Infineon Technologies AG

52,174,000
Ordinary Registered Shares

in the form of Shares or American Depositary Shares

This is a public offering of 52,174,000 shares of Infineon Technologies AG, a German company. Infineon is offering the shares to institutional investors outside of the United States and Germany and, under separate prospectuses, to institutions and the public in the United States and in Germany. Infineon will be offering shares in the form of shares or ADSs. Each ADS represents one share. Infineon is selling all of the shares to be sold in the offering.

The principal market on which the shares are traded is the Frankfurt Stock Exchange, where they trade under the symbol "IFX" (German securities code 623 100). The ADSs are listed on the New York Stock Exchange under the symbol "IFX". On July 12, 2001, the closing price of the shares on the Frankfurt Stock Exchange was €26.00 and the closing price of the ADSs on the New York Stock Exchange was $22.44.

See "Risk Factors" beginning on page 9 to read about certain factors you should consider before buying shares or ADSs.

This Prospectus is intended for use only in connection with offers and sales of these securities outside the United States and is not to be sent or given to any person within the United States. These securities are not being registered under the U.S. Securities Act of 1933 for the purpose of sales outside the United States.

	Per Share	Per ADS	Total
Public offering price	€25.00	$21.33	€1,304,350,000
Underwriting discount	€ 0.55	$ 0.47	€ 28,695,700
Proceeds, before expenses, to Infineon	€24.45	$20.86	€1,275,654,300

To the extent that the underwriters sell more than 52,174,000 shares, the underwriters have the option to purchase up to an additional 7,826,000 shares from Infineon at the public offering price less the underwriting discount.

The underwriters expect to deliver the ADSs and shares against payment in New York, New York, or Frankfurt, Germany, on or about July 17, 2001.

Global Coordinator

Goldman, Sachs & Co. oHG

Lead Manager and Bookrunner

Goldman, Sachs & Co. oHG

Senior Co-Lead Managers

Morgan Stanley **Schroder Salomon Smith Barney**

Co-Lead Managers

Commerzbank Securities **HypoVereinsbank** **Lehman Brothers**

Selling Group Members

Consors Capital **DAB bank**

Prospectus dated July 12, 2001.

TABLE OF CONTENTS

CERTAIN INFORMATION REGARDING THIS OFFERING

This prospectus is for use exclusively in connection with the offer and sale of the shares and ADSs to institutional investors located in jurisdictions other than the Federal Republic of Germany, the United States of America and Canada.

No person has been authorized to give any information or to make any representation other than those contained in this prospectus and, if given or made, such information or representation must not be relied upon as having been authorized. This prospectus does not constitute an offer to sell or the solicitation of an offer to buy the shares or ADSs in any circumstances in which such offer or solicitation is unlawful. Neither the delivery of this prospectus nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of Infineon since the date of this prospectus or that the information contained in this prospectus is correct as of any time subsequent to its date.

No action has been or will be taken in any jurisdiction that would permit a public offering of the shares or ADSs, or possession or distribution of this prospectus or any other offering or publicity material relating to the shares or ADSs, in any country or jurisdiction where action for that purpose is required other than Germany and the United States.

The distribution of this prospectus and the offering and sale of the shares or ADSs in certain jurisdictions may be restricted by law. Persons into whose possession this prospectus comes are required by Infineon and the underwriters to inform themselves about and to observe any such restrictions. This prospectus does not constitute an offer of, or an invitation to purchase, any of the shares or ADSs in any jurisdiction in which such offer or invitation would be unlawful.

PRESENTATION OF FINANCIAL AND OTHER INFORMATION

Our consolidated financial statements are prepared in accordance with U.S. GAAP. Our consolidated financial statements are expressed in euro, the currency of the European Economic and Monetary Union, which was introduced on January 1, 1999. In this prospectus, references to ''euro'' or ''€'' are to euro, references to ''DEM'' are to Deutsche Mark and references to ''U.S. dollars'' or ''$'' are to United States dollars.

Prior to January 1, 1999, our financial statements were prepared in Deutsche Mark. Subsequent to that date, our consolidated financial statements have been prepared in euro. All Deutsche Mark amounts appearing in or derived from our consolidated financial statements have been translated into euro at the official fixed rate of €1.00 = DEM 1.95583.

For convenience, this prospectus contains translations of euro amounts into U.S. dollars at the rate of €1.00 = $0.8794, the noon buying rate of the Federal Reserve Bank of New York for euro on March 30, 2001, and €1.00 = $0.8837, the noon buying rate on September 29, 2000. The noon buying rate for euro on July 12, 2001 was €1.00 = $0.8530.

Our financial year ends on September 30 of each year. References to any financial year or to ''FY'' refer to the year ended September 30 of the calendar year specified.

In this prospectus,

- references to ''our company'' are to Infineon Technologies AG;
- references to ''we'', ''us'' or ''Infineon'' are to Infineon Technologies AG and, unless the context otherwise requires, to its subsidiaries and its predecessor, the former semiconductor group of Siemens;
- references to Siemens are to Siemens AG, a German company;
- references to Siemens' subsidiaries are to entities wholly or majority-owned by Siemens AG (excluding Infineon); and
- references to the Siemens group are to Siemens and Siemens' subsidiaries.

This prospectus contains market data that have been prepared by Dataquest, WSTS, Cahners In-Stat Group and Strategy Analytics.

FORWARD-LOOKING STATEMENTS

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

PROSPECTUS SUMMARY

You should read the following summary together with the more detailed information regarding Infineon and the shares and ADSs being sold in this offering and our financial statements appearing elsewhere in this prospectus. Special terms used in the semiconductor industry are defined in the glossary that is included as Appendix A.

Infineon

Infineon is a leading innovator in the international semiconductor industry. We design, develop, manufacture and market a broad range of semiconductors and complete system solutions targeted at selected industries. Our products serve applications in the wireless and wireline communications, automotive, industrial, computer, security and chip card markets. Our product portfolio consists of both memory and logic products and includes digital, mixed-signal and analog integrated circuits, or ICs, as well as discrete semiconductor products and system solutions. We are the successor to the Siemens Semiconductor Group and have actively participated in the semiconductor industry since 1952.

Our focus on selected growth sectors within the semiconductor market and our high level of research and development have enabled us to grow significantly in recent years. Our sales grew from €2,350 million in the 1996 financial year to €7,283 million in the 2000 financial year, a compound annual growth rate of approximately 33%. This growth rate is substantially higher than that of the semiconductor industry as a whole and has enabled us to increase our market share significantly. Based on industry data, we grew from being the 15th-largest supplier of semiconductors and systems worldwide in 1995 to the ninth-largest in 2000. Our sales for the six months ended March 31, 2001 were €3,309 million.

However, based upon our unaudited internal condensed consolidated financial statements for the two months ended May 31, 2001 and our review of conditions within our business units to date, we expect that our revenues in the quarter ended June 30, 2001 will decline by up to 30%, as compared to the quarter ended March 31, 2001. We also expect to incur a loss before interest and income taxes of up to €600 million for the quarter ended June 30, 2001.

We are organized into four main business groups—Wireless Communications, Wireline Communications, Automotive & Industrial and Memory Products. We also have another business group, called Security & Chip Card ICs. In addition, we participate in a joint venture with OSRAM, a Siemens subsidiary, to produce opto components for lighting and display applications. We are currently in negotiations to sell our interest in the joint venture to OSRAM.

We focus on high-volume products that we believe offer us opportunities to achieve high average margins over complete semiconductor market cycles and in which technological expertise is a defining characteristic.

We believe that we are particularly well positioned in the communications market, which has expanded rapidly in recent years. This market, consisting of wireline and wireless applications, is experiencing dynamic changes resulting in new opportunities such as those created by the Internet. We seek to leverage our strong relationships with telecommunications equipment suppliers to sell next-generation voice and data communications devices used to expand their customers' networks. In wireless communications, European manufacturers and semiconductor suppliers such as Infineon have traditionally held a leading position. The market for wireless devices, particularly for mobile handsets, has experienced a substantial downturn in recent months. We believe, however, that we will continue to be in a strong competitive position if and when market conditions improve.

We also have a strong position in the market for automotive and industrial semiconductors. We believe our strength in this relatively predictable market complements our strengths in other markets that are subject to greater volatility. We believe that our ability to offer complete systems integrating power, analog and mixed-signal ICs and sensor technology, as well as the quality of our products, are important differentiating factors in the market for automotive ICs. For industrial applications, we focus on high-growth segments, providing differentiated products combining multiple technologies to meet our customers' specific needs.

We have a significant presence in the market for memory ICs, which store digital data. This market has historically been subject to pronounced cyclical fluctuation. Against a background of substantial price fluctuations in the market for dynamic random access memory, or DRAM, the percentage of our net sales from memory products in recent periods was 21% in the 1998 financial year, 33% in the 1999 financial year, 48% in the 2000 financial year and 31% in the six months ended March 31, 2001. Substantial recent DRAM price declines have further reduced the percentage of our net sales from memory products in calendar year 2001 to date.

As a result of substantial investments over the last several years, we believe our DRAM products are highly competitive, particularly in terms of capacity and feature size. We plan to strengthen our competitive position in memory products by targeting leading-edge products that require more technological expertise and that are less susceptible to rapid price declines. We believe that our expertise in memory products confers important competitive advantages in providing complex system-on-chip solutions for our customers.

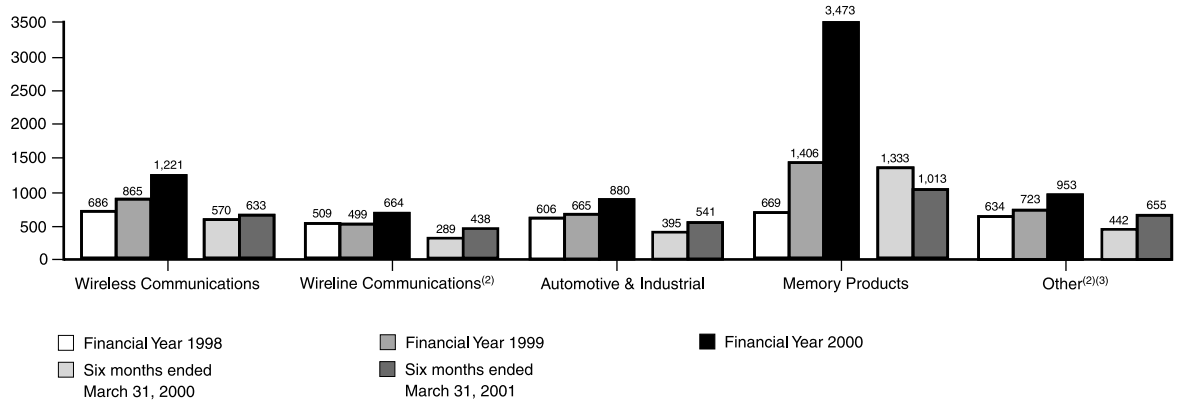
According to industry data, we are the world's largest manufacturer of chip card ICs, with an approximate 34% share of the market in 2000. The market for security and chip card ICs is driven by the trend toward increased security requirements in such aspects of everyday life as telecommunications, banking, health services and, recently, electronic commerce and Internet communications.

Our strategic objective is to continue to achieve profitable growth by targeting fast-growing areas of the semiconductor industry and building upon our position as a leading innovator. We seek to achieve this strategic objective by focusing our diverse portfolio of technologies—in particular our strengths in mixed-signal, radio-frequency, embedded digital signal processing, embedded control, power and embedded DRAM—on key applications in communications systems for wireless and wireline transmission of speech and data as well as in automotive and industrial electronic systems. We aim to provide innovative products and services and, by doing so, to be a key factor in the success of our customers, many of which are themselves innovators within their respective industries. By working together with our customers, we believe we develop the knowledge and experience required to continue to be an industry leader. As key elements in implementing our strategy, we seek to:

- Capitalize on our intellectual property portfolio to develop complete system solutions tailored to meet our customers' specific needs;
- Build on our leadership in ICs in fast-growing areas served by our different business groups;
- Focus on increasing market penetration with major international customers;
- Share risk and expand our access to leading-edge technology through long-term strategic partnerships with other leading industry participants;
- Enhance our position as an innovation and technology leader by continuing to invest in research and development;
- Exploit the flexibility of our world-class manufacturing facilities to respond to the market cycles of our different business groups and, as appropriate, expand our manufacturing capabilities; and
- Attract and retain senior management and other highly qualified personnel, in particular research and development personnel, by fostering employee ownership of our shares.

The following chart shows net sales from each of our business groups during the periods shown:

Net Sales[1]
(€ in millions)



(1) Corporate and reconciliation items, which are not included in this diagram, accounted for net sales of €71 million in the 1998 financial year, €79 million in the 1999 financial year, €90 million in the 2000 financial year, €42 million in the six months ended March 31, 2000 and €28 million in the six months ended March 31, 2001.

(2) As a result of the sale of our image and video business, we have reclassified the results of that business for all periods after September 30, 2000 from our Wireline Communications segment, in which they were previously reported, to our Other operating segment. We have also reclassified the results of our infrared components business from our Wireline Communications segment, in which they were previously reported, to our Other operating segment. Additionally our Other operating segment includes the results of certain activities previously reported under corporate and reconciliation. These reclassifications were made to facilitate analysis of our current and future operating segment information. The segment results for financial years 1998, 1999 and 2000 have been reclassified to be consistent with current period presentation and have been included in note 17 to our unaudited condensed consolidated financial statements for the six months ended March 31, 2001.

(3) Includes our Security & Chip Card ICs business group and our opto components business that is conducted through a joint venture with OSRAM, a Siemens subsidiary. We are currently in negotiations to sell our interest in the joint venture to OSRAM.

In the semiconductor industry, technological innovators are often able to achieve high margins, but those margins can diminish as competitors close the technology gap. Research and development activities are therefore critical for developing high-margin products over the longer term. We have a worldwide network of research and development facilities and several additional research and development alliances with leading industry participants. We believe that the international nature of our research and development activities confers important benefits, including proximity to customers and worldwide recruitment of specialized technical personnel. Our leadership in research and development has resulted in numerous innovations, including:

- pioneering the development of ICs for use in consumer products in the early 1960s;
- the first chipset to comply with the ISDN standard in 1985;
- the first radio frequency chipset that was compatible with the Global System for Mobile communications, or GSM, standard in 1990;

- the first complete GSM single-chip logic device in 1992;
- our TriCore™ microcontroller, the first 32-bit microcontroller to integrate high-capability microprocessor and digital signal processing functionality in a single core, in 1997;
- our biometric FingerTIP™ Sensor, which registers and identifies fingerprints, in 1998;
- the first samples of 256-Mbit DRAM ICs produced on a 300-millimeter silicon wafer, using advanced 0.19 micron technology (manufactured by one of our joint ventures), in 1999;
- the first dual mode UMTS/GSM single baseband chip in 2000;
- the first certification for a complete Bluetooth system in 2000; and
- the first OC-192 single-chip 10 gigabit-per-second transceiver in silicon-germanium (SiGe) for high-speed Sonet communications networks in 2001.

A majority of our company's shares are currently owned directly or indirectly by Siemens AG. Siemens and its wholly owned subsidiary Siemens Nederland N.V. have taken various steps to reduce their holdings of our company's shares. These steps have included sales of our company's shares in our initial public offering in March 2000, an issuance in August 2000 by Siemens Nederland N.V. of bonds exchangeable for shares of our company and an irrevocable transfer by Siemens of shares of our company to the Siemens Pension Trust e.V. in Germany, which we understand was done in order to rebalance the trust's net asset value in light of increased pension obligations resulting from Siemens' acquisition of Mannesmann ATECS AG. In addition, our company has issued new shares, which has had the effect of further reducing Siemens' direct and indirect percentage ownership in our company. These shares have been issued to our employees under our employee share purchase program as well as in connection with acquisitions by us of other businesses.

We expect to issue additional shares in the future, which will further reduce Siemens' percentage ownership in our company. For example, we have granted options to our employees to purchase a large number of shares under our share option plans and have reserved additional shares for issuance under those plans and our employee share purchase program. We plan to issue additional shares in connection with the pending acquisition of Catamaran Communications. We also expect to acquire additional companies or businesses, and may use shares to pay all or a portion of the purchase price. In addition, Siemens has announced its intention to reduce its direct and indirect ownership stake and/or voting interest in our company as and when business and market conditions permit.

Following the completion of this offering, and assuming that the underwriters' over-allotment option is exercised in full, the direct percentage interest of Siemens and Siemens Nederland N.V. in our company will be approximately 50.9%, assuming that none of the Siemens Nederland N.V. exchangeable bonds have been exchanged for our company's shares. Assuming the exchangeable bonds are fully exchanged, the direct percentage interest of Siemens and Siemens Nederland N.V. in our company after this offering would be 47.2%. In addition, following completion of this offering, and, assuming that the underwriters over-allotment option is exercised in full, Siemens Pension Trust will own approximately 13.7% of the shares of our company. We understand that, under the Siemens Pension Trust documents, the pension trust may receive instructions from Siemens as to the voting of the shares while they are owned by the trust. Each of these percentages assumes no exercise of any outstanding employee options.

If and when Siemens no longer owns or controls at least 50% of our company's shares within the meaning of the applicable licenses, we will lose important rights that we now have to utilize patents owned by other manufacturers of semiconductors. In addition, our rights to utilize certain

Siemens patents under a patent cross-license agreement with Siemens will be limited to our use of such patents at that point in time. We will also lose the restricted right that we have under our cross-license agreement with Siemens to cross-license the Siemens patents to third parties with whom we conclude cross-license agreements. We could incur substantial costs to license patents or other necessary technology to which we now have access as a Siemens subsidiary.

The Siemens group is our largest customer. Our sales to the Siemens group comprise both direct sales and sales for resale to third parties. Our total net sales to the Siemens group amounted to €794 million, or 25% of net sales, in the 1998 financial year, €963 million, or 23% of net sales, in the 1999 financial year, €1,089 million, or 15% of net sales, in the 2000 financial year, and €518 million, or 16% of net sales, in the six months ended March 31, 2001.

Our principal executive offices are located at St.-Martin-Strasse 53, D-81669 Munich, Germany, and our telephone number is (49)(89) 234-0.

The Offering	
Total shares offered	52,174,000 shares, in the form of shares or ADSs
Offering period	July 4, 2001 through July 12, 2001
Public offering price	€25.00 per share and $21.33 per ADS
The offering	The offering consists of a public offering in the United States, a public offering in Germany and an offering to institutional investors outside the United States and Germany.
Over-allotment option	If the underwriters exercise the over-allotment option described in this prospectus under the heading ''Underwriting'', we may sell up to an additional 7,826,000 shares.
American Depositary Shares	We are also offering shares in the form of ADSs. Each ADS, evidenced by an American Depositary Receipt, or ADR, represents an ownership interest in one of our shares.
Shares outstanding after the offering	678,825,709 shares, assuming no exercise of the underwriters' over-allotment option. We have granted options to purchase an aggregate of 11,092,378 million shares to our management and some of our employees prior to this offering. We have also agreed to issue 6,373,435 shares in connection with our acquisition of Catamaran Communications.
Lock-Up Arrangements	We have agreed not to issue or dispose of or hedge any of our shares or issue any securities convertible into or exchangeable for shares or ADSs during the 90-day period following the first day of trading of the shares sold in this offering, except with the prior written consent of Goldman, Sachs & Co. oHG. This agreement does not apply to issuances of shares in connection with acquisitions or any of our employee benefit plans. Siemens, Siemens Nederland N.V. and Siemens Pension Trust e.V. have severally confirmed that, for a 90-day period from the first day of trading of the shares sold in this offering, they will take no measures to sell any of their shares in our company, directly or indirectly, into the public markets.
Use of proceeds	The net proceeds to us from this offering, after estimated offering expenses, are anticipated to be approximately €1,271,409,000 (assuming no exercise of the underwriters' over-allotment option). We intend to use the net offering proceeds to fund future capital expenditures and potential acquisitions, to repay short-term debt, and for working capital and other corporate purposes.
Risk factors	See ''Risk Factors'' and the other information included in this prospectus for a discussion of risk factors you should carefully consider before deciding to invest in our shares or the ADSs.

Settlement	Shares purchased in this offering will be credited against payment on or about July 17, 2001, at your request, either to the account of a German bank with Clearstream Banking AG or to your account or to the account of participants with Euroclear or Clearstream Banking S.A. ADRs evidencing ADSs will be made available through The Depository Trust Company, known as DTC, on or about July 17, 2001.
Security Codes	WKN 623 100 ISIN 000 623 1004 Common Code 01 0745900 CUSIP 45662N103
Frankfurt Stock Exchange and New York Stock Exchange symbol	IFX

Summary Consolidated Financial Data

The following table summarizes the financial data for our business:

	As of and for the financial year ended September 30,[1]						As of and for the six months ended March 31,[1]		
	1996[2]	1997	1998	1999	2000	2000[2][3]	2000	2001	2001[4]
							(unaudited)		
	(in millions, except per share data)								
Summary consolidated statement of operations data									
Net sales	€2,350	€2,885	€3,175	€4,237	€7,283	$ 6,436	€3,073	€3,309	$ 2,910
Cost of goods sold	(1,743)	(2,220)	(2,728)	(3,011)	(4,110)	(3,632)	(1,903)	(2,192)	(1,928)
Gross profit	607	665	448	1,227	3,172	2,803	1,170	1,117	982
Research and development expenses	(370)	(457)	(637)	(739)	(1,025)	(906)	(441)	(527)	(463)
Selling, general and administrative expenses	(223)	(367)	(481)	(551)	(670)	(592)	(303)	(399)	(351)
Restructuring charge for North Tyneside[5]	—	—	(816)	—	—	—	—	—	—
Other operating income (expense), net	40	(21)	(9)	(2)	2	1	—	202	178
Operating income (loss)	53	(180)	(1,496)	(64)	1,479	1,307	426	393	346
Interest income (expense), net, inclusive of subsidies	49	45	(35)	43	75	66	10	15	13
Equity in earnings (losses) of associated companies	3	(56)	(151)	34	101	90	60	58	51
Gain on associated company share issuance[6]	—	—	—	—	53	47	—	—	—
Other income, net	1	1	2	18	36	32	11	4	4
Minority interests	(1)	(1)	(1)	—	(6)	(5)	(6)	—	—
Income (loss) before income taxes	105	(192)	(1,682)	31	1,738	1,536	501	471	414
Income tax benefit (expense)	12	96	907	30	(612)	(541)	(222)	(169)	(148)
Net income (loss)	€ 117	€ (95)	€ (775)	€ 61	€1,126	$ 995	€ 279	€ 303	$ 266
Basic and diluted earnings (loss) per share[7]	0.19	(0.16)	(1.29)	0.10	1.83	1.66	0.46	0.48	0.43
Basic and diluted earnings (loss) per ADS[7]	0.19	(0.16)	(1.29)	0.10	1.83	1.66	0.46	0.48	0.43
Summary consolidated balance sheet data									
Cash and cash equivalents	10	15	12	30	511	451	687	123	109
Working capital, excluding cash and cash equivalents	945	560	887	444	870	769	893	872	766
Total assets	3,562	4,595	4,760	6,445	8,853	7,823	7,192	8,781	7,722
Short-term debt, including current portion of long-term debt	139	176	106	495	138	122	147	319	281
Long-term debt, excluding current portion	688	889	893	135	128	113	140	163	143
Shareholders' equity	1,870	2,228	2,096	3,656	5,806	5,131	4,855	6,111	5,374

(1) Columns may not add due to rounding.

(2) Unaudited.

(3) Converted from euro into U.S. dollars at an exchange rate of €1.00 = $0.8837, which was the noon buying rate on September 29, 2000.

(4) Converted from euro into U.S. dollars at an exchange rate of €1.00 = $0.8794, which was the noon buying rate on March 30, 2001.

(5) Consists of amounts attributable to the fabrication facility located in the North Tyneside area of northern England, which was shut down in 1998. See ''Management's Discussion and Analysis of Financial Condition and Results of Operations''.

(6) In May 2000, ProMOS shareholders approved the distribution of employee bonuses in the form of shares. As a result of this distribution, our interest was diluted to 33%, while our proportional share of ProMOS' shareholders' equity increased by €53 million, which increase is reflected as non-operating income in our 2000 financial year.

(7) 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 six months ended March 31, 2001, the weighted average number of our company's shares outstanding was 625,538,058, or 625,867,544 on a fully diluted basis.

RISK FACTORS

You should carefully consider the risks described below before making an investment decision. The occurrence of any of the following events could harm us. If these events occur, the trading price of our company's shares could decline, and you may lose all or part of your investment. Additional risks not currently known to us or that we now deem immaterial may also harm us and affect your investment.

Risks related to the semiconductor industry

Our business could suffer from periodic downturns

The semiconductor industry is highly cyclical and has suffered significant economic downturns at various times. These downturns have involved periods of production overcapacity, oversupply, lower prices and lower revenues.

According to trade association data, worldwide sales of all semiconductor products grew more than 40% in 1995, decreased by 9% in 1996, increased by 4% in 1997, again decreased by approximately 8% in 1998, then increased by approximately 19% in 1999 and a further 37% in 2000. In the first quarter of 2001 worldwide sales of all semiconductor products decreased by 4% compared with the first quarter of 2000. We believe that this slowdown has accelerated in recent months. There has been substantial downward price pressure and decreased demand in each of our business segments, except the segment for automotive and industrial products.

There can be no assurance that the market will stabilize or improve in the near term or that the growth rates experienced in the 1999 and 2000 financial years will be attainable again in the coming years. A prolonged downturn in the industry could result in further substantially reduced volumes of sales and prices for our products, severely adversely impacting our results of operations.

Industry overcapacity could require us to lower our prices, particularly for memory products

According to published industry data, gross investment in worldwide semiconductor fabrication capacity totaled approximately $41 billion in 1997, $30 billion in 1998, $35 billion in 1999 and $59 billion in 2000. These investments represented approximately 30%, 24%, 23% and 29%, respectively, of total sales of semiconductors in those years, compared with an average of 27% over the prior five years.

Both semiconductor companies with their own manufacturing facilities and specialist semiconductor foundries, which are subcontractors that manufacture semiconductors designed by others, have added significant capacity in recent years and are expected to continue to do so. Additions to capacity have in the past sometimes exceeded capacity reductions due to obsolescence, thereby contributing to increases of supply over demand and to downturns in the industry. Average per-megabit selling prices for our memory products declined by approximately 68% in the 1997 financial year, 65% in the 1998 financial year and 21% in the 1999 financial year before rising by 11% in the 2000 financial year and then decreasing by approximately 55% in the six months ended March 31, 2001. Downturns in the industry, including the current downturn, have severely hurt the profitability of the DRAM industry generally and of our DRAM business in particular. The current downturn may be prolonged and the volatility of the semiconductor industry may at any rate lead to future downturns, which could have similar effects. Fluctuations in the rate at which industry capacity is growing relative to the growth rate in demand for semiconductor products may in the future put pressure on our average selling prices and hurt our results of operations.

We may not respond quickly enough to rapid technological change and evolving standards in the semiconductor industry

The semiconductor industry is characterized by rapidly changing technology that affects industry standards and the kinds of products that customers demand. Our success is highly dependent upon our ability to:

- develop and manufacture increasingly complex new products that meet industry standards on a cost-effective basis;
- introduce products quickly in the marketplace; and
- have our products selected for design into our customers' future products.

Commitments to developing any new product must be made well in advance of sales, and technology and standards may change while we are in development, rendering our products outdated or uncompetitive before their introduction. We must therefore anticipate both future demand and the technology that will be available to supply such demand. Delays in developing new products or delays in shipping new products may hurt our business. For example, delays in our development of a new hard disk drive (HDD) controller IC recently resulted in the loss of substantially all of our sales of these products to a significant customer.

In order to remain cost competitive, we must also continue to develop and implement new manufacturing process technologies. The process technologies that we develop may not prove to be cost-effective. Our results of operations could be hurt if we experience substantial delays in developing new process technologies or if we implement capacity increases or technology transitions in production inefficiently.

We face intense competition

The semiconductor market is highly competitive and is subject to rapid technological change and price erosion. We expect that competition in all market segments in which we are active will increase. Some of our competitors possess sufficient financial, technical and management resources to develop, manufacture and market products that may compete favorably against the products that we are currently producing or that we may market in the future. The resulting price erosion and pressure to develop new products may reduce profit margins and business opportunities if we are unable to match price declines or the pace of product development achieved by our competitors.

Risks related to our operations

We may not be able to protect our proprietary intellectual property and may be accused of infringing the intellectual property rights of others

Our success depends on our ability to obtain patents, licenses and other intellectual property rights covering our products and our design and manufacturing processes. The process of seeking patent protection can be long and expensive. Patents may not be granted on currently pending or future applications or may not be of sufficient scope or strength to provide us with meaningful protection or commercial advantage. In addition, effective copyright and trade secret protection may be unavailable or limited in some countries, and our trade secrets may be vulnerable to disclosure or misappropriation by employees, contractors and other persons.

Competitors may also develop technologies that are protected by patents and other intellectual property rights. These technologies may therefore either be unavailable to us or be made available to us only on unfavorable terms and conditions. Litigation, which could cost us financial and management resources, may be necessary to enforce our patents or other intellectual property rights or to defend against claims of infringement of intellectual property rights brought against us by

others. For example, Rambus Inc. filed suits against us in the United States and Germany in August 2000, alleging infringement of its intellectual property rights. Although we have prevailed at the trial court in the U.S. proceedings, Rambus has filed a notice of appeal. The final outcome of these suits may adversely affect our business. We may be forced either to stop producing substantially all of our memory products or to license the underlying technology upon economically unfavorable terms and conditions, and possibly to pay damages for prior use of the Rambus technology at issue. See ''Business—Legal Matters—Litigation'' for a description of these proceedings.

Our results may suffer if we are not able to match our production capacity to demand

During periods of industry overcapacity and declining selling prices, such as we are experiencing currently, customers do not generally order products as far in advance of the scheduled shipment date as they do during periods when our industry is operating closer to capacity. We therefore experienced lower levels of backlog during the last downturn, and are again doing so during the current downturn. This development has made it more difficult to forecast production levels and revenues.

We are currently in a period of industry-wide overcapacity and declining demand in several of our markets. These conditions have led to an increase in inventory for us, our distributors and our customers. Despite declining demand, we have decided to maintain production levels of certain longer life products during this period, resulting in increasing inventory levels. Further erosion in market conditions has resulted in write-offs of inventories and could expose us to further losses on these products.

Some of our production capacity is currently not fully utilized, in particular our production capacity at the ALTIS joint venture with IBM. Our production capacity at this facility, as currently configured, was planned to be used to manufacture ICs for our Wireless Communications business group or HDD controllers. Demand for ICs for the wireless sector has recently decreased sharply and we do not currently produce an HDD controller IC product. Commodity products, such as DRAMs, cannot be produced at ALTIS, and therefore it is unlikely that our production at ALTIS will be operating near full capacity in the near future.

During periods of increased demand we may not have sufficient capacity to meet customer orders. In particular, we suffered capacity constraints throughout the 2000 financial year. Such constraints affect our customers' ability to deliver products in accordance with their planned manufacturing schedules, making relationships with affected customers difficult. As a result, we have lost sales as customers have turned to other manufacturers that could satisfy their increased demand. We may face similar difficulties if and when capacity constraints recur.

In the past we have responded to fluctuations in industry capacity and demand by adapting production levels, closing existing production facilities or opening new production facilities. We have incurred high costs as a result. We have also made increasing use of semiconductor foundries to meet higher levels of demand and have incurred higher cost of goods sold as a result. In order to expand or reduce our production capacity in the future, we may have to spend substantial amounts, which could hurt our results of operations.

Our business could suffer from problems with manufacturing

The semiconductor industry is characterized by the introduction of new or enhanced products with short life cycles in a rapidly changing technological environment. We manufacture our products using processes that are highly complex, require advanced and costly equipment and must continuously be modified to improve yields and performance. Difficulties in the manufacturing process can reduce yields or interrupt production, and we may not be able to deliver products on time or in a cost-effective, competitive manner.

If production at a fabrication facility is interrupted, we may not be able to shift production to other facilities on a timely basis or customers may purchase products from other suppliers. In either case, the loss of revenues and damage to the relationship with our customers could be significant. For example, in September 1999 an earthquake hit Taiwan, shutting down the production facility of our ProMOS joint venture for ten days and resulting in estimated lost revenues of €10 million.

Increasing our production capacity to reduce our exposure to potential production interruptions would increase our fixed costs. If we do not increase our net sales to meet these higher costs, our operating results could be harmed.

We may at times outsource production of some of our products to third-party suppliers. Using third-party suppliers exposes us to manufacturing problems experienced by those suppliers and may be less cost-effective than manufacturing at our own facilities.

We have a limited number of suppliers and could suffer shortages if they were to interrupt supply or increase prices

Our manufacturing operations depend upon obtaining deliveries of equipment and adequate supplies of materials on a timely basis. We purchase equipment and materials from a number of suppliers on a just-in-time basis. From time to time, suppliers may extend lead times, limit supply to us or increase prices due to capacity constraints or other factors. Because the equipment that we purchase is complex, it is difficult for us to substitute one supplier for another or one piece of equipment for another. Some materials are only available from a limited number of suppliers. Although we believe that supplies of the materials we use are currently adequate, shortages could occur in critical materials, such as silicon wafers or specialized chemicals used in production, due to interruption of supply or increased industry demand. Our results of operations would be hurt if we could not obtain adequate supplies of quality equipment or materials in a timely manner or if there were significant increases in the costs of equipment or materials.

Our business could suffer if we do not have adequate access to capital

Semiconductor companies that operate their own manufacturing facilities require significant amounts of capital to build, expand, modernize and maintain them. Semiconductor companies also require significant amounts of capital to fund research and development. Net cash used in our investing activities was €959 million in the 1998 financial year, €918 million in the 1999 financial year, €2,327 million in the 2000 financial year and €568 million in the six months ended March 31, 2001. The large increase in the 2000 financial year was mainly due to beginning construction of a new facility in Dresden for production using 300-millimeter wafers, implementing capacity extensions of our facilities for logic ICs, the acquisition of the remaining interest in our Richmond manufacturing facility and the acquisition of Savan Communications Ltd., Israel. During the six months ended March 31, 2001, cash used in our investing activities is presented net of proceeds from sales of marketable securities of approximately €277 million and the proceeds from the sale of our image and video business of approximately €250 million. Our research and development expenses were €637 million in the 1998 financial year, €739 million in the 1999 financial year, €1,025 million in the 2000 financial year and €527 million in the six months ended March 31, 2001. In addition to these capital requirements, in April 2001 we paid a dividend of €407 million in respect of our 2000 financial year earnings.

We currently expect that capital expenditures and research and development expenses for the foreseeable future will continue to be in amounts at least as high as in the 2000 financial year and could be higher. For example, we are continuing construction of the new facility in Dresden to increase our capacity for production using 300-millimeter wafers. The facility is expected to involve capital expenditures of approximately €1.2 billion. We are funding this investment from borrowings,

investments by two other investors, cash flows from operations and other available funds. We have also applied for governmental subsidies in connection with this project, but can provide no assurance that such subsidies will be granted in a timely fashion or at all.

Under our agreements with the two other investors in the joint venture for this new facility, each of them has the right to sell its interest in the joint venture to us on September 30, 2005 and every third anniversary thereafter. We are entitled to purchase such interests once every three years, commencing March 31, 2004. Each of the other investors also has the right to sell its interest to us upon the occurrence of specified events, such as capital increases it does not agree to, the admission of new investors, substantial budget overruns, or our ceasing to exercise control over the joint venture. If both of the other investors were to elect to sell their interests to us, the total purchase price we would have to pay would be an amount equal to the capital contributed by these investors, plus interest. As of March 31, 2001, this amount would have been approximately €198 million.

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 locating 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, which we understand was done in connection with the dividend paid pursuant to the resolution of our company's annual general meeting of April 6, 2001. We intend to refinance this loan through the use of existing credit lines or new sources of funding. In the future, we may not be able to raise the amount of capital required for our business on acceptable terms due to a number of factors, such as general market and economic conditions, inadequate cash flow from operations or unsuccessful asset management. Our business may be hurt if we are not able to make expected capital expenditures and meet expected research and development expenses.

Competition for personnel in our industry is intense, and our business could suffer if we are not able to attract and retain qualified personnel

There is significant competition for highly qualified management and technical employees in the semiconductor industry. We may be unable to attract and retain highly qualified employees, particularly employees with scientific, technical or engineering backgrounds in the fields of integrated circuit design, device physics and semiconductor device fabrication, or skilled marketing, management or other personnel. We have sometimes experienced difficulty in hiring and retaining highly skilled employees with appropriate qualifications and expect similar difficulties in the future. If we do not succeed in attracting new personnel and retaining current personnel, our business may be hurt.

The Siemens group is our largest customer and our results could suffer if it were to buy fewer semiconductors from us

Our net sales to the Siemens group as a direct customer totaled €597 million, or 14% of our net sales, in the 1999 financial year, €763 million, or 10% of our net sales, in the 2000 financial year and €473 million, or 14% of our net sales, in the six months ended March 31, 2001. We made further sales to the Siemens group sales organization for resale to third parties in the amount of €367 million, or 9% of our net sales, in the 1999 financial year, €326 million, or 4% of our net sales, in the 2000 financial year and €45 million, or 1% of our net sales, in the six months ended March 31, 2001. We expect the Siemens group to continue to be one of our largest customers, but we cannot assure you that it will continue to purchase as many semiconductors from us as it has in the past. Our results could be harmed if the Siemens group purchases fewer semiconductors from us in the future and other customers do not increase their orders to make up the shortfall.

We rely on our strategic partners, and provisions in our agreements with them could allow them to terminate those agreements if our ownership changes

As part of our strategy, we have entered into a number of long-term strategic alliances with leading industry participants, both to manufacture semiconductors and to develop new manufacturing

process technologies and products. If our strategic partners encounter financial difficulty, they may no longer be able to participate in our alliances. Our business could be hurt if we were unable to continue many of our alliances.

Some of the agreements governing our strategic alliances allow our partner to terminate the agreement if our equity ownership changes so that a third party other than the Siemens group gains control of our company or of a significant portion of our company's shares. Our business could be harmed if any of our strategic partners were to discontinue its participation in a strategic alliance.

Our business could suffer as a result of volatility in different parts of the world

We operate globally, with production facilities in 12 countries. In the 2000 financial year, some 78% of our revenues were generated outside Germany and some 55% of our revenues were generated outside Europe. The corresponding figures for the six months ended March 31, 2001 were 71% and 48%, respectively. Our business is therefore subject to risks involved in international business, including:

- negative economic developments in foreign economies and instability of foreign governments;
- changes in laws and policies affecting trade and investment; and
- varying practices of the regulatory, tax, judicial and administrative bodies in the jurisdictions where we operate.

Substantial changes in any of these conditions could have an adverse affect on our business and results of operations. For example, the economic slowdown in Asia in 1997 and 1998 reduced demand for semiconductors, and we suffered losses due to the resulting fall in semiconductor prices. Our results of operations could also be hurt if demand for the products made by our customers decreases due to adverse economic conditions in any of the regions where they sell their own products.

Our business can be hurt by changes in exchange rates

Our results of operations can be hurt by changes in exchange rates, particularly between the euro and the U.S. dollar and the Japanese yen. Many of our receivables are denominated in U.S. dollars, while our payables are denominated largely in euro. In addition, the balance sheet impact of translation adjustments has been, and may continue to be, material.

Foreign currency derivative and transaction losses were €86 million in the 1998 financial year. Foreign currency derivative and transaction gains totaled €42 million in the 1999 financial year and €184 million in the 2000 financial year. We incurred foreign currency derivative and transaction losses of €22 million in the six months ended March 31, 2001.

Since its introduction on January 1, 1999, the euro has declined substantially against the U.S. dollar, from €1.00 = $1.1812 on January 1, 1999 to €1.00 = $0.8794 on March 30, 2001. This development positively affected our revenues and results of operations in the 1999 and 2000 financial years and the six months ended March 31, 2001.

Environmental laws and regulations may expose us to liability and increase our costs

Our operations are subject to many environmental laws and regulations wherever we operate governing, among other things, air emissions, wastewater discharges, the use and handling of hazardous substances, waste disposal and the investigation and remediation of soil and ground-water contamination. A proposal of the European Commission, which has been, in principle, approved by the European Parliament, and legislation proposed in various countries, including

Germany, would result in ''take-back'' obligations of manufacturers and/or the responsibility of manufacturers for the financing of the collection, recovery and disposal of electrical and electronic equipment. A further proposal of the European Commission forming part of the package submitted provides for a ban on the use of lead and some flame retardants in manufacturing electronic components. Those proposals, if adopted, could adversely affect our manufacturing costs or product sales by forcing us to change production processes or use more costly materials. Our customers may require us to conform to the proposed new standards in advance of their adoption by the European Commission.

As with other companies engaged in similar activities, we face inherent risks of environmental liability in our current and historical manufacturing activities. Costs associated with future additional environmental compliance or remediation obligations could adversely affect our business.

Reductions in the amount of government subsidies we receive or demands for repayment could increase our reported expense or harm our ability to fund our capital expenditures

As is the case with many other semiconductor companies, our reported expenses have been reduced in recent years by various subsidies received from governmental entities. In particular, we have received, and expect to continue to receive, subsidies for investment projects, in particular for the construction and equipment of our facilities in Dresden and for research and development projects. We recognized governmental subsidies in an aggregate amount of €92 million in the 1999 financial year, €115 million in the 2000 financial year and €35 million in the six months ended March 31, 2001.

As the general availability of government funding is outside our control, we cannot assure you that we will continue to benefit from such support, that sufficient alternative funding would be available if necessary or that any such alternative funding would be provided on terms as favorable to us as those we currently receive.

The application for and implementation of such subsidies often involves compliance with extensive regulatory requirements, including, in the case of subsidies to be granted within the European Union, notification to the European Commission of the contemplated grant prior to disbursement. In particular, establishment of compliance with project-related ceilings on aggregate subsidies defined under European Union law often involves highly complex economic evaluations. If we fail to meet applicable formal or other requirements, we may not be able to receive the relevant subsidies or may be obliged to repay them, which could have a material adverse effect on our business.

The terms of certain of the subsidies we have received impose conditions which may limit our flexibility to utilize the subsidized facility as we deem appropriate, to divert equipment to other facilities, to reduce employment at the site, or to use related intellectual property outside the European Union. This could impair our ability to operate our business in the manner we believe is most cost effective.

We might be faced with product liability or warranty claims

Despite extensive quality assurance measures, there remains a risk that defects may occur in our products. The occurrence of such defects could give rise to warranty claims or to liability for damages caused by such defects and for consequential damages and could, moreover, impair the market's acceptance of our products. Both could have a material adverse effect on our business and financial condition. Although we have not to date faced any product liability claims, during the past two years Deutsche Telekom and Robert Bosch, two of our customers, have notified us of potential contractual warranty claims in respect of products supplied by us. In addition, other customers have raised warranty claims against us from time to time, and may do so in the future. See ''Business—Legal Matters—Litigation'' for a description of these and other proceedings.

We may be unable to successfully integrate businesses we acquire

We are increasingly engaged in acquiring other businesses, such as the April 2000 acquisition of the net assets of Savan Communications Ltd. and our April 2001 acquisition of Ardent Technologies Inc. We have also concluded an agreement for the purchase of Catamaran Communications Inc., which we expect will close in late summer 2001. We intend to continue acquisitions of, and investments in, other companies in the future. We face risks resulting from the expansion of our operations through acquisitions. These include the risk that we might be unable to integrate new businesses with our culture and strategies. We also cannot be certain that we will be able to achieve the benefits we expect from a particular acquisition or investment. For example, we may fail to retain the customers of the businesses we acquire, and we may fail to retain key employees. Acquisitions may also strain our managerial and operational resources, as the challenge of managing new operations may divert our managers and employees from monitoring and improving operations in our existing businesses. Our business, financial condition and results of operations may suffer if we fail to coordinate our resources effectively to manage both our existing businesses and any businesses we acquire.

Risks relating to our limited operating history as an independent entity

We may lose rights to key intellectual property arrangements

Given that Siemens either directly or indirectly holds more than 50% of our company's shares within the meaning of the applicable licenses, we are the indirect beneficiary of some of Siemens' intellectual property arrangements, including cross-license arrangements with other leading semiconductor companies and licenses from third parties of technology incorporated in our products and used to operate our business. We will no longer be a beneficiary under some of these agreements and arrangements if Siemens no longer owns or controls at least 50% of our company's shares within the meaning of the applicable licenses. Following completion of this offering, and assuming that the underwriters' over-allotment option is exercised in full, the direct equity interest of Siemens and Siemens Nederland N.V. in our company will be approximately 50.9%, assuming no conversion of outstanding bonds issued by Siemens Nederland N.V. and no exercise of outstanding options. Assuming the exchangeable bonds are fully exchanged, the direct percentage interest of Siemens and Siemens Nederland N.V. in our company after this offering would be 47.2%. In addition, following completion of this offering, and, assuming that the underwriters' over-allotment option is exercised in full, Siemens Pension Trust will own approximately 13.7% of the shares of our company. We understand that, under the Siemens Pension Trust documents, the pension trust may receive instructions from Siemens as to the voting of the shares while they are owned by the trust. Siemens and Siemens Nederland N.V. have on several occasions stated that they intend to divest their ownership interest in our company through direct or indirect sales or through dilution as and when business and market conditions permit. Any such transaction could occur at any time or from time to time.

We have negotiated our own patent cross-license agreements and arrangements with a number of the industry participants with which Siemens has patent cross-license agreements, and we are currently actively engaged in negotiating with additional third parties. However, we have not completed negotiations with respect to all such agreements and arrangements and cannot assure you that we will be able to do so successfully. Our success in negotiating patent cross-license agreements with other industry participants will depend upon the strength of our patent portfolio relative to that of the other party with which we are negotiating. If the other party benefits from an existing patent cross-license agreement with Siemens, it will retain the rights that it has under that agreement even after we cease to be a Siemens subsidiary, including rights to utilize the patents that Siemens transferred to us in connection with our formation. Our negotiating position may therefore be impaired because the other party will already be entitled to utilize a large number of our patents, while we no longer have the right to utilize that party's patents. As a result, we may be unable to obtain access to the other party's patent portfolio on favorable terms or at all.

If and when Siemens' ceases to own or control at least 50% of our company's shares, we may be exposed to infringement claims or lose access to important intellectual property. We cannot assure you that we would then be able to obtain or renegotiate licensing arrangements on favorable terms or at all. If we were to infringe technology owned by others or otherwise lose access to technology important in the conduct of our business, our business could be adversely affected.

Siemens may use all of the intellectual property rights it transferred to us at the formation of our company

In connection with our formation as a legal entity, Siemens transferred approximately 20,000 patent rights to us. Under the terms of this transfer and related agreements, however, Siemens retained the right to use these patent rights within the scope of its business for an unlimited period of time, subject to various restrictions in the case of patents relating to information handling systems. Siemens has also retained certain rights to cross-license our patents, except for certain patents relating to our information handling systems, to third parties, until such date as Siemens ceases to own or control more than 50% of the shares in our company. To the extent that Siemens does enter into any such licenses, they would continue in effect even after we ceased to be a majority-owned subsidiary of Siemens. This could weaken our negotiating position with the beneficiaries of such cross-licenses should we seek to conclude our own cross-license agreements with them.

Siemens has agreed with us that it will not engage in or carry out any research or development, production or distribution of semiconductor devices *per se*, except to the extent that we are unable or unwilling to provide these devices to Siemens. Siemens' obligations in this regard are subject to exceptions relating to application-specific semiconductor devices designed specifically for use in, or in connection with, products of the Siemens group. This non-competition agreement will expire on March 13, 2004 or two years following the point at which Siemens ceases to own or control more than 50% of our company's shares, whichever occurs earlier. After that time, should it ever decide to re-enter the semiconductor business, Siemens could use these patent rights to compete against us.

Siemens exercises partial control over some of our intellectual property rights

Siemens has retained the right to assert infringement claims against third parties with respect to approximately 15% of the 20,000 patent rights that it transferred to us, insofar as these patents relate to the technical field of the Siemens group's business activities. Siemens has agreed that it will not exercise this right against any of our customers in respect of any part of such customer's products that contains one of our products, unless this right is asserted for defensive purposes. Nevertheless, we can provide no assurance that these safeguards will be sufficient to protect all of our customers against claims by Siemens with respect to those of their products that incorporate technology covered by these patents. It may therefore be difficult for us to sell our products or grant licenses of these patents to third parties, and they may not be able to use our products without infringing these patents or incurring license fees to Siemens.

We may face difficulties in operating as an independent company

The Siemens group has historically provided us with a wide range of administrative, financial, information technology and other services. We believe that we incur similar levels of administrative expenses for these types of services now that we no longer operate as a division of Siemens. The financial information included in this prospectus for periods prior to our formation in March 1999 may not reflect the possible additional costs of our operating as an independent company over the long term.

We are in the process of re-engineering our information technology systems, which will require substantial financial and management resources. As part of this process, we intend to outsource portions of our information technology infrastructure and software. If we are not able to develop and implement this new information technology system in a timely manner or if our outsourcing proves to be unreliable, we may face delays in generating financial results or coordinating resource and production planning, and our delivery systems could be halted. Any delay or difficulties in the development or implementation of this new system or in integrating our outsourced information technology could hurt our business.

Our pre-formation financial information may not be representative of our results as an independent company

The financial information included in this prospectus for periods prior to the legal formation of our company has been prepared on a carve-out basis. We have made numerous adjustments and allocations in our financial information because Siemens did not account for us, and we did not operate, as a single stand-alone business for any period prior to April 1, 1999. The financial information included in this prospectus for these periods does not reflect many significant changes that have occurred in our operational arrangements as a separate company.

We cannot assure you that the adjustments and allocations that have been made in preparing our consolidated financial statements for the period prior to our formation reflect what our results would have been during those periods if our operations had been conducted on a stand-alone basis. Accordingly, the financial information included in this prospectus for periods prior to the formation of our company may not be indicative of future operating results or financial performance.

Siemens may exert control

Siemens currently holds, directly or indirectly, a majority equity interest in our company. It is therefore in a position to control actions that require shareholder approval, including the election of the shareholder representatives on our supervisory board, which appoints our management board. Siemens controls the outcome of the election of the eight shareholder representatives on our supervisory board. An additional eight members of the supervisory board are elected by labor representatives in accordance with the German law on co-determination. Four of the supervisory board members elected by the shareholders are not affiliated with Siemens. Two of the three members of the supervisory board's investment and finance committee are members of the management board of Siemens.

Even if Siemens ceases to own or control more than 50% of our company's shares, for so long as it continues to have a substantial equity interest in our company it may, as a practical matter, be in a position to control many or all actions that require shareholder approval. Under German law, for so long as Siemens holds more than 25% of the shares in our company, it will be in a position to block shareholder action on a variety of matters, including the exclusion of preemptive rights in a capital increase, or any capital decrease, merger, consolidation, spin-off, sale or other transfer of all or substantially all of our assets, a change in the corporate form or business purpose of our company or the dissolution of our company.

The Siemens group companies may have conflicts of interest that affect our ongoing business arrangements with them

We have, and will continue to have, extensive contractual and other business relationships with the Siemens group, including reliance on the Siemens group for some of our administrative functions, particularly the Siemens group's information technology systems. We also lease office and production space from the Siemens group. We may also engage in significant transactions from time to time with the Siemens group. Although we expect that any such transactions and agreements will be on terms no less favorable to us than we could obtain in comparable arrangements with unaffiliated third parties, conflicts of interest may arise between us and the Siemens group.

