

Combined Management Report

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This report combines the Group Management Report of the Infineon Group ("Infineon" or "Group") – comprising Infineon Technologies AG (hereafter also referred to as "the Company") and its consolidated subsidiaries – and the Management Report of Infineon Technologies AG.

The Combined Management Report contains forward-looking statements about the business, financial condition and earnings performance of the Infineon Group. These statements are based on assumptions and projections based on currently available information and present estimates. They are subject to a multitude of uncertainties and risks. Actual business development may therefore differ materially from what has been expected. Beyond disclosure requirements stipulated by law, Infineon does not undertake any obligation to update forward-looking statements.

Effective 1 October 2016, a number of small product groups were allocated to other segments. The previous year's figures have been adjusted accordingly.



Finances and strategy

2017 fiscal year

- › Revenue up 9 percent within a favorable market environment; Segment Result Margin of 17.1 percent achieved
- › Good performance enables higher dividend

Revenue growth better than original forecast; raised margin target over the cycle already achieved in the 2017 fiscal year

Infineon generated **revenue** of €7,063 million in the 2017 fiscal year, a 9 percent increase on the previous year's figure of €6,473 million. With this performance, Infineon surpassed the revenue growth rate of 6 percent, plus or minus 2 percentage points, forecast at the beginning of the fiscal year and was also within the raised target range of between 8 and 11 percent announced on 24 March 2017 (see the chapter "Outlook"). Revenue growth was primarily driven by strong demand for semiconductors used in automotive, industrial and power supply applications. Our top-selling Automotive segment contributed 56 percent, thus more than half of the total revenue growth of €590 million (see the chapter "The segments").

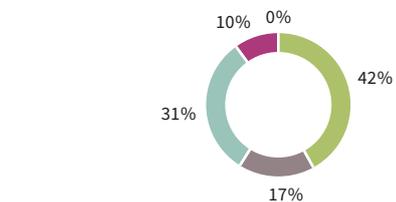
- P see page 78
- G see graph 01
- G see graph 02
- P see page 38 ff.

G 01
Revenue growth of the individual segments in the 2017 fiscal year compared to the previous year



- 1 Automotive
- 2 Industrial Power Control
- 3 Power Management & Multimarket
- 4 Chip Card & Security

G 02
Revenue by segment in the 2017 fiscal year



- Automotive: €2,989 million
- Industrial Power Control: €1,206 million
- Power Management & Multimarket: €2,148 million
- Chip Card & Security: €708 million
- Other Operating Segments, Corporate and Eliminations: €12 million

G see graph 03

China has been Infineon's most important sales market for several years now and, with a figure of €1,735 million, accounted for 25 percent (2016: 24 percent) of Infineon's revenue during the fiscal year under report. Next in line for Infineon were Germany with revenue of €1,094 million and a 15 percent share (2016: 15 percent), the USA with €714 million and a 10 percent share (2016: 10 percent) and Japan with €463 million and a 7 percent share (2016: 6 percent).

The **Segment Result** for the 2017 fiscal year totaled €1,208 million, 23 percent up on the €982 million reported one year earlier. Our margin target of 17 percent on average over the cycle, which had been raised at the beginning of the fiscal year 2017, was achieved already in the year of its announcement, with the **Segment Result Margin** coming in at 17.1 percent (2016: 15.2 percent). The actual Segment Result Margin was therefore higher than the figure of 16 percent at the mid-point of the planned range for revenue growth as forecast at the beginning of the fiscal year and, moreover, in line with the increased outlook for the fiscal year of 17 percent at the mid-point of the planned range for revenue growth announced on 24 March 2017 (see the chapter "Outlook").

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Improvement in key performance indicators

Net income rose to €790 million due to the positive Segment Result contribution driven by the revenue increase which was partially offset by higher income tax expense (see the chapter "Review of results of operations"). Compared to the previous year's figure of €743 million, net income improved by 6 percent.

P see page 68

Earnings per share for the 2017 fiscal year amounted to €0.70 (basic and diluted), 6 percent up on the €0.66 (basic and diluted) reported for in the previous year. Adjusted earnings per share (diluted) improved year-on-year from €0.76 to €0.85 (see the chapter "Review of results of operations" for details of the calculation of adjusted earnings per share).

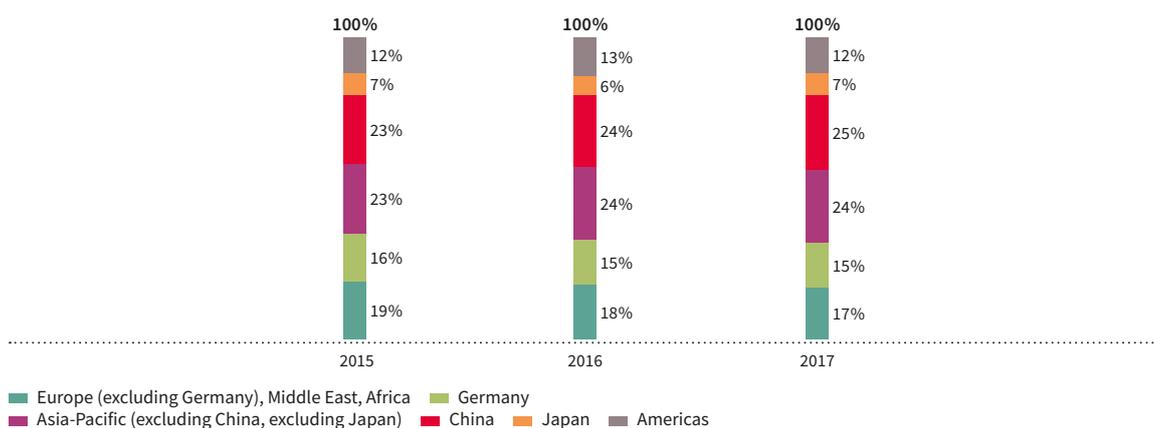
P see page 71

P see page 60

Free cash flow from continuing operations (see the chapter "Internal Management System" for definition) totaled €594 million in the 2017 fiscal year, an increase of €104 million or 21 percent over the previous fiscal year's figure of €490 million. Net cash provided by operating activities of €1,728 million (2016: €1,313 million) exceeded additions to property, plant and equipment and intangible assets totaling €1,022 million (2016: €826 million) and disbursements to acquire 93 percent of the shares of MoTo Objekt Campeon GmbH & Co. KG ("MoTo"), the owner of the Campeon office complex and Infineon's headquarters in Neubiberg.

G 03

Infineon revenue by region





The **Return on Capital Employed (RoCE)** in the 2017 fiscal year amounted to 14.9 percent, compared to 15.0 percent one year earlier. With operating income from continuing operations after tax rising from €799 million to €847 million, the 0.1 percentage point decrease in RoCE is attributable to the higher capital employed figure, which increased from €5,334 million to €5,695 million year-on-year (for a definition of, and details relating to, the calculation of RoCE, see the chapters “Internal Management System” and “Review of financial condition”).

P see page 60 and page 74

P see page 61

The **gross cash position** (see the chapter “Internal Management System” for definition) totaled €2,452 million as of 30 September 2017, an increase of 9 percent compared to the previous year’s figure of €2,240 million. The free cash flow from continuing operations of €594 million described above exceeded the combined total of the dividend payment for the 2016 fiscal year (€248 million) and long-term debt repayments (€119 million).

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The **net cash position** (see the chapter “Internal Management System” for definition) increased by 31 percent to stand at €618 million at the end of the 2017 fiscal year (30 September 2016: €471 million).

Planned to raise dividend by 14 percent

Our dividend policy is aimed firstly at enabling our shareholders to participate appropriately in the success of the business and secondly to at least keep the dividend at a constant level in times of flat or declining earnings.

Based on the strong performance in the 2017 fiscal year, a proposal will be made to the Annual General Meeting (to be held on 22 February 2018) to pay a dividend of €0.25 per share, an increase of 3 cents or 14 percent.

G see graph 04

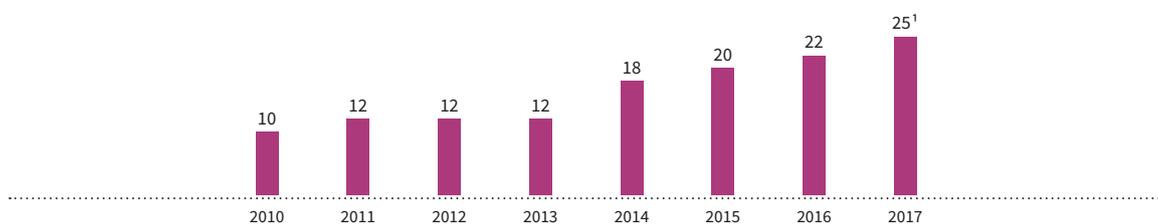
Developments in the semiconductor industry

Semiconductor revenues worldwide totaled €353.964 billion in the 2017 fiscal year (source: World Semiconductor Trade Statistics). This corresponds to an increase of 19.6 percent compared to the revenue of €296.080 billion generated during the 2016 fiscal year. The high growth rate can mainly be attributed to the steep rise in prices within the memory products category. Revenue generated in this product category – comprising mainly DRAM and flash memory products – grew by 55.4 percent, and with a volume of €99.667 billion, accounted for around 28 percent of the entire semiconductor market. Infineon recorded 9.1 percent revenue growth during the same period.

