2001

OPERATING & FINANCIAL REVIEW 2001

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

WEAK WORLD ECONOMIC SITUATION AND DRASTIC DECLINE IN SEMICONDUCTOR PRICES

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

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

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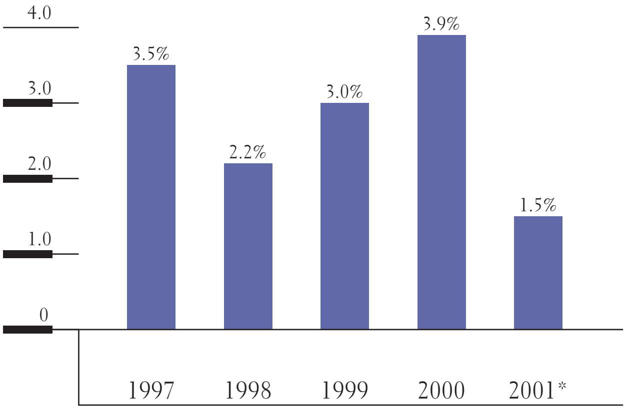
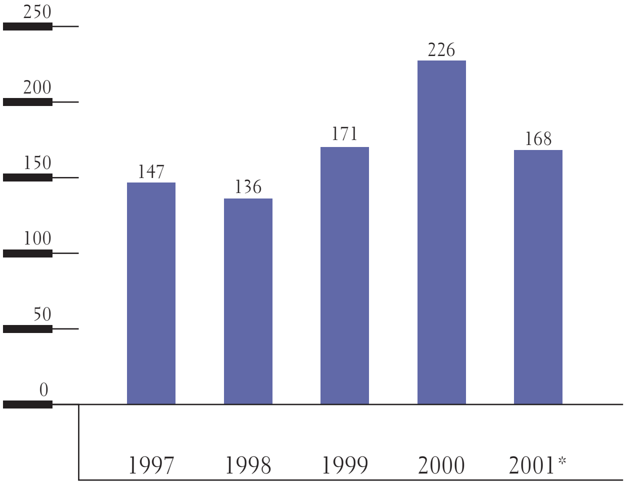
WORLD ECONOMIC GROWTH IN PERCENT



* 2001 estimated.

SEMICONDUCTOR MARKET
IN U.S. DOLLAR BILLIONS

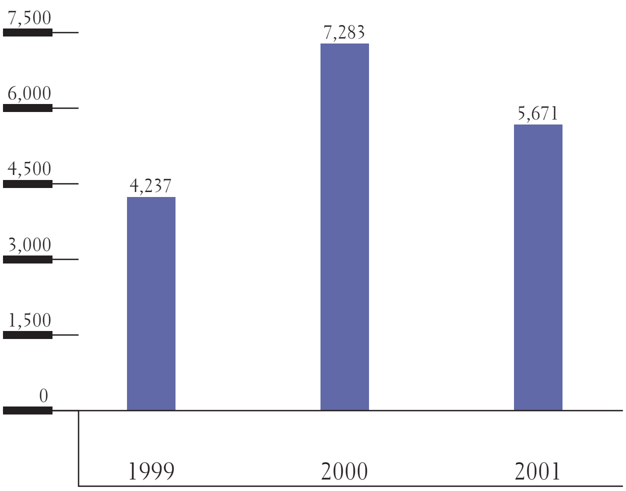


* 2001 estimated, as of September 2001
Source: Gartner Dataquest

Marked Decrease in Sales and EBIT

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

TOTAL SALES IN EURO MILLIONS*



* as of the financial year ended September 30.