Sales of substantial numbers of shares in the public market could adversely affect the market price of the shares and ADSs

Siemens and Siemens Nederland N.V. have advised us that they intend to reduce their ownership stake and/or voting interest in our company through direct or indirect sales or through dilution as and when business and market conditions permit. Siemens and Siemens Nederland N.V. have also advised us that they have not decided what the next steps in this program will be or when they will occur. They have, however, indicated that they are considering a wide range of potential

alternative techniques and timetables for disposing of their remaining shares in our company. Any such transaction or transactions could occur at any time or from time to time. Sales of substantial numbers of shares in the public market by Siemens, or the perception that such sales may occur, could adversely affect the market price of the shares and ADSs and could adversely affect our ability to raise capital through subsequent offerings of equity.

USE OF PROCEEDS

If we sell all 52,174,000 shares we are offering (assuming all shares are sold in the form of shares and no exercise of the underwriters' over-allotment option), we will receive approximately €1,271,409,000, after deducting the underwriting discount and our estimated offering expenses. We intend to use the net offering proceeds to fund future capital expenditures and potential acquisitions, to repay short-term debt, and for working capital and other corporate purposes. Pending their use for these purposes, we intend to invest the net proceeds of this offering in interest-bearing, investment grade securities.

We seek on an ongoing basis to identify and evaluate potential acquisition targets, and from time to time we engage in discussions with such parties. Currently, however, there are no active negotiations, commitments or agreements with respect to any material acquisition, other than our agreement to acquire Catamaran in a share-for-share transaction.

DIVIDEND POLICY

We paid a dividend of €407 million (or €0.65 per share) in April 2001 in respect of the 2000 financial year. Payment of this dividend allows us to take advantage of the differential between German tax rates on undistributed and distributed earnings. We do not expect to declare dividends for the next few years. We intend to retain future earnings for investment in the development and expansion of our business.

All shares offered by this prospectus will have the same dividend rights as all of our other outstanding shares. Any distribution of dividends jointly proposed by our management and supervisory boards requires the approval of our shareholders in a general meeting. The section "Description of Shares—Dividend Rights" explains in more detail the procedures we must follow and the German law provisions that determine whether we are entitled to declare a dividend.

For information regarding the German withholding tax applicable to dividends and related United States refund procedures, see "Taxation—German Taxation".

MARKET INFORMATION

General

The principal trading market for our company's shares is the Frankfurt Stock Exchange. Options on the shares trade on the German options exchange *(Eurex Deutschland)* and other exchanges. All of our company's shares are in registered form.

ADSs, each representing one share, are listed on the New York Stock Exchange and trade under the symbol IFX. The depositary for the ADSs is Morgan Guaranty Trust Company of New York.

Trading on the Frankfurt Stock Exchange

Deutsche Börse AG operates the Frankfurt Stock Exchange, which is the most significant of the eight German stock exchanges. The Frankfurt Stock Exchange (including transactions through the Xetra (Exchange Electronic Trading) system) accounted for approximately 88% of the turnover in exchange-traded shares in Germany in 2000. As of December 31, 2000, the shares of 5,694 companies traded on the official, regulated and unregulated markets and the Neuer Markt segment of the Frankfurt Stock Exchange. Of these, 905 were German companies and 4,789 were foreign companies.

Trading on the floor of the Frankfurt Stock Exchange begins every business day at 9:00 a.m. and ends at 8:00 p.m., Central European Time. Securities listed on the Frankfurt Stock Exchange generally trade in the auction market, but also change hands in interbank dealer markets. Publicly commissioned stock brokers who are members of the Frankfurt Stock Exchange, but who do not as a rule deal with the public, note prices, which are determined by out-cry. The prices of actively traded securities, including the shares of large corporations, are continuously quoted during trading hours. For all securities, a fixed price (*Einheitskurs*) is established at approximately midday on each day the Frankfurt Stock Exchange is open for business.

Deutsche Börse publishes an official daily list of quotations containing the fixed prices (*Einheitskurse*) for all traded securities. The list is available on the internet at http://www.deutsche-boerse.com under the heading ''Market Data''.

Transactions on the Frankfurt Stock Exchange (including transactions through the Xetra system) settle on the second business day following the trade. Transactions off the Frankfurt Stock Exchange (such as, for example, large trades or transactions in which one of the parties is foreign) generally also settle on the second business day following the trade, although a different period may be agreed to by the parties. Under standard terms and conditions for securities transactions employed by German banks, customers' orders for listed securities must be executed on a stock exchange unless the customer gives specific instructions to the contrary.

The Frankfurt Stock Exchange can suspend a quotation if orderly trading is temporarily endangered or if a suspension is deemed to be necessary to protect the public.

The Federal Supervisory Authority for Securities Trading (*Bundesaufsichtsamt für den Wertpapierhandel*) monitors trading activities on the German stock exchanges.

Since January 4, 1999, all shares on German stock exchanges have traded in euro.

Our company's shares have traded on the Frankfurt Stock Exchange since March 13, 2000. The table below sets forth, for the periods indicated, the high and low closing sales prices for our

company's shares on the Frankfurt Stock Exchange, as reported by the Frankfurt Stock Exchange Xetra trading system:

	Price per share	
	High	Low
Financial year ended September 30, 2000 (from March 13)	€92.50	€51.56
April 2000 through June 2000	92.50	51.56
July 2000 through September 2000	88.70	54.88
October 2000 through December 2000	56.42	38.72
January 2001 through March 2001	47.99	35.08
April 2001 through May 2001	49.75	38.25
January 2001	47.99	37.85
February 2001	47.50	36.03
March 2001	46.10	35.08
April 2001	49.75	38.25
May 2001	49.00	39.85
June 2001	41.28	27.39
July 2001 (through July 12)	29.12	24.30

On July 12, 2001, the closing sales price per share on the Frankfurt Stock Exchange, as reported by the Xetra trading system, was €26.00, equivalent to $22.18 per share (translated at the noon buying rate on July 12, 2001).

Trading on the New York Stock Exchange

ADSs representing our company's shares have traded on the New York Stock Exchange since March 13, 2000. The table below sets forth, for the periods indicated, the high and low closing sales prices for the ADSs on the New York Stock Exchange:

	Price per ADS	
	High	Low
Financial year ended September 30, 2000 (from March 13)	$87.31	$47.44
April 2000 through June 2000	87.31	52.06
July 2000 through September 2000	82.75	47.44
October 2000 through December 2000	49.69	35.50
January 2001 through March 2001	45.56	32.80
April 2001 through May 2001	44.25	33.45
January 2001	45.56	36.00
February 2001	44.55	32.80
March 2001	41.15	33.58
April 2001	44.25	33.45
May 2001	43.90	34.00
June 2001	35.56	23.45
July 2001 (through July 12)	24.31	20.36

On July 12, 2001, the closing sales price per ADS on the New York Stock Exchange was $22.44.

EXCHANGE RATES

Fluctuations in the exchange rate between the euro and the U.S. dollar will affect the U.S. dollar amounts received by owners of shares or ADSs on conversion of dividends, if any, paid in euro on the shares and will affect the U.S. dollar price of the ADSs on the New York Stock Exchange. In addition, to enable you to ascertain how the trends in our financial results might have appeared had they been expressed in U.S. dollars, the table below shows the average exchange rates of U.S. dollars per euro for the periods shown.

Since the euro did not exist prior to January 1, 1999, we cannot present actual exchange rates between the euro and the U.S. dollar for earlier periods in our audited consolidated financial statements and in the other financial information discussed in this prospectus. For all periods prior to the creation of the euro on January 1, 1999, this information has been calculated using the noon buying rates for the Deutsche Mark per $1.00 for each period, as translated into euro at the official fixed rate of €1.00 = DEM 1.95583. The average is computed using the noon buying rate for the Deutsche Mark or euro on the last business day of each month during the period indicated.

Average exchange rates of U.S. dollars per euro

Financial year ended September 30,	Average
1996	1.3198
1997	1.1632
1998	1.0982
1999	1.0954
2000	0.9564
October 2000 through March 2001	0.8980

The table below shows the high and low noon buying rates for euro in U.S. dollars per euro for each month from December 2000 through May 2001:

Recent high and low exchange rates of U.S. dollars per euro

	High	Low
January 2001	0.9535	0.9181
February 2001	0.9395	0.9057
March 2001	0.9340	0.8794
April 2001	0.9032	0.8814
May 2001	0.8937	0.8547
June 2001	0.8628	0.8425
July 2001 (through July 12)	0.8614	0.8370

The noon buying rate for euro on July 12, 2001 was €1.00 = $0.8530.

CAPITALIZATION

The following table sets forth, as of March 31, 2001:

- our actual consolidated capitalization; and
- our consolidated capitalization as adjusted to reflect the sale of the shares we are selling in this offering, after deducting the underwriting discount and our estimated offering expenses (assuming no exercise of the underwriters' over-allotment option).

As indicated in the Recent Developments and Outlook section of Management's Discussion and Analysis of Financial Condition and Results of Operations, we expect to incur a loss before interest and income taxes of up to €600 million for the three months ended June 30, 2001. No adjustment has been made in the capitalization table below for the reduction in shareholders' equity resulting from such projected net loss, net of income tax benefits, to be incurred for the three months ended June 30, 2001.

	March 31, 2001	
	Actual	As adjusted
	(€ in millions)	
Long-term debt, excluding current portion	163	249[1]
of which:		
guaranteed	163	249
unguaranteed	—	—
secured	43	123
unsecured	120	126
Shareholders' equity:		
Ordinary share capital	1,252	1,357[2]
Additional paid-in capital	3,281	4,474[2]
Retained earnings	1,495	1,088[3]
Accumulated other comprehensive income	83	83
Total shareholders' equity	6,111	7,002
Total capitalization	6,274	7,251

(1) As adjusted for an €86 million increase in long-term debt, excluding current portion through May 31, 2001.

(2) As also adjusted for an increase of €1 million in ordinary share capital and €26 million in additional paid in capital relating to the acquisition of Ardent Technologies, Inc.

(3) As adjusted for a dividend of €407 million paid in April 2001.

Through March 31, 2001, we had granted options to purchase 10,794,678 shares to our management and some of our employees.

SELECTED CONSOLIDATED FINANCIAL DATA

You should read the following selected consolidated financial data in conjunction with our consolidated financial statements, the related notes and "Management's Discussion and Analysis of Financial Condition and Results of Operations", all of which appear elsewhere in this prospectus.

We have derived the selected consolidated statement of operations data for the 1997, 1998, 1999 and 2000 financial years and the selected consolidated balance sheet data at September 30, 1997, 1998, 1999 and 2000 from our consolidated financial statements, which have been prepared in accordance with U.S. GAAP and audited by KPMG Deutsche Treuhand-Gesellschaft AG, independent accountants. We have derived the amounts shown for the 1996 financial year from our unaudited condensed consolidated financial statements and from our internal accounting records. We have derived the amounts shown for the six months ended March 31, 2000 and 2001 from our unaudited financial statements. Our financial statements for the 1996 financial year and for the six months ended March 31, 2000 and 2001 have been prepared in accordance with U.S. GAAP, and we believe that they have been prepared on a basis substantially consistent with the audited consolidated financial statements contained elsewhere in this prospectus.

We have adopted the euro as our reporting currency effective October 1, 1999 and have translated the amounts shown for all periods prior to that date from Deutsche Mark into euro using the official exchange rate of €1.00 = DEM 1.95583. Note 2 (Summary of Significant Accounting Policies) to our audited consolidated financial statements explains how the amounts in these statements were translated.

Siemens AG and its wholly owned subsidiary, Siemens Nederland N.V., took the initial legal steps to found our company on March 30, 1999. The capital of our company was contributed by our founders according to the deed of incorporation as an in-kind contribution. Each of our founders signed a contribution agreement (*Einbringungsvertrag*) with us on March 31, 1999, pursuant to which Siemens AG and Siemens Nederland N.V. contributed to us substantially all of the Siemens group's semiconductor-related businesses and investments, subject to the following qualifications:

- the Siemens group retained ownership of the North Tyneside wafer fabrication facility and responsibility for the related liabilities, including the related capital lease obligations;
- Siemens AG retained rights permitting the Siemens group companies to use within the scope of their business the patents and other intellectual property rights assigned to us in connection with our formation. See "Business—Intellectual Property";
- Siemens AG did not transfer to us a small number of guarantees and financing arrangements where it was not feasible to do so for legal, technical or practical reasons. Instead, Siemens AG initially retained its obligations under these arrangements, and our company has provided Siemens AG with an indemnity against any losses it may suffer as a result of these arrangements; and
- Siemens AG retained ownership of several properties located in the United States that were formerly used in its semiconductor business.

We were entered into the commercial register of Munich, Germany, as a stock corporation on July 14, 1999 under the number HRB 126492.

For all periods following the formation of our company, we have presented our consolidated financial statements and selected consolidated financial data including the accounts of our company and all of our significant subsidiaries. For all periods prior to the formation of our company, we have presented our consolidated financial statements and the selected consolidated financial data as if we had been organized as a separate legal entity. In doing so, we have made the following assumptions:

- We have reported the assets and liabilities relating to the North Tyneside facility on our balance sheet for all dates through November 30, 1998, the date on which production at the facility ceased. We have reported the results of operations of North Tyneside in our consolidated statements of operations for all periods through November 30, 1998. Effective December 1, 1998, neither the assets and liabilities nor the results of operations of North Tyneside are reflected in our consolidated financial statements.
- In order to better present what our results of operations would have been had we been a separate legal entity during all periods presented, we have assumed that we are responsible for various income taxes and entitled to various tax benefits relating to periods prior to our legal formation for purposes of preparing our consolidated statements of operations and selected consolidated statement of operations data. We have not, however, reflected these tax benefits in our consolidated balance sheets and selected consolidated balance sheet data, as these tax benefits legally belong to and were utilized by Siemens.
- We have assumed that a number of transactions entered into in contemplation of or in connection with our formation as a legal entity had taken place on September 30, 1995.

Our consolidated financial statements prior to our formation as a company may not necessarily be indicative of what our results of operations, financial position and cash flows would have been had we operated as a separate company during the periods presented, nor are they an indicator of future performance. Note 1 (Description of Business, Formation and Basis of Presentation) to our audited consolidated financial statements explains the methods used to prepare this financial data.

Selected Consolidated Financial Data

	As of and for the financial year ended September 30,[1]						As of and for the six months ended March 31,[1]		
	1996[2]	1997	1998	1999	2000	2000[2][3]	2000	2001	2001[4]
	(in millions, except per share data)						(unaudited)		
Selected consolidated statement of operations data									
Net sales	€2,350	€2,885	€3,175	€4,237	€7,283	$ 6,436	€3,073	€3,309	$ 2,910
Cost of goods sold	(1,743)	(2,220)	(2,728)	(3,011)	(4,110)	(3,632)	(1,903)	(2,192)	(1,928)
Gross profit	607	665	448	1,227	3,172	2,803	1,170	1,117	982
Research and development expenses	(370)	(457)	(637)	(739)	(1,025)	(906)	(441)	(527)	(463)
Selling, general and administrative expenses	(223)	(367)	(481)	(551)	(670)	(592)	(303)	(399)	(351)
Restructuring charge for North Tyneside[5]	—	—	(816)	—	—	—	—	—	—
Other operating income (expense), net	40	(21)	(9)	(2)	2	1	—	202	178
Operating income (loss)	53	(180)	(1,496)	(64)	1,479	1,307	426	393	346
Interest income (expense), net, inclusive of subsidies	49	45	(35)	43	75	66	10	15	13
Equity in earnings (losses) of associated companies	3	(56)	(151)	34	101	90	60	58	51
Gain on associated company share issuance[6]	—	—	—	—	53	47	—	—	—
Other income, net	1	1	2	18	36	32	11	4	4
Minority interests	(1)	(1)	(1)	—	(6)	(5)	(6)	—	—
Income (loss) before income taxes	105	(192)	(1,682)	31	1,738	1,536	501	471	414
Income tax benefit (expense)	12	96	907	30	(612)	(541)	(222)	(169)	(148)
Net income (loss)	€ 117	€ (95)	€ (775)	€ 61	€1,126	$ 995	€ 279	€ 303	$ 266
Basic and diluted income (loss) per share[7]	0.19	(0.16)	(1.29)	0.10	1.83	1.66	0.46	0.48	0.43
Basic and diluted income (loss) per ADS[7]	0.19	(0.16)	(1.29)	0.10	1.83	1.66	0.46	0.48	0.43
Dividends declared per share[8]	n/a	n/a	n/a	—	0.65	n/a	—	—	—
Dividends declared per ADS[8]	n/a	n/a	n/a	—	n/a	0.57	—	—	—
Selected consolidated balance sheet data									
Cash and cash equivalents	10	15	12	30	511	451	687	123	109
Working capital, excluding cash and cash equivalents	945	560	887	444	870	769	893	872	766
Total assets	3,562	4,595	4,760	6,445	8,853	7,823	7,192	8,781	7,722
Short-term debt, including current portion of long-term debt	139	176	106	495	138	122	147	319	281
Long-term debt, excluding current portion	688	889	893	135	128	113	140	163	143
Shareholders' equity	1,870	2,228	2,096	3,656	5,806	5,131	4,855	6,111	5,374
Selected consolidated operating data									
Net cash used in investing activities	—	(1,656)	(959)	(918)	(2,327)	(2,056)	(784)	(568)	(499)
Net cash provided by (used in) operating activities	—	496	(185)	469	2,080	1,838	681	(8)	(7)
Depreciation and amortization expenses	(478)	(597)	(578)	(573)	(834)	(737)	(363)	(504)	(444)

(1) Columns may not add due to rounding.

(2) Unaudited.

(3) Converted from euro into dollars at an exchange rate of €1.00 = $0.8837, which was the noon buying rate on September 29, 2000.

(4) Converted from euro into dollars at an exchange rate of €1.00 = $0.8794, which was the noon buying rate on March 30, 2001.

(5) Consists of amounts attributable to the wafer fabrication facility located in the North Tyneside area of northern England, which was shut down in 1998. See ''Management's Discussion and Analysis of Financial Condition and Results of Operations''.

(6) In May 2000, ProMOS shareholders approved the distribution of employee bonuses in the form of shares. As a result of this distribution, our interest was diluted to 33%, while our proportional share of ProMOS' shareholders' equity increased by €53 million, which increase is reflected as non-operating income in our 2000 financial year.

(7) 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 six months ended March 31, 2001, the weighted average number of our company's shares outstanding was 625,538,058, or 625,867,544 on a fully diluted basis.

(8) 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.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

You should read the following discussion of our financial condition and results of operations in conjunction with our consolidated financial statements and the related notes and the other financial information included elsewhere in this prospectus. Our audited consolidated financial statements have been prepared on the basis of a number of assumptions, as more fully explained in "Selected Consolidated Financial Data" and Notes 1 (Description of Business, Formation and Basis of Presentation) and 2 (Summary of Significant Accounting Policies) to our audited consolidated financial statements appearing elsewhere in this prospectus.

We have adopted the euro as our reporting currency in our consolidated financial statements and have translated all Deutsche Mark amounts at the fixed official exchange rate of €1.00 = DEM 1.95583. Although these statements depict the same trends as would have been shown had we presented them in Deutsche Mark, you should be aware that they may not be directly comparable to the financial statements of other companies that have also been restated in euro. Prior to the adoption of the euro, the currencies of other countries fluctuated against the Deutsche Mark, but because the euro did not exist prior to January 1, 1999, actual historical exchange rates for euro are not available. A comparison of our financial statements and those of another company that had historically used a reporting currency other than the Deutsche Mark that takes into account actual fluctuations in exchange rates could give you a different impression than a comparison of our financial statements and those of another company as translated into euro. Note 2 (Summary of Significant Accounting Policies) to our audited consolidated financial statements explains how the amounts in these statements were translated.

Overview

We are a leading innovator in the international semiconductor industry. We design, develop, manufacture and market a broad range of semiconductors and complete system solutions targeted at selected industries. We are the successor to the Siemens Semiconductor Group and have actively participated in the semiconductor industry since 1952.

We have achieved substantial growth in net sales and increased market share in recent years. Net sales increased from €2,350 million in the 1996 financial year to €7,283 million in the 2000 financial year, a compound annual growth rate of approximately 33%. We have achieved this growth by:

- significantly increasing revenues from our sales of memory products;
- focusing on higher-growth areas of the semiconductor market, in particular communications and security applications;
- changing the focus of our sales efforts from the commodity market to selected major customers that themselves demonstrate rapid growth;
- continuing to invest in the future by maintaining a high level of research and development expenditure. We believe that our investment in research and development has resulted in technology and products that position us well to benefit from future growth in the industry;
- developing our portfolio of logic products, sales of which tend to be less subject to cyclical fluctuation than sales of memory products;
- improving our manufacturing productivity by maintaining our leadership in semiconductor process technologies; and
- reducing the time required to bring new products from the initial design stage to volume production, commonly referred to as the time-to-market.

Net sales for the six months ended March 31, 2000 and 2001 were €3,073 million and €3,309 million, respectively. Despite continued growth in most of our business groups, this figure was substantially adversely affected by:

- a significant decline in DRAM prices reflecting adverse market conditions; and
- reduced demand for semiconductor products for wireless applications resulting from a significant decline in the growth rate of sales of wireless handsets worldwide.

DRAM Market

Despite substantial growth in net sales, our results of operations have been profoundly affected, both positively and negatively, by fluctuations in portions of the semiconductor industry. The market for DRAM in particular recovered in 1999 and 2000 from the severe downturn it had experienced from 1996 through early 1999. According to industry data, worldwide sales of DRAM declined from a peak of approximately $41 billion in 1995 to $14 billion in 1998. By 2000, worldwide sales of DRAM had risen to approximately $29 billion. During the period from 1995 to 2000, worldwide sales in unit terms increased from 13 billion to 252 billion megabits.

The downturn from 1996 through early 1999 to a large extent reflected substantial excess production capacity for DRAM within the semiconductor industry. According to industry data, additions to worldwide semiconductor fabrication capacity in the period from 1996 through 1998 substantially exceeded capacity reductions due to obsolescence over the same period. This development contributed to an increase of supply, which outstripped the increase in demand over this period. As a result, our per-megabit average selling prices for DRAM declined by 65% in the 1998 financial year and 21% in the 1999 financial year, rose by 11% in the 2000 financial year and then declined by 55% in the six months ended March 31, 2001. The downturn in earlier years and in the six months ended March 31, 2001 hurt the profitability of our DRAM business. Losses before interest, minority interests and taxes from our Memory Products segment amounted to €977 million in the 1998 financial year and to €238 million in the 1999 financial year.

In the 2000 financial year, however, the pricing environment was favorable, as a result of which our Memory Products segment achieved earnings before interest, minority interests and taxes (EBIT) of €1,336 million, representing 80% of our consolidated EBIT. The Memory Products segment had a loss before interest, minority interests and taxes of €69 million for the six months ended March 31, 2001.

DRAM remains an important part of our business, and we believe that our technological leadership in this area positions us well to compete effectively in terms of costs. We also believe that our DRAM operations enhance our logic ICs business by providing us with important manufacturing efficiencies and product synergies. See ‘‘Business—Strategy’’.

Recent Acquisitions and Equity Investments

In March 2001, we entered into a joint venture agreement with United Microelectronics Corporation (UMC) and EDB Investments, a Singapore governmental entity, to construct and operate a 300-millimeter production facility in Singapore. We will receive a 30% ownership interest in the venture, in exchange for our contribution of specified technology and aggregate cash contributions of approximately $473 million. Additionally, we have entered into a foundry capacity agreement with the joint venture that provides for certain minimum purchase volume commitments.

In April 2001, we acquired Ardent Technologies for 706,714 of our company’s shares, valued at approximately €39 million. Ardent is a California based fabless supplier of high-bandwidth integrated circuits for local area network (LAN) switching systems. Shares representing approximately €13.5 million of the total purchase price will be released to the former Ardent shareholders only upon

Ardent's achievement of certain performance-related conditions or the continued employment of key employees.

In April 2001, we entered into an agreement to acquire Catamaran Communications Inc., in exchange for 6,373,435 of our company's shares valued at $250 million, a portion of which will be released to Catamaran's shareholders only upon the satisfaction of certain performance-related conditions. Catamaran is a California based fabless communications semiconductor company focused on integrated circuits for the next-generation 40 gigabit-per-second segment and the 10 gigabit-per-second segment of the optical networking market. The transaction is subject to regulatory and other closing procedures and is expected to be finalized in late summer 2001.

In May 2001, we formed Ingentix, a joint venture with Saifun Semiconductors Ltd. Ingentix will develop, manufacture and market flash memory products based on Saifun's patented Nitrided Read Only Memory (NROM) technology. We will receive a 51% interest in Ingentix in exchange for a cash capital contribution of $17.2 million. We will also make a loan to Ingentix of approximately $7 million.

In earlier periods we completed acquisitions and strategic investments which are described more fully elsewhere in this prospectus. See ''Business—Acquisitions, Joint Ventures and Financial Investments''.

Segment Reorganizations

As a result of the sale of our image and video business, we have reclassified the results of that business for all periods after September 30, 2000, from our Wireline Communications segment, in which they were previously reported, to our Other operating segment. We have also reclassified the results of our infrared components business from our Wireline Communications segment, in which they were previously reported, to our Other operating segment. In addition, the Other operating segment includes the results of certain activities previously reported under corporate and reconciliation. These reclassifications were made in order to facilitate analysis of our current and future operating segment information. The segment results for financial years 1998, 1999 and 2000 have been reclassified to be consistent with current period presentation and have been included in note 17 to our unaudited condensed consolidated financial statements for the six months ended March 31, 2001 to facilitate such analysis. We have made these changes to align the affected businesses with segments that more closely share their customer and market profiles.

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 locating 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, which we understand was done in connection with the dividend paid pursuant to the resolution of our company's annual general meeting of April 6, 2001. We intend to refinance this loan through the use of existing credit lines or new sources of funding. Previously, we depended on investments, advances and other funding from Siemens to fund our operations. These investments, advances and other funding, net, amounted to €229 million in the 1998 financial year and €1,322 million in the 1999 financial year. We also received additional capital contributions of €26 million in the 1999 financial year. For more information about our relationship with Siemens, see ''Transactions and Relationship between Infineon and the Siemens Group''.

ProMOS and Mosel Vitelic

During the 2000 financial year, we entered into new technology transfer agreements with ProMOS that included 300-millimeter wafer fabrication technology and several generations of semiconductor production process technology, including 0.17, 0.14 and 0.12 micron technology. We

have also agreed to provide technology improvements and on-going technological support. As part of this agreement we will receive certain lump-sum payments relating to these licenses upon delivery or qualification of the technology transferred and, additionally, royalty payments based on sales of specified products. The first technology qualification was completed in September 2000.

In conjunction with our discussions with ProMOS, we have also restructured existing agreements and entered into new agreements with Mosel Vitelic, the majority shareholder of ProMOS. These agreements encompass new products and the 0.19 micron technology, and we have agreed to provide design information to Mosel Vitelic with respect to some of the process technology licensed to ProMOS. As part of these agreements, we rescheduled payments of approximately $108 million of license fees to be paid by Mosel Vitelic to us for technology previously transferred to Mosel Vitelic. The $108 million has not been recognized in our consolidated financial statements during any period prior to September 30, 2000. The $108 million will be recognized as revenue over the life of the new agreements.

Additionally, in our 2000 financial year and in connection with the above-mentioned restructured agreements, we recognized approximately €138 million of technology license revenue related to technology transferred to Mosel Vitelic. This revenue was previously deferred but has now been recognized because performance under the related contracts has been completed and all amounts have been realized.

Production Capacity

In financial year 2000 we experienced severe capacity constraints. In recent months, although we have continued to experience capacity constraints in certain of our product categories within the Automotive & Industrial and Security & Chip Card ICs business groups, we have had excess production capacity in other segments. At the same time, we have chosen to maintain full production levels in certain longer life-cycle products despite declines in demand for those products in recent months, resulting in increasing inventory. Lower than anticipated demand for ICs used in mobile telephone handsets has recently resulted in higher levels of inventory and temporary excess capacity in our facilities supplying these markets. In addition, given the specific economics of DRAM production, our management has elected to continue DRAM production at full capacity although market demand has declined. Our management believes that the declines in market demand described above are cyclical in nature and that a return of more normalized market conditions will alleviate such excess capacity and reduce inventory levels. In order to meet anticipated future demand and address continuing capacity constraints in certain areas, we are making significant investments in the expansion of our existing sites and in some areas are also increasing our cooperation with foundries. In particular, we are converting older 6-inch production lines to the use of 8-inch wafers, and continuing along our roadmap to smaller geometries. We are currently constructing a 300-millimeter production facility in Dresden, Germany, which was ready for equipment installation in April 2001. We are also expanding our Richmond facility to be able to produce semiconductors using 300-millimeter wafers. In March 2001, we entered into an agreement to participate in the construction of a 300-millimeter wafer foundry facility in Singapore.

Subsidies

In recent years, our reported expenses have been reduced by the recognition of various subsidies received from governmental entities. The following table shows the amount of such subsidies recognized and the expense items to which they relate for each of the periods shown:

Subsidies Recognized

	Financial Year			Six months ended March 31,
	1998	1999	2000	2001
		(€ in millions)		
Interest subsidies	41	41	63	—
Research and development	42	33	41	30
Other	14	18	11	5
	97	92	115	35

The interest subsidies we have recognized reflect amounts received from the German federal state of Saxony in respect of our Dresden manufacturing facility. Research and development subsidies relate to a large number of individual projects, including our new 300-millimeter facility in Dresden and our initiative to develop new logic products. Other subsidies relate to our production activities and primarily reflect amounts received in 1998, 1999 and 2000 in respect of our Dresden and Porto facilities. The absence of interest subsidies in the six months ended March 31, 2001 reflects the repayment of indebtedness to Commerzbank at the end of the 2000 financial year. See ''—Liquidity and Capital Resources—Capital Requirements''.

We have also received governmental grants that have reduced the cost basis of our fixed assets, primarily at our Dresden facility and our former North Tyneside facility. These grants amounted to €29 million in the 1998 financial year, €0.6 million in the 1999 financial year, €0.1 million in the 2000 financial year and zero in the six months ended March 31, 2001.

In some cases, we may be required to repay subsidies and governmental grants if we do not meet the conditions specified by their grant or applicable law. Grants of €28 million relating to the North Tyneside facility were repaid by the Siemens group in May 1999. This amount is included in the restructuring charge we recorded in the 1998 financial year.

Information Technology

In November 1999, we initiated a project to restructure our information technology activities worldwide to implement standardized business processes, outsource some of our non-core activities and introduce standard software, hardware and information technology systems in all of our locations. We expect this initiative to be completed by 2004, by which time we expect to be fully independent from the information technology systems of Siemens and to have replaced all Siemens legacy systems. The costs of implementing this project are expected to exceed €500 million.

Exchange Rates

In recent periods, our net sales and results of operations have been positively affected by the weakness of the euro against the dollar, as many of our products are priced in dollars, but most of our expenses are incurred in euro. Since its introduction on January 1, 1999, the euro has declined substantially against the dollar, from €1.00 = $1.1812 on January 1, 1999, to €1.00 = $0.8794 on March 30, 2001. The noon buying rate for euro on July 12, 2001 was €1.00 = $0.8530.

Recent Developments and Outlook

Market conditions in the semiconductor industry deteriorated throughout the three months ended June 30, 2001. Based upon our unaudited internal condensed consolidated financial statements for the two months ended May 31, 2001 and our review of conditions within our business units to date, we expect that our revenues in the quarter ended June 30, 2001 will have declined by up to 30%, as compared to the quarter ended March 31, 2001. We also expect to incur a loss before interest and income taxes of up to €600 million for the quarter ended June 30, 2001.

The results for the quarter were negatively affected by declining demand and reduced product prices in most of our business segments. Towards the end of the quarter, pricing pressure intensified and we also experienced significant order cancellations. As a result, the expected loss includes charges in connection with writing off inventories we no longer believe to be saleable, and with writing down the value of saleable inventories, in all segments other than our Automotive & Industrial segment. The inventory adjustments are expected to range from €180 million to €220 million for the quarter. The adjustments are expected to be made primarily in the Memory Products business group and the Wireless Communications business group.

The adverse market conditions during the quarter ended June 30, 2001 affected most of our business segments:

- We see no clear signs of a recovery in mobile telephone demand, which is negatively affecting the operating results of our Wireless Communications segment. During the quarter ended June 30, 2001, we experienced significant order cancellations from several of our principal customers, particularly towards the end of the quarter. Customers also postponed deliveries under existing purchase contracts. These cancellations and postponements reduced the revenues of the Wireless Communications segment and resulted in rising inventories and falling prices.

- Continued weak demand for memory products, particularly for PCs, during the quarter ended June 30, 2001 resulted in further sharp declines in sales prices for our memory products. As prices declined during the quarter, we sold certain products at prices below their inventory value. Decreased demand, lower overall shipments and price erosion significantly reduced the revenues of our Memory Products segment and left us with higher inventory levels at the end of the quarter.

- Our Wireline Communications segment experienced order cancellations and heavy price pressures due to weak demand. While demand for traditional telecommunications products, such as semiconductors for ISDN and line card applications, remained relatively strong, demand for ICs used in fibre optics and other newer applications declined significantly. The reduced demand and lower prices resulted in lower revenues and increasing inventories in this segment.

- Our Other operating segment, which includes our Security & Chip Card ICs business, also experienced order cancellations and heavy price pressures due to weak demand, primarily for chip card ICs used in mobile telephone handsets. Declining demand led to pricing pressure and increasing inventories, and resulted in reduced revenues in this segment.

- Demand for products in our Automotive & Industrial segment remained strong and we did not experience significant pricing pressure during the quarter.

In response to the current market situation, we have implemented measures to reduce our future operating expenses. We have announced a hiring freeze and do not generally intend to replace personnel lost through attrition. We had already reduced our planned capital expenditures for

the 2001 financial year by €500 million, to approximately €2.3 billion. We have also reduced our budgeted capital expenditures for the 2002 financial year by approximately €1 billion, to €1.5 to €2 billion.

The current uncertainties in the semiconductor market make it difficult for us to forecast with any degree of certainty our results for the fourth quarter of this financial year. If the current negative market conditions and trends continue during the fourth quarter, we would expect to incur net losses in both the fourth quarter and the 2001 financial year as a whole.

Results of Operations

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

Results of Operations by Segment and Region

	Financial year ended September 30,[1]					
	1998		1999		2000	
	(in millions, except percentages)					
Net sales by segment:						
Wireless Communications	€ 686	22%	€ 865	20%	€1,221	17%
Wireline Communications[2]	509	16	499	12	664	9
Automotive & Industrial	606	19	665	16	880	12
Memory Products	669	21	1,406	33	3,473	48
Other[2][3]	634	20	723	17	953	13
Corporate and Reconciliation	71	2	79	2	90	1
Total	€ 3,175	100%	€4,237	100%	€7,283	100%
Net sales by geographic region:						
Germany	€ 1,077	34%	€1,241	29%	€1,612	22%
Other Europe	783	25	1,203	28	1,647	23
United States	626	20	827	20	1,814	25
Asia/Pacific	649	20	899	21	2,100	29
Other	39	1	67	2	110	2
Total	€ 3,175	100%	€4,237	100%	€7,283	100%
EBIT[4]						
Wireless Communications	€ 121		€ 182		€ 261	
Wireline Communications[2]	21		22		46	
Automotive & Industrial	41		23		69	
Memory Products	(977)		(238)		1,336	
Other[2][3]	33		58		77	
Corporate and Reconciliation[5]	(885)		(60)		(120)	
Total	€(1,645)		€ (13)		€1,670	

	Six months ended March 31,[1]			
	2000		2001	
	(unaudited) (in millions, except percentages)			
Net sales by segment:				
Wireless Communications	€ 570	19%	€ 633	19%
Wireline Communications[2]	289	9	438	13
Automotive & Industrial	395	13	541	16
Memory Products	1,333	43	1,013	31
Other[2][3]	442	14	655	20
Corporate and Reconciliation	42	1	28	1
Total	€3,073	100%	€3,309	100%
Net sales by geographic region:				
Germany	€ 734	24%	€ 969	29%
Other Europe	744	24	760	23
United States	758	25	797	24
Asia/Pacific	786	26	732	22
Other	50	2	51	2
Total	€3,073	100%	€3,309	100%
EBIT[4]				
Wireless Communications	€ 126		€ 77	
Wireline Communications[2]	35		70	
Automotive & Industrial	19		75	
Memory Products	324		(69)	
Other[2][3]	40		281	
Corporate and Reconciliation	(46)		23	
Total	€ 497		€ 456	

(1) Columns may not add due to rounding.

(2) As a result of the sale of our image and video business, we have reclassified the results of that business for all periods after September 30, 2000 from our Wireline Communications segment, in which they were previously reported, to our Other operating segment. We have also reclassified the results of our infrared components business from our Wireline Communications segment, in which they were previously reported, to our Other operating segment. In addition, the Other operating segment includes the results of certain activities previously reported under corporate and reconciliation. These reclassifications were made to facilitate analysis of our current and future operating segment information. The segment results for financial years 1998, 1999 and 2000 have been reclassified to be consistent with current period presentation and have been included in note 17 to our unaudited condensed consolidated financial statements for the six months ended March 31, 2001.

(3) Includes our Security & Chip Card ICs business group and our opto components business that is conducted through a joint venture with OSRAM, a Siemens subsidiary. We are currently in negotiations to sell our interest in the joint venture to OSRAM.

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

(5) Includes the North Tyneside restructuring charge of €816 million.

The following table sets forth the various items of our consolidated statement of operations since the 1996 financial year expressed as percentages of net sales:

Results of Operations in %

	Financial year ended September 30,[1]					Six months ended March 31,[1]	
	1996[2]	1997	1998	1999	2000	2000	2001
						(unaudited)	
Net sales	100.0%	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)	(61.9)	(66.2)
Gross profit	25.8	23.1	14.1	28.9	43.6	38.1	33.8
Research and development expenses	(15.8)	(15.8)	(20.1)	(17.4)	(14.1)	(14.3)	(15.9)
Selling, general and administrative expenses	(9.5)	(12.7)	(15.2)	(13.0)	(9.2)	(9.9)	(12.1)
Restructuring charge relating to North Tyneside	—	—	(25.7)	—	—	—	—
Other operating income (expense), net	1.7	(0.7)	(0.3)	(0.0)	0.0	0.0	6.1
Operating income (loss)	2.3	(6.2)	(47.1)	(1.5)	20.3	13.9	11.9
Interest income (expense), net, inclusive of subsidies	2.1	1.6	(1.1)	1.0	1.0	0.3	0.5
Equity in earnings (losses) of associated companies	0.1	(2.0)	(4.8)	0.8	1.4	2.0	1.8
Gain on associated company share issuance	—	—	—	—	0.7	—	—
Other income, net	0.0	0.0	0.1	0.4	0.5	0.3	0.1
Minority interests	(0.0)	(0.0)	(0.0)	0.0	(0.0)	(0.2)	0.0
Income (loss) before income taxes	4.5	(6.6)	(53.0)	0.7	23.9	16.3	14.2
Income tax benefit (expense)	0.5	3.3	28.6	0.7	(8.4)	(7.2)	(5.1)
Net income (loss)	5.0%	(3.3)%	(24.4)%	1.4%	15.5%	9.1%	9.2%

(1) Columns may not add due to rounding.
(2) Unaudited.

Six Months Ended March 31, 2001 Compared with Six Months Ended March 31, 2000

Net Sales. Net sales increased by 8% from €3,073 million for the six months ended March 31, 2000 to €3,309 million for the six months ended March 31, 2001. These figures reflect higher levels of sales for all of our segments except Memory Products. Memory Products represented 31% of total net sales for the six months ended March 2001, a decline from 43% in the comparable prior period, which reflects weakening market conditions in this segment, as well as the impact of management initiatives to focus expansion efforts on the non-memory segments. On a constant currency basis, net sales in the comparable 2001 period would have been approximately €3,139 million.

The net sales of our different segments during the six months ended March 31, 2001 compared with the same period in financial year 2000 were as follows:

- Net sales of the Wireless Communications segment increased by 11%. This growth reflects increased sales volumes of baseband IC products for the GSM/GPRS mobile communication and DECT cordless markets. Despite the overall increase in net sales in

comparison to the prior period, the rate of increase declined during the period, reflecting reduced demand for mobile phones and high inventory levels throughout the supply chain.

- Net sales of the Wireline Communications segment grew by 51%. This growth resulted from strong sales of fiber optic electronic products in the Internet infrastructure market and continued demand for traditional telecom products, including analog line card and ISDN products from vendors of traditional telecom infrastructure equipment, especially in emerging markets such as China, Brazil and India, as well as increased demand for our T1/E1 high-speed access products. Average selling prices in this segment remained on a nearly constant level compared to the prior period.
- Net sales of the Automotive & Industrial segment grew by 37%. This growth was due mainly to continued strong demand for automotive power and industrial power semiconductors, as well as a slightly higher pricing environment compared with the prior period.
- Net sales of the Memory Products segment declined by 24%. This decrease is mainly due to lower DRAM prices reflecting adverse market conditions compared to the prior period. DRAM prices declined throughout the 2001 period. Also contributing to the decline in net sales were delays in our development of a new hard disk drive (HDD) controller IC, which resulted in the loss of substantially all of our sales of such products to a significant customer. 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, as well as the weakness of the euro against the U.S. dollar compared to the prior period, as DRAM ICs are generally priced in U.S. dollars.
- Net sales of our Other operating segment grew by 48%. This increase was mainly attributable to our Security & Chip Card ICs business, and was driven by strong demand for security controllers.

Only one customer, the Siemens group, accounted for more than 5% of our net sales in each of the six-month periods ended March 31, 2001 and 2000. Sales to the Siemens group comprise both direct sales to the Siemens group, which accounted for 14% and 11% of net sales in the two periods, respectively, and sales made for resale to third parties, which accounted for 1% and 6% of net sales in the two periods, respectively. See "Business—Customers, Sales and Marketing—Sales and Marketing".

Sales to the Siemens group sales organizations for resale to third parties totaled €45 million in the six months ended March 31, 2001 compared to €181 million in the prior period. For these sales, we recognize revenue not on the basis of the price paid by the end customer, but instead generally on the basis of this price less a discount representing a commission for the sales organization. The average of the discounts received by the Siemens group under this practice ranged from 5% to 7%. These amounts were reflected as reductions in our net sales figures and do not appear as selling expenses. We have renegotiated compensation arrangements with substantially all of the Siemens group sales organizations to cease the practice of sales to them for resale to third parties. As a result, since January 2001 we no longer make sales to these Siemens group sales organizations at discounts representing deemed commissions, but instead make sales directly to third-party end customers. Where Siemens group sales organizations assist in making the sale, we pay it a commission, which we record as a selling expense. As a result, we expect higher levels of both net sales and selling expenses compared to prior periods.

We have established our own sales organizations, independent of Siemens, in substantially all of the important geographic markets in Europe. As a result, we expect future sales to Siemens group

sales organizations to be lower than they would have been had we continued to use the Siemens sales organizations to the same extent as before. We continue to utilize the Siemens sales organizations in certain markets, including Spain, Portugal and Switzerland, where we believe this approach is currently more cost effective than building our own sales organization.

Cost of Goods Sold. Cost of goods sold increased by 15% from €1,903 million for the six months ended March 31, 2000 to €2,192 million for the six months ended March 31, 2001. As a percentage of net sales, cost of goods sold increased, from 62% to 66%, over the same period. The increase in cost of goods sold relative to sales is primarily due to decreased DRAM prices affecting our Memory Products segment and additional use of silicon foundries, mainly in our Security & Chip Card ICs business.

Cost of goods sold as a percentage of net sales also reflects:

- a relative increase in the cost of goods sold of the Wireless Communications segment mainly resulting from the effects of lower capacity utilization during the period. These effects more than offset the positive effects of conversions to smaller die sizes.
- a relatively constant cost of goods sold of the Wireline Communications segment reflecting improved production efficiency, which offset increased fixed production costs, compared to the prior period.
- a relative decrease in cost of goods sold of the Automotive & Industrial segment, due to volume increases and a positive pricing environment, which partially offset the costs of transitioning our production processes to the use of 8-inch wafers. We expect to incur continued high levels of cost of goods sold in this segment compared with our other segments in future periods, in part as a result of transitioning our production processes to the use of 8-inch wafers and the introduction of 0.25 micron standard and flash CMOS technology for microcontrollers.
- a substantial relative increase in the cost of goods sold of the Memory Products segment as a result of a significant reduction in selling prices across all product categories and the costs associated with the full conversion to 0.17 micron technology at all production sites. This was partially offset by lower costs per IC due to productivity improvements and reduction of die sizes. In one product category, during the six months ended March 31, 2001, we sold products in the spot market at prices that were lower than the carrying value of our inventory.
- a relatively constant cost of goods sold in our Other operating segment due to increased foundry costs and expenses associated with the ramp-up of new products, which were offset by the benefit from a successful product shift towards higher margin businesses and price increases due to a still favorable market environment.

We report as cost of goods sold the cost of inventory purchased from ProMOS, a joint venture with Mosel Vitelic, and from ALTIS Semiconductor, our joint venture with IBM. Our purchases from these facilities and associated and related companies amounted to €368 million in the first six months of the 2001 financial year and €518 million in the same period last year.

We also report as cost of goods sold the cost of processed wafers that we purchase from silicon foundries and other outside manufacturers, as well as the cost of outsourcing the assembly and testing of semiconductors. Our use of foundries and other outside manufacturers increased in the first six months of the 2001 financial year compared to the prior year period. Our use of foundries in certain product segments, in particular our chipcard business, assisted us in meeting demand for increased volumes. We continue to make use of foundries to meet demand in these product segments, particularly for products using standard technologies.

We recorded foreign currency transaction losses of €22 million in the six months ended March 31, 2001 and gains of €76 million in the prior period. These effects were primarily attributable to the fluctuation of the dollar and the yen against the euro. Our groupwide policy is to economically hedge at least 75% of our currency risk three months in advance.

Depreciation and amortization expense was €504 million in the six months ended March 31, 2001 and €363 million in the prior period. We expect that depreciation and amortization expense will continue to increase in future periods, as we intend to maintain levels of capital expenditures as a percentage of net sales comparable to those of other leading industry participants.

Research and Development (R&D) Expenses. Research and development expenses comprise primarily the expenses of R&D-related personnel, equipment, software, masks, testing materials and licenses. R&D expenses increased by 20%, from €441 million in the first six months of the 2000 financial year to €527 million for the same period in the 2001 financial year. The majority of R&D expenses was incurred in connection with product development projects, with significant efforts on strengthening our logic business by making further improvements to our portfolio of microcontroller cores, DSP cores and mixed-signal modules and the development of next-generation process technologies for logic ICs. As a percentage of net sales, R&D expenses increased from 14% in the first six months of the 2000 financial year to 16% in the 2001 period, which reflects the combined effect of the following:

- a relative increase in R&D expenses of the Wireless Communications segment as a percentage of its net sales, as we increased R&D spending in areas such as Bluetooth, UMTS and GSM mobile phone chipsets, as well as system and software design.
- a relative decline in R&D expenses of the Wireline Communications segment, as net sales growth exceeded growth in the segment's R&D costs. This reflects lower levels of expenditures on existing telecommunications business, partially offset by increased efforts in VDSL/10BaseS access technologies and other high speed Internet access technologies, compared to the prior period. R&D expenses in the 2001 period include amortization and other costs totalling €18 million incurred in connection with the Savan acquisition.
- a decline in R&D expenses of the Automotive & Industrial segment relative to the segment's net sales 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 development costs for high-performance and non-volatile memory technologies.
- a relative decrease in R&D expenses in our Other operating segment as a percentage of net sales, mainly attributable to the increase in sales compared to the prior period. Main developments include the next generation of security chipcard controllers.

We recognized government subsidies for our R&D activities in the amount of €30 million in the first six months of the 2001 financial year and €18 million in the same period in the prior financial year. These amounts appear as reductions in R&D expenses in the relevant year.

We have recently acquired Ardent and agreed to acquire Catamaran, both of which are primarily engaged in R&D activities. We anticipate that we will continue to make acquisitions of companies with a heavy R&D focus. As a result, we anticipate that our overall R&D expenses will increase in absolute terms in the future.

Selling, General and Administrative (SG&A) Expenses. SG&A expenses comprise both selling expenses and general administrative expenses. Aggregate SG&A expenses increased by 32% from €303 million in the first six months of the 2000 financial year to €399 million in the six months ended March 31, 2001. As a percentage of net sales, SG&A expenses increased from 10% in the period in the 2000 financial year to 12% in the period in the 2001 financial year.

Selling expenses amounted to €178 million in the six months ended March 31, 2000 and €224 million in the 2001 period, an increase from 6% to 7% of net sales, as our sales infrastructure was expanded, particularly in the United States, to support anticipated higher levels of future growth. In addition, higher sales activities in new areas like the expanding high-speed Internet access market contributed to the relative increase. In the six months ended March 31, 2001, selling expenses also include sales commissions for sales organizations which have been formed since the prior period. Additionally, higher expenses for marketing, branding campaigns and sponsoring were incurred on a corporate level.

The balance of SG&A expenses in each period comprises overhead, personnel and advisors' fees and other administrative expenses. General and administrative expenses increased in the 2001 period from 4% to 5% of net sales, principally reflecting the build out of corporate and other administrative functions as an independent company.

Other Operating Income, Net. Other operating income, net, amounted to €202 million in the six months ended March 31, 2001, which reflects the one-time gain from the sale of our image & video business.

Interest Income, Net. Interest income, net, increased from €10 million in the first six months of the 2000 financial year to €15 million in the 2001 period. This increase was primarily attributable to higher average levels of cash balances and securities, as compared to the prior period.

Both the 2000 and 2001 figures include amounts of governmental subsidies for the payments of interest relating to our manufacturing facility in Dresden. These subsidies totaled €21 million in the six months ended March 31, 2000 and €0.1 million in the six months ended March 31, 2001.

Equity in Earnings of Associated Companies. This item reflects our share of the results of operations of the following joint ventures:

- ProMOS Technologies, a joint venture with Mosel Vitelic located in Hsinchu, Taiwan;
- ALTIS Semiconductor, a joint venture with IBM located in Essonnes, France;
- OSRAM Opto Semiconductor, a joint venture with the Siemens subsidiary OSRAM, located in Regensburg, Germany.

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 from €60 million in the first six months of the 2000 financial year to €58 million in the 2001 period. During the 2000 financial year, however, we accounted for our investment in Semiconductor300, at the time a joint venture with Motorola, using the equity method. On October 24, 2000 we exercised our option to purchase the remaining interest in Semiconductor300 from Motorola and Semiconductor300 has therefore been fully consolidated from that date. Earnings of our ProMOS joint venture increased from €47 million in the first six months of the 2000 financial year to €50 million in the 2001 period.

Income Tax. We recorded income tax expense of €222 million in the 2000 period, compared with income tax expense of €169 million in the 2001 period, representing effective income tax rates of 44% and 36%, respectively. The reduction of the effective tax rate is mainly due to lower levels of operating taxable income in jurisdictions with higher 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% on retained earnings and 30% on distributed earnings to a uniform 25%, effective for our financial year ending September 30, 2002. The impact of the various revisions in the new tax legislation, a benefit of €24 million, primarily reflecting the effect of the tax rate reduction on our deferred tax balances, has been accounted for during the first six months of the 2001 financial year, the period of the enactment of the legislation.

2000 Financial Year Compared with 1999 Financial Year

Net Sales. Net sales increased by 72% from €4,237 million in the 1999 financial year to €7,283 million in the 2000 financial year. These figures reflect higher levels of sales for all of our segments, particularly Memory Products, which represented almost 48% of total net sales. On a constant currency basis, net sales in the 2000 financial year would have been approximately €6,761 million.

