



Our first year

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Statements in this annual report with respect to Infineon's plans, strategies, and beliefs, as well as other statements that are not historical facts are forward-looking statements involving risks and uncertainties. The important factors that could cause actual results to differ materially from such statements include, but are not limited to, general economic conditions in Infineon's market regions, which are primarily Asia/Pacific including Japan, Europe and the US, demand for, and competitive pricing pressure on, Infineon's products and services in the marketplace; Infineon's ability to continue to win acceptance for its products and services in these highly competitive markets; and movements of currency exchange rates.

For a more detailed discussion of these factors, see the text on the right hand column on page 59.



* Actual size

00000001=1

NEVER STOP THINKING

This is our **first** annual report. We are reporting on Infineon's **first** full year as a company. And what a **first** year it has been! Since completing one of the largest IPOs ever undertaken by a high tech company, Infineon has beaten all records for revenues and profits. Revenues rose 72% over 1999, to €7.3 billion. Earnings before interest, minority interests and taxes (Ebit) grew even more, from minus €13 million to €1.67 billion. Earnings per share increased from €0.10 to €1.83. However, the greatest accomplishment of Infineon's **first** year may be that its revenue growth outstripped the semiconductor sector as a whole. The sector's revenues (expressed in US dollars) grew by 37% in calendar year 2000 alone, keeping the semiconductor business in **first** place among the world's high tech industries. There is nothing new about Infineon beating its sector.

The company did it five times in a row. Performances like this have made Infineon one of the world's fastest growing semiconductor companies – and put it into the world's top ten. How has Infineon done it? Well, it has been **first** on the market with a large number of groundbreaking, strong-selling innovations. You will read about these technological **firsts**, about the long-term strategy that produces them and about Infineon's other achievements in the following pages. You will also be able to learn about Infineon's people, their dedication and ability to innovate, as well as about the company's plans for the future in its very **first** annual report.



On behalf of the Supervisory Board

A handwritten signature in blue ink, appearing to read 'Volker J.'.

Volker Jung
Chairman of the Supervisory Board

On behalf of the management and employees

A handwritten signature in blue ink, appearing to read 'Ulrich Schumacher'.

Ulrich Schumacher
Chairman of the Management Board

The communications boom and where the chip fits in

Sales in the semiconductor sector rose 37% in calendar year 2000. In a total lack of coincidence, the number of mobile phone subscribers, fixed phone lines and online PCs increased to 678 million, 956 million and 230 million respectively during the same year.

Growing fastest of all – at about 120% a year – is the volume of communication and content flowing between these devices, now free of the barriers posed by technological differences and distance.

This has largely been the accomplishment of the semiconductor sector. Chips have enabled computers, telephones and virtually every other kind of electronic device to communicate with each other, worldwide.

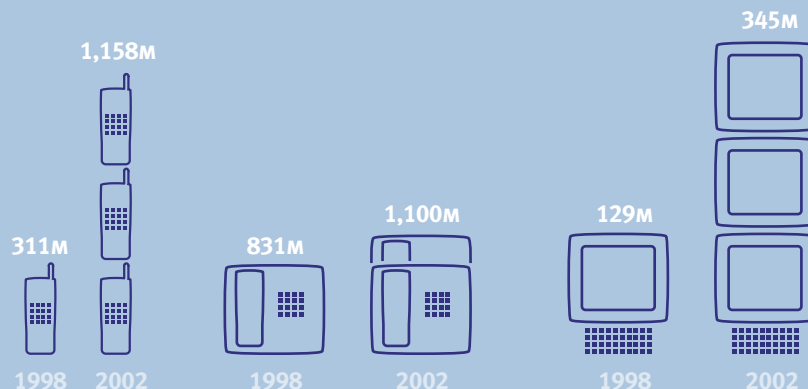
What's the reason for the boom in communication devices? Well, each new generation does so much more and costs so much less than its predecessors. And, because each new generation features more and more semiconductors, for example, the latest mobile phones have between 50 and 200 semiconductor devices each.

After a decade-long rise, the companies that make and operate communication equipment and systems now account for more than half of the semiconductor industry's sales. And this is just the beginning. Increasingly, communication devices will replace computers for accessing the Internet.

Hence a massive market opportunity for the semiconductor sector for the foreseeable future, according to all the forecasts. Total sales in the communications market are forecasted to grow by 17% to US\$ 60.7 billion in 2001.

Infineon never stops thinking about the market, and its needs, and because it turns these thoughts and needs into innovative products, the company will continue to be a driving force in the fastest growing segments of the overall semiconductor market.

AMOUNT OF MOBILE PHONE SUBSCRIBERS,
FIXED PHONE CONNECTIONS AND ONLINE PCS,
BY THE END OF 1998 AND 2002 IN MILLIONS.
SOURCE: GARTNER GROUP 2000.

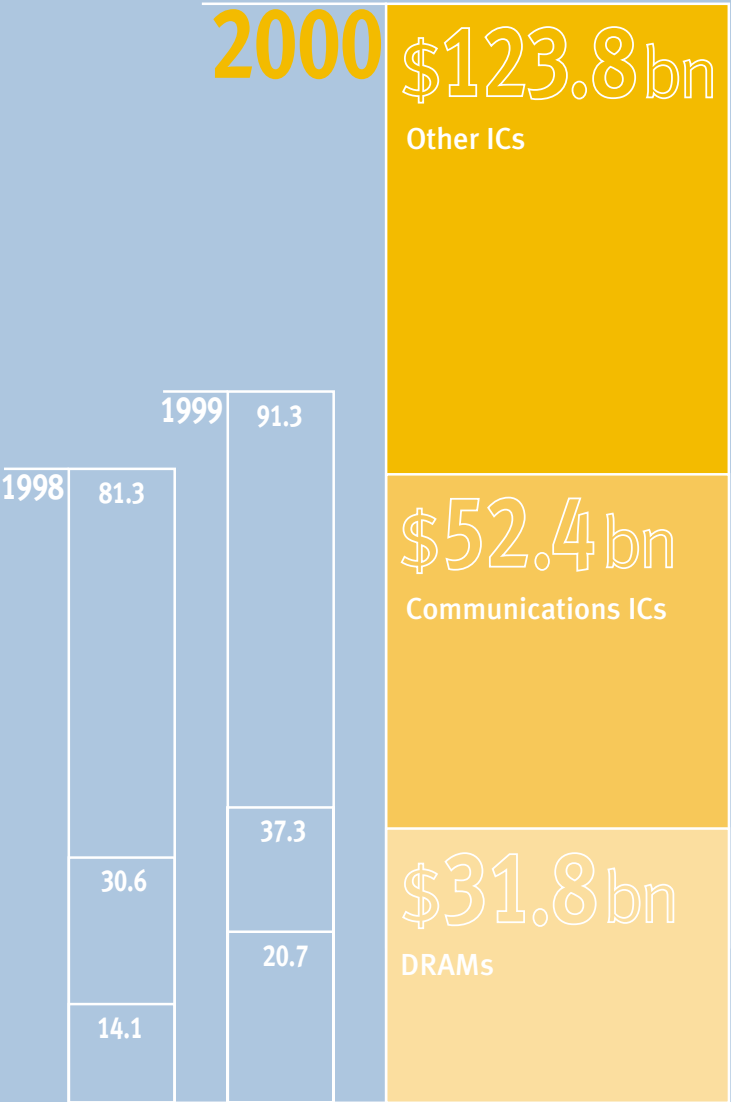


Market Development 1998–2000

OUR FIRST

Growth figures shown in US\$ billion.

SOURCES: DATAQUEST – AUG 2000 AND WORLD SEMICONDUCTOR TRADE STATISTICS – OCT 2000).



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NEVER STOP THINKING

First, a number of our key achievements

WHAT WE HAVE ACHIEVED

We more than doubled our revenues over the last two years, from €3.2 billion to €7.3 billion. We also recorded a €1.7 billion improvement in Ebit from 1999 to 2000. Coming from a loss in 1998, Infineon now has a positive Ebit-margin of 23%. All this was achieved at a time of strong competition and heavy investment, necessitated by the restructuring of the company and the ramping up of its operations for greater output and new production procedures.

HOW WE HAVE ACHIEVED IT

- By growing in many of the semiconductor world's cutting edge sectors.

Accounting for over a third of our revenues, our business areas selling chips for communication systems grew 36% in 2000. And this is just the start. The markets for Bluetooth related products and 3rd generation mobile telephones, broadband and other advanced wireline links, and other state-of-communication technology products are about to take off.

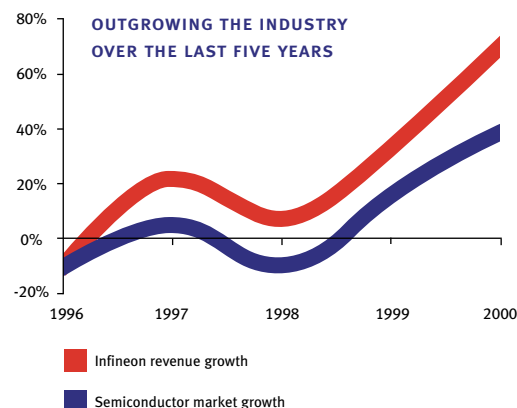
Infineon has developed chips used in all these revolutionary products, which might keep communications on a course of strong and steady growth in the years to come.

Our memory products business did even better than that. A 147% rise in revenues was due to generating a spate of new, high-end products with advanced features nearly and flawless reliability.

- By growing with the world's fastest-rising markets and the companies creating them.

From 1998 to 2000 our revenues from the Asia-Pacific region (including Japan) went from €649 million to €2.1 billion (+224%), and in the USA, from €626 million to €1.8 billion (+190%). At the same time, we consolidated our strong position on the markets in Germany and in the rest of Europe, recording two-year rises of 50% and 110% respectively, and of course, we intend to keep expanding into these markets in the years to come.

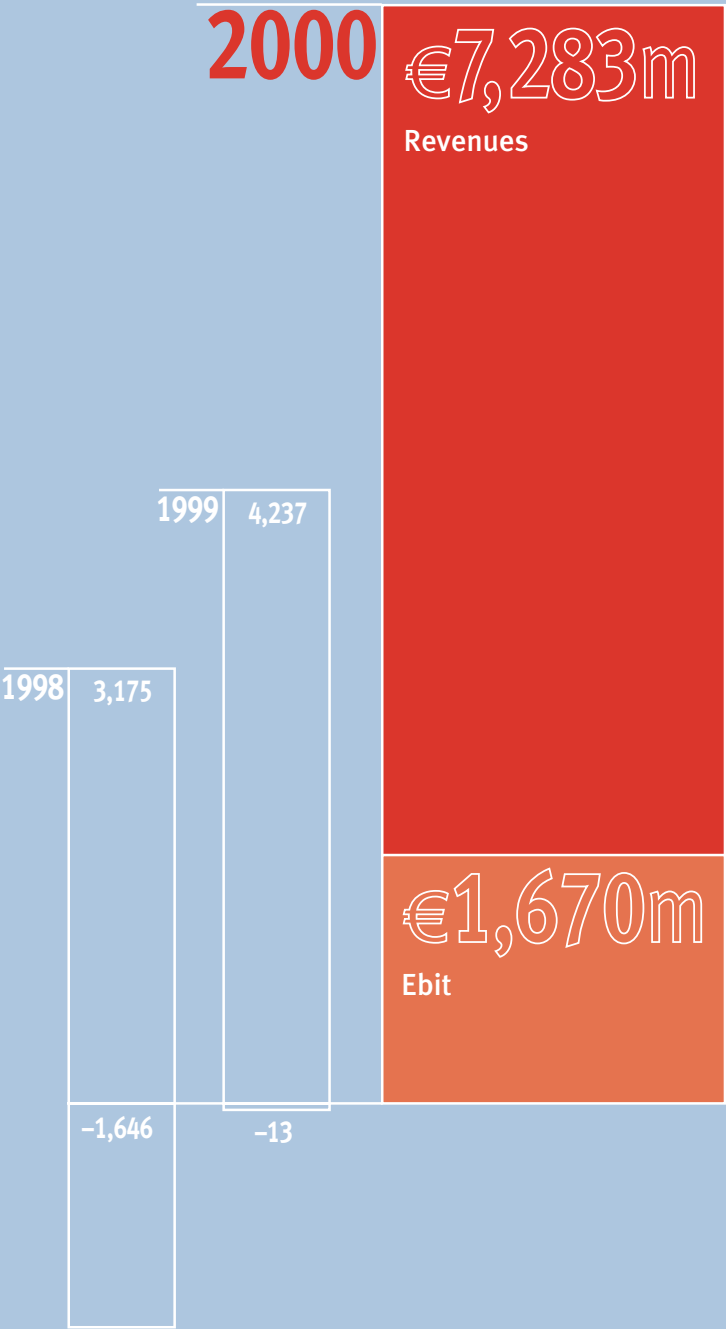
Next we'll tell you about the strategies, that produced these results, and about the hot technologies that will keep us at the cutting edge of these markets in the future.



Infineon Development 1998–2000

OUR FIRST

Fiscal year from October 1 to September 30 in Euro million
EBIT = EARNINGS BEFORE INTERESTS, MINORITY INTERESTS AND TAXES



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NEVER STOP THINKING



What a great first year it's been

DEAR FELLOW SHAREHOLDER,

Fiscal year 2000 was indeed a record for Infineon in all respects. We spun off from Siemens AG and, in March 2000, completed a very successful initial public offering, which is ranked as the largest IPO of a technology company to date. Our business results were the best in our history, with revenues rising to €7.28 billion, an increase of 72% over the previous year. Our revenue growth was driven by strong demand in all business groups, especially in communications and memory products, and was supported by a significant increase in our manufacturing capacity.

Infineon's earnings before interest and taxes (Ebit) also improved to a record level of €1.67 billion. Our strong earnings were driven by significant productivity gains and margin improvements in all segments.

Our net income rose to €1.13 billion, an increase of more than €1 billion over last year, and our earnings per share for the fiscal year jumped to €1.83, compared to €0.10 last year.

Infineon's outstanding business success is strong proof of our focus on growing the value of our company and building further confidence among our 700,000+ shareholders.

At the time of our IPO, we achieved a market capitalization of €27.85 billion which increased to more than €34.33 billion by the end of the fiscal year. Since establishing our independence from Siemens, we have become faster and more flexible, and are consequently better positioned to pursue business opportunities more aggressively in today's increasingly competitive market. Furthermore, independence from Siemens

has allowed us to increase market penetration with our key accounts, thus further creating value for both our customers and our shareholders.

We exceeded the expectations we set ourselves at the time of the IPO. Our gross margin improved from 29% in 1999 to 44% in 2000, and our Ebit margin improved to 23%. Over the past year, we made considerable progress on the execution of our globalization strategy, particularly with respect to balancing regional revenues.

Since the IPO, Infineon has made significant investments in the development of intellectual property by establishing seven new major R&D centers, bringing the total to 27 worldwide. All of them play a crucial role in building our strategic know-how and cutting-edge expertise that is the basis of our superior technology portfolio. Today, more than 5,000 highly qualified designers, engineers and specialists constitute the innovative, creative and dynamic core of our company and are, therefore, a crucial element of our success.

BECOMING A WORLD LEADER IN COMMUNICATIONS

Our objective is to create further value by winning market share in our fast-growing high-margin businesses, with particular emphasis on strengthening our leadership role in the communications areas. Along these lines, Infineon aims to increase its penetration in the wireline, wireless, and internet infrastructure markets.



In line with this strategy, we have successfully restructured our wireline communications business so that we may better target markets for fiber optics, high-speed communications, internet access, WAN and LAN. By acquiring Savan Communications and upon closing the acquisition of Ardent Technologies, we will have consolidated our leadership in the emerging broadband markets and optical networking switching technologies, respectively.

We further optimized our product portfolio by divesting mature business activities such as Image & Video. Further portfolio optimization will include the divestiture of our infra-red component business as well as the sale of our share in the Opto Semiconductor joint venture with Osram.

Streamlining our portfolio in this way will allow Infineon to create more value by concentrating on the emerging broadband communication markets, including the high growth areas such as the 'last-mile' to the home and office technology and super fast optical networks for high-speed data transmission.

In addition to our strength in wireline, we have an outstanding market position in wireless communications. We are number one in radio frequency ICs, and number two in baseband ICs for mobile phones. Furthermore, we have world leading expertise and significant market share in the still fast growing GSM/GPRS mobile phone business. Likewise, we currently have an outstanding technological leadership position for the future wireless standard Bluetooth, the exciting technology for wireless communications in the home and office, as well as UMTS, the advanced third generation mobile phone technology. We aim to grow rapidly in these dynamic market segments.

Value creation at Infineon also includes fortifying our world leadership in security applications and security systems expertise in the rapidly expanding electronic, mobile commerce, mobile communication and access segments. The explosion of online businesses and services in the Internet age is generating tremendous demand for advanced security and authentication technologies, such as our FingerTIP sensor. We expect Internet and online security to be one of the fastest growing markets in the future and we also aim to win additional market share.

STRENGTHENING PRODUCTIVITY AND COST LEADERSHIP IN MEMORY PRODUCTS

Our memory business saw a revenue increase of 147% to €3.47 billion and an Ebit increase to €1.3 billion. These record results were generated by significant productivity gains from the implementation of a very aggressive shrink-roadmap and from further capacity expansion. Infineon believes it is the first semiconductor company to complete the conversion of its memory-chip production to 0.17 micron.

Equally important is the strengthening of our world leadership position in the processing of 300mm wafers. We are constructing the world's first 300mm fab at our most advanced location in Dresden. The 300mm technology will allow us to produce chips with significant cost savings. We will ramp up 300mm production by the end of 2001, making us the first semiconductor company to do so, thus generating even-greater cost reductions in the years to come.

Infineon is in a unique position to create and offer converging technologies and solutions across a wide spectrum of the Internet

Infineon makes the Internet...

INSTANT

MEMORY FOR INSTANT DATA RETRIEVAL

- Move from the PC world towards the networked world
- Increasing market share in servers and high-end graphics
- Among first to develop next – generation high capacity DRAMs (512Megabit and 1Gigabit)
- Leading position in shrinkage and 300nm

Memory & Storage

FASTER

FROM ACCESS TO THE INTERNET CORE - RAISE THE LIMIT IN SPEED

- Strong technology-based market leader in VDSL
- ADSL full rate (CO side, deployment end of 2000)
- Leading position in SHDSL (deployment started)
- 60% market share for Internet Access Devices
- Improved position in LAN Switches
- Investing in high speed 10/40 Gigabit CMOS technologies to address 10-Gigabit Ethernet, SDH/SONET markets with first results by end of 2001.

Wireline

MOBILE

BRINGING THE INTERNET TO MOBILE NETWORKS

- Announced world's first silicon solution for dual mode GSM/UMTS
- Providing system-level integration for third generation (3G) base stations
- Meeting growing need for multi-mode devices including 2G (GSM) and 2.5G (GPRS)
- Introduced world's first qualified and smallest Bluetooth chipset

Wireless

SECURE

INTERNET ACCESS AND E-TRANSACTIONS: SECURITY IS CRITICAL

- World market leader for smart card ICs
- Supporting global standards including Java and Windows
- World leading crypto specialists
- Well positioned to set future advanced security standards for banking, e-commerce, Internet access (e.g. biometrics, ID-systems)

Smart Cards

IN YOUR CAR

- Know-how to build leading position in driver-information/navigation systems
- Exploit trend of increased semiconductor content in automobiles, e.g enhanced safety
- Unique technological position in automotive power and CoolMOS™ transistors
- High efficient switched mode power management and supplies for computers and mobile phones

Automotive



...and how we do it

Memory & Storage

- 64-, 128-, 256-Megabit DRAMs
- Embedded DRAMs
- High speed graphics and ASIC
- embedded control for mass storage equipment

Wireline

- Optical modules, switches and lasers
- Mappers and framers
- PHY layers
- Line interfaces, Subscriber Line Interface Circuits (SLICs)
- Embedded DSPs and embedded DRAMs

Wireless

- Radio Frequency discretes, ICs and modules
- Baseband systems including digital signal processors (DSPs)
- Bluetooth systems
- Gallium Arsenide (GaAs) power amplifiers

Smart Cards

- Smart Card ICs for mobile payment and identification
- Security ICs for PCs, notebooks, servers, mobile phones, digital TV
- Secure storage ICs (MultiMediaCard) for hand held devices
- ID-system ICs (biometric systems)
- Security consulting

Automotive

- 16/32-Bit Microcontrollers
- Smart Power
- Discrete Power (CoolMOST™, OptiMOST™, CoolSET™)
- IGBT (Insulated Gate Bipolar Transistor) Modules

12=00001100

NEVER STOP THINKING

We are also in an excellent position to enhance value by solidifying our world leadership in embedded DRAM as well as 256-Megabit DRAM. Moreover, we are extremely well positioned for the next generation of 512-Megabit and 1-Gigabit memory chips.

At present, we are aggressively moving into less volatile, but nonetheless fast growing, segments for server and network storage applications. Targeting the internet-storage markets will offset our memory business exposure to the dynamics of the traditional PC business, while also enabling us to win future market share in high-margin segments of the memory market.

In our Automotive business we maintained the number two position worldwide and number one position in Europe (without car radio) and we are in a good position to solidify this leadership in 2001 as well. We will further exploit the trend of increasing semiconductor content in automobiles, which rose by 20% during last year. Infineon also has an excellent leadership position in automotive and industrial power. And we intend to make full use of our system expertise in driver information and navigation systems creating value with our range of core competencies and unrivalled expertise in system level integration.

DRIVING THE INTERNET AGE WITH LEADING-EDGE CONVERGENCE TECHNOLOGIES

In the years to come, not only will the Internet become faster, more mobile, and more secure, but there will also be a tremendous need for storage capacity to accommodate the sheer amount of data that must remain instantly accessible. Infineon, with its focus on communications and memory, its broad technological know-how and superior system expertise, is in a unique position to provide essential building blocks for this future Internet. The Internet is rapidly advancing in every aspect of people's daily lives. Internet users will increasingly demand combined solutions of previously stand alone technologies (e.g. secure wireless solutions, systems that seamlessly combine wireline and wireless technologies, or systems with increasing amounts of embedded DRAM).

With our range of core competencies and our system level integration abilities, we are in an extraordinarily strong position to create these exciting convergence technologies. Driving the 'converged Internet age' – with unique semiconductor and systems solutions – will become a key element of value creation at Infineon.

OUTLOOK FISCAL YEAR 2001

Our outlook for fiscal year 2001 remains positive. Infineon is poised to outgrow the market once again, with particularly strong demand for our communications products. We will improve the effectiveness of our worldwide R&D network and we will continue investing in high growth, high margin markets. With the fast conversion from 200 to 300 millimeter wafer and extended foundry use, we significantly increase capacity for communications products.

Infineon seek to strengthen the Ebit margins in its communications segment and will seek to optimize our portfolio in all our business groups. We will concentrate on the less cyclical, but higher margin markets of server and network storage in our memory business.

Finally, I would like to thank all of our employees for their motivation, engagement and hard work, which has been the key to our success. Our record results are due to the creativity, dedication and team spirit of more than 29,000 employees. They are the engine driving our value creation process. Moreover, almost all of them are also shareholders in our company.

I am, therefore, especially happy to state that Infineon's executive and supervisory board propose a one-off dividend of €0.65 per share at the annual general meeting. Should the general meeting approve this proposal, the company will pay out a total of €407 million to its shareholders.

The entire team at Infineon made this a record year for everyone. We took our company's motto, 'Never Stop Thinking', as a challenge to the benefit of all – the company, our customers and employees, and of course, our shareholders. I am confident, that we will continue to live up to this challenge in a very dynamic and promising market.

Thank you very much for your confidence and support.

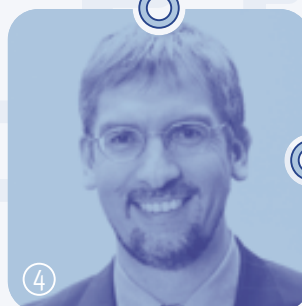
Dr. Ulrich Schumacher



one on one

Some frequently asked
questions answered by
the management board

1. Dr Ulrich Schumacher
2. Peter Bauer
3. Peter J. Fischl
4. Dr Soenke Mehrgardt
5. Dr Andreas von Zitzewitz



Q. Are you happy with how the financial community sees the semiconductor market?

A. We're happy that the world's investors and analysts are now seeing the transformation gripping the world's semiconductor sector. They've come to realize that our sector no longer lives and dies with the PC market, that, in fact, PCs now only account for about 40% of the world's consumption of chips. That percentage is declining every year.

PCs were of course the 'big ticket' customer of the semiconductor industry for many years, as the world went IT. The computer manufacturers' voracious need for chips gave our industry its 14% rate of annual growth over the past four decades – reportedly the best of any sector. It is this growth which gave the world one billion PCs and turned us into a more than \$200 billion-a-year industry in 2000.

The good news is that our industry is set to continue to grow over the next few years. PCs are going to play an important part in this. An even greater role has been and will be played by the connections linking these PCs and the exploding numbers of mobile phones, of communication-capable automobiles, of PDAs, set-top boxes and intelligent facilities into a single, world-spanning network.

Q. How does Infineon fit into the semiconductor industry's shift in focus?

A. We've been one of the engines driving our sector's transformation. This position has been produced by our major move into the fast-growing segments of the communication business. We're a strong supplier of semiconductor devices to the Internet access, WAN, LAN, Bluetooth, GSM, UMTS and advanced security application segments.

These positions have resulted from the implementation of our strategy, which is designed to make us a key enabler of M-business and E-business, and the wireless and broadband networks upon which they are carried out.

Q. Many analysts, however, still view Infineon as a memory products-driven company.

A. There's some validity for this view. We earned before interests and taxes €1.67 billion in 2000. Of that, 80% stemmed from revenues of memories. Not bad when you consider that our memory products business accounted for only 48% of our group's total revenues.

It's not that our other two businesses – chips for communication systems and for automotive applications – didn't have a very good year. Quite the opposite. The businesses recorded increases in revenues and Ebit of 36% and 57%, and 32% and 204%, respectively.

It's just that our Memory Products group did even better than that.

Q. So the analysts are right, after all.

A. Yes and no, because DRAM isn't just DRAM any more. Let's explain. One individual sector of the DRAM family is 'embedded DRAM'. It involves building other capabilities – information perception, processing and broadcasting – into memory-based chipsets, and, in doing so, turning them into full-fledged – and very small – communication and computing systems.

Q. What's the advantage of combining several chip functions?

A. By taking what used to be done by several semiconductor devices and putting them on one piece of silicon, a 'system-on-chip' or SoC, you save lots of space and power consumption. This fact explains why such SoCs are found in the world's mobile phones for example, which kept on getting smaller and handier.

As you surely have noticed, these phones need to be charged less and less often. And they can do more and more things, some of them quite amazing, others simply amusing. The phone gives you the ability to be rescued, supplied, informed and entertained anywhere in the world.

Q. How do these SoCs produce these new features?

A. You get a lot more than space and power consumption savings when putting a lot of operations right next to each other on a very small chip. You get the operations interacting with each other in new ways. The result of these interactions are these features.

These chips, by the way, have also been responsible for making the world's communication systems – including the world's phone grids, the Internet, corporate networks – capable of interacting with each other and with your needs and wishes.

Q. What role is Infineon playing in this process?

A. Take a look at our products and you'll see that Infineon is a world's leading developer and manufacturer of advanced ICs.

This gives us the breadth of expertise required to join all functions needed into single systems. The depth of the know-how we have in each of the semiconductor industry's technology area is shown by a key fact: Infineon now holds 28,200 patents and patent applications.

As the products below also detail, we're not only the world's best in coming up with new technologies, we're also extremely fast in turning them into market-making products.

Q. Does this hold true for the 300mm technology, reportedly set to revolutionize the semiconductor sector?

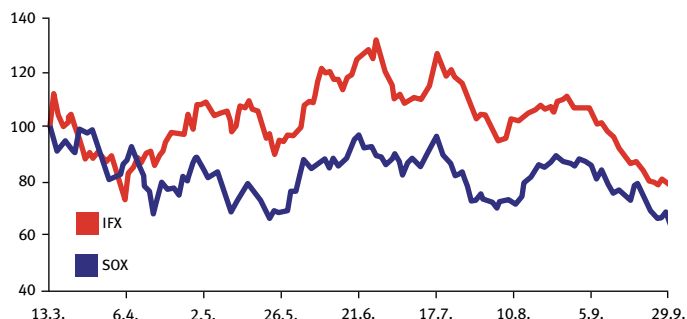
A. We will be the first DRAM player in the world to mass-produce chips made from 300-millimeter-wafers. That will occur in 2002, at our state-of-the-art facility in Dresden.

That will give us a substantial cost-advantage over competitors still using 200mm wafers. In this industry a few percentage points mean the difference between a company's thriving or going under.

This new technology will join with a range of others in enabling us to complete our transformation to a company benchmarked by its competitors and admired by its – very cost-conscious – customers. Today, Infineon's costs of manufacturing DRAMs are, for instance, less than those of most of our competitors.

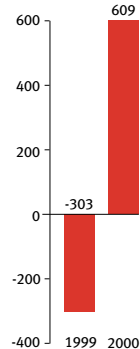
“Creating a company that people want to invest in is not enough...

DEVELOPMENT OF INFINEON'S SHARE PRICE VERSUS THE PHILADELPHIA SEMICONDUCTOR STOCKS INDEX (SOX) – FISCAL YEAR 2000



During fiscal 2000, Infineon turned around its Economic Value Added (EVA) to €609 million from minus €303 million in the previous year. EVA is defined as net operating profit after taxes (NOPAT) minus capital cost, which represents the expected return on the capital we employ.

EVA INFINEON WORLDWIDE (IN € MILLIONS)



...Creating an adequate shareholder return is even more crucial to safeguard Infineon's ability to attract more investment.”

Dr Ulrich Schumacher, CEO



MANAGEMENT REPORT

MANAGEMENT BOARD PROPOSES TO PAY A DIVIDEND

The management board has decided to propose a distribution of a dividend for the 2000 financial year. The reason: it will enable the Company's shareholders to participate in the excellent results recorded by Infineon Technologies in 2000. This step is also beneficial for the Company, as it allows it to take advantage of the spread existing between the German taxes levied on distributed and undistributed earnings. If necessary the capital can be secured via a capital increase.

The management board will propose to the annual general assembly of shareholders the payment of a dividend of €0.65 per share. Should the general assembly approve this proposal, the Company will distribute a total of €407 million to its shareholders. Shareholders subject to German taxation will also receive a tax credit amounting to €0.28 per share, boosting the total dividend to €0.93 per share.



