

Communication Solutions

- > The mobile phone market continues to show strong growth.
- > We have gained new premium customers.
- > Infineon benefits from the high demand for DSL connections.

The operational business of Communication Solutions (COM) is subdivided into three businesses: Mobile Phone Platforms, RF Solutions (Wireless Communications) and Broadband (Wireline Communications).

Mobile Phone Platforms

We distinguish here between the market segments of multimedia telephone and the entry-level telephone. In addition to baseband processors, radio-frequency transceivers and power management chips as the classical semiconductor components, the spectrum covers platforms for mobile phones, including software solutions. We offer this comprehensive system know-how for mobile phones of different performance categories and transmission standards.

RF Solutions

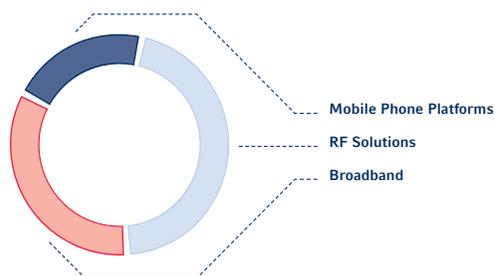
The main products are components for radio-frequency (RF) applications, short-range radio technologies and TV tuners. For us, RF components are primarily transceivers for the GSM, GPRS, EDGE and WCDMA standards. Cordless telephones, Bluetooth, WLAN, UWB and A-GPS are subsumed under short-range radio technologies. In addition, we offer RF power transistors for the base stations of mobile infrastructures. For television reception, we develop and manufacture chips for analog and digital TV tuners.

Broadband

In addition to the traditional telecommunications standards – analog telephony and ISDN – and the components for the mobile infrastructure, we offer numerous products for the currently most dynamic sector: broadband access technologies for network providers and end users, for instance SHDSL, ADSL, VDSL and Voice-over-IP.

The proportions of COM sales volume for the 2006 financial year are presented in the diagram "Sales by businesses of the COM Solutions group".

SALES BY BUSINESSES OF THE COM SOLUTIONS GROUP



Applications in the COM field are also subject to global trends, to which we are orienting our future business.

Mobility & Connectivity – State-of-the-art communications technologies link the world ever closer together. The importance of geographic distances fades. Data retrieval and messaging are becoming a matter of course. The aim is to ensure that people and information are on tap any time and any place – be it at home, at the office or on the move. Global investments in infrastructure and terminals for broadband applications are the result. Infineon's expertise lies in the wireless and wireline access technologies for voice and data communication.

Wireless Communications

Disproportionately High Growth of the Mobile Phone Market in the Lower and Upper Price Segments

The number of mobile phone users and mobile phones continues to grow unabatedly. Strategy Analytics, the U.S. market researchers, forecast approximately 2.5 billion mobile phone users by the end of 2006 and even 3.5 billion worldwide by the end of 2010. Market observers expect disproportionately high growth for the upper segment of EDGE and WCDMA mobile phones (see the diagram "Mobile phone market development by transmission standard until 2011").

There are similar forecasts for the lower market segment of low-cost and ultra-low-cost mobile phones.

We have geared our product portfolio closely to the requirements of our target customers so as to be able to participate in the growth of these markets, and we have already gained several major customers. LG Electronics, a leading mobile phone manufacturer from South Korea, for example, has decided in favor of our EDGE platform. The first mobile phones from LG Electronics based on our platform were launched on the market in October 2006. We scored a similar success for our GPRS/3G dual-mode platform. The Japanese mobile phone manufacturer Panasonic brought a mobile phone based on our MP-EU platform onto the Japanese market.

Infineon's trendsetting HSDPA/WCDMA/EDGE solution, MP-EH, was presented at the 3GSM World Congress in Barcelona in February 2006. The transition to 3G increases the demand for semiconductor devices due to the distinct improvement in features and functions of the units. Higher complexity of the radio-frequency components and the need for higher computing and memory capacity are responsible for the fact that while WCDMA mobile phones will account for only 37 percent in terms of units in the year 2010, they will constitute 50 percent in terms of value of all mobile phones sold. The reasons for buying high-end mobile phones are manifold: music downloads, video-clip-on-demand and business applications with fast data transfer for attached files. There is a trend towards EDGE and WCDMA solutions. There is a trend towards Infineon.

In emerging nations like China, India, Russia and Brazil, the requirements are quite different: mobile phones that are as simple and economical as possible. We supply these burgeoning markets with our ULC1 and ULC2 ultra-low-cost (ULC) solutions. The growth rates in these countries have topped out, though. Forecasts see new mobile phone users – but with lower market volume – in Pakistan, Bangladesh and Nigeria. ABI Research reports that more than 270 million ultra-low-cost mobile phones will be sold worldwide in the year 2010, at a wholesale price of less than U.S. \$40. They will then represent some 18 percent of the mobile phones sold worldwide, as opposed to 1 percent in the year 2005.