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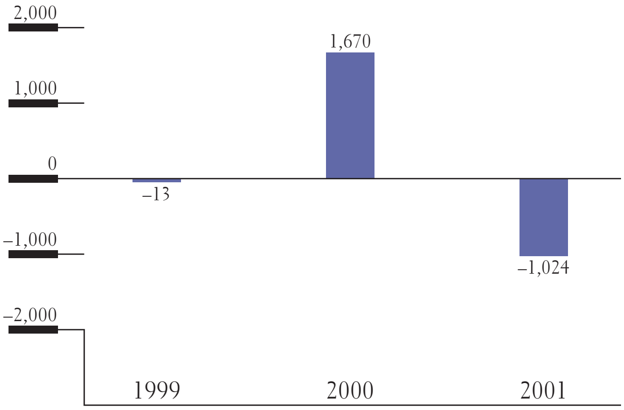
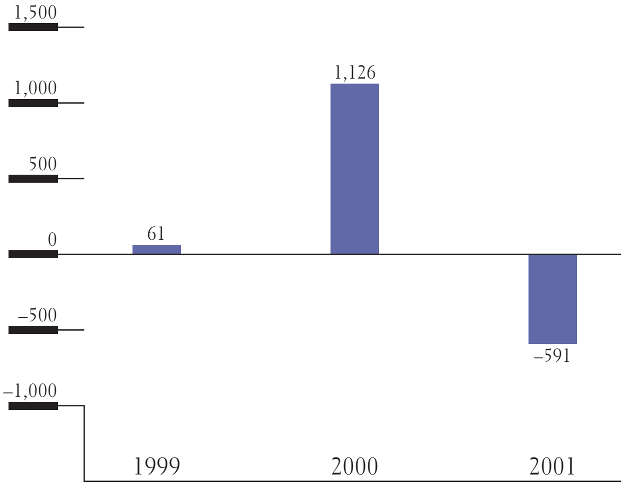
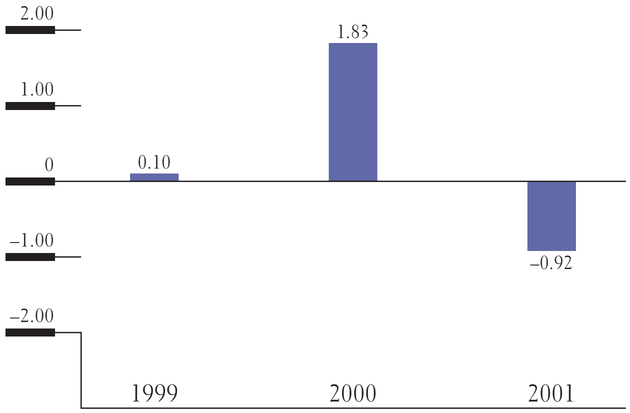
EBIT – EARNINGS (LOSS) BEFORE INTEREST, MINORITY INTERESTS, AND TAXES
IN EURO MILLIONS



NET INCOME (LOSS)
IN EURO MILLIONS



NET INCOME (LOSS)
PER SHARE DILUTED IN EURO



Extensive Cost Reduction Program Being Implemented

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

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

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

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

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Continued Investments in Research and Development

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

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

New Strategic Investments

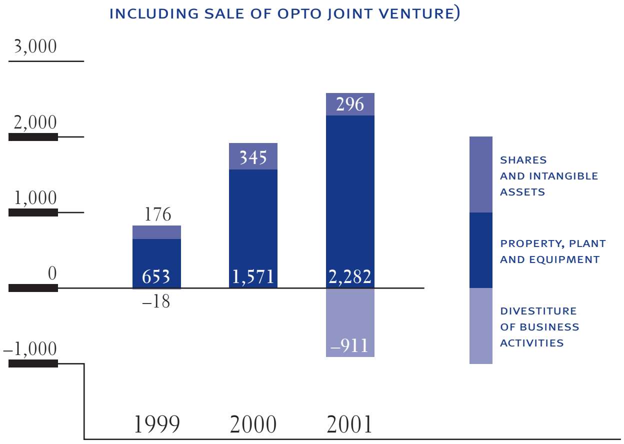
At the start of the 2001 financial year, we acquired the business activities of Sican GmbH, one of the biggest independent European design houses for communications ICs, for 10 million Euro. The acquisition will enable us to develop and sell system-on-chip solutions for secure wireless and wireline communications.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

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

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

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

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



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Strategic Alliances

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

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

Divestitures

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

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

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

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

Continued Optimization of our Manufacturing Capacity and Procurement

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

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

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

Secondary Public Offering

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

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RESULTS OF OPERATIONS

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

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

[1] Columns may not add due to rounding.

