

Infineon Technologies Short Report 2004

Consistent steps



Never stop thinking.

Infinion key data

Infinion key data for the financial years, ending September 30¹

| | 2003 | | 2004 | | 2004:2003 change in % |
|---|------------------|----------------------|------------------|----------------------|-----------------------------|
| | euro millions | in % of net sales | euro millions | in % of net sales | |
| Net sales | 6,152 | | 7,195 | | 17% |
| By region | | | | | |
| Germany | 1,535 | 25% | 1,675 | 23% | 9% |
| Other Europe | 1,112 | 18% | 1,263 | 18% | 14% |
| North America | 1,393 | 23% | 1,524 | 21% | 9% |
| Asia/Pacific | 1,821 | 29% | 2,263 | 32% | 24% |
| Japan | 256 | 4% | 364 | 5% | 42% |
| Others | 35 | 1% | 106 | 1% | 203% |
| By business group: | | | | | |
| Wireline Communications | 459 | 7% | 434 | 6% | (5%) |
| Secure Mobile Solutions | 1,403 | 23% | 1,790 | 25% | 28% |
| Automotive & Industrial | 1,634 | 27% | 1,820 | 25% | 11% |
| Memory Products | 2,485 | 40% | 2,926 | 41% | 18% |
| Other Operating Segments | 139 | 2% | 196 | 3% | 41% |
| Corporate and Reconciliation | 32 | 1% | 29 | 0% | (9%) |
| Gross margin | 1,538 | 25% | 2,525 | 35% | 64% |
| Research and development expenses | 1,089 | 18% | 1,219 | 17% | 12% |
| Operating income/loss | (344) | | 314 | | - |
| Net income/loss | (435) | | 61 | | - |
| EBIT EBIT margin | (299) | (5%) | 256 | 4% | - |
| Earnings (loss) per share – basic and diluted in € | (0.60) | | 0.08 | | - |
| Dividend per share in € | - | | - | | - |
| Net cash provided by operating activities | 731 | | 1,857 | | 154% |
| Net cash used in investing activities | (1,522) | | (1,809) | | (19%) |
| Net cash provided by financial activities | 566 | | (402) | | - |
| Free cash flow² | (53) | | 206 | | - |
| Depreciation and amortization | 1,437 | | 1,320 | | (8%) |
| Impairment charges | 98 | | 136 | | 39% |
| Purchases of property, plant and equipment | 872 | | 1,163 | | 33% |
| Gross cash position as of September 30 ³ | 2,753 | | 2,546 | | (8%) |
| Net cash position as of September 30 ⁴ | 261 | | 548 | | 110% |
| Property, plant and equipment net as of September 30 | 3,817 | | 3,587 | | (6%) |
| Total assets as of September 30 | 10,875 | | 10,864 | | 0% |
| Total shareholders' equity as of September 30 | 5,666 | | 5,978 | | 6% |
| Equity-assets ratio | 52% | | 55% | | 6% |
| Return on equity⁵ | (7%) | | 1% | | - |
| Return on total assets⁶ | (4%) | | 1% | | - |
| Equity-to-fixed-asset ratio⁷ | 148% | | 167% | | 13% |
| Debt-equity ratio⁸ | 44% | | 33% | | (25%) |
| Debt-to-total-capital ratio | 23% | | 18% | | (22%) |
| Employees as of September 30 | 32,308 | | 35,570 | | 10% |

1 Columns may not add due to rounding.

2 Free cash flow = Net cash provided by operating activities minus net cash used in investing activities adjusted by purchases (proceeds from sales) of marketable securities available for sale.

3 Gross cash position = Cash and cash equivalents plus marketable securities.

4 Net cash position = Gross cash position minus short and long-term debt.

5 Return on equity = Net income divided by average shareholders' equity employed.

6 Return on total assets = Net income divided by average total assets.

7 Equity-to-fixed-assets ratio = Total shareholders' equity divided by fixed assets.

8 Debt-to-equity ratio = Long-term and short-term debt divided by average shareholders' equity.

Consistent steps

Tackle ...

2004 was a year of change for Infineon.

Strategic direction was optimized, market success grew and investment in the future was increased.

Each of these changes is evidence of greater drive and a consistent step towards our major goal:

profitable growth.

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Profitable growth

The prerequisite to be able to develop and implement ideas. Not an end in itself, but rather the precondition for a sustainable business. This is why Infineon places profitability before growth.

Operational excellence

Intelligent processes, coordinated perfectly with each other. For increased innovation, efficiency and quality. These are the premises on which Infineon works on tomorrow's technologies, in development and production centers around the world.

... deliver!

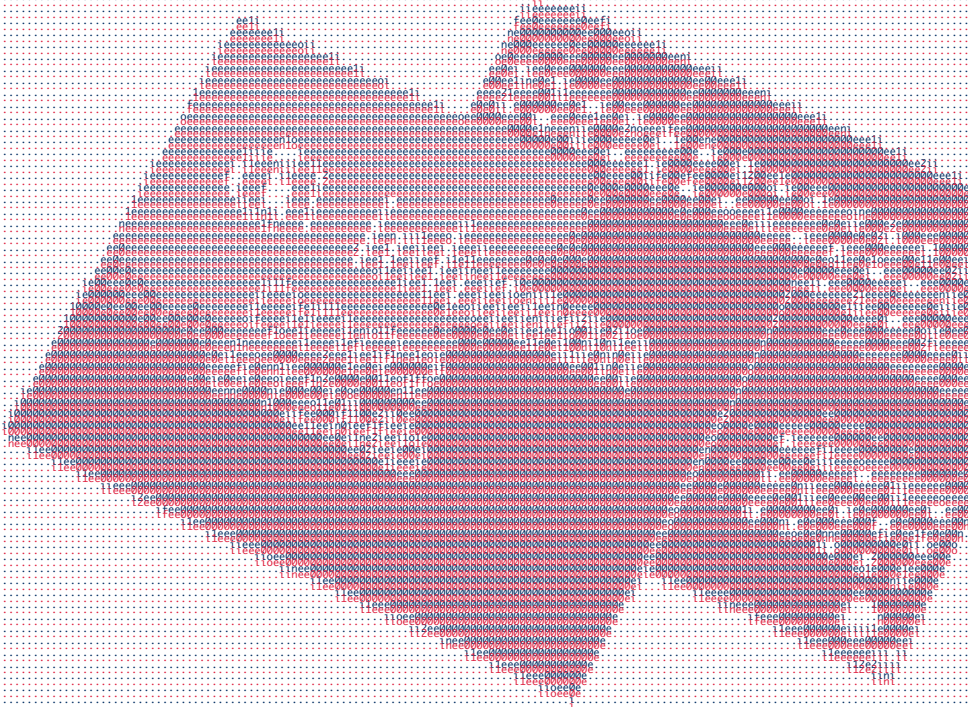
Customer focus

Give the customer what he wants. Identify needs and fulfill them. Infineon's market success is driven by convincing customized solutions, jointly developed with its industrial partners.

Cooperative culture

Networking requires dialog and demands cooperation, in business, in private life, in a technological as well as in a human context. Infineon's cooperative corporate culture helps maximize potential within the company.

Shareholder information



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 calendar year 2004 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.

2/3

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.

3/3

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,

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

The members of the Management Board of Infineon Technologies AG



From left:

Peter Bauer: Chief Sales & Marketing Officer (CMO)

Graduated in electrical engineering, academic title: Dipl. Ing.; member of the Management Board since April 1999

Peter J. Fischl: Chief Financial Officer (CFO) and Labor Director

BA equivalent degree; member of the Management Board since April 1999

Dr. Wolfgang Ziebart: President and Chief Executive Officer (CEO)

Graduated in mechanical engineering, academic title: Dr.-Ing.; member of the Management Board since September 2004

Dr. Andreas von Zitzewitz: Chief Operating Officer (COO)

Graduated in electrical engineering, academic title: Dr.-Ing.; member of the Management Board since April 1999

The Infineon share

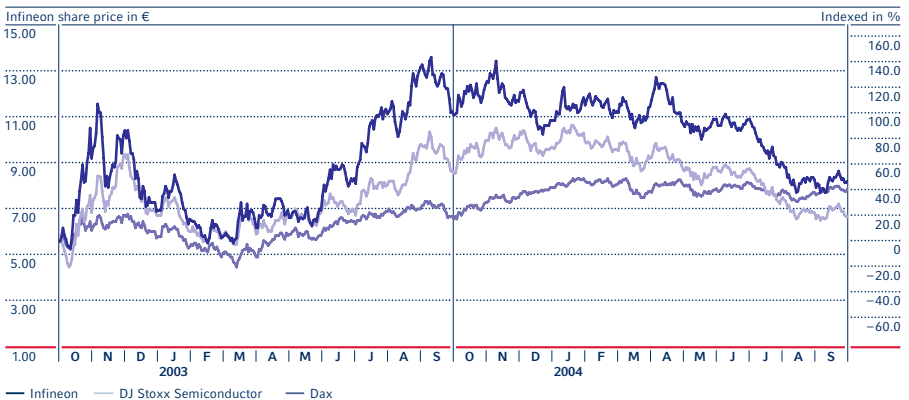
Infineon share cannot sustain the previous year's upward trend

Infineon share falls 27 percent in the course of the 2004 financial year, DJ Stoxx Semiconductor index falls 22 percent
 Trade volume in the U.S. and Germany up again
 Infineon redeems a portion of its convertible notes to reduce future interest expense

Chip manufacturer shares underperformed in comparison with the stock market as a whole over the past year. While the semiconductor market itself grew considerably in the 2004 calendar year, this was not reflected in share prices. Investors in fact expect semiconductor growth to slow down more in 2005 than previously anticipated, an expectation that is already reflected in semiconductor share prices. While, for instance, the market research institute World Semiconductor Trade Statistics raised its growth projection for the semiconductor market for 2004 from 19.4 to 28.5 percent, its projection for 2005 was lowered from 12.6 percent to 1.2 percent (predictions as of November 2004). The DJ Stoxx Semiconductor Index fell 22 percent during the course of the year, a strong contrast to the DJ Stoxx 50 and Dax indices, which rose by 12 and 20 percent respectively.

Infineon could not withstand this trend. After doubling in the course of the previous year, the Infineon share price fell by 27 percent in the 2004 financial year, although with considerable fluctuations: at the beginning of the 2004 financial year, the share even outpaced the semiconductor market, reaching a year high of 13.65 euros on November 7, 2003. Then memory chip prices fell, and by the end of December 2003 the Infineon share price had fallen strongly. When memory chip prices recovered by early April 2004, the Infineon share price followed suit. In the second half of the financial year, however, a downward trend began that affected all semiconductor stocks. The year's low of 7.80 euros was recorded on August 12. By the end of the financial year, the share had recovered somewhat, to 8.22 euros.

Relative performance of the Infineon share as compared to the Dax and DJ Stoxx Semiconductor indices since beginning of the 2003 financial year (closing price)



The trading volume of the Infineon share and American Depository Shares (ADS) continued to increase; an average of 11.7 million Infineon shares were traded each day in Xetra trading, on the Frankfurt Stock Exchange, and in regional stock exchanges; this volume is 17 percent higher than in the previous year. Approximately 0.9 million ADS shares were traded daily on the New York Stock Exchange, also a rise of 17 percent over the previous year.

