials

The most important raw materials in our front-end process are polished silicon wafers, chemicals, precious and other metals, and gases. The principal suppliers for our wafers are Siltronic, SEH, MEMC, and SUMCO. The principal raw materials used in back-end packaging, assembly and test are leadframes or laminate substrates, gold wire and molding compound. Purchased materials and supplies in our 2006 financial year were approximately 38% of our net sales and 28% in our 2007 financial year

We generally purchase raw materials based on the non-binding forecasts provided to us by our customers. We are not dependent on any one supplier for a substantial portion of our raw material requirements for packaging, assembly and test. Our raw material procurement policy is to select vendors that have demonstrated quality control and reliability with respect to delivery time. In addition, we maintain multiple sources for each raw material so that a quality or delivery problem with any one vendor will not adversely affect our operations. We generally enter into one-year supply agreements with raw material suppliers that offer competitive prices. Although shortages have occurred from time to time and lead times have been extended on occasion in the industry, we have

not experienced any significant production interruption as a result of difficulty in obtaining raw materials to date.

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Employees

The numbers, functions and geographic locations of our employees at the dates indicated were as follows:

	As of September 30					
	2005	%	2006**	%	2007	%
Function:						
Production	7,686	80%	9,113	77%	9,834	73%
Research & development	1,440	15%	1,756	15%	2,506	19%
Sales & marketing	264	3%	320	3%	391	3%
Administrative	216	2%	613	5%	750	5%
Total	9,606	100%	11,802	100%	13,481	100%
Region:						
Germany	4,058	42%	4,684	40%	5,072	38%
Other Europe	1,405	15%	1,666	14%	2,175	16%
North America	2,494	26%	2,763	23%	2,955	22%
Asia/Pacific (**)	1,622	17%	2,651	23%	3,220	24%
Japan**	27	*	38	*	59	*
Other	0	0%	0	0%	0	0%
Total	9,606	100%	11,802	100%	13,481	100%

* Less than 1% of total numbers.

** Our operations in Japan and Korea were legally transferred from Infineon in our 2007 financial year.

In the 2007 financial year, our headcount increased by 1,679 employees, principally due to increased capacities, especially in the production areas in Suzhou, Porto and Dresden. In addition, we further increased the number of product design engineers at various development centers and filled positions at our sales, marketing and general administration departments. The numbers presented in this table as of September 30, 2005, represent the headcount of the memory products business and exclude any allocation of corporate functions performed by Infineon. The numbers presented as of and after September 30, 2006, show the headcount of Qimonda and include our corporate functions. The net increase of R&D employees results mainly from organizational changes implemented at the beginning of our 2007 financial year, dedicating the activities of existing employees from production to the R&D field. Moreover, we strengthened our R&D force in the area of product and technology development.

Our employees in Germany are represented by local works councils (*lokale Betriebsräte*) and a Qimonda group works council (*Konzernbetriebsrat*). Works councils are employee-elected bodies established at each location in Germany and also at a company/group level (on the basis of German labor laws). Close cooperation between management and works councils can be a strong source of stability, minimizing employee unrest and strikes, and ensuring management the ability to execute strategy changes and/or restructuring in a cooperative manner. Works councils have numerous rights to receive notice and participate in policy making in matters regarding personnel, social and economic matters. Under the German Works Constitution Act (*Betriebsverfassungsgesetz*), the works councils must be notified in advance of any proposed employee termination, they must confirm hirings and relocations and similar matters, and they have a right to participate in policy making regarding social matters such as work schedules and rules of conduct. Management considers its relations with the works councils to be good. A separate works council exists at our subsidiary in Dresden, Qimonda Dresden GmbH & Co. OHG. The members of our senior management are represented by a senior management committee (*Sprecherausschuss*) in Germany.

Approximately 700 Infineon employees in Germany who were transferred to our company are covered by the terms of collective bargaining agreements between unions and the Employers' Association (*Arbeitgeberverband*) of which Infineon is a member. The agreements cover both working conditions (*Rahmentarifvertrag*) such as hours and holidays as well as wages (*Gehaltstarifvertrag*). The working conditions and similar types of agreements

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applicable as of April 30, 2006 to these 700 employees will remain applicable until their planned revision by the end of 2008. The wage agreements are typically re- negotiated each year. The wage agreement for this year was signed in May 2007. No short "warning" work stoppages took place during these negotiations.

Although we will not be a member of the Employers' Association, and therefore not obligated by future collective bargaining agreements, the approximately 700 employees who transferred from Infineon to us will receive wages equal to those agreed between the unions and Employers' Association during their yearly re-negotiations through June 2008. Beginning in the first quarter of our 2009 financial year, we plan to be no longer bound by these collective bargaining agreements and will introduce our own compensation systems, based on the outcome of negotiations with the works council.

During the last three years we have not experienced any major labor disputes resulting in significant work stoppages.

Backlog

The prices for portions of our standard DRAM products are generally set every two weeks, based on market demand. Customers enter into purchase orders for supply during two-week periods. While DRAMs for infrastructure applications and graphics, mobile and consumer products are sometimes priced like standard DRAM, they are often sold under longer-term contracts with fixed prices. We do not consider our backlog at any time to be a reliable indicator of future sales and do not rely on backlog to manage our business or to evaluate performance.

Legal Matters

Infineon is the subject of a number of governmental investigations and civil lawsuits that relate to the operations of its Memory Products business prior to our carve-out. The most significant of these matters are described in this section. In addition, under the contribution agreement, we are required to indemnify Infineon, in whole or in part as specified below, for any liability Infineon incurs in connection with the matters described below.

The contribution agreement is based on the principle that all potential liabilities and risks in connection with legal matters existing as of the carve-out date are generally to be borne by the business unit which caused the risk or liability or where the risk or liability arose. Except to the limited extent described below for the securities class action litigation and the settled Tessera litigation (for which we have different arrangements), we have agreed to indemnify Infineon for all liabilities arising in connection with all legal matters specifically described below, including court costs and legal fees. Infineon will not settle or otherwise agree to any of these liabilities without our prior consent.

Liabilities and risks relating to the securities class action litigation, including court costs, will be equally shared by Infineon and us, but only with respect to the amount by which the total amount payable exceeds the amount of the corresponding accrued liability that Infineon transferred to us pursuant to the contribution agreement. Infineon has agreed not to settle this lawsuit without our prior consent. Any expenses incurred in connection with the assertion of claims against the provider of directors' and officers' (D & O) insurance covering Infineon's two current or former officers named as defendants in the suit will also be equally shared. The D & O insurance provider has so far refused coverage. We have agreed to indemnify Infineon for 80% of the court costs and legal fees relating to the litigation settled with Tessera.

In accordance with the general principle that all potential risks or liabilities are to be borne by the entity which caused the risk or liability or where the risk or liability arose, the indemnification provisions of the contribution agreement include the following specific provisions with respect to claims or lawsuits arising after the carve-out date:

- liabilities arising in connection with intellectual property infringement claims relating to memory products were fully allocated to us; and
- liabilities arising in connection with actual or alleged antitrust violations with respect to DRAM products were fully allocated to us.

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Subsequent developments in any pending matter, as well as additional claims that may arise from time to time, including additional claims similar to those described below, could become significant to Infineon or us.

We cannot predict with certainty the outcome of any proceedings in which we are or may become involved. An adverse decision in a lawsuit seeking damages from Infineon or us, or Infineon's or our decision to settle certain cases, could result in monetary payments to the plaintiff and other costs and expenses. If Infineon or we lose a case in which we seek to enforce our patent rights or in which we have been accused of infringing another company's patent rights, we will sustain a loss of future revenue if we no longer can sell the product covered by the patent or command prices for the affected products that reflect the exclusivity conferred by the patent. While payments and other costs and expenses we might have to bear as a result of these actions are covered by insurance in some circumstances, other payments may not be covered by our insurance policies in full or at all. Accordingly, each of the legal proceedings described in the following discussion could be significant to us, and any payments, costs and expenses we may incur in addition to any that have already been incurred or accrued could have a material adverse effect on our results of operations, financial position or cash flows.

Antitrust Matters

U.S. Department of Justice Investigation

In September 2004, Infineon entered into a plea agreement with the Antitrust Division of the U.S. Department of Justice (DOJ) in connection with its investigation of alleged antitrust violations in the DRAM industry. Pursuant to this plea agreement, Infineon agreed to plead guilty to a single count of conspiring with other unspecified DRAM manufacturers to fix the prices of DRAM products between July 1, 1999 and June 15, 2002, and to pay a fine of $160 million. The fine plus accrued interest is being paid in equal annual installments through 2009. Infineon has a continuing obligation to cooperate with the DOJ in its ongoing investigation of other participants in the DRAM industry. The price fixing charges related to DRAM product sales to six Original Equipment Manufacturer (OEM) customers that manufacture computers and servers. Infineon has entered into settlement agreements with five of these OEM customers and is considering the possibility of a settlement with the remaining OEM customer, which purchased only a very small volume of DRAM products from Infineon.

U.S. Civil Litigation

Subsequent to the commencement of the DOJ investigation, a number of putative class action lawsuits were filed against Infineon, its principal U.S. subsidiary and other DRAM suppliers.

Direct Purchaser Litigation

Sixteen cases were filed between June 2002 and September 2002 in several U.S. federal district courts purporting to be on behalf of a class of individuals and entities who purchased DRAM directly from the various DRAM suppliers in the United States during a specified time period (the "Direct U.S. Purchaser Class"), alleging price-fixing in violation of the Sherman Act and seeking treble damages in unspecified amounts, costs, attorneys' fees, and an injunction against the allegedly unlawful conduct.

In September 2002, the Judicial Panel on Multi-District Litigation ordered that the foregoing federal cases be transferred to the U.S. District Court for the Northern District of California for coordinated or consolidated pre-trial proceedings as part of a Multi District Litigation (MDL). In June 2006, the court issued an order certifying a direct purchaser class.

In September 2005, Infineon and its principal U.S. subsidiary entered into a definitive settlement agreement with counsel to the Direct U.S. Purchaser Class (granting an opportunity for individual class members to opt out of the settlement). The settlement agreement was approved by the court on November 1, 2006 and the court entered final judgment and dismissed the class action with prejudice on November 2, 2006. Under the terms of the settlement agreement Infineon agreed to pay approximately $21 million. In addition to this settlement payment, Infineon agreed to pay an

additional amount if it is proven that sales of DRAM products to the settlement class after opt-outs during the settlement period exceeded $208.1 million. We would also be responsible for this payment. The additional amount payable would be calculated by multiplying the amount by which these sales exceed

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$208.1 million by 10.53%. We do not currently expect to pay any additional amount to the class. We have reached individual settlements with eight direct customers in addition to those OEMs identified by the DOJ.

In April 2006, Unisys Corporation filed a complaint against Infineon and its principal U.S. subsidiary, among other DRAM suppliers, alleging state and federal claims for price fixing and seeking recovery as both a direct and indirect purchaser of DRAM. On May 5, 2006, Honeywell International, Inc. filed a complaint against Infineon and its principal U.S. subsidiary, among other DRAM suppliers, alleging a claim for price fixing under federal law, and seeking recovery as a direct purchaser of DRAM. Both Unisys and Honeywell opted out of the direct purchaser class and settlement, and therefore their claims are not barred by the Company's settlement with the Direct U.S. Purchaser Class. Both of these complaints were filed in the Northern District of California, and have been related to the MDL described above. On April 5, 2007 the court dismissed Unisys's initial complaint with leave to amend for failing to give proper notice of its claims. Unisys filed a First Amended Complaint on May 4, 2007. Infineon, its principal U.S. subsidiary, and the other defendants again filed a motion to dismiss certain portions of the Unisys First Amended Complaint on June 4, 2007. On October 15, 2007, the court entered an order denying the motion to dismiss without prejudice. After Honeywell had filed a stipulation of dismissal without prejudice of its lawsuit against Infineon, the court entered the dismissal order on April 26, 2007.

Between February 28, 2007 and March 8, 2007 four more opt-out cases were filed by All American Semiconductor, Inc., Edge Electronics, Inc., Jaco Electronics, Inc. and DRAM Claims Liquidation Trust, by its Trustee, Wells Fargo Bank, N.A. The All American Semiconductor complaint alleges claims for price-fixing under the Sherman Act. The Edge Electronics, Jaco Electronics and DRAM Claims Liquidation Trust complaints allege state and federal claims for price-fixing. As with Unisys and Honeywell, the claims of these plaintiffs are not barred by Infineon's settlement with the Direct U.S. Purchaser Class, since they opted out of the Direct U.S. Purchaser Class and settlement. All four of these opt-out cases were filed in the Northern District of California and have been related to the MDL described above. Based upon the Court's order dismissing portions of the initial Unisys complaint above, the plaintiffs in all four of these opt-out cases filed amended complaints on May 4, 2007. On June 4, 2007 Infineon and its principal U.S. subsidiary answered the amended complaints filed by All American Semiconductor, Inc., Edge Electronics, Inc., and Jaco Electronics, Inc. Also on June 4, 2007, Infineon and its principal U.S. subsidiary, along with its co-defendants filed a joint motion to dismiss certain portions of the DRAM Claims Liquidation Trust and Unisys amended complaint. On October 15, 2007, the court entered an order denying the motion to dismiss without prejudice. On October 15, 2007, the court entered an order denying the motions to dismiss in the Unisys and the DRAM Liquidation Trust cases without prejudice. On October 29, 2007, Infineon answered the Unisys complaint, denying liability and asserting a number of affirmative defenses. On November 1, 2007, Infineon answered the DRAM Claims Liquidation Trust complaint, denying liability and asserting a number of affirmative defenses.

Indirect Purchaser Litigation

Sixty-four additional cases (including a lawsuit discussed separately under "— Foreign Purchaser Litigation" below) were filed between August 2002 and October 2005 in numerous federal and state courts throughout the United States. Each of these state and federal cases (except the lawsuit discussed under "— Foreign Purchaser Litigation") purports to be on behalf of a class of individuals and entities who indirectly purchased DRAM in the United States during specified time periods commencing in or after 1999. The complaints variously allege violations of the Sherman Act, California's Cartwright Act, various other state laws, unfair competition law and unjust enrichment and seek treble damages in generally unspecified amounts, restitution, costs, attorneys' fees and injunctions against the allegedly unlawful conduct.

Subsequently, twenty-three of the state (outside California) and federal court cases and the U.S. District Court for the Eastern District of Pennsylvania case were ordered transferred to the U.S. District Court for the Northern District of California for coordinated and consolidated pre-trial proceedings as part of the MDL described above. After this transfer, the plaintiffs dismissed two of the transferred cases. Two additional transferred cases were subsequently remanded back to their relevant state courts. Nineteen of the twenty-three transferred cases are currently pending in the MDL-litigation. The California state cases were ordered transferred for coordinated and consolidated pre-

trial proceedings to the San Francisco County Superior Court. The plaintiffs in the indirect purchaser cases that originated outside California which have not been transferred to the MDL agreed to stay

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proceedings in those cases in favor of proceedings on the indirect purchaser cases pending as part of the MDL pretrial-proceedings through a single complaint on behalf of a putative nationwide class of indirect purchasers in the MDL. The defendants filed two motions for judgment on the pleadings directed at several of the claims in the indirect purchaser case pending in the MDL. The court entered an order on June 1, 2007 granting in part and denying in part the defendants' motions. The order dismissed a large percentage of the indirect purchaser plaintiff's claims, and granted leave to amend with regard to claims, under three specific state statutes. The court ruled that the indirect purchaser plaintiffs must file a motion for leave to amend the complaint with regard to any of the other dismissed claims. On June 29, 2007, the indirect plaintiffs filed both a First Amended Complaint, and a motion for leave to file a Second Amended Complaint that attempted to resurrect some of the claims that were dismissed. On August 17, 2007, the court entered an order granting the motion to file the Second Amended Complaint, which repleaded part of the previously dismissed claims. On October 1, 2007, all defendants filed a joint motion to dismiss several of the claims in the Second Amended Complaint. The hearing on the motion to dismiss is scheduled for December 12, 2007. The indirect plaintiff's motion for class certification was filed on July 10, 2007, and defendants filed a joint opposition to that motion on September 28, 2007. The hearing on the motion for class certification is scheduled for January 16, 2008.

Foreign Purchaser Litigation

A lawsuit filed on May 5, 2005 in the Eastern District of Pennsylvania, purporting to be on behalf of a class of foreign individuals and entities who directly purchased DRAM outside of the United States from July 1999 through at least June 2002, was dismissed with prejudice and without leave to amend in March 2006. In July 2006, Plaintiffs filed their opening brief on appeal, and defendants filed their joint opening brief in September 2006. No hearing date has yet been scheduled for the appeal. Infineon intends to defend itself vigorously if the court of appeals remands this lawsuit.

State Investigations

In July 2006, the New York state attorney general filed an action in the U.S. District Court for the Southern District of New York against Infineon, its principal U.S. subsidiary and several other DRAM manufacturers on behalf of New York governmental entities and New York consumers who purchased products containing DRAM beginning in 1998. The plaintiffs allege violations of state and federal antitrust laws arising out of the same allegations of DRAM price-fixing and artificial price inflation practices discussed above, and seek recovery of actual and treble damages in unspecified amounts, penalties, costs (including attorneys' fees) and injunctive and other equitable relief. In October 2006, the New York case was transferred to the Northern District of California and made part of the MDL proceeding. In July 2006, the state attorneys general of California, Alaska, Arizona, Arkansas, Colorado, Delaware, Florida, Hawaii, Idaho, Illinois, Iowa, Louisiana, Maryland, Massachusetts, Michigan, Minnesota, Mississippi, Nebraska, Nevada, New Mexico, North Dakota, Ohio, Oklahoma, Oregon, Pennsylvania, South Carolina, Tennessee, Texas, Utah, Vermont, Virginia, Washington, West Virginia and Wisconsin filed a lawsuit in the U.S. District Court for the Northern District of California against Infineon, its principal U.S. subsidiary and several other DRAM manufacturers on behalf of governmental entities, consumers and businesses in each of those states who purchased products containing DRAM beginning in 1998. On September 8, 2006, the complaint was amended to add claims by the state attorneys general of Kentucky, Maine, New Hampshire, North Carolina, the Northern Mariana Islands and Rhode Island. This action is based on state and federal law claims relating to the same alleged anticompetitive practices in the sale of DRAM and plaintiffs seek recovery of actual and treble damages in unspecified amounts, penalties, costs (including attorneys' fees) and injunctive and other relief. On October 10, 2006, Infineon joined the other defendants in filing motions to dismiss several of the claims alleged in these two actions. A hearing on these motions to dismiss was held on February 7, 2007. On August 31, 2007, the court entered orders granting the motions in part and denying the motions in part. The court's order dismissed the claims on behalf of consumers, businesses and governmental entities in a number of states, and dismissed certain other claims with leave to amend. On October 1, 2007, the plaintiffs filed amended complaints in both the New York and Multi-state actions, and, on October 3, they filed requests for leave to file further amendments to their complaints. Between June 25 and August 15, 2007, the state attorneys general of four states, Alaska, Ohio, New Hampshire and Texas, filed requests for dismissal of their claims without prejudice.

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European Commission Investigation

In April 2003, Infineon received a request for information from the European Commission (the "Commission") to enable the Commission to assess the compatibility with the Commission's rules on competition of certain practices of which the Commission has become aware in the European market for DRAM products. Infineon has reassessed the matter after its plea agreement with the DOJ and made an accrual during the 2004 financial year for an amount representing the probable minimum fine that may be imposed as a result of the Commission's investigation. Any fine actually imposed by the Commission may be significantly higher than the reserve established, although Infineon cannot more accurately estimate the amount of the actual fine. Infineon is fully cooperating with the Commission in its investigation.

Canadian Competition Bureau Investigation

In May 2004, the Canadian Competition Bureau advised Infineon's principal U.S. subsidiary that it, its affiliates and present and past directors, officers and employees are among the targets of a formal inquiry into an alleged conspiracy to prevent or lessen competition unduly in the production, manufacture, sale or supply of DRAM, contrary to the Canadian Competition Act. No formal steps (such as subpoenas) have been taken by the Competition Bureau to date. Infineon is cooperating with the Competition Bureau in its inquiry.

Canadian Civil Litigation

Between December 2004 and February 2005, two putative class proceedings were filed in the Canadian province of Quebec and one was filed in each of Ontario and British Columbia against Infineon, its principal U.S. subsidiary and other DRAM manufacturers on behalf of all direct and indirect purchasers resident in Canada who purchased DRAM or products containing DRAM between July 1999 and June 2002, seeking damages, investigation and administration costs, as well as interest and legal costs. Plaintiffs primarily allege conspiracy to unduly restrain competition and to illegally fix the price of DRAM. In the British Columbia action, a hearing on the certification motion has been scheduled for August 2007 and will resume in November 2007. In one Quebec class action, a tentative date for the motion for authorization (certification) has been set for May 2008 (with some possibility of a March 2008 date if the court calendar opens); the other Quebec action has been stayed pending developments in the one that is going forward.

Securities Class Actions

Between September 2004 and November 2004, seven securities class action complaints were filed against Infineon and three of its current or former officers (of which one officer was subsequently dropped as defendant and one of which is currently the chairman of our Supervisory Board) in the U.S. District Courts for the Northern District of California and the Southern District of New York. The plaintiffs voluntarily dismissed the New York cases, and in June 2005 filed a consolidated amended complaint in California on behalf of a putative class of purchasers of Infineon's publicly-traded securities, who purchased them during the period between March 2000 and July 2004, effectively combining all lawsuits. The consolidated amended complaint added Infineon's principal U.S. subsidiary and four then-current or former employees of Infineon and its affiliate as defendants. It alleges violations of the U.S. securities laws and asserts that the defendants made materially false and misleading public statements about Infineon's historical and projected financial results and competitive position because they did not disclose Infineon's alleged participation in DRAM price-fixing activities and that, by fixing the price of DRAM, defendants manipulated the price of Infineon's securities, thereby injuring its shareholders. The plaintiffs seek unspecified compensatory damages, interest, costs and attorneys' fees. Infineon, its principal U.S. subsidiary and the two Infineon officers filed motions to dismiss the consolidated amended complaint. In September 2006, the court dismissed the complaint with leave to amend and in October 2006 the plaintiffs filed a second amended complaint. In March 2007, pursuant to a stipulation agreed with the defendants, the plaintiffs withdrew the second amended complaint and were granted a motion for leave to file a third amended complaint. The plaintiffs filed a third amended complaint on July 17, 2007 and Infineon has filed a further brief in support of its motion to dismiss in October 2007. The court has scheduled the hearing on the motion on November 19, 2007. In the contribution agreement we entered into with Infineon, we agreed to share any future liabilities arising out of this lawsuit equally with Infineon, including the cost of

defending the suit.

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Infineon believes these claims are without merit. We are currently unable to provide an estimate of the likelihood of an unfavorable outcome to Infineon or of the amount or range of potential loss arising from these actions. If the outcomes of these actions are unfavorable or if Infineon incurs substantial legal fees in defending these actions regardless of outcome, it may have a material adverse effect on our financial condition and results of operations. Infineon's directors' and officers' insurance carriers have denied coverage in the securities class actions and Infineon filed suits against the carriers in December 2005 and August 2006. Infineon's claims against one D&O insurance carrier were finally dismissed in May 2007. The claims against the other insurance carrier are still pending.

Patent Litigation

Lin Packaging Technologies, Ltd.

On April 10, 2007, Lin Packaging Technologies, Ltd. (Lin) filed a lawsuit against Infineon, Infineon Technologies North America Corp. and an additional DRAM manufacturer in the U.S. District Court for the Eastern District of Texas, alleging that certain DRAM products were infringing two Lin patents. In May 2007, Lin amended its complaint to include Qimonda AG, Qimonda North America Corp. and Qimonda Richmond LLC. Under the contribution agreement with Infineon, we are required to indemnify Infineon for claims (including any related expenses), if any, arising in connection with the aforementioned suit.

Accruals and the Potential Effect of these Lawsuits on Our Business

Liabilities related to legal proceedings are recorded when it is probable that a liability has been incurred and the associated amount can be reasonably estimated. Where the estimated amount of loss is within a range of amounts and no amount within the range is a better estimate than any other amount or the range cannot be estimated, the minimum amount is accrued. As of September 30, 2007, we have accrued liabilities in the amount of €101 million related to potential liabilities and risks with respect to the DOJ and European antitrust investigations and the direct and indirect purchaser litigation and settlements described above, as well as for legal expenses relating to the securities class actions and the Canadian antitrust investigation and litigation described above. The accrued liabilities, other current and non-current liabilities, and other commitments and contingencies related to legal proceedings are further reported in Notes 16 and 18 of our unaudited condensed combined and consolidated financial statements.

As additional information becomes available, the potential liability related to these matters will be reassessed and the estimates revised, if necessary. These accrued liabilities would be subject to change in the future based on new developments in each matter, or changes in circumstances, which could have a material adverse effect on our financial condition and results of operations.

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

Other Matters

We are subject to various other lawsuits, legal actions, claims and proceedings related to products, patents and other matters incidental to our businesses. We have accrued a liability for the estimated costs of adjudication of various asserted and unasserted claims existing as of the balance sheet date. Based upon information presently known to management, we do not believe that the ultimate resolution of such other pending matters will have a material adverse effect on our financial condition, although the final resolution of such matters could have a material adverse effect on our results of operations or cash flows at that time.

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Environmental Protection, Safety and Health

Our global Environmental, Safety and Health Management System is structured and designed to mitigate the risks associated with our manufacturing processes. These risks include the integrity of our operations, risks relating to the health and well-being of our employees, risks relating to the environment, our assets and third parties. All production sites worldwide and our headquarters are certified according to EN/ISO 14001 and OSHAS 18001.

In the last few years, there has been increased media scrutiny and reports focusing on a potential link between working in semiconductor manufacturing clean room environments and certain illnesses, primarily different types of cancers. Regulatory agencies and industry associations have begun to study the issue to see if any actual correlation exists. We have carried out bio-monitoring programs since 1990, testing both those employees who work in clean room environments and those who do not. Employees that do not work in clean room environments thus serve as a control group, enabling us to determine whether clean room environment employees have been exposed to hazardous chemicals. Our testing has consistently shown that employees who work in our clean rooms have not been exposed to elevated levels of the relevant chemicals. Our bio-monitoring program is a pro-active approach to employee health and safety, and we believe it exceeds the health monitoring efforts of others in our industry. Accordingly, we do not believe that scrutiny of these potential links will negatively affect our ability to recruit and retain employees.

Where we are not able to eliminate adverse environmental impacts entirely, we aim to minimize any such impact. For example, in some of our manufacturing processes we use Perfluorinated Compounds, or PFCs. As early as 1992, we began to install exhaust air filter systems to reduce PFC emissions. We have documented our commitment to protect the environment by signing the global voluntary agreement designed by World Semiconductor Council to reduce greenhouse gases as defined under the Kyoto Protocol. The target is to reduce total PFC emissions of this substance group by 10% compared with the baseline emission level from 1995. After 5 years of data collection, we have determined that our reduction measures, including using alternative chemistry, improving efficiency and installing abatement systems, were appropriate to meet this goal. Assuming an annual production volume growth within the semiconductor industry of 15%, this would represent an emission reduction by 2010 of approximately 90% from the 1995 level, calculated in CO_2 equivalents.

Another aspect of our efforts to minimize our impact on the environment is our comprehensive “green product” strategy, which refers to our efforts to eliminate lead and halogen from our products. We first produced green products and modules in December 2002 and as of September 30, 2007, 86% of all our products were “green” while 95% of our manufactured modules used “green components”. The remaining products that cannot be classified as “green” are produced with these substances due, in most cases, to customers’ specific requirements.

Due to the fact that a damage and loss of a semiconductor facility caused by a fire can be substantial, we have installed automatic protection systems such as sprinklers into all of our production facilities. We have also standardized the loss prevention procedures in all of our facilities. We regularly review our protection status at all of our facilities including audits by external property protection engineers and continue to invest in loss prevention equipment and training at our facilities.

Relevant Environmental Laws and Regulations

We are subject to a variety of laws relating to the use, disposal, cleanup of and human exposure to hazardous materials in most of the jurisdictions we operate in. Within the past decade, the European Union has proposed or enacted certain environmental directives that may be or are required to be enacted in each EU member state. A brief discussion of the most important directives, in terms of their effect, or potential effect, on our business of these follows.

The Restriction of the use of certain Hazardous Substances in electrical and electronic equipment, or the RoHS Directive, prohibits placing products on the EU market that contain more than certain levels of lead, cadmium, mercury and other substances. We comply with this law through implementation of our “green products” strategy discussed above.

To ensure the commercial viability of our products, we have completed the conversion of all

Qimonda product packages to comply with, in particular, the RoHS Directive which sets forth lead-free standards for many types of

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electronic and electrical equipment. The obligation to comply with the RoHS Directive ultimately lies with the equipment's producer. These customers therefore require us to supply lead-free products, and we regularly provide certificates that document our products' compliance with the RoHS Directive's lead-free standards.

To address the needs of electronic equipment manufacturers whose products require an exemption from the application of the RoHS Directive, typically for technical or economic reasons, exemptions are available which permit the use of lead-containing parts for specific applications. In addition, certain manufacturers have been individually exempted from compliance with the RoHS Directive by the relevant governmental authorities. We continue to supply a small number of lead-containing products for these exempted applications and manufacturers. Additionally, we have a number of customers who require delivery of lead containing products to non-European markets, where the RoHS Directive does not apply.

A similar set of rules has recently been implemented in the People's Republic of China. Beginning on March 1, 2007, these rules imposed labeling requirements on all electronic information products, as defined in those rules that are sold in the Chinese retail market. In addition, a self-declaration containing details on the affected chemicals and compounds must be created and communicated within the supply chain. The future implementation obligations of this new law may impose additional costs upon our business or may have an effect on our ability to timely meet customer demand for our products in China.

The Waste Electrical and Electronic Equipment Directive, or WEEE, imposes "take back" obligations on manufacturers for the financing of the collection, recovery and disposal of electrical and electronic equipment. The implementation of the WEEE directive has not been completed in most EU Countries and therefore the potential costs are not foreseeable. We have begun supplying WEEE-compliant products in the German market. The related cost impact is minor in Germany, but could be higher in other countries depending on their implementation of the directive.

The Registration, Evaluation and Authorization of Chemicals used in the European Union, or REACH Regulation, is a regulatory framework that concerns the registration, evaluation and authorization of certain chemicals. This regulatory framework came into effect in December 2006. While it has not been fully determined which chemicals will fall under these regulations, we believe the regulation is targeted towards chemical companies and industries in which significant volumes of chemicals are used. As we use very few chemicals whose volume exceeds 100 tons per year, we are classified as a "down-stream user category II" under this legislation. Furthermore, this legislation contains a proposal to exempt companies who meet certain standards from the authorization process. Due to these uncertainties, we believe it is premature to estimate the potential costs this regulation could impose on us.

The Energy-using Products, or EuP Directive establishes ecologically sound development requirements for electrical devices. This directive applies generally to consumer products such as home appliances, and does not specifically regulate our products. However, our customers who do produce electronic or electrical consumer devices need to be able to demonstrate to consumers that their products do conform to the directive and so we may need to supply our customers with information that will enable them to comply with these obligations. We believe this Directive may have a positive influence on those of our DRAM products that consume relatively less power than comparable products of our competitors.

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Real Property

The following table sets forth, as of September 30, 2007, the location, size and primary use of our major real properties and whether such real properties are owned or leased.

Location	Approximate size (in 1,000m²) Land	Building	Primary uses (in square meters)	Owned or leased Land	Building
Burlington, Vermont	*	3	Research	*	Leased
Dresden, Germany(1)	132	154	Research, Wafer fabrication, Assembly and Testing	Owned	Partly owned and leased
Malacca, Malaysia(2)	13	16	Assembly and Testing	Leased	Partly owned and leased
Munich, Germany(3)	*	48	Headquarters and Research	*	Leased
Padua, Italy	*	**	Research	*	Leased
Porto, Portugal(4)	220	57	Assembly and Testing	Owned	Owned
Raleigh, North Carolina	*	9	Research	*	Leased
Richmond, Virginia(5)	853	126	Wafer Fabrication	Owned	Owned
Suzhou, China	200	41	Assembly and Testing	Leased	Owned
Xi'an, China	*	2	Research	*	Leased

* Not applicable for leased properties.

** The premises in Padua, Italy, consists of 450m²

(1) Refers to our 300mm wafer fabrication, back-end manufacturing and research facility, including research conducted in conjunction with our development partner, Nanya. The building space is in two locations, of which 20.000m² is leased.

(2) Includes a 13,000m² building owned by our company and 3,000m² of space leased from Infineon.

(3) Includes research and office space at our five locations in and around Munich.

(4) Subject to limited exceptions, under the terms of the financing arrangements relating to the site, we must receive the consent of Portuguese authorities to sell, lease or assign this property.

(5) We currently have five buildings on this property.

As of September 30, 2007, we also leased more than 10,000m² of office space for administrative, sales, logistics and other use, at various locations around the world.

On October 8, 2007, we entered into a rental agreement for a new headquarters in Neubiberg (near Munich), Germany. The agreement involves the construction of a building by a third party lessor on land adjacent to Infineon's corporate headquarters, and provides for a 15 year initial non-terminable tenancy. We expect the lease to commence when the construction of the building is completed, which is currently scheduled for early 2010.

We recently agreed to lease approximately 100,000m² of land in Malaysia. We are currently constructing an additional building with a total size of 15,500m² and expect it to be completed in February 2008.

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MANAGEMENT

Overview of Corporate Governance Structure

In accordance with the German Stock Corporation Act (*Aktiengesetz*), our company has a Supervisory Board and a Management Board. The two boards are separate and no individual may simultaneously serve as a member of both boards. The Management Board is responsible for managing our business in accordance with applicable laws, the Articles of Association of our company and the rules of procedure of the Management Board. Moreover, it represents us in our dealings with third parties. The Supervisory Board appoints and removes the members of the Management Board and oversees the management of our company but may not make management decisions.

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

The Supervisory Board has comprehensive monitoring functions. To ensure that these functions are carried out properly, the Management Board must, among other things, regularly report to the Supervisory Board with regard to current business operations and future business planning. The Supervisory Board is also entitled to request special reports at any time. The Management Board is required to ensure appropriate risk management within our company and must establish an internal monitoring system.

Under German law, shareholders of a company, like other persons, are liable to the company for damages if they intentionally use their influence on the company to cause a member of the Management Board, the Supervisory Board or holders of special proxies to act in a way that is harmful to the company. If a member of the Management Board or Supervisory Board neglects his or her duties, such member is jointly and severally liable with the persons exercising such influence. Infineon is our controlling shareholder. Under German law, a controlling shareholder may not cause us to act against our interests unless we are compensated by the controlling shareholder for any resulting detriment or we have entered into a control agreement governed by German law (*Beherrschungsvertrag*). Infineon and we have not entered into a control agreement. Members of our Supervisory and Management Boards who have not acted in our interest in their dealings with a controlling shareholder are, together with the controlling shareholder, jointly and severally liable to our company for damages.

We must bring an action against members of the Supervisory and Management Boards for breach of duty in our name if a majority of the shares voting at a shareholders' meeting so resolve. We may only waive our right to damages under, or settle claims arising out of, an action like this three years after the date that the cause of action accrued and if the shareholders approve the waiver or settlement at a meeting of the shareholders by majority vote, as long as shareholders holding 10% or more of our share capital do not object and have their opposition formally noted in the minutes maintained by a German notary.

Under German law, individual shareholders can sue members of the Supervisory and Management Boards on behalf of the company in a manner analogous to a shareholder's derivative action under U.S. law only if they hold at least 1% of the company's share capital or shares with a notional value of €100,000 and only with court permission. Under German law, directors may be liable for breach of duty to shareholders (as opposed to a duty to the company itself) only where a breach of duty to the company also constitutes a breach of a statutory provision enacted specifically for the protection of shareholders. As a practical matter, shareholders are able to assert liability against directors for breaches of this sort only in unusual circumstances.

We adopted new Articles of Association in connection with our carve-out and amended them at the occasion of our extraordinary shareholders' meetings on July 14, 2006 and on July 27, 2006. These, taken together with German corporate law, provide as follows with respect to our Supervisory Board and our Management Board.

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Supervisory Board

After the transfer of employees from Infineon to us in connection with our carve-out, our Management Board determined, and publicly announced on May 4, 2006, that under the German Act on the One-Third Participation of Employees in Supervisory Boards (*Gesetz über die Drittelbeteiligung der Arbeitnehmer im Aufsichtsrat*), one third of the members of our Supervisory Board must henceforth be elected by our employees. In accordance with this announcement, we amended our Articles of Association to provide that our Supervisory Board must consist of six members, four of whom must be elected by our shareholders in a shareholders' meeting, and two of whom must be elected by our employees.

In general, the four shareholder representatives on the Supervisory Board are elected by a majority of the votes cast at a shareholders' meeting. During our extraordinary shareholders' meeting held on July 14, 2006, four new Supervisory Board members were elected. With effect as of the close of the Supervisory Board's meeting on July 24, 2007, Mr. Michael von Eickstedt resigned from office as a shareholder representative on the Supervisory Board. As our next annual general meeting will not take place before 2008, we, together with other applicants, initiated a court proceeding in accordance with Section 104 of the German Stock Corporation Act to have the competent court appoint a shareholder representative for a transitional period that will continue until the next annual general meeting has taken place. Section 104 of the German Stock Corporation Act generally provides that application for a court appointment can be made if the actual number of Supervisory Board members is below the number required by law or the articles of association for a period in excess of three months or, if the matter is urgent, before expiration of the three month period. On August 27, 2007, the court appointed Prof. Dr. Claus Weyrich as a member of the Supervisory Board.

The two employee representatives on our Supervisory Board come from the ranks of our employees (excluding executive employees (*leitende Angestellte*)). As the voting procedure with respect to the employee representatives is time-consuming, the two employee representatives, Messrs. Johann Grundbacher and Lothar Armbrecht, were appointed by the court on July 20, 2006 based on the court proceeding in accordance with Section 104 of the German Stock Corporation Act.

Our Articles of Association allow the shareholders, by a vote of three quarters of the votes cast in a general meeting, to remove any member of the Supervisory Board they have elected. The employee representatives may be removed by the group of employees that were entitled to elect them by a vote of three-quarters of the votes cast. The Supervisory Board will elect a chairman and a deputy chairman from among its members. The Supervisory Board normally acts by simple majority vote with the chairman having a casting vote. Supervisory Board resolutions are subject to a quorum of half of the members of which the Supervisory Board must be composed.

The Supervisory Board meets at least twice during each half of a calendar year. Its main functions are:

- to appoint our Management Board;
- to monitor our management;
- to approve matters in areas that the Supervisory Board has made generally subject to its, or one of its committee's, approval; and
- to approve matters that the Supervisory Board decides on a case by case basis to make subject to its approval.

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Supervisory Board Members

The following table lists current members of our Supervisory Board, their ages, their functions and their principal occupations:

Name	Age	Function	Principal occupation
Peter J. Fischl	61	Chairman	CFO and Member of the Management Board of Infineon Technologies AG.
Richard Previte	72	Deputy Chairman	Former President, Advanced Micro Devices, Inc.
Prof. Dr. Claus Weyrich	63	Member	Former Member of the Management Board of Siemens AG
Yoshio Nishi	67	Member	Professor, Stanford University
Johann Grundbacher	43	Member	Electrical Engineer, Qimonda AG
Dr. Lothar Armbrecht	54	Member	Member of Works Council

Under German law, the shareholders may determine the term of each shareholder-elected member of the Supervisory Board. The maximum term of office of each Supervisory Board member runs until the close of the meeting of the shareholders that passes a resolution concerning the discharge (*Entlastung*) of the respective member in respect of the fourth financial year after the beginning of his or her term. The financial year in which the term begins is not included in this calculation. Under German law, "discharge" in this context means to approve, in a general manner, the member's actions in his or her capacity as a Supervisory Board member. It does not relieve the member of his or her legal liability under German law for his or her actions as a Supervisory Board member.

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

The current members of our Supervisory Board do not own, directly or indirectly, any of our share capital. The business address of each of the members of our Supervisory Board is Gustav-Heinemann-Ring 212, 81739 Munich, Germany.

Significant Differences between our Corporate Governance Practices and those of U.S. Companies Listed on the New York Stock Exchange

A brief, general summary of the significant differences between our corporate governance practices under German law and the practices applicable to U.S. companies listed on the New York Stock Exchange is available at http://www.qimonda.com/about/investorrelations/corporate_governance/significant_differences.html. This website address is included in this annual report as an inactive textual reference only.

Committees of the Supervisory Board

Our Supervisory Board has established the following committees:

Investment, Finance and Audit Committee

Our Supervisory Board has established an Investment, Finance and Audit Committee, comprising two shareholder representatives and one employee representative. The Investment, Finance and Audit Committee carries out the functions normally carried out by the audit committee of a U.S. company, among other duties, including:

- preparing the decisions of the Supervisory Board concerning approval of our company's annual financial statements, including review of the financial statements, the management report, the proposed application of earnings and the reports of our registered public accounting firm;
- reviewing the (interim) financial statements of our company that are made public or otherwise filed with any securities regulatory authority;

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- handling auditor independence issues, the proposal to the Supervisory Board with respect to the appointment of the independent auditor by the general shareholders' meeting, mandating our auditor (including the fee arrangement and the determination of the focus of the audit) to audit our consolidated and unconsolidated annual financial statements, approving any consulting services by the auditor and supervising the auditor including the resolution of disputes between the Management Board and the auditor;
- approving decisions of our Management Board or one of its committees regarding increases of our company's capital through the issuance of new shares from our authorized capital, to the extent that we are not either issuing the shares to employees or using them for a share option plan (subject to contrary resolutions of the shareholders' meeting);
- approving decisions of our Management Board in relation to any investment or disposition if its value exceeds 10% of the total financial year's investment budget, in relation to the agreement of securities, guarantees and loans to or from third parties outside our group of companies which in each case exceeds 5% of our shareholders' equity (*Eigenkapital*) on the latest audited consolidated balance sheet of our group of companies and in relation to the financial year's budget (including finance, investment and personnel planning);
- handling risk management issues and supervising the risk management system;
- establishing procedures pursuant to which our employees can report to the Investment, Finance and Audit Committee, on an anonymous and confidential basis, complaints regarding our accounting and auditing practices, including internal accounting controls, and enacting rules pursuant to which such complaints received by us from third parties will be reported to the Investment, Finance and Audit Committee;
- discussing any flaws relating to our internal control systems, which come to the attention of the Investment, Finance and Audit Committee;
- examination of our bookkeeping, documents and assets;
- approval of Management Board resolutions on the utilization of the authorization granted by our shareholders to issue convertible bonds, including, in particular, the maximum amount of the issuance and the exclusion of shareholders' preemptive rights.

The Investment, Finance and Audit Committee also supports the Supervisory Board in its exercise of its duty to supervise our business. It may exercise certain oversight powers conferred upon the Supervisory Board by German law for this purpose. Decisions of the Investment, Finance and Audit Committee are subject to the quorum that two thirds, but at least three of its members participate and require a simple majority.

Messrs. Previte (chairman), Weyrich and Armbrecht sit on the Investment, Finance and Audit Committee.

Technology Committee

Our Supervisory Board has established a Technology Committee. This committee advises the Management Board on technology related issues. Messrs. Nishi (chairman), Fischl and Grundbacher sit on this committee.

Presidential Committee

Our Supervisory Board has established a Presidential Committee. Among other things, this committee handles, and prepares resolutions of the full Supervisory Board on, all matters relating to the relationship between us and the Management Board, including the execution, amendment and termination of the service agreements with the Management Board members, as well as the appointment and removal of Management Board members. In this function, the Presidential Committee carries out tasks that are normally carried out by compensation committees of U.S. public companies. Messrs. Fischl (chairman), Weyrich and Previte sit on this committee.

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Management Board

Our Articles of Association require our Management Board to have at least two members. Our Supervisory Board may increase the size of the Management Board and appoints its members. Currently, our Management Board consists of three members.

The Management Board has adopted rules of procedure for the conduct of its affairs and a plan for the assignment of business (*Geschäftsverteilungsplan*) which have been approved by the Supervisory Board. The Management Board may substantially amend them at any time. The adoption and amendment of these rules require the unanimous vote of the Management Board and the consent of the Supervisory Board. The Supervisory Board may, however, decide to adopt rules of procedure for the Management Board instead.

The rules of procedure provide that the chairman of the Management Board will be required to notify the chairman of the Supervisory Board of any pending matter that is significant. The chairman of the Supervisory Board will be required, at the next meeting of the Supervisory Board, to notify the other members of the Supervisory Board of such matter, and the Supervisory Board will then be able, on a case-by-case basis, to designate such matter as one requiring Supervisory Board approval.

In general, our Management Board members are jointly responsible for all management matters and, pursuant to the rules of procedure, will be required to decide jointly on a number of issues, including:

- preparation of the annual financial statements;
- calling shareholders meetings;
- matters for which the consent of the shareholders or of the Supervisory Board must be obtained; and
- matters involving basic organizational policy, business policy and investment and financial planning questions for our company.

Notwithstanding the joint responsibility of all Management Board members for management matters, the rules of procedure provide that the Management Board may, with the consent of the Supervisory Board, establish a plan on the internal allocation of responsibilities among the Management Board members. According to the plan we have established, Mr. Kin Wah Loh is responsible for strategy and business development, personnel strategy, regions, law, communications, technology, innovation, patents, products, product development, quality management, IT and procurement. Mr. Seifert is responsible for the areas computing, graphics, consumer and mobile, AENEON, purchasing, production, supply chain and logistics, sales and regional centers. Dr. Majerus is responsible for planning and controlling, bookkeeping, accounting and reporting, tax, participation management, finance, internal audit and compliance, security (including data protection and environmental matters), investor relations, export control and duties and personnel.

The rules of procedure provide that the Management Board shall, in general, pass its resolutions by unanimous vote.

Under German law, the Supervisory Board appoints the members of the Management Board for a maximum term of five years. They may be reappointed or have their terms extended for one or more terms of up to five years each. The Supervisory Board may remove a member of the Management Board prior to expiration of such member's term for "good cause", as defined in German law. "Good cause" includes a serious breach of duty or a bona fide vote of no confidence by the shareholders. A member of the Management Board may not deal with, or vote on, matters that relate to proposals, arrangements or contracts between that member and our company.

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Management Board Members

The members of our Management Board, their ages, the year in which their current term expires and their position and principal business activities outside our company, including principal directorships, is as follows:

Name	Age	Term expires	Position within company	Principal business activities outside company (including principal directorships)
Kin Wah Loh	53	2011	Chairman of the Management Board	—
Dr. Michael Majerus	46	2010	Member of the Management Board	Director, Inotera Memories, Inc.
Thomas Seifert	44	2009	Member of the Management Board	Director, Inotera Memories, Inc.

Kin Wah Loh has served on Infineon's Management Board since December 2004, serving from January to July 2005 as the Head of the Communication segment, and, since July 28, 2005, as the Executive Vice President of the Memory Products segment. From 1999 until 2004 he served as President and Managing Director of Infineon Technologies Asia Pacific, Singapore. Mr. Loh began his career at Siemens Components in 1978 as a quality engineer in Malacca, Malaysia, later serving as General Manager (Production) of Siemens Components Singapore between 1993 and 1996. In 1997, he was appointed Managing Director of Siemens Components. He holds an honors degree in chemical engineering University of Malaysia, Kuala Lumpur and a certified diploma in finance and accounting from ACCA UK.

Dr. Michael Majerus has served as the Chief Financial Officer of the Memory Products Group of Infineon since December 2000. He has been a member of the Board of Directors of Inotera in Taiwan since its founding. Previously, Dr. Majerus held various positions in finance within the Mannesmann Group, including as the head of controlling and accounting at Mannesmann AG, which he joined in 1989. He holds a diploma in business administration from the University of Cologne, Germany, and a doctorate in economics from the University of Siegen, Germany, where he served as assistant at the Institute of Business Administration and Production.

Thomas Seifert has served on the Memory Products Group Management Board since 2004. He is also a member of the Board of Directors of Inotera in Taiwan. From 2000 to 2004, Mr. Seifert worked with the Wireline Communications Business Group, where he served first as Chief Operating Officer and then Chief Executive Officer. From 1996 to 2000, Mr. Seifert led the White Oak Semiconductor plant, Infineon's joint venture with Motorola in Richmond, Virginia. Starting in 1993, he spent three years working on the manufacturing cooperation with IBM on the Management Board in Essonnes, France. Mr. Seifert joined the Corporate Management Group of Siemens in 1990. Mr. Seifert holds a diploma in business administration from the University of Erlangen, Germany and a masters degree in economics from Wayne State University, Michigan, United States of America.

These Management Board members have served in their positions since April 15, 2006.

The current members of our Management Board do not own, directly or indirectly, any of our share capital. We do not expect that the members of our Management Board will, individually or in the aggregate, own, directly or indirectly, more than 1% of our company's outstanding share capital, including for these purposes any ADSs or options they may acquire in or at the time of the offering. The business address of each of the members of our Management Board is Gustav-Heinemann-Ring 212, 81739 Munich, Germany.

Compensation

Our Articles of Association provide that the annual compensation for each member of the Supervisory Board will be $50,000. The chairman of the Supervisory Board will receive $150,000 and the deputy chairman, as well as each chairman of a Supervisory Board committee, will receive $100,000, in each case per full financial year. Shareholder representatives on the Supervisory Board

affiliated with Infineon have waived their right to receive compensation for as long as Infineon remains a significant shareholder of the Company. Our Articles of Association

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provide that each member of the Supervisory Board will receive, for each full financial year, 5,000 ADS appreciation rights. These are automatically granted, and may later be exercised, under the same terms and conditions that apply under the stock option plan approved by the shareholders' meeting that will be in force in the year of the grant of the ADS appreciation rights. See "— Employee Stock Option Program". These rights will provide the member the cash benefit of any appreciation in our ADS price during the time the right is held but will not entitle any member to receive ADSs or the underlying shares. That is, upon exercise of such rights, we will pay the member the amount of cash equal to the difference between the grant price and the average ADS price over a several day period before the exercise date. The annual appreciation rights were automatically granted on November 24, 2006, the date on which the stock options were granted under our stock option program (5,000 appreciation rights were granted to Messrs. Previte, Nishi, Armbrecht and Grundbacher; Prof. Weyrich received pro rata 486 appreciation rights).

For our 2007 financial year, the individual members of the Supervisory Board received the following cash remuneration:

	Fixed remuneration
Peter J. Fischl	$ —
Richard Previte	100,000
Yoshio Nishi	100,000
Prof. Claus Weyrich	4,861
Michael v. Eickstedt	—
Dr. Lothar Armbrecht	50,000
Johann Grundbacher	50,000
Total	$ 304,861

We entered into employment service contracts with each of the members of the Management Board. Pursuant to these contracts, the members of the Management Board are entitled to receive an annual base salary plus a regular annual bonus, the amount of which will depend upon Qimonda's return on invested capital. We will pay a total of €2,250,000 in base salary to the members of our Management Board each year under these contracts. We may pay between €700,000 and €2,460,000 in total to the members of our Management Board under their service contracts in the form of a yearly bonus dependent on company performance as measured by return on assets (year-end EBIT divided by the sum of equity and debt). The yearly bonus for each member may be increased in €20,000 increments for each percentage point return on assets exceeding 12% in any given year. In addition, each member is eligible to receive a discretionary bonus in the event the member achieves additional performance targets established by the Supervisory Board. The Management Board may also receive other compensation, including continued remuneration in the event of sickness, allowances for insurances, and non cash benefits for business trips, as well as company cars. Under the service contracts, Management Board members are also entitled to receive a fixed annual pension that increases over time depending on the number of years served on the Management Board. We will pay up to a maximum of €750,000 per year in pension to the members of our Management Board. In principle, members of the Management Board are entitled to such pension after the age of 65. Upon a Management Board member's death, benefits may be payable to the deceased's spouse or orphaned children. Each of the service contracts expires when the Management Board member's term of office is terminated. In the absence of arrangements to the contrary, the contract expires on the member's 65th birthday.

None of Infineon, us or our subsidiaries have extended any loans to any member of our Supervisory or Management Boards.

If a person (alone or together with others) acquires 30% or more of the voting rights in our company, which the service agreements with our Management Board members define as a change of control, and a member of the Management Board then resigns or his service agreement is terminated, that member of the Management Board is entitled to a severance payment calculated based on the member's fixed annual salary and in some circumstances taking into account the otherwise remaining term on the Management Board of that member. The Chairman of the

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Management Board is entitled to a larger severance payment than the other members of the Management Board. The pension rights and rights with respect to granted stock options of any member of the Management Board that resigns or whose service agreement is terminated in the event of a change of control remain unaffected.

For our 2007 financial year, beginning on October 1, 2006, the individual members of the Management Board were entitled to following compensation:

	Base salary	Other compensation	Yearly bonus dependent on company performance	Total compensation
Loh Kin Wah	€1,050,000	€ 63,832	€ —	€ 1,113,832
Dr. Michael Majerus	600,000	25,291	—	625,291
Thomas Seifert	600,000	19,634	—	619,634
Total	€2,250,000	€ 108,757	€ —	€ 2,358,757

Employee Stock Option Program

Our shareholders have authorized the Supervisory Board to grant to the members of the Management Board, and the Management Board to grant to certain key executives in our group, through September 30, 2009, a total of 6,000,000 non-transferable option rights to receive ordinary shares issued by us.

The option rights may be allocated as follows: the first group, consisting of the members of our Management Board, may receive a total of up to 1,200,000 option rights. Our Supervisory Board allocated 400,000 options for grant in the 2007 financial year of which 200,000 are for Mr. Loh, 100,000 are for Mr. Majerus and 100,000 are for Mr. Seifert. These options were granted on November 24, 2006. In addition, our Supervisory Board allocated 200,000 options for grant to our Management Board in the 2008 financial year of which 100,000 are for Mr. Loh, 50,000 are for Mr. Majerus and 50,000 are for Mr. Seifert. These options have not yet been granted. The second group, consisting of the members of the executive boards of our subsidiaries in Germany and abroad, may receive a total of up to 1,000,000 option rights. The third group, consisting of further key executives who will be nominated based on their performance to receive up to a specific number of options based on their job classification, may receive a total of up to 3,800,000 option rights. For the second group, 215,600 options and for the third group 1,284,600 options were granted on November 24, 2006. In total, about 4% of our work force participates in the plan. During any fiscal year, not more than 40% of the total option rights allocable to the respective group may be issued to the members of such group. No option rights may be issued to executives of any of our group companies that are listed on a stock exchange and their subsidiaries, if and for as long as such companies maintain their own stock option plans.

Option rights may be granted within 45 days upon the publication of our results for the preceding fiscal year or within 45 days of publication of our results for the first or second quarter of a fiscal year, but, in each case, no later than two weeks prior to the end of the respective quarter.

The option rights may be exercised within six years after their grant, but not before the expiration of a vesting period that will be at least three years. The exercise of each option right is subject to the condition that the exchange price of our ADSs on the New York Stock Exchange will, during the life of the respective option right, exceed the index “Philadelphia Semiconductor Sector (SOX)” on at least three consecutive days. In order to determine whether such exceeding has taken place, the SOX and the strike price of the respective option right will be set at 100 at the day on which the option right is granted.

