Concentration Convergence Confidence
Financial Review 2001

Infineon
technologies

Never stop thinking.

Concentration

A process focusing on the essentials, designed to make Infineon Technologies fit for the future. Looking ahead to the future, we are focusing our business operations on long-term growing market segments. At the same time, we are bundling our energies in an even more streamlined and flexible organization.

Convergence

A growing number of products and technologies in the fields of electronics and communications are becoming entwined, interconnected and interlinked – resulting in a whole new range of applications. As a catalyst for technological progress and cost reductions, Infineon Technologies is making a significant contribution to the convergence of our knowledge-based society: good prospects for the future of the company.

Confidence

Infineon Technologies is well positioned to take advantage of the next upswing in the semiconductor market – and to operate in the vanguard of the industry. We have complete confidence in our strengths and are optimistic that our long-term strategy will prove to be successful. And we would like to pass this confidence on to our employees, customers, partners, and naturally to the shareholders of Infineon Technologies AG.

DEAR READERS:

Infineon Technologies is publishing three separate documents which are completely independent from one another in order to provide detailed information about the 2001 fiscal year (1.10.2000–30.9.2001) and the current status of the company. This approach enables us to fulfill the varying demands placed upon us by our shareholders and business partners in the international financial markets. It also provides a basis for us to reduce the considerable costs which arise from producing and distributing the required and additional reports.

To begin with, we are publishing our “Annual Report 2001” in two parts, consisting of the “Strategic Review 2001” and the “Financial Review 2001”. The “Financial Review 2001” features the consolidated financial statements of Infineon Technologies for the 2001 fiscal year, as audited and certified by our independent auditing company KMPG. It also encompasses the Management Report, Financial Report, and Notes to the Consolidated Financial Statements as well as the Report of the Supervisory Board and the Independent Auditor's Report. Due to the fact that Infineon shares are listed and traded in the USA, Infineon is publishing a third document, namely the “Annual Report on Form 20-F”. This report will be submitted to the U.S. regulatory agency SEC (Securities and Exchange Commission), and also contains the consolidated financial statements of Infineon Technologies as well as general information about the company’s business.

We will be happy to send you the other documents on request. Furthermore, the contents of all three printed documents will be available on the Internet on the online information sections for the financial community at http://www.infineon.com/investor.

2001

Dr. Eng. h.c. Volker Jung
Chairman of the Supervisory Board

Dear Shareholders,

The Management Board has informed the Supervisory Board in detail about the development of business and the financial situation of the company and its separate business units and about financial and investment planning at the respective meetings during the period under review. Additionally, it has submitted full quarterly reports to us and has also reported in writing about events of particular significance. Furthermore, the Chairman of the Supervisory Board has kept himself informed about important developments and decisions by the Management Board in individual meetings.

The discussions by the Supervisory Board have been dominated in particular by the situation in the semiconductor market, which has deteriorated during the course of the fiscal year. In addition to reductions in demand for PCs and mobile phones, the sudden and widespread unwillingness throughout the world to invest in communications infrastructure has put pressure on the business and the performance of almost all of Infineon's business units, particularly Memory Products.

As a reaction to this, the investment budget was reduced in the first months of the fiscal year in consultation with the Supervisory Board and was further adjusted as the year progressed. Additionally, the Management Board prepared an extensive cost reduction program placed before the Supervisory Board on July 25, 2001 and implemented it without delay. The main objective of this program is to make a rapid and noticeable improvement in the profits and liquidity position. At the same time, proper attention is also being given to the securing of the technological base as a foundation for the long-term successful development of the company. We received a progress report about the implementation of the program at an extraordinary meeting in September and confirmed that the Management Board should continue to bring all input factors rapidly and fully into line with the difficult market circumstances.

In order to finance the investment program, the Supervisory Board approved an increase in capital of 60 million shares, which brought in total proceeds of approximately 1.5 billion Euro for the company in July 2001.

Meetings of the Supervisory Board and of the Committees

Seven meetings of the Supervisory Board took place during the year under review. Resolutions were passed by the Supervisory Board both at the meetings and also by circulation of written proposals.

The Executive Committee did not need to meet during the year under review but it passed resolutions on changes to the articles of association by circulation of written proposals within the limits of the authority granted to it under the rules of procedure of the Supervisory Board.

The Investment and Finance Committee met five times during the year under review; furthermore, resolutions concerning transactions requiring approval were passed by circulation of written proposals. The main items at the meetings of the Committee were the preliminary examination of the financial statements, discussing the audit report with the auditor, ongoing monitoring of the investment planning and preparing for the Supervisory Board to approve the implementation of the increase in capital.

There was no occasion to convene the Mediation Committee formed pursuant to Section 27(3) of the German Codetermination Act (Mitbestimmungsgesetz).

Membership of the Supervisory Board

Mr Stefan Radloff's term of office on the Supervisory Board came to an end when he left the company on January 31, 2001. The Supervisory Board thanked him for his commendable work over many years for the company and on the Supervisory Board. Mr Michael Ruth was legally appointed in January as his successor as member of the Supervisory Board and representative of the executives of the company.

Financial Statements

The financial statements of Infineon Technologies AG to September 30, 2001, the consolidated financial statements of the group prepared in accordance with the provisions of U.S. GAAP applying the exemption provision of Section 292a of the German Commercial Code (HGB), and the combined report of Infineon Technologies AG and of the group have been audited by the auditors, KPMG Deutsche Treuhand-Gesellschaft AG Wirtschaftsprüfungsgesellschaft, Berlin and Frankfurt/Main, and endorsed with an unqualified auditors' certificate. We have also examined these documents ourselves.

2001

KPMG's reports on the audit of the financial statements and of the consolidated financial statements of the group prepared in accordance with the provisions of U.S. GAAP were presented to all members of the Supervisory Board and were discussed in detail initially at the meeting of the Investment and Finance Committee on November 9, 2001 and at our meeting to approve the statements on November 30, 2001 in the presence of the auditors. At this meeting, the Management Board also reported in detail on the scope, main points and expenses of the audit of the statements. We found no grounds for objection and agree with the result of the audit. The Supervisory Board has approved the financial statements prepared by the Management Board and they are therefore final.

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

The Supervisory Board would like to thank the Management Board and all employees of Infineon Technologies AG for their commitment and achievement during the 2001 fiscal year. The Supervisory Board would, furthermore, like to thank the works councils for their constructive contribution.

Munich, November 2001

On behalf of the Supervisory Board

Volker Jung
Chairman of the Supervisory Board

2001

Selected consolidated financial data	1996[2]	1997	1998	1999	2000	2001
	As of and for the financial year ended September 30[1]					
Selected consolidated statement of operations data	(In euro millions, except per share data)					
Net sales	2,350	2,885	3,175	4,237	7,283	5,671
Cost of goods sold	(1,743)	(2,220)	(2,728)	(3,011)	(4,110)	(4,904)
Gross profit	607	665	448	1,227	3,172	767
Research and development expenses	(370)	(457)	(637)	(739)	(1,025)	(1,189)
Selling, general and administrative expenses	(223)	(367)	(481)	(551)	(670)	(786)
Restructuring charge[3]	—	—	(816)	—	—	(117)
Other operating income (expense), net	40	(21)	(9)	(2)	2	199
Operating income (loss)	53	(180)	(1,496)	(64)	1,479	(1,125)
Interest income (expense), net, inclusive of subsidies	49	45	(35)	43	75	(1)
Equity in earnings (losses) of associated companies	3	(56)	(151)	34	101	25
Gain on associated company share issuance[4]	—	—	—	—	53	11
Other income, net	1	1	2	18	36	65
Minority interests	(1)	(1)	(1)	—	(6)	5
Income (loss) before income taxes	105	(192)	(1,682)	31	1,738	(1,019)
Income tax benefit (expense)	12	96	907	30	(612)	429
Net income (loss)	117	(95)	(775)	61	1,126	(591)
Basic and diluted income (loss) per share[5]	0.19	(0.16)	(1.29)	0.10	1.83	(0.92)
Basic and diluted income (loss) per ADS[5]	0.19	(0.16)	(1.29)	0.10	1.83	(0.92)
Dividends declared per share[6]	n/a	n/a	n/a	—	0.65	—
Dividends declared per ADS[6]	n/a	n/a	n/a	—	0.65	—

Selected consolidated financial data	1996[2]	1997	1998	1999	2000	2001
	As of and for the financial year ended September 30[1] (in Euro millions, except per share data)					
Selected consolidated balance sheet data						
Cash and cash equivalents	10	15	12	30	511	757
Working capital (deficit) excluding cash and cash equivalents	945	560	887	444	870	(85)
Total assets	3,562	4,595	4,760	6,445	8,853	9,743
Short-term debt, including current portion of long-term debt	139	176	106	495	138	119
Long term debt, excluding current portion	688	889	893	135	128	249
Shareholders' equity	1,870	2,228	2,096	3,655	5,806	6,900
Selected consolidated operating data						
Net cash used in investing activities	—	(1,656)	(959)	(918)	(2,327)	(1,813)
Net cash provided by (used in) operating activities	—	496	(185)	469	2,080	211
Depreciation and amortization expenses	(478)	(597)	(578)	(573)	(834)	(1,122)

[1] Columns may not add due to rounding.
[2] Unaudited.
[3] In 2001, this charge relates to the implementation of our Impact cost reduction program. In 1998, this charge consists of amounts attributable to the wafer fabrication facility located in the North Tyneside area of northern England, which was shut down.
[4] In both 2000 and 2001, ProMOS shareholders approved the distribution of employee bonuses in the form of shares. As a result of this distribution, our interest was diluted, while our proportional share of ProMOS shareholders' equity increased by 53 million Euro and 11 million Euro, respectively, which increases are reflected as non-operating income.
[5] Earnings per share data for the 1996 to 1999 financial years assume that 600 million shares, the number of shares outstanding immediately prior to our initial public offering in March 2000, were outstanding for all periods presented. For the 2000 financial year, the weighted average number of our company's shares outstanding was 613,862,876 or 615,121,186 on a fully diluted basis. For the 2001 financial year, the weighted average number of our company's shares outstanding was 640,566,801 on both a basic and a fully diluted basis.
[6] As our company did not exist as a separate legal entity prior to March 30, 1999, we can present dividend information only subsequent to that date.

2001

OPERATING & FINANCIAL REVIEW 2001

- Severe market collapse in semiconductor industry and weak economic situation worldwide
- Dramatic decrease in prices for memory products
- Substantially reduced demand for wireless communications products due to difficult market conditions
- Significant revenue declines in the second half of our 2001 financial year resulting in operating losses in all segments except for Automotive and Industrial Business
- Continuing growth in our Automotive and Industrial Business
- Measures to reduce costs by more than 1 billion Euro being implemented
- Continued investment in research and development and in ramping up the production of semiconductors using 300mm technology
- Further portfolio optimization through strategic investments and the disposal of non-core assets
- Successful equity offering of 1.5 billion Euro despite difficult capital market environment

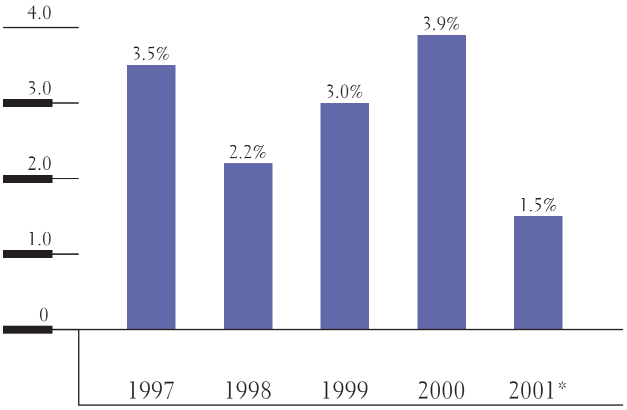
WEAK WORLD ECONOMIC SITUATION AND DRASTIC DECLINE IN SEMICONDUCTOR PRICES

In 2000, world economic growth registered 3.9 percent, the highest growth rate during the last ten years. However, the economic downturn that began in the United States in autumn 2000 spread to the European and Asian economies during calendar year 2001. The technology sector, and in particular the semiconductor and telecommunications markets, which have traditionally been highly dependent on the overall health of the economy, were particularly affected. The dramatic events of September 11, 2001 in New York and Washington have added further impediments to turning around an already weak global economy.

The extent of the downturn affecting the technology sector was initially underestimated. In autumn 2000, leading semiconductor market research firms (such as Gartner Dataquest) predicted an increase in total semiconductor sales worldwide of more than 25 percent for calendar year 2001. As of September 2001, however, Gartner Dataquest predicted a decline in worldwide semiconductor sales during calendar year 2001 of 26 percent, to 168 billion U.S. Dollar. The market for non-memory products – logic ICs, analog, discrete and optical components – is now predicted to decrease by 21 percent during the same period. The mobile communications business has been hit particularly hard, with worldwide sales in 2001 expected to decline by 30 percent compared with 2000. Total sales in the memory chip market, which includes DRAM, SRAM, and non-volatile memories (such as flash memories) and which represented approximately 28 percent of the total semiconductor market in calendar year 2000, is predicted to decline by 43 percent in calendar year 2001. According to Gartner Dataquest, the spot price market for 128-Mbit DRAM declined 90 percent from 15 U.S. Dollar in September 2000 to 1.45 U.S. Dollar at the end of September 2001.

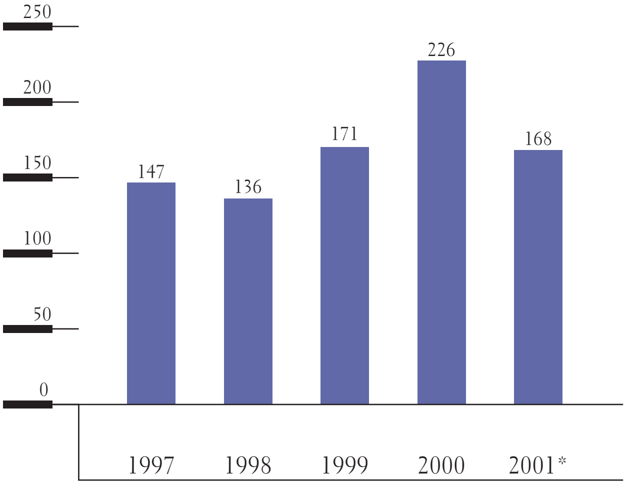
2001

WORLD ECONOMIC GROWTH IN PERCENT



* 2001 estimated.

SEMICONDUCTOR MARKET
IN U.S. DOLLAR BILLIONS

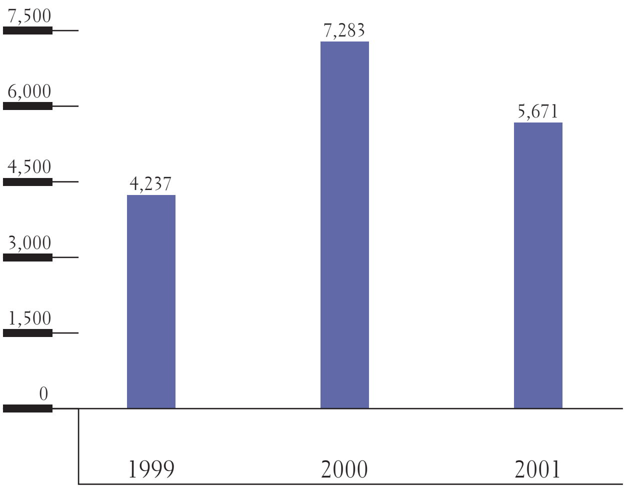


* 2001 estimated, as of September 2001
Source: Gartner Dataquest

Marked Decrease in Sales and EBIT

In financial year 2001, we recorded total sales of 5,671 million Euro, which represents a decrease of 22 percent from 7,283 million Euro in total sales in the 2000 financial year. Our net loss after tax amounted to 591 million Euro in the 2001 financial year, compared to net income in the prior year of 1,126 million Euro. In fiscal 2001, we suffered a loss per share of 0.92 Euro, compared to earnings of 1.83 Euro per share in our 2000 financial year. The loss before interest, minority interests and taxes totaled 1,024 million Euro for the 2001 financial year, compared to earnings before interest, minority interests and taxes (EBIT) of 1,670 million Euro in the 2000 financial year. Significant declines in demand and product prices, which continued to decline in many sectors throughout the financial year, have negatively influenced EBIT and sales of all segments, with the exception of Automotive and Industrial.

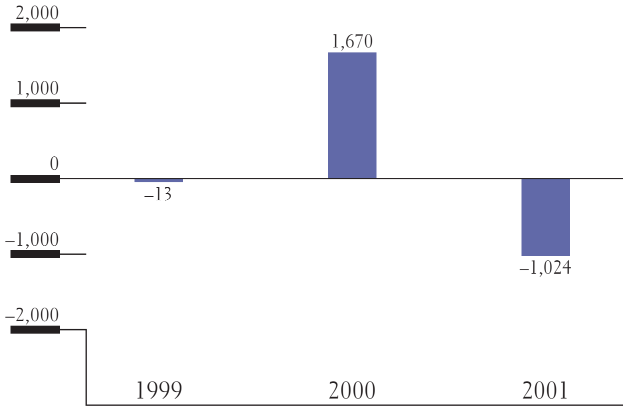
TOTAL SALES IN EURO MILLIONS*



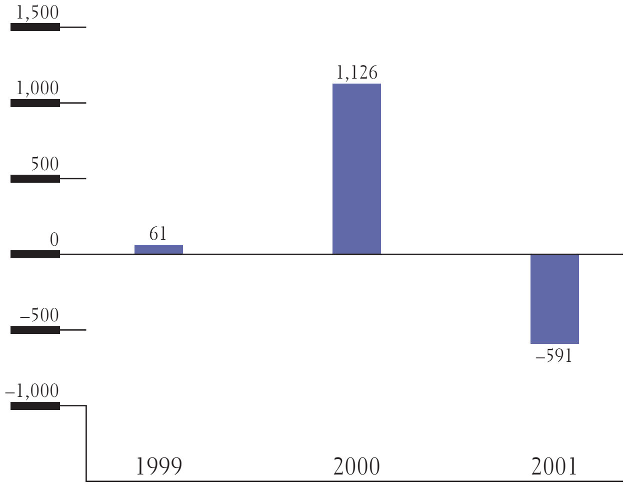
* as of the financial year ended September 30.

2001

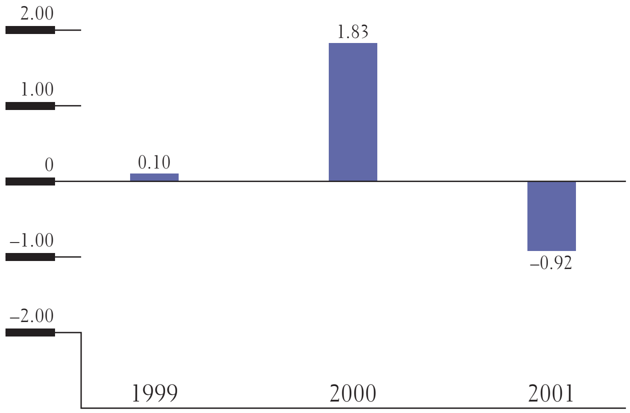
EBIT – EARNINGS (LOSS) BEFORE INTEREST, MINORITY INTERESTS, AND TAXES
IN EURO MILLIONS



NET INCOME (LOSS)
IN EURO MILLIONS



NET INCOME (LOSS)
PER SHARE DILUTED IN EURO



Extensive Cost Reduction Program Being Implemented

Due to the continued weakness of the technology sector, in July 2001 we announced an extensive cost reduction program called Impact. The program is projected to reduce operating costs by more than 1 billion Euro.

To this end, we are undertaking a review of the business processes and cost structures in all of our business units and have taken steps toward substantial cost reductions. These steps include the reduction of our worldwide workforce by approximately 5,000 employees. From October 2001 onwards, we have also introduced reduced work hours at our production sites in Regensburg and Munich. As part of the initiative, we took a restructuring charge of 117 million Euro during our fourth quarter of financial year 2001.

In addition, we scaled back capital expenditures during the 2001 financial year to 2.3 billion Euro from the previously planned 2.8 billion Euro. We have also reduced our planned capital expenditures for the 2002 financial year to approximately 900 million Euro.

Our current plans also call for lower total research and development spending in financial year 2002 to better reflect the market weakness. However, it remains our plan to continue to invest in strategic projects. Only through continued investment throughout all market cycles we can hope to capitalize on the opportunities of the next upturn.

2001

Continued Investments in Research and Development

Research and development (R&D) expenses, including in process R&D charges, which were primarily for the development of next-generation products in Infineon's target markets such as advanced DRAM technologies, 10- and 40-Gbit optical networking, 2.5G (GPRS) and 3G (UMTS) mobile communications, and other new technologies, totaled 1,189 million Euro in the 2001 financial year. We also invested heavily in the further development of our process technologies for semiconductor manufacturing and expanded our portfolio of universally applicable processor modules.

Our ability to stay at the forefront of the semiconductor industry depends on the products and services developed by our own R&D departments, as well as work conducted in partnership with other leading semiconductor and technology companies. Such partnerships allow us to share both the costs and the risks of development, while also enabling us to bring new technologies to market faster.

New Strategic Investments

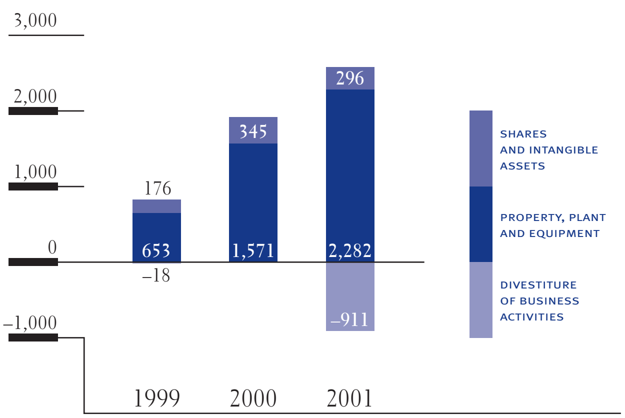
At the start of the 2001 financial year, we acquired the business activities of Sican GmbH, one of the biggest independent European design houses for communications ICs, for 10 million Euro. The acquisition will enable us to develop and sell system-on-chip solutions for secure wireless and wireline communications. Sican's business complements the activities of our Wireless, Wireline, and Security and Chip Card ICs segment.

In March 2001, we acquired an approximate 20 percent interest in Ramtron International Corporation, located in Colorado Springs, USA, in exchange for ordinary shares valued at 21 million Euro, plus 11 million Euro in cash. We also entered into a separate cross-license agreement with Ramtron, which provides us with a license of Ramtron's FRAM technology, and gives Ramtron access to certain of our technologies relating to the fabrication of FRAM memories.

In October 2000, we agreed to acquire Ardent Technologies, located in Sunnyvale, USA, for ordinary shares valued at 39 million Euro. Ardent extends our expertise in local area networks (LAN) switching technologies. This acquisition positioned us to expand our product portfolio in the area of high-integration Fast Ethernet and Gigabit Ethernet switching devices and to broaden the product offering of our Wireline Communications segment in the market for semiconductors used in LAN. However, as a result of our re-evaluation of the internet-based LAN switching market following a dramatic decline during the second half of 2001, we subsequently terminated a significant number of the Ardent employees and abandoned most of the acquired technologies, resulting in an impairment charge of approximately 14 million Euro.

In July 2001, to strengthen the optical networking capabilities of our Wireline Communications segment, we acquired the network specialist Catamaran Communications Inc., located in San Jose, California, for ordinary shares valued at 246 million Euro. Catamaran is an emerging leader in integrated circuits for the next-generation 40-Gbit/s segment and the fast growing 10-Gbit/s segment of the optical networking market.

INVESTMENTS/DIVESTITURES
IN EURO MILLIONS
(EXCLUDING MARKETABLE SECURITIES; INCLUDING SALE OF OPTO JOINT VENTURE)



2001

Strategic Alliances

In March 2001, together with United Microelectronics Corporation (UMC) and another investor, we established the UMCi joint venture to construct and operate a 300mm wafer fabrication foundry facility in Singapore. In April 2001, we invested approximately 59 million U.S. Dollar and will be required to make additional investments of our technology and cash contributions totaling 481 million U.S. Dollar over the next two years, in exchange for a 30 percent interest in the UMCi joint venture. The UMCi joint venture will provide foundry services and we have agreed to purchase a specified production volume.

In May 2001, we formed the Ingentix venture together with Saifun Semiconductors Ltd., Israel. Ingentix, which is located in Israel and Germany, will develop, manufacture and market flash memory products based on Saifun's patented Nitrided Read Only Memory (NROM) technology. Ingentix will initially focus on developing MultiMediaCard storage products. We received a 51 percent interest in Ingentix in exchange for a cash contribution of 17 million U.S. Dollar.

Divestitures

In order to focus on the strengthening of our core business activities, we continue to evaluate our portfolio of businesses and as a result have sold non-core businesses and investments for cash in the aggregate of 911 million Euro in fiscal 2001.

