

INFINEON TECHNOLOGIES AG  
Form 20-F  
December 04, 2002

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# SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

## FORM 20-F

REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR (g)  
OF THE SECURITIES EXCHANGE ACT OF 1934 o

OR

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d)  
OF THE SECURITIES EXCHANGE ACT OF 1934 ý  
For the fiscal year ended September 30, 2002

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d)  
OF THE SECURITIES EXCHANGE ACT OF 1934  
For the transition period from \_\_\_\_\_ to \_\_\_\_\_. o

Commission file number: 1-15000

## Infineon Technologies AG

(Exact name of Registrant as specified in its charter)

Federal Republic of Germany

(Jurisdiction of incorporation or organization)

St.-Martin-Strasse 53

D-81669 Munich

Federal Republic of Germany

(Address of principal executive offices)

Securities registered or to be registered pursuant to Section 12(b) of the Act:

Title of each class

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	Name of each exchange on which registered
American Depositary Shares, each representing one ordinary share, no par value but with a notional value of €2.00 per share	New York Stock Exchange
Ordinary shares, no par value but with a notional value of €2.00 per share *	New York Stock Exchange

\*  
Listed, not for trading or quotation purposes, but only in connection with the registration of American Depositary Shares pursuant to the requirements of the Securities and Exchange Commission

Securities registered or to be registered pursuant to Section 12(g) of the Act: None

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act: None

The number of outstanding shares of each of the issuer's classes of capital or common stock as of September 30, 2002: 720,880,604 ordinary shares, no par value but with a notional value of €2.00 per share.

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days.

Yes  No  Not applicable

Indicate by check mark which financial statement item the registrant has elected to follow.

Item 17  Item 18

## INFINEON TECHNOLOGIES AG

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## **PRESENTATION OF FINANCIAL AND OTHER INFORMATION**

Our consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States ("U.S. GAAP"). Our consolidated financial statements are expressed in euro, the currency of the European Economic and Monetary Union, which was introduced on January 1, 1999. In this annual report, references to "euro" or "€" are to euro, references to "DEM" are to Deutsche Mark and references to "U.S. dollars" or "\$" are to United States dollars. Prior to January 1, 1999, our financial statements were prepared in Deutsche Mark. Subsequent to that date, our consolidated financial statements have been prepared in euro. All Deutsche Mark amounts appearing in or derived from our consolidated financial statements have been translated into euro at the official fixed rate of €1.00 = DEM 1.95583. For convenience, this annual report contains translations of euro amounts into U.S. dollars at the rate of €1.00 = \$0.9879, the noon buying rate of the Federal Reserve Bank of New York for euro on September 30, 2002. The noon buying rate for euro on November 29, 2002 was €1.00 = \$0.9932. Our financial year ends on September 30 of each year. References to any financial year or to "FY" refer to the year ended September 30 of the calendar year specified. In this annual report, references to:

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"our company" are to Infineon Technologies AG;

"we", "us" or "Infineon" are to Infineon Technologies AG and, unless the context otherwise requires, to its subsidiaries and its predecessor, the former semiconductor group of Siemens;

"Siemens" are to Siemens AG, a German company;

"Siemens' subsidiaries" are to entities wholly or majority-owned by Siemens AG (excluding Infineon); and

"the Siemens group" are to Siemens and Siemens' subsidiaries.

This annual report contains market data that have been prepared or reported by Gartner Inc. and its unit Dataquest, Inc. (together "Gartner Dataquest"), IC Insights, Inc. ("IC Insights"), Intex Management Services Ltd. ("IMS Research"), International Data Corporation ("IDC"), RHK, Inc. ("RHK"), Strategy Analytics, Inc. ("Strategy Analytics"), and World Semiconductor Trade Statistics ("WSTS").

### *Forward-Looking Statements*

This annual 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. These factors include those identified under the heading "Risk Factors" and elsewhere in this annual report.

## SELECTED CONSOLIDATED FINANCIAL DATA

*You should read the following selected consolidated financial data in conjunction with our consolidated financial statements, the related notes and "Operating and Financial Review", all of which appear elsewhere in this annual report.*

We have derived the selected consolidated statement of operations and cash flow data for the 1998 through 2002 financial years and the selected consolidated balance sheet data at September 30, 1998 through 2002 from our consolidated financial statements, which have been prepared in accordance with U.S. GAAP and audited by KPMG Deutsche Treuhand-Gesellschaft AG, independent auditors.