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For as long as our shares are not listed on any organized market with the European Union or the European Economic Area, the strike price will be the average of the opening prices of our ADSs on the New York Stock Exchange on the five trading days prior to the day of the grant (or a fraction thereof, if an ADS does not represent exactly one of our ordinary shares). Otherwise, the strike price will be the average of the opening prices of our shares on the respective organized market on the five trading days prior to the day of the grant.

The holders of option rights will benefit from certain anti-dilution protection provisions, particularly in the case of certain capital measures performed by us.

Upon exercise of an option right, the holder will generally receive new ordinary shares to be issued by us. Our Management Board (with approval by the Supervisory Board) will, however, instead be allowed to deliver existing shares or pay a cash compensation to be calculated on the basis of the difference between the strike price and the exchange price of our ADSs or shares on the exercise date.

The Management Board and, to the extent options to be granted to the Management Board are concerned, the Supervisory Board are entitled to determine further details of the option plan, including, in particular, the inclusion of the new shares granted upon exercise of the option rights into our ADS program.

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PRINCIPAL SHAREHOLDERS

The following table shows the beneficial ownership of our company's share capital by (1) the principal shareholders (each person or entity who owns beneficially 5% or more of our shares), (2) the public and (3) the members of our Management Board and Supervisory Board, each as a group, on September 30, 2007. We are not directly or indirectly owned or controlled by any foreign government.

	Shares and ADSs owned after the initial public offering	
	Percent	Number
Infineon Technologies Investment B.V.[1]	49.03%	167,686,026
Infineon Technologies AG[2]	28.44%	97,293,975
Public Shareholders	22.53%	77,050,000
All the members of our Supervisory and Management Boards as a group	0	0
	100%	342,000,001

(1) On July 17, 2006, Infineon Technologies Holding B.V., a wholly-owned subsidiary of Infineon Technologies AG, transferred its Qimonda shares, representing approximately 55.9% of our total share capital at that time, to its wholly-owned subsidiary Infineon Technologies Investment B.V., a private limited liability company under Dutch law. On July 18, 2007, in connection with the transfer of ownership of Qimonda Japan K.K. from Infineon, a capital increase of Qimonda AG comprising a single share was registered with the Commercial Register. The current registered share capital of Qimonda AG amounts to €684,000,002. On September 26, 2007, Infineon Technologies Investment B.V. placed bonds that are exchangeable for an aggregate of up to 20,515,267 of Qimonda ADSs (representing approximately 6% of our current share capital) currently held by Infineon Technologies Investment B.V at specified times until August 31, 2010.

(2) On September 25, 2007, Infineon sold 28,750,000 Qimonda shares to the public from its shareholdings in a public secondary offering. Infineon's holdings include 3,550,098 Qimonda shares equal to 1.04% of the equity interests in Qimonda that Infineon loaned to an affiliate of J.P. Morgan Securities, Inc. in connection with Infineon Technologies Investment B.V.'s placement of bonds exchangeable into shares of our company as described above. These shares must be returned no later than August 31, 2010 upon the termination of the loan. Infineon has advised us that J.P. Morgan has already returned some of these shares.

The major shareholders appearing in the table above do not have different voting rights from any of our other shareholders.

Under German law, for so long as Infineon holds more than 25% of the shares in our company, it will be in a position to block shareholder action on a variety of matters, such as:

- a resolution not to give effect to existing shareholders' preemptive rights in a capital increase;
- any capital decrease, merger, consolidation, spin-off, sale or other transfer of all or substantially all of our assets;
- a change in the corporate form or business purpose of the company; or
- the dissolution of our company.

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RELATED PARTY TRANSACTIONS AND RELATIONSHIPS

With Infineon

We have previously entered into various short-term borrowing arrangements with Infineon. The largest amount outstanding under these arrangements during the two financial years ended September 30, 2004 and 2005 was €524 million, as determined on a pro-forma basis for these periods only. As of September 30, 2006, our indebtedness to Infineon amounted to $435 million (€344 million) bearing interest at a weighted average rate of 6.23%. We repaid the outstanding amount of this loan in April 2007 from available funds.

Carve-out and Control

We were carved out as a wholly-owned subsidiary of Infineon effective May 1, 2006. Pursuant to the contribution agreements Infineon and we entered into in connection with the carve-out, Infineon contributed substantially all of the assets, liabilities, operations and activities, as well as the employees, of its Memory Products segment to us. This excluded the Memory Products operations in Korea and Japan, which have since been transferred to us. While Infineon's investment in the Advanced Mask Technology Center (AMTC) and in the Maskhouse Building Administration Company (BAC) in Dresden have been contributed to us, only the legal transfer of this investment is not yet effective, because Infineon's co-venturers have not yet given the required consent to the transfer of the AMTC and BAC interest. While pursuant to the AMTC and BAC limited partnership agreements, such consent may not be unreasonably withheld Infineon and we are currently finalizing negotiations with AMD and Toppan concerning an agreement that provides the consent to the assignment to us and addresses Infineon's intention to reduce its stake in us below 50%. The assets, liabilities, operations and activities that have not yet been contributed or legally transferred are described in greater detail under "— Contribution Agreements — Arrangements relating to Inotera, Memory Products' Japanese and Korean Operations, AMTC and BAC."

The contribution took legal effect as of its registration in the commercial register (*Handelsregister*) at the local court (*Amtsgericht*) of Munich. In the contribution agreement, however, Infineon had granted us an unrestricted license to use all resources of the transferred business beginning on May 1, 2006. As of that date, Infineon transferred direct or indirect possession to us of all of the assets that are the subject of the contribution.

We agreed with Infineon that, if the legal transfer of specific assets or other rights was not possible as of the effective date of the contribution, we would position ourselves in relation to each other as if the transfer of these assets or rights had occurred as of that date. We also agreed with Infineon that, if further legal steps are necessary to transfer the assets or other rights, both parties will take the relevant steps without delay. If third party consent is required for the transfer of specific liabilities, or the assignment of specific contracts, offers or permits, Infineon and we agreed to attempt to obtain that consent without delay and position ourselves in relation to each other as if the transfer of these liabilities, or the assignment of these contracts, offers or permits had occurred as of the effective date of the contribution.

We have entered into arrangements with Infineon with respect to various interim and ongoing relationships between the two groups. Some of these arrangements are covered in the contribution agreement. Others are the subject of separate agreements, the principal of which are described below.

Infineon is currently our largest shareholder, with a direct and indirect shareholding of 77.5% in our company. Infineon has publicly announced that it aims to reduce its stake in Qimonda to significantly below 50% by the time of Infineon's Annual Shareholder Meeting in 2009, at the latest. The temporary majority ownership by Infineon permits us to use the entire intellectual property umbrella as well as other benefits from contracts between the Infineon group of companies and third parties. Infineon has already begun to re-negotiate or establish intellectual property cross-licensing and other contractual relationships with third parties for our benefit. For as long as Infineon, directly or indirectly, owns a majority of our shares, it will also have the majority of votes in our shareholders' general meeting and will therefore be in a position to elect all of the shareholder-elected members of our Supervisory Board. The composition of the Supervisory Board is set forth under "Management —

Supervisory Board".

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All of the agreements relating to our carve-out from Infineon, including those governing our ongoing relationship with Infineon, were and will be concluded in the context of a parent-subsidiary relationship and in the overall context of our carve-out from Infineon. The terms of these agreements may be less favorable to us than had they been negotiated with unaffiliated third parties. See "Risk Factors — Risks related to our carve-out as a stand-alone company and our continuing relationship with Infineon".

Contribution Agreements

Contribution Agreement between Infineon AG and Qimonda AG

The contribution agreement between Infineon AG and Qimonda AG contains provisions that:

- define the assets, liabilities and employees that were transferred to us;
- govern the intercompany licensing of intellectual property; and
- delineate the indemnification claims that Infineon will have against us in respect of legal matters and other liabilities and contingencies.

Pursuant to the contribution agreement, Infineon contributed substantially all of the operations of its Memory Products segment, including the assets that were used exclusively for these operations, to Qimonda AG with economic effect as of May 1, 2006. As consideration, we granted Infineon 132,288,975 of our no-par value ordinary registered shares (*Namensaktien*). In order to issue the shares to be granted to Infineon, we increased our capital from €50,000 to €264,627,950 on April 25, 2006.

Contributed assets and liabilities

The individual assets and liabilities contributed to us under the contribution agreement include:

- fixed assets and current assets attributable to the Memory Products segment (not including trade accounts receivable for products and services provided to third parties and certain related parties, which are netted against trade accounts payable);
- intellectual property, including patents (as described in more detail in "Our Business — Intellectual Property"), trade marks, know-how, software and other intellectual property;
- contracts and offers relating exclusively to products and services provided by the Memory Products segment;
- rights and obligations arising under permits and other legal relationships with governmental entities (including those arising under subsidies), so long as they do not relate to individual persons;
- liabilities attributable exclusively to the Memory Products segment, including those contained in the carve-out balance sheet, those arising under contracts with third parties and employment relationships (including pension liabilities), contingencies (including those arising in the future on the basis of events that occurred prior to the carve-out date) and other liabilities attributable exclusively to the Memory Products segment and which have arisen by the carve-out date (not including trade accounts payable — see above);
- risks and liabilities arising out of financings, credit lines, leases and guarantees, which Infineon entered into for the benefit of the Memory Products segment; and
- ownership in certain equity investments, including in Inotera Memories, Inc., Infineon Technologies SC 300 GmbH & Co. OHG, Maskhouse Building Administration GmbH & Co. KG, Advanced Mask Technology Center GmbH & Co. KG (legal transfer is still pending) and Hwa-Keng Investment Inc. (meanwhile liquidated. Pursuant to the contribution agreement Infineon has transferred to us the assets it received upon the liquidation.)

Infineon did not contribute any real estate to us in the carve-out other than the property held in legal entities that it transferred to us.

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Arrangements relating to Inotera, Memory Products' Japanese and Korean Operations, AMTC and BAC

Infineon's Memory Products assets in Japan and Korea were not contributed to us at the time of the initial contribution. A contribution of our Japanese assets had, for practical reasons, to be preceded by the rollout of new software. The contribution of the Korean assets and employees, which represent an insignificant portion of Qimonda's total assets and employees, was also postponed for practical reasons. We entered into an agreement with Infineon on June 27, 2006, pursuant to which Infineon agreed to hold these Japanese and Korean assets in trust pending the contribution. The Korean assets were transferred to us in October 2006. Infineon transferred the operations in Japan into a wholly-owned subsidiary of Infineon. The legal transfer of that subsidiary to us took place in July 2007.

The agreement governing our joint venture with Nanya, named Inotera Memories, Inc. (Inotera), allows Infineon to transfer its shares of Inotera to us. However, under Taiwanese law, Infineon's shares in Inotera are subject to a compulsory restriction on transfer (lock-up) as a result of Inotera's IPO in March 2006. For that reason we had established a separate trust agreement pursuant to which Infineon held title to the Inotera shares in trust for us and exercised shareholder rights (including board appointments and voting) at our instructions until they could be transferred. See "Our Business — Strategic Alliances and Agreements" for a description of these arrangements. Taiwanese law generally provides that Infineon may only transfer these shares to us gradually over the four years following Inotera's IPO. In October 2006, the Taiwanese authorities granted an exemption to Infineon permitting it to release the shares from the restriction. We completed the share transfer from Infineon to us in the first quarter of the 2007 calendar year other than a portion representing 0.24% of the total Inotera shares which Infineon holds in trust for us due to Taiwanese legal restrictions.

In addition, our limited partnership agreement with Advanced Micro Devices (AMD) and Toppan Photomask relating to the Advanced Mask Technology Center (AMTC) and to the Maskhouse Building Administration Company (BAC) in Dresden requires prior written consent from the other partners before Infineon can assign its partnership interest to us. This consent may not be unreasonably withheld. Under the current agreement, the interest must be transferred back to Infineon should Infineon cease to be our majority shareholder. Infineon and we are currently finalizing negotiations with AMD and Toppan concerning an agreement that provides the consent to the assignment to us and addresses Infineon's intention to reduce its stake in us below 50%. Under this agreement, a "change of control" that could lead to termination of the agreements with AMD and Toppan would only be deemed to occur if a direct competitor of AMD or Toppan becomes the beneficial owner of 30% or more of our equity interests or obtains the power to appoint the majority of the members of our Supervisory Board. Infineon's investment in the AMTC and BAC is being held by Infineon for our economic benefit pursuant to the contribution agreement.

A number of additional contracts with respect to which the economic benefits and obligations had been assigned to Memory Products in the carve-out require third party consent before the benefits and obligations can be assigned. As disclosed above, to the extent these consents are not received, Infineon and we agreed to position ourselves in relation to each other as if assignment of these contracts had occurred as of May 1, 2006.

Employment Matters

The employment relationships that Infineon had with its Memory Products employees, including all rights and obligations relating to these relationships, were automatically transferred to us to the extent employees did not object to that transfer.

Arrangement concerning the Licensing of Intellectual Property

In connection with the transfer of intellectual property to us, Infineon and we have entered into certain cross-licensing arrangements, which are described in "Our Business — Intellectual Property".

Indemnification

The contribution agreement includes provisions pursuant to which we agreed to indemnify Infineon against any claim (including any related expenses) arising in connection with the liabilities, contracts, offers, uncompleted

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transactions, continuing obligations, risks, encumbrances and other matters relating to the Memory Products segment that were transferred to us in the carve-out. We also agreed to indemnify Infineon against any losses it may suffer under several guarantee and financing arrangements that relate to our business but that cannot be transferred to us for legal, technical or practical reasons. In addition, the contribution agreement provides for indemnification of Infineon with respect to certain existing and future legal claims (as described in "Our Business — Legal Matters") and if a ramp-down of production in the Dresden 200mm fab is needed, 50% of any restructuring costs that may be incurred (as described in "— Dresden 200mm Fab"). With the exception of the securities and certain patent infringement and antitrust claims identified in "Our Business — Legal Matters," for which different arrangements apply as described in that section, we are obligated to indemnify Infineon against any liability arising in connection with the claims described in that section. Finally, the contribution agreement in principle provides for us to bear 60% of the total license fee payments payable by Infineon and us to which Infineon and we may agree in connection with two cases in which negotiations relating to licensing and cross-licensing were ongoing at the time of the carve-out, one of which is still ongoing. These payments could be substantial and could remain in effect for lengthy periods. The contribution agreement does not limit the aggregate liability we may incur as a result of our indemnification obligations, nor does it restrict the obligations to a certain time period after the carve-out as long as the events giving rise to them occurred prior to the carve-out.

Costs and taxes; future tax liabilities

Infineon agreed to bear the costs and taxes in conjunction with entering into the contribution agreement, while expenses incurred on or after May 1, 2006 are divided between Infineon and us. Infineon has agreed to bear all tax liabilities arising in the future that relate to Memory Products businesses that were previously part of legal entities that remain with Infineon for periods prior to the carve-out.

Contribution Agreement between Infineon Technologies Holding B.V. and Qimonda AG

Prior to our carve-out, Infineon Technologies Holding B.V. held the entire share capital of Qimonda Holding B.V., an entity recently established to hold Infineon's equity in foreign companies that form part of the Memory Products business. Pursuant to a separate contribution agreement we entered into with Infineon Technologies Holding B.V., all shares in Qimonda Holding B.V. were contributed to us as of May 1, 2006. In return for this contribution, we granted Infineon Technologies Holding B.V. 167,686,025 of our no-par value ordinary registered shares. To issue these shares, we had previously increased our share capital from €264,627,950 to €600,000,000. Shares that were not either granted to Infineon or Infineon Technologies Holding B.V. in connection with the carve-out are reflected in our capital reserves. The contribution by Infineon Technologies Holding B.V. took legal effect as of its registration in the commercial register (*Handelsregister*) at the local court (*Amtsgericht*) of Munich.

On July 17, 2006, Infineon Technologies Holding B.V. transferred its Qimonda shares, representing approximately 55.9% of our total share capital at that time to its wholly-owned subsidiary Infineon Technologies Investment B.V., a private limited liability company under Dutch law. In return, Infineon Technologies Investment B.V. issued 50 of its shares with a nominal value of €1,000 each to Infineon Technologies Holding B.V.

Dresden 200mm Fab

The current production capacity for memory products of Infineon's Dresden 200mm fab is approximately 7,000 wafer starts per week. We entered into an agreement with Infineon for the production of wafers in the Dresden 200mm fab. Pursuant to the agreement, as amended in January 2007, Infineon has agreed to manufacture specified semiconductor memory products at the Dresden 200mm fab, using our manufacturing technologies and masks, and to sell them to us at prices specified in the agreement. These prices are based on the cost of manufacture. We are required under this agreement to pay for idle costs resulting from our purchasing fewer wafers from Infineon than agreed upon, if Infineon cannot otherwise utilize the capacity. We are also obliged to indemnify Infineon against any third party claims based on or related to any products manufactured for us under this agreement and against any intellectual property infringement claims related to the products covered by the agreement. In addition, we agreed to share equally with Infineon any potential restructuring costs

that might be incurred in connection with the ramp-down of production of the Dresden 200mm fab if neither company can use the capacity. Restructuring costs may

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include severance payments. The capacity arrangements terminate on September 30, 2009 unless we terminate them earlier.

Ongoing Services Relationships

Prior to our carve-out, most of the administrative, financial, risk management, information technology and other services that we required were provided centrally by Infineon. The Infineon Group will continue to provide some of these services under services agreements described below. The terms of these agreements may be less favorable to us than they might have been had they been negotiated with unaffiliated third parties.

General Support Services

Framework Agreement on Standard Support Services

In connection with our carve-out, we entered into a Global Service Agreement (the "GSA") with Infineon, which took effect as of our carve-out date and which serves as the framework under which we have entered into individual standard service agreements, the most important of which are listed below. Under these agreements, the Infineon Group and we provide standard support services to one another. Certain services in the areas of manufacturing, product supply and distribution, licensing, research and development, accounting and information technology support, as well as comprehensive services provided to us by the Infineon Group in specified countries have been covered under separate agreements.

Under the GSA, the service recipient agrees to pay the service provider a fee based on actual or estimated total costs incurred plus a margin This margin has been 3% since May 1, 2006. Unless otherwise agreed in individual service level agreements, the service provider may choose to provide the services itself or through an affiliated or unaffiliated subcontractor. If the service provider chooses to subcontract to a non-affiliate services it had previously provided itself, the service recipient must agree to the subcontractor and the terms of the subcontract. If this agreement cannot be reached, the service level agreement may be terminated with 90 days prior notice. Under the GSA, each service provider must perform services using the level of care that it customarily applies in its own matters of a similar nature. Damages under this agreement are payable only if caused by grossly negligent or malicious behavior and, in the case of grossly negligent behavior, are subject to an annual cap represented by the total payments received by the service provider under the relevant standard service agreement in the relevant calendar year. The GSA allows either party to an individual standard service agreement to terminate that agreement upon 90 days written notice, unless otherwise agreed in the individual agreement or in a subcontract between the service provider and a subcontractor, or upon 30 days written notice in case of default of the other party. The GSA will terminate once all standard service agreements concluded under the GSA have expired or been terminated. A number of the standard service agreements were terminated on September 30, 2007. However, several of the agreements including in the accounting, infrastructure, facility management and research and development are still in effect.

General Support Services

The general support services that Infineon agreed to provide under the umbrella of the GSA and individual standard service agreements that we and Infineon entered into, that are still in effect include:

- sales support in various countries, most significantly France, Hong Kong, Ireland, Switzerland, United Kingdom and the United States;
- logistics services, including call center services in Europe, logistics support services in the Asia-Pacific region and freight forwarding services in the United States;
- purchasing services at locations and/or with respect to areas of expertise where we do not have sufficient purchasing resources;
- human resources services, including recruiting, compensation and benefits, payroll, site health care and training;

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- facility management, including office and manufacturing space leasing, security, storage and transportation management;
- patent support, including patent administration, external support and reverse engineering;
- finance, accounting, including risk management and back-office support, for as long as we have not reached full staffing levels in this area
- strategy services, including support relating to market research; and
- certain other services in which our staff still needs to develop expertise.

In addition we agreed to provide Infineon with purchasing services in locations where Infineon does not have sufficient purchasing power, as well as with finance and treasury, tax, human resources and communications services under the GSA.

Other Services

Framework Agreements on Information Technology Services

We entered into two master information technology agreements with Infineon effective May 1, 2006.

Under the master information technology cost sharing agreement, Infineon and we agreed to share costs of a variety of information technology services provided by one or both parties in the common interest and for the common benefit of both parties. In general, the parties agreed to share the fixed costs of the services provided (accounting for approximately 53% of total costs) roughly equally and to share variable costs in a manner that reflects each party's consumption. The parties' respective shares of the variable costs are subject to adjustment on an annual basis in accordance with the agreement. Any material or related intellectual property rights created by the parties in the course of the performance of the agreement will be jointly owned by each party, unless otherwise agreed to by the parties. Either party may terminate any individual shared service upon 30 days written notice, unless otherwise agreed in a subcontract between the service provider and a subcontractor. Any ramp down costs will be shared by the parties. The agreement will terminate once all shared services provided under the agreement have expired or been terminated; neither party can terminate a shared service for convenience prior to September 30, 2007 without mutual agreement. The parties have started negotiations with the goal to terminate and ramp down all individual shared services by March 31, 2008.

Under the master information technology service agreement, Infineon and we agreed to provide information technology services to one another. The scope of the services (generally including the designing, building, module testing, documenting, deployment and rollout of IT projects), fees payable for the services and other service-specific provisions will be contained in individual "statements of work" entered into between the Infineon and Qimonda entities providing and receiving the respective services. In general, the service recipient pays a fee based on actual or estimated total costs incurred plus a margin of 3% for the period from May 1, 2006 to September 30, 2006 and thereafter as mutually agreed from year to year. The fee for the 2007 financial year is also based on actual or estimated total costs incurred plus a margin of 3%. The agreement grants either party termination rights upon 90 days written notice, unless otherwise agreed in the individual statements of work or in a subcontract between the service provider and a subcontractor, or upon 30 days written notice in case of default of the other party. Costs associated with an early termination by the service recipient will be borne by the service recipient. The master information technology service agreement will terminate once all statements of work concluded under the agreement have expired or been terminated. We generally expect the statements of work to terminate by the end of the first half of our 2008 financial year.

Both agreements specify that, unless otherwise agreed in individual statements of work, the service provider may choose to provide the services itself or through an affiliated or unaffiliated subcontractor. If the service provider chooses to subcontract to a non-affiliate services it had previously provided itself, the service recipient must agree to the subcontractor and the terms of the subcontract. If this agreement cannot be reached, the relevant services may be terminated with 90 days prior notice. If a party chooses to terminate any individual shared service or statement of work under

either agreement, it is obligated to enter into a termination assistance agreement with the other party, the purpose of which is to secure the operational stability of the service during the wind down phase. Under both master

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agreements, each service provider must perform services using the level of care that it customarily applies in its own matters of a similar nature. Damages under both agreements are excluded to the extent legally permissible.

Framework Agreement on Research and Development Services

In 2006, we negotiated a Global Research and Development Services Agreement with Infineon, which provides a framework surrounding the provision of research and development services between Infineon on one hand and Qimonda AG and its subsidiaries on the other hand. The service recipient agrees to pay the service provider a fee based on actual or estimated total costs incurred (where total costs include depreciation on equipment and tools as well as the cost of materials) plus a margin. This margin has been 3% since May 1, 2006. The agreement grants either party termination rights upon 90 days notice, unless otherwise agreed in a subcontract between the service provider and a subcontractor.

Under the Global Research and Development Services Agreement, the deliverables to be developed by the service provider are owned by the recipient of the deliverables, except background intellectual property rights of the provider. The recipient grants the provider a non-exclusive, perpetual license to use the deliverables and the related intellectual property rights in its respective field of business. Expenses incurred in research and development in connection with employee inventions are to be paid by the recipient of the invention.

Special Services

In addition to the general services scheduled to be provided under the GSA, the information technology services agreements and the research and development services agreement and the services provided under the agreement for the production of wafers in the Dresden 200mm fab, Infineon intends to provide to us special services, including manufacturing services for the supply of advanced module buffers for use in our modules.

Any other services not covered under the above agreements will be provided as mutually agreed on a case-by-case basis.

With Management

A member of our Supervisory Board, Mr. Fischl, is a member of Infineon's Management Board and serves as Infineon's chief financial officer. See "Management — Supervisory Board — Supervisory Board Members." Two members of our Management Board, Dr. Majerus and Mr. Seifert, are members of the Board of Directors of Inotera Memories, Inc. our joint venture with Nanya. See "Our Business — Strategic Alliances and Agreements" for a discussion of our relationship with Nanya, Inotera and CSVC.

We sometimes extend travel and moving expenses and other types of advances to our employees. As a matter of policy, such advances are not provided to the members of our Supervisory Board and Management Board. See Notes 14 and 27 to the combined and consolidated financial statements included elsewhere in this annual report.

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Relationship with Siemens

Until 1999, the entire business of Infineon, including the Memory Products business, formed the Semiconductor Group of Siemens AG, a large German electronics conglomerate. In 1999, Siemens formed Infineon as a separate legal entity, transferred its semiconductor business to Infineon, and conducted an initial public offering of Infineon's ordinary shares with listing on the Frankfurt Stock Exchange and the New York Stock Exchange. Siemens subsequently took a variety of steps to further reduce its ownership interest in Infineon. On April 3, 2006 Siemens disposed of its remaining shares in Infineon. Transactions between us and Siemens subsequent to this date are no longer reflected as related party transactions.

In the 2004 and 2005 financial years, 4% and 3% of our net sales resulted from direct sales to the Siemens-Fujitsu joint venture, a member of the Siemens group, and in the 2006 financial year through to Siemens' disposal of its remaining Infineon shares such sales amounted to €17 million. We believe that these transactions were on terms no less favorable to us than we could obtain from third parties.

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ARTICLES OF ASSOCIATION

This section summarizes the material rights of holders of the shares of our company under German law and the material provisions of our Articles of Association. This description is only a summary and does not describe everything that the Articles of Association contain. Copies of the Articles of Association will be publicly available from the Commercial Register in Munich, and an English translation is incorporated by reference as an exhibit to this annual report.

Share Capital

The issued share capital of our company consists of €684,000,002 divided into 342,000,001 individual registered shares. The individual shares do not have a par value but they do have a notional value that can be determined by dividing the share capital amount by the number of shares.

On July 27, 2006, our shareholders resolved to increase our share capital by €84 million against cash contributions through the issuance of 42 million no-par value ordinary registered shares. The capital increase became effective on August 8, 2006. Shareholders' preemptive rights were excluded.

On May 29, 2007, our Management Board resolved to increase our share capital by €2.00 against the contribution of all shares in Qimonda Japan K.K. from €684,000,000 to €684,000,002 through the issuance of one no-par value ordinary registered share from our authorized capital. The capital increase was approved by the Investment, Finance and Audit Committee of our Supervisory Board and became effective on July 18, 2007. Shareholders' preemptive rights were excluded. Qimonda Japan K.K. comprises our operations in Japan (Sales and Marketing). These were not contributed to us at the time of the initial contribution of Infineon's Memory Products assets but initially held in trust for Qimonda's benefit; the share capital increase described above was carried out in order to effect the contribution of these assets. See "Related Party Transactions and Relationships — with Infineon— Carve-out and Control — Contribution Agreements".

Registrar Services GmbH, the transfer agent and registrar of our company in Germany, will register record holders of shares in the share register on our behalf pursuant to a transfer agency agreement. The transfer agent will also maintain the register of our shareholders.

Authorized Capital

Under the German Stock Corporation Act, a stock corporation's shareholders can authorize the Management Board to issue shares in a specified aggregate nominal amount of up to 50% of the issued share capital at the time the resolution becomes effective. The shareholders' authorization may extend for a period of no more than five years after registration of the capital increase in the commercial register (*Handelsregister*).

On July 14, 2006, our shareholders resolved to amend our Articles of Association to authorize the Management Board to increase the share capital with the Supervisory Board's consent. The Management Board may use this authorization until July 13, 2011 to increase the share capital by up to €30 million through the issuance, in one or more tranches, of new ordinary registered shares with no par value against cash contributions for the purpose of issuing shares to our and our subsidiaries' employees. Shareholders' preemptive rights are excluded. This increase in our authorized capital became effective with its registration in the commercial register on July 24, 2006.

In addition on July 27, 2006, our shareholders resolved to amend the Articles of Association of our company to authorize the Management Board to increase the share capital with the Supervisory Board's consent against contributions in cash or in kind. The Management Board may use these authorizations until July 26, 2011 to issue new shares in one or more tranches for any legal purpose:

in an aggregate amount of up to €239.4 million, in which case existing shareholders have pre-emptive rights, which may be excluded in the following circumstances:

(i) to the extent that new shares must be granted to holders of subscription warrants or convertible bonds that we have issued, in accordance with the terms of issuance of such warrants or convertible bonds;

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(ii) if (1) the new shares represent 10% or less of the existing share capital when the authorized capital or issuance of the new shares is registered and (2) the issue price of the new shares is not considerably less than the stock exchange price of the shares in our company; or

(iii) to the extent necessary to avoid balancing out fractional residual amounts.

In the case of a capital increase against contributions in kind, the Management Board may exclude the shareholders' preemptive rights with the consent of the Supervisory Board. This increase in our authorized capital became effective with its registration in the commercial register on August 8, 2006.

In connection with the share capital increase by €2.00 described above, our authorized share capital was decreased from €239,400,000 to €239,399,998.

Conditional Capital

Under the German Stock Corporation Act, a stock corporation's shareholders can authorize conditional capital of up to 50% of the issued share capital at the time of the resolution. During our extraordinary shareholders' meeting on July 14, 2006, our shareholders passed the following resolutions with regard to conditional capital:

First, our share capital is conditionally increased by up to €12 million through the issuance of up to 6 million ordinary registered shares with no par value in connection with the employee stock option and share purchase plans described above under "Management — Employee Stock Option Program and — Employee Share Purchase Programs."

Second, our share capital is conditionally increased by up to €240.1 million through the issuance of up to 120.05 million ordinary registered shares with no par value. This conditional capital may only be used in connection with an issuance of a convertible bond, which our shareholders authorized by resolution of July 14, 2006.

These resolutions on conditional capital were registered in the commercial register on July 24, 2006.

Preemptive Rights

Under the German Stock Corporation Act, an existing shareholder in a stock corporation has a preferential right to subscribe for new shares to be issued by that corporation in proportion to the number of shares he holds in the corporation's existing share capital. These rights do not apply to shares issued out of conditional capital. Preemptive rights also apply to securities that may be converted into shares, securities with warrants, profit-sharing certificates and securities with dividend rights. The German Stock Corporation Act only allows the exclusion of this preferential right in limited circumstances. At least three quarters of the share capital represented at the relevant shareholders' meeting must vote for exclusion. In addition to approval by the shareholders, the exclusion of preemptive rights requires a justification. The justification must be based on the principle that the interest of the company in excluding preemptive rights outweighs the shareholders' interest in their preemptive rights.

Shareholders' Meetings and Voting Rights

A general meeting of the shareholders of our company may be called by the Management Board or, under certain circumstances, by the Supervisory Board. Shareholders holding in the aggregate at least 5% of our issued share capital may also require the Management Board to call a meeting. The annual general meeting must take place within the first eight months of the financial year. The Management Board calls this meeting upon the receipt of the Supervisory Board's report on the annual financial statements.

Under German law and the Articles of Association of our company, our company must publish invitations to shareholders' meetings in the electronic version of the German Federal Gazette (*elektronischer Bundesanzeiger*) at least thirty days before the last day on which the shareholders must notify our company that they intend to attend the meeting (not counting the date of publication and the last day of notification).

A shareholder or group of shareholders holding a minimum of either 5% of the share capital of our company or shares representing at least €500,000 of its registered capital may require that additional items be put on the agenda of our shareholders' general meeting.

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Shareholders who are registered in the share register may participate in and vote at the shareholders' general meeting. A notice by a shareholder of his intention to attend a shareholders' general meeting must be given to our company at least six days (or a shorter period, if so determined by management) before the meeting, not counting the day of notice and the day of the meeting. In certain cases, a shareholder can be prevented from exercising his voting rights. This would be the case, for instance, for resolutions on the waiver or assertion of a claim by our company against the shareholder.

Each share carries one vote at general meetings of the shareholders. Resolutions are generally passed with a simple majority of the votes cast. Resolutions that require a capital majority are passed with a simple majority of the issued capital, unless statutory law or the Articles of Association of our company require otherwise. Under the German Stock Corporation Act, a number of significant resolutions must be passed by a majority of at least 75% of the share capital represented in connection with the vote taken on that resolution. The majority required for some of these resolutions may be lowered by the Articles of Association. The shareholders of our company have lowered the majority requirements to the extent permitted by law.

Although our company must notify shareholders of an ordinary or extraordinary shareholders' meeting as described above, neither the German Stock Corporation Act nor the Articles of Association of our company has a minimum quorum requirement. This means that holders of a minority of our shares could control the outcome of resolutions not requiring a specified majority of the outstanding share capital of our company.

According to the Articles of Association of our company, resolutions to amend the Articles of Association must be passed by at least a majority of the nominal capital represented at the meeting of shareholders at which the resolution is considered. However, resolutions to amend the business purpose stated in the Articles of Association of our company also require a majority of at least three-quarters of the share capital represented at the meeting. The 75% majority requirement also applies to the following matters:

- the exclusion of preemptive rights in a capital increase;
- capital decreases;
- the creation of authorized capital or conditional capital;
- dissolution;
- a merger (*Verschmelzung*) with another company or another corporate transformation;
- a transfer of all or virtually all of the assets of our company; and
- the conclusion of any direct control, profit and loss pooling or similar intercompany agreements.

Dividend Rights

Shareholders participate in profit distributions in proportion to the number of shares they hold.

Under German law, our company may declare and pay dividends only from balance sheet profits as they are shown in our company's unconsolidated annual financial statements prepared in accordance with applicable German law. In determining the distributable balance sheet profits, the Management Board and the Supervisory Board may allocate to profit reserves up to one half of the annual surplus remaining after allocations to statutory reserves and losses carried forward. Under certain circumstances all or part of the remaining half of the annual surplus may also be allocated to the statutory reserves.

The shareholders, in determining the distribution of profits, may allocate additional amounts to profit reserves and may carry forward profits in part or in full.

Dividends approved at a shareholders' general meeting are payable on the first stock exchange trading day after that meeting, unless otherwise decided at the shareholders' general meeting. If you hold shares that are entitled to dividends through a clearing system, the dividends will be paid according to that clearing system's rules. We will publish notice of dividends paid and the paying agent or agents that we have appointed in the German Federal Gazette.

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Liquidation Rights

In accordance with the German Stock Corporation Act, if we are liquidated, any liquidation proceeds remaining after all of our liabilities have been paid off would be distributed among our shareholders in proportion to their holdings.

Repurchase of Our Own Shares

We may not acquire our own shares unless authorized by the shareholders' general meeting or in other very limited circumstances set out in the German Stock Corporation Act. Shareholders may not grant a share repurchase authorization lasting for more than 18 months. The rules in the German Stock Corporation Act generally limit repurchases to 10% of our share capital and resales must be made either on a stock exchange, in a manner that treats all shareholders equally or in accordance with the rules that apply to preemptive rights relating to a capital increase. On July 27, 2006, our shareholders granted us such an authorization.

Corporate Purpose of Our Company

The corporate purpose of our company, described in section 2 of the Articles of Association, is direct or indirect activity in the field of research, development, manufacture and marketing of electronic components, electronic systems and software, as well as the performance of related services.

Registration of the Company with Commercial Register

Our company was entered into the commercial register of Munich, Germany, as a stock corporation on May 25, 2004 under the number HRB 152545.

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ADDITIONAL INFORMATION

Group Structure

The following table shows information about our significant subsidiaries as of September 30, 2007:

Significant Subsidiaries

Corporate Name	Country of Residence	Field of activity	Proportion of our ownership interest
Qimonda Europe GmbH	Germany	Distribution, Sales & Marketing	100%
Qimonda Dresden GmbH & Co. oHG	Germany	Production	100%
Qimonda Holding B.V	The Netherlands	Holding	100%
Qimonda Investment B.V	The Netherlands	Holding	100%
Qimonda Portugal S.A.	Portugal	Production	100%
Qimonda Richmond, LLC	United States	Production	100%
Qimonda North America Corp.	United States	Distribution, Sales & Marketing, Research and Development	100%
Qimonda Asia Pacific Pte Ltd.	Singapore	Distribution	100%
Qimonda Malaysia Sdn. Bhd	Malaysia	Production	100%
Qimonda Module (Suzhou) Co. Ltd.	China	Production	100%
Qimonda Technologies (Suzhou) Co., Ltd.	China	Production	62.8%
Qimonda Japan K.K[1]	Japan	Sales and Marketing	100%
Inotera Memories Inc.[2]	Taiwan	Production	35.6%

(1) At the time of our carve-out, our operations in Japan were held in trust for Qimonda's benefit until the legal transfer to Qimonda in the 2007 financial year took place.

(2) Because of Inotera's significance for us within the meaning of Rule 3-09 of the SEC's Regulation S-X, we have incorporated by reference in this annual report, Inotera's audited consolidated financial statements as of and for the years ended December 31, 2005 and 2006

Dividend Policy

We have not declared any cash dividends on our ordinary shares and have no present intention to pay dividends on our ordinary shares in the foreseeable future. Any determination by our Supervisory and Management Boards to pay dividends will depend on many factors, including our financial condition, results of operations, legal requirements and other factors. We may also become subject to debt instruments or other agreements that limit our ability to pay dividends.

Under the German Stock Corporation Act (*Aktiengesetz*), the amount of dividends available for distribution to our shareholders is based on the level of earnings (*Bilanzgewinn*) of the parent company, Qimonda AG, as determined in accordance with the German Commercial Code. All dividends must be approved by shareholders. No earnings are available for distribution as a dividend for the 2007 financial year, since Qimonda AG, on a standalone basis, as the parent company, incurred a cumulative loss (*Bilanzverlust*) as of September 30, 2007.

All of the shares represented by ADSs have the same dividend rights as all of our other outstanding shares. Any distribution of dividends jointly proposed by our Management and Supervisory Boards requires the approval of our shareholders in a general meeting. The section "Articles of Association — Dividend Rights" explains in more detail

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the procedures we must follow and the German law provisions that determine whether we are entitled to declare a dividend.

For information regarding the German withholding tax applicable to dividends and related United States refund procedures, see "Taxation — German Taxation" in this 20-F

Significant Changes

Except as discussed elsewhere in this annual report on Form 20-F, no significant change has occurred since the date of the annual financial statements included in this annual report on Form 20-F.

Market Information

General

The principal trading market for our company's ADSs, each representing one share, is the New York Stock Exchange. The ADS trade under the symbol QI. All of our company's shares are in registered form. The depositary for the ADSs is Citibank, N.A. We do not currently intend to list our shares or ADSs on any stock exchange outside the United States.

Trading on the New York Stock Exchange

ADSs representing our company's shares have traded on the New York Stock Exchange since August 9, 2006. The table below sets forth, for the periods indicated, the high and low closing sales prices for the ADSs on the New York Stock Exchange:

	Price per ADS in U.S. dollars	
	High	Low
August 2006 (beginning August 9)	16.28	13.54
September 2006	17.91	15.90
October 2006	17.50	13.82
November 2006	18.85	14.11
December 2006	18.65	17.00
January 2007	17.45	15.17
February 2007	15.60	14.45
March 2007	14.93	13.81
April 2007	15.69	14.09
May 2007	15.16	14.14
June 2007	17.00	14.94
July 2007	17.04	14.80
August 2007	14.81	12.20
September 2007	13.42	10.91
October 2007	11.37	9.37
November 2007 (through November 15)	9.64	8.63

On November 15, 2007, the closing sales price per ADS on the New York Stock Exchange was $8.63.

Exchange Rates

Fluctuations in the exchange rate between the euro and the U.S. dollar will affect the U.S. dollar amounts received by owners of our ADSs on conversion of dividends, if any, paid in euro on the ordinary shares and will affect the U.S. dollar price of our ADSs on the New York Stock Exchange. In addition, to enable you to ascertain how the trends in our financial results might have appeared had they been expressed in U.S. dollars, the table below shows the average exchange rates of U.S. dollars per euro for the periods shown. Average rates are computed by

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using the noon buying rate of the Federal Reserve Bank of New York for the euro on the last business day of each month during the period indicated.

Average exchange rates of the U.S. dollar per euro

Financial year	Average
2002	0.9208
2003	1.0919
2004	1.2199
2005	1.2727
2006	1.2361
2007	1.3582

The table below shows the high and low Federal Reserve noon buying rates for euro in U.S. dollars per euro for each month from August 2006 through November 15, 2007:

Recent high and low exchange rates of the U.S. dollar per euro

	High	Low
August 2006	1.2914	1.2735
September 2006	1.2833	1.2648
October 2006	1.2773	1.2502
November 2006	1.3261	1.2705
December 2006	1.3327	1.3073
January 2007	1.3286	1.2904
February 2007	1.3246	1.2933
March 2007	1.3374	1.3094
April 2007	1.3660	1.3363
May 2007	1.3616	1.3419
June 2007	1.3526	1.3295
July 2007	1.3831	1.3592
August 2007	1.3808	1.3402
September 2007	1.4219	1.3606
October 2007	1.4468	1.4092
November 15, 2007	1.4691	1.4435

The noon buying rate on September 28, 2007 was €1.00 = $1.4219.

Taxation

German Taxation

The following is a summary discussion of the material German tax consequences for holders of ADSs who are not resident in Germany for income tax purposes and who do not hold ADSs as business assets of a permanent establishment or fixed base in Germany (“Non-German Shareholders”). The discussion does not purport to be a comprehensive description of all the tax considerations that may be relevant to a decision to invest in or hold our ADSs. The discussion is based on the tax laws of Germany as in effect on the date of this annual report, which may be subject to change at short notice and, within certain limits, possibly also with retroactive effect. You are advised to consult your tax advisors in relation to the tax consequences of the acquisition, holding and disposition or transfer of ADSs and in relation to the procedure which needs to be observed in the event of a possible reduction or refund of German withholding taxes. Only these advisors are in a position to duly consider your specific tax situation.

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Taxation of the Company

On August 17, 2007, the Business Tax Reform Act of 2008 was enacted in Germany, introducing several changes to the taxation of German business activities, including a reduction of the combined corporate and trade tax rate from approximately 39% to approximately 30%. Most of the changes come into effect for our 2008 financial year. Statements below regarding periods after 2007 take into account the anticipated changes to be made by the Business Tax Reform Act.

In principle, German corporations are subject to corporate income tax at a rate of 25% (after 2007: 15%). This tax rate applies irrespective of whether profits are distributed or retained. Solidarity surcharge of 5.5% is levied on the assessed corporate income tax liability, so that the combined effective tax burden of corporate income tax and solidarity surcharge is 26.375% (after 2007: 15.825%). Certain foreign source income is exempt from corporate income tax. Generally, any dividends received by us and capital gains realized by us on the sale of shares in other corporations will also be exempt from corporate income tax. However, 5% of such dividends and capital gains are considered nondeductible business expenses.

In addition, German corporations are subject to a profit-based trade tax, the exact amount of which depends on the municipality in which the corporation conducts its business. With effect as of January 1, 2008, trade tax is no longer a deductible item in calculating the corporation's tax base for corporate income and trade tax purposes.

According to a minimum taxation regime applicable as of 2004, not more than €1 million plus 60% of the amount exceeding €1 million of the income of one fiscal year may be offset against tax losses carried forward.

Taxation of Dividends

Tax must be withheld at a rate of 20% (after 2008: 25%) plus solidarity surcharge of 5.5% (in total 21.1%; after 2008: 26.375%) on dividends paid (if any).

Pursuant to most German tax treaties, including the income tax treaty between Germany and the United States (the "Treaty") the German withholding tax may not exceed 15% of the dividends received by Non-German Shareholders who are eligible for treaty benefits. The difference between the withholding tax including solidarity surcharge that was levied and the maximum rate of withholding tax permitted by an applicable tax treaty is refunded to the shareholder by the German Federal Tax Office (*Bundeszentralamt für Steuern*, An der Küppe 1, D-53225 Bonn, Germany) upon application. Forms for a refund application are available from the German Federal Tax Office or the German embassies and consulates in the various countries. A further reduction applies pursuant to most tax treaties if the shareholder is a corporation which holds a stake of 25% or more, and in some cases (including under the Treaty) of 10% or more, of the registered share capital (or according to some tax treaties of the votes) of a company. After 2008, two-fifths of the withholding tax will be refunded to corporations subject to taxation as non-residents in Germany, upon application. This does not preclude a further reduction of withholding tax, if any, available under a relevant tax treaty. If the shareholder is a parent company resident in the European Union as defined in Directive No. 90/435/EEC of the Council of July 23, 1990 (the so-called Parent-Subsidiary Directive), upon application and subject to further requirements, no tax may have to be withheld at all.

Withholding Tax Refund for U.S. Shareholders

U.S. shareholders who are eligible for treaty benefits under the Treaty (as discussed below in "— United States Taxation") are entitled to claim a refund of the portion of the otherwise applicable 20% (after 2008: 25%) German withholding tax and 5.5% solidarity surcharge on dividends that exceeds the applicable Treaty rate (generally 15%).

For ADSs kept in custody with the Depository Trust Company in New York or one of its participating banks, the German tax authorities have introduced a collective procedure for the refund of German dividend withholding tax and solidarity surcharge thereon. Under this procedure, the Depository Trust Company may submit claims for refunds payable to U.S. shareholders under the Treaty collectively to the German tax authorities on behalf of these U.S. shareholders. The German Federal Tax Office will pay the refund amounts on a preliminary basis to the Depository

Trust Company, which will redistribute these amounts to the U.S. shareholders according to the regulations governing the procedure. The Federal Tax Office may review whether the refund was made in accordance with the law within four years after making the payment to the Depository Trust Company. Details of

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this collective procedure are available from the Depository Trust Company. This procedure is currently permitted by German tax authorities but that permission may be revoked, or the procedure may be amended, at any time in the future.

Individual claims for refunds may be made on a special German form, which must be filed with the German Federal Tax Office (*Bundeszentralamt für Steuern*, An der Küppe 1, D-53225 Bonn, Germany) within four years from the end of the calendar year in which the dividend is received. Copies of the required forms may be obtained from the German tax authorities at the same address or from the Embassy of the Federal Republic of Germany, 4645 Reservoir Road, NW, Washington D.C. 20007-1998. As part of the individual refund claim, a U.S. shareholder must submit to the German tax authorities the original withholding certificate (or a certified copy thereof) issued by the paying agent documenting the tax withheld and an official certification of United States tax residency on IRS Form 6166. IRS Form 6166 generally may be obtained by filing a properly completed IRS Form 8802 with the Internal Revenue Service, Philadelphia Service Center, U.S. Residency Certification Request, P.O. Box 16347, Philadelphia, PA 19114-0447. Requests for certification must include the U.S. shareholder's name, Social Security Number or Employer Identification Number, the number of the form on which the tax return was filed and the tax period for which the certification is requested. The Internal Revenue Service will send the certification on IRS Form 6166 to the U.S. shareholder who then must submit the certification with the claim for refund.

Taxation of Capital Gains

Generally, capital gains from the disposition of ADSs realized by a Non-German shareholder are only subject to German tax if such shareholder at any time during the five years preceding the disposition, directly or indirectly, held an interest of 1% or more in a company's issued share capital. If the shareholder has acquired the ADSs without consideration, the previous owner's holding period and size of shareholding will also be taken into account.

If the shareholder is an individual, one half (after 2008: 60%) of the capital gain will generally be taxable. If the shareholder is a corporation, effectively 5% of the capital gain will generally be taxable. However, most German tax treaties, including the Treaty, provide that Non-German Shareholders who are beneficiaries under the respective treaty are generally not subject to German tax even under the circumstances described in the preceding paragraph. See the discussion regarding shareholders that generally are eligible for benefits under the Treaty in "— United States Taxation," below.

After 2008, capital gains from the disposition of ADSs held with a German paying agent (including a German branch of a non-German financial services institution) may be subject to a withholding tax of 25% plus solidarity surcharge of 5.5% (in total; 26.375%)

Special rules may apply to certain companies of the finance or insurance sector (including pension funds) that are not protected from German tax under a tax treaty.

Inheritance and Gift Tax

Under German domestic law, the transfer of ADSs will be subject to German inheritance or gift tax on a transfer by reason of death or as a gift if:

(a) the donor or transferor or the heir, donee or other beneficiary is resident in Germany at the time of the transfer, or, if a German citizen, was not continuously outside of Germany and without German residence for more than five years; or

(b) at the time of the transfer, the ADSs are held by the decedent or donor as assets of a business for which a permanent establishment is maintained or a permanent representative is appointed in Germany; or

(c) the decedent or donor has held, alone or together with related persons, directly or indirectly, 10% or more of a company's registered share capital at the time of the transfer.

The few presently existing German estate tax treaties (e.g., the Estate Tax Treaty with the United States) usually provide that German inheritance or gift tax may only be imposed in cases (a) and (b) above.

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Other Taxes

There are no transfer, stamp or similar taxes which would apply to the sale or transfer of the ADSs in Germany. Such sale or transfer, however, would be subject to Value Added Tax (VAT) if an option to subject such transfer to VAT were exercised. Net worth tax is no longer levied in Germany.

United States Taxation

This section is a summary, under current law, of the material U.S. federal income tax considerations relevant to an investment by a U.S. shareholder in the ADSs. This summary applies only to holders that are eligible for benefits as U.S. residents under the Treaty in respect of their investment in the ADSs ("U.S. shareholders"). In general, a shareholder will be eligible for such benefits if the shareholder:

(i) is:

- an individual U.S. citizen or resident;
- a corporation organized under the laws of the United States of America or any state thereof; or
- an entity otherwise subject to U.S. federal income taxation on a net basis with respect to the underlying shares or the ADSs;

(ii) is not also a resident of Germany for German tax purposes;

(iii) is the beneficial owner of the ADSs (and the dividends paid with respect thereto);

(iv) holds the ADSs as a capital asset for tax purposes;

(v) does not hold the ADSs in connection with the conduct of business through a permanent establishment, or the performance of personal services through a fixed base, in Germany; and

(vi) is not subject to an anti-treaty shopping provision in the Treaty that applies in limited circumstances.

This summary does not purport to be a comprehensive description of all of the tax considerations that may be relevant to any particular investor, and does not address the tax treatment of investors who are subject to special rules, such as financial institutions and persons whose functional currency is not the U.S. dollar. It is based upon the assumption that prospective shareholders are familiar with any special tax rules to which they may be subject. Prospective purchasers should consult their own tax advisers concerning the U.S. federal, state, local and other national tax consequences of purchasing, owning and disposing of the ADSs in light of their particular circumstances.

In general, for U.S. federal income tax purposes and for purposes of the Treaty, holders of ADSs will be treated as the owners of our shares represented by those ADSs.

Taxation of Dividends

U.S. shareholders must include the gross amount of cash dividends paid in respect of the ADSs, without reduction for German withholding tax, in ordinary income on the date that they are treated as having received them, translating dividends paid in euro into U.S. dollars using an exchange rate in effect on that date.

Subject to certain exceptions for short-term and hedged positions, the U.S. dollar amount of dividends received by a non-corporate U.S. shareholder with respect to the ADSs before January 1, 2011 will be subject to taxation at a maximum rate of 15% if the dividends are "qualified dividends". Dividends received with respect to the ADSs will be qualified dividends if (i)(a) the company is eligible for the benefits of a comprehensive income tax treaty with the United States that the IRS has approved for the purposes of the qualified dividend rules or (b) the ADSs of the company are readily tradable on an established securities market in the United States, and (ii) the company was not, in the year prior to the year in which the dividend was paid, and is not, in the year in which the dividend is paid, a passive foreign investment company ("PFIC"). ADSs traded on the New York Stock Exchange will be treated as readily tradeable on an established securities market in the United States. The Treaty has been approved for the purposes of the qualified dividend rules. Based on the company's audited

financial statements and relevant market

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and shareholder data, the company believes that it was not treated as a PFIC for U.S. federal income tax purposes with respect to its taxable year ended September 30, 2007. In addition, based on its audited financial statements and its current expectations regarding the value and nature of its assets, the sources and nature of its income, and relevant market and shareholder data, the company does not anticipate becoming a PFIC for its taxable year ending September 30, 2008 or in the foreseeable future.

German tax withheld from dividends will be treated, up to the 15% rate provided under the Treaty, as a foreign income tax that, subject to generally applicable limitations under U.S. tax law, is eligible for credit against the U.S. federal income tax liability of U.S. shareholders or, if they have elected to deduct such taxes, may be deducted in computing taxable income. As discussed in the preceding section regarding German Taxation, German withholding tax will generally be imposed at a rate of 20% (after 2008: 25%) plus solidarity surcharge of 5.5% (in total 21.1%; after 2008: 26.375%). However, U.S. taxpayers who qualify for benefits under the Treaty as discussed above may request a refund of German tax withheld in excess of the 15% rate provided in the treaty. A new protocol to the Treaty was signed in Berlin on June 1, 2006 but it has not yet been ratified. Among other items, the protocol provides for new limitation of benefit provisions. Fluctuations in the dollar-euro exchange rate between the date that U.S. shareholders receive a dividend and the date that they receive a related refund of German withholding tax may give rise to foreign currency gain or loss, which generally is treated as ordinary income or loss for U.S. tax purposes.

Taxation of Sales or Other Taxable Dispositions

Sales or other taxable dispositions by U.S. shareholders of ADSs generally will give rise to capital gain or loss equal to the difference between the U.S. dollar value of the amount realized on the disposition and the U.S. shareholder's U.S. dollar basis in the ADSs. Any such capital gain or loss will be long-term capital gain or loss, subject to taxation at reduced rates for non-corporate taxpayers, if the ADSs were held for more than one year. Gain, if any, realized by a U.S. shareholder on the sale or other disposition of ADSs generally will be treated as U.S. source income for U.S. foreign tax credit purposes. The deductibility of capital losses is subject to limitations.

Deposits and withdrawals of underlying shares by U.S. shareholders in exchange for ADSs will not result in the realization of gain or loss for U.S. federal income tax purposes. Such an exchanging U.S. shareholder will have a tax basis in the securities received equal to the basis such holder had in the exchanged securities. A U.S. shareholder's holding period for securities received in such an exchange will include the holding period such U.S. holder had in the securities prior to such exchange.