In October 2000, we sold our image and video consumer electronics business for 250 million Euro in cash to Micronas Semiconductor Holding AG, Zurich, resulting in a pretax gain of 202 million Euro.

In July 2001, we agreed to sell our infrared components business for approximately 120 million U.S. Dollar in cash to Vishay Intertechnology Inc. in a two-step transaction. The initial sale of a portion of the business was completed in August 2001, resulting in a pretax gain of 26 million Euro. The remaining interests and cash of 42 million U.S. Dollar are expected to be exchanged in 2002.

In August 2001, we sold our 49 percent interest in the Osram Opto Semiconductors GmbH & Co. OHG joint venture for 565 million Euro in cash to our joint venture partner, Osram GmbH, Munich, a Siemens subsidiary. In accordance with U.S. GAAP, as a transaction between entities under common control, the excess of the sales price over the carrying basis of our investment net of taxes of 392 million Euro is reflected as an equity transaction and does not affect our consolidated statement of operations.

Continued Optimization of our Manufacturing Capacity and Procurement

Due to the cyclical nature of the semiconductor market, there is a constant challenge to match operating capacity to market demands. During the 2000 financial year, most of our production facilities were operating at full capacity. In contrast, the increasingly weak market conditions experienced during the 2001 financial year have resulted in most non-memory production facilities, including our ALTIS joint venture, operating at less than full capacity. Without significant increases in demand, these facilities will continue to operate at lower utilization resulting in higher unit production costs.

Due to our belief in the positive long-term growth prospects of the memory business, we are continuing our plans for production using 300mm technology and we expect to complete the expansion of our new Dresden production facility in the first half of calendar year 2002 and to ramp up production immediately thereafter. It will be one of the first production facilities of its kind worldwide to manufacture semiconductors on production scale using 300mm technology. This technology will be used for DRAM production for the time being and should eventually enable us to significantly reduce our per-unit production costs. However, due to current conditions, we have delayed equipping our Richmond manufacturing facility with 300mm technology and do not expect to do so until fiscal year 2003.

We use leading-edge technologies and advanced materials in our products to ensure their performance, quality and reliability. The competitive demand for increasingly smaller chip structures, coupled with the need to constantly improve our production yields, means that we must quickly adopt the latest advances in process technology. Our worldwide purchasing team procures materials and processes from a network of key suppliers. The purchasing team promotes the development of technologies and materials, coordinates demand and availability and optimizes costs. Most of our suppliers operate globally, and we monitor their performance on a regular basis. To improve our own efficiency, we are continuously improving our use of electronic tools for business-to-business transactions.

Secondary Public Offering

In July 2001, in a difficult capital market environment, we completed a secondary public offering of 60 million newly issued shares, in the form of ordinary shares on the Frankfurt Stock Exchange and American Depositary Shares (ADSs) on the New York Stock Exchange. With an offering price of 25.00 Euro per share, the net proceeds to us were approximately 1.48 billion Euro.

2001

RESULTS OF OPERATIONS

The table below sets forth information about our net sales by segment and geographical region, as well as our earnings (loss) before interest, minority interests and taxes by segment:

FINANCIAL YEAR ENDED SEPTEMBER 30[1]	1999		2000		2001	
Net sales by segment:	Euro millions	%	Euro millions	%	Euro millions	%
Wireless Communications	865	20	1,221	17	997	18
Wireline Communications[3]	499	12	665	9	768	14
Automotive and Industrial	665	16	880	12	1,099	19
Memory Products	1,406	33	3,473	48	1,588	28
Security and Chip Card ICs[2]	276	6	375	5	588	10
Other[3]	447	11	579	8	575	10
Corporate and Reconciliation	79	2	90	1	56	1
Total	4,237	100	7,283	100	5,671	100
EBIT[4] by segment:	Euro millions		Euro millions		Euro millions	
Wireless Communications	182		261		(178)	
Wireline Communications[3]	22		47		(95)	
Automotive and Industrial	23		69		145	
Memory Products	(238)		1,337		(931)	
Security and Chip Card ICs[2]	24		49		27	
Other[3]	34		27		188	
Corporate and Reconciliation[5]	(60)		(120)		(180)	
Total	(13)		1,670		(1,024)	
Net sales by geographic region:	Euro millions	%	Euro millions	%	Euro millions	%
Germany	1,241	29	1,612	22	1,745	31
Other Europe	1,203	28	1,647	23	1,260	22
United States	827	20	1,814	25	1,262	22
Asia/Pacific	899	21	2,100	29	1,309	23
Other	67	2	110	1	95	2
Total	4,237	100	7,283	100	5,671	100

[1] Columns may not add due to rounding.

[2] Prior to the 2001 financial year, the Security and Chip Card ICs segment did not meet the requirements of a reportable segment and was reported as part of the other operating segment. For the 2001 financial year, the Security and Chip Card ICs segment is identified as a reportable segment and due to its continuing significance, is reported separately, with prior period segment information restated for comparative purposes.

[3] Effective October 1, 2000, our Other operating segment includes the results of certain activities previously reported under Corporate and Reconciliation, the image and video and infrared components businesses (previously reported under Wireline Communications) as well as the gains on their disposals. The segment results for the 2000 financial year have been reclassified to be consistent with the reporting structure and presentation of the 2001 financial year and to facilitate analysis of our current and future operating segment information. The Other operating segment also includes our opto components business that is conducted through a joint venture with Osram, a Siemens subsidiary. We sold our interest in the joint venture to Osram in August 2001.

[4] We define EBIT (earnings before interest and tax) as earnings before interest, minority interests, and taxes.

[5] In the 2001 financial year, we revised our method of reporting excess capacity costs for segment reporting purposes. Previously, all excess capacity costs, if any, were allocated to the segments based on the variance between originally forecasted purchases and actual purchases. We have revised the method to allocate excess capacity costs to a foundry model, whereby such allocations are reduced, based upon the lead time of order cancellations. Any unabsorbed excess capacity costs will be included in Corporate and Reconciliation. This change did not affect prior periods. We believe that this method better reflects the responsibilities of the segment management and is consistent with the practices of independent foundries and more appropriately reflects the segment operating results. Certain items are included in Corporate and Reconciliation and are not allocated to the segments. These include 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 are recognized by the segments when paid, which can differ from the period originally recognized by Corporate and Reconciliation. For the year ended September 30, 2001, Corporate and Reconciliation includes unallocated excess capacity costs of 27 million Euro, restructuring charges of 117 million Euro and corporate information technology development costs and charges of 71 million Euro.

2001

RESULTS OF OPERATIONS IN PERCENT

FINANCIAL YEAR ENDED SEPTEMBER 30[1]	1996[2]	1997	1998	1999	2000	2001
Net sales	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Cost of goods sold	(74.2)	(76.9)	(85.9)	(71.0)	(56.4)	(86.5)
Gross profit	**25.8**	**23.1**	**14.1**	**28.9**	**43.6**	**13.5**
Research and development expenses	(15.8)	(15.8)	(20.1)	(17.4)	(14.1)	(21.0)
Selling, general and administrative expenses	(9.5)	(12.7)	(15.2)	(13.0)	(9.2)	(13.9)
Restructuring charge	—	—	(25.7)	—	—	(2.1)
Other operating income (expense), net	1.7	(0.7)	(0.3)	(0.0)	0.0	3.5
Operating income (loss)	**2.3**	**(6.2)**	**(47.1)**	**(1.5)**	**20.3**	**(19.8)**
Interest income (expense), net, inclusive of subsidies	2.1	1.6	(1.1)	1.0	1.0	0.0
Equity in earnings (losses) of associated companies	0.1	(2.0)	(4.8)	0.8	1.4	0.4
Gain on associated company share issuance	—	—	—	—	0.7	0.2
Other income, net	0.0	0.0	0.1	0.4	0.5	1.1
Minority interests	(0.0)	(0.0)	(0.0)	0.0	(0.0)	0.1
Income (loss) before income taxes	**4.5**	**(6.6)**	**(53.0)**	**0.7**	**23.9**	**(18.0)**
Income tax benefit (expense)	0.5	3.3	28.6	0.7	(8.4)	7.6
Net income (loss)	5.0%	(3.3)%	(24.4)%	1.4%	15.5%	(10.4)%

[1] All numbers in percent.
Columns may not add due to rounding.
[2] Unaudited.

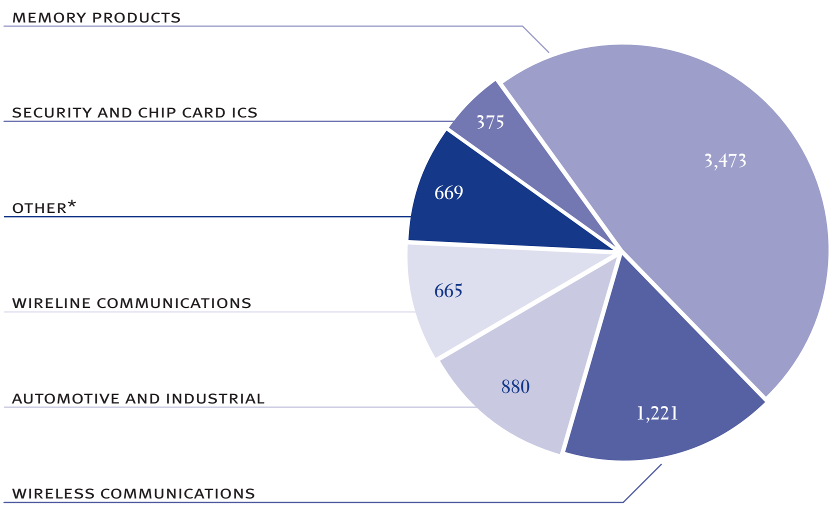
2001 FINANCIAL YEAR COMPARED WITH 2000 FINANCIAL YEAR

Net Sales

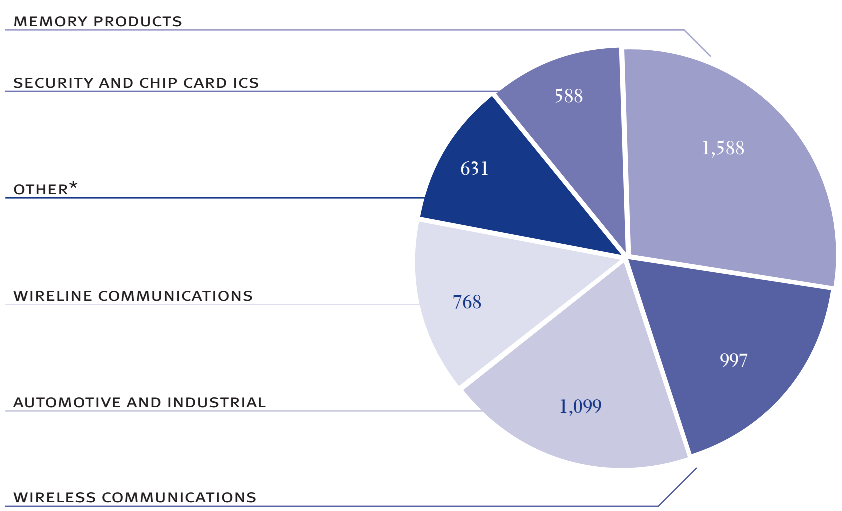
Net sales decreased by 22 percent to 5,671 million Euro for the 2001 financial year from 7,283 million Euro for the 2000 financial year. The decrease in net sales was primarily due to significantly lower net sales in our Memory Products division. Memory Products represented 28 percent of total net sales for the 2001 financial year, a decline from 48 percent in the prior year, mainly due to the dramatic price erosion of memory ICs. With the exception of the Automotive and Industrial segment, all business segments experienced significant declines in revenues and earnings during the second half of fiscal 2001 due to price erosion and order cancellations. On a constant currency basis, net sales in the 2001 financial year would have been approximately 5,490 million Euro.

2001

NET SALES 2000 BY SEGMENT IN EURO MILLIONS



NET SALES 2001 BY SEGMENT IN EURO MILLIONS



* Includes Other operating segments and Corporate and Reconciliation.

The net sales of our different segments during the 2001 financial year compared with the prior year were as follows:

- Net sales in the Wireless Communications segment decreased 18 percent compared to fiscal year 2000. All major product areas, including baseband and high-frequency ICs as well as discrete high-frequency ICs, were impacted. Our Wireless Communications segment was impacted by the weakness in the mobile handset market, which was primarily attributable to the high level of inventories at key customers, order cancellations, and decreasing prices. A delay in the market ramp-up for new transmission standards like GPRS and Bluetooth also had a negative impact on our Wireless Communications segment. The weakness in customer order levels continued in the fourth quarter, but did not deteriorate beyond the level seen in the third quarter.

- Net sales of the Wireline Communications segment grew by 16 percent. This growth reflects higher sales for traditional telecom products (ISDN and analog technology) and fiber optic products as well as the ramp-up of high-speed access products (VDSL/10BaseS). In emerging markets like China, Brazil, and India, volumes for traditional voice application products increased significantly. While overall sales of the Wireline Communications segment increased compared to the prior year, the segment experienced declining net sales during both the third and fourth quarters due to order cancellations and price pressures.

- Net sales of the Automotive and Industrial segment grew by 25 percent even in a difficult automotive market. This growth was mainly due to higher demand for electronic solutions for the automotive industry, such as automotive power and smart power, especially in Germany. Strong demand for industrial and high-power semiconductors also contributed to this increase. The rate of growth in the net sales of the Automotive and Industrial segment was affected by general economic conditions in the second half of fiscal 2001, in particular the fourth quarter, which experienced only single digit growth over the comparable period of the prior year.

2001

- Net sales of the Memory Products segment declined by 54 percent while the overall Mbit volume increased substantially during fiscal 2001. We completed the conversion of all our remaining 64-Mbit DRAM production lines to the production of 128-Mbit DRAM and we ramped up commercial production of 256-Mbit DRAM chips. The decrease in net sales was due principally to significantly lower DRAM prices, reflecting adverse market conditions compared with the prior year. The price of memory ICs declined steadily throughout the year to levels that at financial year end were in some cases only 10 percent of the price at the beginning of the financial year. Price declines were experienced in both 128-Mbit and 256-Mbit chips, with the price differential between the chips decreasing substantially throughout the year. Also contributing to the decline in net sales were delays in our development of a new hard disk drive controller IC. These negative impacts were only partially offset by volume increases that were driven by improved manufacturing efficiency, conversion to smaller die-sizes for existing products, and a shift in our product mix towards higher density products.

- Net sales of our Security and Chip Card ICs segment grew by 57 percent. This increase was mainly driven by higher sales of GSM-components compared with the prior period. The Security and Chip Card ICs business was impacted in the second half of the 2001 financial year by order cancellations from mobile handset customers, since a substantial portion of the business is dependent upon the mobile handset sector. As a result, net sales declined substantially in the fourth quarter.

- Net sales of our Other operating segment in the 2001 financial year, reflecting mainly our sales of opto products, were relatively consistent compared to the prior year. Our sales of opto products are expected to continue under the same terms and conditions that existed prior to the divestiture of our interest in the Opto joint venture with Osram.

On a regional basis, sales in Europe represented 53 percent of total sales in the 2001 financial year, compared to 45 percent in the prior year, reflecting mainly increased sales of non-memory products in Germany. We recorded 47 percent of our sales in 2001 outside Europe, compared to 55 percent in the prior year, which was mainly due to lower sales of memory products in the USA and Asia/Pacific regions.

Only one customer, the Siemens group, accounted for more than 5 percent of our net sales in each of the fiscal years 2001 and 2000. Sales to the Siemens group comprise both direct sales to the Siemens group, which accounted for 14 percent and 10 percent, of net sales in the two years respectively, and sales made for resale to third parties, which accounted for 2 percent and 4 percent of net sales in the two years, respectively. Sales to the Siemens group are made primarily by our Wireline and Wireless Communication segments.

Cost of Goods Sold

Cost of goods sold increased by 19 percent to 4,904 million Euro for the 2001 financial year from 4,110 million Euro for the 2000 financial year. As a percentage of net sales, cost of goods sold increased from 56 percent in fiscal 2000 to 86 percent in financial year 2001. The increase in cost of goods sold relative to sales in fiscal 2001 is primarily due to decreased DRAM selling prices coupled with a substantially higher level of megabit volume as well as write-downs of inventory of approximately 358 million Euro and the cost of operating facilities with excess capacity.

2001

The increase in the cost of goods sold as a percentage of net sales also reflects:

- a substantial relative increase in the cost of goods sold of the Wireless Communications segment primarily due to the costs of operating facilities with excess capacity, sales price erosion due to market conditions and the write-down of inventory.

- a relative increase of cost of goods sold for the Wireline Communications segment due to substantial declines in volumes in the second half of the 2001 financial year, the costs of operating facilities with excess capacity, inventory write-downs, and lower sales of high-margin products compared to the prior period. These negative effects could not be fully offset by increased sales volumes during the first half of the year.

- relatively constant cost of goods sold in the Automotive and Industrial segment. The costs for transitioning our production processes to 8-inch wafers have been partially offset by the reduction of die-sizes and focus on high-margin products as well as significantly higher sales volumes.

- a substantial relative increase in the cost in goods sold of the Memory Products segment. Positive effects of higher sales volumes compared to the previous year and the full conversion of production to 0.17 micron technology have been more than offset by the deterioration of prices for memory products as well as the costs of inventory write-downs.

- a relative increase in cost of goods sold in our Security and Chip Card ICs segment due to the write-down of inventory, costs for excess capacity, and increased price pressure for chip card ICs towards the end of the fiscal year, which were partially offset by the effects of increased sales volumes.

We report as cost of goods sold the cost of inventory purchased from our ProMOS joint venture fabrication facility and from ALTIS Semiconductor, our joint venture with IBM. Our purchases from these facilities and associated and related companies amounted to 1,040 million Euro in the 2001 financial year and 1,183 million Euro in the 2000 financial year.

Depreciation and amortization expense was 1,122 million Euro in the 2001 financial year and 834 million Euro in the 2000 financial year. This increase reflects our continued investment in state-of-the-art manufacturing facilities and equipment in the latter part of the 2000 financial year and during the 2001 financial year.

Research and Development Expenses

Research and development expenses comprise primarily the expenses of R&D-related personnel, licenses, equipment, and software as well as masks and R&D-related semiconductor-specific basic material used in development. R&D expenses increased by 16 percent, to 1,189 million Euro, in the 2001 financial year from 1,025 million Euro in the 2000 financial year. Research and development also includes 69 million Euro of in-process R&D acquired in connection with businesses purchased during the 2001 financial year.

2001

The majority of R&D expenses were incurred in connection with product development projects for our key markets. Additional amounts were spent for the development of CPUs for our products and development libraries for basic circuits. As a percentage of net sales, R&D expenses increased from 14 percent in the 2000 financial year to 21 percent in the 2001 financial year, which reflects the combined effect of the following:

- a relative increase in the R&D expenses of the Wireless Communications segment as a percentage of its net sales, as we increased R&D spending at lower levels of sales, focusing on areas such as Bluetooth, GPRS, and UMTS mobile phone chipsets as well as system and software design.

- a relative increase in the R&D expenses of the Wireline Communications segment due to increased spending in VDSL/10BaseS access technologies and other high-speed Internet access technologies, compared with the prior year. R&D expenses in the 2001 financial year include charges of 69 million Euro for purchased in-process R&D in connection with the acquisition of Ardent and Catamaran.

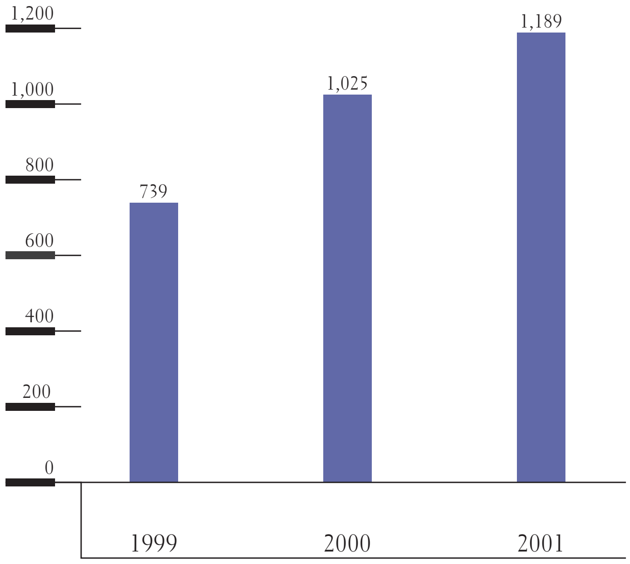
- a decline in R&D expenses of the Automotive and Industrial segment relative to the segment's net sales mainly due to increased sales levels. Technology development efforts in this segment are focused on advanced 32-bit architecture applications such as TriCore and power ICs for automotive and power management applications.

- a relative increase in R&D expenses of the Memory Products segment as a result of lower net sales and the strong efforts of development in areas such as RLDRAM for network and server applications as well as for Mobile-RAM for high-performance applications.

- a relative decrease in R&D expenses in our Security and Chip Card ICs segment as a percentage of net sales, attributable to the increase in sales compared to the prior year. The main efforts for R&D were in the area of the 32-bit controller family.

We recognized government subsidies for our R&D activities as reductions in R&D expenses in the amount of 71 million Euro in the 2001 financial year and 41 million Euro in the prior year.

RESEARCH AND DEVELOPMENT EXPENSES
IN EURO MILLIONS



2001

Selling, General and Administrative (SG&A) Expenses

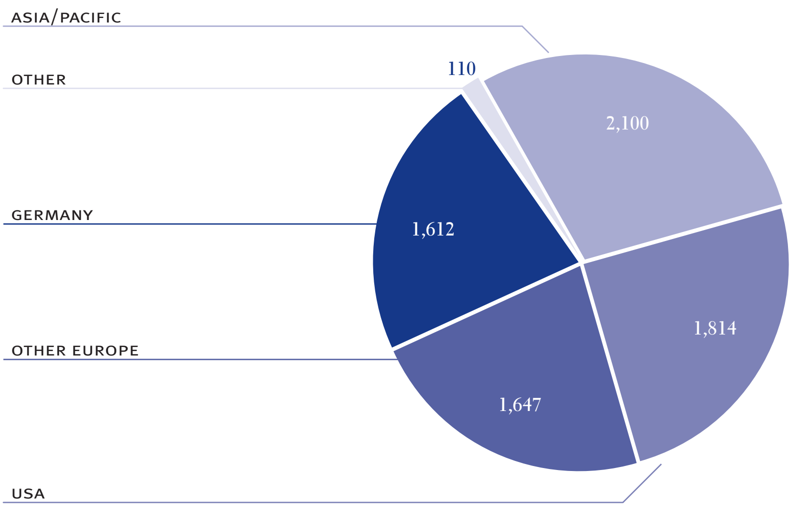
SG&A expenses comprise both selling expenses and general administrative expenses. Aggregate SG&A expenses increased by 17 percent to 786 million Euro during the 2001 financial year compared to 670 million Euro in the prior year. As a percentage of net sales, SG&A expenses increased from 9 percent in the 2000 financial year to 14 percent in the 2001 financial year, which mainly reflects the effect of the decline in revenue.

Selling expenses amounted to 451 million Euro in the 2001 financial year and 387 million Euro in the 2000 financial year, an increase to 8 percent from 5 percent of net sales, as our sales infrastructure was expanded, particularly outside Europe, to support anticipated higher levels of future growth. In addition, higher sales activities in areas like the high-speed Internet access contributed to the relative increase.

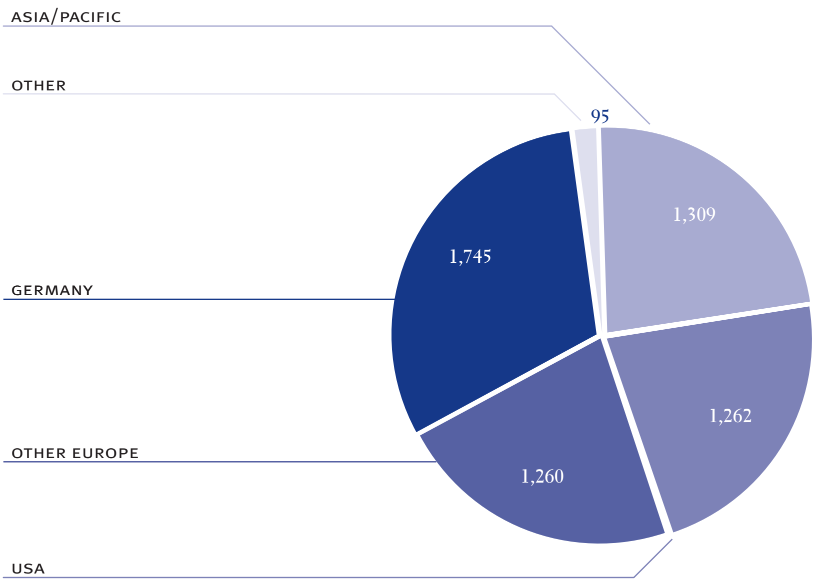
During the 2001 financial year, we renegotiated compensation arrangements with substantially all of the Siemens group sales organizations. As a result, we now include in selling expenses the sales commissions paid to Siemens group sales organizations where they assist in making sales directly to third-party end customers. Previously we had granted them a discount in the price charged for the products. Additionally, we purchased certain sales organizations from Siemens, which now represent us in these respective markets. Higher expenses for marketing, branding campaigns and sponsoring were incurred on a corporate level.