Our consolidated financial statements prior to our formation as a company may not necessarily be indicative of what our results of operations, financial position and cash flows would have been had we operated as a separate company during the periods presented, nor are they an indicator of future performance. Note 1 (Description of Business, Formation and Basis of Presentation) to our audited consolidated financial statements explains the methods used to prepare this financial data.

For the year ended September 30,<sup>(1)</sup>

	1998	1999	2000	2001	2002	2002 <sup>(2)(3)</sup>
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(in millions, except per share data)

### **Selected Consolidated Statement of Operations data**

Net sales	€ 3,175	€ 4,237	€ 7,283	€ 5,671	€ 5,207\$	5,144
Cost of goods sold	(2,728)	(3,011)	(4,111)	(4,904)	(4,606)	(4,550)
Gross profit	448	1,227	3,172	767	601	594
Research and development expenses	(637)	(739)	(1,025)	(1,189)	(1,060)	(1,047)
Selling, general and administrative expenses	(481)	(551)	(670)	(786)	(643)	(635)
Restructuring charges <sup>(4)</sup>	(816)			(117)	(16)	(16)

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For the year ended September 30,<sup>(1)</sup>

Other operating (loss) income, net	(9)	(2)	2	200	46	45
Operating (loss) income	(1,496)	(64)	1,479	(1,125)	(1,072)	(1,059)
Interest (expense) income, net, inclusive of subsidiaries	(35)	43	75	(1)	(25)	(25)
Equity in (losses) earnings of associated companies	(151)	34	101	25	(47)	(46)
Gain on associated company share issuance <sup>(5)</sup>			53	11	18	18
Other income (expense), net	2	18	36	65	(41)	(41)
Minority interests	(1)		(6)	6	7	7
Income (loss) before income taxes	(1,682)	31	1,738	(1,019)	(1,160)	(1,146)
Income tax benefit (expense)	907	30	(612)	428	139	137
Net (loss) income	€(775)	€61	€1,126	€(591)	€(1,021)\$	(1,009)

Basic and diluted (loss) earnings per share and per ADS <sup>(6)</sup>	€ (1.29)	€0.10	€1.83	€(0.92)	€(1.47)\$	(1.45)
Weighted average shares outstanding basic (millions) <sup>(6)</sup>	600	600	614	641	695	695
Weighted average shares outstanding diluted (millions) <sup>(6)</sup>	600	600	615	641	695	695
Dividends declared per share and per ADS <sup>(7)</sup>	n/a	n/a	0.65			

#### Selected Consolidated Balance Sheet data

Cash and cash equivalents	12	30	511	757	1,199	1,184
Working capital (deficit), excluding cash and cash equivalents	887	444	870	(85)	609	602
Total assets	4,760	6,445	8,853	9,743	10,918	10,786
Short-term debt, including current portion of long-term debt	106	495	138	119	120	119
Long-term debt, excluding current portion	893	135	128	249	1,710	1,689
Shareholders' equity	2,096	3,656	5,806	6,900	6,158	6,084

#### Selected Consolidated Cash Flow data

Net cash (used in) provided by operating activities	(185)	469	2,080	211	237	234
Net cash used in investing activities	(959)	(918)	(2,327)	(1,813)	(1,244)	(1,229)
Depreciation and amortization expenses	578	573	834	1,122	1,371	1,355

#### Notes

- (1) Columns may not add due to rounding.
- (2) Unaudited.
- (3) Converted from euro into U.S. dollars at an exchange rate of €1 = \$0.9879, which was the noon buying rate on September 30, 2002.
- (4) In 2001 and 2002, these charges relate to the implementation of our Impact cost reduction program. In 1998, this charge consists of amounts attributable to the wafer fabrication facility located in the North Tyneside area of northern England, which was shut down.
- (5) In both 2000 and 2001, ProMOS Technologies, Inc. ("ProMOS") shareholders approved the distribution of employee bonuses in the form of shares. In 2002, ProMOS issued Global Depository Receipts in a public share offering. As a result of these share issuances, our interest was diluted, while our proportional share of ProMOS' shareholders' equity increased by €53 million, €11 million and €18 million, respectively. These increases are reflected as non-operating income.
- (6)

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Earnings per share for the 1998 and 1999 financial years assume that 600 million shares, the number of shares outstanding immediately prior to our initial public offering in March 2000, were outstanding for both periods presented.

