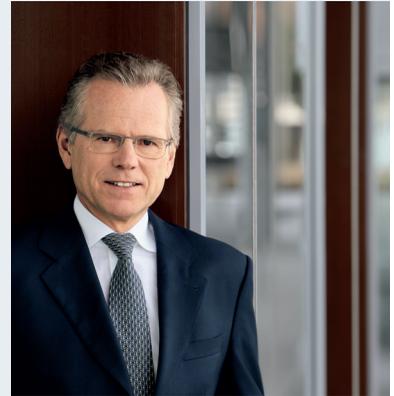


Letter to the shareholders

Dr. Wolfgang Ziebart
President and CEO of Infineon Technologies AG



Ladies and Gentlemen,

The 2005 financial year was an eventful one for Infineon, a year in which we tackled and successfully achieved many things. We have made great progress. Through extensive restructuring measures, significant cost cutting and corporate reorganization, we have succeeded in aligning Infineon closer with the market. Yet we have also been confronted with challenges: a severe drop in the price of memory and chip-card products as well as a massive decline in sales at one of our key customers in the mobile phone sector. Due to these negative effects, our results do not reflect the progress we have made. Our sales fell year on year by 6 percent to €6.76 billion, resulting in a loss before tax and interest of €183 million, compared to a profit of €256 million in the previous financial year. However, this year's figure includes an exceptional pre-tax charge of €104 million.

Even though the past year's results may somewhat impede one's view, I would like to draw your attention to the continual progress that we on the Management Board are pursuing. In the past financial year, we undertook a clear change in direction. In the past, Infineon had pursued a strategy focused primarily on growth and had accordingly won considerable market share. By this means we achieved critical mass and gained a strong market position, building the basis for the future. Yet changes in all sectors of the semiconductor industry now require that we concentrate on profitable growth. I would like to explain to you the steps already taken in this direction over the past year, and then indicate the measures that we will be implementing in the future.

In the last financial year we undertook several fundamental organizational changes. The most significant was the corporate reorganization accomplished at the start of 2005. In creating businesses with significantly greater autonomy and more room to manoeuvre, we have today moved business decision-making deeper inside the company than before. We are thus not only acting more flexibly, but also shortening our decision-making processes considerably and raising our efficiency. Each operating segment today is the responsibility of one member of the Management Board. In addition, we have integrated our central research department in the individual segments in order to turn research-driven innovation more rapidly into new products.

In the past financial year we also immediately addressed those issues where, in our opinion, there was an obvious need for action. The new, more strongly divisional structure made this much easier. We launched a program which resulted in cost levels that were €320 million lower than originally planned. We terminated or sold operations which do not form part of our core business. These included, for example, the sale of Infineon Ventures and the streamlining of the Emerging Business Portfolio which comprised, among other activities, Wearable Electronics and Biochip. Within our core business we identified those businesses where the probability of returning to profit was small. Despite their outstanding technology, we either sold or terminated these activities. For example, we discontinued our controller activities in the mobile phone infrastructure business, parts of our fiber optics business were sold to Finisar, and we sold the majority of our optical network business activities to Exar. In addition, we integrated strategically important parts of the fiber optics business into the Automotive, Industrial and Multimarket segment. Today, we can already see that these decisions were correct. These measures in the field of wireline communications served to focus the business while broadband-access products are already showing truly excellent progress with significant gains in market share. The wireline business is today more successful than for a long time.

In two significant businesses we identified the potential for profitable future development. Both these businesses, namely, base-band processors for mobile phones and security and chip card ICs, are currently implementing a clearly defined restructuring plan. In the case of base-band processors, we have developed an aggressive and systematic plan designed to help us gain new customers. It is based on the further development of our world-leading radio frequency technology as well as on new processors for mobile phones. These technologies will be complemented by UMTS/EDGE/GSM-protocol software. We are thus in a position to offer the market an outstanding, highly competitive range of mobile phone platforms scaleable from the low-tech entry segment to the high-end. By these means, we should achieve significantly improved results by the end of the 2006 financial year. Following enormous efforts in cost saving and product development, one can foresee that the position in security and chip card ICs will also have improved significantly by the end of the 2006 calendar year. We will be focusing more strongly on products with higher added-value such as access technologies, payment and identification systems. Improving our profitability here has clear priority over maintaining our share of the world market, which is currently around 40 percent. We are confident that we will be successful in achieving our objective of profitable growth.