The balance of SG&A expenses in each year comprises overhead, personnel and advisors' fees and other administrative expenses. General and administrative expenses increased in the 2001 financial year from 4 percent to 6 percent of net sales, reflecting a decrease in sales, higher personnel and administrative costs related to various projects as well as the setup of infrastructure for new business in the group.

NET SALES 2000 BY REGION IN EURO MILLIONS



NET SALES 2001 BY REGION IN EURO MILLIONS



2001

Restructuring

In the quarter ended September 30, 2001, in response to continued weakness in the technology sector worldwide, we approved plans to restructure our organization and reduce costs under a comprehensive program called "Impact". We are implementing changes to streamline our procurement and logistics processes as well as reduce information technology, research and development, overhead and manufacturing costs. These changes are intended to improve operational efficiencies and improve the entire management of the product procurement and order fulfillment cycles. We plan to eliminate approximately 5,000 jobs from the total number of people we employed worldwide as of June 30, 2001. As of September 30, 2001, we had signed termination agreements for approximately 2,000 positions.

In connection with the Impact project we have recorded restructuring charges of 117 million Euro in the fourth quarter of the 2001 financial year. This charge is comprised of 57 million Euro relating to involuntary employee terminations, 43 million Euro relating to the termination of a worldwide information technology project (including previously capitalized expenditures of 27 million Euro), and 16 million Euro of other exit costs (principally lease termination and write-offs). We expect to complete the remaining headcount reductions and other exit activities associated with the restructuring by September 30, 2002.

Additionally, we recognized impairment charges of 14 million Euro in the fourth quarter of the 2001 financial year associated with the acquisition of Ardent. Subsequent to our acquisition of Ardent, the market for internet-based LAN switching products declined significantly and as a result, we terminated a significant number of the Ardent employees, abandoned certain technology acquired, and reduced the planned future R&D expenditures for the Ardent business as a whole. As a result of reductions in projected future cash flows, we had independent valuations performed and wrote the remaining intangible assets down to their estimated fair value.

Other Operating Income, Net

Other operating income, net, amounted to 199 million Euro in the 2001 financial year, which reflects the one-time gains from the sales of our image & video and infrared components businesses of 202 million Euro and 26 million Euro, respectively, reduced primarily by goodwill amortization of 23 million Euro.

Earnings before Interest, Minority Interests, and Taxes (EBIT)

As a result of the above-mentioned factors, we recorded a loss before interest, minority interests, and taxes of 1,024 million Euro in the 2001 financial year, compared to earnings before interest, minority interests, and taxes of 1,670 million Euro in the 2000 financial year.

We recorded foreign currency transaction gains of 34 million Euro in the 2001 financial year compared with gains of 184 million Euro in the prior year. A large portion of our manufacturing, selling, general and administrative, and research and development expenses are incurred in currencies other than the Euro, primarily the U.S. Dollar and Japanese Yen. Fluctuations in the exchange rates of these currencies to the Euro affect our costs and profitability.

Equity in Earnings of Associated Companies

Our equity in the earnings of associated companies is reflected primarily in the results of our Memory Products segment. Equity in the earnings of associated companies decreased to 25 million Euro in the 2001 financial year from 101 million Euro in the 2000 financial year. Our share of earnings of our ProMOS joint venture decreased to 17 million Euro in the 2001 financial year from 81 million Euro in the 2000 financial year, principally as a result of the weakened DRAM market conditions.

Interest Expense, Net

The company recorded interest expense of 1 million Euro in the 2001 financial year compared to interest income of 75 million Euro in the 2000 financial year. Interest expense is reduced by governmental interest subsidies relating to our manufacturing facilities of 0.4 million Euro in the 2001 financial year and 62 million Euro in the 2000 financial year. Interest expense increased due to higher average levels of short-term debt, while interest income decreased due to substantially lower balances of marketable securities compared with the prior year.

Income Taxes

We recorded an income tax benefit of 429 million Euro in the 2001 financial year, compared with income tax expense of 612 million Euro in the 2000 financial year, representing effective income tax rates of 42 percent and 35 percent, respectively. The effective tax rate in the 2001 financial year mainly reflects tax deductible losses in jurisdictions with higher tax rates and the impact of certain asset sales, which were not subject to trade tax. The effective tax rate in 2000 is attributable to higher levels

2001

of taxable income in jurisdictions with lower tax rates. Additionally, in October 2000, the German government enacted new tax legislation, which, among other changes, will reduce our company's statutory tax rate in Germany from 40 percent on retained earnings and 30 percent on distributed earnings to a uniform 25 percent, effective for our financial year ending September 30, 2002. The impact of the various revisions in the new tax legislation, a benefit of 28 million Euro, primarily reflecting the effect of the tax rate reduction on our deferred tax balances, has been accounted for during the 2001 financial year, the year of the enactment of the legislation.

FINANCIAL POSITION

Cash Flow

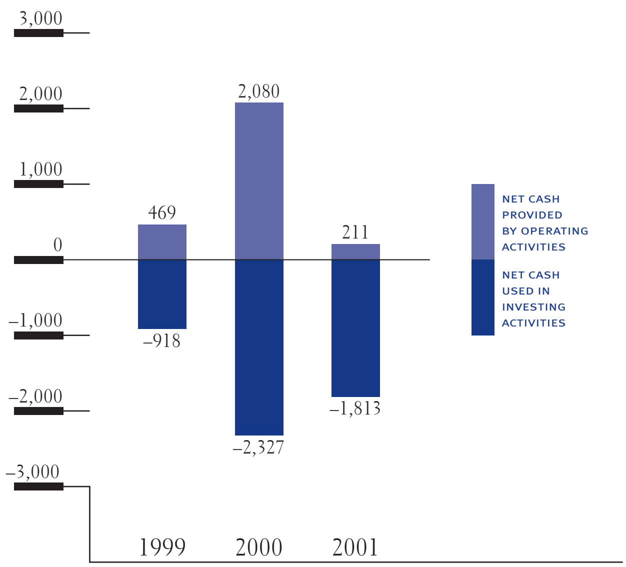
Cash provided by operating activities decreased to 211 million Euro from 2,080 million Euro in 2000, mainly reflecting the net loss in the 2001 financial year. Significant non-cash items impacting operating activities included an increase in depreciation and amortization totaling 1,122 million Euro in the 2001 financial year compared to 834 million Euro in the 2000 financial year and an increase in deferred taxes mainly attributed to capitalized net operating loss carry-forward. Significant changes in operating items included a 671 million Euro reduction in accounts receivable offset by a reduction in accrued expenses of 322 million Euro resulting primarily from our payment of income taxes associated with the 2000 financial year, and an increase in accounts payable primarily associated with the construction of our Dresden facility expansion.

Investing activities in the 2001 financial year consisted of investments of 2,282 million Euro in property and equipment relating primarily to the extension of the Dresden, Villach, and Richmond facilities. Additionally, we made investments of 214 million Euro in associated and related companies. Cash provided from investing activities related to proceeds from our sales of non-core businesses of 346 million Euro and net sales of marketable securities of 474 million Euro.

Net cash provided by financing activities totaled 1,846 million Euro in the 2001 financial year compared to 719 million Euro in the 2000 financial year. Net cash provided includes 1,475 million Euro of net proceeds from our secondary public offering in July 2001, 565 million Euro proceeds from the sale of our interest in the opto joint venture to Osram GmbH, a subsidiary of Siemens, and an increase in long-term debt of 128 million Euro. Cash used in financing activities primarily related to our payment of a 407 million Euro dividend in April 2001 related to our 2000 financial year. Cash and cash equivalents at the end of the year increased to 757 million Euro from 511 million Euro at the end of the 2000 financial year.

FINANCIAL YEAR ENDED SEPTEMBER 30	1999	2000	2001
Cash Flow	Euro million	Euro million	Euro million
Net cash provided by operating activities	469	2,080	211
Net cash used in investing activities	(918)	(2,327)	(1,813)
Net cash provided by financing activities	465	719	1,846
Cash and cash equivalents at period end	30	511	757

NET CASH PROVIDED/USED
IN EURO MILLIONS



2001

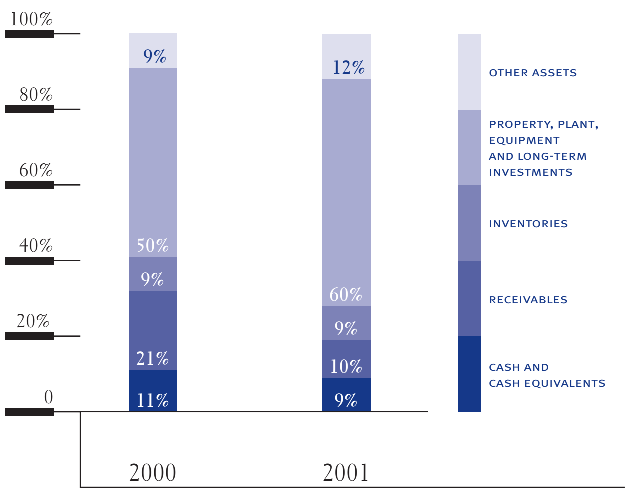
Financial Condition

As of September 30, 2001, Infineon's total assets amounted to 9,743 million Euro, an increase of 10 percent (in financial year 2000: 8,853 million Euro).

Cash and cash equivalents increased to 757 million Euro from 511 million Euro at the end of financial year 2000. The increase reflects principally the use of cash in investing activities, offset by the receipt of the proceeds from our secondary offering and from the divestitures of certain non-core businesses. Inventory increased by 5 percent to 882 million Euro, mainly due to unanticipated shortfalls in sales volume, partially offset by write-downs of 358 million Euro. Third-party and related-party accounts receivable were reduced by 49 percent to 927 million Euro (in financial year 2000: 1,825 million Euro), principally as a result of collections and reduced sales. Our non-current assets increased by 37 percent to 6,867 million Euro from 5,018 million Euro at the end of financial year 2000, consisting mainly of fixed assets, long-term investments, and deferred income taxes.

Liabilities decreased by 7 percent to 2,843 million Euro (in financial year 2000: 3,046 million Euro). Accounts payable increased by 24 percent to 1,050 million Euro (in financial year 2000: 849 million Euro), mainly relating to the construction of our

BALANCE STRUCTURE ASSETS IN PERCENT

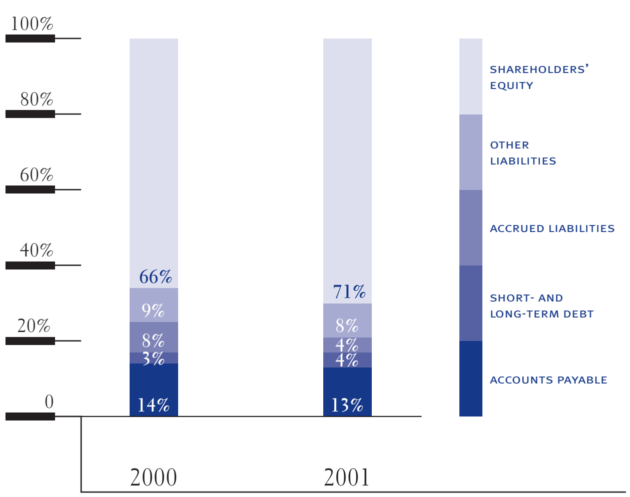


Dresden facility expansion. Furthermore, long and short-term debt increased by 102 million Euro to 368 million Euro. Accrued liabilities declined by 41 percent to 426 million Euro (in financial year 2000: 719 million Euro), due to the payment of income taxes from fiscal year 2000.

Our shareholders' equity increased by 19 percent to 6,900 million Euro (in financial year 2000: 5,806 million Euro). This reflects primarily the receipt of the net proceeds of approximately 1,475 million Euro from our secondary public offering and the net proceeds of 392 million Euro from the sale of our interest in the opto joint venture to Osram GmbH, reduced by the payment of a dividend of 407 million Euro and a net operating loss of 591 million Euro. At September 30, 2001, shareholders' equity as a percentage of total assets was 71 percent (in financial year 2000: 66 percent).

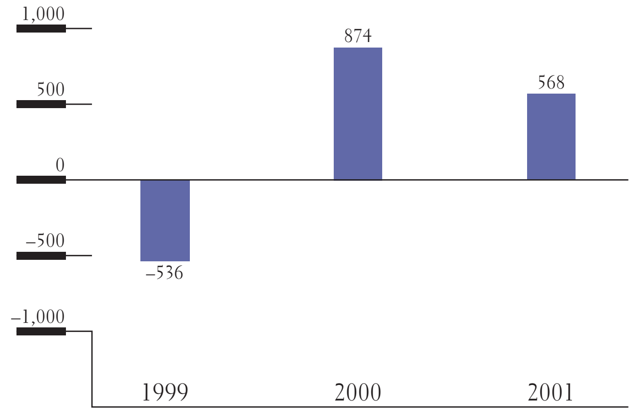
The net cash position – meaning cash and cash equivalents, plus marketable securities and restricted cash less total financial debt – was reduced by 306 million Euro to 568 million Euro (in financial year 2000: 874 million Euro).

BALANCE STRUCTURE LIABILITIES IN PERCENT



2001

NET CASH/NET DEBT IN EURO MILLIONS



Capital Requirements

We expect to invest approximately 900 million Euro in capital expenditures in the 2002 financial year, mainly to improve productivity and upgrade technology at our 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 650 million Euro of the expected capital expenditures will be made in the Memory Products front-end and back-end processes, including our Dresden facility. We expect to make approximately 150 million Euro of capital expenditures in our non-memory facilities.

The construction of our Dresden production site for manufacturing semiconductors using 300mm technology, which we started in the 2000 financial year, is expected to involve capital expenditures of approximately 1.4 billion Euro in total. Furthermore, we intend to convert our 200mm production facility at Dresden to the production of logic ICs. This will require capital expenditures in excess of 500 million Euro through 2004.

In April 2001, we invested approximately 59 million U.S. Dollar and will be required to make additional investments of our technology and cash contributions totaling 481 million U.S. Dollar over the next two years, in exchange for a 30 percent interest in the UMCi joint venture.

In October 2000, we acquired Motorola's interest in the Semiconductor300 joint venture and have taken on new investors in the joint venture. Under our agreements with the new investors, each of them has the right to sell its interest in the joint venture to us and we have the right to purchase their interests, beginning in 2003. Upon the exercise of these options, the purchase price we would have to pay would be an amount equal to the capital contributed by these investors, plus interest. As of September 30, 2001, this amount would have been approximately 196 million Euro.

As of September 30, 2001, we had approximately 119 million Euro of debt scheduled to become due within one year. We believe we will be in a position to fund these payments through existing cash balances, cash flows from operations, borrowings, and the renewal of debt in the ordinary course of business.

Prior to our formation as a separate legal entity, we received most of our non-operating funding from Siemens. Siemens indicated that it would cease making investments, advances, and other funding available to us after October 1, 1999, and we have generally been responsible for establishing our own sources of funding since that date. In April 2001, Siemens made an exception to its policy and extended to us a short-term loan in the amount of 450 million Euro, which we understand was done in connection with the dividend we paid in April 2001. We repaid this loan in September 2001.

We have established independent financing arrangements with several financial institutions, in form of both short and long-term credit facilities, which are available for anticipated funding purposes. These facilities (including a revolving credit facility of 729 million Euro) aggregate 1,733 million Euro, of which 1,576 million Euro was available at September 30, 2001, and are comprised of three components: The first component represents short-term facilities, which are subject to firm commitments by financial institutions for working capital, guarantees, and cash pooling purposes; these aggregate 937 million Euro, of which 842 million Euro was available at September 30, 2001. The second component represents additional short-term facilities, which are not subject to firm commitments by financial institutions for working capital purposes; these aggregate 329 million Euro, of which 329 million Euro was available at September 30, 2001. The third component represents long-term facilities, with a maturity date of at least one year, which are subject to firm commitments by financial institutions for working capital and project finance purposes; these aggregate 467 million Euro, of which 405 million Euro was available at September 30, 2001.

2001

In March 2001, we executed a mandate agreement with a financial institution for the arrangement of a 450 million Euro syndicated credit facility, relating to the construction of the Dresden 300mm manufacturing facility. We anticipate that the credit facility will be supported by partial guarantees from governmental entities and subject to specified financial covenants. We have received commitment letters from the guarantors and financial institution, and the closing of the facility is subject to the execution of documentation satisfactory to the financial institution as well as customary closing procedures.

We have a 729 million Euro syndicated multicurrency revolving credit facility. The amount of the facility is divided into two equal tranches. The first tranche of 375 million Euro expires in March 2004. The second tranche of 354 million Euro expires in March 2002. Drawings under each tranche may be denominated in Euro or U.S. Dollar and will bear variable market rates of interest based on applicable reference rates plus a margin. This margin may vary based on the extent of the facility's utilization and the level of senior debt to earnings before interests, taxes, depreciation, and amortization ("senior debt ratio"). At September 30, 2001, there were no amounts outstanding under this facility.

The facility includes customary covenants, including covenants regarding the maintenance of a minimum tangible net worth, a senior debt ratio, and an interest coverage ratio. We were granted a waiver on the violation of certain financial covenants through December 31, 2001. We and the syndicate of financial institutions are currently negotiating amendments to the financial covenants as well as an extension of the 354 million Euro component of the facility, which expires in March 2002. There can be no assurance that these negotiations will be satisfactorily concluded. Accordingly, the revolving credit facility may not be available to us subsequent to December 31, 2001, unless these negotiations are satisfactorily concluded and the financial covenants are amended.

We plan to fund our working capital and capital requirements in part from cash provided by operations, available funds, bank loans, government subsidies, and, depending on market conditions, the issuance of debt or 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.

Further to our formation as a separate legal entity, we have agreed to indemnify Siemens against any losses it may suffer under a small number of guarantee and financing arrangements that relate to our business, but that could not be transferred to us for legal, technical or practical reasons. These arrangements, as of September 30, 2001, represent an aggregate amount of 313 million Euro, principally relating to contingent liabilities for government grants previously received.

Siemens AG has guaranteed the indebtedness of ProMOS Technologies in the amount of 145 million U.S. Dollar. Infineon provided Siemens with a backup guarantee. ProMOS is currently taking measures, including the preparation of debt and equity offerings, which are intended to provide funding for its capital expenditures and debt refinancing. The completion of these measures could result in the recognition of income of amounts previously deferred, subject to such guarantee. We cannot, however, make any assurances regarding the outcome of these measures.

On September 7, 2001, our ALTIS joint venture executed a bridge loan facility with a financial institution in the amount of 450 million Euro, with a maturity date of December 28, 2001, of which 370 million Euro was outstanding at September 30, 2001. ALTIS is in negotiations with a syndicate of financial institutions to refinance the bridge facility prior to its maturity date. Pursuant to this facility, the shareholders of ALTIS, IBM, and Infineon have guaranteed the repayment in equal shares of any amounts outstanding under the bridge facility if a refinancing is not completed by December 28, 2001. At September 30, 2001, Infineon's share of this guarntee was 185 million Euro. There can be no assurances that the negotiations to refinance the bridge facility will be successful.

2001

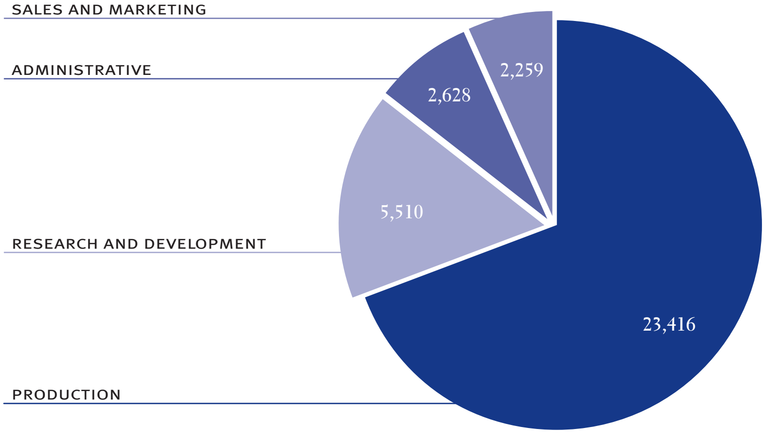
Employees

The following table indicates the composition of our workforce as of September 30, at the end of the financial years indicated. The 2001 figures only reflect the effect of our announced workforce reduction us through September 30, 2001.

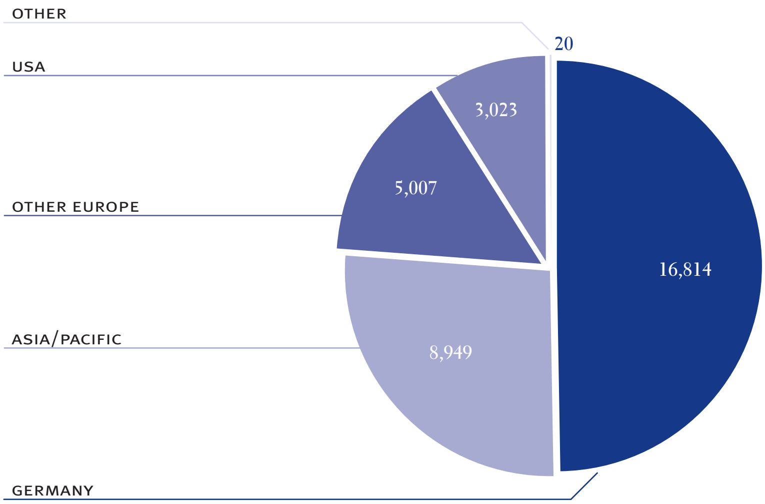
SEPTEMBER 30	1999	2000	2001
Per region			
Germany	12,853	14,247	16,814
Europe	2,842	3,409	5,007
United States	2,563	2,838	3,023
Asia/Pacific	7,521	8,672	8,949
Other	–	–	20
Total	25,779	29,166	33,813
Per function			
Production[1]	n/a	20,371	23,416
Research and Development[1]	n/a	4,733	5,510
Sales and Marketing[1]	n/a	2,043	2,259
Administrative[1]	n/a	2,019	2,628
Total	25,779	29,166	33,813

[1] We have only tracked employee numbers by function since our formation as an independent company.

EMPLOYEES PER FUNCTION AS OF SEPTEMBER 30, 2001
TOTALING: 33,813



EMPLOYEES PER REGION AS OF SEPTEMBER 30, 2001
TOTALING: 33,813



2001

Environmental Matters

The manufacturing of our high-end microelectronic components requires complex and technically sophisticated processes at our modern production facilities. We use only the latest equipment and production technologies. As early as possible in the planning phase we consider ergonomic, respectively safety aspects and environmental aspects of the processes utilized at the design and production levels for our facilities. We believe that such a coordinated procedure is necessary in order to continually improve the environmental performance of our company.

We design our products and plan their production in order to meet proactively changing legal requirements. Working closely with our customers, we intend to begin the production and delivery of lead-free components in January 2004, which is earlier than required by law.

All of our production facilities worldwide have been subject to the environmental certification since 1999. We utilize the international standard DIN EN ISO 14001. Newly acquired production facilities are integrated into the environmental management system. Our environmental program addresses not only the production of semiconductors but also the implementation of safety and environmental issues in the workplace. Already in 1995 – before the climate conference at Kyoto in December 1997 – we had begun to work on the reduction of greenhouse gases at our new production facilities. By implementing these technical measures we will help to minimize global enviromental damage.

Campeon

We are currently in the design and planning phase for the construction of a new headquarters facility near Munich. We have entered into an agreement with Moto Objekt Campeon KG under which that company will finance and build a campus-style corporate headquarters and research and development center for our use on the outskirts of Munich. We expect to occupy the center under an operating lease arrangement towards the end of 2003. We can provide no assurance that this project will be completed.

Subsequent Events

On November 28, 2001, the European Commission announced an inquiry into whether proposed subsidies (aggregating 219 million Euro) applied for, but not yet received, by us with the Federal Republic of Germany and another governmental entity relating to the expansion of the Dresden manufacturing facility are in accordance with European Union directives. We recognize such subsidies only when received. We believe that our application for such subsidies is appropriate and that the ultimate resolution of the inquiry will not have a material adverse effect on our financial position or results of operations.

Through November 29, 2001, we have received commitment letters and agreed on documentation for a 450 million Euro syndicated credit facility relating to the expansion of the Dresden manufacturing facility. The credit facility is supported by a partial guarantee of the Federal Republic of Germany and another governmental entity. We do not believe that this guarantee will be impacted by the European Commission inquiry described above. The proceeds of the credit facility are to be utilized to fund advances previously made by the Company to construct a new 300mm manufacturing facility at Dresden. The credit facility contains specified financial covenants, provides for annual payments of interest and matures on September 30, 2005. The credit facility is subject to customary closing procedures.

