

Letter to the shareholders



Dr. Wolfgang Ziebart
President and CEO

Ladies and Gentlemen,

Infineon has returned to profitability for the first time since the 2000 financial year. After three difficult years that presented formidable challenges not only to Infineon, but also to the entire semiconductor industry, we have completed the 2004 financial year with a group net income of 61 million euros. This represents an improvement of 496 million euros over 2003, in which we suffered a loss of 435 million euros.

Our earnings were negatively affected by a fine of 160 million U.S. dollars that we agreed with the U.S. Department of Justice in September 2004 as a settlement in an antitrust suit involving memory products. In order to avert greater damage, it was important to me and my colleagues that we bring to a close a potentially lengthy and exhausting cross-industry investigation, and begin the new financial year with a clean slate.

2004 was undoubtedly a good year for Infineon and the semiconductor industry. Our turnover rose 17 percent to 7.2 billion euros, and within the first six months of the 2004 calendar year we had joined the ranks of the world's top 5 semiconductor companies. Of particular significance is our improved ranking in the U.S., where in the same period we moved up from seventh to third place. Furthermore, we continue to have a leading position in our most important product groups: worldwide we are number one in semiconductors for chip cards, rank second in ICs for the automotive industry and in chips for wireline communications, and are presently fourth in memory chips.

Infineon's financial strength has also improved considerably, with the company's free cash flow rising from minus 53 million euros to plus 206 million euros. We have reduced our financial debt to 2 billion euros, down from 2.5 billion euros in 2003.

The Infineon share price, however, did not reflect these positive developments, losing 27 percent of its value in the course of the 2004 financial year. As we all know, semiconductor companies are particularly prone to share-price fluctuation and are scrutinized especially carefully by international investors. It is for precisely these reasons that one of our most important tasks is to prove to analysts and investors that Infineon is much stronger than is reflected in the current market capitalization.

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Our research and development and our production must stay closely in tune with the market and our customers if we wish to raise our market share in key countries and regions. This is of fundamental importance for our future business. Consequently, we have strengthened our activities especially in North America and Asia.

China is the world's fastest growing semiconductor market; therefore, Infineon opened another development center in Xi'an in January 2004, which will concentrate on developing new products for communications, automotive and industrial as well as memory products. In September 2004, we also started operations at a new assembly and testing plant in Suzhou, which will begin volume production in early 2005.

Inotera Memories, a joint venture of Infineon and our Taiwanese partner Nanya, began volume production of memory chips on 300-millimeter wafers at a new semiconductor plant in Taiwan in October 2004.

We will also produce memory chips using 300-millimeter technology alongside the current 200-millimeter wafers at our semiconductor plant in Richmond, Virginia, which will increase capacity. Production is expected to begin in the second half of 2005.

We have begun two projects in Europe as well. We are planning the further expansion of the development center for 300-millimeter memory products and manufacturing processes at our state-of-the-art site in Dresden. The expansion is scheduled for completion next year. Our plant in Portugal has been fitted with a second module for the assembly and testing of memory chips, and has already begun operations.

Infineon's accomplishments during the past financial year are a credit to the work of my management board colleagues and our nearly 35,600 employees around the world. I have come to know many of my new colleagues in several different regions over the past few months, and I appreciate how valuable their contribution is to our company each day. I would like to thank them for their efforts.

My most important task will be to build up confidence in Infineon, and I ask you, our shareholders, to support us in achieving this goal. If we wish to remain successful in the future, we will need to rely on the trust of our customers and suppliers, our shareholders, analysts and the public at large. At the same time, it seems equally important to me that we should have more confidence in our own abilities and strengths.

I came to know Infineon at first through my earlier work with BMW and Continental, both of which are among Infineon's longstanding customers. Even at that time, I was impressed by Infineon's know-how and innovative capacities. My visits to Infineon sites within the first few weeks of taking up my current position clearly confirmed this impression. For me, Infineon stands for competence, motivated employees, and a strong innovation potential.

The image that I would like Infineon to project is of a company with a first-class team of developers, engineers, production experts, and distribution specialists, which develops and produces excellent products and works closely with its customers.

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Infineon will not deviate fundamentally from its current corporate strategy, as I am firmly convinced that it is a sound one in all its major facets. However, in view of the expected market development, my colleagues and I plan to redirect the focus of our activities. Market research companies expect semiconductor industry growth to weaken in 2005. Like most experts, we also anticipate that demand will increase only slightly in comparison to 2004, and that pricing pressure will increase. Naturally, we would like to grow further, but not at any price. It will be more important for us to achieve sustainable profitability.

This involves raising cost-awareness within our company. What does that mean? We need to plan conservatively in a market that is weakening. We must think more carefully about how much we spend and for what purpose. And each employee has to consider how he or she can create value for Infineon. If we act more prudently when times are good, we will have more room to maneuver when times are difficult.

I also see room for improvement in our collaboration with our customers. How can we offer them better solutions and how can we put these into practice faster? Listening to our customers' needs and solving problems creatively and reliably will engender trust in our company. I will look very closely into how we can make our organization, structures, and processes more efficient and flexible in order to better meet customer expectations.

The efficiency of our processes is right at the top of my agenda. We must continually improve processes, adapt rapidly to changing conditions, and ensure that the quality of our products remains consistent.

While we will continue to adhere to our overall corporate strategy, there will be changes in certain aspects at Infineon. In order to succeed, we will all have to work together.

I am looking forward to meeting these challenges.

Yours sincerely



Dr. Wolfgang Ziebart
President and CEO