Information Reporting and Backup Withholding

Dividends paid in respect of ADSs, and payments of the proceeds of a sale of ADSs, paid within the United States or through certain U.S.-related financial intermediaries are subject to information reporting and may be subject to backup withholding unless the holder (i) is a corporation or other exempt recipient or (ii) provides a taxpayer identification number and certifies that no loss of exemption from backup withholding has occurred. Holders that are not U.S. persons generally are not subject to information reporting or backup withholding. However, such a holder may be required to provide a certification to establish its non-U.S. status in connection with payments received within the United States or through certain U.S.-related financial intermediaries (generally an IRS Form W-8BEN). Backup withholding is not an additional tax. Amounts withheld as backup withholding may be credited against a holder's U.S. federal income tax liability. A holder may obtain a refund of any excess amounts withheld under the backup withholding rules by filing the appropriate claim for a refund with the IRS and furnishing any required information.

Exchange Controls and Limitations Affecting Shareholders

There are currently no legal restrictions in Germany on international capital movements and foreign exchange transactions, except in limited embargo circumstances relating to certain areas, entities or persons as a result of applicable resolutions adopted by the United Nations and the European Union. Restrictions currently exist with respect to, among others, Burma, Cote d' Ivoire, Republic of Congo, North Korea, Iran, Iraq, Lebanon, Syria, Zimbabwe, Somalia and Sudan.

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For statistical purposes, with some exceptions, every corporation or individual residing in Germany must report to the German Central Bank any payment received from or made to a non-resident corporation or individual if the payment exceeds €12,500 (or the equivalent in a foreign currency). Additionally, corporations and individuals residing in Germany must report to the German Central Bank any claims of a resident corporation or individual against, or liabilities payable to, non-resident corporations or individuals exceeding an aggregate of €5 million (or the equivalent in a foreign currency) at the end of any calendar month.

German residents are also required to report annually to the German Central Bank any shares or voting rights of 10% or more they hold or control in non-resident corporations with total assets of more than €3 million. Corporations residing in Germany with assets in excess of €3 million must report annually to the German Central Bank any shares or voting rights of 10% held by a non-resident.

Neither German law nor our Articles of Association restricts the right of non-resident or foreign owners of shares to hold or vote the shares.

Documents on Display

Our Company is subject to the informational requirements of the Securities Exchange Act of 1934 as amended. We file reports and other information with the Securities and Exchange Commission. Such reports and other information, including this annual report and its exhibits, can be inspected and copied at the public reference facilities of the SEC located at the SEC's Public Reference Room at 100 F Street, N.E., Washington, D.C. 20549. The public may obtain information on the operation of the SEC's Public Reference Room by calling the SEC in the United States at 1-800-SEC-0330. The SEC also maintains a web site at http://www.sec.gov that contains reports and other information regarding registrants that file electronically with the SEC.

Controls and Procedures

Disclosure Controls and Procedures

Our management, with the participation of our chief executive officer and chief financial officer, evaluated the effectiveness of our company's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) as of September 30, 2007. Based on this evaluation, our chief executive officer and chief financial officer concluded that, as of September 30, 2007, our company's disclosure controls and procedures were (1) designed to ensure that material information relating to Qimonda, including its consolidated subsidiaries, is made known to our chief executive officer and chief financial officer by others within those entities, as appropriate, to allow timely decisions regarding required disclosure and (2) effective, in that they provide reasonable assurance that information required to be disclosed by Qimonda in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms.

Management's Annual Report on Internal Control over Financial Reporting

Our management is also responsible for establishing and maintaining adequate internal control over financial reporting. Internal control over financial reporting is defined in Rule 13a-15(f) or 15d-15(f) promulgated under the Exchange Act as a process designed by, or under the supervision of, our chief executive and chief financial officers and effected by our board, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with U.S. generally accepted accounting principles, and includes those policies and procedures that:

- pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of our company;
- provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of our company are being made only in accordance with authorizations of management and board of our company; and

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- provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of our company's assets that could have a material effect on our financial statements.

Our management assessed the effectiveness of our internal control over financial reporting as of September 30, 2007. In making this assessment, our management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in "Internal Control-Integrated Framework". Based on our assessment, management concluded that, as of September 30, 2007, our internal control over financial reporting is effective based on those criteria.

Our independent auditors have issued an audit report on our assessment of our company's internal control over financial reporting. This report which appears in the accompanying Item 18: Financial Statements is included elsewhere in this annual report.

Changes in Internal Controls over Financial Reporting

No change in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) occurred during the financial year ended September 30, 2007 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Limitations

There are inherent limitations to the effectiveness of any system of disclosure and internal controls, including the possibilities of faulty judgments in decision-making, simple error or mistake, fraud, the circumvention of controls by individual acts or the collusion of two or more people, or management override of controls. Accordingly, even an effective disclosure and internal control system can provide only reasonable assurance with respect to disclosures and financial statement preparation. Furthermore, because of changes in conditions, the effectiveness of a disclosure and internal control system may vary over time.

Use of Proceeds

On August 8, 2006, a registration statement (Registration No. 333-135913) relating to our initial public offering was declared effective by the Securities and Exchange Commission. Under this registration statement, we registered 72,450,000 of our ordinary shares. A maximum of 42,000,000 ordinary shares registered were to be offered by us at a proposed aggregate offering price of $756,000,000, and a maximum of 30,450,000 of the ordinary shares registered were to be offered by Infineon Technologies AG, including 9,450,000 shares subject to the underwriters' over-allotment option, at a proposed aggregate offering price of $548,100,000. A total of 48,300,000 ordinary shares registered under the registration statement were ultimately sold in the United States (in the form of American Depositary Shares, or ADSs). 42,000,000 ADSs were sold by us at an aggregate offering price of $546,000,000 and 6,300,000 ADSs covered by the over-allotment option were sold by Infineon Technologies AG at an aggregate offering price of $81,900,000. The offering was completed on August 9, 2006. The underwriters were Credit Suisse Securities (USA) LLC, Citigroup Global Markets Inc., J.P. Morgan Securities, Inc., ABN AMRO Rothschild, Bayerische Hypo- und Vereinsbank AG and Deutsche Bank Securities Inc.

The aggregate net proceeds to us from the offering were approximately €415 million, net of offering costs and net of tax benefits thereon. We paid $16.38 million in total underwriting discounts and commissions paid to the underwriters, total underwriters' expenses of $750,000 and an estimated $9.65 million in other expenses incurred in connection with the offering. No amount of these expenses was paid to our directors and officers, our major shareholders or our affiliates. We used the net offering proceeds of €415 million to finance investments in our manufacturing facilities and for research and development. In our 2007 financial year we invested these proceeds primarily in our 300mm front-end manufacturing sites in Richmond, Virginia and Dresden, Germany for capacity expansion and new equipment for the technical conversion to the 80nm and smaller technology nodes as well as approximately €77 million in our actual research and development activities.

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Audit Committee Financial Expert

Our Supervisory Board has determined that Mr. Previte is an "audit committee financial expert", as such term is defined in item 16A(b) of Form 20-F.

Principal Accountant Fees and Services

Audit Fees. KPMG, our auditors, charged us an aggregate of €3.4 and €3.0 million for the 2006 and 2007 financial years, respectively, in connection with professional services rendered for the audit of our annual consolidated financial statements and services normally provided by them in connection with statutory and regulatory filings or other compliance engagements. These services consisted of quarterly review engagements and the annual audit.

Audit-Related Fees. In addition to the amounts described above, KPMG charged us an aggregate amount of €3,000 for compliance work on subsidies in the 2006 financial year and €100,000 for compliance and information technology system audits as well as professional services in connection with the filing of our registration statement in the 2007 financial year.

Tax Fees. KPMG did not charge us any amounts in the 2006 and 2007 financial year, respectively for tax services

All Other Fees. KPMG did not charge us any amounts in the 2006 and 2007 financial year, respectively for other professional services.

The above services fall within the scope of audit and permitted non-audit services within the meaning of section 201 of the Sarbanes-Oxley Act of 2002. Our Investment, Finance and Audit Committee has pre-approved KPMG's performance of these audit and permitted non-audit services and set limits on the types of services and the maximum cost of these services in any financial year. KPMG reports to our Investment, Finance and Audit Committee on an annual basis on the type and extent of non-audit services provided during the period and compliance with these criteria.

Code of Ethics

We have adopted a code of ethics (as a part of our "Business Conduct Guidelines") that applies to all of our employees worldwide, including our principal executive officer, principal financial officer and principal accounting officer within the meaning of Item 16B of Form 20-F. These guidelines provide rules and conduct guidelines aimed at ensuring high ethical standards throughout our organization. You may obtain a copy of our code of ethics, at no cost, by writing to us at Qimonda AG, Gustav-Heinemann-Ring 123, D-81739 Munich, Germany, Attention: Legal Department.

Exemption from the Listing Standards for Audit Committee

We rely on the exemption afforded by Rule 10A-3(b)(1)(iv)(C) under the Securities and Exchange Act of 1934, as amended. We believe that such reliance does not materially adversely affect the ability of our audit committee to act independently or to satisfy the other requirements of rule 10A-3.

Material Contracts

Contracts that are material to us are described in "Operating and Financial Review — Capital Requirements — Credit Facilities", "Our Business — Strategy Alliances and Agreements" and "Related Party Transactions and Relationships — with Infineon".

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GLOSSARY

ADSs	American Depositary Shares. ADSs are securities issued by a depositary that represent ownership interests in underlying ordinary shares held by the depositary's custodian. ADSs may be evidenced by American Depositary Receipts (ADRs). Each Qimonda AG ADS represents one ordinary share.
Advanced Memory Buffer (AMB)	A logic chip that enables high speed communication between the memory controller and a fully buffered DIMM in a server system.
back-end	The packaging, assembly and testing stages of the semiconductor manufacturing process, which take place after electronic circuits are imprinted on silicon wafers in the front-end process.
bit	A unit of information; a computational quantity (binary pulse) that can take one of two values, such as true and false or 0 and 1; also the smallest unit of storage sufficient to hold one bit.
byte	A unit of measurement equal to eight bits.
Computer Aided Design (CAD)	A designation of software tools used in the design of integrated circuits.
capacitor	An electronic device that stores electrical charges. Capacitors are used to store information in a DRAM chip.
cell	A primary unit that normally repeats many times in an integrated circuit. Cells represent individual functional design units or circuits that may be reused as blocks in designs. For example, a memory cell represents a storage unit in a memory array.
chip	Popular term describing a section of a wafer that contains a discrete component or an integrated circuit. Also called a "die".
circuit	A combination of electrical or electronic components, interconnected to perform one or more functions.
clean room	An area within a fab in which the wafer fabrication takes place. The classification of a clean room relates to the maximum number of particles of contaminants per cubic foot within that room. For example, a class 100 clean room contains fewer than 100 particles of contaminants per cubic foot.
DDR SDRAM	Double Data Rate SDRAM. A form of DRAM chip that activates output on both the rising and falling edge of the system clock rather than on just the rising edge, potentially doubling output.
DDR2 SDRAM	Double Data Rate 2 SDRAM is an enhanced form of DDR SDRAM that offers higher data transfer rates compared to its predecessor.
DDR3 SDRAM	Double Data Rate 3 SDRAM. Successor to DDR2 SDRAM currently in advanced stages of development.
Die	A chip.
Dual Inline Memory Module (DIMM)	A type of printed circuit board composed of DRAM chips mounted on a circuit board in a particular configuration.

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Dynamic Random Access Memory (DRAM)	The most common type of random access memory. Each bit of information is stored as an amount of electrical charge in a storage cell consisting of a capacitor and a transistor. The capacitor discharges gradually due to leakage and the memory cell loses the information stored. To preserve the information, the memory has to be refreshed periodically and is therefore referred to as “dynamic”. DRAM is the most widespread memory technology because of its high memory density and relatively low price.
fab	A semiconductor fabrication facility, in which the front-end manufacturing process takes place.
feature size	A measurement (generally in micron or nm) of the width of the smallest patterned feature or circuit on a semiconductor chip.
flash memory	A type of non-volatile memory that can be erased and reprogrammed.
front-end	The wafer processing stage of the semiconductor manufacturing process, in which electronic circuits are imprinted onto raw silicon wafers. This is followed by the packaging, assembly and testing stages, which comprise the back-end process.
foundry	A semiconductor manufacturer that makes chips for third parties.
gigabit (Gb)	Approximately one billion bits (1,073,741,824 bits). Generally used to indicate the storage capacity (or density) of memory chips.
gigabyte (GB)	Approximately one billion bytes (1,073,741,824 bytes). Generally used to indicate the storage capacity (or density) of memory modules.
Integrated Circuit (IC)	An electronic circuit in which all elements of the circuit are integrated on a single semiconductor device.
ISO	International Standards Organization. The international organization responsible for developing and maintaining worldwide standards for manufacturing, environmental protection, computers, data communications and many other fields.
library	The collection of representations required by various design tools. The representations, such as symbol, simulation model, layout abstract, and transistor schematic, are used by different tools in the design system to create or analyze some portion of an IC or otherwise aid in the design process. Creating a design library requires inserting the fabrication technologies in the design system in a form that allows designers to create circuits in the most efficient manner.
logic	One of the three major classes of integrated circuits (along with processors and memory). Logic ICs are used for data manipulation and control functions.
mask	A transparent glass or quartz plate covered with an array of patterns used in the IC manufacturing process to create circuitry patterns on a wafer. Each pattern consists of opaque and transparent areas that define the size and shape of all circuit and device elements. The mask is used to expose selected areas, and defines the areas to be processed. Masks may use emulsion, chrome, iron oxide, silicon or other material to produce the

opaque areas.

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megabit (Mb)	Approximately one million bits (1,048,576 bits). Generally used to indicate the storage capacity (or density) of memory chips.
megabyte (MB)	Approximately one billion bytes (1,048,576 bytes). Generally used to indicate the storage capacity (or density) of memory modules.
memory semiconductors	Semiconductors that store data in digital form.
NAND flash	A type of flash memory commonly used for mass storage applications such as digital audio players and digital cameras.
nanometer (nm)	A metric unit of linear measure that equals one billionth of a meter (or 1/1,000th of a micron). This unit of measurement is commonly used to indicate the width of the smallest patterned feature or circuit on a semiconductor chip (the so-called feature size).
non-volatile memory	A type of semiconductor memory that retains data even when electrical power is shut off.
NOR flash	A type of flash memory commonly used for the storage of code data, such as the software instructions in a mobile phone.
NROM Flash	Nitrided Read Only Memory. A flash technology that can store two bits per cell. Charges are locally separated on both ends of the memory transistor cell. This compares with other non-volatile technologies like floating gate technology, which store one or two bits by different charge amounts spread over the whole transistor cell.
OEM	Original Equipment Manufacturer. A company that acquires a product or component and reuses or incorporates it into a new product with its own brand name.
package	The protective container of an electronic component or die, with external terminals to provide electrical access to the components inside.
photolithography	A step in the front-end process of semiconductor manufacturing in which a form of ultraviolet light is used to draw a pattern of an IC on a silicon wafer. The sophistication of this process and the related equipment determines the achievable feature sizes on memory chips, and therefore is a key determinant in the ability of manufacturers continuously to improve the capacity (or density) of memory ICs.
process technology	The procedures used in the front-end process to convert raw silicon wafers into finished wafers containing hundreds or thousands of chips.
Random Access Memory (RAM)	A type of digital memory that functions as the main workspace of a computer. The order of access to bits at different locations does not affect the speed of access (and is therefore “random”). This is in contrast to, for example, a magnetic or optical disk or magnetic tape, which are used for long-term storage of data on a computer, but which are too slow to be used for primary workspace.
photoresist	A photoactive chemical that is used in the photolithography process, in which the design of an integrated circuit is drawn on a silicon wafer.
semiconductor	Generic name for devices, such as transistors and integrated circuits that control the flow of electrical signals. More

generally, a material, typically crystalline, that can be altered to allow electrical current to

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	flow or not flow in a pattern. The most common semiconductor material for use in integrated circuits is silicon.
server	A computer that provides a service for other computers connected to it via a network. The most common example is a file server, which has a local disk and services requests from remote clients to read and write files on that disk.
silicon	A type of semiconducting material used to make a wafer. Silicon is widely used in the semiconductor industry as a base material.
Static Random Access Memory (SRAM)	A type of volatile memory product that is used in electronic systems to store data and program instructions. Unlike the more common DRAM, it does not need to be electronically refreshed (and is therefore “static”).
Synchronous DRAM (SDRAM)	A generic name for various kinds of DRAM that are synchronized with the clock speed for which the microprocessor is optimized. This tends to increase the number of instructions that the processor can perform in a given time.
transistor	An individual circuit that can amplify or switch electric current. This is the building block of all integrated circuits.
volatile memory	A type of semiconductor memory that loses stored information if the power source is removed.
wafer	A disk made of a semiconducting material such as silicon, currently usually either 200mm or 300mm in diameter, used to form the substrate of a chip. A finished wafer may contain several thousand chips.
yield	The percentage of usable dies produced on a silicon wafer in the front-end process.
USB	Universal Serial Bus. A protocol for transferring data to and from digital devices.
USB drive	A portable data storage device based on flash memory that uses USB interface protocol.

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QIMONDA AG AND SUBSIDIARIES
INDEX TO COMBINED AND CONSOLIDATED FINANCIAL STATEMENTS

Pursuant to Rule 3-09 of Regulation S-X, separate financial statements for Inotera Memories, Inc. are herein incorporated by reference. Reference is made to pages F-1 through F-45, incorporated herein by reference, on Form 20-F/A filed on March 30, 2007, which include the following consolidated financial statements of Inotera Memories, Inc.

- Report of Independent Registered Public Accounting Firm.
- Consolidated Statements of Operations for the years ended December 31, 2005 and 2006.
- Consolidated Balance Sheets as of December 31, 2005 and 2006.
- Consolidated Statements of Shareholders' Equity for the years ended December 31, 2005 and 2006.
- Consolidated Statements of Cash Flows for the years ended December 31, 2005 and 2006.
- Notes to the Consolidated Financial Statements.

Reference is made to pages F-61 through F-93, incorporated herein by reference, on Form 20-F filed on November 21, 2006, which include the following consolidated financial statements of Inotera Memories, Inc.

- Report of Independent Registered Public Accounting Firm.
- Consolidated Statements of Operations for the years ended December 31, 2004 and 2005.
- Consolidated Balance Sheets as of December 31, 2004 and 2005.
- Consolidated Statements of Shareholders' Equity for the years ended December 31, 2004 and 2005.
- Consolidated Statements of Cash Flows for the years ended December 31, 2004 and 2005.
- Notes to the Consolidated Financial Statements.

These consolidated financial statements are filed herewith as Exhibit 99(i)

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Report of Independent Registered Public Accounting Firm

The Supervisory Board
Qimonda AG:

We have audited the accompanying consolidated balance sheets of Qimonda AG and subsidiaries (the "Company") as of September 30, 2006 and 2007, and the related combined and consolidated statements of operations, business/shareholders' equity, and cash flows for each of the years in the three-year period ended September 30, 2007. We also have audited management's assessment, included in the accompanying Item 15: Controls and Procedures — Management's Annual Report on Internal Control over Financial Reporting, that Qimonda AG and subsidiaries maintained effective internal control over financial reporting as of September 30, 2007, based on criteria established in Internal Control — Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"). The Company's management is responsible for these combined and consolidated financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on these combined and consolidated financial statements, an opinion on management's assessment, and an opinion on the effectiveness of the Company's internal control over financial reporting based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the combined and consolidated financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the combined and consolidated financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with U.S. generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with U.S. generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the combined and consolidated financial statements referred to above present fairly, in all material respects, the financial position of Qimonda AG and subsidiaries as of September 30, 2006 and 2007, and the results of their operations and their cash flows for each of the years in the three-year period ended September 30, 2007, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, management's assessment that Qimonda AG and subsidiaries maintained effective internal control over financial reporting as of September 30, 2007, is fairly stated, in all material respects, based on criteria established in Internal Control — Integrated Framework issued by COSO. Furthermore, in our opinion, Qimonda AG and subsidiaries maintained, in all material respects, effective internal control over financial reporting as of September 30, 2007, based on criteria established in Internal Control — Integrated Framework issued by COSO.

Munich, Germany
November 12, 2007

KPMG Deutsche Treuhand-Gesellschaft
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

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Qimonda AG and Subsidiaries

Combined and Consolidated Statements of Operations
for the years ended September 30, 2005, 2006 and 2007
(in millions, except for share data)

	Notes	2005 (€)	2006 (€)	2007 (€)	2007 ($) (unaudited)
Net sales:					
Third parties	5	2,821	3,798	3,608	5,130
Related parties	27	4	17	—	—
Total net sales	32	2,825	3,815	3,608	5,130
Cost of goods sold		(2,164)	(3,048)	(3,390)	(4,820)
Gross profit		661	767	218	310
Research and development expenses		(390)	(433)	(401)	(570)
Selling, general and administrative expenses		(206)	(215)	(199)	(283)
Restructuring charges	8	(1)	—	—	—
Other operating (expenses) income, net	7	(13)	(60)	18	26
Operating income (loss)		51	59	(364)	(517)
Interest (expense) income, net		(7)	(25)	7	10
Equity in earnings of associated companies	16	45	80	117	166
Gain on associated company share issuance	16	—	72	—	—
Other non-operating income, net		13	8	7	10
Minority interests		2	(6)	(6)	(9)
Income (loss) before income taxes		104	188	(239)	(340)
Income tax expense	9	(86)	(114)	(10)	(14)
Net income (loss)		18	74	(249)	(354)
Basic and diluted earnings (loss) per share	10	0.06	0.24	(0.73)	(1.03)

See accompanying notes to the combined and consolidated financial statements.

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Qimonda AG and Subsidiaries

Consolidated Balance Sheets
September 30, 2006 and 2007

	Notes	2006 (€ millions)	2007 (€ millions)	2007 ($ millions) (unaudited)
Assets:				
Current assets:				
Cash and cash equivalents		932	746	1,061
Marketable securities	11	138	265	377
Trade accounts receivable, net	12	803	341	485
Inventories	13	622	619	880
Deferred income taxes	9	47	32	46
Other current assets	14	265	254	361
Total current assets		2,807	2,257	3,210
Property, plant and equipment	15	2,080	2,186	3,107
Long-term investments	16	636	628	893
Deferred income taxes	9	160	147	209
Other assets	17	178	163	232
Total assets		5,861	5,381	7,651
Liabilities and shareholders' equity:				
Current liabilities:				
Short-term debt and current maturities	21	344	77	109
Trade accounts payable	18	712	756	1,075
Accrued liabilities	19	160	147	209
Deferred income taxes	9	18	5	7
Other current liabilities	20	245	259	368
Total current liabilities		1,479	1,244	1,768
Long-term debt	21	151	227	323
Deferred income taxes	9	36	23	33
Other liabilities	22	324	370	526
Total liabilities		1,990	1,864	2,650
Shareholders' equity:				
Ordinary share capital	23	684	684	973
Additional paid-in capital		3,097	3,117	4,432
Retained earnings (accumulated deficit)		224	(25)	(36)
Accumulated other comprehensive loss	25	(134)	(259)	(368)
Total shareholders' equity		3,871	3,517	5,001
Total liabilities and shareholders' equity		5,861	5,381	7,651

See accompanying notes to the combined and consolidated financial statements.

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Qimonda AG and Subsidiaries

Combined and Consolidated Statements of Business/Shareholders' Equity
for the years ended September 30, 2005, 2006 and 2007

	Notes	Issued Ordinary shares		Additional Paid-In Capital	Retained earnings	Investments by and advances from Infineon	Accumulated other comprehensive (loss) income	Total
		Shares (millions)	Amount (€ millions)	(€ millions)	(€ millions)	(€ millions)	(€ millions)	(€ millions)
Balance as of October 1, 2004		—	—	—	—	2,890	(111)	2,779
Transfer of DD200 facility to Infineon	4	—	—	—	—	(374)	—	(374)
Net investments by and advances from Infineon		—	—	—	—	500	—	500
Net income		—	—	—	—	18	—	18
Other comprehensive income	25	—	—	—	—	—	44	44
Balance as of September 30, 2005		—	—	—	—	3,034	(67)	2,967
Transfer of development center to Infineon	26	—	—	—	—	(10)	—	(10)
Net investments by and advances from Infineon prior to May 1, 2006		—	—	—	—	493	—	493
Net loss prior to May 1, 2006		—	—	—	—	(150)	—	(150)
Contribution to capital and issuance of shares on initial formation as of May 1, 2006	1	300	600	2,772	—	(3,372)	—	—
Transfer of net pension liability from Infineon	28	—	—	(9)	—	—	—	(9)
Issuance of shares upon initial public offering, net of offering costs and tax benefit thereon	1	42	84	331	—	—	—	415
Stock-based compensation	24	—	—	3	—	5	—	8
Net income after May 1, 2006		—	—	—	224	—	—	224
Other comprehensive loss	25	—	—	—	—	—	(67)	(67)
Balance as of September 30, 2006		342	684	3,097	224	—	(134)	3,871
Contribution by Infineon	1	—	—	14	—	—	—	14
Net loss		—	—	—	(249)	—	—	(249)
Stock-based compensation	24	—	—	6	—	—	—	6
Other comprehensive loss	25	—	—	—	—	—	(128)	(128)
Adoption of SFAS No. 158, net of tax	25,28	—	—	—	—	—	3	3
Balance as of September 30, 2007		342	684	3,117	(25)	—	(259)	3,517

See accompanying notes to the combined and consolidated financial statements.

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Qimonda AG and Subsidiaries

Combined and Consolidated Statements of Cash Flows
for the years ended September 30, 2005, 2006 and 2007

	Notes	2005 (€ millions)	2006 (€ millions)	2007 (€ millions)	2007 ($ millions) (unaudited)
Net income (loss)		18	74	(249)	(354)
Adjustments to reconcile net income (loss) to cash provided by operating activities:					
Depreciation and amortization	15/17	528	703	666	946
Provision for (recovery of) doubtful accounts	12	4	3	(5)	(7)
Gain on sales of business interests	16	—	—	(2)	(3)
Gain on sales of long-term assets	15	—	(1)	(3)	(4)
Equity in earnings of associated companies	16	(45)	(80)	(117)	(166)
Dividends received from associated companies	16	1	29	61	87
Gain on associate company share issuance	16	—	(72)	—	—
Stock-based compensation	24	—	8	6	9
Minority interests		(2)	6	6	9
Impairment charges	7/16	6	9	—	—
Deferred income taxes	9	52	23	16	23
Due to changes in operating assets and liabilities:					
Trade accounts receivable	12	45	(378)	440	626
Inventories	13	(172)	(147)	(17)	(23)
Other current assets	14	7	(75)	76	108
Trade accounts payable	18	47	162	61	87
Accrued liabilities	19	(58)	68	(16)	(24)
Other current liabilities	20	(35)	63	3	4
Other assets and liabilities		88	(69)	54	77
Net cash provided by operating activities		484	326	980	1,395
Cash flows from investing activities:					
Purchases of marketable securities available for sale		—	(175)	(149)	(212)
Proceeds from sales of marketable securities available for sale		1	37	16	23
Purchases of business interests	16	(83)	(3)	(1)	(1)
Proceeds from disposal of business interests	16	14	—	27	38
Purchases of intangible assets	17	(4)	(42)	(25)	(36)
Purchases of property, plant and equipment	15	(926)	(686)	(879)	(1,250)
Proceeds from sales of long-term assets	15	26	68	164	233
Net cash used in investing activities		(972)	(801)	(847)	(1,205)
Cash flows from financing activities:					
Increase (decrease) in short-term debt due Infineon	21	481	(163)	(344)	(489)
Increase in short-term debt due third parties	21	—	—	31	44
Repayments of short-term debt due third parties	21	(18)	—	—	—
Increase in financial payables due related parties	27	(7)	(2)	(6)	(9)
Decrease in financial receivables from associated and related parties	27	3	—	—	—
Proceeds from issuance of long-term debt	21	80	44	—	—
Principal repayments of long-term debt	21	(522)	—	—	—
Net proceeds from issuance of ordinary shares	1	—	415	—	—
Dividend payments to minority interest		—	(5)	(6)	(9)
Proceeds from issuance of shares to minority interest		21	—	4	6
Investments by and advances from Infineon	26	500	484	14	20
Net cash provided by financing activities		538	773	(307)	(437)
Effect of foreign exchange rate changes on cash and cash equivalents		5	2	(12)	(17)
Net increase (decrease) in cash and cash equivalents		55	300	(186)	(264)
Cash and cash equivalents at beginning of year		577	632	932	1,325
Cash and cash equivalents at end of year		632	932	746	1,061

See accompanying notes to the combined and consolidated financial statements.

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QIMONDA AG AND SUBSIDIARIES

Notes to the Combined and Consolidated Financial Statements
(euro in millions, except where otherwise stated)

1. Description of Business, Formation and Basis of Presentation

Description of Business

Qimonda AG and its subsidiaries (collectively, the "Company" or "Qimonda") is one of the world's leading suppliers of semiconductor memory products. It designs memory technologies and develops, manufactures, markets and sells a large variety of memory products on a module, component and chip level. Qimonda has operations, investments and customers located mainly in Europe, Asia and North America. The Company is a majority-owned subsidiary of Infineon Technologies AG and its subsidiaries ("Infineon"). The financial year-end for the Company is September 30.

Formation

Effective May 1, 2006, substantially all the memory products-related assets and liabilities, operations and activities of Infineon (the "Memory Products business") were contributed to the Company (the "Formation"). In conjunction with the Formation the Company entered into a contribution agreement and various other service agreements with Infineon. In cases where physical contribution (ownership transfer) of assets and liabilities were not feasible or cost effective, the monetary value was transferred in the form of cash or debt.

On August 9, 2006 the Company completed its Initial Public Offering ("IPO") on the New York Stock Exchange through the issuance of 42 million ordinary shares, which are traded as American Depositary Shares ("ADSs") under the symbol "QI" (note 23). In addition, Infineon sold 6.3 million shares upon exercise of the underwriters' over-allotment option. Infineon's ownership interest in the Company was 85.9% at September 30, 2006 and was reduced to 77.5% at September 30, 2007 (note 27).

At the Formation certain of the Company's operations and investments that could not be directly transferred were initially held in trust for Qimonda's benefit by Infineon until the legal transfer to Qimonda could take place. The Company's Korea and Japan operations were legally transferred to Qimonda during the year ended September 30, 2007. Infineon contributed additional equity of €14 during the financial year ended September 30, 2007, principally related to the transfer of the Japan operations.

The Company's investment in Inotera Memories Inc. ("Inotera"), previously held in trust by Infineon, was transferred to Qimonda in March 2007 (note 16). Infineon's investments in Advanced Mask Technology Center GmbH & Co. ("AMTC") and Maskhouse Building Administration GmbH & Co. KG ("BAC") are intended to be transferred by Infineon after approval by the other shareholders in the venture, although pursuant to the AMTC and BAC limited partnership agreements, such consent may not be unreasonably withheld. The accompanying financial statements include the results of operations of these activities for all periods presented.

Basis of Presentation

The accompanying combined and consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP).

The accompanying combined and consolidated financial statements are presented on a combined basis for periods prior to the Formation and on a consolidated basis for all periods thereafter.

Periods prior to the Formation (that is until May 1, 2006) are presented on a "carve-out" basis and comprise the combined historical financial statements of the transferred Memory Products business assuming that the Company had existed as a separate legal entity. These combined financial statements have been derived from the consolidated financial statements and historical accounting records of Infineon, employing the methods and assumptions set forth below. Substantially all of the assets, liabilities, operations and activities of the Memory Products business are those that comprised the Memory Products segment of Infineon during the financial periods presented prior to the Formation.

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QIMONDA AG AND SUBSIDIARIES

Notes to the Combined and Consolidated Financial Statements — (Continued)
(euro in millions, except where otherwise stated)

Qimonda AG is incorporated in Germany. Pursuant to paragraph 291 of the German Commercial Code (*"Handelsgesetzbuch"* or "HGB") the Company is exempted from preparing consolidated financial statements in accordance with either the HGB accounting principles and regulations ("German GAAP") or international financial reporting standards ("IFRS"), since its ultimate parent company, Infineon, prepares and issues consolidated financial statements according to U.S. GAAP in compliance with the transitional regulation of the German Bilanzrechtsreformgesetz Article 58, paragraph 3 EGHGB. Accordingly, the Company presents the U.S. GAAP combined and consolidated financial statements contained herein.

All amounts herein are shown in millions of euro (or "€") except where otherwise stated. The accompanying balance sheet as of September 30, 2007, and the statements of operations and cash flows for the year then ended are also presented in U.S. dollars ("$"), solely for the convenience of the reader, at the rate of €1 = $1.4219, the Federal Reserve noon buying rate on September 28, 2007, the last currency trading day in September 2007.

Certain amounts in prior year consolidated financial statements and notes have been reclassified to conform to the current year presentation. Dividends received from Associated Companies, previously reported as part of cash flows from investing activities in the consolidated statements of cash flows, have been reclassified to cash flows from operating activities. The Company's consolidated results of operations or overall cash flows have not been affected by these reclassifications.

Statements of Operations

Through the Formation, the combined statements of operations were prepared on a carve-out basis and reflect all revenues and expenses that were attributable to the Memory Products business. Operating expenses or revenues of the Memory Products business specifically identified as pertaining to the Memory Products business were charged or credited directly to it without allocation or apportionment. This is the case for all of the revenues appearing on the combined statements of operations. Operating expenses that Infineon incurred were allocated to the Memory Products business to the extent that they were related and indirectly attributable to it. These expenditures, with the exception of certain corporate items, were mainly allocated from each of a number of what Infineon refers to as "clusters", which are groups of functional departments for which Infineon accounts on a cost center basis.

The costs allocated from the clusters include charges for facilities, functions and services provided by shared Infineon facilities for the Memory Products business, expenses for certain functions and services performed by centralized Infineon departments, a portion of Infineon's general corporate expenses and certain research and development expenses. The allocations from each cluster were made based on allocation methods, or allocation keys, which vary depending on the nature of the expenditures being allocated. The allocation keys are consistent with those Infineon used to allocate expenses among its segments, although historically Infineon did not allocate the expenses of some central activities and instead accounted for these as corporate costs.

The following assumptions and allocation methods were used for significant allocated expenses included in the combined statements of operations:

- The Infineon Central R&D cluster costs include research and development activities related to semiconductor electronic technologies, circuits, and related systems. The allocation is based on total sales.

- The Infineon Logistic cluster costs include all logistics expenses related to distribution centers including handling, traffic and customs, packaging and freight. It also includes expenses for corporate logistics in Europe, Asia and North America. The allocation to the Memory Products business is based partly on unit volume and partly on sales.

- The Infineon Sales cluster covers all central selling expenses related to the activities of

pricing office, account management, distribution management, receivables management, export control and commissions.

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QIMONDA AG AND SUBSIDIARIES

Notes to the Combined and Consolidated Financial Statements — (Continued)
(euro in millions, except where otherwise stated)

The allocation to the Memory Products business is based, depending on the relevant function, on the dedicated headcount of the business and also on sales.

• The Infineon IT-Services cluster costs include all expenses incurred relating to the design, implementation and operation of IT systems and related administration. The allocation is based, depending on the relevant function, on either the total direct cost, the total research and development cost or the total cost of sales of the Memory Products business.

• The Infineon Finance and Treasury cluster costs include all financial income and expense, as well as foreign exchange gains and losses, related to treasury market activities (foreign exchange management, money market transactions and interest rate management). The allocation is based on the total direct costs.

• The Infineon Central cluster costs include strategic and general central functions within the Infineon headquarters or its regional organizations. The allocation is based on the total direct costs.

The combined statements of operations include depreciation expense for all property, plant and equipment owned and operated by the Memory Products business.

Allocations from Infineon during the year ended September 30, 2005 and the seven months ended April 30, 2006, are reflected in the combined statements of operations as follows:

	2005	Seven Months Ended April 30, 2006
Cost of goods sold	168	111
Research and development expenses	27	17
Selling, general and administrative expenses	109	75
Restructuring charges	1	—
	305	203

Since the Formation, the Company entered into several service agreements with Infineon. As a result, costs are no longer allocated after the Formation, but rather charged on the basis of the respective agreements (note 27).

For periods prior to the Formation, income taxes, as presented in the accompanying combined and consolidated financial statements, were calculated as if the Company had filed separate tax returns for each of the years presented (separate return basis), although in numerous tax jurisdictions, including Germany, the Company was included in the consolidated tax returns of Infineon prior to the Formation. Where the Memory Products business was only a part of an Infineon entity, the tax provision was prepared on an as-if separate company basis except that, pursuant to the terms of the contribution agreement between the Company and Infineon, any net operating losses generated by the Memory Products business and carried forward were treated as a reduction of business equity, as such losses were retained by Infineon. Infineon evaluates its tax position and related tax strategies for its entire group as a whole, which may differ from the tax strategies the Company would have followed as a stand-alone company. The Company's future effective tax rate after the Formation may differ from those indicated in the accompanying combined and consolidated financial statements prior to the Formation.

Balance Sheets

The assets and liabilities attributable to the Memory Products business were contributed to the Company, in general, at their historical costs. In certain jurisdictions where tax regulations do not permit the tax-free transfer of assets or liabilities to the Company, they were revalued for tax purposes, but not for accounting purposes. Unless otherwise noted, all assets and liabilities specifically

identifiable as pertaining to the Memory Products business are included in the combined and consolidated financial statements. Where legal entities were wholly allocable to the

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QIMONDA AG AND SUBSIDIARIES

Notes to the Combined and Consolidated Financial Statements — (Continued)
(euro in millions, except where otherwise stated)

Memory Products business, the shares of these entities were transferred to the Memory Products business. In some cases, including at the Infineon parent company level, the memory-related assets and liabilities were identified and carved out by means of asset and liability transfer transactions.

For carve-out transfers, the assets and liabilities directly identifiable as pertaining to the Memory Products business include inventories, long-term investments, fixed assets and accounts receivable. The following assumptions and allocations were used for those assets and liabilities that were not specifically identifiable to the Memory Products business:

Trade Accounts Payable

Trade accounts payable include identifiable payables from specific Memory Products business' vendors and service suppliers as well as an allocation of payables from Infineon-specified vendors.

Other Current and Accrued Liabilities

Other current and accrued liabilities include direct payroll obligations and payroll obligations, which were allocated based on the Memory Products business and an allocation of the Infineon employees in corporate functions that in part supported the Memory Products business.

Pension Liabilities

Pension expenses and related liabilities were measured based on actuarial computations and were determined, with respect to all of the employees that participate in Infineon's defined benefit pension plans, based on the number of employees of the Memory Products business and an allocation of the Infineon employees in corporate functions that, in part, supported the Memory Products business.

Investments by and Advances from Infineon

Because a direct ownership relationship did not exist among the various entities comprising the Memory Products business prior to the Formation, Infineon's investments in and advances to the Memory Products business represent Infineon's interest in the recorded net assets of the Memory Products business, and are shown as business equity in lieu of shareholder's equity in the combined financial statements. Prior to the Formation, net income (loss) of the Memory Products business forms part of business equity (investments by and advances from Infineon). Subsequent to the Formation, net income (loss) is attributed to retained earnings since the Company exists as a separate legal entity. The effects of equity transactions prior to Formation are included in "Investments and advances from Infineon" in the accompanying combined and consolidated financial statements. At the Formation, net investments by and advances from Infineon were contributed to the company as equity, which is reflected as share capital and as additional paid in capital in the accompanying combined and consolidated statement of business/shareholders' equity. All intercompany transactions, including purchases of inventory, charges and cost allocations for facilities, functions and services performed by Infineon for the Memory Products business are reflected in this amount.

Capital Structure

The Memory Products business historically relied on Infineon to provide the financing of its capital requirements, as Infineon uses a centralized approach to cash management and the financing of its operations. The historical capital structure of Qimonda was considered to be based on the following:

- instruments that were directly identified with the Memory Products business;

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• cash and intercompany financial receivables reduce total short and long-term debt, so that the Company has no net debt;

• a proportional share of total assets constitutes total cash, cash equivalents, marketable securities and intercompany financial receivables;

• a proportional share of aggregate total debt and total business equity constitutes total short and long-term debt.

The allocation of Infineon's cash and debt in conjunction with the historical capital structure of the Memory Products business in the combined and consolidated financial statements is reflected through the following:

• through the Formation, contribution of €582 in cash through business equity;

• as of September 30, 2005 and the Formation, the reduction of inter-company financial receivables of €227 and €66, respectively, by inter-company debt.

At the Formation, net investments by and advances from Infineon in the amount of €3,372 were contributed to the Company as equity, which is reflected as €600 ordinary share capital and €2,772 as additional paid in capital in the accompanying combined and consolidated statement of business/shareholders' equity.

The capital structure attributed to the Memory Products business in connection with the preparation of the combined financial statements prior to Formation, based as it is on the business equity concept and without fully independent financing by the Company, may not be indicative of the capital structure that the Memory Products business would have required had it been an independent company during the financial periods presented.

The Company's operations were historically financed largely through contributions from Infineon and, to a lesser extent, third-party borrowings. The Company's interest expense prior to the Formation includes interest charges on certain intercompany financial liabilities to the Infineon group companies and interest expense on its external debt based on the aforementioned capital structure. Interest income prior to the Formation includes allocations based on the proportional share of cash and cash equivalents. The Company's capital structure after the Formation may differ from the capital structure presented in the accompanying combined and consolidated financial statements prior to the Formation as a result of the issuance of additional ordinary shares by Qimonda AG as part of its IPO and subsequent financing transactions. Accordingly, interest expense prior to the Formation reflected in the accompanying combined and consolidated financial statements may not necessarily be indicative of the interest expense that Qimonda AG would have incurred as a stand-alone entity or will incur in the future.

Estimates

The preparation of the accompanying combined and consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, as well as disclosure of contingent amounts and liabilities, at the date of the financial statements and the reported amounts of revenues and expenses during the periods presented. Actual results could differ materially from such estimates made by management. In addition, due to the significant relationship between Infineon and the Company, the terms of the carve-out transactions, the allocations and estimations of assets and liabilities and of expenses and other transactions between the Memory Products business and Infineon may not be the same as those that would have resulted from transactions among unrelated third parties. Management believes that the assumptions underlying the combined and consolidated financial statements are reasonable. However, these transactions, allocations and estimates may not be indicative of actual results that would have been obtained if the Company had operated on a stand-alone basis, nor are they indicative of future transactions or of the

expenses or results of operations of the Company. In addition, the process of preparing the combined and consolidated financial statements does not permit the revaluation of historical transactions to attempt to introduce an arms'-length relationship where one did not exist at the time. Management believes that it is not practicable to estimate what the actual costs of the Company would

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have been on a stand-alone basis if it had operated as an unaffiliated entity. Rather than allocating the expenses that Infineon actually incurred on behalf of the Memory Products business, management would have had to choose from a wide range of estimates and assumptions that could have been made regarding joint overhead, joint financing, shared processes and other matters. Any of these assumptions may have led to unreliable results and would not have been more useful as an indicator of historical business development and performance than the methods employed in preparing the combined and consolidated financial statements.

2. Summary of Significant Accounting Policies

The following is a summary of significant accounting policies followed in the preparation of the accompanying combined and consolidated financial statements.

Basis of Consolidation

The accompanying combined and consolidated financial statements include the accounts of the Qimonda AG and its subsidiaries on a combined and consolidated basis. Consolidated subsidiaries are entities which are directly or indirectly controlled. Control is generally conveyed by ownership of the majority of voting rights. Additionally, the Company consolidates variable interest entities (VIE's) pursuant to Financial Accounting Standards Board ("FASB") Interpretation No. 46 (R) "*Consolidation of Variable Interest Entities*" ("FIN 46(R)") where the Company is deemed to be the primary beneficiary. VIE's are entities for which either the equity investment at risk is not sufficient to permit the entity to finance its activities without additional subordinated financial support, or the equity investors lack an essential characteristic of a controlling financial interest, or the investors' economic interests are disproportionate to the attached voting rights and substantially all of the entity's activities involve or are conducted for an investor with disproportionately few voting rights.

Investments in companies in which the Company has the ability to exercise significant influence over operating and financial policies, generally with an ownership interest of 20% or more but that are not controlled by the Company, ("Associated Companies") are accounted for using the equity method of accounting (note 16). The equity in earnings of Associated Companies with financial year ends that differ by not more than three months from the Company's financial year end is recorded on a three month lag. Other equity investments ("Related Companies"), generally in which the Company has an ownership interest of less than 20%, are recorded at cost. The effects of all significant intercompany transactions are eliminated.

The Qimonda group consists of the following number of entities in addition to the parent company, Qimonda AG:

	Consolidated Subsidiaries	Associated Companies	Related Companies	Total
September 30, 2006	22	5	5	32
Additions	6	—	—	6
Disposals	—	(2)	—	(2)
September 30, 2007	28	3	5	36

Reporting and Foreign Currency

The Company's reporting currency is the euro, and therefore the accompanying combined and consolidated financial statements are presented in euro.

The assets and liabilities of foreign subsidiaries with functional currencies other than the euro are translated using period-end exchange rates, while the revenues and expenses of such subsidiaries are translated using average exchange rates during the period. Differences arising from the translation of assets and liabilities in comparison

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with the translation of the previous periods are included in other comprehensive income (loss) and reported as a separate component of business/shareholders' equity as a functional currency translation adjustment.

The exchange rates of the primary currencies used in the preparation of the accompanying combined and consolidated financial statements are as follows:

Currency			Exchange Rate September 30, 2006 euro	Exchange Rate September 30, 2007 euro	Annual Average Exchange Rate 2006 euro	Annual Average Exchange Rate 2007 euro
U.S. dollar	1$	=	0.7899	0.7052	0.8117	0.7497
New Taiwan dollar	100NTD	=	2.3866	2.1481	2.4823	2.2743
Chinese Yuan Renminbi	100CNY	=	9.9934	9.3844	10.1172	9.7269

Revenue Recognition

Sales

Revenue from products sold to customers is recognized, pursuant to U.S. Securities and Exchange Commission ("SEC") Staff Accounting Bulletin ("SAB") No. 104, *"Revenue Recognition"*, when persuasive evidence of an arrangement exists, the price is fixed or determinable, delivery has occurred and collectability is reasonably assured. The Company records reductions to revenue for estimated product returns and allowances for discounts, volume rebates and price protection, based on actual historical experience, at the time the related revenue is recognized. In general, returns are permitted only for quality related reasons within the applicable warranty period, which is typically twelve months. Distributors can, in certain cases, apply for stock rotation or scrap allowances and price protection. Allowances for stock rotation returns are accrued based on expected stock rotation as per the contractual agreement. Distributor scrap allowances are accrued based on the contractual agreement and, upon authorization of the claim, reimbursed up to a certain maximum of the average inventory value. Price protection programs allow distributors to apply for a price protection credit on unsold inventory in the event the Company reduces the standard list price of the products included in such inventory. In some cases, rebate programs are offered to specific distributors whereby the distributor may apply for a rebate upon achievement of a defined sales volume. Distributors are also partially compensated for commonly defined cooperative advertising on a case-by-case basis.

License Income

License income is recognized when earned and realizable (note 5). Lump sum payments are generally non-refundable and are deferred where applicable and recognized over the estimated life span of the technology or the shorter contractual period. Pursuant to Emerging Issues Task Force ("EITF") Issue 00-21, *"Revenue Arrangements with Multiple Deliverables"*, revenues from contracts with multiple elements entered into after July 1, 2003 are recognized as each element is earned based on the relative fair value of each element and when there are no undelivered elements that are essential to the functionality of the delivered elements and when the amount is not contingent upon delivery of the undelivered elements. Royalties are recognized as earned.

Grants

Grants for capital expenditures include both tax-free government grants (*Investitionszulage*) and taxable grants for investments in property, plant and equipment (*Investitionszuschüsse*). Grants receivable are established when a legal right for the grant exists and the criteria for receiving the grant have been met. Tax-free government grants are deferred (note 22) and recognized over the remaining useful life of the related asset. Taxable grants are deducted from the acquisition costs of the related asset (note 6) and thereby reduce depreciation expense in future periods. Other taxable grants reduce

the related expense (notes 6, 20 and 22).

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Product-related Expenses

Shipping and handling costs associated with product sales are included in cost of sales. Expenditures for advertising, sales promotion and other sales-related activities are expensed as incurred. Provisions for estimated costs related to product warranties are generally made at the time the related sale is recorded, based on estimated failure rates and claim history. Principally, research and development costs are expensed as incurred.

Income Taxes

Income taxes are accounted for under the asset and liability method pursuant to FASB Statement of Financial Accounting Standards ("SFAS") No. 109, *"Accounting for Income Taxes"*. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Valuation allowances are recorded to reduce deferred tax assets to an amount that is more-likely-than-not to be realized in the future. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. Investment tax credits are accounted for under the flow-through method.

Stock-based Compensation

Prior to the adoption of SFAS No. 123 (revised 2004) *"Share Based Payment"*, the Company accounted for stock-based compensation using the intrinsic value method pursuant to Accounting Principles Board ("APB") Opinion 25, *"Accounting for Stock Issued to Employees"*, recognized compensation cost over the pro rata vesting period, and applied the disclosure-only provisions of SFAS No. 123, *"Accounting for Stock-Based Compensation"* as amended by SFAS No. 148 *"Accounting for Stock-Based Compensation — Transition and Disclosure, an Amendment of FASB Statement No. 123"*.

Effective October 1, 2005, the Company adopted SFAS No. 123 (revised 2004) under the modified prospective application method. Under this application, the Company records stock-based compensation expense for all awards granted on or after the date of adoption and for the portion of previously granted awards that remained unvested at the date of adoption. Stock-based compensation cost is measured at the grant date, based on the fair value of the award, and is recognized as expense over the period during which the employee is required to provide service in exchange for the award. Upon this application, prior period amounts have not been restated and do not reflect the recognition of stock-based compensation (note 24).

Issuance of shares by Subsidiaries or Associated Companies

Gains or losses arising from the issuances of shares by subsidiaries or Associated Companies, due to changes in the Company's proportionate share of the value of the issuer's equity, are recognized in earnings pursuant to SAB Topic 5:H, *"Accounting for Sales of Stock by a Subsidiary"* (note 16).

Cash and Cash Equivalents

Cash and cash equivalents represent cash, deposits and liquid short-term investments with original maturities of three months or less.

Marketable Securities

The Company's marketable securities are classified as available-for-sale and are stated at fair value as determined by the most recently traded price of each security at the balance sheet date.

Unrealized gains and losses are included in accumulated other comprehensive income, net of applicable income taxes. Realized gains or losses

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and declines in value, if any, judged to be other-than-temporary on available-for-sale securities are reported in other non-operating income or expense. For the purpose of determining realized gains and losses, the cost of securities sold is based on specific identification.

Inventories

Inventories are valued at the lower of cost or market, cost being generally determined on the basis of an average method. Cost consists of purchased component costs and manufacturing costs, which comprise direct material and labor costs and applicable indirect costs.

Property, Plant and Equipment

Property, plant and equipment are valued at cost less accumulated depreciation. Spare parts, maintenance and repairs are expensed as incurred. Depreciation expense is recognized using the straight-line method. Construction in progress includes advance payments for construction of fixed assets. Land and construction in progress are not depreciated. The cost of construction of qualifying long-term assets includes capitalized interest, which is amortized over the estimated useful life of the related asset. During the years ended September 30, 2006 and 2007 interest capitalized was less than €1 in total. The estimated useful lives of assets are as follows:

	Years
Buildings	10-25
Technical equipment and machinery	3-10
Other plant and office equipment	1-10

Leases

The Company is a lessee of property, plant and equipment. All leases where the Company is the lessee that meet certain specified criteria intended to represent situations where the substantive risks and rewards of ownership have been transferred to the lessee are accounted for as capital leases pursuant to SFAS No. 13, *"Accounting for Leases"*, and related interpretations. All other leases are accounted for as operating leases.

Intangible Assets

The Company accounts for business combinations using the purchase method of accounting pursuant to SFAS No. 141, *"Business Combinations"*. Intangible assets acquired in a purchase method business combination are recognized and reported apart from goodwill, pursuant to the criteria specified by SFAS No. 141.

Intangible assets consist primarily of purchased intangible assets, such as licenses and purchased technology, which are recorded at acquisition cost, and goodwill resulting from business acquisitions, representing the excess of purchase price over fair value of net assets acquired. Intangible assets other than goodwill are amortized on a straight-line basis over the estimated useful lives of the assets ranging from 3 to 10 years (note 17). Pursuant to SFAS No. 142 *"Goodwill and Other Intangible Assets"*, goodwill is not amortized, but instead tested for impairment at least annually in accordance with the provisions of SFAS No. 142. The Company tests goodwill annually for impairment in the fourth quarter of the financial year, whereby if the carrying amount of a reporting unit with goodwill exceeds its fair value, the amount of impairment is determined by the excess of recorded goodwill over the implied fair value of goodwill. The determination of fair value of the reporting units and related goodwill requires considerable judgment by management.

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Impairment of Long-lived Assets

The Company reviews long-lived assets, including property, plant and equipment and intangible assets subject to amortization, for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. Estimated fair value is generally based on either market value, appraised value or measured by discounted estimated future cash flows. Considerable management judgment is necessary to estimate discounted future cash flows.

Long-term Investments

The Company assesses declines in the value of investments accounted for under the equity and cost methods to determine whether such decline is other-than-temporary, thereby rendering the investment impaired. This assessment is made by considering available evidence including changes in general market conditions, specific industry and individual company data, the length of time and the extent to which the market value has been less than cost, the financial condition and near-term prospects of the individual company, and the Company's intent and ability to hold the investment for a period of time sufficient to allow for any anticipated recovery in market value.

Financial Instruments

The Company operates internationally, giving rise to exposure to changes in foreign currency exchange rates. The Company uses financial instruments, including derivatives such as foreign currency forward and option contracts, to reduce this exposure based on the net exposure to the respective currency. The Company applies SFAS No. 133, *"Accounting for Derivative Instruments and Hedging Activities"*, as amended by SFAS No. 137, SFAS No. 138 and SFAS No. 149, which provides guidance on accounting for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities. Derivative financial instruments are recorded at their fair value and included in other current assets or other current liabilities. Generally the Company does not designate its derivative instruments as hedge transactions. Changes in fair value of undesignated derivatives that relate to operations are recorded as part of cost of sales while undesignated derivatives relating to financing activities are recorded in other non-operating expense, net. The fair value of derivatives and other financial instruments is discussed in note 29.

Pension Plans

The measurement of pension-benefit liabilities is based on actuarial computations using the projected-unit-credit method in accordance with SFAS No. 87, *"Employers' Accounting for Pensions"*. Pension plan assets are measured at fair value and reduce the net pension liability recognized. The assumptions used to calculate pension liabilities and costs are shown in note 28.

Prior to the adoption of the recognition provision of SFAS No. 158 *"Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans — an amendment of FASB Statements No. 87, 88, 106, and 132(R)"*, changes in the amount of the projected benefit obligation or plan assets resulting from experience differing from that assumed and from changes in assumptions could result in gains or losses not yet recognized in the Company's consolidated financial statements.

The Company adopted the Recognition Provision of SFAS No. 158 as of September 30, 2007. Pursuant to SFAS No. 158 the Company recognizes the overfunded or underfunded status of its defined benefit postretirement plans as an asset or liability and recognizes changes in that funded status in the year they occur as part of other comprehensive income. As of September 30, 2007 the adoption of the Recognition Provision of SFAS No. 158

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resulted in a decrease in other non-current liabilities of €5, an increase in non-current deferred tax liabilities of €2 and an increase in accumulated other comprehensive income of €3 (note 28).