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

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

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

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

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RESULTS OF OPERATIONS IN PERCENT

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

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

2001 FINANCIAL YEAR COMPARED WITH 2000 FINANCIAL YEAR

Net Sales

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

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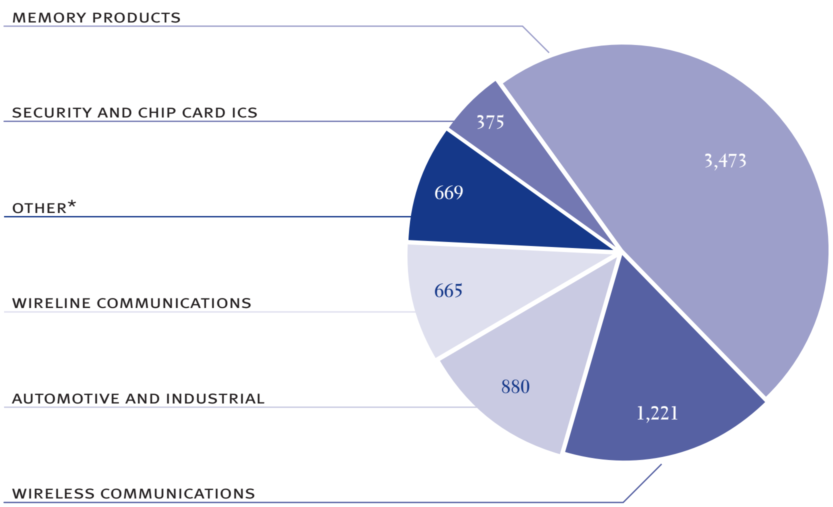
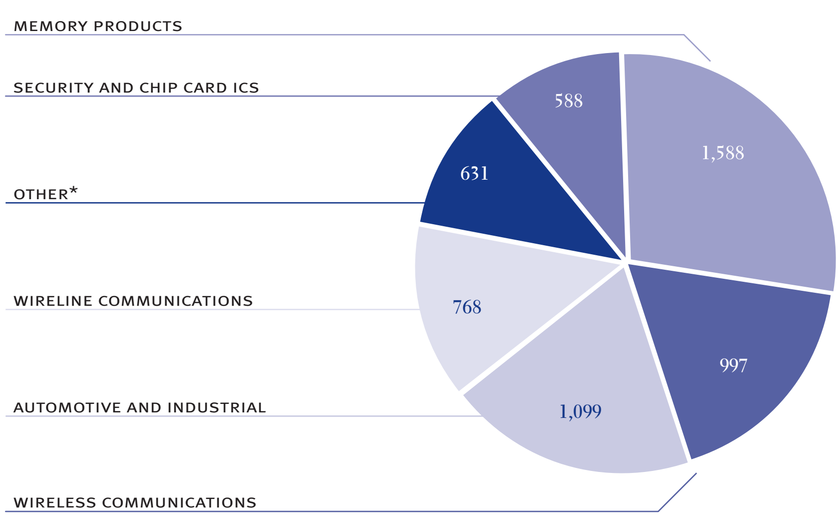
NET SALES 2000 BY SEGMENT IN EURO MILLIONS



NET SALES 2001 BY SEGMENT IN EURO MILLIONS



* Includes Other operating segments and Corporate and Reconciliation.

