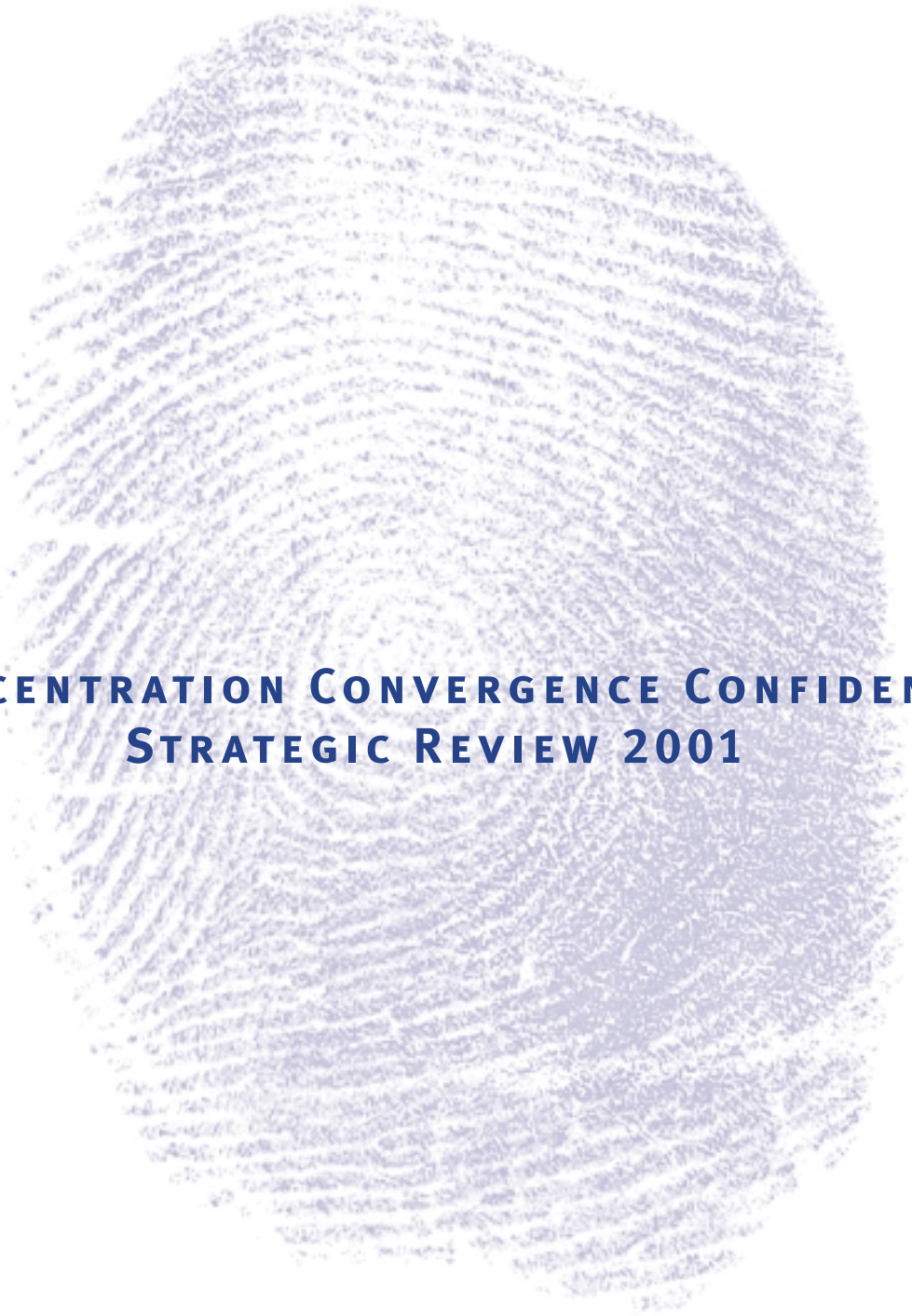


Concentration Convergence Confidence
Strategic Review 2001

Infineon technologies

Never stop thinking.

Concentration

A process focusing on the essentials, designed to make Infineon Technologies fit for the future. Looking ahead to the future, we are focusing our business operations on long-term growing market segments. At the same time, we are bundling our energies in an even more streamlined and flexible organization.

Convergence

A growing number of products and technologies in the fields of electronics and communications are becoming entwined, interconnected and interlinked – resulting in a whole new range of applications. As a catalyst for technological progress and cost reductions, Infineon Technologies is making a significant contribution to the convergence of our knowledge-based society: good prospects for the future of the company.

Confidence

Infineon Technologies is well positioned to take advantage of the next upswing in the semiconductor market – and to operate in the vanguard of the industry. We have complete confidence in our strengths and are optimistic that our long-term strategy will prove to be successful. And we would like to pass this confidence on to our employees, customers, partners, and naturally to the shareholders of Infineon Technologies AG.

Dear Readers

Infineon Technologies is publishing three separate documents which are completely independent from one another in order to provide detailed information about the 2001 fiscal year (1.10.2000–30.9.2001) and the current status of the company. This approach enables us to fulfill the varying demands placed upon us by our shareholders and business partners in the international financial markets. It also provides a basis for us to reduce the considerable costs which arise from producing and distributing the required and additional reports.

To begin with, we are publishing our "Annual Report 2001" in two parts, consisting of the "Strategic Review 2001" and the "Financial Review 2001". The "Financial Review 2001" features the consolidated financial statements of Infineon Technologies for the 2001 fiscal year, as audited and certified by our independent auditing company KMPG. It also encompasses the Management Report, Financial Report, and Notes to the Consolidated Financial Statements as well as the Report of the Supervisory Board and the Independent Auditor's Report. Due to the fact that Infineon shares are listed and traded in the USA, Infineon is publishing a third document, namely the "Annual Report on Form 20-F". This report will be submitted to the U.S. supervisory body SEC (Security and Exchange Commission), and also contains the consolidated financial statements of Infineon Technologies as well as general information about the company, the contents of which are comparable to that included in a stock market prospectus.

We will be happy to send you the other documents on request. Furthermore, the contents of all three printed documents will be available on the Internet in the online information sections for the financial community at http://www.infineon.com/investor.

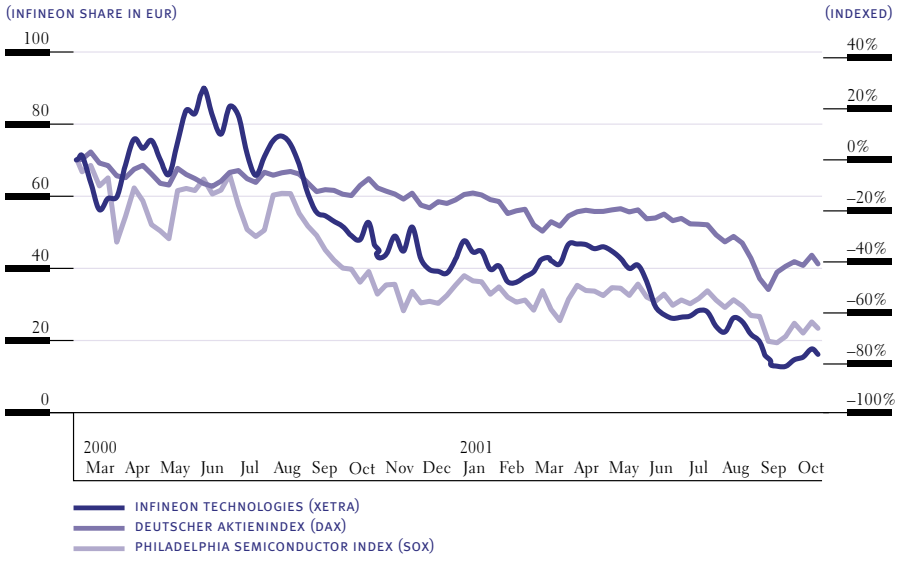
KEY FIGURES

KEY FIGURES
INFINEON TECHNOLOGIES AG AND SUBSIDIARIES

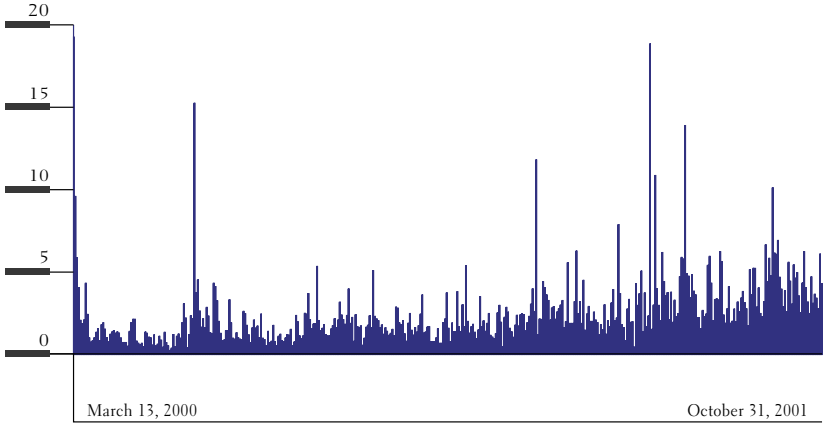
Fiscal year from October 1 to September 30; in million or percent	1999 EUR	2000 EUR	2001 EUR	2001:2000 Change in %	2001 U.S. Dollar[1]
Revenues	4,237	7,283	5,671	–22%	5,160
By Region:					
Germany	29%	22%	31%	+8%	31%
Other Europe	28%	23%	22%	–23%	22%
USA	20%	25%	22%	–30%	22%
Asia/Pacific	21%	29%	23%	–38%	23%
Others	2%	1%	2%	–14%	2%
By Business Group:					
Wireline Communications	12%	9%	14%	+15%	14%
Wireless Solutions	20%	17%	18%	–18%	18%
Security and Chip Card ICs	7%	5%	10%	+57%	10%
Memory Products	33%	48%	28%	–54%	28%
Automotive and Industrial Electronics	16%	12%	19%	+25%	19%
Others[2]	12%	9%	11%	–6%	11%
Gross margin (% of revenues)	29%	44%	14%	–30%	14%
Research and development expenses	739	1,025	1,189	+16%	1,082
Operating income (loss)	–64	1,479	–1,125	–176%	–1,024
Net income (loss)	61	1,126	–591	–152%	–537
EBIT[3]	–13	1,670	–1,024	–161%	–932
Earnings (loss) per share – basic and/or diluted	0.10	1.83	–0.92	–150%	–0.84
Dividend per share (in EUR)	–	0.65	–	n/a	–
Net cash provided by (used in) operating activities	469	2,080	211	–90%	192
Net cash used in investing activities	–918	–2,327	–1,813	+22%	–1,649
Depreciation and amortization	573	834	1,122	+35%	1,021
Purchases of property, plant and equipment	–653	–1,571	2,282	–45%	–2,076
Property, plant and equipment (net)	3,014	4,034	5,233	+30%	4,761
Total shareholders' equity	3,655	5,806	6,900	+19%	6,278
Total assets	6,445	8,853	9,743	+10%	8,865
Equity ratio	57%	66%	71%	+5%	71%
Debt-equity ratio[4]	17%	5%	5%	+/–0%	5%
Net cash (as of September 30)[5]	–537	874	568	–35%	517
Employees (as of September 30)	25,779	29,166	33,813	+16%	33,813

[1] Exchange rate: 1 Euro = 0,9099 U.S.-Dollar (noon buying rate on September 28, 2001).
[2] Consisting of "Other Operating Segments" and "Corporate and Reconciliation".
[3] Earnings before interests, minority interests and taxes.
[4] Equivalent to short-term and long-term debt divided by total shareholders' equity.
[5] Equivalent to cash and cash equivalents plus marketable securities plus restricted cash less short-term and long-term debt.

RELATIVE PERFORMANCE OF INFINEON TECHNOLOGIES,
DAX AND SOX SINCE IPO AT MARCH 13, 2000 (BASIS: WEEKLY CLOSING PRICE)



AVERAGE DAILY TRADING VOLUME OF SHARES (IN XETRA) SINCE IPO IN MILLIONS



Forward-Looking Statements

This 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.

KEY FIGURES, STOCK CHARTS, NOTES

Dr. Ulrich Schumacher
President and
Chief Executive Officer

- Born 1958.
- Married, 3 children.
- Studied of electrical engineering.
- Further education in economics and administration.
- Doctorate in engineering.

Dear Shareholder,

Following our highly successful 2000 fiscal year, the 2001 fiscal year was a particularly difficult one for Infineon Technologies. The dramatic market developments impacting the semiconductor industry during the last 12 months combined with a far-reaching global economic downturn were the decisive factors influencing our business results – and posing major challenges to which we reacted with determination and resolve.

The semiconductor industry achieved a record growth rate in the year 2000, expanding by 37 percent. At the same time, Infineon posted record results for the 2000 fiscal year with a revenue growth of 72 percent and an EBIT of 1.7 billion Euro. However, the 2001 fiscal year was characterized by the most far-reaching market collapse in the history of the semiconductor industry. Instead of posting double-digit growth as originally anticipated, the market for semiconductors actually declined by about 30 percent. This dramatic slump was not foreseen by any market forecasts. Nevertheless, ongoing discussions often tend to overlook the highly favorable mid-term and long-term future growth perspectives for the semiconductor industry. It is important to note that the market for chips has expanded by an annual average of 14 percent over the last forty years. The semiconductor industry will continue to be a strong growth sector and a catalyst for the modernization of the business community and society in general in this Information Age.

The main reason for the downward spiral in the semiconductor market in the past fiscal year was the significant decline in both price and demand in the most important markets which generally drive growth, namely memory products and communications. For the first time since the mid-1970s, the market for PCs is expected to decline in 2001 – posting a drop of 4 percent. Weak demand has been accompanied by a significant drop in prices for DRAM products. The average price for a 128-Megabit memory chip decreased to a level only slightly above one U.S. Dollar in September 2001, compared to 15 U.S. Dollars in September 2000. In addition, following years of unchecked growth, the first slump in demand in the market for mobile communications occurred at the beginning of 2001. The investments committed by telecommunications companies towards expanding their data and voice communications networks also declined, contrary to original forecasts. The level of these investments will drop 5 percent this year compared to an increase of 37 percent in the year 2000. Finally, demand for security and chip card ICs also suffered due to slow growth in the communications market.

