



Trust your brain

Intellectual Capital Report 2005



Never stop thinking

Table of contents



Trust your brain

2	Preface
	The General Framework
8	Brain Port Infineon – regional touch with global reach
10	The Fourth Production Factor – knowledge as a future oriented investment
13	Capitalizing on Brain Power – measure and manage the untouchable
15	The Infineon Austria Approach – innovation based value creation
	The Corporate Strategy
20	Infineon Austria’s goals and objectives – a roadmap to the future
	The Intellectual Capital
28	Human Capital – the main source of our future success
43	Structural Capital – inspiring conditions for talented people
47	Relational Capital – global connections for combined brainpower
53	Location Capital – Austria, a home for global players
	The Core Processes
58	Production – leading edge products for ambitious customers
69	Research and Development – pushing the limits
82	Managing Complexity – global Infineon business responsibility in Villach
91	Advanced Services – strong support for powerful performance
	The Results
104	Output and Impact – creating added value for our stakeholders
	The Future Prospects
110	Building the Future – Infineon Austria looks ahead
119	The Balance

Capitalizing on future potentials

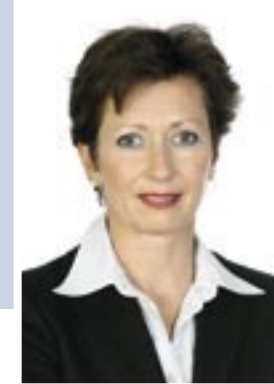
With this Intellectual Capital Report 2005 Infineon Austria Technologies AG is publishing the balance of its intellectual capital for the first time.

Infineon is a global player in the international semiconductor market. We are proud of our employee's exceptional expertise and innovation strength in this field. With our Intellectual Capital Report we would like to emphasize this outstanding knowledge and provide our stakeholders and the general public with information about our corporate strategy.

The Intellectual Capital Report is seen as a complementary disclosure instrument to traditional financial accounting. The wealth of our intellectual capital and our corporation's intellectual asset-based management is visible throughout the following pages. Following the international trend we are also developing the Intellectual Capital Reporting approach further and putting ourselves on the forefront of innovators in this field.

We strive to be among the top performers in serving our customers in global markets and delivering outstanding quality. This goal can only be reached through our innovation culture combined with the continuous conception and implementation of knowledge, expertise and the experience of our employees. People and their potential are the most valuable capital of our company. Our competitiveness and success on the market is secured by their ability to facilitate innovation by creating networks and continuously developing and improving the organization and processes.

”



The Intellectual Capital Report 2005 is just another step in the development that makes us unique: particularly in the field of human resources development and business administration Infineon Austria has always set the pace in Austria and put innovative approaches into practice. We see ourselves as initiators again with this Intellectual Capital Report.

This project was successfully realized in close cooperation with numerous internal and external contributors, based on the performance and specific knowledge of our project team. We would like to thank all the involved employees (internal project management: Dr. Manfred Kraudinger) and the external Intellectual Capital Reporting expert from ESPRiT Consulting (Alexander G. Welzl, MSc)!

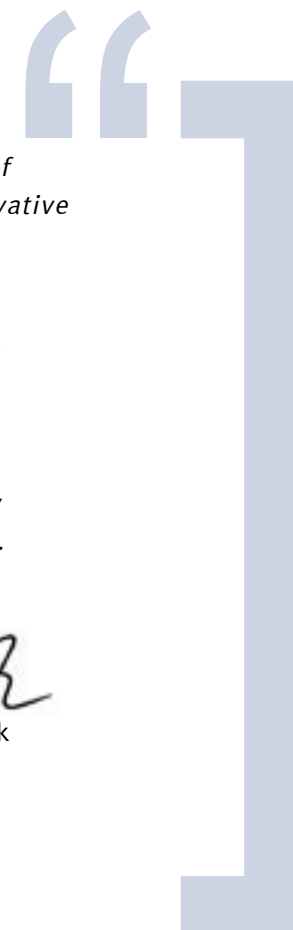
We also would like to extend our thanks to all of those who made this Intellectual Capital Report possible. We are especially grateful to our partners, customers and representatives of Austria who enriched this report with their valuable contributions.

Peter Fischl
Chairman of the
Supervisory Board

Dr. Reinhard Ploß
CEO

Monika Kircher-Kohl, MSc
CFO

Dr. Werner Reczek
COO



Navigating the global Knowledge-Economy

At the dawn of the 21st century Europe and Austria are facing ever growing global competition. To succeed against the United States and the strongly expanding emerging economies of India and the Asian-Pacific region extensive reforms with sustainability have to be put into place. Knowledge has been gaining importance as a predominant production factor ever since. Knowledge as intellectual capital is a major corporate asset, attracting interest from top-management circles, political decision makers and investment professionals in the international financial community.

The knowledge of a well trained workforce, high corporate innovativeness and a creative and innovative climate in science, culture and economy are decisive success factors in the global knowledge-economy. A recent study of economists from the U.S. Federal Reserve Board and the University of Maryland estimated future oriented corporate investment in human capital, R&D and other intangible assets in the U.S. to be up to one trillion US dollars per year. In order to improve the quantification of the contribution of knowledge and innovation to growth and employment, OECD has launched a horizontal project to develop new approaches to the measurement and valuation of intellectual capital. With the 'Commission on Intellectual Capital - CIC', which was established in June this year, the European Federation of Financial Analysts Societies (EFFAS) and main players on the international financial markets have started to push the valuation, reporting and management of intellectual capital towards new horizons.

Within this framework the Austrian government has put an ambitious reform program into effect to radically improve the conditions in Austria for education, science and successful, innovative companies. In 2001 a special promotion program for research, technology and innovation was launched. With two offensive-programs being part of it, 1.1 billion Euros additional financing was provided for R&D for the years 2001 - 2006.

