INFINEON TECHNOLOGIES AG
Form 6-K
April 30, 2008

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
April 30, 2008
INFINEON TECHNOLOGIES AG
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Indicate by check mark whether the registrant files or will file annual reports under cover of Form 20-F or Form 40-F.

Form 20-F þ Form 40-F o

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

Yes o No þ

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

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This Report on Form 6-K dated April 30, 2008, contains a quarterly report of Infineon Technologies AG for the Company s second quarter and half-year of the 2008 fiscal year.

INFINEON TECHNOLOGIES AG

QUARTERLY REPORT
FOR THE THREE AND SIX MONTHS ENDED
March 31, 2008

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Interim Group Management Report

Important Note

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

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

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

Corporate Activities

With plans for the ultimate disposal and resulting deconsolidation of our investment in Qimonda AG (Qimonda), we classified the assets and liabilities of Qimonda as held for disposal in our condensed consolidated balance sheets, effective March 31, 2008, for all periods presented. Following this reclassification, the investment in Qimonda has been re-measured to its current fair value less costs to sell, resulting in a write-down of 1,004 million, which was recorded in Income (loss) from discontinued operations, net of tax in the second quarter of the current fiscal year. With this reclassification, the individual line items in Infineon s condensed consolidated statements of operations, including Revenues , reflect Infineon s continuing operations without Qimonda for all periods presented. All results relating to Qimonda are reported in the line item Income (loss) from discontinued operations, net of tax for all periods presented. From now on, the definition of EBIT will exclude Qimonda, and is now being referred to as Infineon EBIT . In addition, earnings per share as well as the statements of cash flows differentiate between continuing and discontinued operations for all periods presented.

In October 2007, we completed the acquisition of the mobility products business of LSI Corporation (LSI) in order to further strengthen our activities in the field of communications. The mobility products business designs semiconductors and software for cellular telephone handsets.

In November 2007, we closed a joint venture agreement with Siemens AG (Siemens), whereby we contributed all assets and liabilities of our high power bipolar business into a newly formed legal entity called Infineon Technologies Bipolar GmbH & Co. KG (Bipolar) and Siemens subsequently acquired a 40 percent interest in Bipolar. We realized a gain of 28 million from the sale.

In March 2008, we entered into a definitive agreement, under which LSI will acquire Infineon s hard disk drive (HDD) business. The HDD business designs, manufactures and markets semiconductors for HDD devices. We will transfer our complete HDD activities, including customer relations as well as know-how to LSI, and we will grant LSI a license for intellectual property. The transaction does not encompass the sale of significant assets or transfer of employees, and closed on April 25, 2008. We expect to record a gain of approximately 40 million for the sale of the HDD business.

In December 2007, our Supervisory Board appointed Dr. Marco Schröter as Chief Financial Officer and Labor Director. Dr. Marco Schröter took office on April 1, 2008, succeeding Peter J. Fischl, who retired.

Financial Results

For the second quarter of the 2008 fiscal year, net sales for Infineon were 1,049 million, a decrease of 41 million or 4 percent from 1,090 million in the previous quarter, and an increase of 71 million or 7 percent from 978 million in the same quarter last year. In the six months ended March 31, 2008, net sales increased year-on-year by 10 percent from 1,936 million to 2,139 million.

Infineon EBIT in the second quarter of our fiscal year 2008 was 36 million, compared to negative 29 million for the same quarter last year and 65 million in the previous quarter. Infineon EBIT improved significantly from negative 36 million to 101 million in the six months ended March 31, 2007 and 2008, respectively.

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For the second quarter of our 2008 fiscal year, we reported a net loss of 1,371 million, and basic and diluted loss per share of 1.82, compared to a net loss of 11 million and basic and diluted loss per share of 0.01 for the same quarter last year. For the six months ended March 31, 2008, we realized a net loss of 1,767 million and basic and diluted loss per share of 2.35, compared with net income of 109 million and basic and diluted earnings per share of 0.15 for the six month ended March 31, 2007.

Our company s net cash used in operating activities from continuing operations was 116 million for the six months ended March 31, 2007, improving to net cash provided by operating activities from continuing operations of 124 million for the six months ended March 31, 2008.

Product and Technology Developments

We achieved a design win at Volkswagen AG (Volkswagen) for our 16-bit microcontroller for use in automotive body and convenience electronics. Volkswagen will use the XC2200 family microcontroller starting with model year 2009 cars that are based on the Golf platform, to provide greater gateway capabilities in automobile body and convenience electronics and support the increasing networking and communication requirements between individual automotive subsystems.

Focusing on energy efficiency, we developed our HybridPACK 1 power module solution for automotive hybrid applications. We recently had a design win for a mild hybrid platform with our HybridPACK1 at a major car manufacturer.