This extensive market slump not only resulted in the largest downturn ever recorded in the generally cyclical semiconductor business, but inevitably had a negative

impact on Infineon's business operations. Total revenues dropped about 22 percent to 5.7 billion Euro in the 2001 fiscal year, following record revenues of 7.3 billion Euro in the 2000 fiscal year. The loss before interests, minority interests and taxes was 1 billion Euro, whereas the annual net loss amounted to 591 million Euro. The loss per share in 2001 amounted to 0.92 Euro, compared to a profit per share of 1.83 Euro in the last fiscal year. These negative developments in our company results are mainly the consequence of an intensive price war taking place in the field of memory products – which has led to a fierce competitive "shake-out" among DRAM manufacturers. This was also accompanied by increasing pressure on prices in our communications segments in the second half of the year. A case in point: the decline in the field of mobile communications led to an 18 percent drop in revenues in our Wireless Solutions Business Group.

Although manufacturers of cellular phones and network providers continue to confront unfavorable market conditions, we managed to achieve a revenue growth for all non-memory segments by almost 10 percent in the 2001 fiscal year. The Security and Chip Card ICs Business Group increased revenues by 57 percent, whereas the Automotive and Industrial Electronics Business Group expanded by 25 percent and our Wireline Communications operations by 15 percent.

Concentration – Cost-Cutting Program "Impact"

Infineon reacted with determination to the biggest downturn in demand in the history of the semiconductor industry. Back in July 2001, we developed and announced a comprehensive package of measures entitled "Impact" to cut costs and streamline our business. The aim of "Impact" is to achieve cash savings (including capital expenditures) of over 1.5 billion Euro by the end of the 2002 fiscal year. Following a thorough analysis, we identified far-reaching potential savings and implemented a series of measures. These include considerable reductions in purchasing, information services, overhead, sales and marketing, logistics and research and development. About 70 percent of savings are related to non-personnel issues. At the same time, Infineon has adjusted its level of planned capital expenditures to the difficult market situation. We are concentrating our efforts and investments on important innovations, on our core technological competencies and in consequently raising productivity, for example through the production of chips on 300mm silicon wafers in our Dresden manufacturing plant. Unfortunately, this program also entails unavoidable adjustments in the size of our workforce. Globally, we will reduce the number of employees by about 5,000. By the end of 2001, we will have cut a total of 2,400 jobs, of which 1,900 are abroad and 500 are in Germany.

2001

The resolute and successful implementation of the cost-cutting program "Impact" is a crucial step towards maintaining the innovative strength and productivity of Infineon in a tough business environment, as well as ensuring a solid financial foundation at the same time. Despite difficult market conditions, the successful secondary public offering carried out in July 2001 raised net proceeds of about 1.5 billion Euro and contributed to our targets. Furthermore, the success we had in changing the structure of our portfolio also had a positive impact. In addition, we received more than 650 million Euro by divesting our infrared components business and selling our share in the opto-semiconductor joint venture. Through the measures described above, we are moving forcefully to counteract the prevailing market conditions. We intend to emerge strengthened from the current difficult conditions in the worldwide semiconductor market.

Convergence – Technological Leadership in Increasingly Networked Markets

Despite the challenging market environment, Infineon once again maintained its competitive edge in key target markets and further expanded its technological and cost leadership.

In our Wireline Communications Business Group, we further strengthened our leading position in the markets for fiber optic components, high-speed communications, Internet access and LAN/WAN infrastructure. In particular, we increased our lead in the market for fast optical data transmission networks at 10-Gigabit/second to 40-Gigabit/second. In this segment, we further expanded our technological leadership role with the acquisition of Catamaran Communications. Infineon continues to be in the technological vanguard in introducing high-speed VDSL broadband communications standards. We have also achieved a leading position in building up the UMTS infrastructure.

In the Wireless Solutions Business Group, we systematically expanded our systems competence for GSM and for future mobile communications standards. We now rank among the very few providers of complete systems for mobile telephony, an essential prerequisite for achieving speedy growth for next-generation GPRS and UMTS mobile communications. Infineon is also in the technological vanguard when it comes to producing chips for Bluetooth, the fast wireless transmission technology for short distances.

In the 2000 calendar year, Infineon was the world market leader in producing chips for chip cards, with a market share of 34 percent. We are not only the technological forerunner in existing markets such as mobile communications, Internet access, electronic banking, electronic and mobile commerce, but there is also growing demand for innovative security and authentication systems, including biometric systems such as

our fingertip sensors. Our comprehensive systems expertise – with the most advanced encryption technologies – as well as state-of-the-art security memory products and controllers open up new growth markets.

The Automotive and Industrial Electronics Business Group developed quite favorably. For the first time, our revenues surpassed the level of 1 billion Euro, consolidating our market leadership position as the second largest provider worldwide and the number one in Europe (excluding semiconductors used in car radios). With our cutting-edge systems expertise, we have an outstanding basis for offering comprehensive solutions for automotive electronics in the promising growth market of telematics.

As discussed before, the drastic decline in demand in the memory products market led to a significant drop in revenues and considerable losses in our Memory Products Business Group. Nevertheless, Infineon is in an excellent competitive position, thanks to aggressive downsizing in the structure size of chips, advanced production technologies and our world leadership in manufacturing next-generation chips on 300mm wafers, an approach which we will resolutely pursue. At the same time, we will expand our position in the less volatile target markets for specially-developed memory products and high-performance chips.

Confidence – Well-Equipped for the Future

Infineon has reacted quickly and effectively to the challenging market conditions in the global semiconductor market. On the basis of the cost reduction program “Impact”, which is being currently implemented, combined with a sound financial business base, we are well-equipped to successfully meet the challenges the future will pose. With our broad customer base, our technologies as well as the high potential of our employees, we are well prepared to benefit from the next upswing in the semiconductor industry.

Our corporate motto ‘Never stop thinking’ will continue to guide our activities well into the future. I am convinced that we will assert ourselves and persevere with long-lasting success in an extremely dynamic market. On behalf of the entire Management Board, I would like to express my sincere thanks to all employees for their dedicated involvement and commitment, and to all shareholders for their confidence.

Sincerely yours,

Ulrich Schumacher

The 2001 Fiscal

2001

WORLD MARKET SEMICONDUCTOR INDUSTRY INFINEON TECHNOLOGIES

Broad-based economic stagnation in the USA.

Rise in oil prices affects industrialized countries and quickly leads to a negative impact on private consumption.

The boom in information technologies abruptly comes to an end, resulting in a sharp decline in demand for PCs and thus for memory products.

2.11. In November, the Semiconductor Industry Association (SIA) still reports a 45 percent growth rate in September 2000 for the global semiconductor branch in comparison to figures for September 1999.

At the end of the year, market analysts announce growth in total semiconductor revenues of approximately 33 percent. The DRAM market alone rose 38 percent. In comparison: over the last forty years, the entire industry posted an average annual growth rate of 14 percent.

OCTOBER – DECEMBER 2000*

2.10. The acquisition of U.S. Local Area Network specialist Ardent Technologies on behalf of the Wireless Solutions Business Group is announced and completed in April 2001.

5.10./ 15.12. Infineon acquires a stake in two companies, sci-worx and Ramtron International Corporation, thus gaining access to extensive expertise in the fields of communications and memory technologies.

24.10. Infineon's consumer electronics semiconductor business is sold to Micronas for 250 million Euro.

27.10. Infineon is the first semiconductor company to receive Bluetooth certification for its BlueMoon system solution.

16.11. Infineon opens a development center in Grenoble for fiber optics.

21.11. Infineon ships 100-millionth GSM baseband chipset.

28.11. IBM, Infineon and UMC roll out the first 0.13 micron logic chips. First customer shipments of these higher performing chips for network and computing applications commence in early 2002.

21.12. Infineon and Toshiba announce the joint development of FeRAM, a new memory technology.

* The dates provided generally refer to the day and month a public announcement has been made and not to the actual time the particular event took place.

Year in Review:

HARD TIMES FOR THE SEMICONDUCTOR INDUSTRY

3.1. The Semiconductor Industry Association reports an increase in the global market for semiconductors of 28 percent in November 2000, but notices evidence of weaker growth in the following months.

Chip revenues decline significantly as key customers of the semiconductor industry decide to reduce their excessively large inventories.

16.2. Telecommunications provider Nortel Networks reports an expected fall in profits and announces lay-offs.

20.2. Electronics multinational NEC revises its previous forecasts and projects a drop in profits of 33 percent. The reasons: weak demand for PCs and declining DRAM prices.

26.3. Communications chip manufacturers PMC-Sierra and Conexant Systems adjust their original profit expectations downwards and announce job cuts.

JANUARY – MARCH 2001*

22.1. Infineon demonstrates first samples of 1-Gigabyte DDR modules, which are already validated for AMD-based platforms.

26.1. Infineon's collaboration with IMEC, one of the world's leading independent research and development centers in the field of microelectronics, with headquarters in Brussels, is extended in the area of microelectronic technologies as well as design and system-oriented research.

31.1. Infineon announces an 8 percent increase in first quarter revenues with growth in all non-memory businesses, reporting a 61 percent decline in its memory products business. EBIT is down 45 percent in comparison to the record quarter posted in the period July to September 2000.

5.2. Infineon produces the world's first power semiconductors with silicon carbide schottky diodes, which enable compact switch mode power supplies with low switching losses.

20.2. An innovative baseband IC solution developed by Infineon for GPRS and EDGE mobile phones supports the transition from the second to the third generation of mobile communications.

15.3. Infineon introduces the first chipset to integrate voice and full-rate ADSL Internet services on a single linecard.

19.3. At CeBIT, Infineon presents the first system-on-a-chip solution for multibeam DVD/CD drives.

2001

WORLD MARKET SEMICONDUCTOR INDUSTRY INFINEON TECHNOLOGIES

The market for chip card ICs used for security and banking applications collapses. Investments of the telecommunications industry for wireline solutions are quickly cut back. Network providers cancel orders from suppliers. The global market for PCs declines for the first time in history.

11.4. The price of Intel shares falls rapidly, due to Morgan Stanley's prognosis of a price decline for Pentium 4 microprocessors of up to 45 percent by the end of 2001.

17.4. Cisco Systems, the world's largest networking provider, announces lower than expected profits and revenues as well as plans to cut its workforce by 8,500 people.

23.4. Shares of semiconductor producers are downgraded by Merrill Lynch, on the grounds that the industry's downturn will not reach rock bottom for at least another three months.

April – June 2001*

6.4. The first annual general shareholders' meeting since flotation votes in favor of a one-time dividend payment of 0.65 Euro per share for the record 2000 financial year.

11.4. Infineon expands its presence in two high-growth market segments by introducing the world's fastest DDR memory for 3D graphic applications as well as a new memory chip for fast networking and high-speed cache applications.

23.4. Infineon begins equipping its production lines in Dresden for the world's first 300mm volume production.

24.4. Infineon reports second-quarter revenues in line with previous quarterly revenues, but a significant decline in EBIT.

30.4. Infineon announces the acquisition of the U.S. company Catamaran Communications operating on the optical networking component market.

8.5. Infineon and Saifun establish a joint venture to develop flash memory products.

10.5./ 13.8. A U.S. jury finds Rambus liable for fraud. All patent infringement claims against Infineon are dismissed. Infineon is granted punitive damages.

20.6. Infineon announces third-quarter losses of 600 million Euro due to weak market conditions.

28.6. Vishay acquires Infineon's infrared components business for 140 million Euro.

* The dates provided generally refer to the day and month a public announcement has been made and not to the actual time the particular event took place.

The terrorist attacks in the USA on September 11 represent a setback for the world economy, accelerating the global economic downturn.

According to the latest economic forecasts, the gross domestic product of the industrialized countries is expected to decline by a level of 1.5 percent in the calendar year 2001, compared to a growth rate of 3.7 percent in the year 2000.

12.7. STMicroelectronics reports a 54 percent drop in second-quarter revenues, but is cautiously optimistic for the third quarter.

26.7./27.7. Computer manufacturers Compaq, Fujitsu and NEC radically adjust their earnings forecasts downwards.

6.9. Motorola also announces an expected fall in profits.

20.9. Electronics multinational Philips announces an expected decline in revenues from its semiconductor operations.

July – September 2001*

13.7./19.7. Infineon implements a capital increase through 60 million newly-issued shares at a price of 25 Euro per share. The placement is 3.8 times oversubscribed and results in proceeds of 1.5 billion Euro.

23.7. In the third quarter, Infineon's revenues decline sequentially by 23 percent in comparison to the previous quarter. EBIT decreases to a loss of 598 million Euro, as expected. The Automotive and Industrial Electronics Business Group is the only one posting strong results.

25.7./26.9. As a reaction to ongoing weak market conditions in the high-tech sector, Infineon announces a cost-reduction and streamlining program named "Impact", aimed at achieving significant savings of at least 1 billion Euro within an 18-month period. Capital expenditures are to be radically pruned. In addition, 5,000 jobs are to be cut. The program is launched with quick and far-reaching effects. Starting in October, short-time work schedules are introduced at the company's production facilities in Regensburg and Munich.

14.8. Osram acquires Infineon's stake in their joint venture for opto-semiconductors for 565 million Euro.

16.8. Infineon introduces a triple-band tuner IC, the industry's first single-chip solution for all global terrestrial TV applications.

20.9. With its "my-d" product line, Infineon enters the fast-growing smart label market.

27.9. Infineon has samples of a 32-bit telematics controller available, which optimizes infotainment (Internet and mobile phone) links in automobiles.

The IFX Shares:

2001

Since September 2000, share prices of all chip manufacturers have been on a sharp downslide. Infineon has been no exception. The downturn set in as it became clear that growth expectations for technology markets and stocks had been too high. Falling revenues and earnings in the semiconductor industry caused by the rapid decline in consumer demand – which was initially reflected by the "early warning system" of memory chips for PCs, later on by chips for mobile communications and networking – exerted even more downward pressure on the share prices of the semiconductor manufacturers. Moreover, the global economy deteriorated steadily in 2001: in particular because of slower economic growth in the U.S., the cutbacks in capital spending among businesses, especially in the telecommunications industry, and the slump in semiconductor prices due to overly high inventories.