The semiconductor market is highly fragmented. Only the two largest competitors had a market share in excess of 5 percent in the 2016 calendar year (source: market research company IHS Markit). Based on a total market size of US\$352.531 billion, Intel and Samsung took market shares of 15.6 percent and 11.5 percent respectively, with revenue amounting to US\$54.980 billion and US\$40.389 billion respectively. The market share of all other competitors was below 5 percent. Infineon finished in 11th place with revenue of US\$7.197 billion and a 2.0 percent market share.

G 04

Dividend per share for the 2010 to 2017 fiscal years
 in € cents



¹ Proposal to the Annual General Meeting to be held on 22 February 2018.

Intel is market leader for processors, Samsung for memory. Infineon does not operate in either of these categories. Hence, neither of these companies competes directly with Infineon in these two product categories. Of the top 20 semiconductor manufacturers, the following compete with Infineon: Samsung (only in the field of chip card ICs, with revenue accounting for only approximately 1 percent of Samsung’s revenue), Texas Instruments, Toshiba, NXP, STMicroelectronics, Renesas and ON Semiconductor.

G see graph 05

The 20 largest companies account for 70.7 percent of global revenue. The remaining 29.3 percent is spread over more than 1,500 other semiconductor companies. These figures highlight the highly fragmented structure of the semiconductor sector. However, further consolidation can be expected within individual product categories. For example, the acquisition of Fairchild by ON Semiconductor on 19 September 2016 created a new number two in the power semiconductor segment behind Infineon.

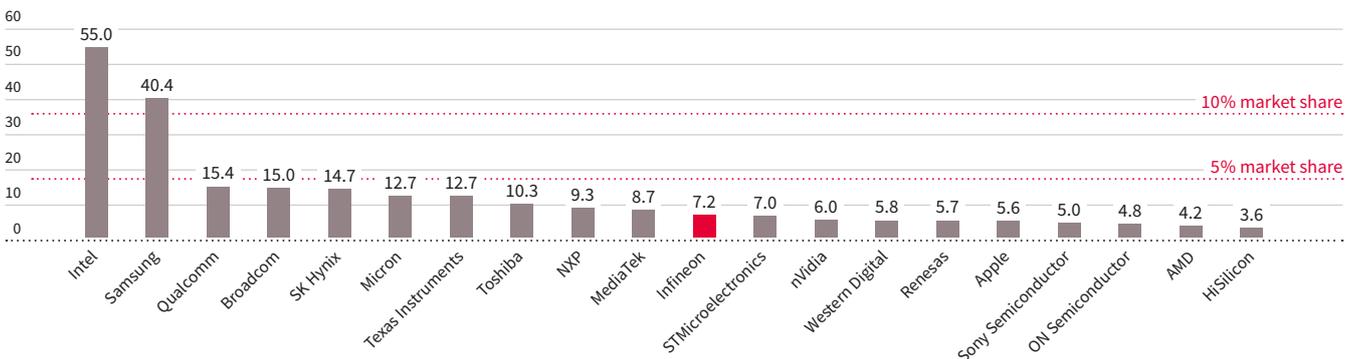
G see graph 06

Looking at the regional distribution of semiconductor sales, China has been the dominant factor for many years. In the 2016 calendar year, 43 percent (2015: 42 percent) of all semiconductors were absorbed by that market. In China, contract manufacturers – so called Electronic Manufacturing Services (EMS) – play a special role. They assemble electronic products predominantly for Western customers. The business model plays a significant role for durable consumer goods on the one hand and information and telecommunications sector-related products such as servers, PCs, notebooks and cellular phones on the other. A large proportion of the semiconductors mounted in China are subsequently re-exported as part of a finished product.

G 05

Top 20 semiconductor manufacturers for 2016 calendar year

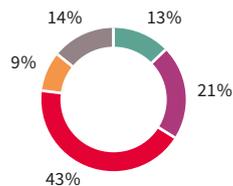
Revenue in billion US\$



Source: Based on or includes content supplied by IHS Markit, Technology Group, “Competitive Landscaping Tool – Q3 Update”, August 2017. Foundries and subcontractors are not included in this market research.

G 06

Global semiconductor sales 2016 by region (total market size US\$353 billion)



Legend:
 Europe, Middle East, Africa
 Asia-Pacific (excluding China, excluding Japan)
 China Japan Americas

Source: Based on or includes content supplied by IHS Markit, Technology Group, “Application Market Forecast Tool”, September 2017.

Group strategy

Infineon’s objective is sustainable profitable growth. This is why we focus on markets in which we can be successful with our core competencies in the long term and pursue the leading position in these markets. In an effort to always offer the best solutions on the market to our customers we achieve three things: We continuously increase the enterprise value for our shareholders, offer our employees a safe and attractive working environment and also help make life easier, safer and greener.

see graph 07

Today Infineon addresses the two fastest growing segments of the semiconductor market: Until 2021 market researchers predict a compound annual growth rate of 8.2 percent for automotive semiconductors and 6.8 percent for industrial power semiconductors. Demand in these segments is driven by long-term, global megatrends.

Strategic fundamentals

Global megatrends drive core business

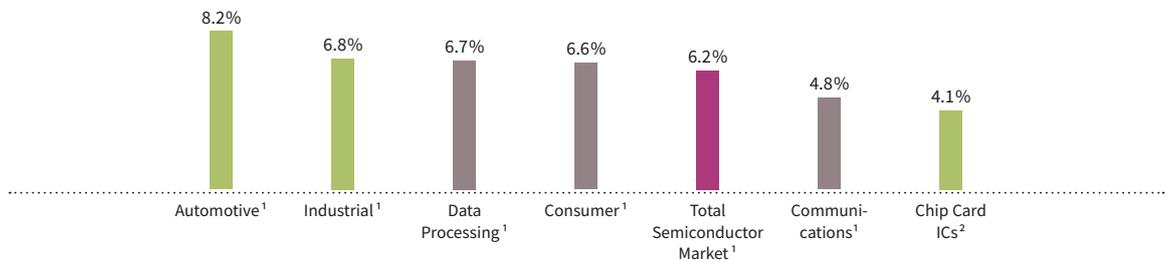
According to the United Nations, the world’s population will grow by 1 billion people to a total of 8.6 billion by 2030. At the same time fossil fuels are becoming scarcer and current concepts – for example, for traffic, industry and communications infrastructure – are reaching their limits. Microelectronics plays a key role in providing a constantly growing population with energy and a higher standard of living while minimizing the impact on the environment. The key is making “more from less”.

Opportunities in the convergence of the real and digital worlds

Semiconductors are essential in tapping renewable energy sources. They reduce the power consumed by electric devices and enable systems that make transportation cleaner, safer and smarter. Furthermore, semiconductor technology is the backbone of modern communication and data technologies. Answers to the challenges of our time would be unthinkable without the use of semiconductors. And this becomes even more true as the real and digital worlds converge, generating new potentials. Digitalization increases the productivity of industrial manufacturing processes. This development, also referred to as the Industrial Internet, reaches far beyond automation. Thanks to digitalization, agriculture, for example, can achieve higher yields with more environmentally friendly methods. At the same time the digital transformation opens up new possibilities for consumers. The prerequisite for this is the protection of data exchange from abuse in order to ensure the acceptance of the ever-increasing degree of networking in our society. Infineon benefits from these trends because they stimulate long-term demand in our target markets.

07

Compound annual growth rate of the main semiconductor target markets 2016 to 2021



1 Source: Based on or includes content supplied by IHS Markit, Technology Group, “Worldwide Semiconductor Shipment Forecast”, September 2017.
 2 Source: ABI Research, “Secure Smart Card & Embedded Security IC Technologies”, August 2017; microcontroller ICs



The three pillars of our strategy: Focus, technology leadership and system understanding

Not only does Infineon rely on the right growth drivers, it also has the expertise and the strategic concepts needed to benefit from these drivers. Our strategy is based on three pillars. First, we focus on those markets in which we can achieve a leading position: automotive, power supplies, industrial power electronics, radio-frequency technologies and security. Second, we establish the basis for these leading positions with manufacturing know-how as well as comprehensive expertise on technology, products and applications which we constantly expand both within existing as well as new application areas. The third pillar is our strategic approach “Product to System”. Based on far-reaching system understanding we want to offer customers solutions that will make them more successful and will increase potential sales and profits for Infineon. Here we expect our knowledge to drive innovations that can change markets and clearly differentiate us from our competition in the long term.

This concept can be clearly illustrated by a number of examples: Demands for the reduction of CO₂ and NO_x emissions in the automotive industry promote the development of electric vehicles. At the same time, the desire for better road safety and more driving comfort is helping the breakthrough of radar-based assistance systems. Both of these developments result in higher demand for semiconductors per car. In industrial applications, our power semiconductors are making all kinds of power supplies more efficient and more compact: New materials such as silicon carbide (SiC) make it possible, for example, to design power inverters for photovoltaic systems that are significantly smaller than previous models. Furthermore, their lower weight allows for much easier installation in the field. Even though the value of the power semiconductor content increases, production costs for the overall system are reduced by more than 10 percent. Sensor technologies open up new application fields such as Augmented Reality in smartphones and intuitive operation of a large number of devices by gesture control. Security controllers ensure protection of data traffic in an increasingly connected world.

Infineon has continued to develop and expand its traditional core competencies in the area of power semiconductors, hardware-based security, radio-frequency technologies and embedded control and has added to these competencies expertise in adjacent fields such as sensor technologies. We utilize the know-how of the entire corporate network in each application area, including our leading manufacturing technology. Today we are the clear market leader in power semiconductors, the market leader in security solutions as well as the system leader in automotive.

