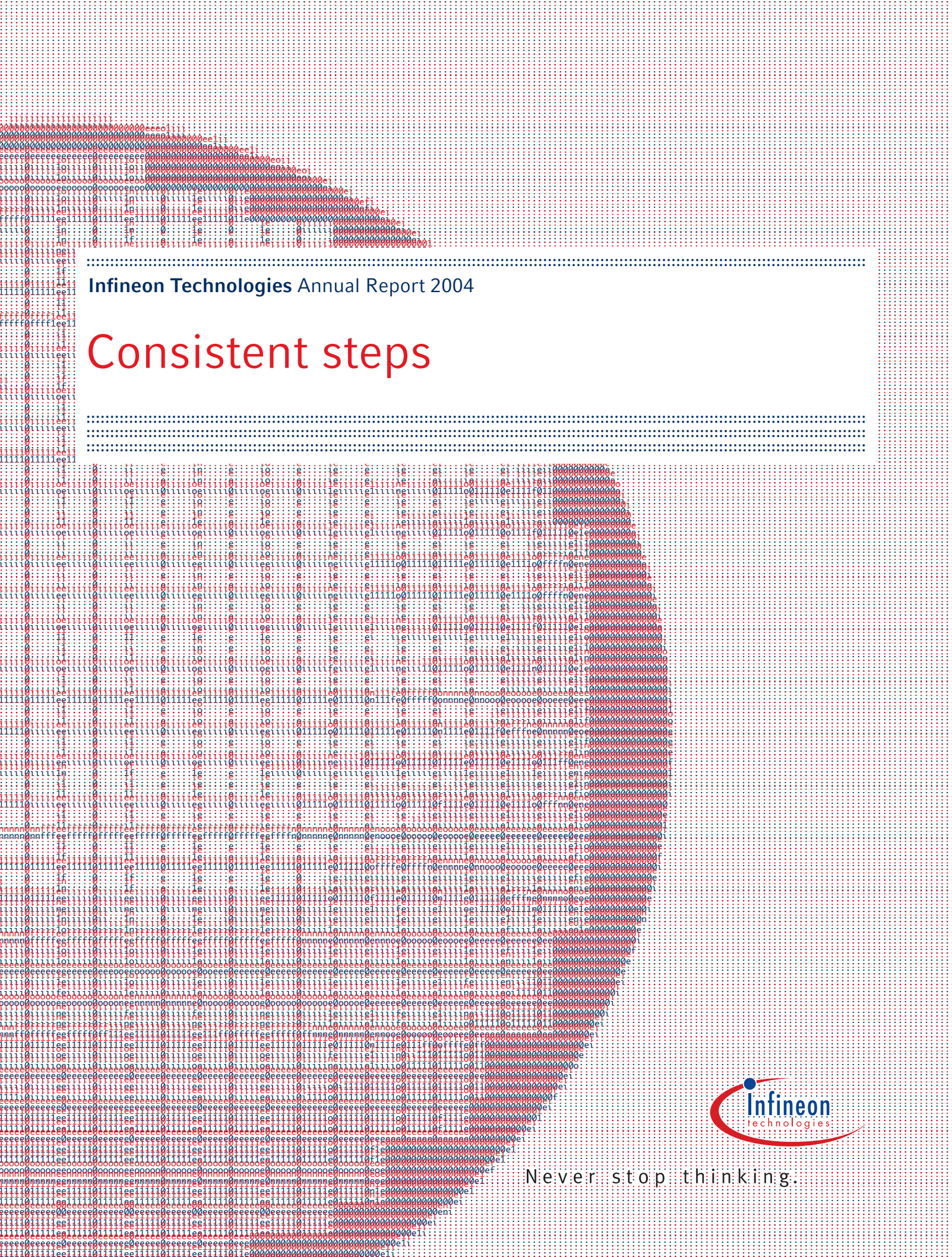
Infineon Technologies Annual Report 2004

Consistent steps



Never stop thinking.

Infineon at a glance

Infineon Group ::: Infineon Technologies is the semiconductor spin-off from its parent company Siemens and was established as a public company, based in Munich, Germany in April 1999. Infineon has been listed on the stock exchanges

Business groups

Applications

Wireline Communications (COM)

Dedicated historically to traditional **voice communications;** now more focused on **data communications** for short-haul networks and the home.

VINETIC for voice communications **:::** one of the many products in the Wireline Communications portfolio

- **:::** Traditional **voice communications**
- **:::** Copper-based **broadband data communications**
- **:::** Integrated **voice** and **data communications**
- **:::** Home **networks**
- **:::** Infrastructure for **fiber optics networks**
- **:::** Infrastructure for **inner city** and **long-distance data networks**

Secure Mobile Solutions (SMS)

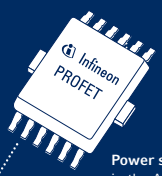
Wireless Communications and **Security Cards.** Focusing on mobile phones, infrastructure for mobile networks and cordless telephones. Chips for plastic cards; SIM cards in particular.

Chip card module ::: one of the many products in the Secure Mobile Solutions portfolio

- **:::** **Mobile communications**
- **:::** **Cordless telephones**
- **:::** **Radio frequency technology** for short-, medium-, and long-range distances
- **:::** Various applications for **chip-based cards** in the fields of communications (banking, SIM cards, telephone cards), payment (credit and debit cards), identification (identification cards, insurance cards), entertainment (Pay-TV), object identification (logistics), and platform security (computers, networks)

Automotive & Industrial (AI)

Chip for vehicle control system, industrial and household systems. **Chips in cars:** Transmission regulation; security; air conditioning; navigation. **Chips for industry applications:** Electric motor controls; energy transfer; trains. **Chips in the household:** Power supply units for televisions, DVD recorders and computers; lighting controls; washing machines.



Power semiconductor ::: one of the many products in the Automotive & Industrial portfolio

- **:::** **Automotive electronics:**
  Powertrain
  Car body and comfort electronics
  Security
  Infotainment
- **:::** **Industry:**
  Power supply units
  Drive control

Memory Products (MP)

Computer memories.
Standard memories for traditional PC, notebook, workstation and server markets. **Specialty memories** for graphics cards and for portable devices such as PDAs and mobile telephones.

512 Mbit DDR2 SDRAM, memory component **:::** one of the many products in the Memory Products portfolio

- **:::** **Data processing:**
  PCs, notebooks, graphics cards, workstations, servers
- **:::** **Infrastructure:**
  Local networks, memory networks
- **:::** **Mobile Applications:**
  PDAs, smart phones
- **:::** **Consumer electronics:**
  Memory cards for MP3 players, digital cameras, USB sticks

1 Alphabetically.

in Frankfurt and New York (NYSE) since March 13, 2000 (ticker symbol: IFX). With a global presence, Infineon operates in the USA from San José, California, in the Asia/Pacific region from Singapore, and in Japan from Tokyo. With about 35,600 employees worldwide, Infineon achieved revenues of 7.19 billion euros in the 2004 financial year as compared to 6.15 billion euros in 2003.

Products	Market position	Key customers[1]	Competitors[1]
::: **Interface components** for voice communications in switching centers and terminals (CODECs, SLICs, ISDN, T/E etc.) ::: Solutions for **integrated voice and data communication** and **VoIP** (VINETIC, INCA IP, etc.) ::: **System solutions** for wireline broadband technologies (xDSL, CO/CPE) ::: **System solutions** for DSL modems, routers, home gateways, WLAN access points, NICs, etc. ::: ICs and modules (transceivers) for **optical networks** ::: **Ethernet-over-SONET/SDH multi-service framers**	::: **No. 1** in ISDN ::: **No. 1** in T/E carriers ::: **No. 1** in analog line cards (CODECs, SLICs) ::: **No. 5** in overall wireline communications	::: **AFC** ::: **Alcatel** ::: **Avnet** ::: **Cisco** ::: **ECI** ::: **Ericsson** ::: **Flextronics** ::: **Fujitsu** ::: **Huawei** ::: **Lucent** ::: **Marconi** ::: **NEC** ::: **Nokia** ::: **Nortel** ::: **Siemens** ::: **Tyco** ::: **ZTE**	::: **Agere** ::: **Broadcom** ::: **Centillium** ::: **Conexant** ::: **Ikanos** ::: **Intel** ::: **Legerity** ::: **Marvell** ::: **Metalink** ::: **Mindspeed** ::: **PMC-Sierra** ::: **STMicroelectronics** ::: **Texas Instruments** ::: **Vitesse Semiconductor**
::: **Baseband and application processors** for standard wireless communication standards (GSM, GPRS, E-GPRS, EDGE, W-CDMA, DECT, WDCT, Bluetooth) ::: **Radio frequency transceivers** for standard wireless communications standards (GSM, GPRS, E-GPRS, EDGE, W-CDMA, DECT, WDCT, Bluetooth) ::: **One-chip solutions or modules,** combining baseband processors and radio frequency transceivers into one component ::: **System solutions** for mobile telephones, including platform design, operating software, applications ::: **Services** for system integration and customized adaptations ::: **Power transistors** for mobile base station amplifiers (up to 180 watts) for all 2G and 3G mobile communication standards ::: **Security controllers** (8 Bit, 16 Bit, 32 Bit) ::: **Security memories** ::: **Trusted platform modules (TPM)** ::: **Modules** for contact-based and contactless security controllers and security memories ::: **RFID memories**	::: **No. 1** in mobile radio frequency transceivers ::: **No. 1** in chip card ICs ::: **One of the top two** in DECT/WDCT ::: **No. 2** in Bluetooth ::: **No. 2** in power semiconductors for mobile base stations ::: **No. 3** in baseband and application processors for mobile communications ::: **No. 4** in radio frequency transceivers for mobile base stations	::: **Axalto** ::: **DBTel** ::: **Ericsson** ::: **Gemplus** ::: **Giesecke & Devrient** ::: **Konka** ::: **Nokia** ::: **Oberthur Card Systems** ::: **Panasonic** ::: **Siemens** ::: **Sony** ::: **Sony-Ericsson**	::: **Agere** ::: **Atmel** ::: **Broadcom** ::: **Cambridge Silicon Radio** ::: **Freescale** ::: **Philips** ::: **Qualcomm** ::: **Renesas** ::: **RF Microdevices** ::: **Samsung** ::: **Skyworks** ::: **STMicroelectronics** ::: **Texas Instruments**
::: **Microcontrollers** ::: **Power semiconductor ICs** ::: **Discrete power semiconductors** ::: **Discrete small-signal semiconductors** ::: **IGBT and bipolar modules** ::: **Thyristors and diodes** ::: **Sensors** ::: **Radio frequency semiconductors**	::: **No. 2** in automotive semiconductors (**No. 1** in Europe) ::: **No. 2** in semiconductors in industrial drives and traction ::: **No. 1** in power semiconductors ::: **Leading** in tire pressure monitoring systems	::: **Autoliv** ::: **Avnet** ::: **Bosch** ::: **Continental Automotive Systems** ::: **Delphi** ::: **Denso** ::: **Hella** ::: **Lear** ::: **Motorola ACES** ::: **SAC** ::: **Siemens** ::: **TRW** ::: **Visteon**	::: **Fairchild** ::: **Freescale** ::: **International Rectifier** ::: **Mitsubishi** ::: **National Semiconductor** ::: **ON Semiconductor** ::: **Philips** ::: **Renesas** ::: **STMicroelectronics** ::: **Toshiba**
::: **Standard DRAM memories** with memory densities of between 64 Mbit and 1 Gbit ::: **Memory modules for PCs, notebooks, workstations and servers** with memory densities of between 64 MByte and 4 GByte ::: **Specialty memories for graphics applications** (SGRAM) ::: **Specialty memories for mobile devices** (Mobile-RAM, CellularRAM) ::: **Specialty memories for network infrastructure** (RLDRAM) ::: **Non-volatile memories** (NAND-Flash) ::: **Flash memory cards** with densities of between 64 MByte and 256 MByte in conventional SD Card and MMC formats	::: **No. 3** in DRAM products ::: **Technological leader** in 300mm wafer production ::: **Top position** for highly complex DRAM products such as specialty memories and memory modules	::: **Acer** ::: **Cisco** ::: **Dell** ::: **Fujitsu-Siemens** ::: **HP** ::: **IBM** ::: **Kingston** ::: **Legend** ::: **Sony** ::: **Sun Microsystems**	::: **ELPIDA** ::: **Hynix** ::: **Micron Technologies** ::: **Powerchip** ::: **Samsung**

... Our business concept, from p. 15

Infineon key data for the financial years, ending September 30[1]

	2003		2004	2004	2004:2003
	€ in million	in % of net sales	€ in million	in % of net sales	change in %
Net sales	6,152		**7,195**		17%
By region					
Germany	1,535	25%	**1,675**	23%	9%
Other Europe	1,112	18%	**1,263**	18%	14%
North America	1,393	23%	**1,524**	21%	9%
Asia/Pacific	1,821	29%	**2,263**	32%	24%
Japan	256	4%	**364**	5%	42%
Others	35	1%	**106**	1%	203%
By business group:					
Wireline Communications	459	7%	**434**	6%	(5%)
Secure Mobile Solutions	1,403	23%	**1,790**	25%	28%
Automotive & Industrial	1,634	27%	**1,820**	25%	11%
Memory Products	2,485	40%	**2,926**	41%	18%
Other Operating Segments	139	2%	**196**	3%	41%
Corporate and Reconciliation	32	1%	**29**	0%	(9%)
Gross margin	1,538	25%	**2,525**	35%	64%
Research and development expenses	1,089	18%	**1,219**	17%	12%
Operating income/loss	(344)		**314**		–
Net income/loss	(435)		**61**		–
EBIT EBIT margin	(299)	(5%)	**256**	4%	–
Earnings (loss) per share – basic and diluted in €	(0.60)		**0.08**		–
Dividend per share in €	–		**–**		–
Net cash provided by operating activities	731		**1,857**		154%
Net cash used in investing activities	(1,522)		**(1,809)**		(19%)
Net cash provided by financial activities	566		**(402)**		–
Free cash flow[2]	(53)		**206**		–
Depreciation and amortization	1,437		**1,320**		(8%)
Impairment charges	98		**136**		39%
Purchases of property, plant and equipment	872		**1,163**		33%
Gross cash position as of September 30[3]	2,753		**2,546**		(8%)
Net cash position as of September 30[4]	261		**548**		110%
Property, plant and equipment net, as of September 30	3,817		**3,587**		(6%)
Total assets as of September 30	10,875		**10,864**		0%
Total shareholders' equity as of September 30	5,666		**5,978**		6%
Equity-assets ratio	52%		**55%**		6%
Return on equity[5]	(7%)		**1%**		–
Return on total assets[6]	(4%)		**1%**		–
Equity-to-fixed-asset ratio[7]	148%		**167%**		13%
Debt-equity ratio[8]	44%		**33%**		(25%)
Debt-to-total-capital ratio	23%		**18%**		(22%)
Employees as of September 30	32,308		**35,570**		10%

1 Columns may not add due to rounding.
2 Free cash flow = Net cash provided by operating activities minus net cash used in investing activities adjusted by purchases (proceeds from sales) of marketable securities available for sale.
3 Gross cash position = Cash and cash equivalents plus marketable securities.
4 Net cash position = Gross cash position minus short and long-term debt.
5 Return on equity = Net income divided by average shareholders' equity employed.
6 Return on total assets = Net income divided by average total assets.
7 Equity-to-fixed-asset ratio = Total shareholders' equity divided by fixed assets.
8 Debt-to-equity ratio = Long-term and short-term debt divided by average shareholders' equity.

Contents

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

2004 was a year of change for Infineon.

The strategic direction was optimized, market success grew and investment in the future was increased.

Each of these changes is evidence of greater drive and a consistent step towards our major goal:

profitable growth.

Consistent steps

Tackle ...

Profitable growth

The prerequisite to be able to develop and implement ideas. Not an end in itself, but rather the precondition for sustainable business. This is why Infineon places profitability before growth. ... Letter to the shareholders, page 4

Operational excellence

Intelligent processes, coordinated perfectly with each other. For increased innovation, efficiency and quality. These are the premises on which Infineon works on tomorrow's technologies in development and production centers around the world. ... Our business concept, page 15

... deliver!

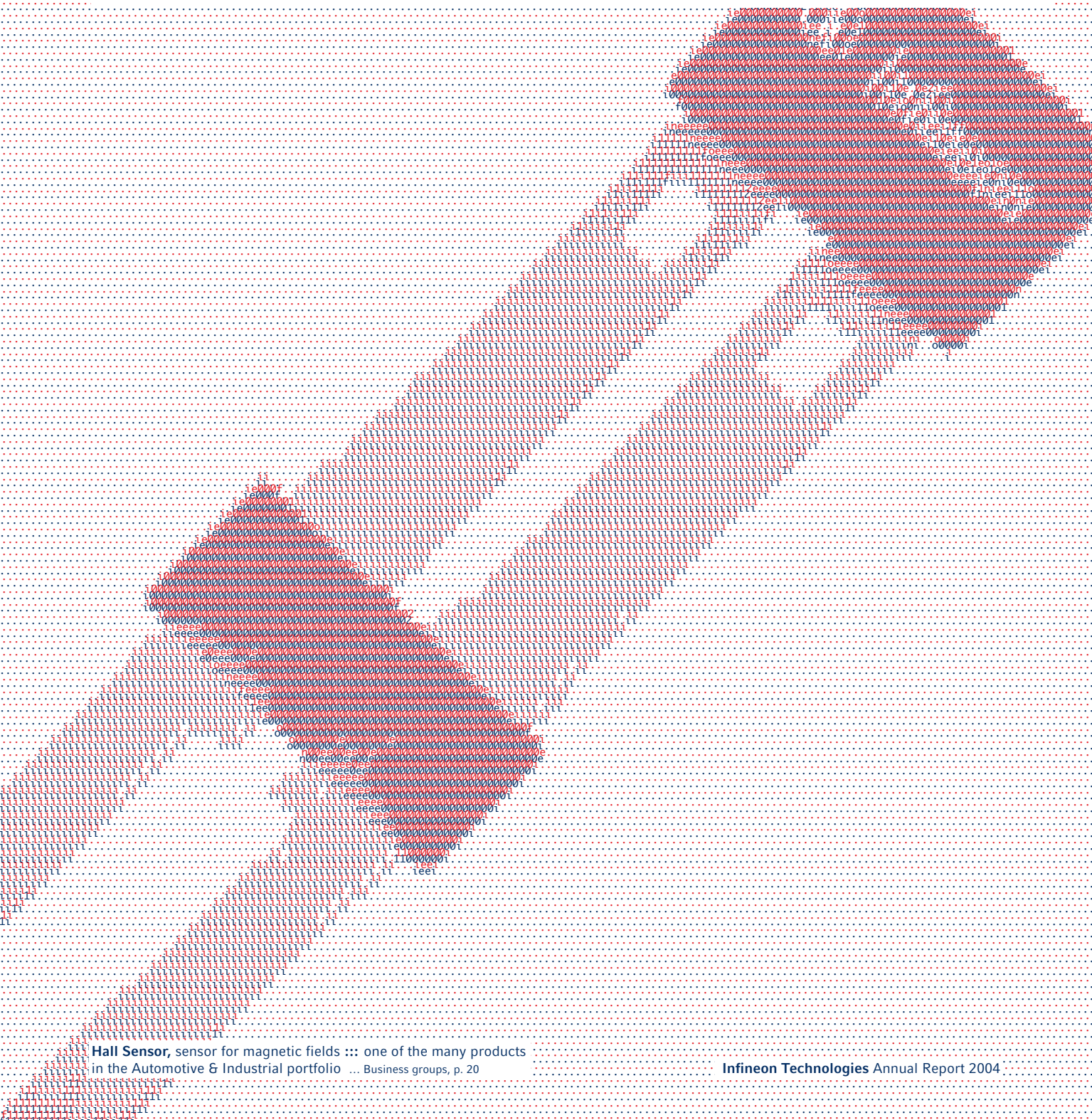
Customer focus

Give the customer what he wants. Identify needs and fulfill them. Infineon's market success is driven by convincing customized solutions, jointly developed with its industrial partners. ... Focus on customers, page 27

Cooperative culture

Networking requires dialog and demands cooperation, in business, in private life, in a technological as well as in a human context. Infineon's cooperative corporate culture helps maximize potential within the company. ... People at Infineon, page 38

Shareholder information



Hall Sensor, sensor for magnetic fields ::: one of the many products in the Automotive & Industrial portfolio ... Business groups, p. 20

Letter to the shareholders

Dr. Wolfgang Ziebart
President and CEO

Ladies and Gentlemen,

Infineon has returned to profitability for the first time since the 2000 financial year. After three difficult years that presented formidable challenges not only to Infineon, but also to the entire semiconductor industry, we have completed the 2004 financial year with a group net income of 61 million euros. This represents an improvement of 496 million euros over 2003, in which we suffered a loss of 435 million euros.

Our earnings were negatively affected by a fine of 160 million U.S. dollars that we agreed with the U.S. Department of Justice in September 2004 as a settlement in an antitrust suit involving memory products. In order to avert greater damage, it was important to me and my colleagues that we bring to a close a potentially lengthy and exhausting cross-industry investigation, and begin the new financial year with a clean slate.

2004 was undoubtedly a good year for Infineon and the semiconductor industry. Our turnover rose 17 percent to 7.2 billion euros, and within the first six months of the 2004 calendar year we had joined the ranks of the world's top 5 semiconductor companies. Of particular significance is our improved ranking in the U.S., where in the same period we moved up from seventh to third place. Furthermore, we continue to have a leading position in our most important product groups: worldwide we are number one in semiconductors for chip cards, rank second in ICs for the automotive industry and in chips for wireline communications, and are presently fourth in memory chips.

Infineon's financial strength has also improved considerably, with the company's free cash flow rising from minus 53 million euros to plus 206 million euros. We have reduced our financial debt to 2 billion euros, down from 2.5 billion euros in 2003.

The Infineon share price, however, did not reflect these positive developments, losing 27 percent of its value in the course of the 2004 financial year. As we all know, semiconductor companies are particularly prone to share-price fluctuation and are scrutinized especially carefully by international investors. It is for precisely these reasons that one of our most important tasks is to prove to analysts and investors that Infineon is much stronger than is reflected in the current market capitalization.

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Our research and development and our production must stay closely in tune with the market and our customers if we wish to raise our market share in key countries and regions. This is of fundamental importance for our future business. Consequently, we have strengthened our activities especially in North America and Asia.

China is the world's fastest growing semiconductor market; therefore, Infineon opened another development center in Xi'an in January 2004, which will concentrate on developing new products for communications, automotive and industrial as well as memory products. In September 2004, we also started operations at a new assembly and testing plant in Suzhou, which will begin volume production in early 2005.

Inotera Memories, a joint venture of Infineon and our Taiwanese partner Nanya, began volume production of memory chips on 300-millimeter wafers at a new semiconductor plant in Taiwan in October 2004.

We will also produce memory chips using 300-millimeter technology alongside the current 200-millimeter wafers at our semiconductor plant in Richmond, Virginia, which will increase capacity. Production is expected to begin in the second half of 2005.

We have begun two projects in Europe as well. We are planning the further expansion of the development center for 300-millimeter memory products and manufacturing processes at our state-of-the-art site in Dresden. The expansion is scheduled for completion next year. Our plant in Portugal has been fitted with a second module for the assembly and testing of memory chips, and has already begun operations.

Infineon's accomplishments during the past financial year are a credit to the work of my management board colleagues and our nearly 35,600 employees around the world. I have come to know many of my new colleagues in several different regions over the past few months, and I appreciate how valuable their contribution is to our company each day. I would like to thank them for their efforts.

My most important task will be to build up confidence in Infineon, and I ask you, our shareholders, to support us in achieving this goal. If we wish to remain successful in the future, we will need to rely on the trust of our customers and suppliers, our shareholders, analysts and the public at large. At the same time, it seems equally important to me that we should have more confidence in our own abilities and strengths.

I came to know Infineon at first through my earlier work with BMW and Continental, both of which are among Infineon's longstanding customers. Even at that time, I was impressed by Infineon's know-how and innovative capacities. My visits to Infineon sites within the first few weeks of taking up my current position clearly confirmed this impression. For me, Infineon stands for competence, motivated employees, and a strong innovation potential.

The image that I would like Infineon to project is of a company with a first-class team of developers, engineers, production experts, and distribution specialists, which develops and produces excellent products and works closely with its customers.

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Infineon will not deviate fundamentally from its current corporate strategy, as I am firmly convinced that it is a sound one in all its major facets. However, in view of the expected market development, my colleagues and I plan to redirect the focus of our activities. Market research companies expect semiconductor industry growth to weaken in 2005. Like most experts, we also anticipate that demand will increase only slightly in comparison to 2004, and that pricing pressure will increase. Naturally, we would like to grow further, but not at any price. It will be more important for us to achieve sustainable profitability.

This involves raising cost-awareness within our company. What does that mean? We need to plan conservatively in a market that is weakening. We must think more carefully about how much we spend and for what purpose. And each employee has to consider how he or she can create value for Infineon. If we act more prudently when times are good, we will have more room to maneuver when times are difficult.

I also see room for improvement in our collaboration with our customers. How can we offer them better solutions and how can we put these into practice faster? Listening to our customers' needs and solving problems creatively and reliably will engender trust in our company. I will look very closely into how we can make our organization, structures, and processes more efficient and flexible in order to better meet customer expectations.

The efficiency of our processes is right at the top of my agenda. We must continually improve processes, adapt rapidly to changing conditions, and ensure that the quality of our products remains consistent.

While we will continue to adhere to our overall corporate strategy, there will be changes in certain aspects at Infineon. In order to succeed, we will all have to work together.

I am looking forward to meeting these challenges.

Yours sincerely

Dr. Wolfgang Ziebart
President and CEO

The Members of the Management Board of Infineon Technologies AG

From left:

Peter Bauer: Chief Sales & Marketing Officer (CMO)
Graduated in electrical engineering, academic title: Dipl.-Ing.; Member of the Management Board since April 1999

Peter J. Fischl: Chief Financial Officer (CFO) and Labor Director
BA equivalent degree; Member of the Management Board since April 1999

Dr. Wolfgang Ziebart: President and Chief Executive Officer (CEO)
Graduated in mechanical engineering, academic title: Dr.-Ing.; Member of the Management Board since September 2004

Dr. Andreas von Zitzewitz: Chief Operating Officer (COO)
Graduated in electrical engineering, academic title: Dr.-Ing.; Member of the Management Board since April 1999

Review of the 2004 financial year

2003

October

::: Improved security for Hewlett-Packard business notebooks: Infineon provides security chips that improve access control to networked computers and ensures greater data protection – both in the office and when traveling.

::: Up to 25 percent power savings with fluorescent tubes: The new LightMOS chip saves up to 25 percent power and, installed inside electronic lamp ballasts, provides more comfort – in the future, fluorescent lights will flicker less and can be dimmed.

... Our contribution to ecology, p. 42

LightMOS chip

2003

November

::: High-speed data transmission using existing infrastructure: The XPAK transceiver module transmits data up to 300 meters error-free at a rate of ten gigabits per second. On average, more than 80 percent of a company's infrastructure today utilizes such multimode optical fiber networks.

::: Internet, video, and multimedia applications via satellite: Constellation, developed by Infineon in cooperation with ViaSat of the U.S. and ZyXEL of Taiwan, enables VDSL to achieve a transmission rate up to 200 times that of conventional 56k modems.

Constellation
Via VDSL up to
200 times faster
than conventional 56k modems

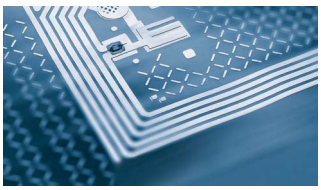
2003

December

::: Broadband applications using conventional telephone infrastructure: The MetroMapper 622 network chip allows data and traditional telecommunications equipment manufacturers to develop flexible Ethernet systems using existing optical fiber networks.

::: Improved RFID chips for logistics: In cooperation with Magellan Technology of Australia, Infineon has developed RFID chips that can be identified, read and written 25 times faster than previous components. The smart labels are gaining increasing acceptance.

... Secure Mobile Solutions, p. 18



RFID tags with chip and aerial

2004

April

::: Planar memory with more capacity: The 36 individual 512 Megabit chips in the 2 Gigabyte DDR2 memory module are not stacked as in previous modules, but placed next to each other in a planar design. The module is only 4.1 millimeters thick.

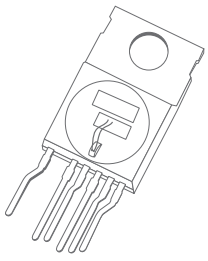
::: Finisar acquires fiber optics business: The Finisar Corporation and Infineon agree to the transfer of Infineon's fiber optics business to Finisar. Upon approval, with the acquisition of Infineon's development, production, and various marketing activities for fiber optics components, Finisar is expected to become one of the world's largest companies specializing exclusively in optical components.

2004

May

::: Chipset reduces power consumption: The CoolSET F3 optimizes power efficiency and reduces stand-by power consumption to 75 milliwatts in power supply units – half as much as previously available, and well below the consumption levels specified by law.

... Our contribution to ecology, p. 42



CoolSET F3

2004

June

::: More sensors for automotive safety: Infineon presents three new safety sensors for applications such as side airbags, tire-pressure monitoring and anti-lock brake systems.

::: Breakthrough in non-volatile MRAMs: Infineon and IBM have developed the world's first magneto-resistive memory with a 16 Megabit capacity and, thus, the highest memory density currently available.

::: More efficient language and data communications: The GOLDMOS high-power radio frequency transistors, for use in mobile communications base stations, digital radio and television, combine high bandwidths with an improved efficiency rate.

... Secure Mobile Solutions, p. 18

2004

January

::: Research and development in China: In Xi'an, China, Infineon opens a new design center, which develops chips for communications, automotive and industrial as well as memory applications. The design center will become one of the largest in Asia.
... Innovation, p. 24

::: Infineon acquires ADMtek Inc.: The acquisition of the Taiwanese semiconductor company, specialized in networking and communications systems, strengthens the Wireline Communications business group. The unit will concentrate on the development of chips for broadband Customer Premise Equipment (CPE) and open up the market of home gateway systems to Infineon.
... Wireline Communications, p. 16

2004

February

::: More performance for Linux: The 32-bit TC1130 microcontroller for industrial and communications applications is now compatible with all common operating systems, and outperforms previous capability by a factor of three.

::: New platform introduced: The multimedia mobile phone platform supports UMTS, EDGE and GPRS; the platform P2002+ offers features such as camera functionality and color displays.

::: Extension of Dresden development center: With the extension of its design center for memory products in Dresden, Infineon creates 120 new jobs and consequently increases the importance of the site for the development of process technology, especially in the field of DRAM products.

2004

March

::: Samsung joins development partnership: A group of now four semiconductor companies including Infineon, Chartered Semiconductors and IBM is focusing on the logic processes of the next generation, involving initially 65-nanometer and later 45-nanometer technology. ... Innovation, p. 24

::: Communications processor bridges access networks: The ConverGate-C links together previously incompatible network protocols, enabling advanced communications services such as Voice over IP and Video on Demand.
... Wireline Communications, p. 16

ConverGate-C processor

2004

July

::: Fingerprints in passports: A new chip card controller with twice as much data storage space and over 50 security mechanisms provides enough capacity for biometric data.

::: All on one chip: SMARTi SD, the world's first single-chip radio frequency transceiver, combines all the functions for the GSM/GPRS mobile-phone standard, so that it requires only half as much space.

SMARTi SD

2004

August

::: Partnership with Winbond expanded: Infineon transfers its 90-nanometer DRAM trench technology developed using 300mm wafers, to the Taiwanese Original Equipment Manufacturer Winbond. Infineon, in turn, holds an option for the memories produced using this technology.

::: Memory module for the next generation of servers: Infineon successfully tests a newly developed advanced memory buffer chip, which will fulfill the speed and memory capacity requirements of future workstations and servers. ... Memory Products, p. 22

2004

September

::: Outstanding supplier: Sun Microsystems presents its Meritorious Award for Supply Chain Excellence to Infineon for its excellent work in the 2004 financial year.

::: Wireless automobile communications: Infineon and Volkswagen cooperated on developing a platform that will soon make wireless telecommunications and the use of local information services a standard feature for all classes of vehicle.

::: Chinese milestone: In Suzhou, China, Infineon opens a new back-end facility – to begin volume production in early 2005 – and an IT development center. ... Production, p. 34

Did you know that …

… of the total of about 35,600 employees at Infineon, one in five is involved in the area of research and development?

… worldwide annual revenues in the semiconductor sector grew more than 40,000-fold between 1958 and 2003 to 166 billion U.S. dollars?

… there were about 30,000 circuit components on a regular chip twenty years ago and that, today, over 125 million of such miniature components are fitted into the same amount of space?

… today, there is an average of 110 million transistors per inhabitant on earth?

… the semiconductor chips in today's vehicles provide more computing power than those in the spacecrafts of all Apollo missions?

The Infineon share

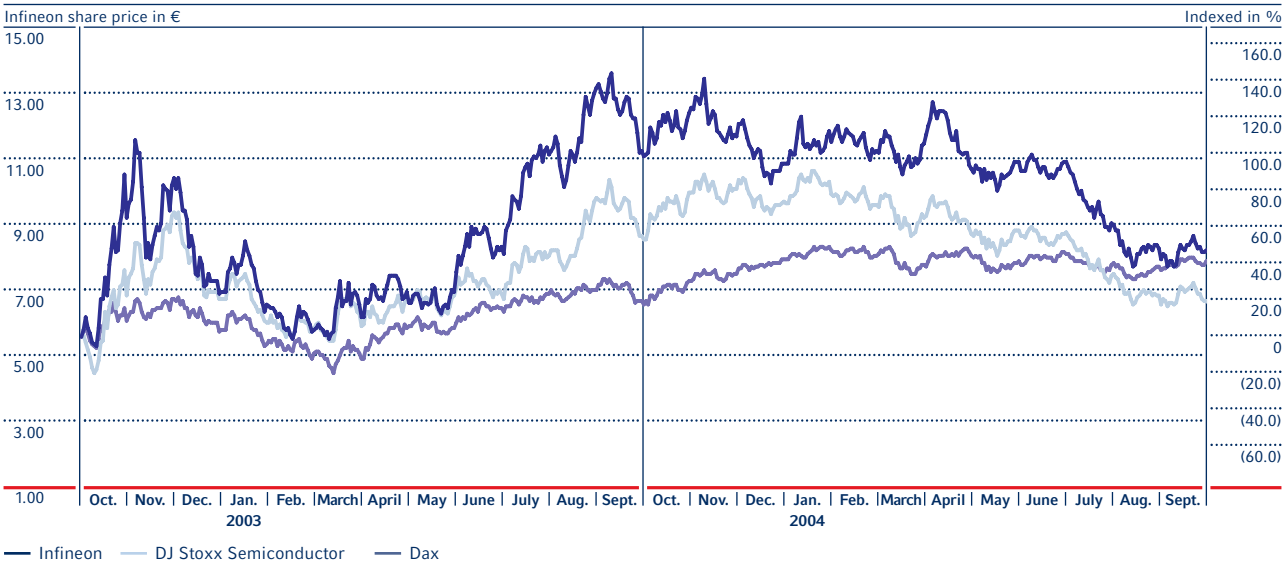
Infineon share cannot sustain the previous year's upward trend

Infineon share falls 27 percent in the course of the 2004 financial year, DJ Stoxx Semiconductor index falls 22 percent
Trade volume in the U.S. and Germany up again
Infineon redeems a portion of its convertible notes to reduce future interest expense

Chip manufacturer shares underperformed in comparison with the stock market as a whole over the past year. While the semiconductor market itself grew considerably in the 2004 calendar year, this was not reflected in share prices. Investors in fact expect semiconductor growth to slow down more in 2005 than previously anticipated, an expectation that is already reflected in semiconductor share prices. While, for instance, the market research institute World Semiconductor Trade Statistics raised its growth projection for the semiconductor market for 2004 from 19.4 to 28.5 percent, its projection for 2005 was lowered from 12.6 percent to 1.2 percent (predictions as of November 2004). The DJ Stoxx Semiconductor index fell 22 percent during the course of the year, a strong contrast to the DJ Stoxx 50 and Dax indices, which rose by 12 and 20 percent respectively.

Infineon could not withstand this trend. After doubling in the course of the previous year, the Infineon share price fell by 27 percent in the 2004 financial year, although with considerable fluctuations: at the beginning of the 2004 financial year, the share even outpaced the semiconductor market, reaching a year high of 13.65 euros on November 7, 2003. Then memory chip prices fell, and by the end of December 2003 the Infineon share price had fallen strongly. When memory chip prices recovered by early April 2004, the Infineon share price followed suit. In the second half of the financial year, however, a downward trend began that affected all semiconductor stocks. The year's low of 7.80 euros was recorded on August 12. By the end of the financial year, the share had recovered somewhat, to 8.22 euros.

Relative performance of the Infineon share as compared to the Dax and DJ Stoxx Semiconductor indices since the beginning of the 2003 financial year (closing price)



The trading volume of the Infineon share and American Depositary Shares (ADS) continued to increase; an average of 11.7 million Infineon shares were traded each day in Xetra trading, on the Frankfurt Stock Exchange and in regional stock exchanges; this volume is 17 percent higher than in the previous year. Approximately 0.9 million ADS shares were traded daily on the New York Stock Exchange, also a rise of 17 percent over the previous year.

The Infineon share's long-term performance has continued to be disappointing. The share price has fallen by 77 percent from the initial issue price on March 13, 2000. The Infineon share has, however, performed better than comparable technology indices over the same period.

The Infineon share in figures

Financial year (to September 30)	2003	2004
Europe Xetra closing prices in euros		
Year high	13.79	**13.65**
Year low	5.34	**7.80**
Financial year close end of September	11.22	**8.22**
Average daily trade volume individual shares	10,041,871	**11,743,938**
of which Xetra trading in %	94	**96**
USA NYSE closing prices in U.S. dollars		
Year high	15.35	**15.87**
Year low	5.25	**9.39**
Financial year close end of September	12.89	**10.22**
Average daily trade volume individual shares	766,588	**896,317**

Long-term development of Infineon share and market indices
in %

Period to September 30, 2004	Since IPO March 13, 2000	Since October 2002	Since October 2003
Europe			
Infineon (Xetra)	(77)[1]	47	(27)
DJ Stoxx Semiconductor	(85)	19	(22)
DJ Stoxx Technology	(80)	54	6
DJ Stoxx 50	(47)	15	12
Dax	(49)	41	20
USA			
Infineon (NYSE)	(70)[1]	79	(21)
Philadelphia Semiconductor Index (SOX)	(71)	61	(8)

1 Based on issue price of 35 euros / 33.92 U.S. dollars.

Market capitalization at 6.1 billion euros

Market capitalization came to 6.1 billion euros as of the end of the 2004 financial year, down 24 percent from the end of the previous financial year. This is primarily a reflection of the decline in the Infineon share price. The number of shares outstanding rose by 4 percent, as a result of Infineon's acquisition of the minority interest in the 300-millimeter production facility in Dresden, financed through a capital increase in kind.

Share capital, number of shares outstanding, and market capitalization of Infineon Technologies AG

As of September 30	2003	2004	Trend
Share capital € in million	1,442	**1,495**	+4 %
Shares outstanding in million[1]	721	**748**	+4 %
yearly average in million[1]	721	**735**	+2 %
Market capitalization € in million	8,090	**6,149**	(24 %)
Market capitalization U.S. $ in million	9,294	**7,645**	(18 %)

1 Basic.

Infineon to pay no dividend

Although Infineon achieved a 61 million euros net income in the 2004 financial year (previous year: minus 435 million euros), the Infineon Management Board and Supervisory Board will not propose the payment of a dividend at the Annual General Meeting. Due to the accumulated losses carried forward from earlier years, Infineon's parent company, Infineon Technologies AG, will not in fact have distributable profits for the 2004 financial year.

Convertible notes redeemed

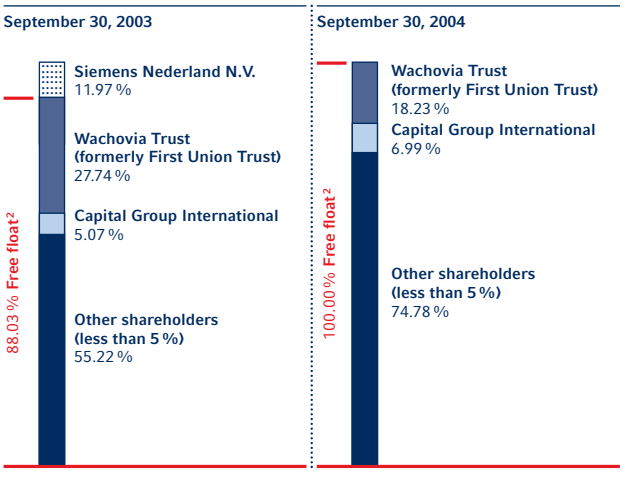
In the second half of the 2004 financial year, Infineon redeemed convertible subordinated notes in an effort to reduce future interest expenses. These notes had a nominal value of 360 million euros and would have been due in 2007. The original issuance of one billion euros was thus reduced to a nominal 640 million euros after the redemption.

Free float at a hundred percent

According to the FTSE stock index definition of free float, the portion of Infineon shares accounted for by free-float holdings has risen from 88 percent to 100 percent in the course of the past financial year. The following changes in the free-float ownership, subject to mandatory reporting, are known to Infineon:

- Siemens Nederland N.V. sold all of its shares on January 14, 2004, thereby falling below the 10 and 5 percent voting thresholds.
- The Wachovia Trust Company National Association sold 63.7 million shares on January 14, 2004, thus falling below the 25 percent voting threshold. The Wachovia Trust now holds 136.3 million shares, down from 200.0 million.
- Capital Group International increased its interest in the company by 15.7 million shares to a total of 6.99 percent by February 26, 2004.

Shareholder structure[1]



1 In accordance with the companies' mandatory reporting known to Infineon.
2 Free float strictly in accordance with the FTSE stock index definition of free float. By contrast, Deutsche Börse and Stoxx do not count the Wachovia Trust share of free float.

Continual dialog with investors and analysts

Analysts and investors have maintained a continued interest in Infineon this past financial year. As in previous years, Infineon's management and the investor relations team held numerous individual discussions with investors and presented the company at a number of conferences in 2004. These activities will continue on the same scale in the 2005 financial year.

Interested investors can find comprehensive information on the company at www.infineon.com. The site's "Investor Information" pages include the latest news, financial reports, and detailed information on the Infineon share, convertible notes, and Corporate Governance as well as corporate presentations and the investor relations calendar.

Basic share information

Share types	Ordinary registered shares in the form of shares or American Depositary Shares (ADS) with a notional value of 2.00 euros each (relation ADS : shares = 1:1)
Share capital	€1,495 million (as of Sept. 30, 2004)
Outstanding shares	748 million (as of Sept. 30, 2004)
Listings	Shares: Frankfurt Stock Exchange (FSE) ADS: New York Stock Exchange (NYSE)
Option trading	Options on shares: Eurex Options on ADS: CBOE
IPO	March 13, 2000 on the FSE and NYSE
IPO issue price	€35.00 per share U.S. $33.92 per ADS
Ticker symbol	IFX
ISIN Code	DE0006231004
CUSIP	45662N103
Bloomberg	IFX.GY (Xetra trading system) IFX.US
Reuters	IFXGn.DE
Index listings (selection)	Dax 30 Dow Jones German Titans 30 Dow Jones Stoxx Semiconductor FTSE Euro 100 MSCI Germany SOX S&P Europe 350

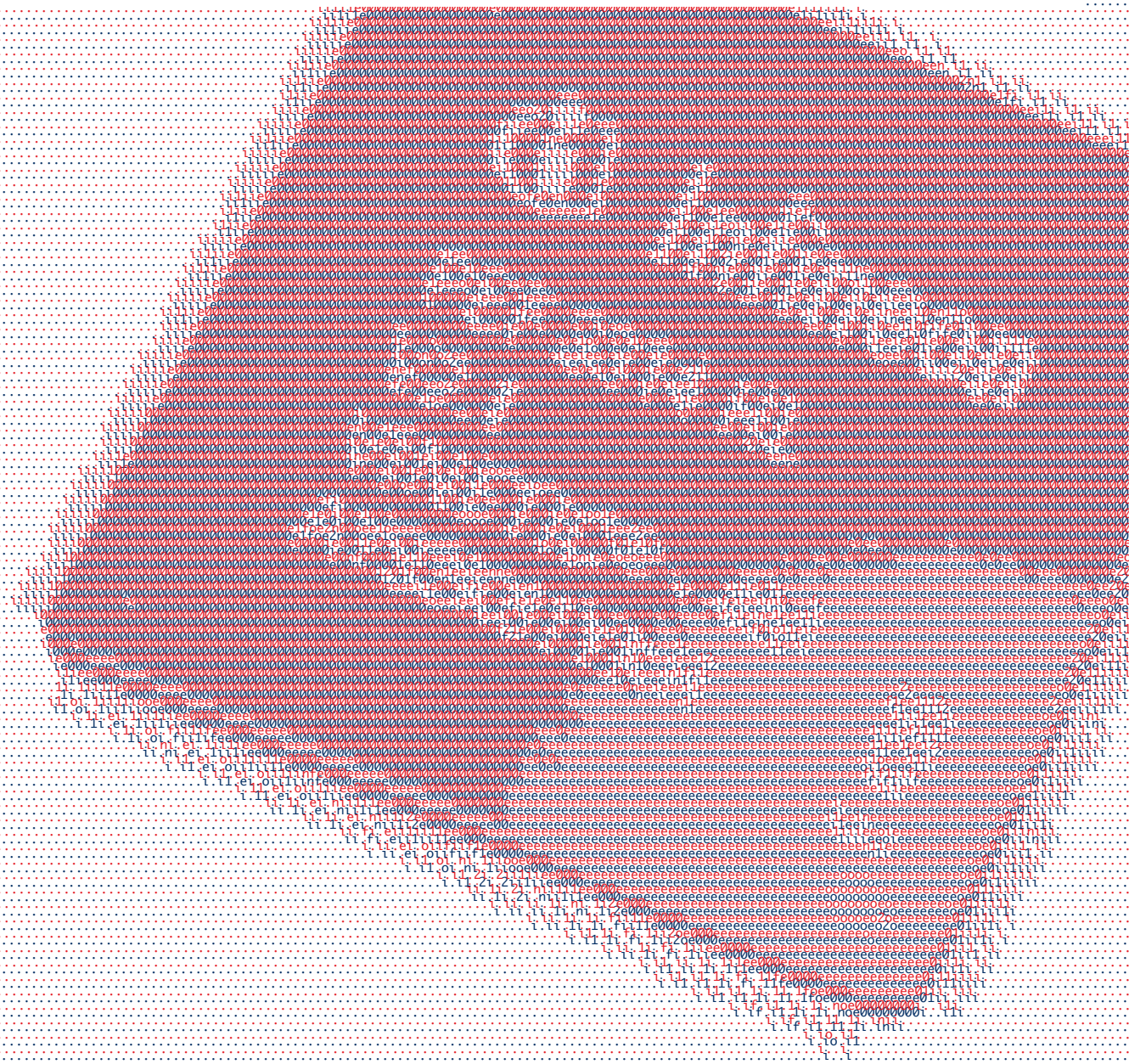
The Infineon IR team is available to answer investor and analyst questions in **Munich, tel: +49 (0)89 234-26 655** or **fax: +49 (0)89 234-26 155** and in **San José, California, USA tel: +1 408 501 6800** or **fax: +1 408 392 8023** as well as via **e-mail: investor.relations@infineon.com**

Did you know that …

… four of every five ISDN telephones contain Infineon chips?

… 30 percent of all telephone lines in China use Infineon CODECs, which convert voice signals from analog to digital and vice versa?

Our business concept



Wireline Communications

Fast Internet and VoIP boost broadband data transfer

Triple play services are the key driver for the Customer Premise Equipment market
Driving the convergence of voice and data towards a single IP network
Refocusing the business group as an Access Solution Provider

Telephone lines are no longer used just for standard voice communication. Many services such as the transmission of large amounts of data, multimedia applications, and IP telephony are now delivered over the very same telephone line. Today, the broadband service provider industry is one of the fastest-growing sectors of voice and data communications, and Infineon's Wireline Communications business group designs products for these markets. In addition to traditional telephony products, Infineon provides a wide range of system solutions for efficient transmission of fast "triple play" services that include voice, data, and video. Wireline Communications' products comprise "core to door" semiconductor solutions from the metro rings via Central Offices (COs) all the way to customers' premises.

Business situation

Infineon is a leading semiconductor supplier to the telecommunications industry. Its revenues therefore depend strongly on how much telecom companies invest in their infrastructure. While traditional voice transmission technologies such as analog telephony and ISDN no longer offer growth potential, broadband access technologies such as ASDL, in particular, are enjoying growing popularity. Network applications are also being used more frequently in private homes. Infineon serves this market segment with wired and wireless home gateway solutions. These systems work as integrated access points for voice, video, and data services to the premises, and as routers to create and control home networking. Together with high-speed Internet access, home applications form a rapidly growing, highly competitive market.

Strategic orientation

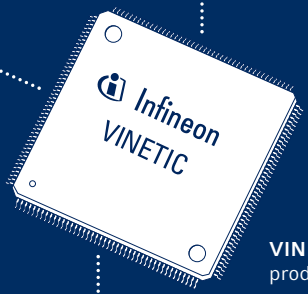
Infineon is the world's leading supplier of semiconductors for traditional telecommunication infrastructure, with a comprehensive range of traditional voice products (analog linecards, ISDN, T/E carrier, etc.). Leveraging its top position in this industry, Infineon addresses the growing demand for VoIP solutions by offering advanced IP phone and Analog Telephone Adaptors (ATA) to enable VoIP technology on any analog telephone line. In addition, Infineon plans to complete its portfolio with end-to-end xDSL access technologies for Broadband In The Home (BBITH) and digital home networking.