The consequence: A 72 percent drop in share prices of chip manufacturers and thus of the leading U.S. index, namely SOX (Philadelphia Semiconductor Index), starting at its peak in March 2000 and decreasing until September 2001. At the same time, the DAX, which is the leading German index, dropped 46 percent, a clear sign of the downturn in business confidence.

Dividend of 0.65 Euro per Share for the 2000 Fiscal Year

The excellent results achieved in the previous year made it possible for us to distribute a one-time dividend of 0.65 Euro per share for the 2000 fiscal year in April 2001, amounting in total to 407 million Euro. As announced at the time of Infineon's Initial Public Offering in March 2000, future earnings will be applied to Infineon's further development.

FISCAL YEAR	2000	2001
Stock price performance (Xetra)		
All-time high	EUR 93.60	EUR 58.25
All-time low	EUR 49.50	EUR 11.52
Closing price (end of September)	EUR 54.88	EUR 13.50
Average daily trading volume (thereof in Xetra)	2,304,229 (80 %)	3,121,172 (91 %)
Number of shares and market capitalization		
Shares outstanding (weighted average)	614 m	641 m
Shares outstanding (as of September 30)	625.5 m	693 m
Market capitalization (as of September 30)	EUR 34,327 m	EUR 9,356 m

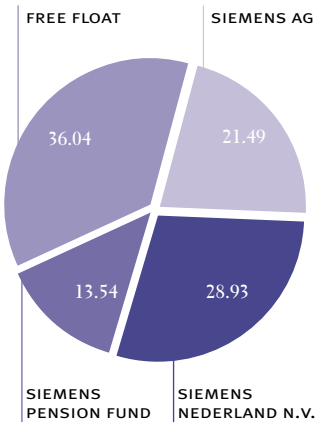
(Source: Bloomberg)

HIGHER WEIGHTING IN MAJOR INDICES.

Successful Capital Increase despite Difficult Market Environment

The number of Infineon shares outstanding increased from 625.5 to 693 million in the 2001 fiscal year. In July 2001, 60 million shares were placed in a secondary public offering at 25 Euro per share. Despite the difficult environment on the capital market, the offering was successful with proceeds of almost 1.5 billion Euro. An additional 7.5 million shares were used in 2001 for the acquisition of the companies Catamaran Communications, Ardent Technologies and Ramtron. The capital increase has provided benefit to the Infineon stock as well. Due to the higher number of shares outstanding and the larger free float, the stock's weighting in major international indices was raised.

SHAREHOLDER STRUCTURE
(AS OF SEPTEMBER 30, 2001)



Concentration:

2001

KEEP IN SHAPE FOR THE UPSWING.

It is a simple truism: no market in the world develops equally in a positive and negative way. Fluctuations in both directions are natural. Every single company has the responsibility to be optimally prepared for fluctuations, and to react quickly should the need arise. Infineon takes this responsibility very seriously. Nevertheless: what to do in the face of an unexpected market collapse? And one which took place more abruptly than ever before! No company in the world can prepare for such a situation on a long-term basis – unless it accepts the inability to profit from sudden, positive developments on the marketplace.

In any case, one thing is sure: lamenting never got anyone anywhere. "When the going gets tough, the tough get going." Infineon has acted. With "Impact", we have initiated a process of concentration not only as a measure taken to cut costs, but also intentionally as a future-oriented program, enabling Infineon to emerge as strong as possible from the current crisis. It must be said that every comparable semiconductor company in the world is facing a similar challenge. It is not only a question of surviving crises, but above all, to be optimally prepared for the following upturn.

Within a short time, Infineon reduced its IT expenditures, pruned investments to a minimum level, restructured its overhead, concentrated its research and development activities on promising fields, limited its purchasing, and also improved and accelerated operational processes in specific departments such as logistics, distribution and marketing. When it comes to Impact, one aspect is particularly crucial: our innovative strength must not be endangered at all. Infineon will remain the technological leader in many market segments and aims to assume even greater cost leadership – goals in which Infineon is continuously investing. A perfect example is our memory chip production: our first 300mm facility in Dresden is ramped up, facilitating a 30 percent decrease in production costs for state-of-the-art DRAMs.

This is precisely what concentration means: even in difficult times, to position the company in such a way, that it can gain momentum without any delay when the market recovers again. Infineon is doing everything in its power to be prepared.

Processes:

2001

Infineon cannot do much to influence the current slackening in demand and the price decline on the semiconductor market. However, we are taking advantage of the lower capacity utilization to make our developmental, manufacturing and logistics processes even quicker and more cost-effective. From the production side, this will provide the basis for being able to react even more flexibly in the future to changing market conditions and customer requirements.

Even before the launch of our fitness program "Impact", we took steps to cut costs. Technologies designed to reduce the size of chips were developed and realized in the production process continuously, and as quickly as possible. At present, we are taking advantage of falling demand to accelerate cycle time and, therefore the processing of customer projects. Furthermore, we are currently able to apply more capacity towards moving development projects ahead as well as towards launching new products and technologies.

Largest Wafers, Smallest Chips, Lowest Costs

In the 2001 fiscal year, Infineon succeeded in initiating pilot mass production in the world's first 300mm manufacturing facility, located in Dresden. This will serve as the basis for Infineon to derive an approximately 30 percent cost reduction for dynamic memory chips (DRAMs) over a longer period. We will ramp up 300mm capacities in Germany as well as in Taiwan and expand them depending on the further market development. Infineon's total costs for DRAMs are at a highly favorable level compared to our competitors. Also in the 2002 fiscal year, we aim to significantly reduce production costs. In October 2001, we already integrated 0.14 micron technology in the 200mm production process – giving us the smallest chip structures in the semiconductor industry. As soon as all DRAM production lines have been completely converted, the 0.14 micron technology will help us achieve an additional 30 percent cost reduction.

Moreover, in the 2002 fiscal year, we will convert our mass production of ICs for cellular phones to our innovative 0.18 micron copper technology and move ahead with the launch of the 0.13 micron generation. This will enable us to considerably reduce the production costs of these logic ICs. At the same time, we are increasing the efficiency of the chips and reducing their power consumption. These improvements once again underline Infineon's technological and cost leadership in the development and production of state-of-the-art semiconductor solutions.

Cycle Time, Speed and Flexibility Are Increased

During the downturn in the semiconductor market in the year 2001, we took a series of fundamental steps to further expand our market position when the next upswing takes place:

- For example, the learning synergies derived from Infineon's integrated developmental and production facilities at different locations are leading to considerable cost savings and give us a competitive edge more quickly.

FASTER, CHEAPER, MORE FLEXIBLE.

Dr. Andreas von Zitzewitz
Member of the
Management Board,
Chief Operating Officer (COO)

- Born 1960.
- Married, 3 children.
- Studied electrical engineering.
- Doctorate in electrical engineering.

We have been able to achieve bottom-line advantages by increasing the flexibility of production capacities at all our locations, which makes it possible to manufacture more products of the same kind parallel to each other as well as to intensity our cooperation with leading contract manufacturing companies – which specialists like to call Silicon Foundries. These measures enable us to adjust logic IC capacities more quickly to changes in demand in the mobile communications, data networking, chip card and automotive sectors.

A milestone in our strategy to increase flexibility is the decision to carry over the developmental results of our two-year cooperation with the Silicon Foundry firm UMC, in our joint venture UMCi. Together with UMC, we are building a 300mm wafer plant in Singapore, to which Infineon will also commit its manufacturing expertise.

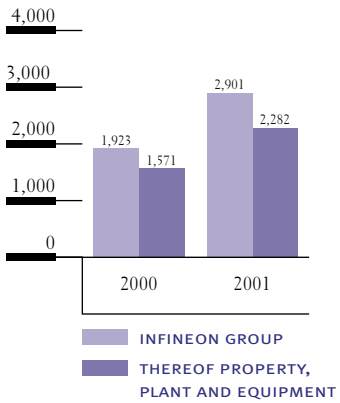
A decisive factor is the level of customer satisfaction, which we are further increasing by introducing a new, electronic logistics system to which our customers will also have access. This is one example of how we are optimizing the entire delivery process, from contract order to actual delivery – in order to be able to achieve maximal delivery power, delivery flexibility and delivery loyalty.

Targeted Investments and Highly Motivated Employees

Planned capital expenditures of 900 million Euro in the 2002 fiscal year will be used to maintain our technological edge and cost leadership, both in regards to the 300mm production process and to copper-based logic ICs production.

In particular, our developmental teams, which developed completely new or improved production and assembly processes as well as the smallest of chip generations, have catapulted Infineon to an outstanding starting point from which the company can succeed during the next economic upswing. Furthermore, in the 2001 fiscal year, our employees submitted more than 22,000 suggestions for improvements – to make business processes faster or more cost-effective – which do not directly involve their own areas of responsibility. Almost 18,000 ideas, 13 percent more than the year before, were put in practice, resulting in an additional savings potential of 53 million Euro.

TOTAL INVESTMENTS
IN EURO MILLIONS



Finances:

2001

We have prescribed a fitness and cost-cutting program for Infineon called Impact, which not only leads to quick, short-term effects, but ensures that the company will benefit from financial flexibility in the long run. At the end of the 2001 fiscal year, Infineon attained a significantly positive net cash position. This was due to the cost-cutting measures as well as to the proceeds derived from the capital increase implemented in July and the divestiture of several businesses.

In the middle of 2001, it became evident that the downturn in demand would continue. For this reason, we developed and initiated a cost reduction program called "Impact". It was designed to bundle all energies in order to identify potential savings throughout the company of at least 1 billion Euro and to quickly implement the necessary measures to attain this goal. Beforehand, we had already taken steps designed to counteract the market downturn. For example, in April 2001, Infineon decided to reduce planned investments in the 2001 fiscal year by 500 million Euro and to cut investments in the 2002 fiscal year by an additional 1 billion Euro. In addition, starting in June 2001, Infineon imposed a hiring freeze to the greatest possible extent.

In order to maintain our cash flow at a stable level in the 2002 fiscal year, we took the additional step of further reducing planned capital expenditures by 600 million Euro to a current volume of 900 million Euro. Furthermore, we are planning to reduce research and development expenses. Nevertheless, it is our intention to continue investing in key strategic projects.

2.4 Billion Euro from Portfolio Optimization and Capital Increase

We restructured our operations portfolio in the 2001 fiscal year in order to more effectively concentrate on our core business, from which Infineon raised 900 million Euro. We received an additional 1.5 billion Euro in proceeds from the issuance of ordinary shares in July 2001. These measures led to a positive net cash position of 568 million Euro in the 2001 fiscal year. This resulted in a positive balance of accounts receivable less debt at the end of the 2001 fiscal year, which was higher than originally expected.

Equity Ratio at 71 Percent at Year's End

Total assets at September 30, 2001, increased during the 2001 fiscal year by 10 percent to over 9.7 billion Euro. Shareholders' equity rose to 6.9 billion Euro. Therefore, the equity ratio reached a level of 71 percent at the end of the 2001 fiscal year, 5 percentage points higher than the year before.

Furthermore, we concluded separate agreements for short-term and long-term credit lines with several financial institutions. From the existing credit lines, there were approximately 1.6 billion Euro available on September 30, 2001.

SOLID NET CASH POSITION.

Peter J. Fischl
Member of the Management Board, Chief Financial Officer (CFO) and Labor Director

- Born 1946.
- Married, 2 children.
- Industrial clerk.

Job Reductions Are Unavoidable

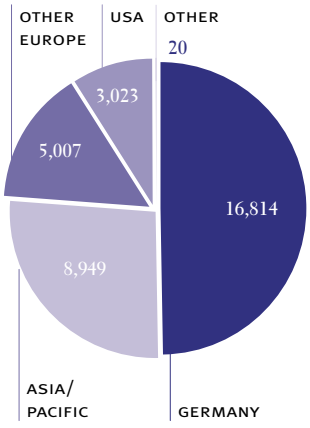
Unfortunately, the far-reaching cost-cutting program also entails unavoidable adjustments in the size of our workforce. The number of employees worldwide will be reduced by about 5,000. Moreover, staff at our production facilities in Regensburg and Munich will be working reduced hours from October 2001 to March 2002. Expansion of operations at Infineon's state-of-the-art 300mm production plant in Dresden is expected to create 200 new jobs, and our priority is to offer newly-created positions to current employees first. Full-time contracts are being converted to part-time contracts on a voluntary basis at some Infineon locations.

We maintain our ongoing support to employees impacted by the job cuts, in order to help them optimize opportunities in finding employment elsewhere. Our considerable assistance program includes training for job applications and interviews, along with setting up appointments at recruitment companies or with employment offices. In addition, employees have been granted permission to use PC technology to search for new jobs or write applications. Infineon employees who lose their job will continue to have access to the job markets of the entire Siemens Group.

Outstanding Risk and Opportunity Management System

We have initiated and implemented a risk and opportunity management system throughout the company, which was examined and checked by KPMG, our independent auditing company. It puts us in the position of identifying and evaluating market opportunities as well as the risks involved. In this regard, it serves as the basis to quickly and effectively respond to trends and take advantage of potential opportunities. The risk and opportunity management system we have developed has become a key element of our business operations. In the meantime, we have applied for a U.S. patent for the system and were even granted public recognition in September 2001, when the company officially won the "2001 European Risk Management Award".

EMPLOYEES BY REGION
AS OF SEPTEMBER 30, 2001



Development:

2001

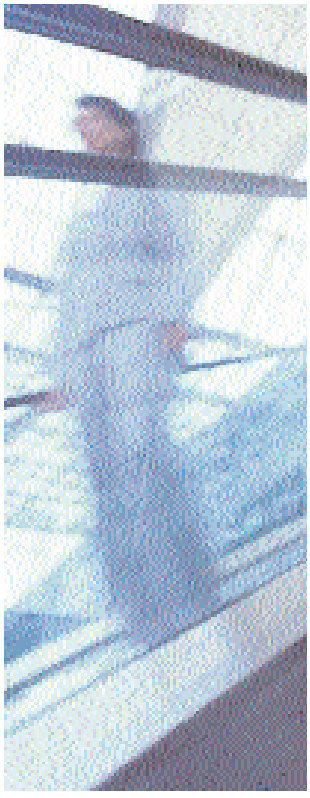
Infineon has further expanded its leading-edge technological position, with a research and development budget of 1.2 billion Euro in the 2001 fiscal year. More than 5,000 employees at 29 development centers worldwide develop solutions, products and processes, which continue to set new standards for performance and efficiency.