(7)

As our company did not exist as a separate legal entity prior to March 30, 1999, we can present dividend information only subsequent to that date.

## OPERATING AND FINANCIAL REVIEW

*This discussion of our consolidated financial condition and results of operations should be read in conjunction with our audited consolidated financial statements and the related notes, as well as the other financial information included elsewhere in this annual report. Our audited consolidated financial statements have been prepared on the basis of a number of assumptions, as more fully explained in Notes 1 (Description of Business, Formation and Basis of Presentation) and 2 (Summary of Significant Accounting Policies) to our audited consolidated financial statements appearing elsewhere in this annual report.*

*This operating and financial review contains forward-looking statements. Statements that are not statements of historical fact, including expressions of our beliefs and expectations, are forward-looking in nature and are based on current plans, estimates and projections. Forward-looking statements are applicable 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. These factors include those identified under the heading "Risks Factors" and other factors to be found elsewhere in this annual report.*

Infineon Technologies AG designs, develops, manufactures and markets 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. The financial year-end for Infineon is September 30.

### Key Developments During the 2002 Financial Year

#### Overview

In 2002, Infineon operated in a difficult market environment characterized by unfavorable global economic conditions, a significant continued downturn in the semiconductor industry and strong pricing pressure in most of our business segments, in particular memory products. The following are the key developments in the 2002 financial year:

Decline in revenues and EBIT, improvement in memory products

Infineon boosts market share

Significantly improved liquidity

Success of "Impact" cost reduction program

Launch of "Impact<sup>2</sup>" process optimization drive

Streamlined procurement

Ongoing R&D investments for innovative products

Continued commitment to strategic R&D partnerships

Acquisition of Ericsson Microelectronics strengthens Wireless Solutions

New strategic alliances

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Streamlining of business portfolio through divestitures of non-core activities

Ongoing improvements in production

### ***Unfavorable Global Economic Conditions***

In 2001, the global economy was characterized by a broad-based recessionary trend for most of the year, intensified by the tragic events of September 11<sup>th</sup>. In the first quarter of 2002, expectations for growth were accompanied by widespread optimism about the strength of the U.S. economy and a significant rise in key economic indicators. Increasingly favorable U.S. economic conditions led to an improvement of the economic situation in other parts of the world, particularly in the Asia/Pacific region. However, the U.S. economic recovery lost momentum in the second and third quarters of 2002. The initial optimism was replaced by a broad-based pessimism and fears of a "double dip" recession. The global economy was characterized throughout the year by declining telecommunications and PC markets, coupled with large-scale cutbacks in capital expenditures across a broad spectrum of industries, particularly in the telecommunications sector. The prevailing interest rates did not provide sufficient stimulus for recovery. The world economic growth rates of 1.1 percent in 2001 and 1.7 percent (as estimated by the International Monetary Fund) in 2002 were too low to drive any substantial expansion of the semiconductor market.

### ***Difficult Market Environment and Strong Pricing Pressure***

In the 2001 calendar year, the semiconductor industry posted the most significant market downturn in its history, with sales declining approximately 32 percent compared to the 2000 calendar year, according to WSTS. In the 2002 calendar year, overall customer demand and price levels remained at a low level. For example, the average selling price for 128-Mbit DRAM declined from \$15.00 in September 2000 to \$1.45 in September 2001. Although prices rose in late 2001 and peaked in March 2002, by September 2002 they had declined to \$1.61. At the end of October 2002, WSTS predicted an annual growth rate in demand for semiconductor products of only 2.3 percent during the 2002 calendar year. WSTS predicts that demand for non-memory products (logic chips, analog, discrete and optical components), which represent 81 percent of the total market, will increase by only approximately 1 percent compared to 2001. WSTS also forecasts that demand for memory products (DRAMs, SRAMs, and non-volatile memory such as flash memories), which account for the remaining 19 percent of the semiconductor market, will grow by approximately 10 percent in comparison to 2001. The slight increase in demand during 2002 was largely offset by price declines in most sectors of the market.