With the founding of the National Foundation for Research, Technology and Development, a new instrument for research promotion has been created. Since 2004 annually 125 million Euros have been invested in R&D, giving programs and initiatives an important long-term planning perspective.

”



Further incentives to raise investment in R&D have been provided through the extension of indirect research promotion. The tax-reform 2005 provides income and corporation tax relief. Taking into account the ever growing internationalization of the economy, the new fiscal R&D-promotion and profit taxation should lead to higher attractiveness and quality of the location Austria. With its system of research tax allowance and research bonus Austria belongs to the most generous countries in Europe. Fiscal R&D promotion is one of the most important reasons for the location decision of research intensive subsidiaries of foreign companies today. Besides being a major part of the Austrian government's headquarter strategy, it is an incentive for established large innovative companies to expand their R&D-activities as well.

To be able to manage all these future-oriented investments in intellectual capital, knowledge and innovation and to be able to improve the valuation of intellectual asset-based performance, a lot of initiatives for advanced reporting and disclosure instruments have been launched in Austria since the 1990s. Austria is at the forefront of the worldwide development regarding the implementation of so-called Intellectual Capital Reports in this field. With the Austrian Universities Act 2002 as well as the specific Intellectual Capital Report - order (coming into force 2006) the Austrian government has created the first legal sector-specific standard worldwide for the measurement and reporting of intellectual capital.

As Austria's 'Research King' Infineon Technologies Austria AG is one of the front-runners among Austrian-based high-tech corporations with worldwide reputations. With several worldwide headquarter-functions in Austria, Infineon is among the leading 'national' companies. Once again the Intellectual Capital Report 2005 sets an international standard. As the subsidiary of a global technology-corporation listed on the New York Stock Exchange, Infineon Technologies Austria AG is publishing a report on its intellectual capital and its intellectual asset-based performance for the first time. I congratulate Infineon Austria's management board as well as the involved experts on this success!

Federal Minister of Finance, Karl-Heinz Grasser, MSc

A handwritten signature in black ink, which appears to read 'Karl-Heinz Grasser'. The signature is fluid and cursive, with a long, sweeping tail that extends downwards and to the right.

Disclosing hidden values

towards transparency
and trust in stakeholder communication

Fritz H. Rau

Chairman, European Federation of Financial Analysts Societies EFFAS



Corporate valuation is a process that requires both quantitative and qualitative elements, combined with a large degree of knowledge and judgment. As such, information on Intellectual Capital plays an important role in shaping analysts' conclusions. There is a growing demand for Intellectual Capital disclosure on the corporate side.

The Intellectual Capital Report describes the development of expertise, competencies and capabilities of the human capital, corporate strategies, R&D and innovation, organizational excellence and change, the creative and innovative milieu in the company, as well as relational capital and corporate governance, which have become increasingly more important as value drivers and assets for the company.

Seen in this light, the Intellectual Capital Report lists the company's future potential, a measure of its capacity to compete on the market, and it may also herald the first signs of weakness which, if not managed in a timely fashion, could lead to difficulties for the company.

As users, investment professionals and their associations support this approach and play an important role in defining the information needed for an effective analysis, thus raising the awareness of the importance of Intellectual Capital Reporting in the financial community. EFFAS supports the growing attention and commitment of its member societies to Intellectual Capital Reporting, which is an issue of the greatest importance for investment professionals.

With the latest activities of the OECD, Japan and U.S. Federal Reserve experts in the field of Intellectual Capital, main players in Europe are now joining forces to be even more visible on a global scale. Due to the fact that the topic is gaining interest world-wide, and as Europe is still at the forefront of the development, EFFAS has decided to bundle efforts and be among the initiators. In its Annual General Meeting in Luxembourg in June 2006, the delegates of the member organizations decided to set up the EFFAS 'Commission on Intellectual Capital - C I C'. With Chairman Giampaolo Trasi from AIAF/Italy and European Coordinator Alexander G. Welzl from OeVFA /Austria, the goal is to develop an improved approach to the measurement and valuation of Intellectual Capital from an analyst's perspective.

Therefore, we welcome the step of Infineon Technologies Austria AG as the first semiconductor corporation worldwide to publish an Intellectual Capital Report, and look forward to many other companies following this example.

Fritz H. Rau

A handwritten signature in blue ink that reads "F. Rau".



The General Framework





Brainport Infineon - regional touch with global reach

European History is rich in innovative figures. With their inventions, concepts and new approaches they contributed significantly to the development of today's knowledge based society. Over centuries European countries have shaped other countries and regions all over the world and set the pace for their economic and societal development.

During history, religious centers, ancient and medieval cities as well as courts, wealthy merchants and bankers in the renaissance acted as focus and patrons of scientific and economic development. They created stimulating conditions as well as a nurturing, creative and innovative milieu for the development of the new. Now at the beginning of the 21st century novel kinds of junctions and 'reloading points' are beginning to emerge worldwide for the most important production factor in the global knowledge-economy: people and their knowledge.

These brain ports, together with airports, harbors and internet-hubs, represent the epicenters of economic development. A new way of co-operational work is coming into existence,

fuelled by state-of-the-art information technology and new forms of organizations combined with life-long learning. These are working methods which may develop all over the world – in Europe, America and Asia – in any economic sector. Ongoing change as a general rule and the successful combination of different cultures and fields of knowledge characterize this new world of economy and labor.

Blueprint for global brain ports - Infineon Austria as a success story

In Austria Infineon Technologies successfully established such a brain port. This is indicated by a variety of specific attributes. International networking within the corporation between locations all over the world in development and production as well as headquarter functions for some business units are one aspect. The stimulation of an innovative milieu through continuous human resource development for all employees and the positive reception of their innovative performance are traditional strengths.

The internal cooperation in Austria between experts from 36 nations as well as intensive external cooperation with national and international research and education partners is an expression of the diversity of cultures and knowledge flows. High-quality jobs are being created and excellent research and development is being conducted at the Austrian location. The increased regional and national value through a tight supplier-network and an international customer portfolio are additional success factors. All this emphasizes Infineon's leading position as a regional and national brain port for the business location Austria.

