Moving forward

Never stop thinking.

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

	2002		2003		2003:2002	2003[10]
	euro millions	in % of revenues	euro millions	in % of revenues	change in %	U.S. dollar millions
Revenues	4,890		6,152		26 %	7,167
by Region						
Germany	1,266	26 %	1,535	25 %	21 %	1,788
Other Europe	943	19 %	1,112	18 %	18 %	1,295
North America	1,158	24 %	1,393	23 %	20 %	1,623
Asia-Pacific	1,446	29 %	2,077	34 %	44 %	2,420
Others	77	2 %	35	1 %	(55 %)	41
by Business Group						
Wireline Communications	386	8 %	459	7 %	19 %	535
Secure Mobile Solutions[2]	1,278	26 %	1,645	27 %	29 %	1,916
Automotive & Industrial	1,201	25 %	1,392	23 %	16 %	1,622
Memory Products	1,861	38 %	2,485	40 %	34 %	2,895
Other Operating Segments	117	2 %	139	2 %	19 %	162
Corporate and Reconciliation	47	1 %	32	1 %	(32 %)	37
Gross margin	601	12 %	1,538	25 %	156 %	1,792
Research and development expenses	1,060		1,089		3 %	1,269
Operating loss	(1,072)		(344)		68 %	(401)
Net loss	(1,021)		(435)		57 %	(507)
EBIT/EBIT margin	(1,135)	(23 %)	(299)	(5 %)	74 %	(348)
Loss per share – basic and diluted	€ (1.47)		€ (0.60)		59 %	$ (0.70)
Dividend per share (in euro)	–		–		–	–
Net cash provided by operating activities	226		731		223 %	852
Net cash used in investing activities	(1,244)		(1,522)		22 %	(1,773)
Net cash provided by financial activities	1,448		566		(61 %)	659
Free cash flow[3]	(360)		(53)		85 %	(62)
Depreciation and amortization	1,370		1,437		5 %	1,674
Impairment charges	51		98		92 %	114
Purchases of property, plant, and equipment	643		872		36 %	1,016
Gross cash position[4]	2,007		2,820		41 %	3,285
Net cash position (as of September 30)[5]	177		328		85 %	382
Property, plant, and equipment (net)	4,491		3,817		(15 %)	4,447
Total assets	10,918		10,805		(1 %)	12,588
Total shareholders' equity	6,158		5,666		(8 %)	6,601
Equity-assets ratio	56 %		52 %		(7 %)	52 %
Return on equity[6]	(16 %)		(7 %)		53 %	(7 %)
Return on total assets[7]	(9 %)		(4 %)		57 %	(4 %)
Equity-to-fixed-asset ratio[8]	137 %		148 %		8 %	148 %
Debt-equity ratio[9]	30 %		44 %		48 %	44 %
Debt-to-total-capital ratio	17 %		23 %		38 %	23 %
Employees (as of September 30)	30,423		32,308		6 %	32,308

1 Columns may not add due to rounding.

2 Infineon has decided to merge the activities of the Wireless Solutions and Security and Chipcard ICs segments into one operating segment called Secure Mobile Solutions (SMS), effective November 1, 2002.

3 Free cash flow = Net cash provided by operating activities minus net cash used in investing activities adjusted by purchases (proceeds from sales) of marketable securities available for sale.

4 Gross cash position = Cash and equivalents plus marketable securities plus restricted cash.

5 Net cash position = Gross cash position minus short- and long-term debt.

6 Return on equity = Net income divided by average shareholders' equity employed.

7 Return on total assets = Net income divided by average total assets.

8 Equity-to-fixed-asset ratio = Total shareholders' equity divided by fixed assets.

9 Debt-equity ratio = Long-term and short-term debt divided by average shareholders' equity.

10 U.S. dollar amounts were translated at the rate of one euro = $ 1.165, the noon buying rate on September 30, 2003.

Infineon at

	Applications	Character of business	Market position
Infineon Group	Infineon Technologies is the semiconductor operations spin-off from its parent company Siemens and was established (ticker symbol: IFX). The company develops, manufactures, and markets semiconductor solutions and system solut portfolio comprises digital, mixed-signal, and analog ICs, discrete semiconductor products as well as system soluti 32,300 employees worldwide, Infineon achieved revenues of 6.15 billion euros in fiscal year 2003 as compared to		
Wireline Communications (COM)	■ Traditional voice telecommunications ■ Broadband data communications ■ Local area networks and storage networks ■ Fiber optics based metro and long-haul networks	As a supplier to the telecommunications industry, Infineon's revenues primarily depend on investments made by telecommunications companies in their infrastructures. In contrast to a few years ago, companies no longer appear to be spending on long-haul optical networks. Investments are now primarily being made in copper broadband connectors in central offices and in end consumers. Besides the expenditures of telecommunications companies, investments made by businesses in private switches, LANs, storage networks, as well as the introduction of optical networks in the car industry have increasingly contributed to revenues.	■ No. 1 in ISDN ■ No. 2 in traditio ons applicatio T/E) ■ No. 1 in VDSL ■ No. 3 in optical
Secure Mobile Solutions (SMS)	■ Radio frequency technology for short-, medium-, and long-range distances ■ Cordless phones ■ Wireless infrastructures ■ Numerous chip card applications for communications (SIM cards, phone cards), payment (credit/debit cards), identification (IDs, health insurance cards), entertainment (Pay-TV) and platform security (computers, networks)	Brand-name manufacturers of cell phones are increasingly shifting production and development of new models to Asia. As a result of this trend, Infineon no longer only offers individual components to its established customers, but now also provides more support to contract manufacturers and brand-name manufacturers in Asia through its complete platforms and system designs for wireless devices. SIM cards yield the highest revenues in the Security segment. Chip-based credit cards and ID cards as well as contactless applications are gaining in importance.	■ No. 1 in chip ca ■ Leading supplier transceivers ■ Leading supplier and solutions
Automotive & Industrial (AI)	Automotive electronics: ■ Powertrain, engine control ■ Body & convenience and safety ■ Navigation and entertainment Industrial electronics: ■ Drive control ■ Automation systems ■ Power distribution, power conversion ■ Power supply	In contrast to the other three business groups, the Automotive unit is characterized by long product lifecycles and top quality demands. The group also enjoys long-standing customer relationships and high planning security. Revenue gains are not so much achieved through a growth in the number of automobiles, but rather through an increase in the volume of electronic components used in cars. In the Industrial unit, efforts towards decreasing power dissipation and achieving higher switching speeds are increasing the semiconductor share in voltage supply, lighting, and engine control.	■ European mark motive sector ■ No. 2 in industr ■ Leader for pow ■ Positioning in ments tire press systems, x-by-
Memory Products (MP)	■ PCs and notebooks ■ Memory modules for PC upgrades ■ Workstations ■ Infrastructure (servers and networks) ■ PDAs and smart phones ■ Computing peripherals ■ Multimedia memory cards	DRAMs account for the lion's share of Infineon's revenues. These memory chips and modules are standardized worldwide and are thus subject to harsh competition. With a demand of 60 to 70 percent, the PC market absorbs the majority of DRAMs produced worldwide. The remaining portion is divided up among less price-sensitive markets: workstations, servers, mainframes, as well as entertainment electronics, telecommunications, and PC peripherals. The enormous rise in demand for memory modules is due to two reasons: the growth of the PC market and an increase in the amount of memory equipment used in computers.	■ No. 3 in standa ■ Fastest growing manufacturer ■ Technology lea production ■ Leading position performance as 512 Mbit, ■ Preferred partn manufacturers

a glance

as a public company, based in Munich, Germany, in April 1999. Infineon has been listed on the stock exchanges in Frankfurt and New York (NYSE) since March 13, 2000
ions for automotive and industrial electronics, for wireline and wireless communications applications, for chip cards and for memory components. Its product
ons. With a global presence, Infineon operates in the USA from San Jose, California, in the Asia-Pacific region from Singapore, and in Japan from Tokyo. With about
4.89 billion euros in 2002.

	Products	**Key customers** (alphabetically)	**Competitors** (alphabetically)
nal telecommunicati- ns (SLICs, CODECs, broadband access modules	■ Interface modules for voice and data communication in central offices and terminal units ■ System solutions for wireline broadband technology (ADSL, VDSL, SHDSL, 10BaseS) ■ Transceiver modules for popular optical standards (Fibre Channel, SONET/SDH, Gbit-Ethernet) ■ Edge- and surface-emitting laser diodes (FB, DFB, VCSEL) ■ ICs for optical networks	■ AFC ■ Alcatel ■ Cisco ■ Ericsson ■ Fujitsu ■ Huawei ■ Lucent ■ Marconi ■ NEC ■ Nokia ■ Nortel ■ Samsung ■ Siemens ■ Tyco	■ Agere ■ Agilent ■ Broadcom ■ Conexant ■ Finisar ■ GlobespanVirata ■ IDS Uniphase ■ PMC Sierra ■ STMicroelectronics ■ Texas Instruments
rd ICs of high-frequency of Bluetooth chips	■ Baseband and high-frequency technology of popular wireless communication standards (GSM, GPRS, E-GPRS, W-CDMA, DECT, WDCT, Bluetooth) ■ Platform design, modules, software support, and system solutions for several wireless standards and Bluetooth ■ Power semiconductors for high-frequency applications ■ Discrete semiconductors (diodes, transistors, BAW filter, MMIC, LNA) ■ Security controllers (8-bit, 16-bit, 32-bit) ■ Security memories ■ Contactless chip card applications	■ DBTEL ■ Ericsson ■ Gemplus ■ Giesecke & Devrient ■ Nokia ■ Panasonic ■ Schlumberger ■ Siemens ■ Sony	■ Hitachi ■ Motorola ■ Philips ■ Skyworks ■ STMicroelectronics ■ Texas Instruments
et leader in the auto- (no. 2 worldwide) ial drives and traction er supply in PCs the new growth seg- ure monitoring wire and infotainment	■ Microcontrollers (8-bit, 16-bit, 32-bit) ■ Digital signal processors ■ Sensors (pressure, temperature, magnetic field, inertia) ■ Discrete power semiconductors (diodes, rectifiers, thyristors, bipolar transistors, power MOSFETs, IGBTs) ■ Integrated power semiconductors ■ High-voltage and high-power modules	■ Autoliv ■ Avnet ■ Bosch ■ Continental ■ Delphi ■ Delta ■ Denso ■ Hella ■ Johnson Controls ■ Lear ■ SAC ■ Siemens ■ TRW ■ Visteon	■ Fairchild ■ International Rectifier ■ Motorola ■ National Semiconductor ■ ON Semiconductor ■ Renesas ■ STMicroelectronics
rd DRAM market top-ten DRAM der in 300mm in complex high- DRAM products, such 1 Gbit, DDR400 er of leading PC	■ Standard memories from 64 Mbit to 1 Gbit DRAMs ■ Support of all popular standards: SDRAM, DDR, DDR II ■ Speciality DRAMs for 3D graphics cards (SGRAM) ■ Speciality DRAMs for battery-buffered devices (Mobile-RAM, CellularRAM) ■ Speciality DRAMs for network infrastructures (RLDRAM) ■ Non-volatile memory (NAND flash)	■ Acer ■ Cisco ■ Dell ■ HP/Compaq ■ IBM ■ Kingston ■ Legend ■ Sony ■ Sun Microsystems	■ Hynix ■ Micron ■ Samsung

Within the framework of the Agenda 5-to-1 Infineon intends within 5 years (2002–2007) to

become a top 4 global semiconductor player,

achieve a minimum top 3 position in each segment served,

reach a top 2 position in terms of financial performance in all business groups against the competition,

and become the number 1 semiconductor company pioneering the solutions business.

Table of contents

Forward-looking statements

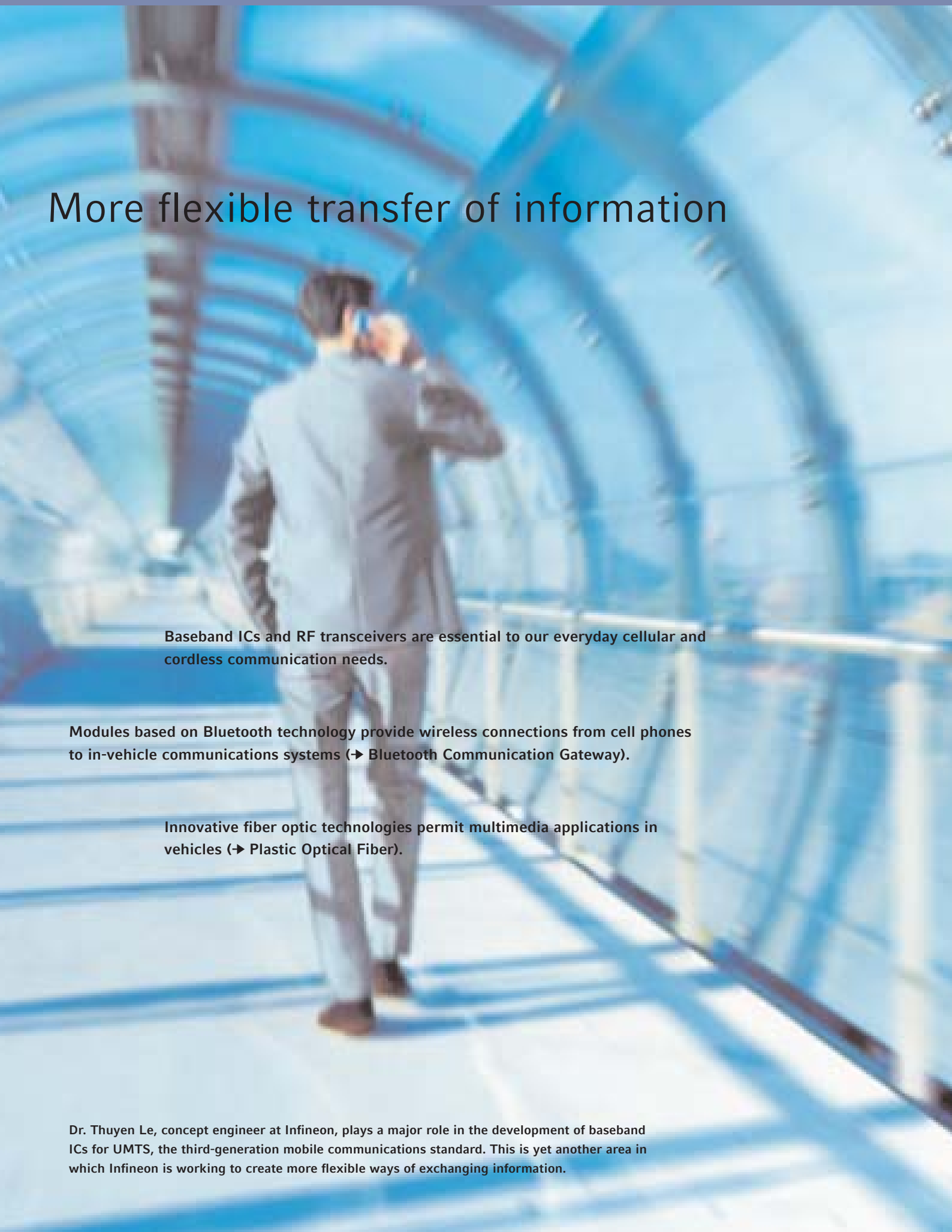
This report contains forward-looking statements. Statements that are not historical facts, including statements about our beliefs and expectations, are forward-looking statements. These statements are based on current plans, estimates and projections, and you should not place too much reliance on them.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

Moving forward

The semiconductor crisis did not stop Infineon. We have adapted our company and kept moving forward.

With clear goals. And first results.

More flexible transfer of information



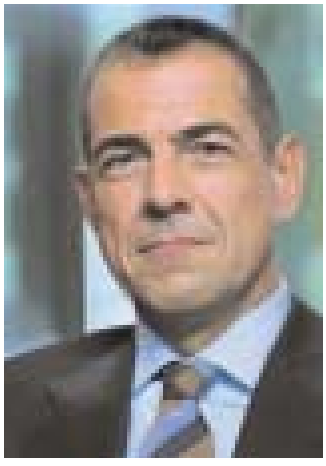
Baseband ICs and RF transceivers are essential to our everyday cellular and cordless communication needs.

Modules based on Bluetooth technology provide wireless connections from cell phones to in-vehicle communications systems (→ Bluetooth Communication Gateway).

Innovative fiber optic technologies permit multimedia applications in vehicles (→ Plastic Optical Fiber).

Dr. Thuyen Le, concept engineer at Infineon, plays a major role in the development of baseband ICs for UMTS, the third-generation mobile communications standard. This is yet another area in which Infineon is working to create more flexible ways of exchanging information.

Letter to the shareholders



Dr. Ulrich Schumacher,
CEO and Chairman of the
Management Board

Ladies and Gentlemen,

for two years, good news was a rarity for the semiconductor industry, though we all wished we could say the same for the bad news. In fiscal year 2003, however, the good news outweighs the bad news. After two slow years, demand is rising again and chip prices have recovered somewhat, while world semiconductor sales are forecast to increase roughly by 14 percent to 161 billion U.S. dollars in calendar year 2003.

Good news is also prevalent in Infineon's annual report for the 2003 fiscal year. Compared with fiscal year 2002, our revenues rose by 26 percent to 6.15 billion euros. Particularly remarkable is the fact that with its approximate 30 percent growth in sales in the first half of calendar year 2003, Infineon grew faster than any other of the world's top ten semiconductor companies. Our competitors have, of course, also made progress, but not as much as we have. We have indeed made a significant leap towards improving our results.

However, we have not eliminated all losses. Our EBIT loss came to 299 million euros, down 836 million from the previous fiscal year, while the group's net loss was reduced by more than half to 435 million euros. Our loss per share therefore fell from 1.47 euros to 0.60 euros.

Despite having negative figures again on an annual basis, there is good news to report. After nine successive quarterly losses, we were back in the black for the fourth quarter of fiscal year 2003. My colleagues and I are optimistic that this profitable trend will continue and we will see positive results in fiscal year 2004.

In addition, Infineon's financial situation has continued to improve. We have had a positive free cash flow since the quarter ending in June, and Infineon's gross cash position has risen from 2 billion euros to 2.8 billion euros during the fiscal year. These liquid funds are partially offset by liabilities of 2.5 billion euros. Infineon therefore maintains sufficient flexibility to finance its internal and external growth.

In another positive development, Infineon's share price rose by 100 percent in fiscal year 2003, thus, the market capitalization almost doubled within the one-year period and amounted to 8.1 billion euros at September 30, 2003. I know that you, our shareholders, have had to deal with a number of disappointments, and have had to show a great deal of patience with respect to our stock price over the first three years since our IPO. My col-

leagues and I would therefore like to thank you for the trust you have put in us during this time.

Furthermore, this past year we have taken on a number of matters that are of particular importance for the present and future of our company. First, we are investing in the highest growth markets of the semiconductor industry, in a move to strengthen our position there. Some of you may have read in September that we opened our new Chinese headquarters in Shanghai, an important milestone in our Asian strategy. China is the world's fastest growing chip market, with market analysts expecting semiconductor demand there to triple to 80 billion dollars within the next four years.

Our goal is to double our market share in China from five to ten percent over the next five years. You might ask how we plan to achieve this goal. The most important step will undoubtedly be to provide the complete value chain for a large number of products in China, including design, development, production, assembly, and software. We plan to invest approximately 1.2 billion euros in China over the next five years, and to increase the number of our employees there from 800 to 3,000.

We have also established a number of new partnerships and production cooperation agreements over the past few months that will expand our business not only in the field of memory chips. In one particular venture, we concluded a cooperation agreement with our Chinese partner Huawei for the joint development of third-generation mobile device platforms. I am also convinced of our future success in China for another reason. Since we started working together eight years ago, we have developed a sound partnership based on trust with our Chinese business associates and customers.

Over the past fiscal year, we were also able to increase sales by 20 percent in the United States, our second most important growth market. We have expanded our distribution organization there in order to increase the proximity to our customers. In addition to our North American headquarters in Silicon Valley, we have now opened a new center in what is known as the Research Triangle Center in Cary, North Carolina, which will provide a base for our distribution personnel to serve our customers on the East Coast. Another new office was opened in New York to improve our presence in the heart of the world's most important

capital market. We have also intensified our partnership with IBM collaborating on the logic technology of the future.

With acquisitions in mind, Infineon has also looked into companies that would complement or expand on our own business groups and products, and in areas in which we see good market prospects. This is why we acquired the Norwegian company SensoNor, the leading manufacturer of tire pressure and acceleration sensors. The automotive market for semiconductor sensors grows up to 20 percent each year, and due to U.S. legislation, market analysts predict an extremely rapid spread in the implementation of this safety technology in approximately 17 million new vehicles that are produced annually. Acquiring the market leader in tire pressure sensors places Infineon in the best position to serve this rapid-growth market.

Ladies and Gentlemen, last year I informed you that we were able to reduce costs by more than 2.8 billion euros with our cost-reduction program Impact. This year we have again examined all our business processes with a view to achieving a further reduction of more than 500 million euros in the coming year.

We have not lost sight of our position as a leader in the production of memory chips using 300-millimeter technology, and we are continuing to expand this segment. We now produce roughly 35 percent of our memory chips using silicon wafers 300 millimeters in diameter, compared to an average of 12 percent among DRAM producers, an advantage that helps lower our costs. 300-millimeter production now provides, in general, a boost to productivity of more than 30 percent in comparison to 200-millimeter technology. These capabilities will allow us to stay a step ahead of most of our competitors in cost savings and technology for the next two or three years.

As you can see, the work that we began so vigorously, and sometimes with such difficulty in 2001 has been continued and will proceed in 2004. The guiding principle for our activities will remain our Agenda 5-to-1 which I outlined for you last year. The aim of the program is for Infineon to become one of the world's top 4 semiconductor companies by 2007, doubling our market share from three percent in 2002 to then six percent. These goals are ambitious but, in our estimation, realistic. Please continue to place your trust in us.

We are convinced that we will come a good step closer to these goals this coming year. We expect the semiconductor industry to continue to grow, with world market volume increasing by around 18 percent in 2004. We anticipate the strongest growth signals to come from the telecommunications industry. In geographical terms, we believe that the Asia-Pacific region's percentage of world sales will grow again, hitting about 40 percent. The tough price war in the semiconductor sector, however, will continue.

Even in light of this mostly positive news, we should not be too euphoric. The crisis now behind us has illustrated that nothing is of greater permanence than change itself. In the future, we will be judged by the role we play in shaping this change.

Sincerely yours,

Dr. Ulrich Schumacher
CEO and Chairman of the Management Board

Our vision

To create semiconductor solutions enabling the Technology Lifestyle of the individual in the 21st century.

The vision and mission of Infineon Technologies demonstrate to our employees, customers, and not least, to our investors, what distinguishes our company from others. Our vision and mission were developed in the summer of 2002, and determine the way we think and act ever since.

Profitable electronic systems solutions for the Technology Lifestyle
Infineon Technologies offers a tailor-made mix of products and services based on the wishes of our customers and users. To achieve this, we link our core competences worldwide with the know-how of partner firms. By optimally combining the resources which are required, we profitably expand our solutions business, strengthen the performance of our customers in the long term and thus, also enhance the shareholder value of Infineon.

Our mission

We create and maximize value for our customers, shareholders, and employees:

- We design, build, and market the industry's most advanced semiconductor solutions and services through leadership in innovation and customer orientation.

- We build upon our core competences and innovative strength. We strive to offer our customers the industry's most comprehensive range of communications and automotive solutions, comprising broadband and access, wireless, security, and storage.

- We create future value by overcoming traditional industry boundaries. We offer integration capabilities for semiconductors, life sciences, services, and subscale technologies.

- We attract and retain the best talent worldwide by offering a challenging and creative working environment, a unique corporate culture as well as world-class rewards.

The members of the Management Board of Infineon Technologies AG

Peter J. Fischl
Born 1946
Chief Financial Officer (CFO)
and Labor Director

Dr. Andreas von Zitzewitz
Born 1960
Chief Operating Officer (COO)

Dr. Ulrich Schumacher
Born 1958
Chief Executive Officer (CEO)
and Chairman of the
Management Board

Peter Bauer
Born 1960
Chief Sales & Marketing
Officer (CMO)

Corporate strategy

Moving forward: to achieve success in the semiconductor market one needs to react quickly to the constant change.

There is hardly a market that grows as fast or is as fascinating as the semiconductor market. There is, however, hardly a market that changes as rapidly or is as prone to major fluctuation, a troublesome situation that we have had to learn to deal with over the past two years. To be successful in the market, one needs to be flexible, and to be able to react quickly to change. Infineon is a growing and innovative company, and for us innovation means that we are always looking for the better product, the better solution, and the better system. But innovation also demands an increase in practical benefits for our customers and a decrease in our time-to-market and costs.

The semiconductor market: innovation and growth are the basis for a successful future

Microchip use is set to further increase in the years to come. This is, on the one hand, a positive development which means that the semiconductor market will continue to grow. On the other hand, however, it will increase the speed of innovation along with research and development costs. We are indeed continually looking for better and more cost-effective production methods. Innovation, increasing productivity, and cost and price pressure have determined the successful development of the semiconductor market over the past 40 years.

For decades, semiconductor companies have placed ever more efficient chips on the market, making appliances such as DVDs and smart cell phones possible in the first place. The slogan "technology sells" was reasonable. Today, however, innovations and technical parameters alone will not make or break new products. Companies like Infineon will need to consider what their products mean to their customers, which fashions and trends prevail, and which cultural values and messages are connected with their products. Products no longer rely on function and technology alone but have to fulfill emotional needs as well.

All this will lead to considerable changes in Infineon's innovation management; we cannot just perfect technical advances such as the descent of chip structures into nanometer widths but we must also take new factors in the innovation process into account. This means, we have to include our customers in product planning and in conception phases from the very start. Furthermore, we need to evolve from a mere supplier of components into a solutions provider, offering everything involved in the process, from planning to individual components, and the connected software including full service.

This radical change will not leave the semiconductor industry unscathed. We expect that the number of semiconductor companies will decrease and that eventually only the companies with the necessary financial and innovative resources will remain on the market. For Infineon to emerge victorious from this painful consolidation process, we created our Agenda 5-to-1 program last year, based on an intensive analysis of the semiconductor market and customer needs. And it now provides the guiding principles for our corporate strategy. The five basic tenets of the program stipulate that we:

- expand our solutions business;
- improve our efficiency and cost structure;
- increase our flexibility through our partnership network;
- decentralize and concentrate on growth regions;
- strengthen our innovative power.

We will strive to implement our Agenda 5-to-1 goals along these five lines. Our first goal is to number among the world's four largest semiconductor companies by 2007. According to the market research institute iSuppli, we were ranked number six in the first half of the 2003 calendar year. Based on the same report, by mid-calendar year 2003, our turnover had increased by almost 30 percent compared to the same period in 2002, outgrowing the world's top ten semiconductor companies. In addition, we want to double our worldwide sales share from three percent in 2002 to six percent. Infineon has come closer to this goal over the past fiscal year. We seek to reach at least a top 3 position with all of our business segments by 2007, and we are striving to become one of the two leading companies in profitability in all of our business groups. In the solutions business, we aim to be nothing less than the world's number one semiconductor group.

Expansion of our solutions business

The expansion of our solutions business makes up an essential element of our corporate strategy. This expansion means, we achieve additional sales, are less dependent on the pricing pressure posed by traditional standard semiconductor products, and establish long-term partnerships with our customers. Our software and services which are provided in addition to our products ease our vulnerability to the fluctuations of the semiconductor market.

But what does "solutions business" really mean and where do the differences between solutions, products, and systems lie? We have already begun to integrate our chips into complete subsystems and modules which may, for example, include a variety of Infineon chips, the necessary software and at times additional components provided by third-party companies. Our mobile telephone platform provides a good example of our successful systems solutions. The platform covers the entire electronic core of the cell phone – namely as memory and logic chips and the connected software. There are three important advantages for our customers. Owing to shorter development times, our customers can bring their products to the market faster. Furthermore, through economies of scale, our solutions are less expensive for our customers as we can market them in larger quantities. In addition, our customers allow their developers to focus more closely on the end users' requirements (see p. 24 "Focus on customers").

Our solutions approach goes one step further. We want to offer our customers additional services that measurably improve their business processes. This includes, but is certainly not limited to, consulting, design and diagnostic services, logistics, and the management of selected projects. The expansion of the solutions business does

Product – System – Solution: this comprehensive concept guarantees customers all the benefits.

not mean that we now pay less attention to products, their higher integration, or our application know-how. Quite the contrary – excellent products and an extensive system know-how form the basis for attractive customer solutions and will be one key factor in Infineon's success.

Increasing efficiency through Impact²
Flexibility and efficiency are abilities that are decisive to survival in a tough competitive environment with rapidly changing customer needs. Change and improvement must therefore be seen as an evolving process. With our Impact² program, we have given concrete form to our efforts towards making the company faster and more efficient. The program assists us, for example, in identifying those company tasks that could be carried out more cost-effectively by external service providers. By outsourcing our SAP support to Accenture, in one such case, we will be able to save an estimated 43 million euros over the next seven years. If we can maintain quality while cutting costs, moving business outside of Germany also needs not be a taboo. Significant accounting activities for our big European companies are, for instance, now being managed much more cost-effectively in Portugal. We are, furthermore, now moving to make better use of our synergies, for example, by linking our fabs in Munich and Regensburg in Germany and Villach in Austria, into a production entity. These measures have rendered our structures and processes more flexible and market-oriented while, at the same time, cutting costs.

Expanding our partnership network
Partnerships also play a central role in our business strategy, allowing us to share our developmental costs and investment risks, while tailoring production to fluctuations in demand. This is the best solution to the ups and downs of our market and our growing investment requirements. In addition to our research and development collaboration (see p. 29 "Innovation"), we have also built up an extensive manufacturing network. Over the past fiscal year alone, we have concluded strategically important partnerships with companies such as IBM, China-Singapore Suzhou Industrial Park Venture Co., Nanya, and SMIC. We are no longer expanding our production capacity at the same rate as we did in the past, but rather increasingly concentrating on investments in technological development so that we can continue to set standards in the industry. For instance, we now license our product technology to partners such as the Chinese company SMIC, securing in return exclusive purchasing rights to the products (see p. 34 "Production & Logistics").

Orientation towards growth markets
In order for Infineon to achieve a top place in the semiconductor industry in the long term, our market position will have to improve, particularly in regions that show a high growth potential, such as China, North America, and Japan. We have significantly strengthened our presence in all these regions over the past fiscal year. Infineon has, for instance, opened a new Chinese headquarters in Shanghai. In order to be represented in the world's most important financial center we have also opened a new office in New York. Our move up from seventh to fifth place among the leading semiconductor manufacturers on the American market in the previous fiscal year strengthens our

resolve to be positioned appropriately on the most important growth markets (see p. 26 "Global presence").

The proximity to our customers is without a doubt the key to future business. Without precise knowledge of the needs and wishes of individual customers, we are not able to develop successful products. And because these needs and wishes can vary strongly from region to region, a strong presence in each major market is of crucial importance. Infineon will, therefore, in a process of decentralization, gradually shift business responsibility to the individual regions. We are, for example, extending our production and research capacity in China and boosting our sales potential through our local presence there. It is our goal to make optimal use of the advantages of each country and of the talents of all employees throughout the world, combining German chip architecture design, Indian software expertise, and the American service culture. In the end, Infineon will no longer be a purely German company, but a group active all over the world, making decisions wherever its customers may be.

Strengthening our innovative capabilities
In the future, product and production technology innovation will continue to be crucial to Infineon's success. Our recognized position as a technology and cost leader is largely the result of the excellent efforts of our researchers and engineers. Even during the recent semiconductor crisis, we continued to invest intensively in research and development.

To enable us to meet our increasing research and development needs, we will focus our resources even more selectively in the future, in order to concentrate on only those projects that show a high market potential. We are, for instance, in close contact with potential health sector customers in work on the further development of our biochips, allowing us to plan concrete applications from the very start.

Early success
We have gone to great lengths to implement this corporate strategy throughout the company. But we will need to be patient before we can reap the benefits of certain measures such as the expansion of our solutions business.

Other programs, such as Impact[2], support our strategy and have already yielded obvious benefits. In combination, these strategic measures will provide Infineon with a significant edge over the competition.

Think globally, act locally: we ensure proximity to our customers.

Our recognized position as a technology leader is largely the result of the excellent efforts of our researchers and engineers.

The Infineon share

Infineon share outpaces stock market in semiconductor recovery

- **The Infineon share price rose by 100 percent within the last fiscal year – DJ STOXX Semiconductor index by 54 percent**
- **Infineon market capitalization exceeded eight billion euros**
- **Trade volume again rose considerably**

Infineon share doubled in value in fiscal year 2003.

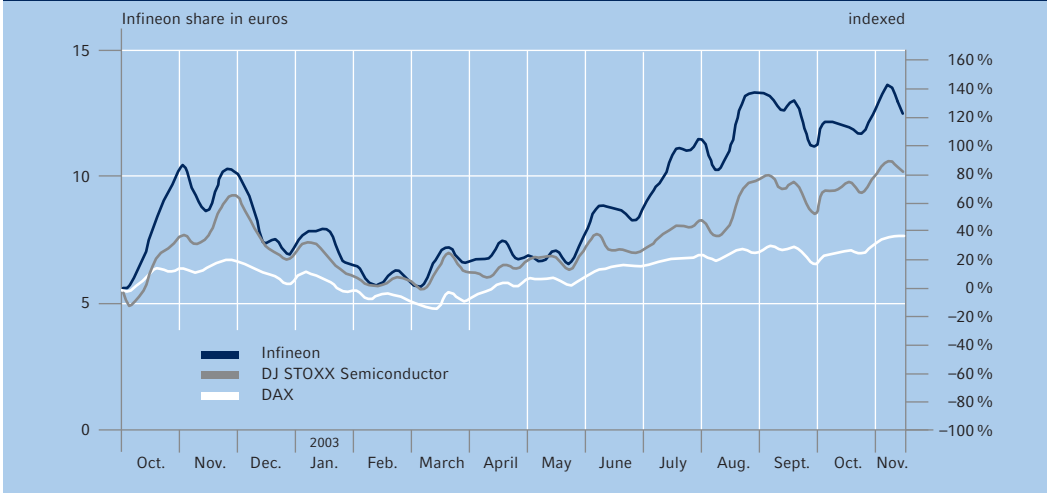
Semiconductor shares were among the biggest stock market winners over the past fiscal year. This was due to the considerable recovery of the semiconductor market. Market growth was estimated at 14 percent for 2003, and is predicted to grow an even more impressive 19 percent in 2004, according to the market research firm World Semiconductor Trade Statistics (predictions as of November 2003).

In line with these developments, the DJ STOXX Semiconductor index rose 54 percent during the year, while the DJ STOXX 50 and DAX indices rose three and 18 percent, respectively.

Infineon share outpaces market

Infineon shares benefited from the trend more than other sector stocks, doubling in value from October 1, 2002 to September 30, 2003. The share price, however, at the beginning of the fiscal year was at a year low of 5.34 euros on October 9, 2002. This was followed by a rapid resurgence that outpaced comparable indices, all chiefly the result of positive business developments, especially in the area of memory products. Stock price declines overshadowed the stock market from late November 2002 to early March 2003, due to anxiety over a further downturn in the U.S. economy, and fears of a long, protracted war in Iraq and its consequences. This decline was exacerbated by a significant drop in DRAM chip prices, leading to an underperformance of the Infineon share price and erasing the gains made since the beginning of the new fiscal year in October. Once fears of a spreading and lengthy crisis in the Middle East had dissipated, Infineon shares rebounded together with the entire market until mid-May. This recovery was, however, limited due

Relative position of Infineon shares related to DAX index and DJ STOXX Semiconductor index since beginning of fiscal year 2003 (weekly closing price)



to the SARS crisis that particularly affected technology stocks. Once that crisis had passed, Infineon shares saw considerable price gains throughout the rest of the fiscal year, outpacing other semiconductor companies, mainly due to the strong rise in memory chip prices. At the height of this development, Infineon reached its year high of 13.79 euros on September 9. Throughout the rest of the month, the share price fell again in pace with the market, closing the fiscal year at 11.22 euros.

Trading volume, and hence interest in Infineon shares, again rose strongly in fiscal year 2003, up approximately 53 percent from the previous year in average daily trading in Germany (Xetra, Frankfurt, and regional stock exchanges). The great interest in Infineon by North American investors has been particularly encouraging. On the NYSE, a daily average of 766,588 ADS shares were traded, an increase of 102 percent compared to the previous year.

Basic share information

Share types	Ordinary registered shares in the form of shares or American Depositary Shares (ADS) with a notional value of 2.00 euros each (Relation ADS : shares = 1 : 1)
Share capital	1,442 million euros (as of Sept. 30, 2003)
Outstanding shares	721 million (as of Sept. 30, 2003)
Listing	Shares: Frankfurt Stock Exchange (FSE) ADS: New York Stock Exchange (NYSE)
Option trading	Options on shares: EUREX Options on ADS: CBOE
IPO	March 13, 2000 on FSE and NYSE
IPO price	35.00 euros per share 33.92 U.S. dollars per ADS
Ticker symbol	IFX
ISIN-Code	DE0006231004
CUSIP	45662N103
Bloomberg	IFX.GY (Xetra trading system) IFX.US
Reuters	IFXGn.DE
Index Member (selection)	DAX-30 Dow Jones German Titans 30 Dow Jones STOXX Semiconductor index FTSE Euro 100 MSCI Germany S&P Europe 350

The Infineon share in figures

Fiscal year (to Sept. 30)	2002	2003
Europe (Xetra closing prices in euros)		
Year high	29.11	13.79
Year low	5.61	5.34
Fiscal year close (end of September)	5.61	11.22
Average trading volume (daily) (of which Xetra trading)	6,562,893 (95 %)	10,041,871 (94 %)
USA (NYSE closing prices in U.S. dollars)		
Year high	25.57	15.35
Year low	5.70	5.25
Fiscal year close (end of September)	5.70	12.89
Average trading volume (daily)	378,856	766,588

Long-term development of Infineon share and indices

Period to Sept. 30, 2003:	Since Oct., 2002	Since IPO March 13, 2000
Europe		
Infineon (Xetra)	+100 %	(68 %)*
DJ STOXX Semiconductor	+54 %	(81 %)
DJ STOXX Technology	+45 %	(81 %)
DJ STOXX 50	+3 %	(52 %)
DAX	+18 %	(58 %)
USA		
Infineon (NYSE)	+126 %	(62 %)*
Philadelphia Semiconductor index (SOX)	+76 %	(68 %)

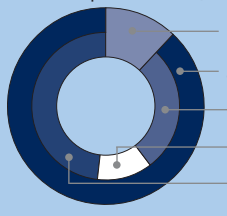
*Based on initial share price of 35 euros or 33.92 U.S. dollars.

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

As of September 30	2002	2003	Change
Share capital	€ 1,442 m	€ 1,442 m	+/–0 %
Outstanding shares	721 m	721 m	+/–0 %
Outstanding shares (yearly average)	695 m	721 m	+4 %
Market capitalization	€ 4,045 m	€ 8,090 m	+100 %
Market capitalization (U.S. dollars)	$ 4,110 m	$ 9,294 m	+126 %

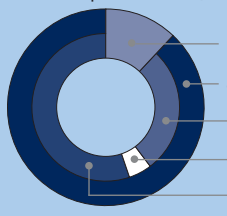
Shareholder structure, Infineon Technologies AG

As of September 30, 2002



11.97 % Siemens Nederland N.V.
88.03 % Free float* of which:
27.74 % Wachovia Trust (formerly First Union Trust)
12.08 % Siemens Pension Trust
48.21 % Other shareholders (stake < 5 %)

As of September 30, 2003



11.97% Siemens Nederland N.V.
88.03% Free float* of which:
27.74% Wachovia Trust (formerly First Union Trust)
5.07 % Capital Group International
55.22 % Other shareholders (stake < 5 %)

* Free float strictly according to definition of FTSE. By comparison, Deutsche Börse and STOXX calculate Infineon's free float without the shares held by Wachovia Trust (formerly First Union Trust).