The core of the ULC platforms is our highly integrated one-chip solution, in which Infineon enjoys technological leadership. As a result, also in the lower price segment, new customers have been gained. We have been in volume production of our ULC1 solutions since March 2006.

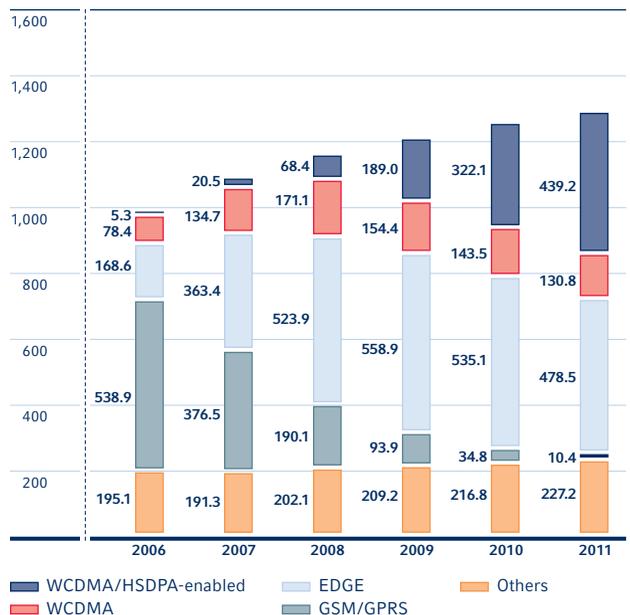
And development never stops. The first telephone call worldwide with a ULC2 platform based on our > E-GOLD-voice™ chip was made in May 2006.

Success in the Diversification of the Customer Base

We continue to pursue the strategy of systematically broadening our customer base in the mobile communications business. This is documented by the above-mentioned success scored with LG Electronics and Panasonic for EDGE and 3G telephones on the one hand and with Asian customers for ULC platforms on the other. All the same, the clear loss in market share of our largest customer for mobile telephone platforms, BenQ (formerly Siemens) and the insolvency of BenQ Mobile's German subsidiary have struck us a blow. To minimize our losses, we have further optimized our internal structures and reduced our fixed costs. Against this background, Infineon will focus its mobile phone activities on business with newly gained and future customers. We intend to continue down this road despite the loss of BenQ, and are already working on a number of promising projects with notable customers.

We anticipate that the projects we are currently implementing with our key customers will ensure that we reach break-even earnings before interest and taxes in the wireless communications business by the end of calendar year 2007.

MOBILE PHONE MARKET DEVELOPMENT BY TRANSMISSION STANDARD UNTIL 2011 IN MILLION UNITS



Source: Strategy Analytics, October 2006

Global Market Leader for Radio-Frequency Transceivers in Sales Volume and Technology

The name Infineon enjoys an excellent reputation in the radio-frequency transceiver market. These components are used for various standards in practically all wireless communication devices. Our radio-frequency chips are found in cordless telephones, mobile phones, base stations and WLAN access points. Overall, Infineon sold over 200 million of these chips in calendar year 2005, making it the market leader.

Arguably the most important evolution seen in recent years has been the transition from the bipolar technology to CMOS production technology. Today Infineon can offer CMOS-based chips for all mobile phone standards.

As already mentioned, the EDGE and WCDMA phone segment is growing fastest – at a rate of over 50 percent a year. Here, we were able to win a new top customer, namely Samsung. Samsung is incorporating our > SMARTi® PM in some of its EDGE telephones.

The transition from one mobile phone technology to another is seamless. Mobile phone manufacturers therefore offer dual-mode phones for use in different network standards, a move which substantially increases the complexity of the phones. It was therefore important to develop radio-frequency transceivers capable of supporting multiple standards, so-called dual-mode transceivers. We accomplished this mission with the > SMARTi® 3GE. Mobile phones incorporating a SMARTi® 3GE can operate worldwide in all EDGE and UMTS networks. In addition, this chip makes space in the phone due to its high degree of integration, and enables transmission of higher data rates of up to 7.2 megabits per second.

Wireline Communications

Different Communication Technologies Converge

The achievements of the digital age – making phone calls via the Internet, watching television on the computer, downloading music and films, playing online games – sharpen the demand for increasing bandwidth of data networks and bring together communications technologies that were formerly distinct. Network providers are upgrading

their wireline and wireless networks, end customers are buying higher-performance access devices, i.e. home gateways and routers, and telephones supporting a wide range of transmission standards are coming onto the market. This trend is the basis for Infineon's growth in the broadband business.