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

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

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

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

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

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

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

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

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

Cost of Goods Sold

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

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

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

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

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

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

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

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

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

Research and Development Expenses

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

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

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

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

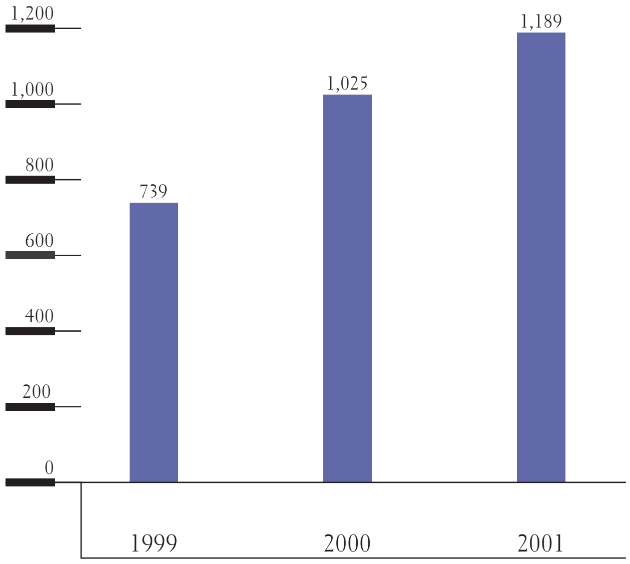
- a decline in R&D expenses of the Automotive and Industrial segment relative to the segment's net sales mainly due to increased sales levels. Technology development efforts in this segment are focused on advanced 32-bit architecture applications such as TriCore and power ICs for automotive and power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

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

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

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

RESEARCH AND DEVELOPMENT EXPENSES
IN EURO MILLIONS



2001

Selling, General and Administrative (SG&A) Expenses

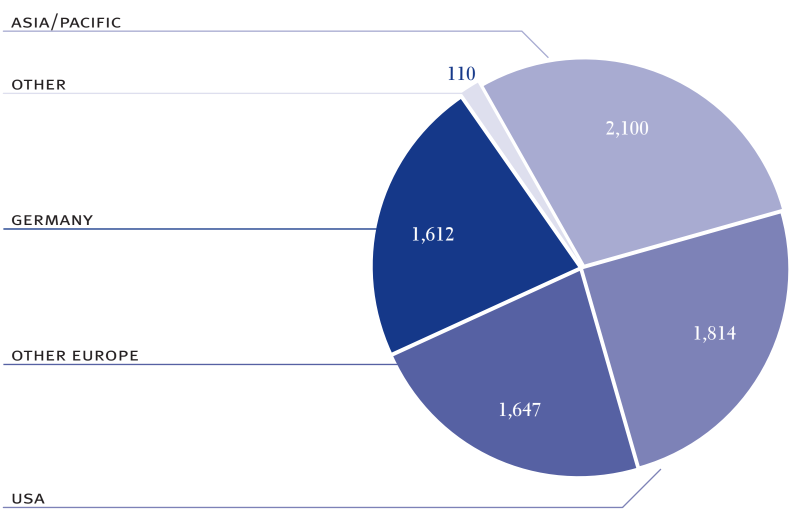
SG&A expenses comprise both selling expenses and general administrative expenses. Aggregate SG&A expenses increased by 17 percent to 786 million Euro during the 2001 financial year compared to 670 million Euro in the prior year. As a percentage of net sales, SG&A expenses increased from 9 percent in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

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

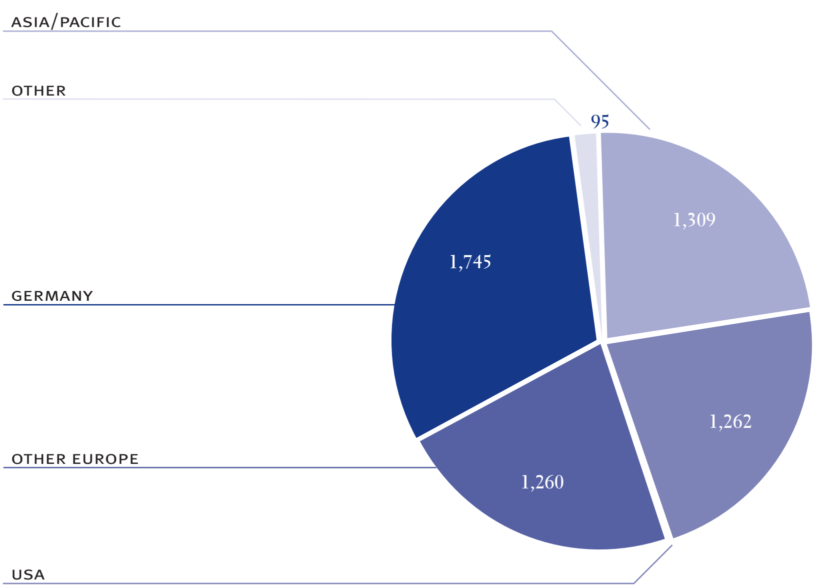
During the 2001 financial year, we renegotiated compensation arrangements with substantially all of the Siemens group sales organizations. As a result, we now include in selling expenses the sales commissions paid to Siemens group sales organizations where they assist in making sales directly to third-party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