In many devices, an increasing number of applications emerging from different electronic markets are converging. The result has been a steady increase in the complexity of semiconductor products. Infineon has successfully responded to this challenge. We take advantage of our core competencies to combine them with technologies from various fields of application in order to develop new, innovative systems solutions.

For example, our Wireless Solutions Business Group united the technologies of GSM and EDGE standards for mobile telephony onto a single chip, and additionally integrated the recording of MP3 music files. This combination of communications and entertainment was further developed for the automotive sector. The most advanced chips for telematics solutions optimally integrate a variety of different systems such as satellite navigation, Internet access, stereo equipment and voice recognition.

Milestones in the Development of Products and Partnerships

With its new developments in the 2001 fiscal year, Infineon once again achieved groundbreaking milestones and formed a series of important partnerships.



- We introduced a chip family designed to serve as an extremely compact interface for future telecommunication functions. This ensures, for the first time, the space-saving integration of voice transmission and quick data transmission, in accordance with the ADSL standard, onto a single adapter card. For even speedier transmission on an SHDSL basis, Infineon has developed the very first single chip transceiver solution.

- Infineon introduced the world's smallest single chip solution based on cost-effective CMOS technology, as part of a product family for Bluetooth applications.

- The Infotainment Controller TC1920 integrates a high-performance microcontroller and signal processing functions together with a complete telematic-specific periphery, as well as voice recognition and voice processing. This enables the development of navigation platforms, Internet radio and multimedia applications for automobiles.

RESEARCH FOR A FASCINATING FUTURE.

We are exploiting the synergies created from partnerships with other companies to facilitate the quick, cost-effective transfer of technologies into our products. Now we are also developing magnetic memory technologies (MRAM) with IBM, our long-time partner. We have entered into a partnership with Toshiba to develop next generation ferro-electric memories (FeRAM). Infineon is jointly working on a complete Bluetooth systems solution for automotive applications with Mecel.

World Record Research – Patents Ensure Competitive Edge

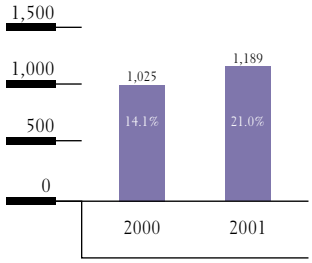
Records in speed and price are key determining factors, particularly for broadband communications. In the 2001 fiscal year, Infineon's research laboratories pioneered the development of a 25 Gigahertz for high-frequency converters and a 52 Gigahertz for oscillators using inexpensive standard CMOS technologies. Neither frequency has ever been achieved before – a feat which represents an important step towards manufacturing extremely fast, cost-effective chips for high-speed data transmission. Thus, Infineon set two world records, which demonstrates the extensive innovative strength of the company.

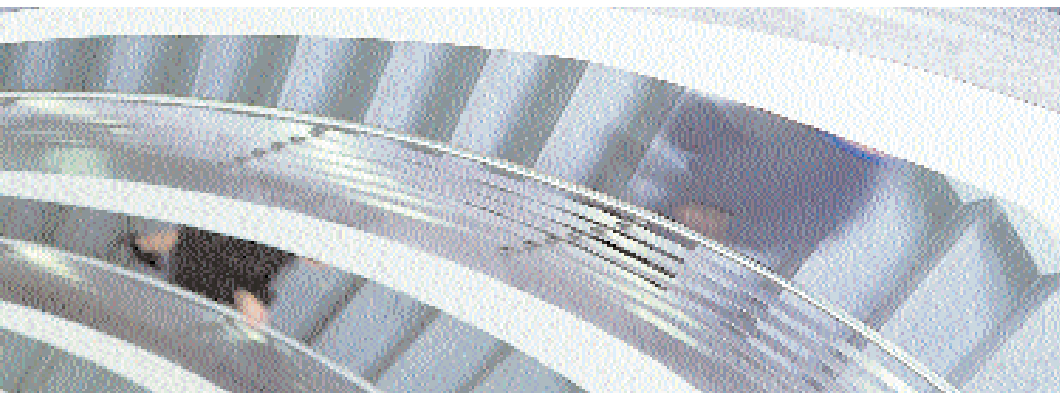
In the 2001 fiscal year, we expanded our portfolio of registered patents or patent applications by 11 percent, from a total of 28,000 to more than 31,000. This corresponds to an average of a dozen new patentable applications developed every working day of the year. We are particularly proud of this performance. At the same time, it is a commitment: we want to continue offering highly innovative and marketable products and thus ensure our technological edge.

Dr. Sönke Mehrgardt
Member of the
Management Board,
Chief Technology Officer (CTO)

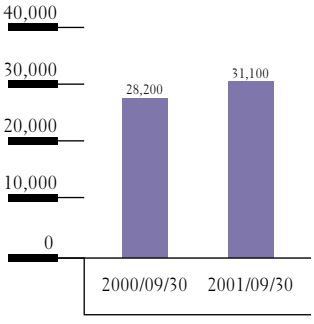
- Born 1948.
- Married, 4 children.
- Studied Physics.
- Ph. D. in Natural Sciences.

RESEARCH AND DEVELOPMENT EXPENDITURES IN EURO MILLIONS





NUMBER OF PATENTS AND PATENT APPLICATIONS



Markets:

2001

All semiconductor market segments have been impacted by the current dramatic economic downturn. For this reason, we are increasingly focusing our sales and marketing efforts on securing sales volume with our major customers and further expanding our market share through accelerated offer procedures as well as price flexibility. With the help of database marketing campaigns and the focus on distributors, we were able to achieve a stronger presence in the mass market.

One of Infineon's top priorities was securing sales volume with its largest customers within the framework of the challenging business environment prevailing in the 2001 fiscal year. We succeeded in achieving this goal in all five Business Groups. The three top customers of the Automotive and Industrial Electronics Business Group accounted for 40 percent of its total revenues. A small number of quickly expanding customers significantly increased their relative importance within the major customer portfolio of the Security and Chip Card ICs Business Group. Both the Wireline Communications and Wireless Solutions Business Groups each did more than 50 percent of their business with their top 8 and top 3 customers, respectively. The same applied to the Memory Products Business Group, in which the 7 largest customers were responsible for 50 percent of total sales. Infineon's bit growth climbed by almost 70 percent compared to the previous fiscal year, achieving a growth rate which was once again higher than overall market growth.

Growing Sales Potential in Asia and North America

NAFTA (the North America free trade zone), the Asia-Pacific region and Japan now account for almost 50 percent of Infineon's total revenues. We succeeded in maintaining our market share in the NAFTA and Asia-Pacific regions, although demand for semiconductors cooled off earlier and declined more extensively in comparison to the European market. We are continuing to consider these geographical areas as having increased significance because of their very size and market potential.

In North America, we further intensified our customer relations with the manufacturers of PCs and servers. In the market segment for wireline communications, Infineon has positioned itself as a capable, high-performance competitor offering leading-edge technologies. In the automotive sector, American electronic component suppliers are increasingly taking advantage of our technical support and systems competence in the fields of motor management, infotainment and electronics designed to raise the level of comfort and security.

PARTNER, NOT JUST SUPPLIER.

Peter Bauer
Member of the
Management Board,
Chief Sales and Marketing
Officer (CMO)

- Born 1960.
- Married, 2 children.
- Graduated in electrical engineering.
- Certified engineer.

The Asia-Pacific Region is growing in importance as a sales market for the semiconductor industry. We are benefitting from the growth of this promising region by further expanding our technological expertise as well as by forming strategic partnerships and joint ventures. In Japan, we have made considerable progress in expanding our ties to automobile component suppliers and to the telecommunications industry. Furthermore, we achieved sales growth there of more than 100 percent for memory chips, an achievement which clearly demonstrates our competitiveness in comparison to local providers.

Partners for Sales and Logistics

In our direct sales activities, we naturally concentrate our efforts on the large customers which operate on a global basis. However, the importance to Infineon of indirect distribution channels and the cooperation with pure manufacturing companies, so-called Electronic Manufacturing Services (EMS), have grown considerably. Their contribution to Infineon's total revenues has climbed by 50 percent in the 2001 fiscal year.

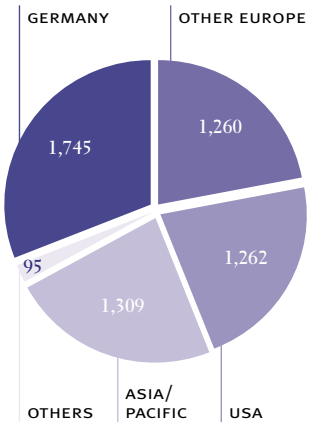
Avnet, Insight and Pioneer/Eurodis rank among our largest distribution partners. In the EMS market, companies such as Celestica, Flextronics, SCI and Solectron emerged as key customers. They are increasingly assuming responsibility for the manufacturing of mobile communications devices on behalf of well-known brand name electronics providers. Furthermore, EMS specialists are continually expanding their design expertise for such devices. As a consequence of this trend, their interest in Infineon's systems know-how is growing within the framework of a constructive partnership.

Marketing: Globally Online and Regionally Focused

We have been able to expand our image and boost awareness of Infineon as a competent partner in all important regions of the global semiconductor market. We are intensifying the ongoing regional expansion of our sales and marketing activities, particularly in the Asia-Pacific region and in Japan. We have been implementing a new communications strategy in North America to increase our presence in key media.

We are attempting to meet the increasing information and interaction requirements of our customers through web-based marketing measures, for example via eCRM (electronic Customer Relationship Management) or MyInfineon.com, our customized Internet portal. During the process of developing these Internet tools, we intensified our entire data base marketing activities, including direct mailing campaigns, for example via Design:)Link, a new customer magazine published quarterly.

NET REVENUES 2001
BY GEOGRAPHIC REGION
IN EURO MILLIONS



Human Resources:

2001

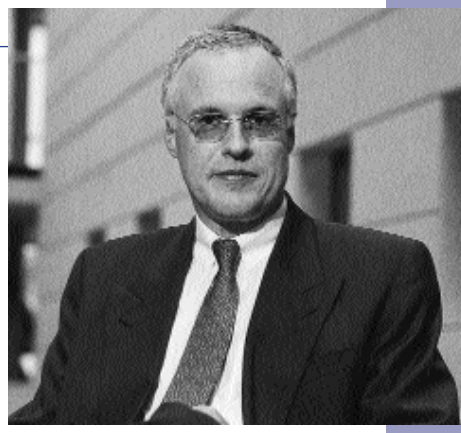
The leading position Infineon Technologies maintains in the semiconductor industry can mainly be attributed to the know-how of its employees. Motivation, flexibility and knowledge form the basis of our company's long-term success and excellent future perspectives in an industry marked by fierce global competition and high technological dynamics.

The guiding principles that govern the behavior of our management – which we at Infineon consider to be exemplary – take into account the environment we operate in. Creative, innovative and unconventional approaches are the prerequisites for developing new ideas and business models. Entrepreneurial thinking, customer orientation, team spirit and high achievement ideals are the values around which our corporate image has been defined. The capability to meet challenges with perseverance and a clear focus are indispensable for creating a highly-motivating environment for employees and colleagues that not only nurtures, but also creates an incentive for the workforce to improve its performance. The courage to make clear-cut decisions and the resoluteness to implement them are two factors that have been crucial for soundly positioning our company in the market.

Dual Career Planning and Infineon University

We can only secure the long-term growth of our company in a market as highly volatile as the semiconductor market if we are able to successfully compete for talented and highly-qualified employees. In order to achieve this goal, Infineon has developed a whole set of attractive and promising human resources instruments. We have introduced dual career planning in our extensive human resources development concept. Employees are offered

IT'S PEOPLE WHO MAKE A DIFFERENCE.



Jürgen Buschmann
Senior Vice President,
Head of Human Resources

- Born 1952.
- Married, 1 child.
- Studied law.
- Assessor jur./Lawyer.

individual development perspectives not only at the management level, but also in regards to specialized knowledge. Thus, we are able to better balance the interests of the company and of the employees. The project in progress – Infineon University – has been conceived to serve as a strategically important dialog and learning platform for our employees. At special interest seminars, workshops and strategy meetings, we work on developing and fostering interdisciplinary and intercultural teamwork capabilities as well as the efficient transfer of know-how, all of which are crucial factors for our company.

Market, Success and Performance-oriented Remuneration

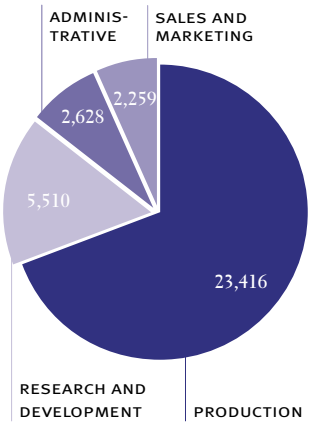
As a global employer competing at the international level for the smartest brains in the market, we have developed a remuneration policy that is market-oriented and takes success and achievement into account. The combination of fixed and variable salary components creates additional motivation for employees who think and act entrepreneurially. The linkage of variable income with strategic and operative company goals serves as an effective management and control instrument. Furthermore, we have set up employee participation programs, for example, an employee stock purchase program and a stock option plan.

The employee stock option plan that has been in place since the company went public, was changed in the 2001 fiscal year with the approval of the Supervisory Board and the Annual Shareholders' Meeting. The aim was to establish a more internationally competitive program. One major innovation was the addition of a competitive exercise price, which is in line with the German Stock Corporation Act. Another was the enlargement of the group of eligible people to encompass about 10 percent of the company's employee base. Our International Long-Term Incentive Plan offers our best employees a plan that is equivalent at all sites worldwide, and which has been modelled after a shareholder value oriented incentive system.

