

investor

newsletter

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Better performance, greater safety, improved comfort, additional information, and more environmentally compatible. What driver wouldn't want this? Infineon semiconductors do their share to make life in a mobile living room more pleasant.

HIGH-TECH FOR THE MOBILE LIVING ROOM

Infineon is Europe's number one in automobile semiconductors and number two worldwide.

Modern automobiles are not exactly a paradise for do-it-yourself fans. Earlier, people who tried to fix cars themselves instead of spending a small fortune for a car mechanic would end up with dirty and grimy hands. In today's world, but a few antique car aficionados ever indulge their passion for taking their cars apart. And with modern-day vehicles, changing tires is one of the last ways to really get your fingers dirty.

The Clever Automobile

Infineon is partly responsible for this change. Many components in cars are now being electronically regulated, from air conditioning, seat adjustment and air bags to the engine and transmission. A limousine today contains 20 to 30 kilometers of cables. The value of the semiconductors integrated into cars surpasses 200 Euro on average, and will continue to climb.

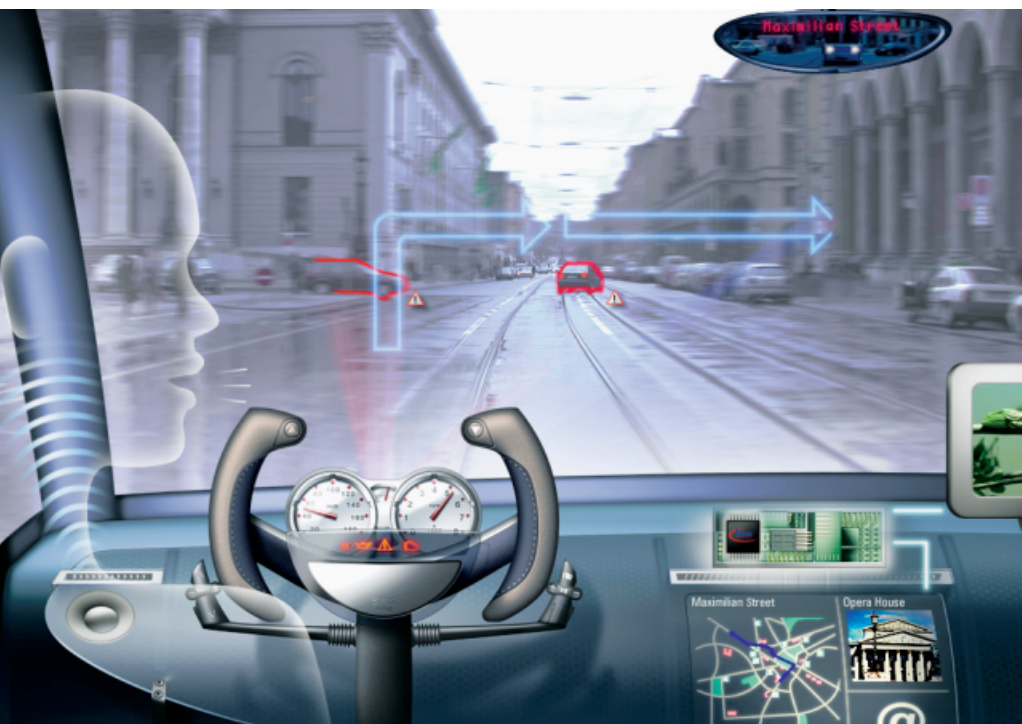
Electronic systems are about to penetrate the last remaining bastions held by conventional mechanics and hydraulic systems. Infineon is implementing research to develop semiconductor solutions for electronic steering which will no longer require steering linkage. In the future, steering commands will most likely be transmitted electronically, eliminating the need to incorporate a steering column – and thus doing away with a bulky danger zone. The electro-mechanic brake might even replace current hydraulic systems, with the reduced braking distance further increasing safety.

In the infotainment segment, Infineon provides chip sets and software for navigation systems and telematics as well as mobile Internet access.

Infineon Provides 80 % of Automotive Semiconductor Types

In this future-oriented market, Infineon is pulling away from the competition, providing its customers with more than 80 percent of the various types of semiconductors now being integrated into cars. These include sensors to gather data, microcontrollers to process data, and power ICs for drive management. Last year Infineon ranked as Europe's number one manufacturer of semiconductor solutions for automotive electronics, and the second largest worldwide. The market happens to be one of the most stable in the semiconductor industry. For one thing, even during an economic downturn, automobile production only suffers from relatively limited fluctuations. In addition, the volume of electronic components built into cars further continues to rise. For many years now, Infineon's business operations in the field of automotive electronics have expanded faster than the market itself, a trend expected to continue well into the future.