Despite the 100-percent rise in price over the past fiscal year, the long-term development of the Infineon share price has been rather disappointing, losing 68 percent of its value since the IPO on March 13, 2000. Infineon, however, fared better than comparable technology indices, which suffered even greater losses over the same period.

Significant increase in market capitalization

Infineon's market capitalization reached 8.1 billion euros at the end of the fiscal year, an increase of 100 percent since the end of the previous fiscal year. This increase was entirely due to the rise in share value; the number of outstanding shares did not change.

Infineon does not pay a dividend

Reflecting a loss per share of 0.60 euros in fiscal year 2003 (2002: –1.47 euros), the Infineon Management Board and Supervisory Board will not propose a dividend at the Shareholders' General Meeting. We intend to retain future earnings for investment in the development and expansion of our business, and thus contribute to an increase in the company's long-term value.

700-million-euro convertible bond further improves Infineon's cash position

On June 5, 2003, Infineon issued subordinated convertible notes due 2010, for gross proceeds of 700 million euros. The notes are convertible into up to 68.4 million ordinary shares of Infineon Technologies AG. Infineon issued the notes in light of the favorable financing conditions on the convertible bond market, such as Europe's low interest rates and the high volatility of the company's share

price. The issue proceeds will be used to strengthen the company's financial position further, and to implement the Group's long-term strategy.

Free float unchanged

The number of Infineon shares in free float did not change in the course of the fiscal year, remaining steady at 88.03 percent, according to the definition of the British FTSE index.

The following changes in the free float ownership, subject to obligatory reporting, are known to the company:

- The Siemens Pension Trust sold all of its remaining shares.

- The funds run by Fidelity Management & Research Company exceeded the five percent mark on April 30, 2003 (5.08 percent), and fell back below that mark on August 5, 2003 (4.98 percent).

- The funds run by Capital Group International exceeded five percent in total on September 25, 2003 (5.07 percent).

Dialog with investors and analysts under continual expansion

In the current consolidation phase of the semiconductor industry, and in light of the volatile stock market, an intensive dialog with private and institutional investors as well as analysts is more important to us than ever. We have further stepped up our Investor Relations (IR) work, and are concentrating on providing all of our shareholders with relevant and current information on our business development, technology position and structure of the balance sheet. Our IR managers hold daily discussions with fund managers, analysts, and private investors; the Infineon Management Board meets regularly with investors throughout Europe, the United States, and Asia. The Infineon Management also presents the company at numerous technology conferences.

The fiscal year, moreover, saw a complete overhaul of Infineon's Internet presence. The latest news, financial reports and detailed information on the group, our corporate governance (see p. 51 "Corporate governance"), the Infineon share, and our IR calendar can now be viewed in a new format at www.infineon.de or www.infineon.com.

Contact

The Infineon IR team is available for investors and analysts by e-mail at **investor.relations@infineon.com**, by telephone in Munich at **+49 (0)89 234-26655, or by fax at +49 (0)89 234-26155,** and at the North American headquarters in San Jose, California at **+1 408 501 6800, or by fax at +1 408 392 8023.**

Our Investor Relations team provides extensive information to all of our shareholders.

Review of 2003 fiscal year

October 2002

■ Infineon enhances its mobile systems solutions by adding new applications. The Instant Communications Platform supplied by its partner Sonim, enables cell phone users to first check whether a required party is available before pushing a button to establish the connection.

■ Infineon develops a single-package integrated switch that allows designers of switching power supplies to cut system costs by up to 50 percent and at the same time to reduce the space required for power supply systems in personal computers, notebooks, and other electronic devices.

November 2002

■ Infineon merges the Wireless Solutions and Security & Chip Card ICs groups on November 1 to create the new Business Group Secure Mobile Solutions. This merger meets the growing demand for data security, delivering privacy in communications. This reorganization permits new applications for wireless communication and personal mobility to be coupled with maximum hardware and software security.

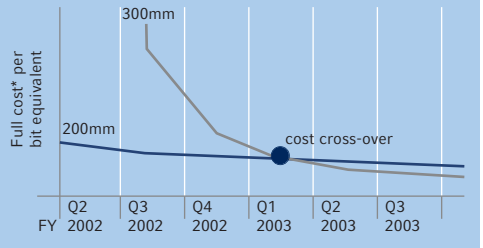
■ New speed record I: Infineon establishes a data transmission speed of 40 billion bits per second with an experimental CMOS semiconductor circuit.

■ Infineon receives the Sesames Award for the "Best Technological Innovation" for the second time in a row at the "Cartes 2002" smart card conference in Paris. Infineon is granted the award for a security controller; Sony and Infineon, for a jointly developed microcontroller for contactless chip card applications.

■ Infineon joins forces with the Taiwanese DRAM manufacturer Nanya to research ways of reducing DRAM structures from 130 to 90 and 70 nanometers. The companies also set up a 50 : 50 joint venture to implement the innovative manufacturing technology at a new joint 300-millimeter facility in Taiwan as of the end of 2003.

December 2002

Leading in memory technology and productivity



Productivity increase of over 30 % as compared to 200mm.

* Includes manufacturing costs plus development, marketing, sales, and administration costs.

■ Only one year after the start of DRAM volume production on 300-millimeter wafers, the 300-millimeter fab in Dresden reaches the cost cross-over point. Since then, per-bit cost is less than with 200-millimeter wafers.

January 2003

■ Infineon and the U.S. company 3Com announce an agreement for Ethernet over DSL: with this agreement, Infineon acquires key patent rights, thus reinforcing the company's leadership position in the DSL market.

■ A milestone in producing future chip generations: Infineon installs a prototype of the first commercially available laboratory exposure system for Extreme UltraViolet (EUV) lithography.

February 2003

■ Quantum leap in neurological sciences: Infineon's new biosensor chip permits electrical signals from living nerve cells to be recorded. The neurochip promises to offer new insights into brain research and cell-based drug development. Infineon works together with the Max Planck Institute for Biochemistry in Munich on this project.

■ Infineon and the Israeli company Saifun Semiconductors announce the founding of their joint venture company Infineon Flash. Created from the existing joint undertaking, Ingentix, the company aims to pave the way for significant expansion of flash memory activities. Both data as well as program flash memories are to be produced at the joint venture's headquarters in Dresden.

March 2003

■ Infineon and Ferrari agree on a wide-ranging technical cooperation. As an official supplier of Ferrari's Formula 1 team, Infineon will support Ferrari with its leading technology in automotive electronics and with the expertise of a team of experienced motorsports engineers.

■ Infineon presents a biochip system solution that is designed to greatly accelerate the development of new medicines. Only one square centimeter in size, the Flow-Thru Chip can analyze the reaction of up to 400 known genes to an active substance simultaneously.

■ Infineon and the Semiconductor Manufacturing International Corporation (SMIC) in Shanghai agree to expand their DRAM production cooperation. In addition to 140-nanometer manufacturing technology, Infineon will now also license its 110-nanometer trench technology and 300-millimeter production know-how to the Chinese company. In return, SMIC will manufacture products in this technology exclusively for Infineon.

Infineon Flow-Thru Chip: a miniature laboratory.

April 2003

■ Infineon begins volume production of 256-megabit DRAMS using 110-nanometer technology. In comparison to 140-nanometer process technology, this new technique permits chips with significantly smaller structures to be produced. With this new technology, up to 50 percent more chips now fit on a wafer, thus cutting unit costs by 30 percent.

■ Infineon develops a user-friendly self-service system for the users of Vienna's new multimedia main library. 300,000 books and other media have been equipped with radio chips so that users can check them out themselves, quickly and efficiently.

May 2003

■ The new Hall sensors, characterized by their high precision and resistance to electrical interference and mechanical stress, permit a diverse range of comfort applications in cars. This includes, for example, position and proximity switches in seat adjusters, seat-belt buckles, and electric windows and sunroofs.

■ With the friendly takeover of the Norwegian company SensoNor ASA, the leading supplier of tire pressure and acceleration sensors, Infineon considerably strenghtens its position in the automotive semiconductor sensor segment. As a result, the company is now the market leader in the tire pressure sensor segment.

June 2003

■ Infineon sets new chip integration standards: the VDSL5100i modem-on-chip reduces footprint of components by up to 75 percent as compared to conventional VDSL modem solutions and transmits digital information to customers at a speed of 100 megabits per second via conventional copper wires.

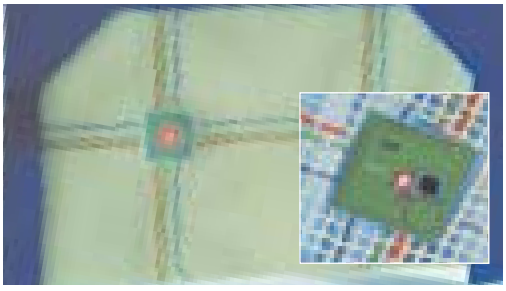
■ Infineon issues subordinated convertible notes due 2010, for gross proceeds of 700 million euros. The issue proceeds will be used to further strengthen the company's financial position, and to implement its long-term corporate strategy. The notes are placed with institutional investors outside the USA.

■ In a Memorandum of Understanding, Infineon and the German Federal Ministry of the Interior agree on a far-reaching security cooperation aimed at developing concepts and improving security standards for IT systems used in the Civil Service, in private companies, and households.

German Federal Minister of the Interior Otto Schily (r.) and CEO Dr. Ulrich Schumacher signing the agreement.

July 2003

■ Infineon researchers develop a self-organizing chip network for intelligent industrial textiles, which permits temperature, pressure, and vibrations to be monitored through water- and heat-resistant chips, thus serving as a movement or fire sensor. In cooperation with the carpet manufacturer Vorwerk, Infineon plans to develop marketable solutions as soon as possible.



Infineon and Vorwerk join forces to weave the future.

■ New speed record II: for the first time ever, chips based on Infineon's own silicon germanium bipolar technology achieve an operating frequency of over 110 GHz. They are ideal when extremely high transfer frequencies are necessary for the transmission of large amounts of data within a short period of time.

■ Expansion in China: Infineon and China-Singapore Suzhou Industrial Park Venture Co. (CSVC), Ltd. set up a joint venture for assembling and testing memory ICs. A joint facility in Suzhou, near Shanghai, will be built, which will commence volume production at the beginning of 2005.

August 2003

■ Infineon, IBM, and Chartered Semiconductor Manufacturing begin joint development of 65-nanometer semiconductor manufacturing process technology.

■ Infineon and Taiwan's United Epitaxy Company (UEC) set up a joint venture for developing and manufacturing fiber optics components.

September 2003

■ Infineon opens its new Chinese headquarters in Shanghai. This office will be of great importance for software development and will permit the company to expand its networking activities to include relationships with customers and representatives of organizations, universities, and the government.

■ Increased presence in the USA: Infineon opens its New York City office with the primary goal of establishing closer ties with key financial, political, and commercial players.

■ The new 512-megabit memory chip of the second Double-Data-Rate Generation, manufactured using 110-nanometer CMOS technology, results in the lowest power consumption and smallest chip size in the industry.

■ Leading the field in "green" products: Infineon begins offering lead- and halogen-free DRAM components as part of its commitment to move gradually towards manufacturing memory modules based on these environmentally-friendly technologies.

Making our lives safer

Sensors continuously measure and provide drivers with information about tire pressure (➔ Tire Pressure Monitoring System).

Credit-card-sized smart cards encode and transmit personal data securely.

Large-area textiles such as carpets with integrated movement and fire sensors serve to safeguard people and buildings.

Dr. Christian Burrer is responsible for the product marketing of tire pressure sensors at Infineon. This is yet another area in which Infineon is contributing to greater safety in our lives.

Focus on customers

Expansion of solutions business

- **Customer needs are changing – and our products are changing to meet these needs**
- **From traditional product business to complete solutions**
- **Acquiring new competence while capitalizing on our advantages**

When it comes to purchasing electronic products, the requirements of individual customers are becoming more and more challenging. Technical gimmicks and rapid data processing alone are no longer enough to convince 21st century's customers to choose a particular product. Instead, today's customers demand practical and user-friendly products that improve their quality of life. Pressure is growing on electronics manufacturers to be innovative and customer-oriented and to be cost-effective at the same time. They can no longer restrict themselves to their original core fields of expertise. Companies need to expand their knowledge as products now depend on the integration of new technologies and an increasingly complicated functionality. At the same time, competition is extreme, especially for consumer goods. Innovation cycles are shorter, product differentiation is becoming more difficult, and price pressure is rising as well.

Building on our customer-oriented systems and solutions business

Our thoughts and actions are addressing the concrete business problems posed by our customers.

We were able to recognize these changes early on, and have reacted by expanding our application know-how and systems solutions (see p. 10 "Corporate strategy"). We are addressing the concrete business problems posed by every customer. This approach leads to a stable customer-supplier relationship and, in turn, to advantages for both parties. Infineon can distinguish itself from its competitors and establish a long-term partnership with its customers, thus increasing our revenues. The information and experience that we gain from direct contact with our customers can then later be used in our product and software sector, thus improving our traditional business as well. Ultimately, it is our customers who benefit in the end.

Initial solutions business success

Although Infineon is still at the beginning of its evolution into a solutions provider, we have already been able to successfully position our first solutions on the market this past fiscal year.

For the development of cell phones for example, we do not only produce relevant chip sets but also assist our customers in board design and software development. At present, this additional service is utilized primarily for the development of GSM phones by Original Design Manufacturers (ODMs) in Asia. ODMs develop and produce complete systems for Original Equipment Manufacturers (OEMs) who specify these systems and provide them to their customers under their own brands. Typically, ODMs have experience in producing electronic devices in large quantities and at optimized costs.

Until now, the essential preliminary work, such as the integration of hardware components and software development, has been done mainly by OEMs, and is rather

new territory for ODMs. This is where we and our partners either assist the ODMs, or take over entire task packages.

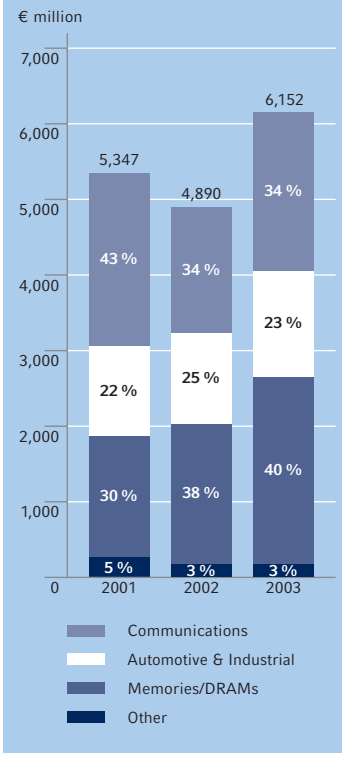
Challenges posed by the solutions business
Developing application-specific solutions depends on our employees being able to understand our customers' needs. Any customer's problem or any new market tendency should be enough to start us thinking: "How can I support our customers in this particular situation?" It is therefore important to know what the market demands of our customers as well. Accordingly, we have devoted more energy and effort to market observation, including market and trend research, over the past fiscal year. We use this knowledge to recognize developments at an early stage, making it possible for us to take a proactive approach in offering solutions to our customers.

Cooperation with our customers has resulted in their providing many valuable ideas and suggestions. Over the past fiscal year, for example, we have increased our cooperation with Siemens and Ericsson in mobile communications infrastructure and devices. Cooperation leads to a frequent exchange of experience and information, making it easier for us to translate our customers' ideas into actual products, systems, and solutions. We will therefore continue to intensify our cooperation with all of our business groups' key customers (see inside cover "Infineon at a glance") in the years to come, and expand our knowledge base in the field of logic chips for wireline, wireless, and secure communications, semiconductors for automotive and industrial electronics, as well as memory chips.

Infineon's extensive product range in comparison to that of its competitors is its great advantage when it comes to combining various types of technology. We use our broad expertise, that covers a range of products and industries, to manufacture multifunctional systems, such as PC security applications or wireless car communications systems. We promote this type of exchange in project groups that include employees from various business groups. In areas further from our core business, we make greater use of the specific knowledge provided to us by other companies and exploit our partnership network. In addition to our semiconductor competence, we are for example expanding our software know-how and providing solutions-related services to our customers. We have done considerable research to decide which services need to be expanded, restructured, or developed further in order to round off our solution packages.

Striving to be the number one solutions provider
In this area, we still have a lot to do. We are convinced that this approach is the right response to the changing needs of our industrial and individual customers. In the current fiscal year, we will put all of our efforts into meeting these challenges. This is the only way we will achieve our objective: to become number one among semiconductor companies in the solutions business by 2007.

Revenues by market

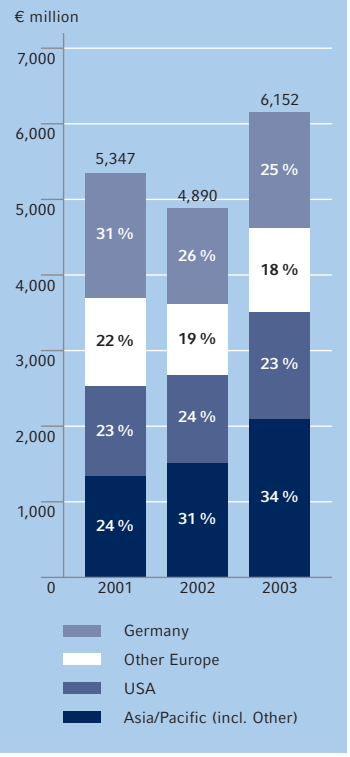


We will continue to intensify the exchange of experience with customers in all our business groups.

Global presence

Growth in all regions

Revenues by region



A third of our sales in fiscal year 2003 resulted from our activities in Asia – this positive trend is expected to continue.

- **Strong market position in Europe and Asia**
- **Improved service structure in North America**
- **Rapid growth in China**

During fiscal year 2003, we increased sales in every global region, expanded our international presence, and outpaced the overall market, all in line with our Agenda 5-to-1 program (see p. 10 “Corporate strategy”). We were successful in our largest markets in Europe and Asia as well as in our rapid growth markets in North America, China, and Japan.

We have met our important intermediate targets: in China, the country with the greatest growth potential in the world, our regional strategy is progressing well, thanks especially to a number of partnerships with local companies. At the same time, we were able to improve our customer relations in Europe and Asia, and position ourselves strongly in the North American automotive electronics market.

Boosting customer relations in Europe and Asia

This past fiscal year, we continued to expand our market presence in Europe and Asia, which remain our strongest markets. With around 2.6 billion euros in sales, we are number two in the European semiconductor market. We achieved a further third of our sales, 2.1 billion euros, in Asia, and this positive trend is expected to continue. Infineon is intensifying its collaboration with customers in Europe and Asia, especially in the Wireline Communications and Secure Mobile Solutions Business Groups. Improved customer relations are the decisive factor, making it possible for us to expand our presence further.

We have also seen a significant increase in Asian sales via so-called ODMs (see p. 24 “Focus on customers”). In accordance with new business models, ODMs are developing and manufacturing primarily cell phones, for well-known producers.

Infineon has also continued to strenghten its position on the chip card market, especially in Europe. We are also focusing on automotive and industrial electronics, in which we are the leading semiconductor company

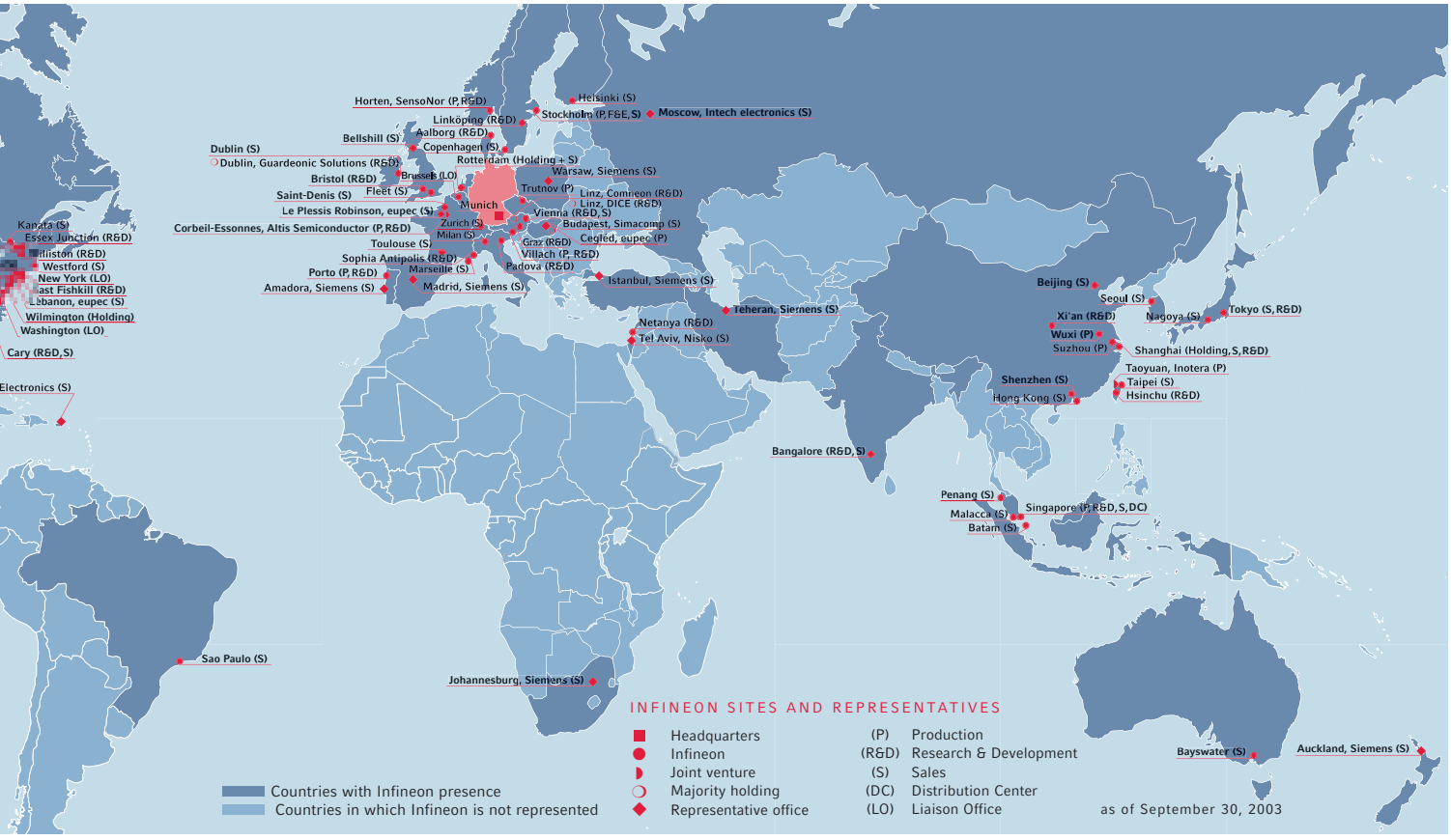
in Europe's automotive segment. Based on our strong position in the field, together with our customers we create future trends, and expand our market position beyond Europe.

North America: strengthening our distribution and service structure

The North American market has great potential for all our business groups. Since the first half of the 2003 calendar year, with a market share of more than four percent, we rank number five among the semiconductor companies in North America. In 2003, we worked on enhancing our distribution structure and service organization there. By virtue of our collaborative network, and yet from one single source, we can offer our customers the developmental competence of all our business groups. In addition, we founded special customer training centers in San Jose, California; Richmond, Virginia; and Cary, North Carolina, where Infineon provides tailor-made training programs for individual customer groups.

In fiscal year 2003 we opened two new sites in Cary and New York City. While Cary is primarily responsible for sales, marketing, and development, the New York office provides a central contact address for analysts and investors. The new office will allow us to coordinate our North American investor relations better, and strengthen

In 2003, we further expanded our leading position in the European automotive semiconductor segment.



Infineon's sites worldwide.

our contacts to representatives of the financial world.

To extend our North American distribution network we have begun working together with a new specialized distributor. Infineon also enlarged its North American research network in 2003, and began to seek contacts with leading universities there. All these activities have been accompanied by a marketing and communications drive. While these efforts have been geared primarily towards industrial customers, Infineon has also sought to become better known among individual consumers.

China: the number one growth market

Our growth strategy for China has been to continually expand our presence there. In the long term, we seek to exceed a ten-percent share of the Chinese market and to establish ourselves as one of the top four providers in China with over 3,000 employees.

Our increased presence in the global markets is perfectly in line with our overall growth strategy.

Moving towards attaining these goals, we have once again accelerated our growth on the Chinese market; after a 21 percent increase in sales in fiscal year 2002, our sales increased by 30 percent this past fiscal year. Our cooperation with local partners on projects such as new collaborative memory chip production has been and still is particularly important (see p. 34 "Production & Logistics"). Over the past fiscal year, we expanded our production in Wuxi and pushed ahead with local research and development activities, which included a design center in Xi'an, cooperative work with Huawei (wireless communications), and a new system and solution competence center.

All our local endeavors are coordinated by our Chinese headquarters in Shanghai. Serving as the heart of our Chinese involvement, it is the center of our networking activities, including relationships with customers and representatives of organizations, universities, and the government.

New partnerships in Japan

Japan remains an important future market with great sales potential. While the growth rate there is lower than in China, we still see an excellent opportunity there to further raise our market share in the future. We have accordingly expanded our presence there, concentrating on partnerships with major customers for wireline and wireless communications, automotive electronics, and chip cards. We also expect to benefit from the Japanese market's increased openness to international companies in the years to come.

Our regional activities form an important component in the development of our systems and solutions business, and help us towards our goal of being number one in semiconductor solutions worldwide. We will continue to systematically focus on local customer requirements, and strive to expand our cooperation with regional partners – all in line with our overall growth strategy.

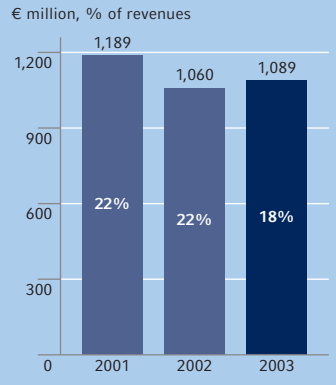
Innovation

From our laboratories to your daily lives

- **Innovation – the basis for user-friendly products**
- **Meeting customer needs – a central research and development task**
- **Infineon's success reflected in awards for chip card ICs, biochips, and semiconductors in textiles**

Infineon engineers technological progress for products and applications for one and all, laying the groundwork for the Technology Lifestyle of the 21st century. We are well aware that as a technology company, R&D is the key to our success. Accordingly, in fiscal year 2003, we spent 1.09 billion euros on research and development, 18 percent of total revenues.

Research and development expenses



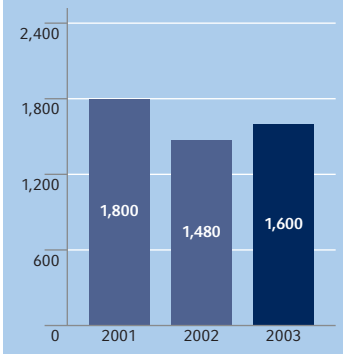
About 5,900 engineers and scientists all over the world work continually to turn the latest of Infineon's high technology into new products, systems, and production methods. Infineon files an average of 1,600 new patent applications each year, and is in third place in the German ranking behind Siemens and Bosch. However, technical feasibility is not the only measure of our success. Our products are designed to fulfill people's needs and improve the quality of their lives.

Innovations by Infineon

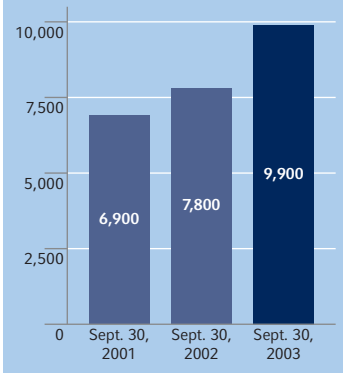
Our security chips can be used in a variety of applications such as bank cards, e-tickets, company and other official identity cards. Infineon chips enable the highest level of security and reliability, and, whenever needed, can communicate with computers without wires or direct contact, simply by moving in range of the host sensor. Our chip card technology has been collecting its share of rewards. For the second consecutive time, we have received the Sesames Award, the top prize in the chip card business. The "Best Technological Innovation" award was presented for an Infineon security controller, and a microcontroller for contactless chip card applications, developed in cooperation with Sony.

Infineon chips will soon be literally marking a path to the future. Our researchers have found a way to weave "intelligence" into large-area textiles such as carpeted floors. Woven into the textile structure, a self-organized network of water- and heat-resistant chips will be able to detect temperature, pressure, and even vibrations, if necessary. Electronic carpets could, for instance, detect movement or trigger a fire alarm, and could even control heating and cooling systems. LEDs integrated into the intelligent carpet could also indicate emergency exits, help in directing large crowds, or even display advertising. We have now concluded an initial cooperation contract with the Vorwerk carpet manufacturer, and

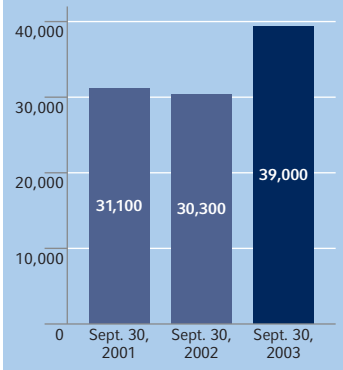
First applications for patents*



Active patent families**



Active patents and patent applications, worldwide***



* Initially, inventions are filed at only one patent office.
** Patents have a maximum life span of 20 years; all active patents count cumulatively. Patents relating to the same invention form a "patent family".
*** Infineon files subsequent applications for its most important inventions in foreign countries within a year. On average, four patent applications are derived from one invention.

We develop our unique innovations into marketable solutions.

the companies plan to collaborate in presenting a marketable solution by the end of 2004. Our technology has already been convincing, winning the TechTextil Innovation Prize for the "Integration of new technologies" at the TechTextil 2003 Trade Fair.

A new self-service library is yet another innovation that has been made possible by an Infineon complete solution using 300,000 radio chips. The my-d RFID (Radio Frequency Identification) chips have now been embedded in 240,000 books and 60,000 CDs and DVDs at a Vienna library. The library's users now only have to place their choices on the check-out table and insert their library card into a card reader. A radio system, built into the table, reads the content of the RFID chips and registers the details. This eliminates waiting periods, especially since the new process can register several library transactions at once. The chips, with up to ten kilobits of memory, can include much more information than conventional barcodes. We developed the system together with ekz, a library provider from Reutlingen, Germany, and the Swiss company Bibliotheca Library Systems AG and have equipped further libraries in Austria, Switzerland, Belgium, and Germany.

Our biochip technology speeds up the development of new medicines.

Our biochip technology also won an award last year, and was nominated by Wall Street Europe as the "Best Technological Innovation 2002", eventually taking second prize in the competition. The Infineon Flow-Thru Chip is one such biochip now on the market. It speeds up the development of new medicines. The chip supports the search for new active agents for the treatment of inflammations, breast and lung cancer, and for medications that fight nervous system degeneration related to diseases such as Alzheimer's, Parkinson's, and multiple sclerosis. The chip, developed by Infineon together with the U.S. biotech company MetriGenix can test up to 400 different genetic samples within two hours, all within just one square centimeter of area. That is six times faster than previous solutions on the market.

Infineon is currently working on a fully electronic biochip that works without an optical evaluation system. We are the first semiconductor company in the world to use standard chip technology for such applications, modifying CMOS chips into biochips using process technology enhancements. Electronic biochips can identify individual gene segments, and are therefore able to identify illnesses and the medicines that a patient can best tolerate with the fewest side effects. Our chip can also improve the early detection of cancer. Medical institutes will benefit from the chip's wide variety of applications. The chips perform the laboratory work more cheaply, more effectively, and faster than ever before.

We are also now working intensively on a neurochip, a biochip that makes communication possible between living nerve cells and a semiconductor sensor, allowing new insights into the way the brain works. Individual nerve cells are isolated and placed on a chip that can analyze the information transfer between neurons. Our researchers successfully carried out this experimental work together with the scientists of the Max Planck Institute for Biochemistry in Martinsried, near Munich, Germany. Experts see

potential applications in the development of cell-supported medicines.

Another current Infineon project involves a revolutionary new home infotainment system. In the future, television, telephone, and high-speed Internet access will all be combined into a single optical fiber. Usually, at least two separate networks are necessary for the same level of performance, but Infineon's optical Triplexer-Module Triport-BIDI makes it possible for signals from all three applications to be carried through a single fiberglass cable in both directions. Single fiber systems have a range of up to 20 kilometers.

Yet another new development will serve to enhance Internet telephoning – our innovative INCA-IP chips optimize Voice-over-Internet-Protocol (VoIP) telephones with an integrated conference service, hands-free mode, and excellent audio quality. The chip provides full Ethernet and Fast Ethernet capacities for a direct connection to networks, supports new wireless telephone headsets, and has built-in functions such as caller identification and voice recognition. INCA-IP makes Internet telephoning more secure, being the first chip of its kind that offers hardware accelerators for encryption to prevent hackers from infiltrating IP telephone systems. Siemens ICN is just one company that will use our chip for its future Internet telephone product line.

Miniaturization: Infineon remains the technology leader

In the past fiscal year, we reduced the structural width of memory chips from 140 to 110 nanometers. This, in turn, has reduced the production costs of chips by 30 percent (see p. 34 "Production & Logistics").

As chip structures in the next decade slowly reach the size of single atoms, new challenges will arise. Lithographic instruments will need to be refined, and chip interconnects will have to be made thinner than ever before. Lithography is used to imprint the chip structures onto silicon. In this process, photosensitive layers on the silicon wafers are exposed to light to form the chip structures. Shorter wavelengths are necessary for smaller structures, leading to the need for new types of process instruments. Today, Infineon is already using 193-nanometer light in production, while the next generation will use 157-nanometer wavelengths. Completely new materials are needed at these wavelengths. Infineon is therefore now collaborating with the chemical company Clariant to develop the next generation of photoresists used to form the chip patterns. Our goal is to be the first semiconductor company to begin a 157-nanometer pilot manufacturing run, producing structures only 55 nanometers in size.

Wavelengths that are ever shorter in length demand increasingly refined lithography instruments. We are therefore now conducting research in the field of Extreme UltraViolet (EUV) technology using radiation that is close to the X-ray spectrum, and is therefore no longer able to be focused by optical lenses.

Research leading to the best chips

Infineon researchers have once again been able to set new speed records for silicon-based components. Until two years ago, most experts believed that high frequencies ne-

In the future, television, telephone, and Internet will be carried through a single fiberglass cable.

Infineon has for the first time developed chips that operate at a frequency of more than 110 GHz.

cessary for mobile telephones were only attainable using chips made of gallium arsenide (GaAs) or indium phosphide (InP). The electron mobility of these substances is much higher than that of silicon. GaAs and InP are problematic materials that are expensive, potentially hazardous to the environment, and difficult to dispose of. By contrast, silicon is much less expensive and can be handled in established processes. Infineon's developers have now been able to operate chips at a record frequency of more than 110 GHz with minimal power input for the silicon components. Common PC processors based on silicon CMOS technology, by contrast, run at a maximum of less than 4 GHz. Silicon-based chips are doped with germanium atoms to create chips that are 30 percent faster than circuits with non-doped silicon. These are ideal when extremely high transfer frequencies are necessary for the transmission of large amounts of data within a short period of time, such as for high-speed data communication.

Infineon chips can also improve automotive safety, with proximity warnings and radar devices programmed to avoid collisions. With an individual identification system, the chips can be protected from signal interference caused by other cars. They can even take over automatic stop-and-go driving in heavy traffic, making life much easier for drivers in traffic jams. The first applications are to be expected in as short as three years.

Our developers have also set a new speed record with an experimental chip circuit for CMOS components. The chip, which transmits data at 40 billion bits per second, will soon make it possible to produce more efficient communications network chips at a lower cost.

Cooperative success

In addition to these spectacular developments within the company, Infineon has been collaborating more and more with other companies and institutions. We are able to profit from our partners' various fields of competence, lower our own R&D costs and spread the high investment costs and the risks that are part of the semiconductor sector.

The world's smallest MRAM memory cell, only 1.4 square microns in size, which uses magnetism instead of electrical power to store data, was the latest achievement of such a partnership. It was developed together with IBM for demonstration in a 128-Kbit MRAM memory chip in June 2003. MRAMs combine the advantages of established semiconductor memory types – the high speed of SRAMs and the non-volatility of flash memory. Since MRAMs continue to store data even after the power supply is turned off, computers will someday be operational as soon as they are switched on, similar to modern televisions and radios. These chips are now also set to be used in cell phones and PDAs, and much earlier than originally expected. IBM and Infineon plan to introduce a MRAM prototype product in 2004, and the first customer prototype is planned for 2005.

Infineon has also founded a new joint venture for the development of flash memory together with the Israeli company Saifun Semiconductors. The new Dresden-based company, Infineon Technologies Flash GmbH & Co. KG, emerged from the Ingentix

joint venture jointly founded in 2001. The company's flash memory production will begin at the end of 2003. The chips, which store information without requiring a sustained operating voltage, will be used primarily for mobile devices such as cell phones, portable computers, and digital cameras. Market researchers expect worldwide sales in this market to increase by ten percent annually through 2006.

Drawing on our front-runner position in innovative solutions

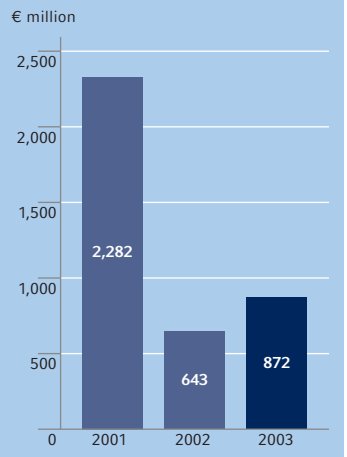
Infineon again received awards for its groundbreaking development work and is in high demand as a cooperative partner. This proves that we continue to set the pace in the semiconductor industry when it comes to future technologies and products. In the years to come, we will further concentrate on the development of successful solutions, focusing on the specific needs of our customers and planning our research and development projects accordingly – all with the goal of making the Technology Lifestyle of the 21st century a reality.

Our activities in research and development have again been recognized for their excellence.

Production & Logistics

Be first in cost and technology leadership

Capital expenditures



- **Cost leadership through superior technology**
- **From 140 to 90 nanometers – chip structures growing ever smaller**
- **Cooperative ventures and adaptable production facilities provide synergies and flexibility**

The highly dynamic semiconductor industry continuously demands technological advances which provide ever faster highly integrated chips using less silicon area. At the same time, silicon wafers are becoming larger and larger. Infineon – as a technology and cost leader – is at the forefront of both trends.

The continuing miniaturization of chips requires an increase in related investments. While approximately one billion U.S. dollars were necessary for a new semiconductor fab around 1995, producers today need to invest more than two billion dollars for the same type of facility.

We respond to the volatility of the semiconductor market with flexible production processes and cooperative ventures.

