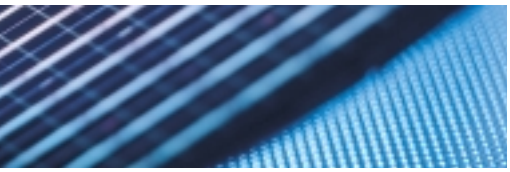
■ No. 2 ■ April/May 2002



investor newsletter

Infineon wins 2001 German Innovation Award – power semiconductors significantly reduce energy consumption

Infineon technologies

THE REVOLUTION IN SAVING ENERGY

Innovation Award for Infineon's Smart Power IC Product Family

Innovation is that special elixir of life ensuring that a high-tech company will grow and thrive. The dynamics of the semiconductor market demand the ongoing development of new solutions in increasingly shorter intervals. Infineon has often assumed the role of being a pioneer. This feat has been honored with an "Oscar": the 2001 German Innovation Award, granted for an outstanding innovative product or process, which can strengthen "Germany's reputation as a technological leader in the world". Infineon received the award in the category "large companies". It has been bestowed annually since 1980 by "Wirtschaftsclub Rhein-Main", a German Trade and Industry Group, together with the German weekly business magazine "Wirtschaftswoche".

CoolMOS and IGBT are the names of the inventions responsible for Infineon's achievement. The abbreviations stand for transistors which precisely regulate the energy flow to electrical products. These two smart power IC product families have an unparalleled career ahead of them. In the future, billions of them will be an integral part of the standard equipment built into cars and household appliances, industrial engines and personal computers – enabling them to use up to 30 percent less energy.

Reduce Fuel Consumption with CoolMOS

MOS electronic components have the capability of cutting future fuel consumption by up to 1.5 liters for every 100 kilometers driven. This is done by preventing unnecessary energy use. All automobile electronic systems will continually be regulated to optimize potential energy savings, from electric window openers and brakes to engine and transmission control systems as well as air conditioning.

These tiny, multi-functional components will also play a major role in households. They already regulate the number of revolutions (speed) of the motors built into Miele and Bosch-Siemens washing machines. In the future, every function will be under their control, from heating to regulating the amount of water used. Refrigerators equipped with the new technology will require less electricity. And the standby systems of stereo devices or computers will hardly require any energy, to name just a few of the many potential applications.

Half a Ration

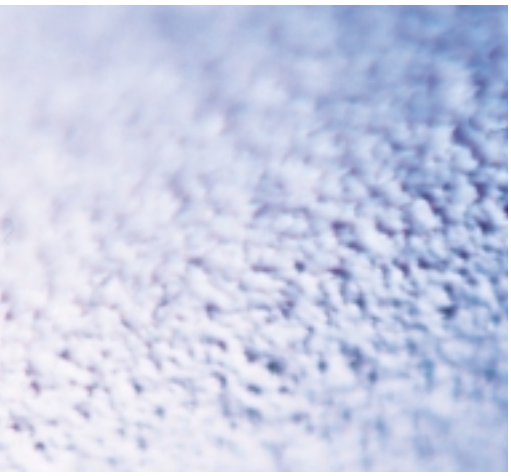
Take the example of electric motors, which account for about half of all German energy consumption. Theoretical calculations conclude that semiconductor components, when applied purposefully, could lead to energy savings of 80 to 100 billion U.S. Dollar annually in the USA alone.

A complex series of technological breakthroughs enable these small components to achieve so much. One key factor is the so-called "thin wafer" technology, in which Infineon has emerged as a world leader. The wafer – the silicon mounting plate onto which the semiconductor structures are put in a complicated process – has a density of only 70 microns. Further-

IGBT

(Insulated Gate Bipolar Transistor) semiconductor switches are particularly suited for high energy flows, whereas they require only a minimal controlling power themselves. They are used for high-performance drives, for example in trains, whose energy needs can be reduced by about half.

CoolMOS semiconductor switches are outstanding conductors of energy flows with the least possible resistance and minimal heat dissipation. They are suited for devices using low or moderate amounts of power, such as the power supply units of mobile phones, which will fit into a standard plug in the future.



more, on the basis of the CoolMOS concept, Infineon's development teams have succeeded in combining outstanding power flow and perfect insulation in the same chip component. These are characteristics which actually contradict each other, like fire and water. In this way, energy flows can be regulated in an extraordinarily precise manner. Very little heat dissipation (waste heat) arises because there is hardly any resistance.