With the acquisition of the Taiwanese company ADMtek, a semiconductor supplier for Customer Premise Equipment (CPE) applications, Infineon can now provide complete broadband communication solutions for both ends of the communication line, from the Central Office to the individual user. Adding CPE solutions to our portfolio also gives us access to the promising digital home-networking market, allowing triple play services in private homes and business centers via broadband. Digital home networking enables the connection of televisions, telephones, computers, surround voice systems, and other devices either via Wireless LAN or wireline home gateway. Our regional presence in Taiwan – just around the corner from the world's leading CPE manufacturers – offers an excellent starting point for market development.

Wireline Communications

Prof. Dr. Hermann Eul

Head of the Wireline Communications business group, graduated in electrical engineering, academic title: Dr.-Ing.



VINETIC for voice communications ::: one of the many products in the Wireline Communications portfolio

Product innovations

::: Complete Residential Gateway solution for Broadband In The Home (BBITH) applications integrating ADSL2+, VoIP, Ethernet switching, and WLAN products.

::: Ethernet-over-SONET (EoS) solution allows telecom operators to transport data cost-effectively using legacy voice networks (SONET/SDH).

::: Voice-over-IP (VoIP) solutions enable low-cost voice services using traditional telephones as well as advanced IP-phone systems.

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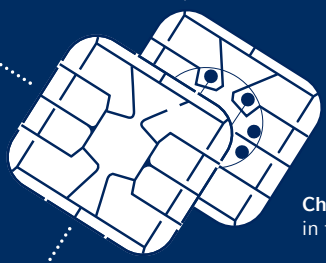
Secure Mobile Solutions

Dr. Erk Thorsten Heyen

Head of the Secure Mobile Solutions business group, graduated in physics, academic title: Dr.rer.nat.



Chip card module ::: one of the many products in the Secure Mobile Solutions portfolio

Product innovations

::: Multimedia platform for the arrival of the UMTS mobile telecommunications generation: the platform can be used in the UMTS network as well as in the conventional GSM network – the system switches automatically depending on network availability.

::: Baseband chip family expanded: the S-GOLD multimedia baseband chip supports the EDGE standard, which permits higher speed data services in GSM cellular networks. E-GOLDlite is also available for the GSM-/GPRS standard.

::: Radio frequency CMOS transceivers: the SMARTi SD represents a one-chip solution designed using the cost-effective CMOS manufacturing technology rather than the previous BiCMOS technology. Users benefit from longer standby and talk times.

::: GOLDMOS high frequency power transistors for cellular base stations: these transistors are characterized by outstanding linearity and excellent thermal qualities. GOLDMOS transistors are used in amplifiers for base stations of all standards.

::: Quicker delivery of 32-bit controllers in the 88 family: Infineon can now deliver applications to its customers within two weeks – three times faster than before. This is possible by using memory technology that can be programmed directly at the customer's site.

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Secure Mobile Solutions
Wireless solutions gaining ground

Complete solutions add to the product portfolio of wireless platforms
UMTS drives infrastructure investments for base stations
Maximum security through new product platforms for chip cards

Secure Mobile Solutions offers an extensive line of wireless applications and serves the entire security chip card market. Included in its portfolio are not only numerous semiconductor components for cordless phones and cell phones, but also operating software and applications for cell-phone manufacturers who procure system solutions. The business group also offers Bluetooth chips for wireless transmission of data over short distances and chips for cellular base stations. The UMTS third generation wireless system provides cell-phone users with multimedia services in addition to telephony. Since the introduction of this technology, the UMTS cellular base station business has been gaining momentum as well. The capacities of conventional GSM and GPRS networks are also being expanded or – as is the case in parts of Eastern Europe, South America and India – are being deployed for the first time. Our security chips are used in a wide range of applications: for example, in SIM cards for identifying users in cellular networks, as well as in PayTV, bank and credit cards and for ID cards and passports.

Business situation

The cellular market is characterized by two trends: on the one hand, multimedia telephones require ever more powerful processors and increasingly complex software and system solutions. On the other hand, the important mass markets in Asia, Eastern Europe and South America are demanding economical low-end models. There is a growing demand for complete reference designs, including the software solutions, which we can tailor to meet specific customer needs.

Growth drivers in the area of security chips are personal identification applications (passports, ID cards, health insurance cards) and payment cards (debit and credit cards). In these high-security areas, very high standards for both contact and contactless chip cards are required in terms of security and performance. As in the past, SIM cards continue to account for the majority of revenues.

These markets pose several challenges: the cell-phone industry is characterized by short innovation cycles as well as shifts in supply chain structures. Cell-phone manufacturers are increasingly moving their development and production operations abroad; mobile suppliers are to a greater extent defining their own cell-phone specifications and are contracting out production. The number of applications for security chips is continuously growing; in addition, there are constant requests for new security functions in existing applications.

Strategic orientation

The platform business is regarded as an important growth market in the cell-phone segment. In view of this, Infineon has promoted software and system development. Today, Infineon delivers a comprehensive range of services. In addition to providing telephone platforms with the required range of functions, Infineon also offers support during testing and production ramp-up. The company is also expanding its market leadership in the area of radio frequency components.

State-of-the-art technologies, innovation, and a highly competitive product spectrum help to strengthen our wireless infrastructure business as does the consistent expansion of our customer base.

We are striving to maintain and expand our market leadership in the area of security chips and solutions by introducing the high performance 16-/32-bit product platforms with additional security features as well as a new contactless controller family. Infineon is enlarging its application spectrum and customer base with RFID chips for identification tasks and TPMs (Trusted Platform Modules) for PC and network security.

Automotive & Industrial

System expertise and power-saving solutions

For automobile manufacturers, Infineon products offer lower system costs while increasing performance
Market leadership with highly integrated, power-saving industry semiconductors
Microcontrollers for real-time applications, tire-pressure sensors and combined functions within a system

Semiconductors have become an integral part of modern vehicles: the chips produced by the automotive electronics segment control a variety of the vehicle's functions ranging from the air-conditioning system and seating adjustment to the ABS and airbags, right through to the motor and transmission system. On average there are about 250 euros-worth of semiconductors in every car produced today, and this quantity is increasing steadily.

The industrial electronics segment is responsible for power-supply equipment as well as electric engines – on a small, as well as on a large scale. High performance electronics in transformation substations, in high-speed trains, wind-energy plants and industrial power drives, for example, ensure that high power is reliably controlled. Semiconductors also regulate the power supply to motherboards in PCs and notebooks as well as in battery chargers for mobile equipment.

Business situation

The market for automotive semiconductors is the most stable segment in the entire semiconductor industry. This is partly due to – comparatively – low fluctuation in automobile production, and partly to the constant advances being made in electronic equipment for vehicles. This means that in the automotive electronics segment there is a relatively high degree of planning certainty – with long product cycles and a well-established customer base. Products must, however, conform to the very highest quality standards, since our customers expect zero defects (0 parts per million, ppm).

The two most important segments in the industrial field – drive control of electric motors and power supply for PCs, notebooks, and battery chargers for mobile equipment – are typically driven by the need to minimize power losses and reduce the size of the casing. Achievement of these requirements depends on the architecture of chip components.

Strategic orientation

In the automotive sector, Infineon offers a comprehensive product portfolio and system expertise that is based on years of experience in this area. Infineon is active in all three fields of classic control loops: sensor-assisted measuring, data processing using microcontrollers, and actuating by means of high-performance electronics. This means the three most important fields of application – power trains, safety, and body & convenience – are all particularly well catered for. The golden rule is: absolutely flawless deliveries or 0 ppm – which means of the billions of components supplied, no defects can be tolerated. This objective has already been achieved with the majority of our products.

In the field of high performance semiconductors in the industrial electronics segment we have set ourselves the task of minimizing power losses. The result is higher power density and smaller modules as well as a reduction in heat generation. Power supplies used in PCs, notebooks and other consumer electronics devices are thus one of our focal areas of interest.

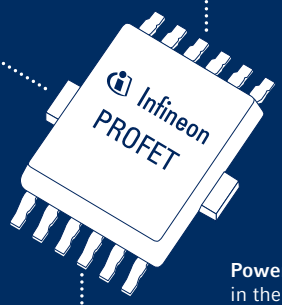
Another important focus is on PC microprocessor power supply. Depending on the operating state of the microprocessor, more or less current needs to be controlled. Here, voltage regulators have to ensure that the voltage is maintained at exactly the required level while minimizing power loss.

Drive control can be divided into two sub-segments: one is high voltage applications such as railway locomotives, underground trains, and automation, the other is consumer applications equipment such as washing machines, dishwashers and air-conditioning systems.

Automotive & Industrial

Dr. Reinhard Ploss

Head of the Automotive & Industrial business group, graduated in chemical engineering, academic title: Dr.-Ing.



Power semiconductor ::: one of the many products in the Automotive & Industrial portfolio

Product innovations

::: TriCore-AUDO-NG family, cutting-edge technology: its architecture enables microcontrollers to achieve particularly high performance, with the best real-time response on the market. This instant response makes the chips highly suitable for motor and safety management tasks in vehicles.

::: TriCore-2 architecture optimized for industrial applications: the market research institute In-Stat/MDR declared this very low-power semiconductor solution to be the "Best Low-Power Embedded Processor of 2003".

::: SPT6 Technology combines the advantages of CMOS with bipolar technology: the combined technology is used in high performance semiconductors. It means fewer components are required and high voltages can be managed with very little power loss.

::: Tire-pressure sensors prevent accidents: pressure sensors in the tires notify the driver in good time of any pressure loss and can thus help to prevent an accident resulting from tire damage. The sensors are designed to have very low power consumption and are incorporated into the tire complete with battery.

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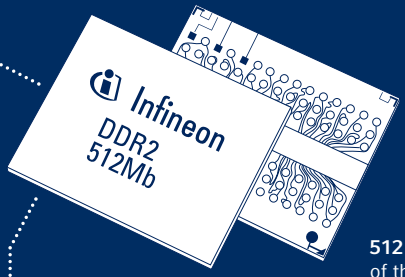
Memory Products

Thomas Seifert

Head of the Memory Products business group, graduated in business administration, academic title: Dipl.-Kfm., MA in economics



512 Megabit DDR2 SDRAM, memory component ::: one of the many products in the Memory Products portfolio

Product innovations

::: Next technology generation presented: first functional samples in 90-nanometer technology are available. The 90-nanometer volume production will begin next year with 512 megabit DDR memory chips.

::: Standard DRAM memory with DDR2 interface to come: market launch was in July 2004 for PCs and servers. Next year DDR2 will replace the current DDR generation as a main volume product.

::: New memory modules developed: with the micro DIMM, an even smaller memory module for sub-notebooks has been presented. Together with the Wireline Communications business group, a buffer memory for high-speed data transport has been developed, which is to be used in the next generation server modules: the so-called fully buffered DIMMs.

::: Specialty memories for 3D graphics cards available: the 500 megahertz GDDR3 graphics memories support highly sophisticated graphics applications.

::: DRAMs optimized to run on low power consumption: the 256 megabit Mobile-RAM is now available for 1.8 volt supply voltage and is targeted at smart phones. The 32 megabit CellularRAM replaces expensive SRAMs in mobile phones.

::: Introduction of first flash components: at the beginning of 2004, Infineon Technologies Flash, the joint venture with Saifun, Israel, stepped into the market of flash memories with a 512 megabit chip. The flash components can be integrated into USB sticks and flash cards of format secure digital (SD) cards as well as the MultiMediaCard.

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Memory Products

Technology leadership through superior process technology

Highly integrated memories in 110-nanometer technology
Widened product portfolio with application-specific and specialty memories
Sharing risks and widening resource base by building up partnerships

An estimated 52 billion megabytes of data are generated worldwide each day – and this figure is rising. This flood of data demands ever-increasing memory capacity, both of the network infrastructure and of the terminals processing the data. The performance offered by application and operating system software is constantly increasing, also enabled by greater memory capacities. Infineon develops semiconductor memory components for a wide variety of data processing and distribution devices.

The DRAM (Dynamic Random Access Memory) chip is deployed in all computers, from the PDA to the notebook and PC all the way to the mainframe. Yet more and more memory volume is also required for compact, battery-operated devices, such as mobile phones, since they are no longer just used for making calls, but increasingly for the reception and local processing of data.

Business situation

The main pillar of revenues in the Memory Products business group is the DRAM, which is largely standardized throughout the industry and therefore subject to tough competition. Representing 60 to 70 percent of the market, the major share of worldwide DRAM production is absorbed by the computing segment – which includes workstations, desktop and notebook PCs. The remainder goes to less price-sensitive markets, such as servers and routers acting as nodes in networks, as well as consumer electronics, telecommunications and PC peripherals.

Recent years have seen a drop in the number of DRAM suppliers, not least due to the tough competition, and the market has consolidated. In the 2003 calendar year the top 5 DRAM suppliers had a market share of over 80 percent, ten years ago it was nearly 50 percent.

Strategic orientation

Innovation and flexibility are the pivotal requirements for securing profitable growth in the competitive environment prevailing in the memory products market. Infineon's state-of-the-art production technologies make it possible for the company to significantly cut memory production costs year by year. In the last financial year, a major part of the production capacities was shifted to feature sizes of 110 nanometers. We have also created new capacities in the 300-millimeter technology – where Infineon continues to play a pioneering role. This, too, affords potential for more cost-effective memory production. We thus ensure our ability to continuously increase productivity in the manufacturing of memory components by approximately 30 percent each year. ... Production, p. 34

Cooperation will continue to be an item on the business group's agenda to expand its capacities and develop new products and processes, an approach allowing risks and costs to be shared and minimized and opening up a wider resource and financial base for projects.

There is also an ongoing drive in the Memory Products business group towards gearing its product portfolio to higher-margin market segments. As compared with standard memories, they achieve higher prices and are less subject to market fluctuations. These products include application-specific and customized DRAM products, such as server modules or power-saving specialty memories for mobile devices. This is aimed at reducing the volatility of the business as a whole and rounding off the product range at system level. Infineon is successfully using this approach in the mobile phone business: we not only develop a large part of the platform of a mobile phone ourselves, but also provide a corresponding range of memories.

Innovation
A leader in technology with innovative power

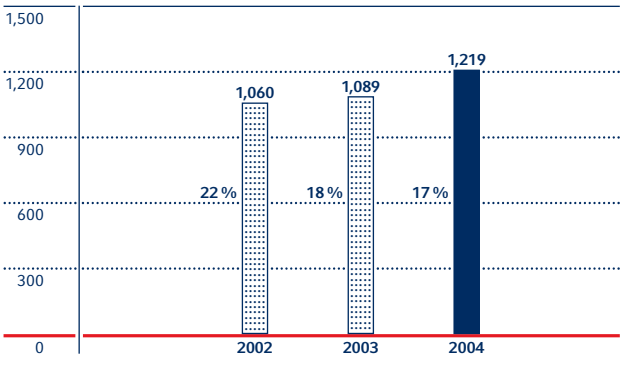
The efficient use of developmental resources improves profitability
Infineon invests in research centers and partnerships all over the world
Moving from micro to nanotechnology

Infineon is a technological leader and key player in the exceptionally dynamic semiconductor industry. Research and development therefore play a crucial role in Infineon's work towards realizing growth potential and ensuring its competitiveness.

The importance we attach to innovation work throughout our business groups is reflected in our expenses for research and development: in the 2004 financial year, Infineon invested 1.2 billion euros in future technology – a rise of 12 percent or 130 million euros from the previous year. ... Business groups, p. 16

As of the end of the 2004 financial year, the company had some 7,200 employees working in research and development throughout the world – 1,200 more than at the end of the previous financial year.

Research and development expenses
in € million, % of revenues



Efficient use of developmental resources

The company ensures its future by investing strongly in research and development. Only by continuously developing competitive products that employ the latest technologies are we able to improve our cost situation and, thus, raise our profitability. We pay particular attention to the efficient utilization of developmental resources, as we can only achieve adequate returns if we maintain a reasonable ratio between product development expenditure and product turnover. Only through careful project management can we meet the requirements necessary to strike such a balance. Close cooperation with our customers and thorough analyses and evaluations of potential risks and opportunities allow the developmental process to run smoothly, especially during the early phases of product development. In addition to running cost analyses, selecting the right time to introduce new products (time-to-market) is of decisive importance in maintaining a competitive edge in terms of cost advantages and sales potential. ... Focus on customers, p. 27

Reusing previously developed semiconductor structures and cores in new products is yet another significant way to increase our developmental productivity. Since a number of products and product families share certain similarities, the modular organization of previously developed components helps us to optimize the use of our resources. We will continue to pursue this concept systematically to exploit the immense potential it has for boosting productivity. Involvement of our customers in the developmental process, systematic planning and cost-efficient development are all decisive factors in ensuring that Infineon remains a successful and reliable partner.

In highly innovative industries such as the semiconductor sector, it is essential that the value created through research and development is secured by patents. Over the past financial year, Infineon has filed patents for roughly 1,700 of its inventions – an average of seven patents a working day.

Worldwide development of our products

Infineon combines its global developmental activities for product development in around 40 development centers. The choice of sites is based primarily on close proximity to

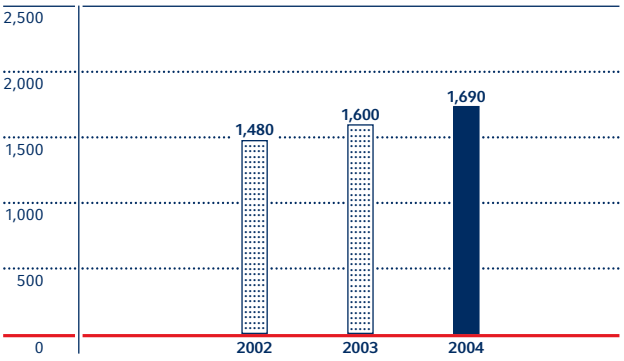
our customers, qualified employees in the area, and a competitive cost structure. In October 2003, Infineon took on some 145 software developers from Siemens ICM in a move to expand the company's developmental competence in the field of mobile communications. We are now able to combine the outstanding software expertise with our baseband and high-frequency semiconductors to create complete platform solutions for cell-phone manufacturers.

… Secure Mobile Solutions, p. 18

We have also expanded our software center in Bangalore, India, by recruiting 200 additional employees. Many of the approximately 400 developers now at the center are working on software for wireless applications, signal processors and security applications, as well as broadband technologies and industrial automation. One of the largest development centers in Asia is now being built in Xi'an, China. The center will provide the facilities necessary to develop mass storage and other innovative products for the communications, automotive and industrial electronics industries. The Xi'an site will strengthen our position in one of the fastest growing markets for electronics products, and also allow us to benefit from the comparatively low costs there. Our competence center for power electronics in Villach, Austria, is now being expanded to include a new building for 270 product developers. The Villach center clearly demonstrates the advantages of bringing together development and production at the same site, thus facilitating the transfer of newly developed products into manufacturing without delay – one of the essential prerequisites for profitable growth. … Global Presence, p. 30

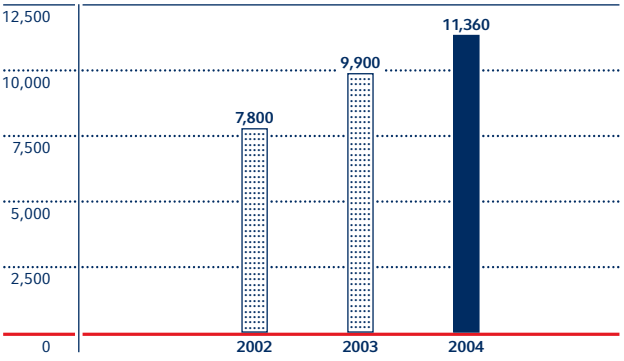
Infineon has concentrated its development of base technologies for memories in Dresden. The Memory Development Center (MDC) located there is to be expanded to accommodate 120 additional employees by the beginning of 2005. Work at the center revolves around the development of innovative concepts and production processes, as well as the examination of new materials for memory technologies. In the future, we will also allow external partners to take advantage of the ideal working conditions provided by the development center. The new Center for Nanoelectronic Technologies (CNT), established jointly with the Fraunhofer Society and Advanced Micro Devices Inc. (AMD), will be located at Infineon's Dresden site and make use of our infrastructure there.

First applications for patents[1]



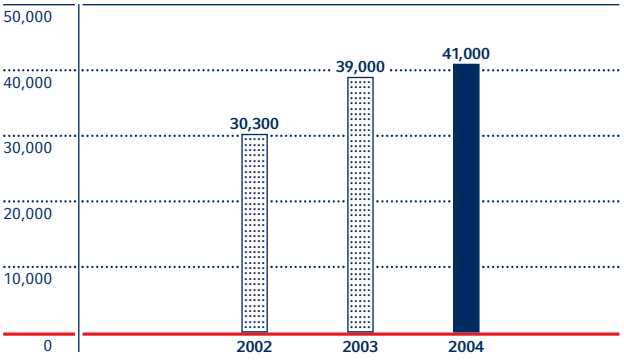
1 Initially, inventions are filed at only one patent office.

Active patent families[1]
September 30



1 Patents have a maximum life span of 20 years; all active patents count cumulatively. Patents relating to the same invention form a "patent family".

Active patents and patent applications, worldwide[1]
September 30



1 Infineon files subsequent applications for its most important inventions in foreign countries within a year. On average, four patent applications are derived from one invention.

Optimizing costs through cooperation

Logic and memory components are subject to strong competition. To meet this challenge successfully we are required to increase research and developmental expenses. We can share the costs and risks with others by pursuing strategic partnerships; by choosing partners that best complement Infineon's own expertise, we can benefit from their strengths. At the MDC in Dresden, for instance, we are developing the latest 90- and 70-nanometer DRAM technologies in cooperation with Nanya Technologies of Taiwan. The 90-nanometer DRAM technology developed at the MDC already achieves considerable yields. The first prototypes for 70-nanometer technology have now been developed there as well. In a further strategic partnership with Chartered Semiconductors, IBM and Samsung Electronics, we are developing a technology platform for the production of logic components at the IBM development center in East Fishkill, New York. Our efforts currently focus on production technology for 65-nanometer chip structures, and will later turn to 45-nanometer structures. Each of the participating companies will transfer the processes and technologies developed there to its own manufacturing lines. AMTC has also begun operations in Dresden. At AMTC, AMD, DuPont Photomasks, and Infineon are developing and producing state-of-the-art lithographic masks for semiconductor manufacturing. The masks provide the patterns for the integrated circuits in the lithography process, with increasingly sophisticated photomasks needed for ever smaller chip structures.

Infineon is also involved in public sector funded research programs such as the NANOCMOS project, with which the European Commission is seeking to maintain Europe's leading position in semiconductor technology. Europe's three largest semiconductor manufacturers, Infineon, Philips and STMicroelectronics, together with the foremost European technology research laboratories such as CEA Leti in France and IMEC in Belgium, are working towards miniaturizing CMOS technology structures below 45 nanometers.

From micro to nanoelectronics: power semiconductors made of carbon nanotubes

Continual reduction of the size of chip structures to achieve further extension of the frontiers of semiconductor technology: this remains one of the greatest challenges facing the semiconductor industry. That is why we consider our own research efforts to be of the utmost importance. And Infineon researchers have now successfully achieved a cutting-edge development in molecular electronics; they were the first in the world to have created a power semiconductor out of carbon nanotubes. These are the smallest of all conductors conceivable today, consisting of only a single molecule shaped as a perfect, seamless tube with ideal physical properties. Carbon nanotubes conduct heat exceptionally well, withstand high current density, and their electrical resistance is virtually independent of their length. Two years ago, Infineon was already the world's first company to use carbon nanotubes as "vias", or links between two chip levels. The new power semiconductors made of carbon nanotobes drive light-emitting diodes (LEDs) and small electromotors at 2.5 volts, opening up new methods of powering electronics components with little power loss, and thus high cost-efficiency.

Innovation plays an important role in determining the economic success of Infineon. We focus research and developmental resources on pioneering future-oriented products and technologies, so that as a leader in the field of technology, we can secure profitable growth in the future, too.

Focus on customers
Innovative solutions produced for demanding customers

First-class customer focus and its consistent implementation are fundamental to profitable growth, as sustainable growth and positive business results are only possible when our customers are satisfied. Our customers tend to purchase not only individual products but complete solutions that provide them with the respective added value. Infineon's customer focus begins with the sales organization, and is a priority for each division, whether Marketing, Research & Development, Logistics or Production. After all, our success depends on our customers' confidence that we can fulfill our commitments reliably.

We derive approximately 70 percent of the revenues – generated by our about 380 direct customers – from companies that do business on more than one continent. Nearly 52 percent of these revenues were generated by 20 major customers. Over the past few years, many market players have adapted their organizations to cope with the pricing pressure that prevails throughout the semiconductor industry. They have increasingly outsourced production and developmental services to third parties or entered partnerships that allow customers to grow at lower cost. All these trends lead to increasingly complex networks worldwide. At the same time, we know that, despite this global scale, we must not lose sight of the individual goals and needs of our customers. It is only by focussing on these that we can take our customers' systems expertise into account when working on new product developments and thus provide optimal solutions. Continuous development and integration of products will doubtlessly lead to increasingly complex systems, yet the ability to incorporate our customers' expertise into these developments will be crucial for our mutual growth and increased market share.

We have recognized these changes and taken the initiative on matters affecting our markets and customers at an early stage. We focus on growth segments and their respective applications, looking especially for customers whose strategies coincide with our product and service portfolio so that we can work together towards mutual, long-term business success. A clear-cut customer segmentation enables us to provide each customer with truly individual service.

Sales partners at work

Our worldwide sales organization maintains close relationships with all of our customers. At Infineon, we make every effort to support them in the best way possible, as is reflected in our interest in their ideas and needs. Dedicated sales teams are able to give advice to our customers, across regions and all of our business groups. Each team is composed of sales and application engineers who offer products, solutions and services on site, all building on the qualification and expertise of our sales employees. The systematic, practical, and project-oriented education and training of each sales team member is therefore of great importance.

Local service creates trust

An important link to our customers is provided by distributors. These external sales partners help us to stay abreast of the needs of thousands of our customers by providing them with comprehensive, ongoing support.

Our distributors' core competence in this endeavour is the provision of customized solutions, to ensure that each delivery matches our customers' needs and is synchronized to their production. They also provide versatile technical support, ranging from simple product advice through to specific assistance with the application development. This type of competent, on-site support is of particular benefit to our indirect customers.

Our customer service partners provide a broad and sophisticated range of support. The carefully coordinated partnership we maintain with our distributors, based on a

relationship of mutual trust, is a prerequisite to successfully realizing our market potential.

The continuous improvement of our procedures, the right choice of distribution partners, and our competitive product portfolio have all contributed to an increase in our share of the distribution market over the past financial year. The percentage of revenues accounted for by our distribution partners increased to nearly 20 percent of Infineon's revenues in the logic segment.

Original design manufacturers – new customers for Infineon

A shift in the value chain over the past few years has strongly influenced our customer relations. Traditionally, Original Equipment Manufacturers (OEM) have been the main purchasers of our products. To reduce costs and concentrate on their end customers, OEMs, however, are outsourcing an increasing number of tasks to contract manufacturers. As a result, specialized contract manufacturers have begun to take on design work for OEMs, thus evolving into Original Design Manufacturers (ODM), thereby constituting new market players. These ODMs no longer provide only efficient production, but also implement the technological specifications of the OEMs, making use of their own developmental know-how.

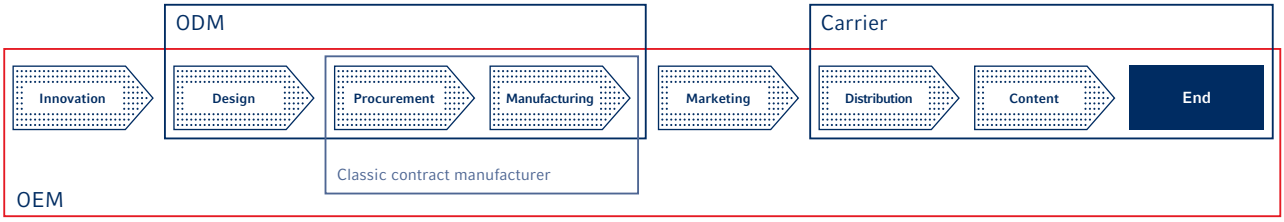
We have therefore begun to systematically include the ODMs in our customer base, and share our experience in integrating and developing complete systems.

To address the important computing ODMs in Asia, we have established a local technical Power Management & Supply competency team. In sharing our technological know-how in power semiconductors and by working closely together in the field of concept and system manufacturing, Infineon and major ODMs have jointly developed the most cost-effective solution currently available on the market. One successful example is the Infineon power management solution for motherboards, developed with major Taiwanese ODMs, another is a most efficient server power supply, which resulted from collaboration with Asia's leading ODMs in the switch mode power supply (SMPS) market.

Direct line to end customers

In order to maintain a comprehensive picture of the market as a whole, we remain focused on all the levels of the value chain, while, at the same time, actively expanding the exchange of information with our customers' customers. In our Secure Mobile Solutions business group, for example, we not only seek dialog with the manufac-

Specialization of market players along the value-added chain based on the example of mobile phone devices



The large **Original Equipment Manufacturers (OEM)** have traditionally performed all tasks in the value-added chain: from product innovation to design, procurement and manufacturing, right through to marketing and distribution to the end customer. To reduce costs, OEMs are increasingly outsourcing tasks to contract manufacturers. The **classic contract manufacturers** focus on procurement and manufacturing, while the new players, so called **Original Design Manufacturers (ODM)** additionally take on design and developmental tasks. Network operators or **Carriers**, on the other hand, concentrate on distribution to end customers and offer services such as the provision of a mobile phone network with all the associated services as well as the sale of mobile phones.

turers of mobile phones and networks, but with public bodies, banks, and carriers as well. These customers have clear ideas about future security processes, system and customer requirements. In turn, this knowledge helps us to steer our chip card technology in the right direction, while continuing to secure and expand our current leading market position. By getting involved with companies that have such a direct link to end customers, we can form a reliable picture of the market, and find out about trends, probable standards and potential demand well ahead of time. This information enables us to introduce the right products to the market at the right time. ... Secure Mobile Solutions, p. 18

Experienced sales and applications engineers represent an important part of our sales organization; they act as contacts and are responsible for our customers' technical questions and needs. Our technical sales organization is geared towards specific customer applications and customers, and works very closely together with our customers in all technical areas.

Precise knowledge of our customers and our markets, and optimized customer management are decisive factors in our efforts to compete in the hard-fought semiconductor market. But that alone is not enough. At Infineon, customer focus is applicable to both external and internal customer/supplier relations. All of our employees are well aware of this, not only those in departments that maintain direct contact with our customers.

It is our goal to continually optimize our company's processes, from order intake all the way to the delivery of our products. Each customer is assigned one employee, who is responsible for providing a high service level. Sticking to our commitments and responding rapidly are key to improved customer satisfaction. This was confirmed in a customer survey carried out in the 2004 financial year, showing that 60 percent of our customers were satisfied with our logistic services, compared to 48 percent in the previous year. 80 percent of our customers would recommend Infineon – a satisfactory result we wish to improve even further.

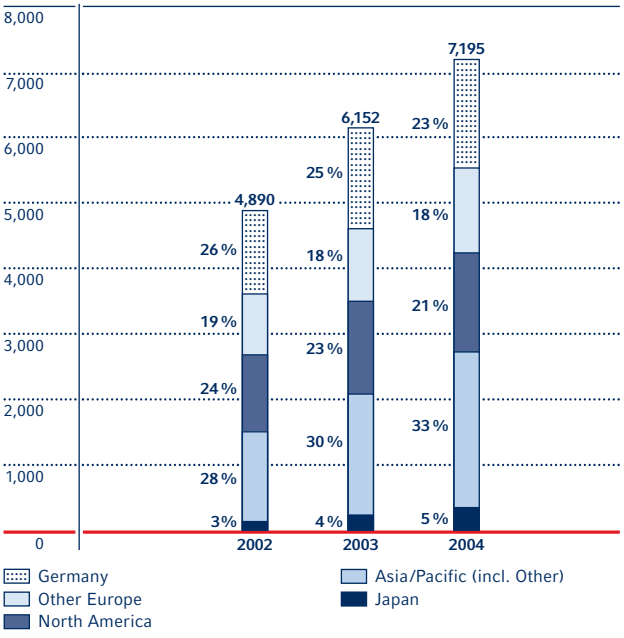
Global presence
Global reach, local flexibility

Growth in all regions
Strong presence in North America
Investment in Asian growth markets to exploit full potential

The performance of the regional organizations and production sites is one of Infineon's most important strengths. Company decisions in this area take into account the prospective sales volume, innovation potential and cost advantages of the respective regions. Infineon is a global corporation supported by the flexibility of its local sites; responsibility for many tasks and areas of competence is allocated to the individual regions. The local proximity enables the company to recognize changes in and around our markets and react to them immediately – a great advantage in the fast-paced semiconductor sector.

One of our main objectives is to increase Infineon's international presence. We will continue to expand our activities in focus markets such as North America, China and Japan in order to achieve above-average improvements in profit and revenues.

Revenues by region in million €



Europe: strong position maintained

Despite Europe's continuing economic stagnation compared to Asia and North America, the continent remains an important market for semiconductor products. Infineon is well represented in Europe, especially in Germany, and over the past financial year we have again been able to capitalize on our broad European presence to reinforce our market position. Infineon's revenues increased by 11 percent to 2.9 billion euros, and we thus attained a market share of more than ten percent in the first half of the 2004 calendar year, securely establishing Infineon as the number two company on the European semiconductor market.

We have expanded our back-end facility in Porto, Portugal with a second module. Our decision in favor of this site reflects, among other aspects, the outstanding quality and efficiency of the existing production facility. Our Dresden site will also play an increasingly important role for the company in the future. Infineon's dedication to this site has proved worthwhile; Dresden is now home to an internationally acclaimed competence center for semiconductor technology. Drawing from the excellent research environment, Infineon is expanding its development center in Dresden, too. ... Innovation, p. 24

North America: realizing sales potential

North America has one of the world's strongest consumer markets and is home to important IT, automotive and telecommunications companies. It is a key market for all semiconductor manufacturers, but Infineon has yet to make full use of this potential. The company is therefore planning to expand its presence, especially since it is here that many of our global customers decide whether to use Infineon technology in their products – decisions that clearly have a strong impact on our international sales development.

We have set ambitious goals for ourselves. For one, we will strive to significantly develop our position in the automotive and industrial electronics sectors over the next three years. We will also expand our current 200-millimeter module in Richmond, Virginia by adding a 300-millimeter production line. This will enhance our presence in one of the largest and most promising markets for memory chips and help us to respond to our customers' needs more quickly and flexibly in the future. ... Production, p. 34

In the past financial year, Infineon's revenues in North America increased strongly to more than 1.5 billion euros, mainly because of memory component sales. We now have a market share of about five percent and ranked third among semiconductor companies on the American market during the first half of the 2004 calendar year.

Asia: Infineon capitalizes on local advantages

Infineon increased its revenues in Asia in the past financial year by 24 percent up to approximately 2.3 billion euros and is now the sixth largest semiconductor manufacturer with a market share of more than three percent in the first half of the 2004 calendar year. The region is playing an increasingly important role for Infineon for several reasons. Firstly, Asia's economic growth is well above global average, making Asia an attractive market for Infineon. Secondly, Asia, still the top market in terms of innovation, is setting global trends with its new products and functionalities. Furthermore, the level of education and training in Asia is generally comparable to the best in the world. And finally, wage and production costs in Asia are often significantly below European and North American standards.

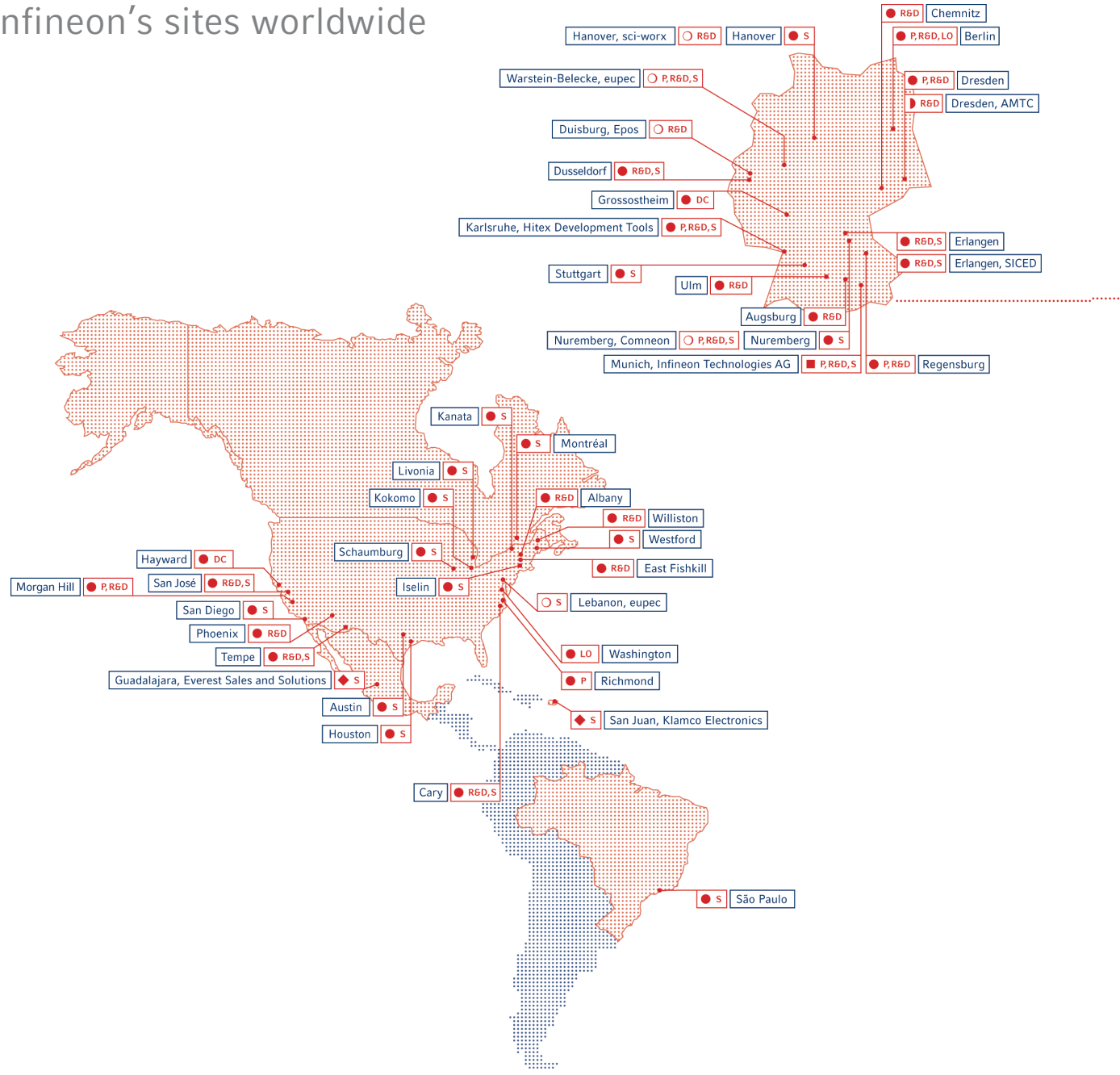
We are now seeking to tap into the potential of the growing Chinese market. Long-term partnerships with a number of universities, such as the Tongji University in Shanghai, should improve our understanding of the market's requirements even further and help us to take part in China's extraordinary innovative potential. We opened a development center in Xi'an in January 2004, seizing the opportunity offered by the city that combines outstanding universities with cost advantages and a tremendous capacity for innovation. ... Innovation, p. 24

We are also expanding our global competence center for software development in Bangalore, India, where there are approximately 400 developers currently working at the site.

Japan has now recovered from its long economic crisis. This positive trend partly reflects drastic economic and political restructuring measures. The continued relaxation of restrictive economic structures in Japan is leading to lucrative sales opportunities for foreign suppliers. We plan to make use of this trend by, among other things, adapting Infineon's product range to Japanese requirements and expanding our distribution network there. Long-term commitment to the Japanese market and a focus on product quality are factors central to success in the region and thus main pillars of our strategy. We are also purposefully moving ahead with innovation partnerships with our customers, which both strengthen our position on the Japanese market in the long term and enable each party to benefit from the new opportunities. Our goal is to significantly increase our market share in Japan – and with an increase in revenues of 42 percent up to 364 million euros in the past financial year, we are well on our way.

We will continue to direct our future activities towards maintaining a global network of flexible and local companies. By carefully observing the dynamics of each region and reacting immediately to changes, our objective is to avoid risks and capitalize on new opportunities in the individual locations as soon as they arise.

Infineon's sites worldwide



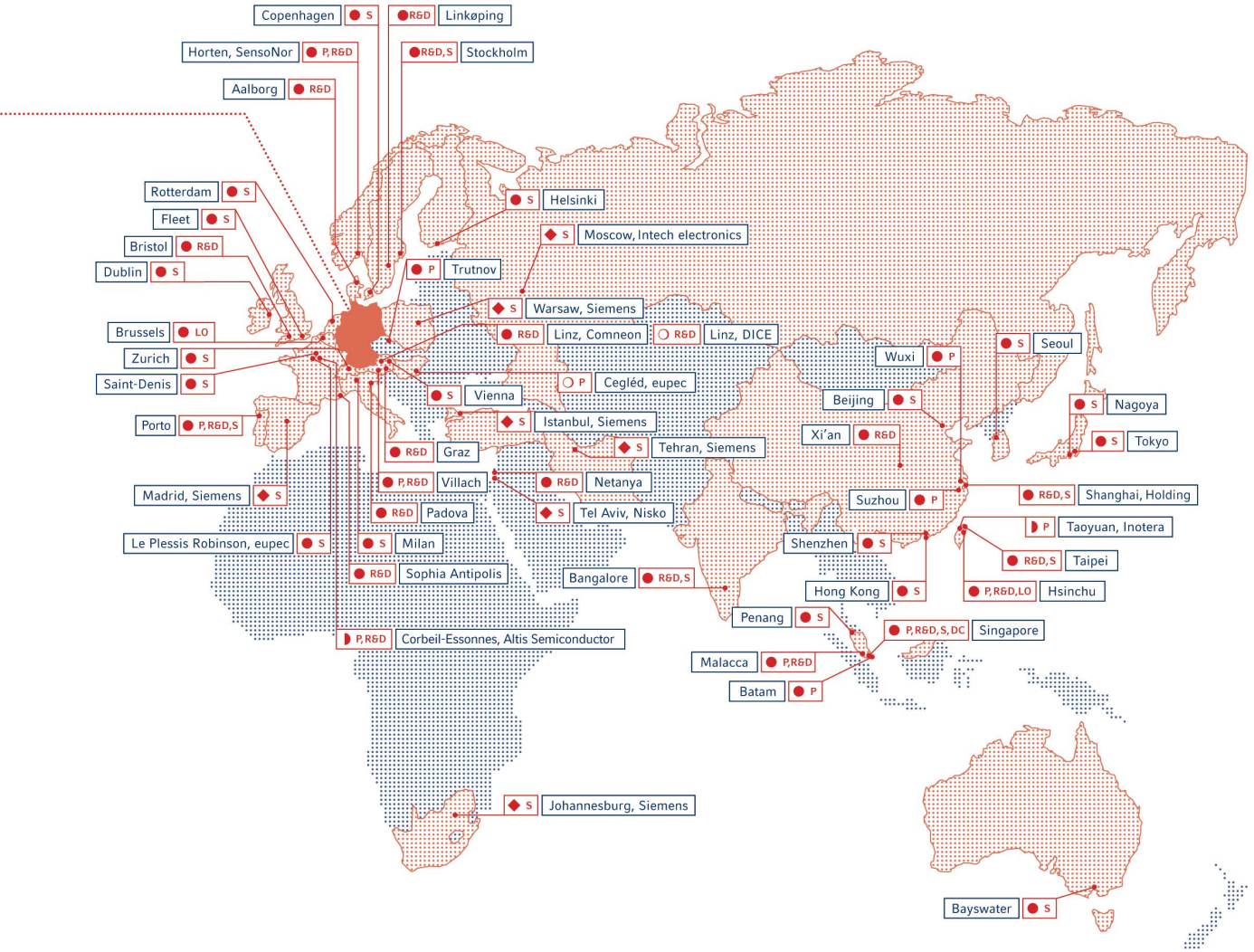
Infineon: sites and representatives

■	Headquarters	P	Production
●	Infineon	R&D	Research & Development
◗	Joint venture	S	Sales
○	Majority holding	DC	Distribution Center
◆	Representative office	LO	Liaison Office
	Countries with Infineon presence		as of October 31, 2004

Region North America

Robert LeFort

President Infineon Technologies North America, graduated in electrical engineering, academic title: MBA



Region Asia/Pacific

Loh Kin Wah

President Infineon Technologies Asia/Pacific, graduated in chemical engineering, academic title: Bachelor of chemical engineering

Region Japan

Yasuaki Mori

President Infineon Technologies Japan, graduated in electrical engineering, academic title: MBA in international affairs and international business

Production

State-of-the-art production with cutting-edge technology

Infineon's flexible production capacities proved themselves during the semiconductor market's recovery phase. To meet rising demand for logic products and to satisfy our customers' needs, we were, for instance, able to convert DRAM production capacities into logic chip production at short notice. This flexibility gives us a substantial edge over our competitors. Infineon is not only able to make use of its own production facilities, but has access to a broad network of partners and contract manufacturers. Thus, by skillful combination of Infineon's own facilities and external manufacturing sources, we are in a position to react to shifts in the market. Infineon relies on these foundries for both the manufacturing of memory and logic products.

Smaller structures – higher productivity

Infineon has also been building on its strong position in production technology. Infineon has, for example, substantially completed a major hurdle in the race towards ever smaller and better integrated memory chips and can now produce with feature sizes of only 110 nanometers. At the end of the 2004 financial year, over 80 percent of our memory chips were being produced using the new technology. The yield of the 110-nanometer technology is now already comparable to the yield previously reached in 140-nanometer technology – which, at 40 percent more chips per wafer, results in a considerable increase in productivity.

Expansion of production capacities for memories

In view of the increased demand and the continuous shift from memory to logic capacities, Infineon has resumed projects that had been on hold over the past few years because of the market stagnation. Our semiconductor facility in Richmond, Virginia, for example, is currently being expanded to increase capacity. A state-of-the-art production module for the production of 300-millimeter wafers is under construction there, with production scheduled to begin in the second half of 2005. The site will then be able to produce twice as many memory chips as it did before.

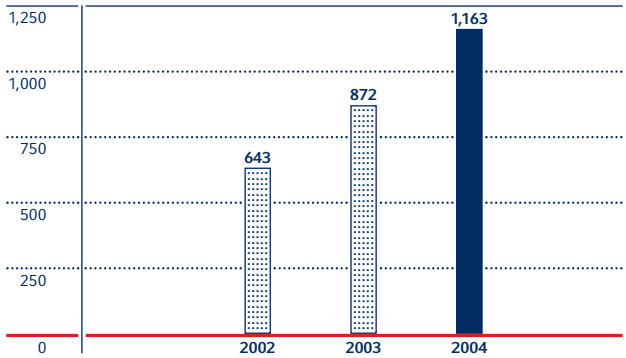
Memory chips in the 110-nanometer technology are already in production at Inotera, our Taiwanese joint venture founded together with Nanya Technology Corporation. Inotera is currently one of the world's largest and most modern 300-millimeter production sites and will help to improve Infineon's competitive edge even further.

We are investing 230 million euros in the expansion of our assembly and testing capacities at our production site in Porto, Portugal, which will provide the necessary back-end facilities for our increased wafer production. In Porto, wafers produced in Dresden and Richmond are processed into components and modules, and then tested. By mid-2006, the facility will have capacities for up to 600 million additional chips to be assembled and tested each year – twice as many as before.

The growing markets and comparatively low wage costs in China provide Infineon with a number of promising opportunities. For this reason, we have founded a joint venture in Suzhou for the back-end production of memory components, thereby considerably improving our competitiveness in China. ... Global presence, p. 30

Infineon's capital expenditure in the past financial year amounted to 1.2 billion euros. In comparison to the 2003 financial year, this represents an increase of 33 percent.

Capital expenditure € in million



Strong partner in logic chip development and production

By entering into appropriate partnerships, we are also securing our position on the advanced logic technologies market. Infineon is producing products using 130-nanometer technology – jointly developed with IBM and UMC – at our plants in Dresden, at Altis, our joint venture with IBM in Essonnes near Paris, and with UMC in Taiwan and Singapore. We are now also producing the first prototypes using our cutting-edge 90-nanometer logic technology.

Infineon is on a clear-cut path toward ever smaller feature sizes, thereby, reducing the cost for each integrated function. In a U.S.-based project together with Chartered, Samsung and IBM, we are developing the next generations of logic technology, featuring 65 and 45-nanometer structure widths. In an effort to exploit the full potential of these technologies, we are also planning production using 300-millimeter wafers. ... Innovation, p. 24

Infineon has a particularly good, competitive position in the field of power semiconductors. At our Power Logic Cluster, comprising the three plants in Villach, Regensburg and Perlach, we primarily manufacture products for Automotive & Industrial. In this market segment, Infineon enjoys outstanding production expertise and manufactures the most innovative products. We are thus in a leading position in this market segment. ... Automotive & Industrial, p. 20

Flexibility provides cost advantages

Infineon is able to derive considerable cost advantages from cascading, a reuse strategy, which entails the possibility to use the same production facility to produce memory, logic, and eventually power semiconductor technologies successively. The very same equipment required to manufacture the latest generations of memory and logic products can be reused to produce power technologies. This reuse concept increases Infineon's profitability by reducing the investment costs in the area of power logic. Producing state-of-the-art memory and logic technologies at the same time provides yet another decisive advantage. Just as we can quickly convert capacities from memory to logic to keep up with demand, we can also act vice versa. Should demand for logic products decrease, Infineon is able to use those facilities for memory production in order to avoid idle capacity. This flexible-use plan, complemented by our development and production partnerships, is one of Infineon's most decisive advantages.

In the 2004 financial year, Infineon again outpaced the market in growth. Our leading position in production technology has remained a key to our success, increasing Infineon's appeal as a partner and allowing us to develop and manufacture products at lower cost. Infineon will continue to pursue this path, in order to remain a strong partner for our customers in attractive growth markets.