On November 29, 2001, we received commitment letters for 580 million Euro from a syndicate of financial institutions participating in our existing revolving credit facility, authorizing an amendment to the facility. The amendment extends the maturity date of the short-term tranche of the facility (previously 354 million Euro) from its original maturity date of March 2002 to November 2002. Additionally, the amendment provides for revised financial covenants. The amendment is subject to execution of documentation satisfactory to the financial institutions and customary closing procedures. We are further negotiating with the remaining financial institutions in the existing syndicate, and if necessary, additional financial institutions, for commitments to participate in the syndicated facility to increase the total amount of the facility to its original amount of 750 million Euro.

2001

Outlook

Following the dramatic deterioration in the semiconductor industry experienced in the 2001 financial year, market conditions remain difficult in light of the slowdown in the U.S. economy and the global impact of the terrorist attacks in September 2001.

The market development in the next six months remains uncertain and will be impacted by these factors. These factors will affect overall product demand, the intensity of competition in an already very competitive market environment, continued pricing pressure, and excess manufacturing capacity.

The current macroeconomic uncertainties and current market conditions make it difficult to forecast results for the full 2002 financial year. In light of the difficult semiconductor market environment, we expect to incur operating losses during such time as selling prices for memory products persist at their current low levels and adverse market conditions continue to affect other parts of our business. However, through the combination of the successful implementation of our Impact restructuring program, the reductions in planned capital expenditures, available funds and financing possibilities, as well as the continued strategic sales of non-core assets as opportunities arise, we believe we have sufficient liquidity and financial flexibility to absorb the effects of the current market conditions. Furthermore, with the measures taken to improve productivity and our competitive technological advantages, we are well positioned to take advantage of any recovery in the semiconductor market.

STATUTORY SECTION

Risks and Opportunities

The semiconductor sector is a highly cyclical business which presents both significant opportunities and substantial risks. Although the industry has experienced an average annual growth rate over a twenty-year period which surpasses that of most "old economy" businesses, this average includes both exceptionally strong growth years and periods of substantial contraction. The risks associated with the cyclical nature of this industry 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. The downturn in 2001 in the demand for goods and services in the technology sector – in particular for semiconductors – and the resulting pressure on the stock prices of technology companies both illustrate the degree of volatility faced by the semiconductor industry.

The Infineon Risk and Opportunity 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 associated with or arising from them. This system has been evaluated by our external auditors and encompasses all of our operations. This scope and depth of reporting help to enable corporate management to take quick and effective action whenever situations so require. In September 2001, we received the 2001 European Risk Management Award for this Enterprise Risk Management System.

This system, for which a U.S. patent application is pending, is a key component of our operations. The system is composed of a range of individual monitoring and management processes embedded into our core processes. It commences at the level of strategic planning and continues through the manufacturing and sales operations, including the processing of receivables. As an extension of the forecasting processes conducted by the business groups, the sales organization, the manufacturing clusters, and the central functions, the risk and opportunity system is used to identify and evaluate possible deviations from expected developments. Beyond the identification and evaluation of major developments that may effect the business, the system is also used to prioritize and implement activities to enhance opportunities and mitigate or reduce risk.

2001

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 chief operating decision makers maintained for this purpose as part of their monthly 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.

We have undertaken a number of measures to minimize its exposure to major risks arising from its individual operations. Efforts to implement risk reduction and mitigation measures are an integral part of the Infineon risk and opportunity management system. Not all the risks mentioned above, however, can be equally and effectively addressed by internal measures, as many of the identified risks have external root causes – for example market risks. Although we will strive to identify and implement measures to deal with risk, not all of these measures may have the intended effect, either because a risk may be outside the scope of our influence or because an individual measure is not properly designed or implemented.

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 ISO 9000 and QS-9000 certifications for all of the facilities surveyed by this network.

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

Tax, fair trade, patent, environmental, and stock exchange regulations could also involve risks. To mitigate these risks, we rely upon the counsel of professionals, including both our own employees and independent providers.

Quantitative and Qualitative Disclosure about Market Risk

The following discussion should be read in conjunction with notes 2, 28, and 29 to our consolidated financial statements.

Foreign Exchange Risk Management

The table below provides information about our derivative financial instruments that are sensitive to changes in foreign currency exchange rates, as of September 30, 2001. For foreign currency exchange forward contracts related to certain sale and purchase transactions and debt service payments denominated in foreign currencies, the table presents the notional amounts and the weighted average contractual foreign exchange rates. At September 30, 2001, our forward foreign currency contracts had terms of up to one year. Our cross currency interest rate swap expires in 2005. We do not enter into derivatives for trading or speculative purposes.

Our policy with respect to limiting short-term foreign currency exposure generally is to economically hedge 75 percent of our estimated net exposure for a minimum period of three months in advance. Part of our foreign currency exposure remains due to differences between actual and forecasted amounts. We calculate this net exposure on a cash flow basis considering balance sheet items, actual orders received or made, and all other planned revenues and expenses.

2001

DERIVATIVE FINANCIAL INSTRUMENTS

	CONTRACT AMOUNT BUY/(SELL)[1]	AVERAGE CONTRACTUAL FORWARD EXCHANGE RATE	FAIR VALUE SEPTEMBER 30, 2001
Foreign currency forward contracts:			
U.S. Dollar	261,228	0.89322	(7,599)
U.S. Dollar	(1,377,152)	0.87790	61,687
Japanese Yen	43,989	106.71539	(1,053)
Japanese Yen	(136,187)	103.49220	6,930
Singapore Dollar	25,797	1.59501	(416)
British Pounds Sterling	6,619	0.61772	(75)
British Pounds Sterling	(6,780)	0.60313	234
Other currencies	64,382	n/a	(920)
Cross currency interest rate swaps:			
U.S. Dollar	615,950	n/a	58,695

[1] Euro equivalent in thousands, except for average contractual forward exchange rates.

Effective October 1, 2000, we adopted the provisions of Financial Accounting Standards Board Statement No. 133 "Accounting for Derivative Instruments and Hedging Activities", as amended ("SFAS No. 133"). SFAS No. 133 requires all derivative instruments to be recorded on the balance sheet at their fair value. Gains and losses resulting from changes in the fair values of those derivatives are accounted for depending on the use of the derivative instrument and whether it qualifies for hedge accounting. Generally, our economic hedges are not considered hedges under SFAS No. 133. The adoption of this statement did not have a reporting impact on our financial statements as of October 1, 2000, because under our economic hedging strategy we report all derivatives at fair value in our financial statements, with changes in fair values recorded in earnings.

Interest Rate Risk Management

We are exposed to interest rate risk mainly through our debt instruments. During the 2001 financial year, our significant debt instruments were economically hedged by assets with the same maturity and same interest rate provisions, so our exposure to interest rate risk was limited to our other debt instruments. These are of minor size and had short maturities. The carrying value of these other debt instruments approximated their market value because their interest rates approximated those that could be obtained in the relevant market. A substantial increase in interest rates could increase our future interest expense and could therefore lead to increased costs of financing our capital expenditures.

Commodity Price Risk

We are exposed to commodity price risks through our dependence on various materials. We seek to minimize these 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.

2001

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 also 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).

Infineon Technologies AG had revenues on a stand-alone basis of 6,697 million Euro in the 2001 financial year (2000: 7,626 million Euro). It had a net loss of 435 million Euro, compared to a net income of 520 million Euro in previous financial year. Infineon Technologies AG handles the settlement of accounts for and with its subsidiaries, which 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 in 2001.

At the end of the 2001 financial year, Infineon Technologies AG's financial position showed a significant increase in non-current assets and a decrease in the volume of receivables, reflecting reduced sales during the latter part of the year. Shareholders' equity increased to 7,259 million Euro (2000: 6,276 million Euro), primarily as a result of the capital increases. At September 30, 2001, Infineon Technologies AG's equity ratio was 81 percent (2000: 75 percent).

Dividend

The annual general meeting of shareholders on April 6, 2001 approved a dividend of 0.65 Euro per share with respect to the 2000 financial year, resulting in a pretax distribution of 407 million Euro to shareholders. The Management Board proposes to carry forward the net loss for the 2001 financial year.

Report on Relationships with Affiliated Entities

Siemens AG and Siemens Nederland N.V. held an aggregate of 50.4 percent of the share capital of Infineon Technologies AG at the end of the 2001 financial year, Siemens Pension Trust e.V. holds an additional 13.5 percent of our share capital. The companies have not entered into either profit-and-loss transfer or subordination agreements. For that reason, in accordance with § 312 of German Stock Corporation Act, Infineon Technologies AG's Management Board has issued a so-called "control report". It details the company's relationships with affiliated entities.

The control report states that Infineon received an appropriate amount of payment or other consideration in every transaction it entered into with affiliated companies, and that it did not suffer any disadvantages from measures undertaken with, for and by such companies. Management therefore believes that such transactions and measures were in the best interest of the company, based upon the Management Board's analysis of the conditions prevailing at the time such actions were taken.

The control report has been examined by the independent auditors of Infineon Technologies AG, who have issued an unqualified opinion with respect thereto.

Munich, November 2001

THE MANAGEMENT BOARD

Dr. Ulrich Schumacher, CEO

Peter Bauer

Peter J. Fischl

Dr. Sönke Mehrgardt

Dr. Andreas von Zitzewitz

2001

DISCLAIMER

You should read this discussion of our consolidated financial condition and results of operations in conjunction with our consolidated financial statements and the related notes and the other financial information included in our financial report. Our audited consolidated financial statements have been prepared on the basis of a number of assumptions, as 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 in our financial report.

This report combines the operating and financial review of Infineon Technologies AG, the parent company of the Infineon group, with the operating and financial review of the Infineon group as a whole.

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 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.

INDEPENDENT AUDITORS' REPORT

To 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, 2000 and 2001, 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, 1999, 2000 and 2001. These consolidated financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Infineon Technologies AG and subsidiaries as of September 30, 2000 and 2001, and the results of their operations and their cash flows for the years in the three year period ended September 30, 1999, 2000 and 2001. in conformity with generally accepted accounting principles in the United States.

Munich, Germany
October 25, 2001, except for note 31, which is as of November 29, 2001

KPMG DEUTSCHE TREUHAND-GESELLSCHAFT
AKTIENGESELLSCHAFT
WIRTSCHAFTSPRÜFUNGSGESELLSCHAFT

2001

INFINEON TECHNOLOGIES AG
CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE YEARS ENDED SEPTEMBER 30, 1999, 2000 AND 2001

	NOTES	1999	2000	2001
Net sales:				
Third parties		3,163,259	6,071,983	4,622,408
Related parties		1,074,034	1,210,615	1,048,315
Total net sales		4,237,293	7,282,598	5,670,723
Cost of goods sold		3,010,643	4,110,402	4,903,508
Gross profit		1,226,650	3,172,196	767,215
Research and development expenses		738,590	1,025,378	1,188,977
Selling, general and administrative expenses		550,547	669,828	786,053
Restructuring charge	(23)	—	—	116,505
Other operating expense (income), net		1,893	(1,538)	(199,315)
Operating (loss) income		(64,380)	1,478,528	(1,125,005)
Interest income (expense), net, inclusive of subsidies		43,383	74,689	(585)
Equity in earnings of associated companies		33,763	101,303	24,828
Gain on associated company share issuance	(11)	—	53,425	11,165
Other income, net		17,576	36,252	64,798
Minority interests		185	(6,143)	5,489
Income (loss) before income taxes		30,527	1,738,054	(1,019,310)
Income tax benefit (expense)	(19)	30,109	(612,469)	428,729
Net income (loss)		60,636	1,125,585	(590,581)
Earnings (loss) per share, basic and diluted	(6)	0.10	1.83	(0.92)

Euro thousands, except for per share data.
For the year ended September 30, 1999, Euro balances have been restated from the Deutsche Mark into Euro using the official exchange rate fixed as of January 1, 1999 (Note 2).
See accompanying notes to consolidated financial statements (see page 62 ff.).

INFINEON TECHNOLOGIES AG
CONSOLIDATED BALANCE SHEETS
SEPTEMBER 30, 2000 AND 2001

	NOTES	2000	2001
ASSETS			
Current assets:			
Cash and cash equivalents		510,814	757,403
Marketable securities	(7)	497,712	92,563
Accounts receivable, net	(8)	1,385,818	718,712
Related party receivables	(18)	439,125	208,273
Inventories	(9)	840,814	881,910
Deferred income taxes	(19)	100,407	38,955
Other current assets		60,468	178,495
Total current assets		3,835,158	2,876,311
Property, plant and equipment, net	(10)	4,034,357	5,232,677
Long-term investments, net	(11)	432,291	654,721
Restricted cash		132,063	86,069
Deferred income taxes	(19)	165,601	412,203
Other assets	(12)	253,405	481,369
Total assets		8,852,875	9,743,350
LIABILITIES AND SHAREHOLDERS' EQUITY:			
Current liabilities:			
Short-term debt and current maturities	(17)	138,350	119,229
Accounts payable	(13)	849,239	1,050,377
Related party payables	(18)	373,385	238,737
Accrued liabilities	(14)	718,781	426,287
Deferred income taxes	(19)	74,634	19,487
Other current liabilities	(15)	299,948	349,628
Total current liabilities		2,454,337	2,203,745
Long-term debt	(17)	127,972	248,976
Deferred income taxes	(19)	177,445	52,747
Other liabilities	(16)	286,722	337,804
Total liabilities		3,046,476	2,843,272
Shareholders' equity:			
Ordinary share capital	(5)	1,251,003	1,384,765
Additional paid-in capital		3,250,715	5,246,734
Retained earnings		1,192,192	194,999
Accumulated other comprehensive income	(26)	112,489	73,580
Total shareholders' equity		5,806,399	6,900,078
Total liabilities and shareholders' equity		8,852,875	9,743,350

Euro thousands.
See accompanying notes to consolidated financial statements (see page 62 ff.).

2001

INFINEON TECHNOLOGIES AG CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY FOR THE YEARS ENDED SEPTEMBER 30, 1999, 2000 AND 2001	ISSUED ORDINARY SHARES SHARES	 AMOUNT	ADDITIONAL PAID-IN CAPITAL
Balance as of October 1, 1998	—	—	—
Net loss prior to April 1, 1999	—	—	—
Net income after April 1, 1999	—	—	—
Other comprehensive income (loss)	—	—	—
Total comprehensive income			
Retention of North Tynside by Siemens AG (Note 1)	—	—	—
Net investments by and advances from Siemens AG prior to April 1, 1999	—	—	—
Contribution to capital and issuance of shares on initial formation as of April 1, 1999	600,000,000	1,200,000	2,363,968
Additional capital contributions	—	—	26,193
Balance as of September 30, 1999	600,000,000	1,200,000	2,390,161
Net income	—	—	—
Other comprehensive income	—	—	—
Total comprehensive income			
Issuance of ordinary shares			
Proceeds from initial public offering, net of offering expenses	16,700,000	33,400	528,635
Proceeds from private placement	7,592,430	15,185	243,641
Acquisition of Savan	1,209,077	2,418	46,426
Deferred compensation, net	—	—	(23,294)
Increase of basis in long-term investment attributable to the issuance of shares by associated company	—	—	51,212
Equity transactions with Siemens Group	—	—	13,934
Balance as of September 30, 2000	625,501,507	1,251,003	3,250,715
Net loss	—	—	—
Other comprehensive loss	—	—	—
Total comprehensive loss			
Dividend payment	—	—	—
Issuance of ordinary shares			
Proceeds from public offering, net of offering expenses	60,000,000	120,000	1,355,137
Acquisition of Ardent	706,714	1,413	37,709
Acquisition of Catamaran	5,730,866	11,462	240,457
Investment in associated company	443,488	887	19,960
Ordinary shares held by associated company	—	—	(4,215)
Deferred compensation, net	—	—	(18,929)
Sale of joint venture interest to Siemens Group	—	—	392,310
Equity transactions with Siemens Group	—	—	(26,410)
Balance as of September 30, 2001	692,382,575	1,384,765	5,246,734

Retained earnings	Investments by and advances from Siemens AG	Foreign currency translation adjustment	Additional minimum pension liability	Unrealized gains/losses on securities	Total
—	2,144,134	(48,602)	—	103	2,095,635
—	(5,971)	—	—	—	(5,971)
66,607	—	—	—	—	66,607
—	—	49,106	—	(1,915)	47,191
					107,827
—	293,713	—	—	—	293,713
—	1,132,092	—	—	—	1,132,092
	(3,563,968)	—	—	—	—
—	—	—	—	—	26,193
66,607	—	504	—	(1,812)	3,655,460
1,125,585	—	—	—	—	1,125,585
—	—	105,085	—	8,712	113,797
					1,239,382
—	—	—	—	—	562,035
—	—	—	—	—	258,826
—	—	—	—	—	48,844
—	—	—	—	—	(23,294)
—	—	—	—	—	51,212
—	—	—	—	—	13,934
1,192,192	—	105,589	—	6,900	5,806,399
(590,581)	—	—	—	—	(590,581)
—	—	(19,032)	(11,529)	(8,348)	(38,909)
					(629,490)
(406,612)	—	—	—	—	(406,612)
—	—	—	—	—	1,475,137
—	—	—	—	—	39,122
—	—	—	—	—	251,919
—	—	—	—	—	20,847
—	—	—	—	—	(4,215)
—	—	—	—	—	(18,929)
—	—	—	—	—	392,310
—	—	—	—	—	(26,410)
194,999	—	86,557	(11,529)	(1,448)	6,900,078

Euro thousands, except for per share data.
For the year ended September 30, 1999, Euro balances have been restated from the Deutsche Mark into Euro using the official exchange rate fixed as of January 1, 1999 (Note 2).
See accompanying notes to consolidated financial statements (see page 62 ff.).

INFINEON TECHNOLOGIES AG
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED SEPTEMBER 30, 1999, 2000 AND 2001

	1999	2000	2001
Net (loss) income	60,636	1,125,585	(590,581)
Adjustments to reconcile net loss to cash provided by operating activities:			
Depreciation and amortization	573,069	833,656	1,121,730
Acquired in-process research and development	—	26,012	69,272
Deferred compensation	—	25,550	25,305
Provision for doubtful accounts	1,723	17,410	18,802
Write-down of inventory	—	40,013	357,731
Gain on sale or transfer of marketable securities	(521)	(20,238)	(1,485)
Gain on sale of businesses	(15,319)	(306)	(235,021)
Gain on associated company share issuance	—	(53,425)	(11,165)
Loss (gain) on disposal of property, plant and equipment	18,041	(1,648)	206
Equity in earnings of associated companies	(33,763)	(101,303)	(24,828)
Minority interests	(185)	6,143	(5,489)
Deferred income taxes	(73,454)	90,812	(494,380)
Other non-cash items	—	—	25,591
Changes in operating assets and liabilities:			
Related party receivables - trade	(8,401)	(148,024)	65,597
Accounts receivable	(284,944)	(535,314)	671,136
Inventories	(40,529)	(147,900)	(394,098)
Other current assets	(25,607)	(29,800)	(138,793)
Related party payables - trade	73,294	93,995	(125,792)
Accounts payable	61,984	375,393	183,851
Accrued liabilities	77,847	467,505	(322,272)
Other current liabilities	75,668	103,339	27,078
Other assets and liabilities	9,080	(87,768)	(11,000)
Net cash provided by operating activities	468,619	2,079,687	211,395

INFINEON TECHNOLOGIES AG
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED SEPTEMBER 30, 1999, 2000 AND 2001

	1999	2000	2001
Cash flows from investing activities:			
Purchases of marketable securities available for sale	(175,250)	(451,990)	(81,856)
Proceeds from sale of marketable securities available for sale	11,296	—	473,995
Proceeds from sale of businesses	18,033	308	345,978
Investment in associated and related companies	(133,078)	(302,512)	(213,713)
Purchases of intangible assets	(43,203)	(42,909)	(82,362)
Purchases of property, plant and equipment	(652,528)	(1,570,832)	(2,281,962)
Proceeds from sales of property, plant and equipment	56,462	39,839	27,262
Dividends received from equity investments	—	1,461	—
Net cash used in investing activities	(918,268)	(2,326,635)	(1,812,658)
Cash flows from financing activities:			
Net change in short-term debt	(48,151)	59,735	(13,908)
Net change in related party financial receivables and payables	(763,654)	222,167	69,921
Proceeds from issuance of long-term debt	71,613	13,264	128,015
Principal repayments of long-term debt	(79,534)	(500,100)	(20,526)
Proceeds from issuance of redeemable interest in associated company	—	168,726	—
Net change in restricted cash	(63,529)	(67,173)	44,941
Increase in investments by and advances from Siemens AG	1,322,055	—	—
Proceeds from issuance of shares to minority interest	—	—	19,737
Proceeds from issuance of ordinary shares	—	820,861	1,475,137
Dividend payment	—	—	(406,612)
Sale of joint venture interest to Siemens Group	—	—	564,674
Capital contributions from Siemens Group	26,193	1,667	(15,360)
Net cash provided by financing activities	464,993	719,147	1,846,019
Effect of foreign exchange rate changes on cash and cash equivalents	2,276	9,109	1,833
Net increase in cash and cash equivalents	17,620	481,308	246,589
Cash and cash equivalents at beginning of year	11,886	29,506	510,814
Cash and cash equivalents at end of year	29,506	510,814	757,403

Euro thousands.
For the year ended September 30, 1999 Euro balances have been restated from the Deutsche Mark into Euro using the official exchange rate fixed as of January 1, 1999 (Note 2).
See accompanying notes to consolidated financial statements (see page 62 ff.).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(EURO IN THOUSANDS, EXCEPT WHERE OTHERWISE STATED)

(1) DESCRIPTION OF BUSINESS, FORMATION AND BASIS OF PRESENTATION

Description of Business

Infineon Technologies AG ("Infineon" or the "Company") designs, develops, manufactures and markets a broad range of semiconductors and complete systems solutions used in a wide variety of microelectronic applications, including computer systems, telecommunications systems, consumer goods, automotive products, industrial automation and control systems and chip card applications. Infineon's products include standard commodity components, full-custom devices, semicustom devices and application specific components for memory, analog, digital and mixed-signal applications. Infineon has operations and investments located in Europe, Asia and America. Infineon's customers are mainly located in Europe, Asia and North America. Infineon is a majority owned subsidiary of Siemens Aktiengesellschaft ("Siemens"). The fiscal year end for Infineon and its subsidiaries is September 30.

Formation

Infineon was formed as a legal entity as of April 1, 1999 (the "Formation") through the contribution by Siemens of substantially all of its semiconductor-related investments, operations and activities (the "Contributed Businesses").

The substantial portion of the assets and liabilities relating to the wafer fabrication facility located in the North Tyneside area of Northern England ("North Tyneside") was not legally transferred to Infineon at the Formation. However, the results of its operations through November 30, 1998 (the date its operations ceased) are included in the accompanying statement of operations for the year ended September 30, 1999, because North Tyneside was operated and managed as part of the Contributed Businesses. Infineon has no legal right or obligation with respect to the remaining assets and liabilities of North Tyneside and, accordingly, such assets and related obligations are excluded from the accompanying balance sheet effective November 30, 1998. In September 2000, Siemens sold North Tyneside to a third party with no recourse to Infineon.

Basis of Presentation

The accompanying financial statements have been prepared in accordance with United States Generally Accepted Accounting Principles ("U.S. GAAP"). For all periods prior to the Formation, this reflects the combined historical financial statements of the Contributed Businesses as if Infineon were a separate entity, and therefore may not necessarily reflect what the results of operations, financial positions and cash flows would have been had Infineon operated as a separate independent company, nor are they an indicator of future performance.

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

All amounts herein are shown in thousands of Euro (or "€") except where otherwise stated. The accompanying balance sheet as of September 30, 2001, and the statements of operations and cash flows for the year then ended are also presented in U.S. Dollar ("$"), solely for the convenience of the reader, at the rate of € 1 = $ 0.9099, the noon buying rate on September 28, 2001. The U.S. Dollar convenience translation amounts have not been audited.

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

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Basis of Consolidation

The accompanying financial statements include, prior to the Formation, the accounts of Infineon and the Contributed Businesses on a combined basis and, after the Formation, the accounts of Infineon and its significant subsidiaries on a consolidated basis. Investments in companies in which Infineon has an ownership interest in excess of 20 percent but which are not controlled by Infineon ("Associated Companies") are principally accounted for using the equity method of accounting (see note 11). 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 Infineon has an ownership interest of less than 20 percent are recorded at cost. The effects of all significant intercompany transactions are eliminated.

The Infineon group consists of the following number of entities:

	CONSOLIDATED SUBSIDIARIES	ASSOCIATED COMPANIES	TOTAL
September 30, 2000	26	5	31
Additions	17	7	24
Transfers	1	(1)	—
Disposals	—	(2)	(2)
Others	87	114	10
September 30, 2001	44	9	53

Additionally, the consolidated financial statements include 33 (2000: 25) subsidiaries and 9 (2000: 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 one percent.