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

NET SALES 2000 BY REGION IN EURO MILLIONS



NET SALES 2001 BY REGION IN EURO MILLIONS



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Restructuring

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

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

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

Other Operating Income, Net

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

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

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

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

Equity in Earnings of Associated Companies

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

Interest Expense, Net

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

Income Taxes

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

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

FINANCIAL POSITION

Cash Flow

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

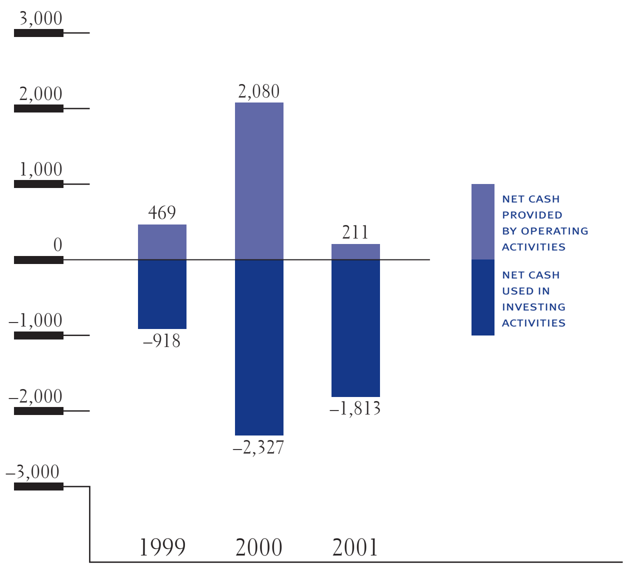
Investing activities in the 2001 financial year consisted of investments of 2,282 million Euro in property and equipment relating primarily to the extension of the Dresden, Villach, and Richmond facilities. Additionally, we made investments of 214 million Euro in associated and related companies. Cash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

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

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

NET CASH PROVIDED/USED

IN EURO MILLIONS



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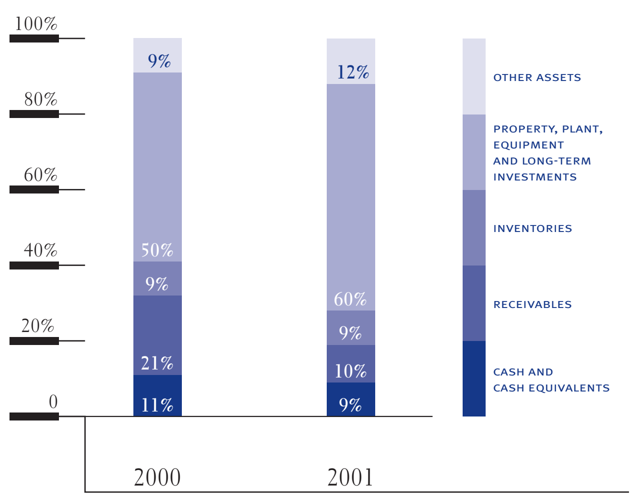
Financial Condition

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

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

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

BALANCE STRUCTURE ASSETS IN PERCENT

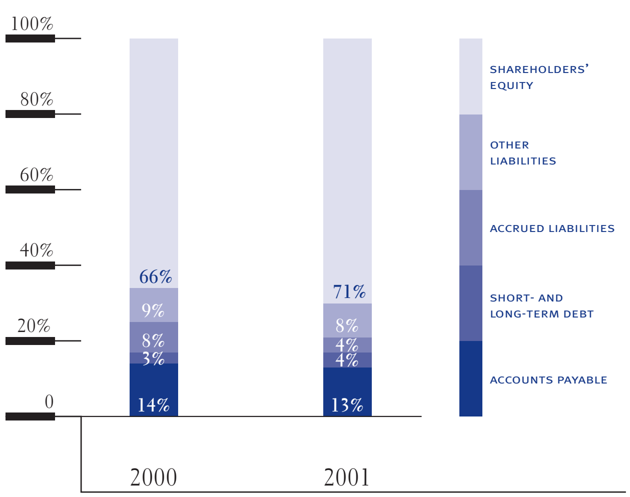


Dresden facility expansion. Furthermore, long and short-term debt increased by 102 million Euro to 368 million Euro. Accrued liabilities declined by 41 percent to 426 million Euro (in financial year 2000: 719 million Euro), due to the payment of income taxes from fiscal year 2000.