Infineon offers the automotive industry semiconductors for four main applications. Its high-performance semiconductors for engine and gear control systems (Powertrain) optimize fuel consumption as a means of boosting engine performance and further reducing harmful emissions. In the field of Safety Management, Infineon semiconductors are used for power steering, ABS, electronic stability control (ESP) and airbags, making the car more simple to control and safer to drive. It goes without saying that a relaxed driver is a safer driver. For this reason, Infineon's third key segment deals with Comfort Management. Semiconductors are produced which are designed to regulate light modules, electro-





nic door locking and automatic ventilation control systems as well as the electronic adjustment of seats. Finally, Infineon provides chip sets and complete semiconductor solutions in the field of Infotainment, e.g. for communications and navigation systems, partly in collaboration with strategic partners for software development and module production.

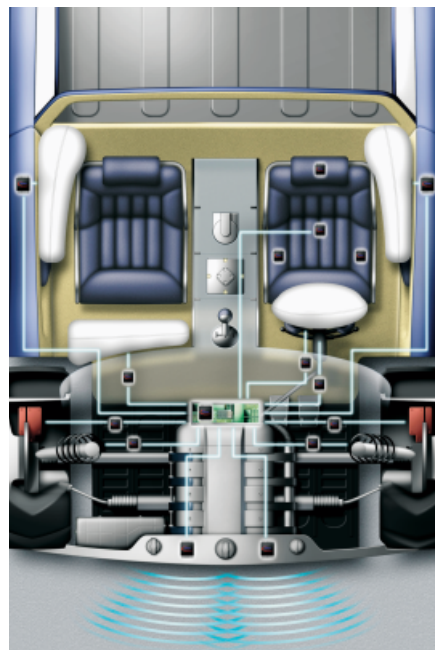
The company has 35 years of experience and system know-how, which goes well beyond electronic applications alone. Thus Infineon strives to offer an increasing number of semiconductor solutions instead of individual products or chip sets which goes in line with its “Agenda 5-to-1” corporate strategy.

Sensor Technology Grows in Importance

Sensor technology in automobiles is becoming increasingly important. The market for automotive semiconductor sensors is expected to grow by an annual rate of up to 20 percent. For example, sensors are becoming increasingly crucial in monitoring tire pressure. Starting this year, legal regulations in the U.S. will require the ongoing monitoring of tire pressure. 35 percent of new vehicles will already be

equipped with electronic sensor control systems in 2004. This share is expected to increase to 65 percent in the year 2005.

Infineon is preparing to move ahead in the high-growth market for sensor technologies. The company restructured its sensor operations during the course of the previous fiscal year, integrating it into its Automotive and Industrial Segment. The company’s product portfolio includes magnetic field, pressure and temperature sensors. And this is not the end of the road. The acquisition of the Norwegian company SensoNor, a leading provider of tire

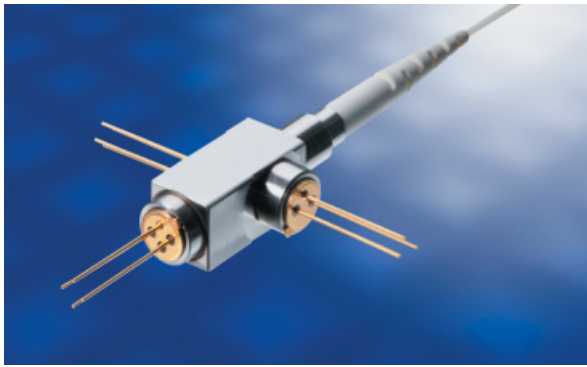


pressure and acceleration sensors, will significantly expand Infineon’s capabilities with pressure sensors and enable it to introduce acceleration sensors into its own portfolio. This transaction doubles Infineon’s market share in automotive semiconductor sensors to approx. 15 percent.