Staff Adjustments during Down and Upturn

In the highly volatile, dynamic international semiconductor sector, being able to permanently adjust employee resources to changes in the market in time is a crucial factor. For this reason, at Infineon we strive to carry out the measures required in a professional, consistent, timely and fair manner, in line with our management principles. This is the only way in which we will be able to secure the long-term success and existence of Infineon Technologies, both in times of downturns as well as during the next upturn.

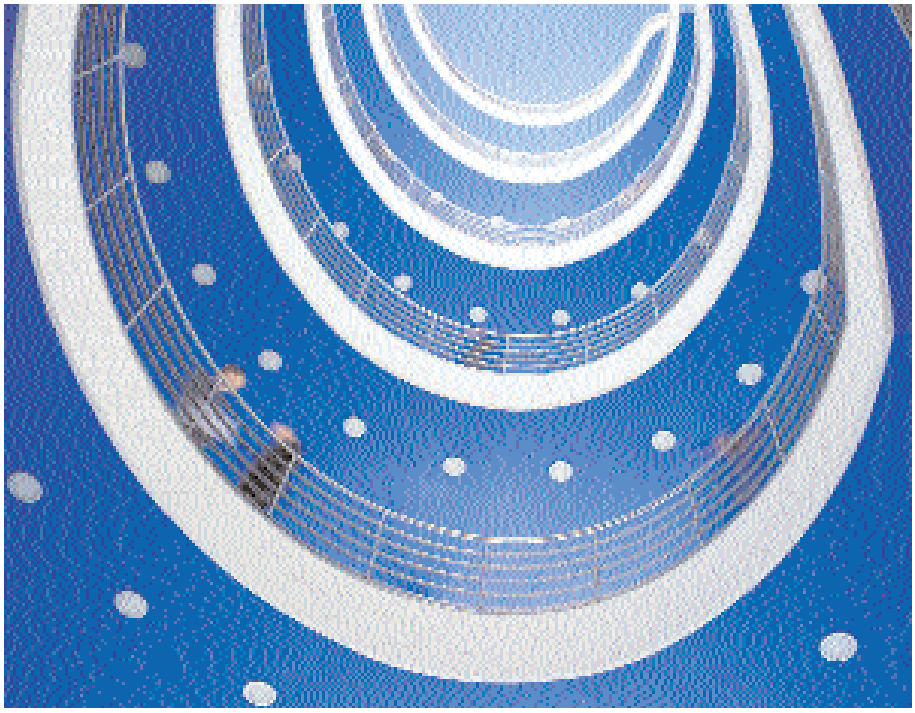
EMPLOYEES BY RESPONSIBILITIES AS OF SEPTEMBER 30, 2001



Culture:

2001

With high-tech products designed for global voice and data communications, Infineon is paving the way for the information and knowledge-based society of the 21st century. As a technological pioneer, we are focussing our efforts to adapt our working environment to these new conditions. One example is Campeon, our new corporate headquarters.



The name **Campeon** is derived from **Camp**us and our company name Infin**eon**. The university – the classical institution of knowledge processing – serves as a model for our new corporate headquarters. Of course, it must be adapted to the requirements of a high-tech company in the 21st century.

By the end of the year 2003, up to 7,000 of Infineon's highly skilled knowledge workers will be brought together in one place – instead of being scattered at nine different locations throughout Munich. This concentration on one location will improve contacts among the employees within the company. Together with a simplification of work processes, the innovative architecture and design of the site, it will provide the basis for our employees to more intensively exchange, multiply and further develop their know-how.

Promoting the internal exchange of knowledge is just one example of Infineon's future-oriented approach, which moves above and beyond day-to-day business operations. Infineon's motto "Never Stop Thinking" not only applies to Campeon, our new corporate headquarters, but also to our social and political involvement. For this reason, in January 2001 we opened a liaison office in Berlin in order to establish a more open and direct dialog with politicians and associations.

NEW ROOM FOR NEVER STOP THINKING.

Infineon is aware of its role in societal interaction: high-tech companies can not simply trust the society and political sector to immediately understand their own needs. Therefore, Infineon will engage in an even more active dialog, both in Berlin and in Brussels, to promote increased understanding. The aim is to further improve the general framework of high-tech companies in Germany and Europe.

Our priority is to focus on relevant issues such as communications, education and research, and on the people who will deal with them: namely our children. Appropriately, one of the guidelines concerning our involvement in public affairs is "Education of the Future Generation" – a goal which we have been actively pursuing since 1999. Among other things, we promote the training, development and further education of young people who come from socially deprived families around the world.

Social Welfare Programs in Germany and the USA

Improving the future chances of succeeding generations was also one of the aims of the broadcasting marathon hosted by RTL in December 2000 and designed to raise donations for charitable purposes. As the main sponsor of the event, Infineon was in a position of supporting the TV station in successfully raising 4 million Euro for a good cause.

In cooperation with other companies, Infineon supported the nationwide "Start Social" competition in Germany in 2001. The program grants awards to the best ideas involving projects aimed at solving social problems – and, even more important, to those projects which are actually being implemented. In addition to granting financial assistance to the initiators of private and institutionalized programs, Infineon also serves as a mentor, providing practical advice and support.

Nobody has remained unmoved and unaffected by the events that occurred in New York and Washington on September 11. Shortly after this tragedy took place, we established a foundation in the USA with an initial capital of 250,000 U.S. Dollars. Its first task was to hand over the donations given by the company and its employees to the American Red Cross to help the victims and their families.

Quality:

2001

We are continuously striving to orient our business processes to the advantage of our customers, to learn from what we do, and to improve or even restructure these processes when necessary. This includes the behavior of our management, the personal development and participation of employees and the expansion of partnerships along the value chain – and last but not least, our responsibility towards the society.

Experience demonstrates that companies can only maintain their leadership position in the long run by creating optimal synergies between excellent technologies and excellent management. We strive towards Business Excellence. This condition is not a status quo which should be achieved, but rather a continuous race – a path in which we are called upon to evaluate our strategies and processes time and again. Moving in the right direction towards Business Excellence, we orient ourselves on the recognized model developed by the European Foundation for Quality Management (EFQM), based in Brussels. The fact that our quality management fulfills the minimum requirements is demonstrated by our Euro norm ISO 9001 certification. Nevertheless, we continue thinking ahead.

The European Quality Award "EQA" is the most respected and acclaimed award for quality management awarded to a European company. This award has been granted annually by EFQM since 1992 with the support of the EU Commission and the European Organization for Quality.

Since Infineon was first established in 1999, we have participated in this demanding and challenging competition. In the year 2001, despite unfavorable market conditions, Infineon was named one of the finalists in the competition. For us, this honor convincingly demonstrates the quick progress we have made on the path towards Business Excellence – to other people Infineon already belongs to the best-managed companies in Europe and can be considered as an operational model for other companies.

Act in an Environmentally-Responsible Manner. Cut Costs

Our environmentally-oriented policies are based on the principle of assuming natural responsibility for the people we live with and for the environment we live in. And it is based on the realization that the natural resources on our planet are far from being limitless. During all stages of the production process, we try to create as little waste as possible. When waste prevention is not possible, we try to minimize the use of resources through recycling. One example is industrial water, up to 40 percent of which we can recycle. In the same vein, we recycle harmful chemicals and gases within closed systems.

KEEPING STANDARDS HIGH-GUARANTEED.

Such measures have had positive effects: reducing the use of those key natural resources which are important to us, avoiding environmental damage and even achieving synergies. The diminished volume of valuable resources which need to be purchased, helps us to produce more cost-effectively on a sustained basis. On the path towards the golden goal of Business Excellence, we have also had our environmental management system certified according to Euro norm ISO 14001.

Pioneer in Lead-Free Semiconductors

Together with the other large European semiconductor manufacturers Philips and STMicro, Infineon initiated a program in February 2001 that introduced a global standard to define and evaluate lead-free semiconductor products. Lead is commonly used to laminate the connecting pins of electronic components, so that they securely adhere to the soldering points. In July 2001, we had already published our first draft proposal for standards which foresaw a maximum level of 0.1 percent of lead remaining – referring to the individual material.

Up until now, the main obstacle preventing the semiconductor industry from manufacturing chips without using environmentally harmful lead was the lack of internationally uniform standards and methods to evaluate the quality and reliability of lead-free technologies. The initiative we have taken in Europe will foster and accelerate the introduction of even more environmentally-compatible production processes on a global basis. At the end of the year 2001, the first samples of lead-free components should be available.

We consider environmental protection to be an aspect of business management. Our quality standards are not limited to our products and services, but extend to all related processes, from research and development to production and distribution – also encompassing the safety of our employees.

Convergence:

2001

WIRELINE COMMUNICATIONS
WIRELESS SOLUTIONS
SECURITY AND CHIP CARD ICs
MEMORY PRODUCTS
AUTOMOTIVE AND INDUSTRIAL ELECTRONICS

INFINEON LEADS THE WAY INTO THE NEW COMMUNICATIONS AGE.

If you surf on the Internet and enter the word "convergence" in a search engine, you will be able to download hundreds of links – from websites preparing background information to companies offering convergence management and consulting – as well as hundreds of texts from around the world which are dedicated to this trend.

But let us get to the heart of the matter. What exactly is convergence? A literal translation would be "to head for each other, to correspond". In the technology sector, one refers to communications channels and tools which merge together. In other words: convergence describes the tendency to come closer together, and possibly the fusion of media which originally developed separately from each other. Take the example of cellular phones, which can now be used for accessing Internet services. Or the World Wide Web, which can be accessed not only via PC but also by using TVs equipped with multimedia functions or in one's own car with the help of consumer electronics devices enabled for mobile communications.

Therefore, it is not surprising that Medien Aktuell magazine wrote in February 2001 about a "progressive media concentration against the backdrop of convergence". Or when the focus of an article in Frankfurter Allgemeine Zeitung at the end of April 2001 was on the "co-pilot with many functions – navigation plus radio, telematics and telephone", a perfect example for convergence. There is an unlimited number of media references.

The issue of security is once again in the limelight, especially after the events of September 11, 2001. Applications such as secure data transmission over networks, electronic signatures and personal identification, all require different semiconductor technologies. Infineon is developing these very technologies and has long been selling the appropriate semiconductor solutions. "Infineon supplies chips for Pentagon employee identification cards" (Reuters, 30.10.2001). A reference which speaks for itself. Whether in Germany, Great Britain, India or in the USA, everywhere you will confront the same message: "Chip cards are just the ticket" (Financial Times, 18.4.2001). The years to come will be the communications age of technological convergence – above and beyond the inevitable development of the next mobile communications generations such as GPRS and UMTS. And Infineon will significantly lead the way for this development.

Connections:

2001

Our success in the Wireline Communications Business Group largely depends on our ability to meet the current requirements of our customers while simultaneously staying a step ahead and anticipating their constantly changing needs. Our aim is to offer just the right product at the right time.

The Wireline Communications Business Group develops semiconductors and fiber optic components integrated into local and global networks for the intermediation and transmission of voice, data and video signals. In the 2001 fiscal year, the business group managed to increase its revenues by almost 16 percent to 768 million Euro. The main reason was the increase in sales of traditional telecommunications products used in voice networks with analog and digital (ISDN) subscriber lines. The market launch of modules designed for high-speed optical fiber networks also proceeded successfully. EBIT decreased to a loss of 95 million Euro in the 2001 fiscal year, following a positive EBIT of 47 million Euro the year before. These results include a total of 126 million Euro for amortization and impairment charges due to acquisition-related expenses as well as additional costs of carrying unused capacity.

Success in New Markets

In the 2001 fiscal year, demand continued to rise for our semiconductor products used by the telecommunications industry in connection with ISDN and analog fixed lines – above all in emerging markets such as China, India and Brazil. We were able to penetrate the local markets in the Asia-Pacific region and Japan with our new 10BaseS and VDSL products. In the market for optical networking components, leading providers of data networks, such as Alcatel and Cisco, have displayed extensive interest in our fiber-to-the-home technology featuring bi-directional modules. Moreover, Infineon was successful in the future-oriented 3G market, forming a new strategic partnership with Ericsson to develop and supply semiconductors for UMTS mobile communications base stations.

Convergence of Communications Technologies

The demands placed on semiconductors for future-oriented wireline networking technologies are steadily increasing. This technological development is being driven, among other factors, by a substantial overall rise in data traffic, the increasing convergence of voice and data services in a single networking infrastructure, the rising level of competition among telecommunications companies and the growing integration of different home-based applications into a single set-top-box.

FASTER THAN THE MARKET.

The consequence is that increasingly large amounts of data will have to be transmitted over long distances – but will need to be safeguarded against unauthorized access. Moreover, information with varying data rates (voice and video) and quality requirements (voice and data) is now being transmitted simultaneously over one and the same network. This "convergence of demands" requires an even greater "intelligence" of networks.

Strategic Focus on Tomorrow's Markets

We are meeting the challenges posed by technological development by continuing to focus on our core competencies. They encompass optical fiber components and components for high-speed data transmission up to 40-Gigabits/second, as well as mixed signal integrated circuits and network processors for intelligent network nodes. For this reason, we are investing in future-oriented high-growth segments such as enabling speedier Internet access via DSL, Ethernet via telephone lines, optical and electrical components for 10-Gigabit and 40-Gigabit network nodes along with complete systems solutions to provide optical network access for users – namely the fiber-to-the-home technology.

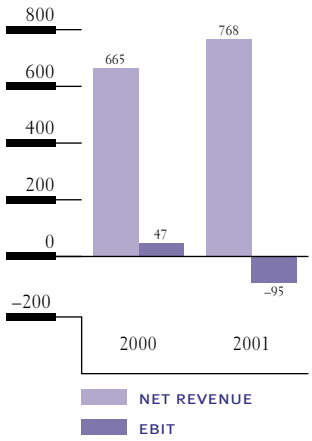
For this reason, we continued to restructure the Wireline Communications Business Group in the 2001 fiscal year. This included the divestiture of our Infrared Components business and the Image and Video business. In April 2001, we also acquired Ardent Technologies. The company has gained expertise as the basis to enter the growing market for integrated circuits used in local area networks (LAN). We purchased Catamaran Communications in July 2001 as a means of boosting our know-how in the field of optical networking. Catamaran is the recognized leader in developing Framer ICs for the high-growth 10-Gigabit/second segment as well as for the next generation of 40-Gigabit/second components.