The semiconductor business is also prone to immense volatility. In order to withstand these challenges and remain competitive, we reduce costs continuously, maintain flexible production processes, and use available resources sparingly and for well-defined purposes. Similarly, Infineon is also moving towards increased cooperation with external partners in production and development, with the aim of reducing costs and sharing risks. We are also extending the lead we presently enjoy in our core technological areas, and are making our development and production processes increasingly flexible.

Cost leadership via superior technology
We are already ahead of our competitors in low-cost production methods such as those we use at our fab in Dresden, Germany, the world's first 300-millimeter plant with high-volume production. Compared to standard 200-millimeter wafers, 300-millimeter wafers have almost two-and-a-half times as much surface area. And this has paid off – in December 2002, cost cross-over was achieved only a year after production began, and 300-millimeter production is now less expensive than its 200-millimeter predecessor. We have reduced the costs of production per DRAM by around 60 percent through the introduction of this new 300-millimeter technology in Dresden, and through the gradual conversion of our other production lines around the world to 140-nanometer structure widths.

Infineon is also setting the pace in the development of smaller chip structures. We are currently working on the world's smallest 1-gigabit memory chip, and a production line is scheduled to start up soon. This innovation is mainly the result of new process technology that makes structure widths as little as 110 nanometers possible, a cost-cutting technology that will gradually be introduced to all of our production sites.

While all that is taking place, we have already begun research on building even smaller structures. Together with our partner Nanya, we are now working on 300-millimeter production technology for memory chip structures of 90 and 70 nanometers. Inotera, our joint fab in Taiwan, will be equipped with the production equipment by the end of 2003, with production to begin in 2004.

We are also cooperating closely with IBM and Chartered Semiconductor Manufacturing on the development of manufacturing processes that will be able to produce logic components in 65- and eventually 45-nanometer structures. Around 200 engineers from all three companies have now begun work at an IBM development lab.

In Dresden, Infineon, AMD, and DuPont Photomasks founded the Advanced Mask Technology Center (AMTC) to jointly develop and produce the new generations of lithographic masks.

Flexible partner network reduces costs
More and more, Infineon is seeking cooperation with other companies in the production process. By licensing our innovative technologies to partner companies, and in return, securing exclusive agreements to make standard memory chips for Infineon, we can lower our investment costs and react better to changing market conditions. Working together with its partner Winbond, for example, Infineon is able to offer additional capacities fast and flexibly.

We have also intensified our collaborative work with the Chinese Semiconductor Manufacturing International Corporation (SMIC), with Infineon maintaining exclusive production and purchasing rights for DRAMs manufactured in 200- and 300-millimeter production. In a decisive step to strengthen Infineon's position in China, an important future market, a new memory chip fab is now under construction in Suzhou, as part of a joint venture with China-Singapore Suzhou Industrial Park Venture (CSVC) (see p. 26 "Global presence").

Infineon is also benefiting from synergies between memory and logic chip production in order to optimize investments in our own company production. We are one of the few semiconductor manufacturers that combine DRAM and logic chip production, and a significant number of our production facilities are applicable to both. We can therefore switch from logic to DRAM production whenever necessary, a clear advantage when reacting to fluctuations in market segments and in further improving the utilization rate of our facilities.

Optimized production logistics reduce costs and customer delivery times
We see it as our ongoing responsibility to optimize our production and logistics. This past fiscal year, these efforts reduced the time elapsed between receiving an order and its delivery by more than 25 percent. Customer orders can now be serviced with greater speed and flexibility, while we have significantly improved our delivery reliability and capability.

We have thus once again secured our top place in the worldwide production and logistics segments, while reaffirming our technological leadership. We will continue to develop and optimize this position throughout fiscal year 2004.

At AMTC, the new mask technology center in Dresden, we develop and produce state-of-the-art lithographic masks.

Using resources more efficiently

Flow-Thru Chips facilitate faster development of new medicines and more effective forms of therapy.

OptiMOS, CoolMOS and LightMOS are specialized transistors that significantly reduce the energy consumption of electrical devices.

IGBTs optimize the control of electrical motors and increase the operating efficiency of machines and trains considerably (→ Insulated Gate Bipolar Transistor).

Dr. Michaela Fritz, product manager at Infineon, plays an important part in the marketing of Flow-Thru Chips for the high-speed gene analysis used in pharmaceutical and clinical research. This is yet another area in which Infineon is working to improve the efficient use of resources.

Commitment to Human Resources

Cooperating with the employees for corporate change

- **Supporting corporate ideas – new programs to encourage individual responsibility and strengthen Infineon's corporate identity**
- **Providing additional motivation – qualification programs and flexible compensation**
- **Benefiting from diversity – international expert teams and networks promote global thinking**

A corporate strategy can only be successful if the employees involved are able to enjoy an attractive working environment. Interesting challenges, opportunities to learn and progress, and proper recognition for successful work, all inspire employees to get involved and be active in improving the company. It is the responsibility of Human Resources (HR) management to assist the company in the attainment of its goals by creating the conditions necessary to encourage commitment in employees.

Essential tasks in HR policy

Customer-oriented, international, and flexible – these words not only describe Infineon's declared goals, but our way of working as well. Intrinsic to this approach are the central tasks that are essential to Infineon's personnel policy:

- We are dedicated to substantial corporate change at Infineon, in order to optimize our status as a technology-driven and a customer-oriented company. This requires us to support the individual initiative and personal responsibility of our employees and to encourage them to identify with Infineon's corporate goals.
- We support each of our more than 32,000 employees in a way suitable to their individual achievements and potential. We work to create the conditions necessary for each of our employees to achieve top performance.
- Our HR policy is flexible and international, qualities which are both necessary for us to meet the requirements of the market as a global company.

Personnel management redesigned

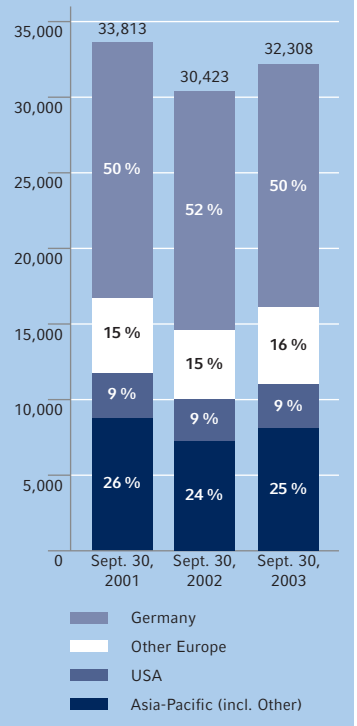
We have redesigned our personnel management over the past fiscal year in order to address these tasks. The main facets of our personnel policy – customer orientation, operational excellence, and strategic services – all continue to play a major role in our personnel work. People & Organization, a new department, will serve to bring together strategic activities and has been created alongside the Human Resources department. It will be involved in designing the personnel strategy and making all other decisions affecting personnel and organizational development, personnel systems, and processes, as well as recruiting and support for our executives.

Both departments, Human Resources and People & Organization, will work closely together to focus our global HR management on the needs of the company, and on providing excellent service for all Infineon employees.

Supporting corporate change

Regardless of our employees' location or business group, we encourage everyone of them to think and act as an entrepreneur within the company, as part of our quest to

Employees by region



As of September 30, 2003, 32,308 employees were working for Infineon worldwide, 1,885 more than a year earlier. Over 1,000 new employees joined Infineon in Asia alone over the past fiscal year, making a total of 8,234 people. The company additionally employed 450 people in Germany and 444 people in other European countries.

outpace the market and to stay ahead of our competitors. Customer orientation, global identity, and an emphasis on our achievements are the qualities that make Infineon the company that it is.

The Infineon Institute, successor to the Infineon University, supports us in these efforts, bringing together company-wide activities in knowledge management, personnel and organizational development. One major task of the Infineon Institute is the development of innovative concepts for leadership and change. The Institute will work towards creating a group-wide infrastructure as the basis for efficient global learning.

Central programs in 2003
Our "Top Management Conference" was established to allow the Management Board to meet with top managers every year to discuss the status quo and the company's future orientation.

Dialog and the task-specific transfer of knowledge are also the purpose of the Infineon Institute's project manager forums. The program, initiated in 2003, offers project leaders the chance to take advantage of carefully selected training programs and to share their experience and know-how with colleagues from all of the company's regions and business groups.

Our "Global Lead Program" was created to foster group-wide strategies involving entrepreneurial thinking, leadership, and other managerial principles. Company representatives known as "change agents" ensure that all employees are gradually incorporated into the process.

Furthermore, a global idea management program was launched in July 2003. YIP (Your Idea Pays) encourages employees' innovative creativity and ability to find opportunities for improvements and to exploit cost-saving potential.

Goal-oriented employee training programs on all levels
We are working towards goal-oriented training programs for all levels and all business groups of the company. In particular, when starting up or expanding sites, such as in Dresden, Germany, and in Porto, Portugal, we have emphasized job-linked courses and training programs. In Dresden, for example, where Infineon produces memory chips at one of the world's most modern chip fabs, we have created the "dresden chip academy", where 2,500 production employees enjoyed further training in the last fiscal year.

Mentoring program
In 2003, we started our executive mentoring program. Experienced top managers are active as "mentors" in the program, sharing their knowledge and experience from their daily work. This is one way that we can build up a network, with our future managers profiting most from the arrangement.

Junior executives
Infineon's junior executive groups provide another example of how the company's young employees, in particular, get involved with matters beyond their own field of endeavor. Young executives are familiarized with global developments related to their specific area of work and those affecting the company as a whole. Meeting regu-

The Infineon Institute brings together company-wide activities in knowledge management, personnel and organizational development.

Strong commitment is rewarded. We support our junior employees.

larly for discussions with management and working on multi-location projects, our young staff members are able to strengthen the company with their own fresh ideas.

Performance-oriented compensation scheme

Infineon is currently expanding its compensation scheme into a management and support tool that can be strategically applied on an international basis, with a view to honoring the entrepreneurial abilities of our employees.

This global approach is designed to be uniform across the regions, combining fixed and variable compensation. The variable part is linked to the company goals and to each employee's individual goals. Global grading and local market data form the basis of the goal structure and income ranges.

In addition, Infineon makes deliberate use of stock options as a way of stimulating employee commitment and identification with the company, thus allowing employees to benefit directly from the company's success.

People from 82 nations around the world work for Infineon.

Internationalization and flexibility

People from 82 countries are already leaving their mark on Infineon's corporate culture, incorporating a wide variety of knowledge and capabilities into the group. We have long embraced the concept of managing diversity, benefiting from a variety of cultural backgrounds throughout the company. International expert teams and global networks are carefully composed of employees with varied and complementary abilities. This leads to stronger business relations across a variety of cultures.

Working abroad

The degree to which our employees' expertise was put to use around the world in 2003 is to be seen in the numerous foreign assignments. Complete teams of experts are often transferred to another country or region to work on joint ventures or to build up new company sites. During the past fiscal year, for example, 50 experts were sent to Hsinchu, Taiwan, to support the development of process technologies for logic ICs.

International recruitment programs

We maintain solid contacts with universities and schools, by sponsoring guest professorships, endowment programs, and research partnerships. We often recruit the young talents directly into the company. Students are offered highly challenging internships as a part of our College Program, our Student MemberChip Program is aimed at internationally oriented students, and our International Graduate Program introduces graduates to Infineon workplaces throughout the world. Successful programs such as these have made Infineon a popular employer for academics. This is an image we intend to promote, especially in the international arena.

Ecological commitment

Environmental protection – more than just lip service

- **Saving resources with new technologies**
- **Environmental report, including environmental statements, presented to public**
- **Environment, Safety, and Health (ESH) in-house award presented for second time**

An important aspect of our corporate obligation is responsible interaction with nature and with our fellow human beings. We are convinced that with continous measures, the environment can be protected effectively. Occupational safety, and environmental and health protection have therefore played an integral role in our business processes for many years.

Responsible consumption of resources
Semiconductors cannot be manufactured without using chemicals. It is therefore important that we use these materials sparingly and only for clearly defined purposes. Nearly all Infineon production processes that utilize hazardous substances take place in closed loops and systems. Particularly strict rules are in effect wherever people come in contact with hazardous chemicals. These employees are given regular medical checks and participate in a biomonitoring program.

The transition to 110-nanometer technology at our Dresden fab proves that ecology and economy need not be seen as opposites. Using this new technology, it is possible to produce 50 percent more 256-megabit DRAMs on a single wafer, lowering costs by 30 percent in comparison to the previous technology while utilizing fewer resources. Environmental aspects also play a major role in optimizing our infrastructure, as shown by the new energy recovery program at our Regensburg site in Germany. In the past, the process water at the site was heated by a dedicated system but now the waste heat of the refrigerating machines is recovered and used instead. As a result, 307,000 kilowatt hours of energy were saved here last fiscal year. Despite our achievements in utilizing resources economically, consumption of water and of primary and secondary energy increased each by about 13 percent, normed according to turnover costs in the past fiscal year. This increase was due to a considerable expansion of the volume production in our company.

Standardizing environmental protection: certification and documentation
We have now certified our environmental management system at nearly all of our production sites (see p. 26 “Global presence”) in accordance with the international EN/ISO 14001 norm. The matrix certification audits for Richmond/Virginia, USA, and Cegléd, Hungary, will be carried out in the fiscal year 2004. At new sites such as at the recently acquired Norwegian sensor manufacturer SensoNor, we have begun to plan certification efforts.

This past fiscal year, we considerably improved the documentation for our environmental data, using a worldwide, Intranet-supported system. We made progress on the implementation of our SAP chemical database that systematically compiles our knowledge on chemicals used, and their

Responsible interaction with nature and with our fellow human beings is an important aspect of our corporate obligation.

Ecology and economy are not seen as opposites at Infineon.

Our products make a positive contribution to environmental protection and help to save electricity and fuel mileage.

hazardous properties. This database is now accessible at five German and Austrian Infineon sites (both Munich sites, Regensburg, Dresden, and Villach).

Environmental report published for the first time

Three years after the company's Initial Public Offering (IPO), we published a comprehensive environmental report for the first time. The report includes important information on our environmental protection activities and achievements, and relevant environmental data on Infineon production sites. The 2002 environmental report also pioneered a new approach: it serves also as the Environmental Statement for our Dresden companies in accordance with the European regulation "… allowing voluntary participation by organisations in a Community eco-management and audit scheme (EMAS)".

Our employees are rewarded for their efforts in protecting the environment.

For example, the environmental report presents thorough information on our involvement in reducing Perfluorated Compounds (PFC) emissions, specific greenhouse gases. Infineon is one of the pioneers in this field, as we encourage the European semiconductor industry to take voluntary responsibility in this area. We will reduce our PFC emissions by ten percent by 2010 compared with 1995 levels (calculated in carbon dioxide equivalents). Based on an estimated 15 percent annual volume growth in the semiconductor industry, this means, a reduction of about 90 percent.

Protecting the environment with Infineon products

We are not only concerned about environmental protection in the production of semiconductor components: our products also make a positive contribution to people's lives and the environment. Today's consumers require electronic products that are user-friendly and use less energy (see p. 24 "Focus on customers"). We have been successful in fulfilling these needs – computers using our innovative new memory devices require less electricity, and Infineon components for electronic car-engine management systems and SensoNor's tire pressure sensors do their part to optimize fuel mileage.

Environmental commitment pays

A number of awards for our achievements in this area, such as the 2003 Industrial Water Quality Award for our Richmond site, prove that we are moving in the right direction. Our employees also receive recognition for their ideas and dedication. In 2003, we presented our Environment, Safety and Health (ESH) Award for the second time, showing our appreciation for employee achievements in improving our occupational safety, environmental, and health protection. There were numerous applicants, from which the following three projects were chosen:

- An international, interdepartmental project found new ways to develop lead- and halogen-free products. Thus, ecologically compatible and even more environmentally-friendly products can be offered with at least the same quality. In 2004, the majority of our products will be free of halogen and lead.

- Our employees in Porto, Portugal, have contributed greatly to environmental protection with new ways of saving energy. Over

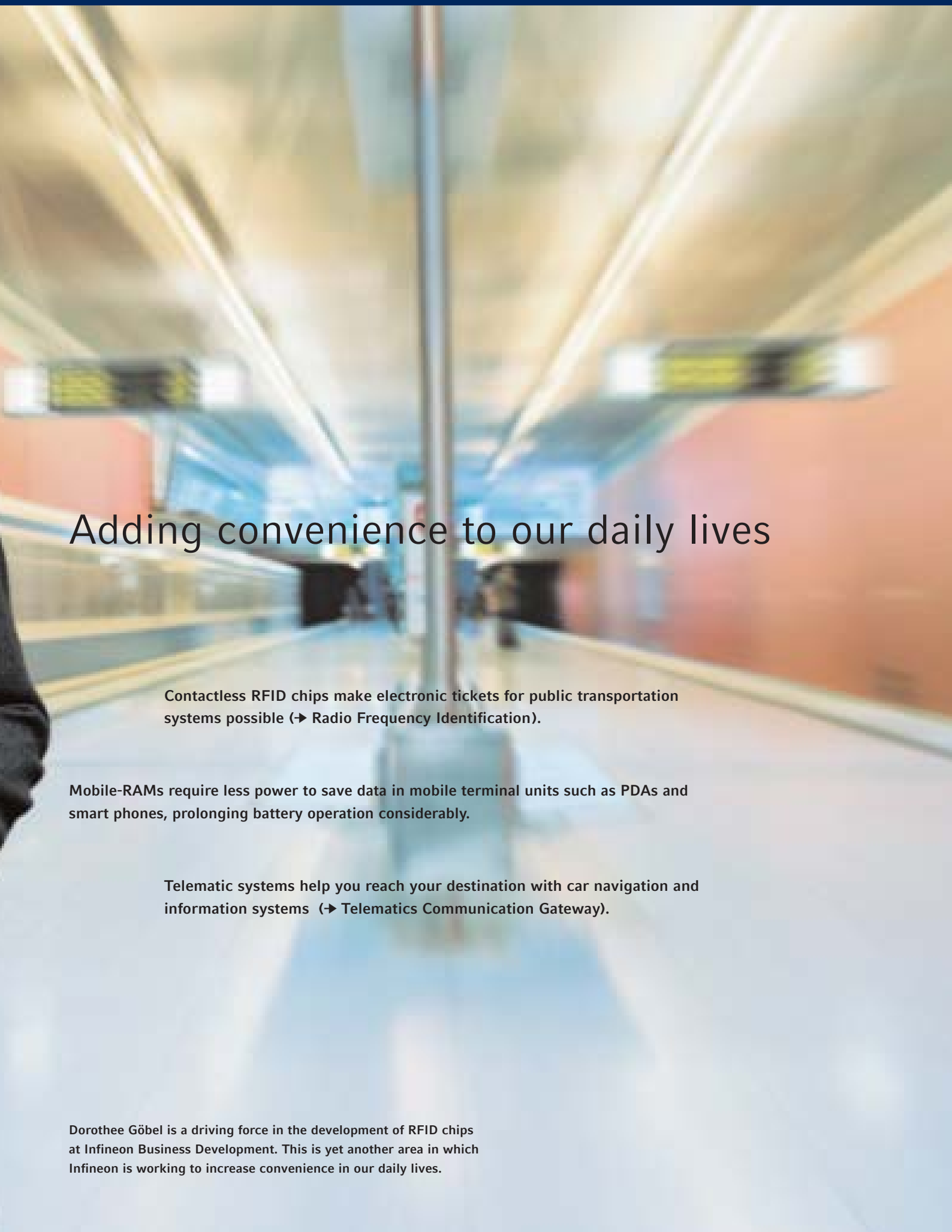
the past three fiscal years, they have even managed to surpass their goal of reducing their specific energy consumption (in kilowatt hours per gigabit) by 20 percent annually.

■ In fiscal year 2002, a project at the Malaysia production site in Malacca was able to reduce carbon dioxide emissions by nearly 7,500 tons through considerable energy-saving measures. This will also mean sizable cost savings in the years to come.

Protecting the environment with high technology

As a high-tech company, we feel a particular responsibility to use our know-how for the benefit of the environment and for the protection of our employees. Successful projects of the past fiscal year proved once again that technological advance and ecology do not need to be in conflict, and that high technology can make a valuable contribution to environmental protection. Further initiatives and the results of our ecological commitments can be found in our 2002 Environmental Report. The 2003 Environmental Report will be published in early 2004, and will be available on demand.

The initiatives and results of our commitment to ecology are compiled in our Environmental Report.



Adding convenience to our daily lives

Contactless RFID chips make electronic tickets for public transportation systems possible (→ Radio Frequency Identification).

Mobile-RAMs require less power to save data in mobile terminal units such as PDAs and smart phones, prolonging battery operation considerably.

Telematic systems help you reach your destination with car navigation and information systems (→ Telematics Communication Gateway).

Dorothee Göbel is a driving force in the development of RFID chips at Infineon Business Development. This is yet another area in which Infineon is working to increase convenience in our daily lives.

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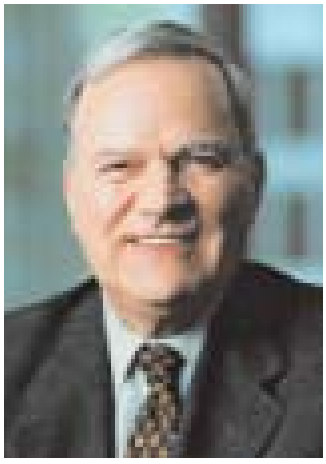
Report of the Supervisory Board to the Annual General Meeting



Max Dietrich Kley,
Chairman

Dear shareholders!

In the 2003 fiscal year, the Management Board met with the Supervisory Board to inform its members about business developments, the economic situation of the company and of the separate business groups as well as about financial and investment planning. The Management Board also submitted detailed quarterly reports and written reports on significant new developments. In addition, the Chairman of the Supervisory Board was notified about all other important matters and decisions in individual discussions with the Management Board throughout the year.

This year the Supervisory Board again spent a great deal of time focusing on the difficult situation prevailing in the semiconductor market, above all the persistent price pressure and the unfavorable euro/U.S. dollar exchange rate. The first half of the fiscal year in particular was marked by a successive collapse in the price for memory products of up to 50 percent. There was also a further decrease in infrastructure investment by telecommunications companies. The Supervisory Board monitored these developments in the semiconductor market very closely and their effects on Infineon's situation in this market. For this purpose, the Supervisory Board called for thorough reports on the situation in the business groups, Memory Products and Wireline Solutions, and discussed in detail the future orientation of these two groups with the Management Board. To our delight, the Memory Products Business Group began to show profits in the second half of the year, a development that continued, so that ultimately, for the year as a whole, it achieved positive results. The Wireline Solutions Business Group was able to post much improved figures for the fourth quarter and was approaching the break-even point by the end of the year.

We are optimistic that the demand situation in both the logic segments and memory products will continue to improve. Whatever the forecasts, the Supervisory Board and the Management Board are in agreement that we must continue to pursue the productivity and cost-saving measures consistently in order to master the challenges that lie before us.

At one of its meetings the Supervisory Board was informed in detail about the progress of the acquisition activities undertaken to date; one point of particular interest was the acquisition of Ericsson Microelectronics AB, Stockholm, Sweden.

Another subject of continued interest to the Supervisory Board was the Agenda 5-to-1, which was approved at the end of fiscal year 2002. The Board was kept regularly informed about the status of the implementation programs designed to achieve these strategic goals.

Also on the Supervisory Board's agenda this year was corporate governance. At its meeting in November 2002, the Supervisory Board decided to set up an audit committee. This was done by assigning the competence of an audit committee to the existing Investment and Finance Committee, and by changing its title appropriately to "Investment, Finance and Audit Committee". At the November meeting, the Supervisory Board also approved the

Infineon Code of Corporate Governance which now forms a major cornerstone of the Infineon Corporate Governance System. The amendments to the German Code of Corporate Governance introduced in May 2003 were discussed extensively during the Supervisory Board meeting in July 2003 and then decided on. The 2003 Declaration of Conformity in accordance with §161 of the German Stock Corporation Act was agreed upon by the Supervisory Board in November 2003. The Infineon Corporate Governance System is described in detail on page 51 of this report.

At the meeting in November 2002, it was decided to reduce the Management Board to four members. The Supervisory Board thus prolonged the mandates of the Management Board members, Dr. Schumacher, Mr. Bauer, Mr. Fischl and Dr. von Zitzewitz, for a further five years. Dr. Sönke Mehrgardt ceased to be a member when his contract expired on September 30, 2003; the Supervisory Board expressed its thanks for his contribution as a board member.

In November 2003, the Executive Committee decided that in the first half of fiscal year 2004 the regulations governing the remuneration of members of the Management Board should be examined and amended where necessary; this would be done with the help of an external consultant and would take account of the current status with regard to the German Code of Corporate Governance as well as the competitive situation in the international semiconductor industry in terms of fixed and variable remuneration and stock option plans.

Meetings of the Supervisory Board and the committees
During the period under review there were five meetings of the Supervisory Board, and the Supervisory Board passed resolutions exclusively during these meetings. The Executive Committee was convened four times in this year, and it was concerned especially with the extension of the contracts of the Management Board members.

This fiscal year the Investment, Finance and Audit Committee met five times. The main objectives of these meetings were the auditing of the interim reports, preliminary auditing of the annual accounts, discussion of the auditors' report with the auditors, examination of investment plans, definition of key audit targets, and the study of business projects that required approval. Particularly important in this respect was the establishment of a joint venture with the firm Nanya in Taiwan, the sale of Infineon's stake in ProMOS Technologies Inc., and the issue of a subordinated convertible note.

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

Individual and consolidated financial statements
KMPG Deutsche Treuhand-Gesellschaft AG Wirtschaftsprüfungsgesellschaft, the auditors of Infineon Technologies AG, have checked the following documents and endorsed them with

an unqualified auditors' certificate: the individual financial statements of Infineon Technologies AG for the fiscal year ending September 30, 2003, the consolidated financial statements of the group for the fiscal year ending September 30, 2003, drawn up in accordance with the provisions of U.S. GAAP and applying the exemption provision under §292a of the German Commercial Code (HGB), as well as the combined operating and financial review of Infineon Technologies AG and of the Infineon group.
We have also checked these documents ourselves.

The reports by KPMG on the audit of the annual accounts and the consolidated financial statements were presented to all the members of the Supervisory Board and dealt with in detail at the meeting of the Investment, Finance and Audit Committee on November 6, 2003, and subsequently during our balance-sheet meeting on November 19, 2003 in the presence of the auditors. At this meeting the Management Board reported in detail on the scope, the main points and the costs of the audit of annual accounts. We found no ground for objection and agree with the results of the audit. In this regard, the Supervisory Board has approved the financial statements prepared by the Management Board and they are therefore to be regarded as final.

The Supervisory Board would like to express its thanks to the Management Board and all the Infineon employees for their efforts and their performance in the fiscal year 2003. The Supervisory Board would also like to thank the Works Councils for their constructive participation.

Munich, November 2003

Signed on behalf of the Supervisory Board

Max Dietrich Kley
Chairman of the Supervisory Board

Corporate Governance

Our holistic approach

- **Corporate Governance – our holistic approach**
- **Infineon Code tailored to our particular business environment**
- **Holistic concept designed to implement our corporate goals and embrace all corporate processes**
- **Corporate Governance Manager reports directly to the Management Board and Supervisory Board**

Corporate Governance means accepted standards of good and responsible corporate leadership. Our Corporate Governance system extends to the entire company and is oriented towards our corporate strategy: Infineon develops, manufactures and sells the most advanced semiconductor solutions, offers effective semiconductor services and leads the industry in innovation and customer orientation. Our top priority is to orient our operations to the needs of our customers in order to achieve added value, which benefits not only our customers, but also our shareholders and employees.

The Management Board and Supervisory Board of Infineon look upon Corporate Governance as a holistic approach, which encompasses all corporate values, processes and goals in the service of our corporate mission. Corporate Governance embraces standards of internal controlling, which are designed to uphold our "Business Conduct Guidelines" and support implementation of the organizational and supervisory duties incumbent on our company. We have appointed a Corporate Governance Manager who reports directly to the Management Board and Supervisory Board. A core element in our concept is the Infineon Corporate Governance Code, which has been specifically keyed to the requirements of the business environment in which we operate.

It is upon this basis that we intend to achieve the goals which we have set ourselves – and to be numbered among those companies with the finest Corporate Governance.

Infineon maintains high standards
Infineon has adopted almost all of the recommendations and suggestions put forward by the government commission appointed to establish a "German Corporate Governance Code". In addition, we also comply with the standards contained in U.S. capital market regulations. As an example, with regard to our Directors & Officers insurance, the members of the Management Board have agreed to a self-insured retention equal to 25% and the members of the Supervisory Board, to a retention equal to 100% of their respective fixed annual remuneration.

Over and beyond the provisions of the "German Corporate Governance Code", Infineon has set itself additional targets for corporate management and supervision:

- We shall continue to provide shareholders and the general public with comprehensive and open information concerning the company.
- We intend to support shareholders as far as is possible in the exercise of their rights.

For example, shareholders can register for our Annual General Meeting online, participate in voting via the Internet, or follow the general debate electronically.

■ We shall further intensify cooperation between the Management Board and Supervisory Board. We are convinced that the German system of separating corporate management and control constitutes the best basis for good Corporate Governance. However, the achievement of our goals is dependent upon mutual trust and cooperation between the Management and Supervisory Boards. For this reason we shall continue to promote a positive climate of mutual respect and open dialog.

■ The creation of added value for our customers is dependent on competent and committed employees. The Management and Supervisory Boards therefore regard it as their joint duty to attract and retain the most talented workforce.

Ongoing evaluation of guidelines

Our Management Board, Supervisory Board and senior managers are responsible for ensuring that our rules of Corporate Governance are actively implemented throughout the company. Furthermore, these rules are subject to regular review and refinement. Thus in July 2003 we evaluated the amendments made by the government commission to the German code. After thorough consideration we have resolved not to adopt all of these changes at Infineon on the grounds that some are not appropriate to the company. We shall for example dispense with an individualized statement of remunerations paid to the Management and Supervisory Boards. Pursuant to the mandatory provisions of German stock corporation law, the Management Board as a whole is responsible for the productive management of the company. Likewise under the rules of procedure laid down for the Infineon Management Board, all members are required to manage the company jointly. All decisions of significance must be taken by the Board as a whole and require unanimity. Therefore at Infineon we specify the total remuneration paid to the Management Board, broken down into fixed salaries, performance-related components and share options, so that every shareholder can clearly see how the performance of the Board impacts upon its income. We do not believe that the information benefit to be gained from an individualized statement would be sufficient to justify this invasion of the privacy of Management Board members. Nor shall we individually report the remuneration paid to members of the Supervisory Board. The same grounds apply here as for the Management Board. Moreover, by law it is the shareholders who determine the remuneration of the Supervisory Board; they have resolved at the Annual General Meeting upon the remuneration provisions contained in §11 of our Statutes. These Statutes are available on the Internet at www.infineon.com under the heading "Company Information".

Naturally we keep our shareholders informed of the structure of Management Board remuneration. The overall income of Management Board members is composed of an annual target income (payable in cash), share options and income-equivalent ancillary benefits.

The annual target income is composed as follows

- 40% is represented by a fixed annual salary payable in monthly installments net of statutory deductions;

- 60% is a variable, performance-related component which takes the form of an annual bonus. In fiscal year 2003, the annual bonus was linked to the achieved economic value added (which we define as the operating result after taxes less capital costs) within a specified potential range. The annual bonus is paid after the end of the financial year.

As a variable component of their remuneration, which combines both long-term incentive and risk, members of the Management Board are granted options on Infineon Technologies AG shares deriving from the 2001 share option plan.

They also receive ancillary benefits such as, for example, retirement pensions and provisions for surviving dependants, continued remuneration in the event of sickness and a company car that may also be used for private purposes.

Pursuant to our rules of procedure, the Management Board remuneration structure will in future continue to be deliberated and resolved upon by the Presidential Committee of the Supervisory Board, as it is this Committee that concerns itself in detail with the performance of Management Board members and evaluates the same. Following intensive discussion, the Supervisory Board in full session was of the opinion that this assignment remains correct. A component part of the remuneration paid to our senior managers is constituted by our 2001 share option plan. This, too, is available for inspection on the Internet at www.infineon.com, together with an illustration of its basic features. This plan allows for shares to be issued to senior managers and employees in key positions. This is a necessary instrument that will enable us now and in the future to attract and retain the talented staff we need. It is they who help safeguard our success in an intensely competitive, technology-driven environment. At the 2001 Annual General Meeting, as a condition for the exercise of these options our shareholders determined that the share price must rise by a minimum of 5% during the option term. Given that our competitors often neglect to set any minimum performance requirement or even issue options at a price below that at which their stock is currently trading, we consider our share option plan to be demanding, as it is linked to comparative parameters that are relevant to us.

Information on the Infineon Corporate Governance system is available on the Internet at www.infineon.com and will be furnished at the Annual General Meeting on January 20, 2004.

Declaration of Compliance 2003 pursuant to § 161 of the German Stock Corporation Law

"Since making its last Declaration pursuant to §161 of the German Stock Corporation Law, Infineon Technologies AG has complied with all recommendations of the 'Government Commission German Corporate Governance Code' (in the version of November 7, 2002). Infineon complies with all recommendations of the 'Government Commission German Corporate Governance Code' (in the version of May 21, 2003) with the following exceptions:

- We do not publish an individualized statement of Management Board remuneration (Figure 4.2.4).

- Nor do we individually report the remuneration paid to members of the Supervisory Board (Figure 5.4.5).

- The structure of the Management Board remuneration system (Figure 4.2.2) is deliberated and resolved upon by the General Committee of the Supervisory Board."

Further information on Corporate Governance in the activities of the Supervisory Board and its Committees is contained in the Report of the Supervisory Board, which forms part of the Annual Report. Our system of risk management is described under the heading of "Risks and Opportunities". A detailed description of our rules of consolidated accounting is contained in the Notes to the Consolidated Financial Statements (see Page 94 "Financial Review").

Operating and Financial Review

Disclaimer

This discussion of our consolidated financial condition and result of operations should be read in conjunction with our audited consolidated financial statements and other financial information included elsewhere in this annual report.

Our audited consolidated financial statements have been prepared on the basis of a number of assumptions more fully explained in Notes 1 (Description of Business, Formation and Basis of Presentation) and 2 (Summary of Significant Accounting Policies) to our audited consolidated financial statements appearing elsewhere in this annual report.

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

Our results of operations, related segment financial information, and disclosures for the 2001, 2002 and 2003 financial years have been reclassified to give effect to the following matters in order to be consistent with our revised reporting structure and presentation, and to facilitate analysis of current and future financial information.

- We merged the activities of our Wireless Solutions and Security & Chipcard ICs segments into one operating segment called Secure Mobile Solutions and started to report it as such with effect from October 1, 2002.

- Pursuant to an agreement reached between us and OSRAM GmbH ("OSRAM"), we transitioned all of our opto-electronic activities, previously reported as part of the other operating segments, to OSRAM as of March 31, 2003. The results of operations of the opto-electronics business are therefore presented as a discontinued operation pursuant to the provisions of Statement of Financial Accounting Standards 144, "Accounting for the Impairment or Disposal of Long-Lived Assets", whereby effectively all sales and related costs and taxes for the operation are removed and instead presented on a separate line in the consolidated statement of operations.

- We define EBIT as net income (loss) from continuing operations before interest and taxes. We previously excluded minority interest from EBIT, however all EBIT figures presented have been revised to reflect that change. Our management uses EBIT among other measures to establish budgets and operational goals, to manage our business, and to evaluate performance. We report EBIT information because we believe that it provides investors with meaningful information about our operating performance, and especially about the performance of our separate business segments.

This operating and financial review contains forward-looking statements. Statements that are not statements of historical fact, including expressions of our beliefs and expectations, are forward-looking in nature and are based on current plans, estimates and projections. Forward-looking statements are applicable only as of the date they are made,

and we undertake no obligation to update any of them in the light of new information or future events. Forward-looking statements involve inherent risks and uncertainties. We caution you that a number of important factors could cause actual results or outcomes to differ materially from those expressed in any forward-looking statement. These factors include those identified under the heading "Risks Factors" and other factors to be found elsewhere in this annual report.

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

We design, develop, manufacture and market a broad range of semiconductors and complete systems solutions used in a wide variety of microelectronic applications, including computer systems, telecommunications systems, consumer goods, automotive products, industrial automation and control systems, and chip card applications. Our products include standard commodity components, full-custom devices, semi-custom devices, and application-specific components for memory, analog, digital and mixed-signal applications. We have operations, investments, and customers located mainly in Europe, Asia and North America. Our financial year-end is September 30.

Our business is organized primarily into four main operating segments that serve various markets in the semiconductor industry:

- The Wireline Communications segment designs, develops, manufactures and markets semiconductors and fiber-optic components for the communications access, WAN (Wide Area Network), MAN (Metropolitan Area Network) and Carrier Access (both Broadband and traditional Access) sectors of the wireline communications market.

- The Secure Mobile Solutions segment designs, develops, manufactures and markets a wide range of wireless applications, security controllers, memory controllers and other semiconductors and complete system solutions for security and wireless applications.

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

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

Overview

Initial Recovery of the World Economy

The first half of the 2003 financial year saw unfavorable conditions in the semiconductor markets, reflecting continuing weakness in the world economy, political uncertainty over the situation in Iraq, and worldwide concern over the outbreak of the SARS (Severe Acute Respiratory Syndrome) virus, particularly in Asia. During the second half of our 2003 financial year, the US economy demonstrated signs of renewed growth. In addition, Asian Pacific economies, especially China, increased their growth rates after earlier weakness. The Japanese economy has also exhibited some signs of improvement after a 10-year recession. In the light of the strong euro and weak domestic demand, economic conditions in Europe continue to be difficult, though some European economies have shown slight improvement.

In September 2003, the International Monetary Fund (IMF) projected worldwide economic growth of 2.3 percent for the 2003 calendar year, compared to 1.9 percent for the 2002 calendar year. For the 2004 calendar year, the IMF projects a worldwide growth rate of 3.2 percent. We believe that this growth rate, if achieved, may provide a positive stimulus for the semiconductor market.

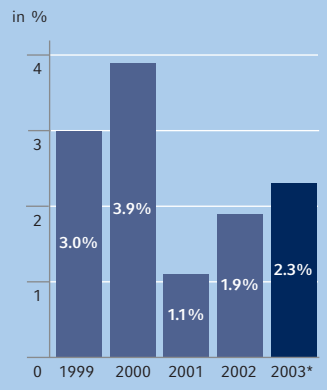
Semiconductor Market Shows Signs of Improvement

According to WSTS (World Semiconductor Trade Statistics), the semiconductor market grew by 1.3 percent in 2002. We view 2003 as a transition period from moderate growth rates to anticipated higher growth rates in 2004. In October 2003, WSTS predicted a growth rate of 14.2 percent for the semiconductor market during the 2003 calendar year. Their analysis indicates that both non-memory products (logic chips, analog, discrete and optical components) as well as memory products (DRAMs, SRAMs and non-volatile memory such as flash memory) are expected to contribute to this improvement. Sales of non-memory products, which represent 80 percent of the total semiconductor market, are projected by WSTS to increase by 13.5 percent compared to the 2002 calendar year, and memory product sales are expected to grow at an even higher rate of 17.4 percent. For calendar year 2004, WSTS predicts an even stronger growth rate of 19.4 percent for the worldwide semiconductor market.