1

Infineon
technologies

Our Mission

We create and maximise value for our customers, shareholders and employees by:

- designing, manufacturing and marketing the industry's most advanced semiconductor solutions and services;
- building upon our core competencies and our technological strength, we strive to offer our customers the industry's most comprehensive range of converging communications, internet and automotive solutions comprising broadband and access, wireless, security and storage;
- attracting and retaining the best talents worldwide by offering them a challenging creative environment and world-class rewards;
- Never stop thinking.

Management Team



Dr Ulrich Schumacher
President
Chief Executive Officer (CEO)



Peter Bauer
Executive Vice President
Chief Marketing & Sales Officer (CMO)



Peter J. Fischl
Executive Vice President
Chief Financial Officer (CFO)



Dr Soenke Mehrgardt
Executive Vice President
Chief Technology Officer (CTO)



Dr Andreas von Zitzewitz
Executive Vice President
Chief Operating Officer (COO)



Harald Eggers
Senior Vice President
Memory Products



Awa Garlinska
Senior Vice President
Sales



Gerhard Geiger
Senior Vice President
Wireline Communications



Ulrich Hamann
Senior Vice President
Security & Chip Card ICs



Loh Kin Wha
President
Infineon Asia-Pacific



Dr Werner Mohr
Senior Vice President
Corporate Frontends



Yasuaki Mori
President
Infineon Japan



Dr Karl Platzoeder
Senior Vice President
Corporate Backends



Dr Reinhard Ploss
Senior Vice President
Automotive & Industrial electronics



Jan du Preez
President
Infineon North America



Tony Webster
Senior Vice President
Cores & Modules



Guenter Weinberger
Senior Vice President
Wireless Communications

Amazing technologies, incredible markets

SYSTEMS-ON-CHIPS: SMALLER IS SMARTER

THE OPPORTUNITY

Take all of the communication and computing operations carried out by a range of semiconductor devices and assemble them on a single chip, and you can:

- realize huge savings in space, size and power consumption, both for the chips, and for the devices they enable.
- create faster interactions between functional units – and whole new applications.



THE MARKET

Mobility has helped make the world's semiconductor market. Sales of systems-on-chips (SoCs), found in the devices which helped us communicate, compute and travel anywhere in the world, accounted for a large portion of the \$237 billion semiconductor industry turnover in 2000.

These devices include the world's 'go anywhere' cell phones, notebooks, PDAs, and automobiles. As well as being leaner, cleaner and safer than their predecessors, today's automobiles are packed with SoC devices and applications.

WHERE INFINEON STANDS

Around half of Infineon's total revenues stem from SoCs, one of the highest percentages in the semiconductor world.

Not only does Infineon have a world-class library of designs, each a building block of a chip. The breadth and depth of our library is one reason why Infineon is so adept at quickly creating chips of great complexity.

Infineon is also expert in the creation and deployment Electronic Design Automation tools. The company has advanced know-how in each of the technologies needed to create a SoC, including embedded DRAM, embedded Flash, embedded controllers/DSPs and analogue/mixed signal functions.

Our mastery of the chain-of-development gives us a competitive advantage over many of our competitors, which restrict themselves to one or two phases of this process of adding value to silicon.

BIG WAFERS EQUAL BIG SAVINGS: THE 300MM STORY

THE OPPORTUNITY

Mastering 300mm production allows:

- Production of 2.5 times as many chips
- Realizing a substantial cost saving compared to 200mm wafers.

WHERE THE MARKET IS GOING

Most new production facilities built by the semiconductor industry in the future will use 300mm technology.

WHERE INFINEON STANDS

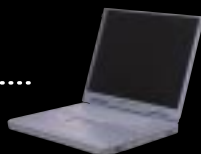
Infineon is clearly ahead of its competitors, because we were the first company able to supply customers with 64-Megabit DRAMs produced on a 300mm line. Mass production of 256-Megabit DRAMs will be launched in Dresden in the second quarter of 2002, to be followed by 512-Megabit DRAMs – a chip now being developed.

By 2003, this technology will be in use by all of the company's operations turning out DRAM chips. There will be no additional DRAM production capacity built, as the company's remaining 200mm facilities will be converted to the manufacturing of logic chips.

The wireless Bluetooth solutions will allow...



Your mobile to talk to your computer



Your notebook to coordinate dates with your assistant



Your PDA to print your notes



BLUETOOTH SOLUTIONS: THE END OF THE WIRE

THE OPPORTUNITY

To enable your computers, phones, printers and every other device in your office and home to communicate with each other, and do it without any wires.

THE MARKET

Tens of millions Bluetooth-use-chips will be sold worldwide in 2001— and hundreds of millions in 2002.

WHERE INFINEON STANDS

Infineon is already one of the world's leading supplier of chips incorporated into the wireless networks found in homes and offices. To date, the company has produced more than 30 million transceivers incorporated into DECT phones, WDCT systems and other wireless devices.

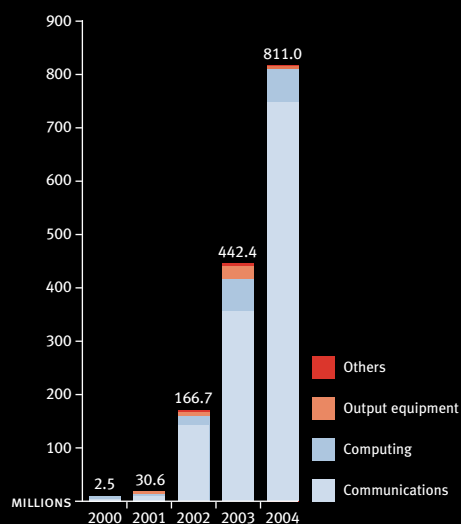
Thanks to Bluetooth-technology, these networks will be extended to include many more of the devices located in these environments.

Because of the existing knowledge base, Infineon is at the front in the race to serve the Bluetooth market worldwide.

The company recently launched BlueMoon 1. It is the world's first qualified product for setting up Bluetooth standard wireless links among mobile phones, computers, printers, headphones, PDAs (personal digital assistants), set-top boxes and other devices.

WORLDWIDE BLUETOOTH ENABLED EQUIPMENT

SOURCE: CAHNER'S IN-STAT GROUP, 2000



UMTS. PUT THE INTERNET INTO YOUR POCKET

THE OPPORTUNITY

Turn every mobile phone into a full-time Internet terminal.

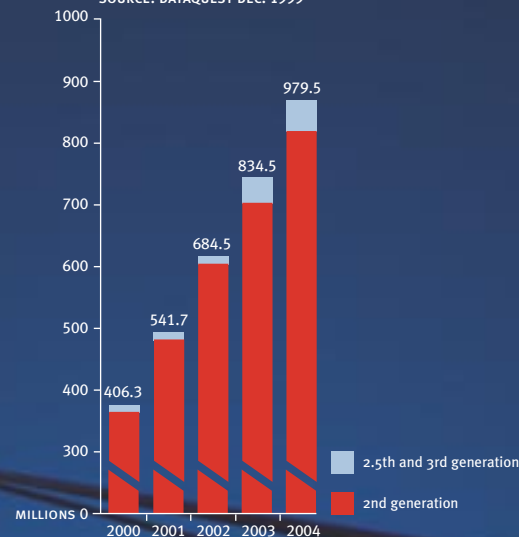
THE MARKET

There are now 900 million mobile phones in the world. By the end of 2003, there will be about 2 billion. That will make the mobile phone the world's number one form of communication by far. They, along with TVs and other 'non-PCs', will then account for more than half of all Internet use.

However, the numbers of mobile phones making use of GPRS (General Packet Radio Service), UMTS (Universal Mobile Telecommunication Systems) and other next generation communication systems, will grow at an even faster rate and by 2010, there are expected to be around 2 billion subscribers to UMTS networks.

WORLDWIDE DIGITAL CELLULAR AND BROADBAND MOBILE MARKET

SOURCE: DATAQUEST DEC. 1999



WHERE INFINEON STANDS

The company's new cellular baseband chip and high-frequency transceiver, dramatically cut the size and prices of Internet-enabled mobile phones. Used in GSM and EDGE mobile phones, the chips enable data transfer rates of up to 107 kilobits per second – that's ten times faster than your current mobile phone.

Our M-GOLD chip will have an even greater impact. It makes mobile phones 'dual mode', which means they can be used in both today's GSM and tomorrow's UMTS-based networks and devices. This adaptability will make the chip a prime engine of a 'painless transition' to UMTS – and a customer-winning product for Infineon, because all of the world's phone manufacturers are looking for a safe-from-the-start semiconductor technology they can bank on.

BROADBAND. NO MORE WORLD WIDE WAIT

THE OPPORTUNITY

Up to 120 times faster speeds and data transmission capacity on existing copper wires, via DSL (digital subscriber lines) – or 40,000 times faster over new, fiber optic cables.

No more waiting for Internet pages to download. Welcome to streaming, real time video and other services and applications.

THE MARKET

Even though ISDN is extremely high profile today, it will be replaced by DSL in various forms and by other 'last-mile' technologies in the future. Within a few years, this new tech will dominate the world's communication grids. And then be followed by even faster optical networks.

WHERE INFINEON STANDS

After being number one in the world for ISDN system semiconductors, Infineon now holds a leading position in VDSL technologies due to our new 10BaseS chipset.

The 10BaseS sends data up to 26 megabits per second – down a single copper wire, making it for the first time capable of handling interactive television, video games, high-

resolution teleconferences and other broadband services.

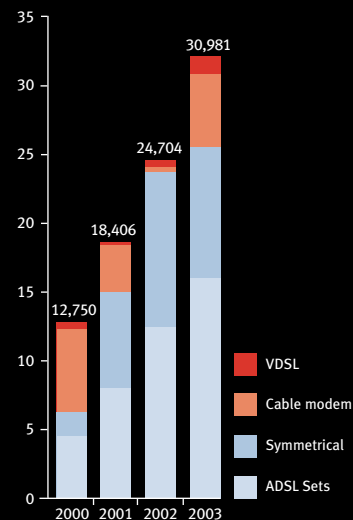
The 10BaseS chipset supports Ethernet data transmissions at speeds hundreds of times greater than ISDN networks – and over distances as great as 1.2 kilometers. It enables the fast and cost-effective installation of ultra-reliable communication networks wherever an existing PBX system or phone cabling exists.

Infineon also holds pole position in the SHDSL market, thanks to 'Socrates'. This single chip, single-channel SHDSL transceiver, boosts existing copper wires to a performance level close to that of a fixed line.

Same story in optical networks. Infineon's PAROLI family of products, enables broadband data transmission in local networks via fiber optic cables.

WORLDWIDE HIGH-SPEED ACCESS CHIPSET SHIPMENTS

SOURCE: DATAQUEST – AUG.1999



SECURITY. OR HOW TO PUT HACKERS OUT OF BUSINESS

THE OPPORTUNITY

To never ever have to lose sleep about viruses, online embezzlement or any other computer-based security problem again. To be able to get access to any service or information provided online, anywhere, anytime.

THE MARKET

The total market of security and chip card ICs including secure storage ICs, identsystem ICs and security consultancy is €5.5 billion in 2000 – and more than €22 billion in 2005.



**CHIP CARD MARKET
IN BILLIONS OF PIECES**
SOURCE: INFINEON ESTIMATES
DEC. 2000

1.9bn

2000

21-35bn*

*at least three
chip cards for
everyone on earth

2010

HOW INFINEON IS MAKING IT

According to the latest figures available, Infineon holds the market leadership of the world's market for ICs incorporated into chip cards, the prime 'gatekeepers' of the world's communication systems.

And that's just the start, as two developments show:

AN END TO THEFT OF PROPERTY AND DATA

Forget PINs and passwords. Infineon has something much better than these easy-to-forget, easy-to-steal 'guardians of access' – the tips of your fingers. Infineon's aptly-named FingerTIP sensor reads the imprint made by fingertips on your mouse, computer keyboard, dashboard or on anything else you use and cherish, and compares them with the patterns stored in its memory. Should they match, and should other personal data of yours jibe, access is granted. These biometric chips – the first of their kind to go into mass production – also permit the controlling of levels and extents of access.

THE START OF TRULY SAFE ONLINE TRANSACTIONS

Digital signatures are going to do away with the typing in of transaction code or credit card numbers into E-banking or E-commerce forms. Because they employ the capabilities of chips created by Infineon, these signatures have the safety and ease of operation missing from previous methods of verifying identity online.

In 2000, Infineon's new chip card controller was certified as meeting the world's strictest standard of operational security applied to chip card ICs.

It was the third time that a company product had accomplished that feat, something none of its competitors has yet attempted. This certification enables the chip to form the building block of digital signature processing systems.

Our partners: who and why

Q. It's supposed to be a dog-eat-dog world in the semiconductors sector. So why has Infineon set up working relationships with 20 leading companies, a number of them strong competitors?

A. Because the pace of technological development in the sector is so great, costs so much, happens so quickly, and is so far-reaching in its implications, without these partners, we would be seriously disadvantaged. And 'together' we know better in advance what the market wants.

Reduce billion-dollar risks to a more manageable size. Reduce time-to-market from years to months, and get a critical mass of companies to use new technologies.

These are some of the considerations that motivate the world's semiconductor companies to engage in joint R&D projects, many of them, including those under the auspices of Sematech and MEDEA, on an industry-wide, international scale.

One of the reasons why Infineon is such a sought after partner in these projects, including those of the Advanced DRAM Technology (ADT) alliance, is the size of our technological property library. Our partners include Intel (an Infineon shareholder), NEC (working together to develop so-called 'virtual-channel' memories), as well as Samsung, Hyundai and Micron. All strong competitors of ours.

One of our most productive relationships is with IBM, who also happen to be one of our largest customers. In 1990, together we launched the DRAM Development Alliance. Currently this partnership is creating the 1-Gigabit chip. We jointly own ALTIS, based in France and producing logic ICs. We also work with UMC, a Taiwanese chip manufacturer, to generate technologies enabling us to produce logic ICs with structures of between 0.13 and 0.10 micron.

As we know, the world's optical networking market will explode if the right infrastructure is in place. Developing that infrastructure is the job of an alliance forged by Infineon, Nortel Networks, JDS Uniphase and LightLogic, Inc.

We also have a partnership with Nokia creating wireless applications and several others. Our list of partners just keeps on growing.

AMD

Cisco Systems

Hitachi

Hyundai

IBM

IMEC

Intel

JDS Uniphase

Micron

Mosel Vitelic

Motorola

NEC

Nokia

Nortel
Networks

Samsung

Siemens

Toshiba

UMC

Our key accounts.

Success through partnership

‘Winning through helping our global key customers win even greater amounts of business in the industries which they dominate.’

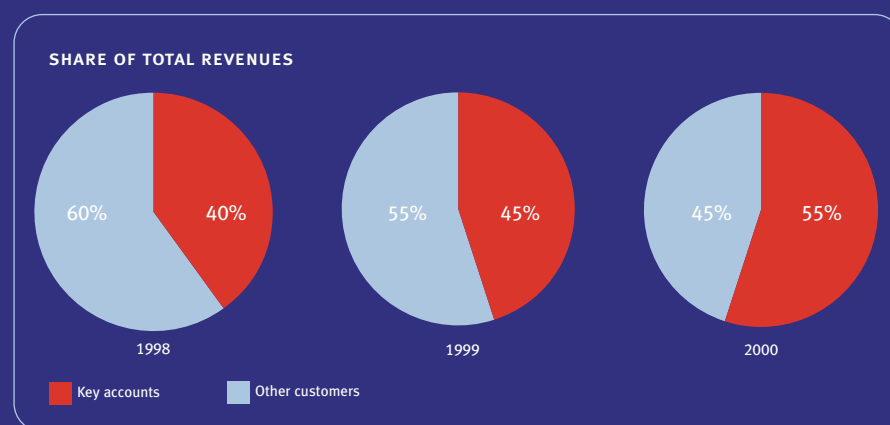
The successful pursuit of this thrust of our business strategy caused in fiscal year 2000 the share stemming from our key accounts to rise to 55% of our total revenues.

We are proud of that significant accomplishment, and especially proud that, since our spin-off, we have significantly strengthened the position we hold in some of the most important players of the segments targeted by the strategy. These segments include the communication, storage and automotive industries.

We strengthened the working relationships forged and increased the business done with such key players in the broadband communication sector as Alcatel, Cisco and Nortel. We further expanded the sales made to tier 1 mobile phone manufactures. We launched the sale of our most advanced products on the US automotive market through customers like Delphi and Visteon, just to name two of them.

We also achieved a breakthrough in Japan. By securing a significant portion of the DRAM business done by two of the country's leading manufacturers, we more than doubled the sales made to that country. Our lead-customers Fujitsu and NEC have made it possible to achieve this aggressive target.

Another current thrust of our strategy: increasing our production capacities, so as to achieve a broad-based return to normal lengths of product delivery in 2001.



Report of the Supervisory Board

DEAR SHAREHOLDERS,

Since 1 April 1999, Infineon Technologies AG, set up on 30 March 1999 and registered as a company on 14 July 1999, has carried on the former semiconductor business of Siemens AG. Infineon Technologies AG became a public company with its successful flotation on the stock exchange on 13 March 2000 and since that time its shares have been officially listed on the Frankfurt and New York stock exchanges.

The Management Board has informed the Supervisory Board in detail of the development of business and the financial situation of the company and its separate business units, both as part of its monthly reporting and at the respective meetings. Special events were also reported in writing. In addition, the Chairman of the Supervisory Board regularly sought advice from the Management Board in individual meetings.

MEETINGS OF THE SUPERVISORY BOARD AND ITS COMMITTEES

In the year under review the Supervisory Board held five meetings. The Chairman of the Supervisory Board kept in close contact with the Management Board at all times between the meetings.

There was no occasion to convene the Committee formed pursuant to Paragraph 27 (3) of the German Law on Codetermination (the 'Mediation Committee'). The Management Board Committee also did not need to meet but passed resolutions on changes to the articles of association by circulation of written proposals, within the limits of the authority granted to it under the rules of procedure of the Supervisory Board. The Investment and Finance Committee,

formed at the Supervisory Board meeting on 20 January 2000, met twice during the year under review; other resolutions concerning transactions requiring approval were passed by circulation of written proposals.

MEMBERS OF THE SUPERVISORY BOARD AND MANAGEMENT BOARD

Charles Herlinger, Karl Heinz Midunsky, Professor Dr. rer. pol. Michael Mirow and Dr. jur. Albrecht Schäfer retired as members of the Supervisory Board representing the shareholders with effect from 31 October 1999. At the extraordinary general meeting of 18 October 1999, Dr. Joachim Faber, Dr. h.c. Martin Kohlhaussen, Dr. Eberhard Rauch and Professor Dr. Ing. Ingolf Ruge were elected through a supplementary election as members of the Supervisory Board representing the shareholders for the remaining period of office of the retiring members with effect from 1 November 1999.

At the general meeting on 19 January 2000 the members of the Supervisory Board representing the shareholders were re-elected for a period of five years.

At the constituent meeting of the Supervisory Board on 20 January 2000, Dr. Eng. h.c. Volker Jung was elected as Chairman, Alfred Eibl as Deputy Chairman and Dr. h.c. Martin Kohlhaussen as an additional Deputy Chairman of the Supervisory Board.

In addition to the Chairman of the Supervisory Board and Deputy Chairman, who belong to the Mediation Committee by virtue of their office (Paragraph 27 (3) Law of Codetermination), Heinz-Joachim Neubürger was elected at

the constituent meeting of the Supervisory Board on 20 January 2000 to the Mediation Committee as a representative of the shareholders and Gerd Schmidt as a representative of the employees. The Supervisory Board also appointed an Investment and Finance Committee, to which the Chairman of the Supervisory Board and one representative each of the shareholders and the employees belong. Heinz-Joachim Neubürger was elected as the representative of the shareholders and Alfred Eibl as the representative of the employees.

FINANCIAL STATEMENTS

The financial statements of Infineon Technologies AG to 30 September 2000 and the Management Report of Infineon Technologies AG have been audited by the auditors KPMG Deutsche Treuhand-Gesellschaft AG Wirtschaftsprüfungsgesellschaft, Berlin and Frankfurt/Main, and endorsed with an unqualified auditors' certificate. We have also examined these documents ourselves.

KPMG's report on the audit of the financial statements was presented to all the members of the Supervisory Board and was discussed in detail in the presence of the auditors at our meeting to approve the accounts on 13 December 2000. We found no grounds for objection and agree with the result of the audit. The Supervisory Board has approved the financial statements prepared by the Management Board and they are therefore final.

We agree with the proposal of the Management Board to pay a dividend of €0.65 on each registered share. The financial statements of Infineon Technologies AG have been drawn up on the basis of a dividend rate of this amount.

The report on relationships with affiliated companies prepared by the Management Board and examined by the auditors pursuant to Paragraph 312 of the German Stock Corporation Act was granted an unqualified certificate by the auditors, confirming that the facts stated in the report are correct, that in the legal transactions mentioned in the report the company's performance was not misrepresented or possible disadvantages offset, and that there is no reason to evaluate the measures outlined in the report in any other way than the way in which they have been evaluated by the Management Board. We have also examined the report and the final result of our examination is that we have no objections to the concluding statement of the Management Board and agree with the result of the auditors' examination.

The Supervisory Board would like to thank the Management Board and, particularly, all the employees of Infineon Technologies AG for their commitment and achievement, especially in coping with the many challenges presented by the public flotation and the dynamic growth of the company. The Supervisory Board would, furthermore, like to thank the works councils for their constructive contribution.



Munich, December 2000

On behalf of the Supervisory Board

Volker Jung
Chairman of the Supervisory Board

We had a fabulous **first** year with many achievements to report to you. However, with so many exciting future opportunities, there is much more we would like to share with you in this annual report. To ensure you have a complete picture of where the company stands we have combined the legally mandated publication of the management report (which gives the complete view of the management board on fiscal 2000 both at group level and per segments) with additional information intended to give you an even better idea about Infineon's future opportunities and potential value creation. For easy reference, please see the table of contents for the management report*.

* In case you prefer just the management report in its original sequence, you can order the 'Short Report 2000' free of charge. Please point your browser to www.infineon.com/investor or contact Investor Relations by calling (+49) 89 234-26655.

**BUSINESS REVIEW OF INFINEON TECHNOLOGIES AG
AND GROUP FOR THE 2000 FINANCIAL YEAR
(OCTOBER 1, 1999 – SEPTEMBER 30, 2000)**

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SUCCESSFUL IPO AND RECORD RESULTS

In 2000, Infineon expanded its business well above the growth-rate of the market and registered an impressive rise in profitability. At the same time the Company took a number of steps to position itself for a successful future. Research and development activities were intensified, production capacities were expanded and sales and marketing efforts were improved.

In May 2000, the cornerstone was laid in Dresden for the world's first facility to produce chips from 300 mm silicon wafers, starting in 2002. Infineon believes that this will allow the company to further enlarge its technological leading position and to secure a significant competitive advantage.

Nearly one year after Siemens' semiconductor business was established as a separate company, Infineon Technology AG's stock was listed on the Frankfurt and New York Stock Exchanges – on the latter as American Depositary Shares (ADS) – on March 13, 2000. On account of its size and strength, Infineon has been incorporated into the line-ups of companies comprised in the DAX-30, in the FTSE Euro top 300 and in several segments of Dow Jones's Euro STOCK indexes.

Infineon's IPO has provided the company an access to additional forms of financing. It has also given the Company with an 'acquisition currency', available to finance acquisitions especially also in the USA.

As sole shareholder, Siemens sold 156.8 million Infineon shares. Infineon placed 16.7 million shares at the securities exchanges where it is listed. The Company also sold 7.6 million shares to Intel in a private placement. These transactions yielded total proceeds to the Company of Euro 821 million, and resulted in a reduction of Siemens' shareholding to 71%. In a further move, Siemens issued guaranteed notes exchangeable into an aggregate of 4% of Infineon's shares. These notes were listed at Luxembourg's securities exchange in August 2000. The notes bear a fixed rate of interest and mature in August 2005. Holders can convert the notes into a total of 25,000,000 Infineon shares from August 2001.

The world's semiconductor market recorded strong growth in financial year 2000 across all major market segments. Demand for chips outstripped producers' ability to supply them in nearly all market segments.

In a forecast issued in October 2000, *Gartner Dataquest* predicted that worldwide sales of semiconductors would amount to US\$ 232 billion in calendar year 2000 – up 37% over 1999. Non-memory chips – logic and analog, discrete and optical-based components – are projected to grow 30%. Accounting for approximately one quarter of the industry's total sales, the market for memory chips – comprising both dynamic-random-access-memory chips (DRAMs) and flash memories – is expected to grow twice as fast.

Gartner Dataquest foresees the Asia-Pacific region's growth coming to approximately 40%. The US market for chips is set to record a 38% increase, the Japanese market 35%. The overall growth figure for Europe: 34%.

INFINEON UNDERTOOK THE FOLLOWING MEASURES TO PARLAY THE ADVANTAGEOUS CONDITIONS PREVAILING ON ITS MARKETS INTO A RISE IN REVENUES AND ORDERS:

- The company pursued its development of the business done in such low-volatility, fast-growing segments as communication systems and high-end DRAMs
- increased the size of its research and development network;
- reduced its newly-created products' times-to-market;
- increased the capacities and productivity of its manufacturing facilities;
- increased the numbers of persons working in each of the company's business segments and regional markets.

A STRATEGY YIELDING A COMPANY-WIDE STORY OF SUCCESS

Infineon reviews its strategic positioning continuously and the resulting organization of its business segments in order to continue the positive development of revenues and income since its spin-off from Siemens AG.

The main points of the strategy: to invest in those areas of business displaying high rates of growth, and to review those product families which do not fit into the core areas of business of the individual corporate segments to which they have been assigned. This review can result in the sale of these product families, or in the re-assignment to a segment to which they show a better fit in respect of technology, market and customer bases.

The implementation of this strategy in financial year 2001 has led to a reorganization of the Wireline Communications segment, which is now focussing on the development and marketing of Internet infrastructure products.

This reorganization involved the transfer of the computer peripherals business unit, which had sales of Euro 334 million in financial year 2000 (in 1999: Euro 122 million), from the Wireline Communications segment to the Memory Products segment.

The high-speed communications business unit recorded sales of Euro 35 million in 2000 (1999: Euro 30 million). The unit was transferred from the Wireless Communications segment to the Wireline Communications segment.

Infineon made a number of other decisions to implement this strategy at the beginning of 2001. In October 2000, the Company agreed to sell its 'Image and Video' (I&V) business unit to Micronas Semiconductor Holding AG, Zurich. I&V develop and sell products used in consumer electronics. The business unit registered sales of Euro 139 million in 2000 (1999: Euro 120 million).

Infineon's management board has decided to sell its infrared components business. The business unit's main products – high-speed and linear optical couplers – are not part of the core activities being pursued by the Wireline Communications segment. Infrared components had sales in financial year 2000 of Euro 137 million (in 1999: Euro 101 million).

CHIPS FOR COMMUNICATION SYSTEMS: SALES AND EARNINGS UP SHARPLY

Infineon's Wireless Communications, Wireline Communications, and Security & Chip Card ICs (without opto business) segments registered total sales of Euro 2,536 million (in 1999: Euro 1,861 million), an increase of 36%. Overcoming the lack of production capacities, both in-house and external, the segments' Ebit (earnings before interest and taxes) increased 57%, from Euro 247 million to Euro 388 million.

INFINEON IN FINANCIAL YEAR 2001: MOVES TO IMPROVE BUSINESS OPERATIONS AND OUTPUT

In October 2000, Infineon entered into an agreement to acquire Ardent Technologies for \$42 million. Headquarters in Sunnyvale, California, Ardent is specialized in the development of highly integrated circuits incorporated into broadband switching systems. The company has a large number of products. These are employed in Fast- and Gigabit-Ethernet networks. The acquisition will augment the position held by Infineon's wireline segment on the fast-growing market for chips incorporated into LANs.

At the beginning of financial year 2001 Infineon's subsidiary Sci-worx GmbH in Hanover acquired the major business operations of Sican GmbH, one of the largest independent designers in Europe of communication-application ICs. The approximately 300 employees of Sci-worx develop and market systems-on-chips. These are used in wireless and wireline communication networks requiring high degrees of operational security. Sci-worx's activities complement those of Security & Chip Card IC segment.

In October 2000, Infineon purchased the remaining 50% of the equity in Semiconductor 300 GmbH & Co. KG from Motorola Inc, pending approval by the appropriate anti-trust authority. The Dresden-based company plans to be the first volume production facility in the world for DRAMs using 300-millimeter wafers. The state of Saxony and M+W Zander, a subsidiary of Jenoptik, have made investments in Semiconductor 300.

2001: PROSPECTS**Industry analysts: strong rate of long-term growth for the semiconductor market**

The world's semiconductor market is projected to grow steadily in 2001, in all of the market's geographic regions. This growth is expected to be especially strong in the USA and Asia-Pacific regions. These are the forecasts made by such trade organizations as *WSTS* (World Semiconductor Trade Statistics) and such independent research institutes as *Gartner Dataquest*, *VLSI Research* and *Future Horizons*. They also foresee demand continuing to rise, at a low double-digit rate, well into 2002.

The prices prevailing for DRAMs started declining in August 2000. This decline has been attributed to the large amount of inventories maintained by manufacturers of PCs and distributors. Several market research organizations, among them *Gartner Dataquest* (forecast issued in October, 2000), expect these prices to increase once inventory levels have come down again and demand for certain products increases. No one can, of course, guarantee that these price increases will actually materialize.

The long-term forecasts issued by such institutes as *Gartner Dataquest* foresee volatile but on average double digit growth rates in the semiconductor industry until 2004. The possibility that growth rates might decline does not diminish the management board's confidence that the semiconductor industry will continue to outgrow other industries such as the electronic, automobile and chemical over the long-term.

INFINEON EXPECTS TO CONTINUE OUTGROWING THE MARKET

Infineon is a world leader in manufacturing state-of-the-market memory products in a cost-efficient way. The Company's other business areas have successfully devoted themselves to serving the fastest-growing segments of the world's communication industry. These accomplishments and focuses have enabled Infineon to outgrow its fast-rising market in recent years.

The Company's management board is taking steps to maintain this competitive edge. It is greatly increasing the capacity of the Company's manufacturing facilities, whose output will further be boosted by the introduction of such new, productivity-raising technologies as the 300 millimeter, planned to take place in 2002. The starting up of this production process in Dresden will enable existing 200 millimeter-based operations to be converted to manufacturing chips incorporated into communication systems.