The Korean mobile phone manufacturer Samsung Electronics, Inc., (Samsung) chose our HSDPA platform XMM™6080 for its new family of HEDGE mobile handsets. Our platform includes the HSDPA/EDGE baseband, power management and a single-chip 3.5G RF transceiver and is complemented by our protocol stack for HEDGE phones. We have already started volume shipments of our HSDPA platform. The Samsung HEDGE phones with the HSDPA platform XMM™6080 are expected to be available in the second quarter of the 2008 calendar year.

We shipped more than 50 million Radio Frequency (RF)/baseband single-chip solutions through the end of the 2007 calendar year, having started ramp in the first quarter of the 2006 calendar year. We further extended our leading position in single-chip solutions by sampling our 65 nanometer GSM/GPRS single-chip solution X-GOLD™113 and EDGE single-chip solution X-GOLD™213 in February 2008. Both chips integrate the baseband, RF transceiver, power management unit, and FM radio in one single die.

Net Sales by Segment

	Three months ended March 31,		**Six months ended March 31,**	
	2007	**2008**	**2007**	**2008**
	(in millions)			
Net sales:				
Automotive, Industrial & Multimarket	741	741	1,451	1,484
Communication Solutions	238	302	474	658
Other Operating Segments(1)	50	39	120	77
Corporate and Eliminations(2)	(51)	(33)	(109)	(80)

Total	978	1,049	1,936	2,139

(1) Includes sales of 43 million and 34 million for the three months ended March 31, 2007 and 2008, respectively, and of 99 million and 70 million for the six months ended March 31, 2007 and 2008, respectively, from sales of wafers from Infineon s 200-millimeter facility in Dresden to Qimonda under a foundry agreement.

(2) Includes the elimination of sales of 51 million and 35 million for the three months ended March 31, 2007 and 2008, respectively, and of 109 million and 78 million for the six months ended March 31, 2007 and 2008, respectively, primarily in connection with sales of wafers from Infineon s 200-millimeter facility in Dresden to Qimonda under a foundry agreement, since these sales are not expected to be part of the Qimonda disposal plan.

Automotive, Industrial & Multimarket

In the second quarter of the 2008 fiscal year, the Automotive, Industrial & Multimarket segment reported net sales of 741 million, broadly unchanged compared to the prior quarter, due to the usual seasonal pattern, and unchanged year-on-year. Excluding the effects of currency fluctuations, primarily between the U.S. dollar and the Euro, and acquisitions and divestitures, segment revenues increased 9 percent year-on-year and grew 1 percent sequentially. Net sales in the automotive business increased compared to the prior quarter, despite ongoing weakness in demand from U.S. car manufacturers. In the industrial & multimarket business, net sales decreased, as expected, due to the usual seasonal pattern in the consumer, computing and telecom markets. Demand for high-power products remained strong. The net sales of the security & ASICs business remained broadly unchanged compared to the first quarter of fiscal year 2008, mainly due to continued strong demand in the chip card and security business.

In the six months ended March 31, 2008, the Automotive, Industrial & Multimarket segment reported net sales of 1,484 million, an increase of more than 2 percent compared to the six months ended March 31, 2007. Excluding the effects of the divestiture of the Polymer Optical Fiber (POF) business and the sale of part of our interest in the high-power bipolar business, segment net sales increased by 6 percent. Compared with a relatively weak first half of fiscal year 2007 for the automotive business, net sales increased in the first half of fiscal year 2008. Strong demand in the chip card and security business lead to higher sales in the security & ASIC business. Excluding the impact of the divestiture of the POF and high-power bipolar businesses, the industrial & multimarket business grew due to high demand for high-power products and a higher demand in the consumer, computing and telecom markets.

Communication Solutions

In the second quarter of the 2008 fiscal year, net sales in the Communication Solutions segment were 302 million, down 15 percent compared to the prior quarter and up 27 percent year-on-year. Excluding the effects of currency fluctuations, primarily between the U.S. dollar and the Euro, and the contributions from the mobile phone business acquired from LSI and the DSL Customer Premises Equipment (CPE) activities acquired from Texas Instruments Inc. (TI), segment sales increased 10 percent year-on-year and decreased 15 percent sequentially. In the wireless business, revenues decreased strongly, as expected, driven mainly by typical wireless seasonality and reduced volumes in certain mobile phone projects. As anticipated, revenues in the broadband business stabilized on the low level of the prior quarter.

In the first half of fiscal year 2008 net sales strongly increased compared with the first half of fiscal year 2007, mainly driven by the wireless business, resulting from a strong increase in mobile phone platform shipments and the consolidation of the mobile phone business acquired from LSI. Net sales in the broadband business declined slightly. Weak demand, particularly in the infrastructure business and negative currency effects were partially compensated by additional sales from the consolidation of the DSL CPE business acquired from TI.