Reporting Currency

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

Foreign Currency Translation

The assets and liabilities of foreign subsidiaries 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 AT SEPTEMBER 30,		ANNUAL AVERAGE EXCHANGE RATE	
		2000	2001	2000	2001
Currency		€	€	€	€
U.S. $	1 $ =	1.1373	1.0864	1.0470	1.1312
Japanese Yen	100 JPY =	1.0533	0.9112	0.9881	0.9573
British Pound	1 GBP =	1.6720	1.6015	1.6286	1.6269
Singapore Dollar	1 SGD =	0.6530	0.6152	0.6129	0.6373

Cash and Cash Equivalents

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

Restricted Cash

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

Marketable Securities

The Company's marketable securities are classified as available-for-sale and are stated at fair value as determined by the most recently traded price of each security at the balance sheet date. Unrealized gains and losses are included in accumulated other comprehensive income, 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, 2000 and 2001 capitalized interest was € 2,820 and € 27,166, respectively. For the year ended September 30, 1999, interest capitalized was not significant. 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 Infineon is lessee that meet certain specified criteria intended to represent situations where the substantive risks and rewards of ownership have been transferred to the lessee are accounted for as capital leases pursuant to 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

Intangible assets primarily consist of purchased intangible assets such as licenses and purchased technology, which are recorded at acquisition cost, and goodwill resulting from business acquisitions, representing the excess of purchase price over fair value of net assets acquired. Intangible assets are amortized on a straight-line basis over the estimated useful lives of the assets ranging from 3 to 10 years. 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.

Impairment of Long-lived Assets

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

Financial Instruments

Infineon operates internationally, giving rise to exposure to changes in foreign currency exchange rates. Infineon uses financial instruments, including derivatives such as foreign currency forward and option contracts, to reduce this exposure based on the net exposure to the respective currency. On October 1, 2000, the Company adopted SFAS No. 133 "Accounting for Derivative Instruments and Hedging Activities" as amended by SFAS No. 137 and SFAS No. 138, 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 adoption of SFAS No. 133, as amended, did not have an

(Euro in thousands, except where otherwise stated)

impact on the Company's financial position or results of operations. The fair value of derivative and other financial instruments is discussed in note 28.

Revenue Recognition – Sales

Revenue, net of allowances for discounts and price protection agreements, is recognized upon shipment or delivery of finished products to customers depending on the terms of the agreement, when the risks and rewards of ownership are transferred. Prior to January 2001, sales to the Siemens sales organizations for resale to third parties and sales directly to Siemens are recognized upon shipment when the risks and rewards of ownership are transferred. For sales to the Siemens sales organizations, revenue is recognized net of a discount that represents the sales organization's commission. Such discounts are reflected as reductions in net sales and not as selling expenses (note 18).

The U.S. Securities and Exchange Commission ("SEC") released Staff Accounting Bulletin ("SAB") 101 "Revenue Recognition in Financial Statements" which provides guidance on the recognition, presentation and disclosure of revenue in financial statements filed with the SEC. Effective July 1, 2001, the Company adopted the provisions of SAB 101, which did not have an impact on the Company's financial position or results of operations.

Revenue Recognition – License and Technology Transfer Fees

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

Government Grants

Tax-free government grants are deferred and amortized to income in the period in which the related expenses are incurred. Taxable grants for investments in property, plant, and equipment are deducted from the acquisition costs of the related assets. Other taxable grants reduce the related expense (see notes 16 and 21).

Product-related Expenses

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

Income Taxes

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

Stock-based Compensation

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

Issuance of Shares by Subsidiaries or Associated Companies

Gains or losses arising from the issuances of shares by subsidiaries or Associated Companies, due to changes in the Company's proportionate share of the value of the issuer's equity, are recorded as non-operating income or expense pursuant to SAB Topic 5:H, "Accounting for Sales of Stock by a Subsidiary".

Use of Estimates

The preparation of the accompanying financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent amounts and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Due to current economic conditions and events, it is possible that these conditions and events could have a significant effect on such estimates made by management.

Recent Accounting Pronouncements

In July 2001, the FASB issued SFAS No. 141, "Business Combinations", and SFAS No. 142, "Goodwill and Other Intangible Assets." SFAS No. 141 requires that the purchase method of accounting be used for all business combinations initiated after June 30, 2001 as well as all purchase method business combinations completed after June 30, 2001. SFAS No. 141 also specifies criteria intangible assets acquired in a purchase method business combination must meet to be recognized and reported apart from goodwill, noting that any purchase price allocable to an assembled workforce may not be accounted for separately. SFAS No. 142 will require that goodwill and intangible assets with indefinite useful lives no longer be amortized, but instead tested for impairment at least annually in accordance with the provisions of SFAS No. 142. SFAS No. 142 will also require that intangible assets with estimable useful lives be amortized over their respective estimated useful lives to their estimated residual values, and reviewed for impairment in accordance with SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed of".

The Company is required to adopt the provisions of SFAS No. 141 immediately and expects to adopt SFAS No. 142 effective October 1, 2001. Furthermore, goodwill and intangible assets determined to have an indefinite useful life acquired in a purchase business combination completed after June 30, 2001, but before SFAS No. 142 is adopted in full will not be amortized, but will continue to be evaluated for impairment in accordance with the appropriate pre-SFAS No. 142 accounting literature. Goodwill and intangible assets acquired in business combinations completed before July 1, 2001 will continue to be amortized and tested for impairment in accordance with the appropriate pre-SFAS No. 142 accounting requirements prior to the adoption of SFAS No. 142.

SFAS No. 141 will require, upon adoption of SFAS No. 142, that the Company evaluate its existing intangible assets and goodwill that were acquired in a prior purchase business combination, and to make any necessary reclassifications in order to conform with the new criteria in SFAS No. 141 for recognition apart from goodwill. Upon adoption of SFAS No. 142, the Company will be required to reassess the useful lives and residual values of all intangible assets acquired and make any necessary amortization period adjustments by the end of the first interim period after adoption. In addition, to the extent an intangible asset is identified as having an indefinite useful life, the Company will be required to test the intangible asset for impairment in accordance with the provisions of SFAS No. 142 within the first interim period. Any impairment loss will be measured as of the date of adoption and recognized as the cumulative effect of a change in accounting principle in the first interim period.

In connection with SFAS No. 142's transitional goodwill impairment evaluation, SFAS No. 142 will require the Company to perform an assessment of whether there is an indication that goodwill (and equity-method goodwill) is impaired as of the date of adoption. To accomplish this, the Company must identify its reporting units and determine the carrying value of each reporting unit by assigning the assets and liabilities, including the existing goodwill and intangible assets, to those reporting units as of the date of adoption. The Company will then have up to six months from the date of adoption to determine the fair value of each reporting unit and compare it to the reporting unit's carrying amount. To the extent a reporting unit's carrying amount exceeds its fair value, an indication exists that the reporting unit's goodwill may be impaired and the Company must perform the second step of the transitional impairment test. In the second step, the Company must compare the implied fair value of the reporting unit's goodwill, determined by allocating the reporting unit's fair value to all of its assets (recognized and unrecognized) and liabilities in a manner similar to a purchase price allocation in accordance with SFAS No. 141, to its carrying amount, both of which would be measured as of the date of adoption. This second step is required to be completed as soon as possible, but no later than the end of the year of adoption. Any transitional impairment loss will be recognized as the cumulative effect of a change in accounting principle in the Company's statement of operations.

As of the date of adoption, the Company expects to have unamortized goodwill in the amount of € 295,522, unamortized identifiable intangible assets in the amount of € 141,001, all of which will be subject to the transition provisions of SFAS Nos. 141 and 142. Amortization expense related to goodwill was € 1,227, € 8,225, and € 23,038 for the years ended September 30, 1999, 2000, and 2001. Because of the extensive effort needed to comply with adopting Statements 141 and 142, it is not practicable to reasonably estimate the impact of adopting these Statements on the Company's financial statements at the date of this report, including whether it will be required to recognize any transitional impairment losses as the cumulative effect of a change in accounting principle.

In June 2001, the FASB issued SFAS No. 143 "Accounting for Asset Retirement Obligations" which addresses financial accounting and reporting for obligations associated with the retirement of tangible long-lived assets and the associated asset retirement costs. The standard applies to legal obligations associated with the retirement of long-lived assets that result from the acquisition, construction, development and (or) normal use of the asset.

SFAS No. 143 requires that the fair value of a liability for an asset retirement obligation be recognized in the period in which it is incurred if a reasonable estimate of fair value can be made. The fair value of the liability is added to the carrying amount of the associated asset and this additional carrying amount is depreciated over the life of the asset. The liability is accreted at the end of each period through charges to operating expense. If the obligation is settled for other than the carrying amount of the liability, the Company will recognize a gain or loss on settlement.

The Company is required and plans to adopt the provisions of SFAS No. 143, effective October 1, 2002. To accomplish this, the Company must identify all legal obligations for asset retirement obligations, if any, and determine the fair value of these obligations on the date of adoption. The determination of fair value is complex and will require the Company to gather market information and develop cash flow models. Additionally, the Company will be required to develop processes to track and monitor these obligations. Because of the effort necessary to comply with the adoption of SFAS No. 143, it is not practicable for management to estimate the impact of adopting this SFAS at the date of this report.

In August 2001, the FASB issued SFAS No. 144 "Accounting for the Impairment or Disposal of Long-Lived Assets". SFAS No. 144 retains the current requirement to recognize an impairment loss only if the carrying amounts of long-lived assets to be held and used are not recoverable from their expected undiscounted future cash flows. However, goodwill is no longer required to be allocated to these long-lived assets when determining their carrying amounts. SFAS No. 144 requires that a long-lived asset to be abandoned, exchanged for a similar productive asset, or distributed to owners in a spin-off be considered held and used until it is disposed. However, SFAS No. 144 requires the depreciable life of an asset to be abandoned be revised. SFAS No. 144 requires all long-lived assets to be disposed of by sale be recorded at the lower of its carrying amount or fair value less cost to sell and to cease depreciation (amortization). Therefore, discontinued operations are no longer measured on a net realizable value basis, and future operating losses are no longer recognized before they occur. The Company is required to adopt SFAS No. 144 by October 1, 2002. The adoption of SFAS No. 144 is not expected to have a material impact on the Company's financial statements.

(3) ACQUISITIONS

On October 24, 2000, the Company exercised its option to purchase the remaining interest in Semiconductor300 GmbH & Co. KG, Dresden, Germany ("SC300") from Motorola for € 7,655, and has fully consolidated the venture from that date. Previously, the Company had accounted for its non-controlling interest under the equity method. Other investors in the venture have a redeemable interest which has been recorded as a long-term liability in the accompanying consolidated balance sheet (see note 16). The carrying amount of this liability 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. Each of the other investors can redeem their interest or the Company can purchase their interest, at the earliest in 2004.

In September 2000, the Company entered into a letter of intent to acquire Ardent Technologies, Inc. ("Ardent"). In April 2001, the Company completed the transaction and issued 706,714 ordinary shares with an aggregate value of € 39,122 in exchange for a 100 percent interest in Ardent accounted for as a purchase, and accordingly, the consolidated statement of operations include the results of Ardent from that date. Ardent is a supplier of high-bandwidth integrated circuits for Local Area Network (LAN) internet-based switching systems. Of the total shares issued, € 13,498 (related to 372,654 shares) is recorded as deferred compensation and is reflected as a reduction of additional paid-in capital. These shares are contingent upon employment and/or certain performance milestones, and the related deferred compensation is being amortized, principally as research and development expense, on a straight-line basis over the related employment or milestone periods ranging from two to four years. The Company engaged an independent third party to assist in the valuation of net assets acquired. As a result of this valuation, € 12,220 is allocated to purchased in-process research and development and expensed as research and development in the year ended September 30, 2001, because the technological feasibility of products under development has not been established and no future alternative uses exist. The amount allocated to purchased in-process research and development was determined through established valuation techniques in the high-technology communications

(Euro in thousands, except where otherwise stated)

industry and related guidance provided by the SEC. The remaining amounts allocated to goodwill and other intangibles are amortized on a straight-line basis over a three to five year period. Due to significant changes in the business climate in internet-related businesses, including the market for LAN switching systems, Infineon, as a component of its restructuring plan (see note 23) terminated a significant number of the Ardent employees, abandoned certain technology acquired and materially reduced future R&D expenditures for the Ardent business. As a result of reductions in projected future cash flows, management concluded that the investment in Ardent was impaired and as a result of independent valuations performed of the remaining intangible assets recognized an impairment charge of € 13,996 as of September 30, 2001.

In August 2001, the Company acquired all the shares of Catamaran Communications, Inc. ("Catamaran"). This acquisition has been accounted for by the purchase method of accounting and accordingly, the consolidated statement of operations include the results of Catamaran from that date. Catamaran is a Silicon Valley based fabless communications semiconductor company focused on integrated circuits for the optical networking market. Infineon issued an aggregate of 6,373,435 shares to effect the business combination as follows: 5,325,883 shares (€ 246,067) represent purchase price, including 1,952,397 shares exchanged for unearned shares of restricted stock and stock options of Catamaran. The intrinsic value of the unearned shares (€ 24,884) is accounted for as deferred compensation. Additional 404,985 shares represent compensation to the employees upon continued employment and the achievement of certain performance milestones and are accounted for as deferred compensation at their intrinsic value (€ 5,852). In addition, 642,569 shares represent contingent purchase consideration payable to the shareholders of Catamaran upon Catamaran achieving certain performance milestones. The shares representing contingent purchase consideration and deferred compensation are both held in escrow. The shares representing contingent purchase consideration are not reflected as issued and outstanding shares in the statement of shareholders' equity. Should Catamaran achieve these milestones, the purchase price will be adjusted to reflect the issuance of the 642,569 shares at their fair value at the date the milestones are achieved. The shares reflected as deferred compensation are shown as a reduction of additional paid-in capital and are being amortized on a straight-line basis over the related employment or milestone periods, ranging from two to four years. The Company engaged an independent third party to assist in the valuation of net assets acquired. As a result of this valuation, € 57,052 is allocated to purchased in-process research and development and expensed as research and development in the year ended September 30, 2001, because the technological feasibility of products under development has not been established and no future alternative uses exist. The amount allocated to purchased in-process research and development was determined through established valuation techniques in the high-technology communication industry and related guidance provided by the SEC. The remaining purchase price was allocated to the core technology intangible of € 8,900, which is being amortized over its useful life of five years, and goodwill of € 179,431, which pursuant to SFAS No. 141 is not amortized. Had the goodwill been subject to amortization, an additional expense of € 2,991 would have been recorded in the consolidated statement of operations for the year ended September 30, 2001.

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

In May 2001, the Company and Saifun Semiconductors Ltd. ("Saifun") formed a new company, Ingentix, to develop, manufacture and market flash memory products based on Saifun's patented Nitrided Read Only Memory (NROM) technology. Infineon acquired 51 percent of the outstanding common stock of Ingentix in exchange for cash of € 18,833 and has consolidated the operations of Ingentix since its formation.

(4) DIVESTITURES

On December 19, 2000, the Company sold the Image & Video business unit, previously included in the Wireline Communications segment. This business generated net sales of € 122,845, € 138,974, and € 38,251 for the years ended September 30, 1999, 2000 and 2001 (through the date of divestiture), respectively. Earnings (loss) before interests, minority interests and taxes ("EBIT") amounted to € 13,095, € 15,985, and € 9,659 for the years ended September 30, 1999, 2000 and 2001 (through the date of divestiture), respectively. The divestiture of this business unit resulted in a net gain before tax of € 202,316, and is reflected as other operating income in the accompanying consolidated statement of operations for the year ended September 30, 2001.

On July 27, 2001, the Company entered into a divestiture agreement relating to its infrared components business. In connection with this transaction, the Company transferred certain assets of its Malaysian production facility relating to the infrared components business to a new entity, Infineon Technologies Krubong Sdn. Bhd. ("Krubong"), which will be responsible for the establishment of a new manufacturing facility in Malaysia for this business. Pursuant to the terms of the agreement, the purchaser has acquired a 19 percent ownership interest in Krubong, as well as immediately acquiring specified assets related to this business in the United States and Germany. The agreement also contains a put and call option, which is exercisable beginning on January 1, 2002, dependent upon Krubong achieving specified operational parameters. If the put or call option becomes exercisable and is exercised by either of the parties, the total transaction value will approximate $ 120 million, subject to specified purchase price adjustments. The purchaser has provided the Company with an initial payment of $ 78 million and the remainder is due upon the exercise of the put and call option. As of September 30, 2001, the Company has recognized a gain of € 26,275 relating to the sale of the 19 percent interest in Krubong as well as the sale of the United States and German assets. The excess of the cash received over the allocated purchase price related to the 19 percent interest and the related asset sales has been recorded as a deferred gain as of September 30, 2001.

On August 14, 2001, the Company entered into an agreement to sell its 49 percent share in the Osram Opto Semiconductors GmbH & Co. OHG joint venture ("Osram Opto") for € 564,674 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, the excess purchase price, net of tax, of € 392,310 is reflected as a direct increase to additional paid-in capital at September 30, 2001. The Company recorded equity in earnings related to its investment in Osram Opto of € 7,786, € 9,027 and € 3,743, respectively, in the 1999, 2000 and 2001 financial years. The Company's purchases and sales of opto products are expected to continue under the same terms and conditions that existed prior to the sale of the interest in the joint venture.

(5) ORDINARY SHARE CAPITAL

The Company had issued 693,025,144 registered ordinary shares of € 2.00 notional value per share as of September 30, 2001. In connection with the acquisition of Catamaran (see note 3), 642,569 ordinary shares represent contingent purchase price consideration and are held in escrow subject to certain milestones being achieved. Accordingly, at September 30, 2001, the Company had 692,382,575 ordinary shares outstanding, excluding such contingent consideration.

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, 2001, the Management Board may use these authorizations through March 31, 2004 to issue new shares as follows:

- authorized share capital II – in an aggregate amount of up to € 120,000 to issue shares to employees. The pre-emptive rights of existing shareholders are excluded.
- authorized share capital III – in an aggregate amount of up to € 222,535 to issue shares in connection with business combinations (contributions in kind). The pre-emptive rights of existing shareholders are excluded.

The Company has conditional capital of up to € 96,000 (conditional share capital I) that may be used to issue up to 48 million new registered shares in connection with the Company's long-term incentive plan (see note 27). These shares will have dividend rights from the beginning of the fiscal year in which they are issued.

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

Capital Transactions

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

On March 13, 2000, Infineon successfully completed its initial public offering ("IPO") of 16,700,000 ordinary shares, consisting 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 € 562,035, net of offering expenses.

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

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

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. (see note 11).

In April 2001, the Company issued 706,714 ordinary shares from authorized share capital III to acquire Ardent (see note 3).

In July 2001, Infineon successfully completed a secondary public offering of 60,000,000 ordinary shares, raising € 1,475,137, net, of offering expenses. As a result of the offering, the authorized share capital I has been fully utilized.

In August 2001, the Company issued 6,373,435 ordinary shares from authorized share capital III to acquire Catamaran (see note 3).

Under German Commercial Law (Aktiengesetz), the amount of dividends available for distribution to shareholders is based on the level of retained earnings of the ultimate parent, Infineon Technologies AG, as determined in accordance with the HGB. At a shareholders' meeting on April 6, 2001, the shareholders authorized and the Company subsequently paid a dividend of € 406,612 in respect of the earnings for the year ended September 30, 2000 of Infineon Technologies AG.

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

(6) EARNINGS (LOSS) PER SHARE

Basic earnings (loss) per share ("EPS") is calculated dividing net income (loss) by the weighted average number of ordinary shares outstanding during the 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.

The computation of basic and diluted EPS for the years ended September 30, 1999, 2000 and 2001, is as follows:

	1999	2000	2001
Numerator			
Net income (loss)	60,636	1,125,585	(590,581)
Denominator			
Weighted-average shares outstanding – basic	600,000,000	613,862,876	640,566,801
Effect of dilutive stock options	—	1,258,310	—
Weighted-average shares outstanding – diluted	600,000,000	615,121,186	640,566,801
Earnings (loss) per share (in €)			
Basic and diluted	0.10	1.83	(0.92)

(7) MARKETABLE SECURITIES

Marketable securities at September 30, 2000 and 2001 consist of the following:

	SEPTEMBER 30, 2000				SEPTEMBER 30, 2001			
	COST	FAIR VALUE	UNREALIZED GAIN	UNREALIZED LOSS	COST	FAIR VALUE	UNREALIZED GAIN	UNREALIZED LOSS
German government securities	6,327	5,933	—	(394)	4,407	4,492	85	—
Foreign government securities	21,002	21,033	867	(836)	24,710	24,956	246	—
Floating rate notes	451,407	452,699	1,292	—	55,279	57,107	1,878	(50)
Other dept securities	2,144	2,144	—	—	3,244	3,247	3	—
Total debt securities	480,880	481,809	2,159	(1,230)	87,640	89,802	2,212	(50)
Equity securities	15,012	27,042	13,212	(1,182)	19,583	14,265	14	(5,332)
Total marketable securities	495,892	508,851	15,371	(2,412)	107,223	104,067	2,226	(5,382)
Reflected as follows:								
Current asset	485,601	497,712	14,523	(2,412)	95,816	92,563	2,129	(5,382)
Non-current asset (note 12)	10,291	11,139	848	—	11,407	11,504	97	—
Total marketable securities	495,892	508,851	15,371	(2,412)	107,223	104,067	2,226	(5,382)

Realized gains were € 521, € 20,238 and € 1,485 for the years ended September 30, 1999, 2000 and 2001, respectively, and are reflected as other income in the accompanying statements of operations.

Debt securities at September 30, 2001 had the following remaining contractual maturities:

	COST	FAIR VALUE
Less than 1 year	3,414	3,418
Between 1 and 5 years	33,103	32,998
More than 5 years	51,123	53,386
	87,640	89,802

Actual maturities may differ due to call or prepayment rights.

(8) ACCOUNTS RECEIVABLE, NET

Accounts receivable at September 30, 2000 and 2001 consist of the following:

	2000	2001
Third party-trade	1,180,229	530,241
VAT and other taxes receivable	196,417	135,623
Miscellaneous	40,613	94,967
Total receivable	1,417,259	760,831
Allowance of doubtfull accounts	(31,441)	(42,119)
Total	1,385,818	718,712

Activity in the allowance for doubtful accounts for the years ended September 30, 2000 und 2001 is as follows:

	2000	2001
Allowance for doubtful accounts at beginning of year	22,699	31,441
Additions charged to bad debt expense	17,410	12,897
Write-offs charged against the allowance	(10,382)	(966)
Foreign currency effects	1,714	(1,253)
Allowance for doubtful accounts at end of year	31,441	42,119

(9) INVENTORIES

Inventories at September 30, 2000 and 2001 consist of the following:

	2000	2001
Raw materials and supplies	84,485	126,386
Work-in-process	417,022	459,120
Finished goods	339,307	296,404
Total inventory	840,814	881,910

During the years ended September 30, 2000 and 2001, the Company recorded inventory write-downs of € 40,013 and € 357,731, respectively.

(10) PROPERTY, PLANT AND EQUIPMENT, NET

A summary of activity for property, plant and equipment for the year ended September 30, 2001 is as follows:

	LAND AND BUILDINGS	TECHNICAL EQUIPMENT AND MACHINERY	OTHER PLANT AND OFFICE EQUIPMENT	CONSTRUCTION IN PROGRESS	TOTAL
Cost					
September 30, 2000	828,986	4,177,694	1,519,569	830,905	7,357,154
Additions	196,215	1,137,379	379,279	569,607	2,282,480
Disposals	(5,346)	(170,645)	(112,188)	—	(288,179)
Consolidations	629	102,452	46,532	28,329	177,942
Transfers	48,712	499,897	120,139	(668,748)	—
Foreign currency effects	(17,641)	(67,321)	(24,659)	(8,289)	(117,910)
September 30, 2001	1,051,555	5,679,456	1,928,672	751,804	9,411,487
Accumulated depreciation					
September 30, 2000	(291,397)	(2,041,325)	(990,075)	—	(3,322,797)
Additions	(65,640)	(700,394)	(308,951)	—	(1,074,985)
Disposals	1,698	130,506	101,307	—	233,511
Consolidations	(74)	(48,917)	(20,877)	—	(69,868)
Foreign currency effects	3,495	35,446	16,388	—	55,329
September 30, 2001	(351,918)	(2,624,684)	(1,202,208)	—	(4,178,810)
Book value					
September 30, 2000	537,589	2,136,369	529,494	830,905	4,034,357
Book value					
September 30, 2001	699,637	3,054,772	726,464	751,804	5,232,677

The company is the lessor of technical equipment and machinery (see note 18) of € 220,912 and € 217,228 with related accumulated depreciation of € 141,285 and € 162,486 as of September 30, 2000 and 2001, respectively.