Key Developments during the 2003 Financial Year

In 2003, the semiconductor market environment in which we operate improved compared to the substantial downturn of 2001 and 2002. However, the industry continued to be characterized by unfavorable global economic conditions, lackluster yet improving demand, and marginal technology spending. As a result of the improvement in both demand and the pricing environment, especially in memory products, we achieved profitability in the fourth quarter of the 2003 financial year. The following are the key developments in the 2003 financial year:

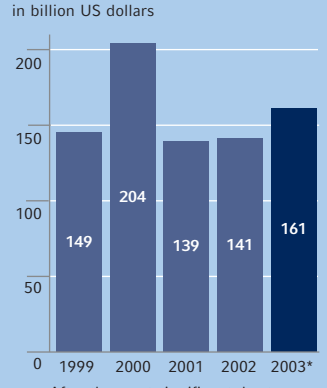
World economic growth



The growing world economy has positive influence on Semiconductor market growth.

Status: September 2003
* estimated
Source: International Monetary Fund

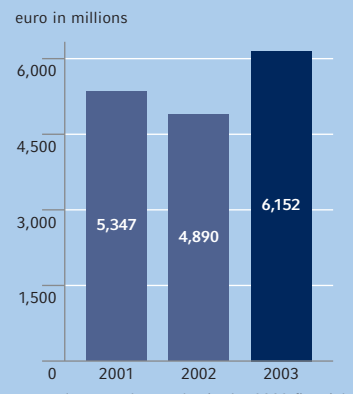
Development of the semiconductor market



After the most significant dowturn of the semiconductor market in 2001, 2003 shows a clear recovery.

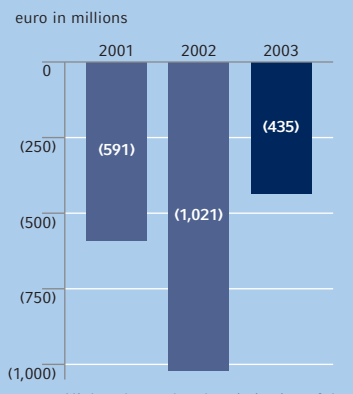
Status: October 2003
* estimated
Source: WSTS

Net sales



Increased net sales in the 2003 finacial year and gained market share in the first half of the 2003 calendar year.

Net loss



Higher demand and optimization of the cost structure resulted in significantly improved financial result.

- Revenues and EBIT improvement – profitability achieved in fourth quarter
- Improved market share
- Significantly improved liquidity
- Continuing improvement through our Impact and ACT programs
- Continued R&D investments and commitment to strategic R&D partnerships
- Acquisition of SensoNor improves Automotive & Industrial product portfolio
- Developments in alliances support growth strategy
- Ongoing improvements in production

Revenues and EBIT improvement – profitability achieved in fourth quarter

We experienced difficult market conditions for a majority of the 2003 financial year, resulting in our net loss of €435 million for the year. However, improvement in both demand and pricing in the latter half of the year coupled with an improvement in our manufacturing cost profile resulted in achieving profitability in the fourth quarter. Our key financial performance indicators for the 2003 financial year were:

- We recorded total revenues of €6,152 million, which represents an increase of 26 percent from the €4,890 million in revenues posted in the 2002 financial year.
- Our net loss after taxes declined by €586 million to €435 million, compared to a net loss of €1,021 million in the 2002 financial year.
- We reduced our basic and fully-diluted loss per share by €0.87 to €0.60, compared to a loss of €1.47 per share in the 2002 financial year.
- EBIT improved substantially by €836 million to a loss of €299 million, compared to an EBIT loss of €1,135 million in the 2002 financial year.
- Cash flows generated by operating activities from continuing operations improved by €505 million to €731 million, compared to €226 million in the 2002 financial year.

Our financial performance is discussed in detail under the section "Results of Operations".

Improved market share

In the first half of the 2003 calendar year, we continued to improve our market share of the worldwide semiconductor industry to 4.0 percent, compared to 3.4 percent in the comparable prior period, according to iSuppli, a market research institution. According to iSuppli, we increased our DRAM market share to 17 percent in the first half of the 2003 calender year, up from 13 percent in the first half of the 2002 calendar year. We also maintained our third-place ranking among DRAM manufacturers worldwide.

Significantly improved liquidity

We substantially improved our liquidity in the 2003 financial year, through certain financing transactions and significantly higher operating cash flow. Cash flows generated by operating activities from continuing operations in the 2003 financial year increased to €731 million from €226 million in the 2002 financial year, reflecting the improved operating results and working capital management. In June 2003, we issued a convertible bond and received net proceeds of €686 million, with which we plan to support our long-term business strategy.

Continuing improvement through our Impact and ACT programs

In July 2001, we launched an extensive cost-reduction program called Impact as our response to the substantial market downturn in the semiconductor industry. We achieved cash savings and derived operational benefits from reduced capital expenditures, streamlined purchasing processes, reduction in employee headcount, and other cost reductions. In the 2002 financial year, we also initiated a process optimization drive called Impact², which is intended to improve the efficiency of current processes and structures.

Through our act program we are continuing our efforts to improve our processes, and to complement the effects thereof through outsourcing and transferring certain functions, both internally and externally. In 2003, we centralized most of our European accounting processes in Portugal. In addition, we outsourced our information technology support function to an external provider. Through more streamlined operations and improved processes, we expect to be able to react faster to changes in the markets we serve and to focus our resources on our key competencies. Additionally, we aim for further optimization through decentralization. In this context, we have started to relocate parts of our Automotive & Industrial segment to Villach, Austria, where other parts of this business are already conducted. We are also expanding our regional presence in the USA and in Asia. We aim to improve our performance through decentralized decision making and closer proximity to our customers.

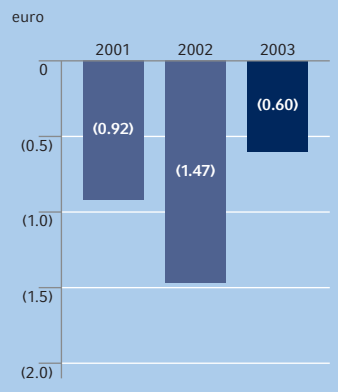
Continued R&D investments and commitment to strategic R&D partnerships

Research & Development (R&D) expenses totaled €1,089 million in the 2003 financial year, compared to €1,060 million in the prior year. These amounts include acquired in-process R&D charges of €6 million in the 2003 financial year, and €37 million in the 2002 financial year. As part of our Impact initiative, our R&D efforts were refocused primarily towards developing new innovative products in our core business segments and target markets. Major milestones achieved during the 2003 financial year included the development of:

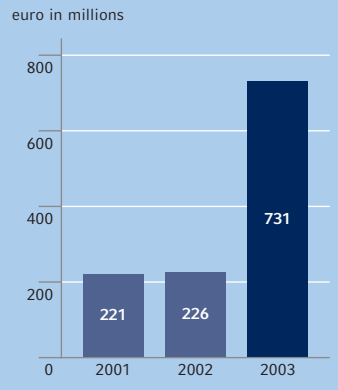
- A family of Security Chipcard Microcontrollers with an advanced memory architecture and innovative "Flip Chip on Substrate" packaging technology.

- Next generation ADSL2+ and VDSL chips for Broadband Access applications.

Loss per share



Operative Cash Flow



Working capital management and improved financial result increased operative cash flow significantly.

- Customized platform solutions for wireless terminals, GSM/GPRS and 3G standards as well as RF components for wireless infrastructure.

- High-speed DDR 400 memory modules with densities of 128MB, 256MB and 512MB, validated by Intel.

- Smallest 1-Gbit DDR in 0.11-micron technology, which is already validated by Intel.

- First DDR-2 (512Mbit) engineering samples booted on Intel "Lindenhurst" platform and shipped to customer and enabler.

We also continued to make significant investments in process technologies for semiconductor manufacturing, as well as for the improvement of libraries, tools, software, and methodologies that help us to maintain leading-edge product development capabilities.

The majority of our approximately 5,900 R&D employees are directly involved in developing products within our four segments. A central development group conducts those R&D projects that are of strategic importance to us, with the results applied across all segments. In addition, we have a central research department dedicated to exploring future technologies.

In the 2003 financial year, our research team received awards for their work in the fields of neural tissue sensor chips, electronics integrated into apparel and textiles, devices for ultra-dense data storage, and advanced architectures for multi-band and multi-standard cell phones.

We have intensified our commitment to establishing new strategic R&D partnerships with other leading semiconductor and technology companies. These agreements are designed to provide us with competitive advantages by enabling more effective development of new technologies, quicker time-to-market, and the sharing of risks and costs. For example, in the 2003 financial year, we started to develop next-generation DRAM technologies together with Nanya Technology Corporation, Taiwan ("Nanya"). We also finalized a joint development agreement with IBM and Chartered Semiconductor Manufacturing to accelerate the transition to 65-nanometer process technology. This multi-year project closely aligns our low-power silicon expertise with IBM's leading process technology and Chartered's efforts to drive a common foundry process platform throughout the next technology generations.

Acquisition of SensoNor improves Automotive & Industrial product portfolio

In June 2003, we acquired SensoNor AS ("SensoNor"), for a total cash consideration of €34 million. In addition, we contributed capital of €13 million in connection with the consummation of the transaction. SensoNor, which was previously a publicly-listed company in Norway, develops, produces and markets tire-pressure and acceleration sensors. With this acquisition, we aim to strengthen our position in semiconductor sensors for the automotive business.

Developments in alliances support growth strategy

■ CSVC – We are establishing a venture with China-Singapore Suzhou Industrial Park Venture Co. Ltd, ("CSVC"), Suzhou, China, to construct a back-end facility for the assembly and testing of memory ICs. The facility will be located in the Suzhou Industrial Park, near Shanghai. It will have an output capacity of up to one billion chips per year, and will be developed in a number of stages as dictated by growth and trends in the global semiconductor market. We plan to invest US$ 242 million over the next five years. It is anticipated that any further investment required to purchase additional equipment would be financed externally by the joint venture.

■ FMI – The German Federal Ministry of the Interior ("FMI") agreed in a "Memorandum of Understanding" with us on broad cooperation efforts in the field of Information Technology (IT) security. Our security cooperation aims to establish a sound technology basis for an enhanced security level in IT systems that are used in the civil service, in private companies, and in households.

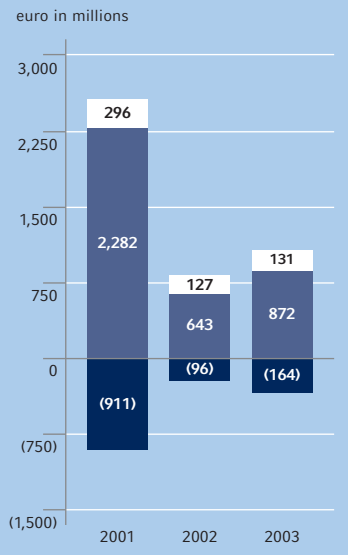
■ ProMOS – During the 2003 financial year, we withdrew from our ProMOS joint venture in Hsinchu, Taiwan, due to repeated material breach of contract by Mosel Vitelic, the other joint venture partner. From January 1, 2003, we stopped buying products from ProMOS. Due to cost and productivity improvements and other existing cooperative arrangements with Taiwanese partners, this withdrawal has not affected our overall DRAM market position.

■ SMIC – We agreed on a broad cooperative arrangement with Semiconductor Manufacturing International Corporation ("SMIC"), Shanghai, China, for the production of DRAM standard memory chips. We will make our DRAM trench technology and 300-millimeter production know-how available to SMIC. In return, SMIC will manufacture these products exclusively for Infineon. Through this cooperation, we expect to expand our overall capacity significantly and grow our DRAM business, and further strengthen our regional presence without additional investment in production facilities.

■ UEC – We agreed to establish a joint venture with United Epitaxy Company ("UEC"), Taiwan, for the development and manufacturing of fiber-optics components in Hsinchu, Taiwan. We will hold 56 percent of the shares of the joint venture, and UEC will hold the remainder. The total equity investment amounts to approximately €12 million, and will be made according to the shareholding ratio of the parent companies. Mass production is scheduled for the fourth quarter of the 2004 calendar year.

■ UMCi – We sold our interest in UMCi Pte Ltd ("UMCi"), Singapore, to United Microelectronics Corporation ("UMC"), Taiwan, which resulted in a pre-tax loss of €9 million in the fourth quarter of the 2003 financial year, mainly due to the adverse fluctuation in the US$/euro exchange rate after our investment was made. This move will allow us and UMC to concentrate on our broader manufacturing partnership, and give us a more flexible manufacturing approach that includes access to all of

Investments/divestitures*



Capital expenditures in property, plant and equipment are optimizing manufacturing and extend the technological advantage in 300-millimeter.

* excluding marketable securities
** including sale of Opto-JV

UMC's current Taiwanese facilities, and access to UMCi when its production capacity comes on line.

■ Winbond – We have extended the fab cluster concept to include fabrication sites of our Taiwanese partner Winbond Electronics Corporation ("Winbond"), Taiwan, with whom we have signed a technology licensing and capacity foundry agreement.

Ongoing improvements in production

At the start of the 2003 financial year, we again demonstrated the effectiveness of our cost- and capacity-variability measures (e.g. flexible DRAM vs. logic corridors, flexible workforce). As a result of the improved market conditions during 2003 compared to 2002, we were able to improve the capacity utilization in most of our production facilities. Through a shift from DRAM to logic ICs, and by extended silicon foundry utilization, we will have the ability to devote additional capacity to logic IC production in the event of a further market upswing.

We completed a number of key productivity projects during the 2003 calendar year that were designed to make us more competitive. We have successfully ramped up our high-performance process technology using structure sizes of 0.13 micron for logic products, allowing for up to eight layers of copper-metallization. We are now introducing a 90-nanometer process and have a technology roadmap over the next several years, for structure sizes down to 45 nanometer. Our process technologies benefit from many modular characteristics, including special low-power variants, analog options, and high-voltage capabilities. For memory process technology, we are currently ramping the 0.11-micron process technology for DRAM products. In addition, early in the 2003 financial year we reached the cost cross-over point for our 300-millimeter production compared to the cost in our existing 200-millimeter fabs.

Results of Operations

The table below sets forth information about our total net sales by segment and geographic region, as well as EBIT by segment (euro in million, except percentages):

Net sales by segment

	For the year ended September 30[1]					
	2001		2002		2003	
		%		%		%
Wireline Communications	766	14	386	8	459	7
Secure Mobile Solutions	1,522	29	1,278	26	1,645	27
Automotive & Industrial	1,153	22	1,201	25	1,392	23
Memory Products	1,614	30	1,861	38	2,485	40
Other Operating Segments	236	4	117	2	139	2
Corporate and Reconciliation	56	1	47	1	32	1
Total	5,347	100	4,890	100	6,152	100

Net sales by geographic region

	For the year ended September 30[1]					
	2001		2002		2003	
		%		%		%
Germany	1,636	31	1,266	26	1,535	25
Other Europe	1,172	22	943	19	1,112	18
North America	1,208	23	1,158	24	1,393	23
Asia/Pacific	1,247	23	1,446	29	2,077	34
Other	84	1	77	2	35	1
Total	5,437	100	4,890	100	6,152	100

EBIT

	For the year ended September 30[1]		
	2001	2002	2003
Wireline Communications	(93)	(245)	(188)
Secure Mobile Solutions	(142)	(116)	(64)
Automotive & Industrial	143	111	186
Memory Products	(938)	(630)	31
Other Operating Segments	192	9	(49)
Corporate and Reconciliation	(180)	(264)	(215)
Total	(1,018)	(1,135)	(299)

Notes

1 Columns may not add up due to rounding.

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

EBIT

(euro in millions)	For the year ended September 30		
	2001	2002	2003
Net loss from continuing operations	(592)	(1,017)	(435)
Add: Income tax (benefit) expense	(427)	(143)	84
Interest expense, net	1	25	52
EBIT	(1,018)	(1,135)	(299)

The following table presents the various individual results within the consolidated statements of operations expressed as percentages of sales.

Results of Operations in Percent

	For the year ended September 30[1]		
	2001	2002	2003
	%	%	%
Net sales	100.0	100.0	100.0
Cost of goods sold	(85.7)	(87.7)	(75.0)
Gross profit	14.3	12.3	25.0
Research and development expenses	(22.2)	(21.7)	(17.7)
Selling, general and administrative expenses	(14.6)	(13.1)	(11.0)
Restructuring charges	(2.2)	(0.3)	(0.5)
Other operating (income) expense, net	3.7	0.9	(1,4)
Operating loss	(21.0)	(21.9)	(5.6)
Interest expense, net,	0.0	(0.5)	(0.8)
Equity in earnings (losses) of associated companies	0.4	(1.0)	0.3
Gain (loss) on associated company share issuance	0.2	0.4	(0.0)
Other non-operating income (expense), net	1.2	(0.8)	0.3
Minority interests	0.1	0.1	0.1
Loss before income taxes	(19.1)	(23.7)	(5.7)
Income tax benefit (expense/loss)	8.0	2.9	(1.4)
Net loss	(11.1)	(20.9)	(7.1)

Notes

1 Columns may not add up due to rounding.

2003 Financial Year compared with 2002 Financial Year

Overall

We significantly increased sales in a difficult but improving market environment. This was achieved primarily through increased sales activity in the United States and Asia-Pacific ("APAC") regions, improved demand and pricing, especially in memory products, as well as continued growth in the Automotive & Industrial segment.

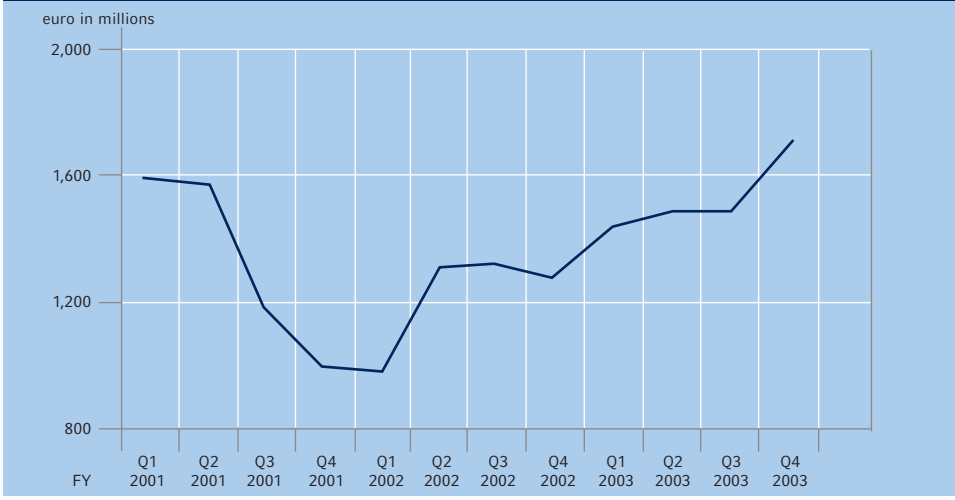
These improvements were partially offset by the strengthening of the euro against other major currencies in our primary export markets during the 2003 financial year.

Our operating results improved significantly as we continued to reduce our production costs, especially in memory products, due to increased productivity and the benefits of 300-millimeter volume production, and improved product mix towards higher-margin products.

Net Sales

Net sales increased by 26% to €6,152 million from €4,890 million in the 2002 financial year. The revenue increase was mainly driven by higher demand for memory products and semiconductors used in mobile phones, as well as the continued strong performance of the Automotive & Industrial segment. Acquisitions (net of divestitures) since the beginning of the prior year had the effect of increasing revenues by €7 million in the 2002 financial year and by €129 million in the 2003 financial year.

Quarterly sales



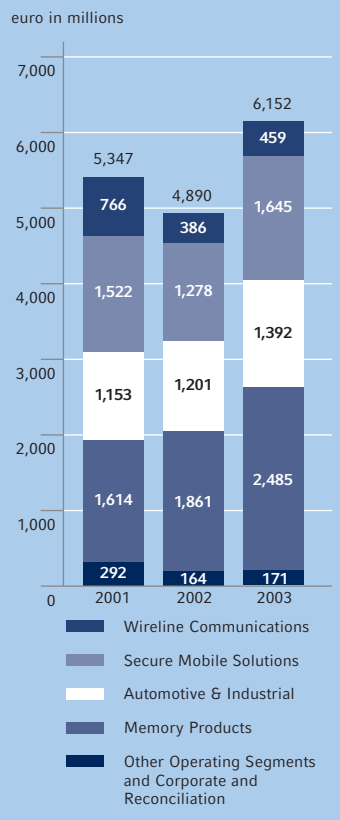
Sales increased sequential quarterly during financial year 2003 and peaked in the fourth quarter.

Memory Products continued to be our largest segment, representing 40 percent of total net sales for the 2003 financial year, compared to 38 percent in the prior year. Foreign currency fluctuations relative to the euro (primarily US$) had the effect of decreasing sales in the 2003 financial year by approximately €317 million compared to what they would have been utilizing the average exchange rates in effect during the 2002 financial year. We recognized license income of €183 million in the 2003 financial year, compared to €147 million in the 2002 financial year, primarily in the Memory Products segment.

The following section describes the net sales of our main business segments during the 2003 financial year, compared to the 2002 financial year:

- Wireline Communications – Total net sales of our Wireline Communications segment increased by 19 percent to €459 million in the 2003 financial year from

Net sales by segment



Higher demand for memory chips and chips for mobile phones resulted in increased net sales in financial year 2003.

€386 million in the 2002 financial year. The sales increase was driven by improved sales volumes of products for the telecommunications access market, due to higher demand, especially in developing countries. This more than offset the effect of lower prices compared to the prior year. Continuing low infrastructure investments by global telecommunications carriers negatively affected the market for fiber-optics and optical networking products during the year, although we experienced increased demand, especially for fiber-optic products, in the fourth quarter.

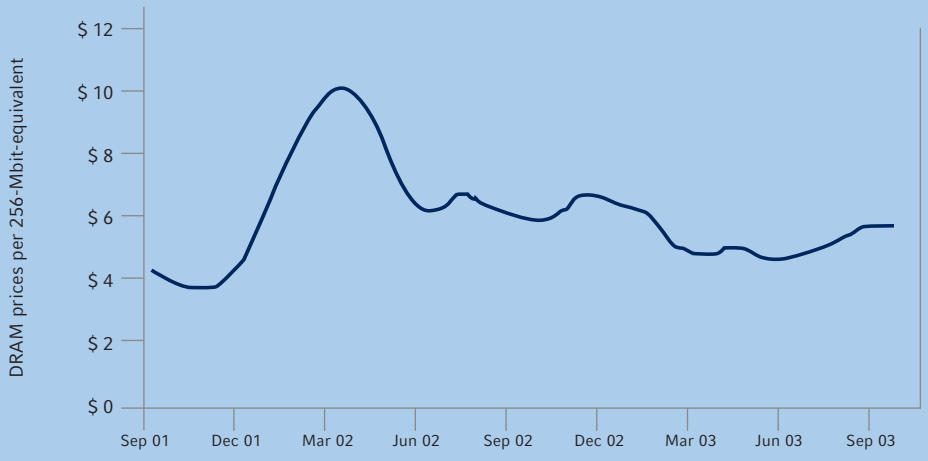
■ Secure Mobile Solutions – Net sales of our Secure Mobile Solutions segment increased by 29 percent to €1,645 million in the 2003 financial year from €1,278 million in the 2002 financial year. Sales increased significantly compared to the prior year mainly due to higher volume sales of baseband and radiofrequency products as well as mobile phone related products.
We experienced ongoing price pressure in the markets for Chipcard ICs and discrete components throughout the 2003 financial year. The inclusion of a full year of revenues from the Ericsson Microelectronics ("MIC") business, acquired in September 2002, and increased sales of security solutions and Local Area Wireless applications, particularly Bluetooth, also contributed to the increase in revenues. Sales in the fourth quarter also benefited from a seasonal increase in demand, in particular for wide area wireless products.

■ Automotive & Industrial – Net sales of our Automotive & Industrial segment increased by 16 percent to €1,392 million in the 2003 financial year from €1,201 million in the 2002 financial year. The revenue increase resulted principally from stronger volume sales of automotive power applications and power management & supply products.

■ Memory Products – Net sales of the Memory Products segment increased by 34 percent to €2,485 million in the 2003 financial year from €1,861 million in the 2002 financial year. The increase in sales was principally due to higher volumes and improved product mix, which more than offset the effect of lower average selling prices, including the impact of an unfavorable US$/euro exchange rate. Sales volumes also benefited from the ramp-up of our Dresden 300-millimeter facility, and from access to additional capacity made available through our recently established cooperation with Winbond, which offset the reduced volume of products we purchased from ProMOS.

Overall megabit volume substantially increased during the 2003 financial year, as a result of increasing market demand for personal computers and system memory, significantly increased production of 256-Mbit DDR DRAM chips, and the start of volume production of 512-Mbit DRAM chips.

DRAM price development



Source: WSTS

The price of DDR memory ICs dropped during the second quarter of the 2003 financial year but rose again during the fourth quarter. Price differentials between 128-Mbit and 256-Mbit ICs as well as contract and spot market prices fluctuated throughout the year, although the price differential between SDRAM and DDR DRAM narrowed during the year as many DRAM manufacturers increased their DDR DRAM production. We are continuing to optimize our product mix to take advantage of these market price differentials, and intend to increase our focus on producing high-end products and diversifying our product portfolio. Our average per-megabit selling prices, excluding the effects of currency fluctuations, declined by approximately 12 percent in the 2003 financial year, mainly due to increased bit volumes.

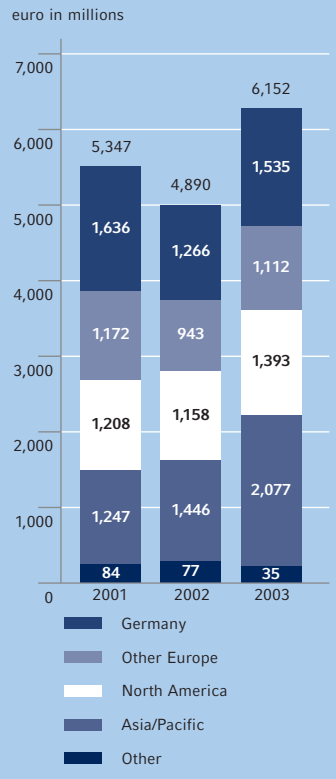
■ Other Operating Segments – Net sales of our Other Operating Segments increased by 19 percent to €139 million in the 2003 financial year from €117 million in the 2002 financial year, primarily reflecting the addition of revenues from our recently established ASIC & Design (ADS) solutions business.

Net Sales by Region and Customer

On a regional basis, sales in Europe represented 43 percent of total sales in the 2003 financial year, compared to 45 percent in the prior year. Sales outside Europe increased from 55 percent in the 2002 financial year to 57 percent, reflecting increased market penetration in Asia, including Japan.

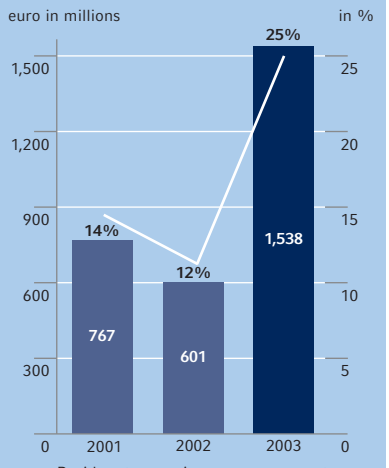
Only one customer, the Siemens group, accounted for more than 10 percent of our

Net sales by region



By strengthened engagement in Asia/Pacific we achieved the highest net sales growth in this region.

Gross margin absolutely and as percentage of sales



Besides strong price pressure, except for Memory Products, the gross margin increased significantly through improved cost structure.

net sales in each of the 2002 and 2003 financial years. These sales comprise both direct sales to the Siemens Group, which accounted for 12 and 13 percent of net sales, respectively, and sales designated for resale to third parties, which accounted for 2 and 1 percent of net sales for the 2002 and 2003 financial years, respectively. Sales to the Siemens group are made primarily by our non-memory product segments.

Cost of Goods Sold – Gross Margin

Cost of goods sold increased by 8 percent to €4,614 million from €4,289 million in the 2002 financial year.

Cost of goods sold as a percentage of net sales decreased to 75 percent from 88 percent in the 2002 financial year. This improvement is attributable to a variety of factors, including improved integration and lower idle-capacity costs across most of our segments, a substantially improved cost position in our memory products segment, and a better overall pricing environment than in the 2002 financial year. Although pricing improvement experienced in the first quarter reversed in the second quarter, principally due to a price decline in memory products, margins improved in all segments during the second half of the 2003 financial year. Price pressure negatively impacted margins in all of our segments during most of the 2003 financial year, except in the fourth quarter, when semiconductor market conditions generally improved, particularly for memory products.

The gross margin development in our segments was as follows:

- Wireline Communications – Gross margin improved compared to the 2002 financial year, mainly due to increased volumes of higher-margin access products and improved margin in fiber-optics. Productivity gains and reduced idle-capacity costs also contributed to the major improvement in the 2003 financial year.

- Secure Mobile Solutions – Gross margin improved compared to the 2002 financial year, particularly in the second half of the 2003 financial year, mainly as a result of improved demand for wireless products. A change in product mix to higher-margin wireless products and reduced idle-capacity costs offset the effect of continuing price pressure.

- Automotive & Industrial – Gross margins improved compared to the 2002 financial year, as a result of increased productivity and cost reductions attributable to the ongoing conversion from 5-inch to 6-inch and 8-inch wafer manufacturing. Higher sales volumes and increased capacity utilization contributed to improved efficiencies and higher margins.

- Memory Products – Gross margin improved in the 2003 financial year, mainly due to significantly improved productivity and reduced manufacturing costs related to 300-millimeter production efficiencies and the introduction of higher margin products. These more than offset the effects of lower average selling prices compared to the prior year.

We report as cost of goods sold the cost of inventory purchased from our joint ventures

and other associated and related companies such as ALTIS Semiconductor, and through January 1, 2003, ProMOS. Our purchases from these affiliated entities amounted to €470 million in the 2003 financial year and €686 million in the 2002 financial year.

Research and Development (R&D) Expenses

R&D increased by 3 percent to €1,089 million from €1,060 million in the 2002 financial year. R&D expenses mainly consist of costs for human resources, licensing fees, laboratory facilities and software, as well as our joint technology development arrangments with partners such as Nanya and UMC. In-process research and development charges amounted to €6 million in the 2003 financial year, compared to €37 million in the 2002 financial year. Government subsidies for our R&D activities were €59 million in the 2003 financial year and €59 million in the previous year. We continue to focus our investments in the development of leading-edge manufacturing technologies with high growth potential, particularly in our secure mobile solutions and memory products segments. As a percentage of net sales, R&D expenses were 18 percent in 2003, compared to 22 percent in 2002.

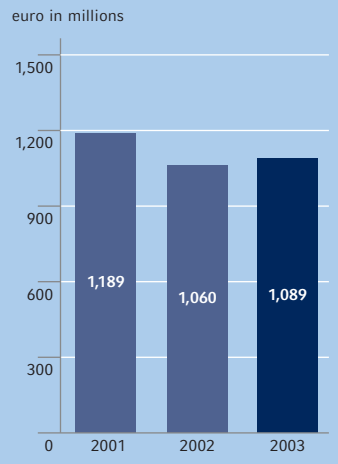
■ Wireline Communications – R&D expenses decreased in absolute terms and relative to sales, due to lower amortization expenses relating mainly to our Catamaran acquisition, and reduced spending for access product lines in accordance with our Impact cost-reduction program.

■ Secure Mobile Solutions – R&D expenses increased in absolute terms as we consolidated the acquired MIC business for a full year, and increased our focus on software and solutions activities. This effect was reduced by the €37 million in-process R&D charge recognized in the 2002 financial year, which did not reoccur. R&D decreased as a percentage of sales in the 2003 financial year, as sales increased at a greater rate than R&D.

■ Automotive and Industrial – R&D expenses increased in both absolute terms and in relation to sales, as a result of increased R&D spending in the fields of sensors and automotive applications. We expensed in-process R&D of €4 million in connection with the SensoNor acquisition.

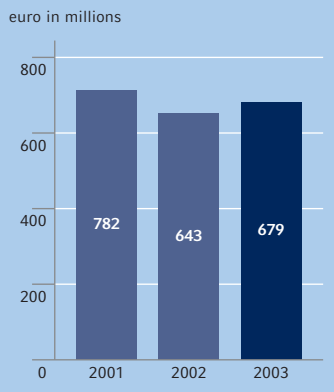
■ Memory Products – R&D expenses decreased in both absolute terms and as a percentage of sales, demonstrating the benefits from the joint development of DRAM technologies with Nanya. This reduction was offset in part by increased development expenditure for commodity DRAM and flash technologies.

Research and development expenses



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

SG&A expenses



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

Selling, General and Administrative (SG&A) Expenses

SG&A expenses comprise both selling expenses and general administrative expenses. The balance of SG&A expenses in each year comprises overhead, personnel, advisors' fees, and other administrative expenses. SG&A expenses increased by 6 percent to €679 million in the 2003 financial year, compared to €643 million in the 2002 financial year. SG&A expenses declined to 11 percent of sales in the 2003 financial year compared to 13 percent in the previous year, mainly due to the increase in sales compared to the prior year.

Selling expenses increased 5 percent to €358 million, or 6 percent of sales, from €341 million, or 7 percent of sales, in the 2002 financial year. Selling expenses increased due to the effect of the full year consolidation of the acquired MIC business in Secure Mobile Solutions and higher volume business for memory products, partially offset by sales and marketing cost-reduction programs in Wireline Communications and Secure Mobile Solutions. General and administrative (G&A) expenses increased 6 percent to €321 million, or 5 percent of sales, from €302 million, or 6 percent of sales, in the 2002 financial year. This increase is mainly attributable to higher corporate Information Technology (IT) expenditures, professional fees, and expenses associated with expanding our presence in the US and Asia, and was partially offset by savings from our Impact cost-reduction programs. The full year consolidation of the acquired MIC business increased the general and administrative expenses of our Secure Mobile Solutions segment. Expanded business activities of our Memory Products, Automotive & Industrial and Secure Mobile Solutions segments resulted in higher general and administrative expenses compared to the prior year. General and administrative expenses in our Wireline Communication segment decreased, principally as a result of reduced headcount and other cost-reduction efforts.

Restructuring

In the 2003 financial year, we continued our restructuring and cost-saving efforts. In connection with these efforts, we recorded restructuring charges of €29 million, mainly for severance payments. In the 2002 financial year, we recorded restructuring expenses of €16 million, principally relating to non-cancelable commitments.

Other Operating Income (Expense), Net

Other operating expense, net, amounted to €85 million in the 2003 financial year, reflecting a goodwill impairment charge of €68 million related to our acquisition of Catamaran Communications and a provision of €28 million related to an investigation by the United States Department of Justice into possible antitrust violations in the DRAM industry and related civil lawsuits. In the 2002 financial year, other net operating income amounted to €46 million, which reflected the pre-tax gains of €39 million from the sale of the remaining part of the infrared components business, and €2 million from the sale of our gallium arsenide business.

Equity in Earnings (Losses) of Associated Companies

Equity in the earnings (losses) of associated companies is reflected primarily in the results of the Memory Products segment. Equity in the earnings of associated companies amounted to €18 million in the 2003 financial year, compared to losses of €47 million in the 2002 financial year. The improvement is mainly due to the improved operating performance of our ProMOS joint venture prior to our withdrawal during the 2003 financial year.

Other non-Operating Income (Expense), Net

Other non-operating income, net amounted to €21 million in the 2003 financial year, reflecting a €60 million gain on the sale of ProMOS shares, partially offset by impairment charges of €34 million related to certain investments, and a €9 million loss on our interest in UMCi. In the 2002 financial year, other non-operating expense, net amounted to €41 million, which reflected impairment charges related to certain investments.

Earnings Before Interest and Taxes (EBIT)

We recognized an EBIT loss of €299 million in the 2003 financial year, compared to an EBIT loss of €1,135 million in the 2002 financial year. This reflects the combined effect of the following:

- Wireline Communications – The EBIT improvement of €57 million was principally driven by improved sales volumes a better product mix, and higher margins in our fiber-optics business, as well as cost savings from restructuring and other cost-reduction efforts. EBIT for the 2003 financial year includes an impairment of €68 million related to the acquisition of Catamaran Communications.

- Secure Mobile Solutions – The EBIT loss decreased by €52 million due to significantly increased sales and improved margins and the benefits from cost-reduction efforts, which more than offset the full year consolidation effect of the acquired MIC business.

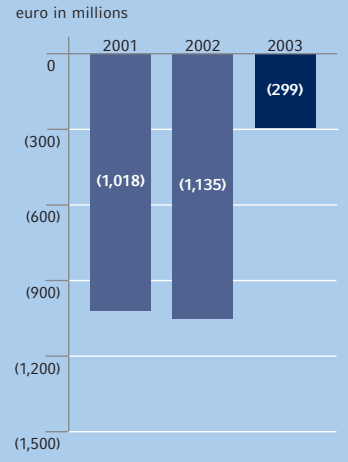
- Automotive & Industrial – The EBIT improvement of €75 million was mainly due to the higher sales volumes and improved manufacturing efficiency.

- Memory Products – The substantial EBIT improvement of €661 million and return to profitability was primarily due to increased sales volumes, a better product mix, productivity improvements and significantly reduced manufacturing costs.

- Other Operating Segments – EBIT decreased from earnings of €9 million for the 2002 financial year to a loss of €49 million for the 2003 financial year. The 2002 financial year included a gain on the sale of our infrared components business of €39 million. In addition, the 2003 financial year reflects expenditures associated with establishing our ASIC & Design (ADS) Solutions business.

- Corporate and Reconciliation – The EBIT loss decreased by €49 million principally reflecting reduced idle-capacity costs resulting from improved utilization. This

EBIT



Higher volumes and increased margins resulted in improved EBIT.

was partially offset by higher corporate restructuring and other unallocated charges.

Interest Expense, Net

We recorded net interest expense of €52 million in the 2003 financial year, compared to €25 million in the 2002 financial year. This increase was mainly due to a full year's interest on the convertible bond we issued in February 2002, and interest on the convertible bond we issued in June 2003. This was partially offset by additional interest we earned on our investment portfolio.

Income Taxes

We recorded an income tax expense of €84 million in the 2003 financial year, which represents an effective income tax rate of negative 25 percent. This compares with income tax benefits of €143 million in the 2002 financial year, representing an effective income tax rate of 12 percent. In the 2002 financial year we recorded an increase to the valuation allowance of €271 million, which limited the net tax benefit recognized. We increased a valuation allowance because we had incurred a cumulative loss in certain tax jurisdictions over the three-year period ended September 30, 2002. In the 2003 financial year, we continued to not recognize tax benefits in these jurisdictions and we increased the valuation allowance by €182 million. We continued, however, to record tax expense in profitable tax jurisdictions in the 2003 financial year. We assess our deferred tax asset position on a regular basis. Our ability to realize benefits from our deferred tax assets is dependent on our ability to generate future taxable income sufficient to utilize tax loss carry-forwards or tax credits before expiration. We expect to continue to recognize no tax benefits in these jurisdictions until we have ceased to be in a cumulative loss position for the preceding three-year period.