Other Operating Segments and Corporate & Eliminations

Net Sales in Other Operating Segments for the three and six months ended March 31, 2007 and 2008 principally reflected sales of wafers from Infineon s 200-millimeter facility in Dresden to Qimonda under a foundry agreement, which are eliminated in the Corporate and Eliminations segment. On November 30, 2007, Qimonda cancelled its foundry agreement with Infineon, effective March 1, 2008.

Net Sales by Region

The following is a summary of net sales by region:

	Three months ended March 31,		Six months ended March 31,	
	2007	2008	2007	2008

	(in millions, except percentages)							
Net sales:								
Germany	224	23%	240	23%	452	23%	460	21%
Other Europe	229	23%	215	20%	443	23%	409	19%
North America	134	14%	137	13%	261	14%	282	13%
Asia/Pacific	328	34%	389	37%	656	34%	848	40%
Japan	51	5%	50	5%	100	5%	104	5%
Other	12	1%	18	2%	24	1%	36	2%
Total	978	100%	1,049	100%	1,936	100%	2,139	100%

For the three and six months ended March 31, 2008, sales by region did not significantly change compared to the three and six months ended March 31, 2007. The absolute and relative increases in the

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share of net sales in Asia/Pacific during the three and six months ended March 31, 2008, compared to the same periods last fiscal year, were mainly due to the acquisition of the mobile phone business from LSI and higher shipments of mobile phone platform solutions to customers in Asia/Pacific in our Communication Solutions segment.

Cost of Goods Sold and Gross Profit

The following table sets forth our cost of goods sold and gross profit for the periods indicated.

	Three months ended March 31,		Six months ended March 31,	
	2007	2008	2007	2008
	(in millions, except percentages)			
Cost of goods sold	663	681	1,305	1,382
% of net sales	68%	65%	67%	65%
Gross Profit	315	368	631	757

The improvement in cost of goods sold as a percentage of net sales for the three and six months ended March 31, 2008 is primarily due to productivity increases, changes in product-mix, and lower idle capacity costs within our Communication Solutions segment.

Research and Development (R&D) Expenses

Our R&D expenses for the periods indicated were as follows:

	Three months ended March 31,		Six months ended March 31,	
	2007	2008	2007	2008
	(in millions, except percentages)			
R&D expenses	186	181	381	387
% of net sales	19%	17%	20%	18%

In the first half of the 2008 fiscal year our R&D expenses increased by 6 million compared to same period last year, mainly due to in-process R&D of 14 million acquired in connection with the mobility business of LSI, which was expensed during the six months ended March 31, 2008, because such amounts are not capitalized under U.S. generally accepted accounting principles, partly offset by savings from the implementation of cost reduction measures.

Selling, General and Administrative (SG&A) Expenses

The following table sets forth our SG&A expenses for the periods indicated.

	Three months ended March 31,		Six months ended March 31,	
	2007	2008	2007	2008
	(in millions, except percentages)			

SG&A expenses	113	136	241	273
% of net sales	12%	13%	12%	13%

SG&A expenses as a percentage of net sales remained relatively unchanged for the three and six months ended March 31, 2008, compared to the three and six months ended March 31, 2007.

Other Items Affecting Earnings

During the 2007 fiscal year, restructuring measures were initiated, mainly as a result of 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. A large portion of these restructuring measures were completed during the 2007 fiscal year, resulting in restructuring charges of 20 million and 22 million for the three and six months ended March 31, 2007. During the three and six months ended March 31, 2008, restructuring charges of 6 million and 9 million, respectively, were recognized as a result of restructuring initiatives.

Other operating income, net for the six months ended March 31, 2008 was 32 million compared to 4 million for the six months ended March 31, 2007. The increase related primarily to a gain of 28 million that resulted from the sale of an interest in our high-power bipolar business during the first quarter of fiscal year 2008.