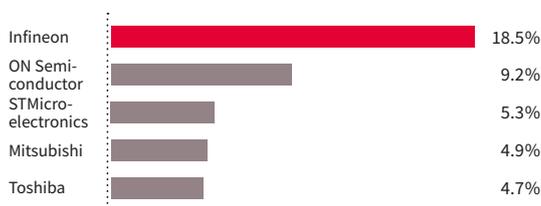
see graph 08

Acquisitions add to organic growth

We supplement our organic growth with targeted acquisitions. These acquisitions have to meet three criteria: They must be strategically viable, financially reasonable and culturally fitting. An acquisition thus has to strengthen Infineon’s market position according to our strategic orientation and has to be a viable addition to our range of expertise. The business acquired has to increase our profit, contribute to our margin target of an average of 17 percent throughout the cycle and must earn a return at least equal to the capital costs. And finally the corporate culture of a potential acquisition candidate must be a good fit with Infineon’s culture, ideally contributing valuable elements to it.

08

World discrete power semiconductor and modules market share 2016



Source: Based on or includes content supplied by IHS Markit, Technology Group, “Power Semiconductor Annual Market Share Report”, August 2017.

Success factors in strategy

We have established a stable foundation in recent years by focusing on core competencies that are in higher demand today than ever in the face of global megatrends. Over the years we have built and systematically expanded the technical expertise needed to do so. And since good ideas do not become innovations until they have been successful in the market, we have also developed the appropriate concepts for turning our strategy into entrepreneurial success and value creation. At the center of all this is our strategic approach “Product to System”, which we apply along our entire value chain, oriented towards the success of our customers. This approach is supported by additional elements: A strong innovation culture, continuous pursuit of technology leadership, well-developed quality consciousness, differentiated manufacturing and tailor-made go-to-market strategies fitting the various individual markets. This puts us in a position to offer our customers leading products as well as the highest possible quality and supply reliability. In doing so we achieve the objective of growing profitably and faster than the market.

The strategic approach “Product to System” defines our actions

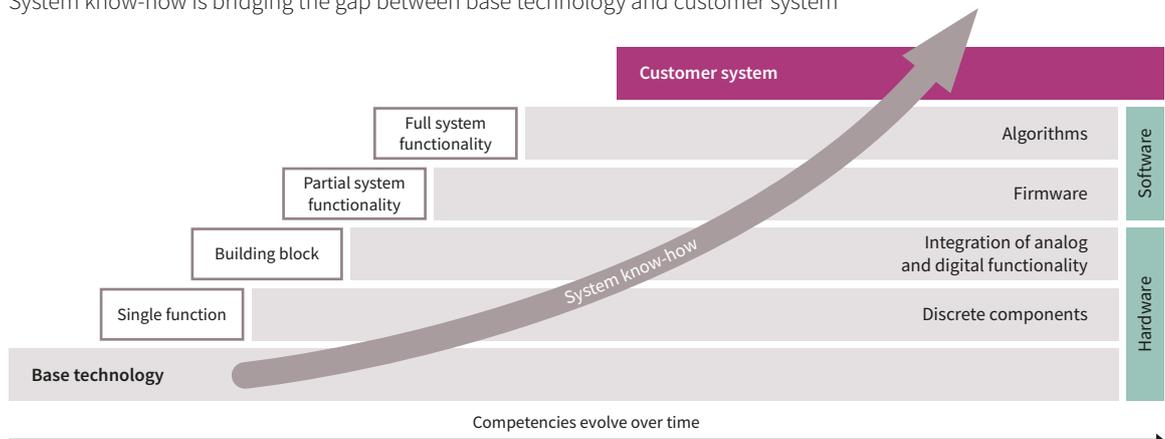
As illustrated above, our strategic approach “Product to System” goes well beyond thinking in terms of technologies and products. We want to understand what markets demand and how they are changing. Only then will we be able to understand how we can change the markets ourselves. Thus we consider more than just the direct sales opportunities for our products and solutions: We also look at our customers’ success factors and the development of end-markets. By doing so, we recognize at an early stage when the foundation of our business is changing. This is a prerequisite for timely reaction, guaranteeing sustainable differentiation in growth applications and increasing profit.

see graph 09

In order for this to succeed, we have to understand the environment in which our customers’ products are used, how they are embedded in larger systems, what other devices they interact with, what requirements they have to fulfill and what tasks they are intended to perform. And we also have to take into consideration which active and passive components they use, whether they use software and what capabilities our customers contribute to the value creation process. Equipped with this knowledge we can leverage our competencies even better: We can translate what is technologically possible into a commercially viable product, thus providing the greatest possible benefit to our customers. What we mean by this can be demonstrated using the three examples already mentioned: Sensor systems not only capture information about the surrounding environment, but also interpret and process the data they gather in order to initiate a particular action; digital control loops in power supplies enable higher energy efficiency at both high and low load levels; and security controllers are capable of distinguishing authorized access from unauthorized access. In addition to the hardware components involved, this also requires varying degrees of software support. Thus to a certain degree system understanding also means: Software understanding.

09

System know-how is bridging the gap between base technology and customer system



Technology know-how has always been the foundation of our business model, whether in the form of discrete components, integrated solutions or mixed-signal components. Our broad portfolio ranges from single components all the way to solutions with hardware-related software. This enables us to provide targeted support to our customers while choosing from a variety of approaches. Some customers continue to differentiate themselves from their competitors by means of their own software and just purchase the necessary hardware from us. We go one step further with automotive microcontrollers and security controllers, which we supply with special firmware that supports the basic functionality of the hardware and cannot be modified. More extensive functions can then be implemented using additional program code. For example, in the 2017 fiscal year we launched the second generation of our digital motor control platform iMOTION™. It was developed for use in major home appliances and comes with a development kit that meets the priorities of our customers in this market: lower system costs, reduced development effort, shorter development times and high reliability. iMOTION™ already comes with all algorithms required to control the electric motor. Only a small number of application-specific parameters need to be defined in order to complete programming. Since we think in terms of systems, we can support all of these different approaches. It's not always the most sophisticated solution that provides the biggest value added to the customer: Standard components may also be just the right fit. Nevertheless, system understanding creates a competitive advantage because it gives us the ability to provide more thorough advice, and because this knowledge lets us develop better products.

The same logic applies to our strategic minority investment in the British company XMOS Limited (Bristol). Already in spring, we presented a joint solution at the Mobile World Congress in Barcelona (Spain). The interaction of radar sensors and silicon microphones from Infineon with an audio processor and speech recognition algorithms from XMOS enables the recognition of individual users even in large groups, thus supporting reliable voice control. Our investment will strengthen the partnership with XMOS Limited and will help us develop an even better understanding of the interdependencies between hardware and algorithms. This puts us in an excellent position to participate in the future growth of voice-controlled devices. Going forward, the interaction between human beings and machines will be less keyboard-centric and will rely on more natural means of communication instead – especially on voice, gesture and facial expressions. Voice control will thus become a key success factor in the Internet of Things (IoT).

The strategic “Product to System” approach also plays an essential role in the development and introduction of new technologies, for example, with the new semiconductor materials silicon carbide (SiC) and gallium nitride (GaN). These components are typically more expensive than silicon-based products, but thanks to new system architectures they also open the door to many new dimensions of benefit for the customer, for example, a smaller form factor, higher efficiency and lower system costs. The realization of these benefits implies higher research and development efforts on the part of our customers. Therefore, we support the introduction of these new technologies in two ways: On the one hand, we work closely together with our highly innovative customers while on the other hand providing less technology-oriented customers with solutions that are easy to implement.

Technology leadership means added value for customers

Customers choose Infineon because we stand for competitive cutting edge technology in terms of the highest possible quality and reliability. Our engineers anticipate many challenges even before our customers are affected by them. We meet the highest quality requirements of the automotive industry, achieve the highest efficiency in power switching and deliver solutions for the most challenging security projects in the world. We are also capable of applying this specific expertise throughout the entire corporate network. As an example, our barometric pressure sensors, which make indoor navigation possible for mobile devices, are based on the same technology as those used in cars for determining the optimum gasoline-air mixture. And beyond payment cards and government IDs, our expertise in security is in higher demand than ever in the era of the Internet of Things: In this area customers concentrate on optimizing the interaction of networked devices and prefer to purchase the feature “Security” as a solution that is easy to implement. Infineon recognized this trend at an early stage and now offers the corresponding controllers and software as well as the comprehensive know-how of the Infineon Security Partner Network. The network partners develop security solutions custom-tailored to meet the needs of individual industry sectors and markets. The service range covers the entire value chain, from consulting and design all the way to system integration and service management.



Furthermore, we systematically expand our abilities, for example, whenever the requirements of our markets change, or when we see long-term growth potential in a new business segment. Thus, as the market leader, we began researching new materials for power semiconductors at an early stage. SiC and GaN are particularly well-suited for use in the field of power electronics. Going forward, we will also strengthen our expertise in power control and expand our product portfolio. As the number one in MOSFETs and IGBTs we consider this an adjacent area with interesting opportunities for further growth. Then again, in sensor technologies we intentionally moved into new territory some time ago, fully aware of the fact that detection of environmental data would become increasingly important in our target markets. Today we have a comprehensive portfolio of sensors for a wide range of systems in automotive applications, for mobile devices, consumer electronics and the Internet of Things. Our success in silicon microphones illustrates the flexibility of our approach and how we adapt to changing market requirements: We have increased our share in this market over the last ten years to a current 33.5 percent with leading MEMS technology. Then, during the previous fiscal year, we started offering a microphone in our own package and also took a first step towards building software know-how with our recent strategic minority investment in XMOS.