Through the measures described, we have restructured over the past year those areas of the company which were in most urgent need of reform. Now I would like to address the steps we are going to take in the forthcoming financial year. For some considerable time there have been signs of fundamental change in the semiconductor industry. Above all, we observe that the growth of the whole semiconductor sector is slowing. In future there will also be significant differences in the rates of growth of individual segments. What is more, we are experiencing the increasing specialization of companies in terms of development and production. Current production models will not survive unchanged because of market shifts and specialization. Moreover, in certain segments, system solutions are gaining increasing prominence over individual products.

These changes require a greater degree of differentiation in the corporate structure, going beyond the divisional organization of the company that has already been implemented. In the past, we were always able to recognize and make use of synergies in the production of memory and logic products within the same company. However, in view of their different technological development, such synergies will become rare in the future. Markets and the customers as well as product and process development are diverging increasingly, both for memory and logic products. High volume production of memory products will remain highly capital-intensive and process-driven owing to the complex technology involved. By contrast, we believe logic products will have highly differentiated markets with low-volume production of individual products and with growing demands on system solutions. The close involvement of customers in product development is a key success factor here. Our portfolio of technologies and production processes thus has to be led by customer demand; the centrally managed provision of the latest production processes and capacities is too cost-intensive. Moreover, the speed at which innovation takes place in the memory and logic businesses is increasingly different. While some logic products have life cycles ranging from a few years up to a decade, memory products are rebuilt annually. This calls for the fastest possible introduction of the latest and most economic production technologies, making for a highly capital-intensive business.

Compared to previous years, we see today and in the future a decidedly different development in respect of memory and logic products. This leads to different requirements in structures and business models as well as in management and strategy.

For this reason, we have decided to make the memory business an independent legal entity. An IPO at a later date is our preferred option. We are convinced that such a separation offers a variety of new opportunities to both the Memory Products and the Logic segments. The carve-out will give the Memory Products segment the opportunity to access capital markets independently. In a capital-intensive industry, this is a crucial competitive factor. Legal independence will also make it easier for the Memory Products segment to consider opportunities for cooperation. The company's Logic segments could use funds from a memory IPO to strengthen their core business by selective acquisitions. Finally, once the Memory Products segment has gone public, investors will have the opportunity to pursue a more differentiated investment strategy.

We will not only transform the Memory Products segment into an independently operating company, but we will also make a number of changes to Infineon's Logic segments. In the future, we will pursue a differentiated product strategy for our logic products. For modules which are mainly produced using the standard process of semiconductor manufacturing, the so-called CMOS technology, we will not invest in our own manufacturing capacity for 65-nanometer technologies. However, in the field of power and radio-frequency semiconductors we will continue to undertake internally the requisite special manufacturing process since these specialized manufacturing abilities still represent an essential competitive factor. In this context, I would like to mention our new production site in Kulim, Malaysia, which we are building specifically for the manufacture of power semiconductors for the automotive and industrial sectors. The markets for these products are constantly growing and in many segments Infineon is market leader. This new production site will commence production in the fall of 2006.

I hope that I could convey to you through this brief exposition how we have been addressing with truly significant issues for our company over the past months. Having strategically assessed our position thoroughly, we have decided to implement systematically the measures we identified. The future development of our company lies in our own hands. We must do everything we can to make 2006 a better year for us all, even if experts' forecasts for the semiconductor market once again presuppose single-digit growth.

Despite the restructuring activities and the changes to their day-to-day work, our employees continue to display excellent performance and dedication to the company's future. Personally, and on behalf of the entire Management Board, I would like to express my thanks to them. Together, over the last year, we have already achieved a great deal: a successful and forward-looking reorganization of the company, as well as the repositioning and restructuring of many businesses. I am convinced that together we will successfully master the challenges that still lie ahead.

Munich, November 2005

Yours sincerely

A handwritten signature in blue ink, appearing to read 'W. Ziebart', is positioned above the printed name and title.

Dr. Wolfgang Ziebart
President and CEO