Infineon’s intelligent semiconductor solutions aim to make a vital contribution to the personal lifestyle of each individual, which inevitably comes down to focusing on cars. The automobile is increasingly being considered as a mobile living room, and as an expression of a person’s unique individual lifestyle. For Infineon, this means making a car “intelligent”, equipping each vehicle, figuratively, with a brain and nerves. Cars such as these are almost able to change in accordance with our daily moods. However the future of cars looks, Infineon is prepared to meet upcoming challenges.

More detailed information on this topic can be found on the Internet at www.infineon.com/news

Side airbags protect the heads of passengers with Infineon components ensuring trouble-free functionality.



Versatile Fibers: The optical “Triport-BIDI” module from Infineon enables analog TV signals and digital communications on a single fiber optic link.

HIGH-SPEED INTERNET, TELEPHONY AND ANALOG TV OVER THE SAME LINE

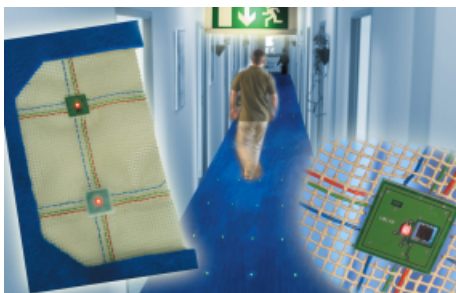
Three in one is the simple formula describing the technical parameters of the new optical triplex module developed by Infineon. The “Triport-BIDI”, which can span distances of up to 20 kilometers, enables communications in both directions over a single fiber optic link. Compared to conventional bi-directional modules, it is equipped with an additional photo diode to receive analogue video signals. Therefore, for the first time, three applications, namely analog TV, telephony and high-speed Internet, can be transmitted over one and the same cable. Up until now, households have usually been supplied with these services over two separate networks. In addition, this so-called “single fiber concept” has other important advantages, e. g. boosting the capacity of existing networks, and reducing the costs of cable routing and network maintenance. More detailed information on this topic can be found on the Internet at www.infineon.com/news

INFINEON AND MINISTRY OF THE INTERIOR CONCLUDE SECURITY COOPERATION

The German Federal Ministry of the Interior and Infineon will closely cooperate in the field of IT security in the future. The security cooperation agreement, recently signed by Minister of the Interior Otto Schily and Infineon’s CEO Ulrich Schumacher, aims to establish a solid technological basis for enhancing the security of IT systems used by the Civil Service, private companies and households. The contractual partners have agreed to develop suitable concepts and security standards in several areas, ranging from smart card technology and the reliable protection of computer systems and networks to the secure application of mobile devices for digital signatures and payment authorization. One of the projects focuses on developing a so-called “qualified signature card” to serve simultaneously as a citizen, job and healthcare card, as well as enabling the storage of biometric data. More detailed information on this topic can be found on the Internet at www.infineon.com/news



Minister Pays A Visit: Otto Schily and Infineon CEO Ulrich Schumacher signed a provisional agreement setting up far-reaching security cooperation.



Researchers at Infineon Technologies AG have found a way to provide large textile surfaces such as carpeting or tent canvas with “intelligence”.

INFINEON DEVELOPS CHIP NETWORK FOR “INTELLIGENT” INDUSTRIAL TEXTILES

Infineon researchers have developed a way to provide large textile surfaces such as carpeting or tent canvassing with a kind of “intelligence”. Woven into the fabrics themselves, a self-organizing network of water-resistant and heat-resistant chips enables the monitoring of temperatures, pressures or vibrations, as required. For example, carpeting equipped with this electronic architecture could serve as a motion sensor or fire alarm as well as regulating the burglar alarm and air conditioning systems. The integration of LEDs opens up a range of potential new applications for such industrial textiles, such as guiding visitor flows, flexibly identifying emergency exits or serving as advertising platforms. The particular advantage of the chip network is its stable functionality and extensive fault tolerance. If a chip fails, the network will automatically locate the flaw and reorganize itself in the wink of an eye, in order to maintain the information flow. Together with cooperation partners from the textile industry, Infineon plans to further develop this technology into a functional, large-scale “intelligent” fabric over the next two years. More detailed information on this topic can be found on the Internet at www.infineon.com/news