STARTING IN 2002: TAX BREAKS FOR GERMANY'S COMPANIES

Germany recently reformed its corporate tax code. The reform lowered the maximum tax rate applied to corporate income to 25%. This applies to both distributed and retained income. Capital gains resulting from the sale of equity interests held in German companies will no longer be subject to taxation, providing that such transactions fulfil a variety of conditions. The resultant decline in the country's tax revenues is to be offset by newly defined tax-lives of fixed assets and the elimination of other tax breaks.

Most of the changes to the tax code will begin to apply to Infineon as of October 1, 2001, and the start of financial year 2002. The changes will slightly reduce the rate of taxes paid by Infineon on income earned in Germany.

WHAT'S AHEAD FOR ...**...Communication systems**

The market for chips incorporated into communication systems will continue to be driven by the creation and extension of advanced broadband and optical infrastructure. It is this infrastructure which serves as the platform for e-commerce and other Internet-based transactions and development. Demand continues to grow for mobile communication devices capable of cross-technology operations. This demand is paving the way for such new technologies as UMTS and Bluetooth. Systems-on-chips enabling these technologies feature built-in software and highly efficient power management applications.

...the Group as a whole: sales and earnings

In order to achieve a high net operating margin in 2001, Infineon intends to undertake measures further increasing the productivity of its memory chips segment. It is this productivity that has made the segment the most cost-efficient of all its peers. To make sure that the Company continues to be successful in the DRAM market in the years ahead, the use of the 300millimeter production technology is scheduled to be launched at an early stage - financial year 2002.

Infineon's management board plans on reducing the role played by the Memory Products segment in determining the Group's total results. Doing this will require getting strong performances from Infineon's other segments. This is already occurring in the Wireless Communications segment, whose sales and Ebit figures are at high levels. Above-average rates of sales and net margin growth are also expected for in 2001 by the Wireline Communications, Security & Chip Card ICs, and the Automotive & Industrial electronics segments. Infineon has also implemented measures to increase its shares of certain key markets.

The Company's management board plans to increase research and development spending in absolute terms, but expects the ratio of R&D expenditures to sales to decline. To make sure that the costs and times of completion for R&D projects continues to decline, the Company intends to step up its deployment of benchmarking processes.

Infineon's expenses for selling, general and administrative are already among the industry's best. The Company will strive to maintain these low levels in the years to come.

The Balanced Scorecard was launched as a pilot project in the Security & Chip Card ICs segment. The scorecard has proven to be an efficient and effective way of guiding the Company. In the meantime the scorecard has been introduced throughout the Group.

Infineon's management board expects 2001 to bring a rise in sales, one well above the increase achieved by the market as a whole. The Company's gross margin will largely be determined by the developments taking place in the market for memory chips. The objective is to keep it at the high level registered in financial year 2000.

It's not just what we think, it's what our customers think that matters

Each year, we take a representative sample of the companies we sell our products and services to, and ask them to assess all of the key aspects of our operation. The answers we get, and the results of other customer satisfaction surveys carried out during the year, show that we are constantly re-engineering our operations.

Regularly we let our customers know that we take their opinions seriously and that we use these opinions to help us modify how we work with them. And guess what? It works.

In the 2000 customer satisfaction survey our customers gave us a 70.9% rating, and that was 3.5% points better than 1999. The overall total was made up from individual results. For example, they gave us 66% for our pricing policy and our delivery logistics and 68% for our product cost-benefit ratios. They also gave us 80% for product quality and 82% and product reliability.

We scored low on logistics because we were scrambling to keep up with a 72% rise in revenues, and yes, we will do better next year. But high scores for quality and reliability reflect our determination to provide the best quality product bar none.

To get more information about our customer thinking, email us at:

customer.satisfaction@infineon.com

MAJOR OEM* CUSTOMERS

COMMUNICATIONS

Alcatel, Cisco, Ericsson, Giesecke & Devrient, Gemplus, Lucent, Matsushita, Motorola, Nokia, Nortel, Oberthur Card Systems, Sagem, Samsung, Schlumberger, Siemens, Sony, V-Tech.

MEMORY

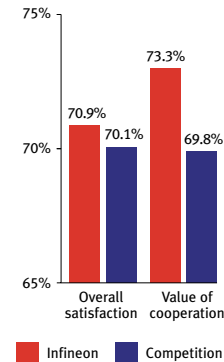
Acer, Compaq, Dell, Fujitsu, HP, IBM, Seagate, Sun.

AUTOMOTIVE & INDUSTRIAL

Bosch, Delphi, Denso, Siemens, TRW, Visteon, VDO.

*Original equipment manufacturers

HOW DO THE INTERVIEWEES RATE THE OVERALL SATISFACTION AND THE VALUE OF COOPERATION ON AVERAGE?



DIRECT SALES: FOCUSED ON SERVING 300 CUSTOMERS

After becoming an independent Company, Infineon established its own dedicated sales network. It is partially staffed by people previously working for Siemens companies in the respective markets. The network produced 89% of the Company's sales in 2000 (1999: 79%). It is focused on serving some 300 direct customers. To cover the large number of additional customers, Infineon has established excellent relationships with a number of distribution companies throughout the world.

Infineon's sales and marketing operations employed some 2000 staff members as of the end of the financial year. This network is to be complemented by an electronic platform that will serve all of the Company's customers.

INFINEON: 72% RISE IN SALES

The Company had sales of Euro 7,283 million in financial year 2000. That was up 72% over 1999's Euro 4,237 million. This increase was boosted by the Euro-Dollar weakness. Excluding this exchange effect, the year-to-year increase amounts to 60%. Two figures express just how strongly Infineon performed in 2000. The sales registered by the Company during the first three quarters of 2000 were Euro 666 million greater than those recorded in all of 1999. In the last quarter of 2000, Infineon recorded sales of Euro 2,380 million. That was an all-time high for any three-month period.

All of the Company's business segments contributed to this growth: it was led by Memory Products, whose sales jumped 147%. This resulted from additional capacities made available through significant increase in productivity and the substantial increase in the prices prevailing for the segment's products.

These achievements stemmed from a further accomplishment: the Company's expansion into high-growth markets located outside Europe. Infineon recorded sales of Euro 2,100 million in the Asia-Pacific region. That was up an impressive 134% from Euro 899 million in 1999. The increase in sales in the USA was nearly as strong: 119%. Sales went from Euro 827 million to Euro 1,814 million.

These accomplishments enabled Infineon to consolidate its position as one of the world's top ten semiconductor manufacturers.

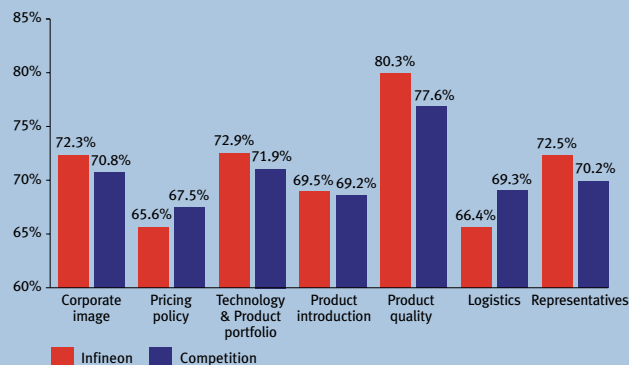
NEW RECORD FOR ORDERS ON HAND

The semiconductor industry is marked – especially in the mass-market area – by short lead-times. In times of product shortages the backlog tends to increase.

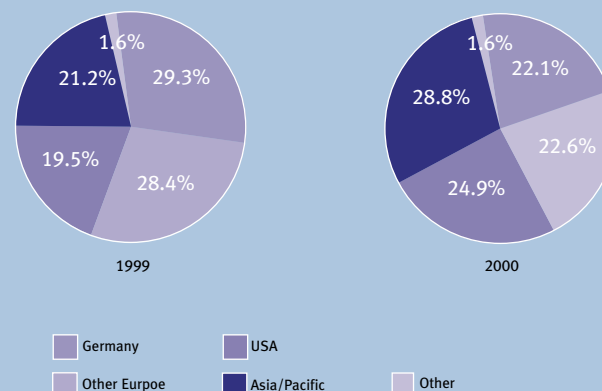
As mentioned above, demand for semiconductors outstripped supply in 2000. This caused the level of both new orders and orders on hand to increase substantially, resulting in a rise in average lead times. As of September 30, 2000, lead times were an average of 3.6 months, up from 2.9 months as of September 30, 1999. Some of the Company's communication segments had lead times ranging between 5 and 6 months.

WHAT OUR CUSTOMERS THINK OF US

HOW SATISFIED ARE THE INTERVIEWEES IN ALL PERFORMANCE AREAS IN AVERAGE?



NET REVENUES BY GEOGRAPHIC REGION



The more we think, the more we produce

Infineon has so many first-to-market products because our R&D network gets the design and manufacturing processes right first time, faster. This is the result of our large-scale investment in facilities, human resources and rigorous benchmarking. Take AliDD™ – a multi-channel ADSL chip. One of the most complex chips ever produced by Infineon.



The complexity stems from the chip's large-sized and challenging requirements, using ADSL technologies to speed data down copper cables at speeds from 10 to 100 times greater than today's ISDN connections.

It took just five months to develop the chip, one of the shortest periods on record.

We needed to be fast. The market for ADSL technologies is mushrooming all over the world. ADSL lines form the 'last mile', or the links connecting home and office PCs and phones with the Internet and other global communication grids.

The team, which designed AliDD™ is based at Infineon's R&D centers in Singapore and the USA. They worked with the company's product definition unit, based in Munich, and with Infineon's customers, all over the world.

More evidence of what happens when we never stop thinking.

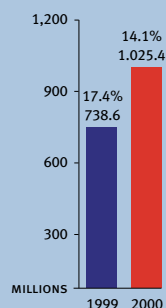
R&D OBJECTIVE

THE OBJECTIVE WE SET FOR OURSELVES

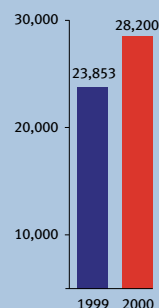
In March 1998 we committed ourselves to doubling the number of persons working at our development centers within two years. Number of employees at the time: 560, 80% of them design engineers.

HOW WE ACHIEVED IT

Between March 1998 and March 2000, the number of employees working at Infineon's Development Centres went from 560 to 1,170. Current number: more than 1,300 employees.

RESEARCH AND DEVELOPMENT EXPENDITURES⁽¹⁾

(1) in % of revenues and in total euro millions

NUMBER OF PATENTS AND PATENT APPLICATIONS**HOW AND WHY WE DID IT**

Within this 24 months, we opened 12 new development centers. Each with its own area of specialization, they give us the broadest, most successful base of technological development in the world of semiconductors, as the spate of revolutionary products produced by our pipeline shows.

R&D ACTIVITIES WORLDWIDE EXTENDED

Infineon is among those setting the pace of technological change in the world's semiconductor industry. Few other sectors can match the industry's rate of developing and deploying new technologies. Infineon's ability to stay at the forefront of its industry stems from the products and services ensuing from its proprietary R&D departments, and from the work the departments conduct through partnerships with semiconductor and other leading technology companies. Infineon enters into such partnerships because the partners share both costs and risks of development, and because they make products available in the market faster.

Most of the Euro 1,025 million spent by the Company on R&D in 2000 went into the development of profitable products. In addition Infineon developed further the process technologies for producing semiconductors, and its portfolio of universally applicable processor modules. We also optimized our assembly technology and increased the degree of automation within our development operations. This, in turn, increased the efficiency of the chip designing process.

An additional six development centers

Infineon's network of development centers never stops growing. Each center has been located in areas featuring clusters of engineers who have the specialized know-how required by the Company's R&D activities.

As of this writing, Infineon Technologies AG maintains 27 such centers. This includes the ones established in 2000: Aalborg (Denmark), Durham and Nashua (USA), Linz (Austria), Nuremberg (Germany) and Tel Aviv (Israel). An additional center was established in greater Grenoble, France, in November 2000.

The Group's research and development activities employ more than 4,700 R&D personnel as of September 30, 2000.

Further increase in patents and other rights to intellectual property

Siemens ensured that Infineon would get off to a great start by contributing a large portfolio of intellectual property rights. The portfolio contained more than 25,000 patents. Infineon continued to add to this portfolio in 2000. As of September 30, 2000, Infineon had 28,200 patents and patent applications. These are held in nearly 100 countries, and fall into 5,250 discrete families of technologies (1999: 4,210). Infineon has a further source of intellectual property, by virtue of the agreement concluded with Siemens. The agreement grants each Company reciprocal, limited-scope rights to the other's stock of intellectual property.

The world's number one supplier of systems-on-chips

The development work undertaken by Infineon's teams in 2000 had two key thrusts. The first was to produce high-complexity systems-on-chips. These products are used by the mobile links, broadband communication, security systems and applications, and automotive sectors. All of these have two things in common. The sectors are growing quickly, and they are not as volatile.

The second thrust was to extend the range of products provided to the high-end of the memory chip market. Such chips are used in advanced PCs, notebooks and Internet servers.

Wireline. Or, the very, very, very fast internet

Infineon's Wireline Communications group launched the APON project in June 2000. APON (ATM Passive Optical Network) is part of Infineon's convergence strategy, and forms the third generation of passive optical networks. It enables the single-network transmission of voice, data, video, and TV programs to residential and business sectors. Which means almost light speed data transmission.

An APON network connects a central office to a customer over a single fiber. It does this by using a technology that eliminates the need for additional equipment in the central office, leading to reduced overall expenditures for network equipment and operating costs.

The market potential for APON is huge. The number of households equipped with glass fiber hook-ups in North America alone, is currently rising at the rate of two million a year. With many parts of the US copper wire-based grid, set to be scrapped over the next few years, growth is expected to be explosive. Additional high potential markets are China and Japan, both of which already have large glass fiber installation bases.

The APON solution introduced by Infineon features chips with capabilities not yet provided by any other manufacturers. And they're complemented by the company's advanced fiber optic components and powerful Home Gateway processor. Together, they will create the first end-to-end APON solution available on the market, putting Infineon right at the front in the booming market for Internet infrastructure.

Determined to further increase our edge, we intend launching a three-chip end-to-end APON solution as early as summer 2001.



BUSINESS REVIEW OF THE WIRELINE COMMUNICATIONS

BUSINESS GROUP FOR THE FINANCIAL YEAR 2000

Realignment

The realignment of this segment resulted in a number of successes already in 2000. The segment successfully launched a range of new products, used by customers supplying the infrastructure of the Internet. The segment also strengthened the ties it maintains to key customers.

The successes caused the segment's sales to rise from Euro 720 million to Euro 940 million, an increase of 31%. Especially high rates of sales growth were registered by the areas producing components for glass fiber-based and local Gigabit-Ethernet networks.

The segment's Ebit did much better, jumping 90%, from Euro 41 million to Euro 78 million. The segment has devoted itself to developing the products needed by the fast-growing LAN, WAN, ACCESS and optical networks segments of the wireline market. The successful implementation of this strategy enabled the segment to absorb the Euro 60 million charge to earnings resulting from the acquisition of Savan. Excluding the effects of the acquisition, the segment's Ebit rose to Euro 138 million—up 237% over the previous year.

The segment's Ebit margin staged a corresponding increase from 6% to 15%.

Research & Development

The world market for the blocks building the Internet continues to grow rapidly. In 2000, Infineon's Wireline Communications segment focused on these applications.

The segment made a number of significant moves in 2000. Prime among them: it acquired the Israel-based Savan Communications. This purchase represented the culmination of the close working relationship between the two companies in the field of VDSL. The relationship had produced a two-chip solution capable of data rates of up to 26 megabits per second via copper.

This two-chip system elevates copper wire into a carrier of interactive television, video games, high-resolution teleconferences and other broadband services. The product makes Infineon the leading supplier of VDSL technologies in the world.

The world's demand for higher bandwidth continues to soar. To meet this demand, Infineon launched 10BaseS™ in June 2000. This compact chipset supports Ethernet data transmissions at speeds hundreds of times greater than those realized in ISDN networks—and does so over distances as long as 1.2 kilometers.

The chipset enables the fast and cost-effective installation of ultra-reliable communication networks in hotels, universities, industrial facilities, commercial premises using existing PBX or phone cabling.

In 2000, Infineon launched another product enabling broadband communication via copper cables: Socrates™. This single chip, single-channel SHDSL transceiver permits providers to use existing copper wires when offering transmission services at a performance level close to that of a fixed line. Socrates™ supports bit rates of 160 to 2,360 kilobits per second and is compatible with conventional phone, ISDN and xDSL networks.

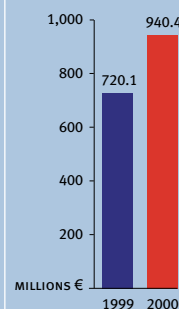
Optical-based networks are the segment's other main focus. In 2000, Infineon launched the PAROLI (Parallel Optical Link) family of products. As their name suggests, they involve the deployment of optical links. These enable high-speed transmission of data. The family is comprised of a number of transmitters and receiver modules. They are deployed in parallel data transmissions over optical fibers.

In August 2000 Molex, Inc. licensed the PAROLI technology. This transaction will allow the technology to grow even faster in the optical link market.

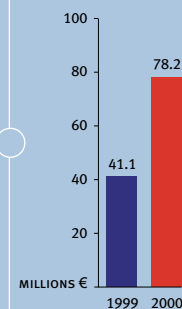
What's ahead

With the reorganization of this segment completed, Infineon plans to further improve its profitability in the upcoming year. The segment will pursue its strategy of investing in facilities and companies capable of strengthening its operations in the LAN, WAN, ACCESS, optical network and other fast-growing markets. To increase revenues and earnings of the fiber optics business area, the Company's management intends to reorganize its logistics and ramp up and further optimize newly installed production technologies. Infineon is attempting to turn the development of new xDSL chipsets into a number one position in the market for next-generation ACCESS systems.

**WIRELINE COMMUNICATIONS
NET REVENUES**



**WIRELINE COMMUNICATIONS
EBIT**



Forget E. If it's not M, it's nowhere

M-business, m-commerce, m-life. Just who started the m-revolution? Well, maybe it wasn't us, but Infineon's Wireless Communications group recently manufactured its one hundred millionth GSM baseband chipset, which made us one of the world's top suppliers of chips in second generation mobile telephones.

To help m-communication's next steps, Infineon is now offering solutions providing major GSM based systems, with a smooth transition from second to third generation technologies such as GPRS and EDGE.

At the end of last year, we were the first semiconductor supplier in the world, to offer a full-capabilities solution for real multislot GPRS systems. What does this mean? Data transmission rates up to eight times faster than today's GSM networks.

In October, 2000, we went further. We launched the world's first dual mode UMTS/GSM chip – called M-GOLD™, the most complex chip ever designed by Infineon.

The verification of this chip's features is happening right now.

But that's not all. We are working with leading software companies to create silicon-based solutions to serve as platforms for multimedia operating systems.

These will turn the simple mobile phone into fully-fledged 'M' devices that really rocks. The first of these new solutions will be introduced in the second half of 2001, and that's when m-everything will really start to move.

2002. That's when the Internet will finally free itself of its last remaining shackles.



BUSINESS REVIEW OF THE WIRELESS COMMUNICATIONS BUSINESS GROUP FOR THE FINANCIAL YEAR 2000

Enhancing its expertise as a provider of complete systems

Infineon's share of the volume supplied to leading manufacturers of cellular phones and the infrastructure used by these continued to grow in 2000. This success resulted in the sales made by the Wireless Communications segment increasing from Euro 865 million to Euro 1,221 million, an increase of 41%.

The segment made large-scale expenditures to develop and manufacture products used in UMTS, Bluetooth, and other advanced systems. Overcoming these expenditures, the segment's Ebit rose 43%, from Euro 182 million to Euro 261 million. This resulted in the segment's Ebit margin exceeding the 21% mark.

The operations developing software for GSM applications were purchased from debis and incorporated into Comneon, a newly founded subsidiary. This segment also presided over the founding of Danish Wireless Design (DWD). These moves enabled the segment to attain a key objective, i.e. to assemble an all-encompassing pool of know-how on wireless systems within the course of a single financial year. Infineon now offers complete systems. To do so, it designs and engineers chips, hardware reference designs and related software.

Research & Development

As the number of new product introductions launched in 2000 shows, Infineon is one of the leading suppliers of application specific standard chips used by the world's mobile communication terminal industry.

Infineon became the world's first manufacturer to launch GSM solutions for GPRS services. In fact, in 2000, Infineon launched this chip set: the single chip base band E-GOLD+ and the single chip radio-frequency transceiver SMARTi+. These two products are expected to reduce the size, weight and prices of internet-enabled cellular phones. These chips will provide data rates of up to 107 kilobits per second - a multiple faster than those achieved using current technologies.

Infineon's new M-GOLD™ chip is the first single-chip baseband unit for dual-mode UMTS/GSM mobile phones, giving manufacturers and users the capability of using the same terminals in today's GSM networks, as well as in the forthcoming UMTS networks.

The chip will enable Infineon to secure business from companies now working on developing new UMTS-capable cellular phones, delivery of which will start in 2002. The single chip base band is complemented by a radio-frequency chipset to become a complete UMTS system solution. The radio-frequency components are also targeted for W-CDMA-based devices in the Japanese market already in 2001.

'BlueMoon 1' is the first chipset to be created by Infineon for the new Bluetooth standard. It will establish wireless links among cellular phones, computers, printers, headphones, PDAs (personal digital assistants), set-top boxes and other devices. The chipset consists of a baseband chip and a radio-frequency transceiver and was the first semiconductor solution receiving the Bluetooth compliance certificate. It comes also with software for complete Bluetooth modules.

With this solution Infineon emphasizes its position as the world's leading supplier for digital wireless systems found in homes and offices. It has produced more than 30 million transceivers incorporated into DECT phones, WDCT systems and other wireless devices.

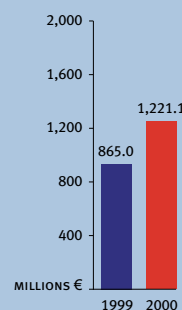
What's ahead

The launch of a number of new products has given this segment a comprehensive product range. The segment plans to exploit this range into increased market shares. Thus the segment plans to strongly raise its sales within the next two years and secure its leading position over the long-term. To achieve these objectives, the segment intends to step up its proprietary (involving gallium-arsenide and silicon-germanium technologies) and third-party (silicon foundries) production operations.

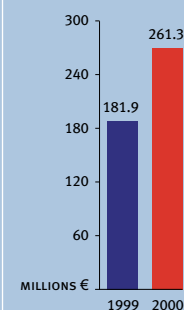
The segment's systems-related know-how has been made available to virtually all of its customers. This expertise is being used to gain orders from Asia's fast-rising OEM producers. Such companies engaged to manufacture low-cost cellular phones by companies bearing famous brand names.

The segment recently launched a series of chipsets. These are to be incorporated into UMTS and Bluetooth systems and devices. Infineon plans on strengthening the ties it maintains with major European and Japanese manufacturers of cellular phones, as this will enable the Company to remain at the forefront of the development of ever-more compact and cost-advantageous systems-on-chips.

WIRELESS COMMUNICATIONS
NET REVENUES



WIRELESS COMMUNICATIONS
EBIT



Digital security. Just how much safer can safe be?

Julius Caesar devised the first security solution. He used 'state-of-the-art' encryption to make sure that the messages being sent throughout his far-flung empire were being received and understood only by the designated recipients.

Two thousand years later, encryption remains a prime tool of secure communication. The amount of security sensitive data transmitted via links has grown exponentially since Caesar's day. That's thanks to the equally large growth in the number of persons sending and receiving data, and the places at which they do so.

The number of intruders have grown nearly as quickly, as have the means at their disposal.

Chip cards have become a major way of thwarting intrusion and of, consequently, assuring safe access. These cards enable you to prove your identity to the machines providing access to the world of communication and transaction: your mobile phone, your ATM, the front door of your office building.

The chips in these cards are highly-complex ICs. They are also used by computers to prove their identity to each other. These 'believable handshakes' form the heart of many secure e-commerce and m-commerce and other forms of communication and transaction.

These ICs together with a contactless interface are increasingly found in machines, cars, stereos and many other goods being shipped or monitored. Using these ICs, forwarders or system operators know where their goods are, and what exactly they are comprised of.

Team up these ICs with a large amount of memory and a number of data processing functions, and you create the ultimate antidote to the all-intrusive world of the Internet: a card holding a large amount of your personal data safe from intrusion.

Combine this experience in developing ICs and the systems in which they are deployed with Infineon's in-depth knowledge of its customers' wants and needs, and you have expert, in-demand security assurance consulting services.

WHY SMART CARDS ARE GETTING...

SMARTER

Because Infineon has come up with technologies arraying a variety of components—displays, FingerTIP sensors, and more—on a single chip card controller, turning it into a 'pocket-sized computer'.

MORE SECURE

Because these technologies feature the stacking of layers of ultra-thin, ultra-flexible chips. These layers form an impenetrable thicket of gateways, each of which can be used by companies to offer scale-of-access services.

MORE COMMON

Because Infineon's new 32-Bit smart controller, set to be launched in 2001, will have multi-tasking and multi-application features never before seen. These features will turn cell phones into full-fledged mobile terminals, used for m-commerce, m-play, and, naturally, m-communication. Next up after that: the 64-Bit controller.

Because Infineon has created its MultiMediaCard. It gives notebooks, Internet appliances and other devices playing and storing media a new capacity and security of storage.



BUSINESS REVIEW OF THE SECURITY & CHIP CARD ICS BUSINESS GROUP FOR THE FINANCIAL YEAR 2000

Now more than ever, number one in the market for chip card ICs

Demand remained strong for SIM cards, which are incorporated into GSM cellular phones. In addition some 70% of all chips incorporated into ATM cards in Germany are produced by Infineon. These facts led the Security & Chip Card ICs segment to register a 33% rise in sales, from Euro 502 million to Euro 668 million. Of that total, Euro 294 million (in 1999: Euro 226 million) was achieved by OSRAM Opto Semiconductors, which is jointly owned by Infineon and Osram.

The segment's sales of ICs used in security-assuring systems and in chip cards came to Euro 375 million in 2000, up 36% over Euro 276 million in 1999. Of the 2000 total, some 70% stemmed from key account customers. The strength of these sales increased Infineon's market share it holds in the market for chips incorporated into smart cards to 43% (as reported by *Gartner Dataquest*, *ZKA*, *Philips* and proprietary sources for 1999). This figure makes the Group by far the world's number one supplier of these products.

Within the segment, it was the area producing chip card controllers that recorded the largest rise in sales. The sales recorded by the area's MultiMediaCard and FingerTIP products broke the million Euro mark in 2000. Infineon registered Ebit of Euro 49 million (in 1999: 24 million) from sales of products incorporated into smart cards. The Ebit margin rose from 9% to 13%.

The increase in the volume of orders processed caused the segment - including the optical products area - to increase the relative amount of manufacturing outsourced to silicon foundries. Despite an increase in the costs of production due to higher foundry portion and one-time ramp-up costs for new products the segment was able to increase its Ebit from Euro 35 million to Euro 54 million. This increase of 54%, resulting in the Ebit margin's rise from 7% to 8%.

Research & Development

To further enhance its new product through-flow, the segment has invested in software projects in India and design development projects in Austria.

Infineon makes chip card controllers meeting the highest standards of security. In 2000, an Infineon product was certified as having successfully passed the world's

strictest security evaluation undergone by chip card components. It was the third time that a Company product had accomplished that feat. According to the information available, none of Infineon's competitors has yet attempted to secure this certification, which is required by Germany's law regulating the employment of digital signatures.

Infineon's 16-bit chip card controllers, which form part of the 66Plus family, are now being manufactured using 0.25-micrometer technology. The deployment of this state-of-the-art technology has permitted Infineon to make the world's first chip card security controller featuring an EEPROM of 64 kilobytes.

This capacity allows GSM-based cellular phones equipped with such cards to provide new applications like WAP-based services and electronic payment—a feature of great interest to the financial sector.

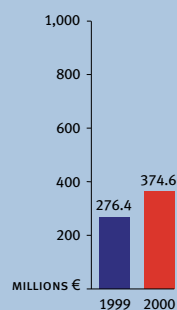
What's ahead

According to *Gartner Dataquest*, this segment (not including OSRAM Opto Semiconductors) starts out the new financial year as the world's leading supplier of chip card ICs. The segment plans on retaining this position by further reducing the size of on-chip structures and by launching products with even greater performance rates and capacities. In 2001, Infineon aims to achieve a significant growth in revenues resulting from the technology advantage in chip card ICs.

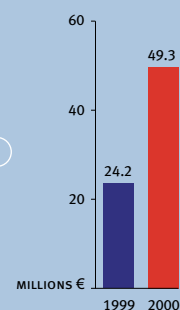
The security systems ICs business unit possesses leading technologies, and has added encryption components to its portfolio of products, while also further developing its biometric sensors. By entering into alliances with other companies, this segment aims to increase the share held by the MultiMediaCard™ product of its market. Infineon also plans to capitalize upon its store of security-related know-how and the excellent relationships it maintains with its customers, and provide IT security-ensuring services.



SECURITY & CHIP CARD ICS
NET REVENUES



SECURITY & CHIP CARD ICS
EBIT



Just so you don't forget. Memory is big business



Memory Products group revenues have risen 428% over the last three years, taking us from twelfth to fourth place among the world's DRAM makers. Rising even faster was the division's profitability. In 2000, its Ebit increased to €1,336 million. That's the highest Ebit within Infineon and the Siemens group as a whole, and the reason we won Siemens' 'top + award 2000', for the most success in adding economic value.

By boosting productivity and introducing a large number of market-making products we've achieved spectacular increases across the board. What the business group reduced by no less than 50% are manufacturing costs.

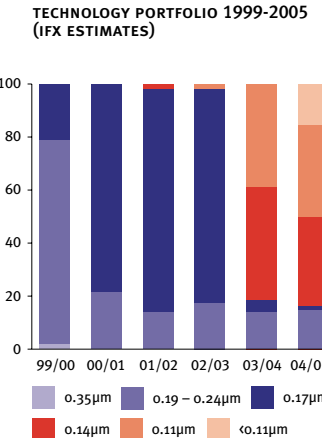
With Samsung, we were the first company to manufacture 256-Megabit chips. Since then we've become the world's leading supplier of these chips, which fit into Internet and other servers, one of the fastest growing segments of the world's computer market.

