

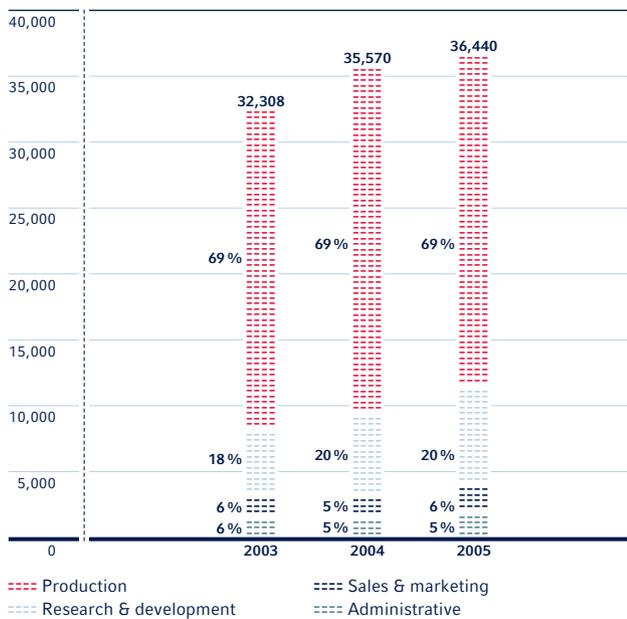
EMPLOYEES AND CAMPEON

Employees

The following table indicates the composition of our workforce by function and region at the end of the financial years indicated.

As of September 30	2003	2004	2005
Function:			
Production	22,405	24,540	25,114
Research & Development	5,935	7,160	7,401
Sales & Marketing	2,048	1,948	2,016
Administrative	1,920	1,922	1,909
Total	32,308	35,570	36,440
Region:			
Germany	16,166	16,387	16,119
Europe	5,034	5,631	5,482
North America	2,757	2,982	3,193
Asia-Pacific	8,116	10,340	11,451
Japan	118	133	158
Other	117	97	37
Total	32,308	35,570	36,440

Employees by function¹



Increase of workforce for the benefit of research and development.
1 Columns may not add up due to rounding.

In the 2004 financial year, our headcount increased principally due to the expansion of manufacturing capacities in Germany, Malaysia and China. In the 2005 financial year, this trend continued in Malaysia and China.

Campeon

We entered into a long-term operating lease agreement with MoTo Objekt Campeon GmbH & Co. KG ("MoTo") to lease an office complex constructed by MoTo south of Munich, Germany. The office complex, called Campeon, will enable us to centralize most of our Munich-area employees, who are currently situated in various locations throughout Munich, in one central physical working environment. MoTo was responsible for the construction, which was completed in the second half of 2005. We have no obligations with respect to financing MoTo, and have provided no guarantees related to the construction. We occupied Campeon under an operating lease arrangement in October 2005, and have begun the gradual move of our employees to this new location.

RISKS AND OPPORTUNITIES

Introduction

Like no other business, the semiconductor industry is characterized by periods of growth which are historically followed by periods of market contraction. Such periods of market contraction are characterized by surplus capacity, order cancellations as well as price erosion and sales volume reductions. The risks associated with the cyclical nature of this business are compounded by the need for large scale capital investments in order to achieve and sustain market leadership as well as the sector's rapid pace of technological change. These risks are, however, often accompanied by substantially greater opportunities.

Infineon risk management system

Given the volatility of the business cycle in the semiconductor industry it is very important that the risk and opportunity management policies are geared towards the goal of resilient profitable growth. The ability to quickly react to changing market developments is therefore crucial. To this end we have established a risk and opportunity management system which allows us to exploit the many significant opportunities manifesting themselves in our markets and to anticipate and identify risks associating or arising from them. An enterprise-wide system of risk and opportunity reporting is a central element of our risk and opportunity management system. The scope and depth of reporting helps to enable corporate management to take quick and effective actions whenever situations so require. Within every organizational unit of the Company, risk officers or risk reporters have been designated to implement and execute the risk and opportunity reporting process. According to the guide-

lines for this process, risks and opportunities are identified within the framework of a risk and opportunity categorization model, accompanied by an evaluation of each risk and opportunity based on its respective probability and effect upon EBIT. The risk management system is extensively documented in our intranet and thus accessible by our employees worldwide.

The reporting system is based upon individual observations of risk and opportunity and is composed of a range of monitoring and management processes embedded in 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 impact the business, the system is also used to prioritize and implement activities to enhance opportunities and mitigate or reduce our risk.