We are again involved – and so far on an exclusive basis – in the world's first VDSL2 network, currently being set up by Deutsche Telekom. In the hybrid structure selected for the network, data are transmitted via fiber-optic cable to the street cabinets, those gray boxes at the roadside that regulate the last mile to the customer. Our chip – dubbed > VINAX™ – provides data rates of up to 100 megabits per second, permitting Triple Play services, i.e. telephony, Internet access and (timeshift and interactive) TV over one and the same connection. Further expansion of ADSL networks using the new ADSL2+ standard, which permits data rates of about 20 megabits per second, has begun worldwide. Infineon serves this market with special communications processors in both central offices and CPE equipment (customer premises equipment). New DSL customers have been gained in countries including Japan, China and the USA. Deliveries began in the 2006 financial year and will continue over several years.

Voice-over-IP – also referred to as Internet telephony – has become part of our everyday life. Home gateways support analog wireline telephones, cordless telephones and the latest combinations of DECT and Internet mobile phones. Profiting from this VoIP growth are our VINETIC®, Danube™, TwinPass™ and INCA® IP chips. It emerges that our long-standing know-how in voice communications and in networks, combined with systems expertise and the highly integrated architecture of our products, gives us a competitive edge. So it is not surprising that we are in first place in the access technologies market we address (DSL, T/E-Carrier, analog line cards, etc.).

The fiber-optic business was terminated in the 2006 financial year, as planned. All delivery commitments were met. As a result of the successful restructuring and the distinct growth in sales, the Broadband segment was profitable again in the 2006 financial year.

Strengthened Development and Production Partnerships

The COM manufacturing cluster includes Altis, the facility near Paris, for 250- to 130-nanometer technology, and the 200-millimeter facility in Dresden, Germany, for up to 90-nanometer technology. For 65-nanometer technology and below, the move is being made to foundry manufacturing. Accordingly, a production partnership with Chartered Semiconductor for 65-nanometer logic products was signed in November 2005. Infineon will supply 65-nanometer products without a facility of its own.

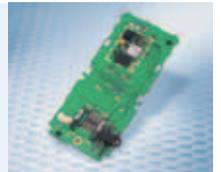
In addition to the realignment in manufacturing, we have also forged alliances in technology development to lower our costs. We cooperate with IBM, Samsung and Chartered Semiconductor for the development of processes from 65-nanometer feature size and below.

As part of our development and production strategy, we value the capability to produce a product design on several production lines of the alliance, so as to maximize design efficiency and flexibility. In keeping with this policy, the new 45-nanometer low-power process is expected to be installed and qualified at the 300-millimeter facilities of Chartered Semiconductor, IBM and Samsung by the end of 2007.

Infineon Applications for Communication Solutions

> E-GOLDvoice™ on ULC2 platform

While many people want to communicate on the move, they have little interest in high-tech functionality. Their main concern is low purchase cost. E-GOLDvoice™ shrinks the electronic component count in a simple mobile phone from over 100 at present to 50. The space required for the electronics is thus reduced to just 4 cm².



> SMARTi® PM for GSM/GPRS/EDGE mobile phones

Our SMARTi® PM is the world's first EDGE RF transceiver in CMOS technology to be produced in large volume. This chip is used in Samsung mobile phones, among others. With our SMARTi® PM, the RF portion of a GSM/GPRS/Edge mobile phone requires 50 percent less board space than competing solutions and reduces the component count by 30 percent.



> S-GOLD®3H and SMARTi® 3GE on mobile multimedia platform

There are also customers who expect their mobile phones to perform functions nobody even dreamed about earlier. We address these customers with our HSDPA/WCDMA/EDGE multimedia platform, the MP-EH, whose core contains our S-GOLD®3H baseband processor and our SMARTi® 3GE RF transceiver. This enables discerning mobile phone customers to surf the Internet, fetch e-mails, listen to MP3s, record and send video sequences, take pictures and make calls in almost all networks of the world.

> VINAX™ for VDSL2

Germany is the first country in the world where the VDSL2 infrastructure is currently being set up. This is a hybrid structure comprising a fiber-optic network along the main city roads and the classical copper wire to the subscriber. Infineon chips are in the street cabinets where the optical signals are converted into electrical signals and in the distribution box at the customer end.



> POF for video home networking

POF (plastic optical fiber) is HDTV/IPTV transmission technology for the home. An optical fiber transmits data from the home gateway to the set-top box with virtually no bandwidth limitations. Our transceivers have full light-to-logic functionality and, thanks to this plastic fiber coupling technology, provide a secure, very fast and low-cost video transmission medium.