Innovation drives differentiation

Innovation is one of the most fundamental success factors in the semiconductor industry and is for us an important basis for differentiating Infineon from competition. Infineon has shown time and again that our technological and product innovation lets us grow faster than the market and increase profitability. But challenges are growing as well: Competition is intensifying. Competitive coverage of the application areas in our markets calls for a wider and wider technology portfolio. And development efforts are increasing disproportionately as technologies gradually approach physical barriers. This fact underlines the significance of economies of scale and the connection between technology leadership and size. Previous concepts for success are too shortsighted under these conditions and have to be either expanded or rethought.

This is why innovation and system thinking ideally complement one another. We think about what the key factors are and how we can combine several innovative, sometimes at first sight minimal steps to form a larger whole that will in turn provide an additional and substantial benefit for the customer. Thus today our claim to innovation covers all areas of our company: logistics, operations, technology, products, system solutions and partnership with the customer. Depending on particular market demands we focus on different aspects. Several units within the Company act like start-ups, while others use a comprehensive approach to leverage new areas of differentiation. Of course in doing so we implement the entire spectrum of possibilities and expertise that Infineon has to offer. This is all driven by a well-developed culture of collaboration which is one of our permanent differentiating features. For example, during the 2017 fiscal year we generated first revenues with our CoolSiC™ MOSFET. Its market launch is the result of many years of research and development activities that are now beginning to pay off. Manufacturers of PV inverters are among the first customers. Furthermore, CoolSiC™ modules will soon be put into use in European fast charging stations for electric vehicles and 15 automobile manufacturers and automotive component manufacturers are also evaluating the product for future vehicle platforms. This makes SiC technology an ideal example for the strategic “Product to System” approach: By transitioning to SiC we are creating higher value for the customer and for Infineon. The system costs for production of PV inverters go down, smaller and lighter devices are easier to install and the semiconductor content value increases significantly. This technology strengthens our position in several end-markets at the same time.



Strategic advantages through in-house manufacturing

All our actions are aimed at creating value for the customer and at opening up opportunities for differentiation to us. This also applies to manufacturing. We manufacture in-house provided we can thereby differentiate ourselves from the competition in the market. On the other hand, when it comes to standard technologies, usually in the case of highly-integrated products such as microcontrollers and chip card ICs, we primarily work with contract manufacturers. We thereby utilize our invested capital in the most efficient way possible and optimize our investments in research and development.

In many application areas, for example, in power electronics and sensor technologies, our manufacturing methods and our process expertise give us a strategic advantage because we can offer components that can only be produced using leading-edge manufacturing technologies. Several years ago we were the first company in the world to develop highly-integrated circuits for the 77 gigahertz frequency range based on innovative silicon germanium technology. This cuts the cost of radar systems which as a result are used more widely in vehicles outside of the premium segment, making street traffic safer.

In addition to innovation, delivery reliability, quality and cost reduction are essential factors in the orientation of our manufacturing landscape. Innovation activities with regard to manufacturing processes are centered in Europe. Our Asian sites focus on efficiency and will support further growth. As an example, we successfully launched an additional production module in Kulim (Malaysia) one year ago. This helps us ensure our delivery reliability, particularly important to our customers in the automotive industry. This means we are well prepared for further expansion in the area of electro-mobility, also associated with increased demand for power semiconductors.

Another milestone in terms of manufacturing technologies is the introduction of a larger wafer diameter for power semiconductor manufacturing. The use of 300-millimeter thin wafer technology provides significant advantages in productivity and reduces use of capital. By the end of the 2017 calendar year we will equip up to 30 percent of the cleanroom space available in Dresden (Germany) with tools. We expect the productivity advantage will begin to take effect then, and the costs per chip in 300-millimeter manufacturing will drop below the level of our 200-millimeter sites. We benefit from the lower investments per chip already today.

Flexible go-to-market strategies accommodate rapidly changing markets

Going forward we will address more customers with more flexibility and innovative go-to-market strategies. Historically, Infineon has grown through close collaboration with key customers, with whom we have successfully defined products that enabled us to penetrate the broad market thereafter. We reach many of our smaller customers through distributors. We will increase our leverage of the enormous potential of the distribution channel with standardized but flexible products for the mass market. Here we have made good progress by emphasizing short-term delivery reliability, continuous and pragmatic adjustment of the product portfolio and close partnership with distributors.

Digitalization and the Internet of Things will create new business models. From the thermostat all the way to the car, today more and more devices are connected with the internet and as a result offer new functionality. The manufacturers usually concentrate on making these devices “smart” with the best possible sensing and data processing capability. They are neither able nor interested in dealing with the underlying semiconductor technologies. We want to make our products and solutions more easily available to these vendors, for example, through optimized product bundles and support in the form of reference designs. Here in particular our system understanding makes the difference. At the same time we are engaging in networks consisting of distributors, development service providers and manufacturing service providers. These networks enable smaller companies and start-ups to jointly develop and manufacture electronics for new functions and new devices and thus make the Internet of Things a reality. This broad sales strategy lets us maximize revenues with existing technologies while at the same time increasing the yield of our investments in research and development.



Digital transformation

Digitalization is underway and is changing the way we develop, manufacture and interact with markets. Today we are already successfully adopting the concept of the Industrial Internet (“Industry 4.0”): Automation is linked to the use of big-data methods in operations. The computer evaluates data on over 1,000 manufacturing steps to detect atypical deviations and point out possible causes. This will also help us meet the high quality requirements demanded by the automotive industry in the future as well, requirements which will become ever more stringent with each step towards autonomous driving and the associated necessary system reliability. New methods will not only be applied in manufacturing but also in research and development, planning, logistics and in the way we interact with customers. For example, we want to accelerate learning and knowledge building in development, where we already make very extensive use of computer-based methods. This will help us keep our technological lead in spite of growing challenges and will let us successfully master the complexity involved in thinking in terms of systems.

Digitalization is also becoming increasingly important for the products, solutions and services that we offer to our customers. Ultimately it will change the way humans, machines and computers interact. Speech, gestures and facial expressions are becoming more and more important. What is referred to as “Deep Machine Learning” and neural networks are an essential success factor and call for new competencies and methods. We have already been successful in a number of pilot projects in this context and will further develop our strategy in this direction over the upcoming years. But not only will technology change, the way in which we develop solutions across the entire organization will evolve as well. This requires flexible procedures and organizational structures. Here the continuing evolution of our culture and the development of corresponding competencies over the last few years are paying off. Today teams from various organizational units are already working together, while they can take over or delegate responsibilities independently of traditional domains – always keeping the higher-level objective in mind.

Financial targets underline our claim to grow

Today Infineon is excellently positioned. We are addressing the fastest growing market segments and benefit from long-term megatrends. Our investments in recent years have yielded a solid foundation for the realization of economies of scale and scope and for increasing our profitability. As the clear number one in power semiconductors, system leader in automotive and leader in security solutions we realize economies of scale and can invest in retaining and expanding our technology leadership.

Our strategy is based on sustainable, profitable growth, reflected in the ambitious targets we have set for ourselves. They emphasize on the one hand the high level of expectations we place on ourselves, and on the other hand ensure that we achieve the necessary balance between growth in sales, profitability and investment volume.

Target 1: 8 percent average annual growth in revenue

Infineon’s current business has organically grown at an average rate of approximately 9 percent annually since the Company was established as an independent corporation in fiscal year 1999. We hold leading positions in our core markets and have systematically entered adjacent markets in the past. Our four segments are positioned to capitalize on the megatrends mentioned earlier, which are driving a steady demand momentum for our products. We therefore expect to be able to continue growing in the future at a pace very close to the historical rate. A detailed description of the individual growth drivers follows in the next chapter. Here our strategic approach “Product to System” helps us develop better solutions with our broad technology and product expertise and thus to create significant added value for our customers who are willing to pay more for solutions that are worth more. Furthermore, we are using tailor-made go-to-market strategies to broaden our customer base and generate more business. In doing so we want to continue to grow at an average of 8 percent per year. In the 2017 fiscal year we grew by 9 percent.

Target 2: 17 percent Segment Result through the cycle

Growth is only one prerequisite for sustainable success. Another criterion is profitability. Here the margin achieved by our products is an indicator for the value our products create for the customer. When we work profitably on a sustainable basis, it means that we steer our developments to the point where they provide the highest benefit to our customers. Working profitably means using innovative strength effectively by meeting the demand of the customer and the markets. In addition, we want to continue our development and sales achievements at unabated speed even in difficult market phases. We want to achieve an average Segment Result Margin of 17 percent of sales through the cycle. In order to achieve this goal on a sustainable basis, we are relying among other things on economies of scale as well as on cost advantages from the further ramp and utilization of our 300-millimeter site in Dresden (Germany). We also leverage economies of scale in research and development and sales through leading positions in our target markets. And technology leadership and the strategic approach “Product to System” enable us to maintain a higher degree of differentiation. In the 2017 fiscal year we achieved a Segment Result Margin of 17.1 percent.

Target 3: Investments amounting to 13 percent of revenue

When expanding our manufacturing capacities we only invest in our own manufacturing facilities when it makes a fundamental contribution to the differentiation of our products. This is true in particular of power semiconductors, radio-frequency components and MEMS-based sensors. When this is not the case, we outsource an increasing amount of our wafer processing and our package assembly to manufacturing partners.

Up to now our capital intensity has been characterized by existing 200-millimeter technologies. However, compared with 200-millimeter manufacturing, the new 300-millimeter thin wafer technology requires less investment relative to the capacity provided. This reduces the amount of investment in manufacturing capacities for power semiconductors that is necessary in order to achieve growth targets.