(Euro in thousands, except where otherwise stated)

(11) LONG-TERM INVESTMENTS, NET

A summary of activity for long-term investments for the year ended September 30, 2001 is as follows:

LONG-TERM INVESTMENTS, NET	INVESTMENT IN ASSOCIATED COMPANIES	INVESTMENT IN RELATED COMPANIES	TOTAL
Balance at September 30, 2000	358,544	73,747	432,291
Additions	151,300	57,248	208,548
Disposals	(32,550)	(1,505)	(34,055)
Impairments	(5,451)	(457)	(5,908)
Transfers	7,076	(7,076)	—
Equity in earnings	24,828	—	24,828
Share issuance	11,165	—	11,165
Consolidations	(7,369)	22,771	15,402
Foreign currency effects	4,142	(1,692)	2,450
Balance at September 30, 2001	511,685	143,036	654,721

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

The following Associated Companies at September 30, 2001 are accounted for using the equity method of accounting:

NAME OF THE ASSOCIATED COMPANY	PERCENTAGE OF OWNERSHIP
MICRAM Microelectronic GmbH, Bochum, Germany ("MICRAM")	25.1%
ProMOS Technologies Inc., Hsinchu, Taiwan ("ProMOS")	32.5%
ALTIS Semiconductor, France ("ALTIS")	50.1%
Aristos Logic Corp., Anaheim Hills, California, USA ("ARISTOS")	27.6%
Cryptomathic A/S, Arkus, Denmark ("Cryptomathic")	25.0%
Enhanced Memory System Inc., Wilmington Delaware, USA ("EMS")	20.0%
Newlogic Technologies AG, Lustenau, Austria ("Newlogic")	25.0%
Ramtron International Corp., Colorado Springs, USA ("Ramtron")	20.1%
UMCi Pte. Ltd., Singapore ("UMCi")	27.3%

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

On January 12, 2001, the Company entered into an agreement to sell 74.9 percent of its interest in MICRAM Microelectronic GmbH (former Infineon Technologies Mantel 6 GmbH) to MICRAM AG.

ProMOS, a Taiwanese public Company, is owned primarily by Mosel Vitelic, Inc. ("MVI") and Infineon. The Company's investment in ProMOS is net of deferred license and technology transfer fee revenue (see note 22). On May 22, 2000, ProMOS shareholders approved the distribution of employee bonuses in the form of 50,683,800 shares. As a result of this distribution, the Company's interest was diluted to 33.0 percent, while its proportional share of ProMOS' shareholders' equity increased by € 53,425, which is reflected as non-operating income in the year ended September 30, 2000. On May 14, 2001, ProMOS shareholders approved the distribution of employee bonuses in the form of 47,299,535 shares. As a result of this distribution, the Company's interest was diluted to 32.5 percent while its proportional share of ProMOS' shareholders' equity increased by € 11,165, which is reflected as non-operating income in the year ended September 30, 2001.

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

Effective July 1, 2001, the Company acquired a 25 percent interest in Cryptomathic for € 10,000 in cash. This acquisition was made in conjunction with the strategic formation of a Security Solutions Group.

On July 20, 2000, the Company acquired an 20.1 percent interest in Aristos Logic Corp. for a total contribution of € 5,451. On March 26, 2001, the company exercised an option to convert a loan of € 4,717 to equity which increased the Company's ownership interest to 27.6 percent. Subsequently, the Company wrote off its investment in and advances to Aristos.

During the year ended September 30, 2001, the Company acquired an aggregate 25 percent interest in Newlogic for a total consideration of € 21,429.

In March 2001, the Company acquired an 20 percent interest in Ramtron for a total consideration of € 31,479, consisting of 443,488 ordinary shares and cash of € 10,632. Ramtron is a leading developer of specialty semiconductor memory products based in Colorado Springs, USA, and listed on the NASDAQ exchange under the symbol RMTR. The Company has accounted for its indirect interest in the shares of Infineon held by Ramtron as treasury stock, amounting to € 4,215 at September 30, 2001.

On March 30, 2000, the Company entered into the UMCi joint venture agreement with United Microelectronics Corporation ("UMC") to construct and operate a 300mm wafer semiconductor facility. The Company has received a 27.3 percent ownership interest in exchange for cash of € 65,567.

Included in the amount of long-term investments at September 30, 2001 is goodwill, net, of € 45,101 related to such investments.

The aggregate summarized financial information for the Associated Companies for the fiscal years 1999, 2000 and 2001, is as follows:

	1999[1]	2000	2001[2]
Sales	1,136,143	1,684,472	1,533,598
Gross profit	279,808	515,192	275,429
Net income	91,558	291,157	85,800
Current assets		955,568	1,188,227
Non-current assets		1,887,828	2,238,926
Current liabilities		(973,144)	(991,898)
Non-current liabilities		(332,008)	(472,388)
Shareholders' equity		1,538,244	1,962,867

[1] Includes sales, gross profit and net loss of White Oak of € 385,339, € 35,085, and € (17,946), respectively.
[2] Includes sales, gross profit and net income of Osram Opto of € 415,223, € 58,684 and € 9,274, respectively.

(12) OTHER ASSETS

Other non-current assets at September 30, 2000 and 2001 consist of the following:

	2000	2001
Intangible assets, net	221,759	436,523
Notes receivable	5,902	32,048
Marketable securites (note 7)	11,139	11,504
Other, net	14,605	1,294
Total	253,405	481,369

A summary of activity for intangible assets for the year ended September 30, 2001 is as follows:

	GOODWILL	OTHER INTANGIBLES	TOTAL
Cost			
September 30, 2000	138,972	273,815	412,787
Additions	8,720	83,495	92,215
Impairments and write-offs	(1,675)	(40,756)	(42,431)
Disposals	—	(7,137)	(7,137)
Consolidations	186,305	38,689	224,994
Foreign currency effects	(4,870)	(980)	(5,850)
September 30, 2001	327,452	347,126	674,578
Accumulated amortization			
September 30, 2000	(11,344)	(179,684)	(191,028)
Additions	(21,363)	(28,688)	(50,051)
Disposals	—	1,706	1,706
Consolidations	—	(383)	(383)
Foreign currency effects	777	924	1,701
September 30, 2001	(31,930)	(206,125)	(238,055)
Book value			
September 30, 2000	127,628	94,131	221,759
Book value			
September 30, 2001	295,522	141,001	436,523

(13) ACCOUNTS PAYABLE

Accounts payable at September 30, 2000 and 2001 consist of the following:

	2000	2001
Third party – trade	766,439	950,048
VAT and other taxes payable	80,803	88,595
Other	1,997	11,734
Total	849,239	1,050,377

(Euro in thousands, except where otherwise stated)

(14) ACCRUED LIABILITIES

Accrued liabilities at September 30, 2000 and 2001 consist of the following:

	2000	2001
Personnel costs	156,613	158,326
Accrual for restructuring (note 23)	—	81,473
Taxes	342,047	65,626
Warranties and licenses	141,949	83,287
Other	78,172	37,575
	718,781	426,287

(15) OTHER CURRENT LIABILITIES

Other current liabilities at September 30, 2000 and 2001 consist of the following:

	2000	2001
Payroll obligations and other liabilities to employees	183,463	173,686
Deferred income	12,682	74,960
Forward contracts payable	63,728	11,492
Other	40,075	89,490
	299,948	349,628

(16) OTHER LIABILITIES

Other non-current liabilities at September 30, 2000 and 2001 consist of the following:

	2000	2001
Pension obligations (note 20)	41,034	37,480
Deferred government grants	21,802	36,860
Deferred license and technology transfer fees (note 22)	13,643	16,270
Redeemable interest	175,715	195,922
Minority interest	—	17,704
Other	34,528	33,568
	286,722	337,804

(17) DEBT

Debt at September 30, 2000 and 2001 consists of the following:

	2000	2001
Short-term debt		
Notes payable to banks, weighted average rate 3.5 %	111,150	95,342
Current portion of long-term debt	27,200	21,186
Capital lease obligation	—	2,701
Total short-term debt and current maturities	138,350	119,229
Long-term debt		
Loans payable to banks		
– Unsecured term loans, weighted average rate 4.1 %, due 2001–2007	31,224	112,425
– Interest-free loan, due 2004	41,834	42,743
– Secured term loans, weighted average rate 6.6 %, due 2003	—	673
– Loans payable, weighted average rate 4.0 %, due 2004	—	6,914
Notes payable, weighted average rate 4.0 %, due 2003	16,602	10,773
Notes payable to governmental entity, rate 2.4 %, due 2027–2031	38,312	74,620
Capital lease obligation	—	828
Total long-term debt	127,972	248,976

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

The interest-free loan, due 2004, consists of borrowings under an arrangement whereby a governmental entity has agreed to pay all interest thereon. Additionally, should Infineon meet certain stipulations, the governmental entity has agreed to repay up to 75 percent of the outstanding balance of the loan on behalf of Infineon. However, all amounts outstanding under the loan are included as obligations of Infineon until the stipulations are achieved, at which time the reported obligations are reduced by the amount to be paid by the governmental entity.

At September 30, 2001, the company had € 74,620 of unsecured Industrial Revenue Bonds outstanding associated with the construction at the Infineon Richmond (previously White Oak) facility.

The Company has an € 729 million syndicated multicurrency revolving credit facility. The amount of the facility is divided into two equal tranches. The first tranche of € 375 million expires in March 2004. The second tranche of € 354 million expires in March 2002. Drawings under each tranche may be denominated in Euro or U.S. Dollar and will bear variable market rates of interest based on applicable reference rates plus a margin. This margin may vary based on the extent of the facility's utilization and the level of senior debt to earnings before interest, taxes, depreciation, and amortization ("senior debt ratio"). At September 30, 2001, there were no amounts outstanding under this facility.

The facility includes customary covenants including covenants, including covenants regarding the maintenance of a minimum tangible net worth, a senior debt ratio and an interest coverage ratio. The

Company was granted a waiver on the violation of certain financial covenants through December 31, 2001. The Company and the syndicate of financial institutions are currently negotiating amendments to the financial covenants as well as an extension of the € 354 million component of the facility, which expires in March 2002. There can be no assurance that these negotiations will be satisfactorily concluded. Accordingly, the revolving credit facility may not be available to the Company subsequent to December 31, 2001 unless these negotiations are satisfactorily concluded and the financial covenants are amended (see note 31).

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. These facilities (including the revolving credit facility of € 729 million) aggregate € 1,733 million, of which € 1,576 million was available at September 30, 2001, and are comprised of three components: The first component represents short-term facilities which are subject to firm commitments by financial institutions, for working capital, guarantees, and cash pooling purposes, aggregate € 937 million, of which € 842 million was available at September 30, 2001. The second component represents additional short-term facilities which are not subject to firm commitments by financial institutions, for working capital purposes, aggregate € 329 million, of which € 329 million was available at September 30, 2001. The third component represents long-term facilities with a maturity date of at least one year, which are subject to firm commitments by financial institutions, for working capital and project finance purposes, aggregate € 467 million, of which € 405 million was available at September 30, 2001.

In March 2001, the Company executed a mandate agreement with a financial institution for the arrangement of a € 450 million syndicated credit facility, relating to the construction of the Dresden 300mm manufacturing facility. The Company anticipates that the credit facility will be supported by partial guarantees from governmental entities and subject to specified financial covenants. The Company has received commitment letters from the guarantors and financial institutions and the closing of the facility is subject to the execution of documentation satisfactory to the financial institutions as well as customary closing procedures (see note 31).

Aggregate amounts of long-term debt including capital lease obligations maturing during the next five years and thereafter are as follows: 2002, € 23,887; 2003, € 22,650; 2004, € 77,877; 2005, € 33,257; 2006, € 31,478 and thereafter € 83,714.

(18) RELATED PARTIES

Infineon has transactions in the normal course of business with Siemens group companies and with Related and Associated Companies (together, “Related Parties”). Infineon purchases certain of its raw materials, especially chipsets, from and sells a significant portion of its products to Related Parties. Purchases and sales to Related Parties are generally based on market prices or manufacturing cost plus a markup.

Related Party receivables at September 30, 2000 and 2001 consist of the following:

	2000	2001
Siemens group – trade	104,409	132,525
Associated and Related Companies – trade	62,393	5,822
Siemens group – financial and other	49,295	25,499
Associated and Related Companies – financial and other	216,178	38,097
Employee receivables	6,850	6,330
	439,125	208,273

Related Party payables at September 30, 2000 and 2001 consist of the following:

	2000	2001
Siemens group – trade	92,055	136,732
Associated and Related Companies – trade	265,032	97,959
Siemens group – financial and other	7,594	1,717
Associated and Related Companies – financial and other	8,704	2,329
	373,385	238,737

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

Transactions with Related Parties during the years ended September 30, 1999, 2000 and 2001 include the following:

	1999	2000	2001
Sales to Related Parties:			
– Siemens group companies	963,251	1,089,022	900,745
– Associated and Related Companies	110,783	121,593	147,570
Purchases from Related Parties:			
– Siemens group companies	260,107	424,324	417,487
– Associated and Related Companies	841,631	1,183,378	1,039,530
Interest income from Related Parties	21,788	14,437	8,718
Interest expense to Related Parties	15,510	21,396	10,241

(Euro in thousands, except where otherwise stated)

Sales to Siemens group companies include sales to the Siemens group sales organizations for resale to third parties of € 366,730, € 326,356 and € 88,676 for the years ended September 30, 1999, 2000 and 2001, respectively. Sales to the Siemens group sales organizations for resale to third parties are made at discounts of approximately 5 percent to 8 percent. In January 2001, the Company completed the renegotiation of its compensation arrangements with the Siemens group sales organizations to cease the practice of selling at a discount to them for resale to third parties. 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.

In April 2001, Siemens provided the Company with an € 450 million unsecured short-term loan, bearing interest at 4.88 percent. The loan was repaid in September 2001.

Technical equipment is leased to ALTIS (see note 10). The non-cancelable future lease payments due under this lease at September 30, 2001 amount to € 31,006 for the year 2002, € 23,384 for the year 2003, and € 15,319 for the year 2004.

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

(19) INCOME TAXES

Income (loss) before income taxes and minority interests is attributable to the following geographic locations for the years ended September 30, 1999, 2000 and 2001:

	1999	2000	2001
Germany	(111,849)	1,297,902	(1,183,504)
Foreign	142,191	446,295	158,705
	30,342	1,744,197	(1,024,799)

Income tax (benefit) expense for the years ended September 30, 1999, 2000 and 2001 is as follows:

	1999	2000	2001
Current taxes			
Germany	10,668	448,496	23,246
Foreign	25,125	73,161	42,405
	35,793	521,657	65,651
Deferred taxes			
Germany	(66,968)	109,642	(490,585)
Foreign	1,066	(18,830)	(3,795)
	(65,902)	90,812	(494,380)
Income tax (benefit) expense	(30,109)	612,469	(428,729)

German corporate tax law applies a split-rate imputation system with regard to the taxation of the income of a corporation and its shareholders. In accordance with the tax law in effect for fiscal 1999, 2000 and 2001, retained corporate income is initially subject to a federal corporate tax rate of 40 percent in each of 1999, 2000 and 2001, plus a solidarity surcharge of 5.5 percent for each year on federal corporate taxes payable. Including the impact of the surcharge, the federal corporate tax rate amounted to 42.2 percent for the years ended September 30, 1999, 2000 and 2001, plus trade tax, net of federal benefit, of 9.8 percent for the years ended September 30, 1999, 2000 and 2001. Upon distribution of retained earnings to shareholders, the corporate income tax rate on such distributed earnings is adjusted to 30 percent, plus a solidarity surcharge of 5.5 percent in 1999, 2000 and 2001 for a total of 31.65 percent in 1999, 2000 and 2001. This reduction is effected by means of a refund for taxes previously paid, which is known as the dividend tax credit.

A reconciliation of income taxes for the years ended September 30, 1999, 2000 and 2001, determined using the German corporate tax rate plus trade taxes, net of federal benefit, for a combined statutory rate of 52 percent for 1999, 2000 and 2001, is as follows:

	1999	2000	2001
Expected provision (benefit) for income taxes	15,778	906,982	(532,895)
Dividend tax credit	—	(58,100)	—
Tax free income	(21,788)	(78,632)	(16,119)
Foreign tax rate differential	(65,726)	(149,908)	(91,035)
Non-deductible expenses and other provisions	3,172	721	40,896
Change in German tax rate – effect on opening balance	—	—	(28,027)
Change in German tax rate – effect on current year	12,654	—	153,840
Change in valuation allowance	18,282	(27,834)	17,798
In-process research and development	—	—	29,339
Other	7,519	19,240	(2,526)
Actual provision (benefit) for income taxes	(30,109)	612,469	(428,729)

Deferred income tax assets and liabilities as of September 30, 2000 and 2001 relate to the following:

	2000	2001
Assets		
Intangible assets	7,370	65,184
Investments	35,387	34,533
Inventories	65,901	30,241
Deferred income	105,092	83,805
Net operating loss and tax credit carry forwards	99,395	441,236
Other items	96,819	122,948
Gross deferred tax assets	409,964	777,947
Valuation allowances	(1,576)	(18,987)
Deferred tax assets	408,388	758,960
Liabilities		
Property, plant and equipment	275,401	179,721
Accrued liabilities	51,011	148,044
Other items	68,047	52,271
Deferred tax liabilities	394,459	380,036
Deferred tax assets, net	13,929	378,924

Net deferred income tax assets and liabilities are presented in the accompanying balance sheets as of September 30, 2000 and 2001 as follows:

		2000	2001
Deferred tax assets	Current	100,407	38,955
	Non-current	165,601	412,203
Deferred tax liabilities	Current	(74,634)	(19,487)
	Non-current	(177,445)	(52,747)
		13,929	378,924

For purposes of the preparation of the accompanying financial statements, Infineon has prepared its tax provision as if it were a separate entity for all periods prior to the Formation. Infineon recognized deferred tax benefits of € 65,902 and € 494,380 for the years ended September 30, 1999 and 2001, respectively. These benefits are recognized to the extent, it is considered more likely than not that such benefits will be realized in future years. These considerations include, but are not limited to, the ability under German tax law to carry forward incurred tax losses indefinitely and thereby offset taxable income in future years without limitation, tax planning strategies and estimates of future taxable income. These benefits were recognized based on management's belief that it would have been more likely than not that such benefits would have been utilized by Infineon in future years.

In 1999, Infineon incurred German tax losses in the amount of € 358,865. Such tax losses do not represent tax loss carry-forwards and did not result in deferred tax assets for Infineon at September 30, 1999, as such losses were incurred when the German operations were a division of Siemens, and therefore benefit Siemens. Accordingly, the related deferred tax benefit of € 180,832 is reflected as part of equity transactions with Siemens for the year ended September 30, 1999. At September 30, 2001, Infineon had tax loss carry-forwards of € 769,734 and tax credit carry-forwards of € 95,493. Such tax loss and credit carry-forwards from both German and non-German operations are generally limited to use by the particular entity that generated the loss or credit and do not expire under current law, except for tax loss carry forwards of € 90,701 which expire in 2020 and 2021.

During the year ended September 30, 2001, valuation allowances were established relating to the Malaysia operations for tax loss carry-forwards which management believes that it is more likely than not that they will not be fully utilized, due to the existence of tax credit carry forwards.

Infineon did not provide for income taxes or foreign withholding taxes on cumulative earnings of foreign subsidiaries for the years ended September 30, 1999, 2000 and 2001, respectively, because these earnings are intended to be indefinitely reinvested in those operations. It is not practicable to estimate the amount of unrecognized deferred tax liabilities for these undistributed foreign earnings.

The income tax (benefit) expense for 1999, 2000 and 2001 was allocated to continuing operations and accumulated other comprehensive income. The aggregate amounts allocated to equity, for unrealized gains (losses) on securities and minimum pension liabilities, was € (1,965), € 7,945 and € (15,625) for 1999, 2000 and 2001, respectively.

In October 2000, the German government passed new tax legislation which, among other changes, will reduce the Company's statutory tax rate in Germany from 40 percent on retained earnings and 30 percent on distributed earnings to a uniform 25 percent, effective for

(Euro in thousands, except where otherwise stated)

the company's year ending September 30, 2002. The impact of the various revisions in the new tax legislation was accounted for during the year ended September 30, 2001, the period of the enactment of the legislation, as required by SFAS No. 109, "Accounting for Income Taxes". The impact of the legislation, primarily reflecting the effect of the tax rate reduction on the Company's deferred tax balances at September 30, 2000, was to increase income tax benefit of € 28,027 for the year ending September 30, 2001.

(20) PENSION PLANS

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

Information with respect to Infineon's pension plans for the years ended September 30, 1999, 2000 and 2001 is presented by German ("Domestic") plans and non-German ("Foreign") plans.

	1999		2000		2001	
	DOMESTIC PLANS	FOREIGN PLANS	DOMESTIC PLANS	FOREIGN PLANS	DOMESTIC PLANS	FOREIGN PLANS
Change in projected benefit obligations:						
Projected benefit obligations beginning of year	(159,498)	(42,216)	(147,681)	(19,495)	(170,062)	(34,560)
Service cost	(9,109)	(1,191)	(10,443)	(5,840)	(12,379)	(2,314)
Interest cost	(9,570)	(802)	(9,018)	(3,181)	(11,235)	(2,298)
Actuarial gains (losses)	(4,766)	—	(3,911)	(867)	(5,809)	(3,404)
Business combinations	—	—	(338)	(614)	—	—
Plan amendments	—	—	—	—	—	4,114
Settlement of pension obligations	33,001	24,714	14	421	729	841
Benefits paid	2,261	—	1,315	8	2,169	—
Foreign currency effects	—	—	—	(4,992)	—	2,860
Projected benefit obligations end of year	(147,681)	(19,495)	(170,062)	(34,560)	(196,587)	(34,761)
Change in fair value of plan assets						
Fair value at beginning of year	—	5,116	—	5,640	154,696	9,347
Contributions and transfers	—	—	154,696	3	—	14,690
Actual return on plan assets	—	524	—	2,144	(21,834)	1,269
Foreign currency effects	—	—	—	1,560	—	(1,265)
Fair value at end of year	—	5,640	154,696	9,347	132,862	24,041
Funded status	(147,681)	(13,855)	(15,366)	(25,213)	(63,725)	(10,720)
Unrecognized actuarial gain	4,766	4,004	8,676	5,513	51,783	2,698
Unrecognized net obligation (asset)	5,208	(140)	3,472	(119)	1,734	—
Unrecognized prior service cost	—	157	—	169	—	136
Net liability recognized	(137,707)	(9,834)	(3,218)	(19,650)	(10,208)	(7,886)

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

	1999 Domestic plans	1999 Foreign plans	2000 Domestic plans	2000 Foreign plans	2001 Domestic plans	2001 Foreign plans
Prepaid pension cost	—	—	3,674	—	—	—
Restricted cash	—	—	14,492	—	—	—
Accumulated other comprehensive income	—	—	—	—	19,386	—
Accrued pension liability	(137,707)	(9,834)	(21,384)	(19,650)	(29,594)	(7,886)
Net liability recognized	(137,707)	(9,834)	(3,218)	(19,650)	(10,208)	(7,886)

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

	1999 Domestic plans	1999 Foreign plans	2000 Domestic plans	2000 Foreign plans	2001 Domestic plans	2001 Foreign plans
Discount rate	6.0 %	7.5 %	6.5 %	7.8 %	6.0 %	7.5 %
Rate of compensation increase	2.5 %	4.5 %	3.5 %–3.8 %	5.0 %	3.0 %	4.5 %
Expected return on plan assets		8.5 %		8.5 %	10.0 %	8.0 %

The components of net periodic pension (cost) benefit for the years ended September 30, 1999, 2000 and 2001 are as follows:

	1999 Domestic plans	1999 Foreign plans	2000 Domestic plans	2000 Foreign plans	2001 Domestic plans	2001 Foreign plans
Service cost	(9,109)	(1,191)	(10,443)	(5,840)	(12,379)	(2,314)
Interest cost	(9,570)	(802)	(9,018)	(3,181)	(11,235)	(2,298)
Return on plan assets	—	524	—	667	15,468	1,926
Amortization of prior service cost	—	(24)	—	82	—	(30)
Amortization of unrecognized gains	—	(127)	—	67	—	104
Amortization of unrecognized net obligation/asset	(1,736)	47	(1,737)	(203)	(1,736)	—
Net periodic pension (cost) benefit	(20,415)	(1,573)	(21,198)	(8,408)	(9,882)	(2,612)

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

Prior to 1999, Infineon was required to purchase investments to fund certain foreign pension payments. In March 1999, Infineon settled these pension obligations for € 18,573, resulting in a net gain of € 4,388.

On September 25, 2000, the Company established the Infineon Technologies Pension Trust (the "Pension Trust") for the purpose of funding future pension benefit payments for employees in Germany. The Company contributed € 154,696 of cash and marketable debt and equity securities, which qualify as plan assets under SFAS No. 87, to the Pension Trust for use in funding these pension benefit obligations, thereby reducing accrued pension liabilities (see note 16).

As of result of the employee terminations, in connection with the Company's restructuring plan (see note 23), it is anticipated that certain of the Company's defined benefit plans may be required to be accounted for as a partial curtailment pursuant to the provisions of SFAS No. 88 "Employers Accounting for Settlements and Curtailments of Defined Benefit Pension Plans and for Termination Benefits." However, as of September 30, 2001, the extent of the effect of the curtailment on the Company's pension obligations is not presently quantifiable as the identification of specific employees subject to the involuntary termination plan has not been completed. Accordingly, the impact of any potential defined benefit plan curtailment gain or loss will be recognized upon the ultimate indemnification of specific employees effected by the plan of termination and the completion of the actuarial re-measurement of the related pension obligation.