We're about to do it again. Way ahead of our competitors, we were the first company in the world to produce DRAMs from 300mm wafers. In 2000, the group launched mass production of the world's smallest 128-Megabit chip, featuring a 0.17-micron structure. In early 2001, we will ship the world's first 128-Megabit chip used for graphics applications and featuring DDR (double data rate) architecture. This latter product will be in many of the world's most powerful 3D graphics cards.

As you can see, Infineon is strong in both the advanced commodity and graphics segments of the DRAM market, but it's our embedded DRAMs, that are fuelling the fast growth of the networking, digital consumer electronics, smart phones, PDA and Internet appliances markets. These chips are the product of our trench cell technology, which facilitates the application of DRAM, logic and analog parts on a single chip. This close proximity and the resulting linkage results in low power consumption and a range of new features and performance possibilities, as well as even greater reductions in manufacturing costs.

And talking of memory, we almost forgot to mention our upcoming 512-Megabit chip, another potential record breaker.

At the beginning of 2000, the segment qualified its 0.17-micron processing technology. By the end of the financial year, all of the company's facilities producing 128- and 256-Megabit memory chips were deploying this technology.



BUSINESS REVIEW OF THE MEMORY PRODUCT BUSINESS GROUP FOR THE FINANCIAL YEAR 2000

A year to remember

The Memory Products segment's sales rose from Euro 1,406 million to Euro 3,473 million. This rise of 147% was twice that of the DRAM market as a whole and stemmed from the favourable pricing environment for the segment's products, from the substantial increase in productivity achieved by the segment (a rise yielded by its deployment of new manufacturing technologies) and from the expansion of the relationships maintained with the segment's top seven customers. These customers now account for more than 50% of all sales of the segment's products.

The further optimizing of the manufacturing process resulted in a further improvement of the segments technology and cost-position.

Together with the increase in average sales prices and the license income of Euro 156 million the increase in productivity contributed to a record increase in Ebit by Euro 1,574 million to Euro 1,336 million (1999: Euro -238 million). The segment's Ebit margin came to 38%.

Research & Development

This segment has increased the number of patent applications significantly in 2000, greatly expanding its stock of intellectual property and confirming its role of being an engine of DRAM development in the process.

At the beginning of 2000, the segment qualified its 0.17-micrometer trench cell processing technology. By the end of the year, all of the Company's DRAM-facilities producing 128 and 256 megabit memory chips were deploying this technology. The technology is regarded as being the world's most advanced. It enables the Company to produce chips of a smallness and cost-efficiency never before achieved. Infineon's competitors using stack cell technology achieve this degree of compactness of the trench cell technology only by their 0.15 micrometer technologies.

In April, 2000, Infineon became one of the first companies in the world to deliver samples of the new generation of 256 megabit double data rate (DDR) synchronous DRAM (SDRAM) chips, of which Infineon now has an entire family. These chips adhere to the DDR standard and improve the cost-performance ratio shown by servers, workstations and high-end desktop PCs.

Chip structures continue to get smaller. To maintain its technical position, Infineon developed a technology together with IBM to replace planar transistors, the vertically arrayed transistor cells.

What's ahead

Infineon expects the market for memory chips - as expressed in total megabits in computing power sold - to grow at more than 60% in 2001. The uncertainties currently prevailing on the world's PC market could cause demand for these chips to weaken, depressing the prices levied for them in the first quarter of Infineon's financial year - the last three months of calendar year 2000.

Infineon's management board continues to take a positive view of this segment's prospects. This optimism stems from the recovery forecasted to take place in the semiconductor market during the second half of Infineon's financial year - the second and third quarters of 2001. This rise should permit Infineon to continue set forth its track record of business success. The actual size of any increase of sales will of

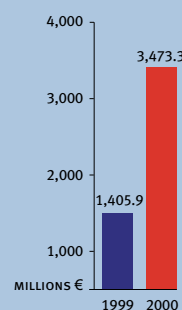
course depend upon the prices prevailing in this market, which continue to exhibit a great deal of innate volatility. This also depends on when new production facilities are commissioned during the year, and when expansions of existing ones are completed.

By the end of December 2000, all of Infineon's operations manufacturing standard-use DRAMs should be deploying 0.17-micrometer technology. The 0.14 micrometer one will partially succeed this, in turn, in 2001. The employment of the latter technology will further boost the productivity of the 200-millimeter production facilities.

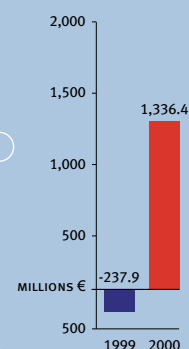
The market's demand in 2001 for chips incorporated into PCs and notebooks will be satisfied mostly through 128-megabit memory chips. The server and network products markets are less volatile than other markets. They also exhibit higher rates of growth. Infineon thus plans on accelerating the shift the bulk of its activities to these sectors by increasing the production of 256-megabit memory chips.

Infineon aims to maintain the share it holds of the world's market for DRAMs of 10% in 2001. In the opinion of the management board, achieving the corresponding volume of sales would ensure that an appropriate equilibrium exists between the large-scale earnings that can be realized in this market and the risks arising from the cyclical fluctuations to which this market is prone.

MEMORY PRODUCTS
NET REVENUES



MEMORY PRODUCTS
EBIT



Infineon and the automotive sector. Motoring along nicely

Chips in cars? Surely not? Yes, it's true, most new cars today have around 200 semiconductor devices in them, up from about 90 only a few years ago.

Guess who benefited most from this rise? Infineon. We're the world's second largest producer of chips for automotive applications, and it helped us to a 32% rise in revenues and a 30% increase in Ebit in 2000.

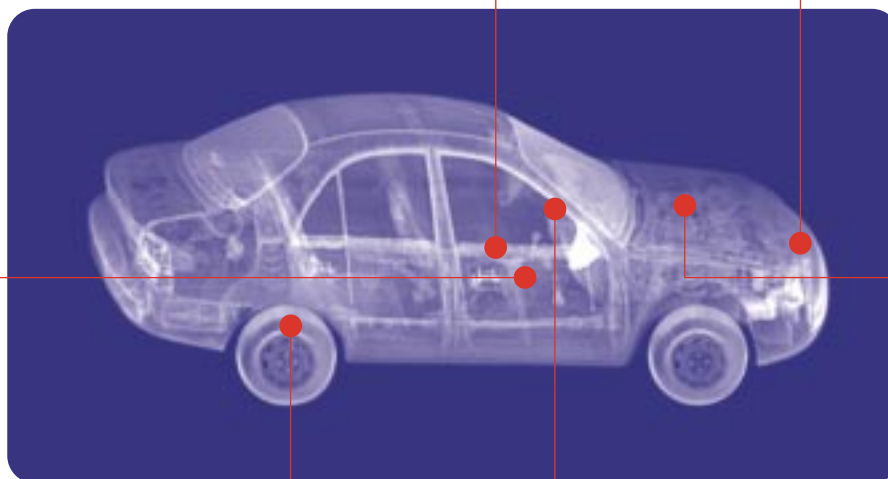
By introducing a wide range of new products, and by strengthening our ties to key account customers in the USA and Asia, we expect the company's revenues to increase significantly in the current financial year.

So where are all those chips in your car?

Well let's start with keyless entry. Who needs keys when a chip will do? Engine management and electronic throttle control systems cut fuel consumption and emissions. Step on the gas and a chip will measure how well your car is gripping the road.

If you have an automatic gearbox, maybe a chip is controlling power loss and another is keeping the gear change smooth, leading to even greater fuel savings.

Use the brakes and chip controlled sensors in the anti-lock braking system read and react to changes in road conditions, millions of times each second.



Along with radar-based sensors, for adaptive cruise control systems, keeping your car a safe distance away from others. Navigation and driver information systems help you avoid traffic jams or report a stolen vehicle to the police.

Then there's electric power steering. It's replacing hydraulics-based systems and the friction they create, cutting fuel consumption by as much as 0.4 liters per 100 kilometers in the process.

And in case you have an accident, the chip system in your smart airbags, will control how much they inflate depending on your size and seat position.

BUSINESS REVIEW OF THE AUTOMOTIVE & INDUSTRIAL ELECTRONICS BUSINESS GROUP FOR THE FINANCIAL YEAR 2000

Strong rise in sales

Demand also remained strong for chips incorporated into automobiles and industrial equipment. Orders were secured from important customers based in Japan and the rest of the Asia-Pacific region. These resulted in the segment registering a 32% rise in sales, from Euro 665 million to Euro 880 million.

This increase was greater than that of the market in which the segment operates. It enabled the segment to retain its number one position on Europe's market (excluding car radios) for chips incorporated into automobiles. The segment's position on the world market as a whole: number two.

The segment tripled its Ebit in 2000 to Euro 69 million (in 1999: Euro 23 million), translating into an Ebit margin of 8%.

The power management & supply business area increased the number of customers it serves and launched new products. These new products are mostly chips used in the regulation of the supply of electricity in cellular phones, motherboards in IT infrastructure, and other power management equipment. As a result, revenues more than doubled.

Eupec is a subsidiary dedicated to serving the market for industrial electronics. Eupec secured a number of large orders in 2000 from suppliers of energy transmission systems and of drive technologies. To increase its competitiveness, eupec will shut down its operations in Pretzfeld. This process will be completed by the beginning of 2002. The manufacturing of high-power bipolar components will then be consolidated at the Company's facilities in Warstein, and Cegléd, Hungary.

Research & Development

In 2000, this segment introduced the HITFET™, PROFET™ and OptiMOS™ lines of products, thus becoming the leader in the development of power switching technologies. The segment registered another major accomplishment during the year by establishing a foothold in the Japanese market, seen as one of the worlds most important.

These products are found in many vehicles, where they switch and protect the vehicles' electrical motors, headlights and other electrical components. They also support electronic-based engine management systems and such safety devices as anti-locking brakes or airbags.

Automotive Engineering International magazine conferred a major award upon Infineon at the SAE's 2000 world congress, held in Detroit. The trade journal's 'Tech 2000 Prize' for the year's most innovative product went to the power switch technology created by Infineon for use in automotive components.

In June 2000, Infineon premiered its CoolMOS™-C2. This second generation of power transistors results in a significant reduction of switching loss while retaining the very low 'on' resistance.

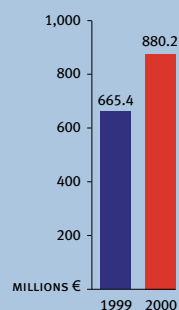
Infineon has developed AUDO™, a new chip configured to be part of forthcoming automotive embedded control systems. The chip is a key component of the TriCore™ family of high-end, 32-bit microcontrollers. Samples of the chip have been supplied to key account customers, who are now busy building their own products around Infineon's system chips. Other chips based on the TriCore™ processor are also being developed.

What's ahead

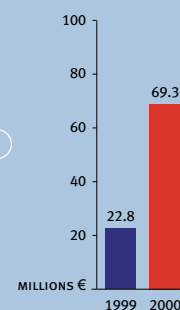
Infineon expects this segment to continue its upswing in 2000, and to continue to record a rate of sales growth greater than that of the segment as a whole. The segment has expanded the capacities of its production facilities. The prices prevailing for its products remain satisfactory. To increase its earnings, the segment intends to dispose of low-margin lines of products.

The segment plans on increasing the market share held by its power management & supply business unit. To that end, this business unit aims to get in closer touch with its customers and to augment its portfolio of technologies. As it is companies based in South East Asia that dominate this segment of the world market, Infineon intends to build a dedicated center of business development in Singapore. The business unit seeks to become one of the leading suppliers of semiconductors to America's suppliers of electronics to automobile manufacturers in 2001, and thus to achieve sales growth in the USA during the year. Japanese manufacturers of semiconductors have partially withdrawn from supplying products incorporated into industrial-use drives systems. Eupec will strive to capitalize upon this opportunity. Furthermore the company wants to enter South East Asia's fast growing market for consumer-drives.

**AUTOMOTIVE & INDUSTRIAL
NET REVENUES**



**AUTOMOTIVE & INDUSTRIAL
EBIT**



Our most valuable resource

Infineon increased its workforce by 3,367 to 29,166 in financial year 2000. We use a variety of ways to recruit and retain the most talented, most innovative and most valuable people we can.

Without them we cannot expect to remain at the cutting edge of our industry. For example, students and the company can get to know each other at www.meet-infineon.com.

We work with 21 of the world's leading universities in developing new technologies and we send corporate information to some 200 institutions of higher education. We participate in over 120 job fairs a year and stage workshops globally. Our current focus is central and eastern Europe.

We sponsor chairs and courses of study at selected universities, grant graduate students scholarships at universities located in ten countries, and we offer internships – 3,000 in the year 2000 alone.

There's an 18 month trainee program for high-potential graduates who have just joined Infineon, and we provide young people with vocational training. As of October 2000, some 350 students receive their training at Infineon's facilities and in local vocational schools.

The college-level programs and Infineon recruiting events provided 25% of Infineon's Munich-based Class of 2000. The Internet, through job sites or direct applications via www.infineon.com/careers, brought us 26%. That figure was 1% in 1996.

However, the largest source, 28% of Infineon's new employees in Munich, were reunited by word of mouth. That appears to be ample demonstration of our employees' levels of job satisfaction and their willingness to recommend Infineon as an employer to their friends and acquaintances.

But it's one thing getting new employees. It's another keeping them. We try to retain employees by tracking their success. We've set up a wide range of lifetime learning programs, designed to teach greater technical and leadership skills.

We encourage employees to be stakeholders in our business success and development by weaving them into the policy and decision making processes.

And of course we care for them by providing healthcare, recreational facilities, personal counselling and other benefits, whilst at the same time offering them remuneration to match their levels of skills and dedication. In the near future, Infineon will need an aggressive stock option plan going forward to attract and retain its highly qualified workforce and compete with its mostly American competitors.

HIRE4INFINEON

On October 1, 2000, the company launched its 'Hire4Infineon' program which pays a bonus to employees who successfully recruit staff for the company. The program rewards the high degree of employee satisfaction in their company, and is shown by the increased levels of employee retention.

EMPLOYEES SHARE IN THE COMPANY

Infineon again invested heavily in its human resources, its most important asset. The number of employees rose from 25,779 (as of September 30, 1999) to 29,166 as of September 30, 2000. During the same time revenues per employee rose by 55% from Euro 172,662 to Euro 267,644.

Infineon was able to so successfully overcome the acute personnel shortage prevailing in the semiconductor industry in Germany and elsewhere was by increasing corporate recruitment activities.

The personnel shortage was also addressed by a labour agreement covering the majority of the 6,000 employees in its operations in Bavaria. In a move taking effect on April 1, 2000, the agreement increased the number of employees working 40 hours per week. In addition Infineon, together with the official authorities, is developing new job profiles and investing in vocational training and continued education of its workforce.

To further increase the motivation of its employees and to enhance their identification with the company, Infineon introduced an employee stock purchase programme for the IPO.

Approximately 97% of Infineon's employees were offered preferred subscription rights for up to 9.3 million shares. Of these, 74% participated in the programme. Depending on the various national and international legal restrictions, the shares acquired have to be held for periods ranging from four months to six years.

An extensive stock option plan encourages key employee loyalty

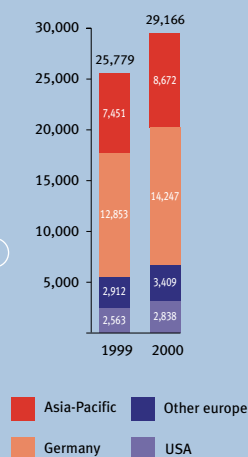
Infineon's IPO was preceded by the approval of an extensive stock option plan involving the allocation of up to 48 million shares over five years. The plan is designed to strengthen the ties between key employees and the Company, and to facilitate the acquisition of companies with high-quality intellectual property and with gifted employees.

The plan allows the members of the management board to be granted up to 2.25 million shares over the next five years. The management at Infineon's subsidiaries can be granted options to purchase up to 6 million shares. A further 39.75 million shares are set aside for executives holding key positions in Infineon, especially in its research and development area. A maximum of 30% of the total allocated options can be granted during the course of any one financial year. The IPO was accompanied by the issuance of 5.54 million options.

The plan sets the exercise price of an option at 120% of the average of the quotes prevailing on stock exchanges during the five trading days preceding the granting of the option. Options issued at the IPO have an exercise price of Euro 42 per share - 120% of the issue price of Euro 35.

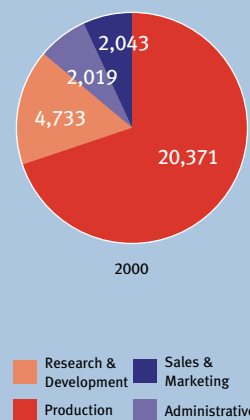
The options can be exercised during the seven-year period following the date of grant, but only after the second anniversary of the date of grant and provided that the exercise price has been reached on at least one trading day during its term.

EMPLOYEES BY REGIONS*



*as of September 30

EMPLOYEES BY RESPONSIBILITIES*



Dresden. Welcome to Silicon City

In fall, 1989, Dresden was one epicenter of a revolution that toppled the Communist regime of East Germany. At that time it was also the center of East Germany's electronics and microelectronics industries, with many innovative and well-trained engineers. Unfortunately, marketing was a foreign word and much of the equipment used was outdated.

After the city returned to being the capital of the state of Saxony, it was time to give that large pool of highly-skilled engineers, many of them graduates from the local universities, something they could really get their teeth into.

Together with substantial public sector support and its own sense of commitment to helping rebuild the old economy, Siemens' semiconductor division took the decision to build a €1.4 billion facility to produce 16-Megabit chips in Dresden.

That was in December 1993, and it gave a welcome boost to the process of restructuring the local economy. Construction of the 90,000 square meters of floor space needed began in June 1994. Production operations were launched in the facilities' Module 1, a scant 15 months later. Fourteen months after that, in October 1996, the facility produced its two millionth 16-Megabit-chip. A year later, that figure had risen to 50 million.

This was way ahead of what was originally planned, and it meant doubling the workforce in Dresden, from 1,450 to over 3,000 employees.

That success in turn encouraged us in 1997, to create one of the industry's most ambitious projects in Dresden – the facilities and technologies needed to manufacture chips from 300mm wafers.



The project was undertaken in a joint venture between ourselves and Motorola, now referred to as 'Infineon Semiconductor300'. A shift in business strategy caused Motorola to leave the consortium, its place is being taken by the state of Saxony and the Jenoptik group, based in Jena, and itself one of east Germany's leading high-tech success stories.

The €230 million project was set up in the Dresden facility's Module 2, and employs 450 people.

Repeating the earlier performance of the Dresden facility, the project forged ahead, and by December, had turned out its first sample chip. It was of a 64-Megabit DRAM.

PROCESSING TECHNOLOGIES: REDUCTION IN CHIP STRUCTURES

Infineon is devoting itself to developing process technologies that will result in a further reduction of chip structures. This will enable the Company to pack more transistors into a given chip size. It will also increase the switching speed. Getting more performance out of smaller chip areas will increase the degree of integration among the chip's individual operations. This, in turn, will permit customers to create more cost-effective systems.

PARTNERSHIPS PRODUCING PERFORMANCE

In January 2000, Infineon, together with its partners IBM and United Microelectronics Corporation (UMC), started developing technologies yielding chip structures of between 0.13- and 0.10- micrometers. These chips will have great speeds of operation and exceptionally low-power consumption. They will be used especially in cellular phones, notebooks and other devices powered by storage batteries.

In March 2000, Infineon granted another set of licenses to the (together with Mosel Vitelic) jointly owned ProMOS Technologies. ProMOS manufactures DRAMs using the 0.17-micrometer technology developed by Infineon. This technology is set to be followed by 0.14-micrometer and 0.11-micrometer technologies, now under development.

In a further move, Infineon and ProMOS reached an agreement in April, 2000 that will allow ProMOS to deploy Infineon's 300-millimeter technology from fiscal year 2002 at its production facilities in Hsinchu, Taiwan.

In order to produce chips with even smaller chip structures, using 'Next Generation Lithography' technologies, the Company is participating in the 'Ion Projection Lithography' project undertaken by MEDEA, the pan-European R&D program. In a concurrent step, the Company joined the US-based Extreme Ultraviolet Limited Liability Corporation (EUV-LLC) in May 2000. Other members of this consortium are AMD (Advanced Micro Devices), Intel and Motorola.

Six of the world's leading manufacturers of semiconductors - Infineon, Hyundai Electronics, Intel Corporation, Micron Technologies, NEC Corporation and Samsung Electronics - have teamed up to plan, design and structure 'Advanced DRAM Technologies', which should be ready for deployment in 2003.

INVESTMENTS MORE THAN DOUBLED

Infineon invested Euro 1,571 million for property, plant and equipment in 2000. That was 141% more than Euro 653 million in 1999, and translated into a ratio of capital investment to sales of 22%. The investments were primarily expansion of Infineon's capacity expansion of Infineon's logic products in the existing front-end facilities in Dresden, Regensburg, Richmond and Villach.

Infineon also made acquisitions totalling Euro 303 million in 2000 (Euro 133 million in 1999). The investments included the purchase of the remaining interest in the Richmond, based White Oak Semiconductor from Motorola; the business activities and assets of Savan Technologies (Tel Aviv), and the Nuremberg-based operations of debis Systemhaus, which produces software for cellular phones. A further net Euro 38 million was allocated to Infineon Ventures, they expanded their investment portfolio by 11 to 21 companies.

Infineon participated in the capital increase of ALTIS Semiconductor S.N.C., a company jointly held by IBM and Infineon. This capital increase was used to expand the capacities of the production facilities maintained by ALTIS in Essonnes, France.

THE WORLD'S CHIP INDUSTRY INCREASES ITS INVESTMENTS

According to a report released by *Gartner Dataquest* in October 2000, the world's semiconductor manufacturers are planning to significantly increase their capital expenditures in 2001 and 2002. Their investments are projected to be equivalent to 30% of their sales. The money will go to build facilities employing the new 300 millimeter technology and in expanding the capacities of existing factories. *Gartner Dataquest* has predicted that the rate of investments made by companies active exclusively in the memory products area will be below the industry-wide average.

The highest rates of investment in the semiconductor industry are expected to be spent by two Taiwan-based silicon foundries: TSMC and UMC. Infineon intends to invest an amount equivalent to 30% of its sales. Companies with which Infineon directly competes for non-memory business are expected to invest at rates somewhat higher than that.

The next step was production, albeit on a pilot line. This proved so successful that Infineon decided to build a new, €1.1 billion facility, located right next door to the existing production site. The new facility is scheduled to be commercially operable by end-2001. By 2002, the plant is scheduled to be working at full capacity.

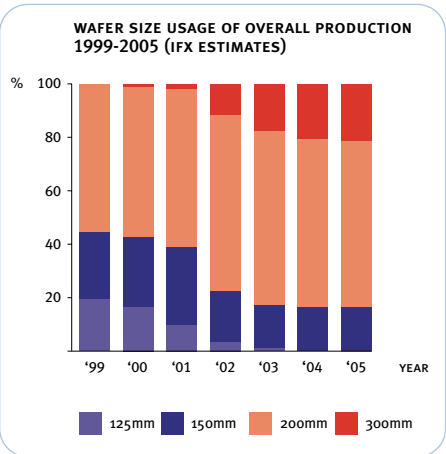
When the cornerstone of the new facility was laid on May 30, 2000, the *International Herald Tribune* called it the, ‘crowning moment in Dresden’s rise to a center of high-tech development.’

There was plenty of competition for that title. From AMD, for instance, which has also built extensive facilities in Dresden. Or from the original Infineon facility in Dresden, which qualified a 256-Megabit DRAM on April 16, 1999. That in itself made Infineon the first company in Europe to accomplish the feat, and only the second worldwide.

However, the real hero was the 300mm technology itself. It will cut the costs of producing DRAM-chips substantially at a stroke; one of the sharpest production cost cuts ever experienced in any industry.

The ramifications of this cut, coupled with the reduction in size and the increase in processing capacities shown by the chips, are even more enormous.

These savings are going to be passed along to our customers. They’re going to take these smaller and more powerful chips, and use them to vastly ramp up performance, downsize the devices they manufacture.



PROCUREMENT: A KEY COMPONENT OF CORPORATE PERFORMANCE

Mainly due to the large business expansion, the total purchase volume of Infineon (including capital expenditures) increased by 88 percent to Euro 3,413 millions.

The ability to procure supplies in appropriate quantities and at advantageous prices constitutes one of the essential success factors, especially during times of rapid growth.

Thanks to the boom in the market, the corporate facilities involved in the production of semiconductors worked at full capacity throughout 2000. This caused a corresponding lengthening of lead times, which was especially critical for lithography equipment.

Driven by strong demand, the prices for silicon wafer rose. Infineon addressed this issue with long-term contracts and cooperations with key suppliers.

Another example of how Infineon met the surge in demand for its products was to increase the volume of procurements made from silicon foundries and other subcontractors. This business went from Euro 181 million to Euro 430 million, an increase of 140%.

INCREASE IN PRODUCTION CAPACITIES

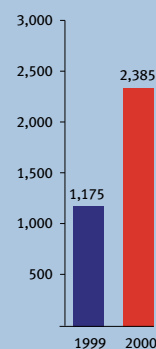
The boom also caused Infineon to expand the capacity and optimize the efficiency of its production facilities, and to begin construction of what will be the first plant in the world to deploy the 300-millimeter production technology on a volume basis. This facility is scheduled to come on line in 2002, and should yield a substantial reduction in the costs of producing DRAMs vis-à-vis the current 200-millimeter technologies.

The new technology is already being deployed in a pilot facility located in Dresden. In 1999, *Semiconductor International* magazine named it 'Factory of the Year'.

In 2000, Infineon retooled the majority of its operations producing memory chips to deploy the new 0.19- and 0.17-micrometer technologies. This affected the facilities in Dresden, Richmond, and Hsinchu (ProMOS). In addition, ALTIS launched production of high-performance logic ICs featuring 0.18-micrometer structures, which are used in Wireless and Wireline Communications.

To satisfy the strong demand for special-purpose products, the Company commenced the revamping of the production facilities in Regensburg and Villach to deploy the 200-millimeter technology. In line with the capacity increase of the front-end operations, the back-end factories in Malaysia, Singapore and Porto, with their assembly and test areas, were expanded as well.

**TOTAL INVESTMENTS
FINANCIAL YEARS 1999-2000**



Our world is not just about chips

Infineon is a world leader in engineering millions of instructions and operations into tiny pieces of silicon. But the company has also become a master in engineering pollution out of the thousands of operations involved in creating these chips.

The biggest environment related change undertaken by the company came in the mid-90's. It Scrapped an 'end-of-the-pipe' approach to environmental protection had substantially cut Infineon's levels of pollution.

What replaced it was a system put together on a step-by-step basis. It optimizes the company's use of resources and thus precludes the production of pollutants. The approach anticipates any problems that these systems might experience, and takes precautionary measures to eliminate or alleviate them.

Step one was the formulation of an EMS (environmental management system) manual by all of the divisions' operating facilities.

Step two was also taken by the facilities managers themselves. Working with central departments responsible for environmental protection, by which the facilities have received certification that they meet the standards laid down in the manual.

The EMS itself is constantly undergoing revisions and extensions. Many of them since September 1999, when Infineon established its Safety and Environmental Health Board. In a further huge leap, the board's certification activities were merged with those of Infineon's corporate quality department. This was done in conjunction with Infineon's drive to achieve ISO 9001 and QS 9000 (quality management) and ISO 14001 (environmental management) certifications for all of its facilities.

All this has been triggered by a simple basic insight. The engineering of a high level of environmental compatibility into all of the company's operations is not an expensive necessity. Rather, it forms an integral part of the company's process of adding the maximum value to the company, its products and the services it provides.



INCOME POSITION

Impressive rise in earnings

Infineon's sales rose to Euro 7,283 million in 2000, up 72% from 1999's Euro 4,237 million. The Company's gross profit amounted to Euro 3,172 million, equivalent to 44% of sales (in 1999: Euro 1,227 million or 29%), resulting in an increase of the gross margin by 15 %-points. The relative price stability as well as the reduction in the costs per unit contributed largely to the margin increase. Cost per unit came down, due to the reduction in chip size and the increase in yield.

Infineon continued to invest heavily in the development of leading products and processing technologies. The Company's research and development expenses rose 39%, from Euro 739 million to Euro 1,025 million. This is equivalent to 14% of the Company's sales (in 1999: 17%).

The selling, general and administration expenses increased 22%, from Euro 551 million to Euro 670 million. The main reason for this increase is the volume dependent build-up of sales and marketing as well as administrative infrastructure. Expressed as a percentage of sales, the figure fell from 13% to 9%.

The interest income reflects the strong financial position of the company. It increased by 72% to Euro 75 million (in 1999: Euro 43 million).

Associated companies (companies in which Infineon owns between 20% and 50% of their equity) are accounted for using the equity method. Income from associate companies rose from Euro 34 million to Euro 101 million. This rise was largely attributable to ProMOS Technologies, a Taiwan-based associate, which benefited from the boom in memory chips.

Infineon recorded a gain of Euro 53 million due to an appreciation in the value of the Company's investment in ProMOS Technologies. The increase in value stems from a capital increase in which Infineon did not participate.

Infineon's pre tax income of Euro 1,738 million (1999's Euro 30 million) lead to a tax expense of Euro 612 million, giving Infineon an effective tax rate of 35%. Taxable losses in Germany allowed Infineon to record a tax benefit of Euro 30 million in 1999.

The Company's consolidated net income increased greatly, rising from Euro 61 million to Euro 1,126 million. This exceptionally strong result gave the Company a net income margin of 15% (in 1999: 1%).

The Company's earnings per share also increased. It came to Euro 1.83 (in 1999: Euro 0.10). This figure is derived from the weighted average of the number of shares outstanding in 2000 - 615,121,186 (in 1999: 600,000,000) - and takes into account potential dilution arising from the stock options granted.

FINANCIAL POSITION

Strong increase in free cash flow

Free cash flow is defined as the difference between funds generated by ordinary business activities and funds spent for capital investments. The free cash flow improved by Euro 203 million in 2000, from a negative Euro 450 million to a negative Euro 247 million. Included in the funds for investments were Euro 452 million for marketable securities that are available for sale and are disposable at anytime. They are thus to be regarded as a functional equivalent of cash. Excluding such from the above calculation gives Infineon a free cash flow of Euro 205 million in 2000, representing a rise of Euro 655 million over the previous financial year.

The Company's funds generated by operating activities quadrupled, going from Euro 469 million to Euro 2,080 million. This was primarily attributable to the rise in consolidated net income, the reduction of its net current assets (from the increased asset management efforts), and increases in obligations to suppliers.