For products manufactured using standard CMOS technologies with structures of 65 nanometers or less we work together with contract manufacturers, developing the necessary technology modifications together with them. The essential differentiation of these products lies in the design and less so in the process technology, which is why we no longer manufacture them in our own facilities, thereby eliminating the investments in frontend manufacturing and development of base technologies which would otherwise be necessary.

We will also continue to expand our partnerships with contract manufacturers in non-differentiating areas of backend manufacturing, i.e. package assembly, in particular for standard packages. This will mean a corresponding reduction in the amount of investment as well.

And we also increase output by continuously increasing the productivity of all our manufacturing processes. Taken together, all these strategies work towards achieving the target of investing an average of approximately 13 percent of revenue over the cycle. This includes approximately 2 percent of capitalized development costs. Our investment volume is defined so that it will help us realize our target of an average growth in revenue of 8 percent annually. Depending on the market environment, in individual years the actual level of investment may differ from this target, and particularly in years of above average revenue growth exceed the target. For example in the fiscal year just ended, in light of strong demand the investment ratio amounted to 14 percent thus exceeding the defined target.

Capital structure targets demonstrate our reliability

It is important to our customers that Infineon remains a dependable partner that will also be able to supply reliably for many years to come. As an employer, we also want to give this kind of long-term reliability to our employees, even well beyond their active working lives in the form of retirement benefits. As a result we give a high priority to solid creditworthiness. This is reflected by our conservative capital structure targets.

Our gross cash target is €1 billion plus 10 to 20 percent of revenue. The fixed basic amount of €1 billion provides a solid liquidity reserve for contingent liabilities and retirement fund liabilities which are independent of revenue. Furthermore, 10 to 20 percent of revenue means we always have access to enough cash to be able to finance the operating business during all phases of the business cycle.

The upper limit on our gross financial debt is twice Earnings Before Interest, Tax, Depreciation and Amortization (EBITDA). Our moderate debt level and the well distributed maturity profile reaching until 2028 allow us to reliably service our debt, independent of the respective capital markets environment.

The rating agency S&P Global Ratings (S&P) has evaluated Infineon’s creditworthiness as “BBB” (outlook “stable”). At present this gives Infineon the best S&P rating of any European semiconductor manufacturer.

Sustainable value creation for our shareholders

We are convinced that organic growth in the medium to long term creates the highest value. A good indicator here is the spread between the Return on Capital Employed (RoCE) and the Weighted Average Cost of Capital (WACC). Excluding effects related to acquisitions, our RoCE corresponds to approximately twice the amount of the WACC when our financial targets are achieved. We intend to continue to achieve this kind of return on every euro we invest in organic growth and in doing so to continuously increase our enterprise value.

Our strategy has paid off: Infineon continues its path of sustainable, profitable growth. Our operating profitability and our sound capital structure give us the financial flexibility to invest in future growth. This continuous value creation has been manifested in past years in constantly increasing earnings per share as well as in the appreciation of our company in the capital market.

see graph 10

Our shareholders benefit from this positive performance. We also pursue a dividend policy aimed at letting shareholders adequately participate in Infineon’s economic development and at paying out at least a constant dividend even in periods of slower growth.

10

Development of the Infineon Technologies AG share compared to Germany’s DAX Index, the Philadelphia Semiconductor Index (SOX) and the Dow Jones US Semiconductor Index for the 2017 fiscal year (daily closing prices)



Growth drivers

In the previous chapters we have described Infineon’s strategy in detail. One of its key elements is a focus on markets in which we can be successful in the long term. In the following we will outline the most important growth drivers for our business, grouped according to four higher-level trends: individual mobility, efficient power management, sensing and data transmission as well as security.

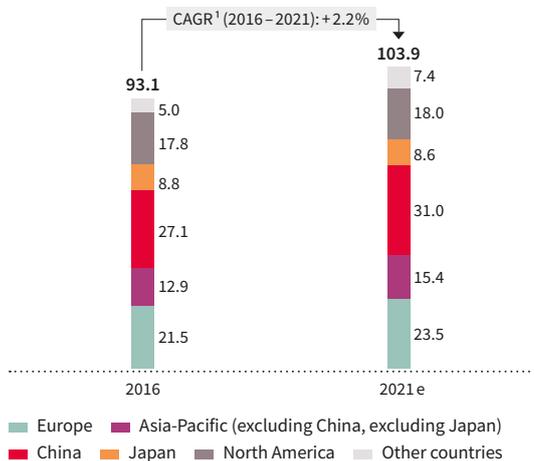
Individual mobility

Global population growth as well as increasing industrialization drive demand for all means of mass transportation like planes and trains but also privately owned vehicles like cars and e-bikes. Cars are a symbol for prosperity and the key to individual mobility. This is particularly evident in newly industrializing countries: The growth of the middle classes in India and China drives – among other things – rising demand for automobiles. An average annual growth rate of 2.2 percent is expected for worldwide automobile production for the years 2016 to 2021 (source: IHS Markit).

see graph 11

Infineon benefits from this development in two ways: From more units as well as from the increasing number of electronic applications in the vehicle itself. Approximately 90 percent of the innovations are based on electronics by now. According to forecasts by market experts, this rate will remain unchanged in the years to come. Overall, a constant increase in electronic equipment in vehicles can be observed across all regions. Innovative solutions for safety and comfort functions typically first penetrate premium-class vehicles, after which they are then gradually introduced in mid-range and compact classes, increasing the semiconductor value per vehicle.

11
 Worldwide light vehicle production by region
 in million vehicles



¹ CAGR = Compound Annual Growth Rate
 Source: Based on or includes content supplied by IHS Markit, Automotive Group, “Annual Light Vehicle Production Forecast”, September 2017.

Advanced driver assistance systems and automated driving

“Vision Zero” is one of the most ambitious objectives of the automotive industry: Vehicles are to become so safe that serious or even fatal traffic accidents no longer occur; today approximately 90 percent of such accidents are attributable to human error. Safety systems can prevent such errors or at least limit their consequences.

In spite of the constantly increasing number of vehicles on the road, the number of traffic fatalities in developed nations has dropped over the course of several years. Further progress towards “Vision Zero” requires more safety systems. Active safety systems constitute an especially large growth market. By directly intervening in driving actions, these systems can either completely prevent accidents or significantly reduce their consequences. Examples here are pedestrian detection, adaptive cruise control and blind spot detection. In the meantime these functions can be found not only in the luxury class, but also increasingly in medium-class vehicles.

Step by step active safety systems are enhanced to become driver assistance systems. By providing the driver with extensive support while driving they enable higher comfort and increase road safety. For example, they assist in critical situations and help correct driving errors when necessary, for example, by initiating an emergency stop. Systems for partial and fully automated driving consist essentially of sensors (such as radar, interior or exterior cameras), a central high-performance computer for interpretation of the sensor data (the intelligence of the system, so to speak) and the determination of the driving strategy, and lastly of actuators (steering, braking, engine control and transmission). As a leading provider of system solutions Infineon has an extensive product portfolio for assistance systems and automated driving.

The microcontrollers of our AURIX™ family ensure the reliability of the systems. On the actuator level, AURIX™ is in charge of local real-time computing and sends out the commands. Furthermore, it has another key role as safety anchor in that it safeguards the components not qualified according to automotive industry standards.

Actuators are also safety-critical applications. One of the most important requirements for partially and fully automated driving is that the system continues to work reliably even in case of a defect. In order to achieve this, Infineon offers ISO 26262-certified components for these applications with redundancy in case of failure: Safety-critical components and subsystems have to be highly available, i.e. protected against failure. This is why such sensors, microcontrollers and power semiconductors are deployed redundantly, increasing the level of demand for semiconductors.

Our components strongly contribute to supporting vehicle drivers and bringing us closer to autonomous driving. And the connection to the internet makes it possible to equip vehicles with more and more functions and services. Once again, semiconductors play an important role.

Networking, data and IT security

The continuously rising degree of interconnection between vehicles opens up opportunities for many new services, but also increases the danger of unauthorized access to systems by a third party. This means secure data exchange among the various on-board systems as well as with other vehicles and the infrastructure has to be maintained. Vehicle and personal safety on the one hand and data and information security on the other hand can no longer be provided independently of one another. The vehicle is becoming a “connected computer on wheels” and part of the Internet of Things. The need for data and IT security in the vehicle continues to grow. Infineon is ideally positioned to benefit from this trend, with decades of experience in this area in the Chip Card & Security segment.

Emission reduction

The automotive industry strives to continuously reduce emissions. These efforts are partly required by legal regulations: Thus, for example, a new European Commission rule requires the reduction of average fleet emissions to 95 grams CO₂ per kilometer by the year 2021. More realistic exhaust gas testing procedures like the WLTP (Worldwide Harmonized Light-Duty Vehicles Test Procedure) cycle effective from September 2017 imply tighter CO₂ reduction rules, which increase the demand for semiconductors. Furthermore, today customers increasingly make purchase decisions while fully aware of the fact that reduced fuel consumption saves money, minimizes impact on health and the environment and thus contributes to improving the quality of life, especially in metropolitan areas. Optimization of the internal combustion engine alone will no longer be enough in order to meet legal requirements, achieve defined objectives and service customer demands for sustainable mobility. Above and beyond this, the efficiency of electric power consumption within the vehicle will have to be improved and hydraulic or mechanical solutions will have to be replaced with more efficient electrical and therefore semiconductor-based systems.

see graph 12

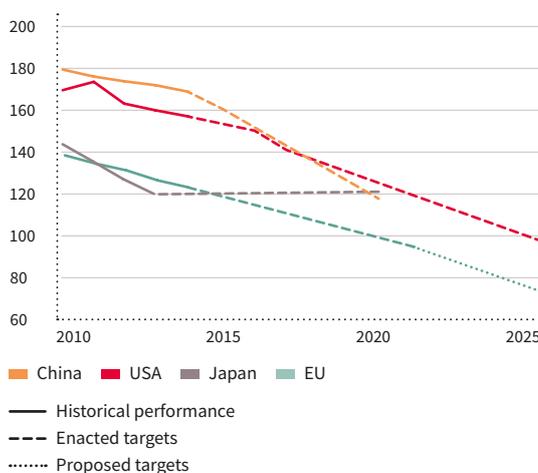
In addition to CO₂, hazardous nitrous oxides, also referred to as NO_x, are catching more and more attention. They are a result of the combustion of fossil fuels and, in addition to a variety of other factors, lead to an increased particle pollution. Diesel engines are responsible for the majority of NO_x emissions in cities, which is why the idea of prohibiting older diesel-powered vehicles in urban areas is repeatedly being considered. The risk of not being able to drive into the protected zones at all or only under certain conditions may well influence the buying decisions of many customers and will represent a competitive disadvantage for the diesel engine compared to other drive types in the mid- to long-term.