When one considers the VDSL technology we acquired in the year 2000 when we purchased the Israeli company Savan Communications, one arrives at the conclusion that Infineon is in an outstanding position. VDSL allows for broadband data transmission covering the "last mile" in wide area networks and local area networks to be implemented using existing telephone lines. We are well-prepared to fulfill the future-oriented requirements of our customers.

Gerhard Geiger
Chief Executive Officer,
Wireline Communications
Business Group

- Born 1947.
- Married, 2 children.
- Studied electrical engineering.
- Certified engineer (Technical University).

WIRELINE COMMUNICATIONS
IN EURO MILLIONS



Mobility:

2001

The next mobile communication generations will further develop the interaction of cellular phones, laptops and PDAs – and serve as a catalyst unleashing a run on demand for advanced semiconductor platforms. Infineon has developed the required technologies.

Due to a significant decline in demand for cellular phones, accompanied by a sharp drop in prices for high-frequency and baseband semiconductors, total revenues of the Wireless Solutions Business Group fell to 997 million Euro in the 2001 fiscal year, 18 percent lower than the year before. EBIT was at a loss of 178 million Euro in the 2001 fiscal year, compared to a positive EBIT of 261 million Euro in the 2000 fiscal year.

Infineon continues to maintain a good competitive standing in the field of chip solutions for wireless communications, and is in an outstanding starting position to benefit from the expected market upswing.

Outstanding Positioning

In the market for mobile communications solutions, Infineon is one of the few providers able to offer the entire range of both high-frequency and baseband semiconductors required for wireless applications. For example, we supply complete systems platforms including software for modern-day GSM and GPRS cellular phones used in 2G and 2.5G mobile communications networks. At present, we are developing chipsets for the UMTS standard. Within a few years, UMTS will emerge as the third mobile communications generation ("3G") around the world and make mobile communications even speedier and more flexible. Moreover, with a market share of approximately 70 percent, we have become the leading supplier of chipsets built into wireless DECT telephones in Europe and WDCT telephones in the USA. Our experience and innovative strength in these fields have brought Infineon to the optimal starting point for the promising new mass markets for Bluetooth, wireless LAN and GPS-enabled applications.

Exposed Market Position for GSM Chipsets

Nevertheless, global demand for GSM baseband chipsets continues to remain strong. Up until the end of September 2001, Infineon had already sold more than 125 million chipsets. In addition, we further increased our sales potential in Southeast Asia in the 2001 fiscal year on the basis of our GSM/GPRS systems solutions. The official licensing of our GSM platform in China was of particular importance.

Focusing on Future Issues

We have consolidated our technological leadership in regards to third-generation technologies, one of the main future-oriented issues impacting the mobile world of communications. In connection with another future-oriented issue, namely "Short Range

FROM CHIP PRODUCER TO SYSTEM PROVIDERS.

Ulrich Hamann
Chief Executive Officer,
Wireless Solutions
Business Group

- Born 1955.
- Married, 2 children.
- Studied electrical engineering.
- Certified engineer.

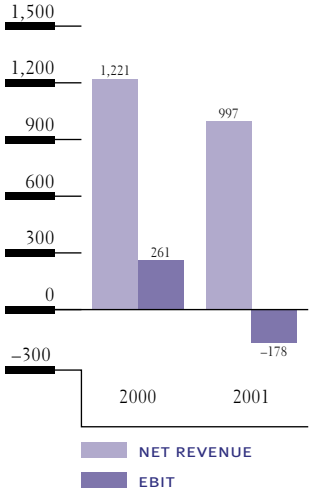
Wireless", it should be noted that with its introduction of the new BlueMoon chipsets to the market, Infineon is supporting an up and coming systems standard for the wireless data transmission among electronic devices located within short distances of each other. Bluetooth modules developed by Infineon are already integrated into products from market leaders such as Sony and Nokia.

Fit for 2.5G and 3G Applications

To date, cellular phones are primarily used to handle simple telephone calls and send SMS messages. Due to the overly slow transmission of data, consumers rarely take advantage of the possibility to access Internet services on cellular phones with integrated WAP functionality. However, the market launch of 2.5G and 3G-enabled cellular phones will lead to a massive increase in mobile data communications on the Internet. The new generations of mobile communications technologies will transmit data at a speed up to 40 times higher than on a WAP-based network and up to 16 times higher than in ISDN fixed line systems. They will also provide the basis for video broadcasts. Attractive fee rates, based not on time spent on-line, but only on the data volume which has been down-loaded and transmitted, will serve to further promote the utilization of GPRS, EDGE (both 2.5G) and UMTS (3G) applications. We are talking about a type of mobile leased line, which will only be billed when the user utilizes m-banking, Internet shopping or added value services in connection with a given location.

We expect the upcoming revolution in cellular phone applications to proceed in two phases because GPRS systems are comparatively less efficient than UMTS systems. However, the main advantage GPRS systems offer is that they can be integrated into an existing GSM infrastructure with a relatively moderate level of investments. UMTS requires that the telecommunications companies create a new infrastructure – and this entails extensive roll-out expenditures and longer lead time until comprehensive geographical coverage is achieved.

WIRELESS SOLUTIONS
IN EURO MILLIONS



Identification:

2001

As the market leader for semiconductors integrated into chip cards and smart cards, we have extensive experience. For this reason, we are also the first contact point when it comes to achieving digital security in our increasingly networked world of data.

As technological leader, we cover almost the entire spectrum of semiconductors for intelligent security hardware with

- Chip Card ICs for identification purposes via card reading devices and for secure storage of personal data;
- Security ICs to protect applications and data from unauthorized access as well as for biometric authentication (fingerprint) in open network systems;
- Secure Memory ICs to protect digital right and therefore to prevent the unauthorized reproduction of data;
- Identification Systems ICs to electronically secure and simplify logistics and purchasing processes in a contactless manner.

Our Security and Chip Card ICs Business Group offers security controllers, security memories and other semiconductor systems solutions. These solutions are used as identification and security mediums in the fields of telecommunications, banking, health services, access control, software distribution, games and multimedia. We are the world market leader for ICs for chip cards and smart cards, thanks to our competitive edge in technologies combined with excellent customer relations. Furthermore, in the 2001 fiscal year, we further improved our position in the promising market for digital security applications. All in all, we succeeded in increasing revenues by 57 percent to 588 million Euro in comparison to the year before. However, EBIT declined to 27 million Euro in the same period. The main reason was the strong pressure on prices, which was the result of a decrease in market volume during the course of the year.

Cooperations and Capacities

We maintained our market leadership in the lucrative but increasingly competitive chip card market. We extended key partnerships with leading card manufacturers such as Gemplus, Giesecke & Devrient, OCS and SchlumbergerSema. On the basis of our launching of the world's first 16-bit processor/64-Kilobyte memory SIM chip cards for high-end GSM platforms, we were able to acquire new contracts and strengthen our market position, above all in Asia.

UNDOUBTEDLY TOP IN SECURITY.

Dr. Hermann Eul
Chief Executive Officer,
Security and Chip Card ICs
Business Group

- Born 1959.
- Studied electrical engineering.
- Doctorate in engineering.

In May 2001, we established "Ingentix", a joint venture with the Israeli company Saifun Semiconductors. Ingentix specializes in developing MultiMediaCard memory products, for example for the PDA market or MP3 compatible devices. In the future, special flash memory products based on Nitrided Read Only Memory (NROM) technology will also be developed, manufactured and marketed.

Simultaneously, we have increasingly invested in capacities for digital security. We have begun mass production of the biometric identification system FingerTIP, which is being increasingly built into laptops as well as PC keyboards and mice. We are also preparing ourselves to more forcefully enter the mass market of the global banking industry. The decision on the part of credit card companies to replace the magnetic strips on credit cards with chips opens up new market perspectives for Infineon's crypto-controllers, which have already passed their operational tests in series.

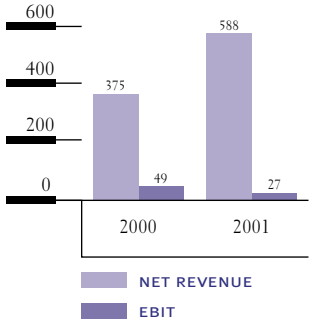
Security as a Growth Market

The issue of security has gained a new global dimension since the events of September 11, 2001. The convergence of various communications and data networks through the Internet had already changed our lives beforehand. By means of the ongoing information flow, it creates a level of comfort today to an extent which has never been achieved before. The new opportunities may also lead to abuse. It is now easier to falsify identities or to gain access to the personal data of others. As a consequence, people will increasingly be forced to accurately and reliably identify themselves in the virtual world – as they have done in the past in real-life situations, for example at the bank counter or at national borders.

In dealing with the issue of security, we do not restrict ourselves to developing optimal digital solutions. Infineon is contributing its expertise towards making political discussion more objective. We established the "Silicon Trust" network in the 2001 fiscal year, which creates synergetic effects for customers and partners who work with Infineon's security technologies.

We are confident that the market for secure, mobile and easy-to-use data applications will continue to expand considerably in the mid-term. As the world market leader with superior technology, we intend to disproportionally benefit from this market growth.

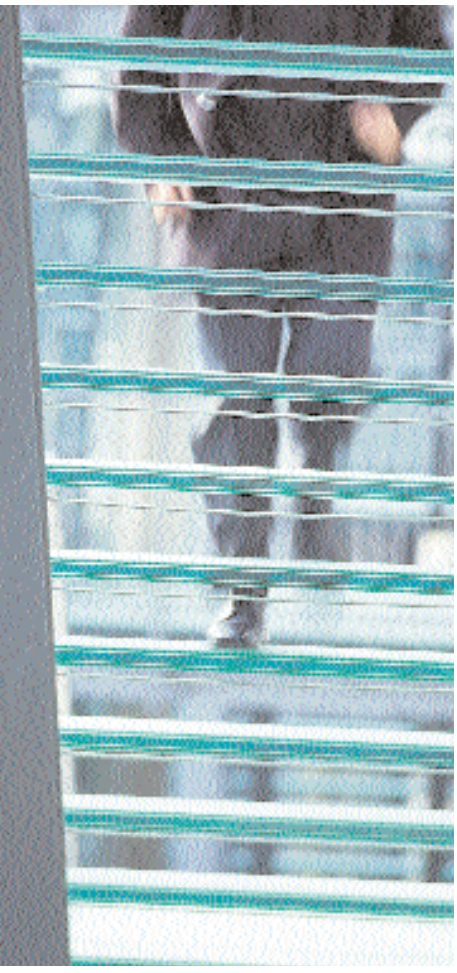
SECURITY AND CHIP CARD ICS
IN EURO MILLIONS



Memory:

2001

We are not only a technological leader in memory chips, but we also have the most favorable cost structures in production at our disposal. When the next upswing in the DRAM market takes place, we want to rank among the winners, and we definitely will. This also applies to our market share.



Our most important dynamic memory products are high-performance mainstream SDRAMs with capacities of 128-Megabit and 256-Megabit, as well as 512-Megabit chips which will be manufactured in the future. Dependent on customer demand, we will increasingly focus on markets with higher margins, such as high-end PCs and Internet servers. For those markets, we produce an increasingly large number of high-speed graphic memory chips (SGRAMs) and Double Data Rate (DDR) DRAM products.

Decline in Revenues in the 2001 Fiscal Year

Revenues of the Memory Products Business Group declined by 54 percent in the 2001 fiscal year to 1.6 billion Euro, although our sales of memory products, when calculated in terms of megabits, actually rose by almost 70 percent, as planned. The main reason for the downward development in revenues is the drastic reduction in prices for DRAM products. This was driven by a strong drop in worldwide demand for PCs and Internet infrastructure. At the end of the 2001 fiscal year, the costs per unit for memory products were at times only 10 percent of the price levels prevailing at the beginning of the year. As a consequence of the drop in prices, the EBIT amounted to a loss of 931 million Euro in the 2001 fiscal year, compared to a record EBIT the year before.

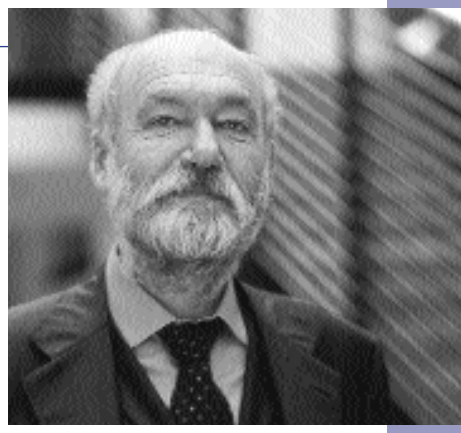
Key Customers Grant Top Rankings

Despite massive competition and price dumping in the 2001 financial year, Infineon succeeded in maintaining its market share and intensifying its relations with many key customers on the computer market. These efforts paid off in our achieving a high level of customer satisfaction: we continue to be one of the top 3 suppliers for 6 out of 7 of our key customers. The supplier listings of Dell and Hewlett Packard even rank Infineon as their number one chip provider. Furthermore, Compaq bestowed its “Compaq Supplier Partnership Award” on us in July 2001.

Expansion of Technological and Cost Leadership

Leading market positions in technological and cost leadership are essential to ensure long-term success in the highly competitive DRAM market. In the field of memory chips, we already rank among the forerunners in the industry both in terms of technologies and costs. For example, we create competitive advantages for ourselves by means of innovative production approaches. We managed to achieve significant gains in productivity due to the early conversion of our 200mm product line to the 0.17 micron technology and to an outstanding yield in manufacturing.

READY FOR TAKE-OFF.



Harald Eggers
Chief Executive Officer,
Memory Products
Business Group

· Born 1950.
· Married, 2 children.
· Studied physics.

Further milestones will follow. In the 2002 fiscal year, we intend to further increase output at our new 300mm DRAM production facilities in Dresden and Taiwan. This successfully tried and tested, highly-advanced DRAM production method will lead to a long-term 30 percent cost reduction per unit, due to a 150 percent higher yield achieved per wafer. Parallel to this, we will once again reduce the chip structure, this time to 0.14 micron, which is the basis for the additional 30 percent reduction in costs already attained in our 200mm volume production.