### ***Decline in Revenues and EBIT; Improvement in Memory Products***

The continued difficult market environment is reflected in our sales figures and results for the 2002 financial year. Our key financial performance indicators were as follows:

We recorded total revenues of €5,207 million, which represents a decrease of 8 percent from the €5,671 million in revenues posted in the 2001 financial year.

Our net loss after taxes amounted to €1,021 million, including an additional valuation allowance of €275 million on deferred tax assets, compared to a net loss of €591 million in the 2001 financial year.

We recorded a basic and fully diluted loss per share of €1.47, compared to a loss of €0.92 per share in the 2001 financial year.

EBIT (earnings or loss before interest, minority interest and taxes) amounted to a loss of €1,142 million, compared to an EBIT loss of €1,024 million in the 2001 financial year.

Operating cash flow improved to €237 million in the 2002 financial year compared to €211 million in the 2001 financial year.

Our financial performance is discussed in detail under the section "Results of Operations" below.

### ***Infineon Boosts Market Share***

We succeeded in achieving an overall increase in our share of the global semiconductor market. This took place in the face of the challenging market environment confronted by the semiconductor industry, and despite a decline in our overall revenues in 2002. According to IC Insights, a leading US market research firm, we moved from 8<sup>th</sup> place in 2001 up to 6<sup>th</sup> place among worldwide semiconductor manufacturers in the first half of the 2002 calendar year, based on sales.

### ***Significantly Improved Liquidity***



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We have substantially improved our liquidity in the 2002 financial year, through several financing transactions and our cost reduction program "Impact". First, we completed the placement of a €450 million syndicated credit facility relating to the expansion of our Dresden manufacturing plant. Additionally, in January 2002 we issued a convertible bond with the nominal amount of €1 billion. The bond has a maturity of five years, bears 4.25 percent interest and cannot be redeemed during the first three years. With the proceeds, we plan to finance our long-term business strategy.

### ***Success of "Impact" Cost Reduction Program***

In July 2001, we launched an extensive cost reduction program entitled "Impact" as a response to ongoing weakness in the technology sector, declining demand and downward pressure on prices. This program was designed to streamline our procurement and logistics processes as well as to reduce our costs related to information technology, overhead and manufacturing. The initial target was to cut operating costs by more than €1 billion and cash expenditures by €1.5 billion in the 2002 financial year, including a 15 percent headcount reduction. The cost reduction program emerged as a major success. Significant cash savings were achieved by

reducing overhead costs,

increasing the efficiency of our procurement,

optimizing our logistics processes,

reducing capital expenditures to improve cash while maintaining access to world-class manufacturing through strategic partnerships,

improving operational productivity, as well as

focusing research and development spending on key initiatives.

In addition, we completed the reduction of our worldwide workforce in the 2002 financial year. When we initiated the Impact program in the 2001 financial year, we recorded a restructuring charge of €117 million. In completing the Impact program during the 2002 financial year, we recognized an additional €16 million in restructuring charges.

### ***Launch of "Impact<sup>2</sup>" Process Optimization Drive***

In the 2002 financial year, we also initiated a process optimization drive called "Impact<sup>2</sup>". Its goal is to improve the efficiency, flexibility and speed of our operations. The program is intended to serve as our basis for achieving cost leadership and maintaining an innovative edge in a competitive market environment, thus ensuring our success in the future.

### ***Streamlined Procurement***

Our business operations and the Impact cost reduction program had a significant influence on our purchase volume in the 2002 financial year.

Purchases of €2.6 billion in the 2002 financial year were 23 percent below the prior year's level and equaled approximately 50 percent of our sales. The decrease was mainly attributable to 17 percent lower material purchases and a 32 percent decrease in the volume of products purchased from subcontractors, compared to the 2001 financial year.

In the 2002 financial year, we realized significant savings by concentrating our purchases among a smaller number of principal suppliers and by pooling orders on a group-wide basis. Additional savings were realized by purchasing used rather than new equipment, where appropriate, and by simplifying our technical requirements. We achieved considerable overall cost savings by undertaking these measures.