Accumulated actuarial gains or losses are amortized as part of net periodic pension cost for a year if, as of the beginning of that year, the accumulated actuarial gain or loss exceeds 10% of the greater of the projected benefit obligation or the fair value of the plan assets. In that case, the amount of amortization recognized is the resulting excess divided by the average remaining service period of the active employees expected to receive benefits under the plan. Accumulated prior service costs or credits are amortized as part of net periodic pension cost over the remaining service period.

The Company also records a liability for amounts payable under the provisions of its various defined contribution plans.

Recent Accounting Pronouncements

Adopted in the year ended September 30, 2007

In September 2006, the FASB issued SFAS No. 158, which requires an employer to recognize the overfunded or underfunded status of a defined benefit postretirement plan (other than a multiemployer plan) as an asset or liability in its statement of financial position and to recognize changes in that funded status in the year in which the changes occur through comprehensive income of a business entity or changes in unrestricted net assets of a not-for-profit organization ("Recognition Provision"). SFAS No. 158 does not change the basic approach to measuring net periodic pension cost. The Company adopted the Recognition Provision of SFAS No. 158 as of September 30, 2007 (note 28).

In September 2006, the SEC issued SAB No. 108, *"Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements"*. SAB No. 108 provides interpretive guidance on how the effects of prior-year uncorrected misstatements should be considered when quantifying misstatements in the current year financial statements. SAB No. 108 requires the Company to quantify misstatements using both an income statement ("rollover") and balance sheet ("iron curtain") approach and to evaluate whether either approach results in a misstatement that, when all relevant quantitative and qualitative factors are considered, is material. If prior year errors that had been previously considered immaterial are considered material upon adoption based on either approach, no restatement is required so long as management properly applied its previous approach and all relevant facts and circumstances were considered. If prior years are not restated, the cumulative effect adjustment is recorded in opening accumulated earnings (deficit) as of the beginning of the year of adoption. The Company adopted SAB No. 108 as of the year ended September 30, 2007, which did not result in restatement or cumulative effect adjustment.

Issued but principally applicable in future financial years

In July 2006, the FASB issued FASB Interpretation No. 48, *"Accounting for Uncertainty in Income Taxes — an interpretation of FASB Statement No. 109"* ("FIN 48") which defines the threshold for recognizing the benefits of tax return positions in the financial statements as "more-likely-than-not" to be sustained by the taxing authority. FIN 48 also provides guidance on the de-recognition measurement and classification of income tax uncertainties, along with any related interest and penalties. FIN 48 also includes guidance concerning accounting for income tax uncertainties in interim periods and increases the level of disclosures associated with any recorded income tax uncertainties. FIN 48 is effective for the Company from its financial year beginning October 1, 2007. The differences between the amounts recognized in the statements of financial position prior to the adoption of FIN 48 and the amounts reported after adoption will be accounted for as a cumulative-effect adjustment recorded to the beginning balance of retained earnings. The Company is in the process of determining the impact, if any, that the adoption of FIN 48 will have on its consolidated financial position and results of operations.

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In September 2006, the FASB released SFAS No. 157, *"Fair Value Measurements"*, which provides guidance for using fair value to measure assets and liabilities. SFAS No. 157 defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurements. The standard also responds to investors' requests for more information about the extent to which companies measure assets and liabilities at fair value, the information used to measure fair value, and the effect that fair value measurements have on earnings. SFAS No. 157 will apply whenever another standard requires (or permits) assets or liabilities to be measured at fair value. SFAS No. 157 does not expand the use of fair value to any new circumstances. SFAS No. 157 is effective for the Company from its financial years beginning after October 1, 2008, and interim periods within those financial years. The Company is in the process of evaluating the impact, if any, that the adoption of SFAS No. 157 will have on its consolidated financial position and results of operations.

SFAS No. 158 also requires an employer to measure the funded status of a plan as of the date of its year-end statement of financial position, with limited exceptions ("Measurement Date Provision"). The Company currently measures the funded status of its plans annually on June 30. The Measurement Date Provision is effective for the Company as of the end of the fiscal year ending September 30, 2009. The Company does not expect the application of the Measurement Date Provision of SFAS No. 158 annually on September 30 to have a significant impact on its results of operations or financial position.

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

3. Acquisitions

During December 2004, Saifun Semiconductors Ltd. ("Saifun") and the Company modified their existing flash memory cooperation agreement. As a consequence, the Company consummated the acquisition of Saifun's remaining 30% share in the Infineon Technologies Flash joint venture in January 2005 and was granted a license for the use of Saifun NROM® technologies, in exchange for $95 million (subsequently reduced to $48 million) to be paid in quarterly installments over 10 years and additional purchase consideration primarily in the form of net liabilities assumed aggregating to €7 (note 17). The assets acquired and liabilities assumed were recorded in the accompanying combined and consolidated balance sheet based upon their estimated fair values as of the date of the acquisition (note 21). The excess of the purchase price over the estimated fair values of the underlying assets acquired and liabilities assumed amounted to €7 and was allocated to goodwill. The Company has sole ownership and responsibility for the business and started to account for its entire financial results in the three months ended March 31, 2005. In light of the weak market conditions for commodity NAND Flash memories in the three months ended September 30, 2006, Qimonda decided to ramp down its Flash production and stop the development of NAND-compatible flash memory products based on Saifun's proprietary NROM® technology. Qimonda and Saifun amended the above license agreement to terminate the payment of quarterly installments as of December 31, 2006. As a

result of the above, Qimonda reduced payables, goodwill and other intangible assets, and recognized an impairment charge of €9 (note 7) related to the license (€7) and fixed assets (€2) that were not considered to be recoverable as of September 30, 2006.

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The Company had no acquisitions during the years ended September 30, 2006 and 2007. The following table summarizes the net assets acquired as a result of the Company's acquisition during the year ended September 30, 2005:

	2005
Acquisition Date	January 2005
Cash	1
Other current assets	16
Property, plant and equipment	4
Intangible assets — core technology	58
Goodwill	7
Other non-current assets	3
Total assets acquired	89
Current liabilities	(45)
Non-current liabilities (including debt)	(2)
Total liabilities assumed	(47)
Net assets acquired	42
Cash paid (Purchase consideration)	—

The above acquisition has been accounted for by the purchase method of accounting and, accordingly, the combined and consolidated statements of operations include the results of the acquired company from its acquisition date. Pro forma financial information relating to this acquisition is not material either individually or in the aggregate to the results of operations and financial position of the Company and has been omitted. For each significant acquisition the Company engages an independent third party to assist in the valuation of net assets acquired.

4. Divestitures

Effective October 1, 2005 Infineon transferred the development facility Infineon Technologies MP Development Center France S.A.S located in Corbeil-Essonnes, France ("IFMDF") from the Memory Products business to the Logic business of Infineon, due to the revised scope of its future development activities. Accordingly, the Infineon Logic business took over the management responsibility for this operation from the transfer date. Through September 30, 2005 the IFMDF balance sheet and income statement is included in the Company's historical combined financial statements because the business was owned and operated as part of the Memory Products business. The results of the transferred facility's operations during the year ended September 30, 2005 are not material. The net book value of €10 was reflected as a non-cash reduction to business/shareholders' equity as of October 1, 2005 (note 26).

Except for the disposal of investments in Associated Companies (note 16), the Company had no further divestitures during the years ended September 30, 2006 and 2007.

5. License Income

During the years ended September 30, 2005, 2006 and 2007, the Company recognized revenues related to license and technology transfer fees of €160, €7 and €8, respectively, which are included in net sales in the accompanying statements of operations. Included in these amounts are previously deferred license fees of €33, €2 and €3, which were recognized as revenue pursuant to SAB No. 104, in the years ended September 30, 2005, 2006 and 2007, respectively, since the Company had fulfilled all of its obligations and the amounts were realized.

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On November 10, 2004, the Company and ProMOS Technologies Inc., Hsinchu, Taiwan ("ProMOS") reached an agreement regarding ProMOS' license of the Company's previously transferred technologies, pursuant to which ProMOS may continue to produce and sell products using those technologies and to develop its own processes and products. The Company has no continuing future involvement with the licensing of these products to ProMOS. As full consideration, ProMOS agreed to pay the Company $156 million in four installments through April 30, 2006, against which the Company's accrued payable for DRAM products from ProMOS of $36 million was offset. The parties agreed to withdraw their respective claims, including arbitration. The present value of the settlement amounted to €118 and was recognized as license income during the year ended September 30, 2005.

In connection with its joint technology development with Nanya Technology Corporation, Taoyuan, Taiwan ("Nanya"), in 2003, the Company granted Nanya a license to use its 110nm technology and to do joint development on the 90nm and 70nm technologies. On September 29, 2005, the Company and Nanya signed an agreement to expand their development cooperation with respect to the joint development of advanced 58nm production technologies for 300mm wafers (note 16). On September 24, 2007, the Company and Nanya entered into an agreement for further know-how transfer to Nanya. License income related to the transferred technology is recognized over the estimated life of the technology.

In connection with a capacity reservation agreement with Winbond Electronics Corp., Hsinchu, Taiwan ("Winbond") in August 2004, the Company granted Winbond a license to use its 110nm technology to manufacture DRAM exclusively for the Company and to develop and sell Winbond proprietary Specialty DRAM products to third parties. In August 2006, the Company entered into an agreement with Winbond whereby the Company transferred its 80nm DRAM technology to Winbond to manufacture DRAM using this technology exclusively for the Company. In June 2007, the Company entered into agreements with Winbond to expand their existing cooperation and capacity reservation. Under the terms of the agreements, the Company agreed to transfer its 75nm and 58nm technologies to Winbond. In return, Winbond will manufacture DRAM using these technologies exclusively for the Company. Winbond can also use the 58nm technology to develop and sell Winbond proprietary Specialty DRAM products to third parties, for which the Company would receive license fees and royalties.

6. Grants

The Company has received economic development funding from various governmental entities, including grants for the construction of manufacturing facilities, as well as grants to subsidize research and development activities and employee training. Grants and subsidies included in the accompanying combined and consolidated financial statements during the years ended September 30, 2005, 2006 and 2007, are as follows:

	2005	2006	2007
Included in the combined and consolidated statements of operations:			
Research and development expenses	16	17	24
Cost of goods sold	94	95	72
Other operating income	—	—	4
Total	110	112	100
Construction grants deducted from the cost of fixed assets (note 26)	—	49	1
Deferred government grants at September 30 (notes 20 and 22)	208	179	146
Grants receivable at September 30 (note 14 and 17)	78	118	80

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7. Other Operating (Expense) Income, net

Other operating expense, net for the years ended September 30, 2005, 2006 and 2007, is as follows:

	2005	2006	2007
Litigation settlement charges, net of recoveries (note 31)	(20)	(54)	9
Impairment charges (note 3)	—	(9)	—
Insurance claim	—	—	2
Other, net	7	3	7
Total	(13)	(60)	18

Litigation settlement charges refer primarily to the settlement of an antitrust investigation by the U.S. Department of Justice and related settlements with customers (note 19), as well as, during the year ended September 30, 2006, the settlement of the Tessera litigation (note 17).

8. Restructuring

In 2004, Infineon announced restructuring measures aimed at reducing costs. As part of the restructuring, the Company's Maskhouse operations were relocated from Munich to Dresden. This plan was completed during the year ended September 30, 2005, although lease termination costs related to the U.S. operations remained accrued at September 30, 2005 and were settled during the year ended September 30, 2006.

During the years ended September 30, 2005, 2006 and 2007, charges of €1, €0 and €0, respectively, were recognized as a result of these restructuring initiatives. As of September 30, 2006 and 2007, no restructuring liabilities were recorded.

In March 2007, Qimonda announced the building of a new DRAM module manufacturing facility in Johor, Malaysia. Following its construction, the Company plans to move the backend production from its existing Malacca plant to this new backend production facility. As of September 30, 2007 the Company has implemented a restructuring plan pursuant to a SFAS No. 88, however, the amount of involuntary benefits to be paid can not be reasonably estimated at September 30, 2007.

9. Income Taxes

Income (loss) before income taxes and minority interests is attributable to the following geographic locations for the years ended September 30, 2005, 2006 and 2007:

	2005	2006	2007
Germany	41	22	(219)
Foreign	61	172	(14)
Total	102	194	(233)

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Income tax expense (benefit) for the years ended September 30, 2005, 2006 and 2007 is as follows:

	2005	2006	2007
Continuing operations:			
Current taxes:			
Germany	27	63	(10)
Foreign	6	28	4
Subtotal	33	91	(6)
Deferred taxes:			
Germany	46	21	48
Foreign	7	2	(32)
Subtotal	53	23	16
Income tax expense	86	114	10
Other comprehensive (income) loss (note 25)	(1)	(1)	4

Through September 30, 2007 the Company's statutory tax rate in Germany was 25%. Additionally, a solidarity surcharge of 5.5% and trade tax of 13% is levied, for a combined statutory tax rate of 39%.

On August 17, 2007 the Business Tax Reform Act of 2008 was enacted in Germany. This bill introduces several changes to the taxation of German business activities, including a reduction of the combined corporate and trade tax rate in Germany from approximately 39% to 30%. Most of the changes come into effect for the Company's 2008 financial year and affect the Company's current tax rate from that date. Pursuant to SFAS No. 109, the Company recorded a deferred tax charge of €25 as of September 30, 2007, reflecting the reduction in value of the Company's deferred tax assets in Germany upon enactment.

A reconciliation of income taxes for the years ended September 30, 2005, 2006 and 2007, determined using the German corporate tax rate plus trade taxes, net of federal benefit, for a combined statutory rate of 39% for 2005, 2006 and 2007 is as follows:

	2005	2006	2007
Expected expense (benefit) for income taxes	40	75	(91)
Decrease (increase) in available tax credits	11	2	(28)
Non-taxable investment income	(21)	(50)	(24)
Foreign tax rate differential	(8)	(38)	(43)
Non deductible expenses and other provisions	3	5	4
Increase in valuation allowance	14	11	168
Change in German tax rate	—	—	25
Losses not available to Qimonda due to Formation	43	114	—
Other	4	(5)	(1)
Actual expense for income taxes	86	114	10

The current tax expense resulting from the Formation was €6 for the year ended September 30, 2006. The deferred tax expense for the year ended September 30, 2006 resulting from the Formation was €13 due to reduced deferred tax benefits available to the Company and €101 due to net operating losses which are to be utilized by Infineon.

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The Company has operations in a jurisdiction which grants a tax holiday from the 2005 financial year onwards, which has a remaining term of two years. Compared to ordinary taxation in this jurisdiction, the tax holiday results in tax savings of €0, €16 and €6 for the years ended September 30, 2005, 2006 and 2007, respectively, which are reflected in the foreign tax rate differential.

Deferred income tax assets and liabilities as of September 30, 2006 and 2007 relate to the following:

	2006	2007
Deferred tax assets:		
Trade accounts receivable	16	45
Property, plant and equipment	71	63
Intangible assets	79	49
Remaining assets	7	22
Accrued liabilities	31	18
Deferred income	65	44
Remaining liabilities	15	10
Net operating loss and tax credit carry-forwards	32	187
Gross deferred tax assets	316	438
Valuation allowance	(70)	(204)
Deferred tax assets	246	234
Deferred tax liabilities:		
Trade accounts receivable	(12)	(17)
Inventories	(3)	—
Property, plant and equipment	(44)	(41)
Long-term investments	(3)	(3)
Accrued liabilities	(15)	(3)
Remaining assets and liabilities	(16)	(19)
Deferred tax liabilities	(93)	(83)
Deferred tax assets, net	153	151

Net deferred income tax assets and liabilities are presented in the accompanying combined and consolidated balance sheets as of September 30, 2006 and 2007 as follows:

	2006	2007
Deferred tax assets:		
Current	47	32
Non-current	160	147
Deferred tax liabilities:		
Current	(18)	(5)
Non-current	(36)	(23)
Deferred tax assets, net	153	151

Pursuant to the terms of the contribution agreement between the Company and Infineon, substantially all net operating losses generated and not utilized by the Company prior to the Formation were transferred to and retained

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by Infineon. As such, net deferred tax assets, reflecting valuation allowances calculated on a separate return basis by the Company for losses it could not utilize, of €6, €0 and €0 for the years ended September 30, 2005, 2006 and 2007, respectively, have been accounted for as equity transactions with Infineon (note 26).

As of September 30, 2006 and 2007, the Company had tax loss carry-forwards of €0 and €399 from both German and foreign operations, and tax-effected credit carry-forwards of €32 and €60, respectively, which will be retained by the Company. Such tax loss and tax credit-carry-forwards are generally limited to be used by the particular entity that generated the loss or credit and do not expire under current law. The benefit for tax credits is accounted for on the flow-through method when the individual entity is entitled to the claim.

Pursuant to SFAS No. 109, the Company has assessed its deferred tax asset and the need for a valuation allowance. Such an assessment considers whether it is more likely than not that some portion or all of the deferred tax assets may not be realized. The assessment requires considerable judgment on the part of management, with respect to, among other factors, benefits that could be realized from available tax strategies and future taxable income as well as other positive and negative factors. The ultimate realization of deferred tax assets is dependent upon the Company's ability to generate the appropriate character of future taxable income sufficient to utilize loss carry-forwards or tax credits before their expiration. The assessment was based on the benefits that could be realized from available tax strategies, forecasted future taxable income to the extent applicable, and the reversal of temporary differences in future periods. As a result of this assessment, the Company has increased its deferred tax asset valuation allowance in those tax jurisdictions as of September 30, 2006 and 2007 to reduce the deferred tax asset to an amount that is more likely than not expected to be realized in future.

The changes in valuation allowance for deferred tax assets during the years ended September 30, 2006 and 2007 were as follows:

	2006	2007
Balance, beginning of the year	59	70
Increase applicable to continuing operations	11	168
Decrease due to change in German tax rate	—	(34)
Balance, end of the year	70	204

The Company did not provide for income taxes or foreign withholding taxes on cumulative earnings of foreign subsidiaries as of September 30, 2006 and 2007, because these earnings are intended to be indefinitely reinvested in those operations. It is not practicable to estimate the amount of unrecognized deferred tax liabilities for these undistributed foreign earnings.

10. Earnings (Loss) Per Share

Basic earnings (loss) per share ("EPS") are calculated by dividing net income (loss) by the weighted average number of ordinary shares outstanding during the year.

In connection with the Formation, the ordinary shares outstanding were increased to 300 million owned by Infineon (note 1). Accordingly, all applicable references to the number of ordinary shares and per share information for periods prior to the Formation have been restated to reflect the 300 million ordinary shares outstanding. On August 9, 2006 the Company completed its IPO on the New York Stock Exchange through the issuance of 42 million ordinary shares, which are traded as ADSs. On July 18, 2007 in connection with the transfer of ownership of Qimonda Japan K.K. from Infineon, the Company's share capital was increased through the issuance of one ordinary share (note 23).

The Company did not have any potentially dilutive instruments outstanding for the years ended September 30, 2005 and 2006. On November 24, 2006 the Company granted 1.9 million stock options

pursuant to the Qimonda Stock Option Plan (note 24). None of these options were dilutive to EPS for the year ended September 30, 2007. The

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Company accounts for the potentially dilutive effects of its stock options according to the provisions of SFAS No. 123 (R).

The computation of basic and diluted EPS for the years ended September 30, 2005, 2006 and 2007 is as follows:

	2005	2006	2007
Numerator —			
Income (loss) available to ordinary shareholders, basic and diluted	18	74	(249)
Denominator —			
Weighted-average shares outstanding, basic and diluted	300,000,000	305,983,562	342,000,000
Earnings (loss) per share (in euro):			
Basic and diluted	0.06	0.24	(0.73)

11. Marketable Securities

Marketable securities at September 30, 2006 and 2007 consist of the following:

	2006				2007			
	Cost	Fair Value	Unrealized Gain	Unrealized Loss	Cost	Fair Value	Unrealized Gain	Unrealized Loss
Foreign government securities	1	1	—	—	1	1	—	—
Other debt securities	2	3	1		137	135	1	(3)
Fixed term deposits	139	138	—	(1)	138	134	—	(4)
Total debt securities	142	142	1	(1)	276	270	1	(7)
Equity securities	—	—	—	—	1	1	—	—
Total marketable securities	142	142	1	(1)	277	271	1	(7)
Reflected as follows Current assets	139	138	—	(1)	272	265	—	(7)
Non-current assets (note 17)	3	4	1	—	5	6	1	—
Total marketable securities	142	142	1	(1)	277	271	1	(7)

Unrealized losses as of September 30, 2006 and 2007 related to debt securities held for less than 12 months. In each of the years ended September 30, 2005, 2006 and 2007 realized gains or losses were less than €1.

The following table presents contractual maturities of debt securities as of September 30, 2007:

	Cost	Fair Value
Within 1 year	—	—
after 1 year through 5 years	129	125
after 5 years through 10 years	10	10
Securities with no stated maturity date	137	135
Total	276	270

Actual maturities may differ due to call or prepayment rights.

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12. Trade Accounts Receivable, net

Trade accounts receivable at September 30, 2006 and 2007 consist of the following:

	2006	2007
Third party — trade	764	333
Infineon group — trade (note 27)	61	11
Associated and Related Companies — trade (note 27)	—	3
Trade accounts receivable, gross	825	347
Allowance for doubtful accounts	(22)	(6)
Trade accounts receivable, net	803	341

Activity in the allowance for doubtful accounts for the years ended September 30, 2006 and 2007 is as follows:

	2006	2007
Allowance for doubtful accounts, beginning of year	(19)	(22)
Provision for bad debt, net of recoveries	(3)	16
Allowance for doubtful accounts, end of year	(22)	(6)

13. Inventories

Inventories at September 30, 2006 and 2007 consist of the following:

	2006	2007
Raw materials and supplies	54	63
Work-in-process	432	311
Finished goods	136	245
Total inventories	622	619

14. Other Current Assets

Other current assets at September 30, 2006 and 2007 consist of the following:

	2006	2007
VAT and other tax receivables	97	87
Grants receivable (note 6)	105	80
Third party — financial and other receivables	24	34
Financial instruments (note 29)	6	23
Prepaid expenses	14	12
License fees receivable	14	10
Employee receivables (note 27)	2	3
Associated and Related Companies — financial and other receivables (note 27)	—	2
Other	3	3
Total other current assets	265	254

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15. Property, Plant and Equipment, net

A summary of activity for property, plant and equipment for the year ended September 30, 2007 is as follows:

	Land and Buildings	Technical Equipment and Machinery	Other Plant and Office Equipment	Construction in Progress	Total
Cost					
September 30, 2006	805	3,795	821	82	5,503
Additions	9	327	47	509	892
Disposals	(1)	(26)	(58)	—	(85)
Reclassifications	9	329	6	(344)	—
Transfers from (to) Infineon, net	—	(7)	1	—	(6)
Foreign currency effects	(53)	(218)	(18)	(9)	(298)
September 30, 2007	769	4,200	799	238	6,006
Accumulated depreciation					
September 30, 2006	(274)	(2,430)	(719)	—	(3,423)
Depreciation	(69)	(509)	(71)	—	(649)
Disposals	—	25	57	—	82
Reclassifications	—	(4)	4	—	—
Transfers to (from) Infineon, net	—	6	—	—	6
Foreign currency effects	17	132	15	—	164
September 30, 2007	(326)	(2,780)	(714)	—	(3,820)
Book value					
September 30, 2006	531	1,365	102	82	2,080
Book value					
September 30, 2007	443	1,420	85	238	2,186

At September 30, 2007 technical equipment is held subject to capital lease (note 21) as follows:

	Total
Book value	128
Deferred gain	(77)
Book value, net of deferred gain	51

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16. Long-term Investments

A summary of activity for long-term investments (note 2) for the year ended September 30, 2006 and 2007 respectively is as follows:

	Investment in Associated Companies	Investment in Related Companies	Total
Balance at October 1, 2005	543	1	544
Additions	3	—	3
Dividends received	(29)	—	(29)
Capitalized interest amortization	(1)	—	(1)
Equity in earnings of associated companies	80	—	80
Gain on associated company share issuance	72	—	72
Reclassification	9	—	9
Foreign currency effects	(42)	—	(42)
Balance at September 30, 2006	635	1	636
Additions	—	1	1
Dividends received	(61)	—	(61)
Capitalized interest amortization	(1)	—	(1)
Equity in earnings of associated companies	117	—	117
Reclassification	(12)	—	(12)
Disposal	(25)	—	(25)
Foreign currency effects	(27)	—	(27)
Balance at September 30, 2007	626	2	628

Investments in Related Companies principally relate to investment activities aimed at strengthening the Company's future intellectual property potential.

The following Associated Companies as of September 30, 2007 are accounted for using the equity method of accounting due to the lack of unilateral control (note 2):

Name of the Associated Company	Direct and Indirect Ownership
Inotera	35.6%
AMTC	33.3%
BAC	33.3%

On November 13, 2002, the Company entered into agreements with Nanya relating to a strategic cooperation in the development of DRAM products and the foundation of a joint venture called Inotera Memories Inc., a 300mm manufacturing facility in Taiwan to employ production technology developed under the Companies' joint development agreements. Pursuant to the agreements, the Company and Nanya developed advanced 90nm and 75nm technology. On September 29, 2005, the Company and Nanya signed an agreement to expand their development cooperation with respect to the joint development of advanced 58nm production technologies for 300mm wafers. Technology development costs are shared two-thirds by the Company and one-third by Nanya. The 2002 and 2005 cooperative agreements will remain in force until the product and process technologies developed pursuant to the agreements have achieved required qualifications.

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During the year ended September 30, 2004, Inotera completed the construction and started mass production in its first manufacturing module. The final stage of the capacity was completed during the year ended September 30, 2006. In May 2005 the groundbreaking for the second manufacturing module took place. During the year ended September 30, 2007 Inotera completed the construction and started mass production in its second manufacturing module, which was independently financed by Inotera. The joint venture partners are obligated to each purchase one-half of Inotera's production based, in part, on market prices.

The November 2002 agreement, as amended, entitles Nanya to receive from the Company or its then-existing foundry partners 60% of that amount of its foundry capacity that is in excess of the foundry capacity the Company receives as of December 2006. Nanya may also receive 50% of the Company's foundry capacity for which it contracts after March 1, 2006 with new foundry partners. The Company's obligation to provide foundry capacity is capped at one third of its total 90nm foundry capacity. In combination, the 2002 and 2005 agreements also entitle Nanya to receive from the Company or its foundry partners one third of its 75nm foundry capacity and one third of its 58nm foundry capacity. As of September 30, 2007 the Company has not contracted for foundry capacity that would require it to cede capacity to Nanya under these agreements. The Company does not expect that any foundry capacity that it may be required to provide to Nanya will have a material adverse effect on its business, financial condition or results of operations.

If Infineon were to reduce its shareholding in the Company to a minority level before the earlier of the fifth anniversary of its Formation from Infineon and the achievement of early mass production using 58nm process technology at its manufacturing site in Dresden, the joint venture agreement with Nanya, as amended, could require Qimonda to transfer its Inotera shares to Infineon. The Company agreed with Infineon that, in this event, it would retransfer the Inotera shares back to the trust. The trust agreement provides for Infineon to hold the Inotera shares in trust for Qimonda until they could be retransferred back to the Company.

On March 17, 2006 Inotera successfully completed its IPO on the Taiwanese stock exchange of 200 million ordinary shares, representing 7.97% of its outstanding share capital before IPO, for an issuance price of NT$33 per ordinary share. As a result, the Company's ownership interest was diluted to 41.4% while the book value of Inotera's equity increased by approximately €30, which gain the Company recognized as part of non-operating income during the year ended September 30, 2006.

On May 10, 2006, Inotera successfully completed a public offering on the Luxembourg Stock Exchange of 40 million global depositary shares (representing 400 million common shares) which are traded on the Euro MTF market and represent 14.8% of its outstanding share capital before the offering, for an issuance price of NT$33 per ordinary share. As a result, the Company's ownership interest was diluted to 36.0% while the book value of Inotera's equity increased by €42, which gain the Company reflected as part of non-operating income during the year ended September 30, 2006. On August 20, 2007 Inotera issued 40 million common shares, representing 1.2% of its outstanding share capital, as bonuses to its employees, which dilutes the company's ownership interest to 35.6%, the effect of which is to be recognized by the Company during the three months ending December 31, 2007.

In connection with the Formation, Infineon and Qimonda entered into a trust agreement under which Infineon placed the Inotera shares in trust for the Company until the shares could legally be transferred. In March 2007, the Inotera shares (except for a portion representing less than 1% of the total shares) were transferred to Qimonda. The Inotera shares remain subject to Taiwanese lock-up provisions related to the Inotera IPO through January 2008, after which the remaining shares are to be transferred to Qimonda.

On May 16, 2002, Infineon entered into the AMTC and BAC joint ventures with its partners Advanced Micro Devices, Inc., Sunnyvale, California, USA ("AMD"), and Toppan Photomasks, Inc., Round Rock, Texas, USA (formerly DuPont Photomasks Inc.) ("Toppan"), with the purpose of developing and manufacturing advanced photomasks.

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The Company also maintains equity investments in BAC, a German company that owns the premises used by AMTC and Toppan Photomasks Germany GmbH, Dresden. The purpose of BAC is acquisition, administration, and letting of real estate and corresponding facilities for the production of photo masks.

The limited partnership agreements relating to AMTC and BAC require prior written consent from the other partners before Infineon can assign its partnership interest to the Company. In the case of a transfer to an affiliate, such as Qimonda, the consent may not be unreasonably withheld, but the interest must be transferred back to Infineon should Infineon cease to be the majority shareholder. Infineon and the Company are currently finalizing negotiations with AMD and Toppan concerning an agreement that provides such consent and would allow the Company to retain the interest even if Infineon ceases to be the majority shareholder.

Hwa-Keng Investment Corp. ("Hwa-Keng"), a Taiwanese company, was formed for the purpose of facilitating the distribution of Inotera shares to Inotera's employees. As a result of the Inotera IPO, Hwa-Keng's business purpose was fulfilled and therefore it was dissolved during the year ended September 30, 2007. The dissolution did not have a significant financial impact on the Company.

On November 13, 2006 the Company sold its investment in Ramtron through a private placement. As a result of the sale, the Company recorded a gain of €2 as part of other non-operating income during the year ended September 30, 2007.

The Company recognized impairment charges related to certain investments for which the carrying value exceeded the fair value on an other-than-temporary basis, of €6, €0 and €0 for the years ended September 30, 2005, 2006 and 2007, respectively, which are reflected as other non-operating expense.

Goodwill of €2 and €0 is included in the amount of long-term investments at September 30, 2006 and 2007, respectively.

For the Associated Companies as of September 30, 2007, the aggregate summarized financial information for the years ended September 30, 2005, 2006 and 2007, respectively, is as follows:

	2005	2006	2007
Sales	475	909	1,129
Gross profit	154	320	385
Net income	90	224	277

	2006	2007
Current assets	1,123	714
Non-current assets	1,823	2,805
Current liabilities	(518)	(661)
Non-current liabilities	(645)	(1,130)
Shareholders' equity	1,783	1,728

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17. Other Assets

Other non-current assets at September 30, 2006 and 2007 consist of the following:

	2006	2007
Intangible assets, net	143	143
Employee deferred compensation asset (note 27)	5	5
Prepaid expenses	1	—
Marketable securities (note 11)	4	6
Grants receivable (note 6)	13	—
License fees receivable	11	7
Other	1	2
Total	178	163

A summary of activity for intangible assets for the years ended September 30, 2006 and 2007 is as follows:

	Goodwill	Other Intangibles	Total
Cost			
September 30, 2005	88	77	165
Additions	—	45	45
Impairment charges (note 7)	—	(7)	(7)
Disposals and reductions	(11)	(26)	(37)
Foreign currency effects	(5)	—	(5)
September 30, 2006	72	89	161
Additions	—	26	26
Disposals and reductions	—	(1)	(1)
Foreign currency effects	(8)	(1)	(9)
September 30, 2007	64	113	177
Accumulated amortization			
September 30, 2005	—	(8)	(8)
Amortization	—	(12)	(12)
Disposals and reductions	—	5	5
Foreign currency effects	—	(3)	(3)
September 30, 2006	—	(18)	(18)
Amortization	—	(17)	(17)
Disposals and reductions	—	1	1
Foreign currency effects	—	—	—
September 30, 2007	—	(34)	(34)
Intangible assets, net as of September 30, 2006	72	71	143
Intangible assets, net as of September 30, 2007	64	79	143

The estimated aggregate amortization expense relating to other intangible assets for each of the five succeeding financial years is as follows: 2008 €18; 2009 €16; 2010 €14; 2011 €13; 2012 €9.

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In connection with the acquisition of Saifun's remaining 30% share in Infineon Technologies Flash during January 2005, the Company was granted a license for the use of Saifun NROM(R) technologies (note 3). The Company recorded the intangible license asset of €58, representing the estimated fair value of the license, and a corresponding liability of €58, representing the minimum future license payments. The Company retained the option to terminate the entire license, or parts thereof, at any time without penalty. During the three months ended June 30, 2005, the Company exercised its termination option and cancelled the portion of the license encompassing NROM(R) Code Flash products. As a result of the partial termination, the license asset and related liability were reduced to €28 as of September 30, 2005. Effective September 30, 2006, the Company and Saifun amended its license agreement (note 3). As a result of the amendment, the Company reduced payables, goodwill and other intangible assets, and recognized an impairment charge of €9 (note 7) related to the license (€7) and fixed assets (€2) that were not considered to be recoverable as of September 30, 2006.

On March 18, 2005, the Company and Rambus reached an agreement settling all claims between them and licensing the Rambus patent portfolio for use in current and future Company products. Rambus granted to the Company a worldwide license to existing and future Rambus patents and patent applications for use in the Company's memory products. In exchange for this worldwide license, the Company agreed to pay $50 million in quarterly installments of $6 million between November 15, 2005 and November 15, 2007. As of March 31, 2005 the Company recorded a license and corresponding liability in the amount of €37, representing the estimated present value of the minimum future license payments. After November 15, 2007, and only if Rambus enters into additional specified licensing agreements with certain other DRAM manufacturers, the Company would make additional quarterly payments which may accumulate up to a maximum of an additional $100 million. Because Rambus' ability to conclude the agreements is not within the Company's control, the Company is not able to estimate whether additional payment obligations may arise. The agreement also provides the Company an option for acquiring certain other licenses. All licenses provide for the Company to be treated as a "most-favored customer" of Rambus. The Company simultaneously granted to Rambus a fully-paid perpetual license for memory interfaces. In addition to the licenses, the two companies agreed to the immediate dismissal of all pending litigation and released each other from all existing legal claims. The license of €37 is being amortized over the expected useful life of the related technologies of ten years.

In June 2006, the Company and Infineon reached an agreement with MOSAID Technologies Inc., Ottawa, Ontario, Canada ("MOSAID") settling all claims between them and licensing the MOSAID patent portfolio for use in current and future Company products. MOSAID granted to Infineon a six year license to use any MOSAID patents in the manufacturing and sale of semiconductor products, as well as a "lives of the patents" license to certain MOSAID patent families. In exchange for these licenses, the Company agreed to make license payments commencing on July 1, 2006 over a six-year term. The license of €32 is being amortized over the expected useful life of the related technologies of six years.

On August 1, 2006, Infineon and the Company entered into settlement agreements with Tessera Inc., San Jose, California, USA ("Tessera") in respect of all of Tessera's patent infringement and antitrust claims and all counterclaims and other claims Infineon and the Company had raised against Tessera. As part of the settlement, Infineon and the Company entered into license agreements with Tessera, effective July 1, 2006, that provide the Infineon and the Company world-wide, nonexclusive, non-transferable and non-sublicensable license to use a portfolio of Tessera patents relating to packaging for integrated circuits in Infineon's and the Company's production. The license agreements have a six-year term and can be extended. Under the license agreement, the Company agreed to pay Tessera an initial upfront fee and additional royalty payments over a six year period based on the volume of components it sells that are subject to the license. The Company recognized the litigation settlement portion of €31 as other operating expense (note 7) during the year ended September 30, 2006. The remaining license portion is amortized over the term of the agreement and the royalty payments are recognized as the related sales are made.

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18. Trade Accounts Payable

Trade accounts payable at September 30, 2006 and 2007 consist of the following:

	2006	2007
Third party — trade	565	601
Infineon group — trade (note 27)	71	56
Associated and Related Companies — trade (note 27)	76	99
Total	712	756

19. Accrued Liabilities

Accrued liabilities at September 30, 2006 and 2007 consist of the following:

	2006	2007
Personnel costs	95	97
Settlement for antitrust related matters (note 31)	53	38
Warranties	1	3
Other	11	9
Total	160	147

In September 2004 Infineon entered into a plea agreement with the United States Department of Justice in connection with its antitrust investigation (note 31) and agreed to pay a fine aggregating $160 million over a five-year period. The related expense is reflected as other operating expense (note 7) whereas the amount due within one year as of the balance sheet date is included in accrued liabilities and other current liabilities (note 20), and the remaining long-term portion is reflected as other non-current liabilities (note 22). As a result of this agreement and other anti-trust related investigations and customer settlements (note 31), the Company recorded other operating (expenses) income €(20), €(23) and €9 during the years ended September 30, 2005, 2006 and 2007, respectively (note 7).

A tabular reconciliation of the changes in the aggregate product warranty liability for the years ended September 30, 2006 and 2007 is as follows:

	2006	2007
Balance beginning of year	1	1
Accrued during the year, net	3	3
Settled during the year	(3)	(1)
Balance end of year	1	3

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20. Other Current Liabilities

Other current liabilities at September 30, 2006 and 2007 consist of the following:

	2006	2007
Deferred income	20	88
Deferred government grants (note 6)	74	49
Payroll obligations to employees	31	35
VAT and other taxes payable	72	26
Settlement for anti-trust related matters — payable to Infineon (notes 19 and 31)	24	22
Credit balances in trade accounts receivables	—	20
Licenses payable	13	13
Financial instruments (note 29)	2	4
Pension liabilities (note 28)	—	1
Infineon group — financial and other (note 27)	9	—
Other	—	1
Total	245	259

21. Debt

Debt at September 30, 2006 and 2007 consists of the following:

	2006	2007
Short-term debt:		
Loans from Infineon (note 27)	344	—
Notes payable to banks, rate 6,09%	—	28
Current portion of long term debt, rate 4,25%	—	21
Capital lease obligation	—	28
Total short-term debt	344	77
Long-term debt:		
Unsecured term bank loan, rate 4,25%, due 2013	124	103
Notes payable to governmental entity, rate 5,06%, due 2027	27	24
Capital Lease obligation	—	100
Total long-term debt	151	227

In September 2007, the Company entered into a sale and leaseback transaction of 200mm equipment. The four year lease is accounted for as a capital lease (note 15) whereby the present value of the lease payments is reflected as a capital lease obligation.

The Company repaid the total of €344 of its short-term loan from Infineon during the year ended September 30, 2007.

A €124 non-recourse project financing loan for the expansion of the Porto, Portugal manufacturing facility was fully drawn as of September 30, 2007.

As of September 30, 2007 a €24 note payable to a government entity in connection with the Richmond, USA plant had been fully drawn.

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The Company can also draw, for short term purposes, on the working capital lines it maintains in several locations with an aggregate amount of €161, of which €28 was drawn for working capital purposes and reflected as short-term notes payable to banks as of September 30, 2007 and fully repaid on October 10, 2007.

In August 2006, the Company entered into a committed multicurrency revolving loan facility with an aggregate principal amount of €250, which the Company voluntarily cancelled on September 28, 2007. This cancellation was due to certain restrictions on asset dispositions which had limited the Company when pursuing engagements in sale and leaseback transactions for manufacturing equipment. Before cancellation, Qimonda did not have any drawdown at any time from this revolving loan facility.

Aggregated amounts of debt, including capital lease obligations, maturing subsequent to September 30, 2007 are as follows:

Year Ending September 30,	Amount
2008	77
2009	51
2010	54
2011	57
2012	21
Thereafter	44
Total debt	304

22. Other Liabilities

Other non-current liabilities at September 30, 2006 and 2007 consist of the following:

	2006	2007
Deferred government grants (note 6)	105	97
Minority interest	79	83
Deferred income	9	83
Settlement for antitrust related matters — payable to Infineon (notes 19 and 31)	64	41
Licenses payable	37	27
Pension liabilities (note 28)	26	24
Asset retirement obligation	—	10
Other	4	5
Total	324	370

On July 28, 2003, the Company entered into a joint venture agreement with China-Singapore Suzhou Industrial Park Venture Company (“CSVC”) for the construction of a back-end manufacturing facility in the People’s Republic of China. The capital invested by CSVC earns an annual return and has a liquidation preference. All accumulated earnings and dividend rights accrue to the benefit of the Company. Accordingly, the Company has consolidated 100% of the results of operations of the joint venture from inception, although the capital invested and annual return of CSVC is reflected as minority interest. The Company currently holds 63% of Qimonda Suzhou representing 72.5% of the voting rights in the venture.

On April 25, 2007, the Company and SanDisk Corporation (“SanDisk”), Milpitas, California, USA entered into a collaboration to develop and manufacture multichip packages (“MCPs”) utilizing SanDisk’s NAND flash and controllers and the Company’s low power mobile DRAM. The collaboration targets the need for high capacity,

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integrated memory solutions for data-intensive mobile applications. This collaboration is executed through an entity, SanQi Solutions Lda. ("SanQi"), based in Portugal and owned 50.1% by Qimonda and 49.9% by SanDisk. SanQi is a variable interest entity of which Qimonda is the primary beneficiary. Accordingly, the Company has consolidated SanQi and presents SanDisk's interest as minority interest.

23. Ordinary Share Capital

On April 25, 2006 the initial 50,000 registered shares of (in euro) €1.00 notional value were combined to 25,000 registered shares of (in euro) €2.00 notional value.

Pursuant to the contribution agreement, in exchange for the Infineon contributions as part of the Formation, and based on a shareholders' resolution dated April 25, 2006, the Company issued 132,288,975 ordinary registered shares to Infineon, which increased the Company's share capital from (in euro) €50,000.00 to (in euro) €264,600,000.00 on April 25, 2006 (Capital Increase I), and 167,686,025 ordinary registered shares to Infineon Technologies Holding B.V., which increased the Company's share capital from (in euro) €264,627,950.00 to (in euro) €600,000,000.00 (Capital Increase II).

On July 27, 2006, the Company's shareholders resolved to increase the share capital to (in euro) €684,000,000.00 in exchange for cash contributions through the issuance of 42,000,000 ordinary registered shares, that exclude subscription rights of existing shareholders, and became effective on August 8, 2006 (Capital Increase III) (note 1). In connection with the Company's IPO, the Company received offering proceeds of €415, net of offering costs of €19 and tax benefit thereon of €9, in exchange for the issuance of 42,000,000 shares.

On May 29, 2007, the Management Board resolved to increase the Company's ordinary share capital by (in euro) €2.00 in exchange for the contribution of all shares in Qimonda Japan K.K. from (in euro) €684,000,000.00 to (in euro) €684,000,002.00 through the issuance of one no-par value ordinary registered share from the authorized capital. The capital increase was approved by the Investment, Finance and Audit Committee of the Company's Supervisory Board and became effective on July 18, 2007.

As of September 30, 2007 the Company had a total of 342,000,001 no par value ordinary registered shares (*Namensaktien*) outstanding.

Authorized and Conditional Share Capital

Under the German Stock Corporation Act (*Aktiengesetz*), a stock corporation's shareholder can authorize the management board to issue shares in a specified aggregate nominal amount up to 50% of the issued share capital at the time the resolution is passed. The shareholders' authorization may extend for a period of no more than five years.

On July 14, 2006, the Company's shareholders resolved to amend the Company's Articles of Association to authorize the Management Board to increase the share capital with the Supervisory Board's consent. The Management Board may use this authorization until July 13, 2011 to increase the share capital by up to (in euro) €30,000,000.00 through the issuance, in one or more tranches, of new ordinary registered shares with no par value, that exclude subscription rights of existing shareholders, in exchange for cash contributions for the purpose of issuing shares to the Company's and the subsidiaries' employees.

In addition on July 27, 2006, the Company's shareholders resolved to amend the Company's Articles of Association to authorize the Management Board to increase the share capital with the Supervisory Board's consent against contributions in cash or in kind. The Management Board may use these authorizations until July 26, 2011 to issue new shares in one or more tranches for any legal purpose in an aggregate amount of up to (in euro) €239,400,000.00 in which case existing

shareholders have preemptive rights, which may be excluded in specified circumstances.

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In connection with the share capital increase by (in euro) €2.00 described above, the authorized share capital was decreased from (in euro) €239,400,000.00 to (in euro) €239,399,998.00.

During the Company's extraordinary shareholders' meeting on July 14, 2006, its shareholders passed the following resolutions with regard to conditional capital:

- First, the Company's share capital is conditionally increased by up to (in euro) €12,000,000.00 through the issuance of up to six million ordinary registered shares with no par value in connection with the employee stock option and share purchase plans described in note 24.

- Second, the Company's share capital is conditionally increased by up to (in euro) €240,100,000.00 through the issuance of up to 120,050,000 ordinary registered shares with no par value. This conditional capital may only be used in connection with an issuance of a convertible bond, which the shareholders authorized by resolution of July 14, 2006.

Dividends

Under the German Stock Corporation Act (*Aktiengesetz*), the amount of dividends available for distribution to shareholders is based on the level of earnings (*Bilanzgewinn*) of the parent company, Qimonda AG, as determined in accordance with the HGB on a stand-alone basis. All dividends must be approved by shareholders. No earnings are available for distribution as a dividend for the 2007 financial year, since Qimonda AG on a stand-alone basis, as the parent company, incurred a cumulative loss (*Bilanzverlust*) as of September 30, 2007.

24. Stock-based Compensation

Infineon Stock Option Plans

In periods prior to the Formation, certain of the Company's employees were granted Infineon stock options as Infineon employees pursuant to Infineon's stock option plans. The aggregate number of such options outstanding were 11.6 million, 11.4 million and 9.9 million (of which 5.6 million, 6.6 million and 6.7 million were exercisable) as of September 30, 2005, 2006 and 2007, respectively. If such options are exercised, the employees are to be given Infineon shares in exchange for payment of the exercise price to Infineon. Accordingly, such options do not represent potential dilutive instruments to the Company.

Fair value disclosures of Infineon Stock Option Plans

Effective October 1, 2005, the Company adopted SFAS No. 123 (revised 2004) under the modified prospective application method, and accounts for stock option grants to its employees under the Infineon stock option plans according to the fair value method of SFAS No. 123 (revised 2004) from that date.

The fair value of each option grant is estimated on the grant date using the Black-Scholes option-pricing model. Prior to the adoption of SFAS No. 123 (revised 2004), the Company relied on historical volatility measures when estimating the fair value of stock options granted to employees. Following the implementation of SFAS No. 123 (revised 2004), Infineon uses a combination of implied volatilities from traded options on Infineon's stock and historical volatility when estimating the fair value of stock options granted to employees, as it believes that this methodology better reflects the expected future volatility of its stock. The expected life of options granted is estimated based on historical experience. Beginning on the date of adoption of SFAS No. 123 (revised 2004), forfeitures are estimated based on historical experience; prior to the date of adoption, forfeitures were recorded as they occurred. The risk-free rate is based on treasury note yields at the time of grant for the estimated life of the option. Infineon has not made any dividend payments during the years ended September 30, 2005, 2006 and 2007, nor has it communicated plans to pay dividends in the foreseeable future. Infineon has not granted stock options to Qimonda employees after March 1, 2006.

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The following weighted-average assumptions were used in the Black-Scholes option-pricing model:

	2005	2006	2007
Weighted-average assumptions:			
Risk-free interest rate	3.03%	3.08%	—
Expected volatility	58%	43%	—
Expected life in years	4.50	5.07	—
Weighted-average fair value per option at grant date in euro	4.06	3.19	—

Qimonda Stock Option Plan

During an extraordinary shareholders' meeting held on July 14, 2006, the shareholders authorized the Supervisory Board to grant to the members of the Management Board, and the Management Board to grant to certain key executives in the group, through September 30, 2009, a total of 6,000,000 non-transferable option rights to receive ordinary shares issued by the Company (note 23). The shareholders' meeting resolved on the following key features of such stock option plan:

The option rights may be allocated as follows: the first group, consisting of the members of the Management Board, may receive a total of up to 1,200,000 option rights. The second group, consisting of the members of the executive boards of the subsidiaries in Germany and abroad, may receive a total of up to 1,000,000 option rights. The third group, consisting of further key executives who will be nominated based on their performance to receive up to a specific number of options based on their job classification, may receive a total of up to 3,800,000 option rights. The Company expects that, in total, about 6% of the work force will be eligible to participate in the plan. During any fiscal year, not more than 40% of the total option rights allocable to the respective group may be issued to the members of such group. No option rights may be issued to executives of any of the group companies that are listed on a stock exchange and their subsidiaries, if and for as long as such companies maintain their own stock option plans.

Option rights may be granted within 45 days upon the publication of the results for the preceding fiscal year or within 45 days upon publication of the results for the first or second quarter of a fiscal year, but, in each case, no later than two weeks prior to the end of the respective quarter.

The option rights may be exercised within six years after their grant, but not before the expiration of a vesting period that will be at least three years. The exercise of each option right is subject to the condition that the exchange price of the ADSs on the New York Stock Exchange, during the exercise period of the respective option right, exceeds the Philadelphia Semiconductor Sector ("SOX") index on at least three consecutive days. In order to determine whether such excess has taken place, the SOX and the strike price of the respective option right will be set at 100 at the day on which the option right is granted.

For as long as the Company's shares are not listed on any organized market with the European Union or the European Economic Area, the strike price will be the average of the opening prices of the ADSs on the New York Stock Exchange on the five trading days prior to the day of the grant (or a fraction thereof, if an ADS does not represent exactly one of the ordinary shares). Otherwise, the strike price will be the average of the opening prices of the shares on the respective organized market on the five trading days prior to the day of the grant.

The holders of option rights will benefit from certain anti-dilution protection provisions, particularly in the case of certain capital measures performed by the Company.

Upon exercise of an option right, the holder is generally able to receive new ordinary shares to be issued by the company. The Management Board (with approval by the Supervisory Board) is, however, allowed to decide to instead deliver existing shares or pay a cash compensation to be calculated on the basis of the difference between the strike price and the exchange price of the ADSs

or shares on the exercise date.

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The Management Board and, to the extent options to be granted to the Management Board are concerned, the Supervisory Board are entitled to determine further details of the option plan, including, in particular, the inclusion of the new shares granted upon exercise of the option rights into the ADS program.

No options were granted as part of the Company's IPO. The Supervisory Board allocated 400,000 options for grant to the Management Board in the 2007 financial year. On November 24, 2006, the Company granted 1,899,200 Qimonda stock options, thereof 1,499,200 to employees and 400,000 to the Management Board of the Company. Accordingly, such options represent potential dilutive instruments to the Company. In addition, the Supervisory Board received 20,486 stock appreciation rights during the year ended September 30, 2007, with the same conditions as Qimonda stock options, except that they can only be settled in cash if exercised, which results in their classification as a liability.

A summary of the status of the Qimonda stock option plan 2006 as of September 30, 2007, and changes during the year then ended is presented as follows:

	Number of Options in million	Weighted-average exercise price	Weighted-average remaining contractual life (in years)	Aggregated intrinsic value
Outstanding at beginning of period	—	—	—	—
Granted	1.9	$ 15.97	6.00	$ 0.00
Exercised	—	—	—	—
Forfeited and expired	—	—	—	—
Outstanding at end of period	1.9	$ 15.97	5.16	$ 0.00
Vested during the period	—	—	—	—
Expected to ultimately vest at end of period	1.7	$ 15.97	5.16	$ 0.00
Exercisable at end of period	—	—	—	—

Changes in the Company's unvested options for the year ended September 30, 2007, are summarized as follows:

	Number of Options in million	Weighted average grant date fair value	Weighted-average remaining contractual life (in years)	Aggregated intrinsic value
Unvested at beginning of period	—	—	—	
Granted	1.9	$ 4.23	6.00	$ 0.00
Vested	—	—	—	—
Forfeited	—	—	—	—
Unvested at end of period	1.9	$ 4.23	5.16	$ 0.00
Unvested options expected to vest	1.7	$ 4.23	5.16	$ 0.00

Fair value disclosures of Qimonda Stock Option Plan

Qimonda accounts for stock option grants to its employees under the Qimonda stock option plan according to the fair value method of SFAS No. 123 (revised 2004).

The fair value of each option grant is estimated on the grant date using a specific Monte Carlo simulation-based option-pricing model. This model accounts for vesting conditions relating to the SOX Index and its impact on

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fair value. The Company uses a combination of implied and historical volatilities from traded options on the Company's peer group when estimating the fair value of stock options granted, as it believes that this methodology better reflects the expected future volatility of its stock. The peer group is a group of publicly listed companies deemed to reflect fundamentals of the Company's stock. Forfeitures are estimated based on historical experience. The expected life and expected vesting period of options granted are estimated using the simulation model. The risk-free rate is based on treasury note yields at the time of grant for the estimated life of the option.

The following assumptions were used in the Monte Carlo simulation to determine the fair value of options granted during the period:

	2005	2006	2007
Weighted-average assumptions:			
Risk-free interest rate	—	—	4.62%
Expected volatility, underlying ADS	—	—	45%
Expected volatility, SOX Index	—	—	29%
Forfeiture rate, per year	—	—	3.40%
Dividend yield	—	—	0%
Expected life in years	—	—	4.62
Weighted-average fair value per option at grant date	—	—	$4.23

Stock-Based Compensation Expense

Stock-based compensation expenses for the Infineon and the Qimonda SOP were allocated as follows for the years ended September 30, 2005, 2006 and 2007:

	2005	2006	2007
Compensation expense recognized:			
Cost of sales	—	3	2
Selling, general and administrative expenses	—	3	2
Research and development expense	—	2	2
Total stock-based compensation expense	—	8	6
Related to:			
Infineon Stock Options:	—	8	4
Qimonda Stock Options:	—	—	2

The amount of stock-based compensation cost which was capitalized and remained in inventories during the year ended September 30, 2006 and 2007 was immaterial. Stock-based compensation expense does not reflect income tax benefits, since stock options are primarily granted in tax jurisdictions where the expense is not deductible for tax purposes. In addition, stock-based compensation expense did not have a cash flow effect during the year ended September 30, 2007, since no exercises of stock options occurred during the period. As of September 30, 2007, for Infineon related stock options there was a total of €3 in unrecognized compensation expense related to unvested stock options which is expected to be recognized over a remaining total period of 2.5 years, and for Qimonda related stock options there was a total of €4 in unrecognized compensation expense related to unvested stock options which is expected to be recognized over a remaining total period of 2.27 years.

As noted above, options on Infineon stock do not represent potential dilutive instruments for Qimonda AG and accordingly, they have no dilutive impact on diluted EPS (note 10). The Qimonda stock options were not dilutive to EPS for the year ended September 30, 2007 (note 10).