The funds used by investment activities more than doubled, going from Euro 918 million to Euro 2,327 million. Of that, Euro 1,571 million was allocated to property, plant and equipment; Euro 303 million to acquisitions; and Euro 452 million to securities available for sale.

The net funds generated by financing activities came to Euro 719 million (in 1999: Euro 465 million). Euro 821 million came from the increase in capital from the IPO, which was partially used to redeem long-term loans of some Euro 500 million, stemming from a Siemens loan to finance the prior investment in White Oak Semiconductor. During the first quarter of 2000, Infineon also settled the intra-Group financial accounts with Siemens, which yielded a positive effect of Euro 341 million. The total amount of the Company's cash and cash equivalents increased from Euro 30 million to Euro 511 million.

To provide the Company with an adequate supply of financing in the years to come, Infineon has secured lines of credit amounting to Euro 750 million. These are divided into two equal tranches having terms of four years and one year respectively. Each comes with an option to extend this term by a further year respectively. As of this writing, no use has been made of these lines of credit.

NET ASSETS POSITION

Further strong increases in capital stock and rates of return

As of September 30, 2000, Infineon's total assets amounted to Euro 8,853 million, an increase of 37% from Euro 6,445 million at September 30, 1999.

The sum of the Company's cash and marketable securities rose from Euro 30 million to Euro 1,009 million. Infineon's long-term assets increased 28%, from Euro 3,922 million to Euro 5,018 million, largely due to the investments in fixed assets and equity investments in other companies.

With an increase of 10%, to Euro 3,046 million (in 1999: Euro 2,790 million), the Company's liabilities did not rise as fast as its assets. While the volume and investment dependent liabilities rose 95% from Euro 435 million (to Euro 849 million), the short and long term liabilities with financial institutions were reduced by Euro 363 million to Euro 266 million.

In September 2000, Infineon Technologies AG founded the 'Infineon Pension-Trust' and transferred the respective assets. As a result the assets and the liabilities of the group declined by Euro 150 million.

Infineon Technologies' shareholders' equity increased from Euro 3,655 million to Euro 5,806 million. This corresponds to a 66% (in 1999: 57%) equity ratio. The return on shareholders' equity rose - despite the increase in capital - substantially, from 2% to 19%.

One indicator often used in judging the financial health of semiconductor companies is net cash. Net Cash is arrived at by netting the Company's financial liabilities and its financial receivables. The net cash position improved by Euro 1,178 million, from a negative Euro 55 million in 1999 to Euro 1,123 million in 2000.

INFINEON TECHNOLOGIES AG: EXCELLENT EARNINGS IN 2000

Infineon Technologies AG is the lead company of the Infineon Group. The Company prepares its financial statements following the Germany's commercial code (HGB).

All of Infineon Technologies AG's key indicators improved in financial year 2000 (which comprised twelve months) vis-à-vis financial year 1999, which ran from April 1, 1999, to September 30, 1999. The Company's revenues came to Euro 7,626 million (April 1 to September 30, 1999: Euro 2,574 million). Its net income came to Euro 520 million, up from the loss of Euro 81 million suffered during the previous, short financial year.

Infineon Technologies AG handles the settlements of accounts for and with its subsidiaries that produce and sell products. As a result the Company's sales are higher than that of the Group as a whole in 2000.

The Company's financial and net assets positions are marked by the significant increase in financial assets and the volume-based rise in receivables. Shareholder's equity increased due to the capital increases and improved earnings, and amounted to Euro 6,276 million (1999: Euro 4,885 million). The Company's equity ratio of 75% (1999: 74%) is within the expected range for a semiconductor company.

REPORT ON RELATIONSHIPS WITH AFFILIATED COMPANIES

Siemens currently holds 71% of the share capital of Infineon Technologies AG. The companies have not entered into either profit-and-loss transfer or subordination agreements. For that reason, in accordance with Section 312 of Germany's Law on Joint Stock Corporations (Aktiengesetz), Infineon Technologies AG's management board has issued a so-called 'control report'. It details the Company's relationships with affiliated entities.

The control report states that Infineon received a commensurate amount of payment or other consideration in every transaction it entered into with affiliated companies, and that it did not suffer any disadvantages from measures undertaken with, for and by such companies. The same holds true for actions entered into between the Company and its affiliated counterparts. Such transactions and measures were thus in the best interest of the Company, as perceived by its management, with this being based on the management board's analyses of the conditions prevailing at the time of its actions.

The control report has been examined by the independent auditors, who have issued an unqualified opinion in this regard.

REPORT ON RISKS FACING INFINEON TECHNOLOGIES

The semiconductor sector is a highly cyclical business involving large opportunities and risks. This is reflected in the economic results and development of the stock prices of chip manufacturers. The risks arise from large-scale investments in production capacity and research and development that are unheard of in other industries, and from the sector's exceptionally rapid pace of technological change.

This pace, in turn, has made the semiconductor sector the engine of progress within the electronic industry as a whole. Infineon has to be at the forefront of this race, leading the effort to reduce in-chip structures and to introduce new products - including the chips developed for application in Bluetooth-based networks and in UMTS devices and systems - and manufacturing technologies, the latest of which is the 300-millimeter one.

Coupled with the ongoing implementation of measures to reduce expenses, this position has made Infineon a leader in maximizing operating efficiency. Achieving this efficiency, has in turn formed a centerpiece of the management board's strategy of maximizing earnings in times of prosperity, and of minimizing losses in recessions. In order to retain its position of technological superiority and maintain its current rate of growth and strength of profitability, Infineon is to continue making large-scale expenditures.

A system efficiently managing risks and exploiting opportunities

Infineon has established a system enabling it to take advantage of the opportunities in its markets and to anticipate and identify risks associated with them. Evaluated by the independent auditors during their examination of the Company's financial statements, the system encompasses all of the Company's operations. This scope and depth of reporting enable corporate management to take effective action, whenever situations so require.

This system is thus a key component of Infineon's value-adding operations. The system is comprised of a range of individual monitoring and management process. The Company's strategy, planning and budgeting processes are all updated on an ongoing basis.

The reports issued on a regular basis by all of the Group's business units address the risks and opportunities they face and are striving to exploit. These reports form the core of the risk management system. The reports are then examined and evaluated by the various, senior-level boards maintained by the Group for this purpose. Along with analyses of the Group's markets and of the companies competing in them, and with the fruits of benchmarking processes, the reports are drawn upon heavily by Infineon's top management when formulating decisions.

AVOIDING RISKS ARISING FROM INDIVIDUAL OPERATIONS

Infineon has undertaken a number of measures to minimize its exposure to major risks arising from its individual operations.

To ensure itself against the incidence of product-related risk, the Company has established a network to monitor the quality of the operations undertaken by the Company and its important suppliers. It has secured ISO 9000 and QS-9000 certifications for all of the facilities surveyed by this network.

Infineon has procured insurance coverage against it bearing liability for damaging incidents or from certain other events posing possible perils to its assets, finances or earnings.

Tax, fair trade, patent, environmental, and stock exchange regulations could pose risks to the Company. To avoid these risks, Infineon relies upon the counsel of professionals, including both Company employees and independent providers.

Infineon operates on a worldwide scale, meaning that it is exposed to foreign exchange rate-related risks. These pertain primarily to the rates prevailing between the Euro, the US dollar and the Japanese yen. Infineon purchases supplies, conducts in-country manufacturing and secures financing denominated in local currencies to minimize these risks. The remainder of these risks is

covered by the Company's hedging strategies - through the use of derivative financial instruments. Infineon does not use these instruments for speculative purposes.

Evaluation of risks currently facing the Company

Examinations of the Company's business, which are conducted on a regular basis, have revealed that Infineon Technologies did not face any risks imperiling its business existence in financial year 2000. Nor are any such risks identifiable for the future.

Munich, November 2000

THE MANAGEMENT BOARD

Dr Ulrich Schumacher, Chairman

Peter Bauer

Peter J. Fischl

Dr Soenke Mehrgardt

Dr Andreas von Zitzewitz

This combined business review of Infineon Technologies AG (referred to as the 'Company' or 'Infineon') and its consolidated Group (the 'Group') contains forward looking statements. They are based on assumptions and estimates made by the Company's senior management, and are related to expected future developments in the semiconductor market, the relative market position, the technological and manufacturing process capabilities of Infineon; the expected results from research and development activities as well as from cooperations, from investments made to expand and to modernize production capacities, as well as from the further reductions in chip structures, and from the introduction of a new production technology in Dresden and the expected cost reductions. Although management believes that the expectations serving as the basis for the forecasts are realistic, it cannot guarantee that these forecasts will come true. The assumptions are neither free from risk nor uncertainty. Those risks and uncertainties can lead to results that vary materially from the forward-looking statements.

The following circumstances can lead to such deviations: changes in the economic and business environment; changes in demand, price, exchange and interest rates. Especially important for the business development of Infineon are potential impacts from the successful launch of new products by competitors; changes in the corporate strategy of competitors and suppliers and a lack of acceptance of the Company's own product and service offerings in the semiconductor market. The expected development is also impacted by the company's access to capital for its foreseen expansion. The Company has no plan to update these forecasts, nor does it accept any responsibility to do so.

Tables and charts have been included to facilitate the readers' understanding of the events and trends described. They are not part of this business review.

Infineon Technologies AG is the lead company of the Group with the relevant management and corporate functions. The Company 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 the Company. The Company has its own production facilities in Berlin, Munich and Regensburg.

The Company is part of a group-wide development, manufacturing and sales and marketing network. Intra-group transactions of its manufacturing as well as its sales and marketing affiliated companies are handled via Infineon Technologies AG. Accordingly, the business reviews of the Company and the Group have been combined into one business review.

The consolidated financial statements issued by Infineon Technologies AG were prepared according to Section 292a of Germany's Commercial Code ('HGB') and in accordance with United States Generally Accepted Accounting Principles ('US GAAP'). The latter, in turn, establish the requirements of reporting for companies listed on US's securities exchanges. This presentation makes it easier for investors as well as analysts and journalists, customers and suppliers to compare the Group's performance with those of its competitors, the majority of which use US GAAP for the preparation of their financial statements.

Financial highlights⁽¹⁾ Our consolidated financial statements prior to our formation as a company on March 30, 1999, may not necessarily be indicative of what our results of operations, financial position and cash flows would have been had we operated as a separated company during the periods presented, nor are they an indicator of future performance.



(1) As of and for the financial years ended September 30, from 1996 to 2000. All figures in euro millions unless otherwise mentioned.

(2) Unaudited (financial year 1996 only).

(3) Earnings per share (EPS) data for the 1996 – 1999 financial years assume that 600 million shares, the number of company's shares outstanding immediately prior to our initial public offering in March 2000, were outstanding for all periods presented. During the 2000 financial year, the weight average number of our company's shares outstanding was 613,862,876 or 615, 121,186 on a fully diluted basis. At September 30, 2000, the number of our company's shares outstanding was 625,501,507.

**FINANCIAL STATEMENTS
INFINEON TECHNOLOGIES AG
AND SUBSIDIARIES**

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INDEPENDENT AUDITORS' REPORT

The Supervisory Board and Shareholders
Infineon Technologies AG:

We have audited the accompanying consolidated balance sheets of Infineon Technologies AG and subsidiaries as of September 30, 1999 and 2000, 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, 2000. 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 German and United States generally accepted auditing standards. 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, 1999 and 2000, and the results of their operations and their cash flows for the years in the three year period ended September 30, 2000 in conformity with generally accepted accounting principles in the United States.

KPMG Deutsche Treuhand-Gesellschaft
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

Munich, Germany
November 21, 2000

CONSOLIDATED STATEMENTS OF OPERATIONS

For the years ended September 30, 1998, 1999 and 2000		1998	1999	2000	2000
	NOTES	(EURO THOUSANDS)	(EURO THOUSANDS)	(EURO THOUSANDS)	(NOTE 1) (\$ THOUSANDS)
Net sales					
Third parties		2,321,517	3,163,259	6,071,983	5,365,811
Related parties		853,783	1,074,034	1,210,615	1,069,821
Total net sales		3,175,300	4,237,293	7,282,598	6,435,632
Cost of goods sold		2,727,589	3,010,643	4,110,402	3,632,362
Gross profit		447,711	1,226,650	3,172,196	2,803,270
Research and development expenses		637,114	738,590	1,025,378	906,127
Selling, general and administrative expenses		481,364	550,547	669,828	591,927
Restructuring charge	22	816,469	–	–	–
Other operating expense (income), net		8,764	1,893	(1,538)	(1,359)
Operating (loss) income		(1,496,000)	(64,380)	1,478,528	1,306,575
Interest (expense) income, net, inclusive of subsidies		(35,269)	43,383	74,689	66,003
Equity in (losses) earnings of Associated Companies		(151,180)	33,763	101,303	89,521
Gain on Associated Company share issuance	10	–	–	53,425	47,212
Other income, net		1,720	17,576	36,252	32,036
Minority interests		(1,118)	185	(6,143)	(5,429)
(Loss) income before income taxes		(1,681,847)	30,527	1,738,054	1,535,918
Income tax benefit (expense)	18	907,159	30,109	(612,469)	(541,239)
Net (loss) income		(774,688)	60,636	1,125,585	994,680
Earnings (loss) per share (in euro) Basic and diluted	5	(1.29)	0.10	1.83	1.66

See accompanying notes to consolidated financial statements.
For the years ended September 30, 1998 and 1999, euro balances have been restated from the Deutsche Mark into euro using the official exchange rate fixed as of January 1, 1999 (Note 2).

CONSOLIDATED BALANCE SHEETS

As of September 30, 1999 and 200		1999	2000	2000
	NOTES	(EURO THOUSANDS)	(EURO THOUSANDS)	(NOTE 1) (\$ THOUSANDS)
Assets				
Current assets				
Cash and cash equivalents		29,506	510,814	451,406
Marketable securities	6	–	497,712	439,828
Accounts receivable, net	7	802,220	1,385,818	1,224,647
Related party receivables	17	948,664	439,125	388,055
Inventories	8	676,972	840,814	743,027
Deferred income taxes	18	54,159	100,407	88,730
Other current assets		11,529	60,468	53,436
Total current assets		2,523,050	3,835,158	3,389,129
Property, plant and equipment, net	9	3,013,555	4,034,357	3,565,161
Long-term investments, net	10	130,436	432,291	382,016
Restricted cash		63,529	132,063	116,704
Deferred income taxes	18	314,342	165,601	146,342
Other assets	11	400,371	253,405	223,934
Total assets		6,445,283	8,852,875	7,823,286
Liabilities and shareholders' equity				
Current liabilities				
Short-term debt and current maturities	16	494,605	138,350	122,260
Accounts payable	12	434,701	849,239	750,473
Related party payables	17	527,922	373,385	329,960
Accrued liabilities	13	243,144	718,781	635,187
Deferred income taxes	18	79,655	74,634	65,954
Other current liabilities	14	269,685	299,948	265,064
Total current liabilities		2,049,712	2,454,337	2,168,898
Long-term debt	16	135,022	127,972	113,089
Deferred income taxes	18	190,661	177,445	156,808
Other liabilities	15	414,428	286,722	253,376
Total liabilities		2,789,823	3,046,476	2,692,171
Shareholders' equity				
Ordinary share capital	4	1,200,000	1,251,003	1,105,511
Additional paid-in capital		2,390,161	3,250,715	2,872,657
Retained earnings		66,607	1,192,192	1,053,540
Accumulated other comprehensive (loss) income	25	(1,308)	112,489	99,407
Total shareholders' equity		3,655,460	5,806,399	5,131,115
Total liabilities and shareholders' equity		6,445,283	8,852,875	7,823,286

See accompanying notes to consolidated financial statements.

Euro balances as of September 30, 1999 have been restated from the Deutsche Mark into euro using the official exchange rate fixed as of January 1, 1999 (Note 2).

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

For the years ended September 30, 1998, 1999 and 2000 (EURO THOUSANDS, EXCEPT SHARE DATA)

	ISSUED ORDINARY SHARES	AMOUNT	ADDITIONAL PAID-IN CAPITAL	RETAINED EARNINGS	INVESTMENTS BY AND ADVANCES FROM SIEMENS AG	FOREIGN CURRENCY TRANSLATION ADJUSTMENT	UNREALIZED GAINS/LOSS ON SECURITIES	TOTAL
Balance as of October 1, 1997	–	–	–	–	2,227,248	674	50	2,227,972
Net loss	–	–	–	–	(774,688)	–	–	(774,688)
Other comprehensive (loss) income	–	–	–	–	–	(49,276)	53	(49,223)
Total comprehensive loss								(823,911)
Net investments by and advances from Siemens AG	–	–	–	–	691,574	–	–	691,574
Balance as of September 30, 1998	–	–	–	–	2,144,134	(48,602)	103	2,095,635
Net loss prior to April 1, 1999	–	–	–	–	(5,971)	–	–	(5,971)
Net income after April 1, 1999	–	–	–	66,607	–	–	–	66,607
Other comprehensive income (loss)	–	–	–	–	–	49,106	(1,915)	47,191
Total comprehensive income								107,827
Retention of North Tyneside by Siemens AG (Note 1)	–	–	–	–	293,713	–	–	293,713
Net investments by and advances from Siemens AG prior to April 1, 1999	–	–	–	–	1,132,092	–	–	1,132,092
Contribution to capital and issuance of shares on initial formation as of April 1, 1999	600,000,000	1,200,000	2,363,968	–	(3,563,968)	–	–	–
Additional capital contributions	–	–	26,193	–	–	–	–	26,193
Balance as of September 30, 1999	600,000,000	1,200,000	2,390,161	66,607	–	504	(1,812)	3,655,460
Net income	–	–	–	1,125,585	–	–	–	1,125,585
Other comprehensive income	–	–	–	–	–	105,085	8,712	113,797
Total comprehensive income								1,239,382
Issuance of ordinary shares								
Proceeds from initial public offering, net of offering expenses	16,700,000	33,400	528,635	–	–	–	–	562,035
Proceeds from private placement	7,592,430	15,185	243,641	–	–	–	–	258,826
Acquisition of Savan	1,209,077	2,418	46,426	–	–	–	–	48,844
Deferred compensation	–	–	(23,294)	–	–	–	–	(23,294)
Increase of basis in long-term investment attributable to the issuance of shares by associated company	–	–	51,212	–	–	–	–	51,212
Equity transactions with Siemens group	–	–	13,934	–	–	–	–	13,934
Balance as of September 30, 2000	625,501,507	1,251,003	3,250,715	1,192,192	–	105,589	6,900	5,806,399

See accompanying notes to consolidated financial statements.

For the years ended September 30, 1998 and 1999, euro balances have been restated from the Deutsche Mark into euro using the official exchange rate fixed as of January 1, 1999 (Note 2).

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the years ended September 30, 1998, 1999 and 2000

	1998	1999	2000	2000 (NOTE 1)
	(EURO THOUSANDS)	(EURO THOUSANDS)	(EURO THOUSANDS)	(\$ THOUSANDS)
Net (loss) income	(774,688)	60,636	1,125,585	994,679
Adjustments to reconcile net loss to cash provided by operating activities				
Depreciation and amortization	578,387	573,069	833,656	736,702
Acquired in-process research and development	–	–	26,012	22,987
Deferred compensation	–	–	25,550	22,579
Provision for doubtful accounts	11,821	1,723	17,410	15,385
Gain on sale or transfer of marketable securities	(510)	(521)	(20,238)	(17,884)
Gain on sale of interest in Associated Companies	–	(15,319)	(306)	(270)
Gain on Associated Company share issuance	–	–	(53,425)	(47,212)
Loss (gain) on disposal of property, plant and equipment	1,231	18,041	(1,648)	(1,456)
Equity in losses (earnings) of Associated Companies	151,180	(33,763)	(101,303)	(89,521)
Minority interests	1,118	(185)	6,143	5,429
Restructuring	673,905	–	–	–
Deferred income taxes	(961,354)	(73,454)	90,812	80,251
Changes in operating assets and liabilities				
Related party receivables – trade	(13,566)	(8,401)	(148,024)	(130,809)
Accounts receivable	(21,774)	(284,944)	(535,314)	(473,057)
Inventories	20,641	(40,529)	(107,887)	(95,340)
Other current assets	11,566	(25,607)	(29,800)	(26,334)
Related party payables – trade	70,955	73,294	93,995	83,063
Accounts payable	(80,488)	61,984	375,393	331,735
Accrued liabilities	54,087	77,847	467,505	413,133
Other current liabilities	59,657	75,668	103,339	91,320
Other assets and liabilities	32,649	9,080	(87,768)	(77,561)
Net cash (used in) provided by operating activities	(185,183)	468,619	2,079,687	1,837,819
Cash flows from investing activities				
Purchases of marketable securities available for sale	(11,888)	(175,250)	(451,990)	(399,424)
Proceeds from sales of marketable securities available for sale	10,559	11,296	–	–
Proceeds from sales of interests in Associated Companies	–	18,033	308	272
Investment in Associated and Related Companies	(171,317)	(133,078)	(302,512)	(267,330)
Purchases of intangible assets	(42,350)	(43,203)	(42,909)	(37,919)
Purchases of property, plant and equipment	(763,146)	(652,528)	(1,570,832)	(1,388,143)
Proceeds from sales of property, plant and equipment	18,810	56,462	39,839	35,206
Dividends received from equity investments	–	–	1,461	1,291
Net cash used in investing activities	(959,332)	(918,268)	(2,326,635)	(2,056,047)
Cash flows from financing activities				
Net change in short-term debt	(33,480)	(48,151)	59,735	52,788
Net change in related party financial receivables and payables	954,744	(763,654)	222,167	196,329
Proceeds from issuance of long-term debt	21,275	71,613	13,264	11,721
Principal repayments of long-term debt	(28,950)	(79,534)	(500,100)	(441,938)
Proceeds from issuance of redeemable interest in Associated Company	–	–	168,726	149,103
Increase in restricted cash	–	(63,529)	(67,173)	(59,361)
Increase in investments by and advances from Siemens AG	228,709	1,322,055	–	–
Proceeds from issuance of ordinary shares	–	–	820,861	725,395
Capital contributions	–	26,193	1,667	1,473
Net cash provided by financing activities	1,142,298	464,993	719,147	635,510
Effect of foreign exchange rate changes on cash and cash equivalents	(1,071)	2,276	9,109	8,050
Net (decrease) increase in cash and cash equivalents	(3,288)	17,620	481,308	425,332
Cash and cash equivalents at beginning of year	15,174	11,886	29,506	26,074
Cash and cash equivalents at end of year	11,886	29,506	510,814	451,406

See accompanying notes to consolidated financial statements.

For the years ended September 30, 1998 and 1999, euro balances have been restated from the Deutsche Mark into euro using the official exchange rate fixed as of January 1, 1999 (Note 2).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(EURO IN THOUSANDS, EXCEPT WHERE OTHERWISE STATED)

1. DESCRIPTION OF BUSINESS, FORMATION
AND BASIS OF PRESENTATION

Description of Business

Infineon Technologies AG ('Infineon' or the 'Company') designs, develops, manufactures and markets 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. Infineon's products include standard commodity components, full-custom devices, semi-custom devices and application specific components for memory, analog, digital and mixed-signal applications. Infineon has operations and investments located in Europe, Asia and North America. Infineon's customers are mainly located in Europe, Asia and North America. Infineon is a majority owned subsidiary of Siemens Aktiengesellschaft ('Siemens'). The fiscal year-end for Infineon and its subsidiaries is September 30.

Formation

In November 1998, Siemens announced its intention to sell a portion of its semiconductor business in a public offering of shares. For this purpose, Infineon was formed as a legal entity as of April 1, 1999 (the 'Formation') through the contribution by Siemens of substantially all of its semiconductor-related investments, operations and activities with the exception of the substantial portion of the assets and liabilities relating to the wafer fabrication facility located in the North Tyneside area of Northern England ('North Tyneside'), certain facilities located in the United States and certain rights relating to intellectual property (the 'Contributed Businesses'). Certain assets from North Tyneside that were contributed to Infineon are included in the accompanying consolidated financial statements at their respective historical cost and the related depreciation thereon for all periods presented.

Although North Tyneside was not legally transferred to Infineon at the Formation, the results of its operations through November 30, 1998 (the date its operations ceased) are included in the accompanying statements of operations for the applicable periods presented because North Tyneside was operated and managed as part of the Contributed Businesses. Infineon has no legal right or obligation with respect to the remaining assets and liabilities of North Tyneside and, accordingly, such assets and related obligations are excluded from the accompanying balance sheet effective November 30, 1998.

On March 13, 2000, Infineon successfully completed an initial public offering ('IPO') on the New York and Frankfurt Stock Exchanges (see note 4).

Prior to the IPO, Infineon's operations had been financed largely through contributions from Siemens and, to a lesser extent, third party borrowings. Infineon's interest expense includes interest charges on certain intercompany financial liabilities to Siemens group companies and interest expense on its external debt. Accordingly, future interest expense may not necessarily be indicative of the interest expense that Infineon would have incurred as a separate independent company, or has incurred since the Formation.

Basis of Presentation

The accompanying financial statements have been prepared in accordance with United States generally accepted accounting principles ('U.S. GAAP'). This reflects the combined historical financial statements of the Contributed Businesses, assuming that Infineon had existed as a separate legal entity for all periods prior to the Formation. The financial statements included herein for the periods presented prior to the Formation may not necessarily be indicative of the results of operations, financial positions and cash flows of Infineon had it operated as a separate independent company, nor are they an indicator of future performance.

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 thousands of euro unless otherwise noted. The accompanying balance sheet as of September 30, 2000, and the statements of operations and cash flows for the year then ended are also presented in U.S. dollars ('\$'), solely for the convenience of the reader, at the rate of euro (or 'EUR') = \$0.8837, the noon buying rate on September 29, 2000. 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, prior to the Formation, the accounts of Infineon and the Contributed Businesses on a combined basis and, after the Formation, the accounts of Infineon and its significant subsidiaries on a consolidated basis. Investments in companies in which Infineon has an ownership interest in excess of 20% but which are not controlled by Infineon ('Associated Companies') are principally accounted for using the equity method of accounting (see note 10). The equity in earnings of Associated Companies with different fiscal year ends principally recorded on a three month lag. Other equity investments ('Related Companies'), in which Infineon has an ownership interest less than 20%, are recorded at cost. The effects of all significant intercompany transactions are eliminated.

The Infineon group consists of the following number of entities:

	CONSOLIDATED SUBSIDIARIES	ASSOCIATED COMPANIES	TOTAL
September 30, 1999	22	5	27
Additions	4	—	4
September 30, 2000	26	5	31

The consolidated financial statements include 25 (1999: 9) subsidiaries and 9 (1999: 4) Associated Companies that are accounted for at cost and recorded under investments in Related Companies, 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 these companies for all years presented on consolidated assets, revenues and net income of the Company was less than 1%.

Reporting Currency

On October 1, 1999, Infineon adopted the euro as its reporting currency, and therefore the accompanying financial statements are presented in euro. Accordingly, previous Deutsche Mark ("DM") financial statements for each period presented prior to October 1, 1999 have been restated into euro using the official DM/EUR exchange rate fixed as of January 1, 1999 of EUR 1 = DM 1.95583. Due to the fixed DM/EUR exchange rate, Infineon's restated euro financial statements depict the same trends as would have been presented if it had continued to present its financial statements in DM. Infineon's financial statements, however, will not be comparable to the euro financial statements of other companies that previously reported their financial statements in a currency other than DM, because of currency fluctuations between the DM and other currencies.

Foreign Currency Translation

The assets and liabilities of foreign subsidiaries where the functional currency is 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, based on exchange rates for the euro fixed at the Frankfurt Currency Exchange, used in the preparation of the accompanying financial statements are as follows:

CURRENCY		EXCHANGE RATE AT SEPTEMBER 30		ANNUAL AVERAGE EXCHANGE RATE	
		1999 EUR	2000 EUR	1999 EUR	2000 EUR
U.S. \$	1 \$ =	0.938	1.1373	0.913	1.0470
Japanese Yen	100 JPY=	0.888	1.0533	0.781	0.9881
British Pound	1 GBP=	1.544	1.6720	1.485	1.6286
Singapore Dollar	1 SGD=	0.552	0.6530	0.541	0.6129

Cash and Cash Equivalents

Cash and cash equivalents represent cash, deposits and highly liquid short-term investments with original maturities of three months or less.

Restricted Cash

Restricted cash includes collateral deposits used as security under borrowing arrangements and deposits held in escrow for others.

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 (loss), net of applicable deferred 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 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 are comprised of direct material and labour 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. For the years ended September 30, 1998, 1999 and 2000, interest capitalized by Infineon was not significant. The estimated useful lives of assets are as follows:

	YEARS
Buildings	20-25
Technical equipment and machinery	3-10
Other plant and office equipment	3-10

Leases

The Company is a lessee of property, plant and equipment. All leases where Infineon 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 Statement of Financial Accounting Standards ("SFAS") No. 13, 'Accounting for Leases.' All other leases are accounted for as operating leases. The Company is a lessor of technical equipment which is carried at cost and depreciated over the estimated useful lives of the assets, generally 5 to 10 years, using the straight-line method.

Intangible Assets

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 are amortized on a straight-line basis over the estimated useful lives of the assets ranging from 3 to 10 years.

Impairment of Long-lived Assets

Infineon reviews long-lived assets, including intangible assets, 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.

Financial Instruments

Infineon operates internationally, giving rise to exposure to changes in foreign currency exchange rates. Infineon uses financial instruments, including derivatives such as foreign currency forward and option contracts, to reduce this exposure based on the net exposure to the respective currency. Financial instruments related to identifiable and committed transactions are accounted for together with the underlying business transactions. Gains and losses on derivative financial instruments are generally 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 income or expense. The carrying amounts of derivative financial instruments are included in other current assets or other current liabilities. Infineon does not hold any derivatives for trading or speculative purposes.

Revenue Recognition – Sales

Revenue, net of allowances for discounts and price protection agreements, is recognized upon shipment or delivery of finished products to customers depending on the terms of the agreement. Sales to the Siemens sales organizations for resale to third parties and sales directly to Siemens are recognized upon shipment when the risks and rewards of ownership are transferred. For sales to the Siemens sales organizations, revenue is recognized net of a discount that represents the sales organization's commission. Such discounts are reflected as reductions in net sales and not as selling expenses.

Revenue Recognition – License and Technology Transfer Fees

License and technology transfer fees are recognized when earned and realizable. Lump sum payments are deferred where applicable and recognized over the period the Company is obliged to provide additional service. Multi-element arrangements where objective fair values of specific elements do not exist are combined and amortized over the applicable periods.