Financial Position

Cash Flow

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

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

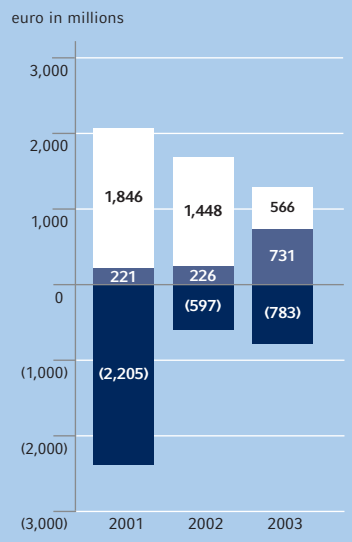
Cash Flow

(euro in millions)	For the year ended September 30		
	2001	2002	2003
Net cash provided by operating activities – continuing operations	221	226	731
Net cash used in investing activities	(1,813)	(1,244)	(1,522)
Net cash provided by financing activities	1,846	1,448	566
Net cash (used in) provided by operating activties – discontinued operations	(10)	11	(1)
Cash and cash equivalents at period end	757	1,199	969

Cash provided by operating activities of €731 million in the 2003 financial year resulted mainly from the net loss of €435 million, offset by depreciation of €1,437 million and a net increase in operating assets and liabilities of €222 million. Cash from operating activities improved significantly from the prior year, mainly due to a reduction of €586 million in the net loss.

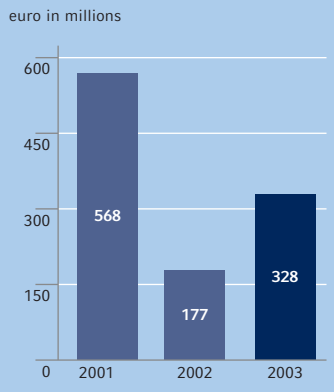
Cash used in investing activities of €1,522 million in the 2003 financial year resulted principally from a net investment in marketable securities of €739 million and investments in property, plant and equipment of €872 million. Cash used in investing activities increased from 2002 primarily due to increased investment in property, plant and equipment of €229 million.

Cash flow



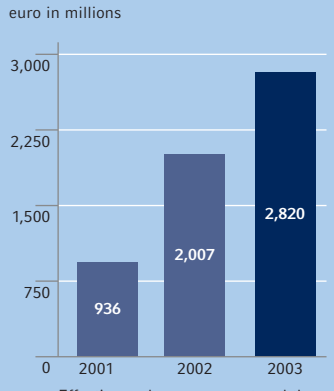
Cash Flow from operating and investing activities improved the cash position.

Net cash



The positive net cash position could be increased through effective cash management.

Gross cash



Effective cash management and the convertible bond offering results in a solid gross cash position.

Cash provided by financing activities totaled €566 million in the 2003 financial year (2002: €1,448 million), which includes the €686 million in net proceeds from our convertible bond offering in June 2003. Cash flow from financing activities in the 2002 financial year included €981 million in net proceeds from our convertible bond offering in February 2002, and €450 million in external financing for the Dresden 300-millimeter facility.

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

Free Cash Flow

(euro in millions)	For the year ended September 30		
	2001	2002	2003
Net cash provided by operating activities – total	211	237	730
Net cash used in investing activities	(1,813)	(1,244)	(1,522)
Purchases of marketable securities, net	(392)	647	739
Free cash flow	(1,994)	(360)	(53)

Net Cash Position

(euro in millions)	as of September 30, 2003						
		Payments due by period					
	Total	Less than 1 year	1–2 years	2–3 years	3–4 years	4–5 years	After 5 years
Cash and cash equivalents	969	969	–	–	–	–	–
Marketable securities	1,784	1,784	–	–	–	–	–
Restricted cash	67	–	67	–	–	–	–
Gross cash position	2,820	2,753	67	–	–	–	–
Less:							
Long-term debt	2,335	–	527	48	1,007	3	750
Capital lease obligations	8	–	3	1	1	1	2
Short-term debt and current maturities	149	149	–	–	–	–	–
Total financial debt	2,492	149	530	49	1,008	4	752
Net cash position	328	2,604	(463)	(49)	(1,008)	(4)	(752)

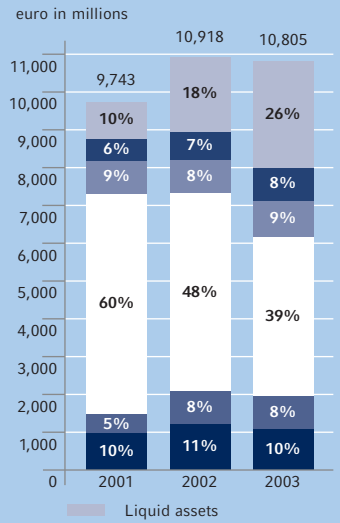
Our gross cash position – representing cash and cash equivalents, marketable securities and restricted cash – increased to €2,820 million at September 30, 2003, compared to €2,007 million at the prior year end. The increase was mainly due to the issuance of the convertible notes and improved operating cash flow.

Our net cash position – meaning cash and cash equivalents, plus marketable securities and restricted cash, less total financial debt – increased by €151 million to €328 million at September 30, 2003, compared to €177 million at September 30, 2002.

Financial Condition

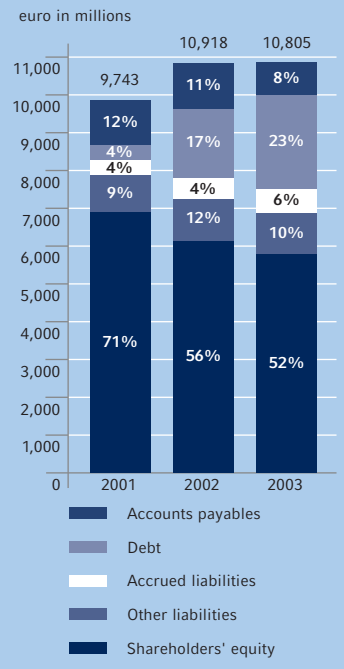
As of September 30, 2003, our total assets amounted to €10,805 million, a decrease of 1 percent compared to €10,918 million at the end of the 2002 financial year. Total current assets increased by 27 percent, from €4,191 million in 2002 to €5,306 million in the 2003 financial year. This increase was mainly driven by an increase of cash, cash equivalents and marketable securities to €2,753 million, up from €1,937 million at the end of the 2002 financial year, due mainly to the issuance of our convertible bond in the amount of €700 million, and improved operating cash flow. Non-current assets decreased by 18 percent to €5,499 million from €6,727 million at the end of the 2002 financial year. This decrease mainly relates to property, plant and equipment, since depreciation expense exceeded capital expenditures during the 2003 financial year. We reduced long-term investments due to the sale of our ProMOS and UMCi investments and other assets declined due to an impairment of our recorded goodwill in Catamaran Communications, Inc.
Total liabilities increased by 8 percent to €5,139 million, up from €4,760 million in

Assets



Fixed assets decreased since depreciation exceeded capital expenditures. Liquid assets increased due to the proceeds from the convertible bond offering.

Liabilities and equity



Debt increased due to to the convertible bond offering.

the 2002 financial year. This increase was mainly due to an increase in long-term debt of €633 million to €2,343 million, mainly attributable to our convertible bond offering in June 2003. This increase was offset by a reduction in accounts payable of €320 million (down to €877 million), mainly due to the discontinuation of business with our former joint ventures ProMOS and OSRAM Opto.

Our shareholders' equity decreased by 8 percent to €5,666 million, down from €6,158 million in the 2002 financial year. This mainly reflects the net loss of €435 million and higher negative currency translation effects. At September 30, 2003, shareholders' equity as a percentage of total assets was 52 percent, down from 56 percent at September 30, 2002.

Capital Requirements

As of September 30, 2003, we had debt of €149 million scheduled to become due within one year. We believe we will be in a position to fund all these payments through existing cash balances, cash flows from operations, borrowings and the renewal of debt in the ordinary course of business.

On June 5, 2003, Infineon Technologies Holding B.V., issued subordinated convertible notes due 2010 for net proceeds of €686 million, as we decided to take advantage of the low interest rates available in the European convertibles market to improve our cash position. The notes are guaranteed by Infineon Technologies AG and may be converted into up to 68.4 million ordinary shares of our Company.

Commitments and Contingencies[1, 2, 3]

(euro in millions)	as of September 30, 2003						
		Payment due/expirations by period					
	Total	Less than 1 year	1–2 years	2–3 years	3–4 years	4–5 years	After 5 years
Contractual commitments:							
Operating lease payments	391	82	76	68	46	44	75
Unconditional purchase commitments	1,062	420	206	121	68	55	192
Other long-term commitments	636	334	227	75	–	–	–
Total commitments	2,089	836	509	264	114	99	267
Other contingencies:							
Guarantees[4]	380	24	–	–	283	14	59
Contingent government grants[5]	357	21	–	35	16	240	45
Total contingencies	737	45	–	35	299	254	104

The above table should be read together with Note 31 to our consolidated financial statements for the year ended September 30, 2003.

Notes

1 US dollar amounts have been translated to euro at the rate of 1 euro = $1.165, which was the noon buying rate on September 30, 2003.

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

3 Product purchase commitments associated with capacity reservation agreements are not included in this table, since the purchase prices are based, in part, on future market prices, and are accordingly not quantifiable at September 30, 2003. Purchases under these agreements aggregated €486 million for the year ended September 30, 2003.

4 Inter-company guarantees of €2,333 million are excluded, since the related obligations are reflected as liabilities in the consolidated financial statements by virtue of consolidation.

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

We have established independent financing arrangements with several financial institutions, in the form of both short- and long-term credit facilities that are available for anticipated funding purposes. These facilities amount to an aggregate of €1,832 million, of which €1,015 million was available at September 30, 2003, and are comprised of the following components:

Credit Facilities

(euro in millions)			As of September 30, 2003		
Term	Nature of financial institution commitment	Purpose/ intended use	Aggregate facility	Drawn	Available
short-term	firm commitment	working capital, guarantees, cash management	612	63	549
short-term	no firm commitment	working capital	91	–	91
long-term	firm commitment	working capital	378	3	375
long-term[1]	firm commitment	project finance	751	751	–
Total			1,832	817	1,015

Notes

1 Including current maturities.

At September 30, 2003, we were in compliance with our debt covenants under the relevant facilities. We have a €375 million syndicated multicurrency revolving credit facility that expires in September 2005. The facility has customary financial covenants, and drawings bear interest at market-related rates. At September 30, 2003, no amounts were outstanding under this facility. We had an additional €375 million short-term component to the revolving credit facility available at September 30, 2002; however, in September 2003, we elected not to renew this component of the facility due to available cash resources.

Capital Expenditures

(euro in millions)	For the year ended September 30		
	2001	2002	2003
Memory products	1,363	464	576
Non-memory products	919	179	296
Total	2,282	643	872

We expect to invest between €1.0 billion and €1.5 billion in capital expenditures in the 2004 financial year, largely for improving productivity and upgrading technology at existing facilities. Due to the lead times between ordering and delivery of equipment, a substantial amount of capital expenditures typically is committed well in advance. Approximately 54 percent of these expected capital expenditures will be made in the Memory Products business group's front-end and back-end processes. Approximately 46 percent of these planned capital expenditures will be invested in our non-memory facilities. In addition, we expect to make financial and equity investments ranging between €200 million and €400 million in the 2004 financial year.

We plan to fund our working capital and capital requirements from cash provided by operations, available funds, bank loans, government subsidies and, if needed, the issuance of additional equity securities. We have also applied for governmental subsidies in connection with certain capital expenditure projects, but can provide no assurance that such subsidies will be granted in a timely fashion or at all. We cannot assure you that we will be able to obtain additional financing for our research and development, working capital or investment requirements or that any such financing, if available, will be on terms favorable to us.

Employees and Campeon

Employees

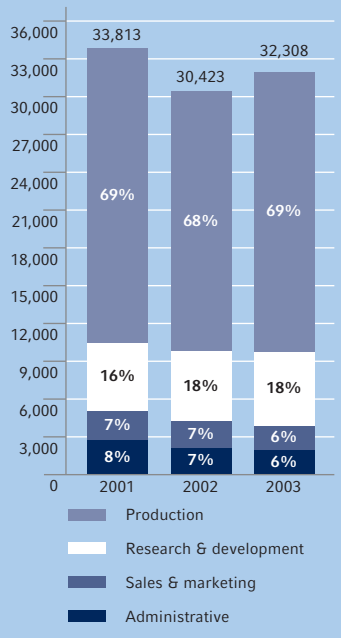
The following table indicates the composition of our workforce by function and region at the end of the financial years indicated, and the average number of employees during those years by region. The decrease in the 2002 financial year mainly reflects the headcount reduction under the Impact program. In 2003, our headcount increased as a result of the ramp-up of our 300-millimeter production, and through the acquisition of SensoNor.

Number of Employees

	As of September 30		
	2001	2002	2003
Function			
Production	23,416	20,822	22,405
Research & development	5,510	5,374	5,935
Sales & marketing	2,259	2,010	2,048
Administrative	2,628	2,217	1,920
Total	33,813	30,423	32,308
Region			
Germany	16,814	15,716	16,166
Other Europe	5,007	4,590	5,034
North America	3,023	2,889	2,757
Asia/Pacific	8,949	7,200	8,234
Other	20	28	117
Total	33,813	30,423	32,308

	Average for the year ended September 30		
	2001	2002	2003
Region			
Germany	16,279	15,773	16,043
Other Europe	4,921	4,376	4,753
North America	3,101	2,818	2,779
Asia/Pacific	9,095	7,189	7,833
Other	7	24	115
Total	33,403	30,180	31,523

Employees by function*



Also after successfully completion of the Impact cost-reduction program, continuing high efforts in research & development.

* Columns may not add up due to roundings.

Campeon

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

Risks and Opportunities

Remark

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

Infineon Risk Management System

We have established a risk and opportunity management system enabling us both to exploit the many significant opportunities manifesting themselves in our markets and to anticipate and identify risks associating or arising from them. An enterprise-wide system of risk and opportunity reporting is a central element of our risk and opportunity management system. The scope and depth of reporting helps to enable corporate management to take quick and effective actions whenever situations so require. Within every organizational unit of the company risk officers or risk reporters have been designated to implement and execute the risk and opportunity reporting process. According to the guidelines for this process risks and opportunities are identified within the framework of a risk and opportunity categorization model, accompanied by an evaluation of each risk and opportunity based on its respective probability and effect upon EBIT.

The risk management system is extensively documented in our intranet and thus worldwide accessible by our employees.

The reporting system is based upon individual observations of risk and opportunity and is composed of a range of monitoring and management processes embedded in our core processes. It commences at the level of strategic planning and continues through the manufacturing and sales operations, including the processing of receivables. An extension of the forecasting processes conducted by the business groups, the sales organization, the manufacturing clusters and the central functions, the risk and opportunity system is used to identify and evaluate possible deviations from expected developments. Beyond the identification and evaluation of major developments that may affect the business, the system is also used to prioritize and implement activities to enhance opportunities and mitigate or reduce our risk.

Risk and opportunity reports are issued on a regular basis by all of our business units. These reports form the core of the risk management system. The reports are examined and evaluated by the board and business group management as part of their reviewing process. Along with analyses of our markets and of the companies competing in them as well as the fruits of benchmarking processes, the reports are drawn upon heavily by our top management when formulating decisions.

Alongside the enterprise-wide reporting system a number of other early-warning

systems have been established to enhance our abilities to control and manage risks and opportunities throughout the organization. In particular a balanced-scorecard system has been developed and implemented as a pivotal instrument to monitor and manage the company's key performance indicators. In addition, a quantitative risk analysis approach has been introduced to our investment and research and development activities in order to plot possible scenarios, to provide greater transparency to risks and prioritize measures designed to enhance the probabilities of success of these activities. The systematic development of existing systems of risk analysis and the creation of new early-warning systems substantially contribute to the enhancement and sustainability of a risk and opportunity culture within the company.

Our risk and opportunity reporting system has been evaluated by the external auditor as part of the annual audit process.

Global Business Risks

Substantial changes in regional business environments around the globe may have adverse affects on our business and results of operations.

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

- negative economic developments in foreign economies and instability of foreign governments, including the threat of war or civil unrest;

- changes in laws and policies affecting trade and investment; and

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

Substantial changes in any of these conditions could have an adverse affect on our business and results of operations. For example the SARS epidemic in 2003 led to a temporary slowdown in demand for mobile phones in Asian countries. Therefore our customers sold less mobile phones than expected, which in turn had a negative effect on the semiconductor market. It cannot be excluded that this type of regional crisis may reappear in the future and may have a substantial effect on our earnings capabilities. However, broad diversification within our product portfolio and the spread of development and manufacturing locations around the world provide an effective approach to mitigate the overall risk of such regional crisis as the dependencies are generally reduced.

Risks related to our operations

For our Memory Products division the success of its operations is strongly dependant upon the development of the prices for our DRAM products; at the same time this represents the largest single risk for Infineon as a whole. Given the current economic environment and our efforts to reduce risk through a strategy of focusing our production capacity on the production of more profitable DRAM products and on the development of relationships to key customers, we expect that the current business climate provides a balanced portfolio of risks and opportunities.

Although we have most recently seen sequential growth in our logic business, there is a substantial risk – especially in the wireline sector as well as our secure mobile solutions business sector – that this growth will not be sustainable, leading to lower sales volumes and continued price pressures.

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

To help protect against the occurrence of product, related risks, we have established a network to monitor the quality of our operations and those of our important suppliers. We have secured certification for all of our production facilities according to the TS 16949:2000 standard.

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

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

Market Risks

Exchange rate risks

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

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

Our policy with respect to limiting short-term foreign currency exposure generally is to economically hedge at least 75% of our estimated net exposure for a minimum period of two months in advance and, depending on the nature of the underlying transactions, a significant portion for the periods thereafter. Parts of our foreign

currency exposure cannot be mitigated due to differences between actual and forecast amounts. We calculate this net exposure on a cash-flow basis considering balance-sheet items actual orders received or made, and all other planned revenues and expenses. The remaining risk is controlled by value at risk parameters.

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

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

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

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

Overall Risks
Even within the constraints of the past downturn and the continuing uncertainties relating to the current business environment, at no time have we been aware of any substantial risks which would have threatened the very existence of the company. For the current and upcoming fiscal

year we expect an improvement in the overall relationship between opportunities and risk in particular due to the favorable development of prices for our memory products. Risks which may endanger the existence of the company are not visible.

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

Infineon Technologies AG

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

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

Infineon Technologies AG had revenues on a stand-alone basis of €8,122 million in the 2003 financial year (2002: €6,765 million). It incurred a net loss of €287 million, compared to €617 million in the previous financial year. Infineon Technologies AG handles the settlement of accounts for and with its subsidiaries that produce and sell products. As a result, Infineon Technologies AG's sales on a stand-alone basis were higher than those of the Infineon group as a whole.

At the end of the 2003 financial year, Infineon Technologies AG's financial position showed a decrease in investments, mainly due to the sale of the ProMOS and UMCi investments, an increase in cash and marketable securities, and a corresponding

increase in payables. Shareholders' equity decreased to €6,774 million (2002: €7,061 million), primarily due to the net loss. At September 30, 2003, Infineon Technologies AG's equity ratio was 60 percent, compared to 64 percent as of September 30, 2002.

Dividend

The financial statements on a stand-alone basis of Infineon Technologies AG in accordance with the HGB requirements for the 2002 financial year showed a net loss, therefore no dividend was distributed. A net loss was also incurred for the 2003 finacial year and therefore a dividend cannot be distributed.

Subsequent Events

On October 8, 2003, we annouced that we have agreed to purchase assets, assume certain liabilities and take over other parts of the Protocol Software operations of Siemens, in exchange for €13 million and the employment of some 145 of Siemens' mobile communication software engineers. In addition, we entered into a license agreement, and amended our product supply agreement with Siemens. The finalization of these transactions are subject to a variety of conditions.

In conjunction with our ongoing restructuring efforts, on October 16, 2003, we executed an agreement with Electronic Data Services (EDS) to outsource parts of our worldwide human resources function. The scope of the outsourcing arrangement is currently being negotiated, which would include the transfer of some of our current employees to EDS. The agreement contains specified cancellation provisions.

Outlook

In the fourth quarter of our 2003 financial year, we saw a marked improvement in the semiconductor market environment. Leading market analysts have forecast growth rates between 19 percent and 26 percent for the semiconductor market as a whole in the 2004 calendar year. However, due to continuing price pressure across our segments, and the volatile nature of the industry, at this stage we cannot determine whether the recent upturn represents a sustainable upward trend.

For the first quarter of our 2004 financial year, we anticipate the following with respect to our four principal segments:

- In the Secure Mobile Solutions market, we anticipate that the seasonal increase in demand experienced in the fourth quarter of the 2003 financial year will not continue, and therefore we expect lower average demand for the first quarter of the 2004 financial year. For the 2004 financial year, growth is expected to be in line with the market.

- In the Wireline Communication market, we expect weak market conditions and strong price pressure to continue as a result of the combined effects of the strong euro, delayed and cautious investment in infrastructure by global carriers, and uncertainties regarding VDSL standardization. However, we expect the broadband access market for ADSL products to show solid growth during our 2004 financial year. We expect solid growth for the segment in the second half of the 2004 financial year.

- Worldwide automobile production is expected to grow slightly in 2004, with continuing price pressure for automotive electronics. Through the change from single product business to complete application-specific chip sets, we anticipate ongoing stable growth in excess of the market growth rate for automotive semiconductors, and continuous growth for our power management & supply products in our 2004 financial year.

- For memory products, we expect a stable development of demand, mainly driven by the Christmas season and the need for higher megabyte content per PC. According to estimates of major market researchers, a ten percent growth in PC unit demand is expected for the 2004 financial year, based on increased corporate spending to replace older equipment. Supply growth is assumed to be rather limited as a result of the low industry capital expenditure levels during the last two calendar years.

We aim to counteract price pressure by continuing to increase our productivity and reduce our manufacturing costs through our 300-millimeter production capabilities. We believe that our joint technology and manufacturing alliances will offer the possibility to execute our growth strategy and gain further market share. With stable market conditions, we expect to stay on track with our growth strategy and generate a profit for our 2004 financial year.

Munich, November 2003
Management Board

Independent Auditors' Report

The Supervisory Board and Shareholders of Infineon Technologies AG:
We have audited the accompanying consolidated balance sheets of Infineon Technologies AG and subsidiaries as of September 30, 2002 and 2003, 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, 2003. 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 auditing standards generally accepted in the United States of America. 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, 2002 and 2003, and the results of their operations and their cash flows for each of the years in the three-year period ended September 30, 2003 in conformity with accounting principles generally accepted in the United States of America.

Munich, Germany
November 7, 2003

KPMG DEUTSCHE TREUHAND-GESELLSCHAFT
AKTIENGESELLSCHAFT
WIRTSCHAFTSPRÜFUNGSGESELLSCHAFT

Berger
Wirtschaftsprüfer

Feege
Wirtschaftsprüfer

Consolidated Financial Statements

Infineon Technologies AG and Subsidiaries

Consolidated Statements of Operations

Consolidated Statements of Operations for the years ended September 30, 2001, 2002 and 2003				
(euro in millions, except per share data)	**Notes**	**2001**	**2002**	**2003**
Net sales:				
Third parties	5	4,352	4,035	5,153
Related parties	27	995	855	999
Total net sales		5,347	4,890	6,152
Cost of goods sold	7	4,580	4,289	4,614
Gross profit		767	601	1,538
Research and development expenses		1,189	1,060	1,089
Selling, general and administrative expenses		782	643	679
Restructuring charges	8	117	16	29
Other operating (income) expense, net		(200)	(46)	85
Operating loss		(1,121)	(1,072)	(344)
Interest expense, net		(1)	(25)	(52)
Equity in earnings (losses) of associated companies		21	(47)	18
Gain (loss) on associated company share issuance	16	11	18	(2)
Other non-operating income (expense), net		65	(41)	21
Minority interests		6	7	8
Loss before income taxes		(1,019)	(1,160)	(351)
Income tax benefit (expense)	9	427	143	(84)
Net loss from continuing operations		(592)	(1,017)	(435)
Net income (loss) from discontinued operation	4	1	(4)	–
Net loss		(591)	(1,021)	(435)
Loss per share:	10	Euro	Euro	Euro
Basic and diluted – continuing operations		(0,92)	(1,46)	(0,60)
Basic and diluted – discontinued operation		–	(0,01)	–
Basic and diluted – net loss		(0,92)	(1,47)	(0,60)

See accompanying notes to the consolidated financial statements.

Infineon Technologies AG and Subsidiaries

Consolidated Balance Sheets

Consolidated balance sheets for the years ended September 30, 2002 and 2003			
(euro in millions, except per share data)	**Notes**	**2002**	**2003**
Assets:			
Current assets:			
Cash and cash equivalents		1,199	969
Marketable securities	11	738	1,784
Trade accounts receivable, net	12	758	876
Inventories	13	891	959
Deferred income taxes	9	82	113
Other current assets	14	523	605
Total current assets		4,191	5,306
Property, plant and equipment, net	15	4,491	3,817
Long-term investments, net	16	708	425
Restricted cash		70	67
Deferred income taxes	9	787	705
Other assets	17	671	485
Total assets		10,918	10,805
Liabilities and Shareholders' Equity:			
Current liabilities:			
Short-term debt and current maturities	21	120	149
Trade accounts payable	18	1,197	877
Accrued liabilities	19	473	644
Deferred income taxes	9	21	39
Other current liabilities	20	572	425
Total current liabilities		2,383	2,134
Long-term debt	21	1,710	2,343
Deferred income taxes	9	58	32
Other liabilities	22	609	630
Total liabilities		4,760	5,139
Shareholders' equity:			
Ordinary share capital	23	1,442	1,442
Additional paid-in capital		5,569	5,573
Accumulated deficit		(826)	(1,261)
Accumulated other comprehensive loss	25	(27)	(88)
Total shareholders' equity		6,158	5,666
Total liabilities and shareholders' equity		10,918	10,805

See accompanying notes to the consolidated financial statements.

Infineon Technologies AG and Subsidiaries

Consolidated Statements of Shareholders' Equity

	Consolidated Statements of Shareholders' Equity	
(euro in millions, except per share data)		
	Issued ordinary shares	**Amount**
Balance as of October 1, 2000	625,501,507	1,251
Net loss	–	–
Other comprehensive loss	–	–
Total comprehensive income		
Issuance of ordinary shares:		
Proceeds from public offering, net of offering expenses	60,000,000	120
Acquisition of Ardent	706,714	1
Acquisition of Catamaran	5,730,866	12
Investment in associated company	443,488	1
Ordinary shares held by associated company	–	–
Deferred compensation, net	–	–
Dividend payment	–	–
Sale of joint venture interest to Siemens Group	–	–
Equity transactions with Siemens Group	–	–
Balance as of September 30, 2001	692,382,575	1,385
Net loss	–	–
Other comprehensive loss	–	–
Total comprehensive loss		
Issuance of ordinary shares:		
Employee Stock Purchase Plan	355,460	1
Acquisition of Catamaran	546,183	1
Acquisition of MIC	27,500,000	55
Ordinary shares held by associated company	–	–
Deferred compensation, net	–	–
Equity transaction with Siemens Group	–	–
Balance as of September 30, 2002	720,784,218	1,442
Net loss	–	–
Other comprehensive (loss) income	–	–
Total comprehensive loss		
Issuance of ordinary shares:		
Acquisition of Catamaran	96,386	–
Deferred compensation, net	–	–
Other equity transactions	–	–
Balance as of September 30, 2003	720,880,604	1,442

Euro in millions, except share data.

See accompanying notes to the consolidated financial statements.

for the years ended September 30, 2001, 2002 and 2003

Additional paid-in capital	Retained earnings/ Accumulated deficit	Foreign currency translation adjustment	Additional minimum pension liability	Unrealized gain (loss) on securities	Total
3,251	1,192	106	–	6	5,806
–	(591)	–	–	–	(591)
–	–	(19)	(12)	(8)	(39)
					(630)
1,355	–	–	–	–	1,475
38	–	–	–	–	39
240	–	–	–	–	252
20	–	–	–	–	21
(4)	–	–	–	–	(4)
(19)	–	–	–	–	(19)
–	(406)	–	–	–	(406)
392	–	–	–	–	392
(26)	–	–	–	–	(26)
5,247	195	87	(12)	(2)	6,900
–	(1,021)	–	–	–	(1,021)
–	–	(92)	(8)	–	(100)
					(1,121)
7	–	–	–	–	8
8	–	–	–	–	9
270	–	–	–	–	325
4	–	–	–	–	4
23	–	–	–	–	23
10	–	–	–	–	10
5,569	(826)	(5)	(20)	(2)	6,158
–	(435)				(435)
–	–	(76)	2	13	(61)
					(496)
1	–				1
7	–				7
(4)	–				(4)
5,573	(1,261)	(81)	(18)	11	5,666

Infineon Technologies AG

Consolidated Statements of Cash Flows

Consolidated Statements of Cash Flows for the years ended September 30, 2001, 2002 and 2003			
(euro in millions)	**2001**	**2002**	**2003**
Net loss	(591)	(1,021)	(435)
Less: net income (loss) from discontinued operation	1	(4)	–
Net loss from continuing operations	(592)	(1,017)	(435)
Adjustments to reconcile net loss to cash provided by operating activities			
Depreciation and amortization	1,121	1,370	1,437
Acquired in-process research and development	69	37	6
Deferred compensation	25	23	7
Provision for (recovery of) doubtful accounts	19	(5)	(16)
Write-down of inventory	358	–	–
Loss (gain) on sale of marketable securities	(1)	1	(56)
Loss (gain) on sale of businesses	(235)	(39)	10
Loss on disposal of property, plant, and equipment	–	2	3
Equity in (earnings) losses of associated companies	(21)	47	(18)
Loss (gain) on associated company share issuance	(11)	(18)	2
Minority interests	(6)	(7)	(8)
Impairment charges	51	51	98
Deferred income and other non-cash charges	(26)	(87)	(93)
Deferred income taxes	(493)	(282)	16
Changes in operating assets and liabilities:			
Trade accounts receivable	681	(131)	(227)
Inventories	(394)	(28)	(112)
Other current assets	(76)	39	156
Trade accounts payable	49	40	(217)
Accrued liabilities	(322)	86	164
Other current liabilities	36	(37)	(17)
Other assets and liabilities	(11)	181	31
Net cash provided by operating activities	221	226	731

Continuation Consolidated Statements of Cash Flows

(euro in millions)	2001	2002	2003
Cash flows from investing activities:			
Purchases of marketable securities available for sale	(82)	(709)	(2,752)
Proceeds from sales of marketable securities available for sale	474	62	2,013
Proceeds from sales of businesses	346	96	164
Cash acquired in business combination	–	50	3
Investment in associated and related companies	(214)	(88)	(73)
Purchases of intangible assets	(82)	(39)	(58)
Purchases of property, plant and equipment	(2,282)	(643)	(872)
Proceeds from sales of property, plant and equipment	27	27	53
Net cash used in investing activities	(1,813)	(1,244)	(1,522)
Cash flows from financing activities:			
Net change in short-term debt	(14)	4	(36)
Net change in related party financial receivables and payables	70	(40)	(76)
Proceeds from issuance of long-term debt	128	1,482	700
Principal repayments of long-term debt	(21)	(21)	(25)
Change in restricted cash	45	15	3
Proceeds from issuance of shares to minority interest	20	–	–
Proceeds from issuance of ordinary shares	1,475	8	–
Dividend payments	(406)	–	–
Sale of joint venture interest to Siemens Group	564	–	–
Capital distributions	(15)	–	–
Net cash provided by financing activities	1,846	1,448	566
Effect of foreign exchange rate changes on cash and cash equivalents	2	1	(4)
Net increase (decrease) in cash and cash equivalents from continuing operations	256	431	(229)
Net (decrease) increase in cash and cash equivalents from discontinued operation	(10)	11	(1)
Cash and cash equivalents at beginning of period	511	757	1,199
Cash and cash equivalents at end of period	757	1,199	969

See accompanying notes to the consolidated financial statements.

Notes to the Consolidated Financial Statements

1. Description of Business, Formation and Basis of Presentation

Description of Business

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

Formation

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

Basis of Presentation

The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("US-GAAP"). Infineon Technologies AG is incorporated in Germany. The German Commercial Code ("Handelsgesetzbuch" or "HGB") requires the Company to prepare consolidated financial statements in accordance with the HGB accounting principles and regulations ("German GAAP"). Pursuant to HGB Section 292a the Company is exempt from this requirement, if consolidated financial statements are prepared and issued in accordance with a body of internationally accepted accounting principles (such as US-GAAP). Accordingly, the Company presents the US-GAAP consolidated financial statements contained herein.

All amounts herein are shown in millions of euro (or "€") except where otherwise stated.

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

2. Summary of Significant Accounting Policies

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

Basis of Consolidation

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

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

	Consolidated subsidiaries	Associated Companies	Total
September 30, 2002	44	11	55
Additions	8	3	11
Mergers	(1)	–	(1)
Disposals	–	(2)	(2)
Transfers	1	(1)	–
September 30, 2003	52	11	63

Additionally, the consolidated financial statements include 30 (2002 : 32) subsidiaries and 8 (2002 : 9) 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 (loss) of the Company was less than 1%.

Reporting and Foreign Currency

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

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

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

		Exchange rate September 30		Annual average exchange rate	
		2002	2003	2002	2003
Currency		**euro**	**euro**	**euro**	**euro**
US dollar	1 USD =	1.0208	0.8762	1.0910	0.9234
Japanese yen	100 JPY =	0.8318	0.7852	0.8661	0.7760
Great Britain pound	1 GBP =	1.5939	1.4428	1.6017	1.4797
Singapore dollar	1 SGD =	0.5722	0.5060	0.6029	0.5276

Cash and Cash Equivalents
Cash and cash equivalents represent cash, deposits and 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.

Marketable Securities
The Company's marketable securities are classified as available-for-sale and are stated at fair value as determined by the most recently traded price of each security at the balance sheet date. Unrealized gains and losses are included in accumulated other comprehensive income, net of applicable 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 labor costs and applicable indirect costs.

Property, Plant and Equipment
Property, plant and equipment is valued at cost less accumulated depreciation. Spare parts, maintenance and repairs are expensed as incurred. Depreciation expense is generally recognized using an accelerated or straight-line method. Construction in progress includes advance payments for construction of fixed assets. Land and construction in progress are not depreciated. The cost of construction of certain long-term assets includes capitalized interest, which is amortized over the estimated useful life of the related asset. For the years ended September 30, 2001, 2002 and 2003 capitalized interest was €27, €0 and €0, respectively. The estimated useful lives of assets are as follows:

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

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

Intangible Assets

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

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

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

Prior to the adoption of SFAS No. 142, goodwill was amortized over its estimated useful life. Amortization expense related to goodwill was €21 for the year ended September 30, 2001. Had the provisions of SFAS No. 141 and 142 applied for the year ended September 30, 2001, and net loss therefore excluded amortization of goodwill, net loss and loss per share would have been decreased to the pro forma amounts indicated below:

	For the year ended September 30, 2001
Net loss	
As reported	(591)
Pro forma	(570)
Loss per share (in euro)	
As reported – basic and diluted	(0.92)
Pro forma – basic and diluted	(0.89)

Impairment of Long-lived Assets

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

Financial Instruments

The Company operates internationally, giving rise to exposure to changes in foreign currency exchange rates. The Company uses financial instruments, including derivatives such as foreign currency forward and option contracts, to reduce this exposure based on the net exposure to the respective currency. The Company applies SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities", as amended by SFAS No. 137, SFAS No. 138 and SFAS No. 149, which provides guidance for accounting for all derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities. Derivative financial instruments are recorded at their fair value and included in other current assets or other current liabilities. 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. The fair value of derivative and other financial instruments is discussed in note 29.

Revenue Recognition

■ Sales

Revenue from products sold to customers is recognized, pursuant to SEC Staff Accounting Bulletin ("SAB") 101, when persuasive evidence of an arrangement exists, the price is fixed or determinable, shipment is made and collectibility is reasonably assured. The Company records reductions to revenue for estimated product returns and allowances for discounts and price protection, based on actual historical experience, at the time the related revenue is recognized.

■ License and Technology Transfer Fees

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

Grants

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

Product-related Expenses

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

Stock-based Compensation

The Company accounts for stock-based compensation using the intrinsic value method pursuant to Accounting Principles Board ("APB") Opinion 25, ''Accounting for Stock Issued to Employees", and has adopted the disclosure-only provisions of SFAS No. 123, ''Accounting for Stock-Based Compensation'' as amended by SFAS No. 148 "Accounting for Stock-Based Compensation – Transition and Disclosure", an Amendment of SFAS Statement No. 123".

Issuance of shares by Subsidiaries or Associated Companies

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

Use of Estimates

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

Recent Accounting Pronouncements

In May 2003, the FASB issued SFAS No. 150, "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity", which establishes standards for how an issuer classifies and measures certain financial instruments with characteristics of both liabilities and equity. It requires that an issuer classify a financial instrument that is within its scope as a liability (or an asset in some circumstances), many of which were previously classified as equity. It also addresses questions about the classification of certain financial instruments that embody obligations to issue equity shares. The changes in this Statement will result in a more complete depiction of an entity's liabilities and equity and will, thereby, assist investors and creditors in assessing the amount, timing, and likelihood of potential future cash outflows and equity share issuances. This Statement is effective for financial instruments entered into or modified after May

31, 2003, and otherwise is effective at the beginning of the first interim period beginning after June 15, 2003, except for mandatorily redeemable financial instruments of non-public entities. The adoption of SFAS No. 150 did not have a material impact on the Company's financial statements.

In January 2003, the FASB issued Interpretation No. 46, "Consolidation of Variable Interest Entities", which addresses consolidation by business enterprises of variable interest entities which have one or both of the following characteristics: (1) The equity investment at risk is not sufficient to permit the entity to finance its activities without support from other parties and (2) the equity investors lack one or more of the defined essential characteristics of a controlling financial interest. This Interpretation requires existing unconsolidated variable interest entities to be consolidated by their primary beneficiaries if the entities do not effectively disperse risks among the participating parties. This Interpretation applies immediately to variable interest entities created after January 31, 2003 and to variable interest entities in which an enterprise obtains an interest after that date. On October 9, 2003, FASB Staff Position FIN 46-6 "Effective Date of FASB Interpretation No. 46, Consolidation of Variable Interest Entities" was issued. This delayed the effective date of this Interpretation for variable interest entities created before February 1, 2003 for the Company until December 31, 2003. The Company has evaluated the impact of the provisions of Interpretation 46, and it believes it will not have a material impact on the Company's financial statements.

In July 2003, the Emerging Issues Task Force ("EITF") reached a consensus on Issue 03-5, "Applicability of AICPA Statement of Position 97-2 ("SOP 97-2") to Non-Software Deliverables" ("EITF 03-5"). The consensus was reached that SOP 97-2 is applicable to non-software deliverables if they are included in an arrangement that contains software that is essential to the non-software deliverables' functionality. This consensus is to be applied to Company's financial year beginning October 1, 2003. The Company has not yet evaluated the impact that EITF 03-5 will have on its financial statements.

3. Acquisitions

The Company acquired 92.5% of the outstanding shares of SensoNor AS on June 18, 2003 following a public tender offer, and the remaining 7.5% by June 30, 2003, for total cash consideration of €34. In addition the Company contributed capital of €13 in connection with the consummation of the transaction. SensoNor, which was previously a listed publicly company in Norway, develops, produces and markets tire pressure and acceleration sensors. With this acquisition the Company aims to strengthen its position in semiconductor sensors for the automotive business.