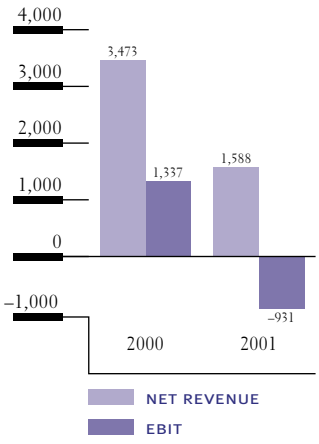
Not only production methods but also the chips themselves are continually being improved. Our strategy is to focus on market segments with predictably high growth rates, those which will not be so strongly impacted by future cyclical price fluctuations. These include our 512-Megabyte and 1-Gigabyte DDR-DRAM modules, which have been favorably evaluated by large chipset manufacturers such as AMD, Serverworks and VIA. The same also applies to the 288-Megabyte RDRAM module, which has been validated by Intel for use in combination with its own processors. The Mobile-RAM introduced by Infineon in July 2001 is an example of our innovative strength. It is a 128-Megabit memory chip, characterized by a particularly low level of power use. Our customers can integrate the Mobile-RAM in developing their next generation PDAs, smart phones and digital cameras, in order to make these devices even more practical and easy-to-use, as well as to maximize the lifespan of the built-in batteries.

Prepared for the Upturn

There is no doubt that an upswing in the market for memory products will once again take place. However, the timing of such a market and price recovery depends on developments in the global economy and in the overall political situation. Taking these factors into consideration, the preconditions are favorable, which will enable memory chip prices to rise considerably again following a potential reduction in production overcapacity. In addition, following the last update at the turn of the millennium, a further upgrading of both corporate and private hardware can be expected before long.

Regardless of how the market develops, Infineon can flexibly adjust its production capacities to demand, and is well prepared for the next upturn in the DRAM market.

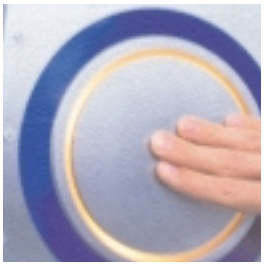
MEMORY PRODUCTS
IN EURO MILLIONS

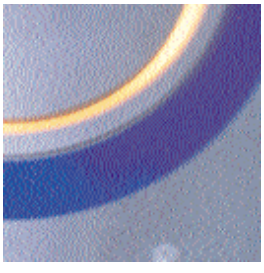


Convenience:

2001

Infineon is the world's second largest producer of chips for automotive electronics. By producing high-performance semiconductors, we are doing our share towards making cars even safer, more comfortable and more economical in terms of fuel consumption – and now, equipping them with more multimedia functions.





Infineon's Automotive and Industrial Electronics Business Group primarily manufactures microcontrollers, smart power ICs and complete modules for automotive and industrial applications. We are one of the few companies which is in a position to develop full systems solutions tailored to the individual requirements of the automobile industry, including steering, memory and sensory functions. This represents a major competitive edge in this market segment.

When it comes to industrial electronics, we focus on high-growth, standardized or application-specific product applications, such as drives, chargers for mobile devices and voltage converters in PC motherboards.

EBIT More Than Doubled

In the 2001 fiscal year, revenues in the Automotive and Industrial Electronics Business Group climbed 25 percent to 1.1 billion Euro. EBIT more than doubled from 69 million Euro last year to 145 million Euro. On the one hand, this can be attributed to the steady development of the automobile market in Europe and the USA. In addition, we managed to increase our market share on the Asian market for industrial electronics – accompanied by the strategic success of penetrating the Japanese market for Power ASIC/ASSP solutions.

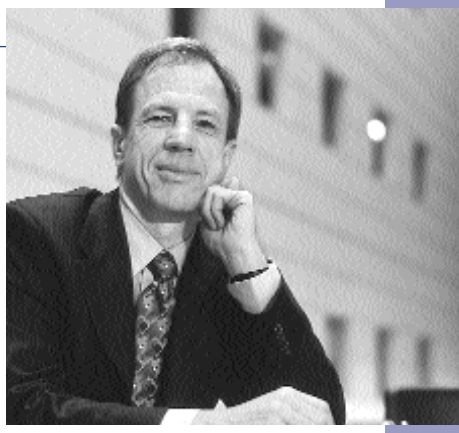
Participation in Formula 1 Races – With AUDO

Thanks to the successful market launch of new 32-bit TriCore microcontroller generations in the 2001 fiscal year, Infineon is in a favorable competitive position – and this in the face of an increasingly large variety of infotainment and navigations systems. These important new core products are now being used by many major suppliers of automotive electronics as a platform for the design of new systems, which will be built into future generations of automobiles.

Our sponsorship of Formula 1 racecars has resulted in a mutually beneficial partnership: we gain recognition while our partner is able to take advantage of Infineon's latest technological advances. The AUDO microcontroller is the core component of a sensor system which is still able to evaluate analog and digital signals such as pressure, temperature, position and number of engine revolutions, without interruption, even at speeds of up to 300 km/hour.

The highly valuable insights gained from our Formula 1 efforts are integrated into ongoing product development work for mass producers. We are in the pole position

TAKING POLE POSITION IN TELEMATICS.



Dr. Reinhard Ploss
Chief Executive Officer,
Automotive and Industrial
Electronics Business Group

- Born 1955.
- Married, 1 child.
- Studied process engineering.
- Doctorate in engineering.

with this new generation of 32-bit microcontrollers, an achievement which has been underlined by the "Innovation of the Year 2001" prize awarded to Infineon by the specialized international trade magazine "EDN".

More Volts for More Comfort and Lower Fuel Consumption

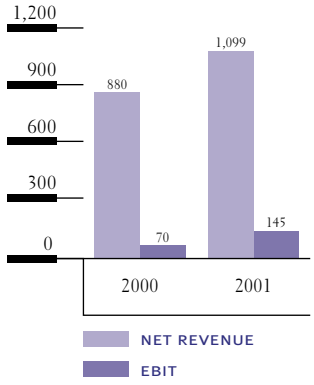
The focus of our current work is on developing electronic components for future 42-volt electrical systems, a project done in cooperation on with DaimlerChrysler. In the future, 42-volt electrical systems will be the prerequisite for automotive systems which require even more power and are based on semiconductor applications. Tapping a 3.5 times higher voltage than today's typical 12-volt solution opens up new perspectives – raising the performance limits for electrical systems such as air conditioning, electronic motor control and braking systems, further lowering fuel consumption and increasing driving comfort even more.

Automotive industry experts estimate that at least one million vehicles will be equipped with these 42-volt networking systems annually as of the year 2010. The resulting potential convergence of all kinds of high-tech solutions will make applications such as motor control, airbag sensors and distance warning devices available at lower prices than ever before, also enabling new applications such as electronic steering. These functions will be complemented by integrated active security systems, GPS information services and mobile office communications including Internet access.

These new electronic applications are not designed to distract drivers but to boost their attention span so that they can more intensively focus on what is happening on the roads. For this reason, voice control systems will play an increasing role in automotive electronics of the future. This means that key functions will be regulated by voice. At the same time, information will need to be conveyed to the driver in an unmistakable, clearly audible manner. As a consequence, two semiconductor segments – automotive and communications – are being linked together and converging simultaneously.

In conclusion, the information age has also penetrated the long-product cycle semiconductor market for automotive electronics. This means that an increasing number of new semiconductor products will have to be produced in large quantities in shorter intervals than ever before. Infineon has the necessary, state-of-the-art production capacities and technologies at its disposal, and thus is extremely well prepared for this market development.

AUTOMOTIVE AND INDUSTRIAL ELECTRONICS – IN EURO MILLIONS



Confidence:

2001

WELL-EQUIPPED FOR THE FUTURE.

Infineon Technologies is shaping microelectronics by creating innovative products, leading-edge solutions and services for the benefit of our customers and shareholders.

Current macroeconomic uncertainties complicate the task of making reliable predictions about future market developments and Infineon's business operations in the 2002 fiscal year. Following the dramatic downturn in the semiconductor industry in the 2001 calendar year, leading market analysts expect moderate, single-digit growth for 2002. It is anticipated that the strong pressure on prices, tough competition and surplus production capacity momentarily will continue. Nevertheless, the semiconductor industry ranks among the most important future-oriented industrial sectors in Europe and in the entire world of technology. The semiconductor market, traditionally subject to intense cyclical fluctuations, has expanded by an average of 14 percent annually over the last forty years. It will remain a high-growth market and catalyst for the ongoing modernization of business and society in general during the Information Age.

Infineon has moved ahead in fulfilling those prerequisites which are essential to ensure its sustained market success:

- We have reacted quickly and in a decisive manner to the challenging conditions prevailing on the global market by initiating our cost-reduction program "Impact", and have a solid base of financial resources at our disposal.
- We have successfully taken advantage of our independence as a public company to implement strategically vital acquisitions and to resolutely optimize our portfolio structure.
- We are well positioned in our growth segments, and rank among the market leaders in them.
- We are investing in technological and cost leadership and in the markets of tomorrow. We are making our presence felt, are forerunners in innovations, and are securing crucial competitive advantages.

Our broad-based technological portfolio and the successful expansion of our systems competence make us well-equipped to meet the growing requirements of our customers for tailor-made solutions – from system and software design for cellular phones to security applications and comprehensive solutions for telematics in automobiles.

Furthermore, we are continually working to make our company processes even quicker and more flexible – to provide the basis for rapid adjusting to market changes. This is complemented by our striving for cost leadership and the ability to adapt production capacities to market conditions within a short period. Last but not least, this provides the basis, in our opinion, for our being in a position to benefit as much as possible from the growth dynamics of the next upturn in the semiconductor market.

The group picture shows the members of the Management Board of Infineon Technologies AG (from left to right hand side): Peter J. Fischl (Finances), Peter Bauer (Sales and Marketing), Dr. Ulrich Schumacher (Chairman), Dr. Andreas von Zitzewitz (Operations) and Dr. Sönke Mehrgardt (Technology).

2001

SUMMARY CONSOLIDATED FINANCIAL DATA
INFINEON TECHNOLOGIES AG AND SUBSIDIARIES

Summary consolidated statements of operations data	1996	1997	1998	1999	2000	2001
	AS OF AND FOR THE FINANCIAL YEAR ENDED SEPTEMBER 30[1] (FIGURES IN EUR MILLIONS, EXCEPT WHERE OTHERWISE STATED)					
Net sales	2,350	2,885	3,175	4,237	7,283	5,671
By Region:						
Germany	n/a[1]	1,005	1,078	1,241	1,612	1,745
Other Europe	n/a	740	783	1,203	1,647	1,260
USA	n/a	561	626	827	1,814	1,262
Asia/Pacific	n/a	551	649	899	2,100	1,309
Others	n/a	27	39	67	110	95
By Business Group:						
Wireline Communications	n/a	n/a	n/a	499	665	768
Wireless Solutions	n/a	n/a	n/a	865	1,221	997
Security and Chip Card ICs[2]	n/a	n/a	n/a	276	375	588
Memory Products	n/a	n/a	n/a	1,406	3,473	1,588
Automotive and Industrial Electronics	n/a	n/a	n/a	665	880	1,099
Others[3]	n/a	n/a	n/a	526	669	631
Cost of goods sold	–1,743	–2,220	–2,728	–3,011	–4,110	–4,904
Gross profit	607	665	448	1,227	3,172	767
Research and development expenses	–370	–457	–637	–739	–1,025	–1,189
Selling, general and administrative expenses	–223	–367	–481	–551	–670	–786
Restructuring charge[4]	–	–	–816	–	–	–117
Other operating income (expense), net	40	–21	–9	–2	2	199
Operating income (loss)	53	–180	–1,496	–64	1,479	–1,125
Interest income (expense), net, inclusive of subsidies	49	45	–35	43	75	–1
Equity in earnings (losses) of associated companies	3	–56	–151	34	101	25
Gain on associated company share issuance[5]	–	–	–	–	53	11
Other income, net	1	1	2	18	36	65
Minority interests	–1	–1	–1	–	–6	5
Income (loss) before income taxes	105	–192	–1,682	31	1,738	–1,019
Income tax benefit (expense)	12	96	907	30	–612	429
Net income (loss)	117	–95	–775	61	1,126	–591
Basic earnings (loss) per share[6]	0.19	–0.16	–1.29	0.10	1.83	–0.92
Diluted earnings (loss) per share[6]	0.19	–0.16	–1.29	0.10	1.83	–0.92
EBIT[7]	57	–235	–1,645	–13	1,670	–1,024
By Business Group:						
Wireline Communications	n/a	n/a	n/a	22	47	–95
Wireless Solutions	n/a	n/a	n/a	182	261	–178
Security and Chip Card ICs[2]	n/a	n/a	n/a	24	49	27
Memory Products	n/a	n/a	n/a	–238	1,337	–931
Automotive and Industrial Electronics	n/a	n/a	n/a	23	69	145
Others[3, 8]	n/a	n/a	n/a	–26	–93	8

