



**Dr. Ulrich Schumacher**  
President and  
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- Born 1958.
- Married, 3 children.
- Studied of electrical engineering.
- Further education in economics and administration.
- Doctorate in engineering.

## Dear Shareholder,

Following our highly successful 2000 fiscal year, the 2001 fiscal year was a particularly difficult one for Infineon Technologies. The dramatic market developments impacting the semiconductor industry during the last 12 months combined with a far-reaching global economic downturn were the decisive factors influencing our business results – and posing major challenges to which we reacted with determination and resolve.

The semiconductor industry achieved a record growth rate in the year 2000, expanding by 37 percent. At the same time, Infineon posted record results for the 2000 fiscal year with a revenue growth of 72 percent and an EBIT of 1.7 billion Euro. However, the 2001 fiscal year was characterized by the most far-reaching market collapse in the history of the semiconductor industry. Instead of posting double-digit growth as originally anticipated, the market for semiconductors actually declined by about 30 percent. This dramatic slump was not foreseen by any market forecasts. Nevertheless, ongoing discussions often tend to overlook the highly favorable mid-term and long-term future growth perspectives for the semiconductor industry. It is important to note that the market for chips has expanded by an annual average of 14 percent over the last forty years. The semiconductor industry will continue to be a strong growth sector and a catalyst for the modernization of the business community and society in general in this Information Age.

The main reason for the downward spiral in the semiconductor market in the past fiscal year was the significant decline in both price and demand in the most important markets which generally drive growth, namely memory products and communications. For the first time since the mid-1970s, the market for PCs is expected to decline in 2001 – posting a drop of 4 percent. Weak demand has been accompanied by a significant drop in prices for DRAM products. The average price for a 128-Megabit memory chip decreased to a level only slightly above one U.S. Dollar in September 2001, compared to 15 U.S. Dollars in September 2000. In addition, following years of unchecked growth, the first slump in demand in the market for mobile communications occurred at the beginning of 2001. The investments committed by telecommunications companies towards expanding their data and voice communications networks also declined, contrary to original forecasts. The level of these investments will drop 5 percent this year compared to an increase of 37 percent in the year 2000. Finally, demand for security and chip card ICs also suffered due to slow growth in the communications market.

This extensive market slump not only resulted in the largest downturn ever recorded in the generally cyclical semiconductor business, but inevitably had a negative

impact on Infineon's business operations. Total revenues dropped about 22 percent to 5.7 billion Euro in the 2001 fiscal year, following record revenues of 7.3 billion Euro in the 2000 fiscal year. The loss before interests, minority interests and taxes was 1 billion Euro, whereas the annual net loss amounted to 591 million Euro. The loss per share in 2001 amounted to 0.92 Euro, compared to a profit per share of 1.83 Euro in the last fiscal year. These negative developments in our company results are mainly the consequence of an intensive price war taking place in the field of memory products – which has led to a fierce competitive “shake-out” among DRAM manufacturers. This was also accompanied by increasing pressure on prices in our communications segments in the second half of the year. A case in point: the decline in the field of mobile communications led to an 18 percent drop in revenues in our Wireless Solutions Business Group.

Although manufacturers of cellular phones and network providers continue to confront unfavorable market conditions, we managed to achieve a revenue growth for all non-memory segments by almost 10 percent in the 2001 fiscal year. The Security and Chip Card ICs Business Group increased revenues by 57 percent, whereas the Automotive and Industrial Electronics Business Group expanded by 25 percent and our Wireline Communications operations by 15 percent.

#### Concentration – Cost-Cutting Program “Impact”

Infineon reacted with determination to the biggest downturn in demand in the history of the semiconductor industry. Back in July 2001, we developed and announced a comprehensive package of measures entitled “Impact” to cut costs and streamline our business. The aim of “Impact” is to achieve cash savings (including capital expenditures) of over 1.5 billion Euro by the end of the 2002 fiscal year. Following a thorough analysis, we identified far-reaching potential savings and implemented a series of measures. These include considerable reductions in purchasing, information services, overhead, sales and marketing, logistics and research and development. About 70 percent of savings are related to non-personnel issues. At the same time, Infineon has adjusted its level of planned capital expenditures to the difficult market situation. We are concentrating our efforts and investments on important innovations, on our core technological competencies and in consequently raising productivity, for example through the production of chips on 300mm silicon wafers in our Dresden manufacturing plant. Unfortunately, this program also entails unavoidable adjustments in the size of our workforce. Globally, we will reduce the number of employees by about 5,000. By the end of 2001, we will have cut a total of 2,400 jobs, of which 1,900 are abroad and 500 are in Germany.