The net sales of our different segments during the 2000 financial year reflect the following developments:

- Net sales of the Wireless Communications segment increased by 41%. This growth reflects increased volumes of high frequency ICs and strong sales of our Hi-Gold and E-Gold system-on-chip solutions for baseband applications.
- Net sales of the Wireline Communications segment grew by 33%. This growth resulted from strong sales of data communications, fiber-optic and ISDN chips. Prices also declined at a slower rate relative to prior periods.
- Net sales of the Automotive & Industrial segment grew 32%. This growth was due mainly to strongly increased volumes of discrete semiconductors, microcontrollers and, particularly, power ICs, as well as a relatively stable pricing environment compared with past periods. Volume increases resulted mainly from an expanding market combined with a high level of acceptance of our products. We were able to achieve price increases for some of our industrial products, particularly in Asia. The segment's production facilities operated at full capacity for much of the period.
- Net sales of the Memory Products segment more than doubled as a result of both strong increases in demand and a favorable price environment for 64-Mbit DRAM ICs. Volume increases 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. Revenue growth was particularly strong in the United States and Asia. The business group's net sales have also been positively affected by the weakness of the euro against the dollar, as DRAM ICs are generally priced in dollars. Continued strong development of the disk drive controller business also contributed to higher net sales.

  In March 2000, we entered into new technology transfer agreements with ProMOS and restructured our existing agreements with MVI, the majority shareholder of ProMOS, in conjunction with which some €138 million of license fees that we had previously received but deferred were recognized as revenue. This recognition positively affected the net sales figure of the Memory Products segment in the 2000 financial year. Additionally, the Memory Products segment recognized revenue in the amount of €18 million in the 2000 financial year from the licensing of technology to our strategic partners.
- Net sales of our Other operating segment grew 32%. This increase was driven by strong demand for security controllers of our security and chip card business, used in advanced banking applications and in GSM projects.

Strong demand outstripped production capacity in all our segments. Many of our business units, like their competitors, were unable to meet all commitments to customers and deliver products on time. We estimate that we lost substantial amounts of potential business in the 2000 financial year as a result of demand sharply exceeding production capacity. In some cases, capacity constraints also led to difficult relationships with customers.

In the 2000 financial year, only one customer, the Siemens group, accounted for more than 5% of our net sales. Direct sales to the Siemens group accounted for 10% of net sales, and sales made to Siemens group sales organizations for resale to third parties accounted for 4% of net sales. In the 1999 financial year, two customers, the Siemens group and the Bosch group, accounted for more than 5% of our net sales. For more information, see ''—1999 Financial Year Compared with 1998 Financial year—Net Sales''.

Sales to Siemens group sales organizations for resale to third parties totaled €326 million in the 2000 financial year and €367 million in the 1999 financial year. The weighted average of the discounts received by the Siemens group with respect to these sales in the 1999 and 2000 financial years ranged from 7% to 9%. These amounts are reflected as reductions in our net sales figures and not as selling expenses. The decline in the amount of commissions paid to the Siemens group under these arrangements reflects the establishment of our own independent sales organizations in important geographic markets. In the 1999 financial year, we established independent sales organizations in Germany and the United States. In the 2000 financial year, we restructured our sales organizations in Austria, Belgium, Brazil, France, Italy, Luxembourg, The Netherlands and the United Kingdom.

Cost of Goods Sold. Cost of goods sold increased by 36% from €3,011 million in the 1999 financial year to €4,110 million in the 2000 financial year. As a percentage of net sales, however, cost of goods sold decreased substantially, from 71% to 56%, over the same period. The decline in cost of goods sold relative to sales is primarily due to improved manufacturing efficiency and shifts in our product mix, particularly in the Memory Products segment.

Cost of goods sold also reflects:

- a relative increase in the cost of goods sold of the Wireless Communications segment resulting from a change in technology from bipolar to BiCMOS, the costs of transferring of some production from Munich to other facilities, as well as from outsourcing costs due to higher foundry usage for baseband products. Ramp-up costs for production of baseband ICs at Essonnes also contributed to the relative increase. These effects more than offset the positive effects of increased volumes and conversions to smaller die sizes.
- relatively constant cost of goods sold of the Wireline Communications segment, reflecting a change in product mix toward new technology products that have higher component costs, and to increased outsourcing costs as we sought to meet demand for some of our products by using foundries. These effects were partially offset by an improved cost position and changes in the product portfolio of our fiber-optics business.
- a substantial relative improvement in cost of goods sold of the Automotive & Industrial segment relative to its net sales, as volume increases enabled us to utilize our production facilities at full capacity. This offset additional costs incurred during the period in connection with the introduction of new products.
- a substantial relative improvement in the cost of goods sold of the Memory Products segment as a result of higher selling prices and lower costs per chip due to productivity improvements and shrinking of die sizes. These factors more than offset the effects of increased prices for silicon wafers, reflecting tight supply conditions throughout the industry.

- a relative increase in cost of goods sold in our Other operating segment due to increased outsourcing costs, as we sought to meet demand for some of our security and chip card ICs products by using foundries, and to the ramp-up of new products, as well as higher costs at our opto joint venture.

We report as cost of goods sold the cost of inventory purchased from our ProMOS joint venture fabrication facility. Until September 30, 1999, we reported as cost of goods sold the cost of inventory purchased from White Oak Semiconductor, a joint venture that we had with Motorola in Richmond, Virginia. From September 30, 1999 we consolidated the operations in Richmond into our own financial statements by virtue of our attainment of management control. We also report as cost of goods sold purchases from ALTIS Semiconductor, our joint venture with IBM, for periods subsequent to its formation and purchases from the Essonnes facility that now belongs to ALTIS Semiconductor for periods prior to such formation. Our purchases from these facilities and associated and related companies amounted to €1,183 million in the 2000 financial year and €842 million in the 1999 financial year.

We recorded foreign currency transaction gains of €184 million in the 2000 financial year and €42 million in the 1999 financial year. These gains were primarily attributable to the strength of the dollar and the yen.

Depreciation and amortization expense was €834 million in the 2000 financial year and €573 million in the 1999 financial year.

Research and Development (R&D) Expenses. R&D expenses increased by 39%, from €739 million in the 1999 financial year to €1,025 million in the 2000 financial year. The majority of R&D expenditures were on product development projects, with significant efforts on strengthening our logic business by, among other things, further improvements to our portfolio of microcontroller cores, DSP cores and mixed signal modules, the development of next-generation process technologies for logic ICs and the optimization of the development environment for our IC designers. As a percentage of net sales, however, R&D expenses fell from 17% in the 1999 financial year to 14% in the 2000 financial year, which is a function primarily of the growth in net sales in the 2000 financial year and of substantial declines in the relative R&D expenditures of the Memory Products and, to a lesser extent, Automotive & Industrial segments.

Our R&D expenses reflect:

- flat R&D expenses of the Wireless Communications segment as a percentage of its net sales, as we maintained our comparatively high ratio of R&D spending in this area and increased the number of our design centers. Important areas of focus for the segment's R&D activities include new activities relating to UMTS, DECT, HyperLAN and Bluetooth, the development of a new mobile telephone chipset with only 180 components, and continuing the expansion of our capabilities toward the areas of system and software design.
- relatively flat R&D expenses of the Wireline Communications segment, as net sales growth exceeded the growth in the segment's R&D costs. The focus of the segment's R&D efforts has shifted to Internet infrastructure, with minimal maintenance investments in the existing telecommunications business. R&D expenses include €58 million of purchased in-process research and development, amortization and other costs incurred as a result of the Savan acquisition. Important projects in the 2000 financial year included those in the areas of LAN switching, ADSL, SHDSL, 10BaseS and IWORX.
- a small decline in R&D expenses of the Automotive & Industrial segment relative to the segment's net sales. This segment's future technology development efforts include

C9FL/FLR, advanced 32-bit architecture applications and conversion to new sites and smaller die sizes.

- a relative decline in R&D expenses of the Memory Products segment as a result of higher net sales and improved cost-effectiveness. Early in the 1999 financial year, we made a lump-sum payment in settlement of subsidies upon completion of a project, which increased the R&D costs in that period.
- a relative decline in R&D expenses of our Other operating segment as a percentage of net sales. New projects included developments for the 66 PLUS product in our chipcard division.

We recognized government subsidies for our R&D activities in the amount of €41 million in the 2000 financial year and €33 million in the 1999 financial year. These amounts appear as reductions in R&D expenses in the relevant year.

Selling, General and Administrative (SG&A) Expenses. Aggregate SG&A expenses increased by 22% from €551 million in the 1999 financial year to €670 million in the 2000 financial year. As a percentage of net sales, SG&A expenses decreased from 13% in the 1999 financial year to 9% in the 2000 financial year.

Selling expenses amounted to €314 million in the 1999 financial year and €387 million in the 2000 financial year, a decrease from 7% to 5% of net sales, as our net sales increased more at a faster rate than our selling expenses.

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 2000 financial year but decreased as a percentage of net sales.

SG&A expenses reflect:

- a relative decline in the SG&A expenses of the Wireless Communications segment that was the result of the high level of net sales and the results of past restructuring measures.
- a relative decline in the SG&A expenses of the Wireline Communications segment that was the result of higher levels of net sales due to our expansion into new strategic markets in the United States and the Asia/Pacific region.
- flat SG&A expenses of the Automotive & Industrial segment relative to its net sales. This development mainly reflects the volume-driven increase in net sales that we were able to achieve through our existing sales network.
- a modest decline in the already low level of SG&A expenses for the Memory Products segment despite higher accruals for incentive programs, performance-based compensation plans and pensions.
- a relative decline in the SG&A expenses of our Other operating segment as a result of increased net sales.

Interest Income, Net. Interest income, net, increased by 72%, from €43 million in the 1999 financial year to €75 million in the 2000 financial year. This increase was primarily attributable to interest subsidies recognized and to higher levels of cash balances and securities as a result of our short-term investment of cashflows pending their use in our business.

Both the 2000 and 1999 figures include amounts of governmental subsidies for the payments of interest relating to our manufacturing facility in Dresden. These subsidies totaled €42 million in the 1999 financial year and €62 million in the 2000 financial year.

Equity in Earnings (Losses) of Associated Companies. Our equity in the earnings of associated companies are predominantly reflected in the results of our Memory Products segment. Equity in the earnings of associated companies increased substantially from €34 million in the 1999 financial year to €101 million in the 2000 financial year. This growth primarily reflects significant improvements in earnings of our ProMOS joint venture, which increased from €33 million in the 1999 financial year to €81 million in the 2000 financial year. This increase was due to the strong pricing environment for DRAM, significant volume increases and improved production efficiency.

During the 1999 financial year, we accounted for our investment in the White Oak facility in Richmond under the equity method until September 30, 1999. In the 2000 financial year, the Richmond facility has been fully consolidated as a wholly owned subsidiary for the entire period. During the 1999 financial year, the results of White Oak adversely affected this line item of our statement of operations.

Gain on Associated Company Share Issuance. During the 2000 financial year, ProMOS issued shares to employees with a fair market value per share exceeding our investment value per share, resulting in a reported net increase of €53 million.

Other Income, Net. Other income, net amounted to €36 million in the 2000 financial year, compared with €18 million in the 1999 financial year. The 2000 figure primarily reflects higher levels of foreign currency transaction gains not directly related to our operations.

Income Tax. We recorded income tax expense of €612 million in the 2000 financial year, compared with income tax benefit of €30 million in the 1999 financial year. This development reflects our higher levels of pre-tax income partially offset by the utilization of tax loss carryforwards. The difference between the effective tax rate and the 52% statutory tax rate in both periods reflects a combination of foreign tax rate differentials, income not subject to tax and reductions in valuation allowances.

The income tax benefits reflected in our statement of operations for the 1999 financial year include tax benefits relating to periods prior to our legal formation. We have used these benefits to prepare our statement of operations to provide a fairer picture of what our results of operation would have been had we been a separate legal entity for such periods. These tax benefits in fact belong mainly to and were utilized by Siemens, the relevant legal entity for all periods prior to April 1, 1999.

1999 Financial Year Compared with 1998 Financial Year

Net Sales. Net sales increased by 33% from €3,175 million in the 1998 financial year to €4,237 million in the 1999 financial year. These figures reflect higher levels of sales for all our segments during the 1999 financial year, particularly for our Memory Products segment:

- Net sales of the Wireless Communications segment grew 26%. This growth resulted primarily from the continuing growth of mobile communications worldwide, in particular in the GSM part of the market.
- Net sales of the Wireline Communications segment fell 2%, due to the combined effects of a decline in prices for the business group's products and flat sales of its transceiver and fiber-optic products.
- Net sales of the Automotive & Industrial segment grew 10%. This growth resulted primarily from increased sales of power ICs for automotive applications and, to a lesser extent, from increased sales of microcontrollers for both automotive and industrial applications. Growth in sales of our automotive power ICs reflected increased demand for our automotive products generally throughout the 1999 financial year, resulting from our customers'

selection of our product designs three to five years earlier. Growth in demand for microcontrollers primarily reflected increased volumes of 16-bit microcontrollers, as well as the start of delivery of controllers with embedded flash.

Sales of our industrial power products declined slightly as a result of a weak market environment for our customers early in the financial year, resulting in increased price pressure. This effect was to some extent offset by increased sales in the last quarter of the 1999 financial year.

- Net sales of the Memory Products segment more than doubled as a result of increased demand, increased capacity and stabilizing prices in the DRAM market during the latter part of the financial year. In the 1999 financial year, average per-megabit selling prices for our DRAM chips fell by a relatively modest 21%. Our unit sales increased in the 1999 financial year, as increased sales of our 64-Mbit DRAMs more than offset declining sales of older-generation 16-Mbit and 4-Mbit DRAMs. During the 1999 financial year, we also ramped up production of our 256-Mbit DRAM ICs. Increased sales of computer peripherals devices also contributed to increased net sales, as we ramped up production of ICs for mass storage devices using embedded DRAM.

  On September 21, 1999, an earthquake measuring 7.6 on the Richter scale hit Taiwan, shutting down the production facility of our ProMOS joint venture for ten days. We estimate that we lost 10 days of production as a result, resulting in estimated lost revenues of approximately €10 million.

  The Memory Products segment recognized licensing revenue in the amount of €106 million in the 1998 financial year and €46 million in the 1999 financial year from the licensing of technology to our strategic partners. These revenues arise from the licensing of technologies that we have developed, and are generally non-recurring.

- Net sales of our Other operating segment include net sales by our Security & Chip Card ICs division and net sales of opto components now produced by our joint venture with OSRAM. Net sales of this segment grew 14% in the 1999 financial year compared with the 1998 financial year. This increase is due to increased sales of chip card ICs, particularly to the banking sector, and to strongly increased net sales of opto components attributable to strong demand for automotive applications such as displays.

The following table provides information for each customer that accounted for more than 5% of our net sales in either of the 1998 or 1999 financial years:

Largest Customers
(% of net sales)

Name of customer	Financial Year 1998	Financial Year 1999	Principal products and systems supplied
Siemens:			
Direct sales to the Siemens Group	16.6%	14.1%	Semiconductors for use in wireless communications and Automotive and industrial products
Sales to Siemens group sales organizations for resale to third parties	8.4%	8.7%	All products
Bosch group	6.6%	5.4%	Semiconductors for use in automotive products and wireless communications

Siemens has subsequently acquired Bosch's mobile telephone business.

Cost of Goods Sold. Cost of goods sold increased 10% from €2,728 million in the 1998 financial year to €3,011 million in the 1999 financial year. As a percentage of net sales, however, cost of goods sold decreased from 86% to 71% over the same period. This relative decline is attributable primarily to increased productivity and reduced average costs due to higher volumes.

We have devoted substantial resources in recent years to improving our productivity. Labor costs represent only a small portion of cost of goods sold.

The relative decrease in cost of goods sold was influenced by:

- successful design-to-cost programs and productivity gains for the Wireless Communications segment;
- productivity increases and improved efficiency in purchasing within the Wireline Communications segment, the effects of which more than offset higher costs attributable to the scrapping and write-off of obsolete transceiver inventories;
- an increase in cost of goods sold as a percentage of net sales for the Automotive & Industrial segment, as weak demand for industrial power products led to underutilization of capacity, which more than offset the effects of productivity improvements at our factories; and
- an improved overall cost position of the Memory Products segment arising from productivity gains at our Dresden and Porto facilities and at our ProMOS and White Oak joint ventures, as well as stabilizing prices.

The relative improvement in cost of goods sold also reflects the non-recurrence in the 1999 financial year of relatively high expense levels for the North Tyneside and Porto facilities during their start-up phases in the prior financial year.

In the 1998 financial year, we suffered currency losses of €86 million. These losses resulted primarily from the need to satisfy obligations under economic hedging contracts when local sales fell short of projections and when counterparties to underlying contracts paid late. We recognized currency gains of €42 million in the 1999 financial year.

Depreciation and amortization expense was €573 million in the 1999 financial year and €578 million in the 1998 financial year.

Research and Development (R&D) Expenses. R&D expenses increased 16%, from €637 million in the 1998 financial year to €739 million in the 1999 financial year. As a percentage of net sales, R&D expenses decreased from 20% in the 1998 financial year to 17% in the 1999 financial year, despite the hiring of approximately 850 additional employees for R&D-related activities in the 1999 financial year. The decrease in R&D expenses as a percentage of net sales is primarily a function of our strong net sales growth in the 1999 financial year, which far exceeded the budgeted growth of our R&D expenses.

In the 1999 financial year, our R&D expenditure reflected:

- increased expenditure of the Wireless Communications segment for R&D in the radio-frequency and mixed-signal fields and the development of products for next-generation mobile phones;
- increased product development costs for Wireline Communications products;

- a slight increase in R&D expenses of the Automotive & Industrial segment due to the introduction of new technologies into the market; and
- increased product development costs of the Memory Products segment for increased memory capacity, next-generation chip technology and the development of a new generation of our products for mass storage devices.

We recognized government subsidies for our R&D activities in the amount of €33 million in the 1999 financial year and €42 million in the 1998 financial year. These amounts appear as reductions in R&D expenses in the relevant year.

Selling, General and Administrative (SG&A) Expenses. Aggregate SG&A expenses increased 14% from €481 million in the 1998 financial year to €551 million in the 1999 financial year. As a percentage of net sales, SG&A expenses decreased from 15% in the 1998 financial year to 13% in the 1999 financial year.

Selling expenses amounted to €276 million in the 1998 financial year and €314 million in the 1999 financial year, a decrease from 9% to 7% of net sales, as our net sales increased more than our selling expenses.

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 1999 financial year but decreased as a percentage of net sales.

In the 1999 financial year, our SG&A expenditure reflected:

- increased expenditures to set up additional sales activities in the United States by both our Wireline Communications and Automotive & Industrial segments;
- additional costs to establish ourselves as a separate company, including advertising expenditure to create brand awareness, as well as the set-up of a distinct business and administrative infrastructure. These costs affected each of our operating segments; and
- costs incurred to prepare for our initial public offering.

Restructuring Charge. In the 1998 financial year, we recorded a net restructuring charge of €816 million in connection with the closure of the North Tyneside facility.

In July 1998, we decided to shut down the wafer fabrication facility located in the North Tyneside area of northern England. The initial decision to construct this facility was made in August 1995 in order to have a dedicated facility for logic ICs. We selected 16-Mbit DRAM ICs, rather than logic ICs, as the vehicle for ramping up the North Tyneside facility to full production because DRAM ICs are standardized, high-volume products that are easier for us to monitor, and after ramp up the production facility could have been converted to logic products at reasonable cost.

Construction of the new facility commenced in November 1995, and we began installing equipment in November 1996. During the intervening period, however, it had become apparent that by virtue of substantial productivity improvements we could satisfy actual demand for logic products through our existing facilities. At the same time, market prices for DRAM ICs declined substantially. We therefore limited our initial installation of equipment to the minimum feasible. In May 1997, this minimum installation was completed, and we began the first integrated production runs at the facility, at an initial rate of 1,700 wafer starts per week.

To make effective use of the North Tyneside facility, we entered into an arrangement to share the facility's production of 16-Mbit DRAM ICs with a partner and initiated conversion of the facility to

64-Mbit DRAM ICs, the designated successor product to 16-Mbit DRAM ICs. These arrangements would have supported increased manufacturing rates of more than 3,000 wafer starts per week. Owing to the continuing sharp decline in DRAM prices, however, the partner terminated its arrangement for North Tyneside's production in February 1998.

Following the departure of the partner, we sought to find a replacement partner or purchaser. It became apparent, however, that the facility's low capacity utilization prevented us from achieving the necessary economies of scale. Remedying this unfavorable cost position would have required the expansion of the facility's operations to its rated capacity, involving substantial additional investment. This would not have been economic against a background of industry overcapacity, continuing declines in DRAM prices and the high degree of uncertainty surrounding any forecast change in the depressed conditions of the DRAM market. The concurrent appreciation of the U.K. pound sterling against the Deutsche Mark also contributed to North Tyneside's unfavorable cost position.

We therefore decided to close the facility in July 1998, and we recorded an €816 million pre-tax restructuring charge in the 1998 financial year. Production ended in November 1998. Decommissioning activities commenced in the same month and were completed by March 1999.

The results of operations and restructuring charge associated with the North Tyneside facility are reflected in our statements of operations for all periods through November 30, 1998, the date on which the facility ceased production. As Siemens plc, a Siemens group company, retained ownership of the facility and the related liabilities, we will not incur any further cash expenditures or receive any further cash benefit relating to the closure of the North Tyneside facility.

Interest Income (Expense), Net. Interest expense, net, was €35 million in the 1998 financial year compared to interest income, net, of €43 million in the 1999 financial year. This decrease in interest expense is due primarily to reduced average amounts of debt outstanding during the 1999 financial year due to our ceasing to reflect North Tyneside's results of operations as from December 1, 1998.

Both the 1999 and 1998 figures include amounts of government subsidies for the payment of interest relating to our manufacturing facility in Dresden. These subsidies totaled €41 million in the 1998 financial year and €42 million in the 1999 financial year.

Equity in Earnings (Losses) of Associated Companies. Our equity in the losses of associated companies totaled €151 million in the 1998 financial year, while our equity in their earnings amounted to €34 million in the 1999 financial year. This improvement primarily reflects improved results at ProMOS and White Oak as a result of their having completed their ramp-up, as well as the improved pricing environment for DRAM ICs in the 1999 financial year.

Other Income, Net. Other income, net, amounted to €18 million in the 1999 financial year. This figure primarily reflects a €15 million gain on the sale of a 0.8% shareholding in ProMOS Technologies as part of its initial public offering in Taiwan.

Income Tax. Income tax benefit fell from €907 million in the 1998 financial year to €30 million in the 1999 financial year. The tax benefit in the 1998 financial year was related to the closure of North Tyneside and other operating losses. No equivalent benefits were available in the 1999 financial year.

Liquidity and Capital Resources

Cash Flow

The following table highlights our net cash provided by (used in) operating activities, net cash used in investing activities, net cash provided by financing activities, and cash and cash equivalents in the periods shown:

Cash Flow

	Financial year ended September 30,				Six months ended March 31,		
	1998	1999	2000	2000[1]	2000	2001	2001
	€	€	€	$	€	€ (unaudited)	$
	(in millions)						
Net cash provided by (used in) operating activities	(185)	469	2,080	1,838	681	(8)	(7)
Net cash used in investing activities	(959)	(918)	(2,327)	(2,056)	(784)	(568)	(499)
Net cash provided by financing activities	1,142	465	719	636	756	191	168
Cash and cash equivalents at period end	12	30	511	451	687	123	109

[1] Unaudited

Operating Activities. The decrease in net cash flow from operating activities in the first six months of the 2001 financial year reflects a lower level of net income, after adjustment for the €202 million gain on disposal of our image and video business, compared to the prior period. This negative impact was partially offset by increased levels of depreciation, amortization and deferred compensation. In addition, changes in working capital items decreased operating cash flow by €493 million in the first six months of the 2001 financial year. The changes reflect, among other items, the net effect of:

- a €346 million decrease in accounts receivable that was attributable to the collection of higher than usual receivable balances at September 30, 2000;
- a €231 million increase in inventories, reflecting both:
  - rapid decreases in demand in certain product categories from anticipated levels, and
  - to a lesser extent, our decision to utilize production capacity to maintain production levels for selected longer life-cycle products despite slowing sales;
- a €72 million decrease in related party trade receivables, reflecting primarily the lower sales levels to both Siemens entities and associated and related companies during the second quarter of financial year 2001, compared to the fourth quarter of financial year 2000;
- a €110 million decrease in accounts payable that was caused by the timing of payments at the period end compared to that of September 30, 2000;
- a €154 million decrease in related party trade payables that was due to lower purchase levels from, and the timing of payments to, ProMOS, OSRAM and ALTIS Semiconductor.
- a €225 million decrease in accrued liabilities that was mainly the result of payments of accrued income taxes payable; and
- a €120 million decrease in other current liabilities that was due mainly to lower levels of foreign exchange forward contracts payable and other accrued amounts.

The increase in net cash flow from operating activities in the 2000 financial year primarily reflects net income of €1,126 million in the period compared with €61 million in the 1999 financial year. Higher levels of depreciation and amortization also contributed to the increase in net cash flow from operating activities in the later period, as did an increase in deferred income taxes of €91 million that was principally the result of the utilization of foreign tax operating loss carry-forwards. The combined effects of these items more than offset the non-cash nature of the €101 million of equity in the earnings of associated companies that we recognized in the period. In addition, changes in working capital items increased operating cash flow by €131 million in the 2000 financial year. The changes reflect, among other items, the net effect of:

- a €468 million increase in accrued liabilities that was mainly the result of increased income tax accruals resulting from the higher income before taxes in the 2000 financial year;
- a €535 million increase in accounts receivable that was attributable to the higher levels of net sales generated;
- a €375 million increase in accounts payable that stemmed from higher purchases of materials due to higher volumes of business, as well as from purchases of fixed assets;
- a €88 million decrease in cash due to movements in other assets and liabilities that primarily reflects an advanced payment to Motorola relating to the purchase of the remaining interest in White Oak;
- a €148 million increase in related party trade receivables, reflecting primarily the timing of payments due from various Siemens entities;
- a €108 million increase in inventories, reflecting our higher volume of business;
- a €103 million increase in other current liabilities that was due to higher levels of foreign exchange forward contracts payable and other accrued amounts; and
- a €94 million increase in related party trade payables that was due to higher purchase levels from, and the timing of payments to, ProMOS, OSRAM and ALTIS Semiconductor.

The increase in net cash from operating activities in the 1999 financial year compared with the 1998 financial year primarily reflects the extent of our net loss in the 1998 financial year. It also results from the non-cash nature of tax benefits that we have reflected for purposes of preparing our consolidated statements of operations and cash flows. These tax benefits, which mainly belong to Siemens and which primarily relate to North Tyneside and our operations in Germany, amounted to €961 million in the 1998 financial year. Net cash used in operating activities in the 1998 financial year was, however, reduced by the non-cash nature of the restructuring charge for North Tyneside and, to a lesser extent, our equity in the losses of associated companies.

The improvement in cash flow from operating activities in the 1999 financial year also reflects our return to net income in the year.

Cash flow used as a result of changes in operating assets and liabilities was €62 million in the 1999 financial year, primarily as a result of:

- a €285 million increase in accounts receivable that was attributable to a high level of billings in the last two months of the 1999 financial year as a result of increased demand. We experienced a marked increase in sales in the second half of the financial year, particularly in the last quarter of the financial year. There were no significant changes to the credit terms extended to our customers. However, the increased level of billings during the last quarter of the financial year compared with the same period in the prior year outweighed the increased level of collections and led to a comparative increase in the amount of outstanding receivables;

- a €78 million increase in accrued liabilities;
- a €76 million increase in other current liabilities reflecting mainly outstanding liabilities for the purchase of assets at our Essonnes facility and higher payroll and incentives for a larger work force;
- a €73 million increase in related party trade payables; and
- a €62 million increase in accounts payable.

These factors primarily reflect the higher level of our net sales and unit sales in the 1999 financial year compared with the 1998 financial year.

Cash flow provided from changes in operating assets and liabilities was €134 million in the 1998 financial year, primarily as the result of:

- a €71 million increase in related party trade payables;
- a €60 million increase in other current liabilities; and
- a €54 million increase in accrued liabilities.

These developments were primarily attributable to our increased net sales and unit sales in the 1998 financial year compared with the 1997 financial year. These items more than offset the effects of an €81 million decrease in accounts payable that was primarily attributable to lower costs as a result of the closing of the North Tyneside facility.

Investing Activities. Net cash used in investing activities in the first six months of the 2001 financial year was €568 million compared with €784 million in the 2000 period. Financial year 2001 mainly reflects €968 million of investments in fixed assets, including €103 million for our new 300-millimeter facility in Dresden, €146 million for our existing Dresden facility and €179 million for our Richmond facility, as well as substantial investments in our front-end facilities in Regensburg, Germany, and Villach, Austria, of €127 million and €162 million, respectively, and in our back-end facilities in Singapore and Malacca, Malaysia. Additionally, a total of €87 million was invested in associated and related companies during the six months ended March 31, 2001. Amounts of €277 million received from the sale of marketable securities and €249 million received from the sale of our image and video business significantly reduced the cash used in investing activities.

Net cash used in investing activities in the 2000 financial year was €2,327 million compared with €918 million in the 1999 financial year. The 2000 figure was driven primarily by:

- €1,571 million of investments in fixed assets, including €153 million for our new 300-millimeter facility in Dresden, €337 million for our existing Dresden facility and €243 million for our Richmond facility, as well as substantial investments in our front-end facilities in Regensburg, Germany and Villach, Austria and our back-end facilities in Singapore and Malacca, Malaysia;
- €452 million of purchases of marketable securities available for sale. These securities reflect the investment of available cash balances, principally relating to our initial public offering, pending their use in our business; and
- €303 million of acquisitions and investments in associated and related companies. This figure mainly reflects €136 million paid to purchase Motorola's interest in White Oak and €75 million paid to acquire the business of Savan, as well as investments in Comneon and other venture investments, and amounts paid to participate in a capital increase by ALTIS Semiconductor.

Net cash used in investing activities in the 1999 financial year primarily reflected €653 million in investments in fixed assets. The investments in the 1999 financial year included purchases of equipment for our various facilities to improve productivity and meet increased demand. Investments in associated and related companies also contributed to the high levels of net cash flow used in investing activities, in the amount of €133 million in the 1999 financial year. These amounts relate primarily to our investments in the ALTIS Semiconductor joint venture with IBM. Investing activities for 1999 also reflect €175 million of purchases of marketable debt and equity securities primarily relating to pension assets.

Net cash used in investing activities in the 1998 financial year primarily reflected €763 million in investments in fixed assets during the year. This figure resulted from high levels of capital expenditures incurred in connection with commissioning the North Tyneside and Porto facilities. The 1998 net cash figure also reflected investments in associated and related companies in the amount of €171 million, primarily investments in our White Oak joint venture to fund its capital expenditures.

Financing Activities. Net cash of €191 million provided by financing activities in the first six months of the 2001 financial year mainly reflects the increase in short term debt of €186 million. Proceeds from issuances of long-term debt of €42 million were mainly offset by a corresponding increase in restricted cash of €34 million.

Net cash provided by financing activities in the 2000 financial year of €719 million mainly reflects proceeds of some €821 million from the issuance of ordinary shares, in connection with both our company's initial public offering and a private placement of shares to Intel Corporation in March 2000. The proceeds from the issuance of shares in the initial public offering were substantially offset by the repayment of long-term debt owed to Siemens relating to our Richmond facility. In total, we repaid €500 million of long-term debt during the 2000 financial year. Net cash provided by financing activities in the 2000 financial year also reflects a net change of €222 million in related party receivables and payables mainly as a result of the settlement on October 1, 1999 of outstanding receivables and payables with the Siemens group. In addition, we recorded cash flows of €169 million in connection with the issuance of redeemable interests in our new Dresden facility to our new investors in that venture.

In past financial years net cash provided by financing activities was affected mainly by changes in receivables from, payables to, investments by and advances from Siemens. Related party financial receivables and payables increased by €955 million in the 1998 financial year. This figure declined by €764 million in the 1999 financial year.

The decline in the 1999 financial year primarily relates to the reduction of payables from our company to Siemens as we converted these payables into equity at our formation. The 1998 figure primarily reflects liabilities incurred by us to Siemens to finance our investments in the North Tyneside and Porto facilities and our investments in White Oak and ProMOS.

Investments by and advances from Siemens amounted to €229 million in the 1998 financial year and €1,322 million in the 1999 financial year. There were no investments by or advances from Siemens in the 2000 financial year.

The 1999 figure was primarily attributable to capital contributions as well as additional equity capital paid in upon our formation as a legal entity. The capital contributions reflect contributions by Siemens in March and September 1999.

The 1998 increase in investments by and advances from Siemens reflect the financing of our investments in North Tyneside, Porto, White Oak and Hsinchu.

Net Financial Position

We had a positive net financial position—meaning cash and cash equivalents plus marketable securities less total financial debt—of €49 million at March 31, 2001, compared with a positive net financial position of €874 million at September 30, 2000. Cash and cash equivalents at these dates amounted to €123 million and €511 million, respectively. Cash balances of €166 million and €132 million were restricted as to their use as of these dates, respectively.

Capital Requirements

We expect to incur approximately €2.3 billion in the 2001 financial year in capital expenditures 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 57% of the expected capital expenditures will be made in the Memory Products front-end and back-end processes, amounting to approximately €1.3 billion. We expect to use approximately €800 million of additional capital expenditures in our corporate front-end and back-end facilities (those facilities that serve all of our business groups), amounting to approximately €600 million for the front-end and €200 million for the back-end facilities. The corporate front-end investment will be used mainly for the conversion of our Villach facility from 5-inch to 6-inch and 8-inch processes, and our Regensburg facility from 6-inch to 8-inch processes.

The investment in the Memory Products business group will be used to a large extent for the completion of a new facility at our Dresden production site for manufacturing semiconductors using 300-millimeter technology. The construction of this facility is expected to involve capital expenditures of approximately €1.2 billion. We are funding this investment from borrowings, investments by third parties, cash flow from operations and other available funds. We have also applied for governmental subsidies in connection with this project, but can provide no assurance that such subsidies will be granted in a timely fashion or at all. Further, we intend to construct a shell for a production facility for manufacturing semiconductors using 300-millimeter technology at our Richmond facility. Furthermore, we intend to convert our 200-millimeter production facility at Dresden to the production of logic ICs. This will require capital expenditures in excess of €500 million through 2004.

We expect to incur €1.5 billion to €2 billion in capital expenditures in the 2002 financial year.

In March 2001, we entered into an agreement with UMC to construct and operate a 300-millimeter wafer fabrication foundry facility in Singapore. In April 2001, we invested approximately $59 million and will be required to make projected additional investments of $414 million over the next two years.

In 2000, we acquired Motorola's interest in the Semiconductor300 joint venture and have taken on new investors in it. 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. Upon the exercise of these options, the purchase price we would have had to pay would be an amount equal to the capital contributed by these investors, plus interest at rates ranging from 11% to 15% per annum. As of March 31, 2001, this amount would have been approximately €198 million.

In November 1999, we initiated a project to restructure our information technology activities worldwide to implement standardized business processes, outsource non-core activities and introduce standard software, hardware and information technology systems in all of our locations. We expect this initiative to be completed by 2004. The costs of implementing this project are expected to exceed €500 million, or approximately one-third of our budgeted spending on information technology over this period.

In April 2001, our shareholders approved and we paid a dividend of €407 million in respect of the 2000 financial year.

As of March 31, 2001, we had approximately €319 million of debt scheduled to become due within one year. In addition, in April 2001 Siemens extended to us a €450 million loan due in September 2001. We believe we will be in a position to fund these payments from investments by third parties, government subsidies, existing cash balances, cash flows from operations and borrowings and the renewal of debt in the ordinary course of business.

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

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 locating our own sources of funding since that date. In April 2001, Siemens made an exemption to its policy and extended to us a short-term loan in the amount of €450 million, which we understand was done in connection with the dividend paid pursuant to the resolution of our company's annual general meeting of April 6, 2001. We intend to refinance this loan through the use of existing credit lines or new sources of funding.

In our 2000 financial year, we established independent financing arrangements with several banks to enable us to meet the anticipated funding needs of our company and our subsidiaries.

These financing arrangements, which aggregate approximately €625 million, are of three different types. The first comprise a range of committed short-term credit lines aggregating €329 million for working capital, cash pooling and intraday lending purposes. Of the committed short-term credit lines, €220 million was available at March 31, 2001. The second comprise approximately €213 million uncommitted short-term credit lines supplemented by ancillary lines for purposes such as local overdraft needs of our international operations and guarantees. At March 31, 2001 €30 million was available under the uncommitted credit lines. The third comprise approximately €83 million committed long term credit lines for working capital and project finance, of which €35 million was available at March 31, 2001.

In addition, we have concluded a €729 million syndicated multicurrency revolving credit facility. The facility is divided into two equal tranches. The first tranche has a term of four years, and the second has a renewable term of 364 days. Drawings under each tranche may be denominated in euro or dollars 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 our senior debt to earnings before interest, taxes, depreciation and amortization (our ''senior debt ratio''). Under the facility, we have agreed to customary covenants, including covenants regarding the maintenance of a minimum tangible net worth, a senior debt ratio and an interest cover ratio. We believe the senior debt ratio covenant is the most restrictive of these covenants. At March 31, 2001, we had no amounts outstanding under the facility.

At March 31, 2001 we also had outstanding industrial revenue bonds in the aggregate amount of approximately €78 million. These bonds were issued by White Oak Semiconductor, which we have consolidated with effect from September 30, 1999. The White Oak industrial revenue bonds were issued to finance construction of the Richmond facility. These bonds bear interest at variable rates of interest, currently 3.6% per year, and mature from 2027 to 2031.

On September 29, 2000, we repaid to Commerzbank a €793 million secured loan relating to our Dresden facility. This loan bore interest at the rate of 8% and was secured by an equal restricted cash deposit on identical terms held by Commerzbank. The term loan and the deposit, as well as the related interest income and expense, have been offset against each other in preparing the financial statements that appear elsewhere in this prospectus. Accordingly, the repayment had no material effect on our financial condition or results of operations.

In March 2001, we executed a mandate agreement with a financial institution for the arrangement of a €450 million syndicated credit facility, relating to the expansion of the Dresden 300-millimeter manufacturing facility. We anticipate that the facility will be supported by a governmental guarantee and the terms and conditions of the facility, including covenants, will be based on our existing €729 million revolving credit facility. The closing of the facility is subject to the execution of documentation satisfactory to the financial institution and customary closing procedures. The effect of the governmental guarantee would be to decrease the effective rate of interest we would pay on this facility. We can provide no assurance that we will receive the governmental guarantee.

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 include, as of March 31, 2001:

- a guarantee of a letter of credit in the amount of €313 million issued to cover contingent liabilities to repay government grants in respect of our Dresden facility;
- a guarantee of indebtedness in the amount of $168 million of ProMOS Technologies; and
- a guarantee of payments in an aggregate amount of €20 million under a lease of equipment for our facility in Malacca, Malaysia.

We are in discussions to renegotiate the guarantee offered to ProMOS Technologies. Siemens previously had financed or guaranteed to finance the cost of certain semiconductor technology that had been transferred to that company. The completion of these negotiations 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 negotiations.

On September 25, 2000, the Infineon Pension Trust was established for the purpose of funding future pension benefit payments for our employees in Germany. We contributed approximately €155 million of cash and marketable securities to the trust for use in funding these pension benefit obligations, and, from an accounting perspective, a corresponding amount of liabilities.

We believe that our cash and marketable securities balances and availability under existing credit facilities are sufficient to fund our operating and investing requirements for the next 12 months.

Impact of Inflation

We believe that inflation has not had a material effect on our results of operations during the periods presented.

Owing to market conditions, prices for many of our products, particularly for DRAM ICs, have declined over the past few years. Our costs have not decreased at the same rates. By virtue of the productivity improvements we have been able to achieve, however, we have partially been able to offset the effects of lower prices through reduced costs.

Impact of Changes in Exchange Rates

Our results of operations and financial condition can be significantly impacted, both positively and negatively, by changes in exchange rates between the euro and other currencies, particularly the U.S. dollar and the Japanese yen.

Revenues for some of our products, primarily those that are sold in the United States and Asia, are quoted in U.S. dollars, and fluctuations in the exchange rate of U.S. dollars to the euro affect them directly. Revenues for products sold in Europe generally are quoted in euro, and changes in exchange rates do not affect them significantly. Generally, prices for DRAM ICs are negotiated worldwide in U.S. dollars. As a result, fluctuations in the exchange rate of the U.S. dollar impact sales of DRAM ICs made in other currencies. For example, on a constant currency basis, total net sales for the 2000 financial year would have been €6,761 million compared with €7,283 million on an actual basis.

A large portion of our manufacturing, labor, selling, general administrative and other costs, depreciation charges, and research and development expenses are incurred in currencies other than the euro. Fluctuations in the exchange rates of these currencies to the euro will affect our costs and profitability. In addition, the balance sheet impact of translation adjustments has been, and may continue to be, material from period to period.

Until September 30, 1999, we entered into substantially all of our derivative transactions with Siemens Financial Services, a division of Siemens. As from October 1, 1999, we have sought to limit concentration of credit risk in respect of our derivative instruments by entering into transactions with a number of banks, subject to defined limits. See ''—Quantitative and Qualitative Disclosure about Market Risk''.

Quantitative and Qualitative Disclosure About Market Risk

The following discussion should be read in conjunction with Notes 2, 27 and 28 to our consolidated financial statements.

Risk Identification and Analysis

The identification and analysis of risks relating to our operations is conducted through the application of an enterprise-wide risk management system, encompassing all of our activities worldwide. This risk management system has been created in accordance with German law and is subject to internal and statutory audit processes. The goal of this risk management system is to foster a group-wide culture of risk management using a common set of objectives and standards in the measurement and treatment of risk.

Beyond the scope of the legal requirement to install an early warning system enabling management to recognize risks that may endanger business integrity and continuity, our risk management system is intended to enhance our company's value by pursuing an opportunity-oriented decision-making strategy in consideration of the respective risks. This is to be achieved through the application of planning and control processes designed to identify and measure threats and challenges to our technological capability, earning capacity and assets, as well as to our reputation and stakeholder confidence. By applying these processes, management is able to focus on priority issues in order to reduce risk exposures to an acceptable level at minimum cost and enhance the ability to take advantage of opportunities as they become apparent. As with any risk management system, the results are based on individual assessments that may be subject to error. There is no guarantee that this system will consistently identify all of the important risks or provide an adequate assessment of their precise impact.

We are exposed to market risk through our commercial and financial operations as described above. We are implementing a policy of economic hedging against some of these exposures at present, but we may still incur losses as a result of changes in currency exchange rates, interest rates and commodity risk. We do not purchase or sell derivative financial instruments for trading purposes.

Foreign Exchange Risk Management

The table below provides information about our significant derivative financial instruments that are sensitive to changes in foreign currency exchange rates, as of March 31, 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 March 31, 2001, our forward foreign currency and option contracts had terms of up to one year.

Prior to October 1, 1999, we followed Siemens' group-wide policy of economically hedging at least 75% of our currency risk six months in advance. Our current policy with respect to limiting short-term foreign currency exposure generally is to economically hedge 75% of our estimated net exposure on an ongoing basis for a minimum period of three months. 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.

Derivative Financial Instruments

	Contract amount buy/(sell)	Average contractual forward exchange rate	Fair value March 31, 2001
	(€ equivalent in thousands, except for average contractual forward exchange rates)		
Foreign currency forward contracts:			
U.S. dollar	889,268	0.88889	4,525
U.S. dollar	(1,823,381)	0.88898	(8,942)
Japanese yen	81,880	107.47472	(789)
Japanese yen	(87,147)	105.91335	1,532
Singapore dollar	(76,872)	1.55489	1,383
British pounds sterling	5,314	0.62097	53
British pounds sterling	(7,335)	0.61866	(39)
Other currencies	93,499	N/A	1,331
Cross currency interest rate swaps:			
U.S. dollar	547,000	N/A	1,696

Effective October 1, 2000, we adopted the provisions of FASB Statement No. 133 ''Accounting for Derivative Instruments and Hedging Activities'', as amended (''SFAS 133''). SFAS 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 would be 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 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 reported 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. In the six months ended March 31, 2001, 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.

Preparations for the Euro

The euro was introduced as the official currency of Germany and ten other member states of the European Union on January 1, 1999. During a transitional period that will end no later than January 1, 2002, the Deutsche Mark will continue to be legal tender in Germany, but as a sub-unit of the euro subject to an official fixed exchange rate. Under this exchange rate, one euro is equivalent to 1.95583 Deutsche Mark. Since the Deutsche Mark and the currencies of the other ten participating member states of the European Union will be fully replaced by the euro and cease to exist as legal tender no later than January 1, 2002, we have converted our systems in order to allow them to conduct transactions in euro.

We began using the euro as our company-wide currency on October 1, 1999 and made the associated modifications to our general terms and conditions for doing business. Prior to that date, we issued our invoices denominated in Deutsche Mark and the other local currencies of the European Union member states participating in the euro with translations into euro for convenience. We started to make and accept payment in euro at the time of its introduction on January 1, 1999.

Our total costs in connection with our euro conversion program amounted to about €2 million. We spent approximately €0.1 million in the 1997 financial year, €1.1 million in the 1998 financial year, €0.6 million in the 1999 financial year and €0.2 million in the 2000 financial year in connection with this project. We have completed our euro conversion project and do not expect to incur material additional costs in connection with our euro conversion program in the future.

BUSINESS

Overview

Industry Background

Semiconductors are the key building blocks used to create an increasing variety of electronic products and systems. Over the years, continuous improvements in semiconductor process and design technologies have led to ever smaller, more complex and more reliable devices at a lower cost per function. As performance has increased and size and costs have decreased, semiconductors have become pervasive in everyday life. Semiconductors have expanded from their original primary applications in defense systems and mainframe computers to applications such as personal computers, telecommunications systems, automotive products, industrial automation and control systems and security applications.

Semiconductor sales have increased significantly over the long term. Factors contributing to long-term growth include:

- the development of new semiconductor applications;
- the replacement of mechanical components with electronic components;
- increased demand for mobility, which requires increasing miniaturization and reduced power consumption;
- demand for new products that have improved functionality and ease of use; and
- growth in the electronics industry generally.

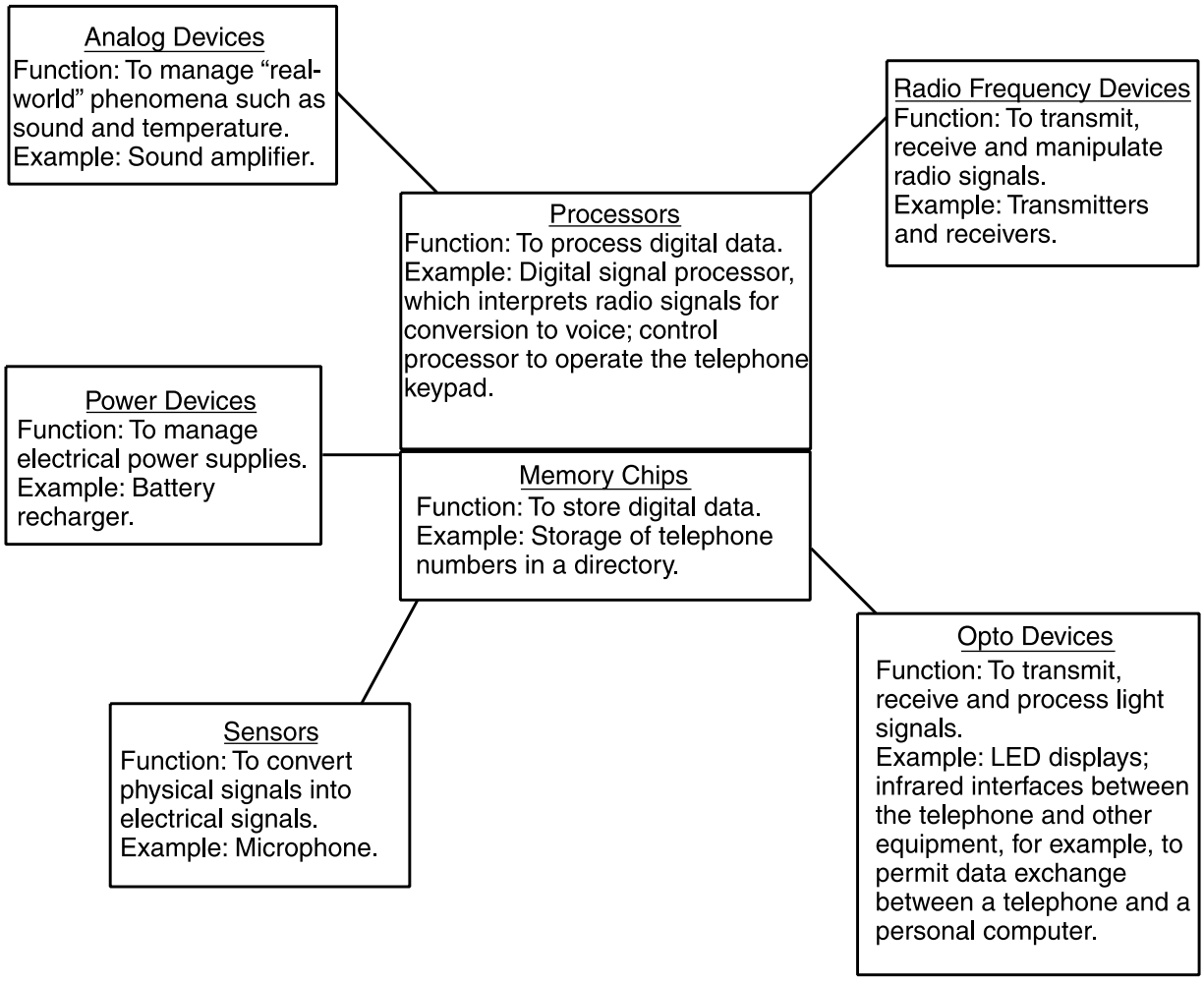
These factors have resulted in semiconductors constituting an increasing percentage of the total cost of the systems and products in which they are incorporated. According to published industry data, the percentage of worldwide revenues from production of electronic equipment that is attributable to the cost of semiconductors has increased from approximately 9% in 1991 to approximately 20% in 2000. Nevertheless, the market for semiconductors has historically been volatile. Supply and demand have fluctuated cyclically and have caused pronounced fluctuations in prices and margins.

Types of Semiconductors

Semiconductors consist of a material such as silicon or gallium-arsenide that can act as a switch allowing electrical current to flow under some conditions but not others. Semiconductors fulfill a wide range of functions in an increasing variety of applications. The technologies employed vary depending upon the function for which the semiconductor is used. The following chart describes the main types of semiconductors and their functions and gives examples of how each different type is used in a mobile telephone, a typical consumer product using semiconductors:

Semiconductor Types and Functions

Example: A Mobile Telephone



The different types of semiconductors may also be classified by a number of other technical characteristics:

- Integration, or the extent to which different circuits are combined on a single chip.

Semiconductors may be either discrete devices, which have a low level of integration, or ICs, which can have thousands or millions of devices combined on a single chip.

- Customization, or the extent to which the design of a semiconductor is specific to a particular use.

Standard components are semiconductors that are not customized and that can be used for a wide range of applications. Application-specific ICs (commonly referred to as ASICs) are customized semiconductors that are designed to perform particular functions in specific applications for particular customers. ASICs can be further classified into three groups according to their level of customization: full-custom devices, semi-custom devices and application-specific devices.

- Whether the semiconductor uses analog, digital or mixed-signal technology.

Analog semiconductors collect, monitor, condition or transform analog signals into electrical signals and vice versa. Analog signals are real world phenomena such as temperature, sound, light or pressure that vary over a continuous range of values. For example, an analog semiconductor can transform sounds into electrical signals or vice versa.