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 Management Board and business group management as part of their reviewing process.

Alongside the enterprise-wide reporting system, we have established a quantitative risk analysis process for our manufacturing and research and development activities in order to provide greater transparency of risks and prioritize measures designed to enhance the probabilities of success of these activities. Furthermore, this quantitative risk analysis methodology is being applied to financial decision-making processes, in particular to investment decisions and forecasting processes. The goal of employing this methodology is to ensure that appropriate risk mitigation and opportunity enhancement strategies are chosen and implemented.

The systematic development of existing systems of risk analysis and the creation of new early warning systems substantially contribute to the enhancement and sustainability of a risk and opportunity culture within the Company. This is supported by regular Risk & Opportunity Forum meetings involving the risk officers of the Company. These meetings provide a communication platform for exchanging ideas and information on risk analysis and risk management; they furthermore provide a basis for the creation of awareness of this important subject matter throughout the Company.

In the course of an annual Risk Management System Analysis ("RMSA") our Business Groups and Central Functions are called upon to review the effectiveness and efficiency of the key elements of the Infineon Risk and Opportunity Management System. This is executed via self-assessment using a questionnaire which is crafted to facilitate improvements and support the audit process, both by our internal and external auditors.

Our risk and opportunity reporting system has been evaluated by the external auditors as part of the annual audit process. The external auditors have confirmed that the Management Board has fulfilled its obligation according to paragraph 91 subsection 2 of the German Law on Stock Companies ("Aktiengesetz"), which calls for the creation of a reporting system which enables management to receive early warning of developments which may endanger the existence of the Company as a whole.

Global business risks

Substantial changes in regional business environments around the globe may have adverse affects on our business and results of operations.

Our global business strategy implies that we maintain research and development locations as well as manufacturing sites in many countries around the world. This may be the result of strategic decisions to enhance our cost competitiveness, overcome market entry hurdles or enhance opportunities related to technology development. More than half of our sales volume is generated outside of Europe. With the expected growth rates of Asian countries in the near future we expect our investments to increase in this region. Therefore risks could develop based upon:

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

Substantial changes in any of these conditions could have an adverse affect on our business and results of operations. It cannot be excluded that regional crises like the SARS epidemic in 2003 will not have any negative effects on our business or profitability. However, broad diversification within our product portfolio and the spread of development and manufacturing locations around the world provide an effective approach to mitigate the overall risk of such regional crises as the dependencies are generally reduced.

Risks related to our operations

From our Memory Product segment the volatility of DRAM-memory prices remains the most important risk but also the most prominent opportunity both for this segment as well as for the Company as a whole. In the past financial year the market price of our main product, the 256 Mbit DDR SDRAM varied between U.S. \$4.82 and U.S. \$2.25 (source: DRAM Exchange, 256 M DDR 400 average). Through our entry into the market for flash memory products we are expanding our product portfolio which carries both opportunities but also substantial risks. These risks are compounded by the strong position of our competitors in particular in terms of market share and technological capabilities. In relation to the previous financial year we also see substantial manufacturing risks as we are currently ramping the newest 90-nanometer manufacturing technology at a number of our production sites. Within the Logic segments of our business, Automotive, Industrial and Multimarket as well as Communication we see comparatively less volatility than in the Memory Products segment but nonetheless substantial volume risks. The quick pace of technological change coupled with the possibility of delays in the introduction of new products in the market can have a significant effect on our production volumes which may in turn influence the relationships with our major customers. Price pressure for individual products within the competitive market environment may further influence our margins in these business segments. As a substantial volume of our products may be purchased by a select number of customers, our operational results may also be dependant upon their success in the marketplace. Developments in the market which are not within our sphere of influence, such as the sale of the mobile phone unit of Siemens AG to BenQ, may also have negative effects on our potential business volume.

In order to address the risks relating to the quality of our products we have established continuous quality improvement initiatives within the product development, manufacturing and logistic processes. Our quality management system (which includes the deliveries of our suppliers) has been certified on a worldwide basis according to ISO 9001/TS 16949 for a number of years.

We have procured insurance coverages to limit the impact of losses, incidents or certain other events posing possible perils and threats to our assets, finances or earnings.

In the area of intellectual property, the Company has signed a number of cross-license agreements with other companies. The Company is working intensively to increase the number and scope of such cross-license agreements with other companies in order to reduce the risk of claims for patent infringement.