In the context of continual organizational change on the one hand and the necessary stable internal conditions on the other, the realization of trust and respect within the company is vital for Infineon's competitiveness and success on the market. It is also important to organize and manage an appropriate blend of virtual cooperation and concerted on-site learning and work. The skilful management of knowledge flows and a variety of personalities is an important success factor.



Dr. Wolfgang Ziebart
Chief Executive Officer
Infineon Technologies AG



For this reason, executives at Infineon Austria also perform a function as mentor and sponsor to encourage curiosity, pioneering spirit and creativity as well as networking and knowledge exchange. Setting examples through their own work and daily decisions, they try to create inspiring working conditions and a unique corporate culture that attracts highly talented, experienced and qualified employees.

All these ingredients are necessary to create a brain port which is characterized by a gathering of highly talented knowledge-workers, the continual development and application of knowledge as well as a cultural diversity consisting of a variety of nationalities and different professional backgrounds. Infineon's productivity, innovative power and reputation have a great appeal to talented knowledge workers and contribute to positive structural change in the external environment.

Brain power Infineon - people are at the centre of our technology

Infineon Technologies Corporation forms such brain ports in Europe - with Infineon Austria being one of them. They provide a counterbalance to brain ports established in the US and Asian countries which contribute fundamentally to this region's global competitiveness. Infineon Austria's success is only possible because of its employee's decades of experience, their excellent teamwork and committed cooperation as well as their remarkable innovative strength and flexibility. The combination of specific expertise and the continuous readiness to further development and the acquisition of new knowledge makes Infineon Austria one of the most successful subsidiaries within the global corporation as well as the most important employer of the Austrian province Carinthia. The Intellectual Capital Report 2005 emphasizes Infineon's leading position in Austria and describes the future potential created by it for both the corporation and the business location Austria.

Infineon has continuously expanded its activities in Austria in recent years. All three development centers in Linz, Graz and Villach today are centers of competence in their respective fields and all play a leading role in our worldwide research network. Our plant in Villach was enlarged to become one of the leading production sites for power logic and telecommunications.

Stable conditions and continuous improvements to the business environment with very attractive tax laws and ambitious research encouragement, combined with the availability of highly qualified employees are major reasons for Infineon's ongoing commitment in Austria.

We will continue to focus on a future-oriented national research policy, initiatives to secure and further develop Austria's high educational standards as well as a flexible business environment.



The fourth production factor - knowledge as future oriented investment

The conditions for industrial production have changed fundamentally in the knowledge-based economy of the 21st century. Customers demand products that contribute to an increasingly comfortable life style. At the same time technologies have to be continuously improved to reduce energy consumption due to a global shortage of natural resources.

In mobile communication as well as consumer electronics we are witnessing increasing requirements based on growing individual mobility and the increasing desire for ever-present communication and entertainment - smaller, lighter, more powerful is the motto. Customer's expectations of products adapted to their individual needs combined with the need to drastically reduce costs forces companies to continuously improve the efficiency and flexibility of all development and production processes.

Developments in the automotive industry are being driven by an increasingly individualistic society as well as progress in automotive production. Customer needs and expectations concerning the safety, convenience and performance of cars are increasing.

Simultaneously there is a trend towards more environment-friendly, low-emission traffic and recycling along the whole lifecycle of a car from production until end of use. Again miniaturization and increased use of microelectronic components is the answer to these needs: using intelligent, microchip-based motor management technologies, fuel consumption as well as emissions can be reduced, electronically assisted gears and coupling help adapt engine performance to prevailing road conditions and finally drive-by-wire technology contributes to reduction of raw materials consumption due to the fact that the steering column is no longer necessary.

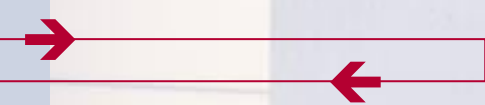
Knowledge intensive production - knowledge is capital

All these demands on modern products can only be met with appropriate means. In the industrial society raw materials, labor and capital were the main factors of production. In today's knowledge society and knowledge economy industrial value creation is being revolutionized by an additional,

fourth production factor: all types of knowledge contribute increasingly to the success of small and medium sized enterprises as well as global corporations. Intellectual capital is the source of future growth and competitiveness!

To create new ideas for product development, companies need well trained, experienced employees with a life-long learning attitude. Moreover skilled employees have to go beyond the borders of their profession to exchange and develop ideas with experts in other fields. Today new products and radical innovations frequently result from the clash and convergence of differing perspectives and specialist-technological approaches. Dealing with a variety of intellectual assets and cultures within one company poses a major challenge for managers and employees alike. Regulations for flexible work hours are needed to cope with the continuous change in work rhythms and production processes.

It has to be taken into account that knowledge workers make their best possible contribution to the company's success if they have room to develop.



Specific knowledge is part of all corporate value creation processes and workflows. Flexible and lean IT-assisted structures guarantee best possible conditions for knowledge to be created and applied. Combined with actively managed internal and external networking structures, processes and networks create an innovative and creative milieu for knowledge based production.

The reduction of product life-cycles and growing demands concerning the performance and intelligence of products can only be met by intensive research and development. Finding the appropriate proportion of internal R&D as well as cooperating with universities and external research organizations contribute to a quick market entry.

Intellectual Asset Management - systematic future oriented investment

Corporate investment in intellectual capital had been increasing in recent years all over the world. Following calculations by economists of U.S. Federal Reserve Board U.S. corporate investment in intellectual assets such as education and training, research and development, software and organizational change sums up to 1 trillion US\$. Although roughly comparable to investment in machinery and equipment investments in intellectual assets are to a large extent not reflected in accounting and corporate disclosure.