Did you know that …

… every third GSM cell phone sold in 2004 was equipped with Infineon radio frequency chips?

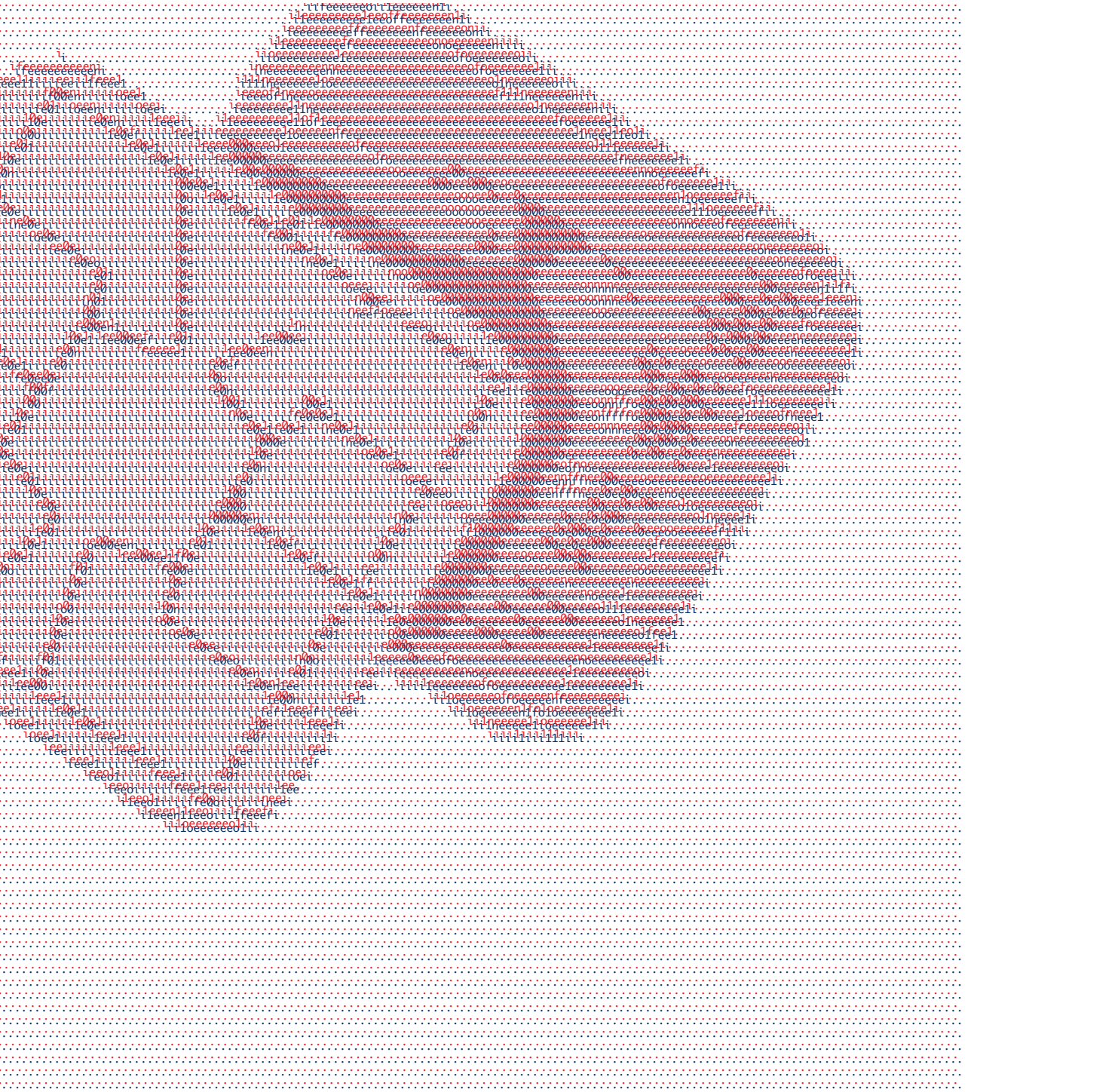
… Infineon has played an important role in the largest health card project in Asia by providing the Taiwanese health insurance companies with security controllers for over half of the 22 million chip cards issued?

… new electronic personal ID cards based on chip card technology, issued for instance in Hong Kong (6.4 million), Macao (640,000) and the Sultanate of Oman (1.2 million), are equipped with Infineon security controllers?

… every second chip card in circulation is equipped with an Infineon chip?

… Infineon ranked number 3 in sales of platform solutions to Chinese mobile phone manufactures in 2003?

Our social involvement



Chip card module ::: one of the many products in the Secure Mobile Solutions portfolio ... Business groups, p. 20

People at Infineon

Fostering team spirit, diversity and result-orientation

Strong corporate culture and corporate identity
Leadership culture built on collaboration and openness
Continuous training as an engine for corporate development

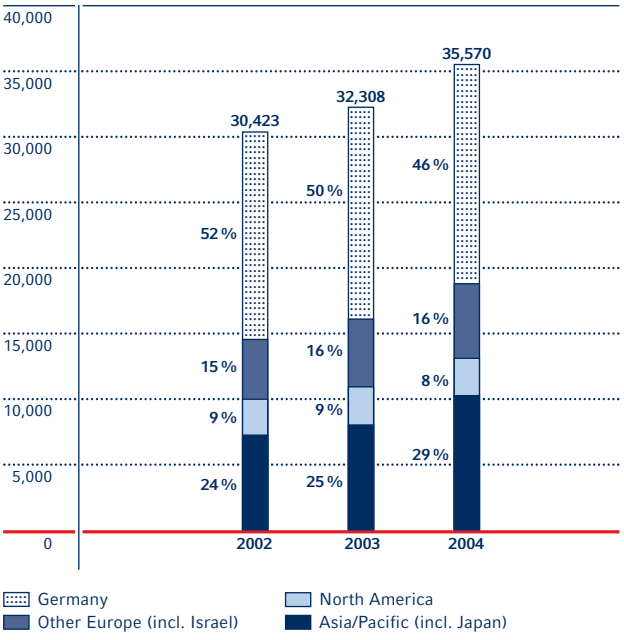
Since the company's formation five years ago, a strong corporate culture and sense of identity has been established at Infineon, thanks in large part to effective communication of the shared values, mission and vision of the company. The four qualities highlighted in Infineon's corporate values: innovation (We never stop thinking), team spirit (We win together), excellence (We strive for excellence in people and leadership) and commitment (We act entrepreneurially for the sake of our customers) guide the actions of everyone at Infineon. Creating the right environment for these values is one of the core tasks of our management team.

Recruiting and retaining world-class employees

We strive to recruit the best and make them better, thereby ensuring that Infineon remains the employer of choice in the semiconductor and technology business. We aim at fostering a culture that makes the best possible use of the diversity, knowledge, experience and creativity of our employees. To achieve this we recruit people who stand out in their particular discipline and encourage them to continue to develop their own potential at Infineon. Our emphasis on diversity is reflected in the steady increase in recruits from different nations who are best able to meet the needs of the international markets we act in and the global customers we serve. Altogether, Infineon's headcount rose from 32,000 to about 35,600 in the 2004 financial year.

... Global presence, p. 30

Employees in the regions



PEOPLE

- Providing an attractive environment to realize individual potential
- Enabling Infineon to manage diversity worldwide
- Only recruiting and retaining world-class employees
- Promoting a learning and effective organization
- Leading-edge Human Resources solutions
- Ensuring flexibility and speed

Managing diversity worldwide

People from more than 80 countries work for Infineon and exchange knowledge that continuously enriches the company as a whole. Graduates often join the company through one of our specially designed graduate programs, such as the Ph. D. program or the International Graduate Program, our program for young professionals, which includes international assignments at one of the various Infineon sites.

Mastering Collaborative Leadership is an essential part of being a successful global company. It entails an emphasis on collaboration, openness and trust, combined with an efficient method of management. At Infineon, managers and teams are encouraged and empowered to make decisions in their own areas of work, while the senior management team ensures that global corporate objectives and priorities are implemented.

Comprehensive training concepts help to equip recently promoted managers with the best possible skills for the challenges that lie ahead. Assignments abroad, for instance, are used to promote knowledge exchange and broaden the horizons of those employees dealing with a foreign culture for the first time.

Flexibility and optimization of processes

In 2004, we had to cope with the strong rise in demand for semiconductor products by rapidly and flexibly responding to the changing requirements, in terms of staffing levels. This was achieved by working with an increasing number of temporary employees (employees who have a contract of limited duration with Infineon) and external service providers to fulfill contract work. This policy enables us to preserve the flexibility to adjust our resources if and when demand slows down, and, thus, gives us a strategic competitive advantage.

With the appointment of a new CEO, leadership became an even more important topic on Infineon's agenda in 2004. However, Collaborative Leadership, Dialog Culture, and Commitment Fulfillment were not only themes at the quarterly Strategic Alignment Meetings and the 2004 Top Management Conference in October 2004, they are firmly anchored in Infineon's organization.

Effective review programs ensure feedback for employees from all hierarchical levels on their individual performance. Employee surveys assess our employees' views on specific programs or developments. This permits immediate action and guarantees staff involvement in the desired changes.

Promoting a learning and effective organization

A dynamic business requires continuous training. We offer a comprehensive range of programs that support the company's focus on profitable growth, customer orientation, collaborative leadership and operational excellence.

Programs are tailored to match the skills and abilities of the individual and range from training for technical core competencies and processes to leadership and management skills. Programs for new employees, for example, include business administration courses, on-the-job training and apprenticeships.

The innovative skills and good team spirit of Infineon employees are clearly reflected in the results of the YIP (Your Idea Pays) program and at our Team of the Month events, both internal programs introduced to recognize outstanding individual or team achievements. The tremendous response to the YIP program, launched a year ago, even surpassed the expectations of its organizers. The variety and quality of the submissions by employees at Infineon resulted in savings of 146 million euros in the 2004 financial year. The suggestions implemented ranged from cost-

Dr. Thomas Marquardt

Head of Human Resources, graduated in law and economics, academic title: Dr. jur.

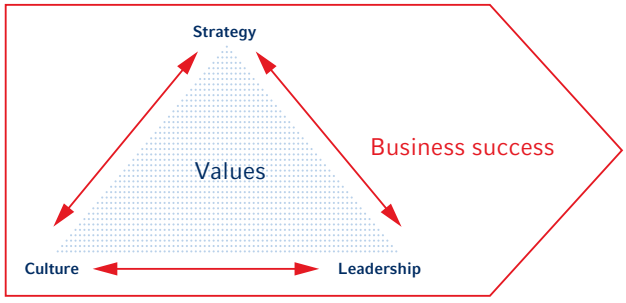
saving process improvements at the production sites to ideas aimed specifically at improving customer satisfaction. These efforts demonstrate the desire of our employees to make a tangible contribution to the success of "their company".

Providing an attractive environment to realize individual potential

At Infineon, we believe that employee satisfaction goes beyond offering competitive, performance-based remuneration schemes. Providing an individual with the right working environment and attractive career opportunities to realize his or her potential is an equally decisive factor in achieving employee retention.

In this spirit, we are currently preparing the move to our new "Campeon" headquarters. Construction work at the site in Neubiberg, south of Munich, started in spring 2004 and is scheduled to be completed in the fall of 2005. Campeon will bring together 6,000 employees from all business groups and central functions, currently located at various sites in and around Munich, into one central location. The building complex has been conceived to optimize communication paths on all levels and between all business areas, whether in the state-of-the-art research labs, or after work in one of the various social facilities.

Leadership and business success



In harmony with Infineon's corporate values, Leadership, Culture and Strategy are closely coordinated, thus creating the basis for the company's business success. The management plays a key role in this process.

The creation of an attractive working environment combined with a strong corporate culture guarantees a win-win relationship: our employees are motivated and therefore committed to "their company", "their team" and "their customers".

People at Infineon

Workforce by function:

69 % Production

6 % Sales & Marketing

20 % Research & Development

5 % Administration

Employee qualifications:

38 % University/polytechnic

42 % With occupational training/technical school

20 % Without occupational training/others

Academic fields:

54 % Engineering

7 % Information/computer sciences

18 % Natural sciences

10 % Business/economics

11 % Others

All figures refer to the 2004 financial year.

Our contribution to ecology
Sustainable action benefits everyone

Innovative products save energy
Reducing PFC emissions by recycling
Social responsibility thanks to the individual commitment of the Infineon employees

Companies today increasingly face the challenge of how to balance not only economic but also ecological and social considerations. Infineon's guiding principle in this context is sustainability. The scope of our measures ranges from the economical use of resources to the protection of the environment on a global scale and to the support of local projects.

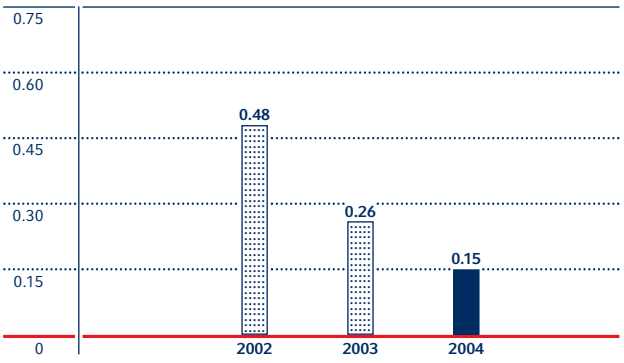
Achieve savings potential

Environmental impact cannot be completely avoided in the production of semiconductors. Yet, over the past few years we have made extensive efforts to reduce PFC (Perfluorinated Compounds) emissions that contribute to the greenhouse effect. It is our goal to reduce PFC emissions by 10 percent by the year 2010 compared to levels in 1995. Emissions are calculated in carbon dioxide equivalents, the unit of measurement used for the contribution of a gas to the greenhouse effect. Based on the semiconductor industry's average 15-percent annual growth rate in worldwide production volume, this means that PFC emissions will be reduced by approximately 90 percent by 2010 vis-à-vis 1995 – again based on carbon dioxide equivalents.

In the 2004 financial year, we devised a method at our site in Villach to recycle the chemical compound sulfur hexafluoride (SF_6) on site. It is one of the PFCs and is mainly used as an inert gas in operational tests for power semiconductor circuits. Its global warming potential is 23,900 times higher than that of carbon dioxide. By recycling SF_6, we are another step closer to achieving our goal of reducing PFC emissions.

At our Dresden production site, we have reduced the nitrogen trifluoride (NF_3) consumption required for chamber cleaning by more than 30 percent. Like SF_6, NF_3 is one of the PFCs. These examples show that economy and ecology can form a synergy – since a reduction of resources and emissions is not only beneficial for the environment, it also reduces production costs.

SF_6 consumption in kg per working hour test equipment



In the 2004 financial year, Infineon further reduced the SF_6 consumption of its Villach site through process optimization and recycling.

Another example is Infineon Regensburg, which received the city's Environmental Prize for the fifth time. In special recognition of the site's constant endeavors to improve environmental protection, the site was also presented with the Bavarian Environmental Medal in November 2003. Over the past years the site's economical use of resources, such as water reclamation and heat recovery measures have achieved moderate cost savings for the company.

A well-functioning environmental management

Infineon's environmental management system ensures the implementation of our environmental commitment throughout the company. This management system is certified in accordance with EN ISO 14001 which is convincing evidence of the fact that environmental protection is an important objective in our company and one that is actively pursued. In the 2004 financial year, our Richmond site in Virginia, USA, also qualified to be added to the Infineon multi-site certificate.

Certified environmental management system
in accordance with EN ISO 14001

CERTIFICATE

DNV ZERTIFIZIERUNG UND UMWELTGUTACHTER GMBH

certifies that the company

Infineon technologies

Infineon Technologies AG
St.-Martin-Str. 53
D - 81541 München

as well as the sites and remote locations listed on the following page

has established an

environmental management system
in conformity with

EN ISO 14001 : 1996

This Certificate is valid for:

Development, production and sales of semiconductor components

This Certificate is valid until:
2006-01-31

Certificate-Registration-No.:
CERT-08652-2000-AE-ESN-TGA

Essen, 2003-04-10
M. Fröhlich
Manager

TGA-ZM-04-92-60

Essen, 2003-04-10
G. Schnatz
Lead Auditor

Rev. 00/01 E / APRJ-D0555-00-CRT-ESN

It is extremely important to us that our customers are aware of our high environmental standards. At the same time, our customers increasingly demand that their suppliers also adhere to prescribed environmental standards. Since April 2004 for instance, only suppliers recognized as a Sony 'Green Partner' are allowed to provide the Japanese electronics manufacturer with products. After its environmental audit, Sony officially awarded 'Green Partner Status' to the Infineon sites in Singapore, Japan, Malaysia and Portugal. Our Singapore site, for example, achieved 98.4 of a possible 100 points.

Savings through our products

Saving energy is an important part of effective environmental protection. Infineon also develops and delivers innovative solutions with lower power consumption, which help to consume less energy, and thus make a positive contribution to people and the environment.

Our innovative LightMOS chips in fluorescent tubes help save electricity. These chips use electricity far more efficiently, thereby reducing power consumption of lighting systems by up to 25 percent.

The new generation of Mobile-RAMs with a 1.8 V power supply makes it possible to reduce the power consumption in portable devices such as cell phones, digital cameras, MP3 players and Personal Digital Assistants (PDAs) by up to 80 percent.

In terms of saving energy, the CoolSET F3 chips established a record. These products have the lowest standby power consumption in the entire industry. It even surpasses the specifications of standards such as the German Blue Angel Eco Norm and North America's Energy Star Program. Typical areas of application for these chips are adapters for notebooks and portable electronic devices as well as integrated power supply units for DVD players, LCD televisions and digital video cameras.

... Automotive & Industrial, p. 20

Taking social responsibility seriously

Infineon is involved in a variety of projects that extend beyond safety at work and environmental protection. In addition, many of our employees are involved in social concerns or work as volunteers in different regions.

Educating children is not only beneficial to the children themselves but in the long term also to society in general. For this reason, employees at different Infineon sites organize environmental and health projects at various local schools.

Infineon employees also help build up charitable organizations: they are, for instance, supporting the work of "Educara" both actively and with their donations. Educara is an association set up to support children's education in one of the poorest regions of Brazil: its goal is to help people help themselves. The association promotes and supports talented children and adolescents to develop their sense of social responsibility by motivating them to help others.

For more detailed information about our environmental endeavors please refer to our Environmental Report which, among other things, provides specific facts and figures for the individual production sites. It is available on request from Infineon Technologies AG.

Did you know that …

… every new car that rolls off a production line worldwide is equipped with 20 Infineon chips on average?

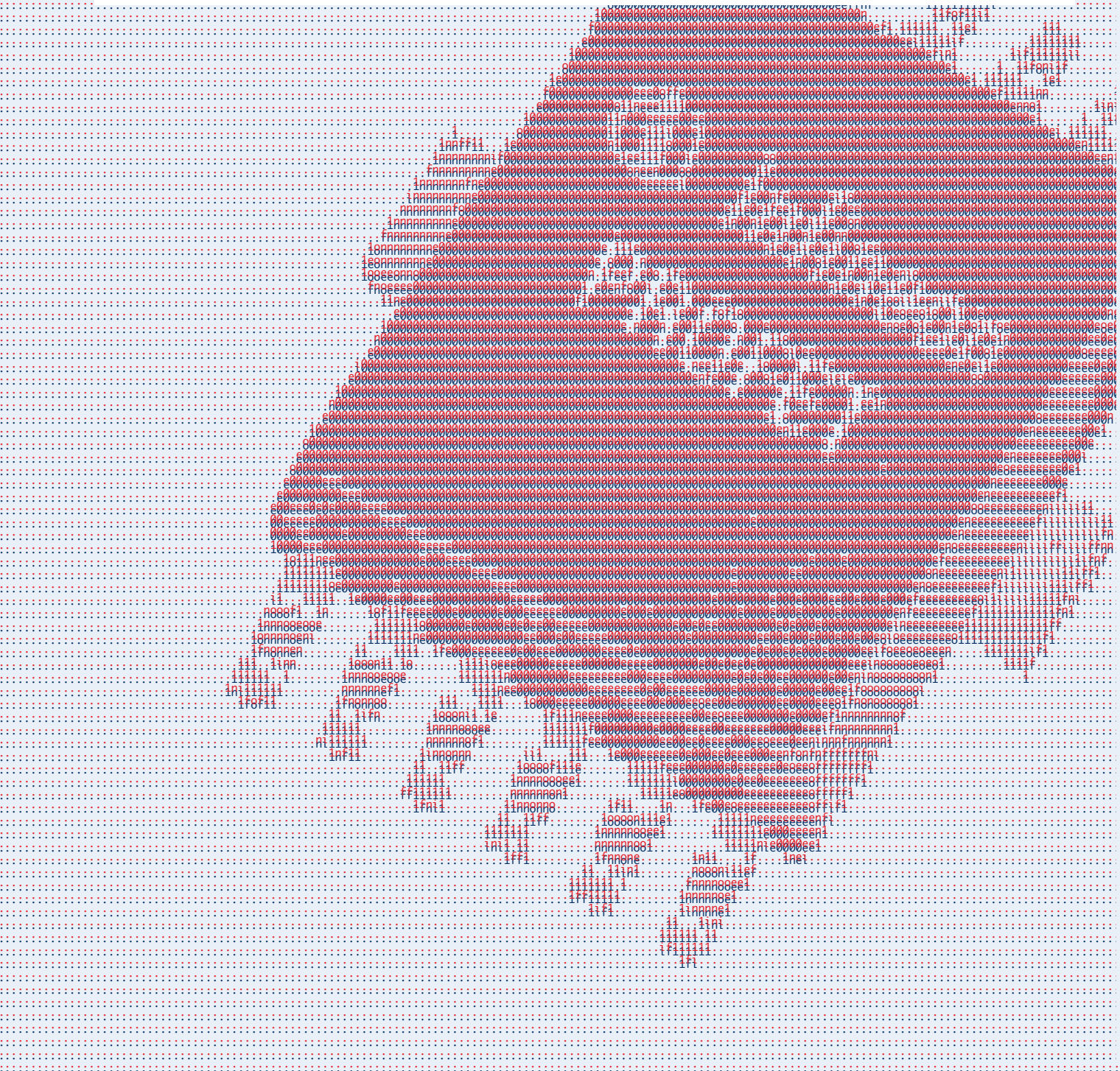
… every new car is equipped with an average of two Infineon sensors for ABS or side airbags?

… every third new car worldwide is designed with Infineon's 16-bit microcontroller with real-time data processing for controlling the engine?

… the power supply in every new car worldwide is controlled by Infineon power semiconductors – from the instrument panel lighting to the starter and the rear fog lights?

… 30 percent of the power saved in home appliances is made possible through Infineon's innovative power semiconductors?

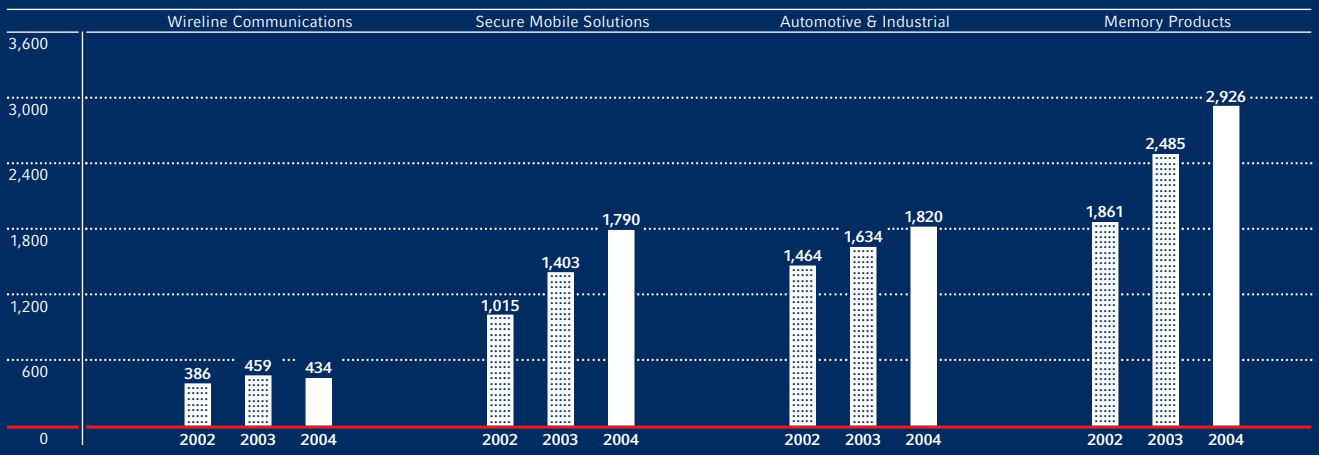
Financial review



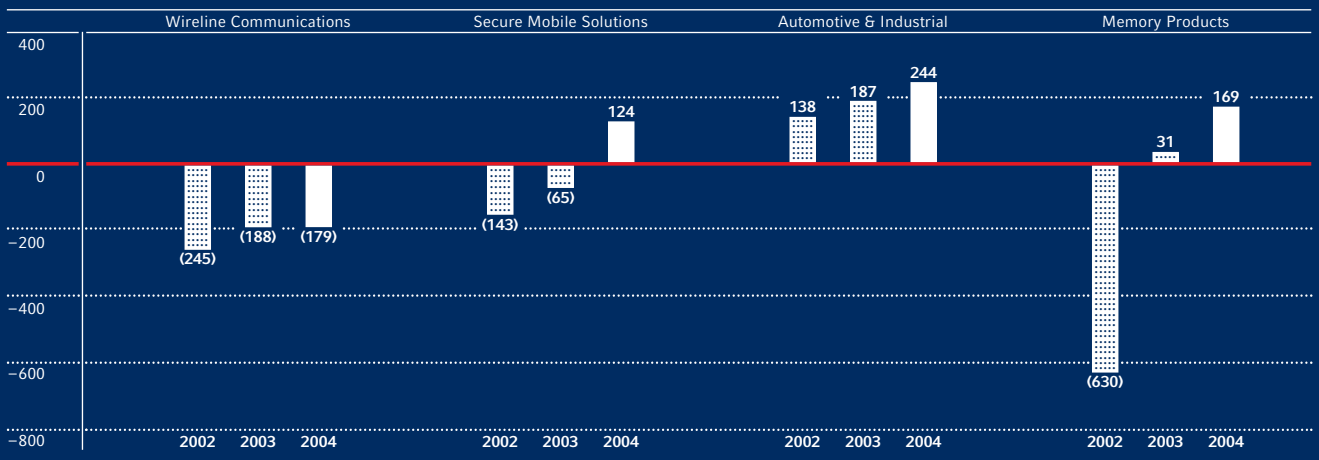
Power semiconductor ::: one of the many products in the Automotive & Industrial portfolio ... Business groups, p. 20

Our segments: net sales and EBIT

Net sales € in million



EBIT € in million



Contents

Report of the Supervisory Board to the Annual General Meeting

Max Dietrich Kley
Chairman of the Supervisory Board

Dear Shareholders,

The last financial year was a very eventful one for Infineon and one which necessitated intensive work by the Supervisory Board and its close cooperation with the Management Board. In a total of seven meetings held during the financial year, we discussed the situation of the company and took decisions that were crucial for the company's development.

Following three consecutive years of losses, Infineon emerged from the last financial year with positive results. Although the earnings situation has now improved, the company still has to deal with potential overcapacity. Infineon has responded to this by introducing a number of measures; it has for instance, adapted its contractual agreements with major customers and introduced more flexibility into chip manufacturing activities. The goal has to be to remain profitable, even in times of market downturn. To this end we are in full agreement with the Management Board that in years with greater earnings we must make careful provision for the future. The "smart savings" program, introduced by the Management Board, must be seen in this context.

I would like to mention, in particular, the following aspects of the Supervisory Board's activities:

::: We followed closely and informed ourselves thoroughly about everything to do with the antitrust cases and associated collective law suits alleging illegal price-fixing activities – among other activities we convened in an extraordinary meeting of the Supervisory Board in January 2004. After having discussed the situation at length with the Management Board and examined possible alternatives, we finally gave our approval and fully support the company's decision to cooperate with the U.S. antitrust authorities and to accept to pay a considerable fine. We welcome the fact that the company managed within a very short time to reach an amicable agreement with its most important customers regarding the consequences of the alleged violation of antitrust laws.

::: In March 2004, Dr. Schumacher resigned from his position as Member and President of the Management Board. After intensive discussion, the Supervisory Board accepted his resignation and, with a view to strengthening the company management, provisionally requested its

own Chairman to assume a position on the Management Board. The main task during this interim period was primarily to strengthen the confidence and motivation of the employees. This was achieved by the participation at staff meetings, conversations with employee representatives, visits to major production sites as well as visits and conversations with our major partners. Under my guidance, the Management Board implemented the necessary organizational and financial changes swiftly and efficiently during this period. We were pleased to be able to find a new President of the Management Board quickly and announced the appointment of Dr. Wolfgang Ziebart in May 2004. As agreed, Dr. Ziebart took up his new task at Infineon on September 1, 2004.

::: Together with the Management Board, we have been working very intensively on the company's corporate strategy. Innovation remains one of the key success factors for the company and, for this reason, the Supervisory Board has formed a Strategy and Technology Committee to support and implement strategic measures.

Furthermore, at the ordinary meetings of the Supervisory Board, the Management Board reported on business developments, the economic situation of the company and the individual business groups as well as on financial and investment planning, and submitted detailed quarterly reports. The Management Board also gave verbal and written reports on incidents of significant importance. In addition, the Chairman of the Supervisory Board was notified continuously about essential matters and decisions in individual discussions with the Management Board.

The Supervisory Board also concentrated on Corporate Governance. In accordance with the provisions of the U.S. "Sarbanes Oxley Act", the Supervisory Board has appointed Mr. Kley "Financial Expert". The Declaration of Compliance 2004 pursuant to § 161 of the German Stock Corporation Law was decided by the Supervisory Board in November 2004; it is printed on page 53 of the Annual Report. Infineon's Corporate Governance System is described in detail on page 52 of the Annual Report.

Meetings of the Supervisory Board and the committees

During the period under review there were seven meetings of the Supervisory Board. Resolutions of the Supervisory Board were passed both during these meetings and using the circulation procedure. One Member of the Supervisory Board was absent for valid reasons at more than half of the Supervisory Board meetings.

The Executive Committee was convened three times this year and passed various resolutions using the circulation procedure.

This financial year, the Investment, Finance and Audit Committee met five times and in addition, took a decision in a written circulation procedure. The main objectives of these meetings were

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the auditing of the interim reports, preliminary auditing of the annual accounts, discussion of the auditor's report with the auditors, examination of finance and investment plans, definition of key audit targets, and the study of major divestitures and investments. These were the sale of our fiber optics business to Finisar Corporation, Sunnyvale, USA, in return for their shares, the exercise of an option to purchase the minority stake in our previous partner companies at our 300-millimeter-manufacturing company in Dresden as well as the expansion of our front-end facility in Richmond, USA.

The new Strategy and Technology Committee first built in this financial year has already been convened twice. Main focus of its activities was the discussion of fundamental strategic issues with the Management Board, particularly with regard to the necessity for adjustments of the "Agenda 5-to-1."

It was not necessary for the Mediation Committee, provided for under § 27 Section 3 of the Mitbestimmungsgesetz (German Codetermination Act) to be convened.

Individual and consolidated financial statements

KPMG Deutsche Treuhand-Gesellschaft AG Wirtschaftsprüfungsgesellschaft, Berlin and Frankfurt/Main, the auditors of Infineon Technologies AG, have checked the financial statements of Infineon Technologies AG for the financial year ending September 30, 2004 drawn up in accordance with the provisions of U.S. GAAP and applying the exemption provision under § 292a of the German Commercial Code (HGB), as well as the combined operating and financial reviews of Infineon Technologies AG and of the Infineon Group. The documents have been endorsed with an unqualified auditor's opinion. We have also checked these documents ourselves.

The reports by KPMG on the audit of the annual accounts and the consolidated financial statements were presented to all Members of the Supervisory Board and dealt with in detail at the meeting of the Investment, Finance and Audit Committee on November 8, 2004 and subsequently during our balance-sheet meeting on November 23, 2004 in the presence of the auditors. At this meeting the Management Board reported in detail on the scope, main points and the costs of the audit. We found no grounds for objection and agreed with the results of the audit. In this regard, the Supervisory Board has approved the financial statements prepared by the Management Board and they are therefore to be regarded as final.

Composition of the Supervisory Board

During the period under review there were a number of changes to the composition of the Supervisory Board: at the end of the Annual General Meeting on January 20, 2004, the new

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employee members of the Supervisory Board took up their representative responsibilities. The appointments of Mr. Eibl, Mr. Luschtinetz, Mr. Ruth and Mr. Schmidt were confirmed. Mrs. Kerstin Schulzendorf and Mr. Jakob Hauser were appointed as representatives of the non-executive employees and Mr. Dieter Scheitor and Mr. Alexander Trüby were appointed as representatives of the unions.

Mrs. Beyhan, Mr. Dechant, Mr. Hawreliuk and Mr. Müller are no longer Members of the Supervisory Board. On February 29, 2004, Mr. Midunsky resigned from the Supervisory Board to be replaced by Mr. Günther Fritsch elected by the Annual General Meeting as substitute member. The Supervisory Board has expressed its thanks to all resigned persons for their dedicated contributions.

At the ordinary Supervisory Board meeting on January 20, 2004, Mr. Klaus Luschtinetz was elected as new Vice-Chairman of the Supervisory Board.

With effect from March 25, 2004, Mr. Kley was appointed as the President of the Management Board for a transitional period by the Supervisory Board under § 105 Section 2 of the German Stock Corporation Law. Mr. Kley performed the corresponding tasks from the date of departure of Dr. Schumacher until September 1, 2004. Mr. Kley's responsibilities within the Supervisory Board were suspended during this period; in his absence, his position as Chairman of the Supervisory Board was assumed by Mr. Luschtinetz.

The Supervisory Board would like to express its thanks to the Management Board and all the Infineon employees for their efforts and their performance in the 2004 financial year. The Supervisory Board would also like to thank the Works Councils for their constructive participation.

Munich, November 2004

On behalf of the Supervisory Board

Max Dietrich Kley
Chairman of the Supervisory Board

Corporate Governance
Our comprehensive concept

A comprehensive concept to implement the company goals and account for all company processes
Infineon's own company Code
Corporate Governance Manager reports directly to the Management and Supervisory Boards

Corporate Governance means accepted standards for good and responsible corporate leadership. Our Corporate Governance system extends to the entire company.

Infineon's Management Board and Supervisory Board view Corporate Governance as a comprehensive concept, which takes into account all corporate values, processes and goals that combine to serve our corporate mission. It includes internal controlling standards, our Business Conduct Guidelines, the regulations that concern the company's organizational and supervisory tasks, as well as a Corporate Governance Manager, who reports directly to the Management and Supervisory Boards. Infineon's Corporate Governance Code is a core element in this concept.

It is upon this basis that we seek to achieve our goals – and to be numbered among those companies with the best Corporate Governance.

Infineon maintains high standards

Infineon has adopted almost all of the regulations that have been recommended by the Government Commission "German Corporate Governance Code", and also complies fully with the standards set down in U.S. capital market law. With regard to the directors' and officers' insurance, we have, for example, agreed to a retention amounting to 25 percent of the fixed annual remuneration for Management Board Members and 100 percent for Supervisory Board Members.

In addition to the "German Corporate Governance Code", Infineon has set itself further goals concerning good corporate management and supervision.

- We will continue to provide full, comprehensive company information to our shareholders and the public.
- We intend to support shareholders as far as is possible in the exercise of their rights. Via the Internet, shareholders can, for example, register for our Annual General Meeting, participate in voting, or follow the general debate.
- We shall further intensify the cooperation between the Management Board and the Supervisory Board as well as continue to promote a positive climate of mutual respect and open dialog in order to achieve our goals.
- The creation of added value for our customers is dependent on competent and committed employees. The Management and Supervisory Boards therefore regard it as their joint duty to attract and retain the most talented workforce.

Ongoing examination of regulations

Our Management Board, Supervisory Board and senior managers are responsible for ensuring that our rules of Corporate Governance are actively implemented throughout the company. Furthermore, these rules are subject to regular review and refinement. In fall 2004, for example, we reconsidered whether we should dispense with an individualized statement of remunerations paid to the Members of the Management and Supervisory Boards, a measure that has been frequently called for in the public. Our review led to the following results:

The remuneration paid to the Members of the Supervisory Board will now be reported individually. By law, it is the shareholders who determine this remuneration. They have decided on the remuneration provisions in §11 of our Statutes at the Annual General Meeting. These Statutes are available on the Internet at www.infineon.com, Company Information.

Pursuant to the mandatory provisions of German stock corporation law, the Management Board as a whole is responsible for the operative management of the company. Likewise, under the rules of procedure laid down for the Infineon Management Board, all Members are required to manage the company jointly. All decisions of significance must be taken by the Board as a whole and require unanimity. Naturally, we keep our shareholders informed of the structure of the

Management Board remuneration and specify the total remuneration paid to the Management Board, broken down into fixed salaries, performance-related components and share options, so that every shareholder can clearly see how the performance of the Management Board impacts upon its income. We do not believe that the benefit of the information to be gained from an individualized statement would be sufficient to justify this invasion of the privacy of the Management Board Members. Up to now, the legislator also assumes that the publication of the individualized statements of the remunerations infringes on personal rights – moreover such information is subject to data protection laws. This is particularly true for Management Board Members who have resigned from the company and would therefore not be involved in the decision on disclosure. Mr. Kley, who headed the company following the resignation of Dr. Schumacher as CEO until Dr. Ziebart took over this task, has, given the extraordinary circumstances, however decided on the disclosure of his remuneration. … Board of Directors, p. 134

The overall income of Management Board Members is composed of an annual target income (payable in cash), share options and income-equivalent ancillary benefits. The annual target income consists of:

::: a fixed annual salary payable in monthly installments, partly at the financial year's end, net of statutory deductions and
::: a variable, performance-related component which takes the form of an annual bonus. In the 2004 financial year, the annual bonus depended on the return on assets, which we define as net operating profit after taxes, minus exceptional effects, in proportion to capital employed. This ensures that a bonus is only rewarded if business develops positively. The annual bonus is paid after the end of the financial year.

As a variable component of their remuneration, which combines both long-term incentive and risk, Members of the Management Board are granted options on Infineon Technologies AG shares deriving from the 2001 share option plan. They also receive ancillary benefits such as, for example, retirement pensions and provisions for surviving dependants, continued remuneration in the event of sickness and a company car including a driver, that may also be used for private purposes.

A component part of the remuneration paid to our senior managers is constituted by our 2001 share option plan. This, too, is available for inspection on the Internet at www.infineon.com, together with an illustration of its basic features. This plan allows for shares to be issued to senior managers and employees in key positions. This is a necessary instrument that will enable us now and in the future to attract and retain the talented staff we need. It is they who help safeguard our success in an intensely competitive, technology-driven environment. At the 2001 Annual General Meeting, as a condition for the exercise of these options, our shareholders determined that the share price must rise by a minimum of 5% during the option term. Given that our competitors often neglect to set any minimum performance requirement or even issue options at a price below that at which their stock is currently trading, we consider our share option plan to be demanding, as it is linked to comparative parameters that are relevant to us.

Information on the Infineon Corporate Governance System is offered on the Internet at www.infineon.com, Investor Information, and will be presented at the Annual General Meeting on January 25, 2005.

Declaration of compliance 2004 pursuant to § 161 German Stock Corporation Law

"Since making its last declaration pursuant to §161 of the German Stock Corporation Law, Infineon Technologies AG has complied and will continue to comply with all recommendations of the Government Commission 'German Corporate Governance Code' (in the version of May 21, 2003) with the following exceptions:

::: We do not publish an individualized statement of all Management Board Members' remuneration (Figure 4.2.4).
::: The structure of the Management Board remuneration system (Figure 4.2.2) is deliberated and resolved upon by the General Committee of the Supervisory Board."

Further information on Corporate Governance in the activities of the Supervisory Board and its Committees is contained in the Report of the Supervisory Board, which forms part of the Annual Report. Information on our risk management is described under "Risks and Opportunities". A detailed description of our rules of consolidated accounting is contained in the Notes to the consolidated financial statements.

… Report of the Supervisory Board, p. 48; … Risks and opportunities, p. 80;
… Notes to the consolidated financial statements, p. 92

Operating and financial review

Important note

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

This report combines the operating and financial review of Infineon Technologies AG as a part of the global development, manufacturing, sales and marketing network of the Infineon group, with the operating and financial review of the Infineon group as a whole.

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

Graphs and charts, including their annotations, serve as illustrations and are not part of the operating and financial review.

Overview of the 2004 financial year

In our 2004 financial year, which ended September 30, the global economy was generally stronger than in the prior year and the semiconductor market experienced a period of growth. We achieved double-digit revenue growth during the 2004 financial year, primarily as a result of the improvement in demand for our products, especially for DRAM. We improved our gross margin as a result of reductions in per-unit production costs, achieved by converting additional production to our 110-nanometer and 300-millimeter DRAM technology, and by increased capacity utilization. We achieved profitability despite incurring significant charges in connection with antitrust investigations and related claims, as well as impairments.

The following were the key developments in our business during the 2004 financial year:

- Our revenues increased by 17 percent, and our earnings before interest and taxes (EBIT) increased from a loss of €299 million in our 2003 financial year to positive EBIT of €256 million in the 2004 financial year.
- We advanced from the seventh-largest semiconductor company worldwide as of June 2003 to the fifth largest as of June 2004, with a market share of 4 percent. The ranking is based on revenues and was made by IC Insights, a leading industry market research firm.
- Our cash flow from operations improved substantially from €731 million in the 2003 financial year to €1,857 million in the 2004 financial year. The improvement was due mainly to improved gross margin and active cash management.

- We continued to invest heavily in research and development and achieved a number of significant milestones during the year, including:
  - Introduction of next-generation GOLDMOS® technology and high-power RF transistors optimized for applications requiring high linear efficiency;
  - Demonstration of the world's first 16-Megabit Magnetoresistive RAM (MRAM) prototype, together with IBM;
  - Introduction of the new CoolSet Power Semiconductor Family, providing the industry's lowest stand-by power consumption; and
  - Demonstration of carbon nanotube transistors for power applications.
- In April 2004, we acquired the Taiwanese chip designer ADMtek Inc., Hsinchu, Taiwan ("ADMtek"). ADMtek will offer a complete IC solution package, to complete our portfolio of broadband access products for the central office with feature-rich, multimedia gateway solutions for customer premise equipment.
- We agreed to sell our fiber optics business unit (part of our Wireline Communications segment) to Finisar Corporation ("Finisar"). We will transfer to Finisar our fiber optics development, manufacturing and related marketing activities, as well as approximately 1,200 employees. Following closing of the transaction, we anticipate holding a 33 percent equity interest in Finisar, which will be one of the largest optical components companies in the market.
- As part of our ongoing project to improve our production processes and expand our production capabilities, we:
  - successfully transferred to different production facilities our high-performance process technology using structure sizes of 130-nanometer for logic products, in order to further increase our production flexibility;
  - successfully ramped the 110-nanometer process technology for DRAM products in our 200-millimeter and 300-millimeter production facilities;
  - enlarged our memory chip assembly and testing facility in Porto, Portugal;
  - expanded the scope of our foundry agreement with Winbond, including providing our 90-nanometer DRAM trench technology and 300-millimeter production know-how to Winbond in exchange for increased foundry capacity;
  - recommenced construction of the 300-millimeter facility at our plant in Richmond, Virginia;
  - completed construction of a back-end manufacturing facility in China, which is expected to start mass production in the first half of the 2005 financial year; and
  - saw our joint venture Inotera Memories Inc., Taoyuan, Taiwan ("Inotera") complete construction of its 300-millimeter manufacturing facility and start mass production.
- In September 2004, we agreed to settle the ongoing antitrust investigation by the U.S. Department of Justice and related claims by certain of our largest OEM customers. Similar investigations are ongoing in Europe and Canada. We accrued charges of €209 million during the 2004 financial year related to these settlements and investigations.
- We recognized impairment charges of €136 million in the 2004 financial year, principally related to our 2001 acquisition of Catamaran Communications, Inc. ("Catamaran") and our decision to terminate our venture investing activities.
- In September 2004, we welcomed Dr. Wolfgang Ziebart as our new CEO.

Our business

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

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

::: Our Wireline Communications segment designs, develops, manufactures, and markets semiconductors and fiber optic components for the communications access, WAN (Wide Area Network), MAN (Metropolitan Area Network) and Carrier Access (both broadband and traditional access) sectors of the wireline communications market. We have entered into an agreement for the sale of this segment's fiber optics business to Finisar Corporation.
::: Our Secure Mobile Solutions segment designs, develops, manufactures, and markets a wide range of ICs for wireless applications, security controllers, security memories and other semiconductors, and complete systems solutions for wireless and security applications.
::: Our Automotive & Industrial segment designs, develops, manufactures and markets semiconductors and complete systems solutions for use in automotive and industrial applications.
::: Our Memory Products segment designs, develops, manufactures and markets semiconductor memory products with various packaging and configuration options and performance characteristics for standard, specialty and embedded memory applications.

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

The semiconductor industry and factors that impact our business

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

Cyclicality

The industry's cyclicality results from a complex set of factors, including, in particular, fluctuations in demand for the end products that use semiconductors and fluctuations in the manufacturing capacity available to produce semiconductors. This cyclicality is especially pronounced in the DRAM portion of the industry. Semiconductor manufacturing facilities (so-called fabrication facilities, or "fabs") can take several years to plan, construct, and begin operations. Semiconductor manufacturers have in the past made capital investments in plant and equipment during periods of favorable market conditions, in response to anticipated demand growth for semiconductors. If these newly built fabs come on-line at about the same time, the supply of chips to the market is vastly increased. Without sustained growth in demand, this cycle has typically led to manufacturing overcapacity and oversupply of products, which in turn has led to sharp drops in semiconductor prices. When prices drop, manufacturers have in the past cut back on investing in new fabs. As demand for chips grows over time, without additional fabs coming on-line, prices tend to rise, leading to a new cycle of investment. The semiconductor industry has generally been slow to react to declines in demand, due to its capital-intensive nature and the need to make commit-

ments for equipment purchases well in advance of planned expansion.

We attempt to mitigate the impact of cyclicality by investing in our manufacturing capacities throughout the cycle and entering into alliances and foundry manufacturing arrangements that provide flexibility in responding to changes in the cycle. We believe that we can improve our gross margin by focusing our investment in two key areas: the development of a broader range of products and further improving the flexibility of our manufacturing processes and facilities. These improvements are intended to give us greater flexibility to shift our production, as product demand changes, to higher-margin products, and to ensure optimal utilization of our production facilities.

Substantial capital and R&D expenditures

Semiconductor manufacturing is very capital-intensive. The manufacturing capacities that are essential to maintaining a competitive cost position require large investments in manufacturing assets. The top 10 capital spenders in the industry, of which we rank number 8 according to IC Insights, account for more than 50 percent of the industry's average capital expenditure. Manufacturing processes and product designs are based on leading-edge technologies that require considerable research and development expenditures. A high percentage of the cost of operating a fab is fixed; therefore, increases or decreases in capacity utilization can have a significant effect on profitability.

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

To reduce our total costs, we aim to share the costs of research and development and manufacturing facilities with third parties, either by establishing alliances or through the use of foundry facilities for manufacturing. We believe that cooperation in alliances for R&D and manufacturing and foundry partnerships provide us with a number of important benefits, including the sharing of risks and costs, reducing our own capital requirements, allowing us to develop a broader range of products, acquiring technical know-how, and gaining access to additional production capacities. We are developing future DRAM technologies with feature sizes of 90-nanometer and 70-nanometer together with Nanya. In addition, we have set up foundry relationships with partners in Asia, including SMIC and Winbond, to increase our manufacturing capacities, and therefore our revenue base, without investing in additional manufacturing assets.

We expect to increase unit production output through improvements in manufacturing, which is achieved by producing chips with smaller structure sizes (more bits per chip) and by producing more chips per silicon wafer (by using larger wafers). For DRAM process technology, we have substantially completed the conversion of our production based on 110-nanometer structure sizes. We are manufacturing at full capacity using 300-millimeter wafers at our facility in Dresden, Germany. Early in the 2003 financial year, the Dresden facility reached the cost cross-over point for 300-millimeter production, which means its per-unit production cost is lower than that in our existing 200-millimeter facilities. We plan to extend these capabilities at our 300-millimeter facility in Richmond, Virginia, in the 2005 financial year.

Technological development and competition

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

We aim to offset the effects of declining unit sales prices on total revenues by increasing unit sales volume, and residual effects on gross margin by continually reducing per-unit production costs. The growth in volumes depends in part on productivity improvements in the manufacturing of semiconductor chips. By moving to ever-smaller structure sizes in manufacturing, the number of functional elements has historically doubled approximately every two years. This trend, often called Moore's Law, has led to an average

growth rate of bit-volumes of between 40 percent and 45 percent per year and, assuming constant costs per square inch of silicon, to an approximately 30 percent cost reduction per bit per year.

Seasonality

Our business is affected by seasonality, with sales historically strongest in our fourth financial quarter and weaker in our first financial quarter. The seasonality of our sales reflects the seasonal demand fluctuations for the products that incorporate our semiconductors. If anticipated sales or shipments do not occur when expected, expenses and inventory levels in that quarter can be disproportionately high, and our results of operations for that quarter, and potentially for future quarters, may be adversely affected.

Product development cycles

For logic products, the cycle for test, evaluation and adoption of our products by customers before the start of volume production can range from several months to more than one year. Due to this lengthy cycle, we may experience significant delays from the time we incur expenses for research and development, marketing efforts, and investments in inventory, to the time we generate corresponding revenue, if any. Development cycles affect memory products to a lesser extent due to the higher degree of standardization for DRAM products.

Acquisition and divestiture strategy

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

Intellectual Property

Due to the high-technology nature of the semiconductor industry, Intellectual Property (IP), meaning intangible assets relating to proprietary technology, is of significant importance. Companies that have their own patented IP often allow third parties to use their IP in exchange for license fees. It can be costly and difficult to defend against infringement by third parties, or to defend the company against claims by third parties of infringement of their technology. We do not record assets in our balance sheet for self-developed IP. Only IP licensed from others or acquired through a business acquisition is reflected on our balance sheet, and reduced through amortization over the expected useful life. The value of such acquired IP is often complex and difficult to estimate.