The Infineon share's long-term performance has continued to be disappointing. The share price has fallen by 77 percent from the initial issue price on March 13, 2000. The Infineon share has, however, performed better than comparable technology indices over the same period.

The Infineon share in figures

| Financial year (to Sept. 30) | 2003 | 2004 |
|--|------------|------------|
| Europe Xetra closing prices in euros | | |
| Year high | 13.79 | 13.65 |
| Year low | 5.34 | 7.80 |
| Financial year close end of September | 11.22 | 8.22 |
| Average daily trade volume individual shares | 10,041,871 | 11,743,938 |
| of which Xetra trading in % | 94 | 96 |
| USA NYSE closing prices in U.S. dollars | | |
| Year high | 15.35 | 15.87 |
| Year low | 5.25 | 9.39 |
| Financial year close end of September | 12.89 | 10.22 |
| Average daily trade volume individual shares | 766,588 | 896,317 |

Long-term development of Infineon share and market indices in %

| Period to Sept. 30, 2004 | Since Oct 2003 | Since Oct 2002 | Since IPO Mar 13, 2000 |
|--|----------------|----------------|------------------------|
| Europe | | | |
| Infineon (Xetra) | (27) | 47 | (77) ¹ |
| DJ Stoxx Semiconductor | (22) | 19 | (85) |
| DJ Stoxx Technology | 6 | 54 | (80) |
| DJ Stoxx 50 | 12 | 15 | (47) |
| Dax | 20 | 41 | (49) |
| USA | | | |
| Infineon (NYSE) | (21) | 79 | (70) ¹ |
| Philadelphia Semiconductor Index (SOX) | (8) | 61 | (71) |

¹ Based on issue price of 35 euros / 33.92 U.S. dollars.

Market capitalization at 6.1 billion euros

Market capitalization came to 6.1 billion euros as of the end of the financial year, down 24 percent from the end of the previous financial year. This is primarily a reflection of the decline in the Infineon stock price. The number of shares outstanding rose by 4 percent, as a result of Infineon's acquisition of the minority interest in the 300-millimeter production facility in Dresden, financed through a capital increase in kind.

Share capital, number of shares outstanding, and market capitalization of Infineon Technologies AG

| As of September 30 | 2003 | 2004 | Trend |
|--|-------|-------|--------|
| Share capital € in million | 1,442 | 1,495 | +4 % |
| Shares outstanding in million ¹ | 721 | 748 | +4 % |
| yearly average in million ¹ | 721 | 735 | +2 % |
| Market capitalization € in million | 8,090 | 6,149 | (24 %) |
| Market capitalization U.S.-\$ in million | 9,294 | 7,645 | (18 %) |

¹ Basic.

Infineon to pay no dividend

Although Infineon achieved a 61 million euro profit in the 2004 financial year (previous year: minus 435 million euros), the Infineon Management Board and Supervisory Board will not propose the payment of a dividend at the Annual General Meeting. Due to the accumulated losses carried forward from earlier years, Infineon's parent company, Infineon Technologies AG, will not in fact have distributable profits for the 2004 financial year.

Convertible notes redeemed

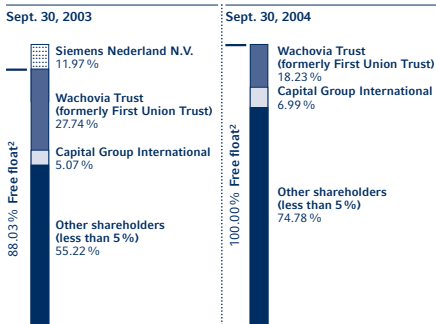
In the second half of the financial year, Infineon redeemed convertible subordinated notes in an effort to reduce future interest expenses. These notes had a nominal value of 360 million euros and would have been due in 2007. The original issuance of one billion euros was thus reduced to a nominal 640 million euros after the redemption.

Free float at a hundred percent

According to the FTSE stock index definition, the portion of Infineon shares accounted for by free-float holdings has risen from 88 percent to 100 percent in the course of the past financial year. The following changes in the free float ownership, subject to mandatory reporting, are known to the company:

- ::: Siemens Nederland N.V. sold all of its shares on January 14, 2004, thereby falling below the 10 and 5 percent voting thresholds.
- ::: The Wachovia Trust Company National Association sold 63.7 million shares on January 14, 2004, thus falling below the 25 percent voting threshold. The Wachovia Trust now holds 136.3 million shares, down from 200.0 million.
- ::: Capital Group International increased its interest in the company by 15.7 million shares to a total of 6.99 percent by February 26, 2004.

Shareholder structure¹



- 1 In accordance with the companies' mandatory reporting known to Infineon.
- 2 Free float strictly in accordance with the FTSE stock index definition. By contrast, Deutsche Börse and Stoxx do not count the Wachovia Trust share as free float.

Continual dialog with investors and analysts

Analysts and investors have maintained a continued interest in Infineon this past financial year. As in pre-

vious years, Infineon's management and the investor relations team held numerous individual discussions with investors, and presented the company at a number of conferences in 2004. These activities will continue on the same scale in the coming financial year.

Interested investors can find comprehensive information on the company at www.infineon.com. The site's "Investor Information" pages include the latest news, financial reports, and detailed information on shares, convertible notes, and corporate governance, as well as corporate presentations and the investor relations calendar.

Basic share information

| | |
|--------------------------------------|---|
| Share types | Ordinary registered shares in the form of shares or American Depository Shares (ADS) with a notional value of 2.00 euros each (relation ADS:shares = 1:1) |
| Share capital | 1,495 m euros (as of Sept. 30, 2004) |
| Outstanding shares | 748 m (as of Sept. 30, 2004) |
| Listings | Shares: Frankfurt Stock Exchange (FSE) ADS: New York Stock Exchange (NYSE) |
| Option trading | Options on shares: Eurex Options on ADS: CBOE |
| IPO | March 13, 2000 on the FSE and NYSE |
| IPO issue price | 35.00 € per share 33.92 U.S. dollars per ADS |
| Ticker symbol | IFX |
| ISIN Code | DE0006231004 |
| CUSIP | 45662N103 |
| Bloomberg | IFX.GY (Xetra trading system) IFX.US |
| Reuters | IFXGn.DE |
| Index listings (selection) | Dax 30 Dow Jones German Titans 30 Dow Jones Stoxx Semiconductor FTSE Euro 100 MSCI Germany SOX S&P Europe 350 |

The Infineon IR team is available to answer investor and analyst questions in **Munich, tel: +49 (0)89 234-26 655** or **fax: +49 (0)89 234-26 155** and in **San Jose, California, tel: +1408 501 6800** or **fax: +1408 392 8023** as well as via **e-mail: investor.relations@infineon.com**

Wireline Communications

Fast Internet and VoIP boost broadband data transfer

Triple play services are the key driver for the Customer Premises Equipment market
 Driving the convergence of voice and data towards a single IP network
 Refocusing the business group as an Access Solution Provider

Telephone lines are no longer used just for standard voice communication. Many services such as the transmission of large amounts of data, multimedia applications, and IP telephony are now delivered over the very same telephone line. Today, the broadband service provider industry is one of the fastest-growing sectors of voice and data communications, and Infineon's Wireline Communications business group designs products for these markets. In addition to traditional telephony products, Infineon provides a wide range of system solutions for efficient transmission of fast "triple play" services that include voice, data, and video. Wireline Communications' products comprise "core to door"TM semiconductor solutions from the metro rings via Central Offices (COs) all the way to customers' premises.

Business situation

Infineon is a leading semiconductor supplier to the telecommunications industry. Its revenues therefore depend strongly on how much telecom companies invest in their infrastructure. While traditional voice transmission technologies such as analog telephony and ISDN no longer offer growth potential, broadband access technologies such as ADSL, in particular, are enjoying growing popularity. Network applications are also being used more frequently in private homes. Infineon serves this market segment with wired and wireless home gateway solutions. These systems work as integrated access points for voice, video, and data services to the premises, and as routers to create and control home networking. Together with high-speed Internet access, home applications form a rapidly growing, highly competitive market.

Strategic orientation

Infineon is the world's leading supplier of semiconductors for traditional telecommunication infrastructure, with a comprehensive range of traditional voice products (analog linecards, ISDN, T/E carrier, etc.). Leveraging its top position in this industry, Infineon addresses the growing demand for VoIP solutions by offering advanced IP phone and Analog Telephone Adaptors (ATA) to enable VoIP technology on any analog telephone line. In addition, Infineon plans to complete its portfolio with end-to-end xDSL access technologies for Broadband In The Home (BBITH) and digital home networking.

With the acquisition of the Taiwanese company ADMtek, a semiconductor supplier for Customer Premise Equipment (CPE) applications, Infineon can now provide complete broadband communication solutions for both ends of the communication line, from the Central Office to the individual user. Adding CPE solutions to our portfolio also gives us access to the promising digital home-networking market, allowing triple play services in private homes and business centers via broadband. Digital home networking enables the connection of televisions, telephones, computers, surround voice systems, and other devices either via a wireless LAN or wireline home gateway. Our regional presence in Taiwan – just around the corner from the world's leading CPE manufacturers – offers an excellent starting point for market development.

Secure Mobile Solutions

Wireless solutions gaining ground

Complete solutions add to the product portfolio of wireless platforms
 UMTS drives infrastructure investments for base stations
 Maximum security through new product platforms for chip cards

Secure Mobile Solutions offers an extensive line of wireless applications and serves the entire security chip card market. Included in its portfolio are not only numerous semiconductor components for cordless phones and cell phones, but also operating software and applications for cell-phone manufacturers who procure system solutions. The business group also offers Bluetooth chips for wireless transmission of data over short distances and chips for cellular base stations. The UMTS third generation wireless system provides cell-phone users with multimedia services in addition to telephony. Since the introduction of this technology, the UMTS cellular base station business has been gaining momentum as well. The capacities of conventional GSM and GPRS networks are also being expanded or – as is the case in parts of Eastern Europe, South America and India – are being deployed for the first time. Our security chips are used in a wide range of applications: for example, in SIM cards for identifying users in cellular networks, as well as in PayTV, bank and credit cards and for ID cards and passports.

Business situation

The cellular market is characterized by two trends: on the one hand, multimedia telephones require ever more powerful processors and increasingly complex software and system solutions. On the other hand, the important mass markets in Asia, Eastern Europe and South America are demanding economical low-end models. There is a growing demand for complete reference designs, including the software solutions, which we can tailor to meet specific customer needs.

Growth drivers in the area of security chips are personal identification applications (passports, ID cards, health insurance cards) and payment cards (debit and credit cards). In these high-security areas, very high standards for both contact and contactless chip cards are required

in terms of security and performance. As in the past, SIM cards continue to account for the majority of revenues.

These markets pose several challenges: the cell-phone industry is characterized by short innovation cycles as well as shifts in supply chain structures. Cell-phone manufacturers are increasingly moving their development and production operations abroad; mobile suppliers are to a greater extent defining their own cell-phone specifications and are contracting out production. The number of applications for security chips is continuously growing; in addition, there are constant requests for new security functions in existing applications.