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Earnings Before Interest and Taxes (EBIT)

EBIT of our segments was as follows:

	Three months ended March 31,		Six months ended March 31,	
	2007	2008	2007	2008
	(in millions)			
Infineon EBIT:				
Automotive, Industrial & Multimarket	59	69	112	162
Communication Solutions	(56)	(29)	(114)	(40)
Other Operating Segments	(5)		(8)	(4)
Corporate and Eliminations	(27)	(4)	(26)	(17)
Total	(29)	36	(36)	101

Infineon EBIT reflects the combined effects of the following developments of our operating segments:

Automotive, Industrial & Multimarket EBIT for the three months ended March 31, 2008 was 69 million compared to 93 million in the first quarter of fiscal year 2008. Net gains or charges included in EBIT for the second quarter of fiscal year 2008 were negligible. Included in the first quarter EBIT was a gain of 28 million from the sale of part of our interest in the high-power bipolar business. EBIT in the automotive business increased compared to the prior quarter, despite ongoing weakness in demand from U.S. car manufacturers. In the industrial & multimarket business, EBIT decreased, as expected, due to the usual seasonal pattern in the consumer, computing and telecom markets. Demand for high-power products remained strong. The results of the security & ASICs business remained broadly unchanged compared to the first quarter, mainly due to continued strong demand in the chip card and security business. EBIT for the segment for the six months ended March 31, 2008 was 162 million compared to 112 million in the same period last fiscal year. Included in EBIT for the first half of fiscal year 2008 was a gain of 28 million from the sale of part of our interest in the high-power bipolar business. Net gains or charges included in EBIT in the six months ended March 31, 2007 were negligible. Excluding the gain from the sale of part of our interest in the high-power bipolar business, EBIT margin improved from 8 percent to 9 percent for the first six months of fiscal year 2007 and 2008, respectively. This increase mainly resulted form changes in product mix.

Communication Solutions EBIT for the second quarter of fiscal year 2008 declined to negative 29 million, compared to negative 11 million in the prior quarter, following the decline in sales. Included in EBIT for the second quarter of fiscal year 2008 was amortization of acquired intangible assets of 5 million relating mainly to the mobile phone business acquired from LSI. Included in EBIT for the first quarter of fiscal year 2008 was a write-off of 14 million for acquired in-process R&D in connection with the acquisition of the mobile phone business of LSI. Also included in EBIT for the first quarter of the 2008 fiscal year was amortization of acquired intangible assets of 9 million relating mainly to the mobile phone business acquired from LSI. EBIT for the six months ended March 31, 2008 compared to the same period last fiscal year improved, driven primarily by the revenue increase and despite the negative impact from currency fluctuations between the U.S. dollar and the Euro. EBIT in the first half of fiscal year 2008 includes a write-off of 14 million of acquired in-process R&D in connection with the acquisition of the mobile phone business of LSI, while net charges for the first half of the 2007 fiscal year were negligible.

Other Operating Segments and *Corporate & Eliminations* Combined, EBIT in the three and six months ended March 31, 2008 was negative 4 million and negative 21 million, respectively, compared to negative 32 million and negative 34 million in the three and six months ended March 31, 2007, respectively. For the three months ended March 31, 2007 and 2008, EBIT for Corporate and Eliminations includes unallocated excess capacity costs of 2 million and 0, respectively, restructuring charges of 20 million and 6 million, respectively, and stock-based compensation expense of 3 million and 1 million, respectively. For the six months ended March 31, 2007 and 2008, Corporate and Eliminations includes unallocated excess capacity costs of 3 million and 0, respectively, restructuring charges of 22 million and 9 million, respectively, and stock-based compensation expense of 6 million and 3 million, respectively.

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Infineon EBIT

Infineon EBIT is determined as follows from the condensed consolidated statements of operations:

	Three months ended March 31,		Six months ended March 31,	
	2007	2008	2007	2008
	(in millions)			
Net income (loss)	(11)	(1,371)	109	(1,767)
Adjust:				
(Income) loss from discontinued operations, net of tax	(49)	1,390	(199)	1,831
Income tax expense	20	7	33	21
Interest expense, net	11	10	21	16
Infineon EBIT	(29)	36	(36)	101

Infineon EBIT in the three and six months ended March 31, 2008 included net charges of 8 million and net gains of 3 million, respectively, compared to net charges of 29 million and 31 million in the three and six months ended March 31, 2007, respectively.

Net gains (charges) recognized in operating segments for the periods indicated were as follows:

	Three months ended March 31,		Six months ended March 31,	
	2007	2008	2007	2008
	(in millions)			
Impairments, restructuring and other related closure costs	(54)	(8)	(53)	(11)
In-process research and development write-offs				(14)
Net gains on sales of assets, businesses, or interests in subsidiaries	3		1	28
Other[1]	22		21	
Net (charges) gains	(29)	(8)	(31)	3

(1) Includes primarily a revision to accrued personnel costs totaling 25 million in the three and six months ended March 31, 2007.

Income (loss) from Discontinued Operations, Net of Tax

Following the reclassification of our investment in Qimonda as held for disposal as of March 31, 2008, we recorded a write-down of 1,004 million, which represents the difference between the carrying value of our interest in Qimonda and its estimated current fair value less costs to sell, in income (loss) from discontinued operations, net of tax. Additionally, income (loss) from discontinued operations for the three and six months ended March 31, 2008, includes Infineon s share in Qimonda s net loss of 482 million and 1,080 million, respectively, and for the three and six months ended March 31, 2007, Infineon s share in Qimonda s net income of 57 million and 234 million, respectively. Infineon s beneficial ownership interest in Qimonda as of March 31, 2008 was 77.5 percent.