Electro-mobility

In order to reduce the fleet average to the required target value many vehicle manufacturers add hybrid and electric vehicles to their product portfolio. These are characterized by significantly higher semiconductor content than conventional vehicle models. Today's solutions convert the battery's direct current into the alternating current required by the electric drive. Infineon offers a wide variety of power semiconductor components for these various systems. While a car with a conventional internal combustion engine contains an average semiconductor value of US\$355, the value contained in an average hybrid, plug-in hybrid or electric vehicle is approximately US\$695. Here approximately three quarters of the incremental semiconductor content is accounted for by power semiconductors. They are the decisive factor in the high power electric drives and are also the key to cutting costs.

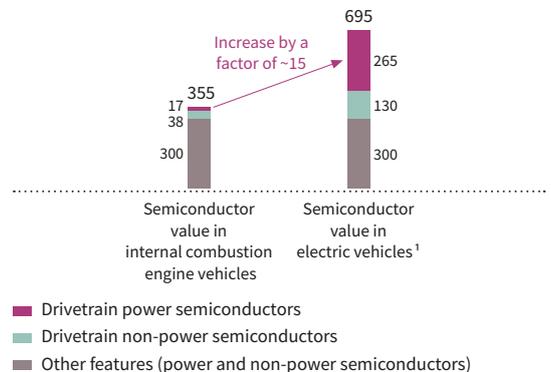
see graph 13

12
 Legal requirements for fleet emissions of the four major regions
 Grams CO₂/km normalized to NEDC test cycle



Source: The International Council for Clean Transportation, 2017

13
 Transition from internal combustion engine vehicles to electric vehicles increases demand for power semiconductors in the drivetrain by a factor of ~15 in US\$



¹ Mild hybrid vehicles are not considered here.



In addition to vehicles with an electric drivetrain, so-called mild hybrid vehicles based on 48-volt technology also help reduce emissions. More and more mechanical features are being operated electrically, thus testing the limits of the 12-volt electrical system. An additional 48-volt onboard system is used to supply high-power systems such as electric turbocharger, electric power steering and anti-roll bar. Market researchers expect an additional power semiconductor content of around US\$75 required for power control and for the connection of the two onboard systems. 48-volt technology is the entry level of the hybrid world. While the additional power semiconductor content may be lower compared to vehicles with an electric drivetrain, units are far higher and are expected to reach 15 million vehicles by 2025.

Going forward, innovative system solutions and in particular the use of silicon carbide-based components have an enormous potential when it comes to making electric driving more affordable. On-board chargers and main inverter become more compact, lighter and efficient with silicon carbide, extending the range of the vehicle.

The need for an appropriate charging infrastructure grows as electric vehicles become more widely adopted. A well-developed network of charging stations is another incentive for purchasing electric vehicles. In order to raise the level of electro-mobility acceptance, China has begun operation of charging stations along the country's eight most important highways, including the important connection between Beijing and Shanghai. By 2020 as many as 10,000 charging stations with 120,000 charging points will be in operation, with a corresponding investment volume of approximately US\$770 million. 202 cities will benefit from this infrastructure which covers 36,000 kilometers of highway. The charging stations are rated at up to 100 kilowatts and each one requires power semiconductors worth from US\$200 to US\$300. The network of publicly accessible charging stations can be expected to grow in other countries in the years to come as well. A consortium of German OEMs has recently started a project targeting the creation of 1,000 ultra-high-power charging stations with 350 kilowatts at 400 sites in Europe by 2020. Infineon is supplying SiC based power modules for the project. In addition to dedicated electric service stations, it is also possible to integrate charging stations in street lights.

Energy efficiency

Renewable energy

For both environmental and economic reasons it is not possible to meet the increasing need for electric power using fossil fuels to the same extent as in the past. The Paris Climate Accord, which took effect in November 2016, is the first agreement of its kind to be binding under international law. It obligates countries participating in the World Climate Conference to limit global warming to a maximum of two degrees Celsius. Furthermore, greenhouse gas neutrality is to be achieved in the second half of the 21st century. And even if the new US administration's position regarding the Accord has yet to be finalized, the fight against climate change is still receiving broad political support. Thus, for example, the mayors of many major US cities and the governors of several US states have asserted their commitment to climate protection. Furthermore China and the state of California even entered into a bilateral agreement on climate protection in June 2017.

Decarbonizing through the use of renewable energy sources is the key to a sustainable supply of energy. Infineon benefits from the rise in construction of wind farms and photovoltaic systems. For every gigawatt of power generated these systems require many times more power semiconductors than the amount found in conventional power plants. In contrast to coal, gas or nuclear power plants, wind and photovoltaic power plants do not have turbines whose steady operation generates a constant 50 hertz alternating current allowing energy to be fed directly into the power grid. Power electronic systems are required to perform the necessary conversion.

Wind: We expect steady growth in the wind energy sector in the mid- to long-term. For each megawatt generated, wind parks require approximately 30 times more semiconductor content than conventional coal-fired power plants. China and the USA are promoting wind energy. Furthermore, the refurbishment of older, lower-performing wind power turbines with modern, high-performance wind turbines, referred to as "repowering", will continue for some time. Stronger generators are also being used in initial installations, driving higher demand for semiconductors for each wind power turbine. This development is especially evident in China, where we have been collaborating with the Chinese wind turbine manufacturer Goldwind since 2011. While in the past primarily turbines generating up to 1.5 megawatts were installed, today an increasing majority of turbine generators producing 2 to 3 megawatts is being used.



Photovoltaics: The market researcher IHS Markit expects an average annual growth rate of 9.0 percent for IGBT modules for solar energy from 2016 until 2021. For several years now we have been observing a structural change resulting from the gradual migration of the business from Europe to Asia and the USA. Infineon enjoys a very broad international presence and has been partnering for years with the world's leading manufacturers of photovoltaic inverters. Among other things, we benefit from the growth of Chinese inverter manufacturers, both in terms of the expansion of photovoltaics in China itself and from the export of inverters to other regions. Furthermore, we are working together closely with leading European manufacturers who are also very successful in the USA. Efficient conversion and low system costs help cut power generation costs in photovoltaic systems while helping reach grid parity in comparison to conventionally generated power. This makes it possible to pursue further expansion while eliminating the need for subsidies. PV inverters are among the first systems to use power semiconductors based on silicon carbide. The transition to silicon carbide reduces system costs and installation effort, while the value of the semiconductors contained in the product increases significantly.

Traction systems

One of the key topics of the 21st century is sustainable and optimally connected mobility within urban metropolitan areas as well as mobility between cities. Today reliable and fast public transportation is more important than ever for the quality of life and competitiveness of many regions and cities around the world. Our components are used both in local public transportation trains, subway trains and trams as well as in high-speed trains.

China is one of the largest railway vehicle markets in the world. On the Beijing – Shanghai line the first high-speed train went into service in the summer of 2017, travelling at speeds of up to 350 kilometers per hour. The train uses IGBT modules from Infineon. Overland trains and urban rail systems also play a major role in China. We also expect a more vibrant market for traction systems in the rest of Asia. Here industrialization is leading to rising demand in particular for urban and regional rail systems. Further growth markets are India and the USA. Our customers are the world's largest manufacturers in the traction sector, including Bombardier Transportation, China's CRRC and Siemens.

Automation

Industrial motors are at the heart of a large number of systems, for example, cranes, conveyor belts and robots. They are used wherever objects need to be moved or transported. Electric motors are also used in refrigeration pumps and air conditioning and the simple production of compressed air. The strongest industrial electric drives are found in sluices, cement mills, pumps in municipal waterworks, in air compressors used in the production of technical gases and in compressors for natural gas pipelines. Electric motors account for 28 percent of the global electric power consumption. This constitutes a substantial lever when it comes to savings resulting from improvements in the degree of efficiency. One possibility to reduce the energy consumed by an electric motor is to use an electronic control system to regulate speed, i.e. adapting performance to suit current needs. The market penetration of speed-regulating motor controls can thus be expected to increase. Modern manufacturing facilities in which constant adjustment of rotation speed is necessary are not even possible without regulated electric motors. The realization of a speed-controlled motor unit requires a large number of the power semiconductors we provide to the market. Their number and value depend on the performance class of the motor. The next level of automation will be achieved with the Industrial Internet, which will give rise to a new investment cycle.