On April 1, 2003, the Company completed the acquisition of the net assets of MorphICs Technology Inc. ("MorphICs"), a developer of digital baseband circuits of third-generation wireless communications for €6 in cash. The acquisition agreement also provides for contingent consideration of €9 upon the achievement of specified events.

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

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

In June 2003, the Company and Ericsson signed an amendment to the MIC acquisition agreement. The companies intend to strengthen their strategic co-operation in various areas of mobile phone technology and wireless infrastructure, including Bluetooth solutions, RF ICs, RF power and other applications. Furthermore, the companies agreed to eliminate the remaining acquisition indebtedness, as well as the historic and future purchase thresholds of Ericsson and related

penalties. In addition, the Company received €50 million from Ericsson. These amounts have been reflected as an adjustment, principally to the originally recorded goodwill, as well as to intangible assets and deferred taxes. Additionally, as a result of the restructured MIC business, the Company recorded a purchase accounting adjustment reversing the previously established deferred tax asset valuation allowance in the amount of €16.

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

	2002	2003	2003
	MIC	SensoNor	Other
Acquisition date	September 2002	June 2003	2003
Segment	Secure Mobile Solutions	Automotive & Industrial	Various
Cash	50	3	–
Other current assets	120	6	1
Property, plant and equipment	60	25	1
Intangible assets			
Current product technology	15	21	5
Core technology	42	–	–
Patents	24	–	2
In process R&D	37	4	2
Goodwill	–	22	6
Other non-current assets	45	–	–
Total assets acquired	393	81	17
Current liabilities	(38)	(11)	(9)
Non-current liabilities (including debt)	(28)	(36)	–
Total liabilities assumed	(66)	(47)	(9)
Net assets acquired	327	34	8
Cash paid	–	34	8
Shares issued	27,500,000	–	–

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

Shares issued and held in escrow for employees subject to continued employment and the achievement of certain performance milestones are accounted for as deferred compensation at their intrinsic value. Deferred compensation is reflected as a reduction of additional paid-in capital in the statement of shareholders' equity, and amortized on a straight-line basis over the related employment or milestone periods, ranging from two to four years.

Shares issued and held in escrow for the acquired company's shareholders subject to the acquired company achieving certain performance milestones, principally related to the Company's August 2001 acquisition of Catamaran Communications, Inc. ("Catamaran"), represent contingent purchase consideration. The shares representing contingent purchase consideration are not reflected as issued and outstanding shares in the statement of shareholders' equity. Should these milestones be achieved, the purchase price will be adjusted to reflect the issuance of the shares at their fair value at the date the milestones are achieved. During the years ended September 30, 2002 and 2003, due to the achievement of certain milestones, 546,183 and 96,386 shares, respectively, were released from escrow, which resulted in the recognition of €9 and €1, respectively, of additional goodwill related to the Catamaran acquisition.

For each significant acquisition the Company engaged an independent third party to assist in the valuation of net assets acquired. As a result of these valuations, amounts allocated to purchased in-process research and development of €69, €37 and €6 were expensed as research and development in the years ended September 30, 2001, 2002 and 2003, respectively, because the technological feasibility of products under development had not been established and no future alternative uses existed. The amounts allocated to purchased in-process research and development were determined through established valuation techniques in the high-technology industry and related guidance provided by the SEC.

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

Proforma financial information relating to these acquisitions is not material either individually nor in the aggregate to the results of operations and financial position of the Company and has been omitted.

4. Discontinued Operation and Divestitures

Discontinued operation

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

The following table presents comparative information of the discontinued operation, which was previously reported as part of the other operating segments, for the years ended September 30, 2001, 2002 and 2003, respectively:

	September 30		
	2001	2002	2003
Opto-electronics			
Sales:			
Third parties	271	241	113
Related parties	53	76	32
Net sales	324	317	145
Income from discontinued operation before tax	–	–	–
Income tax benefit (expense)	1	(4)	–
Net income (loss) from discontinued operation	1	(4)	–

The selected items of the balance sheets of the discontinued operation as of September 30, 2002 and September 30, 2003 consist of the following:

	September 30	September 30
	2002	2003
Current assets		
Trade accounts receivable, net	52	–
Inventories	7	–
Total current assets	59	–
Current liabilities		
Trade accounts payable	60	–
Total current liabilities	60	–

Divestitures

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

On July 1, 2002, the Company completed the sale of its gallium arsenide business, reflected in the Secure Mobile Solutions segment, including specified non-manufacturing tangible and intangible assets, as well as specified customer contracts and liabilities. The Company received initial cash proceeds of €50. Contingent purchase price adjustments are based on the level of gallium arsenide related product sales generated by the purchaser through September 30, 2004 and other adjustments. Contingent adjustments range between a payment of €5 and proceeds of €74 and will be recognized if the contingency has passed and the amounts are realizable. The Company was required to supply the purchaser with a minimum quantity of gallium arsenide products substantially below market prices through June 2003. Accordingly, €44 of the proceeds were deferred at the divestiture date and will be recognized over the term of the supply agreement as products are sold and purchase price contingencies pass. The Company recognized revenue of €45 (of which €29 were previously deferred) and earnings before interest and taxes ("EBIT") of €5, respectively, during the year ended September 30, 2003 in fulfillment of the supply agreement.

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

On December 19, 2000 the Company sold the Image & Video business unit, previously included in the Wireline Communications segment.

In addition, the Company disposed of certain other, non-core business during the years ended September 30, 2001, 2002 and 2003.

Summarized financial information for the divested businesses (through the date of divestiture) for the years ending September 30, 2001, 2002 and 2003, are as follows:

	September 30		
	2001	**2002**	**2003**
Sales			
Gallium Arsenide	36	24	45
Infrared Components	110	11	–
Image & Video	38	–	–
Total	184	35	45
EBIT			
Gallium Arsenide	(44)	(18)	5
Infrared Components	(22)	(7)	–
Image & Video	10	–	–
UMCi	–	(1)	(11)
Total	(56)	(26)	(6)
Gain (loss) on sale before tax			
Gallium Arsenide	–	2	–
Infrared Components	26	39	–
Image & Video	202	–	–
UMCi	–	–	(9)
Other	7	(2)	(1)
Total	235	39	(10)

5. License and Technology Transfer Fees

During the years ended September 30, 2001, 2002 and 2003, the Company recognized revenues related to license and technology transfer fees of €88, €147 and €183, respectively, which are included in net sales in the accompanying statements of operations. Included therein are previously deferred license fees of €36, €85 and €135, which were recognized as revenue pursuant to SEC SAB 101, in the years ended September 30, 2001, 2002 and 2003, respectively, since the Company had fullfield all of its obligations and all such amounts were realized.

At September 30, 2002 previously received license fees from ProMOS of €60 were deferred and offset against the related investment (see note 16) in the accompanying consolidated balance sheet pursuant to SEC SAB No. 5:H.

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

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

In March 2002, the Company further modified its capacity reservation agreements with ProMOS (see note 31) and further restructured the payment terms of the existing licensing agreements with MVI. The agreement extended the repayment of the outstanding licensing fees of $54 million through January 2004 (which is recognized on the cash basis) and extended the dating on other amounts due to the Company. In exchange for these provisions, MVI placed 56,330,000 shares of ProMOS in an escrow to secure the amounts outstanding under the licensing agreement in the event of a payment default.

In connection with the joint technology development with Nanya Technology Corporation ("Nanya") (see note 16), the Company has granted Nanya a license to use its 110 nanometer technology in Nanya's existing operations. License income related to the technology is to be recognized over the estimated life of the technology. The Company recognized license income from Nanya of €32 during the year ended September 30, 2003.

6. Grants and Subsidies

The Company has received economic development funding from various governmental entities, including grants for the construction of manufacturing facilities, as well as grants to subsidize research and development activities and employee training. Grants and subsidies included in the accompanying financial statements during the years ended September 30, 2001, 2002 and 2003, are as follows:

	2001	2002	2003
Included in the consolidated statements of operations			
Research and development	71	59	59
Cost of sales	10	34	54
	81	93	113
Construction grants deducted from the cost of fixed assets	11	83	17
Deferred government grants (note 22)	37	230	223

7. Supplemental Operating Cost Information

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

	2001	2002	2003
Raw materials, supplies and purchased goods	1,731	1,380	1,675
Purchased services	1,357	926	1,126
Total	3,088	2,306	2,801

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

	2001	2002	2003
Wages and salaries	1,441	1,349	1,483
Social levies	229	254	259
Pension expense	11	29	27
Total	1,681	1,632	1,769

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

	2001	2002	2003
Germany	16,279	15,773	16,043
Other Europe	4,921	4,376	4,753
North America	3,101	2,818	2,779
Asia/Pacific	9,095	7,189	7,833
Other	7	24	115
Total	33,403	30,180	31,523

Total rental expenses under operating leases amounted to €130, €133 and €138 for the years ended September 30, 2001, 2002, and 2003, respectively.

8. Restructuring

In 2003, the Company announced restructuring measures that are aimed at further reducing costs, including downsizing its workforce, outsourcing and decentralizing certain functions and operations. As part of the restructuring, the Company currently plans to terminate up to approximately 550 employees mainly in corporate functions and logic manufacturing operations, as well as through the outsourcing of certain functions to external providers. In connection with these measures, restructuring charges of €29 were recognized during the year ended September 30, 2003 pursuant to SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities".

In addition, €11, which had previously been accrued under restructuring, was forgiven in partial consideration for the execution of a service agreement and accordingly, has been deferred, included in accrued liabilities, and will be recognized over the term of the service agreement.

The development of the restructuring liability during the year ended September 30, 2003, is as follows:

	September 30 2002	September 30 2003			
	Accrued liability	Deferral	Restructuring charge (recovery)	Payments	Accrued liability
Employee terminations	6	–	32	(20)	18
Other exit costs	29	(11)	(3)	(6)	9
Total	35	(11)	29	(26)	27

The restructuring liability is included in other current liabilities (see note 20) with the prior period balance reclassified to conform to current period presentation.

During the year ended September 30, 2002, in executing the restructuring plan additional charges of €16 were taken relating to non-cancelable commitments.

Restructuring charges of €117 were expensed during the year ended September 30, 2001 in connection with the Company's Impact program, aimed at streamlining its procurement and logistics processes, as well as reducing information technology and manufacturing costs. This charge is comprised of €57 for involuntary employee terminations, €44 relating to both previously capitalized expenditures (€27) and related exit costs (€17) associated with the discontinuance of a world-wide information technology project and €16 of other exit costs.

9. Income Taxes

Income (loss) before income taxes and minority interest is attributable to the following geographic locations for the years ended September 30, 2001, 2002 and 2003:

	2001	2002	2003
Germany	(1,184)	(1,403)	(506)
Foreign	159	236	147
	(1,025)	(1,167)	(359)

Income tax (benefit) expense for the years ended September 30, 2001, 2002 and 2003 is as follows:

	2001	2002	2003
Current taxes			
Germany	23	15	18
Foreign	43	124	50
	66	139	68
Deferred taxes			
Germany	(489)	(236)	40
Foreign	(4)	(46)	(24)
	(493)	(282)	16
Income tax (benefit) expense from continuing operations	(427)	(143)	84
Income tax (benefit) expense from discontinued operation	(1)	4	–
Income tax (benefit) expense	(428)	(139)	84

In October 2000, the German government enacted new tax legislation which reduced the Company's statutory tax rate in Germany to a uniform 25%, effective for the Company's year ended September 30, 2002. Additionally, a solidarity surcharge of 5.5% and trade tax of 13% is levied, for a combined statutory tax rate of 39%. Prior to October 1, 2001, a split rate imputation system was applied of 40% on retained earnings and 30% on distributed earnings, for a combined statutory rate of 52%. The impact of the reduced tax rate on the Company's deferred tax balances relating to continuing operations of €29 was recorded in the year ended September 30, 2001.

A reconciliation of income taxes for the years ended September 30, 2001, 2002 and 2003, determined using the German corporate tax rate plus trade taxes, net of federal benefit, for a combined statutory rate of 52% for 2001, and 39% for 2002 and 41% (which includes a one year flood victim relief levy of 2%) for 2003 is as follows:

	2001	2002	2003
Expected benefit for income taxes	(533)	(455)	(147)
Decrease (increase) in available tax credits	(13)	30	(35)
Non-taxable investment (income) loss	(14)	(39)	14
Foreign tax rate differential	(78)	(46)	1
Non deductible expenses and other provisions	41	99	58
Change in German tax rate – effect on opening balance	(29)	–	2
Change in German tax rate – effect on current year	154	(2)	7
Increase in valuation allowance	18	271	182
In-process research and development	29	10	1
Other	(2)	(11)	1
Actual (benefit) provision for income taxes	(427)	(143)	84

Deferred income tax assets and liabilities as of September 30, 2002 and 2003 relate to the following:

	2002	2003
Assets		
Intangible assets	232	115
Fixed assets	43	105
Investments	10	8
Inventories	27	15
Deferred income	148	117
Net operating loss and tax credit carry-forwards	820	1,029
Other items	117	172
Gross deferred tax assets	1,397	1,561
Valuation allowances	(310)	(521)
Deferred tax assets	1,087	1,040
Liabilities		
Intangible assets	59	58
Property, plant and equipment	190	148
Accrued liabilities	8	31
Other items	40	56
Deferred tax liabilities	297	293
Deferred tax assets, net	790	747

Net deferred income tax assets and liabilities are presented in the accompanying balance sheets as of September 30, 2002 and 2003 as follows:

	2002	2003
Deferred tax assets		
Current	82	113
Non-current	787	705
Deferred tax liabilities		
Current	(21)	(39)
Non-current	(58)	(32)
	790	747

At September 30, 2003, the Company had tax loss carry-forwards of €2,195 (relating to both trade and corporate tax, plus an additional loss carry-forward applicable only to trade tax of €1,132), and tax credit carry-forwards of €100. Such tax loss and credit carry-forwards are mainly from German operations, are generally limited to use by the particular entity that generated the loss or credit and do not expire under current law, except for tax loss carry-forwards from non-German operations of €91 which expire in 2020 and 2021.

Pursuant to SFAS No. 109, the Company has assessed its deferred tax asset and the need for a valuation allowance. Such an assessment considers whether it is more likely than not that some portion or all of the deferred tax assets may not be realized. The assessment requires considerable judgment on the part of management, with respect to, amongst others, benefits that could be realized from available tax strategies and future taxable income, as well as other positive and negative factors. The ultimate realization of deferred tax assets is dependent upon the Company's ability to generate the appropriate character of future taxable income sufficient to utilize loss carry-forwards or tax credits before their expiration. Since the Company had incurred a cumulative loss in certain tax jurisdictions over a three year period as of September 30, 2003, the impact of forecast future taxable income is excluded from such an assessment, pursuant to the provisions of SFAS No. 109. For these tax jurisdictions, the assessment was therefore only based on the benefits that could be realized from available tax strategies and the reversal of temporary differences in future periods. As a result of this assessment, the Company increased the deferred tax asset valuation allowance as of September 30, 2003 by €182, to reduce the deferred tax asset to an amount that is more likely than not expected to be realized in future. During the year ended September 30, 2001 and 2002 valuation allowances relating to continuing operations in the amount of €18 and €271, respectively, were established for tax loss carry-forwards which, on a more likely than not basis, would not be fully utilized.

The changes in valuation allowance for deferred tax assets during the years ended September 30, 2002 and 2003 were as follows:

	2002	2003
Balance, beginning of the year	19	310
Applicable to continuing operations	271	182
Applicable to discontinued operation	4	–
Deferred tax assets acquired in business combinations	16	45
Purchase accounting adjustments	–	(16)
Balance, end of the year	310	521

As of September 30, 2003 the valuation allowance includes €45 established in connection with business combinations, which if reversed in future periods will be applied to the carrying value of intangible assets acquired in such business combinations.

The Company did not provide for income taxes or foreign withholding taxes on cumulative earnings of foreign subsidiaries as of September 30, 2003, because these earnings are intended to be indefinitely re-invested 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 the 2001, 2002 and 2003 financial years was allocated to continuing operations and accumulated other comprehensive income. The aggregate amounts allocated to equity, for unrealized gains (losses) on securities and minimum pension liabilities, were €(15), €(6) and €4 for 2001, 2002 and 2003, respectively.

10. Earnings (Loss) Per Share

Basic earnings (loss) per share ("EPS") is calculated by dividing net income (loss) by the weighted average number of ordinary shares outstanding during the year. Diluted EPS is calculated by dividing adjusted net income by the sum of the weighted average number of ordinary shares outstanding plus all additional ordinary shares that would have been outstanding if potentially dilutive securities or ordinary share equivalents had been issued.

The computation of basic and diluted EPS for the years ended September 30, 2001, 2002 and 2003, is as follows:

	2001	2002	2003
Numerator			
Net loss from continuing operations	(592)	(1,017)	(435)
Net income (loss) from discontinued operation	1	(4)	–
Net loss	(591)	(1,021)	(435)
Denominator			
Weighted-average shares outstanding – basic	640,566,801	694,729,462	720,850,455
Effect of dilutive instruments	–	–	–
Weighted-average shares outstanding – diluted	640,566,801	694,729,462	720,850,455
Loss per share (in euro)			
Basic and diluted – from continuing operations	(0.92)	(1.46)	(0.60)
Basic and diluted – from discontinued operation	–	(0.01)	–
Basic and diluted – net loss	(0.92)	(1.47)	(0.60)

Potentially dilutive instruments include employee stock options and the convertible subordinated notes. The effects of the assumed exercise conversion of these instruments are anti-dilutive to loss per share, and are therefore excluded from the calculation of dilutive loss per share for the years ended September 30, 2001, 2002 and 2003.

11. Marketable Securities

Marketable securities at September 30, 2002 and 2003 consist of the following:

	September 30, 2002				September 30, 2003			
	Cost	Fair Value	Unrealized Gain	Unrealized Loss	Cost	Fair Value	Unrealized Gain	Unrealized Loss
Foreign government securities	10	10	–	–	10	11	1	–
Floating rate notes	299	299	2	(2)	343	345	10	(8)
Other debt securities	23	21	–	(2)	145	145	–	–
Total debt securities	332	330	2	(4)	498	501	11	(8)
Equity securities	9	7	–	(2)	27	36	10	(1)
Fixed term deposits	413	413	–	–	1,261	1,260	–	(1)
Total marketable securities	754	750	2	(6)	1,786	1,797	21	(10)
Reflected as follows								
Current asset	742	738	2	(6)	1,774	1,784	20	(10)
Non-current asset (note 17)	12	12	–	–	12	13	1	–
Total marketable securities	754	750	2	(6)	1,786	1,797	21	(10)

At September 30, 2003 equity securities include shares held in ProMOS of €17, which are subject to a short-term sale restriction. The Company intends to dispose of its remaining shares in ProMOS in the short term subject to regulatory approvals. The Company accounts for its investment in ProMOS as marketable securities available for sale effective April 1, 2003 (see note 16). The Company realized a gain of €60 during the year ended September 30, 2003 on the sale of ProMOS shares.

Realized gains (losses) were €1, €(1) and €56 for the years ended September 30, 2001, 2002 and 2003, respectively, and are reflected as other non-operating income (expense), net in the accompanying consolidated statements of operations.

As of September 30, 2003 all fixed term deposits had contractual maturities of between three and twelve months.

Debt securities at September 30, 2003 had the following remaining contractual maturities:

	Cost	Fair Value
Less than 1 year	168	172
Between 1 and 5 years	150	150
More than 5 years	180	179
	498	501

Actual maturities may differ due to call or prepayment rights.

12. Trade Accounts Receivable, net

Trade accounts receivable at September 30, 2002 and 2003 consist of the following:

	2002	2003
Third party – trade	696	700
Siemens group – trade (note 27)	97	194
Associated and Related Companies – trade (note 27)	8	8
Trade accounts receivable, gross	801	902
Allowance for doubtful accounts	(43)	(26)
Trade accounts receivable, net	758	876

Activity in the allowance for doubtful accounts for the years ended September 30, 2002 and 2003 is as follows:

	2002	2003
Allowance for doubtful accounts at beginning of year	48	43
Bad debt recovery, net	(5)	(16)
Foreign currency effects	–	(1)
Allowance for doubtful accounts at end of year	43	26

13. Inventories

Inventories at September 30, 2002 and 2003 consist of the following:

	2002	2003
Raw materials and supplies	105	85
Work-in-process	463	489
Finished goods	323	385
	891	959

14. Other Current Assets

Other current assets at September 30, 2002 and 2003 consist of the following:

	2002	2003
Financial instruments (note 29)	138	154
Associated and Related Companies – financial and other receivables (note 27)	28	125
Grants receivable	100	98
Miscellaneous receivables	116	94
VAT and other tax receivables	54	28
Siemens group – financial and other receivables (note 27)	23	18
Employee receivables	8	7
Intangible pension asset (note 28)	–	4
Other	56	77
	523	605

15. Property, Plant and Equipment, net

A summary of activity for property, plant and equipment for the year ended September 30, 2003 is as follows:

	Land and buildings	Technical equipment and machinery	Other plant and office equipment	Construction in progress	Total
Cost, September 30, 2002	1,055	6,254	2,077	364	9,750
Additions	14	530	131	197	872
Disposals	(1)	(132)	(98)	(7)	(238)
Consolidations	6	18	2	–	26
Transfers	34	168	24	(226)	–
Foreign currency effects	(43)	(188)	(57)	(30)	(318)
September 30, 2003	1,065	6,650	2,079	298	10,092
Accumulated depreciation, September 30, 2002	(418)	(3,372)	(1,469)	–	(5,259)
Additions	(67)	(948)	(353)	–	(1,368)
Disposals	1	89	92	–	182
Transfers	(15)	11	4	–	–
Foreign currency effects	11	119	40	–	170
September 30, 2003	(488)	(4,101)	(1,686)	–	(6,275)
Book value September 30, 2002	637	2,882	608	364	4,491
Book value September 30, 2003	577	2,549	393	298	3,817

The Company is the lessor of technical equipment (see note 27) of €215 and €191 with related accumulated depreciation of €183 and €179 as of September 30, 2002 and 2003, respectively.

At September 30, 2003, construction in progress includes €165 relating to the construction of a 300-millimeter wafer fabrication facility in Richmond/Virginia, USA, which is temporarily suspended and not depreciated. The Company expects to continue construction in the near term subject to market conditions.

16. Long-term Investments, net

A summary of activity for long-term investments for the year ended September 30, 2003 is as follows:

	Investment in Associated Companies	Investment in Related Companies	Total
Balance at September 30, 2002	583	125	708
Additions	54	22	76
Deferred income (note 5)	60	–	60
Disposals	(185)	(11)	(196)
Transfers to marketable securities	(213)	–	(213)
Impairments	(8)	(22)	(30)
Equity in earnings	18	–	18
Reclassification	6	(6)	–
Loss on share issuance	(2)	–	(2)
Foreign currency effects	7	(3)	4
Balance at September 30, 2003	320	105	425

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

The following Associated Companies at September 30, 2003 are accounted for using the equity method of accounting:

Name of the Associated Company	Direct and indirect ownership in %
Advanced Mask Technology Center GmbH & Co. KG, Dresden, Germany ("AMTC")	33.3%
ALTIS Semiconductor S.N.C., Essonnes, France ("ALTIS")	50.1%
Cryptomathic Holding ApS, Arhus, Denmark ("Cryptomathic")	25.4%
Enhanced Memory Systems Inc., Wilmington, Delaware, USA ("EMS")	20.0%
Hwa-Ken Investment Inc., Taipei, Taiwan ("Hwa-Ken")	50.0%
Inotera Memories Inc., Taoyuan, Taiwan ("Inotera")	50,0%
Maskhouse Building Administration GmbH & Co. KG, Dresden, Germany ("BAC")	33.3%
MICRAM Microelectronic GmbH, Bochum, Germany ("MICRAM")	25.1%
Newlogic Technologies AG, Lustenau, Austria ("Newlogic")	24.9%
Ramtron International Corp., Colorado Springs, Colorado, USA ("Ramtron")	20.0%
StarCore LLC, Austin, Texas, USA ("StarCore")	35.7%

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

On May 16, 2002, the Company entered into the AMTC joint venture with the partners Advanced Micro Devices, Inc., USA, ("AMD") and DuPont Photomasks, Inc., USA, ("DuPont") with the purpose of developing and manufacturing advanced photo masks. In addition the Company agreed to sell specified photomask equipment to DuPont, and entered into a long-term purchase agreement through 2011. Accordingly at September 30, 2003, €28 was deferred which is to be recognized over the term of the purchase agreement.

ALTIS is a joint venture between Infineon and IBM, with each having equal voting representation.

Effective July 1, 2001, the Company acquired a 25.4% interest in Cryptomathic for €10 in cash.

On January 12, 2001, the Company obtained a 25.1% interest in MICRAM. MICRAM develops high-speed integrated circuits with rates of more than 40 Gigabit per second.

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

In March 2001, the Company acquired a 20.1% interest (subsequently diluted to 20.0%) in Ramtron for total consideration of €31, consisting of 443,488 ordinary shares and cash of €11. Ramtron is a leading developer of specialty semiconductor memory products, based in Colorado Springs, Colorado, USA, and listed on the Nasdaq exchange under the symbol RMTR. During the year ended September 30, 2002 the Company recorded a €9 impairment charge related to its investment because the decline in the market value of Ramtron shares since the initial investment was considered to be other-than-temporary.

On November 13, 2002, the Company entered into agreements with Nanya relating to a strategic cooperation in the development of DRAM products and the foundation of a 50:50 joint venture (Inotera, directly and indirectly through our investment in Hwa-Ken Investment Inc.) to construct and operate a 300-millimeter manufacturing facility in Taiwan. Pursuant to the agreements, the Company and Nanya are developing advanced 90-nanometer and 70-nanometer technology, the cost of which will be borne two-thirds by the Company and one-third by Nanya. The new 300-millimeter manufacturing facility will be funded by the Inotera joint venture and employ the technology developed under the aforementioned agreements to manufacture DRAM products and is anticipated to be completed in two phases. The first

phase is projected to be completed by the second half of the 2004 calendar year. The second phase is anticipated to be completed in the 2006 financial year. The joint venture partners are obligated to each purchase one-half of the facility's production based in part on market prices.

On October 4, 2002, the Company announced that it has cancelled its shareholders' agreement with Mosel Vitelic Inc. ("MVI") relating to their ProMOS joint venture, effective January 1, 2003, due to material breaches of the terms of the shareholders' agreement by MVI. The product purchase and capacity reservation agreement, which establishes the rights and obligations of both shareholders to purchase products from ProMOS, also terminated on January 1, 2003. On January 27, 2003, the Company terminated its technology license agreement with ProMOS. ProMOS subsequently terminated this same technology license agreement. The technology license agreement provides for the use of an arbitration proceeding to resolve certain disputes. In May 2003, ProMOS initiated an arbitration proceeding relating to this dispute pursuant to International Chamber of Commerce (ICC) regulations which is to be conducted in Munich, Germany.

During the years ended September 30, 2001 and 2002, ProMOS distributed employee bonuses in the form of shares and issued shares, which diluted the Company's shareholding at that time while increasing its proportional share of ProMOS shareholders' equity by €11 and €18, respectively. During the year ended September 30, 2003 ProMOS repurchased shares in the open market, which increased the Company's shareholding at that time while decreasing its proportional share of ProMOS shareholders' equity by €2.

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

On October 1, 2002, the Company, Agere Systems Inc. and Motorola Inc., incorporated StarCore LLC, based in Austin, Texas. As of September 30, 2003, the Company holds a 35.7% ownership interest with an aggregate value of €23. StarCore focuses on developing, standardizing and proliferating Digital Signal Processor (DSP) core technology.

The Company recognized impairment charges related to certain investments for which the carrying value exceeded the fair value on an other-than-temporary basis, of €6, €39 and €30 for the years ended September 30, 2001, 2002 and 2003, respectively.

Included in the amount of long-term investments at September 30, 2003 is goodwill of €38.

For the Associated Companies as of September 30, 2003 the aggregate summarized financial information for the fiscal years 2001, 2002 and 2003, is as follows:

	2001	2002	2003
Sales	538	541	600
Gross profit	45	62	67
Net income (loss)	12	6	(6)

	2001	2002	2003
Current assets	329	269	243
Non-current assets	659	650	682
Current liabilities	(530)	(442)	(324)
Non-current liabilities	(8)	(13)	(15)
Shareholders' equity	450	464	586

17. Other Assets

Other non-current assets at September 30, 2002 and 2003 consist of the following:

	2002	2003
Intangible assets, net	554	411
Notes receivable	9	43
Marketable securities (note 11)	12	13
Associated and Related Companies – financial and other (note 27)	92	11
Employee receivables	2	2
Other, net	2	5
	671	485

A summary of activity for intangible assets for the year ended September 30, 2003 is as follows:

	Goodwill	Other intangibles	Total
Cost, September 30, 2002	387	301	688
Additions	–	58	58
Impairments and write-offs	(68)	–	(68)
Disposals	–	(30)	(30)
Acquisitions	29	34	63
Adjustments	(70)	(20)	(90)
Foreign currency effects	(35)	(4)	(39)
September 30, 2003	243	339	582
Accumulated amortization, September 30, 2002	(31)	(103)	(134)
Additions	–	(69)	(69)
In-process R&D	–	(6)	(6)
Disposals	–	30	30
Foreign currency effects	4	4	8
September 30, 2003	(27)	(144)	(171)
Book value September 30, 2002	356	198	554
Book value September 30, 2003	216	195	411

The estimated aggregate amortization expense relating to other intangible assets for each of the five succeeding financial years is as follows: 2004 €64; 2005 €48; 2006 €34; 2007 €27; 2008 €10.

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

As a result of the combination of below forecast operating results and moderated market expectations, the Company, taking the technical milestones achieved to date into account, revised the forecast returns for the optical networking reporting unit of the Wireline Communications segment. Accordingly, the Company tested the reporting unit's goodwill for impairment using a present value technique based on discounted estimated future cash flows pursuant to SFAS No.142, "Goodwill and Other Intangible Assets", and recognized an impairment charge of €68 during the year ended September 30, 2003.

During the years ended September 30, 2001 and 2002, the Company recognized impairment charges of €42 and €12, respectively.

18. Trade Accounts Payable

Trade accounts payable at September 30, 2002 and 2003 consist of the following:

	2002	2003
Third party – trade	837	750
Siemens group – trade (note 27)	154	73
Associated and Related Companies – trade (note 27)	206	54
	1,197	877

19. Accrued Liabilities

Accrued liabilities at September 30, 2002 and 2003 consist of the following:

	2002	2003
Personnel costs	187	257
Warranties and licenses	103	169
Taxes	93	67
Interest	31	42
Other	59	109
	473	644

20. Other Current Liabilities

Other current liabilities at September 30, 2002 and 2003 consist of the following:

	2002	2003
Deferred income	126	152
Payroll obligations and other liabilities to employees	162	121
VAT and other taxes payable	108	100
Restructuring (note 8)	35	27
Financial instruments (note 29)	3	11
Associated and Related Companies – financial and other (note 27)	62	5
Other	76	9
	572	425

Deferred income includes amounts relating to licenses and technology transfer fees (see note 5), gain associated with sale of a business (see note 4), and government grants (see note 6).

21. Debt

Debt at September 30, 2002 and 2003 consists of the following:

	2002	2003
Short-term debt		
Notes payable to banks, weighted average rate 3.6%	96	8
Current portion of long-term debt	23	138
Capital lease obligations	1	3
Total short-term debt and current maturities	120	149
Long-term debt		
Convertible subordinated notes, 4.25%, due 2007	981	987
Convertible subordinated notes, 5.0%, due 2010	–	688
Loans payable to banks		
Unsecured term loans, weighted average rate 2.35%, due 2004–2008	595	566
Secured term loans, weighted average rate 6.31%, due 2004 - 2013	2	28
Loans payable, weighted average rate 4.0%, due 2004	6	6
Interest-free loan due 2004	51	–
Notes payable to governmental entity, rate 0.97%, due 2027-2031	70	60
Capital lease obligations	5	8
Total long-term debt	1,710	2,343

Short-term notes payable to banks consist primarily of borrowings under the terms of short-term borrowing arrangements.

On June 5, 2003, the Company (as guarantor) through its subsidiary Infineon Technologies Holding B.V. (as issuer), issued €700 in subordinated convertible notes due 2010 at par in an underwritten offering to institutional investors in Europe. The notes are convertible, at the option of the holders of the notes, into a maximum of 68.4 million ordinary shares of the Company, at a conversion price of euro 10.23 per share. Upon conversion, the Company may pay a cash amount in lieu of delivery of all or part of the shares. The notes accrue interest at 5.0% per year. The notes are unsecured and pari passu with all present and future unsecured subordinated obligations of the issuer, and cannot be converted for the first three years. The note holders have a negative

pledge relating to future capital market indebtedness, as defined. The note holders have an early redemption option in the event of a change of control, as defined. A corporate reorganization resulting in a substitution of the guarantor shall not be regarded as a change of control, as defined. The Company may redeem the convertible notes after three years at their principal amount plus interest accrued thereon, if the Company's share price exceeds 125% of the conversion price on 15 trading days during a period of 30 consecutive trading days. The convertible notes are listed on the Luxembourg Stock Exchange. At September 30, 2003, unamortized debt issuance costs were €12.

On February 6, 2002, the Company (as guarantor), through its subsidiary Infineon Technologies Holding B.V. (as issuer), issued €1,000 in subordinated convertible notes due 2007 at par in an underwritten offering to institutional investors in Europe. The notes are convertible, at the option of the holders of the notes, into a maximum of 28.2 million of the Company's ordinary shares at a conversion price of euro 35.43 per share. Upon conversion, the Company may pay a cash amount in lieu of delivery of all or part of the shares. The convertible notes accrue interest at 4.25% per year. The notes are unsecured and pari passu with all present and future unsecured subordinated obligations of the issuer. The note holders have a negative pledge relating to any future capital market indebtedness, as defined. The note holders have an early redemption option in the event of a change of control, as defined. The Company may redeem the convertible notes after three years at their principal amount plus interest accrued thereon, if the Company's share price exceeds 115% of of the conversion price on 15 trading days during a period of 30 consecutive trading days. The convertible notes are listed on the Luxembourg Stock Exchange. At September 30, 2003, unamortized debt issuance costs were €13.

Included in unsecured term loans is a €450 syndicated credit facility relating to the expansion of the Dresden manufacturing facility, which was fully drawn as of September 30, 2002 and 2003. The credit facility is supported by a partial guarantee of the Federal Republic of Germany and another governmental entity. The credit facility contains specified financial covenants, provides for annual payments of interest and matures on September 30, 2005.

The interest-free loan, due September 2004, which is included in current portion of long-term debt as of September 30, 2003, consists of borrowings under an arrangement whereby a governmental entity has agreed to pay all interest thereon. Additionally, should the Company meet certain stipulations, the governmental entity has agreed to reimburse the Company for the outstanding balance of the loan. The Company has complied with the stipulations through September 30, 2003.

Notes payable to governmental entity consist of unsecured Industrial Revenue Bonds associated with the construction at the Infineon Richmond facility.

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

			As of September 30, 2003		
Term	Nature of financial institution commitment	Purpose/ intended use	Aggregate facility	Drawn	Available
short-term	firm commitment	working capital, guarantees, cash management	612	63	549
short-term	no firm commitment	working capital	91	–	91
long-term	firm commitment	working capital	378	3	375
long-term[1]	firm commitment	project finance	751	751	–
			1,832	817	1,015

1 Including current maturities.

At September 30, 2003, the Company is in compliance with its debt covenants under the relevant facilities. The Company has a €375 syndicated multicurrency revolving credit facility, which expires in September 2005. The facility has customary financial covenants and drawings bear market related interest. At September 30, 2003 no amounts were outstanding under this facility. The Company had an additional €375 short-term component to the revolving credit facility available at September 30, 2002, however in September 2003 elected not to extend this component due to available cash resources.

Interest expense for the years ended September 30, 2001, 2002 and 2003 was €42, €89 and €126, respectively.

Aggregate amounts of long-term debt maturing subsequent to September 30, 2003 are as follows:

Year ending September 30	Amount
2005	530
2006	49
2007	1,008
2008	4
thereafter	752
	2,343

22. Other Liabilities

Other non-current liabilities at September 30, 2002 and 2003 consist of the following:

	2002	2003
Redeemable interest	218	242
Deferred government grants (note 6)	230	223
Accrued pension liabilities (note 28)	82	87
Deferred income, other	–	28
Deferred license and technology transfer fees (note 5)	39	22
Accrued post-retirement benefits (note 28)	6	5
Minority interest	12	5
Other	22	18
	609	630

Under the Company's agreements with the other investors in the Infineon Technologies SC300 GmbH & Co. KG, Dresden ("SC300") venture, each of them has the right to sell their interest in the venture to the Company on September 30, 2005 and every third anniversary thereafter, and the Company has the right to purchase their interests in the venture once every three years, commencing March 31, 2004. In addition, each of the other investors has the right to sell their interest in the venture to the Company under certain conditions. The carrying amount of this redeemable interest represents their contributed capital and 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.

23. Ordinary Share Capital

As of September 30, 2003 the Company had 720,880,604 registered ordinary shares of euro 2.00 notional value per share outstanding. During the year ended September 30, 2003, due to the achievement of certain milestones, 96,386 shares representing contingent purchase consideration in connection with the Catamaran acquisition (see note 3), were released from third party escrow, and are reflected as issued in the accompanying statement of shareholders' equity.

Authorized and Conditional Share Capital

In addition to the issued share capital, the Company's Articles of Association authorize the Management Board to increase the ordinary share capital with the Supervisory Board's consent by issuing new shares. As of September 30, 2003, the Management Board may use these authorizations to issue new shares as follows:

- Through January 21, 2007, Authorized Share Capital I/2002 in an aggregate nominal amount of up to €295 to issue shares for cash, where the preemptive rights of shareholders may be partially excluded, or in connection with business combinations (contributions in kind), where the preemptive rights of shareholders may be excluded for all shares.

- Through March 31, 2004, Authorized Share Capital II – in an aggregate nominal amount of up to €119 to issue shares to employees (in which case the preemptive rights of existing shareholders are excluded).

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

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

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

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

Capital Transactions
Following the Formation, the Company was capitalized through the issuance of 600,000,000 ordinary shares with an aggregate nominal value of €1,200. On March 13, 2000, the Company successfully completed its initial public offering ("IPO") of 16,700,000 ordinary shares, in the form of American Depository Shares which are listed on the New York Stock Exchange and ordinary shares which are listed on the Frankfurt Stock Exchange, raising €562, net of offering expenses.

In April 2000, pursuant to a private placement, the Company sold 7,592,430 ordinary shares, raising €259.

On June, 2000, the Company issued 1,209,077 ordinary shares from Authorized Share Capital III to acquire the net assets of Savan.

In March 2001, the Company issued 443,488 ordinary shares from Authorized Share Capital III as partial consideration to acquire an interest in Ramtron International Corp.

In April 2001, the Company issued 706,714 ordinary shares from Authorized Share Capital III to acquire Ardent.

In July 2001, the Company successfully completed a secondary public offering of 60,000,000 ordinary shares, raising €1,475, net of offering expenses.

In August 2001, the Company issued 6,373,435 ordinary shares from Authorized Share Capital III to acquire Catamaran.

In September 2002, the Company issued 27,500,000 ordinary shares from Authorized Share Capital I/2002 to acquire MIC (see note 3).