Challenges that lie ahead

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

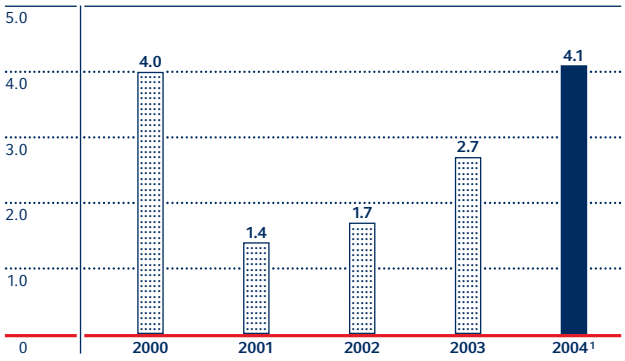
Semiconductor market conditions in the 2004 financial year

The semiconductor market strengthened significantly during the 2003 calendar year, with growth of 18 percent over the prior year, according to WSTS (World Semiconductor Trade Statistics). In September 2004, WSTS predicted continued growth in the 2004 calendar year of 28 percent over the 2003 calendar year. WSTS further predicts that sales in the Asia/Pacific region will increase by 42 percent in the 2004 calendar year, while other regions are predicted to experience somewhat lower growth: Europe, 21 percent; Japan, 18 percent; and North America, 21 percent. Non-memory products (logic chips, analog, discrete and optical components), which accounted for 78 percent of the entire market in the first half of the 2004 calendar year, are predicted to grow by 24 percent compared with the 2003 calendar year. Memory products are predicted to grow by 46 percent compared with the 2003 calendar year.

Gartner Dataquest predicts worldwide growth in the 2004 calendar year of 37 percent for semiconductors in the communications segments (wireless and wireline). Semiconductors for data processing are predicted to grow by 26 percent, for consumer electronics by 22 percent and for automotive electronics by 23 percent.

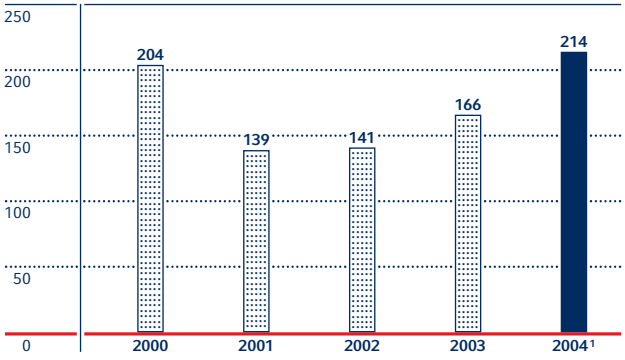
During our 2004 financial year, we were able to benefit from these improved market conditions in the worldwide semiconductor industry.

World economic growth in %



The growing world economy has a positive influence on semiconductor market growth.
Source: International Monetary Fund; status: September 2004.
1 Estimated.

Development of the semiconductor market U.S. $ in billion



Improvement of positive signs in the semiconductor market in the 2004 calendar year.
Source: WSTS; status: October 2004.
1 Estimated.

Results of operations

Various line items in our consolidated statements of operations expressed as percentages of net sales

For the year ended September 30[1]	2002	2003	2004
Net sales	100.0	100.0	**100.0**
Cost of goods sold	(87.7)	(75.0)	**(64.9)**
Gross profit	12.3	25.0	**35.1**
Research and development expenses	(21.7)	(17.7)	**(16.9)**
Selling, general and administrative expenses	(13.1)	(11.0)	**(10.0)**
Restructuring charges	(0.3)	(0.5)	**(0.2)**
Other operating income (expense), net	0.9	(1.4)	**(3.6)**
Operating (loss) income	(21.9)	(5.6)	**4.4**
Interest expense, net	(0.5)	(0.8)	**(0.6)**
Equity in (losses) earnings of associated companies	(1.0)	0.3	**(0.2)**
Gain (loss) on associated company share issuance	0.4	(0.0)	**0.0**
Other non-operating (expense) income, net	(0.8)	0.3	**(0.9)**
Minority interests	0.1	0.1	**0.3**
Income (loss) before income taxes	(23.7	(5.7)	**3.0**
Income tax benefit (expense)	2.9	(1.4)	**(2.1)**
Net (loss) income	(20.9	(7.1)	**0.9**

1 Columns may not add due to rounding.

Net sales

We generate our revenues primarily from the sale of our semiconductor products and systems solutions. In addition, we also generate less than 5 percent of our sales from activities such as foundry services for divested businesses and the licensing of our intellectual property. Our semiconductor products include two main categories of semiconductors:

::: Our memory products, such as dynamic random access memory (DRAM), which are used in computers and other electronic devices. We also offer a limited range of non-volatile flash memory products, which are used in consumer applications such as digital still cameras or cellular handsets.
::: Our logic products, which include a wide array of chips and components used in electronic applications ranging from wireless communications devices (such as mobile phones and Bluetooth devices), chip cards, modems and other wireline technologies such as DSL, automotive electronics and industrial applications.

We make the vast majority of our product sales through our direct sales force, with approximately 10 percent of our total revenue in any period derived from sales made through distributors.

We derive our license revenue from royalties and license fees earned on technology that we own and license to third parties. This enables us to recover a portion of our research and development expenses, and also often allows us to gain access to manufacturing capacity at foundries through joint licensing and capacity reservation arrangements. We recognize license income, primarily in the Memory Products segment, resulting from the transfer of technology to our alliance partners, such as Winbond and Nanya, and, in previous years, our joint venture ProMOS Technologies Inc. (“ProMOS”).

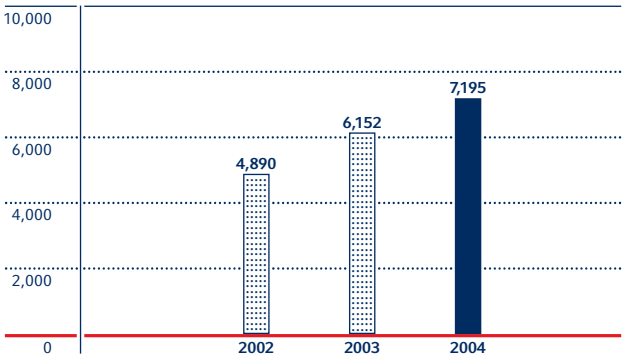
Our revenues fluctuate in response to a mix of factors, including the following:

::: the market prices for our products, particularly our DRAM products;
::: our overall product mix and sales volumes;
::: the stage of our products in their respective life cycles; and
::: the effects of competition and competitive pricing strategies.

For the year ended September 30	2002	2003	2004
Net sales	4,890	6,152	**7,195**
Changes year-on-year		26 %	**17 %**
of which:			
License income € in million	147	183	**76**
% of net sales	3 %	3 %	**1 %**
Effect of foreign exchange over prior year € in million	–	(317)	**(445)**
% of net sales	–	(5 %)	**(6 %)**
Impact of acquisitions over prior year € in million	7	126	**29**
% of net sales	0 %	2 %	**0 %**

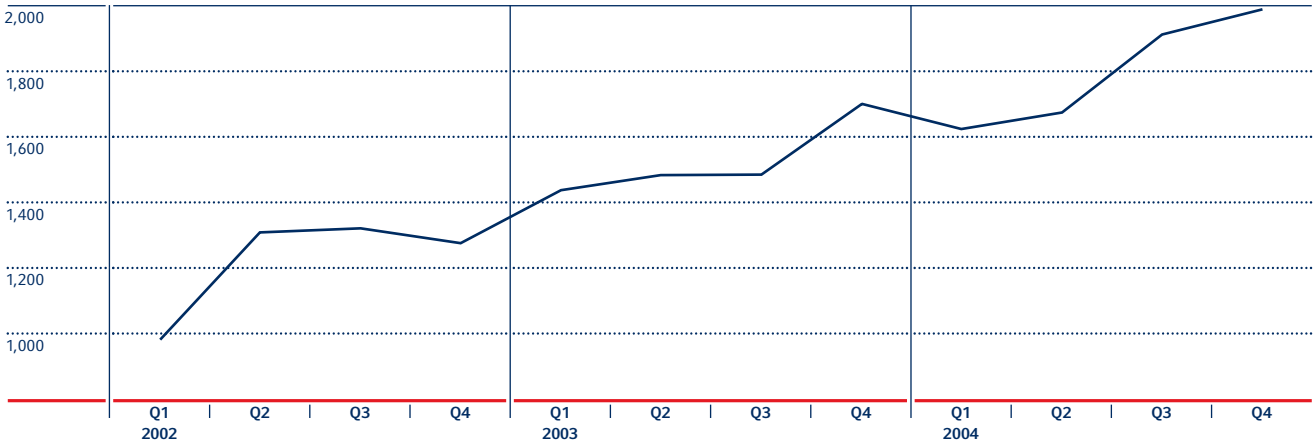
The increases in net sales in the 2003 and 2004 financial years were mainly driven by higher demand for memory products and semiconductors used in mobile phones, as well as the continued strong performance of the Automotive & Industrial segment. License income increased in 2003 and decreased in 2004 mainly as a result of the termination of our license agreement with ProMOS. The decline of major foreign currencies (primarily the U.S. dollar) relative to the euro during the 2003 and 2004 financial years negatively impacted reported sales. The effect of foreign exchange over the prior year is calculated as the estimated change in current year sales if the average exchange rate for the preceding year is applied as a constant rate in the current year. The increase in revenues from entities we acquired since the beginning of the prior year reflects primarily the inclusion of a full-year consolidation of sales in the year after the initial acquisition.

Net sales € in million



Increased demand for our products resulted in higher net sales in the 2004 financial year.

Quarterly sales € in million



Sales increased sequentially during the 2004 financial year and peaked in the fourth quarter.

Net sales by segment

During the year ended September 30, 2004 we moved certain businesses from the Secure Mobile Solutions segment to the Automotive & Industrial segment. Accordingly, the prior year segment results have been reclassified to be consistent with the revised reporting structure and presentation, as well as to facilitate analysis of current and future operating segment information.

::: Wireline Communications

In the 2003 financial year and through the first half of the 2004 financial year we experienced increasing demand for digital access products as the need for DSL Internet-based communication increased, and markets in developing countries improved. An offsetting trend is the decrease in demand for traditional analog communication products, which was more pronounced in the second half of the 2004 financial year than in prior periods. The sales decline in the 2004 financial year reflects both declining volumes of analog and fiber optic products and a decline in average selling prices. Continuing low infrastructure investments by global telecommunications carriers negatively affected the markets for fiber optic and optical networking products during the year, although we experienced increased demand in the fourth quarter. Following our decision to divest our fiber optics business, sales of fiber optic products deteriorated in the third quarter, however, rebounded in the fourth quarter.

::: Secure Mobile Solutions

Sales growth in the 2003 financial year was particularly strong due to higher volumes of baseband and radio frequency ("RF") products for mobile phones and the full-year consolidation of Ericsson Microelectronics ("MIC"), which offset price pressure in our security business. Sales growth in the 2004 financial year was more moderate and occurred primarily in the second half of the year, as demand for mobile solutions accelerated and security products strengthened. We experienced ongoing price pressure in the market for chipcard ICs throughout the 2003 financial year. In the 2004 financial year, revenue benefited from a slower rate of price decline.

::: Automotive & Industrial

The segment experienced continued growth over the past two years as volume growth, particularly for automotive power applications as a result of the increasing semiconductor content in automotive electronics, more than offset ongoing price pressure caused by technological developments and competition. The increase in net sales in both the 2003 and 2004 financial years resulted principally from higher volume sales of automotive power applications and power management & supply products. Sales also benefited from the full-year consolidation of SensoNor, acquired in June 2003, and accelerated growth for industrial applications in the second half of the 2004 financial year.

For the year ended September 30	2002 € in million	%	2003 € in million	%	2004 € in million	%
Wireline Communications	386	8	459	7	**434**	**6**
Secure Mobile Solutions	1,015	21	1,403	23	**1,790**	**25**
Automotive & Industrial	1,464	30	1,634	27	**1,820**	**25**
Memory Products	1,861	38	2,485	40	**2,926**	**41**
Other Operating Segments	117	2	139	2	**196**	**3**
Corporate and Reconciliation	47	1	32	1	**29**	**–**
Total	4,890	100	6,152	100	**7,195**	**100**

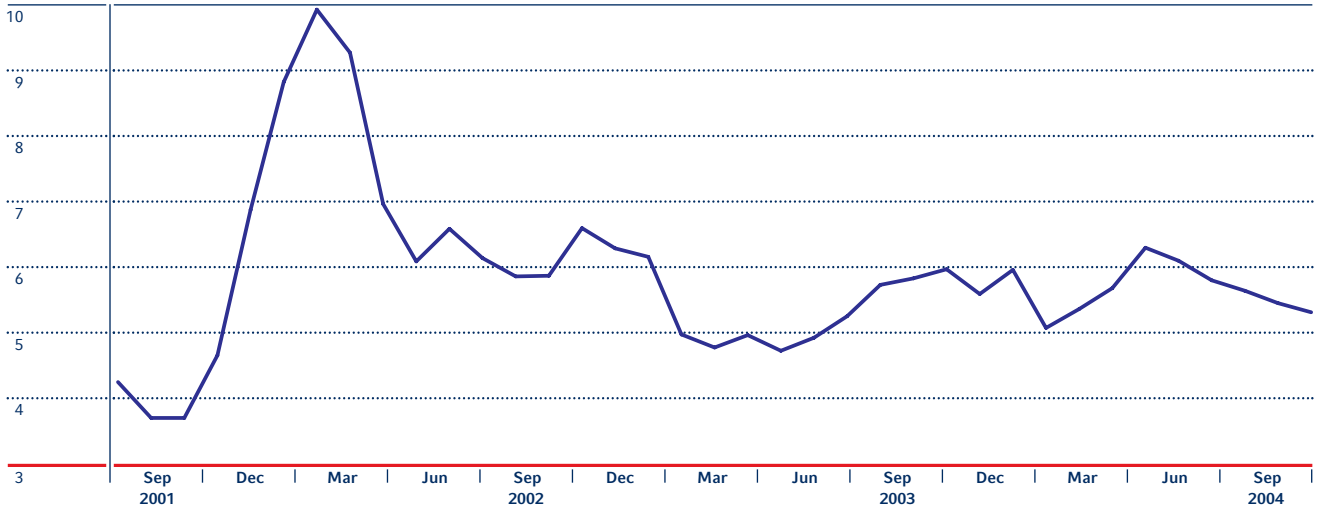
Memory Products

Sales growth in the past two years was mainly volume-driven, as the DRAM industry recovered and demand increased. The volume growth offset the declining average sales prices in the 2003 financial year. Prices in U.S. dollars declined in the first half and increased in the third quarter of the 2004 financial year, but were on average higher in the 2004 financial year than in the 2003 financial year. The increase in net sales in the 2004 financial year was due mainly to higher volumes, which more than offset the impact of an unfavorable U.S. dollar / euro exchange rate and lower license income. Sales volumes also benefited from the ramp-up of our Dresden 300-millimeter facility, from the conversion to 110-nanometer technology and from access to additional capacity made available through our cooperation with Winbond and SMIC, which offset the reduced volume of products we purchased from ProMOS. Overall megabit volume increased during the 2004 financial year as a result of increasing market demand for personal computers and system memory.

DRAM price development

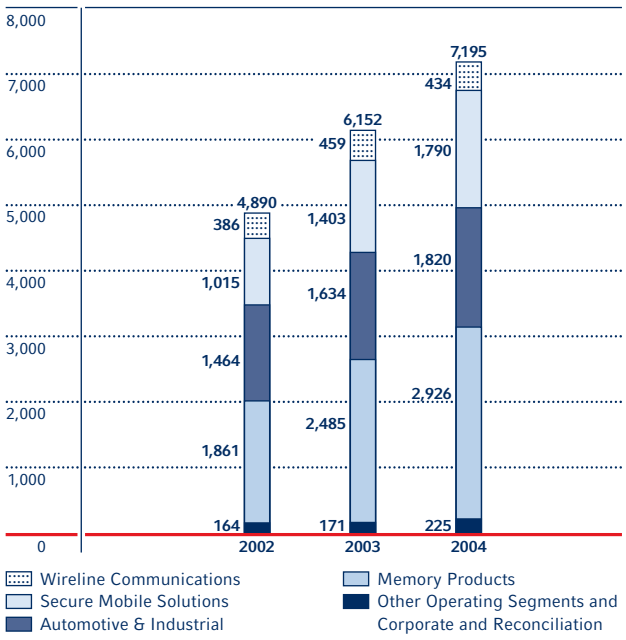
The prices in U.S. dollars of DDR memory ICs were relatively stable during the 2004 financial year, with slight decreases in January, increases in April and decreases during the fourth quarter of the financial year. Contract prices for our principal volume product, 256-Mbit DDR DRAM, were generally stable, with somewhat greater volatility in the spot market. Per-bit prices for lower-density SDRAM products were higher during the year, because much of the worldwide manufacturing capacity had shifted to higher-density and DDR products. In the middle of the 2004 calendar year, we began shipments of DDR2 DRAM products, with average selling prices above those of mainstream DDR products. We continue to seek to optimize our product mix to take advantage of market price differentials, and intend to increase our focus on producing specialty products and diversifying our product portfolio. Our average per-megabit selling prices, excluding the effects of currency fluctuations, increased approximately 4 percent in the 2004 financial year.

DRAM price development per 256-Mbit-equivalent in U.S. $



Source: WSTS.

Net sales by segments € in million



Higher demand for memory chips and chips for mobile phones resulted in increased net sales in the 2004 financial year.

::: Other Operating Segments

Net sales increased in the 2004 financial year, primarily reflecting the addition of revenues from our ASIC & Design Solutions (ADS) business.

Net sales by region and customer

Our sales grew in all major regions, with Asia/Pacific being our largest sales region and having the strongest growth rate. We expect this trend to continue as more customers expand their operations in low-cost manufacturing centers in Asia, and the Chinese market develops.

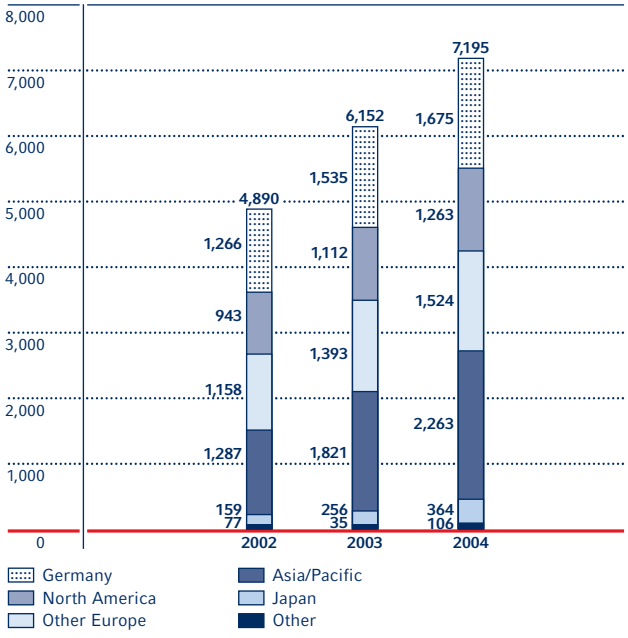
With the increased demand for digital access products, our customer base in Wireline Communications has shifted towards fewer, but larger, customers (reflecting the concentration in the telecommunications industry). The number of customers of our Automotive & Industrial segment remained stable, reflecting the nature of the automobile industry. In the 2004 financial year, customers of our Secure Mobile Solutions segment started to shift production increasingly to countries with emerging economies, such as China and Brazil, which have lower production costs. The number of Memory Product customers has become increasingly concentrated, and in the 2004 financial year our top ten customers represented 65 percent of that segment's sales.

The Siemens group accounted for 14 percent, 14 percent and 13 percent of our net sales in the 2002, 2003 and 2004 financial years, respectively. Sales to the Siemens group comprise both direct sales (which accounted for 12 percent, 13 percent and 13 percent of net sales, respectively, in those financial years) and sales designated for resale to third parties (which accounted for 2 percent, 1 percent and 0 percent of net sales, respectively, in those financial years). Sales to the Siemens group are made primarily by our non-memory product segments. No other single customer accounted for 10 percent of our net sales in the 2002, 2003 or 2004 financial year.

Net sales by region

For the year ended September 30	2002 € in million	%	2003 € in million	%	2004 € in million	%
Germany	1,266	26	1,535	25	**1,675**	**23**
Other Europe	943	19	1,112	18	**1,263**	**18**
North America	1,158	24	1,393	23	**1,524**	**21**
Asia/Pacific	1,287	26	1,821	29	**2,263**	**32**
Japan	159	3	256	4	**364**	**5**
Other	77	2	35	1	**106**	**1**
Total	4,890	100	6,152	100	**7,195**	**100**

Net sales by region € in million



The region Asia/Pacific again achieved the highest net sales growth.

Cost of goods sold and gross margin

Our cost of goods sold consists principally of:

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

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

::: Factory utilization and related idle capacity costs;
::: Amortization of purchased intangible assets;
::: Product warranty costs;
::: Provisions for excess or obsolete inventories; and
::: Government grants, which are recognized over the remaining useful life of the related manufacturing assets.

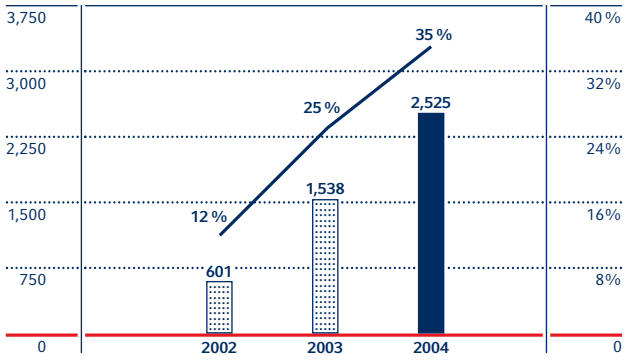
We report as cost of goods sold the cost of inventory purchased from our joint ventures and other associated and related companies such as ALTIS Semiconductor, Inotera and through January 1, 2003, ProMOS. Our purchases from these affiliated entities amounted to €357 million in the 2004 financial year, €470 million in the 2003 financial year and €686 million in the 2002 financial year.

For the year ended September 30	2002	2003	2004
Cost of goods sold € in million	4,289	4,614	**4,670**
Changes year-on-year		8 %	**1 %**
% of net sales	88 %	75 %	**65 %**
Gross margin	12 %	25 %	**35 %**

The gross margin improvement over the past two financial years is attributable to a variety of factors, including improved integration and higher capacity utilization in most of our segments, a substantially improved cost position in our memory products segment and a better overall pricing environment than in the prior financial years.

The gross margin development in our segments was as follows:

Gross margin absolute and as percentage of sales



Gross margin increased significantly through higher utilization of production capacity and improved cost structure.

::: Wireline Communications

Gross margin improved in the 2003 financial year mainly due to increased volumes of higher-margin access products, productivity gains and higher capacity utilization. Gross margin was on average the same in the 2004 financial year as in the 2003 financial year, although decreasing throughout the year from a high in the first quarter. This was principally due to the continuing price decline experienced mainly for access products.

::: Secure Mobile Solutions

Gross margin improved in the second half of the 2003 financial year into the first quarter of the 2004 financial year and was maintained until the year end. This was mainly as a result of improved demand for wireless and security products and higher capacity utilization which offset the effect of continuing price decline. Gross margin was positively affected in the 2004 financial year by a slower rate of price decline and improved cost position for the previously acquired MIC business, and negatively impacted in the 2003 financial year due to continued pricing pressure throughout the year.

::: Automotive & Industrial

Gross margin improved as a result of increased productivity and cost reductions attributable to the conversion from 5-inch to 6-inch and 8-inch wafer manufacturing. Higher sales volumes and increased capacity utilization contributed to improved efficiencies and offset the adverse effect of pricing pressure on gross margin.

::: Memory Products

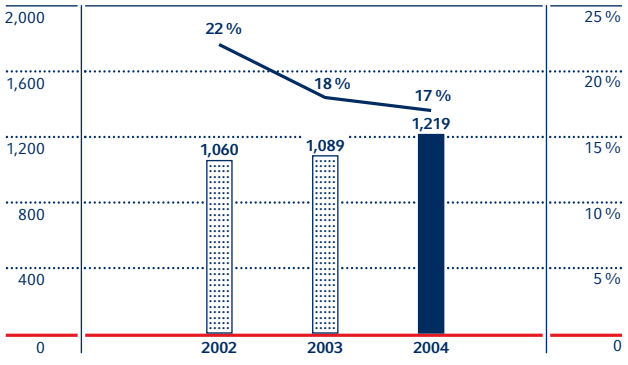
Gross margin consistently improved over the past two years mainly due to improved productivity and reduced manufacturing costs related to 140- and 110-nanometer conversion and 300-millimeter production efficiencies. These more than offset the effects of lower average selling prices in the 2003 financial year, and led to a significant increase in gross margin towards the second half of the 2004 financial year. The gross margin impact in the 2004 financial year of lower license income was partially offset by reduced depreciation expense attributable to governmental grants.

For the year ended September 30	2002	2003	2004
Research and development expenses € in million	1,060	1,089	**1,219**
Changes year-on-year		3 %	**12 %**
% of net sales	22 %	18 %	**17 %**
In-process R&D charges € in million	37	6	**9**
% of net sales	1 %	0 %	**0 %**
Government subsidies € in million	59	59	**74**
% of net sales	1 %	1 %	**1 %**

Research and Development (R&D) expenses

Research and development expenses consist primarily of salaries and fringe benefits for research and development personnel, material costs, depreciation and maintenance of equipment used in our research and development efforts, and contracted technology development costs. Material costs include expenses for development wafers and costs relating to pilot production activities prior to the commencement of commercial production. R&D expenses also include our joint technology development arrangements with partners such as Nanya and IBM.

R&D expenses and as percentage of sales



Focused development of manufacturing technolgies with high growth potential, particually Secure Mobile Solutions and Memory Products.

We continue to focus our investments on the development of leading-edge manufacturing technologies with high growth potential, particularly in our Secure Mobile Solutions and Memory Products segments.

In-process R&D charges relate to specific acquisitions: MIC in the 2002 financial year, mainly SensoNor in the 2003 financial year and ADMtek in the 2004 financial year. Each charge is unique to the acquisition and depends on a variety of factors such as the stage of technology development and the anticipated future use at the acquisition date.

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

::: Wireline Communications

R&D expenses decreased in each of the 2003 and 2004 financial years in absolute terms and relative to sales. In the 2003 financial year, this was mainly due to lower amortization expenses relating mainly to our Catamaran Communications acquisition and reduced spending for access product lines in accordance with our Impact cost-reduction program. In the 2004 financial year costs were reduced, mainly through cut-backs in optical networking, which was partially offset by in-process R&D charges in connection with the ADMtek acquisition.

::: Secure Mobile Solutions

R&D expenses increased in absolute terms as we increased our focus on software and solutions activities and third-generation mobile phone semiconductors. In the 2003 financial year, this effect was reduced by the €37 million in-process R&D charge recognized in the 2002 financial year, which did not reoccur.

::: Automotive & Industrial

R&D expenses increased in absolute terms and remained constant in relation to sales, as a result of increased R&D spending in the fields of microcontrollers and automotive applications. We expensed in-process R&D of €4 million in connection with the SensoNor acquisition in the 2003 financial year.

::: Memory Products

R&D expenses decreased in both absolute terms and as a percentage of sales in the 2003 financial year, demonstrating the benefits of the joint development of DRAM technologies with Nanya. In the 2004 financial year, this reduction was more than offset by increased development expenditures for commodity DRAM and flash technologies, resulting in an overall increase in absolute terms, although constant relative to sales.

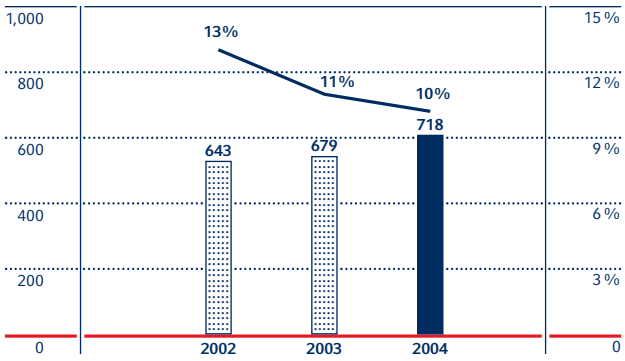
Selling, General and Administrative (SG&A) expenses

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

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

The decline as a percentage of net sales in each year was mainly due to our sales increasing at a faster rate than our expenditures.

SG&A expenses and as percentage of sales



The efforts for the increased business and legal costs could be partially offset by savings through our impact programs.

Selling expenses increased in absolute terms over the past two years due to increased sales and higher-volume business as well as expansion in the Asia/Pacific region, partially offset by sales and marketing cost-reduction programs in our Wireline Communications and Secure Mobile Solutions segments.

The increase in general and administrative expenses over the past two years was mainly attributable to higher information technology (IT) expenditures, professional fees, and expenses associated with expanding our presence in the USA and Asia and was partially offset by savings from our cost-reduction programs. The full-year consolidation of the acquired MIC business increased the selling, general and administrative expenses of our Secure Mobile Solutions segment in the 2003 financial year. Accruals for legal costs related to litigation and settlements also increased in the 2004 financial year.

For the year ended September 30	2002	2003	2004
Selling, general and administrative expenses € in million	643	679	**718**
Changes year-on-year		6 %	**6 %**
% of net sales	13 %	11 %	**10 %**

Other items affecting earnings

For the year ended September 30	2002	2003	2004
Restructuring charges € in million	16	29	**17**
% of net sales	0 %	0 %	**0 %**
Other operating (income) expense, net € in million	(46)	85	**257**
% of net sales	(1 %)	1 %	**4 %**
Equity in (losses) earnings of associated companies € in million	(47)	18	**(14)**
% of net sales	(1 %	0 %	**(0 %)**
Other non-operating (expense) income, net € in million	(41)	21	**(64)**
% of net sales	(1 %)	0 %	**(1 %)**

Restructuring charges

In the 2004 financial year, we continued our restructuring and cost-saving efforts. In connection with our decision to close down various development centers in the 2004 financial year, we recorded restructuring charges, mainly for severance payments. In the 2003 financial year we accrued charges for severance payments to eliminate excess overhead. In the 2002 financial year, we recorded restructuring expenses principally relating to non-cancelable commitments.

Other operating income (expense), net

Other net operating expense in the 2004 financial year related principally to charges related to our settlement in an antitrust investigation by the U.S. Department of Justice, related settlements with customers and a similar ongoing investigation in Europe, as well as a goodwill impairment charge of €71 million related to our 2001 acquisition of Catamaran. In the 2003 financial year, we also recorded a goodwill impairment charge of €68 million related to Catamaran and made a provision related to the U.S. antitrust matters noted above. In the 2002 financial year, other net operating income reflected pre-tax gains of €39 million from the sale of the remaining part of our infrared components business, and €2 million from the sale of our gallium arsenide business.

Equity in (losses) earnings of associated companies

Our principal associated companies are ALTIS, Inotera (since the 2003 financial year) and ProMOS (until the 2003 financial year). Both ProMOS and Inotera are DRAM manufacturers and our equity in their earnings has been sensitive to fluctuations in the price of DRAM and reflected in the results of the Memory Products segment.

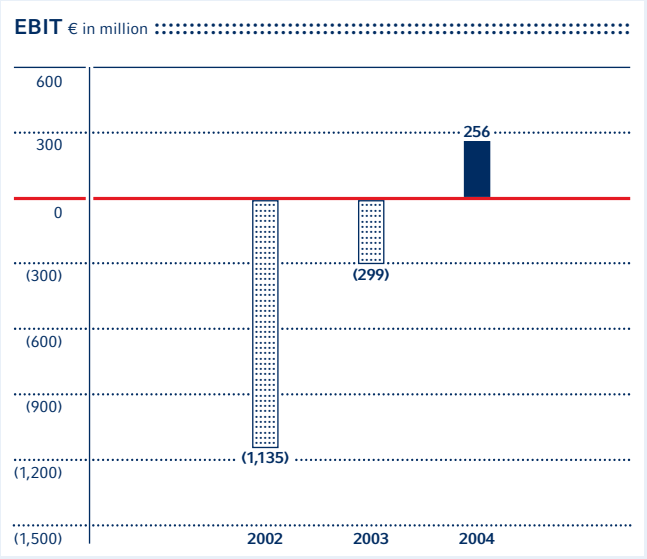
Losses in the 2002 financial year were mainly caused by ProMOS as a result of low DRAM prices. In the 2003 financial year, the recovery in DRAM prices resulted in improved earnings at ProMOS prior to our withdrawal from the venture. Start-up losses at Inotera during the ramp-up phase of production contributed to the losses incurred in the 2004 financial year.

Other non-operating (expenses) income, net

Other income and expense can consist of various items from period to period not directly related to our principal operations, including gains and losses on sales of marketable securities. Other net non-operating expense in the 2004 financial year mainly consisted of €65 million of investment-related impairment charges. In the 2003 financial year, a €60 million gain on the sale of ProMOS shares was partially offset by impairment charges of €34 million related to certain investments, and a €9 million loss on the sale of our interest in UMCi. The 2002 financial year's amount mainly reflected impairment charges related to investments.

Earnings Before Interest and Taxes (EBIT)

We define EBIT as earnings (loss) before interest and taxes. Our management uses EBIT as a measure to establish budgets and operational goals, to manage our business and to evaluate its performance. We report EBIT information because we believe that it provides investors with meaningful information about our operating performance and especially about the performance of our separate business segments. EBIT is determined from the statement of operations as follows:



Higher volume and increased margins resulted in improved EBIT.

For the year ended September 30 € in million	2002	2003	2004
Net income (loss) from continuing operations	(1,017)	(435)	**61**
Add: Income tax (benefit) expense	(143)	84	**154**
Add: Interest expense, net	25	52	**41**
EBIT	(1,135)	(299)	**256**

The EBIT amounts of our separate business segments were as follow:

For the year ended September 30 € in million	2002	2003	2004
Wireline Communications	(245)	(188)	**(179)**
Secure Mobile Solutions	(143)	(65)	**124**
Automotive & Industrial	138	187	**244**
Memory Products	(630)	31	**169**
Other Operating Segments	9	(49)	**(58)**
Corporate and Reconciliation	(264)	(215)	**(44)**
Total	(1,135)	(299)	**256**

The EBIT improvement reflects the combined effects of the following EBIT movements of our reporting segments:

::: Wireline Communications

The EBIT loss decreased in the 2004 financial year due to lower operating costs, but partially offset by losses associated with the acquisition of ADMtek. EBIT for the 2003 and 2004 financial years includes goodwill impairments of €68 million and €71 million, respectively, related to our Catamaran acquisition. The reduction in the EBIT loss in the 2003 financial year was principally driven by improved sales volumes, improved product mix, and improved margin in our fiber optics business, as well as cost savings from restructuring and other cost-reduction efforts.

::: Secure Mobile Solutions

The return to profitability in the 2004 financial year was principally due to substantially increased sales and a moderately improved pricing environment. The reduction in EBIT loss in the 2003 financial year resulted from substantially increased sales, and improved gross margins, as well as the effects from cost reduction efforts, which offset the full-year consolidated effect of the acquired MIC business.

::: Automotive & Industrial

The EBIT improvements in the 2003 and 2004 financial years were mainly due to higher sales volumes and improved manufacturing efficiency, partially offset by continued pricing pressure.

::: Memory Products

The EBIT improvement in the 2004 financial year was primarily due to increased sales volumes and productivity improvements, which offset the weak U.S. dollar / euro exchange rate, lower license income and antitrust related charges. The return to profitability in the 2003 financial year was attributable to increased sales volumes, substantially reduced manufacturing costs and increased license income.

::: Other Operating Segments

The EBIT losses in the 2003 and 2004 financial years mainly reflect investment-related impairment charges. Expenditures associated with establishing our ASIC & Design Solutions business in the 2003 financial year were significantly reduced and led to profitability in the 2004 financial year.

::: Corporate and Reconciliation

The EBIT loss decreased in the 2003 financial year and particularly in the 2004 financial year principally reflecting reduced idle-capacity costs resulting from improved utilization.

Interest expense, net

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

Interest expense since the 2002 financial year principally relates to the convertible bonds that we issued in February 2002 and in June 2003. This effect was partially reduced in the 2004 financial year through the redemption of a portion of our convertible bonds and increased interest capitalization related to facilities under construction.

For the year ended September 30	2002	2003	2004
Interest expense, net € in million	(25)	(52)	**(41)**
% of net sales	(1 %)	(1 %)	**(1 %)**

Income taxes

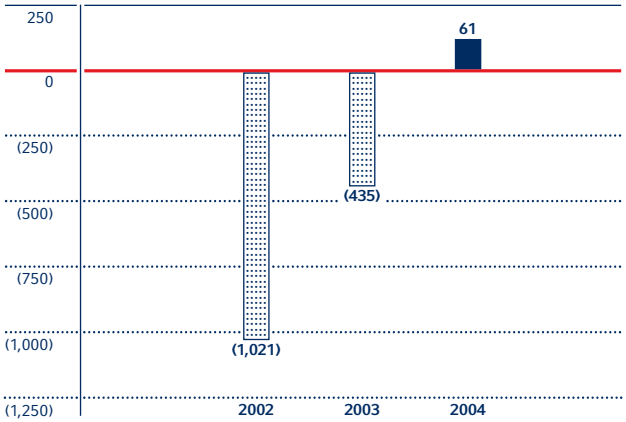
For the year ended September 30	2002	2003	2004
Income tax benefit (expense) € in million	143	(84)	**(154)**
% of net sales	3 %	(1 %)	**(2 %)**
Effective tax rate	12 %	(24 %)	**72 %**

Pursuant to U.S. GAAP, deferred tax assets in tax jurisdictions that have a three-year cumulative loss are subject to a valuation allowance excluding the impact of forecasted future taxable income. In the 2002 financial year, we recorded an increase to the valuation allowance of €271 million, which limited the net tax benefit recognized, because we had incurred a cumulative loss in certain tax jurisdictions over the three-year period ended September 30, 2002. In the 2003 financial year, we again recognized no tax benefits in these jurisdictions and we increased the valuation allowance by €182 million, however, we continued to record tax expense in profitable tax jurisdictions. In the 2004 financial year, our effective tax rate increased because we recorded additional valuation allowances of €54 million related to tax jurisdictions that continue to have a three-year cumulative loss, and also had more non-deductible expenditures. We assess our deferred tax asset position on a regular basis. Our ability to realize benefits from our deferred tax assets is dependent on our ability to generate future taxable income sufficient to utilize tax loss carry-forwards or tax credits before expiration. We expect to continue to recognize no tax benefits in these jurisdictions until we have ceased to be in a cumulative loss position for the preceding three-year period.

Net income (loss)

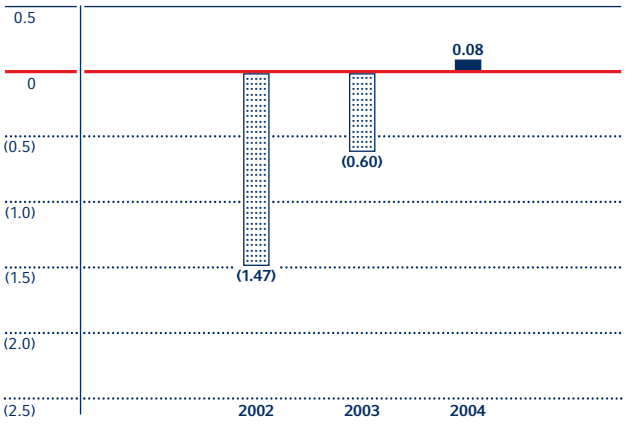
Net loss decreased significantly in 2003 principally as a result of sales volume growth and manufacturing efficiencies and cost-reduction efforts. This trend continued in the 2004 financial year, resulting in the achievement of profitability, although the impact was reduced through the increased charges for impairments, antitrust-related matters and tax expense.

Net loss/income € in million



Due to increased demand and higher efficiency of production we returned to profitability.

Earnings per share €



Financial condition

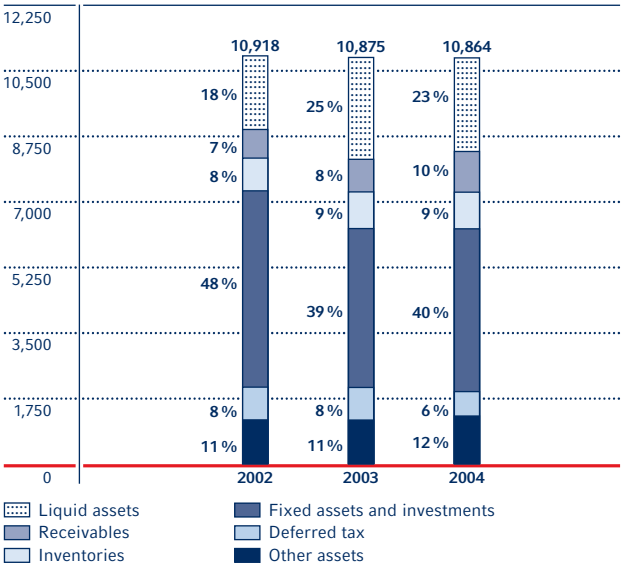
For the year ended September 30 € in million	2003	2004	Change in %
Current assets	5,376	**5,292**	(2)
Non-current assets	5,499	**5,572**	1
Total assets	10,875	**10,864**	(0)
Current liabilities	2,204	**2,870**	30
Non-current liabilities	3,005	**2,016**	(33)
Total liabilities	5,209	**4,886**	(6)
Shareholders' equity	5,666	**5,978**	6

As of September 30, 2004, our total assets were at the same level as at the end of the 2003 financial year. Total current assets decreased at the end of the 2004 financial year due to the net effect of a variety of actions, including the use of cash to repay €549 million of long-term debt, offset by increases in accounts receivable and marketable securities. Non-current assets increased slightly at the end of the 2004 financial year as depreciation, amortization and impairment charges mostly offset capital expenditures and investments in associated companies during the year.

Total liabilities decreased as of the end of the 2004 financial year, mainly due to the redemption of a notional amount of €360 million of our convertible notes due 2007 during the 2004 financial year. Current liabilities mainly increased and non-current liabilities further decreased due to prior year long-term debt approaching short-term maturity as of September 30, 2004.

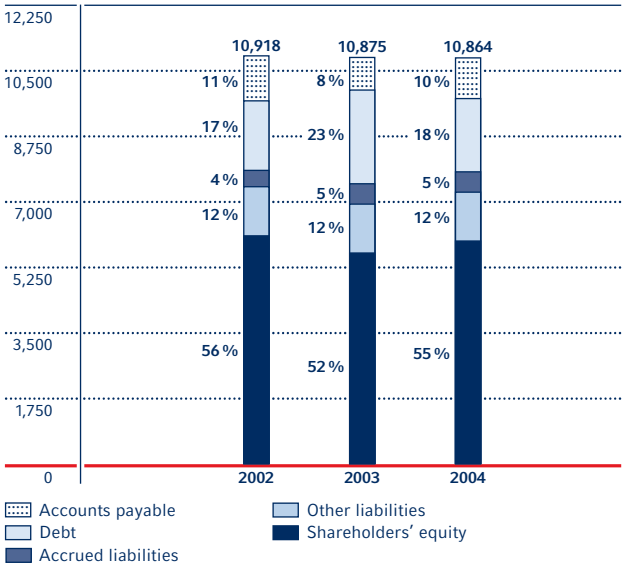
Our shareholders' equity increased principally due to the issuance of 26,679,255 ordinary shares relating to the acquisition of the remaining interest in Infineon Technologies SC300 GmbH & Co. OHG ("SC300") and 2004 net income.

Assets € in million



Liquid assets decreased due to the repayment of debt.

Liabilities and equity € in million



Debt decreased due to the partial redemption of our convertible notes.

At September 30, 2004, shareholders' equity as a percentage of total assets was 55 percent, compared with 52 percent at September 30, 2003.

The equity return and the return of assets both amounted to one percent in the 2004 financial year compared to minus four percent and minus seven percent, respectively, in the 2003 financial year because of the achievement of profitability in the 2004 financial year. The equity-to-fixed-assets ratio improved in the 2004 financial year to 167 percent because depreciation exceeded capital expenditures during the year. The decrease of the debt-to-equity ratio to 33 percent, compared to 44 percent in the 2003 financial year, was attributable to the redemption of a portion of our convertible notes during the 2004 financial year.

Liquidity

Cash flow

Our statement of cash flows shows the sources and uses of cash during the reported periods. It is of key importance for the evaluation of our financial position.

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

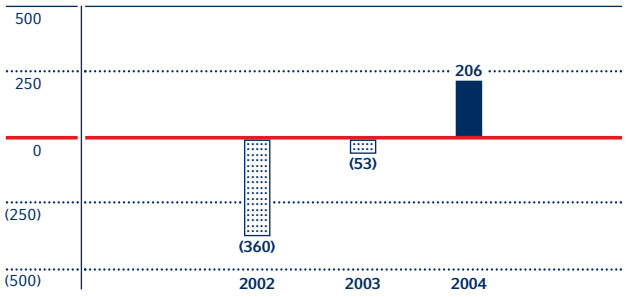
Cash provided by operating activities in the 2004 financial year resulted mainly from net income of €61 million, which is net of non-cash charges for depreciation of €1,320 million and impairment charges of €136 million and deferred taxes of €96 million. Cash provided by operating activities was positively impacted by an increase in accrued liabilities of €148 million, related to the antitrust investigations and related civil claims. These effects were partly offset by the increase of trade accounts receivable of €219 million and the increase of inventories of €40 million due to increased business volume.

Cash used in investing activities in the 2004 financial year mainly reflects capital expenditures of €1,163 million, principally to equip our plants in Dresden and Richmond, investments of €386 million in associated companies, such as our Inotera joint venture, and net purchases of marketable securities of €158 million.

Cash used for financing activities in the 2004 financial year principally relates to the redemption of €360 million of our convertible subordinated notes due 2007.

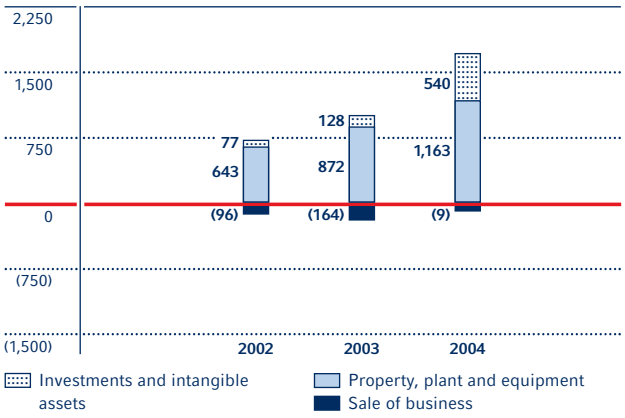
For the year ended September 30 € in million	2002	2003	2004
Net cash provided by operating activities – continuing operations	226	731	**1,857**
Net cash used in investing activities	(1,244)	(1,522)	**(1,809)**
Net cash provided by (used in) financing activities	1,448	566	**(402)**
Net cash provided by (used in) operating activities – discontinued operations	11	(1)	**–**
Cash and cash equivalents at year end	1,199	969	**608**

Free cash flow € in million



Higher net cash provided by operating activities led to a postive free cash flow.

Investments/disinvestments[1] € in million



Capital expenditures in property, plant and equipment and equity investments contribute to improved productivity and the extension of capacity.
1 Without marketable securities.

Free cash flow

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

For the year ended September 30 € in million	2002	2003	2004
Net cash provided by operating activities, total	237	730	**1,857**
Net cash used in investing activities	(1,244)	(1,522)	**(1,809)**
Purchases of marketable securities, net	647	739	**158**
Free cash flow	(360)	(53)	**206**

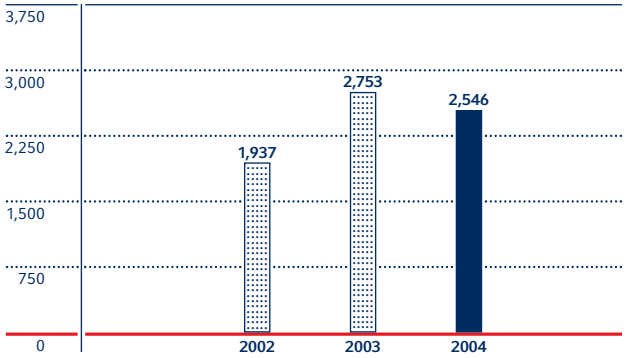
Net cash position

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

As of September 30, 2004, € in million, payments due by period:	Total	Less than 1 year	1–2 years	2–3 years	3–4 years	4–5 years	After 5 years
Cash and cash equivalents	**608**	608	–	–	–	–	–
Marketable securities	**1,938**	1,938	–	–	–	–	–
Gross cash position	**2,546**	2,546	–	–	–	–	–
Less:							
Long-term debt	**1,427**	–	49	655	5	2	716
Short-term debt and current maturities	**571**	571	–	–	–	–	–
Total financial debt	**1,998**	571	49	655	5	2	716
Net cash position	**548**	1,975	(49)	(655)	(5)	(2)	(716)

Our gross cash position – representing cash and cash equivalents, plus marketable securities – decreased to €2,546 million at September 30, 2004, compared with €2,753 million at the prior year end. The decrease was principally due to the repayment of €549 million of long-term debt (mainly convertible notes), which more than offset the free cash flow of €206 million.

Gross cash position € in million



Gross cash position decreased due to the repayment of debt.