Digital signals are created by switching electrical current on or off. They vary based on the sequence of these on and off electrical pulses, which are frequently represented by ones and zeros. Digital data is used in computer-like functions and calculations. A digital semiconductor stores information from digital signals or performs functions on digital signals. Examples of digital semiconductors would be memory chips or microprocessors.

Historically, digital semiconductors have been used primarily in computer systems, sophisticated computer networks and communications systems. In recent years, increasing demand for more powerful personal computers and networks used by a greater number of users, and new communications tools whose main components are digital semiconductors have led to dramatic increases in the total number of devices that use semiconductors and in the total number of semiconductors used in each such device. To meet this demand, significant advances in electronic system integration have occurred in the design and manufacture of digital devices.

Digital devices can be used either to store or to process data. ICs that store data are referred to as memory ICs, and ICs that process data are referred to as logic ICs. DRAM ICs are examples of memory ICs. Memory ICs tend to be standardized products, used in high volume and differentiated by cost, performance, capacity, size, power consumption and speed. Logic ICs are more differentiated than memory ICs and require a greater variety of intellectual property and more sophisticated design.

Mixed-signal ICs combine analog and digital devices on a single chip to process both analog signals and digital data. Historically, analog and digital devices have been developed separately, and it has been technically difficult to combine them on a single chip. However, system designers are increasingly demanding system-level integration containing both analog and digital functions on a single chip. This allows chips to achieve increased functionality and speed for new applications such as multimedia and reduced power consumption for mobile applications.

The following table sets forth information with respect to worldwide semiconductor sales by type of semiconductor and geographic region for the calendar years shown:

Worldwide Semiconductor Sales

	1985	1990	1996	1997	1998	1999	2000
				(in billions)			
Integrated Circuits:							
Analog and mixed-signal device	$ 3.9	$ 7.8	$ 17.0	$ 19.8	$ 19.1	$ 22.1	$ 30.5
Digital devices:							
Logic devices	8.1	21.5	61.9	70.4	67.0	75.8	97.2
Memory devices:							
DRAM	1.5	6.4	25.1	19.8	14.0	20.7	28.9
Others	3.0	5.4	10.9	9.5	9.0	11.6	20.3
Total memory	3.7	11.8	36.0	29.3	23.0	32.3	49.2
Total digital	12.6	33.3	97.9	99.7	90.0	108.1	146.4
Total integrated circuits	16.5	41.1	114.9	119.5	109.1	130.2	176.9
Discrete devices	4.2	7.3	12.9	13.2	11.9	13.4	17.7
Opto-electronics	0.8	2.1	4.2	4.5	4.6	5.8	9.8
Total	$21.5	$50.5	$132.0	$137.2	$125.6	$149.4	$204.4
Europe[1]	$ 4.6	$ 9.6	$ 27.6	$ 29.1	$ 29.4	$ 31.9	$ 42.3
Americas[1]	8.1	14.4	42.6	45.8	41.4	47.5	64.1
Asia/Pacific[1]	1.2	6.9	27.6	30.2	28.9	37.2	51.3
Japan	7.6	19.6	34.2	32.1	25.9	32.8	46.7
Total	$21.5	$50.5	$132.0	$137.2	$125.6	$149.4	$204.4

Source: WSTS.

(1) For 1985 and 1990, the numbers for Europe include only Western Europe, the numbers for the Americas include only North America and the numbers for Asia/Pacific include the Asia/Pacific region and other areas not otherwise included.

Development of the Industry

While process technologies and manufacturing science were crucial in the early stages of the semiconductor industry, manufacturing efficiency and management of manufacturing costs have more recently become the focus of participants in the industry. Large capital expenditures and other resources required to develop advanced manufacturing capabilities have resulted in a stratification of the industry among:

- broad-range suppliers, which operate multiple front-end and back-end manufacturing facilities and conduct chip development (integrated device manufacturers);
- silicon foundries producing chips designed by others;
- design houses and semiconductor manufacturers without manufacturing facilities; and
- specialty niche players operating small wafer fabrication facilities or subcontracting wafer production.

In recent years, major new growth segments in the semiconductor market have developed, in particular the market for semiconductors used in new applications such as mobile communications, chip cards, mass storage, global networks (telephony and the Internet) and digital television. These new segments are requiring new and rapidly evolving semiconductor technologies and a higher level of semiconductor integration, combining a number of different technologies on a single chip. They therefore require specially designed semiconductors that are manufactured using world-class process technologies.

We believe the following attributes are the most important in competing in these new product and application markets:

- strong relationships with customers that are acknowledged leaders within their respective industries;
- strong market focus to identify emerging semiconductor applications;
- a strong intellectual property portfolio and leadership in intellectual property likely to be required in new semiconductor applications;
- the ability to offer complete system solutions, incorporating software;
- cost and process technology leadership in key product markets, particularly those for DRAM-based products;
- a competitive ''time-to-market'' for new products, meaning the time required from first conception of the new product to its introduction in the market;
- leadership in research and development;
- access to financial resources needed to maintain a highly competitive technological position;
- logistics and service capabilities to serve the requirements of different customer groups;
- manufacturing facilities and process technologies that are sophisticated enough to produce the specially-designed products that customers are increasingly demanding;
- flexibility in manufacturing capacity and utilization so as to take maximum advantage of industry conditions through market cycles; and
- an ability to establish and sustain strategic relationships with other key industry participants.

History and Strategy

We have been a publicly traded company since March 2000 and have operated as a subsidiary of Siemens AG with effect from April 1, 1999. Prior to that date, we were the Siemens Semiconductor Group. As such we have been actively involved in the development, manufacture and marketing of semiconductors since 1952. We believe that we inherit from the Siemens Semiconductor Group a strong base of technology and experience in the semiconductor industry.

As Siemens' Semiconductor Group, we pioneered the development of ICs for use in consumer products in the early 1960s. We produced the first radio-frequency chip set that was GSM-compatible in 1990 and the FingerTIP™ sensor, which registers and identifies fingerprints, in late 1998. In 1999, through our Semiconductor300 joint venture, we manufactured the first samples of 256-Mbit DRAM memory chips produced on a 300-millimeter wafer, using advanced 0.19 micron technology. In 2000, we introduced and commenced deliveries of a mobile telephone chipset for the Bluetooth standard, introduced the first dual mode UMTS/GSM single baseband chip, and received the first certification for a complete Bluetooth system. In 2001, we have introduced the first OC-192 single-chip 10 gigabit-per-second transceiver in silicon-germanium for high-speed Sonet communications networks.

We have experienced compound annual revenue growth of approximately 33% from financial year 1996 to 2000, compared with an industry compound annual growth rate of approximately 12% from calendar year 1996 through calendar year 2000, according to industry estimates. During that time, according to the most recent study published by Dataquest, we have risen from being the 15th-largest supplier of semiconductors and systems worldwide to the ninth-largest in 2000.

Our strategic objective is to continue to achieve profitable growth by targeting fast-growing areas of the semiconductor industry and building upon our position as a leading innovator within the semiconductor industry. We seek to attain this strategic objective by focusing our diverse portfolio of technologies—in particular our strengths in mixed-signal, radio-frequency, embedded digital signal processing, embedded control, power, DRAM and embedded DRAM—on key applications in communications systems for wireless and wireline transmission of speech and data as well as in automotive and industrial electronic systems. Our aim is to provide innovative products and services and to fully exploit and, as appropriate, expand our world-class manufacturing facilities. By doing so, we aim to enable our customers to be successful in their own markets. By working together with industry leaders among our customers, we believe we develop the knowledge and experience required to continue to be at the forefront of the semiconductor industry.

In implementing our strategy, we seek to:

- ***Capitalize on our intellectual property portfolio to develop complete system solutions tailored to meet our customers' specific needs.*** At March 31, 2001, our intellectual property portfolio included approximately 5,800 patent families comprising more than 28,000 individual patents or patent applications that cover a wide range of semiconductor technologies. We use this intellectual property base and our customers' own technologies to develop sophisticated ICs, particularly logic ICs, that are customized to meet customers' specific needs. In addition, our expertise in process technologies, software development and IC design enables us to offer sophisticated, complete system solutions to meet the needs of our customers. We also believe that our intellectual property portfolio is a valuable strategic asset that makes us attractive to potential cross-licensing partners.
- ***Build on our leadership in ICs in fast-growing areas served by our different business groups.*** Our goal is to continue to achieve revenue growth greater than that experienced by the semiconductor industry generally. We seek to do this by increasing market share and exploiting opportunities that allow us to achieve a leadership position in rapidly growing market segments. We target wireless and wireline communications, market segments that we believe will continue to experience significant growth. We believe that our strong relationship with leading customers in these areas, our expertise in the areas of mixed-signal, radio frequency and power semiconductor technologies and our competence in microcontroller and digital signal processor architecture give us significant competitive advantages in these market segments.

  We also believe that we are a technological leader in the DRAM market and that our strength in this area positions us well to compete effectively in terms of costs. We believe that our DRAM operations enhance our logic ICs business by providing us with important manufacturing efficiencies and product synergies, including:

  - DRAM-related R&D efforts that provide a technological platform for our other products, particularly in terms of manufacturing process technology;
  - a competitive advantage in producing ASICs with embedded DRAM, which our customers are increasingly demanding. ASICs with embedded DRAM combine memory and logic functions on a single chip;
  - the ability to shift production capacity between DRAM and other products;
  - the ability to use DRAM to ramp up new production lines, which provides advantages in terms of time to volume production, ease of production monitoring and marketability of output;
  - strong relationships with customers that also purchase logic products; and
  - broad and efficient sales and distribution systems that can be easily extended to logic products.

- ***Focus on increasing market penetration with major international customers.*** We seek to strengthen our relationships and increase our market share with major customers worldwide that are leaders in their respective fields. We believe that we benefit from close relationships with these major customers because they give us the opportunity to expand the scope of the products that we offer and give us access to new technologies and systems understanding. We have reorganized our sales force by aligning the sales teams for our major customers to our business groups and by strengthening our regional coverage through our network of sales offices and distributors.

- ***Share risk and expand our access to leading-edge technology through long-term strategic partnerships with other leading industry participants.*** We have a demonstrated ability to establish and sustain long-term strategic relationships with major semiconductor companies such as IBM and Toshiba. We intend to continue to develop long-term strategic relationships with leading industry participants such as these, both to manufacture products and to develop new process technologies and products. We believe that these relationships allow us to share risks, reduce development costs and improve time-to-market. They also enable us to enhance our portfolio of intellectual property through worldwide access to the expertise of other industry leaders.

- ***Enhance our position as an innovation and technology leader by continuing to invest in research and development.*** We believe that research and development is integral to the implementation of our overall strategy and essential to maintaining close relationships with our customers. We are committed to maintaining the level of expenditures necessary to maintain our technological leadership. Our research and development is focused on further improving our position in:

  - mixed-signal, radio-frequency, embedded digital signal processors and fiber-optic technologies for communication applications;

  - power and embedded control for automotive and industrial applications and peripherals;

  - cell architecture, lithography and test concepts for memory products;

  - cryptography and security architectures and embedded non-volatile memory for security and chip card applications; and

  - complete systems solutions, including systems-on-chip and embedded software.

  We believe that continued investment in the improvement of process technologies permits us to achieve higher margins.

- ***Exploit the flexibility of our world-class manufacturing facilities to respond to the market cycles of our different business groups and, as appropriate, expand our manufacturing capabilities.*** We believe that our manufacturing facilities are among the most advanced in the world and offer us a number of competitive advantages, including:

  - a high level of production efficiency;

  - the ability to flexibly adapt to market demand in a timely fashion—which we believe is a particularly important advantage in markets characterized by rapid and substantial fluctuations, such as, in particular, the DRAM market and, recently, the market for wireless communications products; and

  - the capacity to produce a wide range of high-performance products and systems for our targeted markets.

We intend to continue to invest in our facilities to maintain our technological leadership position and support our growth. At the same time, we also intend to make increasing use of outsourcing arrangements as needed to meet our manufacturing needs for specific products and to respond flexibly to changes in the volume of products ordered by our customers.

- ***Attract and retain senior management and other highly qualified personnel, in particular R&D personnel, by fostering employee ownership of our shares.*** There is significant competition for highly qualified management and technical employees in the semiconductor industry. We believe that our status as an independent company provides us with an opportunity to attract and retain the most qualified employees by enabling us to offer selected employees participation in share ownership and share option plans. We believe that this will better align the interests of our most qualified employees with the interests of our shareholders.

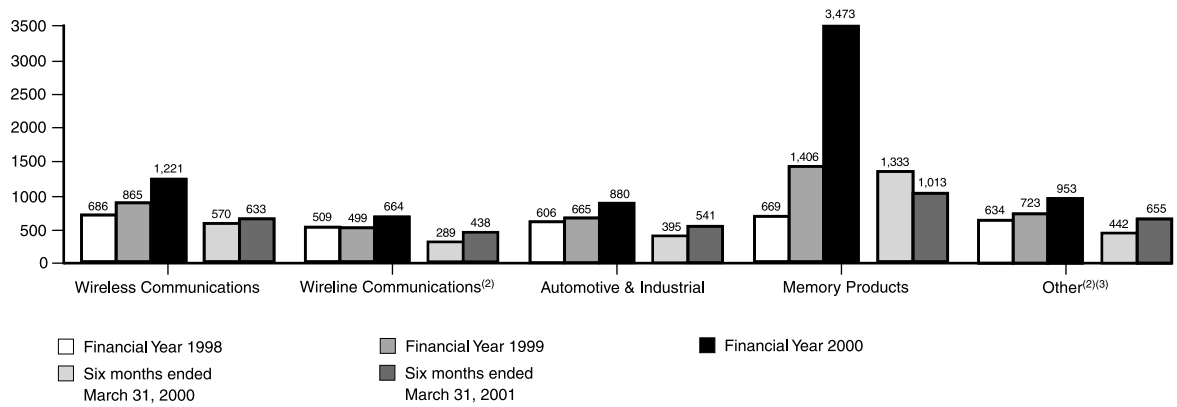
Business

Products and Applications

We design, develop, manufacture and market a broad range of semiconductors and complete systems solutions used in a wide variety of microelectronic applications.

We are organized into four main business groups, three of which are application-focused—Wireless Communications, Wireline Communications and Automotive & Industrial—and one of which is product-focused—Memory Products. We also have another business group, called Security & Chip Card ICs. In addition, we participate in a joint venture with OSRAM to produce opto components for lighting and display applications; we are in negotiations to sell our interest in the joint venture to OSRAM. The following chart shows net sales from each business group during the periods shown:

Net Sales By Business Group[1]
(€ in millions)



(1) Corporate and reconciliation items, which are not included in this diagram, accounted for net sales of €71 million in the 1998 financial year, €79 million in the 1999 financial year, €90 million in the 2000 financial year, €42 million for the six months ended March 31, 2000 and €28 million in the six months ended March 31, 2001.

(2) As a result of the sale of our image and video business, we have reclassified the results of that business for all periods after September 30, 2000 from our Wireline Communications segment, in which they were previously reported, to our Other operating segment. We have also

reclassified the results of our infrared components business from our Wireline Communications segment, in which they were previously reported, to our Other operating segment. Additionally our Other operating segment includes the results of certain activities previously reported under corporate and reconciliation. These reclassifications were made to facilitate analysis of our current and future operating segment information. The segment results for financial years 1998, 1999 and 2000 have been reclassified to be consistent with current period presentation and have been included in note 17 to our unaudited condensed consolidated financial statements for the six months ended March 31, 2001.

(3) Includes our Security & Chip Card ICs business group and our opto components business that is conducted through a joint venture with OSRAM, a Siemens subsidiary. We are currently in negotiations to sell our interest in the joint venture to OSRAM.

The following table gives an overview of some of the more significant products and applications and the four largest customers of each of our business groups:

Principal Products, Applications and Customers

Business Group	Principal Products	Principal Applications	Four Largest Customers in the 2000 Financial Year
Wireless Communications	Baseband ICs, Linear RF ICs, Silicon Discretes, GaAs products, RF Modules	Mobile telephone systems, cordless telephone systems; (major standards are GSM, GPRS, UMTS, WDCT, DECT and Bluetooth)	Motorola Nokia Sagem Siemens
Wireline Communications	Codecs, SLICs, ISDN, DSL, T1/E1, ICs for routing and switching, optical modules, including high-speed ICs	Internet access, WAN, MAN and LAN	Alcatel Cisco Ericsson Siemens
Automotive & Industrial	Power semiconductors (discretes, ICs and modules) and controllers (8-bit, 16-bit, 32-bit) with embedded memory	Automotive: Powertrain (engine control, transmission control), body and convenience (comfort electronics, air conditioning), safety and vehicle dynamics (ABS, airbag, stability control), infotainment (dashboard, car radio, telematics/navigation) Industrial: Power management & supplies, drives and power distribution	Bosch Hella Mannesmann/VDO Siemens
Memory Products	Mainstream DRAMs (128-Mbit), high-end DRAMs (256-Mbit, Rambus), high-speed graphics DRAMs, ASICs with embedded DRAM, hard disk drive controllers	Personal and notebook computers, PC upgrades, workstations and servers, communication equipment, computer peripherals	Acer Compaq Dell Hewlett-Packard
Security & Chip Card ICs; Opto	Security memory ICs, security microcontroller ICs, encryption ICs, FingerTIP™ ICs, MultiMediaCards™, identification ICs, LEDs, and other opto components and devices	Security & Chip Card ICs: Telecommunications, banking, healthcare, access control, software distribution, games, mobile storage Opto: signaling and lighting for automotive and industrial applications	Gemplus Giesecke & Devrient Oberthur Schlumberger

Wireless Communications

Our Wireless Communications business group designs, develops, manufactures and markets semiconductors and complete system solutions for a range of wireless applications, including cellular telephone systems, short range wireless systems such as cordless telephone systems and Bluetooth radios and devices used in connection with the global positioning system. Our principal products in the wireless communications market include standard and customized radio-frequency products and baseband ICs.

We estimate that the worldwide market for these semiconductors used in digital cellular telephone systems and pagers was approximately $6.5 billion in 2000. We believe we are one of only a few suppliers that can provide to its customers the full range of radio-frequency and baseband semiconductors required for a cellular telephone thereby enabling us to offer complete system solutions for the GSM/GPRS standards including a reference platform and the required software.

We offer semiconductors and complete systems solutions to manufacturers of cellular telephone systems based upon the GSM and GPRS standards. The GSM standard is currently the dominant standard in much of the world for both voice and data transmission, and is also gaining in importance in the United States. According to market data, 61% of the year 2000 worldwide sales of radio-frequency and baseband semiconductors were made up of semiconductors based on the GSM standard. We had a 10% market share for semiconductors used in mobile handsets for the GSM standard in 2000. GPRS is an emerging standard derived from the GSM standard to enable packet based, always-on mobile internet applications. We have started shipping customer samples of baseband and radio-frequency chipsets able to operate under both the GSM and GPRS standards as early as July 1999. We are currently developing chipsets for the so-called third generation UMTS standard that will significantly increase the bandwidth available to the user for mobile data exchange compared to the GPRS standard.

The CDMA standard is being promoted as a replacement for the analog standards in the United States. We estimate that sales of radio-frequency and baseband semiconductors based on the CDMA standard accounted for approximately 18% of the semiconductor market for cellular telephones in 2000. We currently only supply radio-frequency semiconductors and power amplifiers for the CDMA standard.

We are also a leading supplier of complete systems solutions for short-range wireless applications based upon the DECT cordless telephone standard used in Europe and the WDCT cordless telephone standard used in the United States, as well as Bluetooth.

The worldwide market for radio-frequency and baseband semiconductors used in digital cordless telephone systems shows steady growth, and we estimate that this market totaled approximately $450 million in 2000. The DECT/WDCT standard was used in approximately 45% of the units sold in the digital cordless telephone market. According to industry data, our share of the market for DECT/WDCT baseband ICs in terms of sales was approximately 70% in 2000.

We believe that Bluetooth, an open-systems standard for the delivery of data over a short-range wireless modem, is becoming increasingly important in the wireless communications market. We believe that Bluetooth could ultimately serve as a transmission standard for equipment within an office environment, including telephones, personal computers and printers. In this way, Bluetooth could serve as a replacement for wired or infrared transmission or as a means of providing cordless telephony. We believe that our leading position in DECT/WDCT technology and our expertise in radio-frequency devices positions us well to compete in this developing market. We offer a complete system solution in Bluetooth and believe that we are well positioned in this new market.

We also see the global positioning system as an important new market for ICs, in part as a result of new U.S. regulations that will require all mobile telephones in the United States to be able to indicate the user's location by means of the global positioning system.

The markets for all these products are characterized by trends toward lower costs, increasingly rapid succession of product generations and increased system integration. In addition, increasing demand for add-on applications such as multimedia are expected to further increase the IC content of mobile telephones. We expect these trends to create further opportunities for suppliers of wireless communications semiconductors.

We aim to expand our position in the wireless communications sector, where European companies such as Infineon have traditionally led the industry, by emphasizing our traditional strengths in core technologies like analog, radio-frequency, embedded DSP and, especially, mixed-signal. The market for wireless devices, particularly for mobile handsets, has experienced a substantial downturn in recent months. We believe, however, that we will continue to be in a strong competitive position as and when market conditions improve.

Wireline Communications

Our Wireline Communications business group designs, develops, manufactures and markets semiconductors and fiber optic components for the communications access, WAN (Wide Area Network), MAN (Metropolitan Area Network) and LAN (Local Area Network) sectors of the wireline communications market. According to industry data, we had a market share of approximately 6% of the worldwide sales of wireline communications ICs in 2000.

Our traditional telecom products include ISDN chipsets, coders/decoders (commonly known as codecs) and subscriber line interface circuits, or SLICs, which are used in telephony-based products. Our leading market positions in each of these product areas, coupled with continuing strong demand for traditional telecommunications products in emerging economies, has helped to reduce our exposure to the current downturn in investment in the U.S. market for LAN/WAN telecom infrastructure.

We have broad expertise in fiber optics and IC-process technologies, such as silicon germanium (SiGe), gallium arsenide (GaAs) and indium phosphide (InP). We intend to combine this expertise with the framing/mapping expertise of Catamaran Communications Inc., a company that we have agreed to acquire, in order to develop optical modules and IC solutions for high-speed linecards operating at rates up to 40 gigabit-per-second.

In the broadband access market, we are using our leading position in selected access technologies to develop and deliver products using advanced versions of DSL technology, including 10BaseS, VDSL, ADSL and SHDSL. Our Ethernet over VDSL product, which utilizes existing telephone lines to deliver Ethernet, has been integrated by Cisco Systems into its Long-Reach Ethernet (LRE) product family. We also offer a power-efficient, single-chip SHDSL solution.

The Wireline Communications business group is currently shifting its R&D activities to focus on segments of the optical and high-speed communications markets that we believe may provide opportunities for higher growth or higher margins. Through this change of focus, we aim to exploit the many structural changes driving the wireline communications market. These changes, all of which reflect ever-increasing demand for bandwidth, include:

- a substantial increase in data traffic attributable to the growth of the Internet;
- the convergence of voice and data networks into a single infrastructure;

- increased competition and investment in network access and WAN and MAN infrastructure arising from deregulation; and
- the emergence of the optical transponder, enabling integrated opto-electrical conversion.

The principal products of our Wireline Communications division are:

- *High-Speed WAN products*. We deliver a wide range of solutions for high-speed linecards —from the optical interface to the protocol processing interface.
- *Fiber-optics products*. We provide a wide range of fiber-optics components, including Gigabit Ethernet fiber-optic transceivers, a leading Parallel Optical Link, or PAROLI, product family and one of the world's smallest OC-192 transponders.
- *High Speed Communications products*. These products include ICs based on silicon germanium (SiGe) process technology and high-speed CMOS technology.
- *Access products*. We offer a wide range of broadband access products, including 10BaseS, Ethernet over VDSL and an integrated POTS and ADSL solution for termination on a single linecard. We are currently developing more advanced ICs for xDSL applications, Integrated Access Devices (IADs), a 3G mobile base-station solution and codecs/SLICs.
- *LAN products*. We offer a product that combines high-speed switching capabilities with 10BaseS transceiver technology. We also offer high port density 10/100 Ethernet switching solutions.

The primary applications for our Wireline Communications devices are:

- *Communications applications, including for WAN, MAN and Internet access.* These applications include optical line cards, public subscriber line cards, data access and switching equipment, network termination units, multiprotocol access devices, digital subscriber line multiplexers, or DSLAMs, and cellular base stations.
- *LAN/Data applications.* These include high- and mid-range routers, remote access devices and LAN switching devices.

We believe that our combination of expertise in fiber-optics and in ICs, together with our broad portfolio of patents and other proprietary technology in mixed-signal ICs and embedded DRAM, provide us with a competitive advantage in many of the markets served by our Wireline Communications business group.

In April 2001 we acquired Ardent Technologies, a California based supplier of high-bandwidth integrated circuits for local area network (LAN) switching systems, for approximately €39 million worth of our shares.

In April 2001, we entered into an agreement to acquire Catamaran Communications Inc., a U.S.-based firm that specializes in technology for high-speed (40 gigabit-per-second) MAN applications, for $250 million worth of our shares. We anticipate that the acquisition will enable us to offer a complete line card solution, from the optics to the network processor interface, for next-generation optical networking systems. We expect the transaction to close in late summer 2001.

Automotive & Industrial

The Automotive & Industrial business group develops, manufactures and markets semiconductors and complete systems solutions for use in automotive and industrial applications. Automotive applications have typically accounted for approximately 60% of the business group's net

sales, with the balance represented by industrial applications. In 2000, our market share in terms of sales was approximately 7% of the automotive market (excluding in-car entertainment), in which there is a large number of suppliers. Excluding ICs for in-car entertainment, we are the second-largest producer of ICs for automotive electronics worldwide and the largest in Europe. Within the fragmented market for industrial applications, we focus on power management and supply as well as drives and power distribution.

The markets for both automotive and industrial semiconductors generally consist of five basic product classes: sensors, microcontrollers, power ICs, opto semiconductors and discrete semiconductors. Our Automotive & Industrial business group focuses on microcontrollers and power semiconductors, discrete semiconductors and modules. Power semiconductors handle higher voltage and higher current than standard semiconductors. To offer customers a full system solution, including sensors, opto semiconductors such as LEDs and discrete semiconductors, the business group works closely with our other business groups.

Automotive. The market for semiconductors for automotive applications has grown substantially in recent years, despite relatively slow growth in automobile production worldwide. This growth is the result of increased electronic content in growing automotive applications in the areas of safety, power train management and body and convenience and comfort systems. This growth also reflects increasing substitution of semiconductors for mechanical devices such as relays in order to meet more demanding reliability, space, weight and power reduction requirements. This trend has been particularly pronounced in the area of power ICs that deliver additional short-circuit protection and other features.

Power train applications, such as transmission control and exhaust control applications, comprise the largest portion of the market, followed by safety and vehicle-dynamics systems, driver information and in-car entertainment, infotainment and body and convenience systems. We believe that the new area of navigation and telecommunications equipment for automotive applications also provides growth opportunities.

We supply a wide range of semiconductors and complete systems solutions for applications in the automotive industry. These products include power semiconductors, microcontrollers, discrete semiconductors, silicon sensors and opto semiconductors, along with related technologies and packaging. The introduction of our TriCore™ 32-bit microcontroller product, which combines a microcontroller with digital signal processing and microprocessor capabilities in conjunction with an automotive-dedicated peripheral set, represented an important addition to our product offerings in the automotive area.

Time periods between design and sale of our automotive products are relatively prolonged (two to four years) because of the long periods required for the development of new automotive platforms, many of which may be in different stages of development at any time. This is one of the reasons why automotive products tend to have relatively long life-cycles compared with our other products. The nature of this market, together with the need to meet demanding quality and reliability requirements designed to ensure safe automobile operation, makes it relatively difficult for new suppliers to enter the automotive market.

Our primary automotive products include:

- Semiconductors for power train applications, which perform functions such as engine and transmission control;
- Semiconductors for safety and vehicle dynamics, which manage the operations of airbags, anti-lock braking systems, electronic stability systems and power steering systems;

- Semiconductors for body and convenience systems, which are used in light modules, heating, ventilation and air conditioning systems, door modules (power windows, door locks, mirror control) and electrical power distribution systems; and
- Semiconductors for infotainment, such as those used in dashboards, navigation/telematics and car radios.

We are in the final stages of phasing out production of selected unprofitable flash microcontrollers for automotive applications.

We seek to exploit our strong relationship with, and proximity to, German car manufacturers and their suppliers, which have historically been at the forefront in using electronic components in cars, to strengthen our position in all segments of automotive electronics. We also seek to expand our presence in other geographic areas, notably the United States and Japan. We believe that our ability to offer complete system solutions integrating power, analog and mixed-signal ICs and sensor technology is an important differentiating factor in the automotive market. We also believe that our strength in this relatively stable market complements our strengths in other markets that are subject to greater market volatility.

Industrial. The market for semiconductors for industrial applications is highly fragmented in terms of both suppliers and customers. It is characterized by a large number of both standardized and application-specific products. These products are employed in a large number of diverse applications in many industries such as factory automation, power supply and consumer products.

We supply a diverse range of semiconductor products based on approximately 1,500 different chip types to approximately 1,100 customers for use in industrial automation and control systems. These products comprise power modules, discrete semiconductors and controllers.

Our industrial products are used in a wide range of applications, such as:

- Drives for machine tools, motor controls, pumps, fans and heating, ventilation, air-conditioning systems and transportation;
- Industrial automation, meters and sensors;
- Power supplies, divided into two main categories: uninterruptible power supplies, such as power backbones for Internet servers; and switched-mode power supplies, as well as battery chargers for mobile phones and notebook computers; and
- Other industrial applications such as power distribution systems and medical equipment.

Within the industrial segment, we focus on two major application segments, power management and supply and power conversion. We provide differentiated products combining diverse technologies to meet our customers' specific needs. We have identified white goods applications as an area of future focus.

In October 2000, we acquired a 49% share of SiCED, a joint venture with Siemens, to develop silicon carbide power semiconductors.

Memory Products

Our Memory Products business group develops, manufactures and markets semiconductor memory products with various packaging and configuration options and performance characteristics for use in standard and embedded memory applications. We were the fourth largest producer of DRAM in terms of revenues in 2000, with a worldwide market share of approximately 9.4%.

The global market for DRAM has experienced strong cyclicality. The market substantially declined in terms of value in the late 1990s, with sales declining from approximately $41 billion in 1995 to approximately $14 billion in 1998, before rising to approximately $29 billion in 2000. We believe that total sales in this market have again declined substantially in the first part of calendar year 2001. As measured in megabits, however, demand has increased substantially, from 13 billion to 252 billion megabits, from 1995 to 2000. On a per-megabit basis, average selling prices for our DRAM products declined by approximately 65% in the 1998 financial year and 21% in the 1999 financial year before rising by 11% in the 2000 financial year and then further declining in the first half of the 2001 financial year by approximately 55%. The turn-around in the price decline for DRAM products in the 2000 financial year reflected capacity constraints in the semiconductor industry. The substantial increase in demand for DRAMs on a per-megabit basis combined with the stabilization of the prices for these products resulted in substantially higher revenues in our 2000 financial year. The substantial decline in price in the first half of the current financial year, however, has resulted in a substantial reduction in revenues from this business. Memory prices have historically been cyclical in nature, with periods of relative price stability followed by periods of steep pricing declines, such as the current downturn, driven by changes in industry capacity at different stages of the cycle. We cannot predict how long the current cycle will last.

The memory market is characterized by a high degree of technological change, with successive generations of products succeeding each other with increasing frequency. This rate of change is expected to continue in the future.

The most common uses of memory products are in personal and notebook computers. Other applications include workstations, servers, communications devices, computer peripherals, consumer products and graphics applications, among others. Our DRAM capabilities also enable us to sell ASICs with embedded DRAM as system-on-chip solutions.

We believe we are a leader in DRAM process technologies and ASICs with embedded DRAM. ASICs with embedded DRAM eliminate the need for chip-to-chip interfaces and are particularly well-suited for applications where component space saving, power saving and higher bandwidth are important, such as the graphics for notebook and personal computers, personal digital assistants and mobile devices.

Our principal memory products are mainstream DRAMs (128-Mbit), high-end DRAMs (256-Mbit), and high-speed graphic and embedded DRAMs. We also offer ICs for mass storage applications based on advanced embedded DRAM technology. 64-Mbit DRAMs formed the largest part of our memory products sales in the 2000 financial year, but these products have been largely superseded by 128-Mbit DRAMs. We believe that we are well-positioned to win a substantial share of the nascent market for these products. We believe that high-end products, such as 256-Mbit DRAMs, offer opportunities to mitigate the effects of the cyclical nature of the memory products market.

We are currently offering 256-Mbit DDR (double data rate DRAM) products. These products have been qualified at major key accounts for PC and server applications and have been validated on Intel platforms. Our next product is expected to be a 128-Mbit DDR to be internally qualified in September 2001. Both have been designed and are manufactured using our 0.17 micron technology.

We have also developed a high-performance reduced latency DRAM (RLDRAM) which will be used for networking applications in high-end servers and routers. This type of DRAM offers high bandwidth and fast random SRAM-like data access. Customer samples are expected to be available in September 2001.

In September 1999, through our Semiconductor300 joint venture, we qualified 64-Mbit DRAMs on 300-millimeter wafers, using 0.24 micron technology. Also, in 1999, our Semiconductor300 joint

venture manufactured the first samples of 256-Mbit DRAMs produced on 300-millimeter wafers, using advanced 0.19 micron technology, and we have since ramped up production using our 0.17 micron technology at all of our production facilities.

In addition to these products, we are also engaged in the development of a new generation of DRAM with one gigabit of capacity. We are also capable of producing DRAMs according to Rambus architecture as market conditions require.

We have invested heavily throughout the DRAM market cycle, including during the most recent downturn, to maintain and build upon our leadership in DRAMs and high-end process technology. We aim to continue to be a worldwide leader in DRAM process technology. In order to enhance our competitive position in the DRAM market, we are constructing a new production facility adjacent to our existing Dresden site to increase our capacity for production using 300-millimeter wafers. The construction of the shell building has been completed and the installation of equipment began in April 2001. We have also invested in a new clean room at Richmond for use in future production using 300-millimeter technology. In addition, we have licensed further technologies to ProMOS, granting it the right to manufacture, develop and sell all of our DRAM products using 0.17 micron, 0.14 micron and 0.12 micron production processes, as well as to utilize our 300-millimeter technology.

Although the market for DRAM has experienced severe price erosion in recent months, we expect to benefit from anticipated future increases in demand for DRAMs resulting from increased demand for servers and for personal computers with Internet access. We also believe that our leading role in 256-Mbit DRAM provides us with opportunities in the market for workstations and servers. Markets for these products are expected to grow substantially in the next few years, although the market for personal computers is expected to decline as a proportion of the total market.

The Memory Products business group also offers a next-generation hard disk drive (HDD) controller IC with embedded DRAM in 0.18 micron technology. We are currently in advanced discussions with two major customers about the design-in of our solution into their HDD platforms.

Security & Chip Card ICs

Our Security & Chip Card ICs business group develops, manufactures and markets security controllers, security memories and other semiconductors and systems solutions for use in applications requiring special security features. According to industry data, we are the world's largest manufacturer of chip card ICs, with an approximate 34% share of the market in 2000, down from 43% in 1999, as we lost customer business to smaller manufacturers that were able to satisfy demand while we faced capacity constraints.

The market for security and chip card ICs is driven by the trend toward increased security requirements in such aspects of everyday life as telecommunications, banking, health services and, recently, electronic commerce and Internet communications. The market for these products is currently more developed in Europe than in the United States or Asia. Security controllers, which are complete computer systems on a chip providing security features like access control, encryption and copy protection, account for the bulk of the market. Security memories, which combine memory with security logic functions to provide secure data storage, access and communication, account for the remainder.

Our security and chip card IC products include:

- Chip card ICs, including both security controllers and security memory ICs for cards and for terminals that read them. With ICs for both cards and terminals, we provide complete systems solutions for chip card applications regardless of configuration. We have entered

into an agreement with Microsoft to foster use of these products in future consumer applications.

- MultiMediaCard™, a solid state storage device that combines high-capacity memories with small size. This combination of capacity and size makes our MultiMediaCard™ an alternative means of data storage for consumer products such as mobile telephones, personal digital assistants, digital cameras and music players. To enhance our position in this market, we completed a joint venture relationship with Saifun Semiconductors Ltd. in May 2001 for the development of flash mass storage products.
- Security ICs for use in security systems, secure data communications and electronic commerce. Our FingerTIP™ IC, for example, is a biometric sensor that registers and identifies fingerprints and that can replace personal identification numbers and passwords as a means of identification in applications such as mobile telephones and personal and notebook computers. In automotive applications, the FingerTIP™ IC can also be used for car access or to set and remember personal preferences for seat, steering wheel and mirror positions. Our security IC products also include high-performance encryption ICs.
- Identification system ICs, including standard and security identification ICs, which permit convenient, contactless identification of goods using radio-frequency devices. We can provide both the identification ICs and ICs for the terminals that read them. This is a new market for us. Potential fields of application include production, logistics, distribution and management systems. Typical uses may include electronic air/land baggage tags and parcel identification tags. Identification tag ICs allow reliable brand protection and can protect against the counterfeiting of products. We are in discussions with a number of potential partners to be able to provide complete system solutions for these applications.

We also produce standard EEPROM devices, but do not intend to focus on this product line in the future.

Success in the market for chip card ICs requires close cooperation among the chip manufacturer, the card manufacturer, the systems integrator and the service provider. The market for security ICs requires a high level of customer support both before and after sales are made.

Our technological expertise in circuit development, semiconductor process development, production and software have enabled us to achieve a leading position in chip card IC applications. With more than three billion units shipped, we have supplied a large portion of all chip card ICs currently in use, including banking cards, health insurance cards and identification cards, as well as prepaid telephone cards, an area in which we believe we are a market and technology leader. We intend to expand our security and chip card IC business to the United States and Asia/Pacific markets as they develop.

Joint Venture with OSRAM

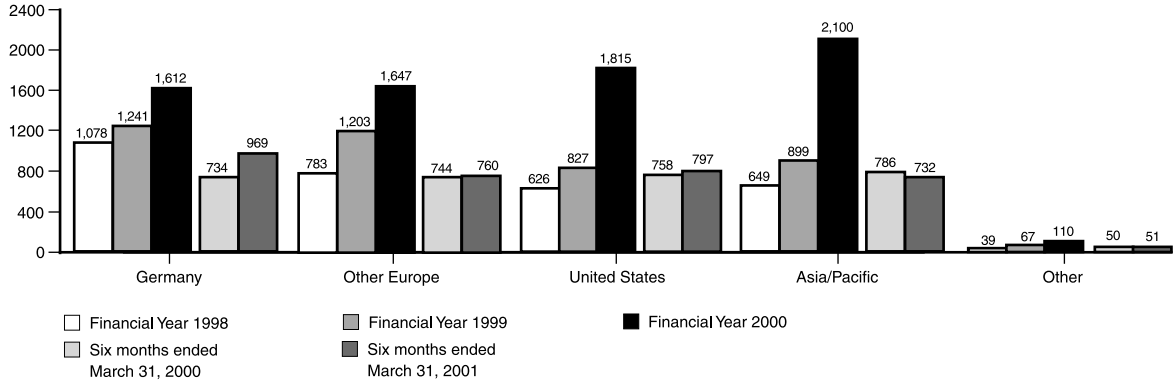
We participate in a joint venture with OSRAM, a Siemens subsidiary, for the production of opto components for lighting and display applications. We are currently in negotiations to sell our portion of the joint venture to OSRAM. We intend to retain the joint venture's activities with respect to indium phosphide (InP) processed wafers. Negotiations are still ongoing, and we cannot tell you what their outcome will be.

Customers, Sales and Marketing

Customers

We sell our products to customers located in Germany, the rest of Europe, the United States and the Asia/Pacific region, including Japan. We sell to customers directly and through international and domestic distributors, including the Siemens sales organization. The following table shows our sales by region where the customer is located during the periods shown:

Sales by Region
(€ in millions)



We target our sales and marketing efforts at approximately 340 semiconductor customers worldwide. Of these 340 target customers, approximately 40 are currently deemed major customers. We sell our products through our worldwide sales organization, as well as through distributors, sales representatives and, in some smaller markets, the Siemens sales organizations.

Primary responsibility for the 40 major accounts lies with the key account managers within our individual business groups, which are supported by our sales organization. Our relationships with the additional 300 target customers are principally managed directly by our sales organization. In addition, our sales organization manages relations with our third-party sales representatives, which are located primarily in the United States, and with the Siemens sales organizations in certain countries. All other customers are served through our network of independent distributors, which are managed by our mass-market and partners group. This group coordinates all aspects of channel management and marketing activities of distributors worldwide. It also manages our relationships with contract semiconductor manufacturers, such as Flextronics and Solectron. In all cases, we seek to serve the individual customer through the most appropriate channel — and thereby to best serve our customers while minimizing our sales costs.

Only one customer, the Siemens group, accounted for more than 5% of our net sales in the 2000 financial year and the six months ended March 31, 2001.

We focus our sales efforts on semiconductors customized to meet our customers' needs. We therefore seek to design our products in cooperation with our customers so as to become their preferred supplier. We also seek to create relationships with our major customers that have the most demanding technological requirements in order to obtain the system design expertise necessary to compete in the semiconductor markets.

We have sales offices throughout the world. We believe that this global presence enables us not only to respond promptly to our customers' needs, but also to be involved in our customers' product

development processes and thereby be in a better position to design customized ICs for their new products. We believe that cooperation with customers that are leaders in their respective fields provides us with a special insight into these customers' concerns and future development of the market.

We believe that a key element of our success is our ability to offer a broad portfolio of technological capabilities to our customers. This ability permits us to balance variations in demand in different markets and, in our view, is a significant differentiating factor between us and many of our competitors.

The following paragraphs provide more detailed information relating to the customers of each of our business groups.

Wireless Communications. Customers for cellular telephone applications demand products that range from our own complete system IC kits to ASICs that we produce to customer design and specifications. Customers for cordless telephone or Bluetooth applications typically purchase complete system IC kits. We seek to increase our wireless communications sales by offering complete systems solutions, including software.

More than 50% of this business group's sales are to three major customers: the Siemens group, Sagem and Nokia, of which the Siemens group is the largest. We supply the major share of baseband IC and radio-frequency requirements of Siemens and of Sagem. Nokia purchases from us mainly silicon discretes and, increasingly, radio-frequency ASICs.

We believe that our status as an independent company has become an important factor in improving relationships with several of the business group's important customers.

Wireline Communications. Approximately one-half of this business group's sales are made to a small number of major accounts, with the remainder made to a larger number of direct customers and through distributors. The Siemens group is the business group's largest customer, followed by U.S. and European customers operating in the fast-growing Internet applications market. The business group's sales of wireline ICs and fiber-optics products have increased substantially in recent years as a result of the expansion of both the Internet applications business—namely Internet and wireless infrastructure and broadband high-speed applications—and in the traditional telecommunications business.

This business group sells products for telecommunications applications and for wireless infrastructure applications primarily in Europe and Asia/Pacific, and applications for the Internet primarily in the United States. The business group's market position in Japan and the rest of Asia, including China, has improved both in terms of fiber-optic products and in terms of products supporting voice and data applications.

Automotive & Industrial. In the automotive area, which includes sales of microcontrollers, our customer base includes most of the world's major automotive suppliers. Two major customers, Bosch and the Siemens group, together accounted for approximately one-third of the area's net sales in the 2000 financial year and the six months ended March 31, 2001. We sell semiconductors to Bosch mainly for automotive applications. We sell semiconductors to the Siemens group, the fastest growing customer of this business group, for both automotive and industrial applications. Sales of automotive products are made primarily in Europe and, to a lesser extent, the United States.

In the industrial area, the Siemens group is the single largest customer, but the bulk of the industrial area's sales are made in small volumes to customers that are either served directly or through third-party distributors. Our sales of industrial products vary by type of product, with devices

for drive and power conversion applications sold primarily in Europe and the United States, and devices for power management and supply sold primarily in Asia (other than Japan).

Memory Products. The Memory Products business group sells memory devices, primarily DRAMs, in the United States, Europe and the Asia/Pacific region, including Japan. We focus our marketing efforts for memory products on a number of manufacturers of personal computers and servers that are growing faster than others, that provide stable demand and that we believe to be good partners for product development. In the 2000 financial year and the six months ended March 31, 2001, our major customers included leading computer manufacturers Compaq, Dell, Hewlett-Packard and IBM.

The business group's major customers are served on a global basis, with sales efforts and deliveries in all regions where the customer has operations. For each of these major customers, the business group seeks to be among its top three suppliers of DRAMs in terms of both quality and volume. The business group also sells DRAM products on a commodity basis to a number of smaller customers.

Security & Chip Card ICs; Opto. The Security & Chip Card ICs business group derives a large portion of its revenues from large-scale projects. In the 2000 financial year and the six months ended March 31, 2001, the two largest customers were Gemplus and Giesecke & Devrient. The business group's customers are mainly card manufacturers, acting both on their own account and as directed by their own service-provider customers. We believe that service providers will play an increasingly important role in shaping the market in future years as their technological requirements become more complex. Most of the business group's sales are made to customers in Europe.

We currently sell substantially all of the opto semiconductors produced by our joint venture with OSRAM, a Siemens group company. We are currently in negotiations to sell our interest in this joint venture to OSRAM. For more information, see ''Business—Dispositions''.

Sales and Marketing

We make most of our net sales directly, with a comparatively small amount of sales made through our global network of distributors, including Avnet, as well as through the Siemens group sales organizations.

In addition to dedicated sales personnel, we also appoint a single account manager to develop, maintain, manage and coordinate all aspects of our relationship and activities with each major customer. The account manager is assigned to the business group that has the highest potential sales to the customer. For those customers who purchase from more than one business group, the account manager also coordinates the worldwide sales of the other relevant business groups.

We also serve our regional accounts through our sales organizations, except in some smaller markets such as, Spain, Portugal and Switzerland, where we use the Siemens group sales organizations. Our regional accounts tend to be key players in their local markets, with high revenue potential or with the potential to become major customers.

We increasingly serve customers other than direct target customers through our worldwide network of independent distributors. In particular, we have a global distribution agreement with Avnet. Our distributor network is managed by our mass market & partners group, which coordinates all aspects of distribution channel management and broad market activities for distributors worldwide.

In past years we generally made our sales through dedicated personnel in the Siemens group sales organization. These sales were of two sorts. The first comprised sales directly by us to the end

customer, for which the Siemens group sales organizations received a commission. The second comprised sales by us to the Siemens group sales organizations for resale to third parties. This second type of sales accounted for 8% in our 1998 financial year and 9% in our 1999 financial year before declining to 4% in our 2000 financial year and to 1% in the six months ended March 31, 2001. We ceased making this type of sales to Siemens during the 2001 financial year.

As of March 31, 2001, we had approximately 2,200 direct sales and marketing employees, including sales and marketing personnel both in our regional sales offices and in our business groups. Most of these employees are trained engineers who not only act as sales representatives but also provide technical support.

Historically, depending on the region, up to 30% of the compensation paid to sales personnel has been tied to our revenues. Part of this variable portion is tied to our revenues and the number of purchase contracts we enter into with customers and part to economic value added and the achievement of individual goals. We would expect that the proportion of fixed to variable compensation would reflect prevailing market practice in the respective regions.

We use an Internet-based system solution to deepen our relationship with our customers and improve our service to them, all with a view to reducing response time and increasing customer coverage.

We have implemented dedicated advertising campaigns in the general and trade press to establish and strengthen our identity as an independent semiconductor provider. We intend to sustain our advertising efforts and to participate actively in trade shows and events to strengthen our brand recognition and industry presence.

Competition

The markets for many of our products are intensely competitive. We face significant competition in each of our product lines. We compete with other major international semiconductor companies, some of which have substantially greater financial and other resources with which to pursue engineering, manufacturing, marketing and distribution of their products. Smaller niche companies are also increasing their participation in the semiconductor market, and semiconductor foundry companies have expanded significantly. Competitors include manufacturers of standard semiconductors, application-specific ICs and fully customized ICs, including both chip and board-level products, as well as customers that develop their own integrated circuit products and foundry operations. Some of our competitors are also our suppliers or customers of the Siemens group. We also cooperate in some areas with companies that are our competitors in other areas.

The following table shows key competitors for each of our business groups in alphabetical order:

Key Competitors by Business Group

Wireless Communications	Conexant, Hitachi, National Semiconductor, Philips, Rohm, ST Microelectronics, Texas Instruments and Toshiba
Wireline Communications	Agere, Agilent, AMCC, Broadcom, Intel, Mindspeed, Motorola, PMC-Sierra, ST Microelectronics, Texas Instruments and Vitesse
Automotive & Industrial	Fairchild, International Rectifier, Mitsubishi, Motorola, NEC, ON Semiconductors, Philips, ST Microelectronics, and Toshiba
Memory Products	Hynix, Micron Technology, NEC and Samsung
Security & Chip Card ICs	Atmel, Hitachi, Philips and ST Microelectronics

Competition among semiconductor suppliers has intensified in recent years. Memory products, particularly DRAM ICs, have seen the fiercest competition, but we expect that competition among suppliers of ICs used for logic products will become at least as intense, if not more so, in the next few years.

We compete in different product lines to various degrees on the basis of price, product design, technical performance, production capacity, product features, product system compatibility, delivery times and quality. Innovation and quality are competitive factors for all business groups. Production capacity and delivery reliability play a particularly important role in the Memory Products business group, where customers demand delivery within a very short period of time, and in the Automotive & Industrial business group. In order to be competitive, the Security & Chip Card ICs business group must have the ability to ramp up production dramatically to meet the demand of very high volume projects.

Our ability to compete successfully depends on elements both within and outside of our control, including:

- successful and timely development of new products and manufacturing processes;
- product performance and quality;
- manufacturing costs, yields and product availability;
- customer service;
- pricing; and
- ability to meet changes in our customers' demands by altering production at our facilities.

Entry into semiconductor manufacturing, particularly DRAM manufacturing, requires substantial capital expenditures and significant technological and manufacturing expertise. We believe this provides us with a significant time-to-market advantage over any potential new entrant in the DRAM market.

Manufacturing

Manufacturing Processes

Our production of semiconductors is generally divided into two steps, referred to as the front-end process and the back-end process.

Front-end. In the first step, the front-end process, electronic circuits are produced on wafers made either of silicon or, in some cases, gallium-arsenide, which we buy from outside sources. The front-end production process involves a series of patterning, etching, deposition and implantation processes. At the end of the front-end process, we test the chips for functionality.

Semiconductors can be manufactured using different front-end process technologies, each of which is particularly suited for a given application. The following table shows the principal characteristics of the most important front-end process technologies in use today:

Front-End Process Technologies

CMOS (Complementary Metal-Oxide-Silicon)	Low power consumption; permits a high level of integration. Operates at lower speeds and lower voltages than bipolar semiconductors. CMOS is the most commonly used front-end process.	BiCMOS (a combination of bipolar and CMOS technologies)	Combines the high speeds and high voltages of bipolar technology with the low power consumption and high integration of CMOS technology. More complex than bipolar and CMOS technologies; requires more manufacturing process steps. Often used for mixed-signal applications.
DRAM	A process technology based on CMOS combined with an array of capacitors storing digital information. There are two different technological capacitor concepts: a trench capacitor, which we use, and a stacked capacitor.	SiGe (silicon-germanium)	Very high possible switching speed (frequency), lower power consumption than GaAs; a relatively new and untested technology.
Embedded DRAM	A process technology based on DRAM that combines DRAM and extended logic functions on a single chip.	GaAs (gallium-arsenide)	Very high possible switching speed (frequency) but is based on highly toxic arsenic and therefore requires expensive safety precautions.
Bipolar	Operates at higher speeds and/or allows higher voltages but consumes more power than CMOS; does not permit a high level of integration.		