Battery Charger in the Plug

As a result, devices with high power consumption, such as transformers or rectifiers, become unnecessary. This fate will be shared by conventional battery chargers with their complex cooling. Future electronic converters will generate hardly any heat. Thus, battery charging devices for mobile phones will have sufficient space in a standard electric plug. The new components will also lead us to rethink how power is to be supplied to personal computers or laptops.

Thanks to these new products, a completely new dimension in international competition is being created. The new chips enable the production of devices which are easier to use and more environmentally-friendly. In other words, they will save energy without people having to forego anything, without the slightest reduction in personal convenience and comfort.

According to Reinhard Ploss, Head of the Automotive and Industrial business group, Infineon's technological lead in this segment amounts to about 15 months. The Automotive and Industrial business group accounted for 1.1 billion Euro or 20 percent of Infineon's total revenues in 2001, a share expected to increase in the years to come. Mr. Ploss expects these smart power ICs, produced in Regensburg and in Villach, Austria, to post "above-average growth".

Originator of Energy-Saving Idea

The fact that Infineon won the Innovation Award is primarily due to the achievements of one man. The dynamic inventor and researcher Jenoe Tihanyi can claim a good deal of the credit for CoolMOS and IGBT. According to Infineon CEO Ulrich Schumacher, Mr. Tihanyi supplies the company with at least one invention per week, many of which have become successful on the global marketplace. "His innovations and inventions represent a decisive contribution to the success of the company." In January, Edelgard Bulmahn, Minister of Germany's Federal Ministry of Education and Research, bestowed the award on Infineon at a festive gala ceremony held in the Old Opera House in Frankfurt. The prize was a traveling sculpture onto which the names of the annual winners are engraved from year to year. Mr. Schumacher accepted the award on behalf of Jenoe Tihanyi.

Top: Present at the award ceremony (l. t. r.): Jenoe Tihanyi, Managing Director of Unysis Deutschland Ulrich Max Müller, Edelgard Bulmahn, Ulrich Schumacher, Reinhard Ploss, Lothar Späth
Bottom: Proud of the achievement: Jenoe Tihanyi and Ulrich Schumacher

TITAN INFINEON IN NEW DOW JONES BLUE CHIP INDEX

The U.S. stock market index provider Dow Jones (DJ) has established a blue chip index encompassing 30 top German securities. Dow Jones Germany Titans 30, which includes Infineon, has been in existence since April 12, 2002. The new index basically consists of the same listed securities as the German DAX 30 blue chip index – with the exception of MAN and Degussa, which have been replaced by Porsche and Altana. The new index, a competition to the DAX, allows for the placement of new fund products on the marketplace. So-called "Exchange Traded Funds" (ETF) consist of those shares covered by the new index. They are regarded as an attractive alternative to conventional funds and as a growth segment. At present, the Hypovereinsbank subsidiary Indexchange has a monopoly on the German market. The company manages the only ETF made up of DAX stocks. The newly-created index opens the market to competitive funds. Following the same model, Dow Jones has created new representative blue chip indices for France, Italy, the Netherlands, Spain, Sweden and Switzerland. In addition to the Germany Titans 30 and other Dow Jones indices, Infineon is also represented in the German stock index (DAX), Financial Times Stock Exchange (FTSE), Morgan Stanley Capital International (MSCI) as well as Standard & Poors (S&P) – which list the company in various regional, global and sectoral indices.

@ Infos: http://www.infineon.com/boerse/english/indices/htm

INFINEON AT CEBIT

Something unusual happened at the world's largest technology trade fair. This year, CeBIT did not succeed in welcoming a record number of guests as in past years. The globe's most important annual IT exhibition, which took place in Hanover, Germany, in March, attracted 700,000 technology fans, 18 percent fewer than in 2001. However, the level of specialist visitors remained constant. For this reason, the exhibitors – namely 7,962 companies from 61 countries – were basically satisfied. The event was rated as a 3+. Infineon presented several innovations at CeBIT, including a new solution for broadband Internet access. The newly-developed 4-Band-Plan-998-VDSL modem ensures quicker Internet access and high-quality, top-performance media services. Volume production will begin at the end of 2002. In addition, the company presented the UMTS "S-GOLD" chip set, designed for radio transmission of stereo sound and video pictures without significantly limiting battery operating time. Infineon also introduced a new security chip for UMTS and GSM cellular phones. It can encode data in a highly secure manner, making it possible, for example, to carry out mobile banking using one's mobile phone.

