

Memory:

We are not only a technological leader in memory chips, but we also have the most favorable cost structures in production at our disposal.

When the next upswing in the DRAM market takes place, we want to rank among the winners, and we definitely will. This also applies to our market share.

Our most important dynamic memory products are high-performance mainstream SDRAMs with capacities of 128-Megabit and 256-Megabit, as well as 512-Megabit chips which will be manufactured in the future. Dependent on customer demand, we will increasingly focus on markets with higher margins, such as high-end PCs and Internet servers. For those markets, we produce an increasingly large number of high-speed graphic memory chips (SGRAMs) and Double Data Rate (DDR) DRAM products.

Decline in Revenues in the 2001 Fiscal Year

Revenues of the Memory Products Business Group declined by 54 percent in the 2001 fiscal year to 1.6 billion Euro, although our sales of memory products, when calculated in terms of megabits, actually rose by almost 70 percent, as planned. The main reason for the downward development in revenues is the drastic reduction in prices for DRAM products. This was driven by a strong drop in worldwide demand for PCs and Internet infrastructure. At the end of the 2001 fiscal year, the costs per unit for memory products were at times only 10 percent of the price levels prevailing at the beginning of the year. As a consequence of the drop in prices, the EBIT amounted to a loss of 931 million Euro in the 2001 fiscal year, compared to a record EBIT the year before.

Key Customers Grant Top Rankings

Despite massive competition and price dumping in the 2001 financial year, Infineon succeeded in maintaining its market share and intensifying its relations with many key customers on the computer market. These efforts paid off in our achieving a high level of customer satisfaction: we continue to be one of the top 3 suppliers for 6 out of 7 of our key customers. The supplier listings of Dell and Hewlett Packard even rank Infineon as their number one chip provider. Furthermore, Compaq bestowed its "Compaq Supplier Partnership Award" on us in July 2001.

Expansion of Technological and Cost Leadership

Leading market positions in technological and cost leadership are essential to ensure long-term success in the highly competitive DRAM market. In the field of memory chips, we already rank among the forerunners in the industry both in terms of technologies and costs. For example, we create competitive advantages for ourselves by means of innovative production approaches. We managed to achieve significant gains in productivity due to the early conversion of our 200mm product line to the 0.17 micron technology and to an outstanding yield in manufacturing.



READY FOR TAKE-OFF.

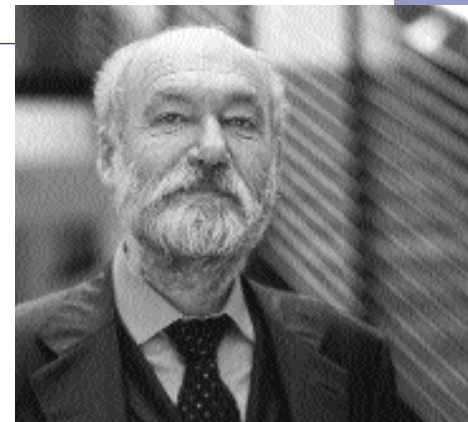
Further milestones will follow. In the 2002 fiscal year, we intend to further increase output at our new 300mm DRAM production facilities in Dresden and Taiwan. This successfully tried and tested, highly-advanced DRAM production method will lead to a long-term 30 percent cost reduction per unit, due to a 150 percent higher yield achieved per wafer. Parallel to this, we will once again reduce the chip structure, this time to 0.14 micron, which is the basis for the additional 30 percent reduction in costs already attained in our 200mm volume production.

Not only production methods but also the chips themselves are continually being improved. Our strategy is to focus on market segments with predictably high growth rates, those which will not be so strongly impacted by future cyclical price fluctuations. These include our 512-Megabyte and 1-Gigabyte DDR-DRAM modules, which have been favorably evaluated by large chipset manufacturers such as AMD, Serverworks and VIA. The same also applies to the 288-Megabyte RDRAM module, which has been validated by Intel for use in combination with its own processors. The Mobile-RAM introduced by Infineon in July 2001 is an example of our innovative strength. It is a 128-Megabit memory chip, characterized by a particularly low level of power use. Our customers can integrate the Mobile-RAM in developing their next generation PDAs, smart phones and digital cameras, in order to make these devices even more practical and easy-to-use, as well as to maximize the lifespan of the built-in batteries.

Prepared for the Upturn

There is no doubt that an upswing in the market for memory products will once again take place. However, the timing of such a market and price recovery depends on developments in the global economy and in the overall political situation. Taking these factors into consideration, the preconditions are favorable, which will enable memory chip prices to rise considerably again following a potential reduction in production overcapacity. In addition, following the last update at the turn of the millennium, a further upgrading of both corporate and private hardware can be expected before long.

Regardless of how the market develops, Infineon can flexibly adjust its production capacities to demand, and is well prepared for the next upturn in the DRAM market.



Harald Eggers

Chief Executive Officer,
Memory Products
Business Group

- Born 1950.
- Married, 2 children.
- Studied physics.

MEMORY PRODUCTS IN EURO MILLIONS