Under German commercial law (Aktiengesetz), the amount of dividends available for distribution to shareholders is based on the level of earnings (Bilanzgewinn) of the ultimate parent, as determined in accordance with the HGB. All dividends must be approved by shareholders. The ordinary shareholders meeting held in January 2003 did not authorize a dividend. No dividend will be proposed by management to the shareholders for the 2003 financial year, since Infineon Technologies AG as the ultimate parent incurred a loss (Bilanzverlust) for the year ended September 30, 2003.

24. Stock-based Compensation

Fixed Stock Option Plans
On April 6, 2001, the Company's shareholders approved the International Long-Term Incentive Plan (the "LTI 2001 Plan") which replaced the LTI 1999 Plan. Options previously issued under the LTI 1999 Plan remain unaffected as to terms and conditions, however, no additional options may be issued under the LTI 1999 Plan. Under the terms of the LTI 2001 Plan, the Company can grant up to 51.5 million options over a five-year period. The exercise price of each option equals 105% of the average closing price of the Company's stock during the five trading days prior to the grant date. Granted options have a vesting period of between two and four years and expire seven years from the grant date.

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

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

A summary of the status of the LTI 1999 Plan and the LTI 2001 Plan as of September 30, 2003, and changes during the three years then ended is presented below:

	2001		2002		2003	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Outstanding at beginning of year	5,469,468	€42.15	11,267,878	€48.56	19,883,210	€35.96
Granted	6,013,060	€54.15	9,393,030	€21.74	11,724,760	€8.97
Exercised	–	–	–	–	–	–
Forfeited	(214,650	€43.82	(777,698)	€45.90	(1,718,486)	€32.80
Outstanding at end of year	11,267,878	€48.56	19,883,210	€35.96	29,889,484	€25.56
Exercisable at end of year	–	–	5,060,460	€42.00	9,581,529	€48.56

The following table summarizes information about stock options outstanding and exercisable at September 30, 2003:

	Outstanding			Exercisable	
Range of exercise prices	Number of options	Weighted average remaining life (in years)	Weighted average exercise price	Number of options	Weighted average exercise price
€ 5 – €10	11,072,740	6.14	€8.91	–	–
€10 – €15	1,616,400	6.00	€12.65	–	–
€15 – €20	176,750	5.84	€15.75	–	–
€20 – €25	7,361,690	5.18	€23.70	–	–
€25 – €30	143,750	4.99	€27.44	63,375	€27.54
€40 – €45	4,675,214	3.46	€42.03	4,675,214	€42.03
€50 – €55	103,700	4.51	€53.26	103,700	€53.26
€55 – €60	4,739,240	4.16	€55.18	4,739,240	€55.18
Total outstanding & exercisable	29,889,484	5.15	€25.56	9,581,529	€48.56

Employee Stock Purchase Plans

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

Fair value disclosures

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

	2001	2002	2003
Weighted-average assumptions			
Risk-free interest rate	5.35%	4.19%	3.85%
Expected volatility	50%	52%	59%
Dividend yield	0%	0%	0%
Expected life in years	4.50	4.50	4.50
Weighted-average fair value per option at grant date in euro	24.18	9.09	4.41

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

	2001	2002	2003
Net loss			
As reported	(591)	(1,021)	(435)
Deduct: Stock-based employee compensation expense included in reported net income, net of related tax effects	25	23	7
Add: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects	(72)	(92)	(43)
Pro forma	(638)	(1,090)	(471)
Basic and diluted loss per share:			
As reported	€(0.92)	€(1.47)	€(0.60)
Pro forma	€(1.00)	€(1.57)	€(0.65)

25. Other Comprehensive Income (Loss)

The changes in the components of other comprehensive income (loss) for the years ended September 30, 2001, 2002 and 2003 are as follows:

	2001			2002			2003		
	Pretax	Tax effect	Net	Pretax	Tax effect	Net	Pretax	Tax effect	Net
Unrealized (losses) gains on securities									
Unrealized holding (losses) gains	(3)	1	(2)	(4)	2	(2)	11	–	11
Reclassification adjustment for losses (gains) included in net income (loss)	(13)	7	(6)	3	(1)	2	4	(2)	2
Net unrealized (losses) gains	(16)	8	(8)	(1)	1	–	15	(2)	13
Additional minimum pension liability	(19)	7	(12)	(13)	5	(8)	4	(2)	2
Foreign currency translation adjustment	(19)	–	(19)	(92)	–	(92)	(76)	–	(76)
Other comprehensive (loss) income	(54)	15	(39)	(106)	6	(100)	(57)	(4)	(61)
Accumulated other comprehensive income (loss) – beginning of year	119	(7)	112	65	8	73	(41)	14	(27)
Accumulated other comprehensive income (loss) – end of year	65	8	73	(41)	14	(27)	(98)	10	(88)

26. Supplemental Cash Flow Information

	2001	2002	2003
Cash paid for			
Interest	52	55	91
Income taxes	282	46	53
Operating activities			
Cash received for tax-free government grants	22	86	34
Non-cash investing and financing activities			
Contributions from (to) Siemens	(11)	10	(6)
Acquisition of intangible assets	10	16	8
Assets acquired through capital lease transactions	–	2	5

On August 14, 2001 the Company entered into an agreement to sell its 49% interest in the OSRAM Opto Semiconductors GmbH & Co. OHG joint venture ("OSRAM Opto") for €565 to OSRAM GmbH ("OSRAM "), a wholly owned subsidiary of Siemens. Pursuant to the provisions of Accounting Interpretation No. 39 of APB Opinion 16, "Transfers and Exchanges Between Companies under Common Control", transfers of long-lived assets between entities under common control are to be accounted for at their historic costs and any excess of consideration received should be accounted for as a capital contribution. Accordingly, since the Company was a subsidiary of Siemens at the transaction date, the excess purchase price, net of tax, of €392 is reflected as a direct increase to additional paid-in capital at September 30, 2001.

27. Related Parties

The Company has transactions in the normal course of business with Siemens group companies and with Related and Associated Companies (together, "Related Parties"). The Company purchases certain of its raw materials, especially chipsets, from and sells a considerable 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, 2002 and 2003 consist of the following:

	2002	2003
Current		
Siemens group – trade	97	194
Associated and Related Companies – trade	8	8
Siemens group – financial and other	23	18
Associated and Related Companies – financial and other	28	125
Employee receivables	8	7
	164	352
Non-current		
Associated and Related Companies – financial and other	92	11
Employee receivables	2	2
	94	13
Total Related Party receivables	258	365

Related Party payables at September 30, 2002 and 2003 consist of the following:

	2002	2003
Siemens group – trade	154	73
Associated and Related Companies – trade	206	54
Associated and Related Companies – financial and other	62	5
Total Related Party payables	422	132

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

The Company and IBM have both extended revolving term loans to ALTIS. As of September 30, 2003, the outstanding balance of the Company's loan to ALTIS was €61 and is included in current Associated and Related Companies – financial and other receivables.

At September 30, 2003, current Associated and Related Companies – financial and other receivables include an unsecured loan of €58 to Inotera, which bears interest at market rates and was converted to equity in October 2003.

At September 30, 2002 current Associated and Related Companies – financial and other payables include a loan of US$55 million from UMCi, which bears interest at market rates and was due and repaid during the year ended September 30, 2003.

Transactions with Related Parties during the years ended September 30, 2001, 2002 and 2003, include the following:

	2001	2002	2003
Sales to Related Parties			
Siemens group companies	848	685	836
Associated and Related Companies	147	170	163
	995	855	999
Purchases from Related Parties			
Siemens group companies	417	681	413
Associated and Related Companies	1,040	686	470
Interest income from Related Parties	9	5	4
Interest expense to Related Parties	10	2	1

Sales to Siemens group companies include sales to the Siemens group sales organizations for resale to third parties of €89, €77 and €86 for the years ended September 30, 2001, 2002 and 2003, respectively. Sales are principally conducted through the Company's own independent sales organization directly to third parties. Where the Company has not established its own independent sales organization in a certain country, a commission is paid to the Siemens group sales organizations where they assist in making sales directly to third parties.

Purchases from Siemens group companies primarily include purchases of inventory, IT services, and administrative services.

Technical equipment is leased to ALTIS (see note 15). The non-cancelable future lease payments due under this lease at September 30, 2003 amount to €17 for the year ended September 30, 2004.

On August 10, 2000, Siemens issued a guaranteed exchangeable note with an aggregate nominal amount of €2,500 (representing 4% of the Company's ordinary share capital), which is divided into bearer notes with a nominal amount of €0.1 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, 2005 for 1,000 of the Company's shares.

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

Siemens Pension Trust e.v., Munich informed the Company, by letter dated December 13, 2002, that their share of voting rights of Infineon Technologies AG had fallen below the threshold of 10% on December 2, 2002. The Company assumes that the shareholding of the Siemens group on a consolidated basis had fallen below 50% at the same time.

The transfer of the Company's shares to the non-voting trust by Siemens on December 5, 2001, reduced Siemens' voting interest in the Company by an amount corresponding to the number of shares transferred. Accordingly, while Siemens' ownership interest in the Company at September 30, 2003 is 39.7%, its voting interest approximates 12.0%. Since shareholders of the Company other than Siemens and the non-voting trust own approximately 60.3% of the Company's share capital, they control a majority of the shares that may be voted at the Company's shareholders' meeting. The effect of the transfer of the Company's shares into the non-voting trust is that the other shareholders in the Company have a disproportionate voting interest.

28. Pension Plans

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

Information with respect to the Company's pension plans for the years ended September 30, 2001, 2002 and 2003 is presented by German ("Domestic") plans and non-German ("Foreign") plans.

	2001		2002		2003	
	Domestic plans	Foreign plans	Domestic plans	Foreign plans	Domestic plans	Foreign plans
Change in projected benefit obligations						
Projected benefit obligations beginning of year	(170)	(50)	(197)	(47)	(218)	(58)
Service cost	(12)	(2)	(13)	(5)	(13)	(5)
Interest cost	(11)	(3)	(12)	(3)	(13)	(4)
Actuarial (losses) gains	(6)	(1)	–	2	3	(5)
Business combinations	–	–	–	(7)	–	(7)
Divestitures	–	–	1	–	–	–
New plan created	–	–	(1)	(2)	–	–
Plan amendments	–	4	–	–	(4)	–
Settlement of pension obligations	–	1	–	–	–	–
Benefits paid	2	1	2	2	2	1
Curtailment	–	–	2	–	–	3
Foreign currency effects	–	3	–	2	–	5
Projected benefit obligations end of year	(197)	(47)	(218)	(58)	(243)	(70)
Change in fair value of plan assets						
Fair value at beginning of year	155	9	133	24	130	26
Contributions and transfers	2	16	2	3	12	2
Actual return on plan assets	(22)	1	(13)	1	3	–
Benefits paid	(2)	(1)	(2)	(2)	(2)	(1)
Business combination	–	–	–	–	–	4
New plan created	–	–	–	2	–	–
Foreign currency effects	–	(1)	–	(2)	–	(4)
Fair value at end of year	133	24	120	26	143	27
Funded status	(64)	(23)	(98)	(32)	(100)	(43)
Unrecognized actuarial loss	52	4	68	3	66	6
Unrecognized prior service cost (benefit)	–	–	–	–	4	(2)
Unrecognized net obligation	2	–	–	–	–	–
Post measurement date contributions	–	–	10	–	16	–
Net liability recognized	(10)	(19)	(20)	(29)	(14)	(39)

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

	2001		2002		2003	
	Domestic plans	Foreign plans	Domestic plans	Foreign plans	Domestic plans	Foreign plans
Prepaid pension cost	–	–	–	–	–	1
Intangible asset (note 14)	–	–	–	–	4	–
Accumulated other comprehensive income	19	–	33	–	29	–
Accrued pension liability (note 22)	(29)	(19)	(53)	(29)	(47)	(40)
Net liability recognized	(10)	(19)	(20)	(29)	(14)	(39)

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

	2001		2002		2003	
	Domestic plans	Foreign plans	Domestic plans	Foreign plans	Domestic plans	Foreign plans
Discount rate	6.0%	7.5%	6.0%	5.5%–7.0%	5.8%	5.3%–6.0%
Rate of compensation increase	3.0%	4.5%	3.0%	3.0%–4.5%	3.0%	3.0%–4.5%
Expected return on plan assets	10.0%	8.0%	5.4%	6.0%–8.0%	4.9%	6.0%–7.0%

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

The components of net periodic pension cost for the years ended September 30, 2001, 2002 and 2003 are as follows:

	2001		2002		2003	
	Domestic plans	Foreign plans	Domestic plans	Foreign plans	Domestic plans	Foreign plans
Service cost	(12)	(2)	(13)	(5)	(13)	(5)
Interest cost	(11)	(3)	(12)	(3)	(13)	(4)
Expected return on plan assets	15	1	5	1	6	2
Amortization of unrecognized losses	–	3	(2)	–	(3)	–
Amortization of unrecognized net obligation	(2)	–	(2)	–	–	–
Curtailment gain recognized	–	–	2	–	–	3
Net periodic pension cost	(10)	(1)	(22)	(7)	(23	(4)

On September 25, 2000, the Company established the Infineon Technologies Pension Trust e.V. (the ''Pension Trust'') for the purpose of funding future pension benefit payments for employees in Germany. The Company contributed €155 of cash and marketable debt and equity securities, which qualify as plan assets under SFAS No. 87, to the Pension Trust for use in funding these pension benefit obligations, thereby reducing accrued pension liabilities.

The effect of the employee terminations, in connection with the Company's restructuring plan (see note 8), on the Company's pension obligation is reflected as a curtailment in the years ended September 30, 2002 and 2003 pursuant to the provisions of SFAS No. 88 "Employers' Accounting for Settlements and Curtailments of Defined Benefit Pension Plans and for Termination Benefits."

During the years ended September 30, 2002 and 2003, the Company made contributions of €12 and €28, respectively, to fund its pension plan in Germany.

During the year ended September 30, 2002, the Company established a deferred savings plan for its German employees, whereby a portion of the employee's salary is invested for a lump sum benefit payment including interest upon retirement. The liability for such future payments is actuarially determined and accounted for on the same basis as the Company's other pension plans.

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

The Company provides post-retirement health care benefits to eligible employees in the United States. The Company recognized net periodic benefit cost of €1, €0 and €0 for the years ended September 30, 2001, 2002 and 2003, respectively. The net liability recognized in the balance sheet was €6 at September 30, 2001 and 2002, respectively, and €5 at September 30, 2003.

As a matter of policy, the Company's pension plans do not invest in the Company's shares.

29. Financial Instruments

The Company 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. The Company does not enter into derivatives for trading or speculative purposes.

The euro equivalent notional amounts in millions and fair values of the Company's derivative instruments as of September 30, 2002 and 2003 are as follows:

	2002		2003	
	Notional amount	Fair value	Notional amount	Fair value
Forward contracts sold				
US dollar	313	6	306	5
Japanese yen	–	–	8	–
Great Britain pound	–	–	2	–
Forward contracts purchased				
US dollar	148	–	54	(1)
Japanese yen	75	(2)	29	1
Singapore dollar	33	(1)	20	–
Great Britain pound	7	–	4	–
Other currencies	52	–	15	1
Currency Options sold				
US dollar	–	–	175	(10)
Currency Options purchased				
US dollar	–	–	186	7
Cross currency interest rate swap:				
US dollar	616	106	547	113
Interest rate swap	500	26	1,200	27
Forward rate agreements	150	–	–	–
Fair value, net		135		143

At September 30, 2002 and 2003, all derivative financial instruments are recorded at fair value.

Gains related to foreign currency derivatives and foreign currency transactions amounted to €34 for the year ended September 30, 2001, and losses related to foreign currency derivatives and foreign currency transactions amounted to €16 and €35 for the years ended September 30, 2002 and 2003, respectively. Gains and losses on derivative financial instruments are included in determining net income, with those related to operations included primarily in cost of goods sold, and those related to financial activities included in other income or expense.

Fair values of financial instruments are determined using quoted market prices or discounted cash flows. The fair value of the Company's unsecured term loans and interest-bearing notes payable approximate their carrying values as their interest rates approximate those which could be obtained currently. Due to the restrictions on transferability under the interest-free arrangement, a fair value other than the carrying value of the interest-free loan is not meaningful. At September 30, 2003 the convertible notes due 2007 and the convertible notes due 2010 were trading at a 6.9% discount to par and a 36.8% premium to par, respectively, based on quoted market values on the Luxembourg Stock Exchange. The fair values of the Company's cash and cash equivalents, receivables, related-party receivables and payables and other financial instruments approximate their carrying values due to their short-term nature. Marketable securities are recorded at fair value (see note 11).

30. Risks

Financial instruments that expose the Company to credit risk consist primarily of trade receivables, cash equivalents, marketable securities and foreign currency derivatives. Concentrations of credit risks with respect to trade receivables are limited by the large number of geographically diverse customers that make up Company's customer base. The Company controls credit risk through credit approvals, credit limits and monitoring procedures, as well as comprehensive credit evaluations for all customers. Related Parties account for a considerable portion of sales and trade receivables. The credit risk with respect to cash equivalents, marketable securities and foreign currency derivatives is limited by transactions with a number of large international financial institutions up to pre-established limits. The Company does not believe that there is significant risk of non-performance by these counterparties because the Company monitors their credit ratings and limits the financial exposure and the amount of agreements entered into with any one financial institution.

In order to remain competitive, the Company must continue to make substantial investments in process technology and research and development. Portions of these investments might not be recoverable if these research and development efforts fail to gain market acceptance or if markets significantly deteriorate.

31. Commitments and Contingencies

Litigation

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's SDRAM and DDR DRAM products infringe patents owned by Rambus.

On May 4, 2001 and May 9, 2001, the Federal District Court for the Eastern District of Virginia (the "District Court") dismissed all 57 of Rambus' patent infringement claims against us. In addition, the court found that Rambus committed fraud by its conduct in the JEDEC standard setting organization and awarded damages to us. On January 29, 2003 the U.S. Court of Appeals for the Federal Circuit ("CAFC") revised the District Court's claim construction on 4 claim terms, and remanded the infringement case back to the District Court for a jury trial. The CAFC also reversed the District Court's finding that Rambus had committed fraud by its conduct in JEDEC. The Company appealed the CAFC's decision unsuccessfully to the U.S. Supreme Court. The retrial in the District Court on the patent infringement claims is in the early stages. We believe we have meritorious defenses to the allegations of infringement.

Court proceedings in the German court began in December 2000 and are still active. An expert report commissioned by the court was rendered in May 2002 but the court has not yet made its decision on the basis of this report. In September 2002, the European Patent Office (EPO) declared that the Rambus patent had been unduly broadened, thus making it easier for us to defend against allegations of direct infringement. Rambus has appealed the EPO's declaration, and the EPO is expected to decide on the appeal following a hearing in February 2004. The Court has scheduled a hearing in the infringement matter for May 2004 subsequent to the then expected decision of the EPO. We believe we have meritorious defenses to the allegations of infringement.

SDRAM and DDR DRAM products incorporating the technology that is the subject of the Rambus claims currently constitute substantially all of the products of our Memory Products segment. This segment contributed net sales of €2,485 and earnings before interest and taxes of €31 during the year ended September 30, 2003. If the Company were to be enjoined from producing SDRAM and DDR DRAM products, its financial position and results of operations would be materially and adversely affected, since the Company would have to discontinue the SDRAM and DDR DRAM product lines or enter into a licensing arrangement with Rambus, which could require the payment of substantial licensing fees.

We currently license certain RDRAM technology from Rambus. The Company's use of this technology is not in dispute in the proceedings described above.

On June 17, 2002, our U.S. subsidiary received a grand jury subpoena from the U.S. District Court for the Northern District of California seeking information regarding an investigation by the Antitrust Division of the Department of Justice (the "DOJ") into possible antitrust violations in the DRAM industry. The Company is cooperating with the DOJ in its investigation.

Subsequent to the commencement of the DOJ investigation, a number of purported class action lawsuits were filed against us and other DRAM suppliers. Sixteen cases were filed between June 21, 2002 and September 19, 2002 in the following federal district courts: one in the Southern District of New York, five in the District of Idaho, and ten in the Northern District of California. Each of the federal district court cases purports to be on behalf of a class of individuals and entities who purchased DRAM directly from the various DRAM suppliers during a specified time period commencing on or after October 1, 2001. The complaints allege price-fixing in violation of the Sherman Act and seek treble damages in unspecified amounts, costs, attorneys' fees, and an injunction against the allegedly unlawful conduct. On September 26, 2002, the Judicial Panel on Multi-District Litigation held a hearing and subsequently ordered that the foregoing federal cases be transferred to the U.S. District Court for the Northern District of California (San Francisco) for coordinated or consolidated pretrial proceedings.

Eight additional cases were filed between August 2, 2002 and March 11, 2003 in the following California state superior courts: five in San Francisco County, one in Santa Clara County, one in Los Angeles County, and one in Humboltd County. Each of the California state cases purports to be on behalf of a class of individuals and entities who indirectly purchased DRAM during a specified time period commencing December 1, 2001. The complaints allege violations of California's Cartwright Act and Unfair Competition Law and unjust enrichment and seek treble damages in unspecified amounts, restitution, costs, attorneys' fees, and an injunction against the allegedly unlawful conduct. In response to a petition filed by one of the plaintiffs, a judge appointed by the Judicial Council of California subsequently ordered that the then-pending state cases be coordinated for pretrial purposes and recommended that they be transferred to San Francisco County Superior Court for coordinated or consolidated pretrial proceedings.

Liabilities related to legal proceedings are recorded when it is probable that a liability has been incurred and the associated amount can be reasonably estimated. Accordingly, as of September 30, 2003, the Company accrued a liability and charged operating income in the amount of €28 related to the DOJ investigation and civil antitrust claims. As additional information becomes available, the potential liability related to these matters would be reassessed and the estimates revised, if necessary. These accrued liabilities would be subject to change in the future based on new developments in each matter, or changes in circumstances, which could have a material impact on the Company's results of operations and financial position.

In April 2003, the Company received a request for information from the European Commission (the "Commission") to enable the Commission to assess the compatibility with the Commission's rules on competition of certain practices of which the Commission has become aware in the European market for DRAM memory products. The Company is cooperating with the Commission in its investigation and is unable to predict the outcome of this matter.

An adverse final resolution of the Rambus claims, the DOJ or Commission investigations or the civil antitrust claims described above would result in significant financial liability to and other adverse effects upon the Company, which would have a material adverse effect on its business, results of operations and financial condition. Irrespective of the validity or the successful assertion of the above-referenced claims, the Company could incur significant costs with respect to defending against or settling such claims, which could have a material adverse effect on its results of operations or financial condition or cash flows.

In October 1999, Deutsche Telekom AG notified us of a potential contractual warranty claim in respect of chips supplied by us for Deutsche Telekom calling cards. The claim relates to damages allegedly suffered by Deutsche Telekom as a result of such cards being fraudulently reloaded by third parties. Deutsche Telekom originally alleged damages of approximately €90 as a result of these activities, reflecting damages suffered and the cost of remedial measures, and sought compensation from both Siemens and the Company. In September 2001, however, Deutsche Telekom brought an action in the State Court (Landgericht) in Darmstadt, Germany against Siemens alone, and increased the alleged amount of damages to approximately €125. Siemens served third-party notice on the Company on December 21, 2001. In 2003 Deutsche

Telekom increased its claim to €150. On July 15, 2003, the State Court ruled that Deutsche Telekom did not have a valid claim for damages against Siemens and the Company. Deutsche Telekom has appealed the decision. Should Siemens be found liable, the Company could be responsible for payments to Siemens in connection with certain indemnifications provided to Siemens at our formation. The Company has investigated the Deutsche Telekom claim and believe that it is without merit.

One of the Company's customers notified it on May 18, 2000 that the customer had received a letter from Rambus alleging that one of the components of its products violates Rambus' patents. The Company supplied this customer with the relevant component, and the customer has requested that the Company indemnify it for any damages it may incur as a result of Rambus' claims. The customer's notice to the Company does not specify any figure for such damages. Accordingly, the Company cannot predict at this time what the Company's exposure, if any, is likely to be if this customer's claim against the Company is found to be valid.

On May 7, 2003 ProMOS filed arbitration proceedings against the Company in Munich under the ICC Arbitration Rules. The Company had licensed certain DRAM technologies to ProMOS under a license agreement, which the Company subsequently terminated due to ProMOS' material breach. ProMOS is seeking an affirmative judgment that ProMOS was entitled to terminate the license agreement due to the Company's material breach, but to be allowed to continue to use the licensed technology. ProMOS is also seeking payment of approximately US $31 in damages for DRAM products sold to the Company. The Company has denied the alleged material breach and requested the arbitration tribunal to dismiss all of ProMOS' claims. The Company has also filed counterclaims seeking an affirmative judgment that the Company was entitled to terminate the license agreement due to a material breach by ProMOS, that ProMOS be required to cease using the Company's DRAM technologies and that the Company is entitled to damages for the misappropriation of the Company's DRAM technologies in an amount exceeding US$31. The Company does not believe that the ultimate resolution of these proceedings will have a material adverse effect on its results of operations or financial condition.

In late 2002, MOSAID Technologies Inc. alleged that the Company is violating 11 DRAM-related U.S. patents of MOSAID. In December 2002, the Company filed an action in the U.S. Federal District Court for the Northern District of California seeking a declaratory judgment that the Company does not violate such patents. On February 7, 2003, MOSAID filed a counter-suit opposing the Company's motion for declaratory judgment and seeking damages for the alleged patent infringement. On November 3, 2003 MOSAID announced that it has filed an amended counterclaim to add two new patents to its previous claims. This matter is at an early stage. An adverse final resolution could result in significant financial liabilities to, and other adverse effects upon, the Company, which would have a material adverse effect on the Company's business, results of operations and financial condition.

The Company through certain of its sales and other agreements may, in the normal course of business, be obligated to indemnify its counterparties under certain conditions for warranties, patent infringement or other matters. The maximum amount of potential future payments under these types of agreements is not predictable with any degree of certainty, since the potential obligation is contingent on conditions that may or may not occur in future, and depends on specific facts and circumstances related to each agreement. Historically, payments made by the Company under these types of agreements have not had a material adverse effect on the Company's business, results of operations or financial condition.

At September 30, 2003, the Company has recorded a provision, net of anticipated insurance recoveries, relating to a specific product performance matter, against operating income in the accompanying consolidated financial statements. Management believes that based upon currently available information, such an estimate will adequately provide for the exposure related to this matter.

The Company is subject to various other lawsuits, legal actions, 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 associated amount of the assessment can be reasonably estimated. Accordingly, the Company has accrued a liability and against operating income in the accompanying consolidated financial statements for the estimated costs of adjudication of various asserted and unasserted claims existing as of the balance sheet date. Based upon information presently known to management, the Company does not believe that the ultimate resolution of such other pending matters will have a material adverse effect on the Company's financial position, although the final resolution

of such matters could have a material effect on the Company's results of operations or cash flows in the year of settlement.

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 remediation, if any, that could be required, and no claims have been made against the Company in this regard. The Company believes its potential exposure, if any, to liability for remediating the U.S. facilities retained by Siemens is therefore low.

Contractual Commitments

The following table summarizes the Company's commitments with respect to external parties as of September 30, 2003[1, 2, 3]:

	Payments due by period						
	Total	Less than 1 year	1–2 years	2–3 years	3–4 years	4–5 years	After 5 years
Contractual commitments							
Operating lease payments	391	82	76	68	46	44	75
Unconditional purchase commitments	1,062	420	206	121	68	55	192
Other long-term commitments	636	334	227	75	–	–	–
Total commitments	2,089	836	509	264	114	99	267

1 US dollar amounts are translated at the rate of one euro = $1.165, the noon buying rate on September 30, 2003.

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

3 Product purchase commitments associated with continuing capacity reservation agreements are not included in this table, since the purchase prices are based, in part, on future market prices, and are accordingly not accurately quantifiable at September 30, 2003. Purchases under these arrangements aggregated €486 for the year ended September 30, 2003.

Included in the above table:

- Commitment of $458 to be made over a two-year period ending September 30, 2005, relating to the funding of the Inotera joint venture.

- Commitment of $242 relating to the construction of a back-end manufacturing facility in China.

In December 2002, the Company and Semiconductor Manufacturing Industrial Corporation ("SMIC") entered into a technology transfer and capacity reservation agreement, as amended. In exchange for the technology transfer, SMIC will reserve specified capacity over a five-year period, with product purchases based on a market price formula.

On July 28, 2003, the Company entered into a joint venture agreement with China-Singapore Suzhou Industrial Park Venture, Company ("CSVC") for the construction of a back-end manufacturing facility in the People's Republic of China. The capital invested by CSVC earns an annual return on its invested capital and has a liquidation preference. All accumulated earnings and dividend rights accrue to the benefit of the Company. Accordingly, the Company will consolidate 100% of the joint venture from inception.

The Company has capacity reservation agreements with certain Associated Companies and external foundry suppliers for the manufacturing and testing of semiconductor products. These agreements generally are greater than one year in duration and are renewable. Under the terms of these agreements, the Company has agreed to purchase a portion of their production output based on market prices.

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

In May 2002, the Company entered into a licensing and product purchase agreement with Winbond Electronics Corp. ("Winbond"). Under the terms of the licensing agreement, the Company transferred know-how related to specific DRAM technology during the year ended September 30, 2003. The licensing agreement also provides for the payment of royalties on specific products sold by Winbond to third parties during the five-year term of the agreement. License fees are deferred and recognized on a straight-line basis over the term. Pursuant to the product purchase agreement with Winbond, the Company has committed to purchase specified quantities of DRAM products, as defined, at prices based in part on market prices. Additionally, the Company will assume responsibilities for supplying a major customer of Winbond with DRAM products over the term of the agreement.

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. ALTIS and Winbond form an important part of the Company's product procurement process.

Other Contingencies

The following table summarizes the Company's contingencies with respect to external parties, other than those related to litigation, as of September 30, 2003[1,2]:

		Expirations by Period					
	Total	**Less than 1 year**	**1–2 years**	**2–3 years**	**3–4 years**	**4–5 years**	**After 5 years**
Maximum potential future payments:							
Guarantees	380	24	–	–	283	14	59
Contingent government grants[3]	357	21	–	35	16	240	45
Total contingencies	737	45	–	35	299	254	104

1 US dollar amounts are translated at the rate of one euro = $1.165, the noon buying rate on September 30, 2003.

2 Certain expirations of contingencies that are based on the achievement of milestones or other events that are not date-certain, are included for purposes of this table based on estimates of the reasonably likely timing of expirations in the particular case. Actual outcomes could differ from those estimates.

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

The Company has received government grants and subsidies related to the construction and financing of certain of its production facilities. These amounts are recognized upon the attainment of specified criteria for receipt of the grant. Certain of these grants have been received contingent upon the Company maintaining compliance with certain project-related requirements for a specified period after receipt. The Company is committed to maintaining these requirements. Nevertheless, should such requirements not be met, as of September 30, 2003 as much as €357 of these subsidies could be refundable.

In July 2003, the European Commission announced an inquiry into whether proposed state subsidies (aggregating €77) applied for, but not yet received, by the Company for the extension of its manufacturing plant in Portugal are in accordance with European Commission directives.

A tabular reconciliation of the changes of the aggregate product warranty liability for the year ended September 30, 2003 is as follows:

	2003
Balance as of October 1, 2002	77
Additions due to existing warranties	7
Additions due to new warranties, net	89
Payments	(34)
Balance as of September 30, 2003	139

The Company, as parent company, has in certain circumstances as is customary, guaranteed the settlement of certain of its consolidated subsidiaries' obligations to third parties. Such obligations are reflected as liabilities in the consolidated financial statements by virtue of consolidation. As of September 30, 2003, such inter-company guarantees principally relate to certain consolidated subsidiaries' third party debt and aggregated €2,333, of which €1,700 relates to the convertible notes issued.

32. Operating Segment and Geographic Information

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

Effective October 1, 2002, the Company reorganized certain of its business units to better reflect its customer and market profiles. Further, the Company decided to merge the activities of the Wireless Solutions and Security & Chipcard ICs segments into one operating segment called Secure Mobile Solutions and report it as such with effect from October 1, 2002. In addition, the results of operations of the opto-electronics business are presented as a discontinued operation for all periods presented. Minority interest is now part of the calculation of EBIT. Accordingly, the segment results for the 2001 and 2002 financial years have been reclassified to be consistent with the revised reporting structure and presentation, and to facilitate analysis of current and future operating segment information.

The Company operates primarily in four major operating segments, three of which are application-focused: Wireline Communications, Secure Mobile Solutions and Automotive & Industrial; and one of which is product-focused: Memory Products. Further, certain of the Company's remaining activities for product lines sold, for which there are no continuing contractual commitments subsequent to the divestiture date, as well as new business activities also meet the SFAS No. 131 definition of an operating segment, but do not meet the requirements of a reportable segment as specified in SFAS No. 131. Accordingly, these segments are combined and disclosed in the "Other Operating Segments" category pursuant to SFAS No. 131.

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 EBIT. The Company does not identify or allocate assets to the operating segments nor does the CODM evaluate the segments on these criteria on a regular basis, except that the CODM is provided information regarding certain inventories on an operating segment basis.

The accounting policies of the segments are substantially the same as described in the summary of significant accounting policies (see note 2). As stated above, fixed assets are not identified by individual operating segments for management reporting purposes on a regular basis and accordingly are not allocated to the operating segment. The Company does, however, allocate depreciation expense to the operating segments based on production volume and product mix using standard costs in order to obtain a measure of EBIT on a segment basis.

Information with respect to the Company's operating segments follows:

- Wireline Communications

The Wireline Communications segment designs, develops, manufactures and markets semiconductors and fiber-optic components for the communications access, WAN (Wide Area Network), MAN (Metropolitan Area Network) and Carrier Access (both Broadband and traditional Access) sectors of the wireline communications market.

- Secure Mobile Solutions

The Secure Mobile Solutions segment designs, develops, manufactures and markets a wide range of ICs for wireless applications, security controllers, memory controllers and other semiconductors and complete system solutions for security and wireless applications.

- Automotive & Industrial

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

■ Memory Products

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

■ Other Operating Segments

Remaining activities for certain sold product lines, as well as other business activities, are included in the Other Operating Segments.

The following tables present selected segment data for the years ended September 30, 2001, 2002 and 2003:

	2001	2002	2003
Net sales			
Wireline Communications	766	386	459
Secure Mobile Solutions	1,522	1,278	1,645
Automotive & Industrial	1,153	1,201	1,392
Memory Products	1,614	1,861	2,485
Other Operating Segments	236	117	139
Corporate and Reconciliation	56	47	32
Total	5,347	4,890	6,152

	2001	2002	2003
EBIT			
Wireline Communications	(93)	(245)	(188)
Secure Mobile Solutions	(142)	(116)	(64)
Automotive & Industrial	143	111	186
Memory Products	(938)	(630)	31
Other Operating Segments	192	9	(49)
Corporate and Reconciliation	(180)	(264)	(215)
Total	(1,018)	(1,135)	(299)

	2001	2002	2003
Depreciation and Amortization			
Wireline Communications	98	97	61
Secure Mobile Solutions	226	303	327
Automotive & Industrial	186	226	246
Memory Products	589	709	768
Other Operating Segments	22	35	35
Corporate and Reconciliation	–	–	–
Total	1,121	1,370	1,437

	2001	2002	2003
Equity in earnings (losses) of Associated Companies			
Wireline Communications	–	–	(2)
Secure Mobile Solutions	–	–	(2)
Automotive & Industrial	–	–	–
Memory Products	12	(56)	22
Other Operating Segments	(3)	(1)	(1)
Corporate and Reconciliation	12	10	1
Total	21	(47)	18

	2001	2002	2003
Inventories			
Wireline Communications	101	62	59
Secure Mobile Solutions	179	188	160
Automotive & Industrial	181	162	194
Memory Products	270	360	452
Other Operating Segments	41	21	21
Corporate and Reconciliation	110	98	73
Total	882	891	959

At September 30, 2003 goodwill is reflected in the following segments:

	2003
Goodwill	
Wireline Communications	98
Secure Mobile Solutions	2
Automotive & Industrial	22
Memory Products	90
Other Operating Segments	6
Corporate and Reconciliation	–
Total	218

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 logic production 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 site management. The site management is responsible for the execution of the production schedule, volume and units. Accordingly, this inventory is not attributed to any operating segment, but is included in the "corporate and reconciliation" column. Only unstarted wafers of the back-end facilities ("chip stock") and finished goods are attributable to the operating segments and included in the segment information reported to the CODM.

Certain items are included in corporate and reconciliation and are not allocated to the segments. These include certain corporate headquarters' cost, certain incubator and early-stage technology investment costs, non-recurring gains and specific strategic technology initiatives. Additionally, legal costs associated with intellectual property and product matters are recognized by the segments when paid, which can differ from the period originally recognized by corporate and reconciliation. The Company allocates excess capacity costs based on a foundry model, whereby such allocations are reduced based upon the lead time of order cancellation or modification. Any unabsorbed excess capacity costs are included in corporate and reconciliation. Significant components of corporate and reconciliation for the years ended September 30, 2001, 2002 and 2003 are as follows:

	2001	2002	2003
Corporate and Reconciliation			
Unallocated excess capacity costs	27	211	101
Restructuring charges	117	16	29
Corporate information technology development costs	71	36	13
Other, net	(35)	1	72
Total	180	264	215

The following is a summary of operations by geographic area for 2001, 2002 and 2003:

	2001	2002	2003
Net sales			
Germany	1,636	1,266	1,535
Other Europe	1,172	943	1,112
North America	1,208	1,158	1,393
Asia/Pacific	1,247	1,446	2,077
Other	84	77	35
Total	5,347	4,890	6,152

	2001	2002	2003
Long-lived assets			
Germany	3,454	3,113	2,628
Other Europe	1,006	1,172	936
North America	1,551	1,211	785
Asia/Pacific	350	374	377
Other	8	–	1
Total	6,369	5,870	4,727

Revenues from external customers are based on the customers' billing location. Long-lived assets are those assets located in each geographic area. Long-lived assets consist of property, plant and equipment, long-term investments and other non-current assets. Regional employment data is provided in note 7.

Except for sales to Siemens, which are discussed in note 27, no single customer accounted for more than 10% of the Company's sales during the years ended September 30, 2001, 2002 and 2003. Sales to Siemens are made primarily by the non-memory product segments.

The Company defines EBIT as earnings (loss) before interest and taxes. The Company's management uses among other measures EBIT to establish budgets and operational goals, to manage the Company's business and to evaluate its performance. The Company reports EBIT information because it believes that it provides investors with meaningful information about the operating performance of the Company and especially about the performance of its separate business segments. EBIT is determined as follows from the statement of operations, without adjustment to the US GAAP amounts presented:

	For the year ended September 30		
	2001	2002	2003
Net loss from continuing operations	(592)	(1,017)	(435)
Adjust: Income tax (benefit) expense	(427)	(143)	84
Interest expense, net	1	25	52
EBIT	(1,018)	(1,135)	(299)

33. Subsequent Events

On October 8, 2003, the Company announced that it has agreed to purchase assets, assume certain liabilities and take over other parts of the Protocol Software operations of Siemens, in exchange for €13 and the employment of approximately 145 of Siemens' mobile communication software engineers. In addition, the Company entered into a license agreement, a development support agreement, and amended its product supply agreement with Siemens. The finalization of these transactions are subject to a variety of conditions prior to closing.

In conjunction with the Company's ongoing restructuring efforts, on October 16, 2003, the Company executed an agreement with Electronic Data Services (EDS) to outsource parts of the Company's worldwide human resources function. The scope of the outsourcing arrangement is currently being negotiated, which would include the transfer of current employees of the Company to EDS. The agreement contains specified cancellation provisions.