Government Grants

Tax-free government grants are deferred and amortized to income in the period in which the related expenses are incurred. Taxable grants for investments in property, plant and equipment are deducted from the acquisition costs of the related assets. Other taxable grants reduce the related expense (see notes 15 and 20).

Product-related Expenses

Expenditures for advertising, sales promotion and other sales-related activities are expensed as incurred. Provisions for estimated costs related to product warranties are made at the time the related sale is recorded. Research and development costs are expensed as incurred.

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. Deferred income taxes in Germany are calculated using the 'earnings' tax rate.

Stock-based Compensation

The Company accounts for stock-based compensation using the intrinsic value method pursuant to Accounting Principle Board ('APB') Opinion 25, 'Accounting for Stock Issued to Employees', and has adopted the disclosure-only provisions of SFAS No. 123, 'Accounting for Stock-Based Compensation'.

Issuance of Shares by Subsidiaries or Associated Companies

Gains or losses arising from the issuances of shares by subsidiaries or Associated Companies, due to changes in the Company's proportionate share of the value of the issuer's equity, are recorded as non-operating income or expense pursuant to U.S. Securities and Exchange Commission ('SEC') Staff Accounting Bulletin ('SAB') Topic 5:H, 'Accounting for Sales of Stock by a Subsidiary'.

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 results could differ from those estimates.

Recent Accounting Pronouncements

The Financial Accounting Standards Board ('FASB') issued SFAS No. 133, 'Accounting for Derivative Instruments and Hedging Activities' as amended by SFAS No. 137 and SFAS No. 138, which is effective for the Company from October 1, 2000. SFAS No. 133, as amended, provides guidance for accounting for all derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities. Derivatives are required to be recorded on the balance sheet at their fair value. Changes in fair value are required to be recorded in current earnings or other comprehensive income, depending on whether the derivative is designated as part of a hedge transaction and the type of hedge transaction. The Company's foreign currency forward and option contracts are currently marked to market with a corresponding charge or credit to earnings, and therefore there will be no impact on the accounting for these instruments due to the adoption of SFAS No. 133, as amended. The fair value of derivative and other financial instruments is discussed in note 27.

On March 31, 2000, the FASB issued FASB Interpretation No. 44, 'Accounting for Certain Transactions Involving Stock Compensation' an interpretation of APB Opinion 25. This interpretation clarifies the application of APB Opinion 25 for certain issues. The effects of applying this interpretation are required to be recognized on a prospective basis from July 1, 2000. The application of this interpretation did not have a material effect on the Company's financial position or results of operations.

In December 1999, the SEC released SAB 101, 'Revenue Recognition in Financial Statements,' which provides guidance on the recognition, presentation and disclosure of revenue in financial statements filed with the SEC. Subsequently, the SEC released SAB 101A and SAB 101B, which delayed the required implementation of SAB 101 by the Company until the first quarter of fiscal year 2001. The application of SAB 101 is not expected to have a material effect on the Company's financial position or results of operations.

3. ACQUISITIONS

In 1997, Infineon and Motorola Inc. ('Motorola') formed the White Oak Semiconductor ('White Oak') joint venture. Infineon had a 50.1% ownership interest and shared equal voting representation with Motorola. Due to the lack of unilateral control, the investment in White Oak was accounted for using the equity method. On September 30, 1999, pursuant to a Conversion Agreement with Motorola, Infineon obtained, among other things, control over operations and management of White Oak and a call option to purchase the remaining 49.9% interest held by Motorola. Accordingly, Infineon has consolidated White Oak from that date.

In April 2000, the Company exercised its option to acquire the remaining interest in White Oak held by Motorola, resulting in White Oak becoming a wholly-owned subsidiary of the Company, for a total consideration of EUR 176,445 accounted for as a purchase. The Company engaged an independent third party to assist in the valuation of the net assets acquired. As a result of this valuation, the Company increased the value of White Oak's property, plant and equipment by EUR 24,567, consisting of land of EUR 2,772, buildings of EUR 7,334, and equipment of EUR 14,461. The remaining purchase price in excess of minority interest, in the amount of EUR 111,300 was allocated to goodwill and is amortized on a straight-line basis over ten years.

In April 2000, the Company acquired the net assets of Savan Communications, Ltd. ('Savan') in a EUR 75,252 cash transaction, accounted for as a purchase. Savan develops and markets products utilizing VDSL technology, which enables transmission of broadband data over existing copper infrastructures. In addition, the Company placed with an escrow agent cash of EUR 7,215 and issued 1,209,077 shares and 252,968 options with an aggregate value of EUR 48,844, in the form of deferred compensation. The deferred compensation is amortized as research and development expense on a straight-line basis over the related employment periods, ranging between two and three years, and the equity component is reflected as a reduction of additional paid-in capital in the accompanying balance sheet at September 30, 2000. The Company engaged an independent third party to assist in the valuation of net assets acquired. As a result of this valuation, EUR 26,012 was allocated to purchased in-process research and development, and expensed as

research and development in the year ended September 30, 2000, because the technological feasibility of products under development had not been established and no future alternative uses existed. The amount allocated to purchased in-process research and development was determined through established valuation techniques in the high-technology communications industry and related guidance provided by the SEC. The remaining amounts allocated to goodwill and other intangibles are amortized on a straight-line basis over periods not exceeding five years.

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

4. ORDINARY SHARE CAPITAL

Infineon had 625,501,507 registered ordinary shares of EUR 2.00 notional value per share issued and outstanding at September 30, 2000.

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. The Management Board may use these authorizations through March 31, 2004 to issue new shares as follows:

- authorized share capital I – in an aggregate amount of up to EUR 120,000 to issue shares in exchange for cash contributions. The pre-emptive rights of existing shareholders may be excluded in certain circumstances;
- authorized share capital II – in an aggregate amount of up to EUR 120,000 to issue shares to employees. The pre-emptive rights of existing shareholders are excluded or
- authorized share capital III – in an aggregate amount of up to EUR 237,582 to issue shares in connection with business combinations (contributions in kind). The pre-emptive rights of existing shareholders are excluded.

The Company has conditional capital of up to EUR 96,000 (conditional share capital I) that may be used to issue up to 48 million new registered shares in connection with the Company's long-term incentive plan (see note 26). These shares will have dividend rights from the beginning of the fiscal year in which they are issued.

The Company has conditional capital of up to EUR 50,000 (conditional share capital II) that may be used to issue up to 25 million new registered shares upon conversion of securities, if those securities have been issued before November 30, 2004. These shares will have dividend rights from the beginning of the fiscal year in which they are issued.

Capital Transactions

At the Formation, Infineon was capitalized through the issuance of 200,000,000 ordinary shares with a nominal value of EUR 400,000. At a shareholders' meeting on December 8, 1999, the shareholders authorized the issuance of an additional 200,000,000 ordinary shares with a nominal value of EUR 400,000, through a stock split in the form of a stock dividend. At a shareholders' meeting on February 9, 2000, the shareholders authorized the issuance of an additional 200,000,000 ordinary shares with a nominal value of EUR 400,000, through a stock split in the form of a stock dividend. These capital increases were approved by the German Commercial Registrar on January 26, 2000, and February 14, 2000, respectively, and have been reflected as if they had occurred at the time of the Formation in the accompanying financial statements. Accordingly, all applicable references to the number of ordinary shares and per share information prior to the Formation have been restated to reflect the authorization and issuance of 600,000,000 ordinary shares.

On March 13, 2000, Infineon successfully completed its IPO of 16,700,000 ordinary shares, consisting of American Depositary Shares which are listed on the New York Stock Exchange and ordinary shares which are listed on the Frankfurt Stock Exchange, raising EUR 562,035, net of offering expenses.

In March 2000, pursuant to a private placement, the Company sold 7,592,430 ordinary shares to Intel Corporation ('Intel'), raising EUR 258,826. Under the provisions of the investment agreement, Intel has agreed to limit the number of shares it would sell over a specified period.

On April 25, 2000, the Company issued 1,209,077 ordinary shares from authorized share capital III to acquire the net assets of Savan (see note 3).

Under German commercial law (Aktiengesetz), the amount of dividends available for distribution to shareholders is based on the level of retained earnings of the ultimate parent, Infineon Technologies AG, as determined in accordance with the HGB. For the year ended September 30, 2000, the Management Board has proposed a distribution of EUR 406,576 in respect of the fiscal 2000 earnings of Infineon Technologies AG as a dividend to the shareholders, which is subject to shareholder approval.

On October 13, 1999 ProMOS Technologies Inc., an Associated Company, completed a public offering on the Taiwan Stock Exchange of 150,000,000 primary shares. As a result of this offering the Company's interest in ProMOS was diluted to 33.6%, while its proportional share of ProMOS' shareholders' equity increased by EUR 51,212. Pursuant to SEC SAB Topic 5: H, this increase is reflected as a direct addition to shareholders' equity, since the realization of the gain was not reasonably assured at the time of the transaction.

5. EARNINGS (LOSS) PER SHARE

SFAS No. 128, 'Earnings Per Share', requires the disclosure of basic and diluted earnings (loss) per share ('EPS'). Basic EPS is calculated using income (loss) available to ordinary shareholders divided by the weighted average number of ordinary shares outstanding during the year. Diluted EPS is similar to basic EPS except that the weighted average number of ordinary shares outstanding is increased to include the number of any additional ordinary shares that would be outstanding if such potentially dilutive ordinary shares had been issued.

The computation of basic and diluted EPS for the years ended September 30, 1998, 1999 and 2000, is as follows:

	1998	1999	2000
Numerator:			
Income (loss) available to ordinary shareholders	(774,688)	60,636	1,125,585
Denominator:			
Weighted – average shares outstanding – basic	600,000,000	600,000,000	613,862,876
Effect of dilutive stock options	–	–	1,258,310
Weighted – average shares outstanding – diluted	600,000,000	600,000,000	615,121,186
Earnings (loss) per share (in euro):			
Basic	(1.29)	0.10	1.83
Diluted	(1.29)	0.10	1.83

6. MARKETABLE SECURITIES

Marketable securities at September 30, 1999 and 2000 consist of the following:

	SEPTEMBER 30, 1999				SEPTEMBER 30, 2000			
	COST	FAIR VALUE	UNREALIZED GAIN	UNREALIZED LOSS	COST	FAIR VALUE	UNREALIZED GAIN	UNREALIZED LOSS
German government securities	32,246	31,744	–	(502)	6,327	5,933	–	(394)
Foreign governments securities	65,400	64,599	873	(1,674)	21,002	21,033	867	(836)
Floating rate notes	–	–	–	–	451,407	452,699	1,292	–
Other debt securities	15,387	15,387	–	–	2,144	2,144	–	–
Total debt securities	113,033	111,730	873	(2,176)	480,880	481,809	2,159	(1,230)
Equity securities	62,702	60,306	1,187	(3,583)	15,012	27,042	13,212	(1,182)
Total marketable securities	175,735	172,036	2,060	(5,759)	495,892	508,851	15,371	(2,412)
Reflected as follows:								
Current asset	–	–	–	–	485,601	497,712	14,523	(2,412)
Non-current asset (note 11)	175,735	172,036	2,060	(5,759)	10,291	11,139	848	–
Total marketable securities	175,735	172,036	2,060	(5,759)	495,892	508,851	15,371	(2,412)

Realized gains were EUR 510, EUR 521 and EUR 20,238 for the years ended September 30, 1998, 1999 and 2000, respectively.

Debt securities at September 30, 2000 had the following remaining contractual maturities:

	COST	FAIR VALUE
Less than 1 year	10,742	11,506
Between 1 and 5 years	451,616	452,923
More than 5 years	18,522	17,380
	480,880	481,809

Actual maturities may differ due to call or prepayment rights.

7. ACCOUNTS RECEIVABLE, NET

Accounts receivable at September 30, 1999 and 2000 consist of the following:

	1999	2000
Third party – trade	630,004	1,180,229
VAT and other taxes receivable	152,872	196,417
Miscellaneous	42,043	40,613
Total receivables	824,919	1,417,259
Allowance for doubtful accounts	(22,699)	(31,441)
	802,220	1,385,818

Activity in the allowance for doubtful accounts for the years ended September 30, 1999 and 2000 is as follows:

	1999	2000
Allowance for doubtful accounts at beginning of year	21,454	22,699
Additions charged to bad debt expense	1,012	17,410
Write-offs charged against the allowance	(478)	(10,382)
Foreign currency effects	711	1,714
Allowance for doubtful accounts at end of year	22,699	31,441

8. INVENTORIES

Inventories at September 30, 1999 and 2000 consist of the following:

	1999	2000
Raw materials and supplies	37,459	84,485
Work-in-process	381,995	417,022
Finished goods	257,518	339,307
Total Inventory	676,972	840,814

9. PROPERTY, PLANT AND EQUIPMENT, NET

A summary of activity for property, plant and equipment for the year ended September 30, 2000 is as follows:

	LAND AND BUILDINGS	TECHNICAL EQUIPMENT AND MACHINERY	OTHER PLANT AND OFFICE EQUIPMENT	CONSTRUCTION IN PROGRESS	TOTAL
Cost					
September 30, 1999	746,605	3,444,448	1,254,528	209,531	5,655,112
Additions	32,128	527,067	235,314	801,091	1,595,600
Disposals	(13,449)	(126,811)	(70,786)	—	(211,046)
Transfers	6,499	149,829	46,155	(202,483)	—
Foreign currency effects	57,203	183,161	54,358	22,766	317,488
September 30, 2000	828,986	4,177,694	1,519,569	830,905	7,357,154
Accumulated depreciation					
September 30, 1999	(240,618)	(1,599,931)	(801,008)	—	(2,641,557)
Additions	(47,408)	(501,786)	(231,249)	—	(780,443)
Disposals	3,686	100,381	66,259	—	170,326
Foreign currency effects	(7,057)	(39,989)	(24,077)	—	(71,123)
September 30, 2000	(291,397)	(2,041,325)	(990,075)	—	(3,322,797)
Book value September 30, 1999	505,987	1,844,517	453,520	209,531	3,013,555
Book value September 30, 2000	537,589	2,136,369	529,494	830,905	4,034,357

The Company is the lessor of technical equipment (see note 17) of EUR 223,451 and EUR 220,912 with related accumulated depreciation of EUR 118,960 and EUR 141,285 as of September 30, 1999 and 2000, respectively.

10. LONG-TERM INVESTMENTS, NET

A summary of activity for long-term investments for the year ended September 30, 2000 is as follows:

	INVESTMENT IN ASSOCIATED COMPANIES	INVESTMENT IN RELATED COMPANIES	TOTAL
Balance at September 30, 1999	107,656	22,780	130,436
Additions	25,684	59,780	85,464
Equity in earnings	101,303	—	101,303
Dividends and distributions	(19,074)	—	(19,074)
Share issuances	104,637	—	104,637
Other	—	(10,052)	(10,052)
Foreign currency effects	38,338	1,239	39,577
Balance at September 30, 2000	358,544	73,747	432,291

The following Associated Companies at September 30, 2000 are accounted for using the equity method of accounting:

NAME OF THE ASSOCIATED COMPANY	PERCENTAGE OF OWNERSHIP
ProMOS Technologies Inc., Hsinchu, Taiwan ('ProMOS')	33.0%
Semiconductor 300 GmbH & Co. KG, Dresden, Germany ('SC300')	50.1%
ALTIS Semiconductor, France ('ALTIS')	50.1%
OSRAM Unternehmensverwaltungs GmbH, and OSRAM Opto Semiconductor GmbH & Co. OHG, Regensburg, Germany (together 'OSRAM Opto')	49.0%

Investments in Related Companies principally relate to investment activities aimed at strengthening Infineon's future intellectual property potential.

Infineon 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, integrated circuits and related products.

ProMOS, a Taiwanese public company, is owned primarily by Mosel Vitelic, Inc. ('MVI') and Infineon. The Company's investment in ProMOS is net of deferred license and technology transfer fee revenue (see note 21). On October 13, 1999 ProMOS completed a public offering of 150,000,000 primary shares. As a result of this offering the Company's interest was diluted to 33.6%, while its proportional share of ProMOS' shareholders' equity increased by EUR 51,212. On May 22, 2000 ProMOS shareholders approved the distribution of employee bonuses in the form of 50,683,800 shares. As a result of this distribution, the Company's interest was diluted to 33.0%, while its proportional share of ProMOS' shareholders' equity increased by EUR 53,425, which is reflected as non operating income in the year ended September 30, 2000. In connection with the initial public offering of ProMOS in 1999, the Company sold an 0.8% shareholding, which resulted in a gain of EUR 15,319 and is reflected in other income, net in the accompanying statement of operations for the year ended September 30, 1999.

The Company originally formed SC300 in 1998 with Motorola, which had a 49.9% interest (see Note 30). On April 4, 2000, the Company entered into a related joint venture ('FoF') agreement with a governmental entity and an engineering concern (the 'Other Investors') to build a 300-millimeter wafer fabrication facility in Germany. The Company has also entered into a contract with the engineering concern for the construction of the facility. In connection with the formation of the FoF, the Company contributed cash of EUR 94,603 and its 50.1% interest in SC300 and the Other Investors provided cash of EUR 168,726 for a redeemable interest in the venture as described below.

The FoF agreement gives each of the Other Investors the right to sell their respective interest in the FoF to the Company on September 30, 2005 and every third anniversary thereafter. Additionally, the Company is entitled to purchase such interests once every three years commencing March 31, 2004. Each of the Other Investors also has the right to sell its interest to the Company upon the occurrence of specified events, such as capital increases that it does not agree to, the admission of new investors, substantial budget overruns, as defined, and the Company ceasing to exercise control over the joint venture. Upon exercise of these options, the purchase price the Company would have to pay would be based on the capital contributed plus a return thereon at rates ranging between 11% and 15% per annum. Accordingly, this redeemable interest has been recorded as a long-term liability in the accompanying consolidated balance sheet (see note 15). The carrying amount of this liability is increased by amounts representing accretion of interest, which could be payable under the redemption feature, so that the carrying amount of the liability will equal the redemption amount at any redemption date.

The Company has issued a back-up guarantee in favor of the governmental entity for guarantees extended by it for the benefit of the joint venture, and has also agreed to maintain its existing loan to the joint venture of approximately EUR 92,000 on customary market terms.

Pursuant to the provisions of Emerging Issues Task Force Issue No. 00-4 and other prevailing authoritative literature, the Company has consolidated the FoF since formation and has reflected 100% of its operating results (principally construction development costs) in the accompanying consolidated statement of operations.

ALTIS is a joint venture formed on July 12, 1999 between Infineon and IBM, with each having equal voting representation. Pursuant to the ALTIS shareholders' agreement, Infineon made a cash contribution of EUR 24,800 on December 31, 1999 in exchange for 2,480,000 shares, which maintains the Company's ownership interest in ALTIS Semiconductor at 50.1%.

OSRAM Opto is a joint venture owned by Infineon and Osram, a division of Siemens. The operations of OSRAM Opto are under the control of Siemens and, as such, the summarized financial information included in the below table for OSRAM Opto assumes that the entity existed in its current form with the current ownership for all periods presented.

The aggregate summarized financial information for the Associated Companies for the fiscal years 1998, 1999 and 2000, is as follows:

	1998	1999 ⁽¹⁾	2000
Sales	428,325	1,136,143	1,684,472
Gross profit	24,652	279,808	515,192
Net (loss) income	(283,121)	91,558	291,157

	1999	2000
Current assets	447,461	955,568
Non-current assets	1,143,293	1,887,828
Current liabilities	(514,789)	(973,144)
Non-current liabilities	(569,941)	(332,008)
Shareholders' equity	506,024	1,538,244

⁽¹⁾ Includes sales, gross profit and net losses of White Oak of EUR 385,339, EUR 35,085 and EUR (17,946), respectively.

11. OTHER ASSETS

Other non-current assets at September 30, 1999 and 2000 consist of the following:

	1999	2000
Intangible assets, net	60,494	221,759
Refundable deposit (note 24)	78,543	—
Notes receivable	48,728	5,902
Marketable securities (notes 6 and 19)	172,036	11,139
Other, net	40,570	14,605
	400,371	253,405

A summary of activity for intangible assets for the year ended September 30, 2000 is as follows:

	GOODWILL	OTHER INTANGIBLES	TOTAL
Cost			
September 30, 1999	5,197	193,475	198,672
Additions	126,824	79,296	206,120
Foreign currency effects	6,951	1,044	7,995
September 30, 2000	138,972	273,815	412,787
Accumulated amortization			
September 30, 1999	(2,329)	(135,849)	(138,178)
Additions	(8,225)	(43,139)	(51,364)
Foreign currency effects	(790)	(696)	(1,486)
September 30, 2000	(11,344)	(179,684)	(191,028)
Book value September 30, 1999	2,868	57,626	60,494
Book value September 30, 2000	127,628	94,131	221,759

12. ACCOUNTS PAYABLE

Accounts payable at September 30, 1999 and 2000 consist of the following:

	1999	2000
Third party – trade	378,945	766,439
VAT and other taxes payable	54,617	80,803
Other	1,139	1,997
	434,701	849,239

13. ACCRUED LIABILITIES

Accrued liabilities at September 30, 1999 and 2000 consist of the following:

	1999	2000
Taxes	29,755	342,047
Personnel costs	87,119	121,247
Warranties and licenses	51,001	141,949
Other	75,269	113,538
	243,144	718,781

14. OTHER CURRENT LIABILITIES

Other current liabilities at September 30, 1999 and 2000 consist of the following:

	1999	2000
Payroll obligations and other liabilities to employees	113,600	183,463
Forward contracts payable	—	63,728
Deferred income	20,262	12,682
Other	135,823	40,075
	269,685	299,948

15. OTHER LIABILITIES

Other non-current liabilities at September 30, 1999 and 2000 consist of the following:

	1999	2000
Pension obligations (note 19)	147,541	41,034
Deferred government grants	72,893	21,802
Deferred license and technology transfer fees (note 21)	138,045	13,643
Redeemable interest (note 10)	—	175,715
Minority interests	24,756	—
Other	31,193	34,528
	414,428	286,722

All of the above, except pension obligations, as of September 30, 2000, are due to realize or mature within five years.

16. DEBT

Debt at September 30, 1999 and 2000 consists of the following:

	1999	2000
Short-term debt		
Notes payable to banks, weighted average rate 4.0%	48,642	111,150
Loans payable to Siemens, weighted average rate 5.4%	422,027	—
Current portion of long-term debt	23,936	27,200
Total short-term debt and current maturities	494,605	138,350
Long-term debt		
Loans payable to banks		
Unsecured term loans, weighted average rate 2.6%, due 2001 – 2007	28,113	31,224
Interest-free loan, due 2000 – 2004	52,645	41,834
Notes payable, weighted average rate 4.0%, due 2000 – 2003	22,671	16,602
Notes payable to governmental entity, rate 4.3%, due 2027	31,593	38,312
Total long-term debt	135,022	127,972

Short-term notes payable to banks consist primarily of borrowings under the terms of short-term borrowing arrangements. Loans payable to Siemens relate to loans of White Oak which were repaid on March 30, 2000 from the proceeds of the IPO. The interest-free loan, due 2000–2004, consists of borrowings under an arrangement whereby a governmental entity has agreed to pay all interest thereon. Additionally, should Infineon meet certain stipulations, the governmental entity has agreed to repay up to 75% of the outstanding balance of the loan on behalf of Infineon. However, due to the uncertainty of Infineon meeting these stipulations, all amounts borrowed by Infineon and outstanding under the loan are included as obligations of Infineon until such time as the stipulations are achieved. As the stipulations are met by Infineon, the amounts reported as obligations under this loan will be reduced by the amount to be paid by the governmental entity.

At September 30, 1999, Infineon had a loan of EUR 792,502 that was secured by an equal restricted deposit with matching interest and maturity terms at the same financial institution. Access to the funds of the deposit was restricted to the extent of the corresponding loan balance. The loan and restricted deposit were offset in the accompanying balance sheet as of September 30, 1999 in accordance with FASB Interpretation No. 39, 'Offsetting of Amounts Related to Certain Contracts', and therefore, had aggregate fair value of zero. Infineon previously received a government interest subsidy for this loan, which was deferred and recognized as a reduction of interest expense in the period in which the related interest expense was recorded. On September 29, 2000 the loan was repaid with the matching deposit. Accordingly, the previously deferred portion of EUR 62,161 has been recognized as a reduction of interest expense for the year ended September 30, 2000.

In March 2000, the Company obtained a EUR 750,000 syndicated multicurrency revolving credit facility. The amount of the facility is divided into two equal tranches. The first tranche has a term of four years, and the second has a renewable term of 364 days. Drawings under each tranche may be denominated in euro or dollar and will bear variable market rates of interest based on applicable reference rates plus a margin. This margin may vary based on the extent of the facility's utilization and the level of senior debt to earnings before interest, taxes, depreciation and amortization ('senior debt ratio'). The facility includes various covenants, including covenants regarding the maintenance of a minimum tangible net worth, a senior debt ratio and an interest coverage ratio. At September 30, 2000 there were no amounts outstanding under this facility.

Furthermore, at September 30, 2000 the Company had committed and unused lines of financing available of EUR 307,842 in aggregate.

Aggregate amounts of long-term debt maturing during the next five years and thereafter are as follows: 2001, EUR 27,200; 2002, EUR 26,038; 2003, EUR 28,363; 2004, EUR 16,675; 2005, EUR 13,496 and thereafter EUR 43,400.

17. RELATED PARTIES

Infineon has transactions in the normal course of business with Siemens group companies and with Related and Associated Companies (together, 'Related Parties'). Infineon purchases certain of its raw materials, especially chipsets, from, and sells a significant portion 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, 1999 and 2000 consist of the following:

	1999	2000
Siemens group – trade	63,265	104,409
Associated and Related Companies – trade	24,740	62,393
Siemens group – financial receivables	678,808	49,295
Associated and Related Companies – financial receivables	176,107	216,178
Employee receivables	5,744	6,850
	948,664	439,125

Related Party payables at September 30, 1999 and 2000 consist of the following:

	1999	2000
Siemens group – trade	45,504	92,055
Associated and Related Companies – trade	109,116	265,032
Siemens group – financial liabilities	337,813	7,594
Associated and Related Companies – financial liabilities	35,489	8,704
	527,922	373,385

Related party receivables and payables have been segregated (1) between amounts owed by or to Siemens group companies and companies in which Infineon 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 product. Financial receivables and liabilities represent amounts owed relating to loans and advances and accrue interest at interbank rates. On October 1, 1999, Infineon and Siemens group companies settled financial receivables of EUR 678,808 and financial liabilities of EUR 337,813, which resulted in a net increase in cash of EUR 340,995.

Transactions with Related Parties during the years ended September 30, 1998, 1999 and 2000, include the following:

	1998	1999	2000
Sales to Related Parties			
Siemens group companies	794,413	963,251	1,089,022
Associated and Related Companies	59,370	110,783	121,593
Purchases from Related Parties			
Siemens group companies	343,911	260,107	424,324
Associated and Related Companies	410,199	841,631	1,183,378
Interest income from Related Parties	16,667	21,788	14,437
Interest expense to Related Parties	32,644	15,510	21,396

Sales to Siemens group companies include sales to the Siemens' sales organizations for resale to third parties of EUR 267,998, EUR 366,730 and EUR 326,356 for the years ended September 30, 1998, 1999 and 2000, respectively. Sales to the Siemens' sales organizations for resale to third parties are made at discounts of approximately 7% to 9%. The Company is renegotiating its compensation arrangements with the Siemens' sales organizations to cease the practice of selling to them for resale to others, but rather to be on the basis of commission-based compensation arrangements. These negotiated arrangements would also apply to sales made through the Siemens group sales organizations in countries where the Company has not established our own independent sales organization.

Technical equipment is leased to ALTIS (see note 9). The non-cancelable future lease payments due under this lease at September 30, 2000 amount to EUR 31,900 for the years 2001 and 2002, EUR 23,800 for the year 2003 and EUR 15,500 for the year 2004.

Prior to the Formation, Siemens provided services to and incurred costs on behalf of Infineon. The costs of such services, including administrative services, management information services, employee benefit administration, legal administration, insurance, tax services, treasury services, and accounting and reporting, were allocated to Infineon and amounted to EUR 41,767, and EUR 37,509 for the years ended September 30, 1998, and 1999 respectively. These allocations were based upon service contracts between the relevant parties as well as upon methods that management believes are reasonable, including the use of time estimates, head count and transaction statistics, and similar activity-based data. In the opinion of management, such expenses are indicative of the actual expenses that would have been incurred if Infineon had been operating as an independent entity.

At the Formation, Infineon entered into a service agreement with Siemens to continue to receive certain administrative services. This agreement has an initial duration of two years and requires payments by Infineon of approximately EUR 1,023 in 1999 and EUR 1,176 in 2000. In addition, Infineon has entered into certain agreements with Siemens group companies to receive communications, relocation, information technology, logistics and similar services, the costs of which depend on actual services provided and are based on market prices for such services.

18. INCOME TAXES

Income (loss) before income taxes and minority interest is attributable to the following geographic locations for the years ended September 30, 1998, 1999 and 2000:

	1998	1999	2000
Germany	(1,676,639)	(111,849)	1,297,902
Foreign	(4,090)	142,191	446,295
	(1,680,729)	30,342	1,744,197

Income tax (benefit) expense for the years ended September 30, 1998, 1999 and 2000 is as follows:

	1998	1999	2000
Current taxes			
Germany	6,993	10,668	448,496
Foreign	13,892	25,125	73,161
	20,885	35,793	521,657
Deferred taxes			
Germany	(898,023)	(66,968)	109,642
Foreign	(30,021)	1,066	(18,830)
	(928,044)	(65,902)	90,812
Income tax (benefit) expense	(907,159)	(30,109)	612,469

German corporate tax law applies a split-rate imputation system with regard to the taxation of the income of a corporation and its shareholders. In accordance with the tax law in effect for fiscal 1998, 1999 and 2000, retained corporate income is initially subject to a federal corporate tax rate of 45% in 1998, and 40% in each of 1999 and 2000, plus a solidarity surcharge of 5.5% for each year on federal corporate taxes payable. Including the impact of the surcharge, the federal corporate tax rate amounted to 47.5%, 42.2% and 42.2% for the years ended September 30, 1998, 1999 and 2000, plus trade tax, net of federal benefit, of 9.5%, 9.8% and 9.8% for the years ended September 30, 1998, 1999 and 2000, respectively.