We manufacture our semiconductor products primarily using advanced CMOS and CMOS-based technology, which we have developed ourselves and in cooperation with our joint venture and alliance partners. CMOS and CMOS-based technology is used in facilities that account for approximately 70% of our total front-end capacity. Bipolar, BiCMOS, GaAs and SiGe comprise the balance.

We believe that we are one of the leaders in the semiconductor industry in terms of the structure size on our wafers. Structure size refers to the minimum distances between electronic structures on a chip. Smaller structure sizes increase production efficiencies in the manufacture of memory and logic products. The structure size of our current logic products is as small as 0.18 micron using copper wiring. The structure size of our current memory products is as small as 0.17 micron.

High-end mask technology is a prerequisite for achieving small structure size. A mask is a master image of a circuit pattern used to produce ICs. We design all of the masks that we use in the patterning part of the front-end process at our Munich Balanstrasse facility.

Our front-end manufacturing facilities for memory products and advanced logic ICs mainly use 8-inch (200-millimeter) silicon wafers. In 1999, our Semiconductor300 joint venture produced the world's first 256-Mbit DRAM chip from a complete 12-inch (300-millimeter) pilot line, using advanced

0.19 micron technology. The first product to be qualified on 300-millimeter wafers was our 64-Mbit DRAM. The product was produced in volume and shipped to our customers. Our 256-Mbit DRAM chip has been qualified for shipment and is being produced and delivered to customers. We have obtained production and shipment qualification for the 0.17 micron technology on 300-millimeter wafers. We believe that this new technology, utilizing larger wafers, could result in higher production efficiencies and reduced costs on a per-unit basis.

Back-end. In the second step of our semiconductor production, the back-end process, the processed wafers are ground and mounted on a synthetic foil, which is fixed in a wafer frame. Mounted on this foil, the wafer is diced into small silicon chips, each one containing a complete integrated circuit. A ''pick and place'' machine removes individual chips from the foil and glues them onto lead-frames, which hold the future pins of the product. The next step is creating electrical links between the chip and the pins, called bonding. Then all the process steps ''inside'' the package are finished and the chips are molded with compounds. After a punching and pin bending process, the semiconductor undergoes final functional tests.

We believe that our back-end facilities are equipped with the latest technology, enabling us to perform assembly and test on a cost-effective basis. These facilities also provide us with the flexibility needed to customize products according to individual customer specifications. We believe that our back-end facilities provide an important competitive advantage, especially with respect to IC testing and discrete devices.

Facilities

We operate manufacturing facilities around the world, including through joint ventures in which we participate. The following table shows selected key information with respect to our current manufacturing facilities:

Current Manufacturing Facilities

	Year of commencement of first production line	Principal products or functions
Front-end facilities: wafer fabrication plants		
Dresden, Germany[1][2]	1996	DRAM, ASICs with embedded DRAM and embedded Flash memory, logic ICs
Richmond, Virginia[1]	1998	DRAM
Hsinchu, Taiwan[1][3]	1997	DRAM
Essonnes, France[1][4]	1963[5]	Logic Ics and ASICs with embedded DRAM
Munich Perlach, Germany[6]	1987	High frequency
Villach, Austria[7]	1979	Power, smart-power and discretes
Regensburg, Germany[8]	1986	Non-volatile memory and logic ICs
Pretzfeld, Germany[9]	1946[10]	High power
Warstein, Germany	1947[11]	High power
Back-end facilities: assembly and final testing plants		
Dresden, Germany[1]	1996	DRAM components and modules
Richmond, Virginia[1]	1998	DRAM components and modules
Porto, Portugal[1]	1997	DRAM components
Malacca, Malaysia[1][12]	1973	DRAM components and modules, discretes, opto components
Singapore	1970	Assembly & test for newer lines of logic ICs
Batam, Indonesia[13]	1996	Assembly & test for more mature lines of logic ICs
Burgweinting, Germany	2000	Chip card modules
Penang, Malaysia[14]	1972	Opto components
Wuxi, China	1996	Opto couplers and testing of baseband ICs
Berlin, Germany	1986	Fiber optic components and modules
Trutnov, Czech Republic	1994	Fiber optic cables, components and modules
Pretzfeld, Germany[9]	1946[10]	High power
Warstein, Germany	1947[11]	High power
Cegléd, Hungary	1997	High power

(1) During the 2000 financial year, and year-to-date 2001, we produced DRAM in 16-Mbit, 64-Mbit, 128-Mbit and 256-Mbit configurations.

(2) Also has a 300-millimeter pilot line that is operated by Semiconductor300. Approximately one-quarter of the 8-inch capacity was used for the production of non-memory ICs in the 2000 financial year.

(3) ProMOS Technologies, a joint venture with Mosel Vitelic in which Siemens holds a 33% interest in trust for us.

(4) ALTIS Semiconductor, our joint venture with IBM in which we own 50% plus one share. Production at Essonnes has recently been converted entirely to production of logic ICs based on 8-inch technology. Our share in the production of the joint venture is 50%.

(5) The current main production line began operations in 1991.
(6) Also contains our 6-inch gallium-arsenide production line.
(7) We are in the process of converting this facility from 6-inch to 8-inch processes.
(8) This production facility will be converted from 6-inch to 8-inch wafers. In 2001 we have started the construction of a new fab shell to extend the cleanroom capacity.
(9) In order to improve productivity, we will transfer our current production lines to the Warstein and Cegléd facilities and shut down this facility. We expect that this process will be completed by the end of 2001.
(10) The current main production line began operations in 1974.
(11) The current main production line began operations in 1991.
(12) Transfer of production of opto components to Penang began in 1999 and will be completed in 2001.
(13) Provides capacity extension for the Singapore facility.
(14) Owned by a subsidiary of OSRAM Opto Semiconductor, a joint venture in which we hold a 49% interest and OSRAM GmbH, a Siemens subsidiary, holds a 51% interest. We currently sell all of the joint venture's production. We are currently in discussions to sell our interest in this joint venture to OSRAM.

Our front-end facilities currently have a capacity of approximately 75,000 wafer starts per week. The recent reduction in communications chip demand has caused underutilization in some of our fabs. However, we have been able to mitigate this to some extent by exploiting our flexibility to convert production to DRAM, by re-allocating the capacity to automotive products, and by our ability to scale back our use of silicon foundries in selected product areas. Generally we use foundries to assist us in meeting demand for increased volumes. We have made increasing use of the foundry capabilities of UMC, particularly with respect to EEPROM, flash technology for our chip card IC products, and CMOS baseband products for wireless communications.

In 1998, we introduced our memory "fab cluster" concept. It consists of our world-class fabrication facilities in Dresden, Hsinchu and Richmond and corresponding back-end sites in Dresden, Malacca, Richmond and Porto. The fab cluster concept allows us to use best processes to maximize quality and enables us to ship memory products from multiple sites. We can therefore supply memory products to anywhere in the world from any of the fabrication facilities in our fab cluster. We believe that the fab cluster reduces our exposure to delivery problems such as those resulting from the Taiwan earthquake in 1999. Also, by locating our facilities in different areas, we can recruit talent globally.

We have had no unplanned production stoppages in this financial year to date.

In March 2001 we signed a joint venture agreement with UMC for the construction and operation of a 300-millimeter front-end production site in Singapore. See "—Acquisitions, Joint Ventures and Financial Investments".

We have completed the construction of the fab shell of a new production facility at our Dresden site to expand our manufacturing capacity using 300-millimeter technology. The facility was ready for equipment installation in April 2001, and the start of production is planned for autumn 2001. This facility is expected to involve capital expenditures of approximately €1.2 billion in the aggregate. We are funding this investment from borrowings, investments by third parties, cash flow from operations and other available funds. We have also applied for governmental subsidies in connection with this project, but can provide no assurance that such subsidies will be granted in a timely fashion or at all.

In addition, our associated company ProMOS is in the process of constructing a facility for production using 300-millimeter wafers. We expect this facility to be ready for equipment later this year.

We also intend to establish a new 300-millimeter facility for the production of memory products at our Richmond site.

We have devoted substantial resources to reducing our production costs over the past several years and believe that costs at our Dresden and Richmond DRAM fabrication facilities and our joint venture DRAM facility in Hsinchu are currently comparable with those of our lowest-cost competitors.

We are also in the process of converting from 6-inch to 8-inch production at our manufacturing site in Villach and plan to do the same in Regensburg, in order to improve our cost structure and to increase manufacturing capacity, predominantly for communications products.

Effective September 30, 2000, we closed an old fabrication facility in Balanstrasse, Munich to further improve the efficiency of our production processes and to use this space for an expansion of our mask house. We expect that the restructuring at the Balanstrasse facility will be completed in the summer of 2001. We have concluded a social plan (*Sozialplan*) that covers the employment issues of the approximately 420 employees involved. We do not expect to incur significant additional costs under this social plan.

In addition, we intend to move the production operations of our Pretzfeld facility to our Warstein and Cegléd facilities. We have therefore decided to close our Pretzfeld facility by the end of 2001. We have devised a social plan (*Sozialplan*) to cover the employment issues of approximately 110 employees affected by the closure. We do not expect to incur significant additional costs under this social plan.

We are not expecting any other social plan costs to be triggered by any of our dispositions.

Logistics

Logistics support plays an important role in maintaining our competitiveness, and we have devoted substantial resources to improving our delivery scheduling, customer order processing and production planning and control. Based on a benchmarking evaluation that we performed, we have implemented a logistics action plan that involves:

- systematic feedback from our marketing and sales personnel in each geographic region in order to improve planning and forecasting reliability; a monthly questionnaire to customers is being used to improve the planning of capacity and turnover. A number of software tools have been implemented to help us to manage the complete chain from the customer to production;
- establishing Internet ordering and direct links to our major customers in order to improve order entry and scheduling and decrease lead times; we have established an electronic data interchange link to every key account to handle the order process. In addition, a collaborative planning project will realize new standards in order processing to improve the management of order entry, confirmation and fulfillment; and
- establishing distribution centers in Frankfurt, San Francisco and Singapore, which are major hubs for our distribution, and sub-hubs elsewhere in the Asia/Pacific region to improve delivery time and reliability.

Quality

We have established a quality management program. All production sites are ISO 9001 certified. In addition, all sites other than the ALTIS, Richmond and ProMOS sites are QS 9000 qualified, which is the sector-specific quality standard for the automotive industry.

Our Semiconductor300 pilot line in Dresden was named "Fab of the Year" for 1999 by Semiconductor International, a leading industry periodical. In 1998, our Richmond facility was named "Fab of the Year" by the same periodical.

Procurement

The quality and technology of equipment used in the IC manufacturing process defines the limits of our technology. Demand for increasingly smaller chip structures means that semiconductor producers must quickly incorporate the latest advances in process technology to remain competitive. Advances in process technology cannot be brought about without commensurate advances in equipment technology, and equipment costs tend to increase as the equipment becomes more sophisticated.

In the front-end process we use steppers, scanners, track equipment, strippers, chemo-mechanical polishing equipment, cleaners, inspection equipment, etchers, physical and chemical vapor deposition equipment, implanters, furnaces, testers, probers and other specialized equipment. The manufacturing tools that we use in the back-end process include bonders, burn-in ovens, testers and other specialized equipment.

Our manufacturing processes use many raw materials, primarily silicon wafers, lead-frames, mold compounds, packages, chemicals, gases and various types of precious and other metals. The prices of many of these raw materials are volatile. The largest components of raw material costs are silicon wafers, lead-frames and photo chemicals.

Most of our raw materials are available from several suppliers on a just-in-time basis. Suppliers are selected on the basis of price, reliability, quality and their willingness and ability to cooperate with us. We have a strong relationship with our suppliers, especially with our wafer suppliers, which tailor wafers to fit our manufacturing processes. We believe that close manufacturer-supplier integration is key to the success of the manufacturing process and enables us to realize technical improvements and cost reductions.

Backlog

Standard Products. Cyclical industry conditions in the memory market, for example, make it difficult for many customers to enter into long-term, fixed-price contracts and, accordingly, new order volumes for our semiconductor products fluctuate significantly. Generally, most of our products are priced once a month and orders are accepted with acknowledgment that the terms may be adjusted to reflect market conditions at the delivery date. We believe that, for these reasons, and because customers may want to change the date on which products are delivered or to cancel orders, backlog of standard products such as memory products is not a reliable indicator of future sales.

Non-standard Products. Logic products are more customized than memory products. Therefore, orders are generally made and prices are determined well in advance of delivery. Quantities and prices of these logic products may nevertheless change between the times they are ordered and delivered, reflecting changes in customer needs and industry conditions. During periods of industry overcapacity and falling sales prices, customer orders are generally not made as far in advance of the scheduled shipment date as during periods of capacity constraints. The resulting lower levels of backlog reduce management's ability to forecast optimum production levels and future revenues.

The following table shows our backlog for logic products at the dates specified:

Backlog as of

	(€ in millions)
March 31, 2001	2,248
September 30, 2000	2,427
September 30, 1999	1,004
September 30, 1998	649

We include in backlog only those orders for which we have received a completed purchase order. The increase in backlog at the end of the 2000 financial year compared with past financial years was mainly due to the significantly increased demand for semiconductors experienced industry-wide, particularly in the last six months of the 2000 financial year, and to the fact that we were operating at or near production capacity for many applications and were therefore unable to satisfy increased order levels during the financial year. Reduced demand, order cancellations and postponements of deliveries under existing purchase contracts during the quarter ending June 30, 2001 have resulted in rising inventories and reduced backlog at the end of the quarter. Because of possible changes in customer delivery schedules, cancellation of orders and potential delays in product shipments, our backlog as of any particular date may not be representative of actual sales for any succeeding period.

Research and Development

Research and development (R&D) is critical to our success, and we are committed to maintaining high research and development expenditures in the future. Although we have consistently increased our absolute levels of R&D expenses in recent periods, we have nevertheless managed to reduce the level of these expenses relative to our net sales and to keep these expenses in the range of 14% to 16% of net sales. The table below sets forth information with respect to our research and development expenditures for the periods shown:

Research and Development Expenditures

	Financial year ended September 30,			Six months ended March 31,
	1998	1999	2000	2001
	(€ in millions)			
Expenditures[1]	637	739	1,025	527
As a % of net sales	20	17	14	16

(1) Net of subsidies received

We conduct the bulk of our R&D activities in the following areas: product development, process technology, reusable cores and modules, computer-aided design and libraries, packaging technology and basic research.

Logic ICs are more differentiated than memory ICs and require a greater variety of intellectual property and more sophisticated design. We believe that our emphasis on intellectual property and methodologies for logic ICs and their protection through patents will enable us to strengthen our position in the logic IC market and that our expertise in mixed-signal devices is a particular competitive strength.

Process technologies have been another important focus for our R&D activities, as we have sought to reduce structure sizes and develop new processes. We are currently ramping up a high-

performance process technology using structure sizes of 0.13 micron, allowing for up to eight layers of metallization using copper. We have a technology roadmap for the next several years, encompassing structure sizes down to 0.10 micron and below. Our process technologies benefit from many modular characteristics, including special low-power variants, analog options and high-voltage capabilities.

In recent years we have also devoted substantial resources to improving our R&D abilities generally and, in particular, to improving our computer-aided design, or CAD, systems, and developing our libraries. CAD systems are a crucial tool for our product designers. Libraries are databases that contain templates and standard designs for elements that are common to multiple products. We believe that our efforts in these areas enable us to reduce development cycle times.

Our R&D activities are primarily application-focused and, accordingly, are conducted and managed mainly within our business groups. A central development group conducts those R&D projects that are of strategic importance, where the results are used across all business groups, for example in process-technology development. We also maintain a small but highly qualified central research organization, which conducts basic research.

We maintain an extensive network of cooperation arrangements with technical institutes and universities to remain current with technological developments.

Research and development activities are conducted at locations throughout the world. The following table shows our significant research and development locations and their respective areas of competence:

Research and Development Locations

Location	Areas of Competence
Munich, Germany	Main product development site; CAD, library, simulation technologies, layout synthesis, mixed signal, radio-frequency, DRAM, 16-bit microcontrollers, ASICs with embedded DRAM, chip card ICs
Aalborg, Denmark	Systems for wireless communications
Bangalore, India	Software development
Berlin, Germany	Fiber optics
Bristol, England	32-bit microcontrollers, computer peripherals
Dresden, Germany	Flash and DRAM technology development
Düsseldorf, Germany	Mobile communications, radio frequency
Duisburg, Germany	Microcontrollers and power controllers
Durham, North Carolina	DRAM development
Graz, Austria	Chip card ICs, radio frequency
Grenoble, France	High-speed communications ICs
Linz, Austria	Radio frequency
Longmont, Colorado	ICs for hard drive controllers
Mountain View, California	Communications ICs
Netanya, Israel	Communications ICs
Nashua, New Hampshire	Radio frequency
Nuremberg, Germany	Software for wireless systems
Padua, Italy	Automotive and industrial ICs
Princeton, New Jersey	Radio frequency
Regensburg, Germany	Packaging, testing
San Jose, California	32-bit microcontrollers, computer peripherals, communications ICs
Santa Cruz, California	ICs for hard disk drive controllers
Singapore	Logic ICs, 8-bit microcontrollers, telecommunications, audio/video
Sophia Antipolis, France	Modules for radio-frequency ICs, digital signal processing, library
Tel Aviv, Israel	Digital signal processing
Ulm, Germany	Radio frequency
Villach, Austria	Power semiconductor products, mixed signal, automotive and telecommunications applications
Warstein, Germany	High power semiconductors
Williston, Vermont	High-performance DRAM

We believe that our technical staff is a key to our success in the area of research and development. At March 31, 2001 our research and development staff consisted of approximately 5,100 employees working in our R&D units throughout the world. Our goal is to attract and retain the most highly qualified technical personnel for our research and development team. To this end, we aim to offer a competitive compensation package, including participation by key staff in our share option program.

Strategic Alliances

Cooperation in product design, development and manufacturing between semiconductor suppliers and customers is increasing in response to the growing diversity and complexity of semiconductor products and applications, the demands of technological change and the costs associated with keeping pace with industry developments. Alliances with customers provide the manufacturer with valuable systems and applications know-how and access to markets for key products, while allowing the manufacturer's customers to share some of the risks and benefits of product development. Customers also gain access to the manufacturer's process technologies and manufacturing infrastructure. Alliances with other semiconductor manufacturers permit costly research and development and manufacturing resources to be shared to mutual advantage for joint technology development.

As part of our strategy, we have entered into a number of long-term strategic alliances with leading industry participants for the manufacture of products and for research and development relating to the development of new products and manufacturing process technologies. These strategic alliances are primarily in the areas of memory and wireline communications. They confer a number of important benefits, including:

- worldwide access to the expertise of other industry leaders in their respective areas, including manufacturing competence in new locations and additional experienced research and development employees;
- the sharing of risks inherent in the development and manufacture of new products;
- the sharing of costs, including production ramp-up costs and research and development costs; and
- efficiency gains, including reduced time to market of new generations of semiconductor devices and economies of scale.

Memory Products

In order to maintain our technological leadership in the DRAM market and to share start-up costs inherent in bringing out successive generations of memory products, we have entered into a number of strategic alliances with selected partners for research and development and manufacturing activities in relation to memory products. The following table shows our most important memory-related strategic alliances, as well as their respective activities and locations:

Long-term Alliances for the Memory Products Business Group

Partner	Technology	Activity	Location
IBM	Beyond 256-Mbit	R&D in both product and technology development	East Fishkill, New York/ Burlington, Vermont
	MRAM (magnetic non-volatile memory)	R&D in both technology development and early stage product development	East Fishkill, New York
	Up to 256-Mbit	R&D in both product and technology development	East Fishkill, New York/ Burlington, Vermont
Toshiba	FeRAM (ferro-electric non-volatile memory)	R&D in both product and technology development	Yokohama, Japan
Mosel Vitelic . . .	0.17 micron to 0.12 micron	Product design	Hsinchu, Taiwan

On January 18, 2000, we entered into a cooperation arrangement with five other leading semiconductor companies to develop high-performance advanced DRAM technology. Together with our partners in this arrangement—Hyundai Electronics (now Hynix), Intel Corporation, Micron Technology, NEC Corporation and Samsung Electronics—we will seek to develop the architecture, electrical and physical design and related infrastructure for advanced DRAM technology targeted at potential applications in 2003 and beyond. This co-operative effort will seek to ensure that future developments in DRAM are consistent with the evolution of microprocessor and system architecture in a wide range of future systems. Other interested semiconductor companies will be able to join this arrangement during the development process and to review and comment on the specifications as they develop. Final specifications will be made publicly available to all interested parties.

Principal Alliances

Our principal alliances are with IBM, UMC, Intel and Mosel Vitelic:

IBM. In 1991, we entered into a cooperation arrangement with IBM under which IBM manufactured DRAM products in its Essonnes facility and we received a share of the production. In 1997, we entered into a joint development agreement with IBM to develop process technologies for manufacturing logic products. Based upon our history of cooperation with IBM, we agreed with IBM to convert the Essonnes facility to production of logic devices and to convert the existing production cooperation arrangement into a joint venture called ALTIS Semiconductor. We own 50% of the joint venture's shares plus one share and IBM owns the rest. Each of our company and IBM have one vote at the joint venture's shareholders meeting, and each of our company and IBM is entitled to nominate one of the joint venture's two chairmen. The joint venture became effective on July 12, 1999, and the facility's conversion to logic production has been completed.

The joint venture agreements impose certain restrictions on the ability of each of the shareholders to sell or transfer its shares in the joint venture, and also provide that each shareholder may acquire the other's shares at appraised value if the other shareholder undergoes a change of control. For this purpose, ''change of control'' means the acquisition by a third party of more than 35% of the outstanding equity of the other shareholder or any consolidation, merger or reorganization of the other shareholder in which it is not the surviving corporation. Each of Infineon and IBM may acquire the other's shares in the joint venture or dissolve the joint venture if there is a deadlock or if the other party defaults on its obligations under the joint venture agreement.

We have extended shareholder loans to ALTIS in the amount of €176 million to fund the joint venture's operational and capital requirements. IBM has also extended shareholder loans in the amount of €164 million, made in parallel with our loans.

UMC. In January 2000, we entered into a joint development arrangement with IBM and UMC, a leading semiconductor foundry, for the development of common process technologies for building logic chips with feature sizes from 0.13 micron to 0.10 micron. This arrangement represents an extension of our existing strategic alliance with IBM for research and development of process technologies for logic products described immediately above.

In addition, in March 2001, we entered into a joint venture agreement with UMC and a third party investor to construct and operate a 300-millimeter semiconductor facility. The joint venture, which is named UMCi, will provide integrated circuit foundry services utilizing 300-millimeter wafer production lines, and will produce, develop and sell integrated circuits in wafer, die and packaged form. As part of the transaction, we have agreed to transfer specified technology, including 300-millimeter manufacturing techniques and certain process commercializations from our joint development arrangement with IBM and UMC relating to CMOS manufacturing; provided, however, that we will not be required to transfer any information to UMCi that we are not otherwise permitted to disclose. See ''—Acquisitions, Joint Ventures and Financial Investments.''

Intel. In March 2000, Intel Corporation subscribed for approximately 7.6 million of our company's shares for a subscription price of U.S. $250 million by way of a private placement under

an investment agreement. Under the investment agreement, Intel agreed to limitations on the number of our shares that it will sell over a three-year period.

In March 2000, we also entered into a commercial agreement and a memory supply agreement with Intel. In the commercial agreement we agreed with Intel that, should we fail to have our new 300-millimeter facility in Dresden ready for the installation of equipment by April 1, 2003, Intel will have the right to various remedies. These remedies include the right to extend and increase the call on a portion of our capacity granted under the memory supply agreement described below. In these circumstances we would also be required to pay Intel the sum of $50 million if, during the four-month period commencing April 1, 2003, the closing price of our company's shares on the Frankfurt Stock Exchange on any four consecutive trading days is 7.6% or more below €35.00, the price per share in our initial public offering in March 2000.

In the memory supply agreement, we have agreed to support a range of DRAM architectures, including DRAM ICs based on Rambus architecture. We have also agreed with Intel to increase the capacity of our DRAM production facilities and to ramp up production of our new 300-millimeter facility, all in accordance with our pre-existing plans for production at our facilities. Intel has obtained a call on a portion of the production from both our existing DRAM facilities and the new 300-millimeter facility. The size of this call may be adjusted in certain circumstances.

Mosel Vitelic. In 1996, Siemens formed the ProMOS joint venture with Mosel Vitelic to produce 64-Mbit DRAM ICs at a fabrication facility in Hsinchu, Taiwan. Siemens took an initial 38% interest in the joint venture (now reduced to 33%), which Siemens now holds in trust for us. In 2001, ProMOS issued bonds convertible into its shares; if all of these bonds were to be converted, our ownership interest would be reduced to approximately 32%. Siemens also licensed relevant technology to Mosel Vitelic and ProMOS and assisted them in implementing this technology. ProMOS' shares have been listed on the Taiwan Stock Exchange since May 13, 1999.

During the 2000 financial year, we entered into new technology transfer agreements with ProMOS that included 300-millimeter wafer fabrication technology and several generations of semiconductor production process technology, including 0.17, 0.14 and 0.12 micron technology. Substantially all of ProMOS' production of these products is reserved for sale to us. We have also agreed to provide technology improvements and on-going technological support. As part of this agreement we will receive certain lump-sum payments relating to these licenses upon delivery or qualification of the technology transferred and, additionally, royalty payments based on sales of specified products. The first technology qualification was completed in September 2000.

We may in the future dispose of a small portion of our shares in ProMOS, or may decline to participate in a future issuance of shares by ProMOS, but we would expect to retain an interest of at least 25% of ProMOS' shares.

Acquisitions, Joint Ventures and Financial Investments

In furtherance of our goal of developing and accessing world-class intellectual property and development resources, we have undertaken a number of acquisitions, entered into several joint ventures and made a variety of financial investments, including through Infineon Ventures, our venture capital investment group. In addition to the arrangements concluded as part of our strategic alliances described above, we have entered into the following:

Acquisitions and Joint Ventures

In May 2001, we formed a joint venture with Saifun Semiconductors Ltd., an Israeli company. The joint venture, named Ingentix, will have operations in both Israel and Germany and will develop,

manufacture and market flash memory products based on Saifun's patented Nitrided Read Only Memory (NROM) technology. Ingentix initially will focus on developing MultiMediaCard storage products. We own 51% of the joint venture and will license our know-how with respect to secure card storage and security controllers for smart card applications to Ingentix. Saifun is licensing its NROM-based flash memory technology and embedded flash technology to Ingentix. Both companies will share in the management of the company.

In April 2001, we completed the acquisition of Ardent Technologies for 706,714 of our shares valued at approximately $34 million. Of the total shares issued, 372,654 are held in escrow as deferred compensation and will be released only upon the achievement of specific milestones or the continuing employment of certain individuals. Ardent is a California-based supplier of high-bandwidth integrated circuits for local area network (LAN) switching systems.

In March 2001, we entered into the joint venture described above with United Microelectronics Corporation (UMC) and a third party investor for the construction and operation of a 300-millimeter semiconductor facility in Singapore. We will receive a 30% ownership interest in the venture in exchange for our contribution of specified technology and aggregate cash contributions of approximately $473 million over two years. We have irrevocably appointed UMC as our proxy to vote shares representing half of our 30% interest in the joint venture as to most matters. Additionally, we have entered into a foundry capacity agreement with UMCi which provides for specified minimum purchase volume commitments.

In April 2001, we entered into an agreement to acquire Catamaran Communications Inc. in exchange for 6,373,435 of our shares, valued at $250 million, a portion of which will be released to Catamaran's shareholders only upon satisfaction of certain performance-related conditions. Catamaran is a California-based fabless communications semiconductor company focused on integrated circuits for the next generation 40 gibabit-per-second and fast-growing 10 gigabit-per-second segments of the optical networking market. We anticipate that the acquisition will enable us to offer a complete line card solution, from the optics to the network processor interface, at 40 gigabit-per-second for next generation optical networking systems. The transaction is subject to regulatory and other closing procedures and is expected to be finalized in late summer 2001.

Strategic Investments

In February 2001, we acquired approximately 20% of Ramtron International Corporation, a developer of specialty semiconductor memory products, for approximately $30 million, including 443,488 of our shares valued at $18.3 million. Concurrently with the execution of the investment agreement, we also entered into a separate cross-license agreement with Ramtron, which provides us with a non-exclusive license to Ramtron's FeRAM memory technology, and Ramtron with access to certain of our technologies relating to the fabrication of FeRAM memories.

In February 2000, we entered into an agreement to acquire an interest in EUV, an existing joint venture among Intel, Motorola and AMD that is engaged in researching extreme ultraviolet lithography technology for use in semiconductor manufacturing. Our contribution to the joint venture to date for our 5% ownership interest is $15 million, and we expect that our total contribution to the joint venture will be approximately $20 million. All such amounts are expensed as incurred.

In October 2000, we acquired Motorola's interest in our Semiconductor300 joint venture in Dresden for approximately €8 million. We are using the Semiconductor300 entity to continue developing our 300-millimeter production capability. An entity owned by the German federal state of Saxony and the city of Leipzig and a German construction firm have also invested in the venture. These parties have provided €169 million in cash to the joint venture in exchange for redeemable interests. We have issued a back-up guarantee in favor of the Federal State for any guarantee that it

extends for the benefit of the joint venture, and have also agreed to maintain our existing loan to the joint venture of some €92 million on customary market terms. Under our agreements with the other investors, each of them has the right to sell its interest in the joint venture to us on September 30, 2005 and every third anniversary thereafter. Each of the other investors also has the right to sell its interest to us upon the occurrence of specified events, such as capital increases that it does not agree to, the admission of new investors, substantial budget overruns, and our ceasing to exercise control over the joint venture. In addition, we are entitled to purchase their interests on March 31, 2004 and every third anniversary thereafter. Upon exercise of these options, the purchase price we would have to pay would be an amount equal to the capital contributed plus interest thereon at rates ranging between 11% and 15% per annum.

We have established a joint venture company, sci-worx, of which we own 66.9%. On October 1, 2000, the joint venture purchased intellectual property, other assets and operations from Sican, a German engineering firm, for aggregate consideration of approximately €11.5 million. This joint venture holds intellectual property in the area of communication technology and has substantial engineering resources.

In October 2000, we acquired a 49% share of SiCED, a joint venture with Siemens, for approximately €3 million. This joint venture will develop silicon carbide power semiconductors.

Infineon Ventures Investments

Beginning in the 1999 financial year, we initiated a program of minority investments in start-up companies through Infineon Ventures, our venture capital unit. These investments are an important tool for us in accessing innovative new technologies and emerging business opportunities related to our business. Individual investments made through Infineon Ventures typically range in size from €0.25 million to €6 million. We invested some €8 million in the 1999 financial year, €36 million in the 2000 financial year and €40 million in the six months ended March 31, 2001. Our portfolio of venture capital investments currently comprises some 30 companies in a wide range of electronics-related areas. We have also made investments in venture capital funds active in areas related to our business.

Dispositions

In December 2000 we sold the image & video business unit of our Wireline Communications business group for approximately €250 million. The business generated net sales of approximately €123 million in the 1999 financial year, €139 million in the 2000 financial year and €38 million for the six months ended March 31, 2001. The unit's earnings before interest, minority interests and taxes amounted to approximately €13 million in the 1999 financial year, €16 million in the 2000 financial year and €10 million in for the six months ended March 31, 2001.

In June 2001, we entered into an agreement to sell to Vishay Intertechnology Inc. our infrared components business unit, which has been reported in our Other operating segment from October 1, 2000. This business generated net sales of €101 million in the 1999 financial year, €137 million in the 2000 financial year and €70 million for the six months ended March 31, 2001. The unit's earnings before interest, minority interests and taxes amounted to €6 million in the 1999 financial year, €16 million in the 2000 financial year and €3 million for the six months ended March 31, 2001. Under the agreement, Vishay will take over our infrared components development, marketing and distribution activities. It will also initially acquire a 19% interest in a newly-formed joint venture in Malaysia that owns the production facility. We will initially retain ownership of the remaining 81%. Under a put-call option, our remaining interest in the joint venture may be acquired by Vishay. The total purchase price payable by Vishay for the infrared products business (assuming exercise of the put-call option) is approximately €140 million.

In addition, we are in negotiations to sell our interest in our opto components joint venture to OSRAM. We currently purchase for resale to customers the majority of the joint venture's production.

By virtue of these purchase and resale arrangements, we recognized revenues of €226 million in the 1999 financial year and €294 million in the 2000 financial year. In addition, we recognized our pro rata share of the joint venture's earnings of €8 million in the 1999 financial year and €9 million in the 2000 financial year. Negotiations are still ongoing, and we cannot tell you what their outcome will be. When and if we sell our interest in the OSRAM joint venture, we may no longer enjoy the margin earned on sales of the joint venture's products if we no longer serve as the sales agent for these products, and would no longer participate in reflecting our pro-rata share of the earnings of the joint venture.

Intellectual Property

Intellectual property rights in various Infineon products include patents, copyrights, trade secrets, trademarks, utility models, design patents and maskwork rights. In connection with our formation, the Siemens group transferred most of its semiconductor-related intellectual property to us. At March 31, 2001, we owned more than 28,000 patents or pending patent applications in more than 45 countries around the world. These patents make up approximately 5,800 patent ''families'', or groups of patents and patent applications originating from the same invention. Our patents primarily relate to IC designs and process technologies. We believe that our intellectual property is a valuable asset and intend to protect our investment in technology.

At March 31, 2001, approximately 89% of our patent families included granted patents or patent applications registered in Europe, approximately 57% included granted patents or patent applications registered in the United States, and approximately 46% included granted patents or patent applications registered in Asia. We filed patent applications for some 1,180 patent families around the world in the 2000 financial year and for approximately 810 patent families in the six months ended March 31, 2001. As of March 31, 2001, approximately 2,500 of our patent families included at least one patent granted in the United States or Europe.

Further to our formation as a separate legal entity and in preparation for our initial public offering in March 2000, we entered into a patent cross-license agreement with Siemens. Under this agreement, among other things:

- Siemens has granted us the right to use all of the more than 100,000 patents and related intellectual property rights that Siemens owns (the ''Siemens Patents''). The agreement enables us to use these patent rights within the scope of our business, subject, in the case of information handling systems, to restrictions on our ability to use them in new spheres after such date as Siemens ceases to own or control more than 50% of our company's shares.
- Siemens has granted us the right to sublicense the Siemens Patents within the scope of our business pursuant to cross-license agreements entered into before such date as Siemens ceases to own or control more than 50% of our company's shares. We may only grant such license rights, however, with respect to products that are part of other products that are themselves within the scope of our business. In addition, we may not grant third parties ''have made'' rights with respect to the Siemens Patents, nor may we cross-license Siemens Patents that relate to information handling systems.
- We have granted Siemens the right to use and sublicense within the scope of its business approximately 15% of the 20,000 patent rights that Siemens transferred to us upon the formation of our company (the ''Dual Use Patents'').
- We have granted Siemens the right to assert the Dual Use Patents insofar as they relate to the scope of its business activities. Siemens has agreed, however, that it will not exercise this right of assertion against any of our customers in respect of any part of such customer's products that contains a product of ours, unless this right is asserted for defensive purposes.

- We have agreed that we will not exercise our right to assert the Dual Use Patents against Siemens' customers in respect of any part of such customer's products that contains a product of Siemens, unless this right is asserted for defensive purposes.

- Siemens and we have agreed that any license to third parties of Dual Use Patents that could fall within the scope of either Siemens' business or our business will be negotiated by the party first involved, acting with the consent of the other.

- We have granted Siemens the right to use all of our patent and related intellectual property rights other than the Dual Use Patents (the ''Infineon Patents'') within the scope of its business, subject, in the case of information handling systems, to restrictions on Siemens' ability to use the Infineon Patents in new spheres after such date as Siemens ceases to own or control more than 50% of our company's shares.

- We have granted Siemens the right to sublicense the Infineon Patents within the scope of its business pursuant to cross-license agreements entered into before such date as Siemens ceases to own or control more than 50% of our company's shares. Siemens may only grant such license rights, however, with respect to products that are part of other products that are themselves within the scope of Siemens' business. In addition, Siemens may not grant third parties ''have made'' rights with respect to the Infineon Patents, nor may Siemens cross-license Infineon Patents that relate to information handling systems.

Our intellectual property position is also protected by cross-license arrangements with other major industry participants. A number of these arrangements were originally concluded between Siemens and the third party, and have been transferred to us by Siemens. We have also entered into cross-license arrangements with other parties that extend or transfer to us the relevant company's existing cross-license arrangements with Siemens. In addition, we are engaged in continuing negotiations with several major industry participants regarding new cross-license arrangements. In several of these cases, the other party has an existing patent cross-license with Siemens, and we are seeking to extend our rights under that license to the period after we cease to be a Siemens subsidiary. In other cases, the license between the other party and Siemens has expired, but Siemens and the other party retain rights to utilize patents licensed to each other prior to expiration of the license. In those cases, we are seeking a new cross-license with the third party. In both of these instances, the other party will retain the rights that it has under the existing license agreement with Siemens (or the continuing rights that it has under the expired agreement with Siemens) even after we cease to be a Siemens subsidiary, including rights to utilize some or all of the patents that Siemens transferred to us in connection with our formation. We are also negotiating with parties with whom Siemens has never had a license agreement, and these negotiations would involve entirely new arrangements. We cannot assure you that any of these negotiations will be successfully concluded.

Siemens Pension Trust owns 15% of the shares of our company. We understand that, under the Siemens Pension Trust documents, the pension trust may receive instructions from Siemens as to the voting of the shares while they are owned by the trust. Siemens may therefore be deemed to control those shares within the meaning of the patent cross-license agreement between us and Siemens. It may also be deemed to own or control those shares within the meaning of the patent cross-license agreements that it has with third parties and from which we benefit so long as we remain a Siemens subsidiary. We cannot assure you that the shares held by the Siemens Pension Trust would be deemed to be held by Siemens itself for purposes of determining whether we remain a subsidiary of Siemens under the third-party patent cross-license agreements. Nor can we assure you that Siemens will retain the ability to influence such voting rights in the future, or that the Siemens Pension Trust will not itself dispose of our company's shares.

Our success depends in part on our ability to obtain patents, licenses and other intellectual property rights covering our products and their design and manufacturing processes. To that end, we have obtained many patents and patent licenses and intend to continue to seek patents on our inventions and manufacturing processes. The process of seeking patent protection can be long and expensive, and there can be no assurance that patents will be issued from currently pending or future applications or that, if patents are issued, they will be of sufficient scope or strength to provide us with meaningful protection or any commercial advantage. In addition, effective copyright and trade secret protection may be unavailable or limited in some countries. Competitors may also develop technologies that are protected by patents and other intellectual property rights, and therefore such technologies may be unavailable to us or available to us only on unfavorable terms and conditions. Litigation, which could demand financial and management resources, may be necessary for us to enforce our patents or other intellectual property rights. For example, Rambus Inc. filed suits against us in August 2000, alleging infringement of its intellectual property rights. For more information, see ''—Legal Matters—Litigation''.

World-Class IT Program

We have undertaken a comprehensive review of the information technology processes used throughout the Infineon group, with the goal of developing and implementing a comprehensive, worldwide information technology platform to serve all areas of our business. We call this undertaking our World-class IT, or WIT, program. We inherited many of our information technology systems from Siemens and continue to rely on various Siemens group companies for many of our IT processes. Through the WIT program, we seek to create a unified IT platform for our finance, sales, planning, purchasing and other business functions, as well as a comprehensive network that will support our worldwide manufacturing facilities and other key business processes. We expect to outsource portions of the IT services to third parties, including to Siemens group companies. The WIT program will be implemented in stages and is not expected to be completed until 2004. We anticipate that we will spend approximately €500 million in connection with this project.

New Headquarters

We have begun planning for the construction of a campus-style corporate headquarters and research and development center on the outskirts of Munich. We are exploring various financing arrangements, and currently anticipate that the estimated €500 million cost will be financed through an operating lease arrangement. We can provide no assurance that this project will be completed.

Employees

The following table indicates the average composition of our workforce during the periods indicated:

	Financial year ended September 30,			Six months ended March 31,
	1998	1999	2000	2001
Germany	11,237	12,352	13,522	15,581
Europe	3,164	3,191	3,081	4,734
United States	811	1,753	2,707	2,971
Asia/Pacific	6,586	7,158	7,786	8,798
Other	63	87	114	—
Total	21,861	24,541	27,210	32,084
Production[1]	n/a	n/a	18,961	22,544
Research & development[1]	n/a	n/a	4,311	5,042
Sales & marketing[1]	n/a	n/a	2,018	2,162
Administrative[1]	n/a	n/a	1,920	2,336
Total	21,861	24,541	27,210	32,084

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

We believe that our continued success will depend on our ability to hire highly qualified technical employees.

A significant percentage of our manufacturing employees, especially in Germany, are covered by collective bargaining agreements determining remuneration, working hours and other conditions of employment, or are represented by works councils. Works councils are employee-elected bodies established at each location in Germany and also at a company-wide level. Works councils have numerous rights to notification and of codetermination in personnel, social and economic matters. Under the German Works Constitution Act (*Betriebsverfassungsgesetz*) they have to be notified in advance of any proposed employee termination, they must confirm hirings and relocations and similar matters, and they have a right to codetermine social matters such as work schedules and rules of conduct. Management considers its relations with the works councils to be good. Siemens' works councils were in place in most of our locations and represented employees of both Siemens and Infineon until our employees elected separate works councils in May 2001 for all locations except Regensburg West, where elections will take place in May 2002. The works councils of the various locations will elect a general works council on a group-wide level. The members of the senior management are currently electing a senior management committee (*Sprecherausschuß*) for our company.

During the last three years we have not experienced any major labor disputes resulting in work stoppages.

Legal Matters

Litigation

Rambus. In August 2000, Rambus Inc. filed separate actions against our company in the Federal District Court for the Eastern District of Virginia in Richmond, Virginia, and in the State Court (*Landgericht*) in Mannheim, Germany. In its complaints, Rambus alleged that our SDRAM and DDR

DRAM products infringed its patent rights. SDRAM is a type of DRAM IC that makes up an important part of our DRAM portfolio. DDR DRAM is another increasingly important product. In the proceedings, Rambus requested an injunction against our production of SDRAM and DDR DRAM products.

We have denied the allegations and responded by filing counterclaims. We have argued, among other things, that the patents relied on by Rambus are invalid. Court proceedings on these matters began in December 2000 in Germany and early 2001 in the United States.

In two separate decisions in April and May 2001, the district court in the U.S. proceedings dismissed all of Rambus' claims against us. After trial, a jury also found in our favor on our related counterclaim of fraud in connection with Rambus' participation in an industry standards-setting group. The jury awarded us $3.5 million. Post-trial motions are pending and Rambus filed a notice of appeal with the U.S. Court of Appeals for the Fourth Circuit on June 21, 2001. We cannot predict with any certainty the outcome of these motions or any such appeal. In addition, the proceedings in the German court are still active, and we cannot predict their outcome. The German court is not bound by the decision of the U.S. trial court and could rule in favor of Rambus on certain or all of its claims.

If we were to be enjoined from producing SDRAM and DDR DRAM products, our financial condition and results of operations would be materially and adversely affected, as we would have either to stop producing our SDRAM and DDR DRAM products or enter into licensing arrangements with Rambus, under which we might have to pay substantial licensing fees. The affected products currently constitute substantially all of the products of our Memory Products business group. This business group contributed net sales of €3,473 million and earnings before interest, minority interest and taxes of €1,336 million in the 2000 financial year.

We also license RDRAM technology from Rambus. Our use of this technology is not in dispute in these proceedings.

Other Matters. In October 1999, Deutsche Telekom AG notified us of a potential contractual warranty claim in respect of chips supplied by us for Deutsche Telekom calling cards over the period from 1993 to 1997. The claim relates to damages allegedly suffered by Deutsche Telekom as a result of successful attempts by hackers to recharge the calling cards after they had been used. Deutsche Telekom originally alleged damages of approximately €61 million as a result of these activities, reflecting both damages suffered and the cost of remedial measures. Deutsche Telekom increased the amount claimed by it to approximately €90 million in April 2000 and is seeking compensation in this amount from Siemens and Infineon. We have investigated this claim and believe that it is without any merit.

On March 9, 2000, we received notice of a claim by Robert Bosch GmbH for compensation of some €20 million of damages allegedly payable by Bosch to its customers as a result of an alleged programming error in one of our wireless communications products. We believe this claim is without merit and do not anticipate that it will have a material adverse affect on our results of operations or financial condition.

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

Irrespective of the validity or the successful assertion of the above-referenced claims, however, we could incur significant costs with respect to defending against such claims, which could have a material adverse effect on our results of operations or financial condition. We are currently involved in other legal proceedings. However, we do not believe that the ultimate resolution of these other legal proceedings will have a material adverse effect on our results of operations or financial condition.

Environmental Regulation

Our manufacturing operations use many hazardous substances, and we are subject to a variety of governmental regulations related to the use, storage, discharge and disposal of such hazardous substances and other emissions and wastes, in particular, waste water. As part of our environmental compliance policy, we have established processes to maintain certificates for our environmental management systems at all of our plants in Europe and Asia. These certificates indicate that our plants are in compliance with applicable environmental regulations.

In connection with our formation, Siemens retained certain facilities located in the United States and certain related environmental liabilities. Businesses that were contributed to us have conducted operations at some of these facilities and, under applicable law, could be required to contribute to the environmental remediation of these facilities despite the fact that these sites were retained by Siemens. No assessments have been made of the extent of environmental remediation, if any, that could be required, and no claims have been made against us in this regard. It is therefore impracticable to quantify our potential exposure, if any, to liability for remediating the U.S. facilities that Siemens retained.

Siemens group companies are currently involved in litigation concerning environmental claims arising from operations similar to some of our operations. We may become the subject of such litigation in the future. Environmental claims or the failure to comply with present or future regulations could result in the assessment of damages or imposition of fines against us, suspension of production or a cessation of operations.

Our Dresden facility is built on the site of a former Soviet military base. Environmental contamination was discovered and cleaned up on this site. We have conducted an investigation to confirm that no additional contamination exists. We consider the risk of exposure to be immaterial.

Because some of our facilities are located close to or shared with those of other companies, including members of the Siemens group, we may need to respond to claims relating to environmental contamination not originating from our own operations.

Significant financial reserves or additional compliance expenditures could be required in the future due to changes in law or new information regarding environmental conditions or other events, and those expenditures could adversely affect our business or financial condition.

Significant capital and operating expenditures may arise in connection with a proposed European Directive and other legislation proposed in various countries, including Germany, providing for heightened obligations regarding the collection, recovery and disposal of electrical and electronic equipment. The proposal of the European Commission has been, in principle, approved by the European Parliament. This legislation will result in ‘‘take-back’’ obligations of manufacturers and/or responsibility of manufacturers for the financing of the collection, recovery and disposal of such products. Our products constitute electronic equipment according to the draft Directive. The end-of-life obligations may affect us as suppliers to electrical and electronic equipment producers and as producers of electronic equipment. These measures would affect our entire industry, but we are not able to estimate any additional costs we would have to incur to comply. It is still to be decided when

this legislation will come into effect. In Germany this might be as early as 2002. Another proposal of the European Commission which has also been approved by the European Parliament provides for a ban on the use of lead and some flame retardants in manufacturing electronic components. We currently use lead-based solder as well as some flame retardants in the production of some of our products. The European Commission has proposed that this legislation come into effect in 2008, while the European Parliament proposes an effective date in January 2006. We intend to discontinue the use of lead in our products after 2003.

Real Property

We own approximately 1.8 million square meters of property at our facilities at Batam (Indonesia), Cegléd (Hungary), Dresden (Germany), Munich (Germany), Porto (Portugal), Regensburg (Germany), Richmond (Virginia), Singapore, Villach (Austria), Warstein (Germany) and Wuxi (China). In addition, we have long-term rental agreements in respect of our premises in Berlin (Germany), Düsseldorf (Germany), Munich (Germany), Pretzfeld (Germany), Bristol (England), Tokyo (Japan), Tel Aviv (Israel) and Trutnov (Czech Republic). We also have a number of long-term lease arrangements, including on our premises in Essonnes (France), Malacca (Malaysia), San Jose (California) and Singapore, as does our ProMOS joint venture at Hsinchu (Taiwan) and our opto joint venture at Penang (Malaysia). We believe that these properties are rented or leased on ordinary market terms and conditions.

Organizational Structure

The following table shows information relating to those of our subsidiaries that either had a book value representing at least 10% of our equity on either a consolidated or non-consolidated basis at September 30, 2000 or contributed at least 10% of our net income on either a consolidated or non-consolidated basis during our 2000 financial year:

Principal Subsidiaries as of September 30, 2000

Corporate name, registered office	Field of activity	Subscribed capital[1]	Equity Participation	Book value of shares held[2]	Capital Reserves	Profit/loss in FY 2000[1]	Revenues from shares held in FY 2000	Receivables/ Liabilities of Infineon Technologies AG from/due to Subsidiaries
		(€ in millions)	(in %)	(€ in millions)	(€ in millions)	(€ in millions)	(€ in millions)	(€ in millions)
Infineon Technologies Dresden GmbH & Co. oHG, Dresden, Germany	Production	736	100[3]	736	7	62	0	278
Infineon Technologies Holding B.V., Rotterdam, The Netherlands	Holding	1	100[3][4]	3,580	3,579	83	0	(21)
Infineon Technologies Asia Pacific Pte. Ltd., Singapore	Production, Sales, Marketing, Research and Development	52	100[5]	583	5	69	22(6)	361
Infineon Technologies Villach AG, Villach, Austria	Production	17	100[5]	878	609	54	0	(0)

(1) According to U.S. GAAP.
(2) The carrying value for the legal entity.
(3) Held by Infineon Technologies AG.
(4) Share capital outstanding €4 million.
(5) Held by Infineon Technologies Holding B.V., Rotterdam, The Netherlands.
(6) Paid to Infineon Technologies Holding B.V., Rotterdam, The Netherlands.

MANAGEMENT

In accordance with the German Stock Corporation Act (*Aktiengesetz*), our company has a supervisory board and a management board. The two boards are separate and no individual may simultaneously be a member of both boards. The management board is responsible for managing our business in accordance with applicable laws, the Articles of Association of our company and the rules of procedure of the management board. It represents us in our dealings with third parties. The supervisory board appoints and removes the members of the management board and oversees the management of our company but is not permitted to make management decisions.

In carrying out their duties, members of both the management board and supervisory board must exercise the standard of care of a prudent and diligent businessman, and they are liable to our company for damages if they fail to do so. Both boards are required to take into account a broad range of considerations in their decisions, including the interests of our company and its shareholders, employees and creditors. The management board is required to respect the shareholders' rights to equal treatment and equal information.

The supervisory board has comprehensive monitoring functions. To ensure that these functions are carried out properly, the management board must, among other things, regularly report to the supervisory board with regard to current business operations and future business planning. The supervisory board is also entitled to request special reports at any time. The management board is required to ensure appropriate risk management within our company and must establish an internal monitoring system.

Under German law, shareholders of a company, like other persons, are liable to the company for damages if they intentionally use their influence on the company to cause a member of the management board, the supervisory board or holders of special proxies to act in a way that is harmful to the company. If a member of the management board or supervisory board neglects his or her duties, he is jointly and severally liable with the persons exercising such influence. A controlling enterprise may not cause our company to take measures that are unfavorable to our company unless any resulting disadvantage is compensated or a control agreement has been concluded. Board members who have neglected their duties in dealing with a controlling enterprise are jointly and severally liable to our company for damages together with the controlling entity.