SUMMARY CONSOLIDATED FINANCIAL DATA
INFINEON TECHNOLOGIES AG AND SUBSIDIARIES

	1996	1997	1998	1999	2000	2001
	AS OF AND FOR THE FINANCIAL YEAR ENDED SEPTEMBER 30[1] (FIGURES IN EUR MILLIONS, EXCEPT WHERE OTHERWISE STATED)					
Summary consolidated balance sheets data						
Cash and cash equivalents	10	15	12	30	511	757
Marketable securities	n/a	–	–	–	498	93
Inventories	n/a	647	583	677	841	882
Total current assets	n/a	1,617	2,117	2,523	3,835	2,876
Property, plant and equipment, net	n/a	2,669	2,198	3,014	4,034	5,233
Long-term investments, net	n/a	33	28	130	432	655
Restricted cash	n/a	–	–	64	132	86
Total assets	3,562	4,595	4,760	6,445	8,853	9,743
Short-term debt, including current portion of long-term debt	139	176	106	495	138	119
Long-term debt, excluding current portion	688	889	893	135	128	249
Shareholders' equity	1,870	2,228	2,096	3,655	5,806	6,900
Summary consolidated statements of cash flows data						
Net cash provided by operating activities	–	496	–185	469	2,080	211
Net cash used in investing activities	–	–1,655	–959	–918	–2,327	–1,813
Depreciation and amortization	478	597	578	573	834	1,122
Purchases of property, plant and equipment	n/a	–1,409	–763	–653	–1,571	–2,282
The IFX Share (as of September 30)[9]						
Dividend per share (EUR)[10]	n/a	n/a	n/a	–	0.65	–
Closing price Xetra Trading System (EUR)	n/a	n/a	n/a	n/a	54.88	13.50
Closing price New York Stock Exchange (USD)	n/a	n/a	n/a	n/a	47.50	12.39
Shares outstanding (in million)	n/a	n/a	n/a	n/a	625.5	693.0
Market capitalization (EUR m)	n/a	n/a	n/a	n/a	34,327	9,356
Market capitalization (USD m)	n/a	n/a	n/a	n/a	29,711	8,586
Key Figures						
Equity ratio	53%	49%	44%	57%	66%	71%
Debt-equity ratio[11]	44%	48%	48%	17%	5%	5%
Net Cash (as of September 30)[12]	n/a	–1,050	–987	–537	874	568
Employees (period end in total figures)						
Total	n/a	n/a	n/a	25,779	29,166	33,813
By Region:						
Germany	n/a	n/a	n/a	12,853	14,247	16,814
Other Europe	n/a	n/a	n/a	2,842	3,409	5,007
USA	n/a	n/a	n/a	2,563	2,838	3,023
Asia/Pacific	n/a	n/a	n/a	7,521	8,672	8,949
Others	n/a	n/a	n/a	–	–	20
By Function:[13]						
Production	n/a	n/a	n/a	n/a	20,371	23,416
Research and Development	n/a	n/a	n/a	n/a	4,733	5,510
Sales and Marketing	n/a	n/a	n/a	n/a	2,043	2,259
Administrative	n/a	n/a	n/a	n/a	2,019	2,628

2001

[1] Columns may not add up due to rounding; figures according to U.S. GAAP (United States Generally Accepted Accounting Principles); n/a = not applicable.
[2] Prior to the 2001 financial year, the Security and Chip Card ICs segment did not meet the requirements of a reportable segment and was reported as part of the Other Operating segment. For the 2001 financial year, the Security and Chip Card ICs segment is identified as a reportable segment and due to its continuing significance, is reported separately, with prior period segment information restated for comparative purposes.
[3] Consisting of "Other Operating Segments" and "Corporate and Reconciliation". Effective October 1, 2000, our Other Operating segment includes the results of certain activities previously reported under Corporate and Reconciliation, the Image and Video and Infrared Components businesses (previously reported under Wireline Communications) as well as the gains on their disposals. The segment results for the 1999 and 2000 financial years have been reclassified to be consistent with the reporting structure and presentation of the 2001 financial year and to facilitate analysis of our current and future operating segment information. The Other Operating segment also includes our opto components business that is conducted through a joint venture with Osram, a Siemens subsidiary. We sold our interest in the joint venture to Osram in August 2001.
[4] Consists of amounts attributable to the Impact cost saving project in 2001 and to the fabrication facility located in the North Tyneside area of northern England, which was shut down in 1998.
[5] In the years 2000 and 2001, ProMOS shareholders approved the distribution of employee bonuses in the form of shares. As a result of this distribution, our proportional share of ProMOS' shareholders' equity increased by 53 million Euro in 2000 fiscal year and by 11 million Euro in 2001 fiscal year. The increase is reflected as non-operating income in the 2000 and 2001 financial year.
[6] Earnings per-share data for the 1996 to 1999 financial years assume that 600 million shares, the number of shares outstanding immediately prior to our initial public offering in March 2000, were outstanding for all periods presented. For the 2000 financial year, the weighted average number of our company's shares outstanding was 613,862,876, or 615,121,186 on a fully diluted basis. For the 2001 financial year, the weighted average number of our company's shares outstanding was 640,566,801 on a basic and fully diluted basis.
[7] We define EBIT (earnings before interest and tax) as earnings before interests and minority interests and taxes.
[8] In the 2001 financial year, we revised our method of reporting excess capacity costs for segment reporting purposes. Previously, all excess capacity costs, if any, were allocated to the segments based on the variance between originally forecasted purchases and actual purchases. We have revised the method to allocate excess capacity costs to a foundry model, whereby such allocations are reduced based upon the lead time of order cancellations. Any unabsorbed excess capacity costs will be included in Corporate and Reconciliation. This change did not affect prior periods. We believe that this method better reflects the responsibilities of the segment management and is consistent with the practices of independent foundries and more appropriately reflects the segment operating results.
Certain items are included in Corporate and Reconciliation and are not allocated to the segments. These include corporate headquarters' cost, certain incubator and early stage technology investment costs, non-recurring gains and specific strategic technology initiatives. Additionally, legal costs associated with intellectual property are recognized by the segments when paid, which can differ from the period originally recognized by Corporate and Reconciliation. For the year ended September 30, 2001, Corporate and Reconciliation includes unallocated excess capacity costs of 27 million Euro, restructuring charges of 117 million Euro and corporate information technology development costs and charges of 71 million Euro.
[9] Initial Public Offering (IPO) on March 13, 2000, in Frankfurt and New York.
[10] As the Company did not exist as a separate legal entity prior to March 30, 1999, we can present dividend information only subsequent to that date.
[11] Equivalent to short-term and long-term debt divided by total shareholders' equity.
[12] Equivalent to cash and cash equivalents plus marketable securities plus restricted cash less short-term and long-term debt.
[13] Employee numbers by function tracked since Infineon's formation as an independent company.

SHAREHOLDER INFORMATION

INFINEON TECHNOLOGIES AG

Established	April 1, 1999
Headquarters	St.-Martin-Str. 53, 81669 Munich, Germany Phone: +49 (0)89 2 34-0
Financial Year	October 1 to September 30
Independent Auditors	KPMG Deutsche Treuhand-Gesellschaft AG Wirtschaftsprüfungsgesellschaft Berlin and Frankfurt am Main

Stock Listing

On March 13, 2000, our company successfully completed its initial public offering of its securities in Germany and in the United States. Since then, Infineon shares have been officially listed on the Frankfurt Stock Exchange (ticker symbol: "IFX", German securities code number 623100) and is traded in Germany via Xetra and on the stock exchanges in Berlin, Bremen, Dusseldorf, Frankfurt, Hamburg, Hanover, Munich and Stuttgart. Options on the share trade on the German-Swiss options exchange Eurex and on other exchanges. The Infineon share is also traded on the New York Stock Exchange (NYSE) under the ticker symbol "IFX" in the form of American Depositary Shares (ADSs) – with each ADS representing one share. The depositary for the ADSs is Morgan Guaranty Trust Company (60 Wall Street, NY 10260 New York, USA). On September 30, 2001, there were a total of 693,025,144 shares outstanding.

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FINANCIAL CALENDAR 2002*

Monday, January 21
Publication of first quarter 2002 results
Tuesday, January 22
2002 Shareholders' Annual General Meeting, 10 a.m. CET in Munich, Olympiahalle (Olympic Hall)
Tuesday, April 23
Publication of second quarter 2002 results
Tuesday, July 23
Publication of third quarter 2002 results
Tuesday, November 12
Publication of preliminary fourth quarter 2002 results and preliminary figures for the 2002 financial year

* Preliminary dates

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TECH GLOSSARY

3G – Third Generation, stands for new networking technologies used in mobile communications.

ASIC – Application Specific Integrated Circuit. Logic IC constructed for a specific application and implemented on an integrated circuit.

BLUETOOTH – Technology for wireless voice and data transmission over short distances.

Chip Card – Plastic card with built-in memory chip or microprocessor, can be combined with personal identification number (PIN).

CDMA – Code Division Multiple Access. Process used in mobile communications systems, allowing several users simultaneous access to a transmission channel. Advantage: optimal utilization of available transmission bandwidth.

CMOS – Complementary Metal Oxide Semiconductor Technology. Technology used to produce microchips with low power usage and high level of integration.

DECT – Digital Enhanced Cordless Telecommunications. Uniform European standard for wireless digital communications systems.

DRAM – Dynamic Random Access Memory. Widely-used memory chip technology based on high level integration and consequently low price. Examples of DRAM chips: SDRAM, DDR DRAM, Rambus or in logic ICs embedded DRAM. (See "RAM")

Ethernet – Network for high-speed communications for application limited to local areas (covering several 10s of meters to 10 km).

Flash Memory – A kind of non-volatile memory. Its contents are preserved, even if the power supply is switched off.

GPRS – General Packet Radio Service. New generation of mobile communications of the 2.5 Generation for higher data transmission capacities (up to 115 KB/s) in GSM networks.

GPS – Global Positioning System. Radio-based location identification and positioning process via direct reception of radio signals.

GSM – Global System for Mobile Communication. The most widely used digital mobile communications standard in the world.

IC/ICs – Integrated Circuit(s). Electronic component parts on the basis of semiconductor materials such as silicon; numerous, with each other connected components such as transistors and diodes can be integrated into an IC.

ISDN – Integrated Services Digital Network. On-line type of connections, integrating telecommunications services such as telephone, fax or data transmissions into one single network.

LAN – Local Area Network (Local network). Data communications network limited to an extremely limited physical space, for example within one building.

MAN – Metropolitan Area Network. Data communications network for a relatively limited area, for example a city.

Megabit (Mbit) – About one million bits. A bit is a unit for measuring information or for calculation purposes, which assumes one of two values, for example "right"/"wrong" or "0"/"1".

Megabyte (MB) – About one million bytes. A byte is a unit of measurement for information units in data processing devices. A byte corresponds to 8 bit.

Memory – Synonym for RAM and ROM (see "RAM", "ROM"). Can apply to every device, which stores data in machine-readable form.

Microcontroller – A microprocessor integrated into a single IC combined with memory and interfaces, functioning as an embedded system. The most complex logical integrated circuits can be implemented in a microcontroller and controlled per software.

Micrometer/Micron – Metric linear measure, corresponding to the millionth part of a meter. Symbol: µm (Micron). Example: the diameter of a single hair of a person is 0.1 micrometer.

PDA – Personal Digital Assistant. An electronic address book, appointment calendar and notebook, most recently available in combination with cellular phones; synchronized with the PC.

RAM – Random Access Memory (Direct access memory). Data memory known as main or primary memory, containing programs and data from external memory sources. It loses data without power supply. Examples: SRAM and SGRAM. (See "DRAM")

ROM – Read-only Memory. Digital, non-volatile data memory, in which data can be permanently stored even without power supply.

Semiconductor – A crystalline material, which demonstrates electrical conductivity upon warming, increasing the level of conductivity with rising temperature. Semiconductors are, for example, silicon, germanium or gallium-arsenide. The term is also applied to ICs made of this material.

Silicon – Material with semi-conducting characteristics. Silicon is widely used in the semiconductor industry as a basic raw material (silicon wafers).

Telematic – Invented term derived from Telecommunication and Informatic. Generic term for the integration of voice, data and visual communications technologies.

UMTS – Universal Mobile Telecommunications System. Designed to be the future global digital standard for mobile communications. UMTS enables data transmission of up to 2 Mbit/s – 200 times the rate of current systems.

Volatile Memory – Memory which loses the information stored in it when power supply is switched off.

Wafer – Disc made of a semiconductor material such as silicon, with a diameter of up to 300 mm. In the production of ICs, it is cut out of a single crystal and forms the substrate of integrated circuits.

WAN – Wide Area Network. Data communications network for a large geographic area.

xDSL – x Digital Subscriber Line. Generic term for various technical concepts for broadband, digital data transmission via existing copper telephone lines. Depending on the configuration, the "x" stands for ADSL, SDSL or VDSL.

Organization:

THE INFINEON COMPANY

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	Business Groups				
Infineon Technologies Asia Pacific Pte. Ltd. Loh Kin Wah	Wireline Communications Gerhard Geiger, Thomas Seifert	Wireless Solutions Ulrich Hamann	Security and Chip Card ICs Dr. Hermann-Josef Eul	Memory Products Harald Eggers	Automotive and Industrial Electronics Dr. Reinhard Ploß
	Principal Products				
Infineon Technologies Japan K.K. Yasuaki Mori	Codecs, SLICs, ISDN, ADSL, VDSL, SHDSL, T1/E1; ICs for routing, switching and optical modules, high-speed ICs	Baseband ICs, Linear RF ICs, Silicon Discretes, GaAs products, RF modules	Security memory ICs, security microcontroller ICs, encryption ICs, FingerTIP ICs, MultiMediaCards	Mainstream DRAMs (128-Mbit), high-end DRAMs (256-Mbit, Rambus), high-speed graphics, ASICs with embedded DRAM, hard disc drive controllers	Power semiconductors (discretes, ICs and modules) and microcontrollers (8-bit, 16-bit, 32-bit) with embedded memory
	Principal Applications				
Infineon Technologies North America Corp. Jan du Preez	Internet access, WAN, LAN and MAN	Mobile telephone systems, cordless telephone systems; major standards are: GSM, GPRS, UMTS, WDCT, DECT and Bluetooth	Telecommunications, banking, healthcare, access control, software distribution, games, mobile storage	Personal and notebook computers, PC upgrades, workstations and servers, communication equipment, computer peripherals	Automotive: Powertrain (engine control, transmission control), body and convenience (comfort electronics, air conditioning), safety and vehicle dynamics (ABS, airbag, stability control), infotainment (dashboard, car radio, telematics/navigation) Industrial: Power management & supplies, drives and power distribution
	Largest Customers in FY 2001				
	Alcatel, Cisco, Ericsson, Huawei, Nortel, Siemens	Acer, Ericsson, Matsushita, Motorola, Nokia, Sagem, Siemens, Vtech	Gemplus, Giesecke & Devrient, Oberthur Card Systems, SchlumbergerSema	Acer, Cisco, Compaq, Dell, HP, IBM, Sun	Bosch, Delphi, Denso, Hella, Siemens/VDO, Visteon

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