Strategic orientation

The platform business is regarded as an important growth market in the cell-phone segment. In view of this, Infineon has promoted software and system development. Today, Infineon delivers a comprehensive range of services. In addition to providing telephone platforms with the required range of functions, Infineon also offers support during testing and production ramp-up. The company is also expanding its market leadership in the area of radio frequency components.

State-of-the-art technologies, innovation, and a highly competitive product spectrum help to strengthen our wireless infrastructure business as does the consistent expansion of our customer base.

We are striving to maintain and expand our market leadership in the area of security chips and solutions by introducing the high performance 16-/32-bit product platforms with additional security features as well as a new contact-less controller family. Infineon is enlarging its application spectrum and customer base with RFID chips for identification tasks and TPMs (Trusted Platform Modules) for PC and network security.

Automotive & Industrial

System expertise and power-saving solutions

For automobile manufacturers, Infineon products offer lower system costs while increasing performance
 Market leadership with highly integrated, power-saving industry semiconductors
 Microcontrollers for real-time applications, tire-pressure sensors and combined functions within a system

Semiconductors have become an integral part of modern vehicles: the chips produced by the automotive electronics segment control a variety of the vehicle's functions ranging from the air-conditioning system and seating adjustment to the ABS and airbags, right through to the motor and transmission system. On average there are about 250 euros-worth of semiconductors in every car produced today, and this quantity is increasing steadily.

The industrial electronics segment is responsible for power-supply equipment as well as electric engines – on a small, as well as on a large scale. High performance electronics in transformation substations, in high-speed trains, wind-energy plants and industrial power drives, for example, ensure that high power is reliably controlled. Semiconductors also regulate the power supply to motherboards in PCs and notebooks as well as in battery chargers for mobile equipment.

Business situation

The market for automotive semiconductors is the most stable segment in the entire semiconductor industry. This is partly due to – comparatively – low fluctuation in automobile production, and partly to the constant advances being made in electronic equipment for vehicles. This means that in the automotive electronics segment there is a relatively high degree of planning certainty – with long product cycles and a well-established customer base. Products must, however, conform to the very highest quality standards, since our customers expect zero defects (0 parts per million, ppm).

The two most important segments in the industrial field – drive control of electric motors and power supply for PCs, notebooks, and battery chargers for mobile equipment – are typically driven by the need to minimize power losses and reduce the size of the casing.

Achievement of these requirements depends on the architecture of chip components.

Strategic orientation

In the automotive sector, Infineon offers a comprehensive product portfolio and system expertise that is based on years of experience in this area. Infineon is active in all three fields of classic control loops: sensor-assisted measuring, data processing using microcontrollers, and actuating by means of high-performance electronics. This means the three most important fields of application – power trains, safety, and body & convenience – are all particularly well catered for. The golden rule is: absolutely flawless deliveries or 0 ppm – which means of billions of components supplied, no defects can be tolerated. This objective has already been achieved with the majority of our products.

In the field of high performance semiconductors in the industrial electronics segment we have set ourselves the task of minimizing power losses. The result is higher power density and smaller modules as well as a reduction in heat generation. Power supplies used in PCs, notebooks and other consumer electronics devices are thus one of our focal areas of interest.

Another important focus is on PC microprocessor power supply. Depending on the operating state of the microprocessor, more or less current needs to be controlled. Here, voltage regulators have to ensure that the voltage is maintained at exactly the required level while minimizing power loss.

Drive control can be divided into two sub-segments: one is the high voltage applications such as railway locomotives, underground trains, and automation, the other is consumer applications equipment such as washing machines, dishwashers and air-conditioning systems.

Memory Products

Technology leadership through superior process technology

Highly integrated memories in 110-nanometer technology
 Widened product portfolio with application-specific and specialty memories
 Sharing risks and widening resource base by building up partnerships

An estimated 52 billion megabytes of data are generated worldwide each day – and this figure is rising. This flood of data demands ever-increasing memory capacity, both of the network infrastructure and of the terminals processing the data. The performance offered by application and operating system software is constantly increasing, also enabled by greater memory capacities. Infineon develops semiconductor memory components for a wide variety of data processing and distribution devices.

The DRAM (Dynamic Random Access Memory) chip is deployed in all computers, from the PDA to the notebook and PC all the way to the mainframe. Yet more and more memory volume is also required for compact, battery-operated devices, such as mobile phones, since they are no longer just used for making calls, but increasingly for the reception and local processing of data.

Business situation

The main pillar of revenues in the Memory Products business group is the DRAM, which is largely standardized throughout the industry and therefore subject to tough competition. Representing 60 to 70 percent of the market, the major share of worldwide DRAM production is absorbed by the computing segment – which includes workstations, desktop and notebook PCs. The remainder goes to less price-sensitive markets, such as servers and routers acting as nodes in networks, as well as consumer electronics, telecommunications and PC peripherals.

Recent years have seen a drop in the number of DRAM suppliers, not least due to the tough competition, and the market has consolidated. In the 2003 calendar year the top 5 DRAM suppliers had a market share of over 80 percent, ten years ago it was nearly 50 percent.

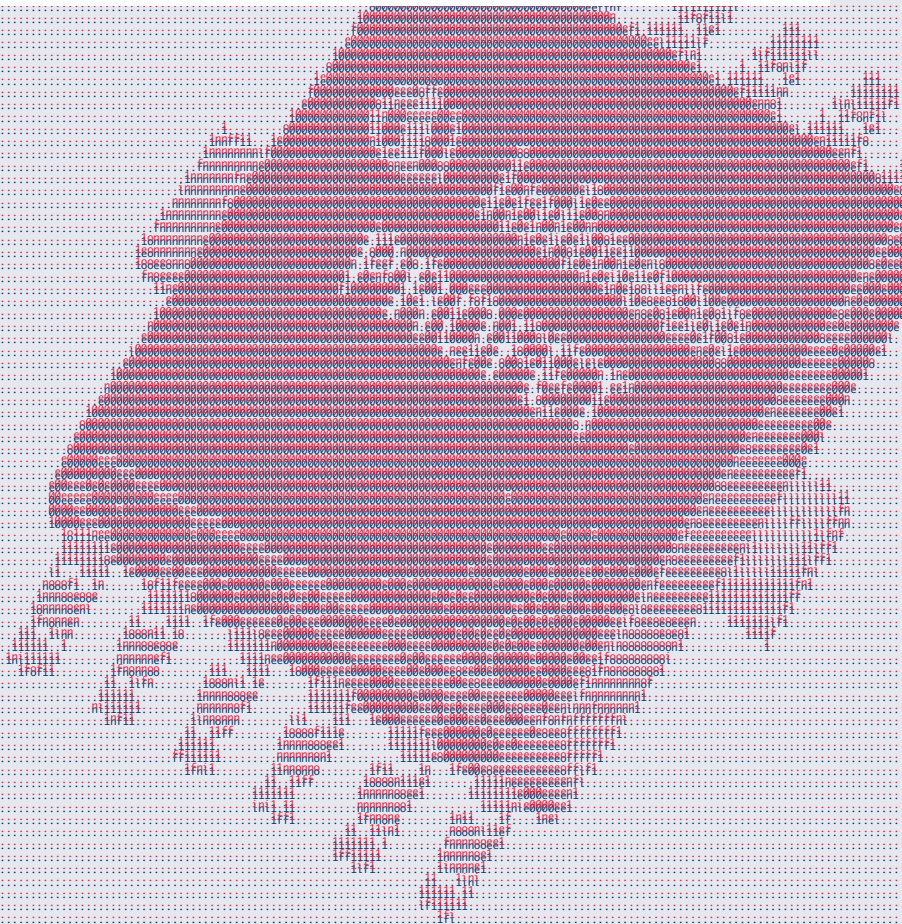
Strategic orientation

Innovation and flexibility are the pivotal requirements for securing profitable growth in the competitive environment prevailing in the memory products market. Infineon's state-of-the-art production technologies make it possible for the company to significantly cut memory production costs year by year. In the last financial year, a major part of the production capacities was shifted to feature sizes of 110 nanometers. We have also created new capacities in the 300-millimeter technology – where Infineon continues to play a pioneering role. This, too, affords potential for more cost-effective memory production. We thus ensure our ability to continuously increase productivity in the manufacturing of memory components by approximately 30 percent each year.

Cooperation will continue to be an item on the business group's agenda to expand its capacities and develop new products and processes, an approach allowing risks and costs to be shared and minimized and opening up a wider resource and financial base for projects.

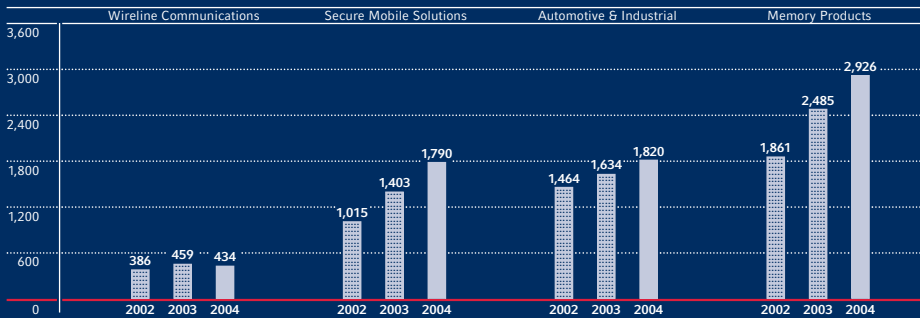
There is also an ongoing drive in the Memory Products business group towards gearing its product portfolio to higher-margin market segments. As compared with standard memories, they achieve higher prices and are less subject to market fluctuations. These products include application-specific and customized DRAM products, such as server modules or power-saving specialty memories for mobile devices. This is aimed at reducing the volatility of the business as a whole and rounding off the product range at system level. Infineon is successfully using this approach in the mobile phone business: we not only develop a large part of the platform of a mobile phone ourselves, but also provide a corresponding range of memories.

Condensed financial review

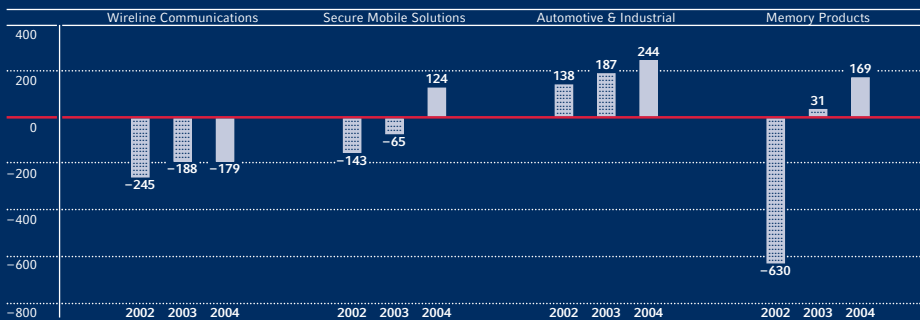


Our segments: net sales and EBIT

Net sales € in million



EBIT € in million



Condensed operating and financial review

Overview of the 2004 financial year

In our 2004 financial year, which ended September 30, the global economy was generally stronger than in the prior year and the semiconductor market experienced a period of growth. We achieved double-digit revenue growth during the 2004 financial year, primarily as a result of the improvement in demand for our products, especially for DRAM. We improved our gross margin as a result of reductions in per-unit production costs, achieved by converting additional production to our 110-nanometer and 300-millimeter DRAM technology, and by increased capacity utilization. We achieved profitability despite incurring significant charges in connection with antitrust investigations and related claims, as well as impairments.