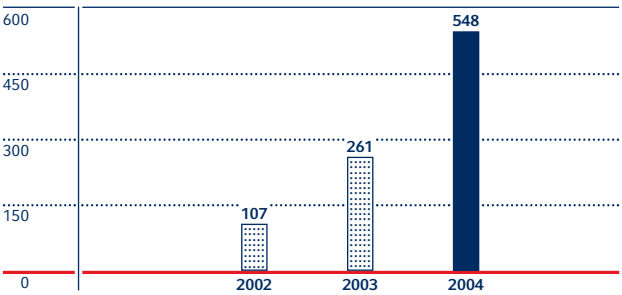
Long-term debt principally consists of convertible notes that were issued in order to strengthen our liquidity position and allow us more financial flexibility in conducting our operational business. The total outstanding convertible notes as of September 30, 2004 amounted to €1,340 million.

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

On February 6, 2002, we issued €1,000 million in subordinated convertible notes due 2007 at par in an underwritten offering to institutional investors in Europe. The notes are convertible, at the option of the holders of the notes, into a maximum of 28.2 million of our company's ordinary shares at a conversion price of €35.43 per share through maturity. During the 2004 financial year we redeemed €360 million of our convertible notes due 2007.

Our net cash position – meaning cash and cash equivalents, plus marketable securities, less total financial debt – increased by €287 million to €548 million at September 30, 2004, compared with €261 million at September 30, 2003, principally as a result of free cash flow of €206 million.
To secure our cash position and to keep flexibility with regards to liquidity, we have implemented a policy with risk limits for the amounts deposited with respect to the counterparty, credit rating, sector, duration, credit support and type of instrument.

Net cash position € in million



Net cash position increased due to improved net income.

Capital requirements

We require capital in our 2005 financial year to:

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

We can meet these requirements through:

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

As of September 30, 2004, we require funds for the 2005 financial year aggregating €2,135 million, consisting of €571 million for short-term debt payments and €1,564 million for commitments. In addition, we may need up to €68 million for currently known contingencies. We also plan to invest up to an additional €567 million in capital expenditures and financial and equity investments that have not been otherwise committed. The aggregate capital required for such commitments, contingencies and planned capital expenditures during the 2005 financial year is €2,770 million as of September 30, 2004. We have a gross cash position of €2,546 million as of September 30, 2004, and also the ability to draw funds from available credit facilities of €1,086 million.

As of September 30, 2004, we had debt of €571 million scheduled to become due within one year. The main component is our €450 million syndicated credit facility relating to the expansion of the Dresden manufacturing facility, which was fully drawn as of September 30, 2004, and matures on September 30, 2005.

Commitments and contingencies

As of September 30, 2004[1, 2], € in million, payments due by period:	Total	Less than 1 year	1–2 years	2–3 years	3–4 years	4–5 years	After 5 years
Contractual commitments:							
Operating lease payments	**918**	83	101	77	74	55	528
Unconditional purchase commitments	**1,711**	1,356	187	69	37	17	45
Other long-term commitments	**321**	125	50	45	101	–	–
Total commitments	**2,950**	1,564	338	191	212	72	573
Other contingencies:							
Guarantees	**419**	10	–	304	–	–	105
Contingent government grants[3]	**433**	58	52	161	126	33	3
Total contingencies	**852**	68	52	465	126	33	108

The above table should be read together with Note 31 to our consolidated financial statements for the year ended September 30, 2004.

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

2 Product purchase commitments associated with capacity reservation agreements are not included in this table, since the purchase prices are based, in part, on future market prices, and are accordingly not quantifiable at September 30, 2004. Purchases under these agreements aggregated €683 million for the year ended September 30, 2004.

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

Capital expenditures

Capital expenditures € in million

For the year ended September 30	2002	2003	2004
Memory products	464	576	**716**
Non-memory products	179	296	**447**
Total	643	872	**1,163**

We expect to invest between €1 billion and €1.3 billion in capital expenditures in the 2005 financial year, largely for our 300-millimeter manufacturing facility in Richmond, Virginia, as well as improving productivity and upgrading technology at existing facilities. As of September 30, 2004, €833 million of this amount has been committed and included in unconditional purchase commitments. Due to the lead times between ordering and delivery of equipment, a substantial amount of capital expenditures is typically committed well in advance. Approximately 60 percent of these expected capital expenditures will be made in the Memory Products segment's front-end and back-end facilities. In addition, we expect to make financial and equity investments of up to €200 million in the 2005 financial year, of which approximately €100 million has been committed as of September 30, 2004 and included in other long-term commitments.

Credit facilities

We have established both short- and long-term credit facilities with a number of different financial institutions in order to meet our anticipated funding requirements. These facilities, which aggregate €1,760 million, of which €1,086 million remained available at September 30, 2004, comprise the following:

In September 2004 we executed a $400/€400 million syndicated credit facility with a five-year term. The facility consists of two tranches: Tranche A is a $400 million term loan intended to finance the expansion of our Richmond, Virginia, manufacturing facility. Tranche B is a €400 million multicurrency revolving facility to be used for general corporate purposes. Tranche B replaces our previous €375 million multicurrency credit facility expiring in 2005. The maximum outstanding amount of Tranche A will decrease on the basis of a repayment schedule that foresees equal instalments starting from September 30, 2006. The facility has customary financial covenants, and drawings bear interest at market-related rates that are linked to financial performance. The lenders of the aforementioned $400/€400 million credit facility have been granted a negative pledge relating to our future financial indebtedness with certain permitted encumbrances. At September 30, 2004, no amounts were outstanding under this facility.

At September 30, 2004, we were in compliance with our debt covenants under the relevant facilities.

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

Credit facilities € in million

Term	Nature of financial institution commitment	Purpose/intended use	As of September 30, 2004		
			Aggregate facility	Drawn	Available
short-term	firm commitment	working capital, guarantees, cash management	163	73	90
short-term	no firm commitment	working capital	272	–	272
long-term	firm commitment	working capital	724	–	724
long-term[1]	firm commitment	project finance	601	601	–
Total			1,760	674	1,086

1 Including current maturities.

Taking into consideration the financial resources available to us, including our internally generated funds and currently available banking facilities, we believe that we will be in a position to fund our capital requirements in the 2005 financial year.

Employees and Campeon

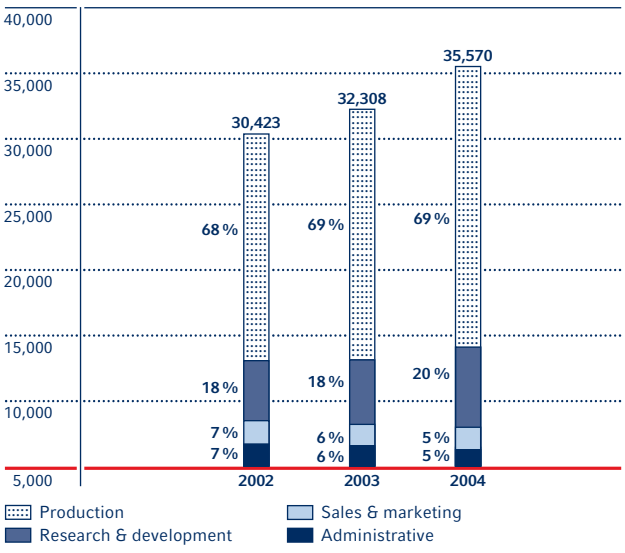
Campeon

We entered into a long-term operating lease agreement with MoTo Objekt Campeon GmbH & Co. KG ("MoTo") to lease an office complex being constructed by MoTo south of Munich, Germany. The office complex will enable us to locate our employees, who are currently situated in various locations throughout Munich, in one central physical working environment. MoTo is responsible for the construction, which is expected to be completed in the second half of 2005. We have no obligations with respect to financing MoTo, and have provided no guarantees related to the construction.

Employees

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

Employees by function [1]



Reduction of workforce within sales & marketing as well as administrative for the benefit of research & development.
1 Columns may not add up due to rounding.

In the 2003 financial year, our headcount increased as a result of the ramp-up of our 300-millimeter production and through the acquisition of SensoNor. In the 2004 financial year, our headcount increased principally due to the expansion of manufacturing capacities in Germany, Malaysia and China.

As of September 30	2002	2003	2004
Function:			
Production	20,822	22,405	**24,540**
Research & development	5,374	5,935	**7,160**
Sales & marketing	2,010	2,048	**1,948**
Administrative	2,217	1,920	**1,922**
Total	30,423	32,308	**35,570**
Region:			
Germany	15,716	16,166	**16,387**
Other Europe	4,590	5,034	**5,631**
North America	2,889	2,757	**2,982**
Asia/Pacific	7,093	8,116	**10,340**
Japan	107	118	**133**
Other	28	117	**97**
Total	30,423	32,308	**35,570**

Risks and opportunities

Remark

Within the semiconductor industry periods of growth are historically followed by periods of market contraction. Such periods of market contraction are characterized by surplus capacity, order cancellations as well as price erosion and sales volume reductions. The risks associated with the cyclical nature of this business are compounded by the need for large scale capital investments in order to sustain market leadership as well as the sector's rapid pace of technological change. These risks are, however, often accompanied by substantial opportunities.

Infineon risk management system

Given the volatility of the business cycle in the semiconductor industry it is very important to be able to react quickly to changing market requirements. To this end we have established a risk and opportunity management system with the goal of enabling us both to exploit the many significant opportunities manifesting themselves in our markets and to anticipate and identify risks associating or arising from them. An enterprise-wide system of risk and opportunity reporting is a central element of our risk and opportunity management system. The scope and depth of reporting helps to enable corporate management to take quick and effective actions whenever situations so require. Within every organizational unit of the company risk officers or risk reporters have been designated to implement and execute the risk and opportunity reporting process. According to the guidelines for this process risks and opportunities are identified within the framework of a risk and opportunity categorization model, accompanied by an evaluation of each risk and opportunity based on its respective probability and effect upon EBIT. The risk management system is extensively documented in our intranet and thus accessible by our employees worldwide. The reporting system is based upon individual observations of risk and opportunity and is composed of a range of monitoring and management processes embedded in our core processes. It commences at the level of strategic planning and continues through the manufacturing and sales operations, including the processing of receivables. As an extension of the forecasting processes conducted by the business groups, the sales organization, the manufacturing clusters and the central functions, the risk and opportunity system is used to identify and evaluate possible deviations from expected developments. Beyond the identification and evaluation of major developments that may effect the business, the system is also used to prioritize and implement activities to enhance opportunities and mitigate or reduce our risk.

Risk and opportunity reports are issued on a regular basis by all of our business units. These reports form the core of the risk management system. The reports are examined and evaluated by the management board and business group management as part of their reviewing process.

Alongside the enterprise-wide reporting system a number of other early-warning systems have been established to enhance our abilities to control and manage risks and opportunities throughout the organization. In particular a balanced-scorecard system has been developed and implemented as a pivotal instrument to monitor and manage the company's key performance indicators. In addition, a quantitative risk analysis approach has been introduced to our research and development activities in order to plot possible scenarios, to provide greater transparency of risks and prioritize measures designed to enhance the probabilities of success of these activities. Furthermore the quantitative risk analysis methodology is being applied to financial decision making processes, in particular to investment decisions and forecasting processes. The goal of employing this methodology is to assure that appropriate risk mitigation and opportunity enhancement strategies are chosen and implemented.

The systematic development of existing systems of risk analysis and the creation of new early warning systems substantially contribute to the enhancement and sustainability of a risk and opportunity culture within the company. This is supported by regular Risk & Opportunity Forum meetings involving the risk officers of the company. These meetings provide a communication platform for exchanging ideas and information on risk analysis and risk management; they furthermore provide a basis for the creation of awareness of this important subject matter throughout the company.

In the course of an annual Risk Management System Analysis ("RMSA") our Business Groups and Central Functions are called upon to review the effectiveness and efficiency of the key elements of the Infineon Risk and Opportunity Management System. This is executed via self-assessment using a questionnaire which is crafted to facilitate improvements and support the audit process, both by our internal and external auditors.

Our risk and opportunity reporting system has been evaluated by the external auditors as part of the annual audit process. The external auditors have confirmed that the Management Board has fulfilled its obligation according to para. § 91 subsection 2 of the German Law on Stock Companies ("Aktiengesetz"), which calls for the creation of a reporting system which enables management to receive early warning of developments which may endanger the existence of the company as a whole.

Global business risks

Substantial changes in regional business environments around the globe may have adverse affects on our business and results of operations.
Our global business strategy implies that we maintain research and development locations as well as manufacturing sites in many countries around the world. This may be the result of strategic decisions to enhance our cost competitiveness, overcome market entry hurdles or enhance opportunities related to technology development. More than half of our sales volume is generated outside of Europe. With the expected growth rates of Asian countries in the near future we expect our investments to increase in this region. Therefore risks could develop based upon:

::: negative economic developments in foreign economies and instability of foreign governments, including the threat of war or civil unrest;
::: changes in laws and policies affecting trade and investment; and
::: varying practices of the regulatory, tax, judicial and administrative bodies in the jurisdictions where we operate.

Substantial changes in any of these conditions could have an adverse affect on our business and results of operations. It cannot be excluded that regional crisis like the SARS epidemic in 2003 will not have any negative effects on our business or profitability. However, broad diversification within our product portfolio and the spread of development and manufacturing locations around the world provide an effective approach to mitigate the overall risk of such regional crisis as the dependencies are generally reduced.

Risks related to our operations

From our Memory Product segment the volatility of DRAM-Memory prices remains the most important risk but also the most prominent opportunity both for this segment as well as for the company as a whole. Through our entry into the market for flash memory products we are expanding our product portfolio which carries both opportunities but also substantial risks. Our operational risks have nonetheless decreased in comparison to last year by virtue of the fact that we have successfully transitioned a major portion of our memory product manufacturing technology to the new 110-nanometer geometry. On the whole we are looking towards a well-balanced portfolio of risks and opportunities.

In the Logic segments we are looking at substantial market risks, although the growth outlook is still positive, particularly in the product lines serviced by our Secure Mobile Solutions and Wireline Communications segment. Downward price pressure is a risk which currently overshadows the current markets.

The semiconductor industry is characterized by the introduction of new technologies with the risk of substantial ramp-up delays and volatility in yields. We attempt to deal with these risks through sophisticated project management processes and an intensive system of process monitoring.

To help protect against the occurrence of product-related risks, we have established a network to monitor the quality of our operations and those of our important suppliers. We have secured certification for all of our production facilities according to the TS 16949:2002 standard.

We have procured insurance coverages to limit the impact of losses, incidents or certain other events posing possible perils and threats to our assets, finances or earnings.

In the area of intellectual property the company has signed a number of cross-license agreements with other companies. The company is working intensively to increase the number and scope of such cross-licence agreements with other companies in order to reduce the risk of claims for patent infringement.

Tax, fair trade and stock exchange regulations can all supply a basis for additional risks. To mitigate the cause and effect of these risks we rely upon the counsel of professionals, including both the advice of our own employees as well as the advice of independent service providers.

Market risks

Exchange rate risks

Our involvement and participation in various regional markets around the globe creates cash-flows in a number of different currencies – primarily in U.S. dollars. Since we are exposed to fluctuating currencies and substantial volatility relating to exchange rates, the management of these risks becomes an important issue.

A major portion of our sales volumes as well as the costs relating to the design, production and manufacturing of products are based in U.S. dollars, not in euros. Exchange rate fluctuations may have substantial effects on our sales figures, our costs and our overall profits.

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

Interest rate risk management

We are exposed to interest rate risk through our debt instruments, fixed term deposits and loans. During the 2002 and 2003 financial years, we issued two convertible bonds. Due to the high volatility of our core business and to maintain high operational flexibility, our current assets are kept at a high level. These assets are mainly deposited in instruments with short-term interest rates. To reduce the risk caused by changes in the market interest rates, the duration of the interest rates of our debts and current assets are aligned by the use of interest rate derivatives.

Commodity price risk

We are exposed to commodity price risks with respect to raw materials used in the manufacture of our products. We seek to minimize the risks through our sourcing policies and operating procedures. We do not utilize derivative financial instruments to manage any remaining exposure to fluctuations in commodity prices.

Financing risks

Semiconductor companies that operate their own manufacturing facilities require significant amounts of capital to build, expand, modernize and maintain them. Semiconductor companies also require significant amounts of capital to fund research and development. These capital requirements should generally be addressed by incoming cash-flow, the use of available credit lines, available public funding for projects and – depending upon market conditions – capital market offerings. Although we have applied for financial support from public authorities on a number of projects, we may not be able to guarantee that we will be able to raise the amount of capital required for our business from these sources in a timely and successful fashion. We intend to continue the policy of cooperation with other semiconductor companies to share the costs of research and development as well as in the creation of joint production facilities.

Legal risks

As this applies to many companies within the semiconductor industry, so has Infineon been exposed to patent claims, claims relating to alleged defective or faulty products, claims relating to the alleged transgression of environmental rules or regulations and other general liability claims. Regardless of the outcome of these claims, the company may sustain substantial costs in defending itself against these claims. Infineon intends to exert substantial efforts in defending itself against unfounded claims including the support of internal and external experts.

Overall risks

At no time during the past financial year have we been aware of any substantial risks which would have threatened the existence of the company. Risks which may endanger the existence of the company are currently not visible.

Additional descriptions relating to risks may be found in the notes to the consolidated financial statements included in this report as well as the annual "Report on Form 20-F".

Infineon Technologies AG

Infineon Technologies AG is the parent company of the Infineon group and carries out the group's management and corporate functions. Infineon Technologies AG has major group-wide responsibilities such as finance and accounting, human resources, strategic and product-oriented research and development activities as well as worldwide corporate and marketing communications. The responsibility for managing the flows of supplies, products and services among the group companies is also handled by Infineon Technologies AG. Infineon Technologies AG has its own production facilities in Munich and Regensburg.

Infineon Technologies AG prepares its financial statements on a stand-alone basis in accordance with the requirements of the German commercial code (HGB). The complete financial statements are published separately.

Statements of operations[1] (condensed) € in millions

For the year ended September 30,	2002	2003	2004
Net Sales	6,765	8,122	**8,852**
Cost of goods sold	(6,669)	(7,201)	**(7,325)**
Gross profit	96	921	**1,527**
Operating expenses	(1,358)	(1,460)	**(1,533)**
Other income	580	252	**136**
Loss before tax	(682)	(287)	**130**
Income tax	65	0	**0**
Net (loss) income	(617)	(287)	**130**
Accumulated loss brought forward	(435)	(1,052)	**(1,339)**
Accumulated loss at end of year	(1,052)	(1,339)	**(1,209)**

1 Prepared in accordance with the German GAAP (HGB).

During the financial year ended September 30, 2004, net sales and net income increased due to higher demand for our products and beneficial price development, especially for memory products. Infineon Technologies AG handles the settlement of accounts for and with its subsidiaries that produce and sell products. As a result, Infineon Technologies AG's sales on a stand-alone basis were higher than those of the Infineon group as a whole.

Balance sheets[1] (condensed) € in millions

As of September 30,	2003	2004
Fixed and intangible assets	794	**768**
Investments	5,390	**5,733**
Non-current assets	6,184	**6,501**
Inventories	461	**470**
Receivables and other assets	1,980	**1,992**
Cash and marketable securities	2,641	**2,395**
Current assets	5,082	**4,857**
Total assets	11,266	**11,358**
Shareholders' equity	6,774	**7,182**
Accrued liabilities	612	**798**
Payables and other liabilities	3,880	**3,378**
Total liabilities and shareholder's equity	11,266	**11,358**

1 Prepared in accordance with the German GAAP (HGB).

Infineon Technologies AG's financial position showed an increase in investments, and a decrease in cash and marketable securities which was principally caused by our investments in Inotera, SC300 and Eupec, partially offset by a capital decrease at Infineon Technologies Holding B.V., Netherlands. Total liabilities decreased due to reduced payables, which partially offset the increase in accrued liabilities, primarily in connection with antitrust investigations, an increase in shareholders´ equity, due to the issuance of ordinary shares relating to the acquisition of the remaining interest in SC300 and 2004 net income. Infineon Technologies AG's shareholders' equity ratio was 63 percent as of September 30, 2004 (2003: 60%).

Dividend

The financial statements on a stand-alone basis of Infineon Technologies AG in accordance with the HGB requirements for the 2003 financial year showed a net loss, therefore no dividend was distributed. A net loss was also incurred for the 2004 financial year and therefore a dividend cannot be distributed.

Subsequent events

On November 10, 2004, we and ProMOS reached an agreement regarding ProMOS' license of our previously transferred technologies, pursuant to which ProMOS may continue to produce and sell products using those technologies and to develop its own processes and products. As full consideration, ProMOS has agreed to pay $156 million in four instalments through April 30, 2006, against which our accrued payable for DRAM products purchased from ProMOS of $36 million is to be offset. The parties have agreed to withdraw their respective claims, including arbitration. We will recognize the relevant license income during the three months ending December 31, 2004.

Outlook

Leading market analysts have forecast a reduction of the rate of growth of the worldwide semiconductor market in U.S. dollars of nearly 30 percent during the 2004 calendar year to a single-digit average rate of growth during the 2005 calendar year. These forecasts imply stagnation in the industry with respect to sequential average quarterly growth for our 2005 financial year. Consistent with these forecasts, we see signs of a slowdown in several of our application segments during the first quarter of our 2005 financial year, mainly due to relatively high inventories in the supply chain for these markets at this time of year.

For the first quarter of the 2005 financial year, we anticipate the following with respect to our four principal segments:

::: In the Wireline Communications segment we do not expect growth in the first quarter of our 2005 financial year due to continuing pricing pressure and marketplace inventory corrections, especially in the Asian market. The segment's EBIT loss for our 2005 financial year is expected to be significantly reduced if and when the sale of our fiber optics business to Finisar is completed.

::: With signs of a slowdown and higher marketplace inventories, especially in the Asian mobile phone market, customers have started to significantly slow down new orders in the Secure Mobile Solutions segment. We therefore anticipate a significant reduction in revenues for the first quarter of the 2005 financial year, resulting in lower capacity utilization and margin pressure. As market research institutes predict a slowdown in growth of the mobile phone market for the 2005 calendar year, we are cautious about the development of sales volumes and expect lower utilization rates in manufacturing throughout our 2005 financial year.

::: For automotive applications in the Automotive & Industrial segment we anticipate continuing price pressure and no major market changes in demand for semiconductors. We expect a slightly weaker market for industrial applications. Due to these developments, in combination with seasonal effects, we expect a slight reduction in revenues and earnings in the first quarter of our 2005 financial year.

::: For Memory Products we expect business to develop in line with seasonal demand during the first quarter of our 2005 financial year. Based on additional capacities from our Inotera joint venture and foundry partners, we anticipate an increase of bit production.

In our 2005 financial year, although we do not anticipate being able to decouple ourselves from the industry trends, we aim to achieve profitable growth by relentlessly focusing on better serving the needs of our customers, maintaining our cooperative culture, and continually improving our operational performance through our state-of-the-art manufacturing capabilities and leading-edge technologies.

Munich, November 2004
Management Board

Report of independent Registered Public Accounting Firm

The Supervisory Board and Shareholders of Infineon Technologies AG

We have audited the accompanying consolidated balance sheets of Infineon Technologies AG and subsidiaries as of September 30, 2003 and 2004, and the related consolidated statements of operations, shareholders' equity, and cash flows for each of the years in the three-year period ended September 30, 2004. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Infineon Technologies AG and subsidiaries as of September 30, 2003 and 2004, and the results of their operations and their cash flows for each of the years in the three-year period ended September 30, 2004, in conformity with U.S. generally accepted accounting principles.

Munich, Germany, October 21, 2004,
except for Note 33, which is as of November 10, 2004

KPMG Deutsche Treuhand-Gesellschaft Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

Hoyos
Wirtschaftsprüfer

Feege
Wirtschaftsprüfer

Consolidated financial statements

Consolidated statements of operations for the years ended September 30 € in millions

	Notes	2002	2003	2004
Net sales				
Third parties	5	4,035	5,153	**6,169**
Related parties	27	855	999	**1,026**
Total net sales		4,890	6,152	**7,195**
Cost of goods sold	7	4,289	4,614	**4,670**
Gross profit		601	1,538	**2,525**
Research and development expenses		1,060	1,089	**1,219**
Selling, general and administrative expenses		643	679	**718**
Restructuring charges	8	16	29	**17**
Other operating (income) expenses, net	7	(46)	85	**257**
Operating (loss) income		(1,072)	(344)	**314**
Interest expense, net		(25)	(52)	**(41)**
Equity in (losses) earnings of associated companies	16	(47)	18	**(14)**
Gain (loss) on associated company share issuance	16	18	(2)	**2**
Other non-operating (expense) income, net		(41)	21	**(64)**
Minority interests		7	8	**18**
Income (loss) before income taxes		(1,160)	(351)	**215**
Income tax benefit (expense)	9	143	(84)	**(154)**
Net (loss) income from continuing operations		(1,017)	(435)	**61**
Net loss from discontinued operation	4	(4)	–	**–**
Net (loss) income		(1,021)	(435)	**61**
Basic and diluted (loss) earnings per share in €	10			
Continuing operations		(1.46)	(0.60)	**0.08**
Discontinued operation		(0.01)	0.00	**0.00**
Net (loss) income		(1.47)	(0.60)	**0.08**

See accompanying notes to the consolidated financial statements.

Consolidated balance sheets as of September 30 € in millions

	Notes	2003	2004
Assets			
Current assets:			
Cash and cash equivalents		969	**608**
Marketable securities	11	1,784	**1,938**
Trade accounts receivable, net	12	876	**1,056**
Inventories	13	959	**960**
Deferred income taxes	9	113	**140**
Other current assets	14	675	**590**
Total current assets		5,376	**5,292**
Property, plant and equipment, net	15	3,817	**3,587**
Long-term investments, net	16	425	**708**
Restricted cash		67	**109**
Deferred income taxes	9	705	**541**
Other assets	17	485	**627**
Total assets		10,875	**10,864**
Liabilities and shareholders' equity			
Current liabilities:			
Short-term debt and current maturities	21	149	**571**
Trade accounts payable	18	877	**1,098**
Accrued liabilities	19	577	**555**
Deferred income taxes	9	39	**16**
Other current liabilities	20	562	**630**
Total current liabilities		2,204	**2,870**
Long-term debt	21	2,343	**1,427**
Deferred income taxes	9	32	**21**
Other liabilities	22	630	**568**
Total liabilities		5,209	**4,886**
Shareholders' equity:			
Ordinary share capital	23	1,442	**1,495**
Additional paid-in capital		5,573	**5,800**
Accumulated deficit		(1,261)	**(1,200)**
Accumulated other comprehensive loss	25	(88)	**(117)**
Total shareholders' equity		5,666	**5,978**
Total liabilities and shareholders' equity		10,875	**10,864**

See accompanying notes to the consolidated financial statements.

Consolidated statements of shareholders' equity for the years ended September 30, 2002, 2003 and 2004 € in millions

	Notes	Issued ordinary shares Shares	Issued ordinary shares Amount € in millions	
Balance as of October 1, 2001		**692,382,575**	**1,385**	
Net loss		**–**	**–**	
Other comprehensive loss	25	**–**	**–**	
Total comprehensive loss				
Issuance of ordinary shares:				
Employee Stock Purchase Plan	24	**355,460**	**1**	
Acquisition of Catamaran	3	**546,183**	**1**	
Acquisition of MIC	3	**27,500,000**	**55**	
Ordinary shares held by associated company		**–**	**–**	
Deferred compensation, net		**–**	**–**	
Equity transaction with Siemens Group		**–**	**–**	
Balance as of September 30, 2002		**720,784,218**	**1,442**	
Net loss		**–**	**–**	
Other comprehensive (loss) income	25	**–**	**–**	
Total comprehensive loss				
Issuance of ordinary shares:				
Acquisition of Catamaran	3	**96,386**	**–**	
Deferred compensation, net		**–**	**–**	
Other equity transactions		**–**	**–**	
Balance as of September 30, 2003		**720,880,604**	**1,442**	
Net income		**–**	**–**	
Other comprehensive (loss) income	25	**–**	**–**	
Total comprehensive income				
Issuance of ordinary shares:				
Settlement of redeemable interest	22	**26,679,255**	**53**	
Deferred compensation, net		**–**	**–**	
Balance as of September 30, 2004		**747,559,859**	**1,495**	

See accompanying notes to the consolidated financial statements.

Additional paid-in capital € in millions	Retained earnings/ (accumulated deficit) € in millions	Foreign currency translation adjustment € in millions	Additional minimum pension liability € in millions	Unrealized gain/(loss) on securities € in millions	Unrealized gain on cash flow hedge € in millions	Total € in millions
5,247	195	87	(12)	(2)	–	6,900
–	(1,021)	–	–	–	–	(1,021)
–	–	(92)	(8)	–	–	(100)
						(1,121)
7	–	–	–	–	–	8
8	–	–	–	–	–	9
270	–	–	–	–	–	325
4	–	–	–	–	–	4
23	–	–	–	–	–	23
10	–	–	–	–	–	10
5,569	(826)	(5)	(20)	(2)	–	6,158
–	(435)	–	–	–	–	(435)
–	–	(76)	2	13	–	(61)
						(496)
1	–	–	–	–	–	1
7	–	–	–	–	–	7
(4)	–	–	–	–	–	(4)
5,573	(1,261)	(81)	(18)	11	–	5,666
–	61	–	–	–	–	61
–	–	(41)	18	(7)	1	(29)
						32
225	–	–	–	–	–	278
2	–	–	–	–	–	2
5,800	(1,200)	(122)	–	4	1	5,978

Consolidated statements of cash flows for the years ended September 30 € in millions

	Notes	2002	2003	2004
Net (loss) income		(1,021)	(435)	**61**
Less: net loss from discontinued operations		(4)	–	**–**
Net (loss) income from continuing operations		(1,017)	(435)	**61**
Adjustments to reconcile net (loss) income to cash provided by operating activities:				
Depreciation and amortization	15/17	1,370	1,437	**1,320**
Acquired in-process research and development	3	37	6	**9**
Deferred compensation		23	7	**2**
Provision for (recovery of) doubtful accounts	12	(5)	(16)	**15**
Loss (gain) on sale of marketable securities	11	1	(56)	**(9)**
Loss (gain) on sale of businesses	4	(39)	10	**2**
Loss (gain) on disposal of property, plant and equipment		2	3	**(5)**
Equity in (earnings) losses of associated companies	16	47	(18)	**14**
Loss (gain) on associated company share issuance	16	(18)	2	**(2)**
Minority interests		(7)	(8)	**(18)**
Impairment charges	16/17	51	98	**136**
Deferred income taxes	9	(282)	16	**96**
Changes in operating assets and liabilities:				
Trade accounts receivable	12	(131)	(227)	**(219)**
Inventories	13	(28)	(112)	**(40)**
Other current assets	14	39	156	**154**
Trade accounts payable	18	40	(217)	**228**
Accrued liabilities	19	86	164	**92**
Other current liabilities	20	(37)	(17)	**(22)**
Other assets and liabilities	17/22	94	(62)	**43**
Net cash provided by operating activities		226	731	**1,857**

Continuation consolidated statements of cash flows € in millions

	Notes.	2002	2003	2004
Cash flows from investing activities:				
Purchases of marketable securities available for sale		(709)	(2,752)	**(2,678)**
Proceeds from sales of marketable securities available for sale		62	2,013	**2,520**
Proceeds from sales of businesses		96	164	**9**
Business interests, net of cash acquired		156	6	**(29)**
Investment in associated and related companies	16	(178)	(76)	**(386)**
Purchases of intangible assets	17	(55)	(58)	**(125)**
Purchases of property, plant and equipment	15	(643)	(872)	**(1,163)**
Proceeds from sales of property, plant and equipment	15	27	53	**43**
Net cash used in investing activities		(1,244)	(1,522)	**(1,809)**
Cash flows from financing activities:				
Net change in short-term debt	21	4	(36)	**62**
Net change in related party financial receivables and payables	27	(40)	(76)	**75**
Proceeds from issuance of long-term debt	21	1,482	700	**–**
Principal repayments of long-term debt	21	(21)	(25)	**(549)**
Change in restricted cash		15	3	**(43)**
Proceeds from issuance of shares to minority interest		–	–	**53**
Proceeds from issuance of ordinary shares		8	–	**–**
Net cash provided by (used in) financing activities		1,448	566	**(402)**
Effect of foreign exchange rate changes on cash and cash equivalents		1	(4)	**(7)**
Net increase (decrease) in cash and cash equivalents from continuing operations		431	(229)	**(361)**
Net increase (decrease) in cash and cash equivalents from discontinued operations		11	(1)	**–**
Cash and cash equivalents at beginning of period		757	1,199	**969**
Cash and cash equivalents at end of period		1,199	969	**608**

See accompanying notes to the consolidated financial statements.

Notes to the consolidated financial statements

1. Description of business, formation and basis of presentation

Description of business

Infineon Technologies AG and its subsidiaries (collectively, the "Company") design, develop, manufacture and market a broad range of semiconductors and complete systems solutions used in a wide variety of microelectronic applications, including computer systems, telecommunications systems, consumer goods, automotive products, industrial automation and control systems, and chip card applications. The Company's products include standard commodity components, full-custom devices, semi-custom devices and application-specific components for memory, analog, digital and mixed-signal applications. The Company has operations, investments and customers located mainly in Europe, Asia and North America. The financial year-end for the Company is September 30.

Formation

Infineon Technologies AG was formed as a legal entity as of April 1, 1999 (the "Formation") through the contribution by Siemens Aktiengesellschaft ("Siemens") of substantially all of its semiconductor-related investments, operations and activities. The Company had its initial public offering ("IPO") on March 13, 2000, is listed on the New York Stock Exchange and is one of the DAX 30 companies on the Frankfurt Stock Exchange.

Basis of presentation

The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP"). Infineon Technologies AG is incorporated in Germany. The German Commercial Code ("Handelsgesetzbuch" or "HGB") requires the Company to prepare consolidated financial statements in accordance with the HGB accounting principles and regulations ("German GAAP"). Pursuant to HGB Section 292a the Company is exempt from this requirement, if consolidated financial statements are prepared and issued in accordance with a body of internationally accepted accounting principles (such as U.S. GAAP). Accordingly, the Company presents the U.S. GAAP consolidated financial statements contained herein. All amounts herein are shown in millions of euro (or "€") except where otherwise stated. The accompanying balance sheet as of September 30, 2004, and the statements of operations and cash flows for the year then ended are also presented in U.S. dollar ("$"), solely for the convenience of the reader, at the rate of €1 = $1.2417, the Federal Reserve noon buying rate on September 30, 2004. The U.S. dollar convenience translation amounts have not been audited.

Certain amounts in prior year consolidated financial statements and notes have been reclassified to conform to the current year presentation. Net operating results have not been affected by these reclassifications.

2. Summary of significant accounting policies

The following is a summary of significant accounting policies followed in the preparation of the accompanying financial statements.

Basis of consolidation

The accompanying financial statements include the accounts of the Company and its significant subsidiaries on a consolidated basis. Investments in companies in which the Company has an ownership interest of 20% or more but which are not controlled by the Company ("associated companies") are principally accounted for using the equity method of accounting (see note 16). The equity in earnings of associated companies with different financial year ends are principally recorded on a three month lag. Other equity investments ("related companies"), in which the Company has an ownership interest of less than 20%, are recorded at cost. The effects of all significant intercompany transactions are eliminated.

The Company group consists of the following numbers of entities in addition to the Company:

	Consolidated subsidiaries	Associated companies	Total
September 30, 2003	52	11	**63**
Additions	8	4	**12**
Mergers	(4)	–	**(4)**
September 30, 2004	56	15	**71**

Additionally, the Company has 30 (2003: 30) subsidiaries and 9 (2003: 8) associated companies that are accounted for under the equity method for the year ended September 30, 2004, and under the cost method in prior years, as these companies are not material to the respective presentation of the financial position, results of operations or cash flows of the Company. The effect of not consolidating these companies for the years ended September 30, 2002, 2003 and 2004, on consolidated assets, revenues and net income (loss) of the Company was less than 1%.

Reporting and foreign currency

The Company's reporting currency is the euro, and therefore the accompanying financial statements are presented in euro.

The assets and liabilities of foreign subsidiaries with functional currencies other than the euro are translated using period-end exchange rates, while the revenues and expenses of such subsidiaries are translated using average exchange rates during the period. Differences arising from the translation of assets and liabilities in comparison with the translation of the previous periods are included in other comprehensive income (loss) and reported as a separate component of shareholders' equity.

The exchange rates of the more important currencies used in the preparation of the accompanying financial statements are as follows:

Currency in €		Exchange rate as of September 30		Annual average exchange rate	
		2003	2004	2003	2004
U.S. dollar	1 USD	0.8762	**0.8115**	0.9234	**0.8209**
Japanese yen	100 JPY	0.7852	**0.7320**	0.7760	**0.7545**
Great Britain pound	1 GBP	1.4428	**1.4667**	1.4797	**1.4704**
Singapore dollar	1 SGD	0.5060	**0.4793**	0.5276	**0.4808**

Revenue recognition

Sales

Revenue from products sold to customers is recognized, pursuant to SEC Staff Accounting Bulletin ("SAB") 104, "Revenue Recognition", when persuasive evidence of an arrangement exists, the price is fixed or determinable, shipment is made and collectibility is reasonably assured. The Company records reductions to revenue for estimated product returns and allowances for discounts and price protection, based on actual historical experience, at the time the related revenue is recognized. In general, returns are permitted only for quality-related reasons within the applicable warranty period, which is typically 12 months. Distributors can, in certain cases, apply for stock rotation or scrap allowances and price protection. Allowances for stock rotation returns are accrued based on expected stock rotation as per the contractual agreement. Distributor scrap allowances are accrued based on the contractual agreement and, upon authorization of the claim, reimbursed up to a certain maximum of the average inventory value. Price protection programs allow distributors to apply for a price protection credit on unsold inventory in the event the Company reduces the standard list price of the products included in such inventory. In some cases, rebate programs are offered to specific customers whereby the customer may apply for a rebate upon achievement of a defined sales volume. Distributors are also partially compensated for commonly defined cooperative advertising on a case-by-case basis.

License income

License income is recognized when earned and realizable (see note 5). Lump sum payments are generally non-refundable and are deferred where applicable and recognized over the period the Company is obliged to provide additional service. Pursuant to Emerging Issues Task Force ("EITF") Issue 00-21, "Revenue Arrangements with Multiple Deliverables", revenues from contracts with multiple elements entered into after July 1, 2003 are recognized as each element is earned based on the relative fair value of each element and when there are no undelivered elements that are essential to the functionality of the delivered elements and when the amount is not contingent upon delivery of the undelivered elements. Royalties are recognized as earned.

Grants

Grants for capital expenditures include both tax-free government grants (Investitionszulage) and taxable grants for investments in property, plant and equipment (Investitionszuschüsse). Grants receivable are established when a legal right for the grant exists and the criteria for receiving the grant have been met. Tax-free government grants are deferred (see note 22) and recognized over the remaining useful life of the related asset. Taxable grants are deducted from the acquisition costs of the related asset (see note 6) and thereby reduce depreciation expense in future periods. Other taxable grants reduce the related expense (see notes 6, 20 and 22).

Product-related expenses

Shipping and handling costs associated with product sales are included in cost of sales. Expenditures for advertising, sales promotion and other sales-related activities are expensed as incurred. Provisions for estimated costs related to product warranties are generally made at the time the related sale is recorded, based on estimated failure rates and claim history. Research and development costs are expensed as incurred.

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Income taxes

Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. Investment tax credits are accounted for under the flow-through method.

Stock-based compensation

The Company accounts for stock-based compensation using the intrinsic value method pursuant to Accounting Principles Board ("APB") Opinion 25, "Accounting for Stock Issued to Employees", and recognizes compensation cost over the pro rata vesting period. The Company has adopted the disclosure-only provisions of Financial Accounting Standards Board ("FASB") Statement of Financial Accounting Standards ("SFAS") SFAS No. 123, "Accounting for Stock-Based Compensation" as amended by SFAS No. 148 "Accounting for Stock-Based Compensation – Transition and Disclosure, an Amendment of FASB Statement No. 123" (see note 24).

Gains or losses arising from the issuances of shares by subsidiaries or associated companies, due to changes in the Company's proportionate share of the value of the issuer's equity, are recognized in earnings pursuant to SAB Topic 5:H, "Accounting for Sales of Stock by a Subsidiary" (see note 16).

Cash and cash equivalents

Cash and cash equivalents represent cash, deposits and liquid short-term investments with original maturities of three months or less. Cash equivalents as of September 30, 2003 and 2004 were €868 and €541, respectively, and consisted mainly of bank term deposits and fixed income securities with original maturities of less than three months.

Restricted cash

Restricted cash includes collateral deposits used as security under arrangements for deferred compensation, business acquisitions, construction projects, leases and financing (see notes 3 and 31).

Marketable securities

The Company's marketable securities are classified as available-for-sale and are stated at fair value as determined by the most recently traded price of each security at the balance sheet date. Unrealized gains and losses are included in accumulated other comprehensive income, net of applicable income taxes. Realized gains or losses and declines in value, if any, judged to be other-than-temporary on available-for- sale securities, are reported in other non-operating income or expense. For the purpose of determining realized gains and losses, the cost of securities sold is based on specific identification.

Inventories

Inventories are valued at the lower of cost or market, cost being generally determined on the basis of an average method. Cost consists of purchased component costs and manufacturing costs, which comprise direct material and labor costs and applicable indirect costs.

Property, plant and equipment

Property, plant and equipment is valued at cost less accumulated depreciation. Spare parts, maintenance and repairs are expensed as incurred. Depreciation expense is generally recognized using an accelerated or straight-line method. Construction in progress includes advance payments for construction of fixed assets. Land and construction in progress are not depreciated. The cost of construction of certain long-term assets includes capitalized interest, which is amortized over the estimated useful life of the related asset. During the year ended September 30, 2004 capitalized interest was €9. The estimated useful lives of assets are as follows:

	Years
Buildings	10–25
Technical equipment and machinery	3–10
Other plant and office equipment	1–10

Leases

The Company is a lessee of property, plant and equipment. All leases where the Company is lessee that meet certain specified criteria intended to represent situations where the substantive risks and rewards of ownership have been transferred to the lessee are accounted for as capital leases pursuant to SFAS No. 13, "Accounting for Leases", and related interpretations. All other leases are accounted for as operating leases.

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Intangible assets

The Company accounts for business combinations using the purchase method of accounting pursuant to SFAS No. 141, "Business Combinations". Intangible assets acquired in a purchase method business combination are recognized and reported apart from goodwill, pursuant to the criteria specified by SFAS No. 141.

The Company adopted SFAS No. 142, "Goodwill and Other Intangible Assets", effective October 1, 2001. Upon adoption of SFAS No. 142, pursuant to SFAS No. 141, the Company evaluated its existing intangible assets and goodwill that were acquired in prior purchase business combinations, and reclassified amounts previously allocated to assemble workforce of €1 to goodwill in order to conform with the new criteria in SFAS No. 141. Upon adoption of SFAS No. 142, the Company reassessed the useful lives and residual values of all intangible assets acquired, and had no significant amortization period adjustments. The Company did not identify any intangible assets with indefinite useful lives. In connection with SFAS No. 142's transitional goodwill impairment evaluation, no indication existed that the reporting units' goodwill was impaired as of the date of adoption.

Intangible assets primarily consist of purchased intangible assets, such as licenses and purchased technology, which are recorded at acquisition cost, and goodwill resulting from business acquisitions, representing the excess of purchase price over fair value of net assets acquired. Intangible assets other than goodwill are amortized on a straight-line basis over the estimated useful lives of the assets ranging from 3 to 10 years. Pursuant to SFAS No. 142, goodwill is not amortized, but instead tested for impairment at least annually in accordance with the provisions of SFAS No. 142. The Company normally tests goodwill annually for impairment in the fourth quarter of the financial year, whereby if the carrying amount of a reporting unit with goodwill exceeds its fair value, the amount of impairment is determined by the excess of recorded goodwill over the fair value of goodwill. The determination of fair value of the reporting units and related goodwill requires considerable judgment by management.

Impairment of long-lived assets

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

Long-term investments

The Company assesses declines in the value of cost method investments to determine whether such decline is other-than-temporary, thereby rendering the investment impaired. This assessment is made by considering available evidence including changes in general market conditions, specific industry and individual company data, the length of time and the extent to which the market value has been less than cost, the financial condition and near-term prospects of the individual company, and the Company's intent and ability to hold the investment.

Financial instruments

The Company operates internationally, giving rise to exposure to changes in foreign currency exchange rates. The Company uses financial instruments, including derivatives such as foreign currency forward and option contracts as well as interest rate swap agreements, to reduce this exposure based on the net exposure to the respective currency. The Company applies SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities", as amended by SFAS No. 137, SFAS No. 138 and SFAS No. 149, which provides guidance on accounting for all derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities. Derivative financial instruments are recorded at their fair value and included in other current assets or other current liabilities. Generally the Company does not designate its derivative instruments as hedge transactions. Changes in fair value of undesignated derivatives that relate to operations are recorded as part of cost of sales, while undesignated derivatives relating to financing activities are recorded in other non-operating expense. Changes in fair value of derivatives designated as fair value hedges and the related hedged items are reflected in earnings. Changes in the fair value of derivatives designated as cash flow hedges are, to the extent effective, deferred in accumulated other comprehensive income and subsequently reclassified to earnings when the hedging transaction is reflected in earnings and, to the extent ineffective, included in earnings immediately. The fair value of derivative and other financial instruments is discussed in note 29.

Pension plans

In December 2003, the FASB issued SFAS No. 132 (revised 2003), "Employers' Disclosures about Pensions and Other Postretirement Benefits, an amendment of FASB Statements No. 87, 88, and 106", which revises employers' disclosures about pension plans and other postretirement benefit plans. SFAS No. 132 (revised 2003) requires additional disclosures to those in the original SFAS No. 132, which it replaces. The Company adopted SFAS No. 132 (revised 2003) for the year ended September 30, 2004, with disclosures provided in note 28.

Use of estimates

The preparation of the accompanying financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent amounts and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Actual amounts could differ materially from such estimates made by management.

Recent accounting pronouncements

In June 2004, EITF No. 03-1, "The Meaning of Other-Than-Temporary Impairment and its Application to Certain Investment," was issued which includes new guidance for evaluating and recording other than temporary impairment losses on debt and equity securities accounted for under SFAS No. 115, "Accounting for Certain Investments in Debt and Equity Securities" and cost method investments, as well as new disclosure requirements for investments that are deemed to be temporarily impaired. While the disclosure requirements for specified debt and equity securities and cost method investments are effective for annual periods ending after December 15, 2003, the FASB Board has directed the FASB staff to delay the effective date for the measurement and recognition guidance contained in EITF No. 03-1. This delay does not suspend the requirement to recognize other-than-temporary impairments as required by existing authoritative literature. The Company does not expect the adoption of EITF No. 03-1 to have a material impact on its consolidated financial position or results of operations.

3. Acquisitions

On April 30, 2004, the Company completed its acquisition of 100% of ADMtek Inc., Hsinchu, Taiwan ("ADMtek") in exchange for €75 in cash (of which €6 is held in escrow subject to the accuracy of the seller's representations and warranties). Payment of an additional €28, held in escrow and reflected as restricted cash, is contingent upon employee retention and the achievement of certain performance and development milestones over a two-year period, and is to be recognized as the milestones are achieved. This acquisition was designed to enable access to the Home-Gateway-Systems market for the Wireline Communications segment.
The Company acquired 92.5% of the outstanding shares of SensoNor AS ("SensoNor") on June 18, 2003 following a public tender offer, and acquired the remaining 7.5% by June 30, 2003, for total cash consideration of €34. In addition the Company contributed capital of €13 in connection with the consummation of the transaction. SensoNor develops, produces and markets tire pressure and acceleration sensors. With this acquisition the Company aimed to strengthen its position in semiconductor sensors for the automotive business. During the year ended September 30, 2004, following the restructuring of the SensoNor business, the Company recorded a purchase accounting adjustment reversing the previously established deferred tax asset valuation allowance by €8 and decreasing goodwill correspondingly.

On April 1, 2003, the Company completed the acquisition of the net assets of MorphICs Technology Inc. ("MorphICs"), a developer of digital baseband circuits of third generation wireless communications for €6 in cash. The acquisition agreement also provides for the payment of contingent consideration of €9 upon the achievement of specified events, which is expected to be resolved in the year ending September 30, 2005.

In April 2001, the Company established a joint venture (Infineon Technologies Flash, previously Ingentix), in which it held a 51% ownership interest. Infineon Technologies Flash develops flash memory products. The operations of Infineon Technologies Flash were consolidated from that date. In February 2003, the Company increased its ownership interest in Infineon Technologies Flash to 70%. The additional ownership interest was effected through a capital contribution and the conversion of existing shareholder loans into equity, which resulted in goodwill of €4 and a corresponding increase in minority interest.

On September 9, 2002, the Company acquired all of the shares of Ericsson Microelectronics AB ("MIC"). MIC, based in Sweden, is a supplier of Radio Frequency (RF) microelectronic components for wireless applications, high end power amplifiers, Bluetooth components and broadband communications. MIC is a strategic supplier to Ericsson, a market leader in base stations, Bluetooth solutions and RF components for mobile phones and wireless infrastructure. The Company also entered into a strategic supply agreement with Ericsson for a period of two years with certain specified purchase thresholds, pursuant to which €50 was recorded as a liability as of September 30, 2002.

In June 2003, the Company and Ericsson signed an amendment to the MIC acquisition agreement. The companies intend to strengthen their strategic cooperation in various areas of mobile phone technology and wireless infrastructure, including Bluetooth solutions, RF ICs, RF Power and other applications. Furthermore, the companies agreed to eliminate the remaining acquisition indebtedness, as well as the historic and future purchase thresholds of Ericsson and related penalties. In addition, the Company received €50 from Ericsson. These amounts have been reflected as an adjustment, principally to the originally recorded goodwill, as well as to intangible assets and deferred taxes. Additionally, following the restructuring of the MIC business, the Company recorded a purchase accounting adjustment reversing the previously established deferred tax asset valuation allowance in the amount of €16 during the year ended September 30, 2003.