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Through September 30, 2005 the Company applied the provisions of APB No. 25, as permitted under SFAS No. 148, *"Accounting for Stock-Based Compensation — Transition and Disclosure an amendment of SFAS No. 123"*. If the Company had accounted for stock-based compensation according to the fair value method of SFAS No. 123, and thereby recognized compensation expense based on the above fair values over the respective option vesting periods, net income would have been reduced to the pro forma amounts indicated below, pursuant to the provision of SFAS No. 148:

	2005
Net (loss) income:	
As reported	18
Less: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects	(9)
Pro forma	9
Basic and diluted earnings (loss) per share:	
As reported in euro	0.06
Pro forma in euro	0.03

25. Accumulated Other Comprehensive Loss

The changes in the components of other comprehensive income (loss) for the years ended September 30, 2005, 2006 and 2007 are as follows:

	2005			2006			2007		
	Pretax	Tax Effect	Net	Pretax	Tax Effect	Net	Pretax	Tax Effect	Net
Accumulated other comprehensive (loss) income — beginning of year	(111)	—	(111)	(68)	1	(67)	(136)	2	(134)
Other comprehensive (loss) income:									
* Unrealized losses on securities, net (note 11)	—	—	—	—	—	—	(6)	—	(6)
* Additional minimum pension liability	(2)	1	(1)	(2)	1	(1)	4	(2)	2
* Foreign currency translation adjustment	45	—	45	(66)	—	(66)	(124)	—	(124)
Other comprehensive income (loss)	43	1	44	(68)	1	(67)	(126)	(2)	(128)
Adoption of SFAS No. 158 (note)									
* Pension net actuarial gain (loss)	—	—	—	—	—	—	9	(3)	6
* Pension net prior service credit (cost)	—	—	—	—	—	—	(4)	1	(3)
Accumulated other comprehensive (loss) income — end of year	(68)	1	(67)	(136)	2	(134)	(257)	(2)	(259)
Thereof:									
* Unrealized losses on securities, net (note 11)	—	—	—	—	—	—	(6)	—	(6)
* Additional minimum pension liability	(2)	1	(1)	(4)	2	(2)	—	—	—
* Foreign currency translation adjustment	(66)	—	(66)	(132)	—	(132)	(256)	—	(256)
* Pension net actuarial gain (loss)	—	—	—	—	—	—	9	(3)	6
* Pension net prior service credit (cost)	—	—	—	—	—	—	(4)	1	(3)

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Total comprehensive income (loss) for the years ended September 30, 2005, 2006 and 2007 was as follows:

	2005	2006	2007
Net income (loss)	18	74	(249)
Other comprehensive income (loss)	44	(67)	(128)
Total comprehensive income (loss)	62	7	(377)

26. Supplemental Cash Flow Information

	2005	2006	2007
Cash paid for:			
Interest to Infineon	—	38	12
Interest to third parties	22	5	7
Income taxes	36	52	54
Non-cash investing activities:			
Construction grants deducted from the cost of fixed assets (note 6)	—	49	1
Non-cash financing activities:			
Distribution to Infineon	(374)	(19)	—
Deferred tax assets retained by Infineon (note 9)	(6)	—	—
Capital lease obligation (note 21)	—	—	128

Cash paid for Interest to Infineon related to the period before Formation is based on the historical capital structure (note 1).

The historical net book value of DD200 of €374 transferred from the Company to the Logic business of Infineon is reflected as a non-cash equity transaction as of the October 1, 2004 transfer date (note 4).

Effective October 1, 2005 Infineon transferred the IFMDF development facility from the Memory Products business to the Logic business of Infineon. The net book value of €10 was reflected as a non-cash reduction to business equity as of October 1, 2005 (note 4).

Deferred tax assets related to tax loss carry-forwards, net of valuation allowance, or tax credits that have been retained by Infineon and not transferred to the Company at the Formation of €6, €0 and €0 as of September 30, 2005, 2006 and 2007 are reflected as non-cash decreases to business/shareholders' equity in the accompanying combined and consolidated financial statements.

Cash equivalents as of September 30, 2006 and 2007 were €895 and €718 respectively, and consisted mainly of bank term deposits and fixed income securities with original maturities of three months or less.

27. Related Parties

The Company has transactions in the normal course of business with Infineon group companies, Siemens group companies and with Related and Associated Companies (together, "Related Parties"). The Company purchases certain of its raw materials, especially chipsets, from, and sells certain of its products to, Related Parties. Purchases and sales to Related Parties are generally based on market prices or manufacturing cost plus a mark-up. Contributions by Infineon in connection with the Formation and allocations by Infineon prior to that date are explained in note 1.

On April 3, 2006, Siemens disposed of its remaining shareholding in Infineon. Transactions between Qimonda and Siemens subsequent to this date are no longer reflected as Related Party transactions.

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Related Party receivables at September 30, 2006 and 2007 consist of the following:

	2006	2007
Current:		
Infineon group — trade (note 12)	61	11
Associated and Related Companies — trade (note 12)	—	3
Associated and Related Companies — financial and other (note 14)	—	2
Employee receivables (note 14)	2	3
Total Related Party receivables	63	19

As of September 30, 2006 receivables from Infineon mainly represent amounts due to the Company's operations in Japan. Infineon legally transferred the Japan operations during the year ended September 30, 2007.

Related Party payables at September 30, 2006 and 2007 consist of the following:

	2006	2007
Current:		
Infineon group — trade (note 18)	71	56
Associated and Related Companies — trade (note 18)	76	99
Infineon group — financial and other (note 20)	9	—
Total Related Party payables	156	155

Related Party receivables and payables have been segregated first between amounts owed by or to Infineon group companies and companies in which the Company has an ownership interest, and second based on the underlying nature of the transactions. Trade receivables and payables include amounts for the purchase and sale of products and services. Financial and other receivables and payables represent amounts owed relating to loans and advances and accrued interest at interbank rates.

Related Party debt at September 30, 2006 and 2007 consists of the following:

	2006	2007
Short-term debt:		
Loans from Infineon (note 21)	344	—
Total Related Party debt	344	—

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Transactions with Related Parties during the years ended September 30, 2005, 2006 and 2007, include the following:

	2005	2006	2007
Sales to Related Parties:			
Siemens group companies	3	17	—
Associated and Related Companies	1	—	—
	4	17	—
Purchases from Related Parties:			
Siemens group companies	13	4	—
Infineon group companies	265	403	294
Associated and Related Companies	247	438	546
	525	845	840

Purchases from Infineon during the years ended September 30, 2005, 2006 and 2007 are principally related to products purchased from the DD200 facility and are based on Infineon's cost plus a margin. Purchases from Siemens group companies during the years ended September 30, 2005 and 2006 primarily include purchases of fixed assets and rent payments.

	2005	2006	2007
Interest income from (expense to) Infineon group companies:			
Interest income from Infineon group companies	40	15	—
Interest expense to Infineon group companies	(34)	(38)	(8)
	6	(23)	(8)

Since the Formation, the Company entered into several service agreements with Infineon. These include general support services (including sales support, logistics services, purchasing services, human resources services, facility management services, patent support, finance, accounting and treasury support, legal services and strategy services), R&D services and IT services. Transactions under these agreements during the five months ended September 30, 2006 and the year ended September 30, 2007, are reflected in the consolidated statements of operations as follows:

	Five months ended September 30, 2006	Year ended September 30, 2007
Cost of goods sold	9	13
Research and development expenses	10	28
Selling, general and administrative expenses	14	15
	33	56

In connection with the Formation, the Company entered into a global service agreement with Infineon, whereby the parties intend to provide standard support services to one another based on actual costs plus a margin of 3 percent. The Company and Infineon have also entered into a research and development services agreement for the provision of research and development services between the parties based on actual cost plus a margin of 3 percent.

Under the master information technology cost sharing agreement, Infineon and the Company generally agree to share costs of a variety of information technology services provided by one or both parties in the common interest and for the common benefit of both parties. In general, the parties agree to share the fixed costs of the services

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provided (accounting for approximately 53% of total costs) roughly equally and to share variable costs in a manner that reflects each party's contribution to those costs. Under the master information technology service agreement, Infineon and the Company agree to provide information technology services to one another. In general, under all of these agreements, the service recipient pays a fee based on actual or estimated total costs incurred plus a margin of 3% for the period from May 1, 2006 to September 30, 2008 and thereafter as mutually agreed from year to year.

Major shareholders

Concurrent with the Company's IPO, Infineon sold 6.3 million Qimonda ADSs upon exercise of the underwriters' over-allotment option. As a result, Infineon's shareholding in the Company decreased and was 85.9% as of September 30, 2006.

In August 2007, Infineon announced its intention to reduce its stake in Qimonda to 'significantly' less than 50 percent by the time of its 2009 annual shareholders' meeting.

In September 2007 Infineon sold 28.75 million Qimonda ADSs, including the underwriters' over-allotment option, in a registered offering. As a result, Infineon's shareholding in Qimonda decreased and was 77.5% as of September 30, 2007.

On September 26, 2007, Infineon Technologies Investment B.V., a wholly owned subsidiary of Infineon Technologies AG, issued bonds in the amount of €215, including the underwriters' over-allotment option, exchangeable for Qimonda ADSs. The coupon of the three-year exchangeable bond is 1.375% per year. The exchange period starts 40 days after issuance and ends August 31, 2010. The exchange price is $14.74 for each Qimonda ADS, corresponding to an exchange premium of 35%. If all bondholders exercise their exchange rights, Infineon would deliver 20.5 million Qimonda ADSs, equivalent to approximately 6.0% of Qimonda's share capital. Concurrently with this transaction, Infineon loaned an affiliate of J.P. Morgan Securities Inc. 3.55 million Qimonda ADSs ancillary to the placement of the exchangeable bond, which must be returned no later than August 31, 2010 and some of which Infineon has advised the Company have already been returned.

Dresden 200mm Facility

Effective October 1, 2004 Infineon transferred the 200mm front-end manufacturing facility located in Dresden, Germany ("DD200") from the Memory Products business to the Logic business of Infineon, since the facility would be used to manufacture logic products in the future. Accordingly, the Infineon Logic business took over the management responsibility for this operation from the transfer date. Through September 30, 2004 the DD200 balance sheet and income statement are included in the Company's historical combined financial statements because the business was owned and operated as part of the Memory Products business. Since the transfer was between entities under common control, the transfer was effective at historical book value as a non-cash reduction of business equity (note 26). Prior to the Formation, the Company was charged for the capacity utilized to manufacture the products it purchases from Infineon.

In April 2006, Infineon and Qimonda entered into a product purchase agreement for the production of wafers at DD200 through September 30, 2007. Pursuant to the agreement, Infineon agreed to manufacture wafers at DD200, using the Company's manufacturing technologies and masks, and to sell them to the Company at prices specified in the agreement. The Company is required under this agreement to pay for idle costs resulting from its purchasing fewer wafers from Infineon than agreed upon, if Infineon cannot otherwise utilize the capacity. The Company is obliged to indemnify Infineon against any third party claims based on or related to any products manufactured for the Company under this agreement. In addition, the Company has to indemnify Infineon against any intellectual property infringement claims related to the products covered by the agreement. Infineon and the Company have agreed in principle that they will share equally any potential restructuring costs arising in

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connection with one module. Although no restructuring plan has been established, these costs could be material and adversely affect the Company's financial condition and results of operations.

On January 26, 2007 Qimonda and Infineon extended their agreement for the production of wafers at DD200 through September 30, 2009.

28. Pension Plans

Prior to the Formation, the Company's employees participated in Infineon's defined benefit pension plans. The pension costs and liabilities included in the accompanying combined and consolidated financial statements and presented below for periods prior to the Formation include the portion of the Infineon pension costs and liabilities that relate to the Company's employees participating in the respective Infineon pension plans. With the Formation, these pension liabilities and related assets were legally transferred to Qimonda.

In February 2007, the Company established a uniform Qimonda Pension Plan for Germany with effect from October 1, 2006, into which the substantial majority of the employees were transferred, representing more than 90 percent of the existing pension obligations, and which is available to new employees. The previous Infineon plan regulations continue to apply to existing retirees and employees who did not consent to the new plan. These previous Infineon plan regulations and the new Qimonda Pension Plan for Germany are reflected below as "Domestic plans".

The Qimonda Pension Plan for Germany qualifies as a defined benefit plan and, accordingly, the change from the previous defined benefit plans is treated as a plan amendment pursuant to SFAS No. 87, which increased the projected benefit obligation by €4 and is amortized as part of net periodic pension cost ("NPPC") in future periods.

The Infineon pension plan regulations continue to apply to Company's employees in foreign countries (collectively, "Foreign plans"), although all respective assets and obligations have been transferred to the Company.

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Information with respect to the Domestic plans and Foreign plans for the years ended September 30, 2005, 2006 and 2007 is presented as follows:

	2005		2006		2007	
	Domestic Plans	Foreign Plans	Domestic Plans	Foreign Plans	Domestic Plans	Foreign Plans
Accumulated benefit obligation end of year	(49)	(4)	(41)	(3)	(46)	(3)
Change in projected benefit obligation						
Projected benefit obligations beginning of year	(39)	(5)	(59)	(6)	(53)	(3)
Service cost	(3)	(1)	(6)	—	(6)	—
Interest cost	(2)	—	(3)	—	(2)	—
Actuarial (losses) gains	(4)	—	(2)	2	15	—
Disposal of plan	7	—	—	—	—	—
Plan transfer	(14)	—	17	—	(1)	—
Plan amendments	(4)	—	—	—	(4)	—
Curtailment gain	—	—	—	1	—	—
Projected benefit obligations end of year	(59)	(6)	(53)	(3)	(51)	(3)
Change in fair value of plan assets Fair value at beginning of year	22	3	31	3	25	2
Contributions and transfers	6	—	—	—	—	—
Actual return on plan assets	3	—	2	—	2	—
Plan transfer	—	—	(8)	(1)	—	—
Fair value at end of year	31	3	25	2	27	2
Funded status	(28)	(3)	(28)	(1)	(24)	(1)
Unrecognized actuarial loss (gain)	4	—	8	(1)	(8)	(1)
Unrecognized prior service cost	—	—	—	—	4	—
Net liability recognized before adopting SFAS No. 158	(24)	(3)	(20)	(2)	(28)	(2)
Impact of adopting SFAS no. 158 before tax					4	1
Net liability recognized after adopting SFAS No. 158					(24)	(1)

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Adoption of SFAS No. 158

The Company adopted the recognition provision of SFAS No. 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans", as of September 30, 2007, whereby the overfunded or underfunded status of a defined benefit postretirement plan is recognized as an asset or liability in the balance sheet and changes in that funded status in the year in which the changes occur through comprehensive income. The incremental effect of applying the recognition provision of SFAS No. 158 as of September 30, 2007 is as follows:

	Domestic Plans	Foreign Plans	Total
Accumulated other comprehensive income			
* actuarial gain (loss) before tax (note 25)	8	1	9
* prior service credit (cost) before tax (note 25)	(4)	—	(4)
Impact of adopting SFAS No. 158 before tax	4	1	5
* Tax effect (note 25)	(2)	—	(2)
Impact of adopting SFAS No. 158 after tax	2	1	3
Deferred tax liability — non-current (note 9)	2	—	2
Accrued pension liability — non-current (note 22)	4	1	5

According to SFAS No. 158, the following table presents the actuarial (gain) loss and prior service (credit) cost before tax as components of accumulated other comprehensive income (gain) loss not yet recognized as NPPC as a result of the adoption of SFAS No. 158 at September 30, 2007, and the expected impact during the year ending September 30, 2008:

	2007		Expected 2008	
	Domestic Plans	Foreign Plans	Domestic Plans	Foreign Plans
Actuarial (gain) loss at beginning of year	—	—	(8)	(1)
Arising during the year	—	—	—	—
Recognized as component of NPPC during the year	—	—	1	—
Impact of adopting SFAS No. 158 before tax	(8)	(1)	—	—
Actuarial (gain) loss at end of year	(8)	(1)	(7)	(1)
Prior service cost at beginning of year	—	—	4	—
Arising during the year	—	—	—	—
Recognized as component of NPPC during the year	—	—	—	—
Impact of adopting SFAS No. 158 before tax	4	—	—	—
Prior service cost at end of year	4	—	4	—
Impact of adopting SFAS No. 158 before tax	(4)	(1)		

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The net pension liability is recognized as follows in the accompanying combined and consolidated balance sheets as of September 30, 2005, 2006 and 2007:

	2005		2006		2007	
	Domestic Plans	Foreign Plans	Domestic Plans	Foreign Plans	Domestic Plans	Foreign Plans
Accumulated other comprehensive Income — Additional Minimum Pension Liability	2	—	4	—	—	—
Accrued pension liabilities (note 20 and 22)/	(26)	(3)	(24)	(2)	(24)	(1)
Net liability recognized	(24)	(3)	(20)	(2)	(24)	(1)

Information for pension plans with projected benefit obligations and accumulated benefit obligations in excess of plan assets as of September 30, 2005, 2006 and 2007 are as follows:

	2005		2006		2007	
	Domestic Plans	Foreign Plans	Domestic Plans	Foreign Plans	Domestic Plans	Foreign Plans
Projected benefit obligation	59	6	53	3	51	3
Fair value of plan assets	31	3	25	2	27	2
Accumulated benefit obligation	49	4	41	3	46	3
Fair value of plan assets	31	3	25	2	27	2

The weighted-average assumptions used in calculating the actuarial values for the pension plans as of September 30, 2005, 2006 and 2007 are as follows:

	2005		2006		2007	
	Domestic Plans	Foreign Plans	Domestic Plans	Foreign Plans	Domestic Plans	Foreign Plans
Discount rate	4.5%	4.9%	4.8%	5.9%	5.5%	5.8%
Rate of compensation increase	2.5%	3.6%	2.5%	3.6%	2.5%	0.4%
Projected future pension increases	1.3%	1.7%	1.8%	2.3%	1.8%	2.2%
Expected return on plan assets	7.3%	6.4%	6.5%	6.6%	5.9%	6.4%

Discount rates are established based on prevailing market rates for high-quality fixed-income instruments that, if the pension benefit obligation were settled at the measurement date, would provide the necessary future cash flows to pay the benefit obligation when due. The Company believes short-term changes in interest rates should not affect the measurement of the Company's long-term obligation.

Investment strategies

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

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Expected long-term rate of return on plan assets

Establishing the expected rate of return on pension assets requires judgment. Infineon's approach in determining the long-term rate of return for plan assets is based upon historical financial market relationships that have existed over time, the types of investment classes in which pension plan assets are invested, long-term investment strategies, as well as the expected compounded return Qimonda can reasonably expect the portfolio to earn over appropriate time periods.

The Company reviews the expected long-term rate of return annually and revises it as appropriate. Also, Qimonda periodically commissions detailed asset/liability studies to be performed by third-party professional investment advisors and actuaries.

Plan asset allocation

As of September 30, 2006 and 2007 the percentage of plan assets invested and the targeted allocation in major asset categories are as follows:

	2006		2007		Targeted Allocation	
	Domestic Plans	Foreign Plans	Domestic Plans	Foreign Plans	Domestic Plans	Foreign Plans
Equity securities	—	61%	46%	29%	45%	—
Debt securities	—	39%	43%	65%	52%	—
Cash	100%	—	11%	—	3%	100%
Other	—	—	—	6%	—	—
Total	100%	100%	100%	100%	100%	100%

In September 2006 the Company established the Qimonda Pension Trust. The Infineon Pension Trust transferred €26 in cash to the Qimonda Pension Trust, representing the pro rata portion of the Infineon Plan Assets related to the actual Qimonda employees at the Formation. The Qimonda Pension Trust is to invest these funds according to the targeted investment allocation. The difference between the actually transferred assets and the previously allocated plan assets of € 9 is reflected as a non-cash equity transaction in the statement of business/shareholders' equity for the year ended September 30, 2006 (note 26).

The Company's asset allocation targets for its pension plan assets are based on its assessment of business and financial conditions, demographic and actuarial data, funding characteristics, related risk factors, market sensitivity analysis and other relevant factors. The overall allocation is expected to help protect the plans' funded status while generating sufficiently stable real returns (i.e. net of inflation) to meet current and future benefit payment needs. Due to active portfolio management, the asset allocation may differ from the target allocation up to certain limits for different classes. As a matter of policy, the Company's pension plans do not invest in the Company's or Infineon's shares.

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The components of NPPC for the years ended September 30, 2006 and 2007 are as follows:

	2005		2006		2007	
	Domestic Plans	Foreign Plans	Domestic Plans	Foreign Plans	Domestic Plans	Foreign Plans
Service cost	(3)	(1)	(6)	—	(6)	—
Interest cost	(2)	—	(3)	—	(2)	—
Expected return on plan assets	2	—	2	—	2	—
Amortization of unrecognized actuarial gains (losses)	—	—	—	—	(1)	—
Curtailment gain recognized	—	—	—	1	—	—
NPPC	(3)	(1)	(7)	1	(7)	—

On January 1, 2006 the Company converted the existing defined benefit plan in the US into a defined contribution plan, which resulted in a curtailment gain of €1.

Actuarial (losses) gains amounted to €(4), €0 and €15 for the years ended September 30, 2005, 2006, and 2007 respectively.

The future benefit payments, which reflect future service, as appropriate, that are expected to be paid from the Company's pension plan for the next five financial years and thereafter are as follows:

Years Ending September 30,	Domestic Plans	Foreign Plans
2008	2	—
2009	1	—
2010	2	—
2011	2	—
2012	2	—
2013-2017	21	1

Other post-retirement benefits

The Company has a deferred savings plan for its employees in Germany, whereby a portion of the employee's salary is invested for a lump sum benefit payment including interest upon retirement. The liability for such future payments of €4 and €6 as of September 30, 2006 and 2007, respectively, is actuarially determined and accounted for on the same basis as the Company's other pension plans.

The Company provides post-retirement health care benefits to eligible employees in the United States. The Company recognized net periodic benefit cost of less than €1 for each of the years ended September 30, 2005, 2006 and 2007. The net liability recognized in the accompanying balance sheet was €1 and €1 as of September 30, 2006 and 2007, respectively.

29. Financial Instruments

The Company periodically enters into financial instruments, including foreign currency forward contracts. The objective of these transactions is to reduce the impact of exchange rate fluctuations on the Company's foreign currency denominated net future cash flows. The Company does not enter into derivatives for trading or speculative purposes.

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The euro equivalent notional amounts in millions and fair values of the Company's derivative instruments as of September 30, 2006 and 2007 are as follows:

	2006		2007	
	Notional Amount	Fair Value	Notional Amount	Fair Value
Forward contracts sold:				
U.S. dollar	168	(1)	475	11
Japanese yen	26	—	2	
Forward contracts purchased:				
U.S. dollar	17	—	72	(1)
Japanese yen	22	—	70	(2)
Singapore dollar	3	—	5	—
Malaysian ringgit	5	—	17	—
Other currencies	—	—	1	—
Other	94	5	108	11
Fair value, net		4		19

Gains and losses on derivative financial instruments principally included in determining cost of goods sold were as follows for the years ended September 30:

	2005	2006	2007
Gains (losses) from foreign currency derivatives:			
Cost of sales	(1)	(4)	25
Gains (losses) from foreign currency transactions:			
Cost of sales	—	(1)	(35)
Other non-operating income (expense)	18	3	(4)
	18	2	(39)
Net gains (losses) from foreign currency derivatives and transactions	17	(2)	(14)

Fair values of financial instruments are determined using quoted market prices or discounted cash flows. The fair values of the Company's cash and cash equivalents, receivables, related-party receivables and payables and other financial instruments approximated their carrying values due to their short-term nature. Marketable securities are classified as available for sale and therefore recorded at fair value (note 11).

30. Risks

Financial instruments that expose the Company to credit risk consist primarily of trade receivables, cash equivalents, marketable securities and financial derivatives. Concentrations of credit risks with respect to trade receivables are limited by the large number of geographically diverse customers that make up the Company's customer base. The Company manages credit risk through credit approvals, credit limits and monitoring procedures, as well as comprehensive credit evaluations for all customers. The credit risk with respect to cash equivalents, marketable securities and financial derivatives is limited by transactions with a number of large international financial institutions, with pre-established limits. The Company does not believe that there is significant risk of non-performance by these counterparties because the Company monitors their credit risk and limits the financial exposure and the amounts of agreements entered into with any one financial institution.

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In order to remain competitive, the Company must continue to make substantial investments in process technology and research and development. Portions of these investments might not be recoverable if these research and development efforts fail to gain market acceptance or if markets significantly deteriorate.

Due to the high-technology nature of the Company's operations, intellectual property is an integral part of the Company's business. The Company has intellectual property which it has self-developed, purchased or licensed from third parties. The Company is exposed to infringements by others on such intellectual property rights. Conversely, the Company is exposed to assertions by others of infringement by the Company of their intellectual property rights.

The Company, through its use of third-party foundry and joint venture arrangements, uses a significant portion of manufacturing capacity that is outside of its direct control. As a result, the Company is reliant upon such other parties for the timely and uninterrupted supply of products and is exposed, to a certain extent, to fluctuations in product procurement cost.

As a subsidiary of Infineon, the Company benefits under a number of patent cross-licenses, technology licenses and purchasing agreements. The benefits of such agreements would be lost if Infineon's ownership were to fall below 50%. The Company is in the process of negotiating certain replacement contracts with third parties related to such patents. There is no assurance that the Company will be able to successfully negotiate such replacement contracts at all or on similar terms. If the Company is unable to do so, it could have a material adverse impact on its business and results of operations.

As part of the Formation, certain agreements, including licensing, purchasing and shareholding, and investments of Infineon relating to the Company's business may not be transferable to the Company or restrictions may exist that prolong the ownership transfer which may adversely affect our business or operating results. For example, Infineon must obtain the prior written consent of the other investors in AMTC and BAC before its ownership interest can be transferred to the Company.

The Company has established policies and procedures which serve as business conduct guidelines for its employees. Should these guidelines not be adhered to, the Company could be exposed to risks relating to wrongful actions by its employees.

After the Formation, the Company is not legally bound to collective bargaining agreements of the employer association to which Infineon belongs. The terms and conditions of those agreements remain valid for those employees who were employed by the Company as of the Formation, until new agreements are negotiated. However, as part of an agreement with the workers' council, the Company agreed to apply the same conditions to its employees as those to which Infineon is bound through wage agreements entered until July 30, 2008. Approximately 700 of the Company's employees are covered by these regulations. The Company intends to negotiate a new agreement with the workers' council. There is no assurance that the Company will be able to successfully negotiate such replacement contracts at all or on similar terms. If the Company is unable to do so, work stoppages are possible which could have a material adverse impact on its business and results of operations.

During the year ended September 30, 2005 the Company had one customer with 19% and one other customer with 14% which individually accounted for more than 10% of the Company's net sales. During the year ended September 30, 2006 the Company had one customer with 18% and one other customer with 16% which individually accounted for more than 10% of the Company's net sales. During the year ended September 30, 2007 the Company had one customer with 17% and one other customer with 12% which individually accounted for more than 10% of the Company's net sales.

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31. Commitments and Contingencies

Contribution from Infineon

These contingencies described below were assigned to the Company pursuant to the contribution agreement entered into between Infineon and the Company in connection with the Formation.

Under the contribution agreement, the Company is required to indemnify Infineon, in whole or in part as specified below, for any claim (including any related expenses) arising in connection with the liabilities, contracts, offers, uncompleted transactions, continuing obligations, risks, encumbrances and other liabilities Infineon incurs in connection with the matters described below.

The contribution agreement is based on the principle that all potential liabilities and risks in connection with legal matters existing as of the Formation date are generally to be borne by the business unit which caused the risk or liability or where the risk or liability arose. Except to the limited extent described below for the securities class action litigation and the settled Tessera litigation (for which the Company has different arrangements), the Company has agreed to indemnify Infineon for all liabilities arising in connection with all legal matters specifically described below, including court costs and legal fees. Infineon will not settle or otherwise agree to any of these liabilities without the Company's prior consent. Liabilities and risks relating to the securities class action litigation, including court costs, will be equally shared by Infineon and the Company, but only with respect to the amount by which the total amount payable exceeds the amount of the corresponding accrued liability that Infineon transferred to the Company at the Formation. Infineon has agreed not to settle this lawsuit without the Company's prior consent. Any expenses incurred in connection with the assertion of claims against the provider of directors' and officers' (D & O) insurance covering Infineon's two current or former officers named as defendants in the suit will also be equally shared. The D & O insurance provider has so far refused coverage. The Company has agreed to indemnify Infineon for 80% of the court costs and legal fees relating to the settled litigation with Tessera (note 17).

The Company has further agreed to pay 60% of the total license fees payable by Infineon and the Company to which Infineon and the Company may agree in connection with two cases in which negotiations relating to licensing and cross-licensing were ongoing at the time of the Formation, one of which is still ongoing.

In accordance with the general principle that all potential risks or liabilities are to be borne by the entity which caused the risk or liability or where the risk or liability arose, the indemnification provisions of the contribution agreement include the following specific provisions with respect to claims or lawsuits arising after the Formation:

- liabilities arising in connection with intellectual property infringement claims relating to memory products are to be borne by the Company.
- liabilities arising in connection with actual or alleged antitrust violations with respect to DRAM products are to be borne by the Company.

Litigation

In September 2004, Infineon entered into a plea agreement with the Antitrust Division of the U.S. Department of Justice ("DOJ") in connection with its ongoing investigation of alleged antitrust violations in the DRAM industry. Pursuant to this plea agreement, Infineon agreed to plead guilty to a single count related to the pricing of DRAM between July 1, 1999 and June 15, 2002, and to pay a fine of $160 million. The fine plus accrued interest is to be paid in equal annual installments through 2009. On October 25, 2004, the plea agreement was accepted by the U.S. District Court for the Northern District of California. Therefore, the matter has been fully resolved as between Infineon and the DOJ, subject to Infineon's obligation to cooperate with the DOJ in its ongoing investigation of other participants in the DRAM industry. The charges by the DOJ related to DRAM-product sales to six

Original Equipment Manufacturer ("OEM") customers that manufacture computers and servers. Infineon has entered into

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settlement agreements with five of these OEM customers and is considering the possibility of a settlement with the remaining OEM customer, which purchased only a very small volume of DRAM from Infineon.

Subsequent to the commencement of the DOJ investigation, a number of purported class action lawsuits were filed against Infineon, its principal U.S. subsidiary and other DRAM suppliers.

Sixteen cases were filed between June 2002 and September 2002 in several U.S. federal district courts purporting to be on behalf of a class of individuals and entities who purchased DRAM directly from various DRAM suppliers in the U.S. during a specified time period ("Direct U.S. Purchaser Class"), alleging price-fixing in violation of the Sherman Act and seeking treble damages in unspecified amounts, costs, attorneys' fees, and an injunction against the allegedly unlawful conduct.

In September 2002, the Judicial Panel on Multi-District Litigation ordered that the foregoing federal cases be transferred to the U.S. District Court for the Northern District of California for coordinated or consolidated pre-trial proceedings as part of a Multi-District Litigation ("MDL"). In June 2006, the court issued an order certifying a direct purchaser class.

In September 2005, Infineon and its principal U.S. subsidiary entered into a definitive settlement agreement with counsel to the Direct U.S. Purchaser Class (granting an opportunity for individual class members to opt out of the settlement). The settlement agreement was approved by the court on November 1, 2006 and the court entered final judgment and dismissed the class action claims with prejudice on November 2, 2006. Under the terms of the settlement agreement Infineon agreed to pay approximately $21 million. In addition to this settlement payment, Infineon agreed to pay an additional amount if it is proven that sales of DRAM products to the settlement class after opt-outs during the settlement period exceeded $208.1 million. The Company would also be responsible for this payment. The additional amount payable is calculated by multiplying the amount by which these sales exceed $208.1 million by 10.53%. The Company does not currently expect to pay any additional amount to the class. The Company has reached individual settlements with eight direct customers in addition to those OEMs identified by the DOJ.

In April 2006, Unisys Corporation filed a complaint against Infineon and its principal U.S. subsidiary, among other DRAM suppliers, alleging state and federal claims for price fixing and seeking recovery as both a direct and indirect purchaser of DRAM. On May 5, 2006, Honeywell International, Inc. filed a complaint against Infineon and its U.S. subsidiary, among other DRAM suppliers, alleging a claim for price fixing under federal law, and seeking recovery as a direct purchaser of DRAM. Both of these complaints were filed in the Northern District of California, and have been related to the MDL described above. Both Unisys and Honeywell opted out of the Direct U.S. Purchaser Class and settlement, so their claims are not barred by Infineon's settlement with the Direct U.S. Purchaser Class. On April 5, 2007 the court dismissed Unisys' initial complaint with leave to amend for failing to give proper notice of its claims. Unisys filed a First Amended Complaint on May 4, 2007. Infineon, its principal U.S. subsidiary, and the other defendants again filed a motion to dismiss certain portions of the Unisys First Amended Complaint on June 4, 2007. After Honeywell had filed a stipulation of dismissal without prejudice of its lawsuit against Infineon, the court entered the dismissal order on April 26, 2007. Between February 28, 2007 and March 8, 2007 four more opt-out cases were filed by All American Semiconductor, Inc., Edge Electronics, Inc., Jaco Electronics, Inc. and DRAM Claims Liquidation Trust, by its Trustee, Wells Fargo Bank, N.A. The All American Semiconductor complaint alleges claims for price-fixing under the Sherman Act. The Edge Electronics, Jaco Electronics and DRAM Claims Liquidation Trust complaints allege state and federal claims for price-fixing. As with Unisys and Honeywell, the claims of these plaintiffs are not barred by Infineon's settlement with the Direct U.S. Purchaser Class, since they opted out of the Direct U.S. Purchaser Class and settlement. All four of these opt-out cases were filed in the Northern District of California and have been related to the MDL described above. Based upon the Court's order dismissing portions of the initial Unisys complaint above, the plaintiffs in all four of these opt-out cases filed amended complaints on May 4, 2007. On June 4, 2007, Infineon and its principal

U.S. subsidiary answered the amended complaints filed by All American Semiconductor, Inc., Edge Electronics, Inc., and Jaco Electronics, Inc. Also on June 4, 2007, Infineon and

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its principal U.S. subsidiary, along with its co-defendants filed joint motions to dismiss certain portions of the DRAM Claims Liquidation Trust and Unisys amended complaint (note 33).

Sixty-four additional cases were filed between August 2002 and October 2005 in numerous federal and state courts throughout the United States of America. Each of these state and federal cases (except a case filed in the U.S. District Court for the Eastern District of Pennsylvania in May 2005 on behalf of foreign purchasers) purports to be on behalf of a class of individuals and entities who indirectly purchased DRAM in the U.S. during specified time periods commencing in or after 1999. The complaints variously allege violations of the Sherman Act, California's Cartwright Act, various other state laws, unfair competition law and unjust enrichment and seek treble damages in generally unspecified amounts, restitution, costs, attorneys' fees and an injunction against the allegedly unlawful conduct.

Twenty-three of the state (outside California) and federal court cases and the U.S. District Court for the Eastern District of Pennsylvania case were ordered transferred to the U.S. District Court for the Northern District of California for coordinated and consolidated pre-trial proceedings as part of the MDL described above. After this transfer, the plaintiffs dismissed two of the transferred cases. Two additional transferred cases were subsequently remanded back to their relevant state courts. Nineteen of the twenty-three transferred cases are currently pending in the MDL-litigation. The Eastern District of Pennsylvania case purporting to be on behalf of a class of foreign individuals and entities who directly purchased DRAM outside of the United States of America from July 1999 through at least June 2002, was dismissed with prejudice and without leave to amend in March 2006. Plaintiffs in that case have filed a notice of appeal. In July 2006, plaintiffs filed their opening brief on appeal, and defendants filed their joint opening brief in September 2006. No hearing date has yet been scheduled for the appeal. The California state cases were ordered transferred for coordinated and consolidated pre-trial proceedings to the San Francisco County Superior Court. The plaintiffs in the indirect purchaser cases that originated outside California which have not been transferred to the MDL agreed to stay proceedings in those cases pending resolution of the MDL pretrial-proceedings through a single complaint on behalf of a putative nationwide class of indirect purchasers in the MDL. The defendants filed two motions for judgment on the pleadings directed at several of the claims in the indirect purchaser case pending in the MDL. The court entered an order on June 1, 2007 granting in part and denying in part the defendants' motions. The order dismissed a large percentage of the indirect purchaser plaintiffs' claims, and granted leave to amend with regard to claims under three specific state statutes. The court ruled that the indirect purchaser plaintiffs must file a motion for leave to amend the complaint with regard to any of the other dismissed claims. On June 29, 2007, the indirect plaintiffs filed both a First Amended Complaint, and a motion for leave to file a Second Amended Complaint that attempted to resurrect some of the claims that were dismissed. On August 17, 2007, the court entered an order granting the motion to file the Second Amended Complaint, which repleaded part of the previously dismissed claims. The indirect plaintiff's motion for class certification was filed on July 10, 2007, and defendants filed a joint opposition to that motion on September 28, 2007. The hearing on the motion for class certification is scheduled for January 16, 2008.

In July 2006, the New York state attorney general filed an action in the U.S. District Court for the Southern District of New York against Infineon, its principal U.S. subsidiary and several other DRAM manufacturers on behalf of New York governmental entities and New York consumers who purchased products containing DRAM beginning in 1998. The plaintiffs allege violations of state and federal antitrust laws arising out of the same allegations of DRAM price-fixing and artificial price inflation practices discussed above, and seek recovery of actual and treble damages in unspecified amounts, penalties, costs (including attorneys' fees) and injunctive and other equitable relief. On October 23, 2006, the New York case was transferred to the Northern District of California and made part of the MDL proceedings. In July 2006, the attorneys general of California, Alaska, Arizona, Arkansas, Colorado, Delaware, Florida, Hawaii, Idaho, Illinois, Iowa, Louisiana, Maryland, Massachusetts, Michigan, Minnesota, Mississippi, Nebraska, Nevada, New Mexico, North Dakota, Ohio, Oklahoma, Oregon, Pennsylvania, South Carolina, Tennessee, Texas, Utah, Vermont, Virginia, Washington, West Virginia and Wisconsin filed a lawsuit in the U.S. District Court for the Northern District of California

against Infineon, its

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principal U.S. subsidiary and several other DRAM manufacturers on behalf of governmental entities, consumers and businesses in each of those states who purchased products containing DRAM beginning in 1998. On September 8, 2006, the complaint was amended to add claims by the attorneys general of Kentucky, Maine, New Hampshire, North Carolina, the Northern Mariana Islands and Rhode Island. This action is based on state and federal law claims relating to the same alleged anticompetitive practices in the sale of DRAM and plaintiffs seek recovery of actual and treble damages in unspecified amounts, penalties, costs (including attorneys' fees) and injunctive and other relief. On October 10, 2006 Infineon joined the other defendants in filing motions to dismiss several of the claims alleged in these two actions. A hearing on these motions was heard on February 7, 2007. On August 31, 2007, the court entered orders granting the motions in part and denying the motions in part. The court's order dismissed the claims on behalf of consumers, businesses and governmental entities in a number of states, and dismissed certain other claims with leave to amend, with any amended complaints to be filed by October 1, 2007. Between June 25, 2007 and August 15, 2007, the attorneys general of four states, Alaska, New Hampshire, Ohio and Texas, filed requests for dismissal of their claims without prejudice.

In April 2003, Infineon received a request for information from the European Commission (the "Commission") to enable the Commission to assess the compatibility with the Commission's rules on competition of certain practices of which the Commission has become aware in the European market for DRAM products. Infineon reassessed the matter after its plea agreement with the DOJ and made an accrual during the 2004 financial year for a probable minimum fine that may be imposed as a result of the Commission's investigation. Any fine actually imposed by the Commission may be significantly higher than the reserve established, although Infineon cannot more accurately estimate the amount of such actual fine. Infineon is fully cooperating with the Commission in its investigation.

In May 2004, the Canadian Competition Bureau advised Infineon's principal U.S. subsidiary that it and its affiliated companies are among the targets of a formal inquiry into alleged violations of the Canadian Competition Act. No compulsory process (such as subpoenas) has commenced. Infineon is cooperating with the Competition Bureau in its inquiry.

Between December 2004 and February 2005, two putative class proceedings were filed in the Canadian province of Quebec and one was filed in each of Ontario and British Columbia against Infineon, its principal U.S. subsidiary and other DRAM manufacturers on behalf of all direct and indirect purchasers resident in Canada who purchased DRAM or products containing DRAM between July 1999 and June 2002, seeking damages, investigation and administration costs, as well as interest and legal costs. Plaintiffs primarily allege conspiracy to unduly restrain competition and to illegally fix the price of DRAM. In the British Columbia action, a hearing on the certificate motion was scheduled for August 2007 and will resume in November 2007. In one Quebec class action, a tentative date for the motion for authorization (certification) has been set for May 2008 (with some possibility of a March 2008 date if the court calendar opens); the other Quebec action has been stayed pending developments in the one that is going forward.

Between September 2004 and November 2004, seven securities class action complaints were filed against Infineon and three of its current or former officers (of which one officer was subsequently dropped as a defendant) in the U.S. District Courts for the Northern District of California and the Southern District of New York. The plaintiffs voluntarily dismissed the New York cases, and in June 2005 filed a consolidated amended complaint in California on behalf of a putative class of purchasers of Infineon's publicly-traded securities, who purchased them during the period between March, 2000 and July 2004, effectively combining all lawsuits. The consolidated amended complaint added Infineon's principal U.S. subsidiary and four then-current or former employees of Infineon and its affiliate as defendants. It alleges violations of the U.S. securities laws and asserts that the defendants made materially false and misleading public statements about Infineon's historical and projected financial results and competitive position because they did not disclose Infineon's alleged participation in DRAM price-fixing activities and that, by fixing the price of DRAM, defendants manipulated the price of Infineon's

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securities, thereby injuring its shareholders. The plaintiffs seek unspecified compensatory damages, interest, costs and attorneys' fees. In September 2006, the court dismissed the complaint with leave to amend and in October 2006 the plaintiffs filed a second amended complaint. In March 2007, pursuant to a stipulation agreed with the defendants, the plaintiffs withdrew the second amended complaint and were granted a motion for leave to file a third amended complaint. The plaintiffs filed a third amended complaint on July 17, 2007. In the contribution agreement the Company entered into with Infineon, the Company agreed to share any future liabilities arising out of this lawsuit equally with Infineon, including the cost of defending the suit.

Infineon believes these claims are without merit. The Company is currently unable to provide an estimate of the likelihood of an unfavorable outcome to Infineon or of the amount or range of potential loss arising from these actions. If the outcome of these actions is unfavorable or if Infineon incurs substantial legal fees in defending these actions regardless of outcome, it may have a material adverse effect on the Company's financial condition and results of operations. Infineon's directors' and officers' insurance carriers have denied coverage in the securities class actions and Infineon filed suits against the carriers in December 2005 and August 2006. Infineon's claims against one D&O insurance carrier were finally dismissed in May 2007. The claims against the other insurance carrier are still pending.

On April 10, 2007, Lin Packaging Technologies, Ltd. (Lin) filed a lawsuit against Infineon, its principal U.S. subsidiary and an additional DRAM manufacturer in the U.S. District Court for the Eastern District of Texas, alleging that certain DRAM products were infringing two Lin patents. In May 2007, Lin amended its complaint to include Qimonda AG, Qimonda North America Corp. and Qimonda Richmond LLC. Under the contribution agreement with Infineon, the Company is required to indemnify Infineon for claims (including any related expenses) arising in connection with the aforementioned suit.

Accruals and the potential effect of these lawsuits

Liabilities related to legal proceedings are recorded when it is probable that a liability has been incurred and the associated amount can be reasonably estimated. Where the estimated amount of loss is within a range of amounts and no amount within the range is a better estimate than any other amount or the range cannot be estimated, the minimum amount is accrued. As of September 30, 2007, the Company had accrued liabilities in the amount of €101 related to the DOJ and European antitrust investigations and the direct and indirect purchaser litigation and settlements described above, as well as for legal expenses relating to the securities class actions and the Canadian antitrust investigation and litigation described above (notes 19, 20, 22). As additional information becomes available, the potential liability related to these matters will be reassessed and the estimates revised, if necessary. These accrued liabilities would be subject to change in the future based on new developments in each matter, or changes in circumstances, which could have a material adverse effect on the Company's results of operations and financial condition.

An adverse final resolution of the antitrust investigations or related civil claims or the securities class action lawsuits described above could result in substantial financial liability to, and other adverse effects upon the Company, which would have a material adverse effect on the Company's business, results of operations, financial condition and cash flows. In each of these matters, the Company is continuously evaluating the merits of its respective claims and defending itself vigorously or seeking to arrive at alternative resolutions in the best interests of the Company, as its deems appropriate. Irrespective of the validity or the successful assertion of the above referenced claims, the Company could incur significant costs with respect to defending against or settling such claims, which could have a material adverse effect on the Company's results of operations and financial condition and cash flows.

The Company is subject to various other lawsuits, legal actions, claims and proceedings related to products, patents and other matters incidental to its businesses. The Company has accrued a liability

for the estimated costs of adjudication of various asserted and unasserted claims existing as of the balance sheet date. Based upon information

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presently known to management, the Company does not believe that the ultimate resolution of such other pending matters will have a material adverse effect on the Company's financial position, although the final resolution of such matters could have a material adverse effect on the Company's results of operations or cash flows in the year of settlement.

Contractual Commitments

The following table summarizes the Company's commitments with respect to external parties as of September 30, 2007[(1)][(2)]:

		Payments Due to Period					
	Total	Less than 1 Year	1-2 Years	2-3 Years	3-4 Years	4-5 Years	After 5 Years
Contractual commitments:							
Operating lease payments[(3)]	95	27	25	17	9	8	9
Unconditional purchase commitments	787	737	43	5	2	—	—
Other long-term commitments	70	64	2	2	1	1	—
Total Commitments	952	828	70	24	12	9	9

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

(2) Product purchase commitments associated with continuing capacity reservation agreements are not included in this table, since the purchase prices are based, in part, on future market prices, and are therefore not accurately quantifiable at September 30, 2007. Purchases under these arrangements aggregated approximately €1,131 for the year ended September 30, 2007.

(3) Operating lease payments include amounts paid to Infineon for lease payments. Premises currently occupied by the Company that are leased by Infineon are expected to be the subject of a sublease agreement between Infineon and the Company.

The Company's operating lease expenses were €13, €22 and €32 for the years ended September 30, 2005, 2006 and 2007 respectively.

The Company has capacity reservation agreements with certain Associated Companies and external foundry suppliers, such as Winbond and SMIC, for the manufacturing and testing of semiconductor products. These agreements generally have durations greater than one year and are renewable. Under the terms of these agreements, the Company has agreed to purchase a portion of their production output based, in part, on market prices.

Purchases under these agreements are recorded as incurred in the normal course of business. The Company assesses its anticipated purchase requirements on a regular basis to meet customer demand for its products. An assessment of losses under these agreements is made on a regular basis in the event that either budgeted purchase quantities fall below the specified quantities or market prices for these products fall below the specified prices.

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Other Contingencies

The following table summarizes the Company's contingencies with respect to external parties, other than those related to litigation, as of September 30, 2007[1]:

		Expirations by Period					
	Total	Less than 1 year	1-2 Years	2-3 Years	3-4 Years	4-5 Years	After 5 Years
Maximum potential future payments:							
Guarantees	128	19	16	1	9	30	53
Contingent government grants	406	107	22	45	166	26	40
Total contingencies	534	126	38	46	175	56	93

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

The Company has guarantees outstanding to external parties of €128 as of September 30, 2007, that mainly expire through 2013. Guarantees are mainly issued by Infineon for the payment of import duties, rentals of buildings, contingent obligations related to government grants received and the consolidated debt of subsidiaries. Such guarantees which relate to Qimonda AG were transferred to the Company as part of the Formation. The Company also agreed to indemnify Infineon against any losses it may suffer under several guarantee and financing arrangements that relate to its business but that cannot be transferred to it for legal, technical or practical reasons.

The Company has received government grants and subsidies related to the construction and financing of certain of its production facilities. These amounts are recognized upon the attainment of specified criteria. Certain of these grants have been received contingent upon the Company maintaining compliance with certain project-related requirements for a specified period after receipt. The Company is committed to maintaining these requirements. Nevertheless, should such requirements not be met, as of September 30, 2007, a maximum of €406 of these subsidies could be refundable. The Company repaid grants of €3 in the year ended September 30, 2007 as a result of asset relocations.

The Company, through certain of its sales and other agreements may, in the normal course of business, be obligated to indemnify its counterparties under certain conditions for warranties, patent infringement or other matters. The maximum amount of potential future payments under these types of agreements is not predictable with any degree of certainty, since the potential obligation is contingent on conditions that may or may not occur in future, and depends on specific facts and circumstances related to each agreement. Historically, payments made by the Company under these types of agreements have not had a material adverse effect on the Company's business, results of operations or financial condition.

32. Operating Segment and Geographic Information

The Company has reported its operating segment and geographic information in accordance with SFAS No. 131, *"Disclosure about Segments of an Enterprise and Related Information"*. The accounting policies applied for segment reporting are substantially the same as described in the summary of significant accounting policies (note 2).

The Company's Management Board, consisting of its Chief Executive Officer, Chief Operating Officer and Chief Financial Officer, has been collectively identified as the Chief Operating Decision Maker ("CODM"). The CODM makes decisions about resources to be allocated to the business and

assesses the Company's performance on a functional and project basis. Only consolidated operating results of the Company are regularly presented to the

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CODM to make such decisions. Furthermore, the CODM does not evaluate performance or review asset information by product line on a regular basis, except that the CODM is provided information regarding certain inventories on a product basis. Accordingly, the Company has one operating segment, Memory Products, which is also its reportable segment, consistent with the manner in which financial information is internally reported and used by the CODM for purposes of evaluating business performance and allocating resources.

The Memory Products segment designs semiconductor memory technologies and develops, manufactures, markets and sells a large variety of semiconductor memory products on a chip, component and module level. The principal products are DRAM components and modules for use in a wide variety of electronic products.

Prior to the Formation, the Company operated as a segment of Infineon. Following the Formation, the Company continues to be reported as an operating segment of Infineon, although its operations are contained in a stand-alone legal entity. Segment information is shown for all periods presented, including periods prior to the Formation, consistent with the current organization structure.

The following is a summary of net sales and of property, plant and equipment by geographic area for the years ended September 30, 2005, 2006 and 2007:

	2005	2006	2007
Net sales:			
Germany	232	316	256
Rest of Europe	333	482	399
North America	1,067	1,591	1,323
Asia/Pacific	1,091	1,174	1,182
Japan	102	252	448
Total	2,825	3,815	3,608

	2005	2006	2007
Property, plant and equipment:			
Germany	804	654	684
Rest of Europe	175	144	193
North America	1,082	1,100	1,093
Asia/Pacific	155	182	216
Total	2,216	2,080	2,186

For practical purposes, the Rest of Europe region also includes other countries and territories in the rest of the world outside of the listed main geographic regions with aggregate sales representing no more than 2% of total sales in any period.

Revenues from external customers are based on the customers' billing location.

The Company defines EBIT as earnings (loss) before interest and taxes. The Company's management uses EBIT, among other measures, to establish budgets and operational goals, to manage the combined and consolidated Company's business and to evaluate and report performance as part of the Infineon Group. Because many operating decisions, such as allocations of resources to individual projects, are made on a basis for which the effects of financing the overall business and of taxation are of marginal relevance, management finds a metric that excludes the effects of interest on financing and tax expense useful. In addition, in measuring operating performance, particularly for the purpose of making internal decisions, such as those relating to personnel matters, it is useful for

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management to consider a measure that excludes items over which the individuals being evaluated have minimal control, such as enterprise-level taxation and financing. The Company reports EBIT information because it believes that it provides investors with meaningful information about the operating performance of the Company in a manner similar to that which management uses to assess and direct the business. EBIT is not a substitute for net income, however, because the exclusion of interest and tax expense is not appropriate when reviewing the overall profitability of the Company.

EBIT is determined as follows from the combined and consolidated statements of operations, without adjustment to the U.S. GAAP amounts presented:

	2005	2006	2007
Net (loss) income	18	74	(249)
Adjust: Income tax expense	86	114	10
Interest expense, net	7	25	(7)
EBIT	111	213	(246)

The above EBIT results for periods prior to the Formation differ from the Memory Products segment results previously reported by Infineon, primarily due to allocations of Infineon corporate expenses (reported by Infineon as part of its Corporate and Reconciliation segment, since they arise from corporate directed decisions not within the direct control of Infineon's segment management), which have been reallocated to the Company for purposes of preparing the accompanying combined and consolidated financial statements on a stand-alone basis. After the Company's IPO, Infineon reports the Company's EBIT results as its segment net of the minority interest in Qimonda.

33. Subsequent Events

The following significant events occurred after September 30, 2007:

On October 2, 2007 Sony Corporation and Qimonda AG announced that they have signed an agreement to found the joint venture Qreatic Design. The scope of the joint venture is the design of high-performance, low power, embedded and customer specific DRAMs for consumer and graphic applications. According to the agreement, the 50:50 joint venture is intended to start with up to 30 specialists from Sony and Qimonda, bringing together their engineering expertise for the mutual benefit of both companies. Qreatic Design, which will be located in Tokyo, Japan, is planned to start operations by the end of the 2007 calendar year, subject to regulatory approvals and other closing conditions, and to substantially expand its capacities by hiring additional designers.

On October 8, 2007, Qimonda entered into a rental agreement for new headquarter offices south of Munich, Germany. The agreement involves the construction of a building by a third party lessor, and includes a 15 year non-cancelable lease term, which is expected to start in early 2010. Qimonda has an option to extend the lease for two 5 year periods at similar lease terms to the initial non-cancelable lease term. The minimum rental payments aggregate €96 over the initial lease term. The lease contract provides for rent escalation in line with market-based increases in rent. The agreement will be accounted for as an operating lease with monthly lease payments expensed on a straight-line basis over the lease term.

On October 15, 2007, the court entered an order denying the motion to dismiss in the Unisys and the DRAM Liquidation Trust cases without prejudice. On October 29, 2007, Infineon answered the Unisys complaint, denying liability and asserting a number of affirmative defenses. On November 1, 2007, Infineon answered the DRAM Claims Liquidation Trust complaint, denying liability and asserting a number of affirmative defenses (note 31).

On November 9, the Company's Supervisory Board allocated 200,000 options for grant to the Management Board in the 2008 financial year.

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SIGNATURES

The registrant hereby certifies that it meets all of the requirements for filing on Form 20-F and that it has duly caused and authorized the undersigned to sign this annual report on its behalf.