Tax, fair trade and stock exchange regulations can all supply a basis for additional risks. To mitigate the cause and effect of these risks we rely upon the counsel of professionals, including both the advice of our own employees as well as the advice of independent service providers.

Market risks

Exchange rate risks

Our involvement and participation in various regional markets around the world creates cash flows in a number of different currencies – primarily in U.S. dollars. Since we are exposed to fluctuating currencies and substantial volatility relating to exchange rates, the management of these risks becomes an important issue.

A major portion of our sales volumes as well as the costs relating to the design, production and manufacturing of products are based in U.S. dollars, not in euros. Exchange rate fluctuations may have substantial effects on our sales, our costs and our overall results of operations.

Our policy with respect to limiting short-term foreign currency exposure generally is to economically hedge at least 75 percent of our estimated net exposure for a minimum period of two months in advance and, depending on the nature of the underlying transactions, a significant portion for the periods thereafter. Parts of our foreign currency exposure cannot be mitigated due to differences between actual and forecasted amounts. We calculate this net exposure on a cash flow basis considering actual orders received or made and all other planned revenues and expenses.

Interest rate risk management

We are exposed to interest rate risk through our debt instruments, fixed term deposits and loans. During the 2002 and 2003 financial years, we issued two convertible bonds. Due to the high volatility of our core business and to maintain high operational flexibility, our current assets are kept at a high level. These assets are mainly deposited in instruments with short term interest rates. To reduce the risk caused by changes in the market interest rates, the duration of the interest rates of our debts and current assets are aligned by the use of interest rate derivatives.

Commodity price risk

We are exposed to commodity price risks with respect to raw materials used in the manufacture of our products. We seek to minimize the 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.

Financing risks

Semiconductor companies that operate their own manufacturing facilities require significant amounts of capital to build, expand, modernize and maintain them. Semiconductor companies also require significant amounts of capital to fund research and development. These capital requirements should generally be financed by incoming cash flow, the use of available credit lines, available public funding for projects and – depending upon market conditions – capital market offerings. Although we have applied for financial support from public authorities on a number of projects, we may not be able to guarantee that we will be able to raise the amount of capital required for our business from these sources in a timely and successful fashion. We intend to continue the policy of cooperation with other semiconductor companies to share the costs of research and development as well as to create joint production facilities.

Legal risks

As this applies to many companies within the semiconductor industry, Infineon has been exposed to patent claims, claims relating to alleged defective or faulty products, claims relating to the alleged transgression of environmental rules or regulations and other general liability claims. Regardless of the outcome of these claims, the company may sustain substantial costs in defending itself against these claims. Infineon intends to exert substantial efforts in defending itself against unfounded claims including the support of internal and external experts.

Reorganization of our Memory Products segment

The proposed reorganization of our Memory Products segment – and any follow-up steps we may take – may impose unexpected burdens on our business and may not produce the benefits we expect.

In November 2005 our Supervisory Board approved a plan to restructure our Company in order to better prepare us to exploit market opportunities for our memory and logic businesses as and when they arise. The first step in this process will be a transfer of all of the assets and liabilities of our Memory Products segment into a separate, wholly owned subsidiary of Infineon

(this “drop-down” of assets and liabilities, or “Teilbetrieb”, is known as an “Ausgliederung” under German law). We expect that the transfer of the assets and liabilities of our Memory Products segment into a separate, wholly owned subsidiary of Infineon, will be completed by June 2006. We intend to monitor and evaluate financial and industry developments continuously during the 2006 financial year, and will consider further reorganization steps as appropriate.

The drop-down of the memory products business may be more difficult or expensive than we anticipate, and may require greater management time and other resources than expected, any of which could adversely affect our business or results of operations. These transactions will be extremely complex, and we may not be successful in executing them in the most efficient and cost-effective manner. In addition, any additional steps we may take following this initial reorganization may prove not to be the most strategically advantageous options available to us. This reorganization and related follow-up steps, if any, could adversely impact both our memory and our logic businesses. In any event, we may not realize all the benefits for each of our business lines that we intend to realize from these transactions.

Overall risks

At no time during the past financial year have we been aware of any substantial risks which would have threatened the existence of the Company. Risks which may endanger the existence of the Company are currently not visible.

Additional descriptions relating to risks may be found in the notes to the consolidated financial statements included in this report as well as in the “Annual Report on Form 20-F”.