The following table summarizes the Company's acquisitions during the years ended September 30, 2002, 2003 and 2004:

	2002	2003		2004
	MIC	SensoNor	Other	ADMtek
Acquisition date	**September 2002**	**June 2003**	**2003**	**April 2004**
Segment	**Secure Mobile Solutions**	**Automotive & Industrial**	**Various**	**Wireline Communications**
Cash	50	3	–	**18**
Other current assets	120	6	1	**10**
Property, plant and equipment	60	25	1	**2**
Intangible assets				
Current product technology	15	21	5	**14**
Core technology	42	–	–	**5**
Patents (customer relationship)	24	–	2	**2**
In process R&D	37	4	2	**9**
Goodwill	–	14	6	**23**
Other non-current assets	45	8	–	**1**
Total assets acquired	393	81	17	**84**
Current liabilities	(38)	(11)	(9)	**(8)**
Non-current liabilities (including debt)	(28)	(36)	–	**(1)**
Total liabilities assumed	(66)	(47)	(9)	**(9)**
Net assets acquired	327	34	8	**75**
Cash paid (purchase consideration)	–	34	8	**75**
Shares issued	27,500,000	–	–	**–**

The above acquisitions have been accounted for by the purchase method of accounting and, accordingly, the consolidated statements of operations include the results of the acquired companies from their respective acquisition dates. The value of the shares issued for purchase consideration was determined based on the average market price of the Company's shares over the two-day period before and after the date on which the number of shares to be issued became fixed.

Shares issued and held in escrow for employees subject to continued employment and the achievement of certain performance milestones are accounted for as deferred compensation at the shares' intrinsic value. Deferred compensation is reflected as a reduction of additional paid-in capital in the statement of shareholders' equity, and amortized on a straight-line basis over the related employment or milestone periods, ranging from two to four years. Shares issued and held in escrow for the acquired company's shareholders subject to the acquired company achieving certain performance milestones, principally related to the Company's August 2001 acquisition of Catamaran Communications, Inc. ("Catamaran"), represent contingent purchase consideration. Such shares are not reflected as issued and outstanding shares in the statement of shareholders' equity until the milestones are achieved, in which case the purchase price is adjusted to reflect the issuance of the shares at their fair value at the date the milestones are achieved. During the years ended September 30, 2002 and 2003, due to the achievement of certain milestones, 546,183 and 96,386 shares, respectively, were released from escrow, which resulted in the recognition of €9 and €1, respectively, of additional goodwill related to the Catamaran acquisition.

For each significant acquisition the Company engaged an independent third party to assist in the valuation of net assets acquired. As a result of these valuations, amounts allocated to purchased in-process research and development of €37, €6 and €9 were expensed as research and development in the years ended September 30, 2002, 2003 and 2004, respectively, because the technological feasibility of products under development had not been established and no future alternative uses existed. The amounts allocated to purchased in-process research and develop-

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ment were determined through established valuation techniques in the high-technology industry and related guidance provided by the SEC.

The core technology and patents acquired in these acquisitions are amortized over their estimated useful life of five years, and the current production technology is being amortized over its estimated useful life, ranging from two to eight years.

Pro forma financial information relating to these acquisitions is not material either individually or in the aggregate to the results of operations and financial position of the Company and has been omitted.

4. Discontinued operation and divestitures

Discontinued operation

Pursuant to an agreement reached between the Company and Osram GmbH ("Osram"), the Company transitioned all of its opto-electronic activities to Osram as of March 31, 2003. The agreement provides for the transfer of all customer relationships and related backlog, the cancellation by the Company of all of its opto-electronic distribution agreements, as well as providing the Company with certain rights of return related to unsold inventory as of March 31, 2003. The Company did not incur a loss on the discontinuation of the opto-electronics business.

The following table presents comparative information of the discontinued operation, which was previously reported as part of the other operating segments, for the years ended September 30, 2002, 2003 and 2004, respectively:

	2002	2003	2004
Opto-electronics:			
Sales:			
Third parties	241	113	–
Related parties	76	32	–
Net sales	317	145	–
Income from discontinued operation before tax	–	–	–
Income tax expense	(4)	–	–
Net loss from discontinued operation	(4)	–	–

The discontinued operation had no outstanding balances as of September 30, 2003 or 2004.

Divestitures

On April 29, 2004, the Company entered into an agreement with Finisar Corporation ("Finisar") to sell the fiber optics business (see note 14).

In August 2003, the Company sold its investment in UMCi and incurred a pre-tax loss on disposal of €9, which is reflected in other operating income (expense).

On July 1, 2002, the Company completed the sale of its gallium arsenide business, reflected in the Secure Mobile Solutions segment, including specified non-manufacturing tangible and intangible assets, as well as specified customer contracts and liabilities. The Company received initial cash proceeds of €50.

Contingent purchase price adjustments were based on the level of gallium arsenide related product sales, at prices substantially below market, generated by the purchaser through September 30, 2004 and other adjustments. Accordingly, €44 of the proceeds was deferred at the divestiture date and recognized over the term of the supply agreement as products were sold and purchase price contingencies passed. Contingent adjustments were realized during the year ended September 30, 2004, which resulted in an obligation for the Company of €13 which was offset against deferred proceeds. The Company recognized previously deferred income of €29 and €2 during the years ended September 30, 2003 and 2004, respectively, in fulfillment of the agreements.

On December 31, 2001 the Company completed the sale of its remaining 81% interest in Infineon Technologies Krubong Sdn. Bhd., representing its infrared components business unit, previously reflected in the other operating segment.

In addition, the Company disposed of certain venture investments during the years ended September 30, 2002, 2003 and 2004.

Summarized financial information for the divested businesses (through the date of divestiture) for the years ended September 30, 2002, 2003 and 2004, are as follows:

	2002	2003	2004
Sales:			
Gallium Arsenide	24	45	–
Infrared Components	11	–	–
Total	35	45	–
EBIT:			
Gallium Arsenide	(18)	5	–
Infrared Components	(7)	–	–
UMCi	(1)	(11)	–
Total	(26)	(6)	–
Gain (loss) on sale before tax:			
Gallium Arsenide	2	–	–
Infrared Components	39	–	–
UMCi	–	(9)	–
Other	(2)	(1)	**(2)**
Total (note 7)	39	(10)	**(2)**

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5. License income

During the years ended September 30, 2002, 2003 and 2004, the Company recognized revenues related to license and technology transfer fees of €147, €183 and €76, respectively, which are included in net sales in the accompanying statements of operations. Included in these amounts are previously deferred license fees of €85, €135 and €48, which were recognized as revenue pursuant to SEC SAB 104, in the years ended September 30, 2002, 2003 and 2004, respectively, since the Company had fulfilled all of its obligations and all such amounts were realized.

In February 2003, the Company, ProMOS and MVI agreed to extinguish third party indebtedness of €60, which was subject to a guarantee by the Company, as well as offset other indebtness between the parties. As a result the Company recognized previously deferred license income of €60 related to this guaranteed indebtedness during the year ended September 30, 2003, since the amounts had been earned and realized.

Due to the termination of the technology transfer agreement between the Company and ProMOS, an additional €36 of previously deferred license income was recognized as revenue during the year ended September 30, 2003, as the Company had fulfilled all of its obligations.

In March 2000, the Company entered into technology transfer agreements with ProMOS, and restructured existing agreements with MVI, the majority shareholder of ProMOS. As part of these agreements, previously unrecognized license fees due from MVI were rescheduled and recognized as revenue over the life of the new contracts.

In connection with the joint technology development with Nanya Technology Corporation ("Nanya") (see note 16), in 2003 the Company granted Nanya a license to use its 110-nanometer technology in Nanya's existing operations. License income related to the technology is recognized over the estimated life of the technology.

In connection with the extension of a capacity reservation agreement with Winbond Electronics Corp., Hsinchu, Taiwan ("Winbond") in August 2004, the Company granted Winbond a license to use its 110-nanometer technology in Winbond's production process for the manufacture of products for the Company. Accordingly, the license income is deferred and recognized over the life of the capacity reservation agreement.

6. Grants

The Company has received economic development funding from various governmental entities, including grants for the construction of manufacturing facilities, as well as grants to subsidize research and development activities and employee training. Grants and subsidies included in the accompanying financial statements during the years ended September 30, 2002, 2003 and 2004, are as follows:

	2002	2003	2004
Included in the consolidated statements of operations:			
Research and development	59	59	**74**
Cost of sales	34	54	**86**
Total	93	113	**160**
Construction grants deducted from the cost of fixed assets	83	17	**49**
Deferred government grants (notes 20 and 22)	295	303	**281**

7. Supplemental operating cost information

The cost of services and materials are as follows for the years ended September 30:

	2002	2003	2004
Raw materials, supplies and purchased goods	1,380	1,675	**1,621**
Purchased services	926	1,126	**1,232**
Total	2,306	2,801	**2,853**

Personnel expenses are as follows for the years ended September 30:

	2002	2003	2004
Wages and salaries	1,429	1,490	**1,532**
Social levies	255	268	**280**
Pension expense (note 28)	29	27	**28**
Total	1,713	1,785	**1,840**

(euro in millions, except where otherwise stated)

Other operating income (expense), net is as follows for the years ended September 30:

	2002	2003	2004
Gain (loss) from sale of businesses (note 4)	39	(10)	**(2)**
Goodwill and intangible assets impairment charges (note 17)	(12)	(68)	**(71)**
Antitrust related charges (note 31)	–	(20)	**(194)**
Amortization of debt issuance costs	(2)	(4)	**(8)**
Other	21	17	**18**
Other operating income (expense), net	46	(85)	**(257)**

The average number of employees by geographic region is as follows for the years ended September 30:

	2002	2003	2004
Germany	15,773	16,043	**16,340**
Other Europe	4,376	4,753	**5,507**
North America	2,818	2,779	**2,822**
Asia/Pacific	7,085	7,725	**9,220**
Japan	104	108	**126**
Other	24	115	**112**
Total	30,180	31,523	**34,127**

8. Restructuring

In 2004, the Company announced further restructuring measures that are aimed at reducing costs, including downsizing its workforce, outsourcing and decentralizing certain functions and operations. As part of the restructuring, the Company announced plans to terminate approximately 325 employees. The 2004 terminations were primarily the result of relocating operations from Regensburg and Munich to Dresden and the closing of design centers in England, Ireland, Sweden and the United States. It is expected that the terminations will be completed in the 2005 financial year. In connection with these measures, restructuring charges of €17 were recognized during the year ended September 30, 2004. The Company anticipates that planned annual cost savings of €32 will be achieved as a result of the 2004 restructuring initiative.

The development of the restructuring liability during the year ended September 30, 2004, is as follows:

	2003	2004			
	Liabilities	Raclassifications	Restructuring charge	Payments	Liabilities
Employee terminations	18	**(3)**	**16**	**(21)**	**10**
Other exit costs	9	**–**	**1**	**(4)**	**6**
Total	27	**(3)**	**17**	**(25)**	**16**

In 2003, the Company announced restructuring measures aimed at further reducing costs, including downsizing its workforce, outsourcing and decentralizing certain functions and operations. As part of the restructuring, the Company planned to terminate approximately 550 employees mainly in corporate functions and logic manufacturing operations, as well as through the outsourcing of certain functions to external providers. In connection with these measurements, restructuring charges of €29 were recognized during the year ended September 30, 2003. In addition, €11, which had been previously accrued under restructuring, was forgiven in partial consideration for the execution of a service agreement and has therefore been deferred, included in accrued liabilities, and will be recognized over the term of the service agreement. During the years ended September 30, 2003 and 2004 approximately 170 and 630 employees, respectively, were terminated as a result of the restructuring initiatives announced by the Company.

During the year ended September 30, 2002, restructuring charges of €16 were recognized related to non-cancellable lease commitments.

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9. Income taxes

Income (loss) before income taxes and minority interest is attributable to the following geographic locations for the years ended September 30, 2002, 2003 and 2004:

	2002	2003	2004
Germany	(1,403)	(506)	**153**
Foreign	236	147	**44**
Total	(1,167)	(359)	**197**

Income tax (benefit) expense for the years ended September 30, 2002, 2003 and 2004 is as follows:

	2002	2003	2004
Current taxes:			
Germany	15	18	**53**
Foreign	124	50	**5**
	139	68	**58**
Deferred taxes:			
Germany	(236)	40	**144**
Foreign	(46)	(24)	**(48)**
	(282)	16	**96**
Income tax (benefit) expense from continuing operations	(143)	84	**154**
Income tax expense from discontinued operation	4	–	**–**
Income tax (benefit) expense	(139)	84	**154**

The Company's statutory tax rate in Germany is 25%, effective for the Company's year ended September 30, 2002. Additionally, a solidarity surcharge of 5.5% and trade tax of 13% is levied for a combined statutory tax rate of 39%.

A reconciliation of income taxes for the years ended September 30, 2002, 2003 and 2004, determined using the German corporate tax rate plus trade taxes, net of federal benefit, for a combined statutory rate of 39% for 2002, 41% (which includes a one year flood victim relief levy of 2%) for 2003 and 39% for 2004 is as follows:

	2002	2003	2004
Expected (benefit) expense for income taxes	(455)	(147)	**77**
Decrease (increase) in available tax credits	30	(35)	**(9)**
Non-taxable investment (income) loss	(39)	14	**6**
Foreign tax rate differential	(46)	1	**(68)**
Non deductible expenses and other provisions	99	58	**69**
Change in German tax rate – effect on opening balance	–	2	**–**
Change in German tax rate – effect on current year	(2)	7	**–**
Increase in valuation allowance	271	182	**54**
In-process research and development	10	1	**3**
Other	(11)	1	**22**
Actual (benefit) provision for income taxes	(143)	84	**154**

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Deferred income tax assets and liabilities as of September 30, 2003 and 2004 relate to the following:

	2003	2004
Assets:		
Intangible assets	115	**100**
Fixed assets	105	**155**
Deferred income	117	**109**
Net operating loss and tax credit carry-forwards	1,029	**919**
Other items	195	**227**
Gross deferred tax assets	1,561	**1,510**
Valuation allowances	(521)	**(567)**
Deferred tax assets	1,040	**943**
Liabilities:		
Intangible assets	58	**49**
Property, plant and equipment	148	**125**
Accrued liabilities	31	**75**
Other items	56	**50**
Deferred tax liabilities	293	**299**
Deferred tax assets, net	747	**644**

Net deferred income tax assets and liabilities are presented in the accompanying balance sheets as of September 30, 2003 and 2004 as follows:

	2003	2004
Deferred tax assets:		
Current	113	**140**
Non-current	705	**541**
Deferred tax liabilities:		
Current	(39)	**(16)**
Non-current	(32)	**(21)**
Deferred tax assets, net	747	**644**

At September 30, 2004, the Company had tax loss carry-forwards of €1,779 (relating to both trade and corporate tax, plus an additional loss carry-forward applicable only to trade tax of €1,299), and tax credit carry-forwards of €109. Such tax loss and credit carry-forwards are mainly from German operations, are generally limited to use by the particular entity that generated the loss or credit and do not expire under current law. The benefit for tax credits is accounted for on the flow-through method when the individual legal entity is entitled to the claim.

Pursuant to SFAS No. 109, the Company has assessed its deferred tax asset and the need for a valuation allowance. Such an assessment considers whether it is more likely than not that some portion or all of the deferred tax assets may not be realized. The assessment requires considerable judgment on the part of management, with respect to, among other factors, benefits that could be realized from available tax strategies and future taxable income, as well as other positive and negative factors. The ultimate realization of deferred tax assets is dependent upon the Company's ability to generate the appropriate character of future taxable income sufficient to utilize loss carry-forwards or tax credits before their expiration. Since the Company had incurred a cumulative loss in certain tax jurisdictions over a three-year period as of September 30, 2004, the impact of forecasted future taxable income is excluded from such an assessment, pursuant to the provisions of SFAS No. 109. For these tax jurisdictions, the assessment was therefore only based on the benefits that could be realized from available tax strategies and the reversal of temporary differences in future periods. As a result of this assessment, the Company increased the deferred tax asset valuation allowance as of September 30, 2004 by €54, to reduce the deferred tax asset to an amount that is more likely than not expected to be realized in future. During the years ended September 30, 2002 and 2003 valuation allowances relating to continuing operations in the amount of €271 and €182, respectively, were established for tax loss carry-forwards which, on a more likely than not basis, would not be fully utilized.

On December 27, 2003, the German government enacted new tax legislation which limits the application of a German corporation's tax loss carryforwards to 60% of the annual taxable income of the corporation in any given year. The new legislation did not limit the length of the carryforward period, which is unlimited. For the Company, the new tax law is effective from October 1, 2003. The new legislation resulted in additional current tax of €13 for the year ended September 30, 2004.

The changes in valuation allowance for deferred tax assets during the years ended September 30, 2003 and 2004 were as follows:

	2003	2004
Balance, beginning of the year	310	**521**
Applicable to continuing operations	182	**54**
Deferred tax assets acquired in business combinations	45	**–**
Purchase accounting adjustments	(16)	**(8)**
Balance, end of the year	521	**567**

As of September 30, 2003, the valuation allowance includes €45 established in connection with business combinations, which if reversed in future periods will be applied to the carrying value of intangible assets acquired in such business combinations. During the years ended September 30, 2003 and 2004, based upon the utilization of net operating losses, the Company reversed €16 and €8, respectively, of these valuation allowances, and reduced goodwill accordingly.

The Company did not provide for income taxes or foreign withholding taxes on cumulative earnings of foreign subsidiaries as of September 30, 2004, because these earnings are intended to be indefinitely reinvested in those operations. It is not practicable to estimate the amount of unrecognized deferred tax liabilities for these undistributed foreign earnings.

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The income tax (benefit) expense for the years ended September 30, 2002, 2003 and 2004 was allocated to continuing operations and accumulated other comprehensive income. The aggregate amounts allocated to equity, for unrealized gains (losses) on securities and minimum pension liabilities, was minus €6, €4 and €10 for 2002, 2003 and 2004, respectively.

During the year ended September 30, 2004, the Company reorganized certain businesses in different tax jurisdictions which resulted in tax expense of €54 being deferred of which €39 is non-current (see note 17).

10. Earnings (loss) per share

Basic earnings (loss) per share ("EPS") is calculated by dividing net income (loss) by the weighted average number of ordinary shares outstanding during the year. Diluted EPS is calculated by dividing adjusted net income by the sum of the weighted average number of ordinary shares outstanding plus all additional ordinary shares that would have been outstanding if potentially dilutive instruments or ordinary share equivalents had been issued.
The computation of basic and diluted EPS for the years ended September 30, 2002, 2003 and 2004, is as follows (shares in million):

	2002	2003	2004
Numerator:			
Net (loss) income from continuing operations	(1,017)	(435)	**61**
Net loss from discontinued operation	(4)	–	**–**
Net (loss) income – for basic and diluted EPS	(1,021)	(435)	**61**
Denominator:			
Weighted-average shares outstanding – basic	694.7	720.9	**734.7**
Effect of dilutive instruments	–	–	**1.9**
Weighted-average shares outstanding – diluted	694.7	720.9	**736.6**
Basic and diluted EPS in €			
Continuing operations	(1.46)	(0.60)	**0.08**
Discontinued operation	(0.01)	–	**–**
Net (loss) income	(1.47)	(0.60)	**0.08**

Potentially dilutive instruments include 1.9 million employee stock options. For the year ended September 30, 2004, the effect of anti-dilutive stock options and convertible subordinated notes has been excluded from the calculation. For the years ended September 30, 2002 and 2003, the effects of the assumed exercise or conversion of these instruments are anti-dilutive to loss per share, and are therefore excluded from the calculation of diluted loss per share.

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11. Marketable securities

Marketable securities at September 30, 2003 and 2004 consist of the following:

	2003				2004			
	Cost	Fair value	Unrealized gain	Unrealized loss	Cost	Fair value	Unrealized gain	Unrealized loss
Foreign government securities	10	11	1	–	**9**	**10**	**1**	**–**
Floating rate notes	343	345	10	(8)	**548**	**551**	**7**	**(4)**
Other debt securities	145	145	–	–	**271**	**272**	**1**	**–**
Total debt securities	498	501	11	(8)	**828**	**833**	**9**	**(4)**
Equity securities	27	36	10	(1)	**13**	**12**	**1**	**(2)**
Fixed term deposits	1,261	1,260	–	(1)	**1,112**	**1,112**	**–**	**–**
Total marketable securities	1,786	1,797	21	(10)	**1,953**	**1,957**	**10**	**(6)**
Reflected as follows:								
Current assets	1,774	1,784	20	(10)	**1,935**	**1,938**	**9**	**(6)**
Non-current assets (note 17)	12	13	1	–	**18**	**19**	**1**	**–**
Total marketable securities	1,786	1,797	21	(10)	**1,953**	**1,957**	**10**	**(6)**

The Company accounted for its investment in ProMOS as marketable securities available-for-sale effective April 1, 2003 (see note 16). At September 30, 2003, equity securities include shares held in ProMOS of €17, which were subject to a short-term sale restriction. The Company sold its remaining ProMOS shares by January 2004. The Company realized gains of €60 and €2 during the years ended September 30, 2003 and 2004, respectively, on the sale of ProMOS shares.

Unrealized losses relating to securities held for more than 12 months as of September 30, 2003 and 2004, were €0 and €4, respectively.

Realized (losses) gains, net are reflected as other non-operating income (expense), net and were as follows for the years ended September 30:

	2002	2003	2004
Realized gains	–	60	**10**
Realized losses	(1)	(4)	**(1)**
Realized gains (losses), net	(1)	56	**9**

As of September 30, 2004, all fixed term deposits had contractual maturities between three and twelve months.

Debt securities at September 30, 2004, had the following remaining contractual maturities:

	Cost	Fair Value
Less than 1 year	365	**365**
Between 1 and 5 years	84	**87**
More than 5 years	379	**381**
Total debt securities	828	**833**

Actual maturities may differ due to call or prepayment rights.

12. Trade accounts receivable, net

Trade accounts receivable at September 30, 2003 and 2004 consist of the following:

	2003	2004
Third party – trade	700	**879**
Siemens group – trade (note 27)	194	**206**
Associated and related companies – trade (note 27)	8	**12**
Trade accounts receivable, gross	902	**1,097**
Allowance for doubtful accounts	(26)	**(41)**
Trade accounts receivable, net	876	**1,056**

Activity in the allowance for doubtful accounts for the years ended September 30, 2003 and 2004 is as follows:

	2003	2004
Allowance for doubtful accounts at beginning of year	43	**26**
Provision for (recovery of) bad debt	(16)	**15**
Foreign currency effects	(1)	**–**
Allowance for doubtful accounts at end of year	26	**41**

13. Inventories

Inventories at September 30, 2003 and 2004 consist of the following:

	2003	2004
Raw materials and supplies	85	**84**
Work-in-process	489	**560**
Finished goods	385	**316**
Total Inventories	959	**960**

14. Other current assets

Other current assets at September 30, 2003 and 2004 consist of the following:

	2003	2004
Financial instruments (note 29)	154	**106**
Assets held for sale	–	**88**
Grants receivable	98	**84**
VAT and other tax receivables	98	**147**
Associated and related companies – financial and other receivables (note 27)	125	**49**
Miscellaneous receivables	94	**40**
Siemens group – financial and other receivables (note 27)	18	**18**
Employee receivables	7	**9**
Intangible pension asset (note 28)	4	**–**
Other	77	**49**
Total other current assets	675	**590**

At September 30, 2004, other current assets include assets held for sale relating to the Company's fiber optics business (part of the Wireline Communications segment). No gain or loss has been recognized on this classification. These assets include land, buildings and equipment associated with the production facilities located in Germany and the Czech Republic. Related liabilities are included in other current liabilities (see note 20). Pursuant to SFAS No. 144, "Accounting for the Impairment or Disposal of Long- Lived Assets", the recognition of depreciation expense ceased as of March 31, 2004. The Company performed an impairment assessment and concluded that no impairment was necessary. Depreciation expense for the financial year ended September 30, 2004 was €7.

Summarized balance sheet information for the fiber optics business is set forth below:

	2004
Current assets	**47**
Non-current assets	**41**
Total assets held for sale	**88**
Current liabilities	**23**
Non-current liabilities	**8**
Total liabilities related to assets held for sale (note 20)	**31**

On April 29, 2004, the Company entered into an agreement with Finisar to sell the fiber optics business. The agreement was amended on October 11, 2004, pursuant to which the Company will receive 110 million shares in Finisar (valued at €115 on that date) in exchange for its fiber optics business and financial assistance with restructuring measures to be taken in future periods. The final number of Finisar shares that the Company will receive is subject to adjustment for changes in working capital of the fiber optics business. Additionally, the agreement contains a three-year non-compete clause and limits the aggregate indemnification liability to 20% of the consideration paid by Finisar. The purchase agreement will be terminated by mutual consent if the transaction is not consummated by March 31, 2005. The agreement is subject to customary closing conditions, including the approval by Finisar's shareholders.

Upon closing, the Company will own approximately 33% of Finisar and account for its investment according to the equity method.

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15. Property, plant and equipment, net

A summary of activity for property, plant and equipment for the year ended September 30, 2004 is as follows:

	Land and buildings	Technical equipment and machinery	Other plant and office equipment	Construction in progress	Total
Cost September 30, 2003	1,065	6,650	2,079	298	**10,092**
Additions	51	491	196	425	**1,163**
Disposals	(7)	(192)	(103)	(5)	**(307)**
Reclassifications	–	(42)	(33)	–	**(75)**
Transfers	11	168	45	(224)	**–**
Foreign currency effects	(19)	(73)	(8)	(10)	**(110)**
September 30, 2004	1,101	7,002	2,176	484	**10,763**
Accumulated depreciation September 30, 2003	(488)	(4,101)	(1,686)	–	**(6,275)**
Depreciation	(69)	(870)	(292)	–	**(1,231)**
Disposals	4	164	101	–	**269**
Transfers	–	4	(4)	–	**–**
Foreign currency effects	5	51	5	–	**61**
September 30, 2004	(548)	(4,752)	(1,876)	–	**(7,176)**
Book value September 30, 2003	577	2,549	393	298	**3,817**
Book value September 30, 2004	553	2,250	300	484	**3,587**

The Company was the lessor of technical equipment (see note 27) of €191 and €166 with related accumulated depreciation of €179 and €166 as of September 30, 2003 and 2004, respectively.
On April 23, 2004, the Company announced plans to recommence the expansion of capacity at its Richmond, Virginia, plant, which involves the completion of construction and equipment installation for a 300-millimeter fabrication facility. At September 30, 2004, construction in progress includes €166 relating to this construction. The initial expansion project is estimated to cost $1 billion, with the start of production of advanced DRAM chips on 300-millimeter wafers beginning in the second half of 2005.

16. Long-term investments, net

A summary of activity for long-term investments for the year ended September 30, 2004 is as follows:

	Investment in associated companies	Investment in related companies	Totel
Balance at September 30, 2003	320	105	**425**
Additions	364	22	**386**
Disposals	–	(12)	**(12)**
Held for sale	–	(14)	**(14)**
Capitalized interest	7	–	**7**
Impairments	(16)	(49)	**(65)**
Equity in losses	(14)	–	**(14)**
Reclassification	7	(7)	**–**
Gain on share issuance	2	–	**2**
Foreign currency effects	(6)	(1)	**(7)**
Balance at September 30, 2004	664	44	**708**

Investments in related companies principally relate to investment activities aimed at strengthening the Company's future intellectual property potential.

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The following significant associated companies at September 30, 2004 are accounted for using the equity method of accounting:

Name of the associated company	Direct and indirect ownership in %
Advanced Mask Technology Center GmbH & Co. KG, Dresden, Germany ("AMTC")	33.3
ALTIS Semiconductor S.N.C., Essonnes, France ("ALTIS")	50.1
Hwa-Ken Investment Inc., Taipei, Taiwan ("Hwa-Ken")	50.0
Inotera Memories Inc., Taoyuan, Taiwan ("Inotera")	45.8
Newlogic Technologies AG, Lustenau, Austria ("Newlogic")	24.9
ParoLink Technologies Co., Ltd. Hsinchu, Taiwan ("ParoLink")	56.0
Ramtron International Corp., Colorado Springs, Colorado, USA ("Ramtron")	20.0
StarCore LLC, Austin, Texas, USA ("StarCore")	38.7

The Company has accounted for these investments under the equity method of accounting due to the lack of unilateral control (see note 2). The above companies are principally engaged in the research and development, design and manufacture of semiconductors and related products.

On May 16, 2002, the Company entered into the AMTC joint venture with the partners Advanced Micro Devices, Inc., USA, (AMD) and DuPont Photomasks, Inc., USA, (DuPont) with the purpose of developing and manufacturing advanced photo masks. In addition, the Company agreed to sell specified photomask equipment to DuPont, and entered into a long-term purchase agreement through 2011. Accordingly, at September 30, 2004, €20 was deferred which is to be recognized over the term of the purchase agreement.

ALTIS is a joint venture between Infineon and IBM, with each having equal voting representation. During the year ended September 30, 2003, the Company and IBM amended the original shareholders agreement. Pursuant to the amendment, the Company will rateably increase its capacity reservation in the production output of ALTIS from the existing level of 50% to 100% during calendar years 2004 through 2007. IBM and the Company agreed that they will decide about the future business model of ALTIS not later than January 1, 2007. Additionally, the Company was granted an option through July 1, 2007 to acquire IBM's interest in ALTIS.

During the year ended September 30, 2001, the Company acquired an aggregate 24.9% interest in Newlogic for a total consideration of €21.

In March 2001, the Company acquired a 20.1% interest (subsequently diluted to 20.0%) in Ramtron for total consideration of €31, consisting of 443,488 ordinary shares and cash of €11. Ramtron is a leading developer of specialty semiconductor memory products, based in Colorado Springs, Colorado, and listed on the Nasdaq exchange under the symbol RMTR. The market price was $2.90 as of September 30, 2004 and $3.96 as of October 20, 2004.

On November 13, 2002, the Company entered into agreements with Nanya relating to a strategic cooperation in the development of DRAM products and the foundation of a 50:50 joint venture (Inotera, directly and indirectly through the Company's investment in Hwa-Ken Investment Inc.) to construct and operate a 300-millimeter manufacturing facility in Taiwan. Pursuant to the agreements, the Company and Nanya are developing advanced 90-nanometer and 70-nanometer technology, the cost of which will be borne two-thirds by the Company and one-third by Nanya. The new 300-millimeter manufacturing facility will be funded by the Inotera joint venture and employ the technology developed under the aforementioned agreements to manufacture DRAM products and its capacity is anticipated to be completed in two phases. During the year ended September 30, 2004, Inotera completed the construction and started mass production. The second phase is anticipated to be completed in the 2006 financial year. The joint venture partners are obligated to each purchase one-half of the facility's production based, in part, on market prices.

The Company invested €342 in Inotera during the year ended September 30, 2004. The investment includes interest capitalization of €7 during the year ended September 30, 2004. During the year ended September 30, 2004, Inotera issued shares to employees which diluted the Company's shareholding at that time while increasing its proportional share of Inotera shareholders' equity by €2. As of September 30, 2004, shares designated for issuance to employees could dilute the Company's shareholding to 44.1%. On October 7, 2004, Inotera's application for public company status was accepted by the Taiwanese Securities and Futures Bureau. On October 1, 2002, the Company, Agere Systems Inc. and Motorola Inc. incorporated StarCore LLC, based in Austin, Texas. As of September 30, 2004, the Company holds a 38.7% ownership interest with an aggregate value of €24. StarCore focuses on developing, standardizing and promoting Digital Signal Processor (DSP) core technology.

On October 4, 2002, the Company announced that it had cancelled its shareholders' agreement with Mosel Vitelic Inc. ("MVI") relating to the ProMOS joint venture, effective January 1, 2003, due to material breaches of the terms of the shareholders' agreement by MVI. The product purchase and capacity reservation agreement, which established the rights and obligations of both shareholders to purchase product from ProMOS, also terminated on January 1, 2003. On January 27, 2003, the Company terminated its technology license agreement with ProMOS. ProMOS subsequently terminated this same technology license agreement. The technology license agreement provides for the use of an arbitration proceeding to resolve certain disputes. In May 2003, ProMOS initiated an arbitration proceeding relating to this dispute and the Company filed counterclaims (see note 31).

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During the year ended September 30, 2002, ProMOS distributed employee bonuses in the form of shares and issued shares, which diluted the Company's shareholding at that time while increasing its proportional share of ProMOS shareholders' equity by €18. During the year ended September 30, 2003, ProMOS repurchased shares in the open market which increased the Company's shareholding at that time while decreasing its proportional share of ProMOS shareholders' equity by €2.

In January 2003, the Company announced its intention to liquidate its investment in ProMOS, depending on market conditions, and in accordance with Taiwanese securities regulations. Effective April 1, 2003, due to the lack of significant influence, the investment was no longer accounted for on the equity method, and was treated as marketable securities available-for-sale (see note 11). The Company sold its remaining ProMOS shares by January 2004.

In November 2003 the Company, together with United Epitaxy Company, Ltd., Hsinchu, Taiwan, founded a joint venture company ParoLink. The Company has invested €6 and holds a 56% ownership interest in ParoLink. The Company accounts for its investment in ParoLink using the equity method, since substantive participating minority rights prevent the exercise of unilateral control. In connection with the Company's planned disposal of its fiber optics business (see note 14), the Company and UEC are in discussion to terminate the joint venture, and accordingly the Company fully impaired its investment as of September 30, 2004.

The Company recognized impairment charges related to certain investments for which the carrying value exceeded the fair value on an other-than-temporary basis, of €39 and €30 and €65 for the years ended September 30, 2002, 2003 and 2004, respectively. Based on a decision to terminate the Company's venture investing activities, an impairment charge of €28 was recognized as of September 30, 2004, to reduce the carrying value of the Company's venture investment portfolio to the expected realizable value. Goodwill of €32 is included in the amount of long-term investments at September 30, 2004.

For the associated companies as of September 30, 2004, the aggregate summarized financial information for the financial years 2002, 2003 and 2004, is as follows:

	2002	2003	2004
Sales	541	600	**541**
Gross profit	62	67	**26**
Net income (loss)	6	(6)	**(36)**

	2002	2003	2004
Current assets	269	243	**454**
Non-current assets	650	682	**1.690**
Current liabilities	(442)	(324)	**(383)**
Non-current liabilities	(13)	(15)	**(581)**
Shareholders' equity	464	586	**1,180**

17. Other assets

Other non-current assets at September 30, 2003 and 2004 consist of the following:

	2003	2004
Intangible assets, net	411	**398**
Grants receivables	12	**92**
Deferred tax charges (note 9)	–	**39**
Prepaid pension cost (note 28)	1	**27**
Long-term receivables	23	**24**
Marketable securities (note 11)	13	**19**
Associated and related companies – financial and other (note 27)	11	**10**
Notes receivable	5	**3**
Employee receivables (note 27)	2	**2**
Other	7	**13**
Total	485	**627**

A summary of activity for intangible assets for the year ended September 30, 2004 is as follows:

	Goodwill	Other Intangibles	Total
Cost September 30, 2003	243	339	**582**
Additions	–	125	**125**
Impairment charges (note 7)	(71)	–	**(71)**
Disposals	–	(75)	**(75)**
Acquisitions (note 3)	23	30	**53**
Adjustments	(8)	–	**(8)**
Foreign currency effects	(15)	(5)	**(20)**
September 30, 2004	172	414	**586**
Accumulated amortization September 30, 2003	(25)	(146)	**(171)**
Amortization	–	(89)	**(89)**
In-process R&D	–	(9)	**(9)**
Disposals	–	75	**75**
Foreign currency effects	4	2	**6**
September 30, 2004	(21)	(167)	**(188)**
Book value September 30, 2003	218	193	**411**
Book value September 30, 2004	151	247	**398**

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The estimated aggregate amortization expense relating to other intangible assets for each of the five succeeding financial years is as follows: 2005 €82; 2006 €60; 2007 €47; 2008 €21; 2009 €7.

In June 2003, the Company entered into technology development and license agreements with IBM and Chartered Semiconductor for advanced logic process manufacturing technology. Licenses of €43 are amortized over the expected life of the related technology of five years.

During the years ended September 30, 2002, 2003 and 2004, the Company recognized impairment charges of €12, €68 and €71, respectively. As a result of the combination of below forecasted operating results and moderated market expectations, the Company, taking the technical milestones achieved to date into account, revised the forecasted returns for the optical networking reporting unit of the Wireline Communications segment. Accordingly, the Company tested the reporting unit's goodwill for impairment using a present value technique based on discounted estimated future cash flows pursuant to SFAS No.142, "Goodwill and Other Intangible Assets", and recognized an impairment charge of €68 during the year ended September 30, 2003. As part of the Company's annual goodwill impairment test in the year ended September 30, 2004, the Company recognized an impairment charge of €71 to reduce the reporting unit's goodwill to its estimated fair value, principally as a result of a current year decline in revenue and lowered market development expectations.

18. Trade accounts payable

Trade accounts payable at September 30, 2003 and 2004 consist of the following:

	2003	2004
Third party – trade	750	**969**
Siemens group – trade (note 27)	73	**61**
Associated and related companies – trade (note 27)	54	**68**
Total	877	**1,098**

19. Accrued liabilities

Accrued liabilities at September 30, 2003 and 2004 consist of the following:

	2003	2004
Personnel costs	257	**279**
Warranties and licenses	169	**78**
Settlement for antitrust related matters (note 31)	28	**67**
Interest	42	**33**
Other	81	**98**
Total	577	**555**

On September 15, 2004, the Company entered into a plea agreement with the United States Department of Justice in connection with their antitrust investigation (see note 31) and agreed to pay a fine aggregating $160 million over a five-year period. The amount due within one year is included in accrued liabilities, and the long-term portion is reflected as other non-current liabilities (see note 22).

20. Other current liabilities

Other current liabilities at September 30, 2003 and 2004 consist of the following:

	2003	2004
Taxes payable	237	**272**
Payroll obligations to employees	121	**124**
Deferred government grants (note 6)	80	**90**
Other deferred income	72	**58**
Restructuring (note 8)	27	**16**
Financial instruments (note 29)	11	**17**
Associated and related companies – financial and other (note 27)	5	**2**
Liabilities related to assets held for sale (note 14)	–	**31**
Other	9	**20**
Total	562	**630**

Deferred income includes amounts relating to license income (see note 5) and government grants (see note 6) and deferred revenue. The non-current portion is included in other liabilities (see note 22).

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21. Debt

Debt at September 30, 2003 and 2004 consists of the following:

	2003	2004
Short-term debt:		
Loans payable to banks, weighted average rate 2.3 %:	8	**53**
Loans payable, weighted average rate 4.5 %	–	**18**
Current portion of long-term debt	138	**498**
Capital lease obligations	3	**2**
Total short-term debt and current maturities	149	**571**
Long-term debt:		
Convertible subordinated notes, 4.25 %, due 2007	987	**636**
Convertible subordinated notes, 5.0%, due 2010	688	**688**
Loans payable to banks:		
Unsecured term loans, weighted average rate 2.54 %, due 2005-2007	566	**69**
Secured term loans, weighted average rate 1.75%, due 2005-2010	28	**7**
Loans payable, weighted average rate 4.0%, due 2005	6	–
Notes payable to governmental entity, rate 1.23%, due 2027	60	**27**
Capital lease obligations	8	–
Total long-term debt	2,343	**1,427**

Short-term loans payable to banks consist primarily of borrowings under the terms of short-term borrowing arrangements. Loans payable represent working capital advances to the Company's flash memory subsidiaries by the minority shareholder and are unsecured and subordinated to other indebtedness of these subsidiaries.

On June 5, 2003, the Company (as guarantor), through its subsidiary Infineon Technologies Holding B.V. (as issuer), issued €700 in subordinated convertible notes due 2010 at par in an underwritten offering to institutional investors in Europe. The notes are convertible, at the option of the holders of the notes, into a maximum of 68.4 million ordinary shares of the Company, at a conversion price of euro 10.23 per share through maturity. Upon conversion, the Company may pay a cash amount in lieu of delivery of all or part of the shares. The notes accrue interest at 5.0% per year. The notes are unsecured and pari passu with all present and future unsecured subordinated obligations of the issuer, and cannot be converted for the first three years. The note holders have a negative pledge relating to future capital market indebtedness, as defined. The note holders have an early redemption option in the event of a change of control, as defined. A corporate reorganization resulting in a substitution of the guarantor shall not be regarded as a change of control, as defined. The Company may redeem the convertible notes after three years at their principal amount plus interest accrued thereon, if the Company's share price exceeds 125% of the conversion price on 15 trading days during a period of 30 consecutive trading days. The convertible notes are listed on the Luxembourg Stock Exchange. At September 30, 2004, unamortized debt issuance costs were €12.

On February 6, 2002, the Company (as guarantor), through its subsidiary Infineon Technologies Holding B.V. (as issuer), issued €1,000 in subordinated convertible notes due 2007 at par in an underwritten offering to institutional investors in Europe. The notes are convertible, at the option of the holders of the notes, into a maximum of 28.2 million of the Company's ordinary shares at a conversion price of euro 35.43 per share through maturity. Upon conversion, the Company may pay a cash amount in lieu of delivery of all or part of the shares. The convertible notes accrue interest at 4.25% per year. The notes are unsecured and pari passu with all present and future unsecured subordinated obligations of the issuer. The note holders have a negative pledge relating to any future capital market indebtedness, as defined. The note holders have an early redemption option in the event of a change of control, as defined. The Company may redeem the convertible notes after three years at their principal amount plus interest accrued thereon, if the Company's share price exceeds 115% of the conversion price on 15 trading days during a period of 30 consecutive trading days. The convertible notes are listed on the Luxembourg Stock Exchange. During the year ended September 30, 2004, the Company redeemed a notional amount of €360 of the convertible subordinated notes due 2007, which resulted in a net gain of €6 before tax. At September 30, 2004, the outstanding notional amount was €640, of which €500 is the hedged item in a fair value hedge (see note 29), and unamortized debt issuance costs were €5.

Included in current portion of long-term debt as of September 30, 2004 is a €450 syndicated credit facility relating to the expansion of the Dresden manufacturing facility, which was fully drawn as of September 30, 2003 and 2004. The credit facility is supported by a partial guarantee of the Federal Republic of Germany and another governmental entity. The credit facility contains specified financial covenants, provides for annual payments of interest and matures on September 30, 2005. The Company anticipates satisfying this obligation in 2005 from available funds.

In September 2004 the Company executed a $400/€400 syndicated credit facility with a five-year term. The facility consists of two tranches: Tranche A is a $400 term loan intended to finance the expansion of its Richmond, Virginia, manufacturing facility. Tranche B is a €400 multicurrency revolving facility to be used for general corporate purposes. Tranche B replaces the Company's previous €375 multicurrency credit facility expiring in 2005. The maximum outstanding amount of Tranche A will

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decrease on the basis of a repayment schedule that foresees equal instalments starting from September 30, 2006. The facility has customary financial covenants, and drawings bear interest at market-related rates that are linked to financial performance. The lenders of the aforementioned $400/€400 credit facility are granted a negative pledge relating to the Company's future financial indebtedness with certain permitted encumbrances. At September 30, 2004, no amounts were outstanding under this facility.

Notes payable to governmental entity consist of unsecured industrial revenue bonds associated with the Infineon Richmond facility. During the year ended September 30, 2004, the Company voluntarily repaid €33 of the industrial revenue bonds.

The Company has established independent financing arrangements with several financial institutions, in the form of both short and long-term credit facilities, which are available for anticipated funding purposes.

Term	Nature of financial institution commitment	Purpose/intended use	As of September 30, 2004		
			Aggregate facility	Drawn	Available
short-term	**firm commitment**	**working capital, guarantees, cash management**	163	73	90
short-term	**no firm commitment**	**working capital**	272	–	272
long-term	**firm commitment**	**working capital**	724	–	724
long-term[1]	**firm commitment**	**project finance**	601	601	–
Total			1,760	674	1,086

1 Including current maturities.

At September 30, 2004, the Company was in compliance with its debt covenants under the relevant facilities.

Interest expense for the years ended September 30, 2002, 2003 and 2004 was €83, €115 and €126, respectively.

Aggregate amounts of long-term debt maturing subsequent to September 30, 2004 are as follows:

Year ending September 30	Amount
2006	49
2007	655
2008	5
2009	2
Thereafter	716
Total	1,427

22. Other liabilities

Other non-current liabilities at September 30, 2003 and 2004 consist of the following:

	2003	2004
Redeemable interest	242	–
Deferred government grants (note 6)	223	**191**
Settlement for antitrust-related matters (note 31)	–	**109**
Pension liabilities (note 28)	87	**98**
Long-term advance	–	**45**
Minority interest	5	**39**
Deferred income (note 5)	50	**18**
Post-retirement benefits (note 28)	5	**5**
Other	18	**63**
Total	630	**568**

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Under the agreements establishing the Infineon Technologies SC300 GmbH & Co. OHG ("SC300") venture in Dresden, Germany, the Company had the right to redeem the interests of the other investors in the venture. In March 2004, the Company exercised this right and acquired all of the remaining interests in SC300 for a total value of €278, which represented the aggregate contributed capital of the third parties, plus accrued interest. The interest amounts paid upon redemption, aggregating €21, are reflected as interest expense, paid during the year ended September 30, 2004. Payment of the redemption was effected through the issuance of 26,679,255 of the Company's ordinary shares (see note 23).

23. Ordinary share capital

As of September 30, 2004 the Company had 747,559,859 registered ordinary shares of euro 2.00 notional value per share outstanding. During the year ended September 30, 2004, the Company increased its share capital by €53 by issuing 26,679,255 shares in connection with the acquisition of the remaining interest in SC300 (see note 22). During the year ended September 30, 2003, due to the achievement of certain milestones, 96,386 shares representing contingent purchase consideration in connection with the Catamaran acquisition (see note 3), were released from third party escrow, and are reflected as issued in the accompanying statement of shareholders' equity.

Authorized and conditional share capital

In addition to the issued share capital, the Company's Articles of Association authorize the Management Board to increase the ordinary share capital with the Supervisory Board's consent by issuing new shares. As of September 30, 2004, the Management Board may use these authorizations to issue new shares as follows:

::: Through January 21, 2007, Authorized Share Capital I/2002 – in an aggregate nominal amount of up to €297 to issue shares for cash, where the preemptive rights of shareholders may be partially excluded, or in connection with business combinations (contributions in kind), where the preemptive rights of shareholders may be excluded for all shares.

::: Through January 19, 2009, Authorized Share Capital II/2004 – in an aggregate nominal amount of up to €30 to issue shares to employees (in which case the preemptive rights of existing shareholders are excluded).

The Company has conditional capital of up to an aggregate nominal amount of €96 (Conditional Share Capital I) and of up to an aggregate nominal amount of €29 (Conditional Share Capital III) that may be used to issue up to 62.5 million new registered shares in connection with the Company's long-term incentive plans (see note 24). These shares will have dividend rights from the beginning of the financial year in which they are issued.

The Company has conditional capital of up to an aggregate nominal amount of €50 (Conditional Share Capital II) that may be used to issue up to 25 million new registered shares upon conversion of debt securities, which have been issued in February 2002 and may be converted until January 23, 2007 (see note 21). These shares will have dividend rights from the beginning of the financial year in which they are issued.

The Company has conditional capital of up to an aggregate nominal amount of €136.8 (Conditional Share Capital II/2002) that may be used to issue up to 68.4 million new registered shares upon conversion of debt securities, which have been issued in June 2003 and may be converted until May 22, 2010 (see note 21). These shares will have dividend rights from the beginning of the financial year in which they are issued.

The Company has further conditional capital of up to an aggregate nominal amount of €213.2 (Conditional Share Capital II/2002) that may be used to issue up to 106.6 million new registered shares upon conversion of debt securities which may be issued before January 21, 2007. These shares will have dividend rights from the beginning of the year in which they are issued.

Dividends

Under German commercial law (Aktiengesetz), the amount of dividends available for distribution to shareholders is based on the level of earnings (Bilanzgewinn) of the ultimate parent, as determined in accordance with the HGB. All dividends must be approved by shareholders.

The ordinary shareholders meeting held in January 2004 did not authorize a dividend. No earnings are available for distribution as a dividend for the 2004 financial year, since Infineon Technologies AG on a stand-alone basis as the ultimate parent incurred a cumulative loss (Bilanzverlust) as of September 30, 2004.

24. Stock-based compensation

Fixed stock option plans

On April 6, 2001, the Company's shareholders approved the International Long-Term Incentive ("LTI") Plan (the "LTI 2001 Plan") which replaced the LTI 1999 Plan. Options previously issued under the LTI 1999 Plan remain unaffected as to terms and conditions, however, no additional options may be issued under the LTI 1999 Plan. Under the terms of the LTI 2001 Plan, the Company can grant up to 51.5 million options over a five-year period. The exercise price of each option equals 105% of the average closing price of

the Company's stock during the five trading days prior to the grant date. Granted options have a vesting period of between two and four years, subject to the Company's stock reaching the exercise price on at least one trading day, and expire seven years from the grant date.

In 1999, the shareholders approved a share option plan (the "LTI 1999 Plan"), which provided for the granting of non-transferable options to acquire ordinary shares over a future period. Under the terms of the LTI 1999 Plan, the Company could grant up to 48 million options over a five-year period. The exercise price of each option equals 120% of the average closing price of the Company's stock during the five trading days prior to the grant date. Granted options vest at the latter of two years from the grant date or the date on which the Company's stock reaches the exercise price for at least one trading day. Options expire seven years from the grant date.

Under the LTI 2001 Plan, the Company's Supervisory Board will decide annually within three months after publication of the financial results how many options to grant to the Management Board. The Management Board will, within the same three-month period, decide how many options to grant to eligible employees.