BIOCHIPS: AN OVERVIEW OF THEIR DEVELOPMENTAL STATUS

LAUNCHED ON THE MARKET: INNOVATIVE DRUG DEVELOPMENT SYSTEM

The so-called “flow-thru chip” has already been launched on the market to assist pharmaceutical companies in developing new medical drugs. It is providing assistance in the search for active ingredients which will combat inflammation, breast and lung cancer and neurological diseases such as Alzheimer’s, Parkinson’s and multiple sclerosis. The chip, which Infineon developed together with the U.S. biotech company MetriGenix, was rolled out in March of this year. It enables the simultaneous analysis of up to 400 genes on a surface area of one square centimeter. The unique feature of the flow-thru chip in comparison to other systems is its three-dimensional structure. The samples to be examined are pumped back and forth through hundreds of thousands of parallel microchannels which populate the entire biochip, from top to bottom. This automatic process shortens hybridisation time, is more sensitive and precise in comparison to planar methods, and reduces the consumption of test materials and expensive reagents. MetriGenix configures the chips with artificially manufactured sections of genes whose activity has been typically changed in accordance with the characteristics of a given disease. The flow-thru-biochip belongs to the group of gene expression chips. Adding an enzyme to the chip enables testing to determine whether a potential active agent is effective in positively influencing the activity of the genetic material. The resulting reaction will emit a detectable light which is captured and analyzed by a CCD (Charge Coupled Device) camera. The contents of each biochip can be tailored to specific customer specifications. The entire “4D Array System” solution costs approx. 60,000 Euro. Whereas the development of a new drug now requires an average of twelve to 15 years, the biochip can reduce product development time by one to two years. A successful medication can be worth up to 500 million Euro in annual revenues.

IN THE RESEARCH PHASE: A CHIP ENABLING BASIC RESEARCH ON THE HUMAN BRAIN

Infineon is currently carrying out research on a biochip, which could provide scientists with a long-awaited tool enabling basic research. The “Neuro-Chip” could provide new insights into how the brain and memory work. Individual nerve cells are isolated and placed on the sensor surface of the chip, where they grow together to form a network of neurons. A hybrid system is created, consisting of a semiconductor chip and neurons which can be kept alive over a period of several weeks. Infineon researchers have already achieved this within the framework of experiments performed in collaboration with scientists at the Max Planck Institute for Biochemistry located in Martinsried near Munich. As one of the world’s leading research groups in the field, they contribute vital cell biological know-how. The weak electrical signals provided by the neurons of a snail, which have a maximum level of five millivolts, are amplified with the help of a chip containing 16,384 high-sensitivity sensors within a total sensor area of one square millimeter. The signals are then transferred to a computer for further processing. The system may provide the basis for studying the perception, processing and storage of information in the brain, with undreamed-of opportunities for developing new applications in the fields of biomedicine, biotechnology and brain research. Understanding the principles of how nerve cells operate and interact could be a first step towards unravelling the secrets of diseases afflicting the brain which are still incurable today. Researchers also see future perspectives in applying biochips to develop new medical drugs on a cell biological basis.

CURRENTLY UNDER DEVELOPMENT: THE ELECTRONIC LABORATORY

Infineon is currently developing a fully electronic biochip, which functions entirely without the need for optical devices. Infineon is the world’s first semiconductor manufacturer to apply standard chip technologies. Standard CMOS chips, similar to those used in mobile telephones, are converted to biochips through extending the manufacturing processes. The fully electronic biochip is designed to detect DNA. 128 sensor positions are configured with scavenger molecules representing the exact counterpart of the particular DNA sequence whose presence within the analyte under investigation is to be detected. An enzyme which is attached to the DNA strands in the analyte, splits a further substance into electrically active components. As a result, minimal levels of electrical current arise at the sensor gold electrodes, thus enabling a precise analysis of the composition of the probe material. Infineon researchers have succeeded in developing a production process for gold electrodes which does not damage the highly sensitive circuits. If trial tests proceed successfully, these chips will be available for use in multiple applications such as the identification of infectious diseases and individual patients’ drug tolerance. These chips could also be used to diagnose cancer in their early stages, test the immune response of a patient and detect hereditary ailments. In the field of forensic medicine, genetic data bases could then be used to put criminals behind bars. Nevertheless, hospitals are set to be the main beneficiaries of the new technology, with the biochip boosting the performance and speed of laboratory tests in addition to making them more cost-effective.