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Financial Condition

	As of September 30, 2007	As of March 31, 2008	Change
	(in millions, except percentages)		
Current assets	8,491	5,947	(30)%
thereof: Assets held for disposal	5,653	3,520	(38)%
Non-current assets	2,318	2,444	5%
Total assets	10,809	8,391	(22)%
Current liabilities	3,473	3,221	(7)%
thereof: Liabilities held for disposal	1,898	1,955	3%
Non-current liabilities	1,389	1,403	1%
Total liabilities	4,862	4,624	(5)%
Minority Interests	1,033	703	(32)%
Shareholders equity	4,914	3,064	(38)%

As of March 31, 2008, our total assets decreased in comparison to September 30, 2007 by 2,418 million, due to a decrease of current assets of 30 percent or 2,544 million. This decrease primarily related to a decrease in assets held for disposal of 2,133, of which 1,004 million was due to the write-down of our interest in Qimonda. The remaining decrease in assets held for disposal primarily relates to changes at Qimonda. Additionally, our gross cash position, representing cash and cash equivalents and marketable securities from continuing operations decreased by 433 million as of March 31, 2008 compared with September 30, 2007, primarily due to cash used for the acquisition of the mobility business of LSI and repayments of short-term bank loans.

The decrease in current assets was partly offset by an increase in non-current assets during the six months ended March 31, 2008 of 126 million. This increase primarily related to an increase of 258 million in intangible assets, net, mainly from additions to intangible assets and goodwill of approximately 281 million from the acquisition of the mobility business of LSI. This increase was partly offset by a decrease in property, plant and equipment of 89 million due to a decrease in net capital expenditures during the six months ended March 31, 2008.

As of March 31, 2008, current liabilities decreased by 252 million compared to September 30, 2007, mainly due to lower trade accounts payable, lower short-term debt, and a decrease in accrued liabilities. Trade accounts payable decreased by 150 million primarily as a result of lower capital expenditures, while the reduction of 72 million of our short-term debt was due to repayments made during the period. Accrued liabilities decreased by 59 million mainly due to the consumption of accrued personnel cost. These decreases were partly offset by increases in liabilities held for disposal of 57 million.

Non-current liabilities increased by 14 million during the six months ended March 31, 2008, primarily due to an increase in long-term debt of 42 million, which was partly offset by a decrease in other liabilities of 20 million.

Liquidity

	Six months ended March 31,	
	2007	2008
	(in millions)	
Net cash (used in) provided by operating activities from continuing operations	(116)	124
Net cash provided by (used in) investing activities from continuing operations	22	(868)
Net cash used in financing activities from continuing operations	(370)	(97)
Net decrease in cash and cash equivalents from discontinued operations	(57)	(197)
Net decrease in cash and cash equivalents	(521)	(1,038)
Effect of foreign exchange rate changes on cash and cash equivalents	(19)	(14)
Depreciation and amortization from continuing operations	314	276
Purchases of property, plant and equipment from continuing operations	(220)	(169)

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Cash provided by operating activities from continuing operations was 124 million during the six months ended March 31, 2008, and resulted primarily from net income from continuing operations of 64 million, which is net of non-cash charges for depreciation and amortization of 276 million and a 14 million charge for in-process R&D acquired from LSI. Cash provided by operating activities was negatively impacted by the change in assets and liabilities of 229 million, primarily resulting from a decrease in trade accounts payable and accrued liabilities of 177 million and an increase in inventories of 31 million.

Net cash used in investing activities from continuing operations increased to 868 million during the six months ended March 31, 2008, from net cash provided by investing activities from continuing operations of 22 million in the six months ended March 31, 2007. The increase was mainly due to higher net purchases of marketable securities of 652 million and a 321 million cash payment for the acquisition of the mobility business of LSI in the first quarter of the 2008 fiscal year. These cash outflows were partially offset by lower purchases of property, plant and equipment of 51 million, and higher proceeds from the sale of businesses and interests in subsidiaries of 30 million resulting from the sale of part of our interest in the high-power bipolar business.

Net cash used in financing activities from continuing operations decreased by 273 million to 97 million for the six months ended March 31, 2008, compared to the six months ended March 31, 2007. During the six months ended March 31, 2007, principal repayments of long-term debt amounted to 700 million, and related primarily to the repayment of convertible notes due in 2007. During the six months ended March 31, 2007, we also received higher repayments from related parties of 305 million, primarily due to Qimonda s repayment of an intercompany loan of 296 million. During the six months ended March 31, 2008, we made repayments of short-term and long-term debt of 120 million, and dividend payments to minority interest holders of 76 million, which were partly offset by proceeds from issuance of long-term debt of 107 million.