The following were the key developments in our business during the 2004 financial year:

- ::: Our revenues increased by 17 percent, and our earnings before interest and taxes (EBIT) increased from a loss of €299 million in our 2003 financial year to positive EBIT of €256 million in the 2004 financial year.
- ::: We advanced from the seventh-largest semiconductor company worldwide as of June 2003 to the fifth largest as of June 2004, with a market share of 4 percent. The ranking is based on revenues and was made by IC Insights, a leading industry market research firm.
- ::: Our cash flow from operations improved substantially from €731 million in the 2003 financial year to €1,857 million in the 2004 financial year. The improvement was due mainly to improved gross margin and active cash management.
- ::: We continued to invest heavily in research and development and achieved a number of significant milestones during the year, including:
 - ::: Introduction of next-generation GOLDMOS® technology and high-power RF transistors optimized for applications requiring high linear efficiency;
 - ::: Demonstration of the world's first 16-Mbit Magnetoresistive RAM (MRAM) prototype, together with IBM;
 - ::: Introduction of the new CoolSet Power Semiconductor Family, providing the industry's lowest stand-by power consumption; and
 - ::: Demonstration of carbon nanotube transistors for power applications.
- ::: In April 2004, we acquired the Taiwanese chip designer ADMtek Inc., Hsinchu, Taiwan ("ADMtek"). ADMtek will offer a complete IC solution package, to complete our portfolio of broadband access products for the central office with feature-rich, multimedia gateway solutions for customer premise equipment.
- ::: We agreed to sell our fiber optics business unit (part of our Wireline Communications segment) to Finisar Corporation. We will transfer to Finisar our fiber optics development, manufacturing and related marketing activities, as well as approximately 1,200 employees. Following closing of the transaction, we anticipate holding a 33 percent equity interest in Finisar, which will be one of the largest optical components companies in the market.
- ::: As part of our ongoing project to improve our production processes and expand our production capabilities, we:
 - ::: Successfully transferred to different production facilities our high-performance process technology using structure sizes of 130-nanometer for logic products, in order to further increase our production flexibility;
 - ::: Successfully ramped the 110-nanometer process technology for DRAM products in our 200-millimeter and 300-millimeter production facilities;
 - ::: Enlarged our memory chip assembly and testing facility in Porto, Portugal;

- ::: Expanded the scope of our foundry agreement with Winbond, including providing our 90-nanometer DRAM trench technology and 300-millimeter production know-how to Winbond in exchange for increased foundry capacity;
- ::: Recommended construction of the 300-millimeter facility at our plant in Richmond, Virginia;
- ::: Completed construction of a back-end manufacturing facility in China, which is expected to start mass production in the first half of the 2005 financial year; and
- ::: Saw our joint venture Inotera Memories Inc., Taoyuan, Taiwan (“Inotera”) complete construction of its 300-millimeter manufacturing facility and start mass production.
- ::: In September 2004, we agreed to settle the ongoing antitrust investigation by the U.S. Department of Justice and related claims by certain of our largest OEM customers. Similar investigations are ongoing in Europe and Canada. We accrued charges of €209 million during the 2004 financial year related to these settlements and investigations.
- ::: We recognized impairment charges of €136 million in the 2004 financial year, principally related to our 2001 acquisition of Catamaran Communications, Inc. (“Catamaran”) and our decision to terminate our venture investing activities.
- ::: In September 2004, we welcomed Dr. Wolfgang Ziebart as our new CEO.

Our business

We design, develop, manufacture, and market a broad range of semiconductors and complete systems solutions used in a wide variety of microelectronic applications, including computer systems, telecommunications systems, consumer goods, automotive products, industrial automation and control systems, and chip card applications. Our products include standard commodity components, full-custom devices, semi-custom devices, and application-specific components for memory, analog, digital, and mixed-signal applications. We have operations, investments, and customers located mainly in Europe, Asia, and North America.

Our business is organized into four principal operating segments serving various markets in the semiconductor industry:

- ::: Our Wireline Communications segment designs, develops, manufactures, and markets semiconductors and fiber optic components for the communications access, WAN (Wide Area Network), MAN (Metropolitan Area Network), and Carrier Access (both broadband and traditional access) sectors of the wireline communications market. We have entered into an agreement for the sale of this segment’s fiber optics business to Finisar Corporation.
- ::: Our Secure Mobile Solutions segment designs, develops, manufactures, and markets a wide range of ICs for wireless applications, security controllers, security memories and other semiconductors, and complete system solutions for wireless and security applications.
- ::: Our Automotive & Industrial segment designs, develops, manufactures, and markets semiconductors, and complete systems solutions for use in automotive and industrial applications.
- ::: Our Memory Products segment designs, develops, manufactures, and markets semiconductor memory products with various packaging and configuration options and performance characteristics for standard, specialty, and embedded memory applications.

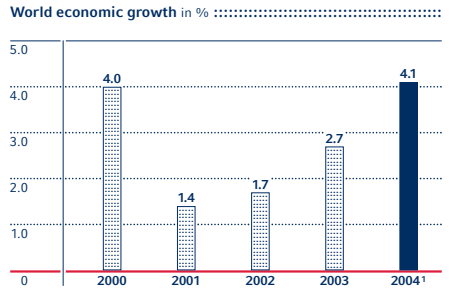
We have two additional segments for reporting purposes, our Other Operating Segments, which includes remaining activities for certain product lines that we have disposed of, as well as other business activities, and our Corporate and Reconciliation segment, which contains items not allocated to our operating segments, such as certain corporate headquarters' costs, strategic investments, unabsorbed excess capacity, restructuring costs, and corporate IT development expenses.

Semiconductor market conditions in the 2004 financial year

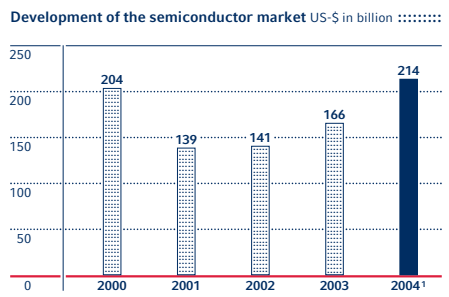
The semiconductor market strengthened significantly during the 2003 calendar year, with growth of 18 percent over the prior year, according to WSTS (World Semiconductor Trade Statistics). In September 2004, WSTS predicted continued growth in the 2004 calendar year of 28 percent over the 2003 calendar year. WSTS further predicts that sales in the Asia/Pacific region will increase by 42 percent in the 2004 calendar year, while other regions are predicted to experience somewhat lower growth: Europe, 21 percent; Japan, 18 percent; and North America, 21 percent. Non-memory products (logic chips, analog, discrete and optical components), which accounted for 78 percent of the entire market in the first half of the 2004 calendar year, are predicted to grow by 24 percent compared with the 2003 calendar year. Memory products are predicted to grow by 46 percent compared with the 2003 calendar year.

Gartner Dataquest predicts worldwide growth in the 2004 calendar year of 37 percent for semiconductors in the communications segments (wireless and wireline). Semiconductors for data processing are predicted to grow by 26 percent, for consumer electronics by 22 percent, and for automotive electronics by 23 percent.

During our 2004 financial year, we were able to benefit from these improved market conditions in the worldwide semiconductor industry.



The growing world economy has a positive influence on semiconductor market growth.
Source: International Monetary Fund; status: September 2004.
¹ Estimated.



Improvement of positive signs in the semiconductor market in 2004.
Source: WSTS; status: October 2004.
¹ Estimated.

Results of operations

Various line items in our consolidated statements of operations expressed as percentages of net sales

| For the year ended September 30 ¹ | 2002 | 2003 | 2004 |
|--|--------|--------|---------------|
| Net sales | 100.0 | 100.0 | 100.0 |
| Cost of goods sold | (87.7) | (75.0) | (64.9) |
| Gross profit | 12.3 | 25.0 | 35.1 |
| Research and development expenses | (21.7) | (17.7) | (16.9) |
| Selling, general and administrative expenses | (13.1) | (11.0) | (10.0) |
| Restructuring charges | (0.3) | (0.5) | (0.2) |
| Other operating income (expense), net | 0.9 | (1.4) | (3.6) |
| Operating (loss) income | (21.9) | (5.6) | 4.4 |
| Interest expense, net | (0.5) | (0.8) | (0.6) |
| Equity in (losses) earnings of associated companies | (1.0) | 0.3 | (0.2) |
| Gain (loss) on associated company share issuance | 0.4 | (0.0) | 0.0 |
| Other non-operating (expense) income, net | (0.8) | 0.3 | (0.9) |
| Minority interests | 0.1 | 0.1 | 0.3 |
| Income (loss) before income taxes | (23.7) | (5.7) | 3.0 |
| Income tax benefit (expense) | 2.9 | (1.4) | (2.1) |
| Net (loss) income | (20.9) | (7.1) | 0.9 |

¹ Columns may not add due to rounding.

Net sales

We generate our revenues primarily from the sale of our semiconductor products and systems solutions. In addition, we also generate less than 5 percent of our sales from activities such as foundry services for divested businesses and the licensing of our intellectual property. Our semiconductor products include two main categories of semiconductors:

- ::: Our memory products, such as dynamic random access memory (DRAM), which are used in computers and other electronic devices. We also offer a limited range of non-volatile flash memory products, which are used in consumer applications such as digital still cameras or cellular handsets.
- ::: Our logic products, which include a wide array of chips and components used in electronic applications ranging from wireless communications devices (such as mobile phones and Bluetooth devices), chip cards, modems, and other wireline technologies such as DSL, automotive electronics, and industrial applications.

We make the vast majority of our product sales through our direct sales force, with approximately 10 percent of our total revenue in any period derived from sales made through distributors.

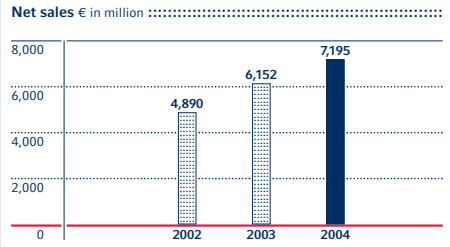
We derive our license revenue from royalties and license fees earned on technology that we own and license to third parties. This enables us to recover a portion of our research and development expenses, and also often allows us to gain access to manufacturing capacity at foundries through joint licensing and capacity reservation arrangements. We recognize license income, primarily in the Memory Products segment, resulting from the transfer of technology to our alliance partners, such as Winbond and Nanya, and, in previous years, our joint venture ProMOS Technologies Inc. ("ProMOS").

Our revenues fluctuate in response to a mix of factors, including the following:

- ::: The market prices for our products, particularly our DRAM products;
- ::: Our overall product mix and sales volumes;

- ::: The stage of our products in their respective life cycles; and
- ::: The effects of competition and competitive pricing strategies.