@ Infos: CeBIT 2003, March 12–19; see http://www.cebit.de

MARKET FORECASTS SIGNAL RECOVERY

Things are once again looking up for the semiconductor branch. It is in the midst of a market recovery which is likely to continue, according to the German Electrical and Electronic Manufacturers' Association (ZVEI). In February 2002, semiconductor revenues in Germany were significantly higher than in the month before. Growth continued into March, with a rising level of orders. Although the figures are still far below industry performance in 2001, an upturn is in full swing, ZVEI maintains. Thus, the current trend confirms the six-month forecast of the World Semiconductor Trade Statistics (WSTS) made in October 2001. This independent non-profit organization, representing approx. 90 percent of all semiconductor firms, originally predicted accelerated, ongoing growth for the beginning of 2002.

@ Infos: http://www.infineon.com/boerse/english/links.htm

PATENT CASE: RAMBUS LOSES TO INFINEON

Infineon has won the legal battle centering on the alleged infringement of patent rights belonging to Rambus. An American court dismissed all 57 charges filed against Infineon by Rambus, and concluded legal proceedings finding Rambus guilty of fraud. Back in 1997, Infineon began the licensed production of so-called RDRAM chips from Rambus. Normal business relations between the two firms ended after Rambus demanded license fees for other Infineon products and sued Infineon for millions in damages. An international and interdisciplinary Infineon team, consisting of legal, technology and patent experts, succeeded in proving that Infineon's SDRAM and DDR-SDRAM memory chips did not violate Rambus' patent rights. The U.S. jury found Rambus guilty of fraudulent intentions and deceitful activities. Rambus, which partially succeeded in winning similar law suits against chip producers Toshiba, Hitachi, NEC, Samsung, Micron and Hynix, has been sentenced to pay Infineon a fine of 350,000 U.S. Dollar and assume the legal expenses arising in the litigation.

CHIP POWER UNDER THE HOOD

Semiconductors have become an indispensable part of modern automobiles. Some of today's high-tech vehicles contain up to 73 microcontrollers, which regulate air conditioning, seat adjustment and airbags as well as the car's engine and transmission. In the year 2000, Infineon had a 13.9 percent market share*, making it the number one supplier of semiconductors to Europe's automobile industry. Globally, the company ranked second with a market share of 7.3 percent*. The latest trend points to environmental considerations and security becoming increasingly important factors. As a result, Infineon's R&D teams are developing a growing number of chips which optimize vehicle dynamics (e.g. car drivability and performance) and the activation of air bags as well as minimizing emissions of harmful pollutants. Communications systems will also play an important role in future automobiles. Infineon has a cutting edge expertise and is competitively ahead in terms of mobile phone technologies. Today, Infineon already supplies microcontrollers for every second car navigation system in Europe. Car radio, mobile phone sets, hands-free intercom and navigation systems communicate wirelessly on the basis of Bluetooth™ chips produced by Infineon.

*excluding car radios

AN END TO CARD CHAOS IN WALLETS

The latest 32-bit chip card controller developed by Infineon was awarded the prize as "Best Technological Innovation 2001" in the chip card branch. At the end of 2001, the company received the Sesames Award for this innovative development, which could potentially put an end to the huge pile of ID and credit cards stuffed in purses and wallets. The annual prize is granted by an international jury made up of experts in the branch. The new Infineon product, unsurpassed in computing power and security capability, could soon store the required data found on a person's identity card, bank card, credit card, monthly ticket for buses and trains and department store customer card onto a single chip card. The new chip card controller ensures that all data and applications remain securely distinct and separate. It could, for example, equip future Java™ and multi-application cards. 86 applications from across the globe were submitted for the Sesames Award, which in addition to "Best Technological Innovation" also grants prizes recognizing "Best Application" and "Best Software".

FIRST 1 AND 2 GIGAYBTE MEMORY DELIVERED

Infineon has begun releasing the first engineering samples of 1 Gigabyte DDR-SDRAM-DIMMs (Dual Inline Memory Modules). These memory modules are designed to boost the memory density in high-end personal computers, workstations and servers, allow for higher speeds and shorter storage times as well as improve overall quality and reliability. Delivery of the first functional samples of 2 Gigabyte DDR-SDRAM-DIMMs, which boast the same fundamental advantages, will also proceed. They are designed for primary memory applications in workstations and server environments. The new pioneering modules are the first in the industry to be based on 512 Mb ICs, and also represent the most complex industrial standards for DIMMs. In comparison to conventional modules, they can be integrated by systems manufacturers to double the memory capacity on a motherboard.