Free cash flow from continuing operations, representing cash flows from operating and investing activities from continuing operations excluding purchases or sales of marketable securities, was negative 327 million for the six months ended March 31, 2008, and remained broadly unchanged compared to negative 329 million for the six months ended March 31, 2007.

Accordingly, gross cash position from continuing operations as of March 31, 2008, representing cash and cash equivalents and marketable securities, decreased to 850 million from 1,283 million as of September 30, 2007. Our net cash position from continuing operations as of March 31, 2008, defined as gross cash position less short and long-term debt, was negative 529 million, compared with negative 126 million as of September 30, 2007.

The decrease in cash and cash equivalents from discontinued operations of 57 million and 197 million for the six months ended March 31, 2007 and 2008, respectively, relates to Qimonda.

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Employees

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

	As of September 30, 2007	As of March 31, 2008	Change
Function:			
Production	20,376	19,677	(3)%
Research & Development	5,833	6,313	8%
Sales & Marketing	1,832	1,955	7%
Administrative	1,557	1,594	2%
Infineon	29,598	29,539	
Qimonda	13,481	13,298	(1)%
Total	43,079	42,837	(1)%
Region:			
Germany	10,151	10,115	
Europe	5,564	5,333	(4)%
North America	581	847	46%
Asia-Pacific	13,145	13,082	
Japan	157	162	3%
Other			
Infineon	29,598	29,539	
Qimonda	13,481	13,298	(1)%
Total	43,079	42,837	(1)%

The Infineon workforce did not change significantly from September 30, 2007 to March 31, 2008. The increase of 46 percent in North America primarily relates to employees that joined Infineon as a result of the acquisition of the mobility business of LSI.

Outlook

Industry Environment and Outlook

In the second quarter of fiscal year 2008, the spreading crisis in financial markets has further dampened the global economic outlook. The International Monetary Fund (IMF) in its April World Economic Outlook reduced economic growth forecasts for the major advanced economies compared to its January 2008 update. According to the IMF, the slowdown has been greatest in the advanced economies, particularly in the United States, where the housing market correction continues to exacerbate financial stress. The emerging and developing economies have so far been less affected by financial market turbulence and have continued to grow at a rapid pace, led by China and India, although activity is beginning to moderate in some countries.

The ongoing slowdown in economic growth dampened semiconductor market growth expectations. Major market research companies have reduced their growth prognoses for calendar year 2008. Gartner Inc. further reduced its 2008 global semiconductor market growth prognosis by 3 percentage points to an annual growth rate of 3 percent in its February 2008 forecast, down from 6 percent in the previous forecast. At the same time, Gartner and most of external market researchers slightly increased their growth forecasts for calendar year 2009.

All in all, experts still expect a growing semiconductor market for calendar years 2008 and 2009, albeit for calendar year 2008 at a lower level than projected one quarter earlier.

Outlook for Infineon s Continuing Operations

Although we have hedged a significant portion of the cash flow impact of the weakening exchange rate of the U.S. dollar against the Euro for the 2008 fiscal year, the exchange rate development is still negatively impacting our top-line. For the third quarter of the 2008 fiscal year, we expect revenues to be flat to down slightly compared to the second quarter. We anticipate Infineon EBIT, excluding net gains or charges, will

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decline from the prior quarter s level, but remain positive, with a low single-digit Infineon EBIT margin. In the third quarter, we expect to record a gain of approximately 40 million from the sale of our HDD business to LSI.

In the third quarter of the 2008 fiscal year, we expect revenues in our Automotive, Industrial & Multimarket segment to decline by a low single-digit percentage compared to the second quarter. The expected decline can be attributed predominantly to the ongoing weakening of the U.S. dollar against the Euro and the expected deconsolidation of our HDD business. EBIT margin is expected to be in the range of 8.5 to 9.5 percent, excluding net gains or charges. In addition, we expect to record a gain of approximately 40 million from the sale of the HDD business to LSI. Revenues in the segment s automotive business are expected to remain broadly unchanged compared to the second quarter. Sales in the industrial & multimarket business are anticipated to stay relatively flat. Results in the security & ASICs business are anticipated to decline compared to the prior quarter, largely due to the deconsolidation of the HDD business following its sale to LSI, which is expected to close in the third quarter. In addition, we expect some normalization in demand for chip card ICs.