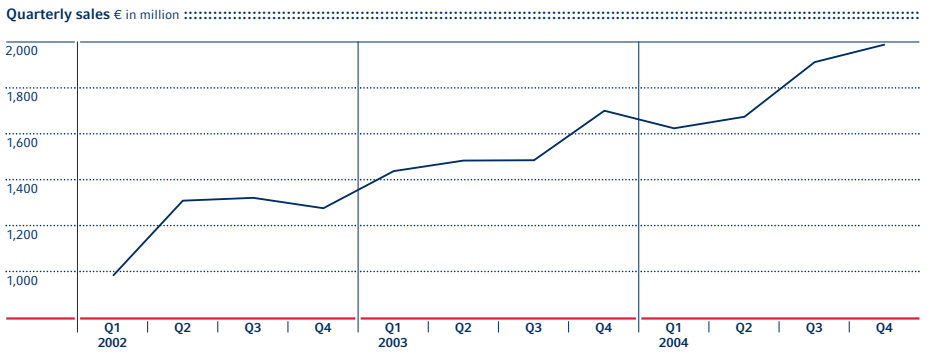
The increases in net sales in the 2003 and 2004 financial years were mainly driven by higher demand for memory products and semiconductors used in mobile phones, as well as the continued strong performance of the Automotive & Industrial segment. License income increased in 2003 and decreased in 2004 mainly as a result of the termination of our license agreement with ProMOS. The decline of major foreign currencies (primarily the U.S. dollar) relative to the euro during the 2003 and 2004 financial years negatively impacted reported sales. The effect of foreign exchange over the prior year is calculated as the estimated change in current year sales if the average exchange rate for the preceding year is applied as a



Increased demand for our products resulted in higher net sales in the 2004 financial year.

constant rate in the current year. The increase in revenues from entities we acquired since the beginning of the prior year reflects primarily the inclusion of a full-year consolidation of sales in the year after the initial acquisition.

| For the year ended September 30 | 2002 | 2003 | 2004 |
|---|-------|-------|-------|
| Net sales | 4,890 | 6,152 | 7,195 |
| Changes year-on-year | | 26 % | 17 % |
| of which: | | | |
| License income € in million | 147 | 183 | 76 |
| % of net sales | 3 % | 3 % | 1 % |
| Effect of foreign exchange over prior year € in million | - | (317) | (445) |
| % of net sales | - | (5 %) | (6 %) |
| Impact of acquisitions over prior year € in million | 7 | 126 | 29 |
| % of net sales | 0 % | 2 % | 0 % |



Sales increased sequentially during the 2004 financial year and peaked in the fourth quarter.

Net sales by segment

During the year ended September 30, 2004 we moved certain businesses from the Secure Mobile Solutions segment to the Automotive & Industrial segment. Accordingly, the prior year segment results have been reclassified to be consistent with the revised reporting structure and presentation, as well as to facilitate analysis of current and future operating segment information.

::: Wireline Communications

In the 2003 financial year and through the first half of the 2004 financial year we experienced increasing demand for digital access products as the need for DSL internet-based communication increased, and markets in developing countries improved. An offsetting trend is the decrease in demand for traditional analog communication products, which was more pronounced in the second half of the 2004 financial year than in prior periods. The sales decline in the 2004 financial year reflects both declining volumes of analog and fiber optic products and a decline in average selling prices. Continuing low infrastructure investments by global telecommunications carriers negatively affected the markets for fiber optics and optical networking products during the year, although we experienced increased demand in the fourth quarter. Following our decision to divest our fiber optics business, sales of fiber optic products deteriorated in the third quarter, however, rebounded in the fourth quarter.

::: Secure Mobile Solutions

Sales growth in the 2003 financial year was particularly strong due to higher volumes of baseband and radio frequency ("RF") products for mobile phones and the full-year consolidation of Ericsson Microelectronics ("MIC"), which offset price pressure in our security business. Sales growth in the 2004 financial year was more moderate and occurred primarily in the second half of the year, as demand for mobile solutions accelerated and security products strengthened. We experienced ongoing price pressure in the market for chipcard ICs throughout the 2003 financial year. In 2004, revenue benefited from a slower rate of price decline.

::: Automotive & Industrial

The segment experienced continued growth over the past two years as volume growth, particularly for automotive power applications as a result of the increasing semiconductor content in automotive electronics, more than offset ongoing price pressure caused by technological developments and competition. The increase in net sales in both the 2003 and 2004 financial years resulted principally from higher volume sales of automotive power applications and power management and supply products. Sales also benefited from the full-year consolidation of SensoNor, acquired in June 2003, and accelerated growth for industrial applications in the second half of the 2004 financial year.

| For the year ended September 30 | 2002 | | 2003 | | 2004 | |
|---------------------------------|--------------|------------|--------------|------------|--------------|------------|
| | € in million | % | € in million | % | € in million | % |
| Wireline Communications | 386 | 8 | 459 | 7 | 434 | 6 |
| Secure Mobile Solutions | 1,015 | 21 | 1,403 | 23 | 1,790 | 25 |
| Automotive & Industrial | 1,464 | 30 | 1,634 | 27 | 1,820 | 25 |
| Memory Products | 1,861 | 38 | 2,485 | 40 | 2,926 | 41 |
| Other Operating Segments | 117 | 2 | 139 | 2 | 196 | 3 |
| Corporate and Reconciliation | 47 | 1 | 32 | 1 | 29 | - |
| Total | 4,890 | 100 | 6,152 | 100 | 7,195 | 100 |

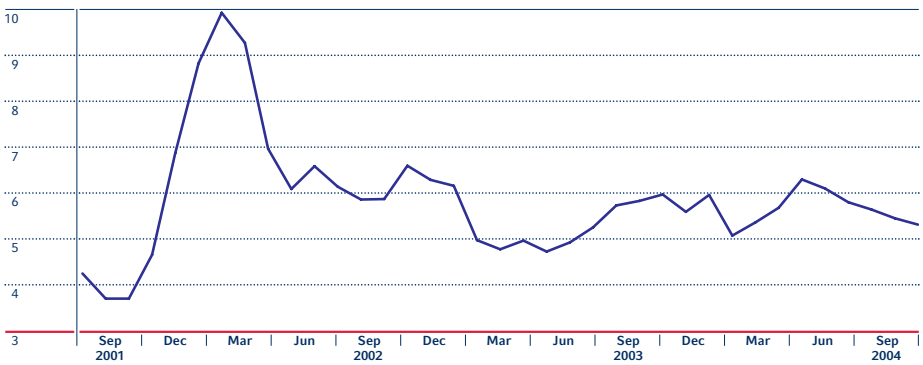
Memory Products

Sales growth in the past two years was mainly volume-driven, as the DRAM industry recovered and demand increased. The volume growth offset the declining average sales prices in the 2003 financial year. Prices in U.S. dollars declined in the first half and increased in the third quarter of the 2004 financial year, but were on average higher in the 2004 financial year than in the 2003 financial year. The increase in net sales in the 2004 financial year was due mainly to higher volumes, which more than offset the impact of an unfavorable U.S. dollar/euro exchange rate and lower license income. Sales volumes also benefited from the ramp-up of our Dresden 300-millimeter facility, from the conversion to 110-nanometer technology, and from access to additional capacity made available through our co-operation with Winbond and SMIC, which offset the reduced volume of products we purchased from ProMOS. Overall megabit volume increased during the 2004 financial year as a result of increasing market demand for personal computers and system memory.

DRAM price development

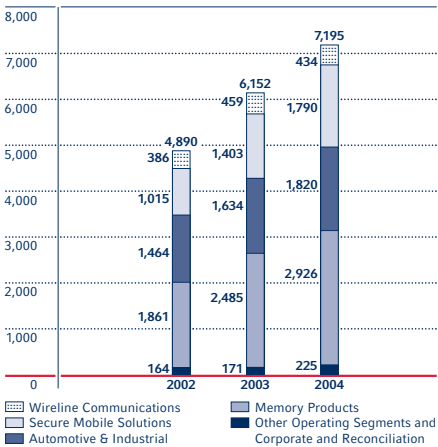
The prices in U.S. dollars of DDR memory ICs were relatively stable during the 2004 financial year, with slight decreases in January, increases in April, and decreases during the fourth quarter of the financial year. Contract prices for our principal volume product, 256-Mbit DDR DRAM, were generally stable, with somewhat greater volatility in the spot market. Per-bit prices for lower-density SDRAM products were higher during the year, because much of the worldwide manufacturing capacity had shifted to higher-density and DDR products. In the middle of the 2004 calendar year, we began shipments of DDR2 DRAM products, with average selling prices above those of mainstream DDR products. We continue to seek to optimize our product mix to take advantage of market price differentials, and intend to increase our focus on producing specialty products and diversifying our product portfolio. Our average per-megabit selling prices, excluding the effects of currency fluctuations, increased approximately 4 percent in the 2004 financial year.

DRAM price development per 256-Mbit-equivalent in U.S.-\$



Source: WSTS.

Net sales by segments € in million



Higher demand for memory chips and chips for mobile phones resulted in increased net sales in the 2004 financial year.

Other Operating Segments

Net sales increased in the 2004 financial year, primarily reflecting the addition of revenues from our ASIC & Design Solutions (ADS) business.

Net sales by region and customer

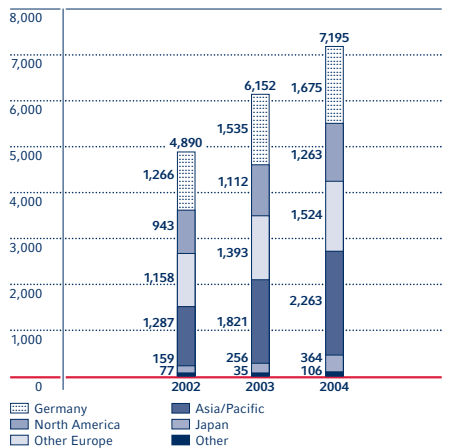
Our sales grew in all major regions, with Asia/Pacific being our largest sales region and having the strongest growth rate. We expect this trend to continue as more customers expand their operations in low-cost manufacturing centers in Asia, and the Chinese market develops.

With the increased demand for digital access products, our customer base in Wireline Communications has shifted towards fewer, but larger, customers (reflecting the concentration in the telecommunications industry). The number of customers of our Automotive & Industrial segment remained stable, reflecting the nature

of the automobile industry. In the 2004 financial year, customers of our Secure Mobile Solutions segment started to shift production increasingly to countries with emerging economies, such as China and Brazil, which have lower production costs. Memory Product customers have become increasingly concentrated, and in the 2004 financial year our top ten customers represented 65 percent of that segment's sales.

The Siemens group accounted for 14 percent, 14 percent, and 13 percent of our net sales in the 2002, 2003, and 2004 financial years, respectively. Sales to the Siemens group comprise both direct sales (which accounted for 12 percent, 13 percent, and 13 percent of net sales, respectively, in those financial years) and sales designated for resale to third parties (which accounted for 2 percent, 1 percent, and 0 percent of net sales, respectively, in those financial years). Sales to the Siemens group are made primarily by our non-memory product segments. No other single customer accounted for 10 percent of our net sales in the 2002, 2003, or 2004 financial year.

Net sales by region € in million



The region Asia/Pacific again achieved the highest net sales growth.