ELECTRONIC TICKETS: ONE FOR ALL PURPOSES

In the future, a person may need only one single ticket to take Berlin's "S-Bahn" (high-speed railway) to the morning train and Dresden's tramway home. The reason: Infineon is currently cooperating on developing a technical standard for a unified, nation-wide electronic ticket in Germany. In the middle of 2003, the company and the Association of German Mass Transit Operators plan to jointly introduce a unified solution, which will then be launched in pilot projects in Berlin and Dresden. All of the nation's 530 transport firms can later be integrated into one universal system. The chip in the ticket communicates with a special reading device as the passenger passes by, without any physical contact but wirelessly. Ingeniously-conceived electronics span the different mass transit tariff systems. Automatically, only the actual distance traveled will be billed. This e-ticket can be used everywhere in the same way. The electronic ticket could prove its value at the 2006 World Cup in soccer. In the large German cities, fans will be able to travel to the stadiums by bus and train using the same electronic ticket – without having to deal with different tariff systems.

HIGHER AVERAGE PRICES FOR MEMORY CHIPS

Infineon's Second Quarter 2002 Results: Increased Demand in All Business Groups/Cautious Optimism for Next Half Year

The semiconductor market experienced improved market conditions during the quarter which has had an impact on Infineon's quarterly results. Revenues in the second quarter of fiscal year 2002 (ending March 31, 2002) climbed to 1.39 billion Euro, an increase of 34 percent from the previous quarter. The main reason is an increase in demand for memory products, which in turn leads to a recovery in chip prices. All the other business groups also posted an increase in demand. Revenues moved upwards for traditional telecommunications applications, power semiconductors for the automotive sector as well as for security and chip card ICs. Furthermore, Infineon's cost reduction efforts initiated in July 2001 have been proceeding quite successfully. The "Impact" cost reduction program is designed to achieve billions in savings. Despite strong pricing pressure in the automotive and communications sectors, EBIT (earnings before interest and taxes) amounted to a loss of 178 million Euro, a third of the total loss posted in the first quarter of the fiscal year 2002. Loss per share for the second quarter was 0.16 Euro, compared with a loss per share of 0.48 Euro in the previous quarter. R&D expenditures totaled 264 million Euro – in absolute terms, the same level as in the comparable period one year ago. This reflects Infineon's ongoing investments in next-generation technologies.

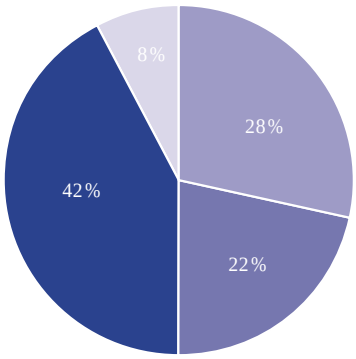
"We have significantly improved our earnings position and boosted our competitiveness at the same time, by strengthening our technological and cost leadership position. In this way, we are well prepared to further benefit from any sustained market recovery," says Ulrich Schumacher, CEO of Infineon.

In March, Infineon succeeded in strengthening its technological and cost leadership by concluding important strategic agreements. A "Memorandum of Understanding" was signed with the Taiwanese companies Winbond and Mosel Vitelic. Under the terms of the agreement, Infineon will license its advanced DRAM trench technology to Winbond beginning in 2003, with a portion of the products to be sold to Infineon. On the other hand, Infineon will expand its existing partnership with Mosel Vitelic to assume a greater share of the chips manufactured. As a result, Infineon will be able to increase its total production capacity for DRAM chips by more than 20,000 wafer starts per month, without the need for high capital investments. These strategic steps will help Infineon further strengthen its global market position in the light of a consolidation in the worldwide semiconductor market.

The Wireline Communications business group boosted second quarter revenues by 16 percent from the previous quarter. This was due to a slight recovery in demand for traditional telecom infrastructure business (ISDN and analogue telephone lines) in Asia. Infineon succeeded in further penetrating the Asian market with its "Ethernet to the home" broadband solution. Demand for semiconductors used in fiber optics applications also rose. Furthermore, the company posted design wins for key customers which integrate Infineon solutions in developing their products.