A summary of the status of the LTI 1999 Plan and the LTI 2001 Plan as of September 30, 2004, and changes during the three years then ended is presented below (options in millions, exercise price in euro):

	2002		2003		2004	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Outstanding at beginning of year	11.3	€48.56	19.9	€35.96	**29.9**	**€25.56**
Granted	9.4	€21.74	11.7	€8.97	**8.1**	**€12.32**
Exercised	–	–	–	–	**–**	**–**
Forfeited and expired	(0.8)	€45.90	(1.7)	€32.80	**(2.0)**	**€25.17**
Outstanding at end of year	19.9	€35.96	29.9	€25.56	**36.0**	**€22.59**
Exercisable at end of year	5.1	€42.00	9.6	€48.56	**13.2**	**€39.89**

The following table summarizes information about stock options outstanding and exercisable at September 30, 2004 (options in millions, exercise price in euro)

	Outstanding			Exercisable	
Range of exercise prices	Number of options	Weighted average remaining life (in years)	Weighted average exercise price	Number of options	Weighted average exercise price
€5 – €10	10.6	5.16	€8.92	–	–
€10 – €15	9.2	5.98	€12.41	0.7	€12.57
€15 – €20	0.2	4.84	€15.75	0.1	€15.75
€20 – €25	7.0	4.18	€23.70	3.4	€23.70
€25 – €30	0.1	4.01	€27.40	0.1	€27.45
€40 – €45	4.4	2.46	€42.03	4.4	€42.03
€50 – €55	0.1	3.50	€53.26	0.1	€53.26
€55 – €60	4.4	3.16	€55.18	4.4	€55.18
Total	36.0	4.60	€22.59	13.2	€39.89

Employee stock purchase plans

The Company has a worldwide employee stock purchase plan which provides employees with the opportunity to purchase ordinary shares of the Company at a discount of 15%, subject to a certain maximum per employee and a one-year holding period. Pursuant to the provisions of this plan, employees purchased 355,460 shares during the year ended September 30, 2002. There was no plan offering during the years ended September 30, 2003 and 2004.

Fair value disclosures

As described in note 2, the Company applies APB Opinion 25 and its related interpretations to account for stock-based compensation. SFAS No. 123 establishes an alternative to determine compensation expense based on the fair value of the options at the grant date calculated through the use of option pricing models. Option pricing models were developed to estimate the fair value of freely tradable, fully transferable options without vesting restrictions, which differ significantly from the options granted to the Company's employees with their exercise restrictions. These models also require subjective assumptions, including future stock price volatility and expected time to exercise, which greatly affect the calculated values. The Company estimated the fair value of each option grant at the date of grant using a Black-Scholes option-pricing model based on a single-option valuation approach with forfeitures recognized as they occur. The following weighted-average assumptions were used for grants for the years ended September 30:

	2002	2003	2004
Weighted-average assumptions:			
Risk-free interest rate in %	4.19	3.85	**3.68**
Expected volatility in %	52	59	**59**
Dividend yield in %	0	0	**0**
Expected life in years	4.50	4.50	**4.50**
Weighted-average fair value per option at grant date in €	9.09	4.41	**5.88**

If the Company had accounted for stock option grants and employee stock purchases under its plans according to the fair value method of SFAS No. 123, and thereby recognized compensation expense based on the above fair values over the respective option vesting periods, net income (loss) and earnings (loss) per share would have been reduced (increased) to the pro forma amounts indicated below, pursuant to the provision of SFAS No. 148 "Accounting for Stock-Based Compensation – Transition and Disclosure" for the years ended September 30:

	2002	2003	2004
Net (loss) income			
As reported	(1,021)	(435)	**61**
Deduct:			
Stock-based employee compensation expense included in reported net (loss) income, net of related tax effects	23	7	**2**
Add: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects	(92)	(43)	**(37)**
Pro forma	(1,090)	(471)	**26**
Basic and diluted EPS			
As reported	€(1.47)	€(0.60)	**€0.08**
Pro forma	€(1.57)	€(0.65)	**€0.03**

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25. Other comprehensive income (loss)

The changes in the components of other comprehensive income (loss) for the years ended September 30, 2002, 2003 and 2004 are as follows:

	2002			2003			2004		
	Pretax	Tax effect	Net	Pretax	Tax effect	Net	Pretax	Tax effect	Net
Unrealized (losses) gains on securities:									
Unrealized holding (losses) gains	(4)	2	(2)	11	–	11	**4**	–	**4**
Reclassification adjustment for losses (gains) included in net income (loss)	3	(1)	2	4	(2)	2	**(11)**	–	**(11)**
Net unrealized (losses) gains	(1)	1	–	15	(2)	13	**(7)**	–	**(7)**
Unrealized gains (losses) on cash flow hedges	–	–	–	–	–	–	**1**	–	**1**
Additional minimum pension liability	(13)	5	(8)	4	(2)	2	**28**	**(10)**	**18**
Foreign currency translation adjustment	(92)	–	(92)	(76)	–	(76)	**(41)**	–	**(41)**
Other comprehensive (loss) income	(106)	6	(100)	(57)	(4)	(61)	**(19)**	**(10)**	**(29)**
Accumulated other comprehensive income (loss) – beginning of year	65	8	73	(41)	14	(27)	**(98)**	**10**	**(88)**
Accumulated other comprehensive income (loss) – end of year	(41)	14	(27)	(98)	10	(88)	**(117)**	–	**(117)**

26. Supplemental cash flow information

	2002	2003	2004
Cash paid for:			
Interest	53	104	**144**
Income taxes			
Operating activities	46	53	**59**
Cash received for tax-free government grants	86	34	**65**
Non-cash investing and financing activities:			
Contributions from (to) Siemens	10	–6	–
Assets acquired through capital lease transactions	2	5	–

The Company issued shares to redeem the redeemable interest of €278 related to the SC300 venture during the year ended September 30, 2004 (see note 22).

Following the Company's spin-off from Siemens, the Company established a pension plan for its U.S. employees separate from the Siemens U.S. pension plan. At the time of the spin-off, the funded status of the Company's allocated portion of the Siemens U.S. pension plan relating to the transferred employees was reflected as an accrued pension liability. Subsequently, Siemens transferred assets to fund this liability based on an actuarial determination. The difference between the actuarial valuation at the funding date and the originally allocated liability of €10 and minus €6 is reflected as an equity transaction during the years ended September 30, 2002 and 2003, respectively.

The Company issued shares to acquire MIC for €325 during the year ended September 30, 2002 (see note 3).

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27. Related parties

The Company has transactions in the normal course of business with Siemens group companies and with related and associated companies (together, "Related Parties"). The Company purchases certain of its raw materials, especially chipsets, from, and sells certain of its products, to Related Parties. Purchases and sales to Related Parties are generally based on market prices or manufacturing cost plus a mark-up.

Related Party receivables at September 30, 2003 and 2004 consist of the following:

	2003	2004
Current:		
Siemens group – trade	194	**206**
Associated and related companies – trade	8	**12**
Siemens group – financial and other	18	**18**
Associated and related companies – financial and other	125	**49**
Employee receivables	7	**9**
	352	**294**
Non-current:		
Associated and Related Companies – financial and other	11	**10**
Employee receivables	2	**2**
	13	**12**
Total related party receivables	365	**306**

Related party payables at September 30, 2003 and 2004 consist of the following:

	2003	2004
Siemens group – trade	73	**61**
Associated and related companies – trade	54	**68**
Associated and related companies – financial and other	5	**2**
Total related party payables	132	**131**

Related party receivables and payables have been segregated (1) between amounts owed by or to Siemens group companies and companies in which the Company has an ownership interest and (2) based on the underlying nature of the transactions. Trade receivables and payables include amounts for the purchase and sale of products and services. Financial and other receivables and payables represent amounts owed relating to loans and advances and accrue interest at interbank rates.

The Company and IBM have both extended revolving-term loans to ALTIS. As of September 30, 2003 and 2004, the outstanding balance of the Company's loan to ALTIS was €61 and €42, respectively, and is included in current associated and related companies-financial and other receivables.

At September 30, 2003, current associated and related companies-financial and other receivables include an unsecured loan of €58 to Inotera, which bore interest at market rates and was repaid in October 2003.

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Transactions with Related Parties during the years ended September 30, 2002, 2003 and 2004, include the following:

	2002	2003	2004
Sales to Related Parties:			
Siemens group companies	685	836	**957**
Associated and related companies	170	163	**69**
	855	999	**1,026**
Purchases from Related Parties:			
Siemens group companies	681	413	**264**
Associated and related companies	686	470	**357**
	1,367	883	**621**
Interest income from (expense to) Related Parties			
Interest income	5	4	**2**
Interest expense	(2)	(1)	**—**
Total	3	3	**2**

Sales to Siemens group companies include sales to the Siemens group sales organizations for resale to third parties of €77, €86 and €23 for the years ended September 30, 2002, 2003 and 2004, respectively. Sales are principally conducted through the Company's own independent sales organization directly to third parties. Where the Company has not established its own independent sales organization in a certain country, a commission is paid to the Siemens group sales organizations where they assist in making sales directly to third parties.

Purchases from Siemens group companies primarily include purchases of inventory, IT services, and administrative services. In February 2004, the Company completed the purchase of assets, including certain liabilities, of the Protocol Software operations of Siemens AG, in exchange for €13 and the employment of approximately 145 of Siemens' mobile communication software engineers. Technical equipment was leased to ALTIS (see note 15). The lease ended on September 30, 2004.

On August 10, 2000, Siemens issued a guaranteed exchangeable note with an aggregate nominal amount of €2,500. The notes bear a 1% fixed annual interest rate and are to be redeemed by Siemens on August 10, 2005. Each note can be exchanged, in certain circumstances, through July 27, 2005 for 1,000 of the Company's shares. During the year ended September 30, 2004, Siemens repurchased €1,905 of the exchangeable notes. As of September 30, 2004, the outstanding exchangeable notes were exchangeable into 5,955,000 of the Company's shares.

On December 5, 2001, Siemens transferred 200 million of the Company shares, or approximately 28.9% of the Company's then outstanding share capital, to a non-voting trust, not related to the Siemens group, under a trust agreement. The trustee has legal title to the shares held in trust and Siemens has irrevocably relinquished all voting rights in the shares. However, the trustee is not permitted to vote any of the Company shares it holds in trust under the trust agreement. Siemens continues to be entitled to all the benefits of economic ownership of the shares held in trust, including the right to receive cash dividends and any proceeds resulting from a permitted sale of the Company shares held in trust under the trust agreement. Under the trust agreement, the trustee holds the shares in trust for the benefit of the beneficiaries under the trust agreement, which include Siemens as trustor and third-party shareholders of the Company. The trust agreement will terminate when the Siemens group, on a consolidated basis, has held, directly or indirectly, less than 50% of the voting share capital of the Company, including the shares held in trust by the trustee, for a period of two consecutive years. Certain provisions of the trust agreement, including those relating to voting and transfer of the shares held in trust, may not be amended without the approval of the Company's shareholders.

The transfer of the Company's shares to the non-voting trust by Siemens on December 5, 2001, reduced Siemens' voting interest in the Company by an amount corresponding to the number of shares transferred.

Siemens Pension Trust e.V., Munich informed the Company, by letter dated December 12, 2002, that their share of the voting rights of Infineon Technologies AG had fallen below the threshold of 10% on December 2, 2002. The Company assumes that the shareholding of the Siemens group on a consolidated basis had fallen below 50% at the same time and that the non-voting trust agreement would therefore terminate in December 2004.

On January 12, 2004, Siemens reported that it had sold 150,000,000 shares of Infineon Technologies AG, thereby reducing the shareholding of Siemens Nederland N.V. below the threshold of 10%. As of September 30, 2004, the remaining Siemens interest in the Company of 18.2% was held in the non-voting trust.

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28. Pension plans

The Company provides pension benefits to a significant portion of its employees. Plan benefits are principally based upon years of service. Certain pension plans are based on salary earned in the last year or last five years of employment while others are fixed plans depending on ranking (both salary level and position). The measurement date for the Company's pension plans is June 30.

Information with respect to the Company's pension plans for the years ended September 30, 2002, 2003 and 2004 is presented by German ("Domestic") plans and non-German ("Foreign") plans.

	2002		2003		2004	
	Domestic plans	Foreign plans	Domestic plans	Foreign plans	Domestic plans	Foreign plans
Accumulated benefit obligations end of year	(182)	(23)	(205)	(52)	**(226)**	**(56)**
Change in projected benefit obligations:						
Projected benefit obligations beginning of year	(197)	(47)	(218)	(58)	**(243)**	**(70)**
Service cost	(13)	(5)	(13)	(5)	**(14)**	**(7)**
Interest cost	(12)	(3)	(13)	(4)	**(13)**	**(4)**
Actuarial gains (losses)	–	2	3	(5)	**–**	**3**
Business combinations	–	(7)	–	(7)	**(1)**	**(1)**
Divestitures	1	–	–	–	**1**	**–**
New plan created	(1)	(2)	–	–	**–**	**(2)**
Plan amendments	–	–	(4)	–	**(3)**	**–**
Benefits paid	2	2	2	1	**2**	**1**
Curtailment	2	–	–	3	**–**	**–**
Foreign currency effects	–	2	–	5	**–**	**2**
Projected benefit obligations end of year	(218)	(58)	(243)	(70)	**(271)**	**(78)**
Change in fair value of plan assets:						
Fair value at beginning of year	133	24	120	26	**143**	**27**
Contributions and transfers	2	3	22	2	**19**	**2**
Actual return on plan assets	(13)	1	3	–	**14**	**3**
Benefits paid	(2)	(2)	(2)	(1)	**(2)**	**(1)**
Business combination	–	–	–	4	**–**	**–**
New plan created	–	2	–	–	**–**	**–**
Foreign currency effects	–	(2)	–	(4)	**–**	**(1)**
Fair value at end of year	120	26	143	27	**174**	**30**
Funded status	(98)	(32)	(100)	(43)	**(97)**	**(48)**
Unrecognized actuarial loss	68	3	66	6	**59**	**2**
Unrecognized prior service cost (benefit)	–	–	4	(2)	**7**	**(2)**
Post measurement date contributions	10	–	16	–	**1**	**1**
Net liability recognized	(20)	(29)	(14)	(39)	**(30)**	**(47)**

The above net liability is recognized as follows in the accompanying balance sheets as of September 30:

	2002		2003		2004	
	Domestic plans	Foreign plans	Domestic plans	Foreign plans	Domestic plans	Foreign plans
Prepaid pension cost (note 17)	–	–	–	1	**27**	**–**
Intangible asset (note 14)	–	–	4	–	**–**	**–**
Accumulated other comprehensive income	33	–	29	–	**–**	**–**
Accrued pension liabilities (note 22)	(53)	(29)	(47)	(40)	**(51)**	**(47)**
Other current liabilities	–	–	–	–	**(6)**	**–**
Net liability recognized	(20)	(29)	(14)	(39)	**(30)**	**(47)**

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Other current liabilities of €6 at September 30, 2004 related to pension liabilities of the fiber optic business which is held for sale (see note 20).

Information for pension plans with projected benefit obligations and accumulated benefit obligations in excess of plan assets are as follows:

	2002		2003		2004	
	Domestic plans	Foreign plans	Domestic plans	Foreign plans	Domestic plans	Foreign plans
Projected benefit obligations	218	58	243	70	**271**	**78**
Fair value of plan assets	120	26	143	27	**174**	**30**
Accumulated benefit obligations	182	37	205	48	**53**	**51**
Fair value of plan assets	120	22	143	22	–	**23**

The prior service costs relating to the pension plans are amortized in equal amounts over the expected years of future service of each active employee who is expected to receive benefits from the pension plans.

Unrecognized gains or losses are included in the net pension cost for the years if, as of the beginning of the year, the unrecognized net gains or losses exceed 10 percent of the greater of the projected benefit obligation or the market related value of the plan assets. The amortization is the excess divided by the average remaining service period of active employees expected to receive benefits under the plan.

The weighted-average assumptions used in calculating the actuarial values for the pension plans are as follows:

	2002		2003		2004	
	Domestic plans	Foreign plans	Domestic plans	Foreign plans	Domestic plans	Foreign plans
Discount rate in %	6.0	6.4	5.8	5.9	**5.8**	**5.6**
Rate of compensation increase in %	3.0	3.8	3.0	3.9	**3.0**	**3.7**
Expected return on plan assets in %	5.4	8.0	4.9	6.8	**6.8**	**7.0**

Discount rates are established based on prevailing market rates for high-quality fixed-income instruments that, if the pension benefit obligation was settled at the measurement date, would provide the necessary future cash flows to pay the benefit obligation when due. The Company believes short-term changes in interest rates should not affect the measurement of the Company's long-term obligation.

Investment strategies

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

Expected long-term rate of return on plan assets

Establishing the expected rate of return on pension assets requires judgment. The Company's approach in determining the long-term rate of return for plan assets is based upon historical financial market relationships that have existed over time, the types of investment classes in which pension plan assets are invested, long-term investment strategies, as well as the expected compounded return the Company can reasonably expect the portfolio to earn over appropriate time periods.

The Company reviews the expected long-term rate of return annually and revises it as appropriate. Also, the Company periodically commissions detailed asset/liability studies to be performed by third-party professional investment advisors and actuaries.

(euro in millions, except where otherwise stated)

Plan asset allocation

As of September 30, 2003 and 2004 the percentage of plan assets invested and the targeted allocation in major asset categories are as follows:

	2002		2004		Target allocation	
	Domestic plans	Foreign plans	Domestic plans	Foreign plans	Domestic plans	Foreign plans
Equity securities in %	42	51	**45**	**60**	45	60
Debt securities in %	50	40	**46**	**38**	52	40
Other in %	8	9	**9**	**2**	3	0
Total in %	100	100	**100**	**100**	100	100

The Company's asset allocation targets for its pension plan assets are based on its assessment of business and financial conditions, demographic and actuarial data, funding characteristics, related risk factors, market sensitivity analysis and other relevant factors. The overall allocation is expected to help protect the plans' funded status while generating sufficiently stable real returns (i.e., net of inflation) to meet current and future benefit payment needs. Due to active portfolio management, the asset allocation may differ from the target allocation up to certain limits for different classes. As a matter of policy, the Company's pension plans do not invest in the Company's shares.

The components of net periodic pension cost for the years ended September 30, 2002, 2003 and 2004 are as follows:

	2002		2003		2004	
	Domestic plans	Foreign plans	Foreign plans	Foreign plans	Foreign plans	Foreign plans
Service cost	(13)	(5)	(13)	(5)	**(14)**	**(7)**
Interest cost	(12)	(3)	(13)	(4)	**(13)**	**(4)**
Expected return on plan assets	5	1	6	2	**11**	**2**
Amortization of unrecognized losses	(2)	–	(3)	–	**(3)**	**–**
Amortization of unrecognized net obligation	(2)	–	–	–	**–**	**–**
Curtailment gain recognized	2	–	–	3	**–**	**–**
Net periodic pension cost (note 7)	(22)	(7)	(23)	(4)	**(19)**	**(9)**

On September 25, 2000, the Company established the Infineon Technologies Pension Trust e.V. (the "Pension Trust") for the purpose of funding future pension benefit payments for employees in Germany. The Company contributed €155 of cash and marketable debt and equity securities, which qualify as plan assets under SFAS No. 87, to the Pension Trust for use in funding these pension benefit obligations, thereby reducing accrued pension liabilities. The effect of the employee terminations, in connection with the Company's restructuring plan (see note 8), on the Company's pension obligation is reflected as a curtailment in the years ended September 30, 2002 and 2003 pursuant to the provisions of SFAS No. 88 "Employers Accounting for Settlements and Curtailments of Defined Benefit Pension Plans and for Termination Benefits".

The Company expects that contributions to its pension plans during the year ending September 30, 2005, would not significantly exceed the level of contributions made during the year ended September 30, 2004, based on their current funded status and expected asset return assumptions.

The future benefit payments, which reflect future service, as appropriate, that are expected to be paid from the Company's pension plan over the next five financial years and thereafter are as follows:

Years ending September 30	Domestic plans	Foreign plans
2005	5	1
2006	6	1
2007	7	2
2008	8	2
2009	9	2
2010–2014	67	20

During the year ended September 30, 2002, the Company established a deferred savings plan for its German employees, whereby a portion of the employee's salary is invested for a lump sum benefit payment including interest upon retirement. The liability for such future payments of €5 and €9 as of September 30, 2003 and

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2004, respectively, is actuarially determined and accounted for on the same basis as the Company's other pension plans.

The Company provides post-retirement health care benefits to eligible employees in the United States. The Company recognized net periodic benefit cost of less than €1 for each of the years ended September 30, 2002, 2003 and 2004. The net liability recognized in the balance sheet was €5 and €5 at September 30, 2003 and 2004, respectively.

On December 8, 2003, the U.S. Medicare Prescription Drug, Improvement and Modernization Act was signed into law. This Act provides for a U.S. federal subsidy to sponsor retiree health care benefit plans that provide a benefit that is at least actuarially equivalent to the benefit established by the Act.

29. Financial instruments

The Company periodically enters into derivatives, including foreign currency forward and option contracts as well as interest rate swap agreements. The objective of these transactions is to reduce the Company's market risk of interest rate and exchange rate fluctuations to its foreign currency denominated net future cash flows. The Company does not enter into derivatives for trading or speculative purposes.

The euro equivalent notional amounts in millions and fair values of the Company's derivative instruments as of September 30, 2003 and 2004 are as follows:

	2003		2004	
	Notional amount	Fair value	Notional amount	Fair value
Forward contracts sold:				
U.S. dollar	306	5	**371**	**8**
Japanese yen	8	–	**4**	**–**
Great Britain pound	2	–	**–**	**–**
Forward contracts purchased:				
U.S. dollar	54	(1)	**56**	**(1)**
Japanese yen	29	1	**55**	**–**
Singapore dollar	20	–	**29**	**–**
Great Britain pound	4	–	**4**	**–**
Other currencies	15	1	**5**	**–**
Currency Options sold:				
U.S. dollar	175	(10)	**520**	**(16)**
Currency Options purchased:				
U.S. dollar	186	7	**514**	**9**
Cross currency interest rate swaps:				
U.S. dollar	547	113	**406**	**60**
Interest rate swap agreements	1,200	27	**1,442**	**29**
Fair value, net		143		**89**

During the year ended September 30, 2004, the Company designated two interest rate swap agreements with a total notional amount of €500, as fair value hedges of a corresponding principal amount of its convertible notes due 2007. The change in fair value of these hedges during the year ended September 30, 2004 was €1 and is reflected as part of interest expense.

The Company entered into interest rate swap agreements with independent financial institutions, which are a designated, as a cash flow hedge of interest rate fluctuations on forecasted future lease payments during the first 10 years of the Campeon lease agreement (see note 31). The ineffective portion of the cash flow hedge of €0 for the year ended September 30, 2004 is reflected in other non-operating income expense. The effective portion of €1 is deferred in other comprehensive income and is expected to be reclassified ratably into earnings as part of the lease expense, from the commencement of the lease, over the relevant period of the lease term.

Gains and losses on derivative financial instruments are included in determining net income, with those related to operations included primarily in cost of goods sold, and those related to financial activities included in other non-operating income (expense), were as follows for the years ended September 30:

	2002	2003	2004
Gains (losses) from foreign currency derivatives:			
Cost of sales	7	8	**44**
Other non-operating (expense) income	(20)	106	**3**
	(13)	114	**47**
Gains (losses) from foreign currency transactions:			
Cost of sales	(21)	(40)	**(50)**
Other non-operating income (expense)	18	(106)	**(12)**
	(3)	(146)	**(62)**
Net losses from foreign currency derivatives and transactions	(16)	(32)	**(15)**

Fair values of financial instruments are determined using quoted market prices or discounted cash flows. The fair value of the Company's unsecured term loans and interest-bearing notes payable approximate their carrying values as their interest rates approximate those which could be obtained currently. At September 30, 2004, the convertible notes due 2007 and the convertible notes due 2010 were trading at a 0.4% and a 14.4% premium to par, respectively, based on quoted market values on the Luxembourg Stock Exchange. The fair values of the Company's cash and cash equivalents, receivables, related-party receivables and payables and other financial instruments approximate their carrying values due to their short-term nature. Marketable securities are recorded at fair value (see note 11).

30. Risks

Financial instruments that expose the Company to credit risk consist primarily of trade receivables, cash equivalents, marketable securities and foreign currency derivatives. Concentrations of credit risks with respect to trade receivables are limited by the large number of geographically diverse customers that make up the Company's customer base. The Company controls credit risk through credit approvals, credit limits and monitoring procedures, as well as comprehensive credit evaluations for all customers. Related Parties account for a considerable portion of sales and trade receivables. The credit risk with respect to cash equivalents, marketable securities and foreign currency derivatives is limited by transactions with a number of large international financial institutions up to pre-established limits. The Company does not believe that there is significant risk of non-performance by these counterparties because the Company monitors their credit risk and limits the financial exposure and the amount of agreements entered into with any one financial institution.

In order to remain competitive, the Company must continue to make substantial investments in process technology and research and development. Portions of these investments might not be recoverable if these research and development efforts fail to gain market acceptance or if markets significantly deteriorate.

Due to the high-technology nature of the Company's operations, intellectual property is an integral part of the Company's business. The Company has intellectual property which it has self-developed, purchased or licensed from third parties. The Company is exposed to infringements by others on such intellectual property. Conversely, the Company is exposed to assertions by others of infringement by the Company on their intellectual property. The Company, through its use of third-party foundry and joint venture arrangements, has a significant portion of manufacturing capacity outside of its direct control. As a result, the Company is reliant upon such other parties for the timely and uninterrupted supply of products and is exposed, to a certain extent, to fluctuations in product procurement cost.

The Company has established policies and procedures which serve as business conduct guidelines for its employees. Should these guidelines not be adhered to, the Company could be exposed to risks relating to wrongful actions by its employees.

Approximately 10,000 of the Company's employees are covered by collective bargaining agreements. Agreements pertaining to an aggregate of 3,290 non-management employees expire during the year ending September 30, 2005. The provisions of these agreements generally remain in effect until replaced through a subsequent agreement. Agreements for periods after expiration are to be negotiated with the respective trade unions through a process of collective negotiations.

31. Commitments and contingencies

Litigation

In August 2000, Rambus Inc. ("Rambus") filed separate actions against the Company in the U.S. and Germany. Rambus alleges that the Company's SDRAM and DDR DRAM products infringe patents owned by Rambus.

In May 2001, the U.S. District Court for the Eastern District of Virginia (the "District Court") dismissed all 57 of Rambus' patent infringement claims against the Company. In addition, the court found that Rambus committed fraud by its conduct in the JEDEC standard setting organization and awarded damages to the Company. In January 2003 the U.S. Court of Appeals for the Federal Circuit ("CAFC") revised the District Court's claim construction on 4 claim terms, and remanded the infringement case back to the District Court for a jury trial. The CAFC also reversed the District Court's finding that Rambus had committed fraud by its conduct in JEDEC. The Company appealed the CAFC's decision unsuccessfully to the U.S. Supreme Court. On January 8, 2004, the District Court ruled that Rambus' infringement case would be limited to four patent claims and would not permit Rambus to assert a variety of related claims. From February 18, 2004 through August 26, 2004, the parties filed a series of related motions and petitions to the District Court. The District Court has scheduled a trial date for February 10, 2005. The Company believes it has meritorious defenses to the allegations of infringement, and meritorious counterclaims against Rambus that would bar enforcement of the patents.

Proceedings in the German court began in December 2000 and are still active. An expert report commissioned by the court was rendered in May 2002 but the court has not made a decision on the basis of this report. In September 2002, the European Patent Office (EPO) declared that the Rambus patent had been unduly broadened. Rambus appealed the EPO's declaration, and the EPO ruled at a hearing in February 2004 that Rambus' patent was invalid and revoked it. In June 2004 Rambus withdrew its initially filed claims but brought two new patents to the litigation. These patents will be handled by the court in a separate case. The Company believes it has meritorious defenses to these new allegations of infringement. SDRAM and DDR DRAM products incorporating the technology that is the subject of the Rambus claims currently constitute substantially all of the products of the Company's Memory Products segment. This segment contributed net sales of €2,926 and earnings before interest and taxes of €169 during the year ended September 30, 2004. If the Company were to be enjoined from producing SDRAM and DDR DRAM products, its financial position and results of operations would be materially and adversely affected, since the Company would have to discontinue the SDRAM and DDR DRAM product lines or enter into a licensing arrangement

with Rambus, which could require the payment of substantial licensing fees.

The Company currently holds a license under certain RDRAM technology from Rambus, which is not in dispute in the proceedings described above.

On May 5, 2004, Rambus filed a complaint in a California state court against the Company and its U.S. subsidiary, as well as Siemens, Micron Technology Inc. and Hynix Semiconductor Inc., alleging that these DRAM manufacturers had conspired to restrict output and fix prices of Rambus DRAM ("RDRAM") in order to prevent widespread adoption of RDRAM as "main memory" for PCs and to monopolize the worldwide DRAM market. Rambus claims lost royalties of at least one billion dollars and seeks treble damages as well as punitive damages. Based on the allegation raised at the California state court Rambus also filed a complaint against the Company, as well as Siemens, Micron Technology Inc. and Hynix Semiconductur Inc. at the European Commission on June 18, 2004. On September 28, 2004, the Company requested that the European Commission reject this complaint. The Company plans to vigorously defend against Rambus' claims.

On September 15, 2004, the Company entered into a plea agreement with the Antitrust Division of the U.S. Department of Justice ("DOJ") in connection with its ongoing investigation of alleged antitrust violations in the DRAM industry. Pursuant to this plea agreement, the Company agreed to plead guilty to a single count related to the pricing of DRAM products between July 1, 1999 and June 15, 2002. Under the terms of the agreement, the Company agreed to pay a fine of $160 million. The fine plus accrued interest is to be paid in equal annual instalments through 2009. On October 25, 2004, the plea agreement was accepted by the U.S. District Court for the Northern District of California. The matter has been therefore fully resolved between the Company and the DOJ, subject to the Company's ongoing obligation to cooperate with the DOJ in its ongoing investigation of other participants in the DRAM industry. The wrongdoing charged by the DOJ was limited to six OEM customers that manufacture computers and servers. The Company has entered into settlement agreements with five of these customers and is negotiating a settlement with the remaining customer.

Subsequent to the commencement of the DOJ investigation, a number of purported class action lawsuits were filed against Infineon, its U.S. subsidiary and other DRAM suppliers. Sixteen cases were filed between June 2002 and September 2002 in the following federal district courts: one in the Southern District of New York, five in the District of Idaho, and ten in the Northern District of California. Each of the federal district court cases purports to be on behalf of a class of individuals and entities who purchased DRAM directly from the various DRAM suppliers during a specified time period commencing on or after October 1, 2001. The complaints allege price-fixing in violation of the Sherman Act and seek treble damages in unspecified amounts, costs, attorneys' fees, and an injunction against the allegedly unlawful conduct. In September 2002, the Judicial Panel on Multi-District Litigation held a hearing and subsequently ordered that the foregoing federal cases be transferred to the U.S. District Court for the Northern District of California (San Francisco) for coordinated or consolidated pretrial proceedings as part of a Multi-District Litigation (the "MDL").

Nineteen additional cases were filed between August 2, 2002 and October 15, 2004 in the following state courts: California (five in San Francisco County, one in Los Angeles County, one in Santa Clara County and one in Humboldt County), Massachusetts (one in Essex County and one in Middelesex County), Florida (one in Seventeenth and one in Collier County), West Virginia (Brooke County), Kansas (Johnson County), Michigan (Wayne County), North Carolina (Mecklenburg County), South Dakota (Pennington County), Arkansas (Hot Spring County) and Tennessee (Davidson County). Each of these state cases purports to be on behalf of a class of individuals and entities who indirectly purchased DRAM during specified time periods commencing in or after 1999. The complaints allege violations of California's Cartwright Act, unfair competition law and unjust enrichment and seek treble damages in unspecified amounts, restitution, costs, attorneys' fees, and an injunction against the allegedly unlawful conduct. In response to a petition filed by one of the plaintiffs, a judge appointed by the Judicial Council of California subsequently ordered that the then-pending California state cases be coordinated for pretrial purposes and recommended that they be transferred to San Francisco County Superior Court for coordinated or consolidated pretrial proceedings. The Massachusetts Essex County and the Florida Collier County cases were ordered transferred to the U.S. District Court for the Northern District of California (San Francisco) for coordinated and consolidated pretrial proceedings as part of the MDL described above.

In April 2003, the Company received a request for information from the European Commission (the "Commission") to enable the Commission to assess the compatibility with the Commission's rules on competition of certain practices of which the Commission has become aware in the European market for DRAM products. The Company has reassessed the matter after its plea agreement with the DOJ and made an accrual as of September 30, 2004 for a probable minimum fine that may be imposed as a result of the Commission's investigation. Any fine actually imposed by the Commission may be significantly higher than the reserve established, although the Company cannot more accurately estimate the amount of such actual fine. The Company is fully cooperating with the Commission in its investigation.

In May 2004, the Canadian Competition Bureau advised the Company's U.S. subsidiary that it and its affiliated companies are

among the targets of a formal inquiry into alleged violations of the Canadian Competition Act in the DRAM industry. No compulsory process (such as subpoenas) has been commenced. The Competition Bureau's inquiry is at a relatively early stage. The Company is cooperating with the Competition Bureau in its inquiry.

On October 1, 2004, the Company learned from press reports that a San Francisco law firm claimed to have filed a class action lawsuit in the U.S. District Court for the Northern District of California. The complaint alleges violations of the U.S. federal securities laws and seeks damages on behalf of a class of purchasers of Infineon Technologies AG publicly traded securities for the period from March 13, 2000 to July 19, 2004. Other press reports indicate that additional class action lawsuits have been filed in U.S. courts based on similar alleged violations of U.S. securities laws and on behalf of purchasers of the same securities for similar periods. Some class actions lawsuits appear to extend this period to September 15, 2004. The Company will vigorously defend against allegations of U.S. securities laws violations.

Liabilities related to legal proceedings are recorded when it is probable that a liability has been incurred and the associated amount can be reasonably estimated. Where the estimated amount of loss is within a range of amounts and no amount within the range is a better estimate than any other amount or the range cannot be estimated, the minimum amount is accrued. During the years ended September 30, 2003 and 2004, the Company accrued liabilities in the amount of €28 and €209, respectively, related to the antitrust investigations and related civil claims described above. As additional information becomes available, the potential liability related to these matters will be reassessed and the estimates revised, if necessary. These accrued liabilities would be subject to change in the future based on new developments in each matter, or changes in circumstances, which could have a material impact on the Company's results of operations and financial position.

An adverse final resolution of the Rambus claims, the antitrust investigations or related civil claims and the securities class action lawsuits described above could result in substantial financial liability to, and other adverse effects upon, the Company, which would have a material adverse effect on its business, results of operations and financial condition. Irrespective of the validity or the successful assertion of the above-referenced claims, the Company could incur significant costs with respect to defending against or settling such claims, which could have a material adverse effect on its results of operations or financial condition or cash flows.

One of the Company's customers notified it on May 18, 2000 that the customer had received a letter from Rambus alleging that one of the components of its product violates Rambus' patents. The Company supplied this customer with the relevant component, and the customer has requested that the Company indemnify it for any damages it may incur as a result of Rambus' claims. The customer's notice to the Company does not specify any figure for such damages. Accordingly, the Company cannot predict at this time what the Company's exposure, if any, is likely to be if this customer's claim against the Company is found to be valid.

On May 7, 2003, ProMOS filed arbitration proceedings against the Company in Munich under the ICC Arbitration Rules. The Company had licensed certain DRAM technologies to ProMOS under a license agreement, which the Company subsequently terminated due to ProMOS' material breach. ProMOS is seeking an affirmative judgment that ProMOS was entitled to terminate the license agreement due to the Company's material breach, but to be allowed to continue to use the licensed technology. ProMOS is also seeking payment of approximately $36 million for DRAM products sold to the Company. Originally ProMOS had claimed $31 million, however, on December 19, 2003, ProMOS amended such claim to $36 million and introduced a new claim for damages in the amount of approximately $354 million based on The Company's alleged material breach of the license agreement. On June 18, 2004, ProMOS reduced such claim for damages to approximately $175 million, but then increased it to approximately $338 million on September 17, 2004. The Company has denied the alleged material breach and requested the arbitration tribunal to dismiss all of ProMOS' claims. The Company has also filed counterclaims seeking an affirmative judgment that the Company was entitled to terminate the license agreement due to a material breach by ProMOS, that ProMOS be required to cease using the Company's DRAM technologies and that the Company is entitled to damages for the misappropriation of the Company's DRAM technologies. Between March 31, 2004 and September 17, 2004, the Company elaborated and amended its claim for damages. With its current submission the Company is seeking damages of up to $568 million (after deduction of $36 million for DRAM products purchased from ProMOS). The exact amount of damages, if any, is to be determined by the arbitration tribunal. The Company does not believe that the ultimate resolution of these proceedings will have a material adverse effect on its results of operations or financial condition (see note 33).

In late 2002, MOSAID Technologies Inc. ("MOSAID") alleged that the Company is violating 11 DRAM-related U.S. patents of MOSAID. In December 2002, the Company filed an action in the U.S. District Court for the Northern District of California seeking a declaratory judgment that the Company does not violate such patents. On February 7, 2003, MOSAID filed a counter-suit opposing the Company's motion for declaratory judgment and seeking damages for the alleged patent infringement. On November 3, 2003 MOSAID announced that it has filed an amended counterclaim to add two new patents to its previous claims. This matter has since been consolidated under the federal multidistrict litigation rules with another lawsuit filed by MOSAID against Samsung in the U.S. District Court for the District of New Jersey. A Markman hearing on the patent claim construction was held at the end of January 2004 and a decision on the claim construction was issued

on March 23, 2004. A trial will likely be scheduled in the U.S. District Court for the Northern District of California some time in 2005. The Company intends to vigorously defend itself against MOSAID's claims. An adverse final resolution could result in significant financial liabilities to, and other adverse effects upon, the Company, which would have a material adverse effect on the Company's business, results of operations and financial condition.

The Company is subject to various other lawsuits, legal actions, claims and proceedings related to products, patents and other matters incidental to its businesses. The Company has accrued a liability for the estimated costs of adjudication of various asserted and unasserted claims existing as of the balance sheet date. Based upon information presently known to the management, the Company does not believe that the ultimate resolution of such other pending matters will have a material adverse effect on the Company's financial position, although the final resolution of such matters could have a material effect on the Company's results of operations or cash flows in the year of settlement.

In connection with Infineon's Formation, Siemens retained certain facilities located in the U.S. and certain related environmental liabilities. Businesses contributed to the Company by Siemens have conducted operations at certain of these facilities and, under applicable law, could be required to contribute to the environmental remediation of these facilities despite their retention by Siemens. Siemens has provided guarantees to certain third parties and governmental agencies, and all involved parties have recognized Siemens as the responsible party for all applicable sites. No assessments have been made of the extent of environmental remediation, if any, that could be required, and no claims have been made against the Company in this regard. The Company believes its potential exposure, if any, to liability for remediating the U.S. facilities retained by Siemens is therefore low.

Contractual commitments

The following table summarizes the Company's commitments with respect to external parties as of September 30, 2004[1, 2]:

	Total	Less than 1 year	1–2 years	2–3 years	3–4 years	4–5 years	After 5 years
Contractual commitments:							
Operating lease payments	**918**	83	101	77	74	55	528
Unconditional purchase commitments	**1,711**	1,356	187	69	37	17	45
Other long-term commitments	**321**	125	50	45	101	–	–
Total commitments	**2,950**	1,564	338	191	212	72	573

1 Certain payments of obligations or expirations of commitments that are based on the achievement of milestones or other events that are not date-certain are included for purposes of this table based on estimates of the reasonably likely timing of payments or expirations in the particular case. Actual outcomes could differ from those estimates.
2 Product purchase commitments associated with continuing capacity reservation agreements are not included in this table, since the purchase prices are based, in part, on future market prices, and are accordingly not accurately quantifiable at September 30, 2004. Purchases under these arrangements aggregated €683 for the year ended September 30, 2004.

Included in the table are:

::: Operating lease payments, which include forecasted lease payments under the assumption that the lessor will fulfil its contractual obligations to complete the construction, and occupation will take place.
::: Unconditional purchase commitments, which include orders placed for equipment and machinery related to the Company's manufacturing facilities, including the expansion in Richmond, Virginia and Suzhou, China, principally due in the year ending September 30, 2005.

In December 2002, the Company and Semiconductor Manufacturing Industrial Corporation ("SMIC") entered into a technology transfer and capacity reservation agreement. In exchange for the technology transfer, SMIC will reserve specified capacity over a five-year period, with product purchases based on a market price formula. In 2004 the parties amended their agreement to include next generation technology.

On July 28, 2003, the Company entered into a joint venture agreement with China-Singapore Suzhou Industrial Park Venture Company ("CSVC") for the construction of a back-end manufacturing facility in the Peoples Republic of China. The capital invested by CSVC earns an annual return and has a liquidation preference.

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All accumulated earnings and dividend rights accrue to the benefit of the Company. Accordingly, the Company has consolidated 100% of the results of operations of the joint venture from inception.

The Company has capacity reservation agreements with certain associated companies and external foundry suppliers for the manufacturing and testing of semiconductor products. These agreements generally are greater than one year in duration and are renewable. Under the terms of these agreements, the Company has agreed to purchase a portion of their production output based, in part, on market prices.

Purchases under these agreements are recorded as incurred in the normal course of business. The Company assesses its anticipated purchase requirements on a regular basis to meet customer demand for its products. An assessment of losses under these agreements is made on a regular basis in the event that either budgeted purchase quantities fall below the specified quantities or market prices for these products fall below the specified prices.

Other contingencies

The following table summarizes the Company's contingencies with respect to external parties, other than those related to litigation, as of September 30, 2004(1):

	Total	Less than 1 year	1–2 years	2–3 years	3–4 years	4–5 years	After 5 years
Maximum potential future payments:							
Guarantees	**419**	10	–	304	–	–	105
Contingent government grants[2]	**433**	58	52	161	126	33	3
Total contingencies	**852**	68	52	465	126	33	108

1 Certain expirations of contingencies that are based on the achievement of milestones or other events that are not date-certain are included for purposes of this table based on estimates of the reasonably likely timing of expirations in the particular case. Actual outcomes could differ from those estimates.
2 Contingent government grants refer to amounts previously received, related to the construction and financing of certain production facilities, which are not otherwise guaranteed and could be refundable if the total project requirements are not met.

On December 23, 2003, the Company entered into a long-term operating lease agreement with MoTo Objekt Campeon GmbH & Co. KG ("MoTo") to lease an office complex that is to be constructed by MoTo south of Munich. The office complex will enable the Company to locate its employees, who are currently situated in various locations throughout Munich, in one central physical working environment. MoTo is responsible for the construction, which is expected to be completed in the second half of calendar year 2005. The Company has no obligations with respect to financing MoTo and has provided no guarantees related to the construction. Upon completion, the complex will be leased for a period of 20 years. After year 15, the Company has a non-bargain purchase option to acquire the complex or otherwise continue the lease for the remaining period of five years. Pursuant to the agreement, the Company placed a rental deposit of €75 in escrow, which is included in restricted cash as of September 30, 2004, and cannot be utilized by the lessor prior to occupation. Lease payments are subject to limited adjustments based on specified financial ratios related to the Company. The agreement will be accounted for as an operating lease, in accordance with SFAS No. 13, "Accounting for Leases", with monthly lease payments expensed on a straight-line basis over the lease term. The agreement is subject to various conditions prior to commencement of the lease.

The Company has received government grants and subsidies related to the construction and financing of certain of its production facilities. These amounts are recognized upon the attainment of specified criteria. Certain of these grants have been received contingent upon the Company maintaining compliance with certain project-related requirements for a specified period after receipt. The Company is committed to maintaining these requirements. Nevertheless, should such requirements not be met, as of September 30, 2004, a maximum of €433 of these subsidies could be refundable.

The Company through certain of its sales and other agreements may, in the normal course of business, be obligated to indemnify its counterparties under certain conditions for warranties, patent infringement or other matters. The maximum amount of potential future payments under these types of agreements is not predictable with any degree of certainty, since the potential obligation is contingent on conditions that may or may not occur in future, and depends on specific facts and circumstances related to each agreement. Historically, payments made by the Company under these types of agreements have not had a material adverse effect on the Company's business, results of operations or financial condition.

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A tabular reconciliation of the changes in the aggregate product warranty liability for the year ended September 30, 2004 is as follows:

	2004
Balance as of October 1, 2003	**139**
Accrued during the year, net	**24**
Settled during the year	**(95)**
Balance as of September 30, 2004	**68**

Based on the Company's assessment of warranty exposures at September 30, 2004, the Company reversed its previous provision and related insurance receivable.

The Company has guarantees outstanding to external parties of €419 as of September 30, 2004. In addition, the Company, as the parent company, has in certain customary circumstances guaranteed the settlement of certain of its consolidated subsidiaries' obligations to third parties. Such obligations are reflected as liabilities in the consolidated financial statements by virtue of consolidation. As of September 30, 2004, such inter-company guarantees, principally relating to certain consolidated subsidiaries' third-party debt, aggregated €1,911, of which €1,340 relates to the convertible notes issued.

32. Operating segment and geographic information

The Company has reported its operating segment and geographic information in accordance with SFAS No. 131, "Disclosure about Segments of an Enterprise and Related Information".

The Company operates primarily in four major operating segments, three of which are application focused: Wireline Communications, Secure Mobile Solutions and Automotive & Industrial; and one of which is product focused: Memory Products. Further, certain of the Company's remaining activities for product lines sold, for which there are no continuing contractual commitments subsequent to the divestiture date, as well as new business activities also meet the SFAS No. 131 definition of an operating segment, but do not meet the requirements of a reportable segment as specified in SFAS No. 131. Accordingly, these segments are combined and disclosed in the "Other Operating Segments" category pursuant to SFAS No. 131.

During the year ended September 30, 2004, the Company reorganized certain of its business from the Secure Mobile Solutions segment to the Automotive & Industrial segment. Accordingly, the prior years' segment results have been reclassified to be consistent with the revised reporting structure and presentation, as well as to facilitate analysis of current and future operating segment information.

Each of the segments has a segment manager reporting directly to the Chief Operating Officer and Chief Financial Officer, who have been collectively identified as the Chief Operating Decision Maker ("CODM"). The CODM makes decisions about resources to be allocated to the segments and assesses their performance using revenues and EBIT. The Company does not identify or allocate assets to the operating segments nor does the CODM evaluate the segments on these criteria on a regular basis, except that the CODM is provided information regarding certain inventories on an operating segment basis.

The accounting policies of the segments are substantially the same as described in the summary of significant accounting policies (see note 2). As stated above, fixed assets are not identified by individual operating segments for management reporting purposes on a regular basis and accordingly are not allocated to the operating segment. The Company does, however, allocate depreciation expense to the operating segments based on production volume and product mix using standard costs. Information with respect to the Company's operating segments follows:

::: Wireline Communications

The Wireline Communications segment designs, develops, manufactures and markets semiconductors and fiber-optic components for the communications access, WAN (Wide Area Network), MAN (Metropolitan Area Network) and Carrier Access (both broadband and traditional access) sectors of the wireline communications market. The Company has entered into an agreement for the sale of this segment's fiber optic business to Finisar (see note 14).

::: Secure Mobile Solutions

The Secure Mobile Solutions segment designs, develops, manufactures and markets a wide range of ICs for wireless applications, security controllers, security memories and other semiconductors and complete system solutions for wireless and security applications.

::: Automotive & Industrial

The Automotive & Industrial segment designs, develops, manufactures and markets semiconductors and complete systems solutions for use in automotive and industrial applications.

::: Memory Products

The Memory Products segment designs, develops, manufactures and markets semiconductor memory products with various packaging and configuration options and performance characteristics for use in standard, specialty and embedded memory applications.

::: Other Operating Segments

Remaining activities for certain product lines that have been disposed of, as well as other business activities, are included in the Other Operating Segments.

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The following tables present selected segment data for the years ended September 30, 2002, 2003 and 2004:

	2002	2003	2004
Net sales:			
Wireline Communications	386	459	**434**
Secure Mobile Solutions	1,015	1,403	**1,790**
Automotive & Industrial	1,464	1,634	**1,820**
Memory Products	1,861	2,485	**2,926**
Other Operating Segments	117	139	**196**
Corporate and Reconciliation	47	32	**29**
Total	4,890	6,152	**7,195**

	2002	2003	2004
EBIT:			
Wireline Communications	(245)	(188)	**(179)**
Secure Mobile Solutions	(143)	(65)	**124**
Automotive & Industrial	138	187	**244**
Memory Products	(630)	31	**169**
Other Operating Segments	9	(49)	**(58)**
Corporate and Reconciliation	(264)	(215)	**(44)**
Total	(1,135)	(299)	**256**

	2002	2003	2004
Depreciation and Amortization:			
Wireline Communications	97	61	**49**
Secure Mobile Solutions	247	280	**278**
Automotive & Industrial	282	293	**274**
Memory Products	709	768	**683**
Other Operating Segments	35	35	**36**
Corporate and Reconciliation	–	–	**–**
Total	1,370	1,437	**1,320**

	2002	2003	2004
Inventories:			
Wireline Communications	62	59	**34**
Secure Mobile Solutions	159	142	**197**
Automotive & Industrial	270	277	**311**
Memory Products	360	452	**368**
Other Operating Segments	21	21	**13**
Corporate and Reconciliation	19	8	**37**
Total	891	959	**960**

	2002	2003	2004
Equity in earnings (losses) of associated companies:			
Wireline Communications	–	(2)	**(2)**
Secure Mobile Solutions	–	(2)	**(4)**
Automotive & Industrial	–	–	**–**
Memory Products	(56)	22	**(16)**
Other Operating Segments	(1)	(1)	**(4)**
Corporate and Reconciliation	10	1	**12**
Total	(47)	18	**(14)**

Goodwill at September 30, 2003 and 2004, is reflected in the following segments:

	2003	2004
Goodwill:		
Wireline Communications	98	**47**
Secure Mobile Solutions	2	**4**
Automotive & Industrial	22	**13**
Memory Products	90	**81**
Other Operating Segments	6	**6**
Corporate and Reconciliation	–	**–**
Total	218	**151**

Due to the organizational structure of the operating segments, there are currently no sales transactions between operating segments. Accordingly, net sales by operating segment represent sales to external customers.

Raw material and work-in-process of certain common logic production front-end facilities, and work-in-process of the common back-end facilities, are not under the direct control or responsibility of any of the operating segment managers, but rather of the site management. The site management is responsible for the execution of the production schedule, volume and units. Accordingly, this inventory is not attributed to any operating segment, but is included in the "corporate and reconciliation" column. Only unstarted wafers of the back-end facilities ("chip stock") and finished goods are attributable to the operating segments and included in the segment information reported to the CODM.