Upon distribution of retained earnings to shareholders, the corporate income tax rate on such distributed earnings is adjusted to 30%, plus a solidarity surcharge of 5.5% in 1998, 1999 and 2000 for a total of 31.65% in 1998, 1999 and 2000. This reduction is effected by means of a refund for taxes previously paid, which is known as the dividend tax credit.

A reconciliation of income taxes for the years ended September 30, 1998, 1999 and 2000, determined using the German corporate tax rate plus trade taxes, net of federal benefit, for combined statutory rate of 57% for 1998, 52% for both 1999 and 2000, is as follows:

	1998	1999	2000
Expected provision (benefit) for income taxes	(958,015)	15,778	906,982
Dividend tax credit	—	—	(58,100)
Tax free income	(7,868)	(3,242)	(3,699)
Foreign tax rate differential	6,466	(65,726)	(149,908)
Non deductible expenses	85	3,172	721
Loss (gain) for which tax benefit/ expense is not provided	47,051	(18,546)	(74,933)
Change in tax rate	—	12,654	—
Change in valuation allowance	5,589	18,282	(27,834)
Other	(467)	7,519	19,240
Actual provision (benefit) for income taxes	(907,159)	(30,109)	612,469

Deferred income tax assets and liabilities as of September 30, 1999 and 2000 consist of the following:

	1999	2000
Intangible assets	33,400	7,370
Property, plant and equipment	13,297	22,188
Investments	35,387	35,387
Receivables	5,779	6,960
Other assets	4,119	16,918
Inventories	16,526	65,901
Net operating loss and tax credit carry forwards	145,173	99,395
Pension liabilities	11,050	26,896
Other liabilities	26,540	13,959
Accrued liabilities	8,137	9,898
Deferred income	204,213	105,092
Gross deferred tax assets	503,621	409,964
Valuation allowances	(29,410)	(1,576)
Deferred tax assets	474,211	408,388
Property, plant and equipment	296,159	275,401
Investments	3,299	31,836
Inventories	23,966	16,737
Receivables	21,145	6,362
Other assets	3,099	3,207
Other liabilities	6,353	9,905
Accrued liabilities	22,005	51,011
Deferred tax liabilities	376,026	394,459
Deferred tax assets, net	98,185	13,929

Net deferred income tax assets and liabilities are presented in the accompanying balance sheets as of September 30, 1999 and 2000 as follows:

	1999	2000
Deferred tax assets		
Current	54,159	100,407
Non-current	314,342	165,601
Deferred tax liabilities		
Current	(79,655)	(74,634)
Non-current	(190,661)	(177,445)
	98,185	13,929

For purposes of the preparation of the accompanying financial statements, Infineon has prepared its tax provision as if it were a separate entity for all periods prior to the Formation. Infineon recognized deferred tax benefits of EUR 928,044 and EUR 65,902 for the years ended September 30, 1998 and 1999 respectively. These benefits are recognized to the extent it is considered more likely than not that such benefits will be realized in future years. These considerations include, but are not limited to, the ability under German tax law to carry forward incurred tax losses indefinitely and thereby offset taxable income in future years without limitation, tax planning strategies and estimates of future taxable income. These benefits were recognized based on management's belief that it would have been more likely than not that such benefits would have been utilized by Infineon in future years.

In 1998 and for the period October 1, 1998 to March 31, 1999, Infineon incurred German tax losses in the amounts of EUR 1,607,056 and EUR 358,865, respectively. Such tax losses do not represent tax loss carry forwards and did not result in deferred tax assets for Infineon at September 30, 1998 or 1999, as such losses were incurred when the German operations were a division of Siemens, and therefore benefit Siemens. Accordingly, these deferred tax benefits (EUR 907,556 and EUR 180,832 in 1998 and 1999, respectively) are reflected as equity transactions with Siemens.

At September 30, 1998, 1999 and 2000, Infineon had tax loss carry forwards of EUR 47,945, EUR 177,743 and EUR 46,289, and tax credit carry forwards of EUR 62,806, EUR 57,449 and EUR 82,152, respectively. Such tax loss and credit carry forwards are from both German and non-German operations, are generally limited to use by the particular entity that generated the loss or credit and do not expire under current law.

During the year ended September 30, 2000 valuation allowances decreased primarily as a result of a change in management's expectations regarding the realization of deferred tax assets for tax credit carry forwards in certain foreign locations.

Infineon did not provide for income taxes or foreign withholding taxes on cumulative earnings of foreign subsidiaries for the years ended September 30, 1998, 1999 and 2000, respectively, 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.

The income tax (benefit) expense for 1998, 1999 and 2000 was allocated to continuing operations and accumulated other comprehensive income. The amount allocated to equity, for unrealized gains (losses) on securities, was EUR (53), EUR 1,965 and EUR (7,945) for 1998, 1999 and 2000, respectively.

In October 2000, the German government passed new tax legislation which, among other changes, will reduce the Company's statutory tax rate in Germany from 40% on retained earnings and 30% on distributed earnings to a uniform 25%, effective for the Company's year ending September 30, 2002. The impact of the various revisions in the new tax legislation will be accounted for during fiscal 2001, the period of the enactment of the legislation, as required by SFAS No. 109, 'Accounting for Income Taxes'. Management estimates that the impact of the legislation, primarily reflecting the effect of the tax rate reduction on the Company's deferred tax balances at September 30, 2000, will be to reduce income tax expense by approximately EUR 23,534 in the year ending September 30, 2001.

19. PENSION PLANS

Infineon provides pension benefits to a significant portion of its hourly and salaried 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 wage level and position).

Information with respect to Infineon's pension plans for the years ended September 30, 1998, 1999 and 2000 is presented by German ('Domestic') plans and non-German ('Foreign') plans.

	1998		1999		2000	
	DOMESTIC PLANS	FOREIGN PLANS	DOMESTIC PLANS	FOREIGN PLANS	DOMESTIC PLANS	FOREIGN PLANS
Change in projected benefit obligations						
Projected benefit obligations beginning of year	(143,534)	(37,567)	(159,498)	(42,216)	(147,681)	(19,495)
Service cost	(8,539)	(2,566)	(9,109)	(1,191)	(10,443)	(5,840)
Interest cost	(8,612)	(2,167)	(9,570)	(802)	(9,018)	(3,181)
Actuarial gains (losses)	(83)	34	(4,766)	–	(3,911)	(867)
Business combinations	–	–	–	–	(338)	(614)
Settlement of pension obligations	–	–	33,001	24,714	14	421
Benefits paid	1,270	56	2,261	–	1,315	8
Foreign currency effects	–	(6)	–	–	–	(4,992)
Projected benefit obligations end of year	(159,498)	(42,216)	(147,681)	(19,495)	(170,062)	(34,560)
Change in fair value of plan assets						
Fair value at beginning of year	–	4,622	–	5,116	–	5,640
Contributions	–	–	–	–	154,696	3
Actual return on plan assets	–	494	–	524	–	2,144
Foreign currency effects	–	–	–	–	–	1,560
Fair value at end of year	–	5,116	–	5,640	154,696	9,347
Funded status	(159,498)	(37,100)	(147,681)	(13,855)	(15,366)	(25,213)
Unrecognized actuarial gain	–	4,006	4,766	4,004	8,676	5,513
Unrecognized net obligation (asset)	6,944	1,343	5,208	(140)	3,472	(119)
Unrecognized prior service cost	–	181	–	157	–	169
Net liability recognized	(152,554)	(31,570)	(137,707)	(9,834)	(3,218)	(19,650)

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

	1998		1999		2000	
	DOMESTIC PLANS	FOREIGN PLANS	DOMESTIC PLANS	FOREIGN PLANS	DOMESTIC PLANS	FOREIGN PLANS
Prepaid pension cost	–	–	–	–	3,674	–
Restricted cash	–	–	–	–	14,492	–
Accrued pension liability	(152,554)	(31,570)	(137,707)	(9,834)	(21,384)	(19,650)
Net liability recognized	(152,554)	(31,570)	(137,707)	(9,834)	(3,218)	(19,650)

The assumptions used in calculating the actuarial values for the principal pension plans are as follows:

	1998		1999		2000	
	DOMESTIC PLANS	FOREIGN PLANS	DOMESTIC PLANS	FOREIGN PLANS	DOMESTIC PLANS	FOREIGN PLANS
Discount rate	6.0%	6.0%-7.5%	6.0%	7.5%	6.5%	7.8%
Rate of compensation increase	2.5%	2.0%-4.5%	2.5%	4.5%	3.5% - 3.8%	5.0%
Expected return on plan assets		8.5%		8.5%		8.5%

The components of net periodic pension cost for the years ended September 30, 1998, 1999 and 2000 are as follows:

	1998		1999		2000	
	DOMESTIC PLANS	FOREIGN PLANS	DOMESTIC PLANS	FOREIGN PLANS	DOMESTIC PLANS	FOREIGN PLANS
Service cost	(8,539)	(2,566)	(9,109)	(1,191)	(10,443)	(5,840)
Interest cost	(8,612)	(2,167)	(9,570)	(802)	(9,018)	(3,181)
Return on plan assets	—	494	—	524	—	667
Amortization of prior service cost	—	(24)	—	(24)	—	82
Amortization of unrecognized gains	(83)	(133)	—	(127)	—	67
Amortization of unrecognized net obligation / asset	(1,736)	(334)	(1,736)	47	(1,737)	(203)
Other	—	8	—	—	—	—
Net periodic pension cost	(18,970)	(4,722)	(20,415)	(1,573)	(21,198)	(8,408)

In connection with the Formation, certain employee groups exercised their right to remain in the Siemens pension plan. As a result of this election, the projected benefit obligation was reduced by EUR 33,001 and is shown as a settlement of pension obligations. No gain or loss was recognized on the transfer.

Prior to 1999, Infineon was required to purchase investments to fund certain foreign pension payments. Marketable securities with a fair value of EUR 11,500 were held as of September 30, 1998. In March 1999, Infineon settled these pension obligations for EUR 18,573, resulting in a net gain of EUR 4,388.

In June 1999, Infineon established an investment in marketable debt and equity securities to fund the pension obligations for its German employees. Infineon contributed EUR 165,699 to fund this plan during the year ended September 30, 1999. These investments, included in other assets, did not qualify as plan assets for financial reporting purposes under the provisions of SFAS No. 87, 'Employers' Accounting for Pensions.'

On September 25, 2000, the Company established the Infineon Technologies Pension Trust (the 'Pension Trust') for the purpose of funding future pension benefit payments for employees in Germany. The Company contributed EUR 154,696 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 (see note 15).

20. GOVERNMENT GRANTS AND SUBSIDIES

Infineon has received economic development funding from various governmental entities, including grants for the construction of manufacturing facilities, grants to subsidize research and development activities, employee training and interest expense. Grants and subsidies included in the accompanying financial statements during the years ended September 30, 1998, 1999 and 2000, are as follows:

	1998	1999	2000
Included in the statements of operations			
Interest subsidies	41,421	41,523	62,385
Research and development	41,721	33,067	41,172
Other	13,466	17,789	11,090
	96,608	92,379	114,647
Construction grants deducted from the cost of fixed assets	29,154	642	123

21. LICENSE AND TECHNOLOGY TRANSFER FEES

During the years ended September 30, 1998, 1999 and 2000, Infineon recognized revenues related to license and technology transfer fees of EUR 106,188, EUR 46,343 and EUR 175,759, respectively, which are included in net sales in the accompanying statements of operations. Infineon received payments of EUR 171,681 from ProMOS, which have been recorded as deferred revenue and are offset against the related investment (see note 10) in the accompanying balance sheets.

In March 2000, the Company entered into new 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 of \$108 million due from MVI were rescheduled and will be recognized as revenue over the life of the new contracts. In conjunction with the restructured agreements, license fees previously received but deferred of EUR 138,045 were recognized as revenue, since the Company had fulfilled all of its obligations and the realization had been assured.

As of September 30, 1999 and 2000, Infineon has receivables from MVI related to license and technology transfer fees totaling EUR 39,005 included in accounts receivable – trade. Such receivables are secured by shares in ProMOS held by MVI.

22. RESTRUCTURING

In July 1998, Siemens commenced a restructuring program which included the shut down of North Tyneside (see note 1). The decision to close North Tyneside was made in response to the industry-wide production overcapacity of the Company's core products; the related dramatic price erosions in Dynamic Random Access Memory ('DRAM') product prices; and the high degree of uncertainty surrounding any forecast change in the depressed DRAM market conditions.

Under the restructuring program, North Tyneside would completely cease production, terminate the workforce of 1,100 employees, dispose of surplus machinery and equipment, and maintain certain core equipment in working condition in an attempt to sell the remaining facility. Production was terminated in November 1998, at which time decommissioning activities commenced, which were completed by March 1999.

Pursuant to SEC SAB Topic 1:B, 'Allocation of Expenses and Related Disclosure in Financial Statements of Subsidiaries, Divisions or Lesser Business Components of Another Entity', the results of operations of North Tyneside, including the restructuring charge relating to its closure, are included in the accompanying consolidated statement of operations for all periods through November 30, 1998, the date the facility ceased operations.

During 1998, Infineon recorded a pretax charge of EUR 816,469 relating to the closure of North Tyneside. This charge included a EUR 673,905 impairment write-down of property, plant and equipment to estimated fair value, the majority of which related to buildings and equipment held under capital lease agreements. The EUR 673,905 impairment write-down consisted of EUR 386,331 for buildings and EUR 287,574 for technical equipment. At September 30, 1998, the carrying value of equipment held for sale was EUR 88,423. For purposes of the write-down, the estimated fair value was based on the estimated

proceeds expected to be realized from the sale of certain equipment. Due to their specialized nature, the buildings were written off since Siemens did not expect to derive any related future use or value from them. In addition, the charge included EUR 39,797 for certain lease cancellation costs, EUR 27,686 for the repayment of government grants and EUR 75,081 for facility closure costs.

As discussed in note 1, all remaining assets and liabilities of North Tyneside were retained by a subsidiary of Siemens. The Company has no legal right or obligation with respect to the assets and liabilities of North Tyneside.

23. SUPPLEMENTAL OPERATING COST INFORMATION

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

	1998	1999	2000
Raw materials, supplies and purchased goods	1,605,527	1,701,610	2,046,727
Purchased services	633,025	656,895	1,022,698
Total	2,238,552	2,358,505	3,069,425

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

	1998	1999	2000
Wages and salaries	823,068	910,713	1,263,165
Social levies	131,341	139,478	183,668
Pension expense	23,692	21,988	29,606
Total	978,101	1,072,179	1,476,439

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

	1998	1999	2000
Germany	11,237	12,352	13,522
Other Europe	3,164	3,191	3,081
USA	811	1,753	2,707
Asia / Pacific	6,586	7,158	7,786
Other	63	87	114
Total	21,861	24,541	27,210

24. SUPPLEMENTAL CASH FLOW INFORMATION

	1998	1999	2000
Cash paid for			
Interest	77,652	68,743	90,138
Income taxes	6,898	5,995	211,060
Non-cash investing and financing activities			
Contributions by Siemens	799,088	3,516,375	12,267
Deferred tax benefits transferred to Siemens	(907,556)	(153,565)	—
Equipment transferred to Associated Company	—	47,700	—

Contributions by Siemens in 1998 of EUR 799,088 represent amounts receivable for losses related to the closure of North Tyneside (see note 22), of which EUR 455,484 represents the deferred tax benefit of such losses utilized by Siemens. Deferred tax benefits transferred to Siemens represent the tax effect of losses of the Company prior to Formation that are utilized by Siemens.

The net loss of EUR 10,237 relating to the operations of North Tyneside through November 30, 1998 is reflected in the accompanying statements of operations, and offset through a non-cash equity transaction with Siemens.

As discussed in note 3, White Oak, previously an Associated Company accounted for on the equity method, was consolidated as of September 30, 1999 with the following financial information reflected in the accompanying balance sheet as of that date: current assets EUR 105,217; non-current assets EUR 924,033; current liabilities EUR (946,607); non-current liabilities EUR (31,672) and shareholders' equity EUR (50,971). In 1999, the Company also received a call option and made a refundable advance payment of EUR 78,543 for Motorola's interest. Receivables from Motorola of EUR 35,606 were also extinguished during 1999 in consideration for the call option.

25. OTHER COMPREHENSIVE INCOME (LOSS)

The changes in the components of other comprehensive income (loss) for the years ended September 30, 1998, 1999 and 2000 are as follows:

	1998			1999			2000		
	PRETAX	TAX EFFECT	NET	PRETAX	TAX EFFECT	NET	PRETAX	TAX EFFECT	NET
Unrealized gains (losses) on securities									
Unrealized holding gains (losses)	182	(79)	103	(3,698)	1,886	(1,812)	12,959	(6,059)	6,900
Reclassification adjustment for (gains) losses included in net income (loss)	(76)	26	(50)	(182)	79	(103)	3,698	(1,886)	1,812
Net unrealized gains (losses)	106	(53)	53	(3,880)	1,965	(1,915)	16,657	(7,945)	8,712
Foreign currency translation adjustment	(49,276)	–	(49,276)	49,106	–	49,106	105,085	–	105,085
Other comprehensive income (loss)	(49,170)	(53)	(49,223)	45,226	1,965	47,191	121,742	(7,945)	113,797
Accumulated other comprehensive income – beginning of year	752	(28)	724	(48,418)	(81)	(48,499)	(3,192)	1,884	(1,308)
Accumulated other comprehensive income – end of year	(48,418)	(81)	(48,499)	(3,192)	1,884	(1,308)	118,550	(6,061)	112,489

26. STOCK-BASED COMPENSATION

Fixed Stock Option Plan

In March 2000, the Company adopted the Long-Term Incentive Plan ('LTI Plan'), which provides for the granting of non-transferable options to acquire ordinary shares over a future period. Under the terms of the LTI Plan, the Company may grant options over a five-year period to members of the Management Board for up to 2.25 million ordinary shares, directors of subsidiaries and affiliates for up to 6 million ordinary shares, and other eligible employees for up to 39.75 million ordinary shares. 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 date of grant. 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 7 years from the grant date.

Under the LTI plan, the supervisory board will decide annually within three months after publication of financial results how many options to grant the Management Board. The Management Board will, within the same three-month period, decide how many options to grant to eligible employees. In connection with the IPO, a special tranche of up to 7.2 million options was authorized to be issued, notwithstanding the foregoing three-month limitation period.

The fair value of each option grant is estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted-average assumptions used for grants in 2000: dividend yield of 0%; expected volatility of 45%, risk-free interest rate of 5.46%; and expected life of 4.5 years.

A summary of the status of the LTI Plan as of September 30, 2000, and changes during the year then ended is presented below:

	SEPTEMBER 30, 2000	
	SHARES	WEIGHTED-AVERAGE EXERCISE PRICE
Outstanding at beginning of year	–	–
Granted	5,556,268	EUR 42.15
Exercised	–	–
Forfeited	(86,800)	EUR 42.00
Outstanding at end of year	5,469,468	EUR 42.15

The weighted-average fair value of each option granted during the year ended September 30, 2000, was EUR 14.81.

The following table summarizes information about stock options outstanding at September 30, 2000:

RANGE OF EXERCISE PRICES	OPTIONS OUTSTANDING			OPTIONS EXERCISABLE	
	NUMBER OUTSTANDING AT SEPTEMBER 30, 2000	WEIGHTED-AVERAGE REMAINING CONTRACTUAL LIFE	WEIGHTED-AVERAGE EXERCISE PRICE	NUMBER EXERCISABLE AT SEPTEMBER 30, 2000	WEIGHTED-AVERAGE EXERCISE PRICE
EUR 42.00	5,451,468	6.45 years	EUR 42.00	—	EUR 42.00
EUR 90.85	18,000	6.84 years	EUR 90.85	—	EUR 90.85

As described in note 2, the Company applies APB Opinion 25 and related interpretations in accounting for stock-based compensation. Accordingly, no compensation expense has been recognized for the LTI Plan. Had compensation expense been determined based on the fair value provisions of SFAS No. 123, the Company's net income and earnings per share would have been reduced to the pro forma amounts indicated below:

	2000
Net income	
As reported	1,125,585
Pro forma	1,115,763
Basic and diluted earnings per share	
As reported	1.83
Pro forma	1.81

Employee Stock Purchase Plan

In connection with the IPO on March 13, 2000, as part of an employee offering, employees could purchase shares pursuant to a preferential allocation mechanism. Employees purchased 7,540,448 shares at an average discount of 5% of the offer price. The Company has recognized compensation expense related to this employee offering of EUR 2,992 during the year ended September 30, 2000.

27. FINANCIAL INSTRUMENTS

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

The euro equivalent notional amounts and fair values of the Company's derivative instruments as of September 30, 1999 and 2000 are as follows:

	1999		2000	
	NOTIONAL AMOUNT	FAIR VALUES	NOTIONAL AMOUNT	FAIR VALUES
Forward contracts sold				
U.S. \$	87,054	1,123	1,114,330	(6,078)
Singapore Dollar	—	—	79,254	(3,015)
British Pound	—	—	4,140	4
Forward contracts purchased				
U.S. \$	187	—	107,425	1,314
Japanese Yen	11,190	(34)	32,050	597
Singapore Dollar	40,573	(934)	—	—
British Pound	—	—	3,250	6
Other currencies	1,577	102	146,772	(865)
Option contracts sold				
U.S. \$	—	—	450,000	—
Option contracts purchased				
U.S. \$	—	—	470,219	(39,402)

As of September 30, 1999 and 2000, the carrying amounts and the fair values of the forward and option contracts are the same.

Gains (losses) related to foreign currency derivatives and foreign currency transactions amounted to EUR (85,620), EUR 41,613 and EUR 183,589 for the years ended September 30, 1998, 1999 and 2000, respectively, and are primarily reported in cost of goods sold.

Fair values of financial instruments are determined using quoted market prices or discounted cash flows. The fair value of Infineon's unsecured term loans and interest-bearing notes payable approximate their carrying values as their interest rates approximate those which could be obtained currently. Due to the restrictions in the transferability under the interest free arrangement, a fair value other than the carrying value of the interest-free loan is not meaningful. The fair values of Infineon'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.

28. RISKS

Financial instruments that expose Infineon to credit risk consist primarily of trade receivables and currency derivatives. Concentrations of credit risks with respect to trade receivables are limited by the large number of geographically diverse customers and Infineon's credit approval and monitoring procedures. Until September 30, 1999, most currency derivatives were conducted with Siemens Financial Services. Since October 1, 1999, concentration of credit risk with respect to currency derivatives is limited by transactions with multiple banks up to pre-established limits. Related Parties account for a significant portion of sales and trade receivables.

In order to remain competitive, Infineon 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.

A portion of the intellectual property rights transferred to Infineon by Siemens is restricted. Infineon cannot use such intellectual property rights outside its current business or license them to third parties without the prior approval of Siemens. Siemens has retained the right to license such intellectual property rights to third parties, which include certain intellectual property rights critical to Infineon. Siemens has agreed to not engage in or carry out research or development production or distribution of semiconductor devices per se, except to the extent that the Company is unable or unwilling to provide these devices to Siemens.

As a subsidiary of Siemens, Infineon benefits under a number of patent cross-licenses, technology licenses and purchasing agreements. The benefits of such agreements will be lost once Siemens' ownership of Infineon falls below 50 percent. Infineon has successfully negotiated certain replacement contracts and is negotiating further replacement and new contracts with third parties.

On August 10, 2000, Siemens issued a guaranteed exchangeable note in an aggregate nominal amount of EUR 2,500,000 (representing 4% of the Company's ordinary share capital), which is divided into bearer notes with a nominal amount of EUR 100 each. 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 August 10, 2001 for 1,000 Infineon shares.

29. COMMITMENTS AND CONTINGENCIES

On August 7, 2000 and August 8, 2000, Rambus Inc. ('Rambus'), filed separate actions against the Company in the U.S. and Germany. Rambus alleges that the Company has infringed patents owned by Rambus that relate to the SDRAM and DDR DRAM products. The SDRAM product is significantly utilized by the Company in its DRAM product line. If the Company were to be enjoined from producing SDRAM and DDR DRAM products, the Company's financial position and results of operations would be materially and adversely affected, as 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 affected products currently constitute substantially all of the products of our Memory Products segment. As these matters are still in the discovery phase, the Company cannot conclude as to the likelihood of an unfavorable outcome or whether the Company will prevail in the matter. The initial hearings on the German action are currently scheduled for December 2000 and those for the U.S. action in 2001. The Company believes that if the matter is ultimately litigated, substantial costs to defend this action could be incurred, which could have a material adverse effect on the Company's financial position, results of operations or cash flows.

A customer of the Company has informed the Company that it has received notification from Rambus alleging that a component supplied by the Company and utilized in one of the customer's products violated Rambus' patents. The customer has requested that the Company indemnify it for any damages that it may incur as a result of the Rambus claims. The customer has not provided the Company with details of the alleged infringement or an estimate of potential damages, and accordingly, the Company is unable to determine the impact on the Company's financial position or results of operations if Rambus' claim against the customer is found to be valid.

In March 2000, Bosch Telekom GmbH ('Bosch') notified the Company of a claim in respect of an alleged programming error in one of the Company's wireless communications products. The claim relates to damages allegedly payable by Bosch to its customers. Bosch has alleged damages of approximately EUR 20,000 as a result of such product. The Company does not anticipate that this claim will have a material adverse effect on the Company's financial position, results of operations or cash flows.

In October 1999, Deutsche Telekom AG ('DT') notified the Company of a threatened contractual warranty claim in respect of chips supplied by Infineon for DT calling cards over the period from 1993 to 1997. The claim relates to damages allegedly suffered by DT as a result of such cards being fraudulently reloaded by third parties. DT has alleged total damages of EUR 90,000 as a result of these activities, reflecting damages suffered and the cost of remedial measures. DT is seeking compensation from Siemens and the Company. The Company does not anticipate that this claim will have a material adverse effect on the Company's financial position, results of operations or cash flows.

On March 8, 2000, Hyundai Electronics filed a claim against the Company seeking unspecified damages and injunctive relief relating to an alleged infringement of five Hyundai DRAM related patents. The Company has filed counter-claims against Hyundai and believes Hyundai's claims to be without merit. The Company is currently in negotiations with Hyundai to settle this matter, however, no assurances can be given regarding the outcome of these discussions. The Company believes that if the matter is ultimately litigated, it would not have a material adverse effect on the Company's financial position, results of operations or cash flows.

In connection with the 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 redemption, if any, that could be required, and no claims have been made against Infineon in this regard. The Company believes its potential exposure,

if any, to liability for remediating the U.S. facilities retained by Siemens is therefore limited.

The Company is subject to various other lawsuits, claims and proceedings related to products, patents and other matters incidental to its businesses. Liabilities including accruals for significant litigation costs, related to such matters are recorded when it is probable that a liability has been incurred and the amount of the assessment and/or remediation can be reasonably estimated. Based upon information presently known to management, the Company does not believe that the ultimate resolution of such other pending matters will have a material adverse effect on the Company's financial position, although the final resolution of such matters could have a material effect on the Company's results of operations or cash flows in the year of settlement.

Since 1994, Infineon has received an aggregate of approximately EUR 487,123 in government grants and subsidies related to the construction and financing of certain of its production facilities. These amounts are recognized based on the attainment of specified milestone criteria and where the fulfillment of the total project requirements is reasonably assured through planned and committed spending levels, employment and other factors. The Company is committed to meeting these requirements; nevertheless, should the total project requirements not be met, a portion of these subsidies could be refundable.

Infineon has entered into capacity reservation agreements with certain silicon foundries for the manufacturing and testing of semiconductor products. These agreements generally have a standard length of one to two years and are renewable. Under the terms of these agreements, Infineon has agreed to purchase certain minimum quantities at specified prices. Additionally, under product purchase agreements with ProMOS and ALTIS, Infineon has agreed to buy 38% and 50% of their respective total annual production output based 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.

In March 2000, the Company entered into a commercial agreement and a memory supply agreement with Intel. These agreements require the commissioning of the Company's new 300-millimeter facility by April 1, 2003, and the availability of capacity and product to Intel. If the new facility is not commissioned by that date, Intel would be entitled to a portion of the Company's then existing production capacity and monetary damages of \$50 million if the Company's average share price fell below a stipulated value after April 1, 2003.

As a result of the Formation, the Company has agreed to indemnify Siemens against any losses relating to certain guarantees of financing arrangements that were transferred to the Company. At September 30, 2000, these arrangements include:

- a guarantee of a letter of credit in the amount of EUR 313,400 issued to cover contingent liabilities to repay government grants in respect of the Dresden facility;
- a guarantee of indebtedness in the amount of \$168 million of ProMOS, and
- a guarantee of payments in an aggregate amount of EUR 22,672 under a lease of equipment for the facility in Malacca, Malaysia.

The Company has commenced construction of a new production facility at an existing site to increase manufacturing capacity for semiconductors using 300-millimeter technology. The facility is anticipated to cost in excess of EUR 1,000,000. At September 30, 2000, contractual commitments related to the construction of this facility aggregated EUR 88,450.

Total rental expenses under operating leases amounted to EUR 122,927, EUR 128,692 and EUR 131,348 for the years ended September 30 1998, 1999, and 2000, respectively. Future minimum lease payments under non-cancelable operating lease agreements with initial or remaining terms in excess of one year at September 30, 2000 are as follows: 2001, EUR 77,973; 2002, EUR 66,517; 2003, EUR 47,297; 2004, EUR 40,362, 2005, EUR 40,723 and EUR 36,916 for the remaining years.

30. SUBSEQUENT EVENTS

On October 2, 2000 the Company entered an agreement to aquire Ardent Technologies, Inc., a supplier of high-bandwidth integrated circuits for local areas network (LAN) switching systems, for \$42 million, subject to regulatory and other closing procedures.

On October 23, 2000 the Company entered an agreement to sell the Image & Video business unit included in the Communications and Wireline segment (see note 31) for aggregate consideration of EUR 250,000. This business generated net sales of EUR 140,346, EUR 122,845 and EUR 138,974 for the years ended September 30, 1998, 1999 and 2000, respectively. Earnings before interest, minority interest and taxes amounted to EUR 25,207, EUR 13,095 and EUR 15,985 for the years ended September 30, 1998, 1999 and 2000, respectively. The divestiture of this business unit is not expected to have a material adverse impact on the Company's financial position or results of operations.

On October 24, 2000 the Company exercised its option to purchase the remaining interest in SC300 from Motorola for EUR 7,655 (see note 10).

31. OPERATING SEGMENT AND GEOGRAPHIC INFORMATION

Infineon has reported its operating segment and geographic information in accordance with SFAS No. 131, 'Disclosure about Segments of an Enterprise and Related Information.'