As a general rule under German law, a shareholder has no direct recourse against the members of the management board or the supervisory board in the event that they are believed to have breached a duty to our company. Apart from insolvency or other special circumstances, only our company has the right to claim damages from members of either board. We may only waive these damages or settle these claims if at least three years have passed and if the shareholders approve the waiver or settlement at the shareholders' general meeting with a simple majority, provided that opposing shareholders do not hold, in the aggregate, one-tenth or more of the share capital of our company and do not have their opposition formally noted in the minutes maintained by a German notary.

Supervisory Board

Our supervisory board consists of 16 members. The shareholders elect eight members at the general meeting and the employees elect the remaining eight members. The employee representatives on the supervisory board consist of two representatives of the trade unions represented in the Infineon group in Germany and representatives of white- and blue-collar workers proportionately. Blue- and white-collar workers each elect their representatives and they together elect the representatives of the trade unions, either via delegates or directly. All current shareholder representatives on the supervisory board were elected at a general shareholders' meeting held on

January 19, 2000. The current employee representatives were appointed by a court pursuant to Section 104 of the German Stock Corporation Act. The employees have not yet called elections for employee members of the supervisory board. If and when such elections are held, the elected members will replace the members appointed by the court.

The shareholders, by a majority of the votes cast by the shareholders in a general meeting, may remove any member of the supervisory board they have elected in a general meeting. The employee representatives may be removed by those employees that elected them by a vote of three-quarters of the votes cast. The supervisory board elects a chairman and two deputy chairmen from among its members. If no candidate is elected by a vote of two-thirds of the members of the supervisory board, the shareholder representatives elect the chairman and the employee representatives elect a deputy chairman. The supervisory board normally acts by simple majority vote, with the chairman having a deciding vote in the event of a deadlock in a second vote on the same matter.

The supervisory board meets at least once during each quarter year. Its main functions are:

- to monitor our management;
- to appoint our management board;
- to approve matters in areas that the supervisory board has made generally subject to its approval; and
- to approve matters that the supervisory board decides on a case by case basis to make subject to its approval.

Our supervisory board has established an investment and finance committee, comprised of the chairman of the supervisory board, who serves as chairman of the committee and two other members of the supervisory board, one of which is elected from the shareholder representatives and the other from the employee representatives on the supervisory board. The investment and finance committee is charged with, among other things:

- preparing the decisions of the supervisory board regarding approval of our company's annual financial statements, including review of the financial statements, our annual reports, the proposed application of earnings and the reports of our auditors;
- reviewing the interim financial statements of our company that are to be made public or otherwise filed with any securities regulatory authority;
- issuing to our auditors terms of reference for their audit of our annual financial statements;
- approving decisions of our management board or a committee thereof regarding increases of our company's capital through the issuance of new shares out of authorized or conditional capital, to the extent they are not issued to employees or used for the disapplication of pre-emptive rights as part of a share option plan; and
- approving decisions of our management board in relation to any investment or disposition that exceeds five percent of our total investment budget or in relation to the taking of any financial risk vis-a-vis third parties in an amount exceeding five percent of our share capital plus capital reserves.

The investment and finance committee also supports the supervisory board in its duty of supervising our business and may exercise the oversight powers conferred upon the supervisory board by German law for this purpose. Decisions of the investment and finance committee require a simple majority.

The shareholders may determine the term of each shareholder-elected member of the supervisory board. The maximum term must expire at the end of the shareholders' general meeting in which the shareholders discharge the member for the fourth financial year following the financial year in which the member was elected. The financial year in which a member's term of office commenced is not included in the period.

According to German law, the term of office of the present shareholder-elected supervisory board members expires at the end of the shareholders' general meeting in which the shareholders discharge the supervisory board members for the fourth fiscal year after the start of their term as a supervisory board member.

The present members of our supervisory board, their ages, the year in which their term expires and their principal occupations are as follows:

Supervisory Board Members

Name	Age	Term expires	Other business activities
Dr. Eng. h.c. Volker Jung[1][2][3] ..... *Chairman*	61	2005	Member of the management board of Siemens AG; chairman of the board of administration of Siemens A.E., Greece; deputy chairman of the board of administration of Siemens Ltd., RSA; chairman of the advisory board of Siemens Business Services GmbH & Co. OHG, Munich; member of the board of Siemens Information and Communication Network Inc., Boca Raton; in addition, 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
Alfred Eibl*[1][2][3] ..... *Deputy Chairman*	52	2004**	Member of the works council Munich Balan-/ St.-Martin-Strasse
Dr. h.c. Martin Kohlhaussen[1] ... *Deputy Chairman*	65	2005	Chairman of the supervisory board of Commerzbank AG; chairman of the supervisory board of RHEINHYP Rheinische Hypothekenbank AG, Frankfurt am Main; chairman of the board of administration of Commerzbank International S.A. (CISAL), Luxembourg; chairman of the board of directors (non-executive) of Commerzbank (South East Asia) Ltd., Singapore; president of the board of administration of Commerzbank (Schweiz) AG, Zurich; in addition, member of the supervisory boards of Bayer AG, Leverkusen; Bertelsmann AG, Gütersloh; Heraeus Holding GmbH, Hanau; Hochtief AG, Essen; Karstadt Quelle AG, Essen; Schering AG, Berlin; Linde AG, Frankfurt am Main; member of the board of administration of Assicurazioni Generali S.p.A., Trieste; member of the shareholder committee of DaimlerChrysler AG, Stuttgart
Ender Beyhan*	33	2004**	Member of the works council, Munich-Perlach

Name	Age	Term expires	Other business activities
Johann Dechant*	35	2004**	Member of the works council, Regensburg West
Dr. Joachim Faber	51	2005	Member of the management board of Allianz AG; chairman of the supervisory board of Allianz Vermögensbank, Augsburg; Allianz Asset Management GmbH, Munich; deputy chairman of the supervisory board of Universal-Leasing-GmbH, Munich; member of the supervisory board of Allianz Capital Partners, Munich; deputy chairman of the board of administration of Allianz Risk Transfer, Zurich; member of the boards of administration of RASBANK S.p.A., Milan; IRC International Reinsurance Company S.A., Luxembourg; in addition, member of the supervisory boards of Hauck & Aufhäuser Privatbankiers KGaA, Frankfurt am Main; Berliner Wasser AG, Berlin; Lloyd Adriatico S.p.A, Trieste; Sociéta Metallurgica Italiana S.p.A., Florence; Mercur Assistance AG Holding, Munich; Karlsruher Rendite GmbH, Karlsruhe
Heinz Hawreliuk*	54	2004**	Head of the company codetermination department of IG Metall; in addition, member of the supervisory boards of DaimlerChrysler Aerospace AG, Munich; DaimlerChrysler Luft- und Raumfahrt Holding AG, Munich; Eurocopter Deutschland GmbH, Donauwörth; Siemens AG, Munich; Spezialtechnik Dresden GmbH, Dresden
Klaus Luschtinetz*	58	2004**	Chairman of the works council, Munich Balan-/ St.-Martin-Strasse; member of the board of administration of Siemens Employees Health Insurance, Munich
Heinz-Joachim Neubürger[2][3]	48	2005	Member of the management board of Siemens AG; chairman of the supervisory boards of Siemens Financial Services GmbH, Munich; Siemens Kapitalanlagegesellschaft mbH, Munich; TELA Versicherung AG, Munich; vice chairman of the board of directors of Siemens Corporation, New York; member of the board of Siemens Ltd. China (SLC), Beijing; chairman of the advisory board of Siemens Immobilien Management GmbH & Co. oHG, Munich; managing director of Siemens Western Finance N.V., Willemstad, Curacao; in addition, member of the supervisory boards of Allianz Versicherungs AG, Munich; Bayerischen Handelsbank AG, Munich; member of the board of Merrill Lynch & Co., Inc.

Name	Age	Term expires	Other business activities
Dr. Eberhard Rauch	52	2005	Member of the management board of HypoVereinsbank AG; chairman of the supervisory boards of DAB Direkt Anlage Bank GmbH, Munich; Norisbank AG, Nuremberg; Planet Home AG, Munich; member of the supervisory boards of Bank Przemyslowo-Handlowy SA, Cracow; Vereinsbank Victoria Bauspar AG, Munich; chairman of the board of administration of HVB Informations-Verarbeitungs-GmbH, Munich; in addition, chairman of the supervisory board of Kennametal Hertel AG, Fürth; member of the supervisory board of Koenig & Bauer-Albert-AG, Würzburg; member of the board of directors of Clearstream International S.A., Luxembourg; member of the board of administration of Dr. R. Pfleger Chemische Fabrik GmbH, Bamberg
Univ.-Prof. Dr.-Ing. Ingolf Ruge . .	66	2005	Professor at Technische Universität München; in addition, member of the supervisory board of Schneider Technologies AG, Türkheim
Michael Ruth*(4)	40	2004**	Vice President, Business Administration, Wireless Products; representative of senior management
Gerd Schmidt*(2)	47	2004**	Chairman of the works council, Regensburg West
Sibylle Wankel*	37	2004**	District secretary of IG Metall, Bavaria; in addition, member of the supervisory board of Compaq Computer GmbH, Dornach
Prof. Dr. Claus Weyrich	57	2005	Member of the management board of Siemens AG; chairman of the board of Siemens Corporate Research, Princeton/USA; member of the supervisory board of Siemens Venture Capital GmbH, Munich
Dr. Ing. Klaus Wucherer	56	2005	Member of the management board of Siemens AG; chairman of the boards of administration of Siemens Ltd., China; Siemens E&A, USA; Yaskawa Siemens Automation & Drives/YSAD, Japan; member of the boards of administration of Eviop-Tempo, Greece; Siemens France S.A., France; Simko Ticaret, Turkey

(1) Member of the executive committee
(2) Member of the reconciliation committee
(3) Member of the investment and finance committee
(4) Mr. Ruth was appointed by the court 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

Neither we nor any of our subsidiaries have entered into special service contracts with the members of the supervisory board that provide for benefits during or upon termination of their board membership other than as described under ‘‘—Compensation’’. Employee representatives, however,

are entitled to certain pension benefits under the then-applicable collective bargaining schemes by virtue of their position as employees. In addition, under their respective employment agreements, employees, including employee representatives, who are laid off for business reasons and who, at the time of the termination of their employment:

- are 55 years or older but have not reached the age of 58;
- have worked for us for at least 15 years; and
- are not yet entitled to benefits under a government pension scheme,

are entitled to monthly severance payments of an amount between 35% to 55% of their last monthly salaries until reaching the age of 60. The exact amount depends on the respective employee's salary and position within our company. Upon death, the employee's heirs become entitled to the capital value of the then-outstanding payments. In addition, employees who were employed with us before October 1, 1983 are entitled to transitional payments over a period of six months upon retirement. Instead of receiving severance and/or transitional payments, employees so entitled may elect to receive a pension benefit calculated in accordance with actuarial principles.

The members of our supervisory board, individually or in the aggregate, do not own, directly or indirectly, more than one percent of our company's outstanding share capital.

The business address of each of the members of our supervisory board is Infineon Technologies AG, St.-Martin-Strasse 53, D-81669, Munich, Germany.

Management Board

Our management board currently consists of five members. Under the Articles of Association of our company, our supervisory board determines the management board's size, although it must have at least two members.

Under the Articles of Association of our company and German law, the management board adopts rules of procedure for the conduct of its affairs, and may amend them at any time. The adoption and amendment of these rules require the unanimous vote of the management board and the consent of the supervisory board. The supervisory board may, however, decide to adopt rules of procedure for the management board instead.

Our management board has adopted rules of procedure for the management board. Our supervisory board approved these rules and resolved that the following decisions of the management board require the consent of the supervisory board:

- Decisions relating to financial and investment planning, including both budgets and the establishment of credit limits;
- Decisions relating to any investment or disposition that exceeds five percent of our total investment budget; and
- Decisions relating to the taking of any financial risk vis-a-vis third parties in an amount exceeding five percent of our share capital plus capital reserves.

In addition, the rules of procedure provide that the chairman of the management board must notify the chairman of the supervisory board of any pending matter that is significant. The chairman of the supervisory board must, at the next meeting of the supervisory board, notify the other members of the supervisory board of such matter, and the supervisory board may, on a case-by-case basis, designate such matter as one requiring supervisory board approval.

The management board members are jointly responsible for all management matters and pursuant to the current rules of procedure must jointly decide on a number of issues, including:

- the annual financial statements;
- the calling of the shareholders' general meeting;
- matters for which the consent of the shareholders' general meeting or of the supervisory board must be obtained; and
- matters involving basic organizational, business policy and investment and financial planning questions for our company.

The rules of procedure provide that the management board shall take action by unanimous vote.

The chairman of the management board must propose a plan that allocates responsibilities among the management board members and obtain the consent of the supervisory board without delay once the management board has adopted the plan. This consent has been obtained.

The supervisory board appoints the members of the management board for a maximum term of five years. They may be reappointed or have their term extended for one or more terms of up to five years each. The supervisory board may remove a member of the management board prior to expiration of such member's term for good cause, for example, in the case of a serious breach of duty or a bona fide vote of no confidence by the shareholders' general meeting. A member of the management board may not deal with, or vote on, matters that relate to proposals, arrangements or contracts between such member and our company.

The present members of our management board, their ages, the year in which their term expires and their positions are as follows:

Management Board Members

Name	Age	Term expires	Position
Dr. Ulrich Schumacher	43	2003	Chairman, President and Chief Executive Officer
Peter Bauer	40	2003	Executive Vice President, Sales and Marketing
Peter J. Fischl	55	2003	Executive Vice President and Chief Financial Officer
Dr. Sönke Mehrgardt	52	2003	Executive Vice President and Chief Technology Officer
Dr. Andreas von Zitzewitz	41	2003	Executive Vice President and Chief Operating Officer

All of the present members were appointed to their current positions as of April 1, 1999. Since our company did not have a management board prior to its formation, the actual positions of the management board members of our company at the beginning of the 1999 financial year were different.

Dr. Ulrich Schumacher has been our Chief Executive Officer since the inception of our company in April 1999. He was a member of the Managing Board of Siemens from January 1998 until May 1999. From October 1996 until the inception of our company, he was President and Chief Executive Officer of Siemens Semiconductor Group. From 1992 to 1996, he served as General Manager, Standard ICs Division of Siemens Semiconductor Group. He is a member of the supervisory board of Deutsche Bahn AG, the German railway. Dr. Schumacher began his career

at Siemens Components Group in 1986 and was responsible for equipment and test engineering. Dr. Schumacher received a Ph.D. in engineering from the Technical University of Aachen.

Peter Bauer has been our Executive Vice President, Sales and Marketing since the inception of our company in April 1999, and he was President and Chief Executive Officer of Siemens Microelectronics, Inc. from 1998 to April 1999. From 1997 to 1999, Mr. Bauer was also President, Sales and Solution Centers for Siemens Semiconductor Group. Prior to that, he held other executive positions at Siemens Semiconductor Group. Mr. Bauer began his career with Siemens Semiconductor Group in 1986 as a development engineer. Mr. Bauer received a diploma in electrical engineering from the Technical University of Munich.

Peter J. Fischl has been our Executive Vice President and Chief Financial Officer since the inception of our company in April 1999. From October 1996 to March 1999, Mr. Fischl served as Executive Vice President and Chief Financial Officer of Siemens Semiconductor Group. From 1995 to 1996, Mr. Fischl was General Manager and Vice President of Siemens Mobile Network Division. Prior to that, he was Vice President, Finance and Business Administration at other Siemens divisions. He started working at Siemens Telecommunications Group in 1971 as a project manager.

Dr. Sönke Mehrgardt has been our Executive Vice President and Chief Technology Officer since the inception of our company in April 1999. From October 1997 until the inception of our company, he was President, Signal Processing and Control of Siemens Semiconductor Group. From 1996 to 1997, Dr. Mehrgardt was President, Consumer Electronics ICs of Siemens Semiconductor Group. Dr. Mehrgardt began working at Siemens Semiconductor Group in 1993 as Vice President, Manufacturing, of Standard ICs. From 1984 to 1993, Dr. Mehrgardt worked at ITT-Semiconductors, first as a technical director and then as a director of production. From 1975 to 1983, Dr. Mehrgardt was an assistant professor at the University of Göttingen. Dr. Mehrgardt received a Ph.D. in natural science from the University of Göttingen.

Dr. Andreas von Zitzewitz has been our Executive Vice President and Chief Operating Officer since the inception of our company in April 1999. He was President, Memory Products Division of Siemens Semiconductor Group from June 1995 until January 2000. Dr. von Zitzewitz was Director, Research and Development of the Standard ICs Division of Siemens Semiconductor Group from 1992 to 1995. From 1990 to 1992, he was head of product definition, systems engineering and product management, Telecom ICs Division of Siemens Semiconductor Group. He is a member of the supervisory board of STEAG Hamatech AG, a manufacturer of equipment for the optical disk and photomask industry. Dr. von Zitzewitz began his career with Siemens Semiconductor Group in 1986 working on product definition and project management of telecom ICs. Dr. von Zitzewitz received his Ph.D. in electrical engineering from the University of Bochum.

The members of our management board, individually or in the aggregate, do not own, directly or indirectly, more than one percent of our company's outstanding share capital.

The business address of each of the members of our management board is Infineon Technologies AG, St.-Martin-Strasse 53, D-81669 Munich, Germany.

Compensation

Under our articles of association, the annual compensation is €25,000 for each member of the supervisory board. The chairman of the supervisory board receives 200% of this amount and each of the deputy chairman and each member of certain committees receive 150% of this amount. The aggregate compensation of the members of our supervisory board for the 2000 financial year was €457,000. In addition, all members of the supervisory board receive 1,500 share appreciation rights (*Wertsteigerungsrechte*) per year, which are granted and may be exercised for cash under the same conditions as options granted under the then current long-term incentive plan.

The aggregate remuneration of the five members of our management board in respect of the 2000 financial year was €28 million, consisting of an aggregate of €1 million in fixed salaries, aggregate bonus arrangements based mainly on the attainment of specified annual financial performance objectives of €14 million, and an aggregate fair value of share options at their grant date of €13 million, which is not reflected as compensation expense under generally accepted accounting principles in the United States.

We have entered into service contracts with each of the members of the management board. Pursuant to these contracts, board members are entitled to receive certain transitional payments upon termination of their board membership. These payments generally consist of the respective board member's twelve most recent monthly salary payments plus a lump sum equal to the average bonus, if any, received by the member over each of the last three fiscal years. If a board member dies subsequent to the termination of membership, the then-outstanding benefits will be paid to such member's heirs. No transitional payments are payable with respect to board members whose membership is terminated for cause or who resign before the age of 60. In addition, board members who are unable to continue to fulfill their duties, including because the supervisory board fails to renew their board membership, or who retire after the age of 60 are entitled to certain pension benefits. The amount of the chairman's pension is equal to 70 percent of his most recent monthly salary. The amounts of the other members' pensions are agreed on an individual basis. A board member's pension may be reduced in certain circumstances, including if the member receives income from certain other occupations or if our economic situation changes so substantially that we cannot reasonably be expected to continue to grant the benefits. Upon a board member's death, benefits may be payable to the deceased's spouse or orphaned children.

We have not extended any loans to the members of our supervisory or management boards.

Long-term Incentive Plans

1999 Share Option Plan. Under our 1999 Share Option Plan we granted non-transferable share options to members of our management board, directors of subsidiaries and affiliates, and to key employees.

As of March 31, 2001, we had granted options to purchase an aggregate of 10,794,678 shares under the 1999 plan, of which 1,302,000 options had been granted to members of our management board. After March 31, 2001, we granted options to purchase an additional 297,700 shares. The 1999 plan was discontinued and, accordingly, we no longer grant options under that plan.

The exercise price of the options granted under the 1999 plan is 120% of the average closing price of our company's shares on the Frankfurt Stock Exchange over the five trading days preceding the date of grant. Holders of options may exercise them during the seven-year period following the date of grant but only if the share price of our company has reached the exercise price on at least one trading day in Xetra or its successor during the duration of the option and only after the second anniversary of the date of grant. In addition, holders may not exercise an option within fixed time periods prior to or following publication of our quarterly or annual results.

When options are exercised, our company may either issue new shares from its conditional capital or deliver previously issued shares.

2001 International Long-Term Incentive Plan. In April 2001, we adopted the Infineon Technologies AG 2001 International Long-Term Incentive Plan, which we refer to as the 2001 plan. Under the 2001 plan, we have the authority over a five-year period to grant non-transferable share options to members of our management board, to top management personnel of our subsidiaries and to our key employees and key employees of our subsidiaries. We may grant options covering up to

2.5 million shares to members of the management board, 6.3 million shares to top management personnel of our subsidiaries and 42.7 million shares to key employees. We may not grant options under the 2001 plan covering more than 51.5 million shares in our company in the aggregate.

Under the 2001 plan, the supervisory board will decide annually within the earlier of 45 days after publication of our year-end results or two weeks prior to the end of a financial quarter how many options to grant to the management board. During that same period the management board may grant options to other eligible persons. In addition, the 2001 plan provides that options may be granted at specified times throughout the year. Each year up to a maximum of 30% of the plan options may be granted.

The exercise price of the options granted under the 2001 plan is 105% of the average opening share price of our company's shares on the Frankfurt Stock Exchange over the five trading days preceding the date of grant. Options granted under the 2001 plan have a term of seven years after the date of grant and may be exercised after the second anniversary of the date of grant at the earliest. In addition, holders may not exercise an option within fixed time periods prior to or following publication of our quarterly or annual results.

When options are exercised, our company may either issue new shares from its conditional capital, deliver previously issued shares or elect to settle the options in cash.

Employee Share Purchase Program

We have implemented an employee share purchase program, or ESPP, under which most of our employees (including employees of designated subsidiaries) will be offered the opportunity to purchase our shares at a discount. The ESPP will be administered by a committee of our management board. The committee has broad discretion to determine the terms upon which our shares will be offered under the ESPP. For example, the committee may determine the timing and length of offering periods, the total number of shares to be made available in any offering period, the number of shares that may be purchased by any participating employee and the discount, if any, that will be offered to participating employees. It is generally contemplated that our shares will be offered to employees at a discount of 15% from the then current market price of our company's shares on the Frankfurt Stock Exchange. The terms of the ESPP, as implemented in each of the countries in which there are participating employees, will vary to some extent to comply with local laws and regulations. We expect that there will be four separate offerings under the ESPP, with one per year in this financial year and in each of the next two financial years. The first offering period expired on July 9, 2001.

Employees of any of our participating U.S. subsidiaries who purchase shares under the ESPP will receive ADRs. A separate plan intended to qualify as an ''employee stock purchase plan'' under Section 423 of the United States Internal Revenue Code of 1986 will apply to the employees of our United States subsidiaries. The purchase price for shares offered to U.S. employees under this plan will not be lower than 85% of the closing price of our ADRs on the New York Stock Exchange on the first or the last day of the relevant offering period, whichever is lower.

We have also adopted two separate plans that allow our eligible employees who are based in Germany, as well as eligible employees of our participating German subsidiaries, to purchase additional shares under the ESPP.

The first plan, which we refer to as the General Supplemental Offer, provides that all of our employees who are based in Germany, as well as all employees of our German subsidiaries, may purchase shares at a discounted price determined by the committee. The maximum number of

shares that a participant may purchase under the General Supplemental Offer is subject to limits set forth in the German Income Tax Act. In order to benefit from certain advantageous German tax treatment, employees who purchase shares under the General Supplemental Offer in connection with the ESPP's initial offering period may not transfer those shares until December 31, 2006.

The second plan, which we refer to as our Exempt Staff Offer, provides that our highly skilled and management level employees, as well as the highly skilled and management level employees of some of our German subsidiaries, may purchase additional shares at a discounted price determined by the committee. Employees who purchased shares under the Exempt Staff Offer in connection with the ESPP's first offering period may not transfer those shares until December 31, 2002.

A total of 3 million shares have been reserved for issuance under the ESPP in the 2001 financial year. Employees who purchase shares under the ESPP may not transfer those shares for a period of time to be determined by the committee prior to each offering period. With the exception of purchases made under the General Supplemental Offer and the Exempt Staff Offer (which have the mandatory holding periods described above), employees who participated in the ESPP's initial offering period may not transfer shares purchased under the plan before June 30, 2002. We anticipate that similar mandatory holding periods will apply to future offerings under the ESPP.

PRINCIPAL SHAREHOLDERS

The following table shows the current beneficial ownership of our company's share capital by (1) the principal shareholders (each person or entity who owns beneficially 5% or more of our shares) and (2) the members of our management board and supervisory board, each as a group. It also shows how many shares they will own after the offering is completed and the percentage of equity interest those shares will represent, assuming that the underwriters exercise their over-allotment option in full. We are not directly or indirectly owned or controlled by any foreign government.

	Shares owned prior to offering		Shares owned after offering
	Number	Percent	Percent
Siemens Nederland N.V.[(1)]	200,487,368	32.0	29.2
Siemens AG[(1)]	148,912,407	23.8	21.7
Siemens Pension Trust e.V.	93,825,225	15.0	13.7
Members of the management board as a group	*	*	*
Members of the supervisory board as a group	*	*	*

(1) Siemens Nederland N.V. is a wholly-owned subsidiary of Siemens AG, and Siemens AG may be deemed to beneficially own all of the shares owned by Siemens Nederland N.V.

* Represent less than one percent of our outstanding share capital.

None of the members of either of our management board or supervisory board owns, directly or indirectly, more than one percent of our company's outstanding share capital.

In August 2000, Siemens Nederland N.V. issued 25,000 bonds with a nominal value of €100,000 each, each of which is exchangeable at the option of the holders thereof into 1,000 of our company's shares at an exchange price of €100 per share. The exchange feature may be exercised on any business day during the exchange period, which commences on August 10, 2001, inclusive, and ends ten business days before August 10, 2005 (that is, July 27, 2005) or, in the event of early redemption by the issuer on and including the fourth business day immediately preceding the day fixed for such early redemption.

In April 2001, Siemens irrevocably transferred 93,825,225 of our shares, representing approximately 15% of our then outstanding share capital, to Siemens Pension Trust e.V., which services pension liabilities of Siemens AG and some of its German group companies (excluding Infineon), which we understand was done in order to rebalance the trust's net asset value in light of increased pension obligations resulting from Siemens' acquisition of Mannesmann ATECS AG. We understand that, under the Siemens Pension Trust documents, the pension trust may receive instructions from Siemens as to the voting of the shares while they are owned by the trust. Siemens may, therefore, be deemed to be a beneficial owner of such shares for purposes of the U.S. federal securities laws. We understand that Siemens disclaims beneficial ownership of such shares for purposes of the U.S. federal securities laws.

Siemens is one of the world's largest electrical engineering and electronics companies. The business address of Siemens AG is Wittelsbacherplatz 2, D-80333 Munich, Germany. The business address of Siemens Nederland N.V. is Prinses Beatrixlaan 26, 2595 AL The Hague, The Netherlands. The business address of the Siemens Pension Trust is c/o Siemens AG, Wittelsbacherplatz 2, D-80333 Munich, Germany.

Under German law, for so long as Siemens holds more than 25% of the shares in our company represented at a shareholders' general meeting, it would be in a position to block shareholder action on a variety of matters, including the exclusion of preemptive rights in a capital increase, or any capital decrease, merger, consolidation, spin-off, sale or other transfer of all or substantially all of our assets, a change in the corporate form or business purpose of our company or the dissolution of our company.

TRANSACTIONS AND RELATIONSHIP BETWEEN INFINEON AND THE SIEMENS GROUP

Formation and Control

In July 1998, Siemens approved a ten-point program designed to achieve a sustainable improvement in its profitability. In November 1998, Siemens announced specific measures to be implemented within the framework of the ten-point program. These measures included the conversion of the Siemens group's semiconductor activities into a separate legal entity—Infineon—and the initial public offering and listing of our shares. For more information regarding our formation as a legal entity, see ''Selected Consolidated Financial Data''. In March 2000, as part of our initial public offering, Siemens' affiliate, Siemens Nederland N.V., sold 173,475,000 of our shares to investors in Germany, the United States and elsewhere.

Siemens and Siemens Nederland N.V. have stated on a number of occasions that they intend to reduce their ownership stake and/or voting interest in our company as and when business and market conditions permit. We understand that Siemens has identified the deconsolidation of our company for purposes of its own financial reporting as an intermediate goal. Siemens and Siemens Nederland N.V. have in the past taken several steps to reduce their holdings of our company's shares. First, in July 2000, Siemens Nederland N.V. issued bonds exchangeable into 25 million of our company's shares. The current exchange price of these bonds is €100 per share, with the exchange period commencing on August 10, 2001. Second, in April 2001, Siemens irrevocably transferred 93,825,225 of our company's shares to the Siemens Pension Trust, which we understand was done in order to rebalance the trust's net asset value in light of increased obligations resulting from Siemens' acquisition of Mannesmann ATECS AG. We further understand that, under the Siemens Pension Trust documents, the pension trust may receive instructions from Siemens as to the voting of the shares while they are owned by the trust.

We understand that Siemens and Siemens Nederland N.V. continuously consider further measures to reduce their ownership stake and/or voting interest in our company. Among other things, Siemens has received authorization from its shareholders to offer shares of our company in exchange for shares of Siemens as a means for Siemens to repurchase its own shares. Siemens has to date not provided any indication of the timing of any such exchange program, nor has it specified the total number of our company's shares that it might make available to holders of Siemens shares in such an exchange program. In addition, according to public statements made by Siemens, we understand that Siemens is considering reducing its voting rights over a portion of our company's shares. In the event that Siemens' voting control over Infineon is reduced to less than 50%, Siemens would expect to begin accounting for Infineon using the equity method of accounting.

Other than the above-mentioned measures that we understand are currently under consideration, we are not aware of what any further steps in the Siemens program to reduce its ownership of our company's shares may be or when such steps may occur. Siemens and Siemens Nederland N.V. have, however, indicated that they are considering a wide range of potential alternative techniques and timetables for disposing of their remaining shares in our company. Any such transaction could occur at any time or from time to time. Siemens, Siemens Nederland N.V. and Siemens Pension Trust e.V. have severally confirmed that, for a 90-day period from the first day of trading of the shares sold in this offering, they will take no measures to sell any of their shares in our company, directly or indirectly, into the public markets.

We have granted to Siemens, Siemens Nederland N.V. and Siemens Pension Trust e.V. certain rights to have our company's shares that they own registered for resale under the Securities Act.

For as long as Siemens controls a majority of votes over shares represented in a shareholders' general meeting, it will be in a position to elect all of the shareholder-elected members of our

supervisory board. The current composition of the supervisory board is set forth under ''Management —Supervisory Board''.

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.

Services

We have historically relied on the Siemens group to provide us with a wide range of administrative, financial, information technology and other services. The Siemens group continues to provide many of these services under a framework services agreement and other agreements described below. We believe that all services from the Siemens group companies are purchased on arms'-length terms and conditions.

In connection with our formation, we entered into a framework services agreement *(Gestionsvertrag)* and related agreements with Siemens, pursuant to which Siemens provided advisory services and support to us in a number of corporate business functions. The framework services agreement provided that we pay Siemens a fee for these services of €1.0 million in the 1999 financial year and €1.2 million in the 2000 financial year. In addition, related agreements also provide for fees for services. The framework services agreement also provides that we may request additional services from Siemens from time to time at prices to be negotiated.

We also have a number of other agreements with Siemens group companies for the provision of services. In particular, we currently purchase extensive information technology services from the Siemens group, including use of its global computer network, payroll, treasury and other services.

The Siemens group also provides office equipment and leases real estate to us. We have a fully-funded pension fund to cover our anticipated pension obligations to our employees in Germany. This fund is managed by a Siemens subsidiary.

Sales

The Siemens group is our largest customer. In the 1999 financial year, 14% of our net sales resulted from direct sales to the Siemens group. An additional 9% of our net sales resulted from sales through the Siemens group's sales organization for resale to third parties. The comparable figures for our 2000 financial year were 10% and 4%, respectively, and those for the six months ended March 31, 2001 were 14% and 1%, respectively. We believe that these transactions are on terms no less favorable to us than we could obtain from third parties.

More details about our sales through Siemens' sales organization can be found under ''Management's Discussion and Analysis of Financial Condition and Results of Operations—Results of Operations'' and more details about our sales generally can be found under ''Business—Customers, Sales and Marketing—Sales and Marketing''.

Insurance

As an affiliate of Siemens, we currently obtain nearly all of our insurance coverage under the framework of the Siemens group insurance arrangements. We may no longer be able to maintain our insurance coverage under these group insurance arrangements if and when Siemens ceases to own or control 50% of our company's shares. We are currently evaluating our options for directly obtaining our own insurance coverage.

Loan Agreement

In April 2001, Siemens, on an exceptional basis, extended to us a short-term loan in the amount of €450 million, which we understand was done in connection with the dividend paid

pursuant to the resolution of our company's annual general meeting on April 6, 2001. The loan is repayable on September 6, 2001, and bears interest at a rate of five-months Euribor plus 0.40% per annum, which is the same rate we are required to pay under our €729 million syndicated multicurrency revolving credit facility. We intend to refinance this loan through the use of existing credit lines or new sources of funding.

Non-competition

Siemens has entered into a non-competition agreement with us. Under this agreement, Siemens has agreed that no member of the Siemens group will engage in or carry out any research or development, production or distribution of semiconductor devices or license or sublicense any of our patents to any party for use in research or development, production or distribution of semiconductor devices. The agreement is subject to certain exceptions relating to such matters as application-specific semiconductor devices designed specifically for use in or in connection with Siemens group products, spare parts for those products, and the application in equipment and systems of circuitry from Dual Use Patents, as well as to various *de minimis* exceptions. This non-competition agreement will expire after a period of four years following March 13, 2000 or two years following the point at which Siemens' direct or indirect equity ownership of our company drops to 50% or less, whichever occurs earlier.

Patent Cross-License Agreement

We have entered into a patent cross-license agreement with Siemens that grants Siemens the right to use our patents and grants us the right to use Siemens' patents. This agreement is described above under ''Business—Intellectual Property''.

SHARES ELIGIBLE FOR FUTURE SALE

Sales of substantial numbers of our shares or ADSs in the public market could adversely affect prevailing market prices of our shares and ADSs. Furthermore, since approximately 64.6% (assuming the exercise of the underwriters over-allotment option in full) of our shares or ADSs will be unavailable for sale shortly after this offering because of the confirmations and legal restrictions on resale described below, sales of substantial numbers of shares or ADSs in the public market after these restrictions lapse could adversely affect the prevailing market price and our ability to raise equity capital in the future.

We have granted to Siemens, Siemens Nederland N.V. and Siemens Pension Trust e.V. certain rights to have our company's shares that they own registered for resale under the Securities Act.

Upon completion of this offering, our company will have outstanding an aggregate of 686,651,709 shares, assuming full exercise of the over-allotment option and no exercise of outstanding share options. Of these shares, all of the shares sold in our initial public offering and this offering will be freely tradable without restriction or further registration under the United States Securities Act of 1933 unless such shares are purchased by ''affiliates'' as that term is defined in Rule 144 under the Securities Act.

Lock-up Arrangements

We have agreed not to issue or dispose of or hedge any of our shares or to issue any securities convertible into or exchangeable for shares or ADSs during the period from the date of this prospectus continuing through the date 90 days after the first day of trading of the shares sold in this offering, except with the prior written consent of Goldman, Sachs & Co. oHG. This agreement does not apply to share issuances in connection with acquisitions or any of our employee benefit plans.

Siemens, Siemens Nederland N.V. and Siemens Pension Trust e.V. have severally confirmed that, for a 90-day period from the first day of trading of the shares sold in this offering, they will take no measures to sell any of their shares in our company, directly or indirectly, into the public markets.

Rule 144

In general, under Rule 144 under the Securities Act as currently in effect, our affiliates would be entitled to sell within any three-month period a number of shares that does not exceed the greater of:

- 1% of the number of shares then outstanding, or approximately 6.87 million shares immediately after the closing of this offering; or
- the average weekly trading volume of the shares on the New York Stock Exchange during the four calendar weeks preceding the filing of a notice on Form 144 with respect to such sale.

Someone who is not an affiliate and has not been an affiliate for three months may sell shares or ADSs representing shares under Rule 144 without regard to these volume limitations.

Sales under Rule 144 are also subject to manner of sale provisions and notice requirements and to the availability of current public information about us.

Regulation S

Regulation S under the Securities Act provides that shares owned by any person may be sold without registration in the United States, provided that the sale is accomplished in an offshore transaction and no directed selling efforts are made in the United States (as these terms are defined in Regulation S), subject to certain other conditions. In general, this means that the shares held by Siemens, Siemens Nederland N.V. and Siemens Pension Trust e.V. may be sold on the Frankfurt Stock Exchange or in some other manner outside the United States without requiring registration of the sales in the United States.

Share Options and Share Purchase Plans

We have filed a registration statement under the Securities Act covering 6,000,000 shares available for issuance upon the exercise of employee share options and a registration statement covering 960,000 shares reserved for issuance under the U.S. portion of our employee share purchase program. Accordingly, shares registered under such registration statements are, subject to vesting provisions, mandatory holding periods and Rule 144 volume limitations applicable to our affiliates, available for sale in the open market immediately.

DESCRIPTION OF SHARES

This section summarizes the material rights of holders of the shares of our company under German law and the material provisions of the Articles of Association of our company. This description is only a summary and does not describe everything that the Articles of Association contain. Copies of the Articles of Association are publicly available from the Commercial Register in Munich, and an English translation has been filed with the Securities and Exchange Commission in the United States.

Share Capital

After giving effect to this offering (and assuming no exercise of the underwriters' over-allotment option), the issued share capital of our company will consist of €1,357,651,418 divided into 678,825,709 individual shares in registered form with a notional value of €2.00 each. According to German law, the individual shares do not have a par value but they do have a notional value that can be determined by dividing the share capital amount by the number of shares. Since our formation, changes in our share capital have been as follows:

- At our formation, our share capital consisted of €400,000,000, represented by 200,000,000 individual shares in registered form with a notional value of €2 each.
- On January 26, 2000, we increased our share capital from €400,000,000 to €800,000,000 by issuing 200,000,000 shares for a €400,000,000 transfer of corporate funds to capital. The new shares were issued to Siemens and Siemens Nederland N.V. in proportion to their respective ownership interests in our company at that time.
- On February 14, 2000, we increased our share capital from €800,000,000 to €1,200,000,000 by issuing 200,000,000 shares for a €400,000,000 transfer of corporate funds to capital. The new shares were issued to Siemens and Siemens Nederland N.V. in proportion to their respective ownership interests in our company at that time.
- On March 8, 2000, we increased our share capital by €33,400,000 to €1,233,400,000 for cash contributions by issuing 16,700,000 shares with full dividend entitlement for the 2000 financial year. The shares were sold in our initial public offering.
- On April 28, 2000, we increased our share capital by €15,184,860 by issuing to Intel Corporation 7,592,430 shares with full dividend entitlement for the 2000 financial year. After the execution of the capital increase, our share capital consisted of €1,248,584,860.
- On June 28, 2000, we increased our share capital by €2,418,154 against a contribution in kind by issuing 1,209,077 shares with full dividend entitlement for the 2000 financial year to Savan Communications Ltd. After execution of the capital increase our share capital consisted of €1,251,003,014.
- On March 16, 2001, we increased our share capital by €886,976 against a contribution in kind by issuing 443,488 shares with full dividend entitlement for the 2001 financial year in connection with our investment in Ramtron International Corporation. After execution of the capital increase our share capital consisted of €1,251,889,990.
- On April 11, 2001, we increased our share capital by €1,413,428 against a contribution in kind by issuing 706,714 shares with full dividend entitlement for the 2001 financial year in connection with our acquisition of Ardent Technologies Inc. After the execution of the capital increase our company's share capital consisted of €1,253,303,418.
- On July 9, 2001, we increased our share capital by €104,348,000 to €1,357,651,418 by issuing 52,174,000 shares to be sold in this offering (with full dividend entitlement for the 2001 financial year). The shares have been subscribed for by Goldman, Sachs & Co. oHG as representative of the underwriters of this offering.

Registrar Services GmbH, the transfer agent and registrar of our company in Germany, registers record holders of shares in the share register on our behalf pursuant to a transfer agency agreement. The transfer agent also maintains the register of our shareholders.

Authorized Capital

Under the German Stock Corporation Act, a stock corporation's shareholders can authorize the management board to issue shares in a specified aggregate nominal amount of up to 50% of the issued share capital at the time the resolution is passed. The shareholders' authorization may extend for a period of no more than five years.

The Articles of Association of our company authorize the management board to increase the share capital with the supervisory board's consent. The management board may use these authorizations until March 31, 2004 to issue new shares in one or more tranches:

- in an aggregate amount of up to €120 million for contributions in cash (of which €15.6 million remains available for issuance). Existing shareholders have preemptive rights, which may be excluded in the following circumstances:
  - —to the extent that preemptive rights must be granted to holders of subscription warrants or convertible bonds that we have issued;
  - —if (1) the new shares represent 10% or less of the existing share capital when the authorized capital or issue of the new shares is registered and (2) the issue price of the new shares is not considerably less than the stock exchange price of the shares in our company; or
  - —to the extent that fractional residual amounts must be balanced out;
- in an aggregate amount of up to €120 million to issue shares to employees of the Infineon group companies (in which case preemptive rights of the existing shareholders are excluded); or
- in an aggregate amount of up to €235,281,442 to issue shares in exchange for contributions in kind (in which case preemptive rights of the existing shareholders are excluded).

The shares issued by our company in this offering have been issued from the authorization described in the first bullet point above. Preemptive rights of existing shareholders were excluded pursuant to the exemption described under the second subpoint above.

Our management board has also resolved to increase our share capital by €12,746,870 through the issuance of 6,373,435 new shares from the authorized capital described in the third bullet point above in connection with our acquisition of Catamaran Communications.

Conditional Capital

Furthermore, our company has conditional capital of up to €96 million that may be used to issue up to 48 million new registered shares in connection with our 1999 and our 2001 plans and additional conditional capital of up to €29 million that may be used to issue up to 14.5 million new registered shares in connection with our 2001 long term incentive plan. These shares will have dividend rights from the beginning of the fiscal year in which they are issued.

Our company also has conditional capital of up to €50 million 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 at the latest. These shares will have dividend rights from the beginning of the fiscal year in which they are issued.

Preemptive Rights

Under the German Stock Corporation Act, an existing shareholder in a stock corporation has a preferential right to subscribe for issues of new shares by that corporation in proportion to the number of shares he holds in the corporation's existing share capital. These rights do not apply to shares issued out of conditional capital. Preemptive rights also apply to securities that may be converted into shares, securities with warrants, profit-sharing certificates and securities with dividend rights. The German Stock Corporation Act only allows the exclusion of this preferential right in limited circumstances. At least three fourths of the share capital represented at the meeting must vote for exclusion. In addition to approval by the shareholders, the exclusion of preemptive rights requires a justification. The justification must be based on the principle that the interest of the company in excluding preemptive rights outweighs the shareholders' interest in their preemptive rights.

Preemptive rights resulting from a capital increase may generally be transferred and may be traded on any of the German stock exchanges upon which our shares are traded for a limited number of days prior to the final date on which the preemptive rights may be exercised.

Shareholders' Meetings and Voting Rights

A general meeting of the shareholders of our company may be called by the management board or the supervisory board. Shareholders holding in the aggregate at least 5% of our issued share capital may also require the management board to call a meeting. The annual general meeting must take place within the first eight months of the fiscal year. The management board calls this meeting upon the receipt of the supervisory board's report on the annual financial statements.

Under German law and the Articles of Association of our company, our company must publish notices of shareholder meetings in the German Federal Gazette *(Bundesanzeiger)* at least one month before the last day on which the shareholders must notify our company that they intend to attend the meeting.

A shareholder or group of shareholders holding a minimum of either 5% of the share capital or shares of our company representing at least €500,000 of its registered capital may require that additional or modified proposals be made at our shareholders' general meeting.

Shareholders who are registered in the share register may participate in and vote in the shareholders' general meeting. A notice by a shareholder of his intention to attend a shareholders' general meeting must be given to our company at least six days (or a shorter period, if so determined by management) before the meeting, not counting the day of notice and the day of the meeting. Following receipt of a notice of this type, our company will not enter a transfer of the related shares in the share register until after the conclusion of the shareholders' general meeting. In certain cases, a shareholder can be prevented from exercising his voting rights. This would be the case, for instance, for resolutions on the waiver or assertion of a claim by our company against the shareholder.

Each share carries one vote at general meetings of the shareholders. Resolutions are generally passed with a simple majority of the votes cast. Resolutions that require a capital majority are passed with a simple majority of the issued capital, unless statutory law or the Articles of Association of our company require otherwise. Under the German Stock Corporation Act, a number of significant resolutions must be passed by a majority of the votes cast and at least 75% of the share capital represented in connection with the vote taken on that resolution. The majority required for some of these resolutions may be lowered by the Articles of Association. The shareholders of our company have lowered the majority requirements to the extent permitted by law.

Although our company must notify shareholders of an ordinary or extraordinary shareholders' meeting as described above, neither the German Stock Corporation Act nor the Articles of Association of our company fixes a minimum quorum requirement. This means that holders of a minority of our shares could control the outcome of resolutions not requiring a specified majority of the outstanding share capital of our company.

According to the Articles of Association of our company, a resolution that amends the Articles of Association must be passed by a majority of the votes cast and at least a majority of the nominal capital represented at the meeting of shareholders at which the resolution is considered. However, resolutions to amend the business purpose stated in the Articles of Association of our company also require a majority of at least three-quarters of the share capital represented at the meeting. The 75% majority requirement also applies to the following matters:

- the exclusion of preemptive rights in a capital increase;
- capital decreases;
- a creation of authorized capital or conditional capital;
- a dissolution;
- a merger or a consolidation with another stock corporation or another corporate transformation;
- a transfer of all or virtually all of the assets of our company; and
- the conclusion of any direct control, profit and loss pooling or similar intercompany agreements.

Dividend Rights

Shareholders participate in profit distributions in proportion to the number of shares they hold.

Under German law, our company may declare and pay dividends only from balance sheet profits as they are shown in our company's unconsolidated annual financial statements prepared in accordance with applicable German law. In determining the distributable balance sheet profits, the management board and the supervisory board may allocate to profit reserves up to one half of the annual surplus remaining after allocations to statutory reserves and losses carried forward.

The shareholders, in determining the distribution of profits, may allocate additional amounts to profit reserves and may carry forward profits in part or in full.

Dividends approved at a shareholders' general meeting are payable on the first stock exchange trading day after that meeting, unless otherwise decided at the shareholders' general meeting. Where shareholders hold physical certificates, we will pay dividends to those shareholders who present us, or the paying agent or agents that we may appoint from time to time, with the appropriate dividend coupon. If you hold shares that are entitled to dividends in a clearing system, the dividends will be paid according to that clearing system's rules. We will publish notice of dividends paid and the paying agent or agents that we have appointed in the German Federal Gazette.

Liquidation Rights

In accordance with the German Stock Corporation Act, if we are liquidated, any liquidation proceeds remaining after all of our liabilities have been paid off would be distributed among our shareholders in proportion to their holdings.

Disclosure Requirement

The German Securities Trading Act requires each person whose shareholding reaches, exceeds or, after exceeding, falls below the 5%, 10%, 25%, 50% or 75% voting rights thresholds of a listed corporation to notify us and the German Federal Supervisory Authority for Securities Trading in writing within seven calendar days after they have reached, exceeded or fallen below such a threshold. In their notification, they must also state the number of shares they hold. Such holders cannot exercise any rights from those shares until they have satisfied this disclosure requirement. In addition, the German Securities Trading Act contains various rules designed to ensure the attribution of shares to the person who has effective control over the exercise of the voting rights attached to those shares.

Repurchase of Our Own Shares

We may not acquire our own shares unless authorized by the shareholders' general meeting or in other very limited circumstances set out in the German Stock Corporation Act. Shareholders may not grant a share repurchase authorization lasting for more than 18 months. The rules in the German Stock Corporation Act generally limit repurchases to 10% of our share capital and resales must be made either on the stock exchange, in a manner that treats all shareholders equally or in accordance with the rules that apply to preemptive rights relating to a capital increase. We are not currently authorized by the shareholders' general meeting to repurchase our own shares.

Corporate Purpose of Our Company

The corporate purpose of our company, described in section 2 of the Articles of Association, is direct or indirect activity in the field of research, development, manufacture and marketing of electronic components, electronic systems and software, as well as the performance of related services.

LIMITATIONS AFFECTING SHAREHOLDERS OF A GERMAN COMPANY

At present, Germany does not restrict the movement of capital between Germany and other countries except investments in Iraq and with institutions and companies associated with the Taliban party in Afghanistan. These restrictions were established to coincide with resolutions adopted by the United Nations and the European Union. The restrictions relating to Libya have been partially suspended.

For statistical purposes, with some exceptions, every corporation or individual residing in Germany must report to the German Central Bank any payment received from or made to a non-resident corporation or individual if the payment exceeds €12,500 (or the equivalent in a foreign currency). Additionally, corporations and individuals residing in Germany must report to the German Central Bank any claims of a resident corporation or individual against, or liabilities payable to, a non-resident corporation or individual exceeding an aggregate of DEM 3 million or €1.5 million (or the equivalent in a foreign currency) at the end of any calendar month.

Neither German law nor our Articles of Association restricts the right of non-resident or foreign owners of shares to hold or vote the shares.

DESCRIPTION OF AMERICAN DEPOSITARY SHARES

American Depositary Shares

Morgan Guaranty Trust Company of New York, as depositary, will issue the ADSs in the offering. Each ADS will represent an ownership interest in one ordinary share which we will deposit with the custodian under a deposit agreement among ourselves, the depositary and each ADS holder from time to time. In the future, each ADS will also represent any securities, cash or other property deposited with the depositary but not distributed by it directly to you. Your ADSs will be evidenced by what are known as American depositary receipts, or ADRs. An ADR may be issued in either book-entry or certificated form by the depositary. If an ADR is issued in book-entry form, you will receive periodic statements from the depositary showing your ownership interest in ADSs.

The depositary's office is located at 60 Wall Street, New York, NY 10260.

You may hold ADSs either directly or indirectly through your broker or other financial institution. If you hold ADSs directly, you are an ADR holder. The description below assumes you hold your ADSs directly. If you hold the ADSs through your broker's or financial institution's nominee, you must rely on the procedures of such broker or financial institution to assert the rights of ADR holders described in this section. You should consult with your broker or financial institution to find out what those procedures are.

Because the depositary's nominee will actually be the registered owner of the shares, you must rely on it to exercise the rights of a shareholder on your behalf. The obligations of the depositary and its agents are set out in the deposit agreement. The deposit agreement and the ADSs are generally governed by New York law.

The following is a summary of the material provisions of the deposit agreement. Because it is a summary, it does not contain all the information that may be important to you. For more complete information, you should read the entire agreement and the form of ADR which contains the terms of your ADSs. You can read a copy of the agreement which was filed as an exhibit to the registration statement filed with the SEC in connection with our initial public offering. You may also copy the agreement, a copy of which is available at the SEC's Public Reference Room at 450 Fifth Street, N.W., Washington, D.C. 20549. You may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-732-0330.

Share Dividends and Other Distributions

How will I receive dividends and other distributions on the shares underlying my ADSs?

The depositary has agreed to pay to you the cash dividends or other distributions it or the custodian receives on shares or other deposited securities, after deducting expenses. You will receive these distributions in proportion to the number of underlying shares your ADSs represent.