QIMONDA AG

By: /s/ Kin Wah Loh
Kin Wah Loh
Chief Executive Officer and
Chairman of the Management Board

By: /s/ Dr. Michael Majerus
Dr. Michael Majerus
Chief Financial Officer and
Member of the Management Board

Date: November 16, 2007

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EXHIBIT INDEX

Exhibit No.	Description
1(i)	Articles of Association of Qimonda AG, as amended (English translation). (incorporated by reference to Exhibit 3(i) of Qimonda AG's Registration Statement on Form F-3, filed with the SEC on September 11, 2007)
1(ii)(A)	Rules of Procedure for the Management Board of Qimonda AG, as amended (English translation).
1(ii)(B)	Rules of Procedure for the Supervisory Board of Qimonda AG, as amended (English translation).
2	The total amount of long-term debt securities of Qimonda AG authorized under any instrument does not exceed 10% of the total assets of the group on a consolidated basis. Qimonda AG hereby agrees to furnish to the SEC, upon its request, a copy of any instrument defining the rights of holders of long-term debt of Qimonda AG or of its subsidiaries for which consolidated or unconsolidated financial statements are required to be filed.
4(i)(A)	Contribution Agreement (*Einbringungsvertrag*) between Infineon Technologies AG and Qimonda AG, dated as of April 25, 2006, and addendum thereto, dated as of June 2, 2006 (English translation). (incorporated by reference to Exhibit 10(i)(A) of Qimonda AG's Registration Statement on Form F-1, as amended, filed with the SEC on August 8, 2006)
4(i)(B)	Contribution Agreement (*Einbringungsvertrag*) between Infineon Holding B.V. and Qimonda AG, dated as of May 4, 2006 (English translation). (incorporated by reference to Exhibit 10(i)(B) of Qimonda AG's Registration Statement on Form F-1, as amended, filed with the SEC on August 8, 2006)
4(i)(C)	Contribution Agreement (*Einbringungsvertrag*) between Infineon Holding B.V. and Qimonda AG, dated as of June 25, 2007 (English translation). (incorporated by reference to Exhibit 10(iii) of Qimonda AG's Registration Statement on Form F-3, filed with the SEC on September 11, 2007)
4(i)(D)	Trust Agreement between Infineon Technologies AG and Qimonda AG, dated as of April 25, 2006, as amended (English translation). (incorporated by reference to Exhibit 4(i)(C) of Qimonda AG's Form 20-F, filed with the SEC on November 21, 2006)
4(i)(E)	Master Loan Agreement between Qimonda AG and Infineon Technologies Holding B.V., dated April 28, 2006. (incorporated by reference to Exhibit 10(i)(D) of Qimonda AG's Registration Statement on Form F-1, as amended, filed with the SEC on August 8, 2006)
4(i)(F)	Global Services Agreement between Infineon Technologies AG and Qimonda AG, effective May 1, 2006. (incorporated by reference to Exhibit 10(i)(E) of Qimonda AG's Registration Statement on Form F-1, as amended, filed with the SEC on August 8, 2006)
4(i)(G)	Joint Venture Agreement between Infineon and Nanya Technology Corporation, executed on November 13, 2002. (incorporated by reference to Exhibit 10(i)(G) of Qimonda AG's Registration Statement on Form F-1, as amended, filed with the SEC on August 8, 2006, for portions of which confidential treatment has been granted)
4(i)(H)	Amendments No. 1, 2 and 3 to the Joint Venture Agreement between Infineon and Nanya Technology Corporation, executed on November 13, 2002. (incorporated by reference to Exhibit 10(i)(H) of Qimonda AG's Registration Statement on Form F-1, as amended, filed with the SEC on August 8, 2006, for portions of which confidential treatment has been granted)
4(i)(I)	Amendment No. 4 to the Joint Venture Agreement between Infineon and Nanya Technology Corporation, executed on November 13, 2002. (incorporated by reference to Exhibit 10(i)(I) of Qimonda AG's Registration Statement on Form F-1, as amended, filed with the SEC on August 8, 2006, for portions of which confidential treatment has been granted)
4(i)(J)	60nm Technical Cooperation Agreement between Nanya Technology Corporation and Infineon Technologies AG for DRAM Process Technology, dated September 29, 2005. (incorporated by reference to Exhibit 10(i)(J) of Qimonda AG's Registration Statement on Form F-1, as amended, filed with the SEC on August 8, 2006, for portions of which confidential treatment has been granted)

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Exhibit No.	Description
4(i)(K)	110nm License and 90/70nm Technical Cooperation Agreement between Nanya Technology Corporation and Infineon Technologies AG for DRAM Process Technology, dated November 13, 2002, as amended. (incorporated by reference to Exhibit 10(i)(K) of Qimonda AG's Registration Statement on Form F-1, as amended, filed with the SEC on August 8, 2006, for portions of which confidential treatment has been granted)
4(i)(L)	Product Purchase and Capacity Reservation Agreement by and between Hwa-Ya Semiconductor Inc. (Inotera), Nanya Technology Corporation and Infineon Technologies AG, dated July 15, 2003, as amended. (incorporated by reference to Exhibit 10(i)(L) of Qimonda AG's Registration Statement on Form F-1, as amended, filed with the SEC on August 8, 2006, for portions of which confidential treatment has been granted)
4(i)(M)	Product Purchase and Capacity Reservation Agreement by and between Semiconductor Manufacturing International Corporation, Semiconductor Manufacturing International (Shanghai) Corporation and Infineon Technologies AG, dated December 4, 2002, as amended. (incorporated by reference to Exhibit 10 (i)(M) of Qimonda AG's Registration Statement on Form F-1, as amended, filed with the SEC on August 8, 2006, for portions of which confidential treatment has been granted)
4(i)(N)	Product Purchase and Capacity Reservation Agreement 300nm by and between Winbond Electronics Corporation and Infineon Technologies AG, dated August 6, 2004. (incorporated by reference to Exhibit 10 (i)(N) of Qimonda AG's Registration Statement on Form F-1, as amended, filed with the SEC on August 8, 2006, for portions of which confidential treatment has been granted)
4(i)(O)	Cooperative Joint Venture Contract between Infineon Technologies China Co., Ltd. and China-Singapore Suzhou Industrial Park Ventures Co., Ltd., dated July 28, 2003, as amended. (incorporated by reference to Exhibit 10(i)(O) of Qimonda AG's Registration Statement on Form F-1, as amended, filed with the SEC on August 8, 2006, for portions of which confidential treatment has been granted)
4(i)(P)	Settlement and License Agreement by and among Rambus Inc., Infineon, Infineon Technologies North America Corp. and Infineon Technologies Holding North America Inc., dated as of March 21, 2005. (incorporated by reference to Exhibit 10(i)(P) of Qimonda AG's Registration Statement on Form F-1, as amended, filed with the SEC on August 8, 2006, for portions of which confidential treatment has been granted)
4(i)(Q)	Master IT Cost Sharing Agreement by and between Infineon Technologies AG and Qimonda AG, effective May 1, 2006. (incorporated by reference to Exhibit 10(i)(Q) of Qimonda AG's Registration Statement on Form F-1, as amended, filed with the SEC on August 8, 2006)
4(i)(R)	License Agreement between Tessera, Inc. and Qimonda AG, dated August 1, 2006. (incorporated by reference to Exhibit 10(i)(R) of Qimonda AG's Registration Statement on Form F-1, as amended, filed with the SEC on August 8, 2006, for portions of which confidential treatment has been granted)
4(i)(S)	Eleventh Amendment to License and Technical Cooperation Agreement dated November 13, 2002 and First Amendment to 60nm Technical Cooperation Agreement dated September 29, 2005, both between Nanya Technology Corporation and Infineon Technologies AG. (incorporated by reference to Exhibit 10(i) (S) of Qimonda AG's Registration Statement on Form F-1, as amended, filed with the SEC on August 8, 2006)
4(i)(T)	Twelfth Amendment to License and Technical Cooperation Agreement dated November 13, 2002 between Nanya Technology Corporation and Infineon Technologies AG. (incorporated by reference to Exhibit 4(i) (T) of Qimonda AG's Form 20-F, filed with the SEC on November 21, 2006, f for portions of which confidential treatment has been granted)
4(i)(U)	Addenda No. 6 and 7 to Product Purchase and Capacity Reservation Agreement by and between Semiconductor Manufacturing International Corporation, Semiconductor Manufacturing International (Shanghai) Corporation and Infineon Technologies AG, dated December 4, 2002. (incorporated by reference to Exhibit 4(i)(U) of Qimonda AG's Form 20-F, filed with the SEC on November 21, 2006, for portions of which confidential treatment has been granted)

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Exhibit No.	Description
4(i)(V)	First Addendum to Product Purchase and Capacity Reservation Agreement 300mm by and between Winbond Electronics Corporation and Infineon Technologies AG, dated August 6, 2004. (incorporated by reference to Exhibit 4(i)(V) of Qimonda AG's Form 20-F, filed with the SEC on November 21, 2006, for portions of which confidential treatment has been granted)
4(i)(W)	Addenda No. 2 and 3 to Contribution Agreement (*Einbringungsvertrag*) between Infineon Technologies AG and Qimonda AG, dated as of April 25, 2006 (English Translation). (incorporated by reference to Exhibit 4(i)(W) of Qimonda AG's Form 20-F, filed with the SEC on November 21, 2006)
4(i)(X)	Second Addendum to the Product Purchase and Capacity Reservation Agreement 300nm by and between Winbond Electronics Corporation and Qimonda AG, dated June 27, 2007. (incorporated by reference to Exhibit 10(i) of Qimonda AG's Registration Statement on Form F-3, filed with the SEC on September 11, 2007 for portions of which confidential treatment has been granted)
4(i)(Y)	Addendum No. 8 to Product Purchase and Capacity Reservation Agreement by and between Semiconductor Manufacturing International Corporation, Semiconductor Manufacturing International (Shanghai) Corporation and Qimonda AG, dated June 25, 2007. (incorporated by reference to Exhibit 10(ii) of Qimonda AG's Registration Statement on Form F-3, filed with the SEC on September 11, 2007 for portions of which confidential treatment has been granted)
4(i)(Z)	Addendum No. 9 to Product Purchase and Capacity Reservation Agreement by and between Semiconductor Manufacturing International Corporation, Semiconductor Manufacturing International (Shanghai) Corporation and Qimonda AG, dated October 13, 2007 for portions of which confidential treatment has been requested.
8	List of Significant Subsidiaries and Associated Companies of Qimonda AG as defined in Rule 1-02(w) of Regulation S-X: See "Additional Information — Group Structure — Significant Subsidiaries."
12(i)	Certification pursuant to Section 302 of the Sarbanes-Oxley Act.
12(ii)	Certification pursuant to Section 302 of the Sarbanes-Oxley Act.
13	Certification pursuant to Section 906 of the Sarbanes-Oxley Act.
14	Consent of KPMG Certified Public Accountant.
15	Articles of Association of Inotera Memories, Inc., amended as of June, 7 2006 (incorporated by reference to Exhibit 99(A) of Qimonda AG's Registration Statement on Form F-1, as amended, filed with the SEC on August 8, 2006)
99(i)	Financial statements for Inotera as of and for the years ended December 31, 2005 and 2006 and the years ended December 31, 2004 and 2005, including the report of the independent registered public accounting firm KPMG Certified Public Accountants with respect thereto.

THE UNITED STATES DISTRICT COURT
FOR THE DISTRICT OF DELAWARE

LAKITA BLAIR, LINDA FRAZIER, BONNIE WRIGHT, CHRISTOPHER SHULL, CHERYL MAXEY, LAWRENCE D. MEYER, JACOB EVANS, CLAUDE EDMONDS, BRIAN CAREY, JOHN EARLE, KATHLEEN HALL, and OLGA VAYSMAN, Individually and as Class Representatives,	Civil Action Case No. 09-Civ. 295 (SLR) JURY DEMAND
Plaintiffs,	
vs.	
INFINEON TECHNOLOGIES AG, INFINEON TECHNOLOGIES NORTH AMERICA CORP, and QIMONDA AG,	
Defendants.	

MEMORANDUM OF LAW IN OPPOSITION OF THE MOTION OF DEFENDANTS INFINEON TECHNOLOGIES AG AND INFINEON TECHNOLOGIES NORTH AMERICA TO DISMISS COMPLAINT, OR, IN THE ALTERNATIVE, TO STAY THE ACTION, OR TO REQUIRE A MORE DEFINITE STATEMENT

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I. INTRODUCTION

Plaintiffs Lakita Blair, Linda Frazier, Bonnie Wright, Christopher Shull, Cheryl Maxey, Lawrence D. Meyer, Jacob Evans, Claude Edmonds, Brian Carey, Jon Earle, Kathleen Hall, and Olga Vaysman (collectively, "Plaintiffs"), individually and as class representatives for all similarly situated individuals, by and through their undersigned counsel, submit this brief in opposition to the motion filed by Defendants Infineon Technologies AG ("Infineon") and Infineon Technologies North America ("ITNA") (collectively, "Infineon Defendants") to dismiss the Complaint pursuant to Federal Rule of Civil Procedure 12(b)(6), or, in the alternative, to stay the action or require a more definite statement. Plaintiffs are 2000 former employees of the Infineon Group, whose employment was summarily terminated in early 2009, without proper notice under the WARN Act, without severance and, in some cases, without final pay. Throughout the 47-page Complaint, Plaintiffs have alleged numerous facts – obtained without the benefit of discovery – regarding the interconnectedness between the entities in the Infineon Group, Infineon's domination of Qimonda AG and the Qimonda U.S. subsidiaries, and Infineon's role in the Qimonda U.S. subsidiaries' shutdown, their lack of funding (including funding needed to cover employee obligations), and their failure to provide proper notice. For the reasons set forth below, Plaintiffs respectfully submit that Defendants have *not* met the heavy burden of establishing that the Complaint fails to plead even a plausible claim of liability, and, accordingly, Defendants' motion should be denied.

II. STATEMENT OF FACTS[1]

The Plaintiffs are former employees of Qimonda North America Corporation and/or Qimonda Richmond LLC (collectively, "the Qimonda Subsidiaries"). (Compl. ¶1). Plaintiffs have asserted various claims against the Infineon Defendants, including the following:

(1) Claims for violation of the federal WARN Act and state WARN acts, on the grounds that the identified group of employees were terminated with little (and in some cases, no) notice, as part of the announced shutdown at various facilities in Henrico County, Virginia, Cary, North Carolina and San Jose, California. (Compl. ¶¶ 1, 9, 10, 30, 31, 38, 39, 113-137).

(2) Claims under ERISA and state law for failure to provide severance under the Infineon Group severance plan to those employees who were terminated, despite the fact that such severance had been specifically promised to employees prior to the shutdown. (Compl. ¶¶ 1-3, 7-10, 12, 16, 17, 30, 31, 39, 41, 42, 69-112); and

(3) Claims under ERISA and state law for failure to pay retention and other bonuses that were promised to employees prior to termination (including, as an incentive for such employees to remain employed through the restructuring), as well as failure to pay deferred compensation (under group deferred compensation plans), accrued vacation/PTO time and final wages. (Compl. ¶¶ 1, 2, 3, 11, 12, 13, 43-45, 138-152).

Plaintiffs have properly alleged violations of law in the Complaint under the WARN Act, ERISA and the other causes of action, and the Infineon Defendants do not contend otherwise.[2]

The Qimonda Subsidiaries are wholly-owned subsidiaries of Defendant Qimonda AG, a German Corporation. (Qimonda AG and the Qimonda Subsidiaries are referred to collectively

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[1] The facts set forth herein are a summary of the most pertinent facts alleged in the Complaint. As the Complaint itself is 47 pages long, not all facts will be set forth in detail here. In setting forth the facts that must be accepted as true for purposes of the Defendants' Motion to Dismiss under Rule 12(b)(6), Plaintiffs have not included any legal conclusions (*e.g.*, statements to the effect that "Infineon is an *alter ego* of the Qimonda entities") that are set forth in the Complaint.

[2] Indeed, the Infineon Defendants' Motion to Dismiss pursuant to Rule 12(b)(6) is based entirely on their claim that they are neither an "alter ego" nor a "single employer" with respect to the Qimonda entities. There is absolutely no discussion or challenge to the actual substance or merit of the WARN Act, ERISA or other claims, so the elements of those claims will not be discussed at length herein.

herein as "Qimonda"). (Comp. ¶ 2). Qimonda AG, in turn, is principally owned by, and under the direct control and management of, Infineon, a German corporation, which operates in the United States through its various U.S. subsidiaries, including without limitation, through Defendant ITNA, a Delaware corporation. (Compl. ¶¶ 2, 6). Although Infineon purportedly "spun off" Qimonda in May 2006, as set forth more fully below, it retained direct control over Qimonda – including through a series of arrangements wherein Infineon actually provided and directly controlled Qimonda's strategic, accounting, financial, human resources, compensation, benefits, payroll, patent support, legal, sales support, and logistics functions. (Compl. ¶¶ 6, 21).

In particular, as evidence of the interrelationship between the Infineon Defendants and Qimonda, Plaintiffs make allegations with respect to the fact that, following the purported spin-off in 2006, Infineon:

- continued to report Qimonda AG's and the Qimonda Subsidiaries' earnings and losses on a consolidated basis in its own financial statements *and* allocated portions of its overhead and other expenses to Qimonda;[3]
- maintained direct responsibility for Qimonda AG's and the Qimonda Subsidiaries' strategic, financial, human resources and benefits functions; and
- exercised control over Qimonda AG's and the Qimonda Subsidiaries' business plans and decisions to obtain financing, declare bankruptcy, layoff employees and/or dissolve the company.

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[3] Infineon asserts that it was "required" to report Qimonda's earnings and losses as its own on a "consolidated" basis, but notably does not mention the fact that it later decided to stop doing so in April 2008 (when, after continued poor results, Infineon made the decision to report Qimonda's losses separately and to classify Qimonda – an ongoing operation – as a "discontinued" operation marked for disposal). (Defs Br. at 22); (Compl. at ¶¶ 23, 29). Defendants also, notably, ignore the key aspect of Plaintiff's allegation in this paragraph – *i.e.*, that Infineon allocated portions of the Infineon Group's overhead and other expenses to Qimonda, thereby effectively treating Qimonda as a division of Infineon.

(Compl. ¶¶ 2, 13, 20-23, 29, 34, 35, 37, 38, 66, 67).

Defendants try to fault Plaintiffs for not alleging *specific dates* on which Infineon was actively providing, directing and exercising control over Qimonda's corporate functions, including its human resources, financing, strategic and legal functions, (Defs Br. at 23), and later go on to assert that the Court should assume that such provision of services, direction and exercise of control was only done on a "transitional" basis and not at the time of the shutdown. (Defs Br. at 27-28). However, Plaintiffs have specifically alleged that, after the spin-off, and up to the filing of the Complaint, Infineon "was providing, and *continues to provide*," control and be directly involved in the financial, legal and employment operations of Qimonda. (Compl. at ¶ 21). This, then, clearly alleges that Infineon exercised control over critical aspects of the Qimonda operation, including human resources, *well after* the spin-off, through the shutdown, and certainly during the relevant timeframe.

Indeed, although the initial documents did suggest that certain services would be provided by Infineon to Qimonda only for a limited period of time, Infineon's control and involvement in Qimonda's human resources, legal, accounting, sales support, marketing and other services did *not*, in fact, end in 2007, and Plaintiffs have alleged as such. (*Id.*). As cited in the Complaint, in *Infineon's* 2008 Annual report (published in late December 2008 and with a profile in 2009, just before the shutdown) – long after the 2006 spin-off, Infineon stated, for the public record, that Infineon "is the parent company of the Infineon group [which includes Qimonda] and carries out the *group's* management and corporate functions"; more particularly, "Infineon Technologies AG has major *group-wide* responsibilities such as *finance* and accounting, *human resources*, *strategic* and product-oriented research and development activities" and other operations. (Compl. ¶ 2 n.4) (emphasis added). Moreover, *Qimonda's last*

annual report on record (published in November 2007) specifically indicated that the SG&A allocations assessed by Infineon against Qimonda covered such things as human resources support provided by Infineon to Qimonda, "including recruiting, compensation and benefits, payroll, site health care and training." (Compl. ¶¶ 21, 23). Allocations for purchasing, logistics, sales support, facility management, patent support, finance, accounting, including back office and risk management, strategy services, were also covered. (*Id.*). While the public report notes that certain services had been transitional (and had ended in September 2007), others, including *human resources* (and the other services listed in paragraph 21 of the Complaint), would and did continue following that time.[4] (*Id.*). As further evidence of the continued involvement, in mid to late 2008, in conjunction with the announced plans to close certain facilities (including its announced plan to dispose of Qimonda), Infineon issued a statement that it was implementing a new IFX10+ program, which would cover human resources and other issues related to the anticipated layoffs and cost reductions in the Infineon Group. (Compl. ¶ 31). Moreover, shortly before filing the Complaint, in 2009, counsel for Plaintiffs verified that the Infineon recruiting website was *still* soliciting candidates and resumes for the Qimonda facilities in Cary, North Carolina, Richmond, Virginia and San Jose, California, in mid-2009, notably without even identifying that the "employer" at these locations actually would be one of the Qimonda Subsidiaries.[5] (Compl. ¶ 27). As such, Plaintiffs have specifically and adequately alleged that

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[4] This statement of services assumed by Infineon for Qimonda operations, as published by Qimonda in November 2007, was again published and included in the Form 20-F/A filed by Infineon AG *in March of 2008*.

[5] The Infineon Defendants try, once again, to fault Plaintiffs' allegation that Infineon was responsible for "recruiting" and hiring of employees for Qimonda AG and the Qimonda Subsidiaries on the grounds that the allegation does not specify a particular date. (Defs Br. at 23, 26). To be clear, Plaintiffs specifically contend that this recruiting activity continued throughout the relevant time period (as also indicated in Qimonda's last annual report), and through the layoffs and closure of Qimonda. Defendants notably provide *no* legal basis for asserting that –

Infineon continued to provide human resources and other critical operational services to Qimonda long after the alleged spin-off, and that Infineon continued to do so into 2008 (with the first announcements of the closures and the new IFX10+ program), and through the final shutdown in the beginning of 2009.[6]

In further support of its claims relating to the control exerted by Infineon over Qimonda, the inter-connectedness between the Companies, and the fact that Infineon treated Qimonda effectively like a division, Plaintiffs have alleged that:

- Infineon is the majority shareholder of Qimonda AG, retaining a super-majority (from 85% to 77.5%) of Qimonda AG's shares throughout the relevant period of time, (Compl. ¶¶ 18, 28);
- Although the *announced* reason for the spin-off of Qimonda was to limit exposure due to price volatility, Infineon (as stated above) retained the majority portion of the company and reported its financial results as its own (thus, still permitting the "volatility" directly to affect its bottom line). In addition, at or around the time of the

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absent a specific date – an allegation of activity in a Complaint should be presumed to pertain to an irrelevant time period. If, however, the Court feels that the Complaint's allegation that this activity – or any other of the alleged activities – is not explicit enough in asserting that the actions occurred during the relevant time period, Plaintiffs respectfully request that they be given leave to amend the Complaint and so pled.

[6] As part of its argument that Plaintiffs' factual allegations should be ignored, rather than accepted as true (as required by the Federal Rules of Civil Procedure), the Infineon Defendants state that these services to Qimonda were to be discontinued once Qimonda was "fully staffed" and/or attained "expertise" in these areas, (Defs Br. at 14); as such, the Infineon Defendants apparently want the Court to *assume* that Qimonda became "fully staffed" or that it had attained "expertise" at some (unspecified) point prior to the shutdown. Infineon Defendants, however, notably point to <u>no</u> public statements in the public documents referenced in the Complaint that the financial, accounting or human resources services, actually *were* terminated prior to the shutdown. In contrast, Plaintiffs have pointed to Qimonda's last filed annual report (in November 2007) – and Infineon's last filed annual report before the shutdown (in December 2008) – which both indicate that Infineon continued to provide these services for Qimonda, and, indeed, the entire Infineon Group. (Compl. ¶¶ 2n.4, 21, 23).

spin-off, Infineon had been or was about to be named in several lawsuits, alleging securities laws violations, antitrust, price-fixing and other violations in the semiconductor industry, from which Plaintiffs contend Infineon was trying to create a separate corporate shell to escape legal liability. (Compl. ¶ 19);

- Infineon placed its own personnel in management control positions at Qimonda AG, both on the Boards and in the CEO position.[7] (Compl ¶ 20);
- Infineon exerted financial control over Qimonda, providing financing at the time of the spin-off, and being directly involved in both negotiating and terminating Qimonda's financing opportunities during the time period immediately leading up to the shut-down.[8] (Compl. ¶¶ 20-22, 34, 38);
- Among the vast number of areas in which Infineon was the provider of services and thereby exercised control over Qimonda following the transitional period, the following were specifically identified: sales support in various countries; logistics services; purchasing services; human resources services, including recruiting, compensation and benefits, payroll, site health care and training; facility

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[7] Defendants have asserted that Fischl and von Eickstedt left their positions shortly before the actual facility closures at Qimonda, although they do not mention that Loh, the Chairman and CEO of Qimonda, remained. (Compl. ¶ 20); (Defs Br. at 29). Moreover, from what Plaintiffs can gather from press reports and records, Fischl (the Infineon CFO and Board member) actually remained as Chairman of the Qimonda AG board following April 2008 – as Infineon took steps to shut Qimonda down. Also not clear is what Fischl's financial arrangement was with Infineon following April 2008, nor do Infineon Defendants (notably) contend that there were not other individuals (such as Reinhard Ploss) that, after the spin-off, later came to serve on both boards – and remained in a dual position through the shutdown. Plaintiffs believe they have adequately pled the existence of interconnectivity between Qimonda and Infineon management personnel; if the Court believes more specificity is required, Plaintiffs respectfully request leave to amend.

[8] Indeed, as alleged in the Complaint, it was actually *Infineon*, rather than Qimonda, that made announcements to the press related to the status of obtaining financing for Qimonda – and the ultimate abandonment of those efforts. (Compl. ¶¶ 34, 35, 38).

management; patent support; finance, accounting and treasury support, including risk management and back-office support; legal services; and strategy services. (Compl ¶ 21).

- Qimonda's last financial report made specific reference to the fact that it was still part of the "Infineon Group" and that it was not in control of decisions to obtain capital financing or any decisions to dissolve, close or shutdown operations, noting that such decisions were under Infineon's control:

> Under German law, for so long as Infineon holds more than 25% of our shares, it will be in a position to block shareholder action on any capital increase or decrease, merger, consolidation, spin-off, sale, or other transfer of all or substantially all of our assets, a change in corporate form or business purpose of the company or the dissolution of the company. . . . Infineon . . . may limit our ability to obtain additional financing. . . . [Infineon could be] unwilling to participate in future financing . . . and could block any such action and thereby materially harm [Qimonda's] business or prospects. . . .
>
> Infineon [which operates in the same technology space] . . . may decide to take the [attractive business] opportunities itself, which would prevent us from taking advantage of the opportunity ourselves. . . .
>
> Infineon's decisions with respect to our business may be resolved in ways that favor Infineon and Infineon shareholders, which may not coincide with the interests of our company's other shareholders [or, as later became clear, Qimonda employees]. . . .
>
> We [Qimonda] may experience difficulty in separating our assets and resources from Infineon.

(Compl. ¶ 22).[9]

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[9] With respect to the admissions contained in this report, the Infineon Defendants acknowledge in passing that Infineon "may" have made loans and/or blocked financing, (Defs Br. 22, 26), but notably do not comment on the statements with respect to Infineon keeping lucrative opportunities in the technology space for itself, the explicit statement that Infineon's decisions with respect to Qimonda's financing and operations were not for the benefit of Qimonda or its minority shareholders, and the fact that Qimonda specifically stated that its assets and resources were intermingled and not kept separate from Infineon's – and that it would be "difficult[]" to "separat[e]" those resources and assets from Infineon.

- A publicly filed Qimonda report notes that Infineon provided the administrative, financial, risk management, information technology & other services to Qimonda at rates set by Infineon which, it admits, may be "less favorable . . . than they might have been had they been negotiated with unaffiliated third parties."[10] (Compl. ¶ 24).
- Although Qimonda had its own production facilities, Infineon dictated that Qimonda nevertheless would be required to buy a certain amount of the same product being produced by Qimonda from Infineon (and, in fact, pay for Infineon's idle time if such product was not purchased in sufficient quantities). Qimonda was even required to pay for severance *for Infineon employees* in the event low production (and, thus, reduced payments from Qimonda to Infineon for Infineon products) caused *Infineon* employees to be laid off.[11] (Compl. ¶ 25).
- Among the comingled assets existing between the companies were intellectual property and patent rights, with patent rights between Infineon and Qimonda being

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10 Infineon Defendants gloss over this admission, pointing out that Plaintiffs have not alleged that the arrangements were *actually* unfavorable to Qimonda. (Defs Br. at 28). Plaintiffs, however, *have* alleged that Defendants' control and arrangements over Qimonda depleted the Qimonda Subsidiaries' assets and have been to their detriment. (*See, e.g.*, Compl. ¶ 66). Moreover, the true import of the statement regarding the service agreements between Qimonda and Infineon were that they were not truly "arms-length" – *i.e.*, comparable to what would have been negotiated with a third party. Indeed, this admission makes clear that the agreements were not provided for the benefit of Qimonda (as they could find less expensive services elsewhere), but rather existed primarily as a means for Infineon to retain control over the various, key operations of Qimonda, including, *inter alia*, its strategic, financing and human resources functions.

11 Again, this is clearly not an "arms-length" transaction, it was clearly not done for Qimonda's benefit, and it further indicates the inter-connectedness between the entities, with *Qimonda* being put on the hook for *Infineon's* severance obligations. Although not specifically alleged in the Complaint (or raised by Infineon Defendants in their Motion), this non-arms-length transaction was slated to remain in effect well after the spin-off, through the date of the shutdown – in particular, through at least September 2009.

intermixed, and, as stated in the Complaint, with Infineon actually suing in the U.S. on behalf of patents at least nominally owned by Qimonda entities.[12] (Compl. ¶ 26);

- An Infineon annual report listed Infineon's total employee population at approximately 40,000, which *included* the approximately 13,000 employees of Qimonda,[13] (Compl. ¶ 27);
- On October 13, 2008, restructuring changes and certain closures were announced and employees of the Qimonda U.S. subsidiaries were assured that they would receive certain severance benefits, under the Infineon Group Severance Plan, (Compl. ¶ 30);
- Shortly before the October 2008 announcement, Infineon announced its "IFX10+" program for covering restructuring and job eliminations which were anticipated within the Infineon Group, later stating that:

> [W]e have to implement the necessary measures to reduce headcount in a socially responsible manner. . . . We consider it nothing less than our duty to work openly and constructively with employee representatives in relation to all employee concerns. In the past year, we have already

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12 The Infineon Defendants indirectly allude to the fact that assets, such as patent rights, were kept on a commingled basis between the entities when they note that the creditor's committee of the Qimonda Subsidiaries has now filed suit against Qimonda AG seeking a declaration as to patent rights. (Defs Br. at p. 9 n.4). The fact that *the creditors committee* for the Qimonda subsidiaries is now taking such action to protect the Qimonda Subsidiaries' patent rights, after the entities have gone into bankruptcy, certainly does not establish any "operational distinction" between the entities existing prior to bankruptcy (as the Infineon Defendants argue) – and, if anything, actually *highlights* the fact that such assets were kept in such a commingled fashion between the entities, necessitating litigation now.

13 Again, the Infineon Defendants make no reference to this admission – *i.e.*, that the 13,000 individuals working at Qimonda were considered and treated as Infineon employees – the very issue central to their motion. Indeed, Infineon not only included employees of Qimonda AG and the Qimonda Subsidiaries in its total "employee" numbers, but actually showed charts lumping the Qimonda employees with other Infineon employees as part of Infineon's overall "production" function – again, as if Qimonda existed as a production division of Infineon. Although not specifically alleged in the Complaint (or raised by Defendants), the date of the Annual Report in question was 2008, published at the very end of 2008, just before Qimonda was shut down.

> attained relevant agreements covering the majority of the targeted jobs to be *discontinued worldwide*, so it appears likely that we will complete the *planned reduction over the next months.*

(Compl. ¶ 31) (emphasis added).[14]

- On December 3, 2008, Infineon (not Qimonda) issued a press release/warning that Qimonda was struggling financially. Most notably, Infineon's statement also included an admission that it (Infineon) may be exposed to various significant liabilities, including "*employee-related contingencies*," related to a shutdown of Qimonda.[15] (Compl. ¶ 33).
- Two weeks later, Infineon (again, not Qimonda) issued an announcement that *it* had obtained an agreement to provide funding for Qimonda from various foreign entities, with 75 million EU in financing to come from Infineon itself. (Compl. ¶ 34). Infineon, however, ultimately decided not to provide the financing, and Qimonda was shut down soon thereafter. In closing Qimonda, Infineon announced that it had

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[14] The Infineon Defendants make no reference to the fact that Infineon announced, in conjunction with the planned closures at Qimonda, that it was implementing the IFX10+ program, which would handle, *inter alia*, human relations issues with respect to the planned layoffs and closures. Indeed, the Infineon Defendants basically ignore any allegations that reference Infineon's statements and direct involvement, beginning in April 2008 (when Infineon announced that it would consider Qimonda a "discontinued operation" with the goal of "ultimate disposal") through the abrupt shutdown in early 2009, in which notice was not given and severance and final paychecks were not honored. The IFX10+ program was Infineon's public statement that it was assuming control (and accepting responsibility for the social and other consequences) of Infineon Group shutdowns and layoffs during the following months.

[15] Again, not surprisingly, the Infineon Defendants make no reference to this admission, notwithstanding the fact that it again goes to the central issue in their motion: *i.e.*, Infineon's legal responsibility for the employee-related claims of Qimonda employees arising from the shutdown. Indeed, it would seem to strain both logic and credulity for Infineon to argue before this Court that there somehow is not even a "plausible" claim against Infineon for employee-related liabilities – while, at the same time, even *before* the shutdowns had occurred, Infineon had determined and publicly announced that there was a significant and definite enough "probability" that it would be held liable for these Qimonda employee-related claims, that it felt it necessary to disclose such fact in a public statement.

"fought" to save Qimonda, and that it "regretted" that Qimonda's employees would "face an uncertain future,"[16] (Compl. ¶ 38); and

- Throughout 2008 and 2009, *at Infineon's direction*, Qimonda AG began to transfer assets and bleed the Qimonda Subsidiaries dry, through the captive purchase arrangement between Qimonda AG and the Qimonda Subsidiaries, effectively forcing the Qimonda Subsidiaries to transfer its goods below its costs. This forced allocation drove the Qimonda Subsidiaries' balance sheets into perilous territory, as the amount allocated to the Qimonda Subsidiaries was not even enough to cover the Qimonda Subsidiaries' variable costs of manufacturing. In directing this arrangement, Infineon made the decision to prop up Qimonda AG for possible sale (and, accordingly, make the Qimonda AG balance sheets look as good as possible) – and let the U.S. Qimonda Subsidiaries simply die.[17] (Compl. ¶ 36).

Each of these factual allegations are well-pled and must be accepted as true for purposes of the motion for dismissal under Rule 12(b)(6).

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[16] "Regret," of course, is a word typically reserved for discussing adverse circumstances that the speaker (in this case, Infineon) has in some sense caused and/or has some particular responsibility. The Infineon Defendants provide no explanation for this comment, nor the representation that Infineon had been directly involved in running the financing discussions and had allegedly "fought" to "save" Qimonda throughout that process.

[17] Defendants acknowledge these allegations relating to the captive sales relationship, but assert that the Complaint "says nothing of *Infineon's* role in these transactions." (Defs Br. at 27). In fact, the Complaint does say something about Infineon's role in these transaction, the Complaint states that Infineon *directed* these actions, (Compl. ¶ 36), and that it did so for the purpose of bleeding assets from the U.S. subsidiaries and transferring assets to the German subsidiary in order to position the German subsidiary for sale. (*Id.*). Elsewhere in the brief, Defendants fault Plaintiffs for using the term "apparently" – with respect to the statement in the Complaint that "Infineon had *apparently* made the decision" to sell Qimonda. (Defs Br. at 16-17). What made Infineon's decision "apparent" to the public, however, was its own announcement of its intention to dispose of Qimonda in March of 2008 when it reclassified it as "discontinued" operation of which it intended to dispose. (*See, e.g.*, Compl. ¶ 29).

III. ARGUMENT

A. Legal Standards For Motion To Dismiss Under F.R.C.P. 12(b)(6)[18]

Pursuant to Rule 12(b)(6) of the Federal Rules of Civil Procedure, a defendant may move to dismiss a complaint if the defendant can establish that the plaintiff has "fail[ed] to state a claim upon which relief can be granted." Fed. R. Civ. P. 12(b)(6). Complaints in a federal court action are subject to a "notice" pleading standard, and Rule 8(a)(2) of the Federal Rules of Civil Procedure specifically provides that a Complaint need only present a "short and plain statement" of the claim "showing that the plaintiff is entitled to relief." Fed. R. Civ. P. 8(a)(2).

In *Bell Atlantic v. Twombly*, 550 U.S. 544 (2007), the United States Supreme Court addressed the standards applicable to complaints filed in the federal courts, and held that – while *actual* factual allegations set forth in a complaint must be considered true for purposes of a Rule 12(b)(6) motion – such deference would *not* apply to legal conclusions asserted in the pleadings, nor would it apply to complaints that were comprised of nothing more than a "formulaic recitation" of the elements of each cause of action. *Id.* at 555. In so holding, however, the Supreme Court specifically emphasized that "we do *not* require heightened fact pleading of specifics, but *only enough facts* to state a claim for relief that is *plausible* on its face." *Id.* at 570 (emphasis added). The holding in *Twombly* was recently reinforced by the U.S. Supreme Court

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[18] The Infineon Defendants have styled their motion a Motion to Dismiss under Rule 12(b)(6). As part of their motion, Defendants have attached and made reference to various SEC filings, noting that Federal Courts may take judicial notice of public filings on a motion to dismiss under Rule 12(b)(6), and also noting that Plaintiffs have made reference to various statements made by Defendants in such filings that related to the issues addressed in the Complaint. In so doing, it does not appear to be Defendants' intention to convert this Motion to Dismiss into a Motion for Summary Judgment under Rule 56 of the Rules of Civil Procedure, and, as such, Plaintiffs will treat it as Motion to Dismiss under Rule 12(b)(6). In the event the Court determines that the Motion should be treated as a Motion for Summary Judgment under Rule 56, Plaintiffs respectfully request that the Motion be denied on the grounds that Plaintiffs should be entitled to discovery on the matters pertinent to the Complaint before summary judgment can be heard.

in *Ashcroft v. Iqbal*, 129 S. Ct. 1937, 1949-50 (2009), where the Court again noted that "labels and conclusions" and "formulaic recitation of the elements of a cause of action" are not enough for a plaintiff to withstand a motion to dismiss under Rule 12(b)(6). *Id.* at 1949. *See also Phillips v. County of Allegheny*, 515 F.3d 224, 233-35 (3rd Cir. 2008) (holding that, under the Third Circuit's reading of *Twombly*, "the notice pleading standard of Rule 8(a)(2) *remains intact*," as does the statement that courts must "accept all factual allegations as true, construe the complaint in the light most favorable to the plaintiff, and determine whether, under any reasonable reading of the complaint, the plaintiff may be entitled to relief'"; holding that "[t]he complaint at issue in this case clearly satisfies this pleading standard, making a sufficient showing of enough factual matter (taken as true) to suggest the required elements of Phillip's claims")).

Once the well pled factual allegations are accepted as true, the Court must then determine if the facts asserted state a claim that is "plausible." *Iqbal*, 129 S. Ct. at 1949. The Supreme Court has cautioned, however, that the "plausibility standard is not akin to a 'probability requirement'"; in other words, the plaintiff need not establish that his claim is probable, only that it is "plausible" on the facts as stated. *Id.* Again, a "[t]hreadbare recital" of the elements of a cause of action will not suffice." *Id.*

As set forth above, and discussed more fully below, the Complaint in this case is *not* a threadbare or conclusory recitation of the elements of the cause of action. Plaintiffs have clearly alleged numerous facts, which, accepted as true, demonstrate that it has stated at least a plausible claim for relief against the Infineon Defendants.

B. Plaintiffs Have Pled Sufficient Facts To State A Claim For "Single Employer" Liability Under The WARN Act.

As acknowledged by Defendants in their moving papers, (Defs Br. at 20), in *Pearson v. Component Technology Corp.*, 247 F.3d 471 (3d Cir. 2001), the Third Circuit held that the five factors set forth by the Department of Labor at 20 CFR § 639.3(a)(2) ("DOL Factors") were the proper factors to consider in determining "single employer" status in the federal WARN Act context. *Pearson*, 247 F.3d at 496.[19]

Those factors include a consideration of the following:

(a) Whether the defendants exercised *de facto control* over the employer;

(b) Whether there was a *unity of personnel policies* in the companies and whether those policies emanated from a common source;

(c) Whether there was a *dependence of operations* between the companies;

(d) Whether there were *common directors and officers* between the companies; and

(e) Whether there was *common ownership* between the companies.

Id. (emphasis added). Here, Plaintiffs have alleged sufficient facts with respect to *each* of the five factors.

1. Plaintiffs Have Sufficiently Alleged That Infineon Asserted *De Facto* Control Over Qimonda.

In the Complaint, Plaintiffs have asserted myriad ways in which Infineon exerted *de facto* control over Qimonda, including allegations that – as discussed at length above – Infineon exerted direct control over Qimonda's strategic, management, accounting, human resources and

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[19] *Pearson* actually involved a WARN Act claim brought by the plaintiffs against an unrelated entity – an investor – of the defunct employer, and did not involve a claim where the entities were jointly owned or part of an integrated enterprise. Nevertheless, the Third Circuit in *Pearson* held that the DOL Factors would apply to "single employer" claims brought in the context of jointly-owned entities, as well in claims for investor liability. *Pearson*, 247 F.3d at 496.

benefits functions by continuing to provide those services for Qimonda throughout the relevant time period (shutdown). (Compl. ¶¶ 6, 21, 23, 24, 27, 31). Infineon also exerted control over Qimonda's ability to obtain financing, required Qimonda to purchase goods from Infineon (and pay for downtime) and required Qimonda to pay for an allocated portion of expenses generated by the Infineon Group. (Compl. ¶¶ 20-25, 33-35, 38).

In *In re APA Transport Corp. Consolidated Litigation*, 541 F.3d 233 (3d Cir. 2008), the Third Circuit held that "[t]he core of this [*de facto* control] factor is whether one company 'was the decision-maker responsible for the *employment practice giving rise to the litigation*." *Id.* at 245 (citations omitted) (emphasis added). On the facts before it, the *APA* court noted that the two entities had shared *no* human resources policies and procedures, and that there had been *no de facto* control of the defendant over the employer's decision to shut down the Company. *Id.*

Here, in contrast, Infineon was directly involved in the shutdown of the Qimonda operation. *See, e.g.*, (Compl. ¶ 29, 31, 33-36, 38). It was Infineon that announced its decision, in March 2008, to classify Qimonda (a still operating company) as a "discontinued" operation and to prepare it for disposal. Just a few months later, it was Infineon that announced its IFX10+ program, which Infineon stated would govern planned closures and cost-cutting in the Infineon Group, including Qimonda, and that Infineon would insure that such actions were done in a socially responsible manner with respect to the affected employees. It was Infineon that directly negotiated with the foreign entities in the succeeding months to obtain financing for Qimonda, ending in or around December 2008, and it was Infineon (according to press reports) that ultimately decided not to provide financing and decided to pull the plug on those attempts to gain financing, acknowledging that this would leave Qimonda employees to an "uncertain future." It was Infineon that directed Qimonda AG, as the sole "purchaser" of products made by the captive

Qimonda U.S. subsidiaries, to "bleed" the Qimonda U.S. subsidiaries dry, siphoning funds from the U.S. subsidiaries to the German entity at an unconscionable rate (below variable cost) in order to make the German entity look more attractive for sale (and leaving the Qimonda U.S. subsidiaries unable to meet their obligations to their employees). It was Infineon that initiated and implemented the decisions to take all of these actions, and it is clear that the Complaint sufficiently alleges that Qimonda exercised *de facto* control over the decision to close the Company.

For their part, the Infineon Defendants confusingly assert that the Complaint only contains *one* "on information and belief recitation" in the Complaint that is at all relevant to the question of *de facto* control, *i.e.*, the allegation that, "[o]n information and belief, Infineon was responsible for the decisions at issue in the instant matter, including, without limitation, the decision not to provide Plaintiffs with notice under the WARN Act." (Compl. ¶ 13), (Defs Br. at 21). Because Defendants have ignored all of the other allegations pertinent to *de facto* control and focused on this single allegation, Defendants assert that the Complaint must be dismissed, citing *Rose v. Goldman, Sachs & Co., Inc.*, 163 F. Supp.2d 238 (S.D.N.Y. 2001), for the proposition that allegations "on information and belief" are not alone sufficient to withstand a motion to dismiss. In *Rose*, however, the plaintiff had simply asserted that, on information and belief, males were treated preferentially, without accompanying such an allegation with *any* facts or specifics whatsoever; the *Rose* Court noted that, "[i]n this case, Plaintiff has provided *no* specific factual allegations to enable the Court to evaluate her information and belief assertions that male employee of Defendant performing 'substantially equal work' were treated preferentially. . . . Indeed, Plaintiff has done nothing more than to paraphrase relevant legal

standards and assert, on information and belief, that she has been discriminated against." *Id.* at 242.

Here, however, Plaintiffs have asserted numerous facts that permit the Court to evaluate the basis for its information and belief assertion that Infineon made the decision to shutdown the Company and also that Infineon made the decision to do so without proper WARN notice; in particular, this assertion is based on the facts above and that Infineon was providing and directly controlling Qimonda's human resources (as well as strategic and legal) functions at this time; that Infineon had, in fact, implemented a centralized IFX10+ program in mid-2008 designed specifically to handle human resources issues related to such closures; that Infineon had made the specific decision to dispose of Qimonda in March 2008 (to be effected within the next year); that Infineon had directly controlled the financing negotiations relating to Qimonda (and all statements to the public related to such negotiations) in late 2008; and that Infineon had (as reported) finally pulled the plug on such negotiations, leading Infineon to proceed with Qimonda's closure in early 2009, without sufficient notice or funds.[20] (*See* Compl. ¶¶ 6, 21-24, 27, 29, 31, 33-36, 38). On these facts, as plead, it is clear that Plaintiffs have adequately pled *de facto* control for purposes of establishing "single employer" status.

2. Plaintiffs Have Sufficiently Alleged That There Was Unity of Personnel Policies Between Infineon And Qimonda.

With respect to this second factor, the *APA* court noted that "[t]o reach an answer, we consider whether the two companies in question engaged in centralized hiring and firing,

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[20] Defendants' other arguments here are unavailing because it is clear that Plaintiffs *are* alleging that "the parent played a role in the in the plant-closure decision giving rise to the WARN Act claim," (Defs Br. at 22), and because Plaintiffs are not asserting that Defendants exercised control solely "pursuant to the ordinary incidents of stock ownership," (Defs Br. at 21), but rather that Defendants exercised control more directly, through assumption of the human resources, management, financing and other functions of Qimonda.

payment of wages, and personnel and benefits recordkeeping." *Id.* at 245. Here, Defendants have alleged that Infineon continued to direct and, in fact, provide the human resources functions, processes and procedures on behalf of Qimonda throughout the relevant time period, including recruiting (hiring), compensation, payroll, benefits, and policies related to layoffs and closures. (*See,* Compl. ¶¶ 6, 21, 23, 31). As the actual provider of the human resources function, then, it is clear that there was unity of the human resources function through a single source, Infineon.

The Infineon Defendants argue, somewhat confusingly, that the well-pled allegations of the Complaint should be ignored because Infineon's provision of human resources *may* have stopped at some earlier (unspecified) point prior to the actual shutdown – apparently asking the Court to *assume* that Qimonda reached "full staffing levels" and/or "developed expertise" (at some unspecified point) prior to the shutdown. (Defs Br. at 14). This is unavailing. Plaintiffs have properly alleged that these services *were* provided through the relevant time period – and have cited facts, including Infineon's own recruiting website – to that effect. The only "evidence" in the public filings that Defendants point to for the proposition that some "services" might have stopped before that time are statements that, with the spin-off, "employment relationships" were transferred to Qimonda, as were "pension liabilities and related assets." (Defs Br. at 23). Plaintiffs have no doubt that Infineon employees were nominally transferred to "Qimonda" employee status at the time of the purported spin-off; Plaintiffs further have no doubt that Infineon made sure that pension liabilities for these employees would be recorded on Qimonda's (and not Infineon's) books. Neither of these statements, however, relate to the provision of human resources services or to the control over human resources policies and procedures, and these statements do not contradict – and, in fact, were made *at the same time as*

– the statements that Infineon would continue providing and controlling human resources policies and procedures and would continue providing employee benefits plan services for Qimonda employees following the spin-off.

Perhaps most mystifying in Defendants' motion is the bald assertion that an allegation that Infineon actually *provided and controlled* human resources services for members of the Infineon Group, including employees of the Qimonda Subsidiaries, is somehow not sufficient to allege a unity of personnel policies emanating from a single source. (Defs Br. at 24). In making this argument, Infineon cites to cases involving circumstances with far less than a wholesale assumption of human resources functions by one entity over another, which results in the court engaging in a detailed analysis of various aspects of the human resources function to determine where there is unity and overlap, and where there is not. (Defs Br. at 24). Here, however, the human resources policies, procedures and benefit plans (including the IFX10+, severance, PTO and deferred compensation policies at issue here) were all promulgated and implemented by a single entity, Infineon, for employees of *both* Infineon and Qimonda – as well as other members of the Infineon Group – and there can be no finding that Plaintiffs have failed to allege that a "unity of personnel policies emanated from a common source."

3. Plaintiffs Have Sufficiently Alleged That There Was A Dependency Of Operations Between Infineon And Qimonda.

In *APA,* the Third Circuit held that in making the determination of "dependency" between two separate entities, the court must look at the "existence of arrangements such as the sharing of administrative or purchasing services, interchanges of employees or equipment, and commingled finances." *Id.* at 245.

Here, Plaintiffs have clearly alleged the existence of such sharing arrangements, including arrangements for administrative or purchasing services – and more centralized sharing

arrangements relating to human resources, strategic services, accounting, financing and other management services. (Compl. ¶¶ 6, 21, 23, 31). Plaintiffs have also specifically alleged commingling of intellectual property, sharing of senior personnel, sharing/commingling of assets and resources such that Qimonda has stated publicly that they might not be "separ[able]", the existence of a capacity-sharing agreement (in which Qimonda was required to purchase sufficient goods from Infineon or pay for Infineon employees' downtime or severance), sharing/allocation of overhead and expenses, as well as Infineon's repeated provision of loans to Qimonda (and controlling of financing negotiations with third parties) and other arrangements on a non-arms-length basis. (Compl. ¶¶ 6, 20-27, 30-31, 33-38). Plaintiffs have sufficiently pled dependency of operations.

4. Plaintiff Has Sufficiently Alleged Common Directors And Officers and Common Ownership Between Infineon and Qimonda.

The last two factors – common directors and officer and common ownership – are generally thought to be the least important factors under the DOL test. *Pearson*, 247 F.3d at 494. Nevertheless, Plaintiff has adequately alleged that Infineon is the majority shareholder of Qimonda AG, which wholly owns the Qimonda Subsidiaries – and has further alleged the history of common directors and officers between Infineon and Qimonda.[21] (Compl. ¶¶ 2, 18, 28, 20).

5. Based On The Five DOL Factors, Plaintiffs Have Sufficiently Pled "Single Employer" Status.

As set forth above, Plaintiffs have sufficiently pled facts with respect to each of the DOL Factors, entitling Plaintiffs, at the very least, to proceed to discovery on their WARN Act claims.

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[21] Defendants do not seriously dispute the adequacy of pleading of these factors, asking the Court not to "tarry" on their consideration, (Defs Br. at 29), although they contend, correctly, that no specific allegations are made as between Infineon Technologies North America Corp. ("ITNA") and Qimonda. (Defs Br. at 30). Plaintiffs will address the issue of ITNA in its response to the Motion for More Definite Statement below.

Indeed, in *APA,* the Third Circuit cautioned courts against granting *summary judgment* against plaintiffs on a "single employer" claim, as this inquiry inevitably involves a "balancing" test, where a jury may weigh the evidence in a different way than the Court:

> In making this assessment – determination of joint employer is an issue of *fact*, not law, and a district court cannot reach its own independent conclusion about how those factors should be balanced. Instead, a district court can only grant summary judgment for a defendant if *no reasonable juror* could engage in the appropriate balancing and determine that the two entities constitute a "single employer." If a reasonable juror could weigh the facts under the balancing test and come out either way – *that is, if there is sufficient evidence in the record to support either finding* – then the question of whether the two entities constitute a "single employer" *must* be submitted to a jury.

Id. at 245 n.10 (emphasis added). *See also Local 2-1971 of Pace International Union v. Cooper*, 364 F. Supp.2d 546 (W.D.N.C. Mar. 24, 2005) (denying defendant's motion for summary judgment on WARN Act claims under "single employer" test; noting that federal courts have crafted "less rigorous" veil-piercing standards tailored to federal acts, such as WARN Act, in order to fulfill statute's goals); *United Automobile, Aerospace & Agricultural Implement Workers of America Local 157 v. OEM/Erie Westland, LLC*, 203 F. Supp.2d 825, 836-37 (E.D. Mich. May 8, 2002) (applying DOL factors, *citing Pearson,* and holding that, despite lack of unified human resources policies and lack of common managers, evidence that defendant had made statements about pulling plug/shutting down employer was sufficient evidence of *de facto* control to withstand summary judgment); *Childress v. Darby Lumber, Inc.*, 357 F.3d 1000, 1006 (9th Cir. 2004) (in case cited by Defendants, granting summary judgment for *plaintiffs* on "single employer" claim for WARN Act purposes; although entities maintained separate benefits plans and personnel policies; fact that defendant directed the entity to be shut down was sufficient to establish *de facto* control); *see also Local 397 v. Midwest Fasteners, Inc.*, 779 F. Supp. 788, 798-800 (D.N.J. 1992) (holding that parent and grandparent corporations comprised a "single

enterprise" of subsidiary, as defendants exercised a "substantial degree of control" over the subsidiary and "made the decision" to order the plant closing; "the statute, like other federal labor statutes, has as its goal the protection of workers"; the Court further declared that "[t]he true wrongdoer should not escape liability simply because corporate formalities are observed"; denying motion for summary judgment).

As this case is not at the summary judgment phase, but rather at a preliminary motion to dismiss phase where Plaintiffs *have not even been given the opportunity for discovery*, dismissal is clearly inappropriate. *See, e.g., Schwartz v. D/FD Operating Services, LLC,* 205 F.R.D. 166, 167 (D. Del. 2002) (Robinson, J.) (in which this Court permitted an amendment of the pleadings to add a "joint employer" claim under motion to dismiss/futility standard; this Court looked at plaintiff's evidence that the three entities "exerted significant control over the terms and conditions of [plaintiff's] employment, co-determined matters governing pertinent employment conditions and are a part of single integrated enterprise and therefore a single employer for this action" and held that this was sufficient for plaintiff to proceed to discovery) (citations omitted).

As such, Plaintiffs respectfully request that Defendants' Motion to Dismiss with respect to the "single employer" claims be denied.

C. Plaintiffs Have Pled Sufficient Facts To State A Claim For Piercing the Corporate Veil And/Or "Alter Ego" Liability For Employee-Related Claims.