Stakeholders lack important information to evaluate a company's fitness and sustainability as well as its future potential. Rising transparency in disclosure and the measurement of intellectual capital also contributes to management decisions. Compared to the traditional balance sheet, Intellectual Capital Reports create a comprehensive picture of intellectual asset-based value creation processes as well as corporate performance.



Brigitte Ederer, MSc
Siemens Corporation, Austria



For Siemens Austria, Austria's largest technology company, knowledge is the most important production factor. Talented employees and their knowledge, know-how and experience, excellently managed knowledge transfer with R&D-partners and leading-edge innovation performance are of pivotal importance for the corporate value creation process. We firmly believe that the future in the new world of Siemens belongs to those who are creative, fair, intelligent, brave, deliberate and careful as well as experienced and curious. To be able to exploit innovations and new opportunities, managerial skills and the leadership of executive staff is of the utmost importance. With their decision-making abilities, fairness and readiness to listen they are expected to become mentors for our employees. These knowledge workers' potential will only be unleashed if their talent is recognized and room for individual development is provided. This style of management has put Siemens on the forefront of Austrian companies and enabled us not only to continuously expand our own innovation potential in recent years but also to strongly influence the national innovation system in Austria on the whole.

Based on our knowledge-driven innovation power as well as our strong, international competitive position in many product lines, we contribute considerably to Austria's competitiveness as well as to employment and the growth of the national economy. Additionally we pursue a general dialogue and knowledge exchange with all societal groups as well as people of all ages. Now in the 21st century, we at Siemens would like to re-establish Austria's early 20th century leading role - the role as an important international meeting place; a brain port of the brightest people. We would like to continuously support further development of such a creative and innovative environment in Austria with a variety of events in culture, education, high-tech and innovation issues. Responsibility coupled with trust and vision is one of Siemens Austria's core values. Consequently our special focus is on education and research institutions including countless partnerships with schools and universities. On the political level, top-executives act as industry based advisors, contributing to the development of strategic concepts and realizing scenarios for Austrian research and technology policy.

There are close ties to Infineon Technologies AG as a former part of Siemens Corporation. Infineon Austria impressively shows the successful evolution of an assembly site towards becoming one of the leading companies and Austrian 'research king' in national rankings. As a successful high-tech- and knowledge corporation, Infineon Austria has a major impact on the Austrian industry today and actively contributes to the structural change needed for the competitiveness of Austria in the global knowledge economy. With the first worldwide publication of an Intellectual Capital Report in the semiconductor industry, Infineon Austria is consistently moving ahead to adopt the position it deserves: a brain port and harbor for knowledge-workers from all over the world and the origin of the most exciting adventures of our time within an ocean of opportunities.





Capitalizing on brain power - measure and manage the untouchable

Today companies around the world invest a considerable amount of money in intellectual assets to guarantee future competitiveness and expand their advantage over competitors. Most recent numbers and the qualified estimations of US companies show almost equal investments in physical capital on the one hand and in all assets which are not included in valuation with traditional accounting practices on the other. Typically these include human capital, knowledge and investments in training. Organizational change capacity as well as research and development are also part of a corporation's intellectual assets. Traditional accounting methods alone proved not to be appropriate for companies which are dependent on the innovation power of their products and services.

Accounting for the true value and future potential of such companies is only possible if information is provided that until now has not been subject to corporate disclosure.

Identifying sources of growth - a novel understanding of intellectual capital

Since the initial publication of an Intellectual Capital Report by the Swedish insurance corporation Skandia in 1995, many companies, research organizations and public institutions have started to implement and develop this new reporting instrument. Intellectual Capital Reports are often used as a complementary reporting tool to the traditional annual balance sheet. Their implementation is also an expression of a new management approach to pivotal corporate assets in a global knowledge economy. Value creation is seen as a well managed blend of physical and intellectual assets. The latter comprises all the assets and performances which are mainly non-monetary.

The mainly non-financial performance indicators that are used to describe the intellectual asset and innovation-based value creation process are

also used by executive staff for internal steering purposes. Corporate reporting and strategic communication of intellectual assets should have an internal and an external effect and provide all the stakeholders with information.

Towards common rules - first conventions and standards emerge

Austria has a leading role in international development. Following a few national guidelines with voluntary character (Denmark, Germany, Japan) the Austrian Federal Government put a legally binding sector specific standard into force for the first time in 2006. Based on practical experience as well as advice from international experts standard setters have recently started to integrate disclosure on intellectual assets in corporate reporting standards. The German Accounting Standards Committee did this for the first time in 2005. Currently disclosing intellectual assets (using an Intellectual Capital Report) is voluntary and aimed at listed companies only.

Dr. Torsten Ganske

Deutsche Telekom, Chairman WGARIA
(Working Group on Accounting and Reporting of Intangible Assets)
German Schmalenbach-Gesellschaft



The European Federation of Financial Analysts Societies (EFFAS) established the 'Commission on Intellectual Capital' (CIC) in June 2006. European investment professionals actively support development as well as application and use of Intellectual Capital Reports and want to contribute to the international development. Activities already going on a few years particularly in Italy and Scandinavia have now been bundled and expanded to a European level. Based on a OECD Ministerial Council decision in 2004 OECD started a global project on 'Creating Values from Intellectual Assets'. Its results will be published at the end of 2006. Analysis and suggestions from the involved economic experts will lead to a renewal of measurement and valuation practices regarding performance in national accounting and expand it by intellectual capital in a separate category.

The Schmalenbach-Gesellschaft working group 'Accounting and reporting of intangible asset' published the results of its continuing dialogue between representatives of corporations and academia in several publications as well as in the form of suggestions for application in practice in autumn 2005. Following this advice a few major items are to be addressed during implementation of a corporate Intellectual Capital Report.