We also conducted internal benchmark studies of our procurement processes against those of our competitors as well as other industries. As a result of these studies, we have designed and are implementing improvements in our procurement processes, especially in the area of general administration purchases. We plan to carry out further benchmark studies in the future in order to identify other actions that we may take to continuously improve our procurement process.

### ***Ongoing R&D Investments for Innovative Products***

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Research & Development (R&D) expenses, including acquired in-process R&D charges of €37 million, totaled €1,060 million in the 2002 financial year. As part of our Impact initiative, our R&D efforts were refocused primarily towards developing new innovative products in our core business segments. Major milestones achieved during the 2002 financial year included the development of:

new chips for telematics and control applications in automobiles,

a new 32-bit controller-based chip-card and security products,

10Gbps and 40Gbps optical networking chips,

next generation products for mobile communications, such as Bluetooth, GPRS and 3G solutions, as well as

advanced memory products such as 256-Mbit Mobile-RAM in 0.14-micron, 256-Mbit RLDRAM in 0.17-micron embedded DRAM technology, conceptual design of CellularRAM and 128-Mbit SGRAM in 0.14-micron with DDR II functionality.

We also continued to make significant investments in process technologies for semiconductor manufacturing, as well as for the improvement of libraries, tools, software and methodologies which help us to maintain leading-edge product development capabilities.

Most of our nearly 5,400 R&D employees are directly involved with developing products within our five segments. A central development group conducts those R&D projects that are of strategic importance to us, with the results applied across all business groups. The process-technology development team is a prominent example. This central R&D group seeks to maximize the synergies within Infineon. In addition, we have a highly-qualified central research department for very advanced research work.

In the 2002 financial year, our R&D team gained international recognition by achieving world records in radio frequency performance and other world-class results, including pioneering developmental work in the field of nano-electronics.

We implemented a comprehensive evaluation of our portfolio of R&D projects within the framework of the Impact cost reduction program. Based on these results, we have prioritized our efforts to focus on the most important and promising development projects and in some cases abandoned certain projects and technologies, such as Ardent. We have also streamlined our development processes to further improve our product development cycle times and quality.

### ***Continued Commitment to Strategic R&D Partnerships***

We have intensified our commitment to establish new strategic R&D partnerships with other leading semiconductor and technology companies. These agreements are designed to provide us with competitive advantages by enabling a more effective development of new technologies, quicker time-to-market and sharing of risks and costs. For example, in the 2002 financial year, we concluded a strategic agreement with United Microelectronics Corporation, Taiwan ("UMC") and Advanced Micro Devices, Inc., USA ("AMD") focusing on the development of next generation process technologies for system-on-chip products manufactured on 300-millimeter wafers. Additionally, we have recently entered into an alliance with Nanya Technology Corporation, Taiwan ("Nanya") to jointly develop next-generation DRAM technologies.

### ***Acquisition of Ericsson Microelectronics Strengthens Wireless Solutions***

On September 9, 2002 we completed our acquisition of Ericsson Microelectronics AB ("MIC") for €327 million. Based in Sweden, MIC is a strategic supplier to Ericsson of Bluetooth solutions and Radio Frequency ("RF") components for mobile phones and wireless infrastructure as well as a major supplier of RF microelectronic components for wireless applications, high-end power amplifiers, Bluetooth components and broadband communications. As part of the MIC acquisition, we acquired net assets related to Ericsson's microelectronic business including in-process research and development of €37 million. We also entered into a strategic supply agreement with Ericsson for a period of two years to deliver wireless solution products. We believe that the acquisition of MIC will strengthen our existing position as a leading supplier of Bluetooth integrated circuits (ICs). We plan to combine MIC's strong market presence with our leading design and manufacturing capabilities to offer highly optimized components that are cost competitive and significantly reduce time-to-market.

### ***New Strategic Alliances***

#### ***Winbond: DRAM Technologies***

In 2002, we agreed to license our advanced DRAM trench technology to Winbond Electronics Corp., Hsinchu, Taiwan ("Winbond"). This will give us exclusive access to standard DRAM chips manufactured by Winbond using this technology, beginning in 2003. We have also agreed to purchase specified quantities of DRAM products and to supply a major customer of Winbond.