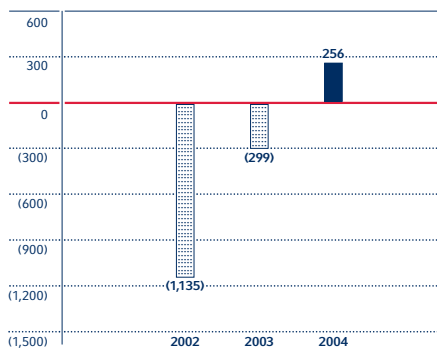
Net sales by region

| For the year ended September 30 | 2002 | | 2003 | | 2004 | |
|---------------------------------|--------------|------------|--------------|------------|--------------|------------|
| | € in million | % | € in million | % | € in million | % |
| Germany | 1,266 | 26 | 1,535 | 25 | 1,675 | 23 |
| Other Europe | 943 | 19 | 1,112 | 18 | 1,263 | 18 |
| North America | 1,158 | 24 | 1,393 | 23 | 1,524 | 21 |
| Asia/Pacific | 1,287 | 26 | 1,821 | 29 | 2,263 | 32 |
| Japan | 159 | 3 | 256 | 4 | 364 | 5 |
| Other | 77 | 2 | 35 | 1 | 106 | 1 |
| Total | 4,890 | 100 | 6,152 | 100 | 7,195 | 100 |

Earnings before interest and taxes (EBIT)

We define EBIT as earnings (loss) before interest and taxes. Our management uses EBIT as a measure to establish budgets and operational goals, to manage our business, and to evaluate its performance. We report EBIT information because we believe that it provides investors with meaningful information about our operating performance and especially about the performance of our separate business segments. EBIT is determined from the statement of operations as follows:

EBIT € in million



Higher volume and increased margins resulted in improved EBIT.

| For the year ended September 30 € in million | 2002 | 2003 | 2004 |
|--|----------------|--------------|------------|
| Net income (loss) from continuing operations | (1,017) | (435) | 61 |
| Add: Income tax (benefit) expense | (143) | 84 | 154 |
| Add: Interest expense, net | 25 | 52 | 41 |
| EBIT | (1,135) | (299) | 256 |

The EBIT amounts of our separate business segments were as follows:

| For the year ended September 30 € in million | 2002 | 2003 | 2004 |
|--|----------------|--------------|------------|
| Wireline Communications | (245) | (188) | (179) |
| Secure Mobile Solutions | (143) | (65) | 124 |
| Automotive & Industrial | 138 | 187 | 244 |
| Memory Products | (630) | 31 | 169 |
| Other Operating Segments | 9 | (49) | (58) |
| Corporate and Reconciliation | (264) | (215) | (44) |
| Total | (1,135) | (299) | 256 |

The EBIT improvement reflects the combined effects of the following EBIT movements of our reporting segments:

::: Wireline Communications

the EBIT loss decreased in the 2004 financial year due to lower operating costs, but partially offset by losses associated with the acquisition of ADMtek. EBIT for the 2003 and 2004 financial years includes goodwill impairments of €68 million and €71 million, respectively, related to our Catamaran acquisition. The reduction in the EBIT loss in the 2003 financial year was principally driven by improved sales volumes, improved product mix, and improved margin in our fiber optics business, as well as cost savings from restructuring and other cost-reduction efforts.

::: Secure Mobile Solutions

the return to profitability in the 2004 financial year was principally due to substantially increased sales and a moderately improved pricing environment. The reduction in EBIT loss in the 2003 financial year resulted from substantially increased sales, and improved gross margins, as well as the effects from cost reduction efforts, which offset the full-year consolidated effect of the acquired MIC business.

::: Automotive & Industrial

the EBIT improvements in the 2003 and 2004 financial years were mainly due to higher sales volumes and improved manufacturing efficiency, partially offset by continued pricing pressure.

::: Memory Products

the EBIT improvement in the 2004 financial year was primarily due to increased sales volumes and produc-

tivity improvements, which offset the weak U.S. dollar/euro exchange rate, lower license income, and antitrust related charges. The return to profitability in the 2003 financial year was attributable to increased sales volumes, substantially reduced manufacturing costs, and increased license income.

::: Other Operating Segments

the EBIT losses in the 2003 and 2004 financial years mainly reflect investment-related impairment charges. Expenditures associated with establishing our ASIC & Design Solutions (ADS) business in the 2003 financial year were significantly reduced and led to profitability in the 2004 financial year.

::: Corporate and Reconciliation

the EBIT loss decreased in the 2003 financial year and particularly in the 2004 financial year principally reflecting reduced idle-capacity costs resulting from improved utilization.

Interest expense, net

We derive interest income primarily from cash and cash equivalents, and marketable securities. Interest expense is primarily attributable to bank loans and convertible notes, and excludes interest capitalized on manufacturing facilities under construction.

Interest expense since the 2002 financial year principally relates to the convertible bonds that we issued in February 2002 and in June 2003. This effect was partially reduced in the 2004 financial year through the redemption of a portion of our convertible bonds and increased interest capitalization related to facilities under construction.

| For the year ended September 30 | 2002 | 2003 | 2004 |
|------------------------------------|------|------|------|
| Interest expense, net € in million | (25) | (52) | (41) |
| % of net sales | (1%) | (1%) | (1%) |

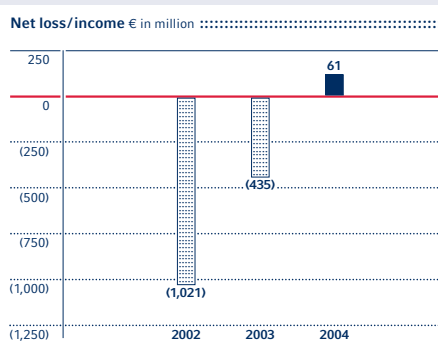
Income taxes

| For the year ended September 30 | 2002 | 2003 | 2004 |
|---|------|--------|-------|
| Income tax benefit (expense) € in million | 143 | (84) | (154) |
| % of net sales | 3 % | (1 %) | (2 %) |
| Effective tax rate | 12 % | (24 %) | 72 % |

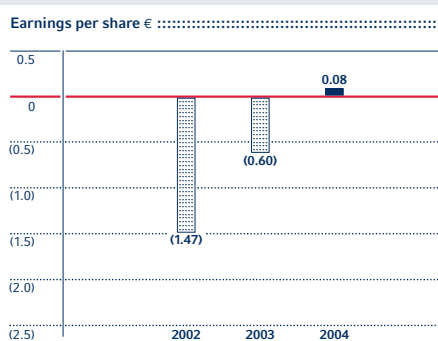
Pursuant to U.S. GAAP, deferred tax assets in tax jurisdictions that have a three-year cumulative loss are subject to a valuation allowance excluding the impact of forecasted future taxable income. In the 2002 financial year we recorded an increase to the valuation allowance of €271 million, which limited the net tax benefit recognized, because we had incurred a cumulative loss in certain tax jurisdictions over the three-year period ended September 30, 2002. In the 2003 financial year, we again recognized no tax benefits in these jurisdictions and we increased the valuation allowance by €182 million, however, we continued to record tax expense in profitable tax jurisdictions. In the 2004 financial year, our effective tax rate increased because we recorded additional valuation allowances of €54 million related to tax jurisdictions that continue to have a three-year cumulative loss, and also had more non-deductible expenditures. We assess our deferred tax asset position on a regular basis. Our ability to realize benefits from our deferred tax assets is dependent on our ability to generate future taxable income sufficient to utilize tax loss carry-forwards or tax credits before expiration. We expect to continue to recognize no tax benefits in these jurisdictions until we have ceased to be in a cumulative loss position for the preceding three-year period.

Net income (loss)

Net loss decreased significantly in 2003 principally as a result of sales volume growth and manufacturing efficiencies, and cost reduction efforts. This trend continued in the 2004 financial year, resulting in the achievement of profitability, although the impact was reduced through the increased charges for impairments, antitrust-related matters, and tax expense.



Due to increased demand and higher efficiency of production we returned to profitability.



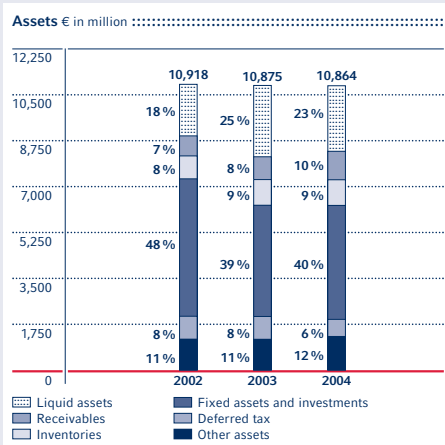
Financial condition

| For the year ended September 30 € in million | 2003 | 2004 | Change in % |
|--|---------------|---------------|-------------|
| Current assets | 5,376 | 5,292 | (2) |
| Non-current assets | 5,499 | 5,572 | 1 |
| Total assets | 10,875 | 10,864 | (0) |
| Current liabilities | 2,204 | 2,870 | 30 |
| Non-current liabilities | 3,005 | 2,016 | (33) |
| Total liabilities | 5,209 | 4,886 | (6) |
| Shareholders' equity | 5,666 | 5,978 | 6 |

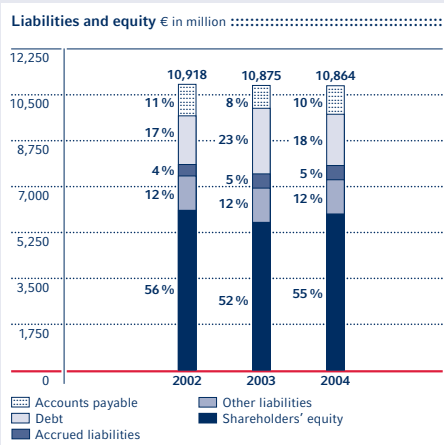
As of September 30, 2004, our total assets were at the same level as at the end of the 2003 financial year. Total current assets decreased at the end of the 2004 financial year due to the net effect of a variety of actions, including the use of cash to repay €549 million of long-term debt, offset by increases in accounts receivable and marketable securities. Non-current assets increased slightly at the end of the 2004 financial year as depreciation, amortization, and impairment charges mostly offset capital expenditures and investments in associated companies during the year.

Total liabilities decreased as of the end of the 2004 financial year, mainly due to the redemption of a notional amount of €360 million of our convertible notes due 2007 during the 2004 financial year. Current liabilities mainly increased and non-current liabilities further decreased due to prior year long-term debt approaching short-term maturity as of September 30, 2004.

Our shareholders' equity increased principally due to the issuance of 26,679,255 ordinary shares relating to the acquisition of the remaining interest in Infineon Technologies SC300 GmbH & Co. OHG ("SC300") and



Liquid assets decreased due to the repayment of debt.



Debt decreased due to the partial redemption of our convertible notes.

2004 net income. At September 30, 2004, shareholders' equity as a percentage of total assets was 55 percent, compared with 52 percent at September 30, 2003.

The equity return and the return of assets both amounted to one percent in the 2004 financial year compared to minus four percent and minus seven percent, respectively, in the 2003 financial year because of the achievement of profitability in the 2004 financial year. The equity-to-fixed-assets ratio improved in the 2004 financial year to 167 percent because depreciation exceeded capital expenditures during the year. The decrease of the debt-to-equity ratio to 33 percent, compared to 44 percent in the 2003 financial year, was attributable to the redemption of a portion of our convertible notes during the 2004 financial year.