Certain items are included in corporate and reconciliation and are not allocated to the segments. These include certain corporate headquarters' costs, certain incubator and early stage technology investment costs, non-recurring gains and specific strategic technology initiatives. Additionally, legal costs associated with intellectual property and product matters are recognized by the segments when paid, which can differ from the period originally recognized by corporate and reconciliation. The Company allocates excess capacity costs based on a foundry model, whereby such allocations are reduced based upon the lead time of order cancellation or modification. Any unabsorbed excess capacity costs are included

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in corporate and reconciliation. Significant components of corporate and reconciliation EBIT for the years ended September 30, 2002, 2003 and 2004 are as follows:

	2002	2003	2004
Corporate and reconciliation:			
Unabsorbed excess capacity costs	(211)	(101)	**(34)**
Restructuring charges	(16)	(29)	
Corporate information technology development costs	(36)	(13)	**(17)**
Other, net	(1)	(72)	**–**
Total	(264)	(215)	**7**
			(44)

The following is a summary of operations by geographic area for 2002, 2003 and 2004:

	2002	2003	2004
Net sales:			
Germany	1,266	1,535	**1,675**
Other Europe	943	1,112	**1,263**
North America	1,158	1,393	**1,524**
Asia/Pacific	1,287	1,821	**2,263**
Japan	159	256	**364**
Other	77	35	**106**
Total	4,890	6,152	**7,195**

	2002	2003	2004
Property, plant and equipment:			
Germany	2,467	2,152	**1,962**
Other Europe	688	652	**514**
North America	969	641	**619**
Asia/Pacific	366	369	**490**
Japan	1	1	**1**
Other	–	2	**1**
Total	**4,491**	**3,817**	**3,587**

Revenues from external customers are based on the customers' billing location. Regional employment data is provided in note 7.

Except for sales to Siemens, which are discussed in note 27, no single customer accounted for more than 10% of the Company's sales during any of the years ended September 30, 2002, 2003 and 2004. Sales to Siemens are made primarily by the non-memory product segments.

The Company defines EBIT as earnings (loss) before interest and taxes. The Company's management uses EBIT, among other measures, to establish budgets and operational goals, to manage the Company's business and to evaluate its performance. The Company reports EBIT information because it believes that it provides investors with meaningful information about the operating performance of the Company and especially about the performance of its separate business segments.

EBIT is determined as follows from the statement of operations, without adjustment to the U.S. GAAP amounts presented:

For the year ended September 30	2002	2003	2004
Net (loss) income from continuing operations	(1,017)	(435)	**61**
Adjust: Income tax (benefit) expense	(143)	84	**154**
Interest expense, net	25	52	**41**
EBIT	(1,135)	(299)	**256**

33. Subsequent events

On November 10, 2004, the Company and ProMOS reached an agreement regarding ProMOS' license of the Company's previously transferred technologies, pursuant to which ProMOS may continue to produce and sell products using those technologies and to develop its own processes and products. As full consideration, ProMOS has agreed to pay the Company $156 million in four instalments through April 30, 2006, against which the Company's accrued payable for DRAM products from ProMOS of $36 million is to be offset. The parties have agreed to withdraw their respective claims, including arbitration. The Company will recognize the relevant license income during the three months ending December 31, 2004.

(euro in millions, except where otherwise stated)

Additional information

Additional information to the U.S. GAAP consolidated financial statements pursuant to HGB Section 292a

The Company has prepared consolidated financial statements and a group management report for the financial year ended September 30, 2003 in accordance with the German Commercial Code (the "Statutory Report"). The Company has elected to prepare its financial information on the basis of U.S. GAAP in compliance with the requirements of the German Commercial Code. The Statutory Report includes the Consolidated Financial Statements and Notes to the consolidated financial statements, Supplemental Disclosures, and Group Management Report.

Significant differences between German GAAP and U.S. GAAP

Introduction

Infineon Technologies AG, as a German parent company, is subject to the German Commercial Code ("Handelsgesetzbuch", or "HGB"), which principally requires the Company to prepare consolidated financial statements in accordance with the HGB accounting principles and regulations ("German GAAP"). Pursuant to HGB Section 292a the Company is exempt from this requirement, if consolidated financial statements are prepared and issued in accordance with a body of internationally accepted accounting principles (such as U.S. GAAP). Accordingly, the Company has prepared its consolidated financial statements in accordance with U.S. GAAP. The following is a description of the significant differences between German GAAP and U.S. GAAP. Additionally, as a U.S. listed entity, the Company must adhere to certain accounting and reporting requirements as prescribed by the U.S. Securities and Exchange Commission.

Fundamental differences

The primary difference between German GAAP and U.S. GAAP is that they are based on different concepts. The emphasis of U.S. GAAP is to provide all relevant information to investors in order to facilitate future investment decisions. German GAAP is oriented towards the protection of creditors and an emphasis on the prudence concept.

Financial statement presentation

The balance sheet presentation under U.S. GAAP is based on the planned realization of assets and the maturity of liabilities in the normal course of business. The balance sheet presentation under German GAAP is principally defined in HGB section 266, and is based on enterprise's planned holding time for the respective asset, liability or equity.

Revenue recognition

Revenue recognition is generally the same under German and U.S. GAAP, whereby revenue is recognized when realized and earned. Differences in the timing of recognition can exist in transactions when the Company retains on-going financial, operational or performance commitments or the contractual amounts are not objectively verifiable.

Marketable securities

Under German GAAP, marketable debt and equity securities are valued at the lower of acquisition cost or fair market value as of the balance sheet date. Under U.S. GAAP, the Company's marketable securities are classified as available for sale and valued at fair market value as of the balance sheet date. Unrealized gains and losses are reported in other comprehensive income net of deferred taxes.

Inventories

Inventory valuation is based on manufacturing costs under both German and U.S. GAAP. Manufacturing costs under U.S. GAAP are defined as production costs on a full absorption basis, whereby manufacturing overhead is included together with material and other direct manufacturing costs. Under German GAAP certain overhead costs can be excluded from the valuation of inventory.

Goodwill

Under U.S. GAAP, pursuant to SFAS No. 141, "Business Combinations", in connection with SFAS No.142, "Goodwill and other Intangible Assets", goodwill arising from business combinations accounted for as a purchase after June 30, 2001 is no longer amortized, but rather tested for impairment at the reporting unit level at least annually. Under German GAAP, such goodwill is amortized at least of 25 percent in the subsequent years or over its estimated useful life.

In-process research and development

Under German GAAP, in-process research and development projects acquired in a business combination are not specifically identified but rather included as part of goodwill. Under U.S. GAAP, acquired in-process research and development is specifically identified, valued and charged to expense at the date of acquisition.

Derivative financial instruments

Under German GAAP, derivative financial instruments are not recorded on the balance sheet. Unrealized gains are not recognized whereas unrealized losses are accrued for. Under U.S. GAAP, derivative financial instruments are recorded on the balance sheet at their fair value. Changes in fair value are recorded in current earnings or other comprehensive income, depending on whether the derivative financial instrument is designated as part of a hedge transaction and on the type of hedge transaction.

Deferred taxes

The main difference in accounting for deferred taxes relates to the fact, that under German GAAP deferred tax assets are not recorded for net operating losses. Under U.S. GAAP, deferred tax assets are recorded for net operating losses and a valuation allowance is established when it is deemed "more likely than not" that the deferred tax asset will not be realized.

Pension and other post-retirement obligations

Under U.S. GAAP, pension obligations are recognized based on the projected benefit obligation using the projected unit credit method. This is also permitted under HGB.

Furthermore, different interest rates are used for the evaluation of accrued liabilities.

Under U.S. GAAP, establishing and funding a trust, independent of the Company, results under certain conditions in a corresponding reduction in pension obligations from the balance sheet. Under German GAAP, pension assets and obligations are recorded gross on the balance sheet until such obligations are legally settled.

Stock-based compensation

Under German GAAP, the Company recognizes as expense the difference between the fair market value of the Infineon shares and the exercise price of the stock options, if the fair market value is higher.

Under U.S. GAAP, the Company accounts for stock-based compensation on the intrinsic value method pursuant to APB Opinion 25 which does not result in a compensation charge if the fair market value of the stock does not exceed the exercise price of the option on the measurement date.

Equity offering costs

Under German GAAP, direct costs incurred in connection with equity offerings are expensed, while under U.S. GAAP such costs are charged to additional paid-in capital.

Accrued liabilities

Under German GAAP, certain costs can be accrued for anticipated future events in certain circumstances. Under U.S. GAAP, recognition of an accrued liability represents an existing liability to third parties or must meet very specific recognition criteria.

Foreign currency translation

Under German GAAP, foreign currency denominated assets and liabilities are recorded at the spot rate on the transaction date, with only unrealized losses reflected in income at the balance sheet date. Under U.S. GAAP, foreign currency denominated assets and liabilities are translated at the spot rate at the balance sheet date, with both unrealized gains and losses reflected in income. As of September 30, 2004, the Company has also denominated current positions at the balance sheet date under German GAAP.

Grants subsidies

Under German GAAP, non-taxable investment subsidies and interest subsidies can be recognized in income when received. Under U.S. GAAP, these amounts are deferred and recognized in income during the periods in which the related expense is incurred.

Equity method accounting

Under German GAAP, consolidated financial statements could include the equity in earnings of associated companies based on the local accounting principles. Under U.S. GAAP equity in earnings is determined pursuant to U.S. GAAP.

Gain on associated company share issuance

Under German GAAP, a capital increase of an associated company which increases the proportional valuation of the Company's investment is reflected in income. Under U.S. GAAP and specific SEC regulations, income recognition is subject to additional criteria, which, if not met, requires recognition as an adjustment to shareholders' equity.

Minority interest

Under German GAAP, the consideration of minority interest within the first consolidation and the allocation of the assigned share of the results is based on the legal ownership. Under U.S. GAAP, the consolidation of minority interest is based on economic interests in the joint venture and therefore the capitalization of minority interest or the share of results can differ.

Application of exception regulations

Pursuant to HGB section 264a, partnerships, where the unlimited liability is not held by a natural person, or another partnership with a natural person as the unlimited liability partner, are required to prepare financial statements similar to a limited liability corporation. Pursuant to HGB section 264b, such partnerships are exempt from preparing separate financial statements, if they are included in the consolidated financial statements of the holding company and such consolidated financial statements are registered with the trade register of the respective partnership.

Infineon utilizes the exemption in respect of the following companies:

::: COMNEON GmbH & Co. OHG, Nuremberg
::: Infineon Technologies Dresden GmbH & Co. OHG, Dresden
::: Infineon Technologies Flash GmbH & Co. KG, Dresden (previously Ingentix GmbH & Co. KG, Munich)
::: Infineon Technologies Immobilien Regensburg GmbH & Co. KG, Regensburg
::: Infineon Technologies SC 300 GmbH & Co. KG, Dresden

Pursuant to HGB section 264 para. 3, the Company also utilizes the exception from preparing separate financial statements due to a profit-transfer agreement of the following companies

::: Infineon Ventures GmbH, Munich
::: EUPEC Europäische Gesellschaft für Leistungshalbleiter mbH, Warstein-Belecke.

Information pursuant to Section 160 No. 8 Corporate Act (AktG)

The Capital Group International Inc., Los Angeles, USA, informed the Company, by letter dated October 2, 2003, that their share of the voting rights of Infineon Technologies AG exceeded the threshold of 5% on September 25, 2003. Their new interest in voting rights would amount to 5.068%, equalling 36,534,489 shares. The voting rights would be attributable to the Capital Group International Inc. pursuant section 22 (1) 1 No. 6 in connection with section 22 (1) 2 and 3 WpHG.

At the same day, the Capital Group Companies Inc., Los Angeles, USA, informed the Company, that their share of the voting rights of Infineon Technologies AG exceeded the threshold of 5% on September 25, 2003. Their new interest in voting rights would amount to 5.068%, equalling 36,534,489 shares. The voting rights would be attributable to the Capital Group International Inc. pursuant section 22 (1) 1 No. 6 in connection with section 22 (1) 2 and 3 WpHG.

Siemens AG, Munich informed the Company, that their share of the voting rights of Infineon Technologies AG had fallen below the threshold of 10% and 5% on January 14, 2004. Their new interest in voting rights would amount to 0%, equalling 0 shares and the same number of votes.

Additionally Siemens AG informed the Company on behalf of Siemens Nederland N.V., Den Haag, The Nederlands, that their share of the voting rights of Infineon Technologies AG had fallen below the threshold of 10% and 5% on January 14, 2004. Their new interest in voting rights would amount to 0%, equalling 0 shares and the same number of votes.

The Wachovia Trust Company National Association, Wilmington, Delaware, USA, informed the Company, by letter dated January 14, 2004, received on January 14, 2004, that on January 14, 2004 the share of the voting rights of Infineon Technologies AG had fallen below the threshold of 25% and amounted to 18.91%, equalling 136,292,363 shares and the same number of votes.

Information pursuant to Section 161 Corporate Act (AktG)

The compliance declaration prescribed by section 161 AktG was submitted on December 3, 2002 and made available to the shareholders on a continuous basis via the internet.

Information pursuant section 6.6 German Code of Corporate Governance

1. On May 10, 2004, Mr Max Dietrich Kley, Chairman of the Supervisory Board and at the time Chief Executive Officer, purchased 7,100 shares of the Company at a price of euro 10.70 per share.
2. On August 9, 2004, Mr Max Dietrich Kley, Chairman of the Supervisory Board and at the time Chief Executive Officer, purchased 3,632 shares of the Company at a price of euro 7.99 per share.

Accounting fees

During the financial year 2004, KPMG, our auditors, charged us an aggregate of €4.3 million in connection with professional services rendered for the worldwide audit of our financial statements.

Board of Directors and Supervisory Board

The remuneration of the Supervisory Board for the year ended September 30, 2004 was euro 0.5 million. In addition, the Members of the Supervisory Board received 1,500 share appreciation rights each. The total remuneration of the Management Board for the year ended September 30, 2004 consisted of fixed salary of euro 4.1 million and 500,000 stock options as well as a lump sum payment of euro 1.9 million in connection with the revised service contracts. The share appreciation rights and stock options were granted in connection with the LTI 2001 Plan. During the year ended September 30, 2004, the Company established a provision for variable bonus of the Management Board of euro 1.3 million, which is based on the changes in the Company's results and is limited by the achievement of different objectives. The fair value of each stock option and stock appreciation right at their grant date was euro 5.92.

Former Members of the Management Board received remuneration in an amount of euro 3.6 million.

As of September 30, 2004, accrued pension liabilities for former Members of the Management Board amounted to euro 2.9 million.

Board of Directors

Name	Age	Membership of the Management Board and other comparable governing bodies during the year ended September 30, 2004
Dr. Wolfgang Ziebart	54	Chairman, President and Chief Executive Officer (since September 1, 2004) Additional company positions: Comparable positions Member of the Board of Directors ::: Infineon Technologies China Co., Ltd., Shanghai, China
Peter Bauer	44	Executive Vice President and Chief Sales & Marketing Officer Additional external positions Member of the Supervisory Board of ::: Siemens VDO Automotive AG, Munich Additional company positions: Comparable positions Deputy Chairman of the Board of Directors ::: Infineon Technologies Japan K.K., Tokyo, Japan Member of the Board of Directors ::: Infineon Technologies Asia Pacific Pte., Ltd., Singapore ::: Infineon Technologies China Co., Ltd., Shanghai, China ::: Infineon Technologies North America Corp., Wilmington/Delaware, USA ::: Infineon Technologies Savan Ltd., Netanya, Israel
Peter Fischl	58	Executive Vice President and Chief Financial Officer Additional company positions: Comparable positions Chairman of the Supervisory Board ::: Infineon Technologies Austria AG, Villach, Austria Member of the Board of Directors ::: Infineon Technologies Asia Pacific Pte., Ltd., Singapore ::: Infineon Technologies China Co., Ltd., Shanghai, China ::: Infineon Technologies North America Corp., Wilmington/Delaware, USA

Board of Directors

Name	Age	Membership of the Management Board and other comparable governing bodies during the year ended September 30, 2004
Dr. Andreas von Zitzewitz	44	Executive Vice President and Chief Operating Officer Additional external positions Member of the Supervisory Board of ::: Steag Hamatech AG, Sternenfels Additional company positions: Comparable positions Chairman of the Supervisory Board ::: EUPEC Europäische Gesellschaft für Leistungshalbleiter mbH, Warstein-Belecke Member of the Supervisory Board ::: Infineon Technologies Austria AG, Villach, Austria Member of the Board of Directors ::: Infineon Technologies Asia Pacific Pte., Ltd., Singapore ::: Infineon Technologies China Co., Ltd., Shanghai, China ::: Infineon Technologies Richmond Limited Partnership, Wilmington/Delaware, USA Chairman of Shareholders' Representatives ::: EUPEC Europäische Gesellschaft für Leistungshalbleiter mbH, Warstein-Belecke ::: Infineon Technologies Dresden GmbH & Co OHG, Dresden
Resigned Members of the Board of Directors		
Max Dietrich Kley		Chairman, President and Chief Executive Officer (from March, 25 2004 to August, 31 2004) Compensation Net € 246,334.60 Gross € 500,000.00
Dr. Ulrich Schumacher		Chairman, President and Chief Executive Officer (until March, 25 2004)

Supervisory Board

Name	Age	Term expires	Compensation	Membership of the Supervisory Board and other comparable governing bodies during the year ended September 30, 2004
Max Dietrich Kley	64	2005	€ 33,834.00	Chairman (temporary resignation from March 25, 2004 to August 31, 2004) Member of the Supervisory Board of BASF AG Additional external positions Chairman of the Supervisory Board of ::: SGL Carbon AG, Wiesbaden Member of the Supervisory Boards of ::: Schott AG, Mainz ::: HeidelbergCement AG, Heidelberg Comparable external positions Member of the Board of Administration of Landesbank Rheinland-Pfalz, Mainz (until October 11, 2004)
Klaus Luschtinetz[1]	61	2009	€ 38,666.00	Deputy Chairman (since January 20, 2004) Chairman of the Infineon central works council Deputy Chairman of the Infineon works council, Munich Balan-/St.-Martin-Strasse Additional external positions Comparable positions Member of the Board of Administration of ::: Siemens Employees Health Insurance, Munich
Dr. h.c. Martin Kohlhaussen	68	2005	€ 43,500.00	Deputy Chairman Chairman of the Supervisory Board of Commerzbank AG Additional external positions Chairman of the Supervisory Board of ::: HOCHTIEF AG, Essen Member of the Supervisory Boards of ::: Bayer AG, Leverkusen ::: Heraeus Holding GmbH, Hanau ::: Schering AG, Berlin ::: ThyssenKrupp AG, Düsseldorf ::: Verlagsgruppe Georg von Holtzbrinck GmbH, Stuttgart
Alfred Eibl[1]	55	2009	€ 41,087.00	Deputy Chairman (until January, 20 2004) Member of the Infineon works council, Munich Balan-/St.-Martin-Strasse

Supervisory Board

Name	Age	Term expires	Compensation	Membership of the Supervisory Board and other comparable governing bodies during the year ended September 30, 2004
Dr. Joachim Faber	54	2005	€ 29,000.00	Member of the Management Board of Allianz AG Additional external positions Member of the Supervisory Boards of ::: Bayerische Börse AG, Munich ::: Societa Metallurgica Italiana S.p.A., Florence, Italy Additional company positions Chairman of the Supervisory Boards of: ::: DBI Dresdner Bank Investment Management Kapitalanlagegesellschaft mbH, Frankfurt ::: DEGI Deutsche Gesellschaft für Immobilienfonds mbH, Frankfurt ::: Deutscher Investment Trust Gesellschaft für Wertpapieranlagen mbH, Frankfurt Comparable positions Member of the Supervisory Board of ::: AGF Asset Management S.A., Paris, France
Günther Fritsch	69	2005	€ 16,916.00	(since March 1, 2004) Industrial manager
Jakob Hauser[1]	52	2009	€ 26,584.00	Member of the Infineon central works council Chairman of the Infineon works council, Munich/-Perlach
Dr. Stefan Jentzsch	43	2005	€ 29,000.00	Member of the Management Board of Bayerische Hypo- und Vereinsbank AG Additional external positions Member of the Supervisory Board of ::: Deutsche Börse AG, Frankfurt Additional company positions Chairman of the Supervisory Boards of ::: HVB Alternative Financial Products AG, Vienna, Austria ::: HVB Alternative Investment AG, Vienna, Austria ::: DAB Bank AG, Munich Deputy Chairman of the Supervisory Boards of ::: Vereins- und Westbank AG, Hamburg ::: HVB Info AG, Munich Member of the Supervisory Boards of ::: HVB Systems AG, Munich ::: Bank Austria Creditanstalt AG, Vienna, Austria Comparable company positions Chairman of the Board of Administration of ::: HVB Wealth Management Holding GmbH, Munich

Supervisory Board

Name	Age	Term expires	Compensation	Membership of the Supervisory Board and other comparable governing bodies during the year ended September 30, 2004
Univ.-Prof. Dr.-Ing. Ingolf Ruge	69	2005	€ 36,250.00	Professor at the Technical University Munich
Michael Ruth[1]	44	2009	€ 29,000.00	Infineon Senior Vice President Strategy Planning and Controlling Corporate Logic Representative of senior management Additional company positions Comparable positions Member of the Board of Administration of ::: ALTIS Semiconductor S.N.C., Essonnes, France
Dieter Scheitor[1]	51	2009	€ 19,334.00	Head of the IT department of IG Metall, Frankfurt
Gerd Schmidt[1]	50	2009	€ 29,000.00	Deputy Chairman of the Infineon central works council Chairman of the Infineon works council, Regensburg West
Kerstin Schulzendorf[1]	42	2009	€ 19,334.00	Deputy Chairman of the Infineon central works council, Dresden
Alexander Trüby[1]	34	2009	€ 26,584.00	Member of the Infineon works council, Dresden
Prof. Dr. rer. nat. Martin Winterkorn	57	2005	€ 36,250.00	Chairman of the Management Board of Audi AG Member of the Management Board of Volkswagen AG Additional external positions Member of the Supervisory Boards of ::: Salzgitter AG, Salzgitter ::: FC Bayern München AG, Munich ::: TÜV Süddeutschland Holding AG, Munich Additional company positions Comparable positions Member of the Supervisory Boards of ::: SEAT S.A., Barcelona, Spain ::: Lamborghini Holding S.p.A., Sant'Agata, Italy

Supervisory Board

Name	Age	Term expires	Compensation	Membership of the Supervisory Board and other comparable governing bodies during the year ended September 30, 2004
Prof. Dr.-Ing. Dr.-Ing. E.h. Klaus Wucherer	60	2005	€ 37,459.00	Member of the Management Board of Siemens AG Additional external positions Member of the Supervisory Board of ::: Deutsche Messe AG, Hanover Additional company positions Member of the Supervisory Board of ::: BSH Bosch und Siemens Hausgeräte GmbH, Munich Comparable company positions Chairman of the Boards of Administration of ::: Siemens Ltd., Beijing, China ::: Siemens E&A, Atlanta/Georgia, USA ::: Siemens K.K., Tokyo, Japan ::: Siemens S.A. Lisbon, Portugal Member of the Boards of Administration of ::: EviopTempo AG, Athens, Greece ::: Siemens Ltd., Mumbai, India

1 Employee representative.

Committees of the Supervisory Board

1. Mediation Committee

Max Dietrich Kley (temporary resignation from March 25, 2004 to August 31, 2004)
Dr. Martin Kohlhaussen (from April 1, 2004 to August 31, 2004)
Alfred Eibl (until January 20, 2004)
Klaus Luschtinetz (since January 20, 2004)
Karl Heinz Midunsky (until February 29, 2004)
Gerd Schmidt (until January 20, 2004)
Alexander Trüby (since January 20, 2004)
Prof. Dr.-Ing. Dr.-Ing. E.h. Klaus Wucherer (since March 1, 2004)

2. Executive Committee

Max Dietrich Kley (temporary resignation from March 25, 2004 to August 31, 2004)
Prof. Dr.-Ing. Dr.-Ing. E.h. Klaus Wucherer (from April 1, 2004 to August 31, 2004)
Alfred Eibl (until January 20, 2004)
Dr. Martin Kohlhaussen
Klaus Luschtinetz (since January 20, 2004)

3. Investment, Finance and Audit Committee

Max Dietrich Kley (temporary resignation from March 25, 2004 to August 31, 2004)
Dr. Martin Kohlhaussen (from April 1, 2004 to August 31, 2004)
Alfred Eibl (until January 20, 2004)
Klaus Luschtinetz (since January 20, 2004)
Karl Heinz Midunsky (until February 29, 2004)
Prof. Dr.-Ing. Dr.-Ing. E.h. Klaus Wucherer (since March 1, 2004)

4. Strategy and Technology Committee (formed April 1, 2004)

Prof. Dr.-Ing. Dr.-Ing. E.h. Klaus Wucherer
Alfred Eibl
Jakob Hauser
Univ.-Prof. Dr.-Ing. Ingolf Ruge
Alexander Trüby
Prof. Dr. rer. nat. Martin Winterkorn

Resigned Members of the Supervisory Board

Resigned January 20, 2004
Ender Beyhan, compensation € 9,666.00
Johann Dechant, compensation € 9,666.00
Heinz Hawreliuk, compensation € 9,666.00
Wolfgang Müller, compensation € 9,666.00

Resigned February 29, 2004
Karl Heinz Midunsky, compensation € 18,125.00

Significant subsidiaries and associated companies

Name and Location of Company	Share in capital
EUPEC Europäische Gesellschaft für Leistungshalbleiter mbH, Warstein-Belecke, Germany	100 %
Infineon Technologies Dresden GmbH & Co. OHG, Dresden, Germany	100 %
Infineon Technologies SC300 GmbH & Co. OHG, Dresden, Germany	100 %
Infineon Technologies Austria AG, Villach, Austria	100 %
Infineon Technologies-Fabrico de Semicondutores, Portugal S.A., Vila do Conde, Portugal	100 %
Infineon Technologies France S.A.S., Saint Denis, France	100 %
Infineon Technologies Holding B.V. Rotterdam, Netherlands	100 %
SensoNor AS, Horten, Norway	100 %
Infineon Technologies Holding North America Inc., Wilmington Delaware, USA	100 %
Infineon Technologies Richmond LP, Wilmington Delaware, USA	100 %
Infineon Technologies Asia Pacific Pte. Ltd., Singapore	100 %
Infineon Technologies (Advanced Logic) Sdn. Bhd., Malacca, Malaysia	100 %
Infineon Technologies (Integrated Circuit) Sdn. Bhd., Malacca, Malaysia	100 %
Infineon Technologies (Malaysia) Sdn. Bhd., Malacca, Malaysia	100 %
Infineon Technologies Japan K.K., Tokyo, Japan	100 %
Infineon Technologies Suzhou Co., Ltd., Suzhou, China	73 %
ALTIS Semiconductor S.N.C, Essonnes, France	50 %
Inotera Memories Inc., Taoyuan, Taiwan	44 %

Did you know that ...

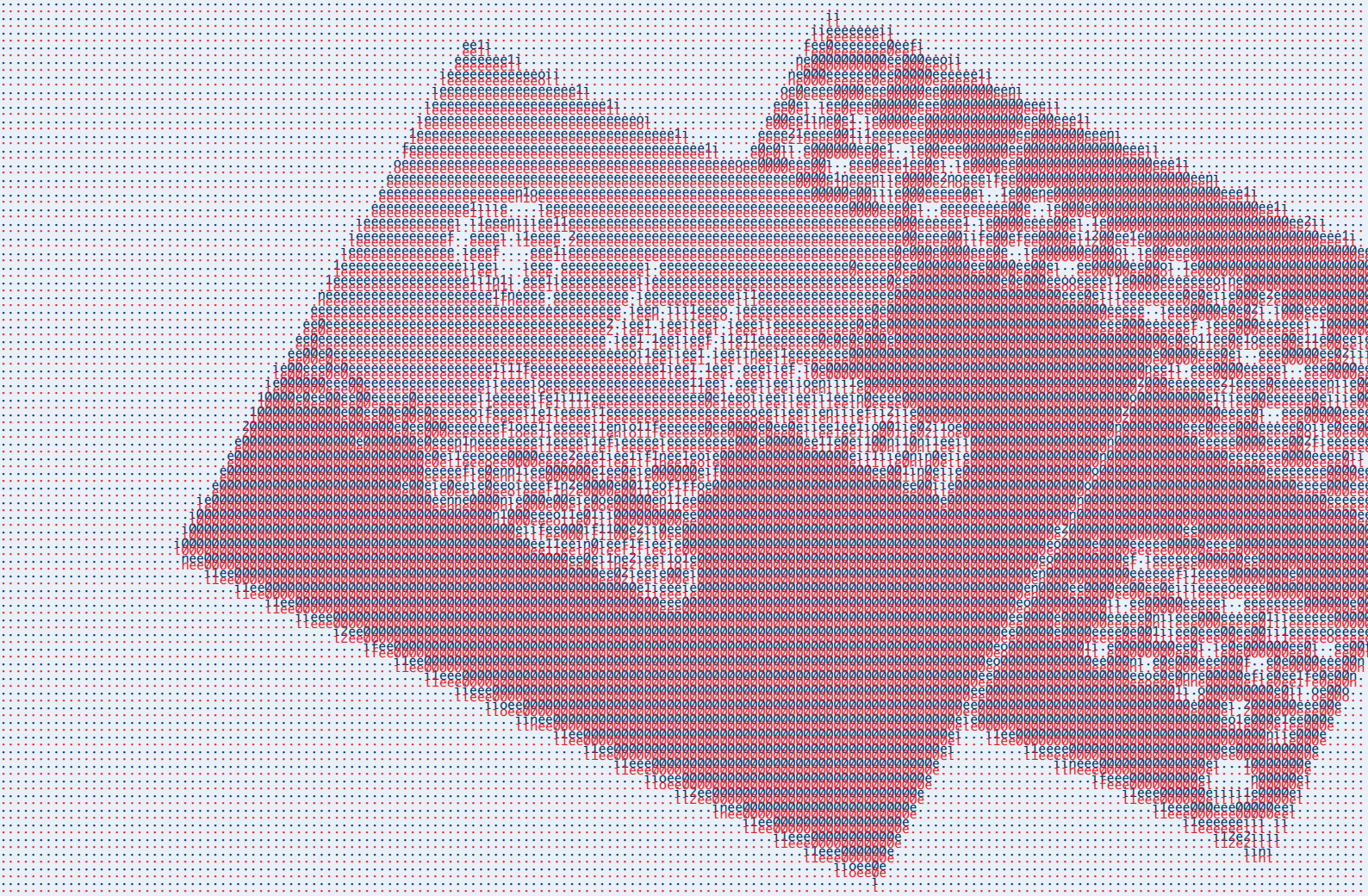
... every third Personal Digital Assistant (PDA) worldwide is equipped with Infineon's Mobile-RAMs?

... every fifth smart phone worldwide is equipped with Infineon's Mobile-RAMs?

... every fifth new notebook and every fifth server worldwide contain an Infineon memory module?

... by mid 2004, every tenth digital television set-top box already contained Infineon memories?

Further information



512 Megabit DDR2 SDRAM, memory component ::: one of the many products in the Memory Products portfolio ... Business groups, p. 22

Consolidated financial data 2000–2004

Consolidated financial data Infineon Technologies € in million[1]

As of and for the financial year ended September 30	2000	2001	2002	2003	2004
Summary consolidated statements of operations data					
Net sales	6,989	5,347	4,890	6,152	**7,195**
By region:					
Germany	1,520	1,636	1,266	1,535	**1,675**
Other Europe	1,570	1,172	943	1,112	**1,263**
North America	1,747	1,208	1,158	1,393	**1,524**
Asia/Pacific	1,815	1,056	1,287	1,821	**2,263**
Japan	232	191	159	256	**364**
Others	105	84	77	35	**106**
By business group[2]:					
Wireline Communications	661	766	386	459	**434**
Secure Mobil Solutions	1,540	1,225	1,015	1,403	**1,790**
Automotive & Industrial	942	1,450	1,464	1,634	**1,820**
Memory Products	3,479	1,614	1,861	2,485	**2,926**
Other Operating Segments	276	236	117	139	**196**
Corporate and Reconciliation	91	56	47	32	**29**
Cost of goods sold	3,815	4,580	4,289	4,614	**4,670**
Gross profit	3,174	767	601	1,538	**2,525**
Research and development expenses	1,025	1,189	1,060	1,089	**1,219**
Selling, general and administrative expenses	668	782	643	679	**718**
Restructuring charge	–	117	16	29	**17**
Other operating income (expense), net	(2)	(200)	(46)	85	**257**
Operating income (loss)	1,483	(1,121)	(1,072)	(344)	**314**
Interest income (expense), net, inclusive of subsidies	75	(1)	(25)	(52)	**(41)**
Equity in earnings (losses) of associated companies	92	21	(47)	18	**(14)**
Gain on associated companies share issuance	53	11	18	(2)	**2**
Other income (loss)	36	65	(41)	21	**(64)**
Minority interest	(6)	6	7	8	**18**
Income (loss) before income taxes	1,733	(1,019)	(1,160)	(351)	**215**
Income tax benefit (expense)	(614)	427	143	(84)	**(154)**
Net income (loss) from continuing operations	1,119	(592)	(1,017)	(435)	**61**
Income (loss) from discontinued operation	7	1	(4)	–	**–**
Net income (loss)	1,126	(591)	(1,021)	(435)	**61**
Basic and diluted earnings (loss) per share in €	1.83	(0.92)	(1.47)	(0.60)	**0.08**
EBIT	1,658	(1,018)	(1,135)	(299)	**256**
By business group[2]:					
Wireline Communications	48	(93)	(245)	(188)	**(179)**
Secure Mobile Solutions	303	(206)	(143)	(65)	**124**
Automotive & Industrial	74	207	138	187	**244**
Memory Products	1,330	(938)	(630)	31	**169**
Other Operating Segments	23	192	9	(49)	**(58)**
Corporate and Reconciliation	(121)	(180)	(264)	(215)	**(44)**

Continuation consolidated financial data Infineon Technologies € in million[1]

As of and for the financial year ended September 30	2000	2001	2002	2003	2004
Summary consolidated statements of operations data					
Cash and cash equivalents	511	757	1,199	969	**608**
Marketable securities	498	93	738	1,784	**1,938**
Trade accounts receivable, net	1,316	626	758	876	**1,056**
Inventories	841	882	891	959	**960**
Deferred income taxes	100	39	82	113	**140**
Other current assets	569	479	523	675	**590**
Total current assets	3,835	2,876	4,191	5,376	**5,292**
Property, plant and equipment, net	4,034	5,233	4,491	3,817	**3,587**
Long-term investments, net	432	655	708	425	**708**
Restricted cash	132	86	70	67	**109**
Total assets	8,853	9,743	10,918	10,875	**10,864**
Short-term debt, including current portion of long-term debt	138	119	120	149	**571**
Long-term debt, excluding current portion	128	249	1,710	2,343	**1,427**
Shareholders' equity	5,806	6,900	6,158	5,666	**5,978**
Summary consolidated statements of cash flows data					
Net cash provided by operating activities	2,077	221	226	731	**1,857**
Net cash used in investing activities	(2,327)	(1,813)	(1,244)	(1,522)	**(1,809)**
Depreciation and amortization	834	1,121	1,370	1,437	**1,320**
Purchases of property, plant and equipment	(1,571)	(2,282)	(643)	(872)	**(1,163)**
The Infineon share as of September 30					
Dividend per share in €	0.65	0	0	0	**0**
Closing price Xetra Trading System in €	54.88	13.50	5.61	11.22	**8.22**
Closing price New York Stock Exchange (NYSE) in U.S. $	47.50	12.39	5.70	12.89	**10.22**
Shares outstanding in million	625.5	692.4	720.8	720.9	**747.6**
Market capitalization € in billion	34,327	9,347	4,044	8,088	**6,145**
Market capitalization U.S. $ in billion	29,711	8,579	4,109	9,292	**7,640**
Key figures					
Equity-assets ratio	66 %	71 %	56 %	52 %	**55%**
Debt-equity ratio	5 %	5 %	30 %	44 %	**33%**
Net cash position as of September 30[3]	743	482	107	261	**548**
Employees period end in total figures	29,166	33,813	30,423	32,308	**35,570**
By region:					
Germany	14,247	16,814	15,716	16,166	**16,387**
Other Europe	3,409	5,007	4,590	5,034	**5,631**
North America	2,838	3,023	2,889	2,757	**2,982**
Asia/Pacific	8,553	8,822	7,093	8,116	**10,340**
Japan	119	127	107	118	**133**
Others	0	20	28	117	**97**
By function:					
Production	20,371	23,416	20,822	22,405	**24,540**
Research & development	4,733	5,510	5,374	5,935	**7,160**
Sales & marketing	2,043	2,259	2,010	2,048	**1,948**
Administrative	2,019	2,628	2,217	1,920	**1,922**

1 Columns may not add due to rounding.
2 In the 2004 financial year, we reorganized certain of our business units to better reflect our customer and market profiles. Accordingly, the segment results of the previous financial years have been reclassified to be consistent with the reporting structure and presentation of the 2002 financial year, and to facilitate analysis of current and future operating segment information.
3 Cash and cash equivalents plus marketable securities minus short- and long-term debt.

Financial and technology glossary

Financial glossary

ADS: American Depositary Shares – ADS are U.S.-traded stock certificates for non-U.S. stocks. These certificates simplify access to U.S. capital markets for non-U.S.-based companies, and in turn provide U.S. investors with investment opportunities in non-U.S.-based companies. Infineon's ADS are listed on the New York Stock Exchange (NYSE) at a 1:1 ratio.

Cash flow: The cash-effective balance arising from inflows and outflows of funds over the financial year. The cash flow statement is part of the consolidated financial statements and shows how the company generated cash during the period and where it spent cash, in terms of operating activities (cash the company made by purchasing/selling goods and services), investing activities (cash the company spent for investment, or cash it raised from divestitures), and financing activities (cash the company raised by selling stocks, bonds and loans or spent for the redemption of stocks or bonds).

Dax: Deutscher Aktienindex – The German Blue Chip Index tracking the 30 major German companies traded on the Frankfurt Stock Exchange, in terms of order volume or market capitalization.

Debt-equity ratio: An indicator of the company's financing structure, representing the total short- and long-term debt as a percentage of shareholders' equity.

Deferred taxes: Since tax laws often differ from the recognition and measurement requirements of financial accounting standards, differences can arise between (a) the amount of taxable income and pretax financial income for a year and (b) the tax bases of assets or liabilities and their reported amounts in financial statements. A deferred tax liability and corresponding expense results from income that has already been earned for accounting purposes but not for tax purposes. Conversely, a deferred tax asset and corresponding benefit results from amounts deductible in future years for tax purposes but that have already been recognized for accounting purposes.

EBIT: Infineon defines EBIT as "Earnings Before Interest and Taxes". This is the measure that Infineon uses to evaluate the operating performance of its business groups.

EBIT margin: An indicator of operating performance, calculated as the percentage of EBIT in relation to net sales.

Equity-to-assets ratio: An indicator of the proportion of equity capital in the company's financial structure, calculated as the ratio of shareholders' equity capital to total assets.

EPS: Earnings (loss) Per Share – Basic earnings (loss) per share ("EPS") is calculated by dividing net income (loss) by the weighted average number of ordinary shares outstanding during the reporting period (financial quarter or year). Diluted EPS is calculated by dividing net income by the sum of the weighted average number of ordinary shares outstanding plus all additional ordinary shares that would have been outstanding if potentially dilutive securities or ordinary share equivalents had been issued.

Free cash flow: Inflow and outflow of cash from operating and investing activities excluding purchases or sales of marketable securities.

Goodwill: An intangible asset of the company that results from a business acquisition, representing the excess of the acquired entity's purchase price (cost) over the fair value of the net assets acquired and liabilities assumed. Under U.S. GAAP, goodwill is not reduced through regularly scheduled amortization, but rather written down to its fair value if impaired. An impairment assessment is done at least once a year.

Gross cash position: Total of cash and cash equivalents and marketable securities.

Gross profit or margin: Net sales less cost of goods sold.

Minority interest: Proportional share in net income not ascribed to the consolidated group but to outside shareholders that hold a minority share in the equity of the company's subsidiaries.

Net cash position: Gross cash position less long- and short-term debt.

Registered shares: Shares registered in the name of a certain person. This person's details and number of shares are registered in the company's share ledger in accordance with securities regulations. Only individuals registered in the company's stock ledger are considered shareholders of the company and are, for example, able to exercise their rights at the annual general meeting of shareholders.

Risk management: Systematic procedures employed to identify and evaluate potential risks facing the company, and to identify and implement measures to address and mitigate those risks.

ROE: Return On Equity – An indicator of the company's financial performance, representing net income/loss as a percentage of the average amount of shareholders' equity capital employed during the period.

ROTA: Return On Total Assets – An indicator of the company's financial success, representing net income/loss as a percentage of the average total assets employed during the period.

U.S. GAAP: Accounting principles generally accepted in the United States of America. Infineon prepares its consolidated financial statements according to U.S. GAAP.

Technology glossary

2G: Second generation, digital mobile telephony. Subsequent to the first generation (analog), 2G digital signals offer improved sound quality and numerous data services. In Europe: GSM standard.

2.5G: Current mobile communications infrastructure. In Europe: GPRS standard.

3G: Third generation of mobile communications: voice and data, both broadband, with considerably higher capacity. In Europe: UMTS standard.

300-millimeter technology: Comprehensive term for the manufacture and processing of wafers with a diameter of 300 millimeters. At Infineon, the term is used as a synonym for the manufacture of memory chips on a 300-millimeter wafer.

ASIC: Application-Specific Integrated Circuit. Logic IC constructed for a specific application and a specific customer, and implemented on an integrated circuit.

ASSP: Application-Specific Standard Product. Standard product constructed for a specific use that can be used by several customers, and implemented on an integrated circuit.

Back-end manufacturing: Part of semiconductor manufacturing process that happens after the wafer has left the cleanroom (front-end manufacturing). This includes testing the chips at wafer level, repairing the chips if necessary, dicing the wafers and putting the individual chips into packages. There is a growing trend among semiconductor manufacturers to outsource the assembly, and even the testing too, to independent assembly houses. Much of the assembly capacity is based in the Pacific Rim countries.

Baseband IC: A baseband IC processes the digital signals received and those to be sent. This complex component usually comprises a digital signal processor, microcontroller, memory and analog circuits. It essentially forms the core of a wireless communications system.

Bit: Information or computing unit; can take one of two values: "true" / "false" or "0" / "1".

Bluetooth: Technology for wireless voice and data transmission over short distances.

Broadband applications: Any network technology to provide high-bandwidth data transmission, i.e. bandwidths in the range of several hundreds of Kilobits per second or higher.

Byte: Data unit equivalent to 8 bits.

Carbon nanotubes: CNT, microscopically small tubular-shaped bodies of carbon, the walls of which have an hexagonal, honeycomb structure. The diameter of the tubes is mostly between 1 and 50 nanometers; the length can be as much as 20 centimeters.

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.

Chip card: Plastic card with built-in memory chip or microprocessor, can be combined with Personal Identification Number (PIN).

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

Customer Premise Equipment: The part of the telephone network that constitutes the link from the provider's local exchange to the subscriber's telephone terminal in his house.

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

DRAM: Dynamic Random Access Memory. Widely-used low-cost memory chip technology based on high-level integration. Examples of DRAM chips: SDRAM, DDR DRAM, RDRAM, SGRAM. (See "RAM").

Ethernet: Network standard for high-speed communications for applications limited to local areas (covering up to 10 km).

Flash memory: A type of non-volatile memory. Its contents are preserved, even when the power supply is switched off.

Front-end manufacturing: Wafer processing that takes place in the cleanroom, as opposed to processing that happens after the wafer has been essentially finished. Once the wafer is done with its cleanroom processing, it moves into the back-end manufacturing, which involves test and assembly (packaging). See also: back-end manufacturing.

Giga: In information technology, prefix denoting a multiple of 2^{30} as in Gigabit (Gbit), Gigabyte (GByte).

GPRS: General Packet Radio Service. New generation of mobile communications (2.5 group) for higher data transmission capacities (up to 115 Kbits/s) in GSM networks.

GPS: Global Positioning System. Satellite and radio-based location identification and positioning process based on the transit-time differences of received signals.

GSM: Global System for mobile communications. Currently the most widely used digital mobile communications standard in the world.

Home gateway: This allows high-speed bi-directional data access into the home. Home gateways deliver digital information around the home. They can be considered as the next evolutionary step following the set-top box (decoder).

IC: Integrated Circuit. Electronic component parts composed of semiconductor materials, such as silicon; numerous components, such as transistors, resistors, capacitors and diodes can be integrated into ICs and interconnected.

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

Kilo: In information technology, prefix denoting a multiple of 2^{10} as in Kilobit (Kbit), Kilobyte (KByte).

LAN: Local Area Network (local network). Data communications network in an extremely limited physical space, such as the confines of one building.

Logic segment: Combination of the three Infineon business groups Automotive & Industrial, Wireline Communications and Secure Mobile Solutions.

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

Mega: In information technology, prefix denoting a multiple of 2^{20} as in Megabit (Mbit), Megabyte (Mbyte).

Microcontroller: A microprocessor integrated into a single IC combined with memory and interfaces, functioning as an embedded system. Logical integrated circuits of the highest complexity can be designed in a microcontroller and controlled by software.

Micron (micrometer): Metric linear measure, corresponding to the millionth part of a meter (10^{-6}). Symbol: µm. Example: the diameter of a single hair of a person is 100 µm or 0.1 mm.

Mobile RAM: Low-power DRAM designed for mobile applications like PDAs and smart phones.

MRAM: Magneto-resistive Random Access Memory is a non-volatile storage technology which has developed since the 1990s. Unlike conventional storage technologies such as DRAM and SRAM, which use electrically-charged elements to store information, this technology uses magnetically-charged elements – i.e. it exploits the characteristics of particular materials whose electrical resistances change under the influence of magnetic fields. In principle a variety of different mechanisms can be applied: Anisotropic Magneto Resistance, Giant Magneto Resistance and Tunneling Magneto Resistance. The last-mentioned of these is currently the technology of choice for the development of magneto-resistive RAMs.

Non-volatile memory: Memory that does not lose its stored information even when the power supply is switched off.

PDA: Personal Digital Assistant. An electronic address book, appointment calendar and notebook; in general synchronized with the PC.

Power semiconductor: In the last 30 years, power semiconductors have largely replaced electro-mechanical solutions in the fields of drive technology and in power transmission and distribution since they enable high energy flows to be managed almost at will. The advantage of the components is the speed with which they can alternate between the 'open' and 'closed' states, usually within a few millionths of a second. By exploiting the rapid sequence of on/off pulses, it is possible to simulate almost any kind of energy flow, e.g. even a sinus wave.

Radio Frequency Identification: RFID – This refers to a technology which permits wireless exchange of data with transmitter and receiver units. Reading and writing are done within a fraction of a second. Such identification systems are used, for example, for labeling products and goods.

RAM: Random Access Memory. Semiconductor memory that can be accessed in any order. The name is derived from, and is in contrast to, the sequential access memory of a tape storage medium. Data memory, known as main memory, contains programs and data. Examples: SRAM and SDRAM. (See "DRAM").

RF transceiver: The term "transceiver", created from the words "transmitter" and "receiver", is used to describe a combination of transmitter and receiver in a single package used in wireline and wireless communications. Radio Frequency (RF) transceivers are used in wireless communications, for example, in cell phones and cordless telephones.

ROM: Read-Only Memory. Digital, non-volatile data memory, in which data can be permanently stored regardless of the power supply. The most recent developments are in the form of Flash memories (NAND and NOR).

Semiconductor: Crystalline material that demonstrates electrical conductivity upon warming, increasing the level of conductivity with rising temperature. Semiconductors include silicon or germanium. The term is also applied to ICs made of these materials. The electrical conductivity of semiconductors can be changed as desired by the application of doping materials (as a rule boron or phosphorous).

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

Smart card: A plastic card, usually about the size of a credit card, with an embedded microcontroller. In contrast to a memory-based card, this type of card is equipped with a microprocessor which permits extremely secure processing of large volumes of data.

Telematics: The combination of telecommunications and the suffix "matic".

Tire Pressure Monitoring System (TPMS): A system that monitors the pressure inside a tire and alerts the driver when the pressure is insufficient.

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.

Voice over IP: IP telephony, also known as Voice over IP (VoIP), is the ability to telephone via a computer network and based on the Internet Protocol. When IP telephony is used to conduct conversations over the Internet, one talks of Internet telephony. The essential difference to conventional telephony is that voice data is not transmitted via a switched connection through a telephone network, but rather it is split up into IP packages which travel through the network on a unspecified route to their destination. IP telephony can share the infrastructure, i.e. the network, with other communications services.

Volatile memory: Memory that loses stored information when the power supply is switched off.

Wafer: Disc made of a semiconductor material, such as silicon, with a diameter of up to 300 millimeters.

WAN: Wide Area Network. Data communications network for a large geographic area, such as a country.

WDCT: Worldwide Digital Cordless Technology. Unified standard for wireless digital communications systems in North America. An adaptation of the DECT standard.

xDSL: xDigital Subscriber Line. Generic term for various technical designs for broadband, digital data transmission via existing copper telephone lines. Depending on the configuration, the "x" stands for Asymmetric (A), High bit-rate (H), Single line (S), Symmetric High bit-rate (SH) or Very high bit-rate (V).

Index

Financial calendar
Important financial dates 2005

::: Monday, January 24
Publication of first quarter 2005 results

::: Tuesday, January 25, 10:00 a.m. CET:
2005 Shareholders' Annual General Meeting in Munich, Olympiahalle (Olympic Hall)

::: Tuesday, April 26
Publication of second quarter 2005 results

::: Tuesday, July 26
Publication of third quarter 2005 results

::: Tuesday, November 10*
Publication of preliminary fourth quarter 2005 results and preliminary figures for the 2005 financial year

*preliminary date

Annual Report 2004

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