Additional Information

Additional Information to the US GAAP consolidated financial statements pursuant to HGB Section 292a

The Company has prepared consolidated financial statements and a group management report for the financial year ended September 30, 2003 in accordance with the German Commercial Code (the "Statutory Report"). The Company has elected to prepare its financial information on the basis of US GAAP in compliance with the requirements of the German Commercial Code. The Statutory Report includes the Consolidated Financial Statements and Notes to the Consolidated Financial Statements, Supplemental Disclosures, and Group Management Report.

Note for the Annual Report:

The Statutory Report is subject to German auditing standards. KPMG Deutsche Treuhand-Gesellschaft AG Wirtschaftsprüfungsgesellschaft has given an unqualified audit opinion in this regard. The Corporate Report is filed with the Commercial Register of Munich, Germany, under the number HRB 126492, or can be inspected at the Company's corporate offices.

Significant Differences between German GAAP and U.S. GAAP

■ Introduction

Infineon Technologies AG, as a German parent company, is subject to the German Commercial Code ("Handelsgesetzbuch", or "HGB"), which principally requires the Company to prepare consolidated financial statements in accordance with the HGB accounting principles and regulations ("German GAAP"). Pursuant to HGB Section 292a the Company is exempt from this requirement if consolidated financial statements are prepared and issued in accordance with a body of internationally accepted accounting principles (such as US GAAP). Accordingly, the Company has prepared its consolidated financial statements in accordance with US GAAP. The following is a description of the significant differences between German GAAP and US GAAP.

■ Fundamental Differences

The primary difference between German GAAP and US GAAP is that they are based on different concepts. The emphasis of US GAAP is to provide all relevant information to investors in order to facilitate future investment decisions. German GAAP is oriented towards the protection of creditors and an emphasis on the prudence concept. Additionally, as a US listed entity, the Company must adhere to certain accounting and reporting requirements as prescribed by the US Securities and Exchange Commission.

■ Financial Statement Presentation

The balance sheet presentation under US GAAP is based on the planned realization of assets and the maturity of liabilities in the normal

course of business. The balance sheet presentation under German GAAP is principally defined in HGB section 266, and is based on enterprise's planned holding time for the respective asset, liability or equity.

■ Revenue Recognition
Revenue recognition is generally the same under German and US GAAP, whereby revenue is recognized when realized and earned. Differences in the timing of recognition can exist in transactions when the Company retains on-going financial, operational or performance commitments or the contractual amounts are not objectively verifiable.

■ Marketable Securities
Under German GAAP, marketable debt and equity securities are valued at the lower of acquisition cost or fair market value as of the balance sheet date. Under US 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 US GAAP. Manufacturing costs under US GAAP are defined as production costs on a full absorption basis, whereby manufacturing overhead is included together with material and other direct manufacturing costs. Under German GAAP certain overhead costs can be excluded from the valuation of inventory.

■ Goodwill
Under US GAAP, pursuant to SFAS No. 141, "Business Combinations", in connection with SFAS No.142, "Goodwill and other Intangible Assets", goodwill arising from business combinations accounted for as a purchase after June 30, 2001 is no longer amortized, but rather tested for impairment at the reporting unit level at least annually. Under German GAAP, such goodwill is amortized over its estimated useful life, and tested for impairment by legal entity.

■ 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 US GAAP, acquired in-process research and development is specifically identified, valued and charged to expense at the date of acquisition.

■ Derivative Financial Instruments
Under German GAAP, derivative financial instruments are not recorded on the balance sheet. Unrealized gains are not recognized whereas unrealized losses are accrued for. Under US GAAP derivative financial instruments are recorded on the balance sheet at their fair value. Changes in fair value are recorded in current earnings or other comprehensive income, depending on whether the derivative financial instrument is designated as part of a hedge transaction and on the type of hedge transaction.

■ Deferred Taxes
The main difference in accounting for deferred taxes relates to the fact that under German GAAP deferred tax assets are not recorded for net operating losses. Under US GAAP, deferred tax assets are recorded for net operating losses and a valuation allowance is established when it is deemed "more likely than not" that the deferred tax asset will not be realized.

■ Pension and other post-retirement Obligations
Under US GAAP, pension obligations are recognized based on the projected benefit obligation using the projected unit credit method. This is also permitted under HGB. Under US GAAP, establishing and funding a trust, independent of the Company, results under certain conditions in a corresponding reduction in pension obligations from the balance sheet. Under German GAAP, pension assets and obligations are recorded gross on the balance sheet until such obligations are legally settled.

■ Stock-based Compensation
Under German GAAP, the Company recognizes as expense the difference between the fair market value of the Infineon shares and the exercise price of the stock options if the fair market value is higher. Under US GAAP, the Company accounts for stock-based compensation on the intrinsic value method pursuant to APB Opinion 25 which does not result in a compensation charge if the fair market value of the stock does not exceed the exercise price of the option on the measurement date.

■ Equity Offering Costs
Under German GAAP, direct costs incurred in connection with equity offerings are expensed, while under US 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 US GAAP, recognition of an accrued liability represents an existing liability to third parties or must meet very specific recognition criteria.

■ Foreign Currency Translation
Under German GAAP, foreign currency denominated assets and liabilities are recorded at the spot rate on the transaction date, with only unrealized losses reflected in income at the balance sheet date. Under US 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.

■ Grants Subsidies
Under German GAAP, non-taxable investment subsidies and interest subsidies can be recognized in income when received. Under US 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 the local accounting principles. Under US GAAP equity in earnings is determined pursuant to US 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 US GAAP and specific SEC regulations, income recognition is subject to additional criteria, which, if not met, requires 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. Pursuant to HGB section 264b, such partnerships are exempt from preparing separate financial statements, if they are included in the consolidated financial statements of the holding company and such consolidated financial statements are registered with the trade register of the respective partnership.

Infineon utilizes the exemption in respect of the following companies:

- COMNEON GmbH & Co. OHG, Nuremberg
- Infineon Technologies Dresden GmbH & Co. OHG, Dresden
- Infineon Technologies Flash GmbH & Co. KG, Dresden (previously Ingentix GmbH & Co. KG, Munich)
- Infineon Technologies Immobilien Regensburg GmbH & Co. KG, Regensburg
- Infineon Technologies SC 300 GmbH & Co. KG, Dresden

Infineon Technologies AG has a profit-transfer agreement with
■ Infineon Ventures GmbH, Munich
and also utilizes the exemption pursuant to HGB section 264 par 3.

Information pursuant to Section 160 No. 8 Corporate Act (AktG)

Siemens Pension Trust e.V., Munich informed the Company, by letter dated December 13, 2002, that their share of the voting rights of Infineon Technologies AG had fallen below the threshold of 10% on December 2, 2002. Their new interest in voting rights would amount to 9,76%, equalling to 70,332,270 shares and the same number of votes. Siemens Pension Trust e.V., Munich informed the Company, by letter dated March 20, 2003, received on March 24, 2003, that their share of the voting rights of Infineon Technologies AG had fallen below the threshold of 5% on March 18, 2003. Their new interest in voting rights would amount to 0%, equaling 0 shares and the same number of votes.

The Fidelity Management & Research Company, 82 Devonshire Street, Boston, USA, informed the Company, by letter dated May 5, 2003, received on May 8, 2003, that:

a) on April 30, 2003 the share of the voting rights of Infineon Technologies AG held by Fidelity Management & Research Company, USA, exceeded the threshold of 5% and amounted to 5.08%. The voting rights would be attributable to Fidelity Management & Research Company pursuant section 22 (1) 1 No. 6 WpHG,

b) on April 30, 2003 the share of the voting rights of Infineon Technologies AG held by FMR Corp., 82 Devonshire Street, Boston, MA 02109, USA, exceeded the threshold of 5% and amounted to 5.08%. The voting rights would be attributable to FMR Corp. pursuant to section 22 (1) 2 in conjunction with section 22 (1) 1 No. 6 WpHG.

The Fidelity Management & Research Company, 82 Devonshire Street, Boston, USA, informed the Company, by letter dated August 11, 2003, received on August 29, 2003, that:

a) on August 5, 2003, the share of the voting rights of Infineon Technologies AG held by Fidelity Management & Research Company, 82 Devonshire Street, Boston, USA had fallen below the threshold of 5% and amounted to 4.98%. The voting rights would be attributable to the Fidelity Management & Research Company pursuant to section 22 1 (2) in conjunction with section 22 1 (1), No. 6 WpHG,

b) on August 5, 2003, the share of the voting rights of Infineon Technologies AG held by FMR Corp., 82 Devonshire Street, Boston, Massachusetts, USA, had fallen below the threshold of 5% and amounted to 4.98%. The voting rights would be attributable to the FMR Corp pursuant to section 22 1 (2) in conjunction with section 22 1 (1), No. 6 WpHG.

Information pursuant Section 6.6 German Code of Corporate Governance

1. On January 30, 2003, Mr Max Dietrich Kley, chairman of the Supervisory Board, purchased 5,000 shares of the Company at a price of euro 6.59 per share.

2. On February 17, 2003, Mr Dr. Ulrich Schumacher, chief executive officer, purchased 10,000 shares of the Company at a price of euro 6.10 per share.

3. On February 25, 2003, Mr Dr. Sönke Mehrgardt, former member of the supervisory board, purchased 25,000 shares of the Company at a price of euro 6.00 per share.

4. On September 10, 2003, Mr Dr. h.c. Martin Kohlhaussen, member of the supervisory board, purchased 5,000 shares of the Company at a price of euro 13.33 per share.

Information pursuant to Section 161 Corporate Act (AktG)

The compliance declaration prescribed by Section 161 AktG was submitted on December 3, 2002 and made available to the shareholders on a continuous basis via the internet.

Board of Directors

The remuneration of the supervisory board for the year ended September 30, 2003 was euro 0.5 million. In addition the members of the supervisory board received 1,500 share appreciation rights each. The total remuneration of the management board for the year ended September 30, 2003 consisted of a fixed salary of euro 2.0 million and 750,000 stock options. The share appreciation rights and stock options were granted in connection with the LTI 2001 Plan. During the year ended September 30, 2003 the Company established a provision for variable bonus of the management board of euro 4.2 million, which depends on the change of the financial result of the Company and is limited by the achievement of different objectives. The fair value of each stock option and stock appreciation right at their grant date was euro 4.45.

The members of the management and supervisory boards of Infineon Technologies AG are listed below:

Infineon Technologies AG		**Membership of the management board and other comparable governing bodies during the year ended September 30, 2003**
Name	**Age**	
■ Dr. Ulrich Schumacher	45	Chairman, President and Chief Executive Officer External positions Member of the supervisory board of: – Deutsche Bahn AG, Berlin, Germany Company positions Chairman of the board of directors of: – Infineon Technologies Asia Pacific Pte. Ltd., Singapore – Infineon Technologies China Co., Ltd., Shanghai, China – Infineon Technologies Japan K.K., Tokyo, Japan – Infineon Technologies North America Corp., Wilmington/Delaware, USA Chairman of the supervisory board of: – Infineon Technologies Austria AG, Villach, Austria
■ Peter Bauer	43	Executive Vice President and Chief Sales and Marketing Officer External positions Member of the supervisory boards of: – Siemens VDO Automotive AG, Munich, Germany – Astron AG, Osterwieck, Germany Company positions Deputy Chairman of the board of directors of: – Infineon Technologies Japan K.K., Tokyo, Japan Member of the board of directors of: – Infineon Technologies Asia Pacific Pte. Ltd., Singapore – Infineon Technologies China Co., Ltd., Shanghai, China – Infineon Technologies North America Corp., Wilmington/Delaware, USA – Infineon Technologies Savan Ltd., Netanya, Israel

Infineon Technologies AG Name	Age	Membership of the management board and other comparable governing bodies during the year ended September 30, 2003
■ Peter J. Fischl	57	Executive Vice President and Chief Financial Officer Company positions Member of the board of directors of: – Infineon Technologies Asia Pacific Pte. Ltd., Singapore – Infineon Technologies China Co., Ltd., Shanghai, China – Infineon Technologies North America Corp., Wilmington/Delaware, USA Member of the supervisory board of: – Infineon Technologies Austria AG, Villach, Austria
■ Dr. Sönke Mehrgardt (until September 30, 2003)	54	Executive Vice President and Chief Technology Officer External positions Member of the supervisory boards of: – Loewe AG, Kronach, Germany – Loewe Opta GmbH, Kronach, Germany Company positions Chairman of the board of shareholders' representatives: – Infineon Technologies Orion GmbH, Munich, Germany
■ Dr. Andreas von Zitzewitz	43	Executive Vice President and Chief Operating Officer External position Member of the supervisory board of: – Steag Hamatech AG, Sternenfels, Germany Member of the board of directors of: – Infineon Technologies Asia Pacific Pte. Ltd., Singapore – Infineon Technologies China Co., Ltd., Shanghai, China – Infineon Technologies Richmond Limited Partnership, Wilmington/Delaware, USA Company positions Chairman of the supervisory board of – EUPEC Europäische Gesellschaft für Leistungshalbleiter mbH, Warstein-Belecke, Germany Chairman of shareholders' representatives: – Infineon Technologies Dresden GmbH & Co. OHG, Dresden, Germany – EUPEC Europäische Gesellschaft für Leistungshalbleiter mbH, Warstein-Belecke, Germany

Supervisory Board Infineon Technologies AG Name	Age	Term expires	Membership of the supervisory board and other comparable governing bodies during the year ended September 30, 2003
■ Max Dietrich Kley [1, 2, 3,] Chairman	63	2005	Additional external positions: Member of the supervisory board of – BASF AG, Ludwigshafen, Germany – Bayerische Hypo- und Vereinsbank AG, Munich, Germany Comparable external positions Member of the advisory board of: – Schott Glas, Mainz, Germany Member of the board of directors of: – Cazenove Group Plc., London, Great Britain Member of the board of administration of: – Landesbank Rheinland-Pfalz, Mainz
■ Alfred Eibl*[1, 3] Deputy Chairman	54	2004**	Member of the works council Munich Balan-/St.-Martin-Strasse
■ Dr. h.c. Martin Kohlhaussen[1] Deputy Chairman	67	2005	Chairman of the supervisory board of Commerzbank AG Additional external positions Member of the supervisory boards of: – Bayer AG, Leverkusen, Germany – Heraeus Holding GmbH, Hanau, Germany – HOCHTIEF AG, Essen, Germany – Schering AG, Berlin, Germany – ThyssenKrupp AG, Düsseldorf, Germany – Verlagsgruppe Georg von Holtzbrinck GmbH, Stuttgart, Germany
■ Ender Beyhan*	35	2004**	Member of the central works council Member of the works council Munich-Perlach
■ Johann Dechant*	38	2004**	Deputy Chairman of the works council Regensburg-West
■ Dr. Joachim Faber	53	2005	Member of the management board of Allianz AG Additional external positions Member of the supervisory boards of: – Bayerische Börse, Munich, Germany – Societa Metallurgica Italiana S.p.A., Florence, Italy Company positions Chairman of the supervisory boards of: – Allianz Dresdner Asset Management, Munich, Germany – DBI Dresdner Bank Investment Management Kapitalanlagegesellschaft mbH, Frankfurt, Germany – DEGI Deutsche Gesellschaft für Immobilienfonds mbH, Frankfurt, Germany – Deutscher Investment Trust Gesellschaft für Wertpapieranlagen mbH, Frankfurt, Germany Comparable positions Member of the board of administration of: – RASBANK S.p.A., Milan, Italy

Supervisory Board Infineon Technologies AG Name	Age	Term expires	Membership of the supervisory board and other comparable governing bodies during the year ended September 30, 2003
■ Heinz Hawreliuk*	56	2004**	Head of the company codetermination department of IG Metal Additional external positions Member of the supervisory boards of: – Astrium GmbH, Ottobrunn, Germany – DaimlerChrysler Aerospace AG, Munich, Germany – DaimlerChrysler Luft- und Raumfahrt Holding AG, Munich, Germany – Eurocopter Deutschland GmbH, Donauwörth, Germany – Siemens AG, Berlin and Munich, Germany
■ Dr. Stefan Jentzsch	42	2005	Member of the management board of Bayerische Hypo- und Vereinsbank AG Additional external positions Member of the supervisory board of: – Deutsche Börse AG, Frankfurt, Germany Company positions Chairman of the supervisory boards of: – HVB Alternative Investment AG, Vienna, Austria – HVB Alternative Financial Products AG, Vienna, Austria – DAB bank AG, Munich, Germany Deputy Chairman of the supervisory board of: – Vereins- und Westbank AG, Hamburg, Germany Member of the supervisory boards of: – HVB Systems GmbH, Munich, Germany – HVB Info GmbH, Munich, Germany – Bank Austria Creditanstalt AG, Vienna, Austria Comparable company positions Chairman of the board of administration of: – HVB Wealth Management Holding, Munich, Germany Deputy Chairman of the board of administration of – Bank von Ernst & Cie AG, Bern, Switzerland
■ Klaus Luschtinetz*	60	2004**	Chairman of the central works council Vice Chairman of the works council Munich Balan-/St.-Martin-Strasse Additional external positions Member of the board of administration of: – Siemens Employees Health Insurance, Munich, Germany

Supervisory Board Infineon Technologies AG Name	Age	Term expires	Membership of the supervisory board and other comparable governing bodies during the year ended September 30, 2003
■ Karl Heinz Midunsky[2, 3]	59	2005	Corporate Vice President and Treasurer of Siemens AG Additional external positions Member of the supervisory board of: – Hannover Rückversicherungs-AG, Hanover, Germany Company positions Chairman of the supervisory board of: – Krauss-Maffei Wegmann Verwaltungs-GmbH, Munich, Germany Deputy Chairman of the supervisory boards of: – Risicom Rückversicherung AG, Grünwald near Munich, Germany – Siemens Dematic AG, Munich, Germany – Siemens VDO Automotive AG, Munich, Germany Member of the supervisory board of – BSH Bosch und Siemens Hausgeräte GmbH, Munich, Germany Comparable company positions Member of the board of: – Fujitsu Siemens Computers (Holding) B.V., Amsterdam, Netherlands Member of the board of administration of: – Siemens Building Technologies AG, Zurich, Switzerland
■ Wolfgang Müller*	55	2004**	Director of Organization; IT Industry, IG Metall Bavaria Additional external positions Member of the supervisory board of: – Siemens AG, Munich, Germany
■ Univ.-Prof. Dr.-Ing. Ingolf Ruge	68	2005	Professor at the Technical University Munich
■ Michael Ruth*	43	2004**	Vice President, Business Administration, Secure Mobile Solutions, Representative of senior management Comparable positions Member of the boards of shareholders' representatives of: – Comneon GmbH&Co. OHG, Nuremberg, Germany – Comneon electronic technology GmbH&Co. OHG, Linz, Austria Member of the advisory board of: – DICE Danube Integrated Circuit Engineering GmbH & Co. KG, Linz, Austria Member of the board of directors of: – Infineon Technologies Wireless Design Denmark A/S, Aalborg, Denmark
■ Gerd Schmidt*[2]	49	2004**	Deputy Chairman of the central works council Chairman of the works council Regensburg-West

Supervisory Board Infineon Technologies AG Name	Age	Term expires	Membership of the supervisory board and other comparable governing bodies during the year ended September 30, 2003 Other business activities (4)
■ Dr. rer. nat. Martin Winterkorn	56	2005	Chairman of the management board of Audi AG Member of the management board of Volkswagen AG Additional external positions Member of the supervisory boards of: – Salzgitter AG, Salzgitter, Germany – Bayern München AG, Munich, Germany Comparable company positions Member of the supervisory boards of: – SEAT S.A., Barcelona, Spain – Lamborghini Holding S. p. A., Italy
■ Dr.-Ing. Klaus Wucherer	59	2005	Member of the management board of Siemens AG Additional external positions Member of the supervisory board of: – Deutsche Messe AG, Hannover, Germany Company positions Member of the supervisory board of: – BSH Bosch und Siemens Hausgeräte GmbH, Munich, Germany Comparable company positions Chairman of the boards of administration of: – Siemens Ltd., Beijing, PR China – Siemens E&A, Atlanta, USA – Siemens K.K., Tokyo, Japan – Siemens S.A., Lisbon, Portugal Member of the boards of administration of: – Eviop-Tempo, Athens, Greece – Siemens Building Technologies AG, Zurich, Switzerland – Siemens Ltd., Mumbai, India

Notes:

1 Member of the Executive Committee

2 Member of the Mediation Committee

3 Member of the Investment and Finance Committee

* Employees' representative; ** Unless replaced earlier by another member elected in an election held by the employees.

Significant Subsidiaries and Associated Companies for the year ending September 30, 2003

Name and location of company	Share in capital
EUPEC Europäische Gesellschaft für Leistungshalbleiter mbH, Warstein-Belecke, Germany	100%
Infineon Technologies Dresden GmbH & Co. OHG, Dresden, Germany	100%
Infineon Technologies SC 300 GmbH & Co. KG, Dresden, Germany	87%
Infineon Technologies Austria AG, Villach, Austria	100%
Infineon Technologies-Fabrico de Semicondutores, Portugal S.A., Vila do Conde, Portugal	100%
Infineon Technologies France S.A.S., Saint Denis, France	100%
Infineon Technologies Holding B.V. Rotterdam, Netherlands	100%
Infineon Technologies Catamaran, Inc., Wilmington Delaware, USA	100%
Infineon Technologies Holding North America Inc., Wilmington Delaware, USA	100%
Infineon Technologies North America Corp., Wilmington Delaware, USA	100%
Infineon Technologies Richmond LP, Wilmington Delaware, USA	100%
Infineon Technologies Asia Pacific Pte. Ltd., Singapore	100%
Infineon Technologies (Advanced Logic) Sdn. Bhd., Malacca, Malaysia	100%
Infineon Technologies (Integrated Circuit) Sdn. Bhd., Malacca, Malaysia	100%
Infineon Technologies (Malaysia) Sdn. Bhd., Malacca, Malaysia	100%
Infineon Technologies Japan K.K., Tokjo, Japan	100%
ALTIS Semiconductor S.N.C, Essonnes, France	50.1%

An extended list of all subsidiaries and associated companies is on file at the Commercial Register of Munich, Germany, under the number HRB 126 492.

Infineon Technologies AG – Parent Company* – Condensed (in euro millions)

Statement of Operations*

	2002	2003
Net sales	6,765	8,122
Cost of goods sold	(6,669)	(7,201)
Gross profit	96	921
Operating expenses	(1,358)	(1,460)
Other income	580	252
Loss before tax	(682)	(287)
Income tax	65	0
Net loss	(617)	(287)
Accumulated loss brought forward	(435)	(1,052)
Condition other retained earnings	0	0
Accumulated loss at the end of year	(1,052)	(1,339)

Balance sheet* as of September 30

	2002	2003
Fixed and intangible assets	991	794
Investments	5,874	5,390
Non-current assets	6,865	6,184
Inventories	340	461
Receivables and other assets	2,009	1,980
Cash and marketable securities	1,803	2,641
Current assets	4,152	5,082
Total assets	11,017	11,266
Shareholders' equity	7,061	6,774
Accrued liabilities	631	612
Payables and other liabilities	3,325	3,880
Total liabilities amd shareholder's equity	11,017	11,266

* Prepared in accordance with German GAAP (HGB)
Not part of the Notes to the Consolidated Financial Statements

Further Information

Consolidated Financial Data 1999–2003

Consolidated Financial Data Infineon Technologies AG (euro in millions)[1]					
As of and for the financial year ended September 30	**1999**	**2000**	**2001**	**2002**	**2003**
Summary consolidated statements of operations data					
Net sales	3,992	6,989	5,347	4,890	6,152
By region:					
Germany	1,154	1,520	1,636	1,266	1,535
Other Europe	1,156	1,570	1,172	943	1,112
North America	757	1,747	1,208	1,158	1,393
Asia-Pacific	862	2,047	1,247	1,446	2,077
Others	63	105	84	77	35
By Business Group[2]:					
Wireline Communications	499	661	766	386	459
Secure Mobile Solutions[3]	1,141	1,559	1,522	1,278	1,645
Automotive & Industrial Electronics	665	923	1,153	1,201	1,392
Memory Products	1,406	3,479	1,614	1,861	2,485
Other Operating Segments	202	276	236	117	139
Corporate and Reconciliation	79	91	56	47	32
Cost of goods sold	2,799	3,815	4,580	4,289	4,614
Gross profit	1,193	3,174	767	601	1,538
Research and development expenses	734	1,025	1,189	1,060	1,089
Selling, general and administrative expenses	530	668	782	643	679
Restructuring charge	–	–	117	16	29
Other operating income (expense), net	2	(2)	(200)	(46)	85
Operating income (loss)	(73)	1,483	(1,121)	(1,072)	(344)
Interest income (expense), net, inclusive of subsidies	43	75	(1)	(25)	(52)
Equity in earnings (losses) of associated companies	29	92	21	(47)	18
Gain on associated companies share issuance	–	53	11	18	(2)
Other income (loss)	18	36	65	(41)	21
Minority interest	–	(6)	6	7	8
Income (loss) before income taxes	17	1,733	(1,019)	(1,160)	(351)
Income tax benefit (expense)	36	(614)	427	143	(84)
Net income (loss) from continuing operations	53	1,119	(592)	(1,017)	(435)
Income (loss) from discontinued operations	8	7	1	(4)	–
Net income (loss)	61	1,126	(591)	(1,021)	(435)
Basic and diluted earnings (loss) per share (in euro)	0.10	1.83	(0.92)	(1.47)	(0.60)
EBIT	(26)	1,658	(1,018)	(1,135)	(299)
By Business Groups[2]					
Wireline Communications	24	48	(93)	(245)	(188)
Secure Mobile Solutions[3]	206	307	(142)	(116)	(64)
Automotive & Industrial Electronics	24	71	143	111	186
Memory Products	(238)	1,330	(938)	(630)	31
Other Operating Segments	18	23	192	9	(49)
Corporate and Reconciliation	(60)	(121)	(180)	(264)	(215)

Continuation Consolidated Financial Data Infineon Technologies AG (euro in millions)[1]					
As of and for the financial year ended September 30	**1999**	**2000**	**2001**	**2002**	**2003**
Summary consolidated balance sheet data[1]					
Cash and cash equivalents	30	511	757	1,199	969
Marketable securities	–	498	93	738	1,784
Inventories	677	841	882	891	959
Total current assets	2,523	3,835	2,876	4,191	5,306
Property, plant and equipment, net	3,014	4,034	5,233	4,491	3,817
Long-term investments, net	130	432	655	708	425
Restricted cash	64	132	86	70	67
Total assets	6,445	8,853	9,743	10,918	10,805
Short-term debt, including current portion of long-term debt	495	138	119	120	149
Long-term debt, excluding current portion	135	128	249	1,710	2,343
Shareholders' equity	3,656	5,806	6,900	6,158	5,666
Summary consolidated statements of cash flows data					
Net cash provided by operating activities	469	2,077	221	226	731
Net cash used in investing activities	(918)	(2,327)	(1,813)	(1,244)	(1,522)
Depreciation and amortization	573	834	1,121	1,370	1,437
Purchases of property, plant and equipment	(653)	(1,571)	(2,282)	(643)	(872)
The IFX Share (as of September 30)					
Dividend per share (euro)	–	0.65	–	–	–
Closing price Xetra Trading System (euro)	n/a	54.88	13.50	5.61	11.22
Closing price New York Stock Exchange (NYSE) (US Dollar)	n/a	47.50	12.39	5.70	12.89
Shares outstanding (million)	n/a	625.5	692.4	720.8	720.9
Market capitalization (euro bn)	n/a	34.327	9.347	4.044	8.088
Market capitalization (US Dollar bn)	n/a	29.711	8.579	4.109	9.292
Key Figures					
Equity-assets ratio	57%	66%	71%	56%	52%
Debt-equity ratio	17%	5%	5%	30%	44%
Net cash position (as of September 30)[4]	(536)	875	568	177	328
Employees (period end in total figures)					
Total	25,779	29,166	33,813	30,423	32,308
By region					
Germany	12,853	14,247	16,814	15,716	16,166
Other Europe	2,842	3,409	5,007	4,590	5,034
North America	2,563	2,838	3,023	2,889	2,757
Asia-Pacific	7,521	8,672	8,949	7,200	8,234
Others	–	–	20	28	117
By function					
Production	n/a	20,371	23,416	20,822	22,405
Research & development	n/a	4,733	5,510	5,374	5,935
Sales & marketing	n/a	2,043	2.259	2,010	2.048
Administrative	n/a	2.019	2.628	2.217	1,920

1 Columns may not add up due to rounding.

2 Effective October 1, 2001, we reorganized certain of our business units to better reflect our customer and market profiles. Accordingly, the segment results for the 2000 and 2001 financial years have been reclassified to be consistent with the report.

3 Infineon has decided to merge the activities of the Wireless Solutions and Security and Chipcard ICs segments into one operating segment called Secure Mobile Solutions (SMS), and to report it as such effective October 1, 2002.

4 Cash and equivalents plus marketable securities plus restricted cash minus short- and long-term debt.

n/aThis information is not available for periods prior to our becoming a public company.

Finance Glossary

ADS – American Depositary Shares – ADSs are U.S.-traded stock certificates for non-U.S. stocks issued at a 1:1 ratio. These certificates simplify access to U.S. capital markets for non-US-based companies, and in turn provide U.S. investors with investment opportunities in non-U.S.-based companies. Infineon's ADSs are listed on the New York Stock Exchange (NYSE).

Balance sheet – Reflects the company's financial position at the end of the fiscal year, and forms part of the consolidated financial statements. It presents the assets and liabilities of the company and the shareholders' equity employed.

Cash flow – The cash-effective balance arising from inflows and outflows of funds over the fiscal year. The cash flow statement is part of the consolidated financial statements. The cash flow statement shows how the company generated cash during the period and where it spent cash, in terms of operating activities (cash the company made by selling goods and services), investing activities (cash the company spent investing in its future growth), and financing activities (cash the company raised by selling stocks and bonds).

Consolidated financial statements – The annual financial statements of the Infineon group of companies reflecting the group's financial condition at the end of the fiscal year and the results of operations, cash flows and changes in shareholders' equity during the fiscal year, on a consolidated basis as if the legally separate entities in the group were economically one single entity. The consolidated financial statements include the balance sheet, statement of operations, statement of cash flows, statement of shareholders' equity as well as the notes thereto.

DAX – Deutscher Aktienindex – The German Blue Chip Index tracking the 30 major German companies traded on the Frankfurt stock exchange.

Debt-equity ratio – An indicator of the company's financing structure, representing the total short- and long-term debt as a percentage of shareholders' equity.

Deferred taxes – Since tax laws often differ from the recognition and measurement requirements of financial accounting standards, differences can arise between (a) the amount of taxable income and pretax financial income for a year and (b) the tax bases of assets or liabilities and their reported amounts in financial statements. A deferred tax liability and corresponding expense results from income that has already been earned for accounting purposes but not for tax purposes. Conversely, a deferred tax asset and corresponding benefit results from amounts deductible in future years for tax purposes but that have already been recognized for accounting purposes.

EPS – Earnings (loss) Per Share – Basic earnings (loss) per share ("EPS") is calculated by dividing net income (loss) by the weighted average number of ordinary shares outstanding during the reporting period (financial quarter or year). Diluted EPS is calculated by dividing net income by the sum of the weighted average number of ordinary shares outstanding plus all additional ordinary shares that would have been outstanding if potentially dilutive securities or ordinary share equivalents had been issued.

EBIT – Earnings Before Interest and Taxes – Infineon defines EBIT as "earnings before interest and taxes". This is the measure that Infineon uses to evaluate the operating performance of its business groups.

EBIT margin – An indicator of operating performance, calculated as the percentage of EBIT in relation to net sales.

Equity-to-assets ratio – An indicator of the proportion of equity capital in the company's financial structure, calculated as the ratio of shareholders' equity capital to total assets.

Free cash flow – The net cash-relevant balance of the inflow and outflow of funds arising from the company's operating and investing activities, adjusted for the inflow or outflow of funds from investments in marketable securities available for sale.

German Corporate Governance Code – Code of the government commission "Deutscher Corporate Governance Kodex" that integrates requirements and recommendations for good corporate management and control for companies listed in Germany on the DAX.

Goodwill – An intangible asset of the company that results from a business acquisition, representing the excess of the acquired entity's purchase price (cost) over the fair value of the net assets acquired and liabilities assumed. Under US GAAP, goodwill is not reduced through regularly scheduled amortization, but rather written down to its fair value if impaired. An impairment assessment is done at least once annually.

Gross cash position – Total of cash and cash equivalents, marketable securities and restricted cash.

Gross profit or margin – Net sales less cost of goods sold.

Minority interest – Proportional share in net income not ascribed to the consolidated group but to outside shareholders that hold a minority share in the equity of the company's subsidiaries.

Net cash position – Gross cash position less long- and short-term debt.

Registered shares – Shares registered in the name of a certain person. This person's details and number of shares are registered in the company's share ledger in accordance with securities regulations. Only individuals registered in the company's stock ledger are considered shareholders of the company and are, for example, able to exercise their rights at the annual general meeting of shareholders.

Retained earnings – The part of the shareholders' equity that represents earnings of the company not paid out as dividends but instead retained and reinvested in the core business or used to reduce financial debt.

ROE – Return On Equity – An indicator of the company's financial performance, representing net income as a percentage of the average amount of shareholders' equity capital employed during the period.

ROTA – Return On Total Assets – An indicator of the company's financial success, representing EBIT as a percentage of the average total assets employed during the period.

Risk management – Systematic procedures employed to identify and evaluate potential risks facing the company, and to identify and implement measures to address and mitigate those risks.

Segment reporting – Presentation of information concerning assets and earnings by business segment and geographical region.

Statement of operations – Reflects the results of the company's operations during the financial reporting period, and forms part of the consolidated financial statements. The statement of operations follows the cost-of-sales method, and shows the significant cost elements according to their function.

US GAAP – Generally Accepted Accounting Principles – Accounting principles generally accepted in the United States of America. Infineon prepares its consolidated financial statements under US GAAP.

Technology Glossary

2G – Second generation, digital mobile communications. Subsequent to the first generation (analog), 2G digital signals offer improved sound quality and numerous data services. GSM standard.

2.5G – Current mobile communications infrastructure. GPRS standard.

3G – Third generation of mobile communications: Speech and data, both broadband, with considerably higher capacity. UMTS standard.

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

ASSP – Application-Specific Standard Product. Standard product constructed for a specific use that can be used by several customers.

Baseband IC – A baseband IC processes the digital signals received and those to be sent. This complex component usually comprises a digital signal processor, microcontroller, memory and analog switches. It essentially forms the core of a wireless communication system.

Bit – One information or computing unit; can take one of two values, e.g. "true" / "false" or "0" / "1".

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

Bluetooth Communication Gateway (BCG) – Connecting mobile phones to in-vehicle infotainment platforms.

Byte – Data transmission unit equivalent to 8 bits.

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

Chip card – Plastic card with built-in memory chip or microprocessor, can be combined with Personal Identification Number (PIN).

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

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

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

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

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

Flow-Thru Chip – A biochip made of porous silicon. On an area of one square centimeter there are about one million channels, ten times thinner than a human hair. In the silicon channels there are up to 400 different gene sequences whose activity corresponds to a particular illness, e.g. lung cancer. Probes to be tested are pumped through the silicon channels (Flow-Thru technology) and are analyzed.

Giga – In information technology, prefix denoting a multiple of 2^{30} as in Gigabit (Gbit), Gigabyte (GByte).

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

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

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

IC – Integrated Circuit(s). Electronic component parts composed of semiconductor materials, such as silicon; numerous components, such as transistors, resistors, capacitors and diodes can be integrated into ICs and interconnected.

Insulated Gate Bipolar Transistor (IGBT) – Specific high voltage semiconductor technology.

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

Kilo – In information technology, prefix denoting a multiple of 2^{10} as in Kilobit (Kbit), Kilobyte (KByte).

LAN – Local Area Network (local network). Data communications network in an extremely limited physical space, such as the confines of one building.

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

Mega – In information technology, prefix denoting a multiple of 2^{20} as in Megabit (Mbit), Megabyte (Mbyte).

Microcontroller – A microprocessor integrated into a single IC combined with memory and interfaces, functioning as an embedded system. Logical integrated circuits of the highest complexity can be designed in a microcontroller and controlled by software.

Micron (micrometer) – Metric linear measure, corresponding to the millionth part of a meter (10^{-6} m). Symbol: µm. Example: the diameter of a single hair of a person is 100 µm or 0.1 mm.

Non-volatile memory – Memory that does not lose its stored information when the power supply is switched off.

PDA – Personal Digital Assistant. An electronic address book, appointment calendar and notebook synchronized with the PC.

Plastic Optical Fiber – Economical and lightweight optical communications and bus technology for in-vehicle entertainment and security systems.

Radio Frequency Identification – Refers to a technology which permits wireless exchange of data with transmitter and receiver units. Reading and writing are done within a fraction of a second. Such identification systems are used, for example, for labeling products and goods.

RAM – Random Access Memory (direct access memory). Data memory known as main or primary memory, containing programs and data from external memory sources. It cannot retain if the power supply is switched off. Examples: SRAM and SDRAM. (See "DRAM").

RF transceiver – The term "transceiver", created from the words "transmitter" and "receiver", is used to describe a combination of transmitter and receiver in a single package used in wireline and wireless communication. Radio Frequency (RF) transceivers are used in wireless communication, for example, in cell phones and cordless telephones.

ROM – Read-Only Memory. Digital, non-volatile data memory, in which data can be permanently stored regardless of the power supply but can no longer be modified.

Semiconductor – A crystalline material that demonstrates electrical conductivity upon warming, increasing the level of conductivity with rising temperature. Semiconductors include silicon or germanium. The term is also applied to ICs made of these materials.

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

Smart Card – A plastic card, usually about the size of a credit card, with an embedded microcontroller. In contrast to a memory-based card, this type of card is equipped with a microprocessor which permits extremely secure processing of large volumes of data.

Telematics – The combination of telecommunications and computing.

Telematics Communication Gateway (TCG) – On-board unit with positioning and communication technology using GPS and GSM for telematics services.

Tire Pressure Monitoring System – A system monitors the pressure inside of a tire and alerts the driver before the tire runs flat.

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

Volatile memory – Memory that loses stored information when the power supply is switched off.

Wafer – Disc made of a semiconductor material, such as silicon, with a diameter of up to 300 mm.

WAN – Wide Area Network. Data communications network for a large geographic area, such as a country.

WDCT – Worldwide Digital Cordless Technology. Unified standard for wireless digital communications systems in North America. An adaptation of the DECT standard.

xDSL – x Digital Subscriber Line. Generic term for various technical designs for broadband, digital data transmission via existing copper telephone lines. Depending on the configuration, the "x" stands for Asymmetric (A), High Rate (H), Single Line (S), Symmetric High Data-Rate (SH) or Very High Bit Rate (V).

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Financial Calendar

Financial Calendar 2004

Monday, January 19
Publication of first quarter 2004 results

Tuesday, January 20, 10 am CET
2004 Shareholders' Annual General Meeting in Munich, Olympiahalle (Olympic Hall)

Wednesday, April 21
Publication of second quarter 2004 results

Tuesday, July 20
Publication of third quarter 2004 results

Tuesday, November 9*
Publication of preliminary fourth quarter 2004 results and preliminary figures for the 2004 financial year

* Preliminary Date

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Never stop thinking.