Liquidity

Cash flow

Our statement of cash flows shows the sources and uses of cash during the reported periods. It is of key importance for the evaluation of our financial position.

Cash flows from investing and financing activities are both indirectly determined based on payments and receipts. Cash flows from operating activities are deter-

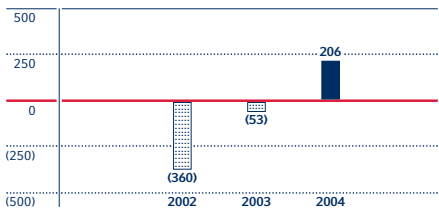
mined indirectly from net income (loss). The changes in balance sheet items in connection with operating activities have been adjusted for the effects of foreign currency exchange fluctuations and for changes in the scope of consolidation. Therefore, they do not conform to the corresponding changes in the respective balance sheet line items.

Cash provided by operating activities in the 2004 financial year resulted mainly from net income of €61 million, which is net of non-cash charges for depreciation of €1,320 million and impairment charges of €136 million, and deferred taxes of €96 million. Cash provided by operating activities was positively impacted by an increase in accrued liabilities of €148 million, related to the antitrust investigations and related civil claims. These effects were partly offset by the increase of trade accounts receivable of €219 million and the increase of inventories of €40 million due to increased business volume.

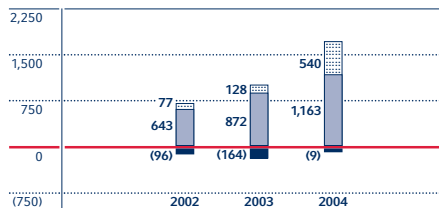
Cash used in investing activities in the 2004 financial year mainly reflects capital expenditures of €1,163 million, principally to equip our plants in Dresden and Richmond, investments of €386 million in associated companies, such as our Inotera joint venture, and net purchases of marketable securities of €158 million.

Cash used for financing activities in the 2004 financial year principally relates to the redemption of €360 million of our convertible subordinated notes due 2007.

| For the year ended September 30 € in million | 2002 | 2003 | 2004 |
|--|---------|---------|----------------|
| Net cash provided by operating activities – continuing operations | 226 | 731 | 1,857 |
| Net cash used in investing activities | (1,244) | (1,522) | (1,809) |
| Net cash provided by (used in) financing activities | 1,448 | 566 | (402) |
| Net cash provided by (used in) operating activities – discontinued operations | 11 | (1) | – |
| Cash and cash equivalents at year end | 1,199 | 969 | 608 |

Free cash flow € in million

Higher net cash provided by operating activities led to a positive free cash flow.

Investments/disinvestments¹ € in million

Investments and intangible assets Property, plant and equipment
Sale of business

¹ Without marketable securities.

Capital expenditures in property, plant and equipment, and equity investments contribute to improved productivity and the extension of capacity.

Free cash flow

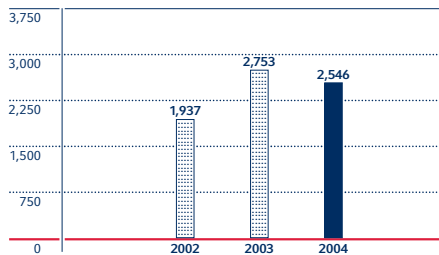
For the year ended September 30 € in million

| | 2002 | 2003 | 2004 |
|---|---------|---------|----------------|
| Net cash provided by operating activities, total | 237 | 730 | 1,857 |
| Net cash used in investing activities | (1,244) | (1,522) | (1,809) |
| Purchases of marketable securities, net | 647 | 739 | 158 |
| Free cash flow | (360) | (53) | 206 |

We define free cash flow as cash from operating and investing activities excluding purchases or sales of marketable securities. Since we hold a substantial portion of our available monetary resources in the form of readily available marketable securities, and operate in a capital-intensive industry, we report free cash flow to provide investors with a measure that can be used to evaluate changes in liquidity after taking capital expenditures into account. It is not intended to represent the residual cash flow available for discretionary expenditures, since debt service requirements or other non-discretionary expenditures are not deducted.

Our gross cash position – representing cash and cash equivalents, plus marketable securities – decreased to €2,546 million at September 30, 2004, compared with €2,753 million at the prior year end. The decrease was principally due to the repayment of €549 million of

long-term debt (mainly convertible notes), which more than offset the free cash flow of €206 million.

Gross cash position € in million

Gross cash position decreased due to the repayment of debt.

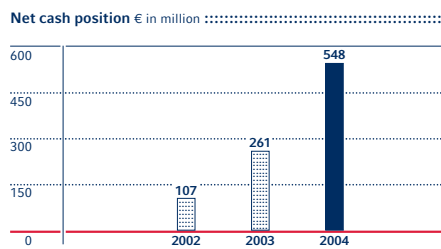
Long-term debt principally consists of convertible notes that were issued in order to strengthen our liquidity position and allow us more financial flexibility in conducting our operational business. The total outstanding convertible notes as of September 30, 2004 amounted to €1,340 million.

On June 5, 2003, we issued €700 million in subordinated convertible notes due 2010 at par in an underwritten offering to institutional investors in Europe. The notes are convertible, at the option of the holders of the notes, into a maximum of 68.4 million ordinary shares of our company, at a conversion price of € 10.23 per share through maturity.

On February 6, 2002, we issued €1,000 million in subordinated convertible notes due 2007 at par in an underwritten offering to institutional investors in Europe. The notes are convertible, at the option of the holders of the notes, into a maximum of 28.2 million of our company's ordinary shares at a conversion price of € 35.43 per share through maturity. During the 2004 financial year we redeemed €360 million of our convertible notes due 2007.

Our net cash position – meaning cash and cash equivalents, plus marketable securities, less total financial debt – increased by €287 million to €548 million at September 30, 2004, compared with €261 million at September 30, 2003, principally as a result of free cash flow of €206 million.

To secure our cash position and to keep flexibility with regards to liquidity, we have implemented a policy with risk limits for the amounts deposited with respect to the counterparty, credit rating, sector, duration, credit support, and type of instrument.



Net cash position increased due to improved net income.

Capital expenditures

We expect to invest between €1 billion and €1.3 billion in capital expenditures in the 2005 financial year, largely for our 300-millimeter manufacturing facility in Richmond, Virginia, as well as improving productivity and upgrading technology at existing facilities. As of September 30, 2004, €833 million of this amount has been committed and included in unconditional purchase commitments. Due to the lead times between ordering and delivery of equipment, a substantial amount of capital expenditures typically is committed well in advance. Approximately 60 percent of these expected capital expenditures will be made in the Memory Products segment's front-end and back-end facilities. In addition, we expect to make financial and equity investments of up to €200 million in the 2005 financial year, of which approximately €100 million has been committed as of September 30, 2004, and included in other long-term commitments.

Capital expenditures

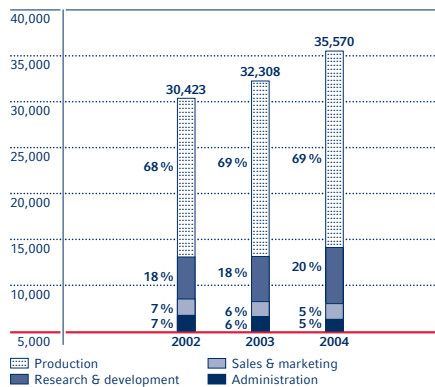
| For the year ended September 30 | 2002 | 2003 | 2004 |
|---------------------------------|------------|------------|--------------|
| Memory products | 464 | 576 | 716 |
| Non-memory products | 179 | 296 | 447 |
| Total | 643 | 872 | 1,163 |

Employees

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

In the 2003 financial year, our headcount increased as a result of the ramp-up of our 300-millimeter production and through the acquisition of SensoNor. In the 2004 financial year, our headcount increased principally due to the expansion of manufacturing capacities in Germany, Malaysia, and China.

Employees by function¹ € in million



¹ Columns may not add up due to rounding.

Reduction of workforce within sales & marketing and administration for the benefit of research & development.

| As of September 30 | 2002 | 2003 | 2004 |
|------------------------|---------------|---------------|---------------|
| Function: | | | |
| Production | 20,822 | 22,405 | 24,540 |
| Research & development | 5,374 | 5,935 | 7,160 |
| Sales & marketing | 2,010 | 2,048 | 1,948 |
| Administrative | 2,217 | 1,920 | 1,922 |
| Total | 30,423 | 32,308 | 35,570 |
| Region: | | | |
| Germany | 15,716 | 16,166 | 16,387 |
| Other Europe | 4,590 | 5,034 | 5,631 |
| North America | 2,889 | 2,757 | 2,982 |
| Asia/Pacific | 7,093 | 8,116 | 10,340 |
| Japan | 107 | 118 | 133 |
| Other | 28 | 117 | 97 |
| Total | 30,423 | 32,308 | 35,570 |

Outlook

Leading market analysts have forecast a reduction of the rate of growth of the worldwide semiconductor market in U.S. dollars from nearly 30 percent during the 2004 calendar year to a single-digit average rate of growth during the 2005 calendar year. These forecasts imply stagnation in the industry with respect to sequential average quarterly growth for our 2005 financial year. Consistent with these forecasts, we see signs of a slowdown in several of our application segments during the first quarter of our 2005 financial year, mainly due to relatively high inventories in the supply chain for these markets at this time of year.

For the first quarter of the 2005 financial year, we anticipate the following with respect to our four principal segments:

- ::: In the Wireline Communications segment we do not expect growth in the first quarter of our 2005 financial year due to continuing pricing pressure and marketplace inventory corrections, especially in the Asian market. The segment's EBIT loss for our 2005 financial year is expected to be significantly reduced if and when the sale of our fiber optics business to Finisar is completed.
- ::: With signs of a slowdown and higher marketplace inventories, especially in the Asian mobile phone market, customers have started to significantly slow down new orders in the Secure Mobile Solutions seg-

ment. We therefore anticipate a significant reduction in revenues for the first quarter of the 2005 financial year, resulting in lower capacity utilization and margin pressure. As market research institutes predict a slowdown in growth of the mobile phone market for the 2005 calendar year, we are cautious about the development of sales volumes and expect lower utilization rates in manufacturing throughout our 2005 financial year.

- ::: For automotive applications in the Automotive & Industrial segment we anticipate continuing price pressure and no major market changes in demand for semiconductors. We expect a slightly weaker market for industrial applications. Due to these developments, in combination with seasonal effects, we expect a slight reduction in revenues and earnings in the first quarter of our 2005 financial year.
- ::: For Memory Products we expect business to develop in line with seasonal demand during the first quarter of our 2005 financial year. Based on additional capacities from our Inotera joint venture and foundry partners, we anticipate an increase of bit production.

In our 2005 financial year, although we do not anticipate being able to decouple ourselves from the industry trends, we aim to achieve profitable growth by relentlessly focusing on better serving the needs of our customers, maintaining our cooperative culture, and continually improving our operational performance through our state-of-the-art manufacturing capabilities and leading-edge technologies.