SOLID REVENUES IN ALL SEGMENTS

THIRD QUARTER NUMBERS: MORE FAVOURABLE BUSINESS ENVIRONMENT, UNFAVOURABLE EXCHANGE RATES

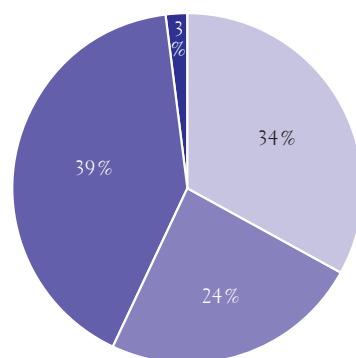
In the third quarter of the 2003 fiscal year, the business environment in the memory products segment improved. However, the Euro/Dollar exchange rate was unfavorable, and downward pricing pressure remained strong. Infineon achieved revenues of 1.47 billion Euro in the third quarter, almost the same level as in the previous quarter but an increase of 11 percent year-on-year. The quarterly net loss amounted to 116 million Euro, a significant improvement compared to the net loss of 328 million Euro in the previous quarter. This was mainly due to increased productivity and further cost reductions. In addition, compared to the 2nd quarter of the 2003 fiscal year, there was no significant inventory valuation effect. The net loss included an impairment charge of 68 million Euro, reflecting a partial goodwill writedown related to the acquisition of Catamaran Communications.

Infineon took advantage of the low interest rates prevailing on the European convertibles market to improve its own cash position. On June 5th, 2003, Infineon issued subordinated convertible notes due in 2010, with gross proceeds of 700 million Euro. The notes may be converted into up to 68 million ordinary shares of Infineon Technologies AG. At June 30, 2003, the company's gross cash position amounted to 2.4 billion Euro, up sequentially from 1.5 billion Euro. Infineon also decided to divest its interest in ProMOS Technologies. As of April 1, 2003, Infineon's investment in ProMOS is no longer accounted for on the equity method and is treated as marketable securities available for sale.

In the first nine months of the 2003 fiscal year, Infineon's total revenues amounted to 4.4 billion Euro, an increase of 22 percent compared to the same period last year. The net loss in the first nine months of the 2003 fiscal year was 484 million Euro, compared to a net loss of 515 million Euro in the comparable period of the previous fiscal year. Tax expense for the

first nine months of the current fiscal year was 98 million Euro, compared to a tax benefit of 345 million Euro for the comparable period of the 2002 fiscal year. EBIT increased significantly to a loss of 369 million Euro compared to a loss of 845 million Euro in the comparable period of the previous fiscal year.

Revenues by Segment in Euro millions
For the 3rd Quarter 2003

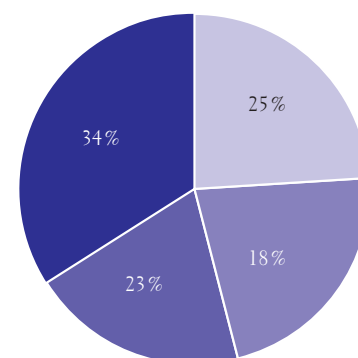


Communications: 506 million euros
Automotive & Industrial: 351 million euros
Memory Products: 569 million euros
Other Operating Segments, Corporate and Reconciliation: 45 million euros

Infineon Technologies 1,471 million euros

The Automotive & Industrial segment posted revenues of 351 million Euro in the third quarter, down one percent sequentially. This decrease was due to a non-linear booking of license income in the prior quarter. EBIT remained flat at 49 million Euro compared to the previous quarter. The high level of profitability could be maintained due to the improved utilization of production capacities and higher productivity based on the ongoing conversion of production to 200mm wafers. In this regard, Infineon achieved a leading market position in Europe in the engine

Regional Revenues in percent
For the 3rd Quarter 2003



Germany
Other Europe
America (NAFTA)
Asia/Pacific

SELECTED CONSOLIDATED STATEMENT OF OPERATIONS DATA

FOR THE 3 MONTHS ENDED
MAR. 31, 2003 JUNE 30, 2003

	in Euro millions	
	MAR. 31, 2003	JUNE 30, 2003
Net sales	1,484	1,471
Gross profit	201	387
Research and development expenses	- 254	-273
Selling, general and administrative expenses	- 164	-158
Restructuring charges	- 10	-5
Operating loss	- 227	-110
Interest (expense) income, net	-11	-10
Minority interests	2	-1
Loss before income taxes	-232	-126
Income tax benefit (expense)	-96	10
Net loss	-328	-116
Weighted average of outstanding shares – basic and diluted	721	721
Loss per share – basic and diluted	-0.45	-0.16
EBIT	-223	-115