In the third quarter of the 2008 fiscal year, revenues in the Communication Solutions segment are expected to increase by a mid to high single-digit percentage compared to the prior quarter. This increase reflects mainly the scheduled production ramp-ups of our new HSDPA and EDGE mobile platform solutions. The broadband business is anticipated to remain broadly unchanged compared to the second quarter. EBIT is expected to be approximately negative 25 million, excluding net gains or charges.

In the third quarter, we expect revenues in Other Operating Segments to decline compared to the prior quarter as shipments of wafers out of our 200-millimeter wafer facility to Qimonda will come to an end. Combined, EBIT excluding net gains or charges for Other Operating Segments and Corporate and Eliminations is anticipated to be approximately negative 20 million.

For the full year, we maintain our previously announced outlook for our continuing operations. We currently expect Infineon revenues to increase by a high single-digit percentage year-on-year. Infineon EBIT in the 2008 fiscal year, excluding net gains or charges, is anticipated to be positive with low to mid single-digit Infineon EBIT margin. In the Automotive, Industrial & Multimarket segment, revenues and EBIT excluding net gains or charges are both expected to decline slightly from 2007 fiscal year levels. In the Communication Solutions segment, revenues are anticipated to increase 25 to 30 percent, with low to mid single-digit negative EBIT margin excluding net gains or charges.

Risks and Opportunities

Our company is exposed to a number of risks as a result of the high volatility of the semiconductor business, its international orientation and its wide product range. Such risks include, but are not limited to, trends in demand and prices for semiconductors generally and for our products in particular, the success of our development efforts, both alone and with our partners, the success of our efforts to introduce new production processes at our facilities and the actions of our competitors, the availability of funds for planned expansion efforts, the outcome of antitrust investigations and litigation matters, the effects of currency fluctuations, primarily between the U.S. dollar and the Euro, the success of our disposal plans and/or future decreases in fair value with respect to our interest in Qimonda, as well as the other factors mentioned herein and those described our Annual Report for fiscal year 2007. To minimize the negative impact of these risks, we continuously optimize our company-wide risk and opportunity management system. For more detailed information on risks and opportunities and their potential effect on our business, financial condition or results of operations, please refer to our Annual Report for fiscal year 2007.

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

	March 31, 2007 (millions)	March 31, 2008 (millions)	March 31, 2008 ($ millions)
Net sales	978	1,049	1,658
Cost of goods sold	663	681	1,076
Gross profit	315	368	582
Research and development expenses	186	181	287
Selling, general and administrative expenses	113	136	215
Restructuring charges	20	6	9
Other operating income, net	(4)	(2)	(3)
Operating income		47	74
Interest expense, net	(11)	(10)	(16)
Equity in earnings of associated companies		2	3
Other non-operating income (expense), net	9	(6)	(9)
Minority interests	(3)	(7)	(11)
Income (loss) before income taxes, discontinued operations, and extraordinary loss	(5)	26	41
Income tax expense	(20)	(7)	(11)
Income (loss) from continuing operations	(25)	19	30
Income (loss) from discontinued operations, net of tax	49	(1,390)	(2,197)
Income (loss) before extraordinay loss, net of tax	24	(1,371)	(2,167)
Extraordinary loss, net of tax	(35)		
Net loss	(11)	(1,371)	(2,167)
Basic and diluted (loss) earnings per share from continuing operations	(0.04)	0.03	0.05
Basic and diluted earnings (loss) per share from discontinued operations	0.07	(1.85)	(2.93)

Basic and diluted loss per share from extraordinary loss, net of tax	(0.04)		
Basic and diluted loss per share	(0.01)	(1.82)	(2.88)

See accompanying notes to the unaudited condensed consolidated financial statements.

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

	March 31, 2007 (millions)	March 31, 2008 (millions)	March 31, 2008 ($ millions)
Net sales	1,936	2,139	3,381
Cost of goods sold	1,305	1,382	2,185
Gross profit	631	757	1,196
Research and development expenses	381	387	611
Selling, general and administrative expenses	241	273	431
Restructuring charges	22	9	14
Other operating (income) expense, net	(4)	(32)	(50)
Operating income (loss)	(9)	120	190
Interest expense, net	(21)	(16)	(25)
Equity in earnings of associated companies		2	3
Other non-operating income (expense), net	12	(4)	(6)
Minority interests	(4)	(17)	(28)
Income (loss) before income taxes, discontinued operations, and extraordinary loss	(22)	85	134
Income tax expense	(33)	(21)	(33)
Income (loss) from continuing operations	(55)	64	101
Income (loss) from discontinued operations, net of tax	199	(1,831)	(2,894)
Income (loss) before extraordinay loss, net of tax	144	(1,767)	(2,793)
Extraordinary loss, net of tax	(35)		
Net income (loss)	109	(1,767)	(2,793)
Basic and diluted (loss) earnings per share from continuing operations	(0.08)	0.09	0.14
Basic and diluted earnings (loss) per share from discontinued operations	0.27	(2.44)	(3.86)

Basic and diluted loss per share from extraordinary loss, net of tax	(0.04)		
Basic and diluted loss per share	0.15	(2.35)	(3.72)

See accompanying notes to the unaudited condensed consolidated financial statements.