Revenues in the Wireless Solutions business group remained constant, reflecting stable demand for mobile handsets. Second quarter revenues were 208 million Euro, up 1 per cent from the previous quarter. Infineon once again posted major design wins in the second quarter, for example with its comprehensive GSM/GPRS systems solution for mobile phones. A bilateral cross-licensing agreement was concluded with NewLogic Technologies, enabling Infineon to expand its Wireless LAN expertise.

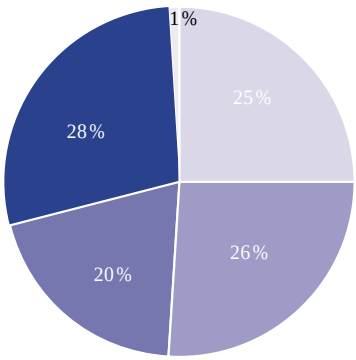
Quarterly Revenues in Million Euro
For the 3 months ended March 31, 2002



- Communications: 394 mill. Euro
- Automotive and Industrial: 299 mill. Euro
- Memory Products: 585 mill. Euro
- Other Operating Segments and Corporate and Reconciliation: 107 mill. Euro

Total Infineon Revenues: 1.385 mill. Euro

Regional Sales in %
For the 3 months ended March 31, 2002



- Germany
- Other Europe
- America (NAFTA)
- Asia/Pacific
- Other

SELECTED CONSOLIDATED CASH FLOW DATA

	FOR THE 3 MONTHS ENDED DEC. 31, 2001	MARCH 31, 2002
	in Euro millions	
Net cash used in investing activities	–194	–389
Net cash used in operating activities	–115	–120
Depreciation and amortization expenses	337	347

Infineon's total second quarter revenues climbed 34 percent from the previous quarter to 1.39 billion Euro. Increased demand in all business groups reflect moderate market recovery. Net loss reduced to 108 million Euro due to a significant increase in prices for memory products. Resolute implementation of the "Impact" cost reduction program.

Second quarter revenues of the Security & Chip Card ICs business group increased 10 percent to 90 million Euro. The revenue increase was primarily driven by rising demand for security controllers. Major contract wins were achieved on the Asian markets. For example, Infineon was contracted for the country's largest national health care project in Taiwan and a secure ID project in China. Infineon also strengthened its position for the MultiMediaCard™ by concluding a strategic partnership agreement with U.S. company Memorex, the largest retailer for MMCs. The Java™ Card achieved a technological breakthrough. With its 64 kilobyte security controller, it surpassed the legal requirements for digital ID systems. The Automotive and Industrial business group's second quarter revenues climbed to 299 million Euro, up 9 percent in comparison to the previous quarter. The revenue increase was driven by strong demand for automotive power solutions such as smart power switches for security and convenience applications, as well as increased business in motherboards. A strategic design win was achieved with a leading U.S. automotive component supplier for airbag supply power ICs. The "Telematics Communication Gateway" solution, which integrates GSM, GPS, Bluetooth™ and power management functionality onto a single chip platform, aroused considerable interest. This business group also developed the solutions responsible for Infineon winning the 2001 German Innovation Award (see pages 2 and 3).

Second quarter revenues in the Memory Products business group more than doubled to 585 million Euro. The increase of 105 percent from the previous quarter reflected improved prices for memory products. The 0.14 micron technology was successfully qualified for all mainstream products in all 200mm and 300mm production facilities. Engineering samples of 256 M Reduced Latency DRAMS and functional samples of 2 Gigabyte modules were presented. In addition, Infineon's mainstream memory chips were validated for all major Intel platforms.

SELECTED CONSOLIDATED STATEMENT OF OPERATIONS DATA

	FOR THE 3 MONTHS ENDED DEC. 31, 2001	MARCH 31, 2002
	in Euro millions	
Net sales	1,034	1,385
Cost of goods sold	–1,132	–1,088
Gross loss/profit	–98	297
Research and development expenses	–267	–264
Selling, general and administrative expenses	–164	–165
Operating loss	–509	–119
Net loss	–331	–108
Basic and diluted loss per share	–0.48	–0.16
EBIT (Loss before interest and tax)	–564	–178

SELECTED CONSOLIDATED BALANCE SHEET DATA

	AS OF SEPT. 30, 2001	MARCH 31, 2002
	in Euro millions	
Cash and cash equilavents	757	1,441
Working capital (deficit) excluding cash and cash equivalents	–85	128
Total assets	9,743	10,670
Short-term debt, including current portion of long-term debt	119	118
Long-term debt, excluding current portion	249	1,725
Shareholders' equity	6,900	6,488