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

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

BALANCE STRUCTURE LIABILITIES IN PERCENT



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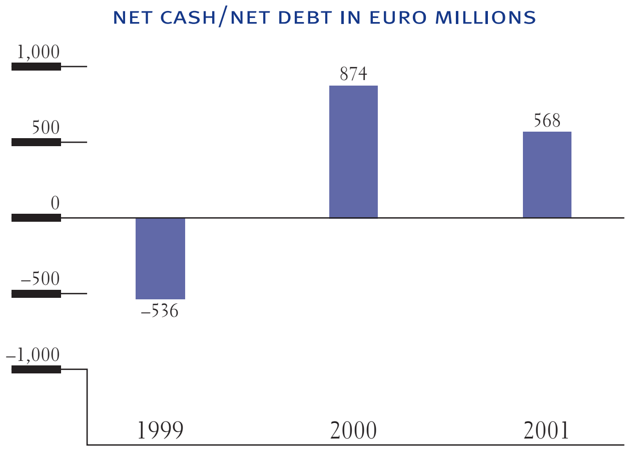

Capital Requirements

We expect to invest approximately 900 million Euro in capital expenditures in the 2002 financial year, mainly to improve productivity and upgrade technology at our existing facilities. Due to the lead times between ordering and delivery of equipment, a substantial amount of capital expenditures typically is committed well in advance. Approximately 650 million Euro of the expected capital expenditures will be made in the Memory Products front-end and back-end processes, including our Dresden facility. We expect to make approximately 150 million Euro of capital expenditures in our non-memory facilities.

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

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

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

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

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

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

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

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

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

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

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

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

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

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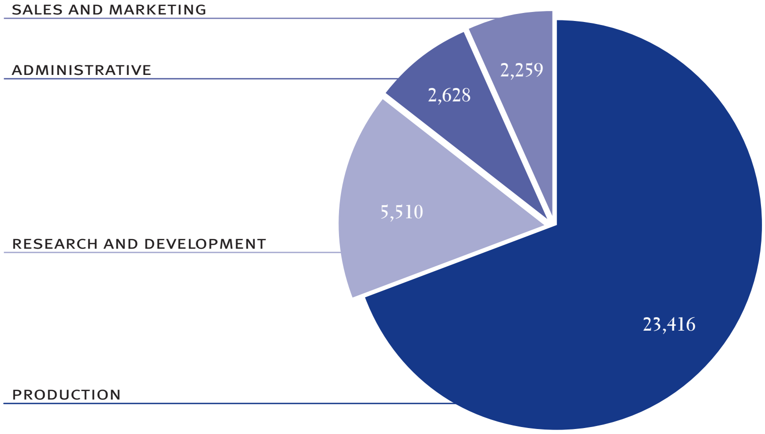
Employees