Due to restricted accounting and disclosure options in the annual balance and bearing in mind the pivotal importance of intellectual assets; companies should go for voluntary, additional reporting. The experts in the working group have developed suggestions for categorizing intellectual assets and a set of performance indicators. The underlying goal of such a report is to make corporate strategies for intellectual asset-based management visible and to identify specific value drivers. The executive board should describe goals and measures to capitalize on intellectual assets in general in addition to regarding individual performance indicators within the asset categories. Furthermore, the working group suggests adopting an 'input-process-output model' as a framework for the report. A 'management approach' will generate the best possible value for investment professionals and will contribute to a reduction of the information lopsidedness between management and stakeholders: selection and composition of the reported set of performance indicators relies on the executives' view and should comprise indicators used for internal steering purposes. It is also important to describe the contribution of intellectual assets to long-term corporate success and competitiveness from a management point of view.

We welcome Infineon's Intellectual Capital Report approach which not only follows our main suggestions but also uses the asset categories developed by WGARIA as part of its Infineon-specific Intellectual Capital Report model.



The Infineon Austria Approach - innovation-based value creation

To estimate the performance and innovative power of Infineon Austria it is necessary to understand the characteristics and dynamics of the semiconductor business. In the global war for talent, customers, innovation, products and markets Infineon is in fierce competition with companies from USA, Asia in addition to Europe. In general the semiconductor industry is characterized by very volatile markets and continuous price erosion. Market forecasts in this key-industry tend to be difficult and short-dated. Microchip-fabrication is based on production processes combining a variety of technologies, sub-processes and prototypes.

The cost-effectiveness of production-technology is a main success factor in the semiconductor sector. The continuously rising costs for raw materials combined with the declining price of products increase the market pressure. For this reason a maximum in resource efficiency in addition to an intelligent combination of established and new innovative technologies is needed. New technologies are used to push the limits beyond the achievable. The ongoing use of established technology-platforms and well-engineered equipment contributes to improved flexibility in microchip-fabrication. Thus the expensive production-sites

- running 24 hours, seven days a week - can be used most effectively. Due to long construction phases for the ramp-up of new production sites, the semiconductor industry always tended to build up over-capacities during periods of market growth which lead to a decline in prices and costs through under-utilization. There is strong investment in R&D to develop new products and to maintain and expand market shares.

Shrink to fit - evolution of microelectronics

The semiconductor industry is driven by very fast innovation cycles and high investments in R&D. For that reason, attracting and encouraging specific knowledge and young talent is important. Dialogue and cooperation between young and experienced employees is essential for innovation power in microchip development. Another major contribution to competitiveness is the sharing of knowledge and experience between Infineon-sites in addition to best-practice sharing with competitors. To enable continuous miniaturization and an increasing integration level of microchip development, fabrication and logistics have to be managed in an optimal manner and have to complement one another.

This goes along with permanent advancements in the development of design-tools combined with the continuous improvement of the calculation and memory capacity of IT-equipment. Fabrication is dependent on close cooperation with material suppliers and producers of raw and production materials. This network and cooperation between semiconductor companies and suppliers permanently increase the complexity of external logistics. Internal logistics are continuously optimized as well.

With its iFab-concept Infineon Austria completely changed the logistic processes in clean room production to RFID- and ultrasonic technology. This globally unique concept will be implemented in Regensburg (Germany) and Kulim (Malaysia) as well. This is an important step towards quality improvement as part of a zero-defect culture at Infineon.

In international comparison, Infineon Austria is characterized by the excellent flexibility as well as the creative problem solving competence of its employees. Executives actively support the wealth of ideas especially concerning engineering performance. Infineon's success is actively communicated in the region and also on a national level, and that is why Infineon's reputation in Austria is excellent.

A model for knowledge-based value creation - Infineon Austria's Intellectual Capital Report model

The employee's knowledge base and their experience in the highly-specific fields of semiconductor development and production is one of Infineon Austria's major assets. Lifelong learning, networking and the investment in management and teambuilding capabilities are of great importance. But the focus is not only on the development of the individual employee as Infineon's 'Human Capital'. Executives also support internal networking between business units as well as external cooperation with partners to create an innovative and creative environment ('Relational Capital'). Organizational procedures and internal structures ('Structural Capital') are continuously developed as a contribution to the zero-defect culture. It is Infineon's goal to raise efficiency on a permanent basis and push the limits beyond the achievable each year. For a number of years Infineon Austria has used the quality-model of the European Federation of Quality Management (EFQM).

Regional and national framework conditions ('Location Capital') are another important success factor for the company.

All these capital categories are part of the input-side of Infineon's process model for intellectual asset-based value creation. These resources are used within a framework of well defined mid-term goals - the so-called 'strategic knowledge goals'. Based on this intellectual capital new products are developed (core process 'R&D') and produced (core process 'production') within Infineon's core processes. Some of the company wide headquarter functions, including business responsibility for the complete value creation process, are located in Austria (core process 'business responsibility'). A smooth management and internal support organization which functions effectively in the background, supports all operational units of the company. This provides best possible results for the customers. In a global knowledge economy corporate success is heavily dependent on the quality of available human potential as well as the performance of regional and national suppliers.

For that reason it is one of Infineon Austria's most important goals to promote high-quality performance and services. It is necessary for the educational and training system to be able to provide talented and well trained personnel when they are needed in semiconductor industry. Infineon actively contributes to advancement and changes in the regional and national educational system. This external support for location development is provided mainly by top executives. They add the industry perspective to political and societal development processes. Both the internal and the external support processes are combined in the core process 'advanced services'.

As a result of these value creation processes, added value is created for customers and stakeholders. The new knowledge created in the course of innovation and the development of new products contributes to the increase of corporate value and also strengthens the input-side. This again contributes to sustainable competitiveness and innovation power and improves Infineon's capacity to generate added value for the stakeholders.