Infineon Technologies AG and Subsidiaries
Condensed Consolidated Balance Sheets (Unaudited)
September 30, 2007 and March 31, 2008

	September 30, 2007 (millions)	March 31, 2008 (millions)	March 31, 2008 ($ millions)
Assets:			
Current assets:			
Cash and cash equivalents	1,073	227	359
Marketable securities	210	623	985
Trade accounts receivable, net	620	607	959
Inventories	598	616	974
Deferred income taxes	34	28	44
Other current assets	303	326	515
Assets held for disposal	5,653	3,520	5,563
Total current assets	8,491	5,947	9,399
Property, plant and equipment, net	1,462	1,373	2,170
Intangible assets, net	89	347	548
Long-term investments	24	29	46
Restricted cash	77	77	122
Deferred income taxes	446	424	670
Pension assets	60	57	90
Other assets	160	137	217
Total assets	10,809	8,391	13,262
Liabilities and shareholders equity:			
Current liabilities:			
Short-term debt and current maturities	260	188	297
Trade accounts payable	596	446	705
Accrued liabilities	379	320	506
Deferred income taxes	10	10	16
Short-term pension liabilities	5	6	9
Other current liabilities	325	296	468
Liabilities held for disposal	1,898	1,955	3,090
Total current liabilities	3,473	3,221	5,091
Long-term debt	1,149	1,191	1,882
Pension liabilities	88	85	134
Deferred income taxes	23	19	30
Long-term accrued liabilities	22	21	33
Other liabilities	107	87	138

Total liabilities	4,862	4,624	7,308
Minority interests	1,033	703	1,111
Shareholders equity:			
Ordinary share capital	1,499	1,499	2,369
Additional paid-in capital	5,864	5,868	9,274
Accumulated deficit	(2,148)	(3,919)	(6,193)
Accumulated other comprehensive loss	(301)	(384)	(607)
Total shareholders equity	4,914	3,064	4,843
Total liabilities and shareholders equity	10,809	8,391	13,262

See accompanying notes to the unaudited condensed consolidated financial statements.

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Infineon Technologies AG and Subsidiaries
Condensed Consolidated Statements of Shareholders Equity (Unaudited)
For the six months ended March 31, 2007 and 2008
(in millions of euro, except for share data)

	Issued Ordinary shares Shares	Amount	Additional paid-in capital	Accumulated deficit	Foreign currency translation adjustment	Additional minimum pension liability/ Defined benefit plans	Unrealized gains (loss) on securities	Unrealized gains (losses) on cash flow hedges	Total
Balance as of October 1, 2006	747,609,294	1,495	5,828	(1,780)	(127)	(87)	5	(19)	5,315
Net income				109					109
Other comprehensive (loss) income					(55)		(9)	1	(63)
Total comprehensive income									46
Issuance of ordinary shares:									
Exercise of stock options	1,299,052	3	9						12
Stock-based compensation			9						9
Deferred compensation, net			4						4
Balance as of March 31, 2007	748,908,346	1,498	5,850	(1,671)	(182)	(87)	(4)	(18)	5,386
Balance as of October 1, 2007	749,728,635	1,499	5,864	(2,148)	(232)	(45)	(7)	(17)	4,914
Net loss				(1,767)					(1,767)
Other comprehensive (loss) income					(88)		(20)	25	(83)
Total comprehensive loss									(1,850)
Issuance of ordinary shares:									
Exercise of stock options	13,450								
Stock-based compensation			4						4
				(4)					(4)

Adjustment to initially apply FIN 48									
Balance as of March 31, 2008	749,742,085	1,499	5,868	(3,919)	(320)	(45)	(27)	8	3,064

See accompanying notes to the unaudited condensed consolidated financial statements.

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Infineon Technologies AG and Subsidiaries
Condensed Consolidated Statements of Cash Flows (Unaudited)
For the six months ended March 31, 2007 and 2008

	March 31, 2007 (millions)	March 31, 2008 (millions)	March 31, 2008 ($ millions)
Net income (loss)	109	(1,767)	(2,793)
Less: Net (income) loss from discontinued operations	(199)	1,831	2,894
Adjustments to reconcile net income (loss) to cash provided by (used in) operating activities:			
Depreciation and amortization	314	276	436
Acquired in-process research and development			