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### *Nanya: 300-Millimeter Chip Production*

On November 13, 2002, we entered into agreements with Nanya, which establish our strategic cooperation in the field of standard DRAM memory products. Under the terms of these agreements, we will co-develop and share development costs for advanced 90-nanometer and 70-nanometer production technologies for 300-millimeter wafers. We also agreed to establish a joint venture for the production of DRAM chips, and the construction of a new jointly-owned 300-millimeter facility in Taiwan. The first phase is projected to be completed by the second half of the 2004 calendar year, and to give the facility an initial capacity of around 20,000 wafer starts per month, of which we will be entitled to half. The first 300-millimeter wafers are planned to be processed using the new 90-nanometer process at the end of the 2003 calendar year.

### *AMD, DuPont: Advanced Mask Technology Center*

In May 2002, we agreed to establish the Advanced Mask Technology Center GmbH & Co. KG ("AMTC"), an equally-owned joint venture, together with AMD Inc. ("AMD") and DuPont Photomasks, Inc., USA ("DuPont"). AMTC will operate a new advanced photomask facility in Dresden to create the next generations of semiconductors with increased functionality in smaller geometries. The facility is expected to be completed in the second half of the 2003 calendar year. It will be used to develop and pilot-manufacture next-generation lithographic photomasks for exposing patterns on silicon wafers. We also entered into a ten-year supply agreement with DuPont, which will include output from the Dresden facility.

### *Agere, Motorola: StarCore DSP Technologies*

In October 2002, we established StarCore, LLC ("StarCore") in cooperation with Agere Systems, Inc., USA ("Agere") and Motorola, Inc., USA ("Motorola"). StarCore will develop and market easily scalable digital signal processor (DSP) "cores", based on the established StarCore DSP architecture, for widespread use in new communications and consumer products. The company is based in Austin, Texas, and has a subsidiary in Tel Aviv, Israel. StarCore will initially sell its products principally to Agere, Motorola and to us, but it will also market its products to other semiconductor manufacturers and communications equipment providers worldwide. StarCore is expected to begin operations in the 2003 financial year.

As a result of the four new alliances described above, we have significantly increased our access to state-of-the-art DRAM and related product manufacturing capacities and future technology development while reducing our requirements for capital expenditures and costs associated with capacity and development activities.

### ***Streamlining of Business Portfolio Through Divestitures of Non-Core Activities***

During the 2002 financial year, we disposed of certain non-core business activities in an effort to further focus and streamline our business operations. The sale of these businesses generated total cash proceeds of €96 million and resulted in a pre-tax gain on disposal of €41 million, which is reflected in our financial statements as other operating income.

In December 2001, we completed the sale of our infrared components business, previously part of our Other Operating segments, to Vishay Intertechnology Inc., resulting in a net gain before tax of €39 million in the 2002 financial year.

In July 2002, we sold our gallium arsenide business, previously part of the Wireless Solutions segment, for initial cash proceeds of €50 million to TriQuint Semiconductor, Inc., Hillsboro, Oregon. The initial purchase price may be adjusted based on certain contingencies, including the level of gallium arsenide product sales generated by the purchaser through September 30, 2004. The adjusted purchase price ranges from €45 million up to €124 million. Any adjustment to purchase price would be made once the contingency has been resolved and the amount of the adjustment is realizable. We have also agreed to supply back-end and foundry services to the buyer for a period of one year.

### ***Ongoing Improvements in Production***

During the 2001 financial year and the first half of the 2002 financial year, we suffered a significant decrease in demand for non-memory products, as did the entire semiconductor industry. This led to idle capacity in our non-DRAM manufacturing facilities. During the period of under-utilization, production costs were decreased through shift reductions, equipment shut-downs and cost reduction efforts. In addition, some of the excess capacity was used for development projects and projects to increase the production flexibility among our various facilities. However, in the second half of the 2002 financial year, increased demand resulted in normalization of capacity utilization. In contrast, our DRAM manufacturing facilities were fully utilized throughout the 2002 financial year.