The resolute and successful implementation of the cost-cutting program “Impact” is a crucial step towards maintaining the innovative strength and productivity of Infineon in a tough business environment, as well as ensuring a solid financial foundation at the same time. Despite difficult market conditions, the successful secondary public offering carried out in July 2001 raised net proceeds of about 1.5 billion Euro and contributed to our targets. Furthermore, the success we had in changing the structure of our portfolio also had a positive impact. In addition, we received more than 650 million Euro by divesting our infrared components business and selling our share in the opto-semiconductor joint venture. Through the measures described above, we are moving forcefully to counteract the prevailing market conditions. We intend to emerge strengthened from the current difficult conditions in the worldwide semiconductor market.

#### Convergence – Technological Leadership in Increasingly Networked Markets

Despite the challenging market environment, Infineon once again maintained its competitive edge in key target markets and further expanded its technological and cost leadership.

In our Wireline Communications Business Group, we further strengthened our leading position in the markets for fiber optic components, high-speed communications, Internet access and LAN/WAN infrastructure. In particular, we increased our lead in the market for fast optical data transmission networks at 10-Gigabit/second to 40-Gigabit/second. In this segment, we further expanded our technological leadership role with the acquisition of Catamaran Communications. Infineon continues to be in the technological vanguard in introducing high-speed VDSL broadband communications standards. We have also achieved a leading position in building up the UMTS infrastructure.

In the Wireless Solutions Business Group, we systematically expanded our systems competence for GSM and for future mobile communications standards. We now rank among the very few providers of complete systems for mobile telephony, an essential prerequisite for achieving speedy growth for next-generation GPRS and UMTS mobile communications. Infineon is also in the technological vanguard when it comes to producing chips for Bluetooth, the fast wireless transmission technology for short distances.

In the 2000 calendar year, Infineon was the world market leader in producing chips for chip cards, with a market share of 34 percent. We are not only the technological forerunner in existing markets such as mobile communications, Internet access, electronic banking, electronic and mobile commerce, but there is also growing demand for innovative security and authentication systems, including biometric systems such as

our fingertip sensors. Our comprehensive systems expertise – with the most advanced encryption technologies – as well as state-of-the-art security memory products and controllers open up new growth markets.

The Automotive and Industrial Electronics Business Group developed quite favorably. For the first time, our revenues surpassed the level of 1 billion Euro, consolidating our market leadership position as the second largest provider worldwide and the number one in Europe (excluding semiconductors used in car radios). With our cutting-edge systems expertise, we have an outstanding basis for offering comprehensive solutions for automotive electronics in the promising growth market of telematics.

As discussed before, the drastic decline in demand in the memory products market led to a significant drop in revenues and considerable losses in our Memory Products Business Group. Nevertheless, Infineon is in an excellent competitive position, thanks to aggressive downsizing in the structure size of chips, advanced production technologies and our world leadership in manufacturing next-generation chips on 300mm wafers, an approach which we will resolutely pursue. At the same time, we will expand our position in the less volatile target markets for specially-developed memory products and high-performance chips.

#### Confidence – Well-Equipped for the Future

Infineon has reacted quickly and effectively to the challenging market conditions in the global semiconductor market. On the basis of the cost reduction program “Impact”, which is being currently implemented, combined with a sound financial business base, we are well-equipped to successfully meet the challenges the future will pose. With our broad customer base, our technologies as well as the high potential of our employees, we are well prepared to benefit from the next upswing in the semiconductor industry.

Our corporate motto ‘Never stop thinking’ will continue to guide our activities well into the future. I am convinced that we will assert ourselves and persevere with long-lasting success in an extremely dynamic market. On behalf of the entire Management Board, I would like to express my sincere thanks to all employees for their dedicated involvement and commitment, and to all shareholders for their confidence.

Sincerely yours,



Ulrich Schumacher