Brushless DC motors

One important model type of electric drives is referred to as the brushless direct current motor (BLDC motor). In BLDC motors commutation is electronic; depending on the rotor position, rotor rotation speed and torque. Rotor position and rotation speed can, for example, be detected using sensors (e.g. magnetic field sensors). The windings that generate the torque on the rotor are controlled via power semiconductors based on this position information. The electronic commutation avoids losses in BLDC motors, in contrast to motors with brush-based commutation. Because of their high energy efficiency and their low weight to power ratio, brushless direct current motors are frequently used among other things in battery-operated systems.

Power tools: Millions of households worldwide rely on cordless power tools when it comes to making repairs. The end user’s purchase decision is based on factors such as price, ruggedness, ease of use and length of battery time. Furthermore, diagnostic and safety features create trust in quality and operational safety. All these properties are highly dependent on the semiconductor solutions used.

Multicopters: Multicopters represent a relatively new application area with very large growth potential. The popularity of these remote-controlled aircraft has long grown beyond the ranks of hobby pilots, finding increasing utilization in commercial applications. Initial tests with delivery drones have already been conducted, focusing on use not only for parcel delivery but also for time-critical transportation of medication. In agriculture multicopters are already being used to monitor farm land. Multicopters require a large number of semiconductors for controlling their direct current motors, from microcontrollers to sensors, drivers and MOSFET power transistors, all the way to radio-frequency components for navigation, collision avoidance and communication. Additional power semiconductors are required for the charging stations.

Major home appliances

More and more manufacturers are switching to controlled motors in order to increase the efficiency of their products, whether because of stricter efficiency regulations or to be able to offer the consumer more efficient devices with lower noise emissions and longer service lives. Applications in which a motor could only be switched on or off in the past are now making way for systems in which motor controls ensure load-driven speed control. Examples here are washing machine and dishwasher motors, refrigerator compressors and air conditioner fans. The underlying principle is simple: In order for a device to function efficiently, sensors constantly measure data, e.g. the temperature, air humidity and motor rotation speed of a refrigerator. A microcontroller then uses this data to calculate the optimum rotation speed. Power semiconductors amplify the control signals from the microcontroller and form the interface to the motor.

I see image 01

Power supplies

Power supplies for electric equipment essentially consist of two stages. First the power unit converts the alternating current (AC) from the grid into direct current (DC), referred to as AC-DC conversion. In a second step this direct current is precisely converted directly at the point of load to suit the respective requirements, for example, for the processor of a server. This second step is referred to as DC-DC conversion. Both stages require power semiconductors.

I 01

The transition to controlled motors allows for more efficient home appliances such as air conditioning systems





AC-DC conversion: Growth in the power supply sector depends on the performance and even more so on the unit growth of the devices. In addition to smartphones, for several years the highest unit growth has been found in the area of computer servers, a situation not expected to change in the foreseeable future. This is a result of the installation and expansion of data centers and cloud solutions for storing data of all types in the internet. The high demand here also means corresponding demand for the power semiconductors used in the associated power supplies. Demand for computing power and storage capacity is currently being driven by social networks; going forward the primary driver will be the Internet of Things and the Industrial Internet. Furthermore, we expect growth opportunities in business with compact chargers for tablets and lightweight notebooks (also called portables). However, we do not expect growth associated with PCs and notebook computers in the upcoming years.

DC-DC conversion: In the field of DC-DC conversion, intelligent point-of-load power management is becoming increasingly important. Servers, PCs and communication devices are supplied with higher voltages, which are then stepped down to the voltages needed directly at the processor. This is more practical, since as a rule a large number of different voltages is needed, while on the other hand direct supply with a lower voltage and high performance is technically not possible. The performance requirements of a processor range from a just few watts to over 100 watts. An additional growth driver is the digitalization of the control loop. The requirements regarding dynamic, efficiency levels and standby consumption are continuously growing. Analog control loops are increasingly meeting their limitations and are being replaced with digital systems.

Sensing and data transmission

Mobile communications

Cellular infrastructure: Radio-frequency (RF) power components form the foundation of modern communication technologies. One of the main application areas is cellular infrastructure. Mobile data traffic volumes are continuously increasing: While 8.8 exabytes (equivalent to 8.8 billion gigabytes) were transferred via cellular communications each month in 2016, experts expect 71 exabytes per month in the year 2022. In addition to the rise of data-intensive smartphone apps, the Internet of Things and connected vehicles will be key drivers of this development going forward.

Network providers are looking to high-performance infrastructure in order to achieve higher data rates and to improve network coverage in preparation for the exponential increase in data volumes. The migration of network architectures to smaller cells makes it possible among other things to use higher frequency bands and to better exploit the available frequency spectrum. Radio-frequency components will be required both for communication between mobile devices and base stations and for wireless broadband connection of the local network to the main network (Wireless Backhaul).

Mobile phones: Radio-frequency components are not only required in cellular base stations, but also in mobile devices. Every new smartphone generation needs to support a larger number of frequency bands. The transition from one mobile communications standard to the next entails that the requirements placed on signal quality and thus on the RF properties of many components also rise at the same time. The fourth-generation LTE (Long Term Evolution) transmission standard is, for example, significantly more complex than the third generation standard (UMTS). LTE-capable smartphones contain more RF components, which are at the same time more integrated than previous generations. Thus, for example, closely adjacent frequency bands require more precise frequency filters, more sensitive signal amplifiers and a larger number of faster antenna switches. Today's smartphones and tablets use among other things our RF CMOS switches for switching between different antennas. The degree of complexity will further increase with the transition to the 5G standard.

Sensors for consumer electronics and industrial applications

MEMS (Micro-Electromechanical Systems) sensors: MEMS-based silicon microphones are our most important product family when it comes to sensors for mobile devices and consumer electronics. The latest generation of mobile devices requires several microphone variants with increasingly better signal-to-noise ratios. Superior acoustic capabilities are not only an opportunity for smartphone manufacturers to differentiate themselves from competition, these capabilities also open the door to entirely new applications for high-performance microphones. Thus, for example, additional microphones significantly improve voice control even in environments with high levels of background noise and the sound quality during telephone calls. In addition, microphones with the highest technical requirements are installed next to the camera to ensure high audio quality when making video recordings with the smartphone. This summer we began providing our silicon microphones in our own package, which allows us to optimally adjust the package and membrane to one another, achieving even higher performance.

In addition to the increasing number of devices and the higher number of microphones per device, we benefit most from the emergence of new application areas. Besides tablets, notebooks and headphones with active noise cancellation, voice-controlled smart speakers will become an important driver for future demand for silicon microphones.

see image 02

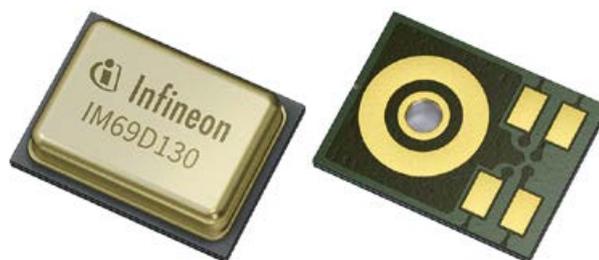
At the same time devices include more and more features that require detection of additional physical parameters, thus fueling demand for constant innovation not only in the area of MEMS sensors. Barometric pressure sensors, for example, support new features such as indoor navigation. Gas sensors can monitor air quality: A smartphone could thus, for example, warn the user about smog. Here we see enormous growth opportunities in the application areas of consumer electronics, automotive electronics and in the Internet of Things.

Radar: RF technologies are also used for sensor applications. Besides automotive applications, we see many interesting possibilities in mobile devices and consumer electronics. For example, radar chips can be used to control devices precisely through gesture recognition technologies, opening up a new dimension for interaction between human beings and machines. Radar technologies are also used in industrial applications to detect persons and objects, making a wide variety of applications such as cooperative robots and intelligently controlled street lights possible.

The performance of sensor systems can be further increased through sensor fusion (the intelligent combination of several technologies). More sensors capture even more information about the ambient conditions, thus providing additional context. One good example here is the already mentioned partnership with XMOS Limited: The interaction of radar sensors and silicon microphones from Infineon with audio processors and speech recognition algorithms from XMOS makes it possible to detect commands from individual persons even when they are surrounded by large groups and thus supports reliable voice control. The system uses radar to determine the position of people in the room, identifies the speaker and aligns the microphones for better detection. This helps avoid the detection of false commands, e.g. through the sound of the TV set.

02

The success of voice-controlled devices is driving demand for highly sensitive silicon microphones





Security

There are two fundamental application areas for our security controllers: Classic applications such as payment cards, government IDs and public transportation tickets on the one hand, and on the other the rapidly growing field referred to as embedded security applications. This includes, for example, making mobile payment transactions secure, preventing the manipulation of computers and the authentication of connected devices. Here in particular the Internet of Things with all its facets promises long-term growth potential.

Government identification documents

Government IDs include passports, national identity cards and in the broader sense driver's licenses and health care cards. These documents are increasingly being equipped with security chips. The market penetration of chip-based official government documents is steadily on the rise. More and more countries are making the transition to the chip-based documents or increasing the range of such documents in use. Infineon is the leading provider of security solutions for ID projects in Europe. Furthermore, according to the US Government Printing Office (US GPO) Infineon is one of the main suppliers for the security technologies used in electronic passports in the USA. Infineon has been supplying the US GPO since the beginning of the project in 2005.