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

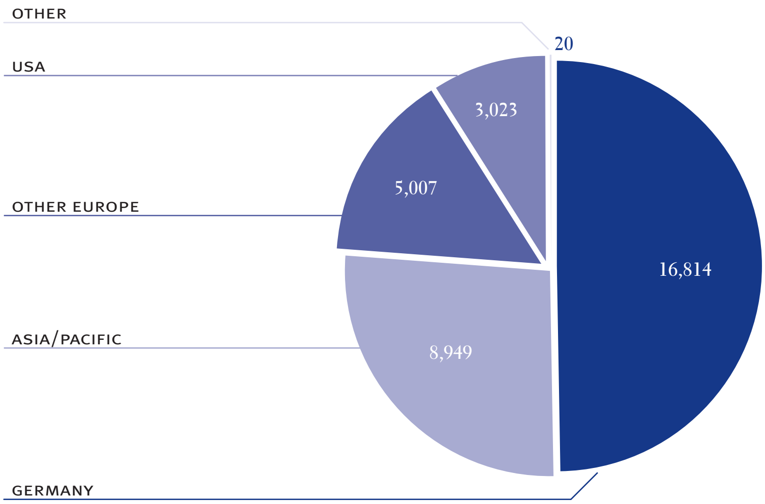
SEPTEMBER 30	1999	2000	2001
Per region			
Germany	12,853	14,247	16,814
Europe	2,842	3,409	5,007
United States	2,563	2,838	3,023
Asia/Pacific	7,521	8,672	8,949
Other	–	–	20
Total	25,779	29,166	33,813
Per function			
Production[1]	n/a	20,371	23,416
Research and Development[1]	n/a	4,733	5,510
Sales and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

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

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



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



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Environmental Matters

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

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

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

Campeon

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

Subsequent Events

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

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

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

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Outlook

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

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

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

STATUTORY SECTION

Risks and Opportunities

The semiconductor sector is a highly cyclical business which presents both significant opportunities and substantial risks. Although the industry has experienced an average annual growth rate over a twenty-year period which surpasses that of most "old economy" businesses, this average includes both exceptionally strong growth years and periods of substantial contraction. The risks associated with the cyclical nature of this industry are compounded by the need for large-scale capital investments in order to sustain market leadership as well as the sector's rapid pace of technological change. The downturn in 2001 in the demand for goods and services in the technology sector – in particular for semiconductors – and the resulting pressure on the stock prices of technology companies both illustrate the degree of volatility faced by the semiconductor industry.

The Infineon Risk and Opportunity Management System

We have established a risk and opportunity management system enabling us both to exploit the many significant opportunities manifesting themselves in our markets and to anticipate and identify risks associated with or arising from them. This system has been evaluated by our external auditors and encompasses all of our operations. This scope and depth of reporting help to enable corporate management to take quick and effective action whenever situations so require. In September 2001, we received the 2001 European Risk Management Award for this Enterprise Risk Management System.

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

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Risk and opportunity reports are issued on a regular basis by all of our business units; these reports form the core of the risk management system. The reports are examined and evaluated by the chief operating decision makers maintained for this purpose as part of their monthly process. Along with analyses of our markets and of the companies competing in them as well as the fruits of benchmarking processes, the reports are drawn upon heavily by our top management when formulating decisions.

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

To help protect against the occurrence of product-related risks, we have established a network to monitor the quality of our operations and those of our important suppliers. We have secured ISO 9000 and QS-9000 certifications for all of the facilities surveyed by this network.

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

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

Quantitative and Qualitative Disclosure about Market Risk

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

Foreign Exchange Risk Management

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

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

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DERIVATIVE FINANCIAL INSTRUMENTS

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

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

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

Interest Rate Risk Management

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

Commodity Price Risk

We are exposed to commodity price risks through our dependence on various materials. We seek to minimize these risks through our sourcing policies and operating procedures. We do not utilize derivative financial instruments to manage any remaining exposure to fluctuations in commodity prices.

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INFINEON TECHNOLOGIES AG

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

Infineon Technologies AG prepares its financial statements on a stand-alone basis in accordance with the requirements of the German Commercial Code (HGB).

Infineon Technologies AG had revenues on a stand-alone basis of 6,697 million Euro in the 2001 financial year (2000: 7,626 million Euro). It had a net loss of 435 million Euro, compared to a net income of 520 million Euro in previous financial year. Infineon Technologies AG handles the settlement of accounts for and with its subsidiaries, which produce and sell products. As a result, Infineon Technologies AG's sales on a stand-alone basis were higher than those of the Infineon group as a whole in 2001.

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

Dividend

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

Report on Relationships with Affiliated Entities

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

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

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

Munich, November 2001

THE MANAGEMENT BOARD

Dr. Ulrich Schumacher, CEO

Peter Bauer

Peter J. Fischl

Dr. Sönke Mehrgardt

Dr. Andreas von Zitzewitz

2001

DISCLAIMER

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

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

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