(Euro in thousands, except where otherwise stated)

(21) GOVERNMENT GRANTS AND SUBSIDIES

Infineon has received economic development funding from various governmental entities, including grants for the construction of manufacturing facilities, grants to subsidize research and development activities, employee training and interest expense. Grants and subsidies included in the accompanying financial statements during the years ended September 30, 1999, 2000 and 2001 are as follows:

	1999	2000	2001
Included in the statements of operations			
Interest subsidies	41,523	62,385	378
Research and development	33,067	41,172	71,240
Other	17,789	11,090	9,606
Total	92,379	114,647	81,224
Construction grants deducted from the cost of fixed assets	642	123	11,080

(22) LICENSE AND TECHNOLOGY TRANSFER FEES

During the years ended September 30, 1999, 2000, and 2001, Infineon recognized revenues related to license and technology transfer fees of € 46,343, € 175,759 and € 88,228, respectively, which are included in net sales in the accompanying statements of operations. Infineon received payments of € 144,984 from ProMOS through 1999, which have been recorded as deferred revenue and are offset against the related investment (see note 11) in the accompanying balance sheets. In March 2000, the Company entered into new technology transfer agreements with ProMOS and restructured existing agreements with MVI, the majority shareholder of ProMOS. As part of these agreements, previously unrecognized license fees of $108 million due from MVI were rescheduled and will be recognized as revenue over the life of the new contracts. In conjunction with the restructured agreements, license fees previously received but deferred of € 138,045 were recognized as revenue in the year ended September 30, 2000, since the Company had fulfilled all of its obligations and all such amounts were realized.

(23) RESTRUCTURING

In the quarter ended September 30, 2001, in response to continued weakness in the technology sector worldwide, Infineon approved plans to restructure the organization and reduce costs. Infineon is implementing changes to streamline its procurement and logistics processes as well as reduce information technology and manufacturing costs. These changes are intended to improve operational efficiencies and improve the entire management of the product procurement and order fulfillment cycles. Accordingly, the Company announced plans to reduce worldwide headcount by approximately 5,000 employees. As of September 30, 2001, the Company has signed termination agreements with approximately 2,000 personnel.

Restructuring charges of € 116,505 were expensed during the year ended September 30, 2001. This charge is comprised of € 56,835 relating to involuntary employee terminations, € 43,420 relating to both previously capitalized expenditures (€ 27,145) and related exit costs (€ 16,275) associated with the discontinuance of a worldwide information technology project and € 16,250 of other exit costs.

Components of the restructuring charge and amounts paid during the period and the remaining accrued liability as of September 30, 2001, are as follows:

	RESTRUCTURING CHARGE	PAYMENTS	ACCRUED LIABILITY
Employee terminations	56,835	3,740	53,095
Other exit costs	32,525	4,147	28,378
	89,360	7,887	81,473
Write-off of IT project costs	27,145		
Total charge	116,505		

Infineon anticipates completing the remainder of the headcount reduction and all exit activities associated with the restructuring by September 30, 2002.

(24) SUPPLEMENTAL OPERATING COST INFORMATION

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

	1999	2000	2001
Raw materials, supplies and purchased goods	1,701,610	2,046,727	2,044,446
Purchased services	656,895	1,022,698	1,357,338
Total	2,358,505	3,069,425	3,401,784

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

	1999	2000	2001
Wages and salaries	910,713	1,263,165	1,511,309
Social levies	139,478	183,668	239,519
Pension expense	21,988	29,606	12,494
Total	1,072,179	1,476,439	1,763,322

The number of employees by geographic region is as follows as of September 30:

	1999	2000	2001
Germany	12,853	14,247	16,814
Other Europe	2,842	3,409	5,007
USA	2,563	2,838	3,023
Asia/Pacific	7,521	8,672	8,949
Other	0	0	20
Total	25,779	29,166	33,813

As of September 30, 2001, approximately 3,000 employees are to be terminated in connection with the restructuring (see note 23).

(25) SUPPLEMENTAL CASH FLOW INFORMATION

	1999	2000	2001
Cash paid for			
Interest	68,743	90,138	126,132
Income taxes	5,995	211,060	282,259
Non-cash investing and financing activities			
Contributions from (to) Siemens	3,516,375	12,267	(11,050)
Deferred tax benefits transferred to Siemens	(153,565)	—	—
Equipment transferred to Associated Company	47,700	—	—

The proceeds from the sale of the Company's interest in Osram Opto (see note 4) is reflected under net cash provided by financing activities as a capital contribution. The excess purchase price of € 392,310 is net of deferred tax of € 140,510.

(26) OTHER COMPREHENSIVE INCOME (LOSS)

The changes in the components of other comprehensive income (loss) for the years ended September 30, 1999, 2000 and 2001 are as follows:

	1999			2000			2001		
	PRETAX	TAX EFFECT	NET	PRETAX	TAX EFFECT	NET	PRETAX	TAX EFFECT	NET
Unrealized gains (losses) on securities Unrealized holding gains (losses)	(3,698)	1,886	(1,812)	12,959	(6,059)	6,900	(3,157)	1,709	(1,448)
Reclassification adjustment for (gains) losses included in net income (loss)	(182)	79	(103)	3,698	(1,886)	1,812	(12,959)	6,059	(6,900)
Net unrealized gains (losses)	(3,880)	1,965	(1,915)	16,657	(7,945)	8,712	(16,116)	7,768	(8,348)
Additional minimum pension liability	—	—	—	—	—	—	(19,386)	7,857	(11,529)
Foreign currency translation adjustment	49,106	—	49,106	105,085	—	105,085	(19,032)	—	(19,032)
Other comprehensive income (loss)	45,226	1,965	47,191	121,742	(7,945)	113,797	(54,534)	15,625	(38,909)
Accumulated other comprehensive income (loss) – beginning of year	(48,418)	(81)	(48,499)	(3,192)	1,884	(1,308)	118,550	(6,061)	112,489
Accumulated other comprehensive income (loss) – end of year	(3,192)	1,884	(1,308)	118,550	(6,061)	112,489	64,016	9,564	73,580

(Euro in thousands, except where otherwise stated)

(27) STOCK-BASED COMPENSATION

Fixed Stock Option Plan

In 1999, the shareholders approved a share option plan ("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 may grant options over a five-year period to members of the Management Board for up to 2.25 million ordinary shares, directors of subsidiaries and affiliates for up to 6 million ordinary shares, and other eligible employees for up to 39.75 million ordinary shares. The exercise price of each option equals 120 percent of the average closing price of the Company's stock during the five trading days prior to the date of grant. Options vest at the latter of two years from the grant date or the date on which the Company's stock reaches the exercise price for at least one trading day. Options expire 7 years from the grant date.

On April 6, 2001, the shareholders approved the International Long-Term Incentive Plan ("LTI 2001 Plan"), which replaces the LTI 1999 Plan. Options previously issued under the LTI 1999 Plan remain unaffected as to terms and conditions. Pursuant to the provisions of the LTI 2001 Plan, an aggregate of 51.5 million options can be granted within a five-year period. Options, once granted, have a vesting period of at least two years and can be exercised within seven years of the grant date at an exercise price of 105 percent of the average market price of the Company's shares over a specified period preceding the grant date.

Under the LTI 2001 Plan, the Supervisory Board will decide annually within three months after publication of 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.

The fair value of each option grant is estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted-average assumptions used for grants in 2000: dividend yield of 0 percent; expected volatility of 45 percent; risk-free interest rate of 5.46 percent; and expected life of 4.5 years. Weighted-average assumptions used for grants in 2001 are as follows: dividend yield 0 percent; expected volatility 50 percent; risk-free interest rate of 5.35 percent; and expected life of 4.5 years.

A summary of the status of the LTI 1999 Plan and the LTI 2001 Plan as of September 30, 2000 and 2001, and changes during the year then ended is presented below:

	SEPTEMBER 30, 2000		SEPTEMBER 30, 2001	
	SHARES	WEIGHTED AVERAGE EXERCISE PRICE	SHARES	WEIGHTED AVERAGE EXERCISE PRICE
Outstanding at beginning of year	—	—	5,469,468	€ 42.15
Granted	5,556,268	€ 42.15	6,013,060	€ 54.15
Exercised	—	—	—	—
Forfeited	(86,800)	€ 42.00	(214,650)	€ 43.82
Outstanding at end of year	5,469,468	€ 42.15	11,267,878	€ 48.56

The weighted average fair value of each option granted during the year ended September 30, 2001, was € 24.18.

The following table summarizes information about stock options outstanding at September 30, 2001:

RANGE OF EXERCISE PRICES	OUTSTANDING	WEIGHTED AVERAGE REMAINING CONTRACTUAL LIFE	WEIGHTED AVERAGE EXERCISE PRICE
€ 27.54	175,500	6.93 years	€ 27.54
€ 42.00	5,278,468	5.45 years	€ 42.00
€ 44.95 – € 47.34	93,500	6.41 years	€ 45.08
€ 53.26 – € 55.87	5,702,410	6.52 years	€ 55.11
€ 90.85	18,000	5.84 years	€ 90.85
	11,267,878		

No options were exercisable at September 30, 2001.

As described in note 2, the Company applies APB Opinion 25 and related interpretations in accounting for stock-based compensation. Accordingly, no compensation expense has been recognized for the LTI 1999 and 2001 Plans. Had compensation expense been determined based on the fair value provisions of SFAS No. 123, the Company's net income (loss) and earnings (loss) per share would have been reduced to the pro forma amounts indicated below:

	2000	2001
Net income (loss)		
As reported	1,125,585	(590,581)
Pro forma	1,115,763	(637,587)
Basic and diluted earnings (loss) per share		
As reported	1.83	(0.92)
Pro forma	1.81	(1.00)

Employee Stock Purchase Plan

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

In May 2001, the Company implemented a worldwide employee stock purchase plan in accordance with the provisions of United States Internal Revenue Code Section 423, which generally provides the employees with a discount of 15 percent for purchases of ordinary shares up to a maximum of 80 shares per employee subject to a one year holding period. Pursuant to the provisions of this plan, employees purchased 11,892 shares.

(28) FINANCIAL INSTRUMENTS

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

The Euro equivalent notional amounts and fair values of the Company's derivative instruments as of September 30, 2000 and 2001 are as follows:

	2000		2001	
	NOTIONAL AMOUNT	FAIR VALUE	NOTIONAL AMOUNT	FAIR VALUE
Forward contracts sold				
U.S. Dollar	1,114,330	(6,078)	1,377,151	61,687
Japanese Yen	–	–	136,187	6,930
Singapore Dollar	79,254	(3,015)	–	–
British Pound	4,140	4	6,780	234
Forward contracts purchased				
U.S. Dollar	107,425	1,314	261,228	(7,599)
Japanese Yen	32,050	597	43,989	(1,053)
Singapore Dollar	–	–	25,797	(416)
British Pound	3,250	6	6,619	(75)
Other currencies	146,772	(865)	64,382	(920)
Option contracts sold				
U.S. Dollar	450,000	–	–	–
Option contracts purchased				
U.S. Dollar	470,219	(39,402)	–	–
Cross currency interest rate swap				
U.S. Dollar	–	–	615,950	58,695

As of September 30, 2000 and 2001, the carrying amounts and the fair values of the forward and option contracts are the same.

Gains related to foreign currency derivatives and foreign currency transactions amounted to € 41,613, € 183,589 and € 34,323, for the years ended September 30, 1999, 2000 and 2001, respectively. Gains and losses on derivative financial instruments are generally included in determining net income, with those related to operations included primarily in cost of goods sold, and those related to financial activities included in other income or expense.

(Euro in thousands, except where otherwise stated)

Fair values of financial instruments are determined using quoted market prices or discounted cash flows. The fair value of Infineon's unsecured term loans and interest-bearing notes payable approximate their carrying values as their interest rates approximate those which could be obtained currently. Due to the restrictions in the transferability under the interest free arrangement, a fair value other than the carrying value of the interest-free loan is not meaningful. The fair values of Infineon's cash and cash equivalents, receivables, related party receivables and payables and other financial instruments approximate their carrying values due to their short term nature. The fair values of marketable securities are provided in note 7.

(29) RISKS

Financial instruments that expose Infineon to credit risk consist primarily of trade receivables and currency derivatives. Concentrations of credit risks with respect to trade receivables are limited by the large number of geographically diverse customers and Infineon's credit approval and monitoring procedures. The concentration of credit risk with respect to foreign currency derivatives is limited by transactions with multiple banks up to pre-established limits. Related Parties account for a significant portion of sales and trade receivables.

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

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

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

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

(30) COMMITMENTS AND CONTINGENCIES

On August 7, 2000 and August 8, 2000, Rambus Inc. ("Rambus"), filed separate actions against the Company in the United States and Germany. Rambus alleges that the Company has infringed patents owned by Rambus that relate to the SDRAM and DDR DRAM products. The SDRAM product is a significant component of the Company's DRAM product line. If the Company were to be enjoined from producing SDRAM and DDR DRAM products, the Company's financial position and results of operations would be materially and adversely affected, as the Company would have to discontinue the SDRAM and DDR DRAM product lines or enter into a licensing arrangement with Rambus, which could require the payment of substantial licensing fees. The affected products currently constitute substantially all of the products of the Memory Products segment. On May 4, 2001, and May 9, 2001, the Federal District Court for the Eastern District of Virginia dismissed all of Rambus' patent infringement claims against the Company. In addition, the court found that Rambus committed fraud by its conduct in the standard setting organization of JEDEC and awarded damages to Infineon. Should Rambus appeal, the Company cannot conclude as to the likelihood of an unfavorable outcome on appeal or whether the Company will ultimately prevail in the matter.

The initial hearings on the German action commenced in May 2001. In its brief on February 9, 2001, Rambus amended its initial injunctive relief complaint to include a request for payment of damages for alleged infringement of the patents. No amount of damages have yet been declared. The initial hearing took place on May 18, 2001, at which time the Court noted the decisions of the parallel infringement suit in the United States. The Court is currently in the process of appointing a technical expert to assist in deciding upon the infringement issue. The Company believes that it has meritorious defenses and intends to vigorously defend itself in this matter.

In October 1999, Deutsche Telekom AG ("DT") notified the Company of a potential contractual warranty claim in respect of chips supplied by the Company for DT calling cards. The claim relates to damages allegedly suffered by DT as a result of such cards being fraudulently reloaded by third parties. DT originally alleged damages of approximately € 90,000 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, DT brought an action in court against Siemens alone, and increased the alleged amount of damages to approximately € 125,000. Should Siemens be found liable, the Company could be responsible for payments to Siemens in connection with certain indemnifications provided to Siemens at the Formation. The Company has investigated the DT claim and believes that it is without merit. The Company does not anticipate that a material adverse effect on the Company's financial position, results of operations or cash flows will result in connection with the DT claim.

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

In connection with the Formation, Siemens retained certain facilities located in the United States 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.

Since 1994, Infineon has received an aggregate of approximately € 498,203 in government grants and subsidies related to the construction and financing of certain of its production facilities. These amounts are recognized based on the attainment of specified milestone criteria, and where the fulfillment of the total project requirements is reasonably assured through planned and committed spending levels, employment and other factors. The Company is committed to meeting these requirements; nevertheless, should the total project requirements not be met, a portion of these subsidies could be refundable.

Infineon has entered into capacity reservation agreements with certain silicon foundries for the manufacturing and testing of semiconductor products. These agreements generally have a standard length of one to two years and are renewable. Under the terms of these agreements, Infineon has agreed to purchase certain minimum quantities at specified prices. Additionally, under product purchase agreements with ProMOS and ALTIS, Infineon has agreed to buy 38 percent (on a net basis) and 50 percent of their respective total annual production output based, in part, on market prices. With respect to ProMOS, the agreed capacity refers to substantially all production based on the Company's licensed technology, net of the portion sold to MVI. Upon the completion of the installation of 300mm manufacturing equipment at ProMOS, Infineon's commitment to purchase production output will be increased to 48 percent. Purchases under these agreements are recorded as incurred in the normal course of business. The Company assesses its anticipated purchase requirements on a regular basis to meet customer demand for its products. An assessment of losses under these agreements is made on a regular basis in the event that either budgeted purchase quantities fall below the specified quantities or market prices for these products fall below the specified prices.

In March 2000, the Company entered into a commercial agreement and a memory supply agreement with Intel. These agreements require the commissioning of the Company's new 300mm facility by April 1, 2003, and the availability of capacity and product to Intel. If the new facility is not commissioned by that date, Intel would be entitled to a portion of the Company's then existing production capacity and monetary damages of $ 50 million if the Company's average share price fell below a stipulated value after April 1, 2003. The facility is currently scheduled to be commissioned in the first half of calendar year 2002.

As a result of the Formation, the Company has agreed to indemnify Siemens against any losses relating to certain guarantees of financing arrangements that were transferred to the Company. At September 30, 2001, these arrangements include:

- a guarantee of a letter of credit in the amount of € 313,400 issued to cover contingent liabilities to repay government grants in respect of the Dresden facility;
- a guarantee of indebtedness of ProMOS in the amount of $ 145 million which indebtness contains a cross-default provision to another credit agreement.

On September 7, 2001, ALTIS executed a bridge loan facility with a financial institution in the amount of € 450,000 with a maturity date of December 28, 2001, of which € 370,000 was outstanding at September 30, 2001. ALTIS is in negotiations with a syndicate of financial institutions to refinance the bridge facility prior to its maturity date. Pursuant to this facility, the shareholders of ALTIS, IBM and Infineon, have guaranteed the repayment of any amounts outstanding under the bridge facility if a refinancing is not completed by December 28, 2001. The Company's share of this guaranty was € 185,000 as of September 30, 2001. There can be no assurances that the negotiations to refinance the bridge facility will be successful.

In connection with the formation of the UMCi joint venture, the Company has provided UMC with an irrevocable proxy to vote one-half of its ownership interest on specified governance and operational matters, and agreed to contribute, in periods subsequent to September 30, 2001, specified technology and aggregate cash capital contributions of approximately $ 481 million. Additionally, the Company has entered into a foundry capacity agreement with the UMCi joint venture which provides for certain minimum purchase volume commitments.

Total rental expenses under operating leases amounted to € 128,692, € 131,348 and € 181,302 for the years ended September 30 1999, 2000, and 2001, respectively. Future minimum lease payments under non-cancelable operating lease agreements with initial or remaining terms in excess of one year at September 30, 2001 are as follows: 2002, € 83,976; 2003, € 72,794; 2004, € 49,634; 2005, € 46,612; 2006, € 20,987, and € 94,036 for the remaining years.

(31) SUBSEQUENT EVENTS

On November 28, 2001, the European Commission announced an inquiry into whether proposed subsidies (aggregating € 219,000) applied for, but not yet received, by the Company with the Federal Republic of Germany and another governmental entity relating to the expansion of the Dresden manufacturing facility are in accordance with European Union directives. The Company recognizes such subsidies only when received. The Company believes that its application for such subsidies is appropriate and that the ultimate resolution of the inquiry will not have a material adverse effect on the Company's financial position or results of operations.

Through November 29, 2001, the Company received commitment letters and agreed on documentation for a € 450,000 syndicated credit facility relating to the expansion of the Dresden manufacturing facility. The credit facility is supported by a partial guarantee of the Federal Republic of Germany and another governmental entity. The Company does not believe that this guarantee will be impacted by the aforementioned European Commission inquiry. The proceeds of the credit facility are to be utilized to fund advances previously made by the Company to construct a new 300mm manufacturing facility at Dresden. The credit facility contains specified financial covenants, provides for annual payments of interest and matures on September 30, 2005. The credit facility is subject to customary closing procedures.

On November 29, 2001, the Company received commitment letters for € 580,000 from a syndicate of financial institutions participating in the Company's existing revolving credit facility (see note 17), authorizing an amendment to the facility. The amendment extends the maturity date of the short-term tranche of the facility (previously € 354,000) from its original maturity date of March 2002 to November 2002. Additionally, the amendment provides for revised financial covenants. The amendment is subject to execution of documentation satisfactory to the financial institutions and customary closing procedures. The Company is further negotiating with the remaining financial institutions in the existing syndicate, and, if necessary, additional financial institutions, for commitments to participate in the syndicated facility to increase the total amount of the facility to its original amount of € 750,000.

(Euro in thousands, except where otherwise stated)

(32) OPERATING SEGMENT AND GEOGRAPHICAL INFORMATION

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

Infineon operates primarily in five major operating segments, four of which are application focused: Automotive and Industrial, Wireline Communications, Wireless Communications, and Security and Chip Card ICs, and one of which is product focused: Memory Products. Further, certain of Infineon's remaining activities for product lines sold 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.

Prior to the 2001 financial year, the Security and Chip Card ICs segment did not meet the requirements of a reportable segment. For the 2001 financial year, the Security and Chip Card ICs segment is identified as a reportable segment and, due to its continuing significance, is reported separately pursuant to the requirements of SFAS No. 131, with prior period segment information restated for comparative purposes.

The Company reorganized certain of its business units during the 2001 financial year to better reflect its customer and market profiles. Effective October 1, 2000, the Other Operating Segment includes the results of certain activities previously reported under Corporate and Reconciliation, the Image & Video and the Infrared Components Businesses (both previously reported under Wireline Communications) as well as the gains on their disposals. The segment results for the 1999 and 2000 financial years have been reclassified to be consistent with the reporting structure and presentation of the 2001 financial year, and to facilitate analysis of current and future operating segment information.

Each of these segments has a segment manager reporting directly to the Chief Operating Officer and Chief Financial Officer, who have been identified as the Chief Operating Decision Maker ("CODM"). The CODM makes decisions about resources to be allocated to the segments and assesses their performance using revenues and earnings before interest, minority interests and taxes. Infineon does not identify or allocate assets to the operating segments nor does the CODM evaluate the segments on these criteria on a regular basis, except that the CODM is provided information regarding certain inventories on an operating segment basis.

The accounting policies of the segments are substantially the same as described in the summary of significant accounting policies (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 segments. Infineon does, however, allocate depreciation expense to the operating segments based on production volume and product mix using standard costs in order to obtain a measure of earnings before interest and taxes on a segment basis.

Information with respect to Infineon's operating segments follows:

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

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

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

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

Security and Chip Card ICs
The Security and Chip Card ICs segment develops, manufactures and markets security controllers, security memories and other semiconductors and system solutions for use in applications requiring special security features such as banking, telecommunications, access control, identification and other security-sensitive applications.

Other Operating Segments
Certain remaining activities for product lines sold as well as new business activities are included in the Other Operating Segments. In August 2001, the company sold its interest in Osram Opto to Osram (see note 4).

The following tables present selected segment data for the years ended September 30, 1999, 2000 and 2001:

	1999	2000	2001
Net sales			
Automotive and Industrial	665,405	880,151	1,098,502
Wireline Communications	498,536	664,281	768,381
Wireless Communications	864,993	1,221,140	997,049
Memory Products	1,405,885	3,473,306	1,587,568
Security and Chip Card ICs	276,408	374,585	588,116
Other Operating Segments	446,845	578,638	574,957
Corporate and Reconciliation	79,221	90,497	56,150
Total	4,237,293	7,282,598	5,670,723

	1999	2000	2001
Earnings (loss) before interest, minority interests and taxes			
Automotive and Industrial	22,778	69,294	144,684
Wireline Communications	21,643	46,465	(94,884)
Wireless Communications	181,897	261,289	(178,341)
Memory Products	(237,854)	1,336,393	(930,787)
Security and Chip Card ICs	24,237	49,296	27,356
Other Operating Segments	33,928	27,216	187,817
Corporate and Reconciliation	(59,670)	(120,445)	(180,059)
Total	(13,041)	1,669,508	(1,024,214)

	1999	2000	2001
Depreciation and Amortization			
Automotive and Industrial	100,469	117,225	152,677
Wireline Communications	53,550	61,147	97,750
Wireless Communications	82,052	135,221	167,332
Memory Products	267,249	389,127	588,580
Security and Chip Card ICs	25,922	51,659	81,206
Other Operating Segments	37,218	79,277	34,185
Corporate and Reconciliation	6,608	—	—
Total	573,069	833,656	1,121,730

	1999	2000	2001
Equity in earnings of associated companies			
Automotive and Industrial	—	—	—
Wireline Communications	—	—	85
Wireless Communications	—	—	—
Memory Products	23,462	81,616	11,739
Security and Chip Card ICs	—	—	—
Other operating Segments	7,786	9,027	646
Corporate and Reconciliation	2,515	10,660	12,358
Total	33,763	101,303	24,828

	1999	2000	2001
Inventories			
Automotive and Industrial	82,625	129,650	173,596
Wireline Communications	16,599	54,936	101,109
Wireless Communications	78,075	118,311	121,434
Memory Products	303,502	358,594	267,044
Security and Chip Card ICs	12,782	36,124	69,634
Other Operating Segments	18,629	35,095	48,830
Corporate and Reconciliation	164,760	108,104	100,263
Total	676,972	840,814	881,910

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 raw material of the back-end facilities ("chip stock") and finished goods are attributable to the operating segments and included in the segment information reported to the CODM.