SELECTED CONSOLIDATED BALANCE SHEET DATA	AS OF	
	SEPT. 30, 2002	JUNE 30, 2003
Assets	in Euro millions	
Cash and cash equivalents	1,199	827
Marketable securities	738	1,545
Trade accounts receivable, net	758	723
Inventories	891	999
Current assets	4,191	4,762
Property, plant and equipment, net	4,491	3,975
Total assets	10,918	10,572
Liabilities and shareholders' equity		
Short-term debt and current maturities	120	96
Trade accounts payable	1,197	793
Total current liabilities	2,383	1,911
Long-term debt	1,710	2,367
Total liabilities	4,760	4,954
Total shareholders' equity	6,158	5,618

SELECTED CONSOLIDATED CASH FLOW DATA	FOR THE 3 MONTHS ENDED	
	MAR. 31, 2003	JUNE 30, 2003
	in Euro millions	
Net cash provided by operating activities	101	183
Net cash used in investing activities	-323	-604
Net cash provided by financing activities	4	615
Depreciation and amortization	359	361
Purchases of property, plant and equipment	230	138

management market with its TriCore™ microcontroller technology. Infineon further boosted its market share, particularly in Asia for computing, for power management and supply applications (CoolMOS™ and OptiMOS™ technology). With the acquisition of SensoNOR in June 2003, Infineon enhanced its product portfolio for automotive sensors. According to Strategy Analytics, Infineon's Automotive & Industrial segment remained number one in Europe, increasing its market share to over 15 percent, and is ranked second worldwide with a global market share of eight percent.

The Wireline Communications segment boosted its quarterly revenues to 119 million Euro, up 6 percent from the second quarter of the 2003 fiscal year. This was primarily driven by higher sales of access and fiber optics products. EBIT amounted to a loss of 99 million Euro, compared to a loss of 39 million Euro in the previous quarter. This was due to the impairment of 68 million Euro in connection with the acquisition of Catamaran

Communications. Infineon strengthened its ADSL market position with a series of design wins of the Geminax chipset technology. In addition, the new Triport-BIDI transceiver, which is already being shipped to major customers, enables the transmission of analog TV, telephony and high-speed Internet over a single fiber optic link.

The Secure Mobile Solutions Group posted revenues of 387 million Euro in the third quarter, an increase of 3 percent sequentially. This was mainly driven by security solutions and Local Area Wireless applications, particularly Bluetooth. EBIT improved to a loss of 17 million Euro compared to a loss of 23 million Euro in the previous quarter, mainly the result of increased sales volumes, in particular for security controllers. Infineon concluded a strategic cooperation agreement with the German Federal Ministry of the Interior, in order to establish a technological basis for the improved security of IT systems in the Civil Service, private companies and households. Infineon also introduced its high-performance SingleStone module for

advanced Bluetooth applications.

In June 2003, Infineon and Ericsson signed an amendment to the acquisition agreement for Ericsson's microelectronics business operations. This is designed to strengthen the strategic cooperation of the two companies in mobile telephony and wireless infrastructure technology. The two companies agreed to a reduced purchase price and to abolish future purchase requirements on the part of Ericsson.

The Memory Products Group posted revenues of 569 million Euro in the third quarter, down seven percent from the 2nd quarter of the 2003 fiscal year. This was primarily due to the unfavorable Euro/Dollar exchange rate, a slight decline in average selling prices for memory products and licensing income of 36 million Euro which was lower compared to the prior quarter. EBIT improved significantly to 2 million Euro, compared to an EBIT loss of 138 million Euro in the previous quarter. The strong EBIT improvement was driven by a faster than expected productivity increase from Infineon's 300mm production, combined with the absence of significant inventory valuation adjustments.

The 256Mb DDR DRAM, the product with the highest sales volume, achieved validation by Intel in the 0.11 micron technology segment. Furthermore, customers have reacted favorably to samples of Infineon's 1 Gbit Double Data Rate (DDR) Synchronous DRAM (SDRAM), which are manufactured using the company's advanced 110nm CMOS process. Together with IBM, Infineon developed the Magnetic Random Access Memory (MRAM) technology, and introduced the high-speed 128 Kbit MRAM core, which enables even faster access, more storage and less power consumption in PCs and laptops. Together with Cypress and Micron Technologies, Infineon announced the first CellularRAM samples for future mobile communications applications.