OUTLOOK: FAVORABLE PERSPECTIVES

Whether the global economy continues to recover and the ongoing upturn is sustainable or not will have a significant impact on Infineon's key markets over the next six months. At the time Infineon's quarterly results were available, indicators pointed to a positive development in overall demand. Competition is expected to remain tough, accompanied by a downward pressure on prices. However, if the increase in demand for memory chips continues, DRAM prices could rise moderately. In addition, Infineon expects the market for mobile phones operating in line with the new generation of GSM/GPRS standards to expand even further. The company sees further opportunities for revenue growth in the market for security and chip card ICS, especially as a result of the rising need for security solutions. The market environment for telecommunications infrastructure will likely remain a difficult one, although the economic downswing in this sector has most likely bottomed out. Moderate growth can be expected in the market for broadband access and DSL solutions. Infineon foresees increasing pressure on prices and lower growth rates for automotive electronics, primarily caused by the moderate decline in the worldwide and particularly European automobile markets. Nevertheless, new telematic and infotainment products as well as higher standards in comfort and security systems could potentially boost demand.

NEW JOINT VENTURE IN TAIWAN

Infineon and Nanya Technology Corporation, based in Taoyuen, Taiwan, have concluded a far-reaching long-term cooperation agreement. It focuses on the joint development of 0.09 and 0.07 micron production technologies on 300mm silicon wafers at Infineon's facility in Dresden, Germany. In addition, the two firms are planning a 50:50 joint venture to build a new 300mm factory in Taiwan. Standard memory chips will already be manufactured at this plant applying the new technology. This will provide the basis for even smaller chip structures and a corresponding leap in productivity. The facility is expected to commence production at the end of 2003. Roughly 20,000 wafer starts will be processed monthly in the first expansion phase scheduled for the second half of 2004. Infineon's highly-advanced 300mm technology based on a larger silicon wafer, which allows for producing two and a half times as many chips as with the customary 200mm technology, will be licensed to Nanya. Infineon CEO Ulrich Schumacher says Nanya is an ideal partner, as both companies operate on the same technological base. "We are resolutely strengthening our position in Asia, and are increasing our share of the global market for memory chips," Mr. Schumacher adds.

INFINEON CALENDAR

■ July 22	Publication of results for 3rd quarter and first nine months of fiscal year 2002 (to 30 June)
■ November 8	Annual press conference 2002. Publication of preliminary results for the fiscal year 2002 incl. 4th quarter (to 30 September)
■ January 21, 2003	Annual Shareholders' Meeting, Munich

Trade Fairs and Exhibitions

■ May 14–16	PCIM (Power Electronics, Intelligent Motion and Power Quality) Europe 2002/Nuremberg, Germany
■ June 3–7	Computex/Taipeh, Taiwan
■ June 4–6	Supercomm/ Atlanta, USA
■ June 5–8	SmartCards China/ Peking, China
■ June 11–14	Bluetooth™/Amsterdam, Netherlands
■ July 3–5	Net World Interop/ Chiba, Japan
■ July 17–19	Wireless Japan/Tokyo, Japan
■ July 23–25	Automotive Engineering/Yokohama, Japan

Note:
This document contains forward-looking statements and forecasts based on assumptions and estimates made by Infineon management. While we assume that the expectations of these forward-looking statements are realistic, we cannot guarantee that the expectations will prove to be correct. The assumptions may conceal risks and uncertainties which may lead to actual results significantly divergent from those made in the projective forecasts. The factors that can cause such a divergence include: changes in the economic and business environment, forex and interest rate fluctuations, the launch of competing products, insufficient acceptance of new products or services, and changes in corporate strategy. No update of the projected forecasts by Infineon is planned, nor does Infineon assume any obligation to do so.

IMPRINT
INVESTOR NEWSLETTER 02/2002
Publisher
Infineon Technologies AG
Investor Relations and
Financial Communications
P.O. Box 80 09 49
81609 Munich, Germany
Phone: +49 89 2 34-2 66 55
Fax: +49 89 2 34-71 84 84
E-Mail: investor.relations@infineon.com
www.infineon.com/boerse
Editorial Staff
Katja Bürkle, Verena Raab,
Achim Schneider (responsible)
Layout and Design
OgilvyOne worldwide GmbH & Co. KG,
Frankfurt am Main, Germany