In their motion to dismiss the *alter ego* claim, Defendants assert various standards for "alter ego" claims, cite to conflicting case law on the standards for alter ego liability under Delaware law, and assert that there are seven factors to consider in analyzing an "alter ego" claim, and that such factors include: (1) undercapitalization; (2) failure to observe corporate formalities; (3) non-payment of dividends; (4) the insolvency of the debtor corporation at the time; (5) siphoning of the corporation's funds by the dominant stockholder; (6) absence of

corporate records; and (7) the fact that the corporation is merely a façade for the operations of the dominant stockholder or stockholders. (Defs Br. at 10-15) (citing *U.S. v. Pisani*, 646 F.2d 83, 88 (3d Cir. 1981)). Defendants further contend that Plaintiffs have only cited evidence with respect to *one Pisani* factor – insolvency. (Defs Br. at 15). Defendants, confusingly, later concede that Plaintiffs have also pled "siphoning" of the U.S. subsidiaries' funds – insofar as Plaintiffs have pled that Defendants directed the arrangement wherein the U.S. subsidiaries to sell their goods to the German entity at below cost – although Defendants inexplicably assert that such an allegation is "conclusory."

In addition to the seven-factor test, Defendants also assert that Plaintiffs must assert "fraud, injustice or inequity" as part of the claim, (Defs Br. at 11), and/or fraud specifically, and/or, even more specifically, must assert that Qimonda was actually "created to visit fraud upon [Plaintiffs] or anyone else." (Defs Br. at 12). Finally, Defendants go so far as to assert that "alter ego" claims are not even available for employee-related claims. (Defs Br. at 13).

In *Reich v. Compton*, 57 F.3d 270 (3d Cir. 1995), the Third Circuit discussed the use of "alter ego" claims in the employment context, noting that:

> The [] interpretation appears to rest on the false premise that there is a uniform body of law that can be employed *in all contexts* for the purpose for determining whether one entity or person is another's alter ego. In reality, however, the term *alter ego* is simply shorthand for the conclusion that one party should be held liable in a particular context for the transgressions of another closely related party. Consequently, the principles governing alter ego liability *vary* depending on the *legal context* in which the determination takes place. For example, the factors support the imposition of alter ego liability in *labor law* differ from those employed in the *corporate law* setting.

Id. at 278 (emphasis added) (citing cases, but holding that such claims would be inappropriate in a "prohibited transaction" context, where scope of parties was already delineated). In *Pearson*, the Third Circuit also examined, at length, the various iterations of "alter

ego"/instrumentality/agency/identity under state law and federal law doctrines, noting that there is "a general sense that federal courts are more likely to pierce the veil in order to effectuate *federal policy*, lest state corporate laws be permitted to frustrate federal objectives." *Pearson*, 247 F.3d at 471 n. 2 (emphasis added). In *Pearson*, the Third Circuit further noted that, when applying the alter ego test to federal *labor laws*, issues such as "nonpayment of dividends" are not relevant; rather, the particular focus is on the issue of management's labor policy and other aspects of the labor function, *id.* at 486, and on whether the parent has controlled the conduct that led to the alleged violation of law. *Id.* at 487. *See also Lumpkin v. Envirodyne Industries, Inc.*, 933 F.2d 449, 460 (7th Cir. 1991) (in "alter ego" cases under federal statutes such as ERISA, "it has been recognized that there is a *federal interest* supporting disregard of the corporate form to impose liability"; "concerns for corporate separateness are secondary to what we view as the mandate of ERISA") (emphasis added); *U.S. v. Carell*, Civil Action No. 3:09-cv-445, 2009 WL 3335031, at *13 (M.D. Tenn. Oct. 13, 2009) (holding that "federal common law determines the parameters of the *alter ego* doctrine where the underlying cause of action is based on a federal question"; holding that government adequately alleged alter ego, where transactions were not arms-length and trust benefited from overpayment; failure to find alter ego status would result in an injustice); *Carter-Jones Lumber Co. v. LTV Steel Co.*, 237 F.3d 745, 746 n.1 (6th Cir. 2001) (federal common law generally "gives less respect to the corporate form than does the strict alter ego doctrine" of state law).

Under federal common law standards for alter ego status, the requirement of pleading fraud, injustice or inequity, even if required, is satisfied where, as here, the defendant is alleged to have siphoned off moneys that would have been used to cover ERISA payments and withdrawal liabilities. *See, e.g., Board of Trustees of Teamsters Local 863 Pension Fund v.*

Foodtown, Inc., 296 F.3d 164, 172 (3rd Cir. 2002). Moreover, in *Trustees of the National Elevator Industry Pension, Health, Benefit and Educational Funds v. Lutyk*, 332 F.3d 188 (3d Cir. 2003), which is cited repeatedly by Defendants in their brief, the Third Circuit affirmed, in another alter ego case under ERISA, the lower court's finding that fraud was *not* required to establish alter ego for claims asserted under ERISA or federal law. In explaining the "alter ego" theory more fully, the Third Circuit in *Lutyk* explained:

> The alter ego doctrine is a 'tool of equity.' . . . As "an equitable remedy,' . . . piercing the corporate veil is not technically a mechanism for imposing 'legal' liability, but for remedying the 'fundamental unfairness [that] will result from a failure to disregard the corporate form.' . . . "[A]lter ego status is determined by conduct of the parties that is material to the dispute at hand," . . .; thus, the theory of harm alleged may affect the scope of the remedy that equity demands. The [plaintiff] did not assert that [the bankrupt employer entity] was, in its entirety, a "sham" or "façade"; nonetheless, *full liability for American's debts is appropriate* as [defendant] [had siphoned funds from the employer]. "

Id. at 193 n. 6 (emphasis added). *See also United Food and Commercial Workers Union v. Fleming Foods East, Inc.*, 105 F. Supp.2d 379, 389-90 (D.N.J. Jun. 29, 2000) (in ERISA claim, even without shared ownership interest, court found that distributor was "alter ego"; rejecting "technicality" of requirements for such things as ownership interest, shared directors and failure to observe corporate formalities; "[a]t its core . . . the alter ego theory is designed to prevent injustice and fundamental unfairness"; where unrelated entity dominated employer, "[t]he facts of this case present exactly the sort of injustice, fundamental unfairness and public policy concerns that the alter ego concept was designed to redress.").

Here, as set forth more fully in the discussion of the "single employer" factors, Plaintiffs have sufficiently alleged facts to show the unity of labor policies, to show Infineon's actual involvement in and control over the shutdown and the labor policies related to the closure, to establish the domination and control of Qimonda by Infineon, to allege siphoning of funds and

resources that were needed for payment of Qimonda employees' benefits claims, and to demonstrate the inequities of shielding Infineon from liabilities to which Infineon exposed the Qimonda employees under these circumstances. This is sufficient to state a claim for alter ego liability under ERISA.

Even under the more stringent state law standard, Plaintiffs *have* asserted sufficient facts, *e.g.*, that Qimonda Subsidiaries were insolvent, that Infineon directed the siphoning of funds, and that the U.S. Subsidiaries were dependent on loans and grossly undercapitalized. (Compl. ¶¶ 6, 20, 32-40). On the last point, courts have held that the repeated reliance on loans from the parent is evidence of the subsidiaries' undercapitalization. *See, e.g., Hollowell v. Orleans Regional Hospital, LLC,* 217 F.3d 379, 389-90 (5th Cir. 2000) (holding that provision of continual loans is evidence of undercapitalization). In addition, Plaintiffs have alleged facts regarding the entities' failure to observe corporate formalities, including the commingling of intellectual property and the admitted failure to maintain assets and resources on a "separate" basis. (Compl. ¶¶ 22, 24, 26). Finally, Plaintiffs have alleged that Infineon, the majority shareholder, so dominated Qimonda AG and the Qimonda Subsidiaries as to render them mere instrumentalities, or a façade, for Infineon's operations. With respect to the original intent of incorporation, the spin-off of Qimonda did not accomplish its "stated" purpose, but rather was devised to create a shell to avoid lawsuit liability; and the false representations to employees prior to the shutdown regarding their treatment under Infineon's IFX10+ program represent further fraud and, certainly, inequity. (Compl. ¶¶ 19, 23, 29, 31).

Moreover, it is worth noting that courts in this district have made clear that, under Delaware law, alter ego claims may lie between the parent of a parent of a corporation, where it is shown the senior parent entity dominated the subsidiary of the subsidiary. In *In re Buckhead*

America Corp., 178 BR 956, 974-75 (D. Del. 1994), the Court denied the defendants' motion to dismiss, *inter alia*, an alter ego claim, where the claim involved an assertion that the parent had exercised complete dominion and control over the subsidiary of its subsidiary; while the defendants argued that complaint lacked enough specificity to put it on notice of claims and that the complaint could not lie "absent allegations that would justify disregarding the separate corporate existence of the intervening entity," the court held that "[w]here a subsidiary corporation . . . is dominated and controlled by its parent company's parent . . . or, as alleged here, by the parties that own and control the parent company's parent . . ., and where (as here) that domination and control is used to cause the subsidiary to make transfers for the benefit of the controlling parties (to the detriment of the subsidiary) and to the further the interests of the controlling parties (rather than the interest of the subsidiary), then the controlling parties are properly treated as the subsidiary's alter ego and may be held liable subsidiary's debts and obligations – particularly debts associated with the transfers made for the controlling parties' benefit." With regard to the more general issue of "two steps" between the corporate entities, the court held:

> Defendants contend . . . that such alter ego claims can be defeated and defendants can insulate themselves from liability by using corporate intermediaries and other complex business structures, thereby indirectly doing that which lawfully cannot be accomplished directly. Not surprisingly, defendants offer no specific authority supporting their implicit suggestion that the law is susceptible to such manipulation.

Id. at 975.

Indeed, this Court has repeatedly held that claims for alter ego status may lie where one entity dominates the other and directs the entity to engage in the claimed wrongdoing. *See, e.g., Ethypharm S.A. France v. Bentley Pharmaceuticals, Inc.*, 388 F. Supp.2d 426, 432 (D. Del. 2005) (Robinson, J.) (in claim of patent infringement involving Delaware parent and Spanish

subsidiary, while it is true that "[a] parent company is not liable for the actions of a subsidiary *solely* because of the parent-subsidiary relationship," this Court held that "[i]f a parent corporation directs the allegedly infringing activity of a subsidiary, the parent can be liable for the subsidiary's infringement"; "'[t]he focus of this test is on "the arrangement between the parent and the subsidiary, the authority given in that arrangement and the relevance of that arrangement to the plaintiff's claim'"; because, at the pleadings stage, it was "unclear what the relationship is between defendant and Belmac, it is unclear how much control has over Belmac," this Court held that the motion to dismiss would be denied, as "Plaintiffs are entitled to discovery on this issue."; "a claimant does not have to set out in detail the facts upon which the claim is based, but must merely provide a statement sufficient to put the opposing party on notice of the claim."); *SRI International, Inc. v. Internet Security Systems, Inc.*, No. Civ. 04-1199-SLR, 2005 WL 851126, at *3 (D. Del. Apr. 13, 2005) (Robinson, J.) (holding that, "[b]ased on the record, it is unclear whether" [alter ego status has been established] – motion to dismiss is denied"; in particular, it is "[u]nclear whether the relationship 'will work an injustice on the patent system.'"); *Manchak v. Rollins Environmental Services, Inc.*, No. 96-37 (SLR), 1996 WL 790100, at *4 (D. Del. Dec. 18, 1996) (Robinson, J.) (acknowledging Defendants' argument that parent's owning stock in subsidiary alone was insufficient to provide alter ego liability, but noting that Defendants had not addressed plaintiffs' argument that parent had induced and/or contributed the infringement of the patent, accordingly, denying motion and permitting discovery to go forward). Here, under either federal common law (with respect to Plaintiffs' federal claims, including ERISA) or Delaware law (with respect to Plaintiffs' state law claims), Plaintiffs have pled sufficient facts to withstand a motion to dismiss.

D. Plaintiffs' Claims Are "Plausible" Under *Twombly, Iqbal* And Applicable Federal Law.

In their brief, the Infineon Defendants appear to be asserting that *Twombly* and *Iqbal* have ushered in a framework in which plaintiffs would have to establish some extremely heightened degree of proof – before discovery and beyond even what would generally be expected at the summary judgment phase – before being permitted to proceed past the Complaint stage to discovery. Defendants' proffered interpretation of *Twombly* and *Iqbal* is without merit.

As indicated by the various cases decided by Courts since *Twombly* and *Iqbal* in the "single employer" and "alter ego" context, a plaintiff need only plead a "plausible" claim for relief; a plaintiff is not required to adduce evidence which would entirely foreclose even the possibility that defendants are not liable. *See, e.g.*, *Hiles v. Inoveris, LLC,* No. 2:09-cv-53, 2009 WL 3671007, at *3 (S.D. Ohio Nov. 4, 2009) (applying *Twombly* and *Iqbal*, and denying defendant's motion to dismiss on "single employer" claim under WARN Act; where plaintiffs had alleged that "[o]n information and belief, Defendant Inoveris was a wholly owned subsidiary of [ComVest]"; also alleged "[o]n information and belief, Defendants shared common officers and directors"; alleged unity of personnel policies emanating from a common source; and alleged that the two entities jointly participated in the decision to terminate the employees' employment; holding that this was sufficient to proceed past motion to dismiss; holding that, under *Twombly* and *Iqbal*, "[w]hile a plaintiff must plead sufficient facts to raise a plausible claim, detailed factual allegations are *not* required, particularly where, as here, the defendants are in control of such information or it is otherwise unavailable to the plaintiffs") (citing *Kaye v. D'Amato*, No. 05-cv-982, at *13 (E.D. Wisc. Dec. 18, 2008) (noting that "the only way for plaintiff to muster more specific facts . . . would be through the use of discovery – which would always remain

unavailable . . . if allegations that *could only be proven through discovery* were routinely dismissed at the pleading stage")) (emphasis added); *Johnson v. Hospital Corp. of America*, Civil Action No. 09-0113, 2009 WL 3648448, at *8 (W.D. La. Nov. 3, 2009) (applying *Twombly* and *Iqbal* and concluding that plaintiff had pled a plausible claim that entities were "single employer," noting allegations regarding interconnectedness of retirement plans, labor relations policy and training, recruiting and position naming; holding that, although the court could not yet determine that the two entities were single employers, "the facts do not clearly indicate plaintiff *cannot* under any discernable circumstance prove single employer status"; "[t]his Court concludes that plaintiff should be permitted to engage in discovery"); *see also Lance v. Ford Motor Co.*, No. 08-13829, 2009 WL 1133456, at *4 (E.D. Mich. Apr. 27, 2009) (in case involving, *inter alia*, alter ego claims under ERISA, holding that plaintiff had pled plausible claim of "alter ego" status between Ford and Visteon where plaintiff had alleged that Visteon operated as an instrumentality of Ford after a purported "spin-off," by, *e.g.*, manipulating contracts with Visteon to maximize Ford's revenues and profits, thereby adversely affecting Visteon's profitability, and sharing computer systems and leased employees; while denying motion on alter ego liability, dismissing claim on merits of underlying claim); *Mason Tenders District Council of Greater New York v. Cheromin, Inc.*, No. 07 Civ. 1755(DAB), 2009 WL 1024256, at *2-3 (S.D.N.Y. Apr. 13, 2009) (applying *Twombly* and *Iqbal*, and denying motion to dismiss on plaintiff's alter ego and single employer claims, holding that plaintiff had plausible claims for both single employer and alter ego status, even where common ownership was not pled, where plaintiff had pled shared operations and labor functions); *Bass v. UPS Capital Corp.*, Civil Action No. 08-1288, 2008 WL 4758612, at *2, 4 (E.D. La. Oct. 27, 2008) (under *Twombly*, denying motion to dismiss for joint employer status between parent and subsidiary

where plaintiff pled that UPS and UPSCC shared the same website for recruiting, shared handbook policies, had common corporate officers; shared an agent for process; shared stock plans; noting that cases relied on by defendant in seeking to dismiss claim were all summary judgment or post-trial motions and therefore inapposite); *Stickle v. Sciwestern Market Support Center, L.P.*, No. CV 08-083-PHX-MHM, 2008 WL 4446539, at *14-15 (D. Ariz. Sep. 30, 2008) (applying *Twombly,* and denying motion to dismiss plaintiff's claim for "joint employer" status, noting that defendants sought to rely on summary judgment cases and on various documents outside the pleadings to dismiss claims, but holding that "*Twombly* does *not* apply a new regime whereby plaintiffs must set forth proof of their claims to overcome a motion to dismiss"; "[i]nstead, *Twombly* directs that a complaint must meet a standard of 'plausibility'"; noting that, although some of pleadings were on information and belief, the Court finds the complaint *does* include sufficient facts to meet the *Twombly* "plausibility" test"; plaintiffs had alleged that Defendants had provided human resources services and support, as well as other administrative, accounting and related support services, administered benefit plans, communicated via website); *International Brotherhood of Electrical Workers v. Krater Services*, Civil Action No. 3:2008-63, 2009 WL 602980, at *4 (W.D. Pa. Mar. 9, 2009) (under *Twombly*, holding that plaintiffs had stated plausible claim for alter ego/joint employer liability); *Janel Russell Designs, Inc. v. TPS Associates, LLC*, Civil No. 09-835 (DWF/JJK), 2009 WL 3242023 (D. Minn. Oct. 1, 2009) (under *Twombly*, denying motion to dismiss individual defendants on issue of alter ego liability); *Wilmington Finance, Inc. v. Blue Star Financial Services, Inc.*, Civil Action No. 07-3489, 2008 WL 144192, at *2 (E.D. Pa. Jan. 9, 2008) (under *Twombly*, holding that plaintiff had pled "basic facts" to support alter ego theory; "[a]s such, the Amended Complaint sets forth a successor liability claim that is at least plausible on its face"; noting that

Twombly, by its own terms, *did not require "heightened fact pleading of specifics*," also citing *Central Nat. Gottesman v. Pemcor, Inc.*, Civ. A. No. 01-3203, 2001 WL 1198659, at *1 (E.D. Pa. Oct. 5, 2001) (stating that "invoking [alter ego and piercing the corporate veil] theories in a complaint and proceeding on them is not the proper subject of a dismissal motion")); *In re SABA Enterprises, Inc.*, Bankruptcy No. 05-B-60144(AJG), Adversary No. 09-1001, 2009 WL 3049651, at *16 (Bkrtcy. S.D.N.Y. Sep. 18, 2001) (under *Twombly* and *Iqbal*, holding alter ego claim was plausibly pled).

An examination of the Complaint in the instant case under the applicable standards clearly establishes that Plaintiffs have adequately pled a plausible claim for single employer and alter ego status under applicable law, and Defendants' motion to dismiss pursuant to Rule 12(b)(6) should be denied.[22]

E. Defendants Have Failed To Establish A Need For Alternative Relief.

As an alternative to Defendants' Motion to Dismiss Complaint, Defendants have asserted an alternative claim to relief, asking for a "more definite" statement as to the actions taken by each individual defendant. (Defs Br. at 33). A review of the Complaint clearly indicates which allegations are against Defendant Qimonda AG, the German entity, and which allegations are against the Infineon Defendants. Infineon Technologies AG is identified as the parent and primary entity controlling the Infineon Group, including Qimonda AG and the Qimonda Subsidiaries, with respect to the Plaintiffs' claims. Plaintiffs have named Infineon Technologies

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22 Moreover, even under the pleading standards articulated by the Infineon Defendants, Plaintiffs have sufficiently pled facts – such as the allegations regarding Infineon directing Qimonda AG to allocate funds to the Qimonda Subsidiaries at a below cost basis (rendering it unable to cover its variable costs and employee liabilities) – that are inconsistent with "normal" parent-subsidiary behavior. Indeed, as indicated above, the fact that Plaintiffs' claims are at least "plausible" is effectively conceded by Infineon's own public statements relating to its significant exposures relating to the Qimonda shutdown, including with respect to Qimonda employee claims.

North America as a Defendant because Infineon AG has stated in public filings that its actions in the U.S. (including, presumably, with respect to the Plaintiffs) are generally done through its U.S. subsidiaries, including ITNA, operating as an integrated enterprise under Infineon AG. (Compl. ¶ 6). Plaintiff contends that the allegations in the Complaint are sufficient to put *both* Infineon Defendants on notice as to the nature of the allegations against them. Plaintiffs believe that several of the actions taken by Infineon AG were done through its U.S. subsidiary in the form of ITNA. In the event discovery shows that ITNA has had little or no involvement with the control and direction of the Qimonda Subsidiaries, Plaintiffs will certainly agree to dismiss the claims against ITNA at that time.

With respect to Defendants' other claim for alternative relief – its claim for a stay pending the determination of the Qimonda Subsidiaries' "primary" liability[23] to Plaintiffs, Defendants assert that there will be no prejudice to Defendants arising from such a stay. In response, Plaintiffs wish to clarify that this is *not* a case where there is any possibility that there will be *no* finding of "primary" liability (to use Defendants' term), thus obviating the need, down the road, to ever determine the issue of single employer/alter ego status.[24] It is also not a case where the assets of the Qimonda Subsidiaries will ever be sufficient to cover the Plaintiffs' claims. Moreover, Plaintiffs contend that they *will* be prejudiced by undue delays in obtaining relief; many of the individual Plaintiffs are currently in dire financial straits, living on depleted 401-K funds, with homes in foreclosure. Nevertheless, Plaintiffs have no wish to require or participate in duplicative litigation – or to require dual tracks to proceed in the bankruptcy and

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23 In fact, the Infineon Defendants' liability here would be "joint and several" with the Qimonda Defendants.

24 Indeed, Plaintiffs have executed severance and retention agreements that were not honored and have deposited paychecks that were bounced; Defendants have no cognizable defense on the merits as to this non-payment.

current proceeding addressing the *same* topics of discovery, such as the underlying merits and putative defenses to the WARN Act claims. Thus, Plaintiffs respectfully submit that they are willing to stay the instant action pending a determination of the underlying claims in the Qimonda Subsidiaries' bankruptcy action,[25] before proceeding to the merits of the single employer/alter ego liability in the instant proceeding, if such a stay is amenable to the Court.

IV. CONCLUSION

As set forth above, Plaintiffs respectfully submit that they have adequately pled plausible claims for both single employer and alter ego status, and that the Defendants' Motion to Dismiss and Motion for More Definite Statement should be denied. Plaintiffs further respectfully submit that they would consent to an appropriate stay of the instant action, as set forth above.

KLEHR, HARRISON, HARVEY,
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Dated: November 17, 2009

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25 For the Court's consideration, the Plaintiffs expect the Chapter 11 cases to be confirmed in the June 2010 timeframe, and that, at that time, distributions shall occur, but, in no event is it anticipated that the Plaintiffs' claims will be paid in full through that proceeding. If and to the extent the Plaintiffs receive amounts from the bankruptcy proceeding, they, of course, will not seek a double recovery against the Infineon Defendants.

CERTIFICATE OF SERVICE

The undersigned hereby certifies that on November 17, 2009, he caused to be served the Memorandum Of Law In Opposition Of The Motion Of Defendants Infineon Technologies Ag And Infineon Technologies North America To Dismiss Complaint, Or, In The Alternative, To Stay The Action, Or To Require A More Definite Statement, filed on behalf of Plaintiffs, on the following counsel of record by electronic filing and overnight mail:

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IN THE UNITED STATES DISTRICT COURT
FOR THE DISTRICT OF DELAWARE

LAKITA BLAIR, LINDA FRAZIER, BONNIE WRIGHT, CHRISTOPHER SHULL, CHERYL MAXEY, LAWRENCE D. MEYER, JACOB EVANS, CLAUDE EDMONDS, BRIAN CAREY, JOHN EARLE, KATHLEEN HALL, and OLGA VAYSMAN, Individually and as Class Representatives,	)	C.A. No. 09 Civ. 295 (SLR)
Plaintiffs,	)	ECF CASE
v.	)	
INFINEON TECHNOLOGIES AG, INFINEON TECHNOLOGIES NORTH AMERICA CORP., and QIMONDA AG,	)	
Defendants.	)	

REPLY BRIEF OF INFINEON TECHNOLOGIES AG AND INFINEON TECHNOLOGIES NORTH AMERICA CORP. IN SUPPORT OF THEIR MOTION TO DISMISS THE COMPLAINT, OR, IN THE ALTERNATIVE, TO STAY THE ACTION, OR TO REQUIRE A MORE DEFINITE STATEMENT

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Plaintiffs' Opposition reflects the inherent flaw in the Complaint. Plaintiffs try to treat the Infineon Defendants and the Qimonda Subsidiaries as a "single employer" or "alter egos" but allege facts revealing nothing more than the undisputed grandparent/subsidiary relationship shared by these companies. Each allegation is consistent with—indeed, best explained by—the fact that Infineon AG was a majority shareholder in Qimonda AG, which in turn owned the Qimonda Subsidiaries. Under the Supreme Court's decision in *Ashcroft v. Iqbal*, 129 S. Ct. 1937 (2009), such allegations are not enough to survive a motion to dismiss. "Where a complaint pleads facts that are merely consistent with a defendant's liability, it stops short of the line between possibility and plausibility of entitlement to relief." *Id.* at 1949 (internal quotation marks omitted). This rule must apply with even more force where plaintiffs seek to treat no fewer than *five* separate corporate bodies as a single entity.

Plaintiffs' Opposition avoids, or waters down, the standards that apply to their WARN Act and alter ego claims. But these standards are purposefully exacting, because the law does not intend parents to be automatically liable for their subsidiaries' obligations in the event of the subsidiaries' bankruptcy. Nothing in the Opposition permits the disregard of the legitimate (and fully disclosed) corporate form here.

I. The Opposition Fails to Present Any Facts At All Regarding Infineon Technologies North America Corp.

The Opposition largely ignores, and presents no specific facts to establish liability against, Infineon Technologies North America Corp. ("IFNA"). IFNA is not alleged to own any shares in any Qimonda entity, to have any shared management with Qimonda, or to have any shared facilities or operations. Plaintiffs appear to concede implicitly the paucity of the allegations against IFNA by offering to dismiss the claims against it should

discovery prove unavailing. *See* Opp. 34. But it is elementary that without specific and plausible allegations at this juncture as against IFNA, plaintiffs' claims against it should be dismissed now. *See Iqbal*, 129 S. Ct. at 1949 (deficient pleadings "do[] not unlock the doors of discovery"). Neither the Complaint nor the Opposition identifies any role IFNA played in the facility closings at issue, let alone alleges sufficient facts to merit the relief sought here. All that is alleged is that IFNA's parent, Infineon AG, owned a majority stake in Qimonda AG, which in turn owned Qimonda North America Corp. and Qimonda Richmond, LLC, which in turn employed the plaintiffs. That relationship is far too attenuated and IFNA should be dismissed on that basis alone.

II. Plaintiffs Have Failed To Adequately Allege A "Single-Employer" Claim Under The WARN Act.

Plaintiffs, often reciting the same alleged facts several times, try to give the impression of a complicated factual sprawl. In fact, the legally relevant facts are largely uncontested, and fall into three categories, none of which supports a claim for liability. *First*, plaintiffs cite to facts inherent in any parent/subsidiary relationship, such as consolidated financial reporting, loans from the parent to the subsidiary, the sharing of certain administrative functions, and inter-company commercial transactions. *See, e.g.*, Opp. 3, 7. *Second*, plaintiffs cite to transitional legacy relationships inherent in the process of a spin-off, and which were fully disclosed (and which do not give rise to extraordinary liability). *See, e.g.*, Opp. 7, 9. *Third*, plaintiffs cite to SEC filings, illogically attempting to bootstrap disclosures of certain risks and facts into admissions of often entirely different factual scenarios. *See, e.g.*, Opp. 11 & 33 n.22. None of this forms the basis for a plausible claim to treat the entities as "single employers," and all that remains are conclusory assertions entitled to no weight under *Iqbal*. *See Iqbal*, 129

S. Ct. at 1949 (holding that complaint challenged on a motion to dismiss "must contain sufficient factual matter, accepted as true, to state a claim to relief that is plausible on its face").

A. Plaintiffs Side-Step The High Pleading Requirements Of A Single-Employer Claim.

The Opposition ignores the principle that single-employer liability is the exception, not the norm, and that distinct corporate forms are respected absent plausible allegations of extensive entanglement and a less than arms-length relationship. *See Pearson v. Component Tech. Corp.*, 247 F.3d 471, 502-03, 505 (3d Cir. 2001) (holding that the necessary level of entanglement requires plaintiffs to show not only a "high degree of integration," but also that the entities failed to operate "at arm's length"); *see also United Auto., Aerospace & Agric. Implement Workers of Am. v. OEM/Erie Westland, LLC*, 203 F. Supp. 2d 825, 836 (E.D. Mich. 2002) (holding that establishing single-employer WARN Act claims requires a "significant departure" from a traditional parent/subsidiary relationship). Plaintiffs, however, gloss over their heavy pleading burden or side-step it by relying on "single-employer" precedent from the Title VII context where, unlike in the WARN Act, courts liberally construe single-employer claims. *See Johnson v. Hospital Corp. of Am.*, No. 09-0113, 2009 WL 3648448, at *6 (W.D. La. Nov. 3, 2009) (case cited by plaintiffs in which court held that the term "employer" as used in Title VII was meant to be "liberally construed," such that "superficially distinct entities" could be exposed to single-employer liability); *Schwartz v. D/FD Operating Servs., LLC*, 205 F.R.D. 166, 167 (D. Del. 2002) (Robinson, J.) (case cited by plaintiffs that permitted amendment to add "joint employers" to Title VII complaint where plaintiff specifically alleged that "the plant manager who supervised

him and was involved in the [termination] decision" was an employee of the proposed defendant). Those Title VII authorities have no bearing here; plaintiffs must meet a stricter standard.

B. The Facts Alleged Fail To Establish A Claim For Single-Employer Liability.

While plaintiffs contend that they have alleged "myriad ways" in which the Infineon Defendants, Qimonda AG, and the Qimonda Subsidiaries functioned as a single-employer, Opp. 15, many of those allegations have nothing to do with the closure of the Qimonda Subsidiaries' facilities in late 2008 and early 2009, and indeed several are contradicted by the very SEC filings on which plaintiffs rely. Allegations that are contradicted by documents cited in the complaint need not be accepted as true. *See Muti v. Schmidt*, 96 F. App'x 69, 74 n.2 (3d Cir. 2004) (citing 5A Charles A. Wright & Arthur R. Miller, Federal Practice and Procedure § 1363, at 464-65 (2d ed. 1995)), *superseded on other grounds*, 118 F. App'x 646 (3d Cir. 2004).[1] This section addresses those mischaracterizations and then discusses how the principal document upon which

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[1] Plaintiffs assert new facts for the first time in their opposition brief. They include an attempt to show that a less than arms-length relationship exists because Qimonda was required to pay severance for Infineon employees in certain instances. Opp. 9 n.11 ("Although not specifically alleged in the Complaint . . . this non-arms-length transaction . . . ."). Likewise, plaintiffs for the first time argue that greater overlap between the boards of Qimonda AG and Infineon AG exist than initially alleged in their Complaint. Opp. 7 n.7. These facts are not properly considered on a motion to dismiss. *See Pennsylvania ex rel. Zimmerman v. PepsiCo, Inc.*, 836 F.2d 173, 181 (3d Cir. 1988) ("[I]t is axiomatic that the complaint may not be amended by the briefs in opposition to a motion to dismiss."). In any event, such allegations, even if accepted, support no claim. Some overlap in board membership (which here was a matter of public record) is consistent with a normal parent/subsidiary relationship. With respect to severance, nothing is alleged regarding the timing, amount, or materiality of the transaction, or how it was not arms-length. Such conclusions, offered for the first time in a footnote of an opposition brief, cannot derail dismissal of a complaint that is inadequate under *Iqbal*.

plaintiffs rely for their factual allegations—the Qimonda 20-F—in fact demonstrates the separateness of the corporate entities.

1. Disclosure of Risk Factors

The Qimonda AG 20-F, upon which plaintiffs rely heavily for their factual allegations, provided a comprehensive discussion of Risk Factors, encompassing 26 pages of the 152-page document. *See* Schoenfeld Décl. (submitted with the Infineon Defendants' Opening Brief), Exh. 3, at 3-29. Plaintiffs select a small number of these Risk Factors pertaining to the inter-company relationship between Qimonda and Infineon. *See* Opp. 8-9 & 33 n.22. That an SEC-reporting company advises shareholders that the company faces certain risks or the prospect of a suit in connection with an event, is not an admission that such a suit has merit or that the underlying contentions are true. Companies are encouraged to disclose risks they confront,[2] and to assume that by doing so the company is tacitly admitting that the claims are valid is not plausible, and, under *Iqbal*, cannot give rise to a viable claim.

More fundamentally, plaintiffs' approach ignores the fact that, contrary to supporting a "single employer" or alter ego theory, the disclosures confirm the distinct and separate identities of the two businesses. For example, the Qimonda AG 20-F focuses on the benefits of being an independent entity, underscoring the distinct and separate identity of the two businesses, and describing those benefits as follows:

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[2] *See* Securities & Exchange Commission Form 20-F, at 11 (sample Form 20-F, requiring the document to prominently disclose risk factors, including "the nature of the business in which it is engaged or proposes to engage; factors relating to the countries in which it operates; the absence of profitable operations in recent periods; the financial position of the company; the possible absence of a liquid trading market for the company's securities; reliance on the expertise of management; potential dilution; unusual competitive conditions; pending expiration of material patents, trademarks or contracts; or dependence on a limited number of customers or suppliers"), *available at* http://www.sec.gov/about/forms/form20-f.pdf.

Benefits of our Carve-out

We believe that operating as an independent company allows us to realize the following benefits:

- ***Increased market responsiveness through an exclusive focus on the memory products business***: DRAMs are subject to different market dynamics compared to Infineon's other products. By operating as a separate business we are able to react more effectively to the dynamics of the memory market through simplified decision-making processes independent from the requirements of Infineon's remaining businesses. We believe that this independence permits us to focus exclusively and quickly on our customers, and anticipate their specific needs.

- ***Direct access to a distinct investor base***: We believe that as a stand-alone U.S.-listed semiconductor memory company, with distinct opportunities and risk characteristics, we appeal more readily to those investors interested in a focused semiconductor memory company....

- ***Incentives for our employees directly tied to our own performance***: We believe that our share price reflects our performance more accurately than Infineon's share price did and therefore can be used as a more effective compensation tool for our employees....

- ***Increased flexibility to pursue strategic cooperations***: We believe that by becoming an independent business, we have substantially increased our flexibility to engage in strategic cooperations such as alliances or joint ventures of particular benefit to the semiconductor memory business. In addition, we are in a position to issue our own securities, which may enable us to participate more readily in the further consolidation of the memory business....

Schoenfeld Decl., Exh.3, at 82 (underlining added). Plaintiffs cite this document but ignore these disclosures; under *Iqbal*, plaintiffs can no longer selectively cite to small and out-of-context portions of a lengthy document while bypassing clear and comprehensive disclosures demonstrating that an alleged claim is not plausible. Here, plaintiffs proffer the Qimonda 20-F, but then ignore almost the entire document. Such mischaracterizations or misinterpretations of the very documents relied upon by plaintiffs need not be accepted as true and cannot form the basis for a plausible claim. *See Muti*, 96 F. App'x at 74 n.2.

Indeed, the Qimonda 20-F demonstrates overwhelmingly the distinct and separate nature of the Qimonda operations since the time of the carve-out in the spring of 2006. Again, plaintiffs point to a few snippets from the more then 150-page document (and mostly with no context) but overlook the mass of information and disclosures that show, time and again, that the two companies were separate and distinct. And under *Iqbal*, the Court no longer must adopt plaintiffs' head-in-the-sand approach. The 20-F from 2007 shows, among other things, the following:

- Qimonda had its own Supervisory Board responsible for overall direction of the company, a board that included statutory representatives of Qimonda AG (required by German law), a professor from the Stanford Business School, and one representative (out of six seats) affiliated with Infineon. Schoenfeld Decl., Exh. 3, at 119.
- Qimonda had its own facilities and real estate holdings, located in Germany, the U.S., Malaysia, Italy, Portugal and China. *Id.* at 116.
- Qimonda AG had its own audited balance sheet showing total current assets of more than 2.2 billion euros. *Id.* at F-4.
- Qimonda had its own audited income statement showing 2007 net sales in excess of 3.6 billion euros. *Id.* at F-3.
- Qimonda had cash on hand, net of short term debt, of more than $1 billion. *Id.* at 39.
- Qimonda owed no outstanding debt to Infineon, and had its "own independent capital structure." *Id.* at 68.
- Qimonda traded separately on the New York Stock Exchange under its own symbol (QI). *Id.* at 32.
- Qimonda had a separate corporate headquarters, website, Management Board and product line. *Id.* at 2, 88.
- Qimonda solely owned all the intellectual property rights that formerly belonged to Infineon's memory products division. *Id.* at 105.
- Qimonda conducted its own IPO in mid-2006 which yielded net proceeds of more than 400 million euros, some of which was used to invest in the Richmond, Virginia facilities. *Id.* at 34.

These are but a small sample of the innumerable disclosures in the very document plaintiffs rely upon that show that their assertion of "single employer" status is a conclusion entitled to no weight. It is impossible to review these disclosures, even in a perfunctory way, and to conclude that Qimonda and Infineon were a "single employer" or that one was the alter ego of the other. These disclosures, made in late 2007, well before the time period relevant to the decisions to close Qimonda operations, show that Qimonda had a separate and distinct legal, financial, operational, and physical identity, and that the efforts by plaintiffs to impose Qimonda obligations incurred in late 2008 and early 2009 on Infineon have no legal basis.

Plaintiffs also try to transform Infineon AG's disclosure of certain risk factors in its annual report into an admission of liability. For example, plaintiffs contend that their allegations are plausible because Infineon disclosed the prospect of employee-related contingencies in the "Risk Factors" section of its annual report. Opp. 11 & 33 n.22. These Risk Factors, which comprise fourteen pages of the 130-page document, encompass areas as varied as the regulatory and tax environments in which Infineon operates, the intense competition within the memory products business, and financial losses that might be sustained from natural calamities. *See* Declaration of Peter J. Macdonald ("Macdonald Decl."), Exh. 1, at 40-54.[3] And, as noted above, the fact that a

[3] Plaintiffs' citation is to a December 2008 Infineon press release that accompanied a quarterly SEC filing. The relevant statement from the press release subsequently was incorporated verbatim in the "Risk Factors" section of Infineon AG's Form 20-F. The "Risk Factors" section of Infineon AG's Form 20-F was, in turn, expressly incorporated into Infineon AG's Annual Report for 2008, which plaintiffs quote on pages 10-11 of their Opposition. *See* Macdonald Decl., Exh. 2, at 111 (directing reader to Infineon AG's Form 20-F for "[a]dditional descriptions relating to risks").

company identifies a potential liability in an SEC filing does not support a plausible contention that the company has conceded or admitted liability. *See supra* at 5.[4]

2. IFX10+

Plaintiffs contend that Infineon announced a cost-cutting program (the IFX10+ program) to assume control of Qimonda's closures in the United States. Opp. 10-11 (quoting Compl. ¶ 31, which in turn quotes Infineon's 2008 Annual Report), 11 n.14, 16, 20. Yet, the very filings on which plaintiffs rely explain that the program was aimed at workforce reductions at "Infineon Logic," an entity that specifically *excludes* Qimonda AG and the Qimonda Subsidiaries. *See, e.g.*, Macdonald Decl., Exh. 2, at 111 ("Infineon Logic has implemented its cost-reduction program IFX10+ in the third quarter of the 2008 fiscal year. Approximately 10 percent of Infineon Logic's worldwide workforce is expected to be impacted by IFX10+."); *see also id.* at 77 (stating that references to Infineon Logic "are to the Company *excluding* Qimonda") (emphasis added).

3. Qimonda as a "Discontinued" Operation

Plaintiffs allege that Infineon's decision in March 2008 to classify Qimonda as a "discontinued" operation shows that Infineon was "directly involved in the [subsequent] shutdown of the Qimonda operation." Opp. 16. But that is a non-sequitur: Infineon's decision to classify Qimonda AG as a "discontinued" operation for accounting purposes was unrelated to the shutdown of the three U.S. facilities. The SEC filings on which

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[4] Plaintiffs' citation to Risk Factors is particularly unavailing here, where an Infineon AG quarterly report confirmed that the employee-related contingencies arise from Infineon AG's role as the former general partner of a Qimonda AG subsidiary located in Dresden, Germany, which are governed by German labor laws and are, in any event, unrelated to the facility closures in the United States. *See* Macdonald Decl., Exh. 3, at 12 ("[I]n our capacity as a former general partner of Qimonda Dresden GmbH & Co HG ("Qimonda Dresden"), we may also be held liable for certain employee-related contingencies in connection with the insolvency of Qimonda Dresden and certain subsidies received by Qimonda Dresden."). Plaintiffs have not themselves cited this report.

plaintiffs rely make clear that the accounting reclassification sprung from Infineon's decision—nearly a year before the facility closures at issue—to reduce its financial stake in Qimonda AG. *See* Schoenfeld Decl., Exh. 3, at 23 (disclosing Infineon's announcement to reduce its stake in Qimonda AG "significantly below 50%"). Following Infineon's decision to reduce its financial stake in Qimonda AG, Generally Accepted Accounting Principles ("GAAP") *required* that Qimonda AG be classified as a discounted operation. *See Flint Indus., Inc. v. IRS*, No. 10645-97, 2001 WL 1195725, at *6 (U.S. Tax Ct. Oct. 10, 2001) (explaining that "U.S. GAAP requires a company to treat a business segment or unit as a discontinued operation when the company makes a decision to dispose of the business segment or unit and management expects to incur a loss on the disposal"). Following GAAP cannot serve as a plausible basis to allege wrongdoing.

4. Infineon and Qimonda Employees

Plaintiffs assert that Infineon routinely failed to distinguish between the number of Qimonda and Infineon employees in its SEC filings; in fact, plaintiffs take Infineon to task for not having contested this issue given that this is "the very issue central" to the motion to dismiss. Opp. 10 n.13. Plaintiffs' allegation is remarkable in light of Infineon's SEC filings, which state: "We employed a total of 29,119 employees as of September 30, 2008 (*excluding* 12,224 Qimonda employees)." Macdonald Decl., Exh. 1, at 83 (emphasis added). The disclosures thus did distinguish among Infineon and Qimonda employees, as would be expected in the case of two distinct publicly traded companies where one was required under GAAP to consolidate the financial results of the other in its financial reporting. Nothing about that suggests any basis for single-employer or alter ego liability.

* * *

The touchstone of this Court's inquiry under *Iqbal* is plausibility, yet the plaintiffs' factual assertions are implausible. For example, plaintiffs allege that Infineon AG "carries out ... management and corporate functions" for Qimonda AG, as a function of Infineon AG's role as parent of the "Infineon group." Opp. 4. This language, drawn from Infineon AG's 2008 Annual Report, cannot bear the meaning that plaintiffs ascribe to it. The disclosures in Qimonda's 20-F alone, a document Plaintiffs cite, show that Infineon AG and Qimonda AG had separate and distinct Supervisory and Management Boards, as required by German law. *See* Schoenfeld Decl., Exh. 3, at 118-22. In the context of these extensive disclosures, the most that can be ascribed to the language cited by Plaintiffs is Qimonda was a majority owned subsidiary of Infineon, not that Infineon had the kind of day to day operational involvement that might give rise to a basis for liability.

Indeed, the very case law on which plaintiffs rely demonstrates their failure to plausibly allege the level of entanglement and interconnectivity necessary to establish a single-employer claim. For example, plaintiffs rely on *Mason Tenders Dist. Council v. Cheromin, Inc.*, No. 07 Civ. 1755, 2009 WL 1024256 (S.D.N.Y. Apr. 13, 2009), where the court held that plaintiff satisfied the single-employer test under the National Labor Relations Act[5] where (1) two companies shared the same office and phone lines, (2) failed to maintain a separate "client-base, staff, assets, or other business relations," and (3) shared common facilities and equipment. *Id.* at *2. In contrast, plaintiffs here

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[5] The Third Circuit has recognized that the "interrelation of operations" test of the National Labor Relations Act overlaps with the "dependency of operations" prong of the WARN Act. *See Pearson*, 247 F.3d at 500.

attempt to allege single-employer liability against separately traded public companies that indisputably filed separate SEC financial disclosures, maintained separate headquarters, operated separate facilities, had distinct staffs, and serviced separate customers.[6]

Likewise, plaintiffs' argument that they have sufficiently pleaded that the Infineon Defendants and the Qimonda Subsidiaries shared a unity of personnel policies is belied by the case law on which plaintiffs rely. Plaintiffs return to their familiar refrain that Infineon and Qimonda shared various support services, but properly alleging this prong requires that two entities operate in unison "on a day-to-day basis" with regard to their employees. *Pearson*, 247 F.3d at 489. In light of that high standard, courts have determined that a unity of personnel policies exists when (1) the sharing of various support services was "not transitional" *and* the services related to the "essential" operations of a facility, *United Auto.*, 203 F. Supp. 2d at 836 (case cited by plaintiffs); (2) "a single line management model [was implemented] ... to streamline the organization," *Stickle v. Sciwestern Mkt. Support Ctr., L.P.*, No. 08-083, 2008 WL 4446539, at *16 (D. Ariz. Sept. 30, 2008) (case cited by plaintiffs), and/or (3) the managers of the companies received directions from one another, *Pearson*, 247 F.3d at 498-99 (case cited by plaintiffs). Not only would the sharing of select human resources and other support

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[6] Infineon AG is headquartered in Neubiberg and Qimonda AG is headquartered in Munich. *See* Schoenfeld Decl., Exh. 1; Schoenfeld Decl., Exh. 3, at 2. Plaintiffs concede that "Qimonda had its own production facilities." Opp. 9. Regarding separate employees, see Schoenfeld Decl., Exh. 3 at 32 (stating that in May 2006 "Infineon contributed . . . the employees[] of its former Memory Products segment to [Qimonda AG]"), and Macdonald Decl., Exh. 1, at 83 ("We employed a total of 29,119 employees as of September 30, 2008 (excluding 12,224 Qimonda employees)."). Regarding separate client bases, see Schoenfeld Decl., Exh. 1, at 59 (disclosing that Infineon's core customers are Avnet, Bosche, Continental, Hon Hai Precision, LG Electronics, Nokia, Samsung, and Siemens), *with* Schoenfeld Decl., Exh. 3 at 88 (disclosing that Qimonda's core customers are Dell, HP, IBM, Sun Microsystems, and Sony).

services fall far short of those facts, plaintiffs' own precedent clearly holds that alleging the provision of transitional and tangential support services is insufficient to establish single-employer liability.

Tacitly conceding the insufficiency of their allegations, plaintiffs' attempt to unlock the doors of discovery by arguing that dismissal of the WARN Act claims is inappropriate given that the single-employer test involves a fact-intensive inquiry and "Plaintiffs *have not even been given the opportunity for discovery*." Opp. 22-23 (emphasis in original). Yet, plaintiffs cannot survive a motion to dismiss by arguing that a factual inquiry is required. Rather, a complaint must identify facts that, if proven after the sought-after inquiry, would be sufficient to support their claim. *See Wilkerson v. New Media Tech. Charter Sch. Inc.*, 522 F.3d 315, 321 (3d Cir. 2008) ("The complaint must state enough facts to raise a reasonable expectation that discovery will reveal evidence of the necessary element.") (internal quotation marks omitted). If a complaint fails to do so, as is the case here, then dismissal is required.

III. Plaintiffs' Alter-Ego Claims Likewise Fail Plausibly To Allege Anything Other Than A Conventional Parent-Subsidiary Relationship.

Conceding as they must that alter-ego liability is an "extraordinary remedy," *Ragan v. Tri-County Excavating, Inc.*, 62 F.3d 501, 517 (3d Cir. 1995) (Hutchinson, J., dissenting), plaintiffs advance two unavailing objections in an effort to water down that standard. First, they contend that a lower standard of scrutiny applies when an alter-ego claim is predicated on a federal cause of action. Second, they contend that a sole, conclusory allegation that *Qimonda AG* "siphoned funds" from the Subsidiaries is sufficient to pierce the corporate veils of the *Infineon Defendants* and hold them liable for the Subsidiaries' alleged ERISA and state-law violations. Both arguments fail.

A. Federal Law Does Not Contemplate Alter-Ego Liability Under The Facts Alleged.

Plaintiffs' argument that the Infineon Defendants should be held liable for the Qimonda Subsidiaries' alleged ERISA violations on the basis of the Infineon Defendants' entirely conventional exercise of its duties and prerogatives as a corporate parent would turn black-letter corporate law on its head and render any parent of a bankrupt subsidiary liable for its inability to honor its pension obligations. The Third Circuit's decision in *Trustees of the National Elevator Industry Pension, Health, Benefit & Educational Funds v. Lutyk*, 332 F.3d 188 (3d Cir. 2003), which plaintiffs cite, Opp. 26, is not to the contrary and indeed makes clear that plaintiffs' allegations fail to state an alter-ego cause of action, including on their federal ERISA claims. In *Lutyk*, the court held that "proof of actual fraud" was not a "prerequisite for piercing the corporate veil." *Id.* at 194. Nonetheless, it reaffirmed its longstanding case law holding that, in order to hold a parent liable for its subsidiary's federal-law violations, the subsidiary must be "'little more than a legal fiction.'" *Id.* (quoting *Pearson*, 247 F.3d at 485). Additionally, the court "note[d] ... that where the conduct alleged to justify piercing the corporate veil is that the corporation as a whole is a 'sham' or 'façade,' a finding 'akin to ... fraud' is necessary." *Id.* at 194 n.7 (citation omitted). The Third Circuit affirmed the district court's veil-piercing in that case because of the shareholder-defendant's "substantial disregard of corporate formalities in his management and ownership" of the corporation, and because he "conceded to siphoning at least $287,627.43 from [the company]." *Id.* at 193 n.6 & 195.

Plaintiffs' Opposition can point to no comparable allegations in the Complaint, because there are none. Plaintiffs' sole allegation of "siphoning" is the conclusory

assertion that *Qimonda AG* attempted to "bleed the Subsidiaries dry," and that, in some unspecified way, Infineon directed Qimonda AG to do so. This conclusion is not a basis to pierce the veil between the Subsidiaries and Qimonda AG, let alone the veil separating Qimonda AG and the Infineon Defendants.[7]

Indeed, the cases plaintiffs cite demonstrate, by contrast, the pleading failure here. *See Board of Trs. of Teamsters Local 863 Pension Fund v. Foodtown, Inc.*, 296 F.3d 164, 173 (3d Cir. 2002) (noting plaintiffs' allegations "enumerat[ing] [defendant's] actions, consisting of diverting funds, fictitious invoices and kickbacks," which stated a claim that defendants "diverted monies destined for withdrawal liability"); *United Food & Commercial Workers Union v. Fleming Foods East, Inc.*, 105 F. Supp. 2d 379, 389-90 (D.N.J. 2000) (observing that defendant "created a complicated and elaborate financial structure" that was "little more than a 'puppet' that allowed [defendant] to aggressively pursue its own goals with virtual immunity," and noting defendant's "manipulation of the corporate form to avoid its liabilities and obligations under ERISA"). This case presents nothing remotely approaching the allegations of those cases. Qimonda AG and Qimonda North America were separate, established companies, publicly traded under the Qimonda name, with their own SEC filings, and all the elements of a distinct public company, such as its own board, board committees, accountants, financial statements, counsel, tax

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[7] Plaintiffs appear to suggest that the tests for a "single employer" under the WARN Act and for federal alter-ego liability are the same, suggesting that its allegations of, among other things, the defendants "unity of labor policies," Opp. 26, are sufficient to state a claim for alter-ego liability. This is not correct. Indeed, in *Pearson*, the Third Circuit expressly rejected the notion that the two tests were identical. *See Pearson*, 247 F.3d at 487-89 (reviewing various tests for inter-corporate liability, including the alter-ego test, and then adopting the Department of Labor's standards in setting forth the WARN Act test). In any event, plaintiffs' allegations fail to state a claim under the WARN Act for the reasons discussed above.

filings, facilities, headquarters, credit, product lines, by-laws, articles of incorporation and so forth.

Indeed, plaintiffs' citation to cases sustaining alter-ego and single-employer causes of action under *Twombly* and *Iqbal* is unpersuasive, as each of those cases alleged substantially more plausible factual matter than plaintiffs do here. *See* Opp. 30-32. For this reason, just as many courts have dismissed alter-ego and single-employer causes of action under the Supreme Court's current pleading regime. *See, e.g.*, *In re Washington Mut., Inc.*, No. 08-12229, 2009 WL 3255047, at *7 (Bankr. D. Del. Oct. 8, 2009) (dismissing alter-ego claim because, "[b]eyond the conclusory statement that WMI oversaw, managed, controlled and supervised all operations of WMB, the Complaint contains no factual allegations which would lead to a plausible inference that WMI directed WMB to engage in misconduct related to the servicing of the Plaintiff's mortgage"); *Capital Inv. Funding, LLC v. Lancaster Res., Inc.*, No. 08-4714, 2009 WL 1748984, at *5 (D.N.J. June 19, 2009) (dismissing alter-ego claim because plaintiff failed to allege how defendants "exercised dominion or control over LRI or how any of them abused the corporate form to perpetrate fraud or injustice").

Only one cited case merits discussion because it, too, involved a spin-off. In *Lance v. Ford Motor Co.*, No. 08-13829, 2009 WL 1133456 (E.D. Mich. Apr. 27, 2009), former employees of Ford sued the company for payment of their benefits under ERISA. Plaintiffs claimed that Ford had engaged in "a complex benefits avoidance scheme." *Id.* at *1. Specifically, plaintiffs alleged that Ford—which had been their original employer—spun off a separate division, Visteon, and then reacquired twenty-three of Visteon's plants. Plaintiffs were forcibly transferred back and forth between Ford and

Visteon. Plaintiffs alleged that Ford "orchestrated the spin-off and re-acquisition as a corporate scheme to allow Ford to avoid paying full retirement benefits to salaried workers." *Id.* at *2. In that case, unlike here, plaintiffs alleged that Visteon was a mere façade for Ford's elaborate gambit to avoid paying employee benefits.

B. Plaintiffs Have Failed To Plead The Infineon Defendants' Alter-Ego Status With Respect To Their State-Law Claims.

To hold the Infineon Defendants liable for plaintiffs' state-law claims for breach of contract, fraud, and equitable estoppel, plaintiffs must demonstrate that the Subsidiaries' corporate form was established in order to effect some fraudulent purpose. *See* Mem. 10-14.[8] Plaintiffs assert that Infineon "so dominated Qimonda AG and the Qimonda Subsidiaries as to render them mere instrumentalities, or a façade, for Infineon's operations." Opp. 27.[9] But this is just the type of conclusory pleading boilerplate no longer permitted in the wake of *Iqbal*, and entitled to no weight whatsoever, particularly here, where the conclusory contention is levied in the face of the existence of multiple public companies with, among other things, separately filed public disclosures and separate boards and shareholders. None of the cases cited by plaintiffs supports their argument. For example, *Ethypharm S.A. France v. Bentley Pharmaceuticals, Inc.*, 388 F. Supp. 2d 426 (D. Del. 2005), considered a notice-pleading challenge: That is, defendant claimed that "plaintiffs have not sufficiently alleged an

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[8] To the extent plaintiffs suggest that the federal alter-ego analysis applies to state-law claims brought in the "employment context," Opp. 24, they are incorrect. Then-Judge Alito's opinion in *Reich v. Compton*, 57 F.3d 270 (3d Cir. 1995), clearly contrasts the applicable alter-ego standards for federal labor law claims (the Fair Labor Standards Act) with common-law claims. *Id.* at 278.