Infineon operates primarily in four major operating segments, three of which are application focused: Automotive & Industrial, Wireline Communications (formerly Communications & Peripherals) and Wireless Communications, and one of which is product focused: Memory Products. Further, Infineon's Security & Chip Card IC division and the OSRAM Opto joint venture each 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.

On July 1, 2000, the Company reorganized the internal management reporting for certain of its segments. The computer peripherals business, formerly reported under the Wireline Communications segment, is now reported under the Memory Products segment. The high-speed communications business, previously reported under the Wireless Communications segment, is now reported under the Wireline Communications segment. All prior period information has been restated to reflect the new reporting structure.

Each of these segments has a segment manager reporting directly to the Chief Operating Officer and Chief Financial Officer, who have been 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 earnings before interest, minority interests and taxes. Infineon 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. 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 segments. Infineon does, however, allocate depreciation expense to the operating segments based on production volume and product mix using standard costs in order to obtain a measure of earnings before interest and taxes on a segment basis.

Information with respect to Infineon's operating segments follows:

Automotive & Industrial

The Automotive & Industrial segment designs, develops, manufactures and markets semiconductors and complete systems solutions for use in automotive and industrial applications.

Wireline Communications

The Wireline Communications segment designs, develops and markets semiconductors and complete systems for use in a wide variety of narrowband and broadband communication applications.

Wireless Communications

The Wireless Communications segment designs, develops and markets semiconductors and complete systems solutions for a range of wireless applications, including cellular telephone systems, cordless telephone systems and devices used in connection with the 'GPS' global positioning system.

Memory Products

The Memory Products segment designs, develops and manufactures semiconductor memory products with various packaging and configuration options, architectures and performance characteristics for use in standard memory applications.

Other Operating Segments

The Security and Chip Card IC division develops, manufactures and markets security controllers, security memories and other semiconductors and system solutions for use in applications requiring special security features such as banking, telecommunications, access control, identification and other security-sensitive applications. The OSRAM Opto joint venture develops, manufactures and markets opto-electronic devices and solutions in areas such as automotive and industrial applications.

The following tables present selected segment data for the years ended September 30, 1998, 1999 and 2000:

FISCAL YEAR 1998	AUTOMOTIVE & INDUSTRIAL	WIRELINE COMMUNICATIONS	WIRELESS COMMUNICATIONS	MEMORY PRODUCTS	OTHER OPERATING SEGMENTS	CORPORATE AND RECONCILIATION	TOTAL
Net sales	606,012	741,827	685,830	669,063	401,153	71,415	3,175,300
Earnings (loss) before interest, minority interest and taxes	41,187	48,651	121,114	(976,921)	5,478	(884,969)	(1,645,460)
Depreciation and amortization	82,318	50,565	75,491	296,738	35,790	37,485	578,387
Fixed asset write-down associated with restructuring	–	–	–	–	–	(673,905)	(673,905)
Equity in income (loss) of Associated Companies	439	–	–	(168,628)	17,009	–	(151,180)
Inventories	91,692	58,455	59,124	233,502	20,463	119,521	582,757
FISCAL YEAR 1999	AUTOMOTIVE & INDUSTRIAL	WIRELINE COMMUNICATIONS	WIRELESS COMMUNICATIONS	MEMORY PRODUCTS	OTHER OPERATING SEGMENTS	CORPORATE AND RECONCILIATION	TOTAL
Net sales	665,405	720,136	864,993	1,405,885	501,653	79,221	4,237,293
Earnings (loss) before interest, minority interest and taxes	22,778	41,143	181,897	(237,854)	35,021	(56,026)	(13,041)
Depreciation and amortization	100,469	75,123	82,052	267,249	41,568	6,608	573,069
Equity in income of Associated Companies	1,059	1,880	997	22,041	7,786	–	33,763
Inventories	82,625	28,172	78,075	303,502	19,838	164,760	676,972
FISCAL YEAR 2000	AUTOMOTIVE & INDUSTRIAL	WIRELINE COMMUNICATIONS	WIRELESS COMMUNICATIONS	MEMORY PRODUCTS	OTHER OPERATING SEGMENTS	CORPORATE AND RECONCILIATION	TOTAL
Net sales	880,151	940,443	1,221,140	3,473,306	668,346	99,212	7,282,598
Earnings (loss) before interest, minority interest and taxes	69,294	78,172	261,289	1,336,393	54,152	(129,792)	1,669,508
Depreciation and amortization	117,225	90,319	135,221	389,127	102,287	(523)	833,656
Equity in income of Associated Companies	–	–	–	81,616	9,027	10,660	101,303
Inventories	129,650	81,709	118,311	358,594	44,446	108,104	840,814

Due to the specific application and product-based nature of the operating segments, there are no sales transactions between operating segments. Accordingly, net sales by operating segment represents sales to external customers.

Raw material and work-in-process of the common front-end facilities, and work-in-process of the common back-end facilities, are not under the control or responsibility of any of the operating segment managers, but rather of the facility management. The facility 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 raw material 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. They include corporate headquarters' cost, certain incubator and early stage technology investment costs, non-recurring gains, certain foreign currency activities and specific strategic technology initiatives. Additionally, legal costs associated with intellectual property are recognized by the segments when paid, which can differ from the period originally recognized by corporate and reconciliation. The restructuring charge, which is discussed in note 22, was not allocated to an operating segment, but is included in the 'corporate and reconciliation' column.

SIGNIFICANT DIFFERENCES BETWEEN GERMAN GAAP AND U.S. GAAP

Introduction

Infineon Technologies AG, as a German holding company, is subject to the German Commercial Code ('Handelsgesetzbuch', or 'HGB'), which 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 the U.S. GAAP. The following is a description of the significant differences between German GAAP and U.S. GAAP.

Fundamental Differences

The emphasis of U.S. GAAP is to provide all relevant information to investors in order to facilitate future investment decisions. 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. The primary difference between German GAAP and U.S. GAAP is that they are based on different concepts. German GAAP is oriented towards the protection of creditors with an emphasis on the prudence concept.

Basis of Presentation of Financial Statements

Under U.S. GAAP, the financial statements prior to the legal formation of the company reflect the combined historical financial statements of all semiconductor businesses transferred from Siemens to Infineon, assuming that Infineon existed in its current form as a separate legal entity for all periods presented prior to its legal formation. This includes the recognition of certain revenues and expenses related to assets, liabilities and operations, including North Tyneside, which were not contributed to Infineon by Siemens. Under German GAAP, consolidated financial statements would be presented on a pro forma basis and include only those entities directly or indirectly controlled by the reporting entity.

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 period 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 where the company retains ongoing financial 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 costs is included together with material and other direct manufacturing costs. Under German GAAP certain overhead costs can be excluded from the valuation of inventory.

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.

Financial Instruments

Under German GAAP, derivatives are not recorded on the balance sheet. Unrealized gains are not recognized and unrealized losses are accrued. Under SFAS No.s 133 and 138, which are effective for the Company from October 1, 2000, derivatives 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 is designated as part of a hedge transaction and 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 Provisions and Similar 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.

Under U.S. GAAP, establishing and funding a trust, independent of the Company, results in a corresponding reduction in pension assets and 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.

IPO Related Costs

Under German GAAP, direct costs incurred in connection with the IPO 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 unrealized losses only 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.

Government 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 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 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, require recognition as an adjustment to shareholders' equity.

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. Under 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 Image & Video GmbH & Co. KG, Munich

BOARD OF DIRECTORS

The total remuneration of the Management Board for the year ended September 30, 2000 was EUR 28,383, including fixed salary EUR 1,100, bonus EUR 13,778 and the fair value of stock options granted EUR 13,505.

The total remuneration of the Supervisory Board for the year ended September 30, 2000 was EUR 457.

The members of the Management and Supervisory Boards of Infineon Technologies AG are listed below:

MANAGEMENT BOARD

Infineon Technologies AG

Membership of the Management Board and other comparable governing bodies during the year ended September 30, 2000

Dr Ulrich Schumacher
Chairman, President and Chief Executive Officer

Chairman of Board of Directors

- Infineon Technologies Asia Pacific Pte. Ltd., Singapore
- Infineon Technologies Japan K.K., Tokyo, Japan
- Infineon Technologies North America Corp., Wilmington, Delaware, USA

Chairman of Supervisory Board

- Infineon Technologies Austria AG, Villach, Austria

External position

Member of Supervisory Board

- Deutsche Bahn AG, Berlin, Germany

Peter Bauer
Executive Vice President and Chief Sales and Marketing Officer

Member of Board of Directors

- Infineon Technologies Asia Pacific Pte. Ltd., Singapore
- Infineon Technologies Japan K.K., Tokyo, Japan (representative of chairman)
- Infineon Technologies North America Corp., Wilmington, Delaware, USA
- Infineon Technologies Savan Ltd., Netanya, Israel
- Infineon Technologies U.K. Ltd., Bracknell, Great Britain

Peter J. Fischl
Executive Vice President and Chief Financial Officer

Member of the Board of Directors

- Infineon Technologies Asia Pacific Pte. Ltd., Singapore
- Infineon Technologies Japan K.K., Tokyo, Japan
- Infineon Technologies, North America Corp., Wilmington, Delaware, USA

Member of Supervisory Board

- Infineon Technologies Austria AG, Villach, Austria

Executive Vice President

- Infineon Pension-Trust e.V., Munich, Germany

Member of Board of Shareholders' Representatives

- OSRAM Opto Semiconductors, GmbH & Co. OHG, Regensburg, Germany

Dr Sönke Mehrgardt
Executive Vice President and Chief Technology Officer

Dr Andreas von Zitzewitz
Executive Vice President and Chief Operating Officer

Chairman of Shareholders' Representatives

- Infineon Technologies Dresden GmbH & Co. OHG, Dresden, Germany
- Eupec GmbH & Co. KG, Warstein-Belecke, Germany

Member of Board of Directors

- Infineon Technologies Asia Pacific Pte. Ltd., Singapore
- White Oak Semiconductor Limited Partnership, Wilmington, Delaware, USA
- Infineon Technologies Fabrico de Semicondutores Portugal S.A., Vila do Conde, Portugal
- ProMOS Technologies Inc., Hsinchu, Taiwan

President

(representing of Infineon Technologies AG)

- Infineon Technologies France S.A.S, Saint-Denis, France
- Infineon Technologies Holding France S.A.S., Saint-Denis, France

External position

Member of Supervisory Board

- Steag Hamatech AG, Sternenfels, Germany

SUPERVISORY BOARD

Infineon Technologies AG

Membership of the Supervisory Board and other comparable governing bodies during the year ended September 30, 2000

Dr Eng. h.c. Volker Jung
Chairman

Member of the Management Board of Siemens AG

Company positions

- Siemens A.E., Athens, Greece (Chairman of the Board of Administration)
- Siemens Ltd., Johannesburg, RSA (Deputy Chairman of the Board of Administration)
- Siemens Business Services GmbH & Co. OHG, Munich, Germany (Chairman of the Advisory Board)
- Siemens Information and Communication Networks Inc., Boca Raton, Florida, USA (Member of the Board)

Member of the Supervisory Board

- Direkt Anlage Bank AG, Munich, Germany
- Epcos AG, Munich, Germany (Chairman)
- MAN AG, Munich, Germany
- Messe München GmbH, Munich, Germany

Alfred Eibl *
Deputy Chairman
Member of the Works Council,
Munich Balan-/ St.-Martin-Strasse

Dr h.c. Martin Kohlhaussen**Deputy Chairman (since November 1, 1999)****Chairman of the Management Board of Commerzbank AG**

Company positions

- RHEINHYP Rheinische Hypothekenbank AG, Frankfurt am Main, Germany (Chairman of the Supervisory Board)
- Commerzbank International S.A. (CISAL), Luxembourg (Chairman of the Board of Administration)
- Commerzbank (Schweiz) AG, Zurich, Switzerland (President of the Board of Administration)
- Commerzbank (South East Asia) Ltd., Singapore (Chairman of the Board of Directors - non executive)

Member of the Supervisory Board

- Bayer AG, Leverkusen, Germany
- Bertelsmann AG, Gütersloh, Germany
- Heraeus Holding GmbH, Hanau, Germany
- Hochtief AG, Essen, Germany
- KarstadtQuelle AG, Essen, Germany
- Schering AG, Berlin, Germany
- Linde AG, Frankfurt am Main, Germany

Further external positions

- Assicurazioni Generali S.P.A., Trieste, Italy (Member of the Board of Administration)
- DaimlerChrysler AG, Stuttgart, Germany (Member of the Shareholder Committee)

Ender Beyhan ***Member of the Works Council,
Munich Perlach****Johann Dechant *****Member of the Works Council,
Regensburg West****Dr Joachim Faber****Member of the Management Board of Allianz AG
(since November 1, 1999)**

Company positions

- Allianz Vermögensbank, Augsburg, Germany (Chairman of the Supervisory Board)
- Universal-Leasing-GmbH, Munich, Germany (Deputy Chairman of the Supervisory Board)
- Allianz Asset Management GmbH, Munich, Germany (Chairman of the Supervisory Board)
- Allianz Capital Partners, Munich, Germany (Member of the Supervisory Board)
- Allianz Risk Transfer, Zurich, Switzerland (Deputy Chairman of the Board of Administration)
- IRC International Reinsurance Company S.A., Luxembourg (Member of the Board of Administration)
- RASBANK S.p.A., Milan, Italy (Member of the Board of Administration)

Member of the Supervisory Board

- Hauck & Aufhäuser Privatbankiers KgaA, Frankfurt am Main, Germany
- Berliner Wasser AG, Berlin, Germany
- Lloyd Adriatico S.p.A., Trieste, Italy
- Società Metallurgica Italiana S.p.A., Florence, Italy
- Mercur Assistance AG Holding, Munich, Germany
- Karlsruher Rendite GmbH, Karlsruhe, Germany

Heinz Hawreliuk ***Head of Company Codetermination Department, IG Metall**

Member of the Supervisory Board

- DaimlerChrysler Aerospace AG, Munich, Germany
- DaimlerChrysler Luft- und Raumfahrt Holding AG, Munich, Germany
- Eurocopter Deutschland GmbH, Donauwörth, Germany
- Siemens AG, Munich, Germany
- Spezialtechnik Dresden GmbH, Dresden, Germany

Charles Herlinger**Vice President and Corporate Controller of Siemens AG
(until October 31, 1999)****Klaus Luschtinetz *****Chairman of the Works Council,
Munich Balan-/St.-Martin-Strasse**

Further position

- Siemens Employees Health Insurance, Munich, Germany (Member of the Board of Administration)

Karl-Heinz Midunsky**Corporate Vice President and Treasurer of Siemens AG
(until October 31, 1999)**

Company positions

- RISICOM Rückversicherung AG, Grünwald, Germany (Chairman of the Supervisory Board)
- Siemens Nixdorf Informationssysteme AG, Paderborn, Germany (Chairman of the Supervisory Board)
- Siemens Financial Services, Munich, Germany (Member of the Supervisory Board)
- Siemens Kapitalanlagegesellschaft mbH, Munich, Germany (Member of the Supervisory Board)
- BSH Bosch und Siemens Hausgeräte GmbH, Munich, Germany (Member of the Supervisory Board)
- OSRAM GmbH, Munich, Germany (Member of the Supervisory Board)
- Siemens Building Technologies, Zurich, Switzerland (Member of the Board of Administration)

Member of the Supervisory Board

- Gerling Spezielle Kreditversicherungs AG, Cologne, Germany
- Hannover Rückversicherungs-AG, Hannover, Germany

Prof. Dr rer.pol. Michael Mirow**Corporate Vice President Corporate Planning
and Development of Siemens AG
(until October 31, 1999)**

* Employee representative

Heinz-Joachim Neubürger

Member of the Management Board of Siemens AG

Company positions

- Siemens Financial Services GmbH, Munich, Germany
(Chairman of the Supervisory Board)
- Siemens Kapitalanlagegesellschaft mbH, Munich, Germany
(Chairman of the Supervisory Board)
- TELA Versicherungs AG, Munich, Germany
(Chairman of the Supervisory Board)
- Siemens Corporation, New York, USA
(Vice Chairman of the Board of Directors)
- Siemens Immobilien Management GmbH & Co. OHG, Munich, Germany
(Chairman of the Advisory Board)
- Siemens Ltd. China (SLC), Beijing, China
(Member of the Board)
- Siemens Western Finance N.V., Willemstad, Curacao
(Managing Director)

Member of the Supervisory Board

- Allianz Versicherungs-AG, Munich, Germany
- Bayerische Handelsbank AG, Munich, Germany

Stefan Radloff *

**Senior Vice President, Accounting and Financial Reporting,
Infineon Technologies AG**

Dr Eberhard Rauch

**Member of the Management Board of HypoVereinsbank AG
(since November 1, 1999)**

Company positions

- DAB Direkt Anlage Bank GmbH, Munich, Germany
(Chairman of the Supervisory Board)
- Norisbank AG, Nuremberg, Germany
(Chairman of the Supervisory Board)
- Planet Home AG, Munich, Germany
(Chairman of the Supervisory Board)
- Bank Przemyslowo-Handlowy SA, Krakau, Poland
(Member of the Supervisory Board)
- Vereinsbank Victoria Bauspar AG, Munich, Germany
(Member of the Supervisory Board)
- HVB Informations-Verarbeitungs-GmbH, Munich, Germany
(Chairman of the Board of Administration)

Member of the Supervisory Board

- Kennametal Hertel AG, Fürth, Germany (Chairman)
- Koenig & Bauer AG, Würzburg, Germany

Further external positions

- Dr. R. Pfleger Chemische Fabrik GmbH, Bamberg, Germany
(Member of the Board of Administration)
- Clearstream International S.A., Luxembourg
(Member of the Board of Directors)

Uni.-Prof. Dr -Ing. Ingolf Ruge

**Professor at the Technical University Munich
(since November 1, 1999)**

Member of the Supervisory Board

- Schneider Technologies AG, Türkheim, Germany

Dr jur. Albrecht E.H. Schäfer

**General Counsel of Siemens AG
(until October 1, 1999)**

Company positions

- RISICOM Rückversicherung AG, Grünwald, Germany
(Member of the Supervisory Board)
- Siemens Financial Services GmbH, Munich, Germany
(Member of the Supervisory Board)
- Siemens Nixdorf Informationssysteme, Paderborn, Germany
(Member of the Supervisory Board)
- Epcos AG, Munich, Germany
(Member of the Supervisory Board)

Gerd Schmidt *

**Chairman of the Works Council,
Regensburg West**

Sibylle Wankel *

District Secretary, IG Metall, Bavaria

Member of the Supervisory Board

- Compaq Computer GmbH, Dornach, Germany

Prof. Dr phil. Claus Weyrich

Member of the Management Board of Siemens AG

Company positions

- Siemens Corporate Research, Princeton, USA (Chairman of the Board)
- Siemens Venture Capital GmbH, Munich, Germany (Board Member)

Dr -Ing. Klaus Wucherer

Member of Management Board, of Siemens AG

Company positions

- Eviop-Tempo, Greece (Member of the Board of Administration)
- Siemens France S.A., France (Member of the Board of Administration)
- Simko Ticaret, Turkey (Member of the Board of Administration)
- Siemens Ltd., China (Chairman of the Board of Administration)
- Siemens E&A, USA (Chairman of the Board of Administration)
- Yaskawa Siemens Automation & Drives/YSAD, Japan
(Chairman of the Board of Administration)

* Employee representative

INFINEON TECHNOLOGIES AG
SIGNIFICANT SUBSIDIARIES AND ASSOCIATED COMPANIES
FOR THE YEAR ENDED SEPTEMBER 30, 2000

NAME AND LOCATION OF COMPANY	SHARE IN CAPITAL
EUPEC Europäische Gesellschaft für Leistungshalbleiter GmbH & Co. KG, Warstein-Belecke	100%
Infineon Technologies Dresden GmbH & Co. OHG, Dresden	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, The Netherlands	100%
Infineon Technologies U.K. Ltd., Bracknell, Great Britain	100%
Infineon Technologies Villach AG, Villach, Austria	100%
Infineon Technologies North America Corp., Wilmington, Delaware, USA	100%
White Oak Semiconductor Limited Partnership, Wilmington, Delaware, USA	100%
Infineon Technologies Asia Pacific Pte. Ltd., Singapore	100%
Infineon Technologies (Integrated Circuits) Sdn. Bhd., Malacca, Malaysia	100%
Infineon Technologies (Malaysia) Sdn. Bhd., Malacca, Malaysia	100%
Infineon Technologies Japan K.K., Tokyo, Japan	100%
OSRAM Opto Semiconductors GmbH & Co. OHG, Regensburg	49,0%
Semiconductor 300 GmbH & Co. KG, Dresden	50,1%
ALTIS Semiconductor S.N.C, Essonnes, France	50,1%
ProMOS Technologies Inc., Hsinchu, Taiwan	33,0%

A complete list of all subsidiaries and Associated Companies is on file at the Commercial Register of Munich, Germany, under the number HRB 126 492.

Glossary

3G Short for 'third generation' of mobile telephone links, with speeds, capacities and sophistication of data transport far exceeding today's ones.

ACCESS Components or ICs that allow access to a local or wide area network.

ADS 'American Depositary Shares'. Used by foreign companies wishing to have their shares traded on American exchanges.

ADSL 'Asymmetric Digital Subscriber Line'. The most widely-used form of DSL (see definition below).

AG 'Aktiengesellschaft'-German for 'joint stock corporation'

AMD 'Advanced Micro Devices'

ASIC 'Application Specific Integrated Circuit'. A chip, usually high-end, designed to meet a customer's individual needs or for a specific purpose.

ATM card Card used to gain access to 'automatic teller machine'.

Backend The final phase of semiconductor manufacturing. In it, chips undergo their final testing and assembly.

Baseband The original frequency range occupied signal before being boosted to a higher or more efficient one.

Biometric System based on the use of data stemming from calibration of human or other biological data. Example: finger imprints.

bit 'Basic indissoluble information unit'. A unit of information, the smallest one in a computer, taking one of two values (such as yes/no).

Bluetooth Short range, low-power radio technology setting up wireless connections among office devices.

b/bn billion

byte 'By eight' or 'binary term'. A widely-used unit of measurement equal to eight bits.

Controllers An electronic system that directs the operations of a larger system.

CMOS 'Complementary Metal-Oxide Semiconductor'. A technology used in the manufacturing of chips. It consumes relatively low amounts of power and enables a high level of integration.

DAX 'Deutscher Aktienindex'. Germany's equivalent of the USA's Dow Jones.

DDR 'Double Data Rate'. A technology speeding up chips' rates of data throughput.

DECT 'Digital Enhanced Cordless Telecommunication'. Standard enabling the wireless transmission of voice and data among a base station and up to eight devices. DECT telephones are used in homes and offices.

DRAM 'Dynamic Random Access Memory'. The most common kind of chips used to store information ('memory').

DSL 'Digital Subscriber Line'. Family of technologies greatly boosting ordinary copper telephone lines' speeds, capacities and ranges of data transmission.

DSP 'Digital signal processor'. A microprocessor designed especially to perform complex and time-critical operations.

DWD Danish Wireless Design; a wholly-owned subsidiary of Infineon, located in Aalborg, Denmark

Dual-mode Device capable of adhering to two standards.

Ebit 'Earnings before interests, minority interests and taxes'

EDA 'Electronic Design Automation'

EDGE 'Enhanced Data Rate for Global / GSM Evolution'. Standard enabling transmission on existing GSM infrastructure of data at rates of up to 384 kilobits per second. Successor to GSM and predecessor of UMTS.

EVA 'Economic Value Added'. Yardstick used by companies to measure their performance.

EEPROM 'Electrically-Erasable Programmable Read-Only Memory'. A read-only memory chip whose information can be erased and reprogrammed electronically instead of using UV light on a repeated basis.

Embedded DRAM A chip featuring DRAM, logic and analogue components. Form of system-on-a-chip.

Ethernet Most common protocol enabling data transmissions in LANs (local area networks).

EUV LLC 'Extreme Ultraviolet Limited Liability Corporation'. It is developing advanced photolithography technologies.

Frontend Operations manufacturing chips.

FTSE 'Financial Times Security Exchange'. British version of Dow Jones.

GaAs 'Gallium Arsenide'. Semiconductor out of which opto-electronic and high-frequency devices are produced.

Gb 'Gigabit'. Approximately one billion bits.

GmbH 'Gesellschaft mit beschränkter Haftung'. Equivalent to 'Ltd.' in the United Kingdom and 'Inc.' in the USA.

GmbH & Co. KG. Form of limited liability company.

GPRS 'General Packet Radio Service'. Mobile communication standard imparting Internet capability to mobile communication. GPRS enables speeds and capacities of transmission some ten times greater than those achieved by GSM.

GSM The 'Global System for Mobile Communications'. The standard used in 159 countries.

HGB 'Handelsgesetzbuch'. Germany's Commercial Code

IBM 'International Business Machines'

IC/ICs 'Integrated circuit/s'. General designation for chip.

ID 'Identification'

IGBT 'Insulated Gate Bipolar Transistor'. A discrete power transistor.

Inc. 'Incorporated'. Short for incorporated company.

IPO ‘Initial Public Offering’, made by companies going public.

ISDN ‘Integrated Services Digital Network’. Digital-based technology enabling high speed voice and data communication.

ISO 9000 Internationally-accepted standard of operational quality.

IT ‘Information Technology’

I&V ‘Image and Video’ was a business unit of Infineon.

LAN ‘Local Area Network’

logic Refers to chips processing information.

m ‘Million’

Mb ‘Megabit’

MEDEA Pan-European grouping carrying out research into advanced semiconductor technologies.

Memory Refers to chips storing information.

Microcontrollers A microprocessor equipped with memory and interfaces, and serving as an embedded system.

Microprocessor Also known as ‘central computing unit’ (CPU), this complex chip executes instructions in computers or digital devices.

mm ‘Millimeter’

NOPAT ‘Net Operating Profit After Taxes’

OEM ‘Original equipment manufacturer’. Company supplying equipment to customers, who sell it under their own trademarks.

Optical networks These use light waves as their main medium of data transport.

PAROLI ‘Parallel optical link’. Proprietarily-developed modules providing fiber optic based data transmission links.

PBX ‘Private branch exchange’. Equipment forming the heart of automatic in-house telecommunication networks.

PC ‘Personal Computer’

PDA ‘Personal Digital Assistant’

PIN ‘Personal Identification Number’. Used to verify user identity.

QS 9000 Version of ISO 9000 (see above) developed for America’s Big Three carmakers.

R&D ‘Research and Development’

SDH/SONET ‘Synchronous Digital Hierarchy’/‘Synchronous Optical Network’ International and American standard for the synchronous transmission of data via optical media.

SDRAM Synchronous Dynamic Random Access Memory. Technology greatly speeding up the exchange of data to and from memory chips.

SHDSL ‘Symmetric High-Data Rate Digital Subscriber Line’. See definition for DSL.

Silicon foundries These are companies carrying out on-commission manufacturing of chips.

SIM card This ‘Subscriber Identification Module’ card enables mobile telephone users to verify identity, and thus gain access to services.

SLICs ‘Subscriber Line Interface Circuits’. Circuits to which telephone users are connected.

Smart cards Featuring embedded chips storing user information and enabling applications, cards forming the gateways to electronic networks.

SoC ‘System-on-Chips’ incorporate memory, analogue and logic functions on a single chip.

SOX ‘Philadelphia Semiconductor Stocks Index’

STOXX Family of indexes of European equities.

TAN These ‘transaction numbers’ are used to verify electronic transactions.

TM ‘Trademark’

Transceiver Device capable of both transmitting and receiving signals.

Transistor Derived from transmitter and resistor, this building block of today’s electronics is comprised of a semiconductor which amplifies a signal or opens and closes a circuit.

TSMC ‘Taiwan Semiconductor Manufacturing Corporation’

UMC ‘United Microelectronics Corporation’

UMTS ‘Universal Mobile Telecommunication Systems’. These systems will form a key component of the third generation of mobile communication grids.

U.S. GAAP ‘United States Generally Accepted Accounting Principles’

VDSL ‘Very high bit-rate Digital Subscriber Line’ DSL-family technology providing very high speeds of data transmission over short distances.

WAN ‘Wide Area Network’

WAP ‘Wireless application protocol’. Provides mobile telephones with access to the Internet.

W-CDMA ‘Wideband Code Division Multiple Access’. Third generation technology of wireless communication.; mainly used in the US.

WDCT ‘Worldwide Digital Cordless Telecommunications’. Siemens-developed technology replacing DECT and enabling high-capacity wireless communication.

WSTS ‘World Semiconductor Trade Statistics’

xDSL Denotes DSL (see definition above) in all its forms.

ZKA ‘Zentraler Kreditausschuß’. Umbrella organization of Germany’s financial community.

Shareholder information

INFINEON TECHNOLOGIES AG

Founding	1999
Executive Offices	St.-Martin-Str. 53, 81669 Munich, Germany; Phone: +49 89 234-0
Financial Year	October 1 to September 30
Independent Auditors	KPMG Deutsche Treuhand-Gesellschaft AG Wirtschaftsprüfungsgesellschaft
Stock Listing	In March 2000, our company successfully completed its initial public offering of its securities in public offerings in Germany and the United States. The principal trading market for our company's shares (ticker symbol: IFX; WKN 623100) is the Frankfurt Stock Exchange (FSE). Options on the shares trade on the German options exchange (Eurex Deutschland) and other exchanges. American depositary shares (ADSs), each representing one share, are listed on the New York Stock Exchange (NYSE). The depositary for the ADSs is Morgan Guaranty Trust Company (60 Wall Street, New York, NY 10260). As of September 30, 2000, there were 625,501,507 shares, thereof 16,706,460 ADSs outstanding.
Investors & Analyst contact	Investor.Relations@infineon.com Phone/Fax: +49 89 234-26655/-718484
Media Contact	Media.Relations@infineon.com Phone/Fax: +49 89 234-26555/-28482
Visit us on the web at	www.infineon.com

FINANCIAL CALENDAR 2001*

Wednesday, January 31	Publication of first quarter 2001 results
Friday, April 6	Shareholders' annual general meeting (AGM), 10 a.m. CET in Stuttgart, Germany; Hanns-Martin Schleyer Hall, Mercedesstr. 69
Monday, April 9	Payment of dividend (if approved at the shareholders' AGM)
Friday, April 27	Publication of second quarter 2001 results
Thursday, July 26	Publication of third quarter 2001 results
Wednesday, November 14	Publication of preliminary fourth quarter 2001 results and preliminary figures for financial year 2001
* Preliminary dates	

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