(Euro in thousands, except where otherwise stated)

In 2001, the Company revised its method of reporting excess capacity costs for segment reporting purposes. Previously, all excess capacity costs, if any, were allocated to the segments based on the variance between originally forecasted purchases and actual purchases. The Company has revised the method to allocate 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 will be included in Corporate and Reconciliation. This change did not affect prior periods. The Company believes that this method better reflects the responsibilities of the segment management and is consistent with the practices of independent foundries, and more appropriately reflects the segment operating results.

Certain items are included in Corporate and Reconciliation and are not allocated to the segments. These include 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 are recognized by the segments when paid, which can differ from the period originally recognized by Corporate and Reconciliation. For the year ended September 30, 2001, Corporate and Reconciliation includes unallocated excess capacity costs of € 27,001, restructuring charges of € 116,505, corporate information technology development costs and charges of € 71,200.

The following is a summary of operations by geographic area for 1999, 2000 and 2001:

	1999	2000	2001
Net sales			
Germany	1,241,375	1,611,862	1,745,314
Other Europe	1,203,106	1,646,557	1,260,285
USA	826,824	1,814,448	1,261,354
Asia/Pacific	899,320	2,099,834	1,308,551
Other	66,668	109,897	95,219
Total	4,237,293	7,282,598	5,670,723

	1999	2000	2001
Long-lived assets			
Germany	1,686,514	2,296,904	3,454,016
Other Europe	651,188	789,427	1,006,263
USA	1,031,691	1,312,191	1,551,053
Asia/Pacific	128,867	310,414	349,956
Other	46,101	11,117	7,481
Total	3,544,361	4,720,053	6,368,769

Revenues from external customers are based on the customers' billing location. Accordingly, there are no sales transactions between operating segments. Long-lived assets are those assets located in each geographic area.

Except for sales to Siemens, which are discussed in note 18, no single customer accounted for more than 10 percent of Infineon's sales during the years ended September 30, 1999, 2000 and 2001. Sales to Siemens are made primarily by the Wireline Communications and Wireless Communications segments.

ADDITIONAL INFORMATION TO THE U.S. GAAP CONSOLIDATED FINANCIAL STATEMENTS PURSUANT TO HGB SECTION 292A

SIGNIFICANT DIFFERENCES BETWEEN GERMAN GAAP AND U.S. GAAP

Introduction
Infineon Technologies AG, as a German holding company, is subject to the German Commercial Code ("Handelsgesetzbuch", or "HGB"), which principally requires the Company to prepare consolidated financial statements in accordance with the HGB accounting principles and regulations ("German GAAP"). Pursuant to HGB Section 292a, the Company is exempt from this requirement, if consolidated financial statements are prepared and issued in accordance with a body of internationally accepted accounting principles (such as U.S. GAAP). Accordingly, the Company has prepared its consolidated financial statements in accordance with the U.S. GAAP. The following is a description of the significant differences between German GAAP and U.S. GAAP.

Fundamental Differences
The emphasis of U.S. GAAP is to provide all relevant information to investors in order to facilitate future investment decisions. Additionally, as an U.S. listed entity, the Company must adhere to certain accounting and reporting requirements as prescribed by the U.S. Securities and Exchange Commission. The primary difference between German GAAP and U.S. GAAP is that they are based on different concepts. German GAAP is oriented towards the protection of creditors and an emphasis on the prudence concept.

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

Financial Statement Presentation
The balance sheet presentation under U.S. GAAP is based on the planned realization of assets and the maturity of liabilities in the normal course of business. The balance sheet presentation under German GAAP is principally defined in HGB section 266, and is based on enterprise's planned holding time for the respective asset, liability or equity.

Revenue Recognition
Revenue recognition is generally the same under German and U.S. GAAP, whereby revenue is recognized when realized and earned. Differences in the timing of recognition can exist in transactions when the Company retains on-going financial, operational or performance commitments or the contractual amounts are not objectively verifiable.

Marketable Securities
Under German GAAP, marketable debt and equity securities are valued at the lower of acquisition cost or fair market value as of the balance sheet date. Under U.S. GAAP, the Company's marketable securities are classified as available for sale and valued at fair market value as of the balance sheet date. Unrealized gains and losses are reported in other comprehensive income net of deferred taxes.

Inventories
Inventory valuation is based on manufacturing costs under both German and U.S. GAAP. Manufacturing costs under U.S. GAAP are defined as production costs on a full absorption basis, whereby manufacturing overhead is included together with material and other direct manufacturing costs. Under German GAAP, certain overhead costs can be excluded from the valuation of inventory.

Goodwill
Under U.S. GAAP, pursuant to SFAS No. 141, "Business Combinations", in connection with SFAS No. 142, "Goodwill and other Intangible Assets", goodwill arising from business combinations accounted for as a purchase after June 30, 2001, is no longer amortized. Under German GAAP, such goodwill is amortized over its estimated useful life.

In-process Research and Development
Under German GAAP, in-process research and development projects acquired in a business combination are not specifically identified but rather included as part of goodwill. Under U.S. GAAP, acquired in-process research and development is specifically identified, valued, and charged to expense at the date of acquisition.

Financial Instruments
Under German GAAP, derivative financial instruments are not recorded on the balance sheet. Unrealized gains are not recognized and unrealized losses are accrued. Under U.S. GAAP, derivative financial instruments are recorded on the balance sheet at their fair value. Changes in fair value are recorded in current earnings or other comprehensive income, depending on whether the derivative financial instrument is designated as part of a hedge transaction and the type of hedge transaction.

Deferred Taxes
The main difference in accounting for deferred taxes relates to the fact that under German GAAP deferred tax assets are not recorded for net operating losses. Under U.S. GAAP, deferred tax assets are recorded for net operating losses and a valuation allowance is established when it is deemed "more likely than not" that the deferred tax asset will not be realized.

Pension Provisions and Similar Obligations
Under U.S. GAAP, pension obligations are recognized based on the projected benefit obligation using the projected unit credit method. This is also permitted under HGB. Under U.S. GAAP, establishing and funding a trust, independent of the company, results in a corresponding reduction in pension obligations from the balance sheet. Under German GAAP, pension assets and obligations are recorded gross on the balance sheet until such obligations are legally settled.

Stock-based Compensation
Under German GAAP, the company recognizes as expense the difference between the fair market value of the Infineon shares and the exercise price of the stock options, if the fair market value is higher. Under U.S. GAAP, the company accounts for stock-based compensation on the intrinsic value method pursuant to APB Opinion 25 which does not result in a compensation charge if the fair market value of the stock does not exceed the exercise price of the option on the measurement date.

Equity Offering Costs
Under German GAAP, direct costs incurred in connection with equity offerings are expensed, while under U.S. GAAP such costs are charged to additional paid-in capital.

Accrued Liabilities
Under German GAAP, certain costs can be accrued for anticipated future events in certain circumstances. Under U.S. GAAP, recognition of an accrued liability represents an existing liability to third parties or must meet very specific recognition criteria.

Foreign Currency Translation
Under German GAAP, foreign currency denominated assets and liabilities are recorded at spot rate on the transaction date, with only unrealized losses reflected in income at the balance sheet date. Under U.S. GAAP, foreign currency denominated assets and liabilities are translated at the spot rate at the balance sheet date, with both unrealized gains and losses reflected in income.

Government Subsidies
Under German GAAP, non-taxable investment subsidies and interest subsidies can be recognized in income when received. Under U.S. GAAP, these amounts are deferred and recognized in income during the periods in which the related expense is incurred.

Equity Method Accounting
Under German GAAP, consolidated financial statements could include the equity in earnings of Associated Companies based on the local accounting principles. Under U.S. GAAP equity in earnings is determined pursuant to U.S. GAAP.

Gain on Associated Company Share Issuance
Under German GAAP, a capital increase of an Associated Company which increases the proportional valuation of the Company's investment is reflected in income. Under U.S. GAAP and specific SEC regulations, income recognition is subject to additional criteria which, if not met, requires recognition as an adjustment to shareholders' equity.

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 SC 300 GmbH & Co. KG, Dresden
- Ingentix GmbH & Co. KG, Munich
- EUPEC Europäische Gesellschaft für Leistungshalbleiter mbH & Co. KG, Warstein-Belecke
- Infineon Technologies Immobilien Regensburg GmbH & Co. KG

Infineon Ventures GmbH, Munich, has entered into a profit-transfer agreement with Infineon Technologies AG and also utilizes the exemption pursuant to HGB section 264 par 3.

Board of Directors*
The remuneration of the Supervisory Board for the year ended September 30, 2001 was 463,000 Euro. In addition, the members of the Supervisory Board receive 1,500 share appreciation rights each. The total remuneration of the Management Board for the year ended September 30, 2001 consists of fixed salary of 1,164,000 Euro and 345,000 stock options granted in connection with the LTI 1999 Plan. The fair value of each stock option and stock appreciation right at their grant date was 25.20 Euro. The provision for variable bonus of the Management Board at September 30, 2000 was not fully utilized and an amount of 512,000 Euro was released in the current financial year.

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

(Including membership of the Management Board and other comparable governing bodies during the year ended September 30, 2001.)

MANAGEMENT BOARD INFINEON TECHNOLOGIES AG

Dr. Ulrich Schumacher
Chairman, President and Chief Executive Officer

External positions
Member of Supervisory Board
– Deutsche Bahn AG, Berlin
Company positions
Chairman of Boards of Directors
– Infineon Technologies Asia Pacific Pte. Ltd., Singapore
– Infineon Technologies Japan K.K., Tokyo, Japan
– Infineon Technologies North America Corp., Wilmington, Delaware, USA
Chairman of Supervisory Board
– Infineon Technologies Austria AG, Villach, Austria

Peter Bauer
Executive Vice President and Chief Sales and Marketing Officer

External positions
Member of Supervisory Board
– Siemens VDO Automotive AG, Munich
Company positions
Deputy Chairman of Board of Directors
– Infineon Technologies Japan K.K., Tokyo, Japan
Member of Boards of Directors
– Infineon Technologies Asia Pacific Pte. Ltd., Singapore
– Infineon Technologies North America Corp., Wilmington, Delaware, USA
– Infineon Technologies Savan Ltd., Netanya, Israel
– Infineon Technologies U.K. Ltd., Bracknell, Great Britain

Peter J. Fischl
Executive Vice President and Chief Financial Officer

Company positions
Member of Boards of Directors
– Infineon Technologies Asia Pacific Pte. Ltd., Singapore
– Infineon Technologies Japan K.K., Tokyo, Japan
– Infineon Technologies North America Corp., Wilmington, Delaware, USA
Member of Supervisory Board
– Infineon Technologies Austria AG, Villach, Austria
Member of Board of Shareholders' Representatives
– Osram Opto Semiconductors GmbH & Co. OHG, Regensburg**

Dr. Sönke Mehrgardt
Executive Vice President and Chief Technology Officer

External positions
Member of Supervisory Boards
– Loewe AG, Kronach
– Loewe Opta GmbH, Kronach
Company positions
Chairman of Board of Shareholders' Representatives
– Infineon Technologies Orion GmbH, Munich

Dr. Andreas von Zitzewitz
Executive Vice President and Chief Operating Officer

External position
Member of Supervisory Board
– Steag Hamatech AG, Sternenfels
Company positions
Member of Boards of Directors
– Infineon Technologies Asia Pacific Pte. Ltd., Singapore
– Infineon Technologies – Fabrica de Semicondutores Portugal S.A., Vila do Conde, Portugal
– Infineon Technologies Richmond Limited Partnership, Wilmington, Delaware, USA
– ProMOS Technologies Inc., Hsinchu, Taiwan
Chairman of Shareholders' Representatives
– Infineon Technologies Dresden GmbH & Co. OHG, Dresden
– EUPEC GmbH & Co. KG, Warstein-Belecke
President (representing Infineon Technologies AG)
– Infineon Technologies France S.A.S, Saint-Denis, France
– Infineon Technologies Holding France S.A.S., Saint-Denis, France

* Actual figures.
** until sale of Infineon's interest to Osram in August 2001.

SUPERVISORY BOARD INFINEON TECHNOLOGIES AG

Dr. Eng. h.c. Volker Jung[1, 2, 3]
Chairman
Age: 62, Term expires: 2005
Member of the Management Board of Siemens AG
Additional positions
Chairman of the Supervisory Board of EPCOS AG, Munich
Member of the Supervisory Boards of:
– Direkt Anlage Bank AG, Munich
– MAN AG, Munich
– Messe München GmbH, Munich
Company positions
– Chairman of the Board of Administration of Siemens A.E., Athens, Greece
– Deputy Chairman of the Board of Administration of Siemens Ltd., Johannesburg, South Africa
– Member of the Board of Siemens Information and Communication Networks Inc., Boca Raton, Florida, USA

Alfred Eibl* [1, 2, 3]
Deputy Chairman
Age: 52, Term expires: 2004**
Member of the Works Council Munich Balan-/St.-Martin-Strasse

Dr. h.c. Martin Kohlhaussen[1]
Deputy Chairman
Age: 65, Term expires: 2005
Chairman of the Supervisory Board of Commerzbank AG
Additional positions
Member of the Supervisory Boards of:
– Bayer AG, Leverkusen
– Heraeus Holding GmbH, Hanau
– HOCHTIEF AG, Essen
– KarstadtQuelle AG, Essen
– Linde AG, Wiesbaden
– Schering AG, Berlin
– ThyssenKrupp AG, Dusseldorf
– Verlagsgruppe Georg von Holtzbrinck GmbH, Stuttgart

Ender Beyhan*
Age: 33, Term expires: 2004**
Member of the Central Works Council
Member of the Works Council, Munich-Perlach

Johann Dechant*
Age: 36, Term expires: 2004**
Member of the Works Council, Regensburg West

Dr. Joachim Faber
Age: 51, Term expires: 2005
Member of the Management Board of Allianz AG
Additional positions
Member of the Supervisory Boards of:
– Berlinwasser Holding AG, Berlin
– Societa Metallurgica Italiana S.p.A., Florence, Italy
Company positions
Chairman of the Supervisory Boards of:
– Allianz Asset Management GmbH, Munich
– Allianz Bauspar AG, Munich
– Allianz Vermögens-Bank AG, Augsburg
Deputy Chairman of the Supervisory Board of Universal-Leasing-GmbH, Augsburg
Member of the Supervisory Board of Allianz Capital Partners GmbH, Munich
Deputy Chairman of the Board of Administration of Allianz Risk Transfer, Zurich, Switzerland
Member of the Boards of Administration of
– IRC International Reinsurance Company S.A., Luxembourg
– RASBANK S.p.A., Milan, Italy

Heinz Hawreliuk*
Age: 54, Term expires: 2004**
Head of the Company Codetermination Department of IG Metall
Additional positions
Member of the Supervisory Boards of:
– Astrium GmbH, Ottobrunn
– DaimlerChrysler Aerospace AG, Munich
– DaimlerChrysler Luft- und Raumfahrt Holding AG, Munich
– Eurocopter Deutschland GmbH, Donauwörth
– Siemens AG, Berlin and Munich

Klaus Luschtinetz*
Age: 58, Term expires: 2004**
Chairman of the Central Works Council
Chairman of the Works Council, Munich Balan-/St.-Martin-Strasse
Additional positions
– Member of the Board of Administration of Siemens Employees Health Insurance, Munich

[1] Member of the Executive Committee
[2] Member of the Mediation Committee
[3] Member of the Investment and Finance Committee
[4] Mr. Ruth was legally appointed to replace Stefan Radloff upon his resignation in early 2001
* Employee representative
** Unless replaced earlier by another member elected in an election held by the employees

Heinz-Joachim Neubuerger [2, 3]
Age: 48, Term expires: 2005
Member of the Management Board of Siemens AG
Additional positions
Member of the Supervisory Boards of:
– Allianz Versicherungs-AG, Munich
– Bayerische Börse AG, Munich
– HVB Real Estate Bank AG, Munich
Member of the Board of Merrill Lynch & Co., Inc., New York, USA
Vice Chairman of the Advisory Board of Münchener Handelsverein Holding GmbH & Co. KG, Munich
Company positions
Chairman of the Supervisory Boards of:
– Atecs Mannesmann AG, Dusseldorf
– Mannesmann Demag Krauss-Maffei AG, Munich
– Siemens Kapitalanlagegesellschaft mbH, Munich
– TELA Versicherungs AG, Munich
Vice Chairman of the Board of Directors of Siemens Corporation, New York, USA
Member of the Board of Siemens Ltd. China (SLC), Beijing, China
Chairman of the Advisory Board of Siemens Real Estate GmbH & Co. oHG, Munich
Managing Director of Siemens Western Finance N.V., Willemstad, Curaçao

Stefan Radloff* [4]
(until January 31, 2001)
Age: 52
Senior Vice President, Accounting and Financial Reporting; Representative of senior management

Dr. Eberhard Rauch
Age: 53, Term expires: 2005
Member of the Management Board of HypoVereinsbank AG
Additional positions
Chairman of the Supervisory Boards of:
– INVEOS AG, Hamburg
– Kennametal Hertel AG, Fürth
Member of the Supervisory Boards of:
– ADA-HAS IT Management AG, Willich
– Bionorica Arzneimittel AG, Neumarkt
– Koenig & Bauer AG, Würzburg
Member of the Board of Directors of Clearstream International S.A., Luxembourg
Company positions
Chairman of the Supervisory Boards of:
– DAB bank AG, Munich
– Norisbank AG, Nuremberg
– PlanetHome AG, Munich
Member of the Supervisory Boards of:
– Bank Austria AG, Vienna, Austria
– Vereinsbank Victoria Bauspar AG, Munich
Chairman of the Board of Administration of HVB Informations-Verarbeitungs-GmbH, Munich
Member of the Board of Administration of Adfincon GmbH, Hamburg

Univ.-Prof. Dr.-Ing. Ingolf Ruge
Age: 66, Term expires: 2005
Professor at the Technical University Munich
Additional positions
Chairman of the Supervisory Board of WorkX AG, Hofolding
Member of the Supervisory Boards of:
– Schneider Electronics AG, Türkheim
– Schneider Laser Technologies AG, Gera
– Schneider Technologies AG, Türkheim

Michael Ruth* [4]
(since February 2, 2001)
Age: 41, Term expires: 2004**
Vice President, Business Administration, Wireless Solutions; Representative of senior management

Gerd Schmidt* [2]
Age: 47, Term expires: 2004**
Deputy Chairman of the Central Works Council
Chairman of the Works Council, Regensburg West

Sibylle Wankel*
Age: 37, Term expires: 2004**
District Secretary of IG Metall, Bavaria
Additional positions
Member of the Supervisory Boards of:
– Vaillant GmbH, Remscheid
– ZEPPELIN GmbH, Garching near Munich

Prof. Dr. Claus Weyrich
Age: 57, Term expires: 2005
Member of the Management Board of Siemens AG
Additional positions
Member of the Supervisory Board of Heraeus Holding GmbH, Hanau
Company positions
Chairman of the Board of Siemens Corporate Research, Princeton, NJ, USA

Dr. Ing. Klaus Wucherer
Age: 57, Term expires: 2005
Member of the Management Board of Siemens AG
Additional positions
Member of the Supervisory Board of Deutsche Messe AG, Hanover
Company positions
Member of the Supervisory Board of BSH Bosch und Siemens Hausgeräte GmbH, Munich
Chairman of the Boards of Administration of:
– Siemens Ltd., Peking, China
– Siemens E&A, Atlanta, GA, USA
– Siemens K.K., Tokyo, Japan
– Yaskawa Siemens Automation & Drives/YSAD, Tokyo, Japan
Member of the Boards of Administration of:
– Eviop-Tempo, Athens, Greece
– Siemens Building Technologies, Zurich, Switzerland
– Siemens Ltd., Mumbai, India

[1] Member of the Executive Committee
[2] Member of the Mediation Committee
[3] Member of the Investment and Finance Committee
[4] Mr. Ruth was legally appointed to replace Stefan Radloff upon his resignation in early 2001
* Employee representative
** Unless replaced earlier by another member elected in an election held by the employees

SIGNIFICANT SUBSIDIARIES AND ASSOCIATED COMPANIES FOR THE YEAR ENDED SEPTEMBER 30, 2001

Name and Location of Company	
EUPEC Europäische Gesellschaft für Leistungshalbleiter mbH & Co. KG, 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 Semiconductores, Portugal S.A., Vila do Conde, Portugal	100 %
Infineon Technologies France S.A.S., Saint-Denis, France	100 %
Infineon Technologies Holding B.V., Rotterdam, The Netherlands	100 %
Infineon Technologies Trutnov s.r.o., Trutnov, Czech Republic	100 %
Infineon Technologies U.K. Ltd., Bracknell, U.K.	100 %
Infineon Technologies Holding North America Inc., Wilmington, Delaware, USA	100 %
Infineon Technologies North America Corp., Wilmington, Delaware, USA	100 %
Infineon Technologies Richmond LP, Richmond, Virginia, USA	100 %
Infineon Technologies Asia Pacific Pte. Ltd., Singapore	100 %
Infineon Technologies (Integrated Circuit) Sdn. Bhd., Malacca, Malaysia	100 %
Infineon Technologies Japan K.K., Tokio, Japan	100 %
Infineon Technologies (Malaysia) Sdn. Bhd., Malacca, Malaysia	100 %
ALTIS Semiconductor S.N.C, Essonnes, France	50.1 %
ProMOS Technologies Inc., Hsinchu, Taiwan	32.5 %

An extended list of Subsidiaries and Associated Companies is on file at the Commercial Register of Munich, Germany, under the number HRB 126 492.

"THIS PAGE INTENTIONALLY LEFT BLANK"

SHAREHOLDER INFORMATION

INFINEON TECHNOLOGIES AG

Established	April 1, 1999
Headquarters	St.-Martin-Str. 53, 81669 Munich, Germany Phone: +49 89 234-0
Financial Year	October 1st to September 30th
Independent Auditors	KPMG Deutsche Treuhand-Gesellschaft AG Wirtschaftsprüfungsgesellschaft Berlin and Frankfurt am Main

Stock Listing
On March 13, 2000, our company successfully completed its initial public offering of its securities in Germany and in the United States. Since then, Infineon shares have been officially listed on the Frankfurt Stock Exchange (ticker symbol: IFX, German securities code number 623100) and is traded in Germany via Xetra and on the stock exchanges in Berlin, Bremen, Dusseldorf, Frankfurt, Hamburg, Hanover, Munich, and Stuttgart. Options on the share trade on the German-Swiss options exchange Eurex and on other exchanges. The Infineon share is also traded on the New York Stock Exchange (NYSE) under the ticker symbol "IFX" in the form of American Depositary Shares (ADSs) – with each ADS representing one share. The depositary for the ADSs is Morgan Guaranty Trust Company (60 Wall Street, NY 10260 New York, USA). On September 30, 2001, there were a total of 693,025,144 shares outstanding.

Contact for Investors and Analysts

Email	Investor.Relations@infineon.com
Phone/Fax	+49 (0) 89 2 34-2 66 55/-71 84 84

Media Contact

Email	Media.Relations@infineon.com
Phone/Fax	+49 (0) 89 2 34-2 84 80/-2 84 82

Visit us on the Web at www.infineon.com

FINANCIAL CALENDAR 2002*

Monday or Tuesday, January 21/22
Publication of first quarter 2002 results
Tuesday, January 22
2002 Shareholders' Annual General Meeting 10 a.m. CET in Munich, Olympiahalle (Olympic Hall)
Tuesday, April 23
Publication of second quarter 2002 results
Tuesday, July 23
Publication of third quarter 2002 results
Tuesday, November 12
Publication of preliminary fourth quarter 2002 results and preliminary figures for the 2002 financial year

* Preliminary dates

IMPRINT FINANCIAL REVIEW 2001

Published by
Infineon Technologies AG, Munich

Project Management
Achim Schneider

Editorial Staff
Katja Buerkle, François Eksteen, Leonhard Mayr

Designed by
OgilvyOne worldwide GmbH & Co. KG, Frankfurt am Main

Printed by
Kunst- und Werbedruck GmbH & Co. KG, Bad Oeynhausen

If you would like to ORDER ADDITIONAL COPIES of the Financial Review 2001 or the company's Strategic Review 2001 documents either in German or in English, or if you would like to view this reports and the latest investor information online, please visit us on the Internet at: www.infineon.com/investor. Shareholders and other interested investors may also obtain free copies by calling or writing to Investor Relations.

FOR INTERNAL ORDERS

LZF Fuerth-Bislohe

Intranet order	http://c4bs.spls.de	
Fax order	+49 (0) 9 11 6 54 42 71	
Order Number	(English)	B192-H7971-X-X-7600
Financial Review 2001	(German)	B192-H7971

[Never stop thinking]

Financial Review 2001
Printed in Germany
Order Number: B192-H7971-X-X-7600 (English)

Published by Infineon Technologies AG, Munich