We may make various types of distributions with respect to our securities. Except as stated below, to the extent the depositary is legally permitted, it will deliver such distributions to ADR holders in proportion to their interests in the following manner:

Cash. The depositary will convert cash distributions from foreign currency to U.S. dollars as promptly as practicable if this is permissible and can be done on a reasonable basis. The depositary will endeavor to distribute such cash in a practicable manner, and may deduct any taxes required to be withheld, any expenses of converting foreign currency and transferring funds to the United States, and certain other expenses and adjustments. In addition, before making a distribution, the depositary

will deduct any taxes withheld. If the exchange rates fluctuate during a time when the depositary cannot convert the currency, you may lose some or all of the value of the distribution.

Shares. In the case of a distribution in shares, the depositary will issue additional ADRs to evidence the number of ADSs representing such shares. Only whole ADSs will be issued. Any shares which would result in fractional ADSs will be sold and the net proceeds will be distributed to the ADR holders entitled thereto.

Rights to Receive Additional Shares. In the case of a distribution of rights to subscribe for additional shares or other rights, if we provide satisfactory evidence that the depositary may lawfully distribute such rights, the depositary may arrange for ADR holders to instruct the depositary as to the exercise of such rights. However, if we do not furnish such evidence, the depositary may:

- sell such rights on the German stock exchange on which they are traded, if practicable, and distribute the net proceeds as cash, or
- allow such rights to lapse, whereupon ADR holders will receive nothing.

We have no obligation to file a registration statement under the Securities Act in order to make any rights available to ADR holders. If we do not choose to file a registration statement, the Securities Act will restrict the sale, deposit, cancellation and transfer of ADRs issued upon the exercise of rights.

Other Distributions. In the case of a distribution of securities other than those described above, the depositary may either

- distribute such securities in any manner it deems fair and equitable, or
- sell such securities and distribute any net proceeds in the same way it distributes cash.

Fractional cents will be withheld without liability for interest and added to future cash distributions.

To the extent the depositary determines, after consultation with us, that any distribution is not lawful or practicable with respect to any holder, the depositary may make the distribution in a method that it deems lawful and practicable, including the distribution of foreign currency or securities. The depositary may also retain such items, without paying interest on or investing them, on behalf of the ADR holder as deposited securities.

There can be no assurances that the depositary will be able to convert any currency at a specified exchange rate or sell any property, rights, or shares or other securities at a specified price, or that any such transactions can be completed within a specified time period.

Deposit, Withdrawal and Cancellation

How does the depositary issue ADSs?

The depositary will issue ADSs if you or your broker deposit shares or evidence of rights to receive shares with the custodian, along with any other documents required by the depositary. In the case of the ADSs to be issued under this prospectus, we will arrange with the underwriters to deposit such shares.

Shares deposited in the future with the custodian must be accompanied by certain documents, including instruments showing that such shares have been properly transferred or endorsed to the person on whose behalf the deposit is being made.

The custodian will hold all deposited shares, including those being deposited by or on our behalf in connection with this offering for the account of the depositary. ADR holders thus have no direct ownership interest in the shares and only have such rights as are contained in the deposit agreement. The custodian will also hold any additional securities, property and cash received on or in substitution for the deposited shares. The deposited shares and such additional items are referred to as ''deposited securities.''

Upon each deposit of shares, receipt of related delivery documentation and compliance with the other provisions of the deposit agreement, including the payment of the fees and charges of the depositary, the depositary will issue an ADR or ADRs in the name of the person entitled thereto evidencing the number of ADSs to which such person is entitled. Certificated ADRs will be delivered at the depositary's office. At your risk, expense and request, the depositary may deliver certificated ADRs at such other place as you may request. If ADRs are in book-entry form, a statement setting forth such ownership interest will be mailed to holders by the depositary. An ADR holder can always request that the ADSs not be held through the depositary's direct registration system and that a certificated ADR be issued.

How do ADR holders cancel an ADS and obtain deposited securities?

When you turn in your ADS at the depositary's office and upon (a) surrender of the ADR, (b) payment of certain applicable fees, charges and taxes, and (c) in the case of ADRs held through the depositary's direct registration system, appropriate instructions, the depositary will deliver the underlying shares to an account with Clearstream AG that the holder specifies.

Before you withdraw deposited securities, we, the depositary or the custodian may require:

- payment of stock transfer or other taxes or governmental charges and registration fees charged by third parties for the transfer of the deposited securities; and
- proof as to the identity and genuineness of any signature and other information.

The withdrawal of deposited securities may also be suspended:

- when we request, so that we may close our books or pay dividends in an orderly fashion or to facilitate orderly voting of the deposited securities; or
- when the registrar or Clearstream AG is closed.

Voting Rights

How do I vote?

If you are an ADR holder and the depositary asks you to provide it with voting instructions, you may instruct the depositary how to exercise the voting rights of the shares which underlie your ADSs. After receiving voting materials from us, the depositary will notify all ADR holders of any shareholders' meeting or solicitation of consents or proxies. This notice will describe how you may instruct the depositary to exercise the voting rights which underlie your ADSs. For instructions to be valid, the depositary must receive them on or before the date specified. The depositary will try, as far as practical, subject to the provisions of and governing the underlying shares or other deposited securities, to vote or to have its agents vote the shares or other deposited securities as you instruct. The depositary will only vote or attempt to vote as you instruct. The depositary will not itself exercise any voting discretion. Furthermore, neither the depositary nor its agents are responsible for any failure to carry out any voting instructions, for the manner in which any vote is cast or for the effect of any vote.

Because there is no guarantee that you will receive voting materials in time to instruct the depositary to vote, it is possible that you, or persons who hold the ADSs through brokers, dealers or other third parties, will not have the opportunity to exercise a right to vote.

Record Dates

The depositary will fix record dates for the determination of the ADR holders who will be entitled:

- to receive any distribution, or
- to give instructions for the exercise of voting rights at a meeting of holders of ordinary shares or other deposited securities,

all subject to the provisions of the deposit agreement.

Reports and Other Communications

Where will I be able to view reports from Infineon?

The depositary will make available for inspection by ADR holders any written communications from us which are both received by the custodian or its nominee as a holder of deposited securities and made generally available to the holders of deposited securities. These communications will be furnished by us in English when so required by any rules or regulations of the Securities and Exchange Commission.

Fees and Expenses

What fees and expenses will I be responsible for paying?

ADR holders will be charged a fee for issuance of ADSs, including issuances resulting from distribution of shares, rights, and other property, and for each surrender of ADSs in exchange for deposited securities. The fee in each case is $5.00 for each 100 ADSs, or any portion thereof, issued or surrendered. ADR holders or persons depositing shares may also be charged the following expenses:

- stock transfer or other taxes and other governmental charges;
- cable, telex, and facsimile transmission and delivery charges;
- transfer or registration fees for the registration or transfer of deposited securities on any applicable register in connection with the deposit or withdrawal of deposited securities; and
- expenses of the depositary in connection with the conversion of foreign currency into U.S. dollars.

We will pay all other charges and expenses of the depositary and any agent of the depositary (except the custodian) pursuant to agreements from time to time between us and the depositary. The fees described above may be amended from time to time.

Payment of Taxes

ADR holders must pay any tax or other governmental charge payable by the custodian or the depositary on any ADS or ADR, deposited security or distribution. If an ADR holder owes any tax or other governmental charge, the depositary may (1) deduct the amount thereof from any cash distributions, or (2) sell deposited securities and deduct the amount owing from the net proceeds of

such sale. In either case the ADR holder remains liable for any shortfall. Additionally, if any tax or governmental charge is unpaid, the depositary may refuse to effect any registration or any withdrawal of deposited securities, each except under limited circumstances mandated by securities regulations. If any tax or governmental charge is required to be withheld on any non-cash distribution, the depositary may sell the distributed property or securities to pay such tax or charge and distribute any remaining net proceeds to the ADR holders entitled thereto.

Reclassifications, Recapitalizations and Mergers

If we take certain actions that affect the deposited securities, including (a) any change in nominal value, split-up, consolidation or other reclassification of deposited securities, (b) any dividend or free distribution on deposited securities consisting of shares or any other distribution other than of cash or rights to obtain shares, and (c) any recapitalization, reorganization, merger, liquidation, or similar corporate event or sale of all or substantially all our assets, then any of the cash or securities the depositary receives shall constitute part of the deposited securities and each ADS will then represent a proportionate interest in such property or, the depositary may, if we so request:

- distribute any part of the cash or securities so received,
- execute and deliver ADSs, or
- call for the surrender of outstanding ADSs in exchange for new ADSs.

Amendment and Termination

How may the deposit agreement be amended?

We may agree with the depositary to amend the deposit agreement and the ADSs without your consent for any reason. ADR holders must be given at least 30 days' notice of any amendment that imposes or increases any fees or charges or otherwise prejudices any substantial existing right of ADR holders. The imposition or increase of taxes or charges specifically payable by ADR holders under the deposit agreement does not require 30 days' notice. If an ADR holder continues to hold ADSs or ADRs after being so notified, such ADR holder is deemed to agree to such amendment. An amendment can become effective before notice is given if this is necessary to ensure compliance with a new law, rule or regulation.

No amendment will impair your right to surrender your ADSs and receive the underlying securities. If a governmental body adopts new laws or rules which require the deposit agreement or ADSs to be amended, we and the depositary may make the necessary amendments, which could take effect before you receive notice thereof.

How may the deposit agreement be terminated?

The depositary may terminate the deposit agreement by giving the ADR holder at least 30 days' prior notice at our request or if the depositary has given us a written resignation and we have not named a successor depositary under the deposit agreement within 45 days. After termination, the depositary's only responsibility will be (a) to deliver deposited securities to ADR holders who surrender their ADRs, and (b) to receive and hold or sell distributions received on deposited securities. As soon as practicable after the expiration of one year from the termination date, the depositary will sell the deposited securities which remain and hold the net proceeds of such sales, without liability for interest, in trust for the ADR holders who have not yet surrendered their ADRs. After making such sale, the depositary shall have no obligations except to account for such proceeds and other cash.

Limitations on Obligations and Liability to ADR Holders

Limits on Infineon's obligations and the obligations of the depositary; limits on liability to ADR holders and holders of ADSs.

The deposit agreement expressly limits the obligations and liability of the depositary, us and our respective agents. Neither we nor the depositary will be liable:

- if we or they are prevented or delayed by, or subject to any civil or criminal penalty in performing, any obligation by law, regulation, the provisions of or governing the deposited securities, or acts of God, war or other circumstances beyond our or their control;
- for exercising or failing to exercise discretion under the deposit agreement;
- if we or they perform our or their obligations without gross negligence or bad faith; or
- for any action based on advice or information from legal counsel, accountants, a person presenting shares for deposit, any holder, or other person believed in good faith to be competent to give such advice.

Neither the depositary nor its agents has any obligation to appear in, prosecute or defend any action, suit or other proceeding in respect of any deposited securities or the ADRs.

The depositary will not be responsible for failing to carry out instructions to vote the ADSs or for the manner in which ADSs are voted or the effect of the vote.

The depositary may own and deal in securities and in ADSs.

Requirements for Depositary Actions

We, the depositary or the custodian may refuse to:

- issue, register or transfer an ADR or ADRs,
- effect a split-up or combination of ADRs, or
- deliver distributions on any ADRs,

unless the deposit agreement provides otherwise, until the following conditions have been met:

- the holder has paid all stock transfer or other taxes, governmental charges, and registration fees charged by third parties for the transfer of any deposited securities;
- the holder has provided the depositary with any information the depositary may deem necessary and consistent with the deposit agreement, including, without limitation, proof of identity and the genuineness of any signature; and
- the holder has complied with such regulations as the depositary may establish under the deposit agreement.

The depositary may also suspend the issuance of ADSs, the deposit of shares, the registration, transfer, split-up or combination of ADRs, or the withdrawal of deposited securities unless the deposit agreement provides otherwise, if the register for ADRs or any deposited securities is closed or if the depositary or we decide any such action is advisable.

By holding an ADR or an interest in an ADS, you will be agreeing to comply with all applicable provisions of German law and our corporate documents regarding the notification of changes in your interest in shares, including Sections 21 and 22 of the German Securities Trading Act. As of the date hereof the statutory notification obligations of the German Securities Trading Act apply to anyone

who holds, either directly or by way of imputation pursuant to the provisions of Section 22 of the German Securities Trading Act, voting rights in Infineon and reaches or exceeds 5%, 10%, 25%, 50%, 75% of the voting rights in Infineon or, after having reached or exceeded any such threshold, falls below that threshold.

By holding an ADR or an interest in an ADS you:

- will be deemed to acknowledge that failure to provide on a timely basis any required notification of a change in interest in shares may result in withholding of certain rights, including voting and dividend rights, in respect of the shares in which you have an interest, and
- agree to comply with all such disclosure requirements and ownership limitations and to cooperate with the depositary in compliance with any instructions from us in respect thereof.

Pre-Release of ADSs

The depositary may also issue ADRs prior to the deposit with the custodian of shares or rights to receive shares. This is called a pre-release of the ADR. A pre-release is closed out as soon as the underlying shares are delivered to the depositary. The depositary may pre-release ADRs only if:

- the depositary has received collateral for the full market value of the pre-released ADRs; and
- each recipient of pre-released ADRs agrees in writing that he or she:
  - beneficially owns the underlying shares,
  - transfers all rights in such shares to the depositary for the benefit of holders of ADRs,
  - holds such shares for the account of the depositary,
  - will deliver such shares to the custodian as soon as practicable, and promptly but in no event more than five business days after a demand herefore, and
  - will not take any action that is inconsistent with the transfer of beneficial ownership of the shares or ADRs other than in satisfaction of the pre-release.

In general, the number of pre-released ADRs will not evidence more than 20% of all ADRs outstanding at any given time excluding those evidenced by pre-released ADRs. However, the depositary may change or disregard such limit from time to time.

The Depositary

Who is the depositary?

Morgan Guaranty Trust Company of New York is a New York banking corporation.

TAXATION

Taxation in the Federal Republic of Germany

The following is a summary discussion of material German tax consequences for shareholders who are not resident in Germany for income tax purposes and who do not hold shares or ADSs as business assets of a permanent establishment or fixed base in Germany ("Non-German Shareholders"). The discussion does not purport to be a comprehensive description of all the tax considerations which may be relevant to a decision to purchase the shares in this offering. The discussion is based on the tax laws of Germany as in effect on the date of this prospectus, which may be subject to change at short notice and within certain limits, possibly also with retroactive effect. As a result of the so-called "Tax Reduction Act" (Steuersenkungsgesetz), dated October 23, 2000, substantial tax law changes have occurred in particular with regard to the taxation of corporations and their shareholders. In principle, these changes came into force on January 1, 2001. However, pursuant to transition rules certain changes will become effective at a later date. To the extent that these transition rules are of relevance, they will be described in this section of this prospectus. You are advised to consult your tax advisors in relation to the tax consequences of the acquisition, holding and disposition or transfer of shares or ADSs and in relation to the procedure which needs to be observed in the event of a possible reduction or refund of German withholding taxes. Only these advisors are in a position to duly consider your specific tax situation.

Taxation of the Company

In principle, since January 1, 2001, German corporations are subject to corporate income tax at a rate of 25%. This tax rate applies irrespective of whether profits are distributed or retained. Solidarity surcharge of 5.5% is levied on the assessed corporate income tax liability, so that the combined effective tax burden of corporate income tax and solidarity surcharge is 26.375%. For corporations which, like us, have a fiscal year which is not the calendar year, the new law applies only with effect of the first day of the fiscal year 2001/2002, i.e. in our case, from October 1, 2001. The following analysis assumes that our fiscal year will not be changed. Certain foreign source income is exempt from corporate income tax. In principle and in most cases, as of October 1, 2002, dividends received by us and capital gains realized by us on the sale of shares in other corporations will also be exempt from corporate income tax.

In addition, German corporations are subject to a profit-based trade tax, the exact amount of which depends on the municipality in which the corporation conducts its business. Trade tax is a deductible item in calculating the corporation's tax base for corporate income and trade tax purposes.

Income earned prior to October 1, 2001 is still subject to corporate income tax at a rate of 40% if the income is retained and 30% if the income is distributed, and in each case, a solidarity surcharge. Exemptions apply to certain foreign-source income, to dividends received as distributions out of tax-exempt foreign-source income and distributions treated as repayment of paid-in capital for tax purposes. German shareholders (shareholders resident in Germany and foreign shareholders holding the shares as business assets of a permanent establishment or a fixed base in Germany) are in principle entitled to a refundable tax credit in the amount of 3/7 of the gross amount (before dividend withholding tax) of dividends received in distribution of income that has been subject to corporate income tax. This tax credit also reduces the basis for the solidarity surcharge on the German taxpayer's personal or corporate income tax liability. The credit or refund is not available to Non-German Shareholders.

Upon any ordinary dividend distribution after September 30, 2002 paid out of income that has been subject to corporate income tax before October 1, 2001, we will receive a reduction of our corporate income tax in the amount of 1/6 of the declared dividend for the tax year in which the

dividend is distributed. As a result, the corporate income tax burden on income which was taxed in accordance with the previous law is reduced to 30% (plus solidarity surcharge) upon distribution. After the end of the fiscal year 2016/2017, no such tax reduction will be provided. If certain tax-exempt income earned before October 1, 2001 is distributed during the fiscal years 2002/2003 to 2016/2017, we will be taxed at a rate of 30% (plus solidarity surcharge) on such income.

Taxation of Dividends

Dividends paid before October 1, 2002. German corporations must withhold from their dividend payments withholding tax (*Kapitalertragsteuer*) at a rate of 25% plus solidarity surcharge (resulting in an effective tax rate of 26.375%) and pay this amount to the tax authorities for the account of the shareholders.

Pursuant to most German tax treaties, the German withholding tax may not exceed 15% of the dividends received by Non-German Shareholders which are eligible for treaty benefits. The difference between the withholding tax including solidarity surcharge which was levied and the maximum rate of withholding tax permitted by an applicable tax treaty is refunded to the shareholder by the German Federal Tax Office (*Bundesamt für Finanzen*, Friedhofstrasse 1, D-53225 Bonn, Germany) upon application. Forms for a refund application are available from the German Federal Tax Office or the German embassies and consulates in the various countries. A further reduction applies pursuant to most tax treaties if the shareholder is a corporation which holds a stake of 25% or more, and in some cases of 10% or more, of the registered share capital (or according to some tax treaties of the votes) of a company. If the shareholder is a parent company resident in the European Union as defined in Directive No. 90/435/EEC of the Council of July 23, 1990 (so-called ''Parent-Subsidiary Directive''), upon application and subject to further requirements, the tax can be withheld at the applicable lower rate or no tax be withheld at all.

Dividends paid after September 30, 2002. Tax must be withheld at a rate of 20% plus solidarity surcharge of 5.5% (effective tax rate 21.1%) on dividends paid after September 30, 2002. The procedural rules provided under previous law still apply— See ''Dividends paid before October 1, 2002''.

Withholding Tax Refund for U.S. Holders. U.S. Holders (as defined below in ''—United States Taxation of U.S. Investors'') who are eligible for treaty benefits under the income tax treaty between Germany and the United States (the ''Treaty'') are entitled to claim a refund of a portion of the German withholding tax and will be treated as receiving additional dividend income.

For dividends received before October 1, 2002 out of income earned before October 1, 2001, a U.S. Holder will be entitled to receive a payment from the German tax authorities equal to 16.375% of the declared dividend. The Treaty provides that a portion of this payment equal to 11.375% of the declared dividend, will be treated for U.S. tax purposes as a reduction in German withholding tax to the generally applicable Treaty rate of 15% and the remainder of the payment, or 5% of the declared dividend, will be treated as the net amount of an additional dividend of 5.88% of the declared dividend that has been subject to a 15% German withholding tax. Accordingly, if a dividend of 100 is declared, a U.S. Holder initially will receive 73.625, or 100 minus the 26.375% withholding tax and surcharge. The U.S. Holder can then claim a refund from the German tax authorities of 16.375 and thereby would receive total cash payment of 90, or 90% of the declared dividend.

For dividends paid after September 30, 2002, U.S. Holders who qualify for Treaty benefits will no longer be entitled to a further withholding tax reduction beyond the maximum rate of 15% under the Treaty.

For shares and ADSs kept in custody with the Depositary Trust Company in New York or one of its participating banks, the German tax authorities have introduced a collective procedure for the refund of German dividend withholding tax and solidarity surcharge thereon on a trial basis. Under this procedure, the Depositary Trust Company may submit claims for refunds payable to U.S. Holders under the Treaty collectively to the German tax authorities on behalf of these U.S. Holders. The German Federal Tax Office will pay the refund amounts on a preliminary basis to the Depositary Trust Company, which will redistribute these amounts to the U.S. Holders according to the regulations governing the procedure. The Federal Tax Office may review whether the refund was made in accordance with the law within four years after making the payment to the Depositary Trust Company. Details of this collective procedure are available from the Depositary Trust Company.

Individual claims for refunds may be made on a special German form, which must be filed with the German Federal Tax Office (*Bundesamt für Finanzen*, Friedhofstrasse 1, D-53225 Bonn, Germany) within four years from the end of the calendar year in which the dividend is received. Copies of the required forms may be obtained from the German tax authorities at the same address or from the Embassy of the Federal Republic of Germany, 4645 Reservoir Road, NW, Washington D.C. 20007-1998. As part of the individual refund claim, a U.S. Holder must submit to the German tax authorities the original withholding certificate (or a certified copy thereof) issued by the paying agent documenting the tax withheld and an official certification on IRS Form 6166 of the last United States federal income tax return. IRS Form 6166 may be obtained by filing a request with the Internal Revenue Service Center, Foreign Certificate Request, P.O. Box 16347, Philadelphia, PA 19114-0447. Requests for certification must include the U.S. Holder's name, Social Security Number or Employer Identification Number, the number of the form on which the tax return was filed and the tax period for which the certification is requested. Requests for certification can include a request to the Internal Revenue Service to send the certification directly to the German tax authorities. If no such request is made, the Internal Revenue Service will send the certification on IRS Form 6166 to the U.S. Holder who then must submit the certification with his claim for refund.

Taxation of Capital Gains

Sale of Shares before October 1, 2002. Under German domestic law, capital gains realized by a Non-German Shareholder on the sale or other disposition of shares or ADSs are in principle not subject to German income tax, unless such Non-German Shareholder has held, directly or indirectly, 10% or more of a company's registered share capital at any time during the five year period immediately preceding the disposition. Most German tax treaties, including the Treaty, provide that Non-German Shareholders who are beneficiaries under the respective treaty are generally not subject to German tax even in that case.

Sale of Shares after September 30, 2002. If the Non-German Shareholder is an individual, capital gains from the disposition of shares or ADSs are only subject to German tax if such shareholder at any time during the five years preceding the disposition, directly or indirectly, held an interest of 1% or more in a company's issued share capital. If the shareholder has acquired the shares without consideration, the previous owners's holding period and size of shareholding will also be taken into account. Only one half of the capital gain will be taxable. Most German tax treaties, including the Treaty, provide that Non-German Shareholders who are beneficiaries under the respective treaty are generally not subject to German tax even in that case.

Capital gains received by a corporation are in principle tax exempt.

Inheritance and Gift Tax

Under German law, the transfer of shares or ADSs will be subject to German inheritance or gift tax on a transfer by reason of death or as a gift if:

(a) the donor or transferor or the heir, donee or other beneficiary is resident in Germany at the time of the transfer, or, if a German citizen, was not continuously outside of Germany and without German residence for more than five years; or

(b) at the time of the transfer, the shares or ADSs are held by the decedent or donor as assets of a business for which a permanent establishment is maintained or a permanent representative is appointed in Germany; or

(c) the decedent or donor has held, alone or together with related persons, directly or indirectly, 10% or more of a company's registered share capital at the time of the transfer.

The few presently existing German estate tax treaties (*e.g.* the Treaty with the United States) usually provide that German inheritance or gift tax may only be imposed in cases (a) and (b) above.

Other Taxes

There are no transfer, stamp or similar taxes which would apply to the sale or transfer of the shares or ADSs in Germany. Net worth tax is no longer levied in Germany.

United States Taxation

This discussion describes the material United States federal income tax consequences of owning shares or ADSs. It applies to you only if you hold your shares or ADSs as capital assets for tax purposes. This discussion does not apply to you if you are a member of a special class of holders, some of whom may be subject to special rules, including:

- tax-exempt entities;
- life insurance companies;
- dealers in securities;
- traders in securities that elect to use a mark-to-market method of accounting for their securities holdings;
- persons liable for alternative minimum tax;
- persons that actually or constructively own 10% or more of the voting stock of Infineon;
- persons that hold shares or ADSs as part of a straddle or a hedging or conversion transaction; or
- persons whose functional currency is not the U.S. dollar.

This discussion is based on the United States Internal Revenue Code of 1986, as amended, its legislative history, existing and proposed regulations, and published rulings and court decisions, all as currently in effect, as well as on the Treaty. These laws are subject to change, possibly on a retroactive basis. In addition, this discussion is based in part upon the representations of the depositary and the assumption that each obligation in the deposit agreement and any related agreement will be performed in accordance with its terms.

You are a ''U.S. holder'' if you are a beneficial owner of shares or ADSs and you are:

- a citizen or resident of the United States;
- a domestic corporation;

- an estate whose income is subject to United States federal income tax regardless of its source;
- a trust if a United States court can exercise primary supervision over the trust's administration and one or more United States persons are authorized to control all substantial decisions of the trust; or
- not also a resident of Germany for German tax purposes; and do not hold the shares or ADSs in connection with the conduct of business through a permanent establishment, or the performance of personal services through a fixed base, in Germany.

You should consult your own tax advisor regarding the United States federal, state, local, German and other tax consequences of owning and disposing of shares and ADSs in your particular circumstances.

In general, and taking into account the earlier assumptions, for United States federal income tax purposes, if you hold ADRs evidencing ADSs, you will be treated as the owner of the shares represented by those ADSs. Exchanges of shares for ADSs, and ADSs for shares, generally will not be subject to United States federal income tax.

Taxation of Dividends

If you are a U.S. holder, you must include in your gross income the gross amount of any dividend paid by us. You must include any German tax withheld from the dividend payment and any additional dividend associated with the Treaty refund in this gross amount even though you do not in fact receive it. For example, for a dividend of 100 that is paid before October 1, 2002 out of income earned before October 1, 2001, you will be deemed to receive total dividends of 105.88, consisting of the declared dividend of 100, plus the deemed additional dividend of 5.88 that is associated with the Treaty refund. For a dividend of 100 paid after September 30, 2002, you will be deemed to have received total dividends of 100. The dividend is ordinary income that you must include in income when you, in the case of shares, or the depositary, in the case of ADSs, receive the dividend, actually or constructively. The dividend will not be eligible for the dividends-received deduction generally allowed to United States corporations in respect of dividends received from other United States corporations. The amount of the dividend distribution that you must include in your income as a U.S. holder will be the U.S. dollar value of the euro payments made, determined at the spot euro/U.S. dollar rate on the date the dividend distribution is includible in your income, regardless of whether the payment is in fact converted into U.S. dollars. Generally, any gain or loss resulting from currency exchange fluctuations during the period from the date you include the dividend payment in income to the date you convert the payment into U.S. dollars will be treated as ordinary income or loss. The gain or loss generally will be income or loss from sources within the United States for foreign tax credit limitation purposes. You may be required to recognize foreign currency gain or loss on the receipt of a refund in respect of German withholding tax to the extent the U.S. dollar value of the refund differs from the U.S. dollar equivalent of that amount on the date of receipt of the underlying dividend.

Subject to certain limitations, the German tax withheld in accordance with German law and the Treaty and paid over to Germany will be creditable against your United States federal income tax liability but only to the extent a refund of the German tax withheld is not available to you under German law or under the Treaty. For a declared dividend of 100 that is paid before October 1, 2002 out of income earned before October 1, 2001, you will be deemed to have paid German taxes of 15.88, but for a dividend of 100 paid after September 30, 2002 you will be deemed to have paid German taxes of 15. Alternatively, you may elect to claim a United States tax deduction instead of a foreign tax credit for German taxes withheld and not refundable, but only for a year in which you elect to deduct foreign taxes with respect to all foreign income taxes.

Dividends constitute income from sources outside the United States and generally will be ‘‘passive income’’ or, in the case of certain U.S. holders, ‘‘financial services income’’, which are treated separately from other types of income for purposes of computing the foreign tax credit allowable to you.

Taxation of Capital Gains

If you are a U.S. holder and sell or otherwise dispose of your shares or ADSs, you will recognize capital gain or loss for United States federal income tax purposes equal to the difference between the U.S. dollar value of the amount that you realize and your adjusted tax basis, determined in U.S. dollars, in your shares or ADSs. Capital gain of a non-corporate U.S. holder is generally taxed at a maximum rate of 20% for property held more than one year (18% if held for at least five years and certain other requirements are satisfied). The gain or loss will generally be income or loss from sources within the United States for foreign tax credit limitation purposes.

United States Information Reporting and Backup Withholding

Dividend payments with respect to shares and proceeds from the sale, exchange or redemption of shares may be subject to information reporting to the Internal Revenue Service and possible U.S. backup withholding. Backup withholding will generally not apply to a holder, however, if such holder furnishes a correct taxpayer identification number or certificate of foreign status and makes any other required certification, or if such holder is otherwise exempt from backup withholding. If a holder is required to establish its exempt status, such holder generally must provide such certification on IRS Form W-9 in the case of U.S. persons and on IRS Form W-8BEN (or suitable substitute form) in the case of non-U.S. persons.

Amounts withheld as backup withholding may be credited against a holder’s U.S. federal income tax liability, and such holder may obtain a refund of any excess amounts withheld under the backup withholding rules by filing the appropriate claim for refund with the IRS and furnishing any required information.

LEGAL MATTERS

The validity of the ADSs will be passed upon for us by Brobeck Hale and Dorr, our U.S. counsel. The validity of the shares will be passed upon for us by Clifford Chance Pünder, our German counsel. Certain legal matters will be passed upon for the underwriters by Cleary, Gottlieb, Steen & Hamilton, U.S. counsel for the underwriters, and by Hengeler Mueller, German counsel for the underwriters.

ADDITIONAL INFORMATION

We have filed with the Securities and Exchange Commission a registration statement on Form F-3 under the Securities Act. This prospectus does not contain all of the information set forth in the registration statement. For further information about us and the shares, please refer to the registration statement, which you may inspect, without charge, at the offices of the Commission, or obtain at prescribed rates from the Public Reference Section of the Commission at the address set forth below.

We are subject to the informational requirements of the Securities Exchange Act of 1934 and file reports, including annual reports on Form 20-F, and other information with the Commission. Such reports and other information can be inspected and copied at the public reference facilities of the Commission located at Room 1024, Judiciary Plaza, 450 Fifth Street, N.W., Washington, D.C. 20549 and at the Commission's regional offices at Seven World Trade Center, 13th Floor, New York, New York 10048 and at Northwestern Atrium Center, 500 West Madison Street, Suite 1400, Chicago, Illinois 60662. You may also obtain information on the operation of the Public Reference Room in Washington, D.C. by calling the Commission at 1-800-SEC-0330. Our filings with the Commission are also available to the public through the New York Stock Exchange, Inc., 20 Broad Street, New York, New York 10005.

This page intentionally left blank

UNDERWRITING

Infineon and the underwriters named below have entered into an underwriting agreement with respect to the shares and ADSs. Subject to certain conditions specified in the underwriting agreement, each underwriter has severally agreed to purchase the number of shares (in the form of shares or ADSs) indicated in the following table. Goldman, Sachs & Co. oHG is the representative of the underwriters.

Underwriters	Number of shares
Goldman, Sachs & Co. oHG	29,739,180
Morgan Stanley & Co. International Limited	5,739,140
Salomon Brothers International Limited	5,739,140
Bayerische Hypo- und Vereinsbank Aktiengesellschaft	3,652,180
Commerzbank Aktiengesellschaft	3,652,180
Lehman Brothers International (Europe)	3,652,180
Total	52,174,000

The underwriters will offer shares in the public offerings in the United States and Germany and to institutional investors around the world. Each underwriter may offer and sell shares anywhere in the world where it is legally permitted to do so. Sales of shares in the United States will be effected through the U.S. selling group. Offers to purchase shares will be made to retail investors in Germany by the German retail underwriters. There are no minimum or maximum limits on how many shares may be offered or sold in any particular country or region. The members of the U.S. selling group are: Goldman, Sachs & Co., Morgan Stanley & Co. Incorporated, Salomon Smith Barney Inc., HVB Capital Markets, Inc., Commerzbank Capital Markets Corp., Lehman Brothers Inc. and Epoch Securities, Inc.

If the underwriters sell more shares or ADSs than the total number set forth in the table above, the underwriters have an option to buy up to an additional 7,826,000 shares from Infineon to cover such sales. They may exercise that option for 30 days. If any shares or ADSs are purchased pursuant to this option, the underwriters will severally purchase shares or ADSs in approximately the same proportion as set forth in the table above.

The following table shows the per share, per ADS and total underwriting discounts to be paid to the underwriters by us. Such amounts are shown assuming both no exercise and full exercise of the underwriters' option to purchase additional shares or ADSs.

	No exercise	Full exercise
Per share	€ 0.55	€ 0.55
Per ADS	$ 0.47	$ 0.47
Total	€28,695,700	€33,000,000

Shares or ADSs sold by the underwriters to the public will initially be offered at the public offering price set forth on the cover page of this prospectus. Any shares or ADSs sold by the underwriters to securities dealers may be sold at a discount of up to €0.33 per share or up to $0.29 per ADS from the public offering price. Any such securities dealers may resell any shares or ADSs purchased from the underwriters to other brokers or dealers at a discount of up to €0.12 per share or up to $0.10 per ADS from the public offering price. If not all of the shares or ADSs are sold at the offering price, the representatives may change the offering price and the other selling terms.

The underwriters have agreed to restrictions on where and to whom they and any dealer purchasing from them may offer shares or ADSs as a part of the distribution of the shares and ADSs. The underwriters have also agreed that they may sell shares or ADSs among the members of the underwriting group.

We have agreed not to issue or dispose of or hedge any of our shares or issue any securities convertible into or exchangeable for shares or ADSs during the 90 day period following the first day of trading of the shares sold in this offering, except with the prior written consent of Goldman, Sachs & Co. oHG. This agreement does not apply to share issuances in connection with acquisitions or any of our employee benefit plans. See "Shares Eligible for Future Sale" for a discussion of certain transfer restrictions.

Siemens, Siemens Nederland N.V. and Siemens Pension Trust e.V. have severally confirmed that, for a 90-day period from the first day of trading of the shares sold in this offering, they will take no measures to sell any of their shares in our company, directly or indirectly, into the public markets.

The global coordinator will also enter into a share lending agreement with Siemens Nederland N.V. which will provide that the global coordinator may borrow shares up to a number equal to the maximum number covered by the overallotment option solely to satisfy delivery obligations in respect of syndicate short positions created in connection with the distribution of the shares until such positions are covered either through the exercise of the underwriters' overallotment option or through open market purchases.

The public offering price per share and per ADS will be fixed by way of bookbuilding and by reference to the market prices for our shares and ADSs on the Frankfurt Stock Exchange and the New York Stock Exchange on the last day of the offering period.

For reasons of German law, the global coordinator will initially subscribe, on behalf of the underwriters, for all of the shares to be sold. This subscription price will be credited against the amount due from the underwriters at the closing.

In connection with this offering, the underwriters may purchase and sell shares and ADSs in the open market. These transactions may include short sales, stabilizing transactions and purchases to cover positions created by short sales. Short sales involve the sale by the underwriters of a greater number of shares or ADSs than they are required to purchase in this offering. Stabilizing transactions consist of bids or purchases made for the purpose of preventing or retarding a decline in the market price of the shares or ADSs while the offering is in progress.

The underwriters also may impose a penalty bid. This occurs when a particular underwriter repays to the underwriters a portion of the underwriting discount received by it because the representatives have repurchased shares or ADSs sold by or for the account of such underwriter in stabilizing or short covering transactions.

These activities by the underwriters may stabilize, maintain or otherwise affect the market price of the shares or ADSs. As a result, the price of the shares or ADSs may be higher than the price that otherwise might exist in the open market. If these activities are commenced, they may be discontinued by the underwriters at any time. These transactions may be effected on the New York Stock Exchange, the Frankfurt Stock Exchange, in the over-the-counter market or otherwise.

The underwriters do not expect sales to discretionary accounts to exceed five percent of the total number of shares offered.

We estimate that our total expenses of this offering, excluding underwriting discounts, will be approximately €4,245,000, including approximately €145,000 in registration fees, €400,000 in printing fees, €1,200,000 in legal fees, €500,000 in accounting fees, up to €1,000,000 in reimbursement of expenses of the underwriters and €1,000,000 in marketing and miscellaneous expenses.

We have agreed to indemnify the several underwriters against certain liabilities, including liabilities under the U.S. Securities Act.

This prospectus may be used by the underwriters and other dealers in connection with offers and sales of the shares or ADSs, including sales of shares or ADSs initially sold by the underwriters in the offering being made outside of the United States, to persons located in the United States.

A prospectus in electronic format may be made available on websites maintained by one or more of the members of the U.S. selling group. The underwriters may agree to allocate a number of shares to underwriters for sale to their online brokerage account holders. Internet distributions will be allocated by the global coordinator to underwriters that may make Internet distributions on the same basis as other allocations.

Appendix A

GLOSSARY

A flow chart showing distinctions among different ICs is included at the end of this glossary

10BaseS	A highly integrated solution for Ethernet communications over VDSL technology, using copper wires with low power consumption.
ADSL	Asymmetric Digital Subscriber Line. A form of Digital Subscriber Line (see ‘‘xDSL’’) in which the bandwidth available for downloading data is significantly larger than for uploading data. This technology is well suited for web browsing and client-server applications as well as for emerging applications such as video on demand.
analog	A continuous representation of phenomena in terms of points along a scale, each point merging imperceptibly into the next. Analog signals vary continuously over a range of values. Real world phenomena, such as heat and pressure, are analog.
application-specific standard product	A (standard) product that has been designed to implement a specific application function, as opposed to a general purpose product such as DRAM.
ASIC	Application Specific Integrated Circuit. A logic circuit designed for a specific use and implemented in an integrated circuit.
ATM	Asynchronous Transfer Mode. A standard for transmitting information on a network.
baseband	Baseband is the original frequency range of a signal before it is transformed into a higher or more efficient frequency. See ‘‘broadband’’.
BiCMOS	Bipolar-Complementary Metal Oxide Semiconductor technology. A process technology that combines bipolar and CMOS technologies, developed for mixed-signal applications.
bipolar	A process technology used to create chips that utilize the junction between positive and negative semiconducting materials. Bipolar chips are used in high-speed devices.
bit	A unit of information; a computational quantity that can take one of two values, such as true and false or 0 and 1; also the smallest unit of storage—sufficient to hold one bit.
Bluetooth	An open system standard that is being developed by an international consortium of computer and communications companies for data to be delivered over short-range wireless modems.
broadband	Any network technology that combines and sorts multiple, independent network frequencies onto a single cable. See ‘‘baseband’’.
byte	A unit of measurement equal to eight bits.
CAD	Computer Aided Design.

capacitor	An electronic device that stores energy. Capacitors help to maintain information stored by memory.
CDMA	Code Division Multiple Access. A standard that is being developed for cellular telephones. A form of multiplexing (or sorting of signals over telephone lines) where the transmitter encodes the signal using a pseudo-random sequence (a random sequence generated by a computer) which the receiver also knows and can use to decode the received signal. Each different random sequence corresponds to a different communication channel.
chip cards	Cards that contain an IC. Frequently used for telephone cards or debit cards.
client	When used in connection with a server, a program that accesses information across a network, such as a Web browser or newsreader.
CMOS	Complementary Metal Oxide Semiconductor technology. A process technology that uses complementary metal oxide transistors to make a chip that will consume relatively low power and permit a high level of integration.
codec	An acronym for coder/decoder. Codecs are integrated circuits or chips that perform data conversion. This may include analog-to-digital conversion and digital-to-analog conversion on a single chip.
database	Any file or set of files containing data stored in an organized format.
DDR DRAM	Double data rate DRAM.
DECT	Digital European Cordless Telecommunications. A standard used for pan-European digital cordless telephones.
digital	The representation of data by a series of bits or discrete values such as 0s and 1s.
discrete semiconductors	Semiconductor devices that involve only a single device.
DRAM	Dynamic Random Access Memory. The most common type of random access memory. Each bit of information is stored as an amount of electrical charge in a storage cell consisting of a capacitor and a transistor. The capacitor discharges gradually due to leakage and the memory cell loses the information stored. To preserve the information, the memory has to be refreshed periodically and is therefore referred to as ‘‘dynamic’’. DRAM is a widespread memory technology because of its high packing density and consequently low price.
DSL	See ‘‘xDSL’’.
DSLAM	Digital Subscriber Line Multiplexer. A network device, usually located in a telephone company central office, that receives signals from multiple customers’ digital subscriber line connections (see ‘‘xDSL’’) and puts the signals on a high-speed backbone line using multiplexing technologies (see ‘‘multiplexing’’).

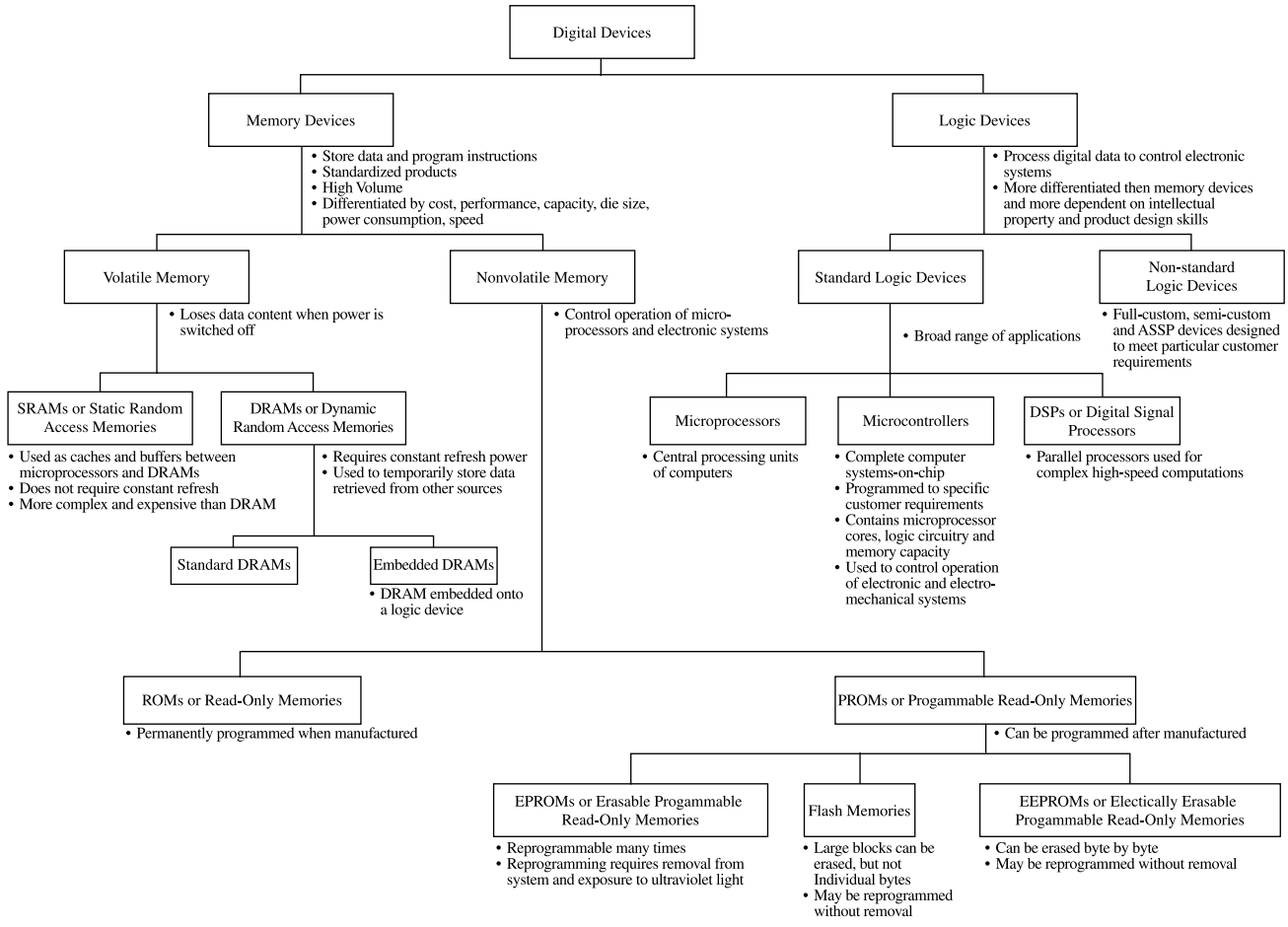
DSP	Digital Signal Processor. A specialized computer circuit designed to perform speedy and complex operations on digitized waveforms. Used in processing audio and video signals.
E1	A transmission speed of data across fiber optic lines in the E-carrier system, a European digital transmission format. It is similar to the North American T-carrier system. See “T1”.
EEPROM	Electrically Erasable Programmable Read-Only Memory. A read-only memory that can be erased and reprogrammed by the user repeatedly through the application of higher-than-normal electrical voltage.
embedded DRAM	A process technology that combines DRAM and logic functions on a single chip.
Ethernet	A protocol for high-speed communications, principally used for LAN networks.
FeRAM	Ferro magnetic random access memory. A type of memory that stores information using ferro magnetic effects. This type of memory is nonvolatile and electronically reprogrammable, like flash memory and EEPROMs.
flash memory	A type of nonvolatile memory that can be erased and reprogrammed.
Gallium-arsenide (GaAs)	A semiconductor material used to produce optoelectronic devices and high-frequency devices. Gallium-arsenide has a higher charge carrier mobility than silicon and produces higher-speed devices.
gigabit (Gbit)	Approximately one billion bits.
gigabyte	Approximately one billion bytes.
GPRS	General Packet Radio Service.
GSM	Global System for Mobile Communications. A system for digital cellular communications.
HDLC	High-Level Data Link Control. A group of protocols or rules for transmitting data between network points. See ‘‘protocol’’.
IC	Integrated Circuit. A semiconductor device consisting of many interconnected transistors and other components.
ISDN	Integrated Services Digital Network. A type of online connection that speeds up data transmission by handling information in a digital form. Traditional modem communications translate a computer’s digital data into an analog wave form and send the signal, which then must be converted back to an analog signal. ISDN can be thought of as a direct digital connection.
ISO	International Standards Organization. The international organization responsible for developing and maintaining worldwide standards for manufacturing, environmental protection, computers, data communications, and many other fields.
ISO 9000	A series of international standards (including ISO-9001, -9002, -9004, etc.) for quality assurance in business practices, ratified by the ISO beginning in 1987. Certification of ISO 9000 compliance is important for selling many types of goods and services (including data-communications equipment and services), especially to government bodies.

LAN	Local Area Network. A data communications network covering a small area, usually within the confines of a building or floors within a building.
LED	Light emitting diode.
library	The collection of representations required by various design tools. The representations, such as symbol, simulation model, layout abstract, and transistor schematic, are used by different tools in the design system to create or analyze some portion of an IC or otherwise aid in the design process. Creating a design library requires inserting the fabrication technologies in the design system in a form that allows designers to create circuits in the most efficient manner.
logic	Mathematical treatment of formal logic in which a system of symbols is used to represent quantities and relationships. AND, OR and NOT are examples of symbols of logical functions. Each function can be translated into a switching circuit, or gate. Since a switch (or gate) has only two states—open or closed—it makes possible the application of binary numbers for solutions of problems. The basic logic functions obtained from gate circuits are the foundation of computing machines.
mainframe	A large computer typically kept in a separate room.
MAN	Metropolitan Area Network. A data communications network covering a relatively small geographic area, such as a single city.
mask	A transparent (glass or quartz) plate covered with an array of patterns used in making an IC. Each pattern consists of opaque and transparent areas that define the size and shape of all circuit and device elements. The mask is used to expose selected areas, and defines the areas to be processed. Masks may use emulsion, chrome, iron oxide, silicon or other material to produce the opaque areas.
megabit (Mbit)	Approximately one million bits.
memory	Any device that can store data in machine-readable format. Usually used synonymously with random access memory and read-only memory.
microcontroller	A microprocessor combined with memory and interfaces integrated on a single circuit and intended to operate as an embedded system.
micron	A metric unit of linear measure which equals one millionth of a meter. Symbol: μ. A human hair is about 100 microns in diameter.
multiplexing	Combining several signals for transmission on some shared medium (e.g., a telephone line). The signals are combined at the transmitter by a multiplexer and split at the receiver by a de-mulitplexer. The communications channel may be shared between the independent signals in different ways.
nonvolatile memory	A memory storage device whose contents are preserved when its power is off.

opto components, opto couplers or opto devices	Components that function by reacting to or creating light signals. An opto coupler is a device designed to transfer electrical signals using light waves to provide coupling with electrical isolation between input and output.
parallel optical link	A high bandwidth link between a system and multiple fiber optic lines.
protocol	The standard or set of rules that two computers use to communicate with each other.
QS 9000	The interpretation of the ISO 9001 standards applicable to the automotive industry.
radio frequency IC	A high-frequency IC such as those used in mobile telecommunications.
Rambus	An DRAM architecture that offers transfer rates approximately five times faster than the ordinary DRAM.
random access memory	RAM. A type of data storage device for which the order of access to different locations does not affect the speed of access. This is in contrast to, for example, a magnetic disk or magnetic tape where it is much quicker to access data sequentially because accessing a non-sequential location requires physical movement of the storage medium rather than electronic switching.
read-only memory	ROM. A type of data storage device that is manufactured with fixed contents. The term is most often applied to semiconductor integrated circuit memories, of which there are several types, and CD-ROM. ROM is inherently non-volatile storage—it retains its contents even when the power is switched off, in contrast to DRAM. ROM is often used to hold programs for embedded systems since these usually have a fixed purpose.
SDSL	Symmetric DSL. A method for transmission of data at T1 speeds over a single line of telephone wires.
semiconductor	A material, typically crystalline, that can be altered to allow electrical current to flow or not flow in a pattern. Common semiconductors are silicon, germanium and gallium-arsenide. The term is also used to apply to ICs made from these materials.
server	A computer that provides some service for other computers connected to it via a network. The most common example is a file server which has a local disk and services requests from remote clients to read and write files on that disk.
silicon	A type of semiconducting material used to make a wafer. Silicon is widely used in the semiconductor industry as a base material.
SLIC	Subscriber Line Interface Circuit. A circuit in a telephone company switch to which a customer's telephone line is connected.

switch	An analog IC that, on command, either passes or blocks an electrical signal.
SDRAM	Synchronous DRAM.
T1	A North American standard for the digital transmission of data across fiber optic lines. A digital carrier facility used to transmit a digital signal. A T1 carrier uses multiplexing to transmit large volumes of information across great distances at high speeds at a (potentially) lower cost than that provided by traditional analog service.
telematics	The combination of telecommunications and data processing.
UMTS	Universal Mobile Telecommunications System.
VDSL	Very high bit-rate Digital Subscriber Line. A form of Digital Subscriber Line similar to ADSL but providing higher speeds at reduced distances.
volatile memory	Memory that loses stored information if the power source is removed.
wafer	A disc made of a semiconducting material such as silicon or gallium arsenide, usually between 75mm (3“) and 300mm (12”) in diameter, used to form the substrate of a device. A wafer may contain several hundred devices.
WAN	Wide Area Network. A data communications network covering a large geographic area.
WDCT	Worldwide Digital Cordless Telecommunications.
xDSL	Digital Subscriber Line (where “x” represents the type of technology). A family of digital telecommunications protocols designed to allow high-speed data communication over existing copper telephone lines between end-users and the telephone company.
yield	When used in connection with manufacturing, the ratio of the number of usable products to the total number of produced products.