Nobuo Tanaka

OECD Director for Science, Technology and Industry (Paris)
about economic importance of Intellectual Capital
and current focus of OECD activities:

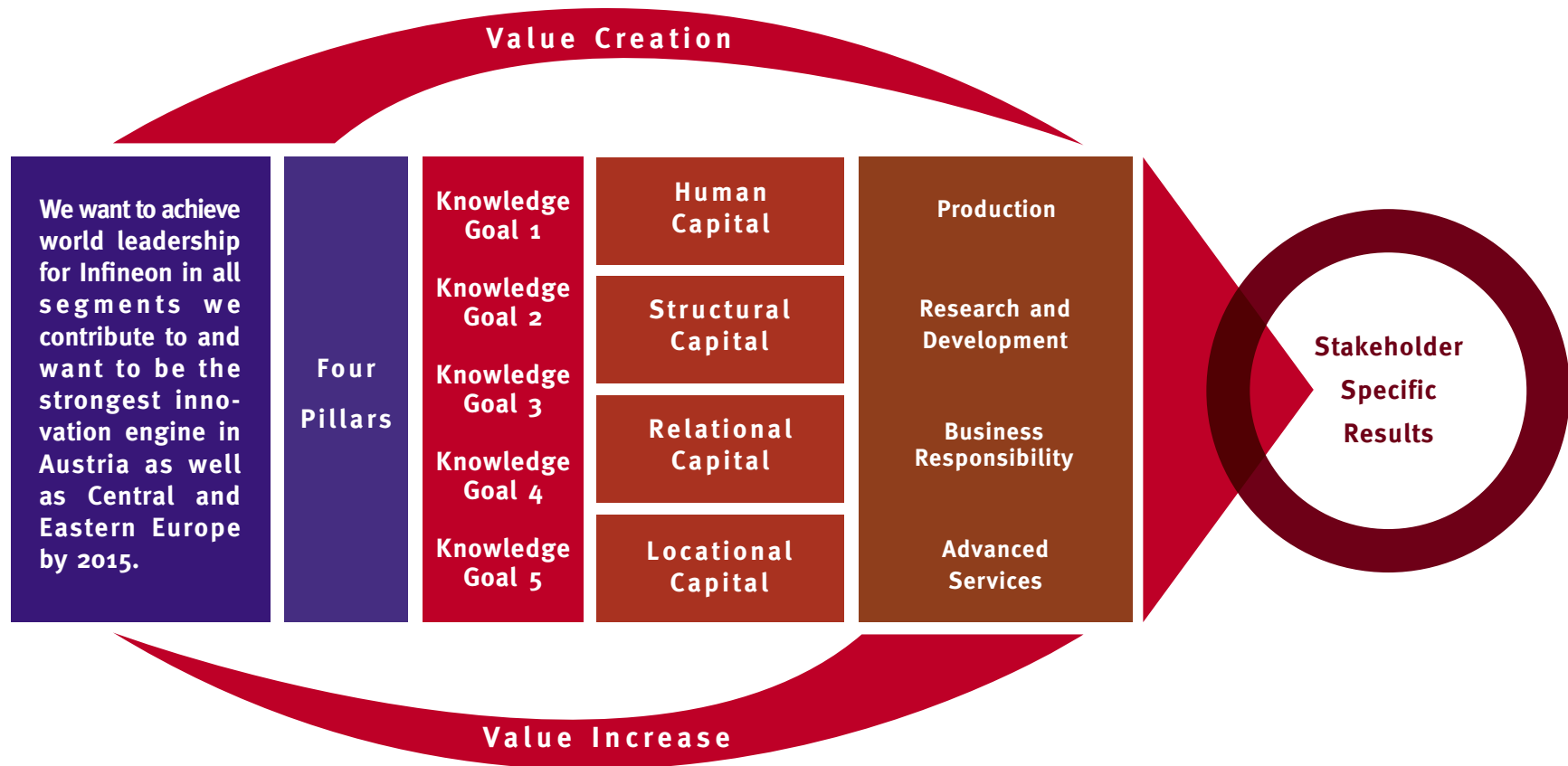
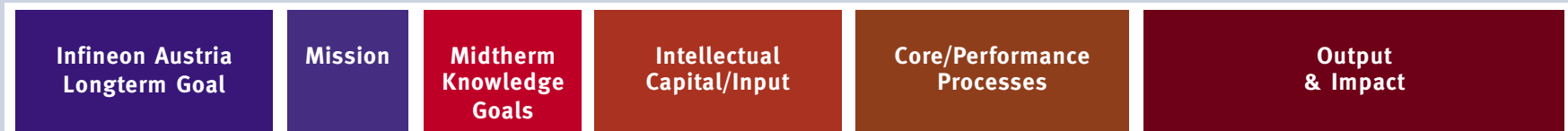


Intellectual assets, such as accumulated knowledge through R&D, human resources and new organisational structures, are fast becoming key strategic elements for value creation. The expansion of the services sector, stronger competition resulting from globalisation and deregulation, and the emergence of new information technologies have accelerated this evolution. The ability to create economic value from intellectual assets, however, is highly contingent on the management capabilities of individual firms and the implementation of appropriate business strategies.

The relative lack of recognition of intangibles in accounting, coupled with their growing importance in the value creation process, could result in a misallocation of resources in capital markets and hinder the diffusion of efficient intellectual asset-based management practices based upon intellectual assets. Intense market pressures are already encouraging more companies to improve their reporting practices, but companies differ widely in this respect. The evidence suggests that additional public disclosure on intellectual assets would enhance capital market efficiency and effective corporate governance.

At the OECD Ministerial Council Meeting in May 2006, Ministers noted the growing importance of intellectual assets for sustained economic growth and welcomed the two-year long OECD study on Intellectual Assets and Value Creation. With the Ministers' blessing, the OECD is now preparing for the follow-up study to deepen understanding of the importance of intellectual assets as a driving force for innovation and value creation.