We completed a number of key production projects during 2002 designed to help ensure our future competitiveness. Our 300-millimeter DRAM production facility in Dresden and our ProMOS joint venture in Taiwan were qualified on the basis of 0.14-micron technology during the first and second quarter of the 2002 financial year, respectively. Full manufacturing capacity at both facilities is expected by the end of the 2003 financial year.

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We have recently terminated the shareholders' agreement relating to ProMOS and may thereby lose access to the output of its production facility. See "Risk Factors Risks related to our operations Our results may suffer if we are not able to match our production capacity to demand."

We expect to continue construction of our 300-millimeter production facility in Richmond in the 2003 financial year, depending on market conditions. In addition, we plan to transition our 200-millimeter and 300-millimeter wafer DRAM manufacturing facilities to 0.11-micron technology during the 2003 financial year. We also expect our strategic partnerships with Winbond and Nanya to become operational during the 2003 financial year.

Our UMCi joint venture with UMC is constructing a 300-millimeter wafer logic chip manufacturing facility in Singapore, in which we have a 30 percent share of capacity. Production is expected to start in 2004, upon process qualification of the 0.13-micron technology.

### Results of Operations

The table below sets forth information about our total net sales by segment and geographic region, as well as earnings (loss) before interest, minority interests and taxes ("EBIT") by segment:

#### Results of Operations by Segment and Region

For the year ended September 30,<sup>(1)</sup>

	2000		2001		2002	
(Euro in millions, except percentages)						
<b>Net sales by segment:<sup>(2)</sup></b>						
Wireline						
Communications	€661	9%	€766	14%	€386	7%
Wireless Solutions	1,191	16	960	17	874	17
Security & Chip						
Card ICs	375	5	588	10	421	8
Automotive & Industrial	923	13	1,153	20	1,201	23
Memory Products	3,473	48	1,588	28	1,844	35
Other Operating Segments	570	8	560	10	434	8
Corporate and Reconciliation	90	1	56	1	47	1
<b>Total</b>	<b>€7,283</b>	<b>100%</b>	<b>€5,671</b>	<b>100%</b>	<b>€5,207</b>	<b>100%</b>

#### Net sales by geographic region:

Germany	€1,612	22%	€1,745	31%	€1,372	26%
Other Europe	1,647	23	1,260	22	1,023	20
United States	1,814	25	1,262	22	1,211	23
Asia/Pacific	2,100	29	1,309	23	1,512	29
Other	110	1	95	2	89	2
<b>Total</b>	<b>€7,283</b>	<b>100%</b>	<b>€5,671</b>	<b>100%</b>	<b>€5,207</b>	<b>100%</b>

#### EBIT:<sup>(2)(3)</sup>

Wireline						
Communications	€48		€(93)		€(245)	
Wireless Solutions	258		(178)		(82)	

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For the year ended September 30,<sup>(1)</sup>

Security & Chip Card ICs	49	27	(52)
Automotive & Industrial	71	143	111
Memory Products	1,336	(931)	(616)
Other Operating Segments	28	188	6
Corporate and Reconciliation <sup>(4)</sup>	(120)	(180)	(264)
<b>Total</b>	<b>€1,670</b>	<b>€(1,024)</b>	<b>€(1,142)</b>

(1) Columns may not add due to rounding.

(2) Effective October 1, 2001, we reorganized certain of our business units to better reflect our customer and market profiles. Accordingly, the segment results for the 2000 and 2001 financial years have been reclassified to be consistent with the reporting structure and presentation of the 2002 financial year, and to facilitate analysis of current and future operating segment information.

(3) We define EBIT as earnings (loss) before interest, minority interest and taxes. EBIT differs from our income (loss) before income taxes, and you should not consider it to be the same. Other companies that use EBIT may calculate it differently, and their figures may not be comparable.

(4) For the year ended September 30, 2001, corporate and reconciliation includes unallocated excess capacity costs of €27 million, restructuring charges of €117 million and corporate information technology development costs and charges of €71 million. For the year ended September 30, 2002, corporate and reconciliation includes unallocated excess capacity costs of €211 million, restructuring charges of €16 million and corporate information technology development costs and charges of €36 million.

The following table presents the various individual results within the consolidated statements of operations expressed as percentages of sales.