[9] Plaintiffs' reliance on *Hollowell v. Orleans Regional Hospital, LLC*, 217 F.3d 379 (5th Cir. 2000), Opp. 27, in connection with alter-ego analysis of state-law claims is unavailing because that case concerned WARN Act claims.

others] in fraud of creditors and in violation of covenants in contracts intended for the protection of creditors," *id.* at 974, were sufficient to withstand a motion to dismiss. As the Court's opinion makes clear, each of those transfers and the resultant covenant violations were pleaded in detail. *See, e.g.*, *id.* at 965 n.15 (quoting ¶¶ 33-34 of the amended complaint); *id.* at 967 n.20 (quoting ¶¶ 70-72 of the amended complaint).

IV. Nothing In Plaintiffs' Opposition Sets Forth A Basis to Reject The Request For Alternative Relief Should The Motion To Dismiss Be Denied.

The Infineon Defendants requested two forms of alternative relief should the Court deny their motion to dismiss. While the Infineon Defendants believe that the relevant legal principles mandate dismissal, and while that relief remains foremost in this motion, as a first alternative, the Infineon Defendants requested a stay pending resolution of the plaintiffs' claims against the Qimonda Subsidiaries in bankruptcy court. The plaintiffs have consented to that alternative relief. Opp. 34. Therefore, absent dismissal (but not in lieu of dismissal), all parties agree that a stay would be appropriate.

As a second alternative, the Infineon Defendants requested a more definite statement of plaintiffs' claims against them. Plaintiffs' opposition to that request is based on an assertion that the Complaint "clearly indicates which allegations are against Defendant Qimonda AG, the German entity, and which allegations are against the Infineon Defendants." Opp. 33. Respectfully, that assertion is ridiculous. To provide just one example: The Complaint alleges that after Qimonda AG's insolvency filing, "assets and revenues from the Qimonda Subsidiaries were transferred ***and/or*** used in an inappropriate manner by Infineon ***and/or*** Qimonda AG, rather than being used to cover employment-related obligations or providing Qimonda Subsidiaries' employees with appropriate notice under U.S. law." *Id.* ¶ 39 (emphasis added). It is impossible to

discern from this paragraph what the Infineon Defendants allegedly did. The Complaint is elsewhere equally ambiguous as to which party is implicated by particular allegations, and plaintiffs should be required to give each individual defendant adequate notice of the allegations against them.

CONCLUSION

For all the foregoing reasons and those stated in the Opening Brief, the Infineon Defendants respectfully request that their Motion to Dismiss the Complaint or, in the Alternative, to Stay the Action, or to Require a More Definite Statement be granted.

Respectfully submitted,

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December 2, 2009

CERTIFICATE OF SERVICE

The undersigned hereby certifies that on December 2, 2009, he caused to be served the Reply Brief Of Infineon Technologies AG And Infineon Technologies North America Corp. In Further Support Of Their Motion To Dismiss The Complaint, Or, In The Alternative, To Stay The Action, Or To Require A More Definite Statement on the following counsel of record by electronic filing:

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2951666.1

EXHIBIT 1

Submitted with the Declaration of Peter J. Macdonald

Blair v. Infineon Technologies AG, C.A. No. 09 Civ. 295

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 20-F

REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR (g)
OF THE SECURITIES EXCHANGE ACT OF 1934 ☐
OR
ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934 ☒
For the fiscal year ended September 30, 2008
OR
TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from_____to_____ ☐
OR
SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934 ☐
Date of event requiring this shell company report _____

Commission file number: 1-15000

Infineon Technologies AG

(Exact name of Registrant as specified in its charter)

Federal Republic of Germany
(Jurisdiction of incorporation or organization)

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

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

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

Title of each class	Name of each exchange on which registered
American Depositary Shares, each representing one ordinary share, notional value €2.00 per share	New York Stock Exchange
Ordinary shares, notional value €2.00 per share*	New York Stock Exchange

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

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

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

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the annual report. 749,728,635 ordinary shares, notional value €2.00 per share

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

Yes ☒ No ☐

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

Yes ☐ No ☒

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

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

Yes ☒ No ☐

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

Large accelerated filer ☒ Accelerated filer ☐ Non-accelerated filer ☐

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

U.S. GAAP ☒ International Financial Reporting Standards as issued by the International Accounting Standards Board ☐ Other ☐

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

Item 17 ☐ Item 18 ☒

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

Yes ☐ No ☒

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

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

Yes ☐ No ☐

RISK FACTORS

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

Risks related to the semiconductor industry

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

Our business, financial condition and results of operations could be significantly negatively impacted by general economic conditions and the related downturn in the semiconductor market. In recent months, the global economy has experienced a significant downturn, reflecting the effects of the credit market crisis, slower economic activity and a generally negative economic outlook, a decrease in consumer and business confidence and liquidity concerns. A severe or prolonged economic downturn could result in a variety of risks to our business, including:

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

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

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

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

We operate in a highly cyclical industry and our business could suffer from periodic downturns.

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

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

Industry overcapacity could require us or Qimonda to lower our prices, particularly for Qimonda's memory products.

Both semiconductor companies with their own manufacturing facilities and semiconductor foundries, which manufacture semiconductors designed by others, have added significant capacity from time to time in recent periods. In the past, the net increases of supply sometimes exceeded demand requirements, leading to oversupply situations and downturns in the industry.

Downturns have severely hurt the profitability of the industry in general, especially the DRAM business of Qimonda. Given the volatility and competition of the semiconductor industry, we are likely to face downturns in the future as well, which would likely have similar effects. Fluctuations in the rate at which industry capacity grows relative to the growth rate in demand for semiconductor products may in the future put pressure on our average selling prices and hurt our results of operations.

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

We operate globally, with numerous manufacturing, assembly and testing facilities on three continents, including those that we operate jointly with partners. In the 2008 fiscal year, 78.6 percent of our revenues were generated outside Germany and 59.7 percent were generated outside Europe. Our business is therefore subject to risks involved in international business, including:

- negative economic developments in foreign economies and instability of foreign governments, including the threat of war, terrorist attacks, epidemic or civil unrest;
- changes in laws and policies affecting trade and investment; and
- varying practices of the regulatory, tax, judicial and administrative bodies in the jurisdictions where we operate.

Substantial changes in any of these conditions could have an adverse effect on our business and results of operations. Our results of operations could also be hurt if demand for the products made by our customers decreases due to adverse economic conditions in any of the regions where they sell their own products.

Threats of disease outbreaks or pandemics, such as the avian flu and Severe Acute Respiratory Syndrome (SARS) outbreaks, in regions where we have manufacturing sites may negatively effect our operations by limiting the productivity of our workforce, inhibiting transportation or the shipment of products or reducing the ability of local suppliers to provide adequate goods and services. Furthermore, the purchasing patterns of our customers located in these regions may suffer if there is an epidemic outbreak. This could negatively impact our operations.

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

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

The competitive environment of the semiconductor industry has led to industry consolidation, and we may face even more intense competition from newly merged competitors or we may seek to acquire a competitor or become an acquisition target.

The highly competitive environment of the semiconductor industry and the high costs associated with manufacturing technologies and developing marketable products have resulted in significant consolidation in the industry and is likely to lead to further consolidation in the future. Such consolidation can allow a company to further benefit from economies of scale, provide improved or more comprehensive product portfolios and increase the size of its serviceable market. Consequently, we may seek to acquire or merge with a competitor to improve our market position and the applications and products we can market. We also

may become a target for a company looking to improve its competitive position. Such an occurrence may take place at any time with consequences that may not be predictable and which could have a materially adverse effect on our results of operations and financial condition or which may otherwise fail to achieve the positive results we anticipate. Even if we do not enter into a merger or acquisition transaction, our competitive position may be adversely impacted by consolidation among other industry participants, who may leverage increased market share and economies of scale to improve their competitive position.

Risks related to our operations

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

Our future success may be dependent on opportunities to enter into joint ventures and to buy other businesses or technologies that could complement, enhance or expand our current business or products or that might otherwise offer us growth opportunities or gains in productivity. If we are unable to identify suitable targets, our growth prospects may suffer, and we may not be able to realize sufficient scale advantages to compete effectively in all relevant markets. We may also face competition for desirable targets from other companies in the semiconductor industry. Our ability to acquire targets may also be limited by applicable antitrust laws and other regulations in the United States, the European Union and other jurisdictions in which we do business. We may not be able to complete such transactions, for reasons including, but not limited to, a failure to secure financing or as a result of restrictive covenants in our debt instruments. Any transactions that we are able to identify and complete may involve a number of risks, including:

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

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

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

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

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

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

limited in some countries, and our trade secrets may be vulnerable to disclosure or misappropriation by employees, contractors and other persons.

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

Our results may suffer if we are not able to match our production capacity to demand.

It is difficult to predict growth in the markets we serve, making it hard to estimate requirements for production capacity. If the market does not grow as we have anticipated, we risk underutilization of our facilities. This may also result in future write-offs of inventories and losses on products for which demand is lower than current forecasts may indicate, and potentially require us to undertake restructuring activities that may involve significant charges to our earnings.

During periods of increased demand we may not have sufficient capacity to meet customer orders. Such constraints affect our customers' ability to deliver products in accordance with their planned manufacturing schedules, straining relationships with affected customers. During periods of industry overcapacity and declining selling prices, customers do not generally order products as far in advance of the scheduled shipment date as they do during periods when our industry is operating closer to capacity.

In the past we have responded to fluctuations in industry capacity and demand by adapting production levels, closing existing production facilities, opening new production facilities or entering into strategic alliances, which in many cases resulted in significant expenditures. We have also purchased an increasing number of processed wafers and packages from semiconductor foundries and subcontractors to meet higher levels of demand and have incurred higher cost of goods sold as a result. In order to expand or reduce our production capacity in the future, we may have to spend substantial amounts, which could hurt our results of operations.

Our business could suffer due to decreases in the volume of demand of our customers.

Our sales volume depends significantly on the market success of our customers in developing and selling end-products that incorporate our products. The fast pace of technological change, difficulties in the execution of individual projects, general economic conditions and other factors may limit the market success of our customers, resulting in a decrease in the volume of demand for our products and adversely affecting our results of operations. This risk is particularly acute in our communications business, in which we also face significant pricing and margin pressures.

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

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

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

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

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

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

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

Our business could suffer from problems with manufacturing.

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

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

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

We outsource production of some of our products to third-party suppliers, including semiconductor foundry manufacturers and assembly and test facilities, and expect that our reliance on outsourcing will increase. If our outside suppliers are unable to satisfy our demand, or experience manufacturing difficulties, delays or reduced yields, our results of operations and ability to satisfy customer demand could suffer. In addition, purchasing rather than manufacturing these products may adversely affect our gross profit margin if the purchase costs of these products are higher than our own manufacturing costs. Our internal manufacturing costs include depreciation and other fixed costs, while costs for products outsourced are based in large part on market conditions. Prices for foundry products also vary depending on capacity utilization rates at our suppliers, quantities demanded, product technology and geometry. Furthermore, these outsourcing costs can vary materially from quarter to quarter and, in cases of industry shortages, they can increase significantly, negatively impacting our results of operations.

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

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

We are subject to the risk of property loss and business interruption.

We may experience property loss or damage or interruptions to our business; including as a result of fire, natural disasters or other disturbance at our facilities or those of our customers or suppliers. We have constructed and operate our facilities in ways that are designed to minimize these risks and to enable a fast return to operations if such an event should occur. We continue to invest in prevention and response measures at our facilities as well as in our supplier relations, and carry insurance in amounts that we believe are adequate. Any such events, however, could have a material adverse affect on our operations or financial results, and any losses may exceed the amounts recoverable under our insurance policies.

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

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

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

As part of our strategy, we have entered into a number of long-term strategic alliances with leading industry participants, both to manufacture semiconductors and to develop new manufacturing process technologies and products. If our strategic partners encounter financial difficulty or change their business strategies, they may no longer be able or willing to participate in these alliances. Some of the agreements governing our strategic alliances allow our partners to terminate the agreement if our equity ownership changes so that a third party gains control of our company or of a significant portion of our company's shares. Our business could be harmed if any of our strategic partners were to discontinue its participation in a strategic alliance or if the alliance were otherwise to terminate. To the extent we rely on alliances and third-party design and/or manufacturing relationships, we face the risks of:

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

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

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

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

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

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

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

We may be adversely affected by rising raw material prices.

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

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

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

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

Like other globally operating technology companies, we rely heavily on information technology systems and networks to support business processes as well as internal and external communications. These systems and networks are potentially vulnerable to damage or interruption from a variety of sources. We have implemented numerous measures in order to manage our risks related to system and network disruptions, including the use of multiple suppliers and sophisticated information technology security to protect highly confidential information. However, despite such precautions, an extended outage in a telecommunications network utilized by our systems or a similar event could lead to an extended

unanticipated interruption of our systems or networks, which could have an adverse effect on our business. Furthermore, any data leaks resulting from information technology security breaches could adversely affect our business operations or reputation.

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

Our future success and financial performance are largely dependent on our ability to successfully implement our business strategy and to achieve sustained profitability. In furtherance of our overall strategy, we have announced plans to restructure our operations to improve our focus on our core business. Those restructuring plans include anticipated further acquisitions of complementary businesses and assets and sales of non-core businesses and assets. Any failure to execute our strategy successfully, including a failure to consummate such acquisitions or dispositions, could have material adverse effect on our operations or financial performance.

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

In the past we have recorded restructuring and asset impairment charges relating to our efforts to consolidate and refocus our business. As we respond to continuing rapid change in the semiconductor industry in order to remain competitive, we may incur additional employee termination and asset impairment charges in the future. Such charges may have a material adverse effect on our business, financial condition and results of operations.

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

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

Our business could suffer if we do not have adequate access to capital.

Although we seek to make optimal use of third-party foundries when appropriate,we require significant amounts of capital to maintain, modernize, expand and build our own facilities. Likewise, we increasingly require significant amounts of capital to fund research and development and advance product platform development.

We used cash in our investing activities of €853 million in the 2006 fiscal year, €867 million in the 2007 fiscal year and €616 million in the 2008 fiscal year. Our research and development expenses were €816 million in the 2006 fiscal year, €768 million in the 2007 fiscal year and €755 million in the 2008 fiscal year. Our capital expenditures in the 2006, 2007 and 2008 fiscal years were €640 million, €498 million and €312 million, respectively. We intend to continue to invest in research and development and manufacturing facilities, while continuing our policy of cooperation with other semiconductor companies to share these costs with us.

In June 2003, we issued €700 million in convertible subordinated notes due 2010, and in September 2007, we issued €215 million in exchangeable subordinated notes due 2010. The convertible notes are convertible into ordinary shares of our company at a conversion price of €10.23 per share. The exchangeable notes are exchangeable into Qimonda ADSs at an exchange price of €10.48 per Qimonda ADS. Given the recent trading price of our ordinary shares and Qimonda ADSs, it is unlikely that a noteholder would convert or exchange its notes for our ordinary shares or Qimonda ADSs, as applicable. Therefore, we may be required to find an alternative source of funds, to repay the outstanding principal and accrued interest on the convertible and exchangeable notes in June and August 2010, respectively.

To the extent that cash from operations is not sufficient to meet our investment and debt repayment needs, we may need to access the equity or debt markets or tap bank credit lines from time to time in the future. We can provide no assurance that we will generate adequate cash from operations or that we will be able to access the financial markets or commercial lending markets as and when needed on favorable terms, or at all. Our ability to access the financial and commercial lending markets, and the terms of any debt or equity financings, will be affected by factors outside our control including general economic and market conditions. A prolonged state of adverse market conditions and the banking crisis may block or limit our access to the capital and debt markets and impair the ability of banks to provide new credit financing and/or honor their lending commitments to us. In addition, the trading price of our shares on the Frankfurt Stock Exchange has recently fallen below €2 per share, which is the nominal value of each of our shares. Generally, we cannot sell shares at a price per share below nominal value. Therefore, for so long as the trading price of our shares remains below €2 per share, we are generally unable to raise capital by issuing new shares, which significantly decreases our ability to raise capital. Inadequate liquidity could materially adversely affect our business, financial condition and results of operations.

Because our ability to raise cash on the financial and commercial lending markets may be limited, we may be required to sell assets to raise cash in order to repay our convertible notes due in June 2010 and our exchangeable notes due in August 2010. Such a sale may involve selling assets that we would not otherwise sell, including assets that we believe are strategically important to develop and implement our business plan, or selling assets at below-market prices. Moreover, there is no guarantee that the proceeds of any asset sales would be sufficient for us to meet our obligations. The failure to meet our obligations under the notes or any of our credit lines, or the required sale of any of our assets, will likely have a material adverse effect on our business, operations and financial condition.

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

As is the case with many other semiconductor companies, our reported expenses have been reduced in recent years by various subsidies received from governmental entities. In particular, we have received, and expect to continue to receive, subsidies for investment projects as well as for research and development projects. We recognized governmental subsidies as a reduction of R&D expenses and cost of sales in an aggregate amount of €54 million in the 2006 fiscal year, €122 million in the 2007 fiscal year and €88 million in the 2008 fiscal year.

As the general availability of government funding is outside our control, we cannot assure you that we will continue to benefit from such support, that sufficient alternative funding would be available if necessary or that any such alternative funding would be provided on terms as favorable to us as those we currently receive.

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

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

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

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

- the overall cyclicality of, and changing economic and market conditions in, the semiconductor industry, as well as seasonality in sales of consumer products in which our products are incorporated;
- our ability to scale our operations in response to changes in demand for our existing products and services or demand for new products requested by our customers;
- intellectual property disputes, customer indemnification claims and other types of litigation risks;
- the gain or loss of a key customer, design win or order;
- the timing, rescheduling or cancellation of significant customer orders and our ability, as well as the ability of our customers, to manage inventory;
- additional changes in accounting rules, such as the change requiring the recording of expenses for employee shares options and other stock-based compensation expense, which commenced in the 2006 fiscal year, and
- adverse developments with respect to Qimonda.

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

Removal of our shares from the DAX 30 or the Philadelphia Stock Exchange Semiconductor Sector Index could cause the market price of our securities to drop significantly.

Our shares have been included in the DAX 30 since June 2000 and in the Philadelphia Stock Exchange Semiconductor Index ("SOX") since December 2004. The DAX 30 is a market-capitalization weighted index and the SOX is a price-weighted index. Our shares could be removed from the DAX 30 or the SOX if our shares were to trade below a certain price for a sustained period of time. Certain investors will only invest funds in companies that are included in one of these indexes. Any such removal or the announcement thereof could cause the market price of our shares to drop significantly.

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

Our results of operations can be hurt by changes in exchange rates, particularly between the Euro and the U.S. dollar or the Japanese yen. In addition, the balance sheet impact of currency translation adjustments has been, and may continue to be, material. Further information on foreign currency derivative and transaction gains and losses can be found in the section headed "Operating and Financial Review — Qualitative and Quantitative Disclosure about Market Risk — Foreign Exchange and Interest Risk".

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

Effective internal controls are necessary for us to provide reasonable assurance with respect to our financial reports and to effectively prevent financial fraud. Pursuant to the Sarbanes-Oxley Act, we are required to periodically evaluate the effectiveness of the design and operation of our internal controls. Internal control over financial reporting may not prevent or detect misstatements because of inherent limitations, including the possibility of human error or collusion, the circumvention or overriding of controls,

or fraud. If we fail to maintain an effective system of internal controls, our business and operating results could be harmed, and we could fail to meet our reporting obligations, which could have a material adverse effect on our business and the share price.

Changes in tax regulations could result in lower earnings and cash flows.

We operate in numerous countries throughout the world, and therefore are subject to numerous tax regimes. Changes in tax regulations in any applicable jurisdiction could result in higher tax expenses and payments, and could adversely impact our tax liabilities and deferred tax assets.

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

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

A number of environmental requirements in the European Union, including some that have only recently come into force, affect our business. These requirements include:

- a directive that imposes a "take-back" obligation on manufacturers to finance the collection, recovery and disposal of electrical and electronic equipment. Because of unclear statutory definitions and interpretations in individual member states, we are unable at this time to determine in detail the consequences of this directive for us.
- an European legislation that restricts the use of lead and other hazardous substances in electrical and electronic equipment.
- Directive, that restricts the use of hazardous substances in automotive vehicles.
- a directive that describes ecodesign requirements for energy-using products, including information requirements for components and sub-assemblies.
- the European regulatory framework for chemicals, called REACH, which deals with the registration, evaluation, authorization and restriction of chemicals.
- a recent directive on environmental liability with regard to the prevention and remedying of environmental damage.

These requirements are partly under revision by the European Union and their potential impacts cannot currently be determined in detail.

In addition, the Chinese government restricts the use of lead and other hazardous substances in electronic products. Because not all implementing measures are in place, the consequences for our company cannot currently be determined in detail. Similar regulations or substance bans are being proposed or implemented in various countries of the world. We are not able at this time to estimate the amount of additional costs that we may incur in connection with these regulations.

As with other companies engaged in similar activities, we face inherent risks of environmental liability in our current and historical manufacturing locations. Costs associated with future additional environmental compliance or remediation obligations could adversely affect our business. For a further description of environmental issues that we face see "Business — Environmental Protection and Sustainable Management".

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

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

We record a provision for litigation risks when it is probable that a liability has been incurred and the associated amount can be reasonably estimated. We maintain liability insurance for certain legal risks at

levels our management believes are appropriate and consistent with industry practice. We may incur losses relating to litigation beyond the limits, or outside the coverage, of such insurance and such losses may have a material adverse effect on the results of our operations or financial condition, and our provisions for litigation-related losses may not be sufficient to cover our ultimate loss or expenditure. An unfavorable resolution of a particular lawsuit could have a material adverse effect on our business, operating results, or financial condition. For additional information with respect to legal proceedings, see "Business — Legal Matters".

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

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

In April 2003 we received a request for information regarding DRAM industry practices from the European Commission (the "Commission") and in May 2004 we received a notice of a formal inquiry into alleged DRAM industry competition law violations from the Canadian Competition Bureau. We are cooperating with the Commission and the Canadian Competition Bureau in their inquiries.

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

In connection with these matters as well as for legal expenses relating to the securities class action described in "Business — Legal Matters" and in accordance with U.S. GAAP, as of September 30, 2008 Infineon Logic had accrued liabilities in the amount of €37 million, and Qimonda had accrued liabilities in the amount of €36 million. Because these matters remain ongoing, we cannot predict at this time whether the reserves will be adequate to cover any further potential liabilities that may be incurred.

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

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

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

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

On October 21, 2008, we learned that the European Commission had commenced an investigation involving our Chip Card & Security segment for alleged violations of competition laws. This investigation is in the very early stages. We are assessing this situation and will continue to monitor the investigation carefully. If the European Commission were to find that our Chip Card & Security segment violated European Union competition laws, the fines and penalties that would likely be imposed on us could be substantial and would be expected to have a material adverse effect on our business, operations and financial condition.

We might be faced with product liability or warranty claims.

Despite extensive quality assurance measures, such as our Automotive Excellence program, there remains a risk that defects may occur in our products. The occurrence of such defects — particularly in consumer areas and areas in which personal injury could result, such as our automotive business group — could give rise to warranty claims or to liability for damages caused by such defects. We could also incur consequential damages and could, moreover, experience limited acceptance of our products in the market. In addition, customers have from time to time notified us of potential contractual warranty claims in respect of products supplied by us, and may do so in the future. These matters could have a material adverse effect on our business and financial condition.

Additional risks related to Qimonda

As the majority shareholder in Qimonda, we will continue to be negatively impacted by any further adverse developments in the business of Qimonda.

Because we will continue to fully consolidate the financial results of Qimonda as discontinued operations in our consolidated financial statements for so long as Infineon remains the majority shareholder of that company, fluctuations in Qimonda's results of operations will be reflected in our operating results. Our consolidated results of operations will therefore be significantly affected by the success or failure of the management of Qimonda and, although we will have control over Qimonda for so long as we remain its majority shareholder, we will not have the ability to direct its operations on a day-to-day basis. Our ability to realize cash from any further sales of Qimonda securities held by Infineon will be substantially dependent on the market performance of Qimonda's stock, which will in turn depend on the business success of Qimonda and the development of the market for semiconductor memory products, both of which are substantially outside our control.

Market prices for DRAM have experienced extremely significant declines since the beginning of the 2007 calendar year. As a result of this intense pricing pressure, Qimonda continued to incur significant losses during the 2008 fiscal year, which are reflected in "income (loss) from discontinued operations, net of tax" in our consolidated statements of operations. During the 2008 fiscal year, we also recorded material write-downs to the carrying value of Qimonda's assets to reflect them at current fair value less costs to sell, in accordance with SFAS No. 144, "*Accounting for the Impairment or Disposal of Long-lived Assets*". We currently do not intend to make any further capital contributions to Qimonda and have repeatedly announced that we are seeking to dispose of our remaining 77.5 percent interest in that company. We continue to pursue all potential strategic alternatives for the disposal of our remaining interest in Qimonda, but can provide no assurance that we will be successful in this regard.

On November 7, 2008, the New York Stock Exchange ("NYSE") notified Qimonda that it was not in compliance with the NYSE's continued listing standards because the average closing price of its ADSs had been below $1.00 over a consecutive 30-day trading period. Over the 12-month period ended November 19, 2008, Qimonda's share price fell 98 percent, from $8.62 to $0.11. Qimonda has notified the NYSE that it intends to regain compliance with this listing standard. If Qimonda cannot do so by May 7, 2009, however, the NYSE has indicated that it will commence suspension and delisting procedures against Qimonda.

Qimonda may be unsuccessful in its ongoing strategic and operational efforts to improve its financial position. If Qimonda is unable to continue to meet its obligations as they come due, Infineon could be exposed to material liabilities related to the Qimonda business, and the operating results and financial condition of Infineon could be materially and adversely affected.

In order to address the ongoing adverse market conditions in the memory products industry and to better enable it to meet its current obligations in the short term, Qimonda has intensively explored operational and strategic alternatives to raise and conserve cash. In furtherance of these goals, on October 13, 2008, Qimonda announced a global restructuring and cost-reduction program that is intended to reposition Qimonda in the market and substantially increase its efficiencies through a wide-ranging realignment of its business. As a part of this program, Qimonda also announced that it had agreed to sell its 35.6 percent interest in Inotera Memories Inc. to Micron Technology, Inc. for $400 million in cash (approximately €296 million). The transaction was completed in November 2008. Additionally, on December 21, 2008, we, the German Free State of Saxony, and Qimonda jointly announced a financing package for Qimonda. This proposed transaction is described under "Operating and Financial Review — Recent Developments Related to Qimonda". Qimonda has announced that it intends to use the proceeds from this joint investment and the sale of the assets described above to fund its operations in the short-term, including the development of its Buried Wordline technology.

During the 2008 fiscal year, we committed to a plan to dispose of our interest in Qimonda. We remain committed to this plan to dispose of our interest in Qimonda. Accordingly, Infineon has classified the assets and liabilities of Qimonda as held for disposal in accordance with SFAS 144, "*Accounting for the Impairment or Disposal of Long-lived Assets*", and recorded the write-downs of Qimonda's assets described above totaling €1,303 million. The net book value of the Qimonda disposal group in our consolidated balance sheet as of September 30, 2008 has been recorded at the estimated fair value less costs to sell of Qimonda in accordance with SFAS No. 144. Upon disposal of Qimonda, in accordance with IFRS, we would also realize losses related to unrecognized currency translation effects for the Qimonda disposal group which are recorded in equity. As of September 30, 2008, the amount of such losses recorded in shareholders' equity under IFRS totaled €187 million.

There can be no assurance that the operational and strategic measures described above will enable Qimonda to continue to meet its obligations, or that Qimonda will be successful in implementing any further operational or strategic initiatives to adequately address its financial condition. There can also be no assurance that we will be successful in disposing of our remaining interest in Qimonda. In the event that Qimonda's ongoing operational and strategic efforts fail to generate adequate cash or to result in desired operational efficiencies and resulting cash savings, Qimonda may have difficulty meeting its obligations as they come due. In such a case, our financial condition and results of operations would be materially adversely affected.

In the event that Qimonda were to be unable to meet its obligations, we may be exposed to certain significant liabilities related to the Qimonda business, including pending antitrust and securities law claims, the potential repayment of governmental subsidies received, and employee-related contingencies. Qimonda has accrued approximately €70 million in connection with the antitrust matters and anticipated defense costs in connection with the securities law matters. Given the uncertainty of the timing, nature, scope or success of any specific claim, we are unable to meaningfully quantify our total potential exposure in respect of these matters, but are aware that such exposure, were it to arise, is likely to be material.

Even if we are successful in reducing or eliminating our interest in Qimonda, we will continue to be affected by negative developments in Qimonda's business.

We may conclude a transaction to sell our remaining interest in Qimonda. If we reduce our position to less than 50 percent, as we have announced we intend to do, we will no longer consolidate the results of Qimonda in our group results. If we retain a minority stake, however, we will continue to be exposed to any adverse developments in Qimonda's results.

The memory products business is characterized by particularly intense competition and pricing pressure, which could reduce Qimonda's sales or revenues.

The memory products business is particularly competitive, and has been characterized by rapid technological change, short product lifecycles, high capital expenditures, intense pricing pressure, periods of oversupply and continuous advancements in process technologies and manufacturing facilities. Qimonda competes globally with other major DRAM suppliers, including Samsung Electronics, Inc., Micron Technology, Inc., Hynix Semiconductor, Inc., Elpida Memory, Inc., and Nanya Technology Corporation. Some of Qimonda's competitors have substantially greater capital, human and other resources and manufacturing capacities, more efficient cost structures, higher brand recognition, larger customer bases and more diversified product lines than Qimonda. Competitors with greater resources and more diversified operations may have long-term advantages, including the ability to better withstand downturns in the DRAM market and to finance research and development activities. In addition, unfair price competition, government support or trade barriers by or for the benefit of its competitors would adversely affect Qimonda's competitive position.

Increased competitive pressure or the relative weakening of Qimonda's competitive position could continue to materially and adversely affect Qimonda's and our business financial condition and results of operations.

Qimonda's business would continue to suffer if it does not have adequate access to capital.

Qimonda may continue to experience difficulties in raising the amounts of capital required for its business on acceptable terms due to a number of factors, such as general market and economic conditions, inadequate cash flow from operations or unsuccessful asset management. Our business may be hurt if Qimonda is not able to make necessary capital expenditures and finance necessary research and development activities.

Sale of Bulk Acoustic Wave ("BAW") Filter Business

In June 2008, we entered into a definitive agreement with Avago Technologies Ltd. ("Avago") to sell our bulk acoustic wave filter business ("BAW") for approximately €21 million in cash. BAW develops bulk acoustic wave filters for cellular duplexers and GPS applications. The transaction closed in August 2008.

Employees

We employed a total of 29,119 employees as of September 30, 2008 (excluding 12,224 Qimonda employees). For a further description of our workforce by location and function over the past three years, see "Operating and Financial Review — Employees".

A significant percentage of our employees, especially in Germany, are covered by collective bargaining agreements determining remuneration, working hours and other conditions of employment, and are represented by works councils. Works councils are employee-elected bodies established at each location in Germany and also at the parent company-wide level (Infineon Technologies AG). Furthermore, works councils exist at our subsidiaries in Austria and France (including ALTIS). In Germany, works councils have extensive rights to notification and of codetermination in personnel, social and economic matters. Under the German Works Constitution Act ("*Betriebsverfassungsgesetz*"), the works councils must be notified in advance of any proposed employee termination, they must confirm hirings and relocations and similar matters, and they have a right to codetermine social matters such as work schedules and rules of conduct. Management considers its relations with the works councils to be good. The members of the senior management of Infineon Technologies AG are represented by a senior management committee ("*Sprecherausschuss*").

In October 2005, the relevant union organized a work stoppage in connection with our plans to shut down our Munich-Perlach facility. This work stoppage lasted one week and was ended following an agreement to financially compensate those employees whose contracts were not continued following the closing of this manufacturing facility in March 2007. Other than this incident, we have not experienced any labor disputes resulting in major work stoppages in the last three fiscal years.

Within the scope of Infineon's IFX10+ cost-reduction program, adjusting Infineon's manpower capacities has proven to be inevitable. Approximately 10 percent of Infineon Logic's worldwide workforce is expected to be impacted by IFX10+.

Since the primary objective is to avoid redundancies for operational reasons, and as a first step towards improving business results as quickly as possible, Infineon has offered a limited-term, voluntary severance bonus based on a voluntary severance agreement for German locations except Dresden. At the same time, Infineon has entered into negotiations with the central works council on a reconciliation of interests and a social plan. Human resources measures resulting from these agreements may include, for example, severance pay, partial retirement arrangements, internal transfer, reductions of temporary and other external staff.

Legal Matters

Pending Matters

We and Qimonda are the subject of a number of governmental investigations and civil lawsuits which are described in detail in note 34 to our consolidated financial statements, included elsewhere in this annual report.

In addition, we are involved in a dispute with Dr. Ulrich Schumacher, our former CEO. In March 2006, Dr. Schumacher filed a lawsuit against us alleging that three statements made by the Chairman of our Supervisory Board in the media were incorrect and applying for a declaratory judgment that Dr. Schumacher was entitled to damages. That lawsuit is still pending.

EXHIBIT 2

Submitted with the Declaration of Peter J. Macdonald

Blair v. Infineon Technologies AG, C.A. No. 09 Civ. 295

ONE COMPANY
THREE FOCUS AREAS
FIVE TARGET MARKETS

Infineon Technologies
Annual Report 2008

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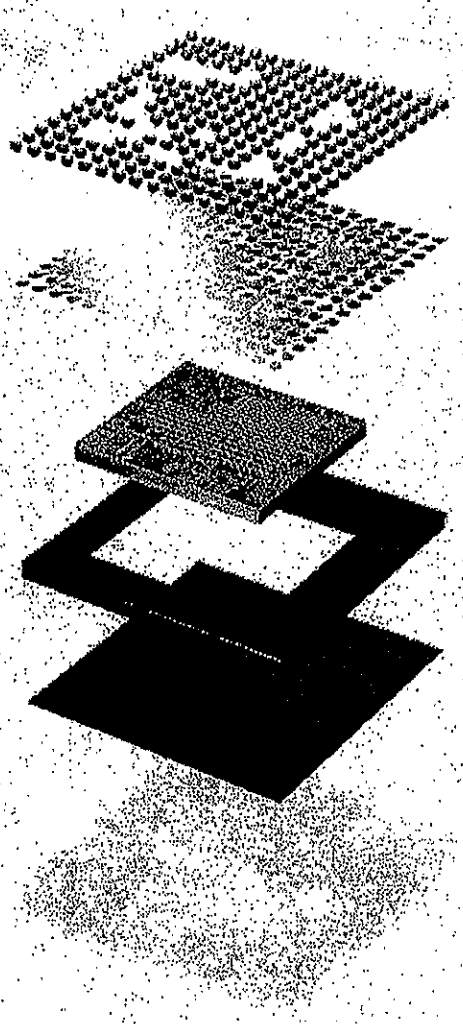

Operating and Financial Review for the 2008 Fiscal Year

IMPORTANT NOTE

This discussion and analysis of our consolidated financial condition and results of operations should be read in conjunction with our audited consolidated financial statements and other financial information included elsewhere in this annual report. Our audited consolidated financial statements have been prepared on the basis of a number of assumptions more fully explained in Note 1 (Description of Business and Basis of Presentation) and Note 2 (Summary of Significant Accounting Policies) to our audited consolidated financial statements appearing elsewhere in this annual report.

This report combines the operating and financial review of Infineon Technologies AG and subsidiaries ("Infineon" or "the Company") with the operation and financial review of the stand-alone entity Infineon Technologies AG. Effective May 1, 2006, substantially all of the memory products-related assets and liabilities, operations and activities of the Company were contributed to Qimonda AG ("Qimonda"), a standalone legal company. References in these financial statements to "Infineon Logic" refer to the Company excluding Qimonda.

This operating and financial review contains forward-looking statements. Statements that are not historical facts, including statements about our beliefs and expectations, are forward-looking statements. These statements are based on current plans, estimates and projections. Forward-looking statements speak only as of the date they are made, and we undertake no obligation to update any of them in light of new information or future events. Forward-looking statements involve inherent risks and uncertainties. We caution you that a number of important factors could cause actual results or outcomes to differ materially from those expressed in any forward-looking statement. These factors include those identified under the heading "Risk Report" and elsewhere in this annual report.

OVERVIEW OF THE 2008 FISCAL YEAR

In our 2008 fiscal year, which ended September 30, the global economy slowed substantially compared with our prior fiscal year. This slow-down was intensified by the deepening crisis in financial markets, by major corrections in housing markets in a number of major economies, and by surges in commodity prices. Global semiconductor market growth was in the low single-digits compared to market volume in the prior fiscal year.

The following were the key developments in our business during the 2008 fiscal year:

FINANCIAL RESULTS

- Despite unfavorable currency exchange rates and pricing pressure, we were able to increase overall net sales in our logic segments during the 2008 fiscal year. Net sales in our Automotive, Industrial & Multimarket segment declined slightly. This resulted mainly from the deconsolidation of our high power bipolar business in the first quarter of the 2008 fiscal year as a consequence of the formation of a joint venture with Siemens AG ("Siemens") and the sale of our hard disk drive ("HDD") business to LSI Corporation ("LSI"). Excluding these effects, and despite significant pricing pressure, this segment experienced slightly increased net sales in the 2008 fiscal year. Furthermore, during the 2008 fiscal year, net sales of our Communication Solutions segment increased strongly, driven mainly by the wireless business. Overall, net sales of our combined logic segments increased by 6 percent, from €4,074 million in the 2007 fiscal year to €4,321 million in the 2008 fiscal year.
- During the quarter ended March 31, 2008, we committed to a plan to dispose of Qimonda. The results of Qimonda are reported as discontinued operations in our company's consolidated statements of operations for all periods presented, and the assets and liabilities of Qimonda have been reclassified as held for disposal in the consolidated balance sheets for all periods presented. Following this reclassification, Qimonda has been remeasured to its current fair value less costs to sell for each period thereafter, resulting in write-downs of €1,303 million, which have been recorded in "Loss from discontinued operations, net of tax". With this reclassification, the individual line items in Infineon's consolidated statements of operations, including "Net sales", reflect Infineon's continuing operations without

It is very important to Infineon to protect highly confidential information from the risk of compromising confidentiality. Sophisticated encryption technology is used to store and transfer all highly confidential information. The most sensitive data is stored and processed in entirely isolated networks.

Human Resource Risks

One of our key success factors is to obtain and retain the required number of qualified employees. However, we are exposed to the general risks associated with employee turnover. Therefore, it is important to offer attractive working conditions in order to hire the desired employees and to keep them through motivational leadership.

The instruments we use for personal development and qualification help to ensure that we meet our present and future personnel requirements. We continuously use dedicated training programs to foster and broaden technical and personal skills.

Addressing rising risks in the current market environment, Infineon Logic has implemented its cost-reduction program IFX10+ in the third quarter of the 2008 fiscal year. Approximately 10 percent of Infineon Logic's workforce worldwide is expected to be impacted by IFX10+.

Legal Risks

Like other companies in the semiconductor industry, Infineon has been exposed to patent claims, claims relating to alleged defective or faulty products, and claims relating to the alleged infringement of statutory duties. Regardless of the outcome of these claims, we may incur substantial costs in defending ourselves against these claims. Infineon intends to exert substantial efforts in defending itself vigorously against such claims. For more information please refer to the notes to the consolidated financial statements "Litigation and Investigations".

In the area of intellectual property, the company benefits from various cross-license agreements with other companies. The Company aims to increase the number and scope of such cross-license agreements with leading competitors in order to reduce the risk of claims related to patent infringement.

Tax, fair trade and stock exchange regulations can all include additional risks. To mitigate these risks we rely upon the advice of internal and external experts.

Our global business strategy calls for maintaining research and development locations as well as manufacturing sites in various countries around the world. This may be the result of decisions to enhance our cost competitiveness, overcome market entry hurdles or enhance opportunities related to technology development. Therefore, risks could develop based upon negative economic and political developments in our regional markets, changes in laws and policies affecting trade and investment aimed at limiting free trade and varying practices of the regulatory, tax, judicial and administrative bodies in the jurisdictions where we operate, which restrict our entrepreneurial actions.

We use insurance policies to cover risk of liability or losses impacting our results of operations, financial condition and cash flow.

OVERALL INFINEON RISK SITUATION

At no time during the past fiscal year did we become aware of any substantial risks which would have threatened the existence of the Company. In addition, we are not aware of any risks which would reasonably be expected to endanger the existence of the Company.

Additional descriptions relating to risks may be found in the notes to the consolidated financial statements included in this report as well as in the "Annual Report on Form 20-F" filed with the U.S. Securities and Exchange Commission.

EXHIBIT 3

Submitted with the Declaration of Peter J. Macdonald

Blair v. Infineon Technologies AG, C.A. No. 09 Civ. 295

QUARTERLY REPORT OF INFINEON TECHNOLOGIES AG JUNE 30, 2009

Infineon Technologies AG

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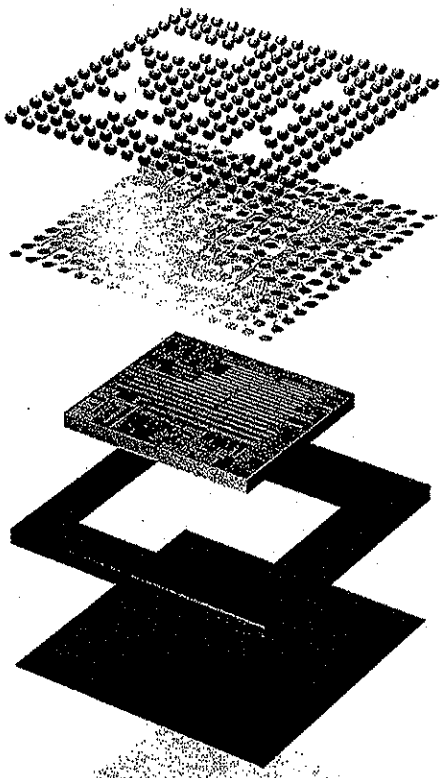

INFINEON TECHNOLOGIES AG

QUARTERLY REPORT
FOR THE THREE AND NINE MONTHS ENDED
JUNE 30, 2009

INDEX

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

	Three months ended June 30,		Nine months ended June 30,	
	2008	2009	2008	2009
	(€ in millions)			
Total Segment Result	52	8	199	(204)
Adjustments:				
Asset impairments, net of reversals	(2)	2	—	1
Restructuring and other related closure costs	(2)	7	(11)	1
Share-based compensation expense	(1)	(1)	(4)	(2)
Acquisition-related amortization and losses	(7)	(6)	(21)	(18)
Gains (losses) on sales of assets, businesses, or interests in subsidiaries	45	(1)	59	(18)
Other expense, net	—	(14)	—	(25)
Operating income (loss)	85	(5)	222	(265)
Financial Income	6	19	37	100
Financial Expense	(37)	(31)	(125)	(119)
Income from investment accounted for using the equity method, net	1	2	3	5
Income (loss) from continuing operations before income tax	55	(15)	137	(279)

Loss from Discontinued Operations, Net of Income Taxes

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

	Three months ended June 30,		Nine months ended June 30,	
	2008	2009	2008	2009 [1]
	(€ in millions)			
Revenue	384	—	1,309	314
Costs and expenses	(645)	—	(2,659)	(867)
Reversal (write-down) of measurement to fair value less costs to sell	(145)	—	(1,587)	460
Expenses resulting from Qimonda's application to open insolvency proceedings	—	(3)	—	(206)
Losses resulting from the realization from accumulated losses related to unrecognized currency translation effects upon deconsolidation	—	—	—	(100)
Loss from discontinued operations, before income taxes	(406)	(3)	(2,937)	(399)
Income tax expense	(23)	—	(35)	—
Loss from discontinued operations, net of income taxes	(429)	(3)	(2,972)	(399)

[1] No further information concerning Qimonda's condensed consolidated statements of operations has been available for the period from January 1, 2009 to January 23, 2009, the date of the application to commence insolvency proceedings. As disclosed below, due to the write-down of Qimonda's net assets to zero as of September 30, 2008, the operating losses of Qimonda for the period from October 1, 2008 to January 23, 2009 did not affect our consolidated net income, but instead were eliminated via an

offsetting partial reversal of previously recorded impairments. Therefore, while the amount of revenue and costs and expenses in the table above exclude amounts for the period from January 1, 2009 to January 23, 2009, the loss from discontinued operations, net of income taxes of €399 million is unaffected.

In the nine months ended June 30, 2008, loss from discontinued operations, net of income taxes, amounted to €2,972 million and included Qimonda's net loss as well as an after tax write-down of €1,587 million in order to remeasure Qimonda to its estimated fair value less costs to sell as of June 30, 2008. During the nine months ended June 30, 2009, loss from discontinued operations, net of income taxes, totaled €399 million. This amount was primarily composed of the realization of accumulated currency translation effects totaling €188 million and provisions and allowances of €206 million resulting from Qimonda's insolvency described above. The realization of accumulated currency translation effects, which were previously recorded in equity, resulted mainly from Qimonda's sale of its interest in Inotera to Micron in November 2008 and the deconsolidation of Qimonda in the second quarter of the 2009 fiscal year. As a result of the insolvency proceedings of Qimonda, we may face potential liabilities and allowances in connection with the Qimonda business, as described further below. The operating losses of Qimonda through deconsolidation, exclusive of depreciation, amortization and impairment of long-lived assets, in the three months ended December 31, 2008 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 costs to sell of zero. Such reversal was recorded due to the fact that Infineon had neither the obligation nor the intention to provide additional equity capital to fund the operating losses of Qimonda.

As a result of the commencement of insolvency proceedings by Qimonda, we are exposed to potential liabilities arising in connection with the Qimonda business. Such potential liabilities include, among others, pending antitrust and securities law claims, potential claims for repayment of governmental subsidies, employee-related contingencies and purported unfair dismissal claims by employees of Qimonda North America. For pending antitrust and securities law claims, we are the named defendant and therefore potentially liable to third parties. Qimonda is required to indemnify us, in whole or in part, for any claim (including any related expenses) arising in connection with these pending antitrust and securities law claims. As a result of Qimonda's insolvency, it is very unlikely that Qimonda will be able to indemnify us for these losses. In addition, as a result of Qimonda's insolvency, Qimonda may not be in compliance with certain requirements of governmental subsidies received prior to the carve-out of Qimonda from Infineon. Depending on the actions of the insolvency administrator, repayment of some of these subsidies could be sought from us. In addition, in our capacity as a former general partner of Qimonda Dresden GmbH & Co oHG ("Qimonda Dresden"), we may also be held liable for certain employee-related contingencies in connection with the insolvency of Qimonda Dresden and certain subsidies received by Qimonda Dresden. Furthermore, we are subject to a pending lawsuit in Delaware in which the plaintiffs are seeking to hold us liable for the payment of severance and other benefits allegedly due by Qimonda North America in connection with the termination of employment in connection with Qimonda's insolvency. In addition, we may be subject to claims by the insolvency administrator under specific German insolvency laws for repayment of certain amounts received by us, as a Qimonda shareholder, for example, payments for intra-group services and supplies, during defined periods prior to the commencement of insolvency proceedings.

Furthermore, we may lose the right to use Qimonda's intellectual property rights under the contribution agreement between us and Qimonda if and to the extent this agreement was successfully voided or otherwise challenged. The insolvency of Qimonda may also subject us to other claims arising in connection with the liabilities, contracts, offers, uncompleted transactions, continuing obligations, risks, encumbrances and other liabilities contributed to Qimonda in connection with the carve-out of the Qimonda business, as it is unlikely that Qimonda will be able to fulfill its obligation to indemnify us against any such liabilities due to its insolvency.

We recorded aggregate provisions and allowances of €206 million as of June 30, 2009, adjusted by €3 million based on a current assessment as of June 30, 2009 compared to March 31, 2009, relating to the amounts which management believes are probable and can be estimated with reasonable accuracy at that time. The recorded provisions are primarily reflected within "Current provisions"; the remainder is recorded within "Long-term provisions". 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. Any disclosure of amounts with respect to specific potential liabilities arising in connection with Qimonda's insolvency could seriously prejudice our position in these matters, and therefore no further information is provided in this regard. No reasonable estimated amount can be attributed at this time to those potential liabilities that may occur but which are currently not viewed to be probable.

In preparing our financial statements for the current and subsequent quarters, we will review the provisions and allowances with respect to these and any new potential liabilities to determine whether any adjustments should be made.

Net Loss

For the three and nine months ended June 30, 2009, we had a net loss of €23 million and €685 million, respectively, a decrease of 94 percent and 76 percent compared to €379 million and €2,863 million in the three and nine months ended June 30, 2008, respectively. In the three and nine months ended June 30, 2008, net loss was significantly impacted by the results from discontinued operations, net of income tax, of negative €429 million and negative €2,972 million, respectively, primarily due to Qimonda's net loss, which resulted from the deterioration in memory product prices and a weaker U.S. dollar, and consequently a significant decrease in Qimonda's gross profit and the write-down of €145 million and €1,587 million to remeasure Qimonda to its estimated current fair value less costs to sell, compared to negative €3 million and negative €399 million in the three and nine months ended June 30, 2009. Furthermore, for the three and nine months ended June 30, 2009, we realized a loss from continuing operations of €20 million and €286 million, respectively, compared to income from continuing operations of €50 million and €109 million in the three and nine months ended June 30, 2008, respectively, a decrease of €70 million and €395 million, respectively. This decline primarily reflected 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.

Financial Condition

	As of		
	September 30, 2008	June 30, 2009	Change
	(€ in millions, except percentages)		
Current assets	4,648	2,048	(56)%
Thereof: Assets classified as held for disposal	2,129	5	(100)%
Non-current assets	2,334	1,989	(15)%
Total assets	6,982	4,037	(42)%
Current liabilities	3,673	1,700	(54)%
Thereof: Liabilities associated with assets classified as held for disposal	2,123	—	(100)%
Non-current liabilities	1,148	633	(45)%
Total liabilities	4,821	2,333	(52)%
Minority interests	70	56	(20)%
Total equity attributable to shareholders of Infineon Technologies AG	2,091	1,648	(21)%
Total equity	2,161	1,704	(21)%

As of June 30, 2009, our current assets decreased by €2,600 million in comparison to September 30, 2008, which is primarily due to the decrease in assets held for disposal of €2,123 million as a result of the deconsolidation of Qimonda. The remaining decrease in current assets primarily related to a decrease of €303 million in trade and other receivables (€22 million in the three months ended June 30, 2009) and a decrease in inventories of €144 million (€22 million in the three months ended June 30, 2009). Trade and other receivables and inventories decreased as a result of lower revenues and successful working capital management. Furthermore, the receipt of €112 million from the German bank's deposit protection fund in the second and third quarter of the 2009 fiscal year and allowances for doubtful accounts recorded on receivables against Qimonda following Qimonda's application to commence insolvency proceedings contributed to the decrease in trade and other receivables.

Our gross cash position, consisting of cash and cash equivalents and available-for-sale financial assets, decreased slightly by €12 million to €871 million as of June 30, 2009, compared to €883 million as of September 30, 2008. The principal factors driving our gross cash position during the nine months ended June 30, 2009 were repurchases of notional amounts of €167 million and €78 million of our exchangeable subordinated notes due 2010 and our convertible subordinated notes due 2010, respectively, for an

IN THE UNITED STATES DISTRICT COURT
FOR THE DISTRICT OF DELAWARE

LAKITA BLAIR, LINDA FRAZIER, BONNIE WRIGHT, CHRISTOPHER SHULL, CHERYL MAXEY, LAWRENCE D. MEYER, JACOB EVANS, CLAUDE EDMONDS, BRIAN CAREY, JOHN EARLE, KATHLEEN HALL, and OLGA VAYSMAN, Individually and as Class Representatives,	)	C.A. No. 09 Civ. 295 (SLR)
Plaintiffs,	)	ECF CASE
v.	)	
INFINEON TECHNOLOGIES AG, INFINEON TECHNOLOGIES NORTH AMERICA CORP., and QIMONDA AG,	)	
Defendants.	)	

DECLARATION OF PETER J. MACDONALD IN FURTHER SUPPORT OF THE MOTION OF INFINEON TECHNOLOGIES AG AND INFINEON TECHNOLOGIES NORTH AMERICA CORP. TO DISMISS THE COMPLAINT, OR, IN THE ALTERNATIVE, TO STAY THE ACTION, OR TO REQUIRE A MORE DEFINITE STATEMENT

Peter J. Macdonald hereby declares, under penalty of perjury, as follows:

1. I am admitted to this Court *pro hac vice*. I am a partner at the law firm of Wilmer Cutler Pickering Hale and Dorr LLP, of counsel to defendants Infineon Technologies AG and Infineon Technologies North America Corp. I submit this declaration in further support of the Motion of Infineon Technologies AG and Infineon Technologies North America Corp. to Dismiss the Complaint, or, in the Alternative, to Stay the Action, or to Require a More Definite Statement.

2. Attached hereto as Exhibit 1 is a true and correct copy of the pages of Infineon Technologies AG, Form 20-F (Dec. 29, 2008) that are referenced in the Infineon

Defendants' Reply Brief. Plaintiffs' Opposition brief refers to the contents of this document at pages 11 and 33 n.22.

3. Attached hereto as Exhibit 2 is a true and correct copy of the pages of Infineon Technologies AG's Annual Report for 2008 that are referenced in the Infineon Defendants' Reply Brief. Plaintiffs quote from this document at pages 10-11 of their Opposition, and in paragraph 31 of their Complaint.

4. Attached hereto as Exhibit 3 is a true and correct copy of the pages of the Infineon Technologies AG, Quarterly Report (June 30, 2009) that are referenced in the Infineon Defendants' Reply Brief.

Executed on December 2, 2009

Peter J. Macdonald

CERTIFICATE OF SERVICE

The undersigned hereby certifies that on December 2, 2009, he caused to be served the Declaration Of Peter J. Macdonald In Further Support Of The Motion Of Infineon Technologies AG And Infineon Technologies North America Corp. To Dismiss The Complaint, Or, In The Alternative, To Stay The Action, Or To Require A More Definite Statement on the following counsel of record by electronic filing:

Michael W. Yurkewicz, Esquire
Klehr, Harrison, Harvey Branzburg & Ellers LLP
919 Market Street, Suite 1000
Wilmington, DE 19801

/s/ Kevin M. Coen
Kevin M. Coen (#4775)

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