Infineon Technologies Austria AG Intellectual Capital Report Model



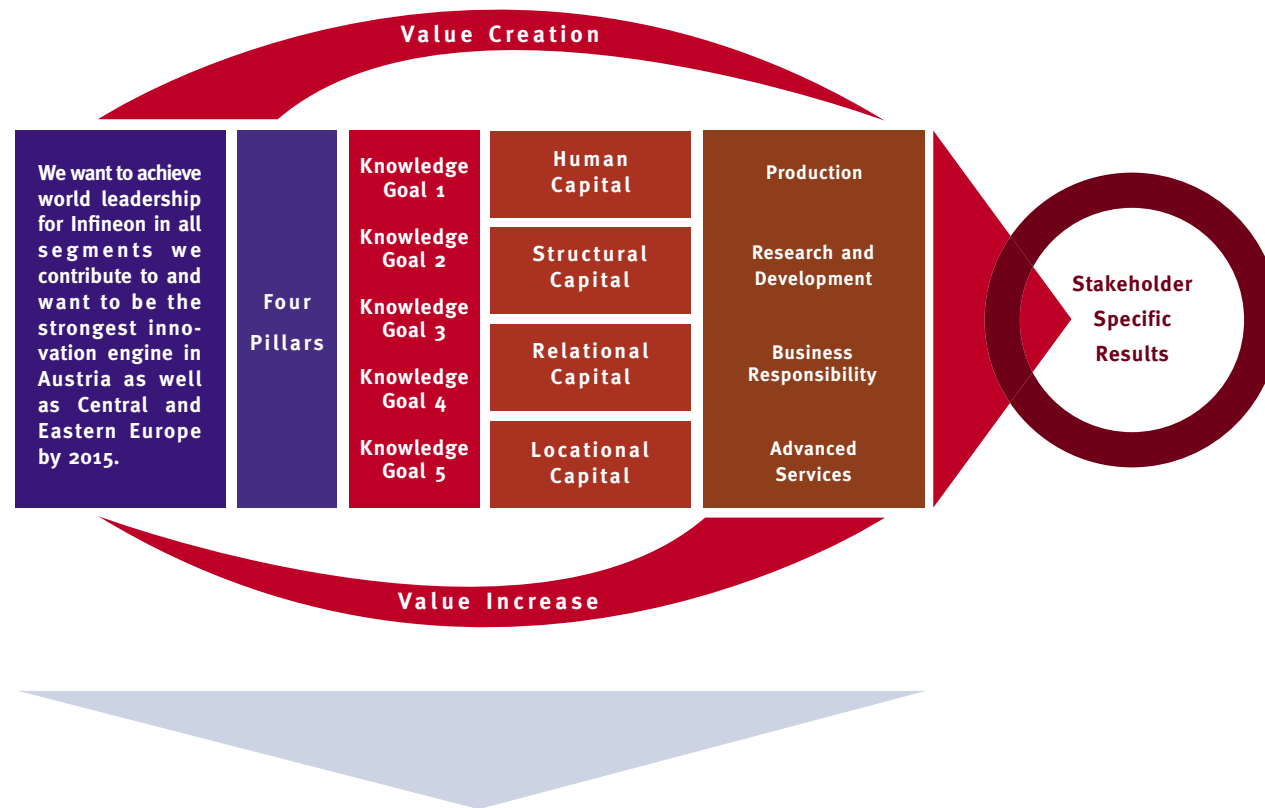
The Balance



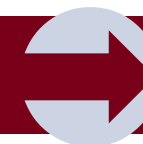


Infineon Austria Intellectual Capital Report 2005

INDICATOR SET



Intellectual Asset-Based Value Creation



Intellectual Capital (Input)

Human Capital

Basic Data

Employees total (number)	2.697
Employees in partial retirement (number)	49
International employees (in %)	13,9
Graduands (number)*	51
Doctoral students (number)	7
Temporary workers (number)	237
Apprentices (number)	40
Ratio of female employees (in %)	11,0
Female employees in management functions (in %)	3,3
Female employees in technical careers (in %)	5,6

Labor turnover

Resignations (in %)	1,6
Labor turnover rate, total (in %)	4,1
Relocation of employees within corporation (number)	15

Employee Qualification

Employees in in-service training (in %)	2,0
---	-----

Education and Training

Internally organized training units (number)	1.818
Externally organized training units (number)	392

Work-Life Balance

Employees on maternity leave (number)	16
Teleworking workplaces (number)	286
Employees with part-time work (number)	110

Structural Capital

Quality and Efficiency

Suggestions for improvement (number)	23.160
--------------------------------------	--------

Flexibility and Security

Possible shift models in manufacturing (number)	988
Employees with additional voluntary special tasks (number)	216

Relational Capital

Worldwide Corporate Network

IFAT** employees working on Infineon locations (number)	23
short und long term delegates at IFAT* (number)	25

Supplier Network

Supplier companies (number)	1.957
SME***-ratio of supplier companies (in %)	80,7
Ratio of bought services from supplier turnover (in %)	2,8

R&D Cooperations

Cooperation partners in R&D projects (number)	77
Participations in research-networks (number)	10

Education and Qualification Networks

Cooperations in teaching and education (number)	15
Holiday internships (number)*	613

Locational Capital

Legal Framework

Processing time of authorization procedures (weeks)	10
Processing time for labor permits of non-EU citizens (weeks)	6

Governmental R&D Incentives

Ratio of R&D expenditure from GDP (in %)	2,35
Average effective corporation tax rate (in %)	21,97

Quality of Life

Safety of individuals and property (position in international ranking)	3
--	---

Energy

Energy-based production downtimes (number)	7
--	---

Labor Market

graduates of technical universities (number)	2.683
Female graduates of that group (number)	478
Graduates of technical universities of applied sciences (number)	1.830
Female graduates of that group (number)	316
Students at polytechnic schools (number)	59.437

* data aggregated over the whole year / ** Infineon Technologies Austria AG / *** Small and Medium-sized Enterprises

Core/Performance Processes

Production

Product Portfolio

Flexible use of employees in the modules of production (in %)	37
Infiniteon Austria Products (number)	850