The following table illustrates the main types of digital ICs:



This page intentionally left blank

INFINEON TECHNOLOGIES AG AND SUBSIDIARIES

INDEX TO FINANCIAL STATEMENTS

INFINEON TECHNOLOGIES AG AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)

For the six months ended March 31, 2000 and 2001

	March 31, 2000 (€ thousands)	March 31, 2001 (€ thousands)	March 31, 2001 ($ thousands)
Net sales:			
Third parties	2,503,213	2,732,607	2,403,055
Related parties	569,506	576,022	506,554
Total net sales	3,072,719	3,308,629	2,909,608
Cost of goods sold	1,902,976	2,191,870	1,927,530
Gross profit	1,169,743	1,116,759	982,078
Research and development expenses	440,666	526,913	463,367
Selling, general and administrative expenses	303,398	398,924	350,814
Other operating income, net	(396)	(202,360)	(177,955)
Operating income	426,075	393,282	345,852
Interest income, net, inclusive of subsidies	9,864	15,182	13,351
Equity in earnings of associated companies	60,170	58,249	51,224
Other income, net	10,610	4,144	3,644
Minority interests	(6,143)	378	332
Income before income taxes	500,576	471,235	414,404
Income tax expense	(221,720)	(168,509)	(148,187)
Net income	278,856	302,726	266,217
Earnings per share—basic and diluted	0.46	0.48	0.43

See accompanying notes to unaudited condensed consolidated financial statements.

INFINEON TECHNOLOGIES AG AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

September 30, 2000 and March 31, 2001

	September 30, 2000	March 31, 2001	March 31, 2001
	(€ thousands)	(€ thousands) (unaudited)	($ thousands) (unaudited)
ASSETS			
Current assets:			
Cash and cash equivalents	510,814	123,397	108,515
Marketable securities	497,712	242,109	212,911
Accounts receivable, net	1,385,818	1,058,346	930,709
Related party receivables	439,125	322,779	283,852
Inventories	840,814	1,086,088	955,106
Deferred income taxes	100,407	144,277	126,877
Other current assets	60,468	101,597	89,344
Total current assets	3,835,158	3,078,593	2,707,315
Property, plant and equipment, net	4,034,357	4,607,354	4,051,707
Long-term investments, net	432,291	554,034	487,217
Restricted cash	132,063	165,921	145,911
Deferred income taxes	165,601	101,278	89,064
Other assets	253,405	274,033	240,985
Total assets	8,852,875	8,781,213	7,722,199
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities:			
Short-term debt and current maturities	138,350	319,196	280,701
Accounts payable	849,239	764,322	672,145
Related party payables	373,385	209,615	184,335
Accrued liabilities	718,781	522,042	459,084
Deferred income taxes	74,634	18,721	16,463
Other current liabilities	299,948	249,714	219,598
Total current liabilities	2,454,337	2,083,610	1,832,327
Long-term debt	127,972	163,168	143,490
Deferred income taxes	177,445	123,295	108,426
Other liabilities	286,722	299,656	263,517
Total liabilities	3,046,476	2,669,729	2,347,760
Shareholders' equity:			
Ordinary share capital	1,251,003	1,251,890	1,100,912
Additional paid-in capital	3,250,715	3,281,093	2,885,393
Retained earnings	1,192,192	1,494,918	1,314,631
Accumulated other comprehensive income	112,489	83,583	73,503
Total shareholders' equity	5,806,399	6,111,484	5,374,439
Total liabilities and shareholders' equity	8,852,875	8,781,213	7,722,199

See accompanying notes to unaudited condensed consolidated financial statements.

INFINEON TECHNOLOGIES AG AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY (UNAUDITED)

For the six months ended March 31, 2001
(in thousands euro, except share data)

	Issued ordinary shares		Additional paid-in capital	Retained earnings	Foreign currency translation adjustment	Unrealized gains (losses) on securities	Total
	Shares	Amount					
Balance as of October 1, 2000	625,501,507	1,251,003	3,250,715	1,192,192	105,589	6,900	5,806,399
Net income	—	—	—	302,726	—	—	302,726
Other comprehensive income (loss)	—	—	—	—	(23,193)	(5,713)	(28,906)
Total comprehensive income	—	—	—	—	—	—	273,820
Issuance of ordinary shares							
Investment in associated company	443,488	887	19,960	—	—	—	20,847
Deferred compensation	—	—	12,740	—	—	—	12,740
Equity transactions with Siemens group	—	—	(2,322)	—	—	—	(2,322)
Balance as of March 31, 2001	625,944,995	1,251,890	3,281,093	1,494,918	82,396	1,187	6,111,484

See accompanying notes to unaudited condensed consolidated financial statements.

INFINEON TECHNOLOGIES AG AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

For the six months ended March 31, 2000 and 2001

	March 31, 2000	March 31, 2001	March 31, 2001
	(€ thousands)	(€ thousands)	($ thousands)
Net income	278,856	302,726	266,217
Adjustments to reconcile net income to cash provided by (used in) operating activities:			
Depreciation and amortization	363,330	504,490	443,649
Deferred compensation	—	12,740	11,204
Provision for doubtful accounts	12,965	4,629	4,071
Gain on sale of marketable securities	—	(183)	(161)
Gain on sale of interest in associated companies	—	(202,316)	(177,955)
Loss (gain) on disposal of property, plant, and equipment	610	(1,768)	(1,555)
Equity in earnings of associated companies	(60,170)	(58,249)	(51,224)
Minority interests	6,143	(378)	(332)
Deferred income taxes	83,593	(77,038)	(67,747)
Changes in operating assets and liabilities:			
Related party receivables—trade	(24,960)	71,532	62,905
Accounts receivable	(180,274)	346,149	304,403
Inventories	(8,299)	(230,775)	(202,944)
Other current assets	(16,899)	(72,162)	(63,459)
Related party payables—trade	17,307	(153,908)	(135,347)
Accounts payable	6,815	(109,736)	(96,502)
Accrued liabilities	220,726	(224,697)	(197,560)
Other current liabilities	(29,939)	(120,291)	(105,784)
Other assets and liabilities	10,725	856	753
Net cash provided by (used in) operating activities	680,529	(8,379)	(7,368)
Cash flows from investing activities:			
Purchases of marketable securities available for sale	(300,791)	(30,770)	(27,059)
Refundable payment of promissory note	(78,543)	—	—
Proceeds from sales of marketable securities available for sale	—	276,550	243,198
Proceeds from sale of business	—	249,304	219,238
Investment in associated and related companies	(50,758)	(86,785)	(76,319)
Purchases of intangible assets	(27,111)	(23,372)	(20,553)
Purchases of property, plant and equipment	(354,701)	(967,573)	(850,884)
Proceeds from sales of property, plant and equipment	28,276	15,061	13,245
Net cash used in investing activities	(783,628)	(567,585)	(499,134)
Cash flows from financing activities:			
Net change in short-term debt	75,106	185,962	163,535
Net change in related party financial receivables and payables	287,451	10,853	9,544
Proceeds from issuance of long-term debt	10,273	41,565	36,552
Principal repayments of long-term debt	(447,496)	(10,650)	(9,366)
Change in restricted cash	4,857	(34,021)	(29,918)
Proceeds from issuance of ordinary shares	822,615	—	—
Capital (distributions) contributions	3,315	(2,830)	(2,489)
Net cash provided by financing activities	756,121	190,879	167,859
Effect of foreign exchange rate changes on cash and cash equivalents	4,865	(2,332)	(2,051)
Net increase (decrease) in cash and cash equivalents	657,887	(387,417)	(340,695)
Cash and cash equivalents at beginning of period	29,506	510,814	449,210
Cash and cash equivalents at end of period	687,393	123,397	108,515

See accompanying notes to unaudited condensed consolidated financial statements.

(1) Basis of Presentation

The accompanying unaudited interim condensed consolidated financial statements of Infineon Technologies AG and its subsidiaries ("Infineon" or the "Company") as of and for the six months ended March 31, 2000 and 2001, have been prepared in accordance with United States generally accepted accounting principles ("US GAAP") for interim financial information. In the opinion of management, the accompanying financial statements contain all adjustments necessary to present fairly the financial position, results of operations and cash flows for the interim periods presented. All such adjustments are of a normal recurring nature. The results of operations for any interim period are not necessarily indicative of results for the full fiscal year. The accompanying financial statements should be read in conjunction with the audited consolidated financial statements for the years ended September 30, 1998, 1999 and 2000.

On October 1, 1999, Infineon adopted the euro as its reporting currency, and therefore the accompanying condensed consolidated financial statements are presented in euro. The accompanying financial statements as of and for the six months ended March 31, 2001, are also presented in U.S. dollars ("$"), solely for the convenience of the reader, at the rate of EUR 1 = $0.8794, the noon buying rate on March 30, 2001.

Certain amounts in prior year condensed consolidated financial statements and notes have been reclassified to conform to the presentation as of March 31, 2001. Net operating results have not been affected by these reclassifications.

(2) Earnings per share

Basic earnings per share is calculated using income available to ordinary shareholders divided by the weighted average number of ordinary shares outstanding during the year. Diluted earnings per share is similar to basic earnings per share except that the weighted average number of ordinary shares outstanding is increased to include the number of any additional ordinary shares that would be outstanding if such potentially dilutive ordinary shares had been issued.

The computation of basic and diluted earnings per share for the six months ended March 31, 2000 and 2001 is as follows:

	For the six months ended March 31, 2000	March 31, 2001
Numerator—		
Income available to ordinary shareholders	278,856	302,726
Denominator		
Weighted-average shares outstanding—basic	602,389,419	625,538,058
Effect of dilutive stock options	195,716	329,486
Weighted-average shares outstanding—diluted	602,585,135	625,867,544
Earnings per share—basic and diluted	0.46	0.48

(3) Accounts Receivable, net

	September 30, 2000	March 31, 2001
Third party—trade	1,180,229	848,203
VAT and other taxes receivable	196,417	197,758
Miscellaneous	40,613	47,308
Total receivables	1,417,259	1,093,269
Allowance for doubtful accounts	(31,441)	(34,923)
	1,385,818	1,058,346

(4) Inventories

	September 30, 2000	March 31, 2001
Raw materials	84,485	134,225
Work-in-process	417,022	512,435
Finished goods	339,307	439,428
Total inventories	840,814	1,086,088

(5) Financing Arrangements

Debt at September 30, 2000 and March 31, 2001 consists of the following:

	September 30, 2000	March 31, 2001
Short-term debt		
Notes payable to banks, weighted average rate 5.1%	111,150	296,670
Current portion of long-term debt	27,200	22,526
Total short-term debt and current maturities	138,350	319,196
Long-term debt		
Loans payable to banks		
Unsecured term loans, weighted average rate 2.4%, due 2001-2007	31,224	30,829
Interest-free loan, due 2001-2004	41,834	42,743
Notes payable, weighted average rate 4.0%, due 2001-2003	16,602	11,894
Notes payable, to governmental entity, weighted average rate 3.6%, due 2027-2031	38,312	77,702
Total long-term debt	127,972	163,168

In March 2001, the Company executed a mandate agreement with a financial institution for the syndication of a EUR 450 million multicurrency revolving credit facility (“the RCF”), relating to the expansion of the Dresden 300mm manufacturing facility. It is anticipated that the RCF will be supported by a governmental guarantee and the terms and conditions of the RCF, including covenants, will be based on the Company’s existing EUR 729 million revolving credit facility. The closing of the RCF is subject to the execution of documentation satisfactory to the financial institution and customary closing procedures.

(6) Related Parties

The Company has transactions in the normal course of business with Siemens group companies and with Related and Associated Companies (together, "Related Parties").

Related Party receivables consist of the following:

	September 30, 2000	March 31, 2001
Siemens group—trade	104,409	106,678
Associated and Related Companies—trade	62,393	38,675
Siemens group—financial receivables	49,295	24,943
Associated and Related Companies—financial receivables	216,178	147,295
Employee receivables	6,850	5,188
	439,125	322,779

Related Party payables consist of the following:

	September 30, 2000	March 31, 2001
Siemens group—trade	92,055	90,817
Associated and Related Companies—trade	265,032	114,794
Siemens group—financial liabilities	7,594	2,983
Associated and Related Companies—financial liabilities	8,704	1,021
	373,385	209,615

Transactions with Related Parties during the six months ended March 31, 2000 and 2001 include the following:

	For the six months ended	
	March 31, 2000	March 31, 2001
Sales to Related Parties		
Siemens group companies	513,699	518,131
Associated and Related Companies	55,807	57,891
	569,506	576,022

Sales to Siemens group companies include sales to the Siemens' sales organization for resale to third parties of EUR 180,723 and EUR 44,865 for the six months ended March 31, 2000 and 2001, respectively.

(7) Income Taxes

Income tax expense for the six months ended March 31, 2000 and 2001 consists of the following:

	For the six months ended	
	March 31, 2000	March 31, 2001
Current taxes:		
Germany	(111,145)	(224,018)
Foreign	(30,472)	(21,529)
Deferred taxes:		
Germany	(73,396)	79,047
Foreign	(6,707)	(2,009)
	(221,720)	(168,509)

In October 2000, the German government passed new tax legislation which, among other changes, will reduce the Company's statutory tax rate in Germany from 40% on retained earnings and 30% on distributed earnings to a uniform 25%, effective for the Company's fiscal year ending September 30, 2002. The impact of the various revisions in the new tax legislation was accounted for during fiscal 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, reduced income tax expense by approximately EUR 23,534 in the six months ended March 31, 2001.

(8) 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 six months ended March 31, 2000 and 2001 are as follows.

	For the six months ended	
	March 31, 2000	March 31, 2001
Included in the Statements of Income:		
Interest subsidies	20,802	76
Research and development	18,404	30,141
Other	—	4,951
	39,206	35,168
Construction grants deducted from the cost of fixed assets	—	—

(9) Supplemental Cash Flow Information

	For the six months ended	
	March 31, 2000	March 31, 2001
Cash paid for:		
Interest	31,971	49,129
Income taxes	1,597	354,358

(10) Acquisitions

On October 24, 2000 the Company exercised its option to purchase the remaining interest in SC300 from Motorola for EUR 7,655, and has consolidated the venture from that date.

In March 2001, the Company acquired a 20% interest in Ramtron International Corporation (''Ramtron'') for total consideration of EUR 31,479, consisting of 443,488 ordinary shares and cash of EUR 10,632. Ramtron is a leading developer of specialty semiconductor memory products, based in Colorado Springs, CO, and listed on the Nasdaq exchange under the symbol RMTR. The investment is accounted for under the equity method.

(11) Divestiture

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 EUR 63,928 and EUR 38,251 for the six months ended March 31, 2000 and 2001, respectively. Earnings before interest, minority interest and taxes amounted to EUR 3,320 and EUR 9,659 for the six months ended March 31, 2000 and 2001, respectively (through date of divestiture). The divestiture of this business unit resulted in a net gain before tax of EUR 202,316, and is reflected as other operating income in the accompanying unaudited condensed consolidated statement of income for the six months ended March 31, 2001.

(12) Comprehensive Income

The components of comprehensive income, net of tax, for the six months ended March 31, 2000 and 2001 are as follows:

	For the six months ended	
	March 31, 2000	March 31, 2001
Unrealized holding gains (losses) on securities, net of income taxes	18,514	(5,713)
Foreign currency translation adjustment	59,996	(23,193)
Other comprehensive income (loss)	78,510	(28,906)
Net income	278,856	302,726
Comprehensive income	357,366	273,820

(13) Stock Based Compensation

A summary of the Long-term Incentive Plan as of March 31, 2001, and changes during the six months then ended is presented below:

	March 31, 2001	
	Shares	Weighted-Average Exercise Price
Outstanding at beginning of year	5,469,468	EUR 42.16
Granted	5,539,860	EUR 55.41
Exercised	—	—
Forfeited	(214,650)	EUR 42.00
Outstanding at March 31, 2001	10,794,678	
Weighted-average fair value of each option granted during the period	EUR 24.99	

The following table summarizes information about stock options outstanding at March 31, 2001:

	Options Outstanding		
Range of Exercise Prices	Number Outstanding at March 31, 2001	Weighted-Average Remaining Contractual Life	Weighted-Average Exercise Price
EUR 42.00	5,278,468	5.95 years	EUR 42.00
EUR 44.55–EUR 47.34	93,500	6.91 years	EUR 45.08
EUR 55.12–EUR 55.18	5,404,710	6.66 years	EUR 55.18
EUR 90.85	18,000	6.34 years	EUR 90.85

None of the options were exercisable at March 31, 2001.

(14) Financial Instruments

Infineon periodically enters into derivatives including foreign currency forward 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 March 31, 2001 are as follows.

	September 30, 2000		March 31, 200l	
	Notional amount	Fair values	Notional amount	Fair values
Forward contracts sold				
U.S. dollar	1,114,330	(6,078)	1,823,381	(8,942)
Japanese yen	—	—	87,147	1,532
Singapore dollar	79,254	(3,015)	76,872	1,383
British pound sterling	4,140	4	7,355	(39)
Forward contracts purchased				
U.S. dollar	107,425	1,314	889,268	4,525
Japanese yen	32,050	597	81,880	(789)
British pound sterling	3,250	6	5,314	53
Other currencies	146,772	(865)	93,499	1,331
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	—	—	547,000	1,696

As of September 30, 2000, and March 31, 2001 the carrying amounts and the fair values of the forward and option contracts are the same.

Gains (losses) related to foreign currency derivatives and foreign currency transactions amounted to EUR 75,881 and EUR (22,202) for the six month period ended March 31, 2000 and 2001, respectively, and are primarily reported in cost of goods sold.

Fair values of financial instruments are determined using quoted market prices or discounted cash flows. The fair value of the Company's unsecured term loans and interest-bearing notes payable approximate their carrying values as their interest rates approximate those which could be obtained currently. Due to the restrictions 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 the Company's cash and cash equivalents, receivables, related party receivables and payables and other financial instruments approximate their carrying values due to their short term nature.

(15) Contingencies

On August 7, 2000 and August 8, 2000, Rambus Inc. (''Rambus''), filed separate actions against the Company in the U.S. and Germany. Rambus alleges that the Company has infringed patents owned by Rambus that relate to the SDRAM and DDR DRAM products. The SDRAM product is 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 JDEC and awarded damages to Infineon. As Rambus will likely 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. The German trial will continue at least through July 2001. The Company believes that if the matter is ultimately litigated, substantial costs to defend this action could be incurred, which could have a material adverse effect on the Company's financial position, results of operations or cash flows.

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

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

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

In connection with the Formation, Siemens retained certain facilities located in the U.S. and certain related environmental liabilities. Businesses contributed to the Company by Siemens have conducted operations at certain of these facilities and, under applicable law, could be required to contribute to the environmental remediation of these facilities despite their retention by Siemens. Siemens has provided guarantees to certain third parties and governmental agencies, and all involved parties have recognized Siemens as the responsible party for all applicable sites. No assessments have been made of the extent of environmental remediation, if any, that could be required, and no claims have been made against Infineon in this regard. The Company believes its potential exposure, if any, to liability for remediating the U.S. facilities retained by Siemens is therefore low.

The Company is subject to various other lawsuits, claims and proceedings related to products, patents and other matters incidental to its businesses. Liabilities including accruals for significant

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

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

Infineon has entered into capacity reservation agreements with certain silicon foundries for the manufacturing and testing of semiconductor products. These agreements generally have a standard length of one to two years and are renewable. Under the terms of these agreements, Infineon has agreed to purchase certain minimum quantities at specified prices. Additionally, under product purchase agreements with ProMOS and ALTIS, Infineon has agreed to buy 38% and 50% of their respective total annual production output based on market prices. Purchases under these agreements are recorded as incurred in the normal course of business. The Company assesses its anticipated purchase requirements on a regular basis to meet customer demand for its products. An assessment of losses under these agreements is made on a regular basis in the event that either budgeted purchase quantities fall below the specified quantities or market prices for these products fall below the specified prices.

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

As a result of the Formation, the Company has agreed to indemnify Siemens against any losses relating to certain guarantees of financing arrangements that were transferred to the Company. At March 31, 2001, these arrangements include:

- a guarantee of a letter of credit in the amount of EUR 313,400 issued to cover contingent liabilities to repay government grants in respect of the Dresden facility;
- a guarantee of indebtedness in the amount of $168 million of ProMOS, and
- a guarantee of payments in an aggregate amount of EUR 19,658 under a lease of equipment for the facility in Malacca, Malaysia.

The Company is constructing a new 300-millimeter wafer fabrication facility, which is ready for equipment as of April 2001. At March 31, 2001, contractual commitments related to the construction of this facility aggregated EUR 39,711.

(16) Subsequent Events

In April 2001, the Company issued 706,714 shares with an aggregate value of EUR 39,122 in exchange for a 100% interest in Ardent Technologies, Inc. (“Ardent”) to be accounted for as a purchase. Ardent is a supplier of high-bandwidth integrated circuits for local area network (LAN) switching systems. Of the total shares issued, EUR 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 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, EUR 10,427 is allocated to purchased in-process research and development, and will be expensed as research and development in the quarter ending June 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 industry and related guidance provided by the SEC. The remaining amounts allocated to other intangibles are amortized on a straight-line basis over a three to five year period.

On April 26, 2001, the Company entered into an agreement to acquire Catamaran Communications Inc., (“Catamaran”) in exchange for 6,373,435 in ordinary shares valued at $250 million. Catamaran is a Silicon Valley based fabless communications semiconductor company focused on integrated circuits for the next generation 40 Gbps and fast growing 10 Gbps segments of the optical networking market. The acquisition enables Infineon to offer a complete line card solution, from the optics to the network processor interface, at 40 Gbps for next generation optical networking systems. The transaction is subject to regulatory and other closing procedures and is expected to be finalized in the quarter ending 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 two separate decisions in April and May 2001, the district court in the U.S. proceedings dismissed all of Rambus’ claims against the Company (see note 15). After trial, a jury also found in our favor on the Company’s related counterclaim. Post-trial motions are pending and Rambus filed a notice of appeal of these decisions on June 21, 2001. The Company cannot predict with any certainty the likely outcome of these motions or any such appeal. In addition, the proceedings in the German court are still active, and the Company cannot predict their outcome. The German court is not bound by the decision of the U.S. trial court and could rule in favor of Rambus on certain or all of its claims.

In April 2001, the Company and Siemens executed a EUR 450 million loan agreement. The loan is unsecured, repayable on or before September 6, 2001 and bears interest at Euribor plus 0.4% per year.

In May 2001, the Company and Saifun Semiconductors Ltd. entered into an agreement to form a joint venture named Ingentix. Ingentix will develop, manufacture and market flash memory products based on Saifun’s patented Nitrided Read Only Memory (NROM) technology. Infineon will own 51% of Ingentix in exchange for a cash capital contribution of $17,200. The Company will also provide Ingentix with a $7 million working capital loan.

On March 30, 2001, the Company entered into a joint venture agreement with United Microelectronics Corporation (“UMC”) to construct and operate a 300mm wafer semiconductor facility. The Company will receive a 30% ownership interest in the venture, in exchange for contribution of specified technology and aggregate cash capital contributions of approximately $473 million. The Company provided UMC with an irrevocable proxy to vote one-half of its ownership interest on specified governance and operational matters. Additionally, the Company has entered into a foundry capacity agreement with the joint venture which provides for certain minimum purchase volume commitments.

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% for purchases of ordinary shares up to a maximum of 80 shares per employee subject to a one year holding period.

At the Company’s annual general meeting of shareholders held on April 6, 2001, the shareholders approved a dividend of EUR 0.65 per share with respect to the financial year ended September 30, 2001, which was paid in the amount of EUR 406,576 on April 9, 2001.

Further on April 6, 2001, the shareholders approved the creation of a new Long Term Incentive Plan which replaced the existing plan which was initiated in 1999, as disclosed in note 13. Options previously issued under the existing plan remain unaffected as to terms and conditions. Pursuant to the provisions of the new 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% of the average market price of the Company’s shares over a specified period preceding the grant date.

On May 18, 2001, the Company obtained an additional EUR 80 million working capital facility.

(17) Operating Segment and Geographic Information

Selected segment data for the six months ended March 31, 2000 and 2001 are as follows:

	Automotive & Industrial	Wireline Communications	Wireless Communications	Memory Products	Other Operating Segments	Corporate and Reconciliation	Total
Six months ended March 31, 2000							
Net sales	395,355	289,479	570,353	1,333,007	442,219	42,306	3,072,719
Earnings (loss) before interest, minority interest and taxes	18,613	35,007	125,527	324,403	39,524	(46,219)	496,855
Six months ended March 31, 2001							
Net sales	540,501	438,295	633,160	1,013,080	655,313	28,280	3,308,629
Earnings (loss) before interest, minority interest and taxes	74,607	69,505	76,631	(69,197)	281,328	22,801	455,675

Effective October 1, 2000, Other Operating segments include the results of certain activities previously reported under Corporate and Reconciliation, and the Image and Video business (previously reported under Wireline Communications) as well as the gain on its disposal. Additionally, the results of our infrared components business, previously reported in the Wireline Communications segment, are now included in Other Operating segments. The segment information presented above has been restated to reflect these reorganizations. Additionally, the effect of these reorganizations on the segment information for the years ended September 30, 1998, 1999 and 2000 is presented below:

Fiscal Year 1998	Automotive & Industrial	Wireline Communications	Wireless Communications	Memory Products	Other Operating Segments	Corporate and Reconciliation	Total
Net sales	606,012	508,626	685,830	669,063	634,354	71,415	3,175,300
Earnings (loss) before interest, minority interest and taxes	41,187	20,926	121,114	(976,921)	33,203	(884,969)	(1,645,460)

Fiscal Year 1999	Automotive & Industrial	Wireline Communications	Wireless Communications	Memory Products	Other Operating Segments	Corporate and Reconciliation	Total
Net sales	665,405	498,536	864,993	1,405,885	723,253	79,221	4,237,293
Earnings (loss) before interest, minority interest and taxes	22,778	21,643	181,897	(237,854)	58,165	(59,670)	(13,041)

Fiscal Year 2000	Automotive & Industrial	Wireline Communications	Wireless Communications	Memory Products	Other Operating Segments	Corporate and Reconciliation	Total
Net sales	880,151	664,281	1,221,140	3,473,305	953,223	90,498	7,282,598
Earnings (loss) before interest, minority interest and taxes	69,294	46,465	261,289	1,336,393	76,512	(120,445)	1,669,508

Net sales by geographic region for the six months ended March 31, 2000 and 2001 are as follows:

	For the six months ended	
	March 31, 2000	March 31, 2001
Germany	734,381	968,809
Other Europe	744,103	759,675
United States	758,256	796,787
Asia/Pacific	785,643	732,485
Other	50,336	50,873
Total	3,072,719	3,308,629

(18) Recent Accounting Pronouncements

Effective October 1, 2000, the Company adopted the provisions of FASB No. 133 ''Accounting for Derivative Instruments and Hedging Activities'', as amended (''SFAS 133''). SFAS 133 requires all derivative instruments be recorded on the balance sheet at their fair value. Gains and losses resulting from changes in the fair values of those derivatives would be accounted for depending on the use of the derivative instrument and whether it qualifies for hedge accounting. The adoption of this Standard did not have a reporting impact on the financial statements as of October 1, 2000, because under the Company's economic hedging strategy all derivatives were previously recorded at fair value in the consolidated balance sheet, with changes in fair values recorded in earnings.

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

INDEPENDENT AUDITORS' REPORT

The Supervisory Board and Shareholders
Infineon Technologies AG:

We have audited the accompanying consolidated balance sheets of Infineon Technologies AG and subsidiaries as of September 30, 1999 and 2000, and the related consolidated statements of operations, shareholders' equity, and cash flows for each of the years in the three year period ended September 30, 2000. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

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

KPMG DEUTSCHE TREUHAND-GESELLSCHAFT
AKTIENGESELLSCHAFT
WIRTSCHAFTSPRÜFUNGSGESELLSCHAFT

Munich, Germany
November 21, 2000

INFINEON TECHNOLOGIES AG AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

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

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

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

See accompanying notes to consolidated financial statements.

INFINEON TECHNOLOGIES AG AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

September 30, 1999 and 2000

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

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

See accompanying notes to consolidated financial statements.

INFINEON TECHNOLOGIES AG AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

For the years ended September 30, 1998, 1999 and 2000
(euro thousands, except share data)

	Issued Ordinary shares		Additional paid-in capital	Retained earnings	Investments by and advances from Siemens AG	Foreign currency translation adjustment	Unrealized gains/loss on securities	Total
	Shares	Amount						
Balance as of October 1, 1997	—	—	—	—	2,227,248	674	50	2,227,972
Net loss	—	—	—	—	(774,688)	—	—	(774,688)
Other comprehensive (loss) income	—	—	—	—	—	(49,276)	53	(49,223)
Total comprehensive loss								(823,911)
Net investments by and advances from Siemens AG	—	—	—	—	691,574	—	—	691,574
Balance as of September 30, 1998	—	—	—	—	2,144,134	(48,602)	103	2,095,635
Net loss prior to April 1, 1999	—	—	—	—	(5,971)	—	—	(5,971)
Net income after April 1, 1999	—	—	—	66,607	—	—	—	66,607
Other comprehensive income (loss)	—	—	—	—	—	49,106	(1,915)	47,191
Total comprehensive income								107,827
Retention of North Tynside by Siemens AG (Note 1)	—	—	—	—	293,713	—	—	293,713
Net investments by and advances from Siemens AG prior to April 1, 1999	—	—	—	—	1,132,092	—	—	1,132,092
Contribution to capital and issuance of shares on initial formation as of April 1, 1999	600,000,000	1,200,000	2,363,968	—	(3,563,968)	—	—	—
Additional capital contributions	—	—	26,193	—	—	—	—	26,193
Balance as of September 30, 1999	600,000,000	1,200,000	2,390,161	66,607	—	504	(1,812)	3,655,460
Net income	—	—	—	1,125,585	—	—	—	1,125,585
Other comprehensive income	—	—	—	—	—	105,085	8,712	113,797
Total comprehensive income								1,239,382
Issuance of ordinary shares								
Proceeds from initial public offering, net of offering expenses	16,700,000	33,400	528,635	—	—	—	—	562,035
Proceeds from private placement	7,592,430	15,185	243,641	—	—	—	—	258,826
Acquisition of Savan	1,209,077	2,418	46,426	—	—	—	—	48,844
Deferred compensation	—	—	(23,294)	—	—	—	—	(23,294)
Increase of basis in long-term investment attributable to the issuance of shares by associated company	—	—	51,212	—	—	—	—	51,212
Equity transactions with Siemens group	—	—	13,934	—	—	—	—	13,934
Balance as of September 30, 2000	625,501,507	1,251,003	3,250,715	1,192,192	—	105,589	6,900	5,806,399

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

See accompanying notes to consolidated financial statements.

INFINEON TECHNOLOGIES AG AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

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

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

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

See accompanying notes to consolidated financial statements.

1. Description of Business, Formation and Basis of Presentation

Description of Business

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

Formation

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

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

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

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

Basis of Presentation

The accompanying financial statements have been prepared in accordance with United States generally accepted accounting principles (“U.S. GAAP”). This reflects the combined historical

financial statements of the Contributed Businesses, assuming that Infineon had existed as a separate legal entity for all periods prior to the Formation. The financial statements included herein for the periods presented prior to the Formation may not necessarily be indicative of the results of operations, financial positions and cash flows of Infineon had it operated as a separate independent company, nor are they an indicator of future performance.

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

All amounts herein are shown in thousands of euro unless otherwise noted. The accompanying balance sheet as of September 30, 2000, and the statements of operations and cash flows for the year then ended are also presented in U.S. dollars (''$''), solely for the convenience of the reader, at the rate of one euro (or ''EUR'') = $0.8837, the noon buying rate on September 29, 2000. The U.S. dollar convenience translation amounts have not been audited.

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

2. Summary of Significant Accounting Policies

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

Basis of Consolidation

The accompanying financial statements include, prior to the Formation, the accounts of Infineon and the Contributed Businesses on a combined basis and, after the Formation, the accounts of Infineon and its significant subsidiaries on a consolidated basis. Investments in companies in which Infineon has an ownership interest in excess of 20% but which are not controlled by Infineon (''Associated Companies'') are principally accounted for using the equity method of accounting (see note 10). The equity in earnings of Associated Companies with different fiscal year ends are principally recorded on a three month lag. Other equity investments (''Related Companies''), in which Infineon has an ownership interest less than 20%, are recorded at cost. The effects of all significant intercompany transactions are eliminated.

The Infineon group consists of the following number of entities:

	Consolidated subsidiaries	Associated Companies	Total
September 30, 1999	22	5	27
Additions	4	—	4
September 30, 2000	26	5	31

The consolidated financial statements include 25 (1999: 9) subsidiaries and 9 (1999: 4) Associated Companies that are accounted for at cost and recorded under investments in Related Companies, as these companies are not material to the respective presentation of the financial position, results of operations or cash flows of the Company. The effect of these companies for all years presented on consolidated assets, revenues and net income of the Company was less than 1%.

Reporting Currency

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

Foreign Currency Translation

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

The exchange rates of the more important currencies, based on exchange rates for the euro fixed at the Frankfurt Currency Exchange, used in the preparation of the accompanying financial statements are as follows:

Currency:		Exchange rate at September 30,		Annual average exchange rate	
		1999 €	2000 €	1999 €	2000 €
U.S. $	1$ =	0.938	1.1373	0.913	1.0470
Japanese Yen	100 JPY =	0.888	1.0533	0.781	0.9881
British Pound	1GBP =	1.544	1.6720	1.485	1.6286
Singapore Dollar	1SGD =	0.552	0.6530	0.541	0.6129

Cash and Cash Equivalents

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

Restricted Cash

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

Marketable Securities

The Company's marktable securities are classified as available-for-sale and are stated at fair value as determined by the most recently traded price of each security at the balance sheet date. Unrealized gains and losses are included in accumulated other comprehensive income (loss), net of applicable deferred taxes. Realized gains or losses and declines in value, if any, judged to be other than temporary on available-for-sale securities are reported in other income or expense. For the purpose of determining realized gains and losses, the cost of securities sold is based on specific identification.

Inventories

Inventories are valued at the lower of cost or market, cost being generally determined on the basis of an average method. Cost consists of purchased component costs and manufacturing costs, which are comprised of direct material and 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, 1998, 1999 and 2000, interest capitalized by Infineon was not significant. The estimated useful lives of assets are as follows:

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

Leases

The Company is a lessee of property, plant and equipment. All leases where Infineon is lessee that meet certain specified criteria intended to represent situations where the substantive risks and rewards of ownership have been transferred to the lessee are accounted for as capital leases pursuant to Statement of Financial Accounting Standards ("SFAS") No. 13, "*Accounting for Leases*." All other leases are accounted for as operating leases. The Company is a lessor of technical equipment which is carried at cost and depreciated over the estimated useful lives of the assets, generally 5 to 10 years, using the straight-line method.

Intangible Assets

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

Impairment of Long-lived Assets

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

Financial Instruments

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

Revenue Recognition—Sales

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

Revenue Recognition—License and Technology Transfer Fees

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

Government Grants

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

Product-related Expenses

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

Income Taxes

Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. Deferred income taxes in Germany are calculated using the ''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 U.S. Securities and Exchange Commission (''SEC'') Staff Accounting Bulletin (''SAB'') Topic 5:H, ''*Accounting for Sales of Stock by a Subsidiary*''.

Use of Estimates

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

Recent Accounting Pronouncements

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

earnings, and therefore there will be no impact on the accounting for these instruments due to the adoption of SFAS No. 133, as amended. The fair value of derivative and other financial instruments is discussed in note 27.

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

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

3. Acquisitions

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

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

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

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

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

4. Ordinary Share Capital

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

Authorized and Conditional Share Capital

In addition to the issued share capital, the Company's Articles of Association authorize the Management Board to increase the ordinary share capital with the Supervisory Board's consent by issuing new shares. The Management Board may use these authorizations through March 31, 2004 to issue new shares as follows:

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

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

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

Capital Transactions

At the Formation, Infineon was capitalized through the issuance of 200,000,000 ordinary shares with a nominal value of EUR 400,000. At a shareholders' meeting on December 8, 1999, the shareholders authorized the issuance of an additional 200,000,000 ordinary shares with a nominal value of EUR 400,000, through a stock split in the form of a stock dividend. At a shareholders' meeting on February 9, 2000, the shareholders authorized the issuance of an additional 200,000,000 ordinary shares with a nominal value of EUR 400,000, through a stock split in the form of a stock

dividend. These capital increases were approved by the German Commercial Registrar on January 26, 2000, and February 14, 2000, respectively, and have been reflected as if they had occurred at the time of the Formation in the accompanying financial statements. Accordingly, all applicable references to the number of ordinary shares and per share information prior to the Formation have been restated to reflect the authorization and issuance of 600,000,000 ordinary shares.

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

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

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

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

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

5. Earnings (Loss) per share

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

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

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

6. Marketable Securities

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

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

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

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

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

Actual maturities may differ due to call or prepayment rights.

7. Accounts Receivable, net

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

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

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

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

8. Inventories

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

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

9. Property, Plant and Equipment, net

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

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

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

10. Long-term Investments, net

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

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

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, 2000 are accounted for using the equity method of accounting:

Name of the Associated Company	Percentage of ownership
ProMOS Technologies Inc., Hsinchu, Taiwan (“ProMOS”)	33.0%
Semiconductor 300 GmbH & Co. KG, Dresden, Germany (“SC300”)	50.1%
ALTIS Semiconductor, France (“ALTIS”)	50.0% + 1 share
OSRAM Unternehmensverwaltungs GmbH, and OSRAM Opto Semiconductor GmbH & Co. OHG, Regensburg, Germany (together “OSRAM Opto”)	49.0%

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

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

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

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

payable under the redemption feature, so that the carrying amount of the liability will equal the redemption amount at any redemption date.

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

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

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

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

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

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

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

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

11. Other Assets

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

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

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

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

12. Accounts Payable

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

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

13. Accrued Liabilities

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

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

14. Other Current Liabilities

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

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

15. Other Liabilities

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

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

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

16. Debt

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

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

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

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

In March 2000, the Company obtained a EUR 750,000 syndicated multicurrency revolving credit facility. The amount of the facility is divided into two equal tranches. The first tranche has a term of four years, and the second has a renewable term of 364 days. Drawings under each tranche may be denominated in euro or dollar and will bear variable market rates of interest based on applicable reference rates plus a margin. This margin may vary based on the extent of the facility's utilization and the level of senior debt to earnings before interest, taxes, depreciation and amortization (''senior

debt ratio''). The facility includes various covenants, including covenants regarding the maintenance of a minimum tangible net worth, a senior debt ratio and an interest coverage ratio. At September 30, 2000 there were no amounts outstanding under this facility.

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

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

17. Related Parties

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

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

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

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

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

Related party receivables and payables have been segregated (1) between amounts owed by or to Siemens group companies and companies in which Infineon has an ownership interest and (2) based on the underlying nature of the transactions. Trade receivables and payables include amounts for the purchase and sale of product. Financial receivables and liabilities represent amounts owed relating to loans and advances and accrue interest at interbank rates. On October 1, 1999, Infineon and Siemens group companies settled financial receivables of EUR 678,808 and financial liabilities of EUR 337,813, which resulted in a net increase in cash of EUR 340,995.

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

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

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

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

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

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

18. Income Taxes

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Infineon did not provide for income taxes or foreign withholding taxes on cumulative earnings of foreign subsidiaries for the years ended September 30, 1998, 1999 and 2000, respectively, because these earnings are intended to be indefinitely reinvested in those operations. It is not practicable to estimate the amount of unrecognized deferred tax liabilities for these undistributed foreign earnings.

The income tax (benefit) expense for 1998, 1999 and 2000 was allocated to continuing operations and accumulated other comprehensive income. The amount allocated to equity, for

unrealized gains (losses) on securities, was EUR (53), EUR 1,965 and EUR (7,945) for 1998, 1999 and 2000, respectively.

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

19. Pension Plans

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

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

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

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

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

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

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

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

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

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

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

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

On September 25, 2000, the Company established the Infineon Technologies Pension Trust (the "Pension Trust") for the purpose of funding future pension benefit payments for employees in Germany. The Company contributed EUR 154,696 of cash and marketable debt and equity securities, which qualify as plan assets under SFAS No. 87, to the Pension Trust for use in funding these pension benefit obligations, thereby reducing accrued pension liabilities (see note 15).

20. Government Grants and Subsidies

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

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

21. License and Technology Transfer Fees

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

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

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

22. Restructuring

In July 1998, Siemens commenced a restructuring program which included the shut down of North Tyneside (see note 1). The decision to close North Tyneside was made in response to the industry-wide production overcapacity of the Company's core products; the related dramatic price

erosions in Dynamic Random Access Memory (“DRAM”) product prices; and the high degree of uncertainty surrounding any forecast change in the depressed DRAM market conditions.

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

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

During 1998, Infineon recorded a pretax charge of €816,469 relating to the closure of North Tyneside. This charge included a EUR 673,905 impairment write-down of property, plant and equipment to estimated fair value, the majority of which related to buildings and equipment held under capital lease agreements. The EUR 673,905 impairment write-down consisted of EUR 386,331 for buildings and EUR 287,574 for technical equipment. At September 30, 1998, the carrying value of equipment held for sale was EUR 88,423. For purposes of the write-down, the estimated fair value was based on the estimated proceeds expected to be realized from the sale of certain equipment. Due to their specialized nature, the buildings were written off since Siemens did not expect to derive any related future use or value from them. In addition, the charge included EUR 39,797 for certain lease cancellation costs, EUR 27,686 for the repayment of government grants and EUR 75,081 for facility closure costs.

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

23. Supplemental Operating Cost Information

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

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

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

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

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

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

24. Supplemental Cash Flow Information

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

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

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

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

25. Other Comprehensive Income (Loss)

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

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

26. Stock-based Compensation

Fixed Stock Option Plan

In March 2000, the Company adopted the Long-Term Incentive Plan (“LTI Plan”), which provides for the granting of non-transferable options to acquire ordinary shares over a future period. Under the terms of the LTI Plan, the Company may grant options over a five-year period to members of the Management Board for up to 2.25 million ordinary shares, directors of subsidiaries and affiliates for up to 6 million ordinary shares, and other eligible employees for up to 39.75 million ordinary shares. The exercise price of each option equals 120% of the average closing price of the Company’s stock during the five trading days prior to the date of grant. Options vest at the latter of two years from the grant date or the date on which the Company’s stock reaches the exercise price for at least one trading day. Options expire 7 years from the grant date.

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

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

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

	September 30, 2000	
	Shares	Weighted-average exercise price
Outstanding at beginning of year	—	—
Granted	5,556,268	EUR 42.15
Exercised	—	—
Forfeited	(86,800)	EUR 42.00
Outstanding at end of year	5,469,468	EUR 42.15

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

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

	Options Outstanding			Options Exercisable	
Range of exercise prices	Number outstanding at September 30, 2000	Weighted-average remaining contractual life	Weighted-average exercise price	Number exercisable at September 30, 2000	Weighted-average exercise price
EUR 42.00	5,451,468	6.45 years	EUR 42.00	—	EUR 42.00
EUR 90.85	18,000	6.84 years	EUR 90.85	—	EUR 90.85

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

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

Employee Stock Purchase Plan

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

27. Financial Instruments

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

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

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

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

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

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

28. Risks

Financial instruments that expose Infineon to credit risk consist primarily of trade receivables and currency derivatives. Concentrations of credit risks with respect to trade receivables are limited by the large number of geographically diverse customers and Infineon's credit approval and monitoring procedures. Until September 30, 1999, most currency derivatives were conducted with

Siemens Financial Services. Since October 1, 1999, concentration of credit risk with respect to currency derivatives is limited by transactions with multiple banks up to pre-established limits. Related Parties account for a significant portion of sales and trade receivables.

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

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

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

On August 10, 2000, Siemens issued a guaranteed exchangeable note in an aggregate nominal amount of EUR 2,500,000 (representing 4% of the Company's ordinary share capital), which is divided into bearer notes with a nominal amount of EUR 100 each. The notes bear a 1% fixed annual interest rate and are to be redeemed by Siemens on August 10, 2005. Each note can be exchanged, in certain circumstances, through August 10, 2001 for 1,000 Infineon shares.

29. Commitments and Contingencies

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

A customer of the Company has informed the Company that it has received notification from Rambus alleging that a component supplied by the Company and utilized in one of the customer's

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

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

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

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

In connection with the Formation, Siemens retained certain facilities located in the U.S. and certain related environmental liabilities. Businesses contributed to the Company by Siemens have conducted operations at certain of these facilities and, under applicable law, could be required to contribute to the environmental remediation of these facilities despite their retention by Siemens. Siemens has provided guarantees to certain third parties and governmental agencies, and all involved parties have recognized Siemens as the responsible party for all applicable sites. No assessments have been made of the extent of environmental redemption, if any, that could be required, and no claims have been made against Infineon in this regard. The Company believes its potential exposure, if any, to liability for remediating the U.S. facilities retained by Siemens is therefore limited.

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

financial position, although the final resolution of such matters could have a material effect on the Company's results of operations or cash flows in the year of settlement.

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

Infineon has entered into capacity reservation agreements with certain silicon foundries for the manufacturing and testing of semiconductor products. These agreements generally have a standard length of one to two years and are renewable. Under the terms of these agreements, Infineon has agreed to purchase certain minimum quantities at specified prices. Additionally, under product purchase agreements with ProMOS and ALTIS, Infineon has agreed to buy 38% and 50% of their respective total annual production output based on market prices. Purchases under these agreements are recorded as incurred in the normal course of business. The Company assesses its anticipated purchase requirements on a regular basis to meet customer demand for its products. An assessment of losses under these agreements is made on a regular basis in the event that either budgeted purchase quantities fall below the specified quantities or market prices for these products fall below the specified prices.

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

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

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

The Company has commenced construction of a new production facility at an existing site to increase manufacturing capacity for semiconductors using 300-millimeter technology. The facility is anticipated to involve capital expenditures of approximately EUR 1,200,000 in the aggregate. At September 30, 2000, contractual commitments related to the construction of this facility aggregated EUR 88,450.

Total rental expenses under operating leases amounted to EUR 122,927, EUR 128,692 and EUR 131,348 for the years ended September 30, 1998, 1999, and 2000, respectively. Future minimum lease payments under non-cancelable operating lease agreements with initial or remaining

terms in excess of one year at September 30, 2000 are as follows: 2001, EUR 77,973; 2002, EUR 66,517; 2003, EUR 47,297; 2004, EUR 40,362; 2005, EUR 40,723 and EUR 36,916 for the remaining years.

30. Subsequent Events

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

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

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

31. Operating Segment and Geographic Information

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

Infineon operates primarily in four major operating segments, three of which are application focused: Automotive & Industrial, Wireline Communications (formerly Communications & Peripherals) and Wireless Communications, and one of which is product focused: Memory Products. Further, Infineon's Security & Chip Card IC division and the OSRAM Opto joint venture each also meet the SFAS No. 131 definition of an operating segment, but do not meet the requirements of a reportable segment as specified in SFAS No. 131. Accordingly, these segments are combined and disclosed in the ''other operating segments'' category pursuant to SFAS No. 131.

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

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

The accounting policies of the segments are substantially the same as described in the summary of significant accounting policies. As stated above, fixed assets are not identified by individual operating segments for management reporting purposes on a regular basis and accordingly are not allocated to the operating segments. Infineon does, however, allocate depreciation expense to the operating segments based on production volume and product mix using standard costs in order to obtain a measure of earnings before interest and taxes on a segment basis.

Information with respect to Infineon's operating segments follows:

Automotive & Industrial

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

Wireline Communications

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

Wireless Communications

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

Memory Products

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

Other Operating Segments

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

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

	Automotive & Industrial	Wireline Communi-cations	Wireless Communi-cations	Memory Products	Other Operating Segments	Corporate and Reconciliation	Total
Fiscal Year 1998							
Net sales	606,012	741,827	685,830	669,063	401,153	71,415	3,175,300
Earnings (loss) before interest, minority interest and taxes	41,187	48,651	121,114	(976,921)	5,478	(884,969)	(1,645,460)
Depreciation and Amortization	82,318	50,565	75,491	296,738	35,790	37,485	578,387
Fixed asset write-down associated with restructuring	—	—	—	—	—	(673,905)	(673,905)
Equity in income (loss) of Associated Companies	439	—	—	(168,628)	17,009	—	(151,180)
Inventories	91,692	58,455	59,124	233,502	20,463	119,521	582,757

	Automotive & Industrial	Wireline Communi-cations	Wireless Communi-cations	Memory Products	Other Operating Segments	Corporate and Reconciliation	Total
Fiscal Year 1999							
Net sales	665,405	720,136	864,993	1,405,885	501,653	79,221	4,237,293
Earnings (loss) before interest, minority interest and taxes	22,778	41,143	181,897	(237,854)	35,021	(56,026)	(13,041)
Depreciation and Amortization	100,469	75,123	82,052	267,249	41,568	6,608	573,069
Equity in income of Associated Companies	1,059	1,880	997	22,041	7,786	—	33,763
Inventories	82,625	28,172	78,075	303,502	19,838	164,760	676,972

	Automotive & Industrial	Wireline Communi-cations	Wireless Communi-cations	Memory Products	Other Operating Segments	Corporate and Reconciliation	Total
Fiscal Year 2000							
Net sales	880,151	940,443	1,221,140	3,473,306	668,346	99,212	7,282,598
Earnings (loss) before interest, minority interest and taxes	69,294	78,172	261,289	1,336,393	54,152	(129,792)	1,669,508
Depreciation and Amortization	117,225	90,319	135,221	389,127	102,287	(523)	833,656
Equity in income of Associated Companies	—	—	—	81,616	9,027	10,660	101,303
Inventories	129,650	81,709	118,311	358,594	44,446	108,104	840,814

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

Raw material and work-in-process of the common front-end facilities, and work-in-process of the common back-end facilities, are not under the control or responsibility of any of the operating segment managers, but rather of the facility management. The facility management is responsible for

the execution of the production schedule, volume and units. Accordingly, this inventory is not attributed to any operating segment, but is included in the ''corporate and reconciliation'' column. Only raw material of the back-end facilities (''chip stock'') and finished goods are attributable to the operating segments and included in the segment information reported to the CODM.

Certain items are included in corporate and reconciliation and are not allocated to the segments. They include corporate headquarters' cost, certain incubator and early stage technology investment costs, non-recurring gains, certain foreign currency activities and specific strategic technology initiatives. Additionally, legal costs associated with intellectual property are recognized by the segments when paid, which can differ from the period originally recognized by corporate and reconciliation. The restructuring charge, which is discussed in note 22, was not allocated to an operating segment, but is included in the ''corporate and reconciliation'' column.

The following is a summary of operations by geographic area for 1998, 1999 and 2000:

	Germany	Other Europe	USA	Asia / Pacific	Other	Total
Fiscal Year 1998						
Revenues from external customers	1,077,483	783,280	626,075	649,311	39,151	3,175,300
Long-lived assets	1,299,596	642,794	106,860	231,891	72,684	2,353,825
Fiscal Year 1999						
Revenues from external customers	1,241,375	1,203,106	826,824	899,320	66,668	4,237,293
Long-lived assets	1,686,514	651,188	1,031,691	128,867	46,101	3,544,361
Fiscal Year 2000						
Revenues from external customers	1,611,862	1,646,557	1,814,448	2,099,834	109,897	7,282,598
Long-lived assets	2,296,904	789,427	1,312,191	310,414	11,117	4,720,053

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 17, no single customer accounted for more than 10% of Infineon's sales during the years ended September 30, 1998, 1999 and 2000. Sales to Siemens are made primarily by the Automotive & Industrial and Wireless Communications segments.

This page intentionally left blank


Infineon
technologies