Consolidated financial data

Consolidated statements of operations for the years ended September 30 € in millions

| | 2002 | 2003 | 2004 |
|--|----------------|---------------|--------------|
| Net sales | | | |
| Third parties | 4,035 | 5,153 | 6,169 |
| Related parties | 855 | 999 | 1,026 |
| Total net sales | 4,890 | 6,152 | 7,195 |
| Cost of goods sold | 4,289 | 4,614 | 4,670 |
| Gross profit | 601 | 1,538 | 2,525 |
| Research and development expenses | 1,060 | 1,089 | 1,219 |
| Selling, general and administrative expenses | 643 | 679 | 718 |
| Restructuring charges | 16 | 29 | 17 |
| Other operating (income) expenses, net | (46) | 85 | 257 |
| Operating (loss) income | (1,072) | (344) | 314 |
| Interest expense, net | (25) | (52) | (41) |
| Equity in (losses) earnings of associated companies | (47) | 18 | (14) |
| Gain (loss) on associated company share issuance | 18 | (2) | 2 |
| Other non-operating (expense) income, net | (41) | 21 | (64) |
| Minority interests | 7 | 8 | 18 |
| Income (loss) before income taxes | (1,160) | (351) | 215 |
| Income tax benefit (expense) | 143 | (84) | (154) |
| Net (loss) income from continuing operations | (1,017) | (435) | 61 |
| Net loss from discontinued operation | (4) | - | - |
| Net (loss) income | (1,021) | (435) | 61 |
| Basic and diluted (loss) earnings per share in € | | | |
| Continuing operations | (1.46) | (0.60) | 0.08 |
| Discontinued operation | (0.01) | 0.00 | 0.00 |
| Net (loss) income | (1.47) | (0.60) | 0.08 |

Consolidated balance sheets as of September 30 € in millions

| | 2003 | 2004 |
|---|---------------|---------------|
| Assets | | |
| Current assets: | | |
| Cash and cash equivalents | 969 | 608 |
| Marketable securities | 1,784 | 1,938 |
| Trade accounts receivable, net | 876 | 1,056 |
| Inventories | 959 | 960 |
| Deferred income taxes | 113 | 140 |
| Other current assets | 675 | 590 |
| Total current assets | 5,376 | 5,292 |
| Property, plant and equipment, net | 3,817 | 3,587 |
| Long-term investments, net | 425 | 708 |
| Restricted cash | 67 | 109 |
| Deferred income taxes | 705 | 541 |
| Other assets | 485 | 627 |
| Total assets | 10,875 | 10,864 |
| Liabilities and shareholders' equity | | |
| Current liabilities: | | |
| Short-term debt and current maturities | 149 | 571 |
| Trade accounts payable | 877 | 1,098 |
| Accrued liabilities | 577 | 555 |
| Deferred income taxes | 39 | 16 |
| Other current liabilities | 562 | 630 |
| Total current liabilities | 2,204 | 2,870 |
| Long-term debt | 2,343 | 1,427 |
| Deferred income taxes | 32 | 21 |
| Other liabilities | 630 | 568 |
| Total liabilities | 5,209 | 4,886 |
| Shareholders' equity: | | |
| Ordinary share capital | 1,442 | 1,495 |
| Additional paid-in capital | 5,573 | 5,800 |
| Accumulated deficit | (1,261) | (1,200) |
| Accumulated other comprehensive loss | (88) | (117) |
| Total shareholders' equity | 5,666 | 5,978 |
| Total liabilities and shareholders' equity | 10,875 | 10,864 |

Consolidated statements of shareholders' equity for the years ended September 30, 2002, 2003 and 2004 € in millions

| | Issued ordinary shares Shares | Issued ordinary shares Amount € in millions |
|---|-------------------------------------|---|
| Balance as of October 1, 2001 | 692,382,575 | 1,385 |
| Net loss | - | - |
| Other comprehensive loss | - | - |
| Total comprehensive loss | | |
| Issuance of ordinary shares: | | |
| Employee Stock Purchase Plan | 355,460 | 1 |
| Acquisition of Catamaran | 546,183 | 1 |
| Acquisition of MIC | 27,500,000 | 55 |
| Ordinary shares held by associated company | - | - |
| Deferred compensation, net | - | - |
| Equity transaction with Siemens Group | - | - |
| Balance as of September 30, 2002 | 720,784,218 | 1,442 |
| Net loss | - | - |
| Other comprehensive (loss) income | - | - |
| Total comprehensive loss | | |
| Issuance of ordinary shares: | | |
| Acquisition of Catamaran | 96,386 | - |
| Deferred compensation, net | - | - |
| Other equity transactions | - | - |
| Balance as of September 30, 2003 | 720,880,604 | 1,442 |
| Net income | - | - |
| Other comprehensive (loss) income | - | - |
| Total comprehensive income | | |
| Issuance of ordinary shares: | | |
| Settlement of redeemable interest | 26,679,255 | 53 |
| Deferred compensation, net | - | - |
| Balance as of September 30, 2004 | 747,559,859 | 1,495 |

| Additional paid-in capital € in millions | Retained earnings/ (accumulated deficit) € in millions | Foreign currency translation adjustment € in millions | Additional minimum pension liability € in millions | Unrealized gain/(loss) on securities € in millions | Unrealized gain on cash flow hedge € in millions | Total € in millions |
|---|--|--|---|---|---|------------------------|
| 5,247 | 195 | 87 | (12) | (2) | - | 6,900 |
| - | (1,021) | - | - | - | - | (1,021) |
| - | - | (92) | (8) | - | - | (100) |
| | | | | | | (1,121) |
| 7 | - | - | - | - | - | 8 |
| 8 | - | - | - | - | - | 9 |
| 270 | - | - | - | - | - | 325 |
| 4 | - | - | - | - | - | 4 |
| 23 | - | - | - | - | - | 23 |
| 10 | - | - | - | - | - | 10 |
| 5,569 | (826) | (5) | (20) | (2) | - | 6,158 |
| - | (435) | - | - | - | - | (435) |
| - | - | (76) | 2 | 13 | - | (61) |
| | | | | | | (496) |
| 1 | - | - | - | - | - | 1 |
| 7 | - | - | - | - | - | 7 |
| (4) | - | - | - | - | - | (4) |
| 5,573 | (1,261) | (81) | (18) | 11 | - | 5,666 |
| - | 61 | - | - | - | - | 61 |
| - | - | (41) | 18 | (7) | 1 | (29) |
| | | | | | | 32 |
| 225 | - | - | - | - | - | 278 |
| 2 | - | - | - | - | - | 2 |
| 5,800 | (1,200) | (122) | - | 4 | 1 | 5,978 |

Consolidated statements of cash flows for the years ended September 30 € in millions

| | 2002 | 2003 | 2004 |
|---|---------|-------|-------|
| Net (loss) income | (1,021) | (435) | 61 |
| Less: net loss from discontinued operations | (4) | – | – |
| Net (loss) income from continuing operations | (1,017) | (435) | 61 |
| Adjustments to reconcile net (loss) income to cash provided by operating activities: | | | |
| Depreciation and amortization | 1,370 | 1,437 | 1,320 |
| Acquired in-process research and development | 37 | 6 | 9 |
| Deferred compensation | 23 | 7 | 2 |
| Provision for (recovery of) doubtful accounts | (5) | (16) | 15 |
| Loss (gain) on sale of marketable securities | 1 | (56) | (9) |
| Loss (gain) on sale of businesses | (39) | 10 | 2 |
| Loss (gain) on disposal of property, plant, and equipment | 2 | 3 | (5) |
| Equity in (earnings) losses of associated companies | 47 | (18) | 14 |
| Loss (gain) on associated company share issuance | (18) | 2 | (2) |
| Minority interests | (7) | (8) | (18) |
| Impairment charges | 51 | 98 | 136 |
| Deferred income taxes | (282) | 16 | 96 |
| Changes in operating assets and liabilities: | | | |
| Trade accounts receivable | (131) | (227) | (219) |
| Inventories | (28) | (112) | (40) |
| Other current assets | 39 | 156 | 154 |
| Trade accounts payable | 40 | (217) | 228 |
| Accrued liabilities | 86 | 164 | 92 |
| Other current liabilities | (37) | (17) | (22) |
| Other assets and liabilities | 94 | (62) | 43 |
| Net cash provided by operating activities | 226 | 731 | 1,857 |

Continuation consolidated statements of cash flows € in millions

| | 2002 | 2003 | 2004 |
|--|----------------|----------------|----------------|
| Cash flows from investing activities: | | | |
| Purchases of marketable securities available for sale | (709) | (2,752) | (2,678) |
| Proceeds from sales of marketable securities available for sale | 62 | 2,013 | 2,520 |
| Proceeds from sales of businesses | 96 | 164 | 9 |
| Business interests, net of cash acquired | 156 | 6 | (29) |
| Investment in associated and related companies | (178) | (76) | (386) |
| Purchases of intangible assets | (55) | (58) | (125) |
| Purchases of property, plant and equipment | (643) | (872) | (1,163) |
| Proceeds from sales of property, plant and equipment | 27 | 53 | 43 |
| Net cash used in investing activities | (1,244) | (1,522) | (1,809) |
| Cash flows from financing activities: | | | |
| Net change in short-term debt | 4 | (36) | 62 |
| Net change in related party financial receivables and payables | (40) | (76) | 75 |
| Proceeds from issuance of long-term debt | 1,482 | 700 | - |
| Principal repayments of long-term debt | (21) | (25) | (549) |
| Change in restricted cash | 15 | 3 | (43) |
| Proceeds from issuance of shares to minority interest | - | - | 53 |
| Proceeds from issuance of ordinary shares | 8 | - | - |
| Net cash provided by (used in) financing activities | 1,448 | 566 | (402) |
| Effect of foreign exchange rate changes on cash and cash equivalents | 1 | (4) | (7) |
| Net increase (decrease) in cash and cash equivalents from continuing operations | 431 | (229) | (361) |
| Net increase (decrease) in cash and cash equivalents from discontinued operations | 11 | (1) | - |
| Cash and cash equivalents at beginning of period | 757 | 1,199 | 969 |
| Cash and cash equivalents at end of period | 1,199 | 969 | 608 |

Financial calendar

- ::: **Monday, January 24**
Publication of first quarter 2005 results
 - ::: **Tuesday, January 25, 10:00 a.m. CET**
2005 Shareholders' Annual General Meeting in Munich, Olympiahalle (Olympic Hall)
 - ::: **Tuesday, April 26**
Publication of second quarter 2005 results
 - ::: **Tuesday, July 26**
Publication of third quarter 2005 results
 - ::: **Tuesday, November 10***
Publication of preliminary fourth quarter 2005 results and preliminary figures for the 2005 financial year
- *preliminary date

Forward-looking statements

This short report contains forward-looking statements. Statements that are not historical facts, including statements about our beliefs and expectations, are forward-looking statements. These statements are based on current plans, estimates and projections, and you should not place too much reliance on them. Forward-looking statements speak only as of the date they are made, and we undertake no obligation to update any of them in light of new information or future events. Forward-looking statements involve inherent risks and uncertainties. We caution you that a number of important factors could cause actual results or outcomes to differ materially from those expressed in any forward-looking statement.

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Infineon Technologies

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Never stop thinking.