The complete quarterly earnings release as well as the quarterly report can be found on the Internet at www.infineon.com/investor

OUTLOOK FOR THE SECOND HALF OF THE CALENDAR YEAR 2003

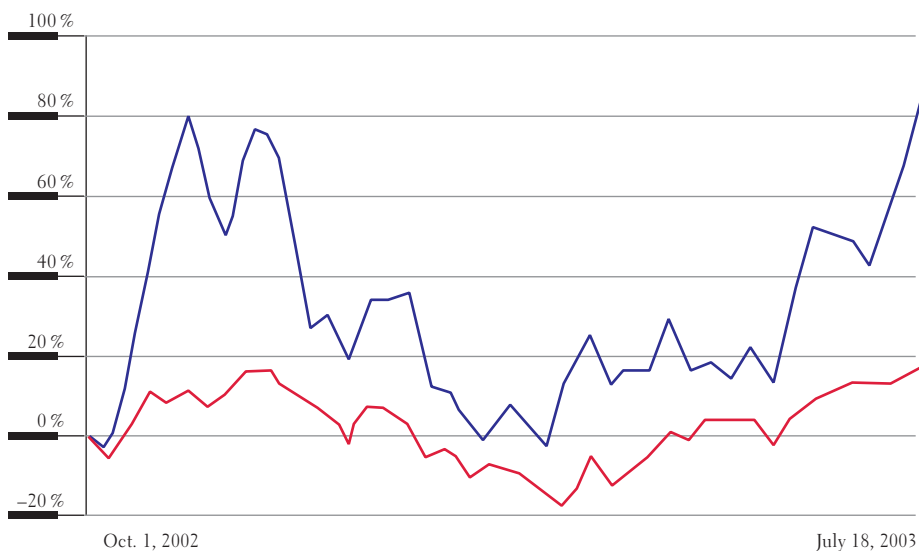
There are signs of a positive market trend, based on a continued improvement of demand in Infineon's logic IC and memory products segments. However, the global economic situation remains uncertain. For this reason, Infineon will continue to carry out its successful cost reduction and restructuring programs.

In its Secure Mobil Solutions segment, Infineon expects a continuing increase in demand for GSM/GPRS mobile handsets and Bluetooth products as well as for security solutions, particularly ID systems, but foresees ongoing downward pressure on prices.

Infineon anticipates further reductions in capital expenditures in the global wire-line telecommunications infrastructure market, but continues to expect moderate growth on the European market. Infineon also expects an increase in demand for broadband access technology, particularly in Asia.

In the automotive electronics and automotive semiconductor markets Infineon foresees weaker seasonal demand. The company anticipates further growth in the automotive electronics market despite the current weakness of the automobile industry.

Relative Performance of the IFX Share Since the Beginning of the 2003 Fiscal Year (on the basis of weekly closing prices, smoothed)



INFINEON TECHNOLOGIES (XETRA)		
HIGH	NOV. 6, 2002	12.08 EURO
LOW	OCT. 9, 2002	5.03 EURO
FINAL	JUL. 18, 2003	11.11 EURO

DAX (XETRA)		
HIGH	DEC. 2, 2002	3,476.83
LOW	MAR. 12, 2002	2,188.75
FINAL	JUL. 18, 2003	3,366.71

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.

For the logic segments as a whole, Infineon expects an overall improvement in revenues and EBIT for the fourth quarter of the 2003 fiscal year.

Infineon has benefited from growing demand and steadily rising prices for DDR memory products since the beginning of June 2003. Infineon expects the positive development in demand to continue, primarily driven by corporate investments in replacing equipment, the upcoming back-to-school season, the trend towards higher megabyte capacity per unit and growing DRAM demand due to the introduction of the new INTEL Springdale chipset, which offers Dual Channel DDR technology for computers.

INFINEON CALENDAR

- November 10, Publication of preliminary 2003 results for the 2003 fiscal year, including the 4th quarter (to September 30, 2003)
- January 19, 2004 Publication of results for the 1st quarter of the 2004 fiscal year (to December 31, 2003)
- January 20, 2004 Annual Shareholder's Meeting, Munich/Germany

Fairs and Exhibitions

- November 8, 2003 Munich Stock Exchange Day 2003, Munich/Germany

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