Power Logic Essentials

Ratio 6" to 8" wafer fabrication	57/43
Ratio of thin wafer fabrication (in %)	53,0
Ratio of automation (in %)	81,0

Research & Development

Project Portfolio

New started R&D projects (number)	26
Finalizations of R&D projects (number)	23

Competitive Advantage

Invention reports (number)	297
----------------------------	-----

Future Potential

Ratio of IFAT R&D employees to corporate R&D employees (in %)	10,6
R&D expenditure (in million €)	181
R&D employees (number)	784

Headquarter RPT - laboratory

Number of tests carried out (number)	4.004
Employees (number)	51

Business Responsibility

Business Unit Power Management & Supply

Active products (number)	588
New products as of business year 2004/2005 (number)	98
Ratio of new products (shorter than 3 years) from turnover (in %)	65,0

Advanced Services

General Performance

Ratio of employees in support from overall employees (in %)	3,7
---	-----

IT Services Performance

New started R&D IT-projects (number)	53
Employees of IT-services with corporate support assignments (in %)	72,9

Human Resources Performance

Offered trainings according to topics (number)	235
Offered contracts for permanent employment (number)	115
Hiring of leasing personnel (number)	186
Hiring of working students and internships (number)	447

Internal Communications

Use of electronic employee newsletter (categories)	narrativ
--	----------

Finance & Accounting Performance

Ratio of F&A employees from overall employees (in %)	0,8
Expenditure for F&A from turnover (in %)	0,29

Strategic Purchasing Performance

Cost reduction compared to previous year (in %)	4,5
Cost avoidance within business year (in %)	18,7

External Support

Executive and board functions in Austrian partner organizations (number)	27
Company presentations for educational institutions and partner organizations (number)	59
External projects sponsored by Infineon Austria (number)	50

**** based on expert's report on 'Leading Competence Units' published by Industriewissenschaftliches Institut and Federation of Austrian Industries

Output & Impact

Stakeholder Specific Results

Customer Specific Results

Customer visits in production (number)*	13
Successful audits of top-customers in production (number)*	15
'Quality indicator' of customer audits (in %)*	96,7

Employee Specific Results

Principals, senior Principals and Fellows (number)	30
IFAT Principals, Senior Principals und Fellows an IFX-gesamt (in %)	9,4
Vocational graduation in business year 04/05 (number)	15

Supplier Specific Results

Ratio of domestic suppliers of IFAT Suppliers (in %)	57,4
Regional suppliers (number)	342

Population Specific Results

Visits of politicians (number)	9
Public appearance and participation in panel discussions (number)	62

Results for Educational and Research Institutions

Funded projects of universities and research organizations (number)	26
Accepted conference papers (number)	74
Doctoral thesis and post graduates (number)	2
Cooperation in CD-laboratories and centers of competence (number)	10

Media Specific Results

Ratio of coverage of IFAT compared to coverage of the corporation in Austrian media (in %)	34,4
Ratio of R&D topic in media coverage (in %)	16,5
Ratio of personnel topics in media coverage (in %)	12,8
Ratio of production topics in media coverage (in %)	6,1

Results Relevant to Macro-Economics

Development of R&D expenditure compared to previous business year (in %)	+18,3
Austrian SMEs involved in R&D cooperation (number)	15
Change of IFAT workforce (in %)	+2,8
Change in number of temporary workers (in %)	+38,4
Additionally generated jobs **** (number)	4.800

Imprint

Published by: Infineon Technologies Austria AG

Project core team:

Monika Kircher-Kohl, MSc (INFINEON AUSTRIA CFO)

Dr. Manfred Kraudinger (Project Management)

Dr. Ingrid Lawicka (Corporate Communications)

Dipl.-Theol. Markus Rasche (Human Resources)

DI Gerd Sklenofsky (Operational Planning and Controlling)

DI Hans-Udo Sygulla (IP-Manager)

DI Gerd Uckermann (Quality and Business Excellence)

Consulting: Alexander G. Welzl, MSc
ESPRIT Consulting GmbH
Wollzeile 17/22, 1010 Wien
www.esprit-consulting.at



Designed by: atelier CREmsner
www.cremsner.at



Photography: Infineon, Ditz Fejer,
Design-Photograph Welisch-Kampitsch

Printed by: Styriaprintshop Graz

November 2006



Trust your brain

Infineon Technologies Austria AG

Standort Villach

Siemensstr. 2
9500 Villach
Tel.: +43 (0)517 77 - 0
Fax: +43 (0)517 77 - 3501

www.infineon.com/austria



Weitere Standorte

Standort Graz

Babenberger Straße 10
8020 Graz
Tel.: +43 (0)517 77 - 0
Fax: +43 (0)517 77 - 900

Standort Wien

Operngasse 20B/31
1040 Wien
Tel.: +43 (0)517 77 - 0
Fax: +43 (0)517 77 - 11 500

DICE GmbH & Co OHG

Freistädter Straße 400
4040 Linz
Tel.: +43 (0)517 77 - 15 100
Fax: +43 (0)517 77 - 15 999

COMNEON GmbH & Co KG

Freistädter Straße 400
4040 Linz
Tel.: +43 (0)517 77 - 15 600
Fax: +43 (0)517 77 - 15 710

Infineon Technologies IT-Services GmbH

Lakeside B05
9020 Klagenfurt
Tel.: +43 (0)517 77 - 0
Fax: +43 (0)517 77 - 4666

Infineon Technologies Romania SC

Bd. Dimitrie Pompeiu nr. 6
Sector 2
020335 Bucharest
Romania
Tel.: +40 (0)31 860 - 77 01
Fax: +40 (0)31 860 - 78 64

Infineon Technologies (Kulim) Sdn Bhd

Lot 10 & 11
Industrial Zone Phase II
Kulim Hi-Tech Park
09000 Kulim
Kedah Darul Aman
Malaysia