Security for mobile devices

Today payment services can be integrated into mobile devices thanks to the development of smartphones and wearables, the mobile internet and Near Field Communication (NFC) technologies. However, cash-free payment is only one of the many mobile device functions involving the storage and processing of sensitive information. For example, people are experiencing new forms of comfort when travelling on public transportation with mobile tickets instead of using coins and physical tickets. Infineon supplies the security chip, known as the Secure Element (SE), for all these applications. The SE can either be built into the smartphone (referred to as "embedded SE" (eSE)), integrated in a SIM card or located on a microSD card. Infineon offers the necessary solutions for all three alternatives.

Security for the Internet of Things

The Internet of Things refers to devices and machines connected to the internet, thus enabling data exchange and device control (for example, home appliances, electricity meters, sensors, webcams). The trend towards increased levels of networking is having the greatest impact in the areas of automotive, Industrial Internet, Smart Home and information and communications infrastructure. Here security plays a decisive role. The increasing number of hacking attacks underlines the importance of the appropriate precautions. In order to secure electronic systems, it is important that only authorized and authenticated devices are connected with one another so that they can be protected against data manipulation and cyberattacks. Security thus has to be ensured at as many critical end-points as possible, often referred to in this context as the topic of embedded security. Infineon supplies the OPTIGA™ product family of various security chips and security solutions for authentication of electronic systems: From complex IT infrastructures with large numbers of servers and computers all the way down to routers and tablets.

Security as cross-segment expertise

Infineon uses its access and the relationship to its customers to market security products and offer them in combination with other components as system solutions. We see our opportunity in this area in the field of hardware-based security in the form we offer with our security controllers – either as an individual component or in the form of a feature integrated in our automotive or industrial microcontrollers: Our hardware-based security solutions have put us in the lead position. Furthermore, we can offer our customers the broad expertise of the Infineon Security Partner Network, covering the entire value chain from consulting and design all the way to system integration and service management.

The segments

● Automotive



REVENUE
€2,989 million

SEGMENT RESULT
€474 million

The Automotive segment in the 2017 fiscal year

More than 40 years of experience and the industry's most comprehensive portfolio of power semiconductors, sensors and microcontrollers make Infineon the leading provider of system solutions for automotive electronics. Following the guiding principle of "clean, safe and smart" the Automotive segment works on the vehicles of tomorrow together with manufacturers and their suppliers. Our focus is on the core of the car, e.g. drivetrain, safety and comfort. These domains feature the larger share of the semiconductor content. Some functions are enabled only through our products. For example, we managed to significantly reduce system costs for radar sensor ICs through innovation, thus enabling, for example, the adoption of emergency braking assistant systems in the compact class. We succeed with outstanding technology, system understanding and a strong customer focus. Toyota, DENSO and Bosch, three of the leading companies in the automotive industry, presented Infineon with awards for outstanding quality during the 2017 fiscal year.

Infineon benefits more than other semiconductor manufacturers from both the trend towards electro-mobility and the rise of automated driving. Both developments lead to a strong increase in the average semiconductor content per vehicle and are expected to account for approximately one half of our growth in Automotive over the next five years. In addition, we benefit from new functions in the areas of lighting, comfort and safety as well as from the further electrification of the classic powertrain.

The largest market for electric vehicles is China: Here the number of units manufactured in calendar year 2016 increased by 51.7 percent to 517,000 units. Infineon does not only benefit from the growing number of vehicles but also from the increasing semiconductor content per car: Today, semiconductors worth US\$695 are built into the average hybrid, plug-in hybrid- and electric vehicles, about twice the amount built into vehicles with a combustion engine only. For the value of power semiconductors in the powertrain we even expect a fifteen-fold increase. Power semiconductors have a significant influence on the vehicle's range and charging time, but also on its size and weight. This is why, for example, our EDT2 IGBTs and our HybridPACK™ DSC (Double Sided Cooling) modules, especially optimized for energy efficiency and ruggedness, are being particularly well received by the market. We won orders for our power semiconductors in the automotive sector during the 2017 fiscal year worth more than €1.5 billion, with projects running over a period of five to ten years. This is twice the amount of the previous year. In the future, our silicon carbide technology (SiC) will also contribute to growth. We assume that in the upcoming years more and more newly developed platforms will use components based on SiC – initially for on-board chargers, and from 2021 onwards for the powertrain. Their considerably higher switching speed and lower conduction losses compared to silicon-based components makes conversion of electric power much more efficient and much more compact. Due to the reduced losses the cooling effort is lower as well. During the 2017 fiscal year interest in the samples of our CoolSiC™ power modules was strong.

Another important growth driver is the increasing number of Advanced Driver Assistance Systems (ADAS). These systems support the driver in an increasingly demanding variety of tasks: Passive systems such as the seatbelt tensioners or airbags mitigate the impact of a collision; active systems such as emergency braking assistants even intervene without human intervention in the driving process in order to prevent collisions. The next level is cars that will drive autonomously – at first on a partially-automated basis in certain environments, and then completely autonomous in all traffic situations. The first models, which are able to park by themselves, are already on the market. Infineon provides a comprehensive product portfolio for all the sub-tasks performed by assistance systems: sense (sensors), compute (microcontrollers) and actuate (power semiconductors).

The ever-increasing degree of automation in vehicles also implies that vehicles are getting more and more connected. This allows for many new services, but at the same time digitization also entails the danger of unauthorized access by third parties. This entails the need to securely exchange data both between various on-board systems as well as with other vehicles and the infrastructure. We offer the right solutions for a safe and secure vehicle architecture with our IT security expertise and the security controllers of the Chip Card & Security segment.

Revenue development

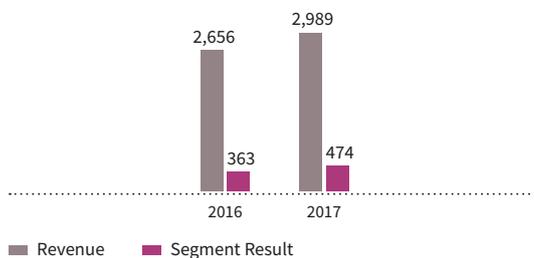
see graph 14

In the Automotive segment Infineon recorded revenue of €2,989 million in the 2017 fiscal year, an increase of 13 percent compared to €2,656 million revenue in the previous year. The segment contributed 42 percent of the Group revenue.

We grew in all product categories during the last fiscal year. This was to a certain degree based on emission reduction in vehicles with combustion engines as well as on new comfort features; the megatrends electro-mobility and automated driving were however the most significant growth drivers, as has been the case in previous years. In China in particular the number of vehicles produced and registered featuring plug-in hybrid or purely electric drives continues to grow rapidly. Sales of electric vehicles also increased in the other regions, primarily due to a wider variety of available models by which new groups of buyers could be addressed.

The spread of driver assistance systems associated with automated driving resulted in increased demand for our radar sensor ICs and for our 32-bit multi-core microcontrollers of the AURIX™ family. AURIX™ microcontrollers benefited from customer orders in the area of safety systems acquired in the previous years – including electrically controlled power steering as well as camera-based driver assistance systems – and achieved a significant revenue increase once again in the 2017 fiscal year. Infineon traditionally has a strong position with 32-bit microcontrollers in the powertrain sector. With the development of corresponding 32-bit microcontroller derivatives, Infineon is now also addressing the area of safety and driver assistance systems, thus acquiring new growth markets.

14
 Revenue and Segment Result
 of the Automotive segment
 € in millions





Demand for radar sensor ICs increased on the one hand due to the growing market penetration of radar-based driver assistance systems, and on the other hand due to the rising number of radar sensors per vehicle. In particular, demand for our 77 gigahertz radar solutions for driver assistance systems remained high. At present Infineon is one of the leading suppliers to the most important radar system manufacturers in Europe, North America and Asia. Because of the increasing demand for 77 gigahertz radar sensor ICs we sold approximately twice as many as in the preceding fiscal year.

Global demand for upper mid-range vehicles – especially for SUVs (Sport Utility Vehicles) – remained high. This vehicle type is specially equipped with significantly more safety and comfort features than other vehicles. We furthermore benefited from the fact that vehicles from German automobile manufacturers, in particular premium brands, were in particularly high demand across all regions.

Development of Segment Result

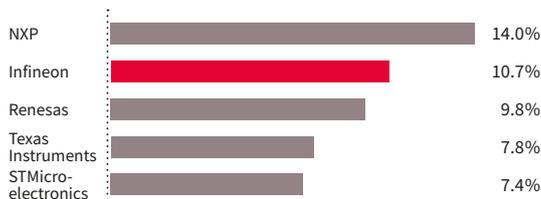
Segment Result was €474 million, representing an increase of 31 percent compared to the previous year’s Segment Result of €363 million. The Segment Result Margin was 15.9 percent (previous year: 13.7 percent).

The Segment Result was positively impacted by the higher revenue as well as by improvements in productivity. In addition, in the 2017 fiscal year the temporary ramp-up costs for the frontend manufacturing facility Kulim 2 (Malaysia) were lower than in the preceding year. We are preparing for more growth due to the high demand for our products in the area of electro-mobility. In this context we have begun to set up additional backend manufacturing lines in Warstein (Germany) and Wuxi (China), resulting in temporary ramp-up costs.

Applications

Assistance systems and safety systems › Airbag › Anti-blocking system › Automatic parking › Autonomous emergency braking system › Blind spot detection › Cruise control › Distance warning systems › Electronic chassis control › Electronic power steering › Electronic stability control › Lane departure warning system › Tire pressure monitoring system	Comfort electronics › Air conditioning › Door electronics › Electronic control units › Electronic seat adjustment › Hatch door › Lighting › Power window › Steering › Sunroof › Suspension › Windshield wipers	Powertrain › Alternator control › Battery charging control › Battery management › Combustion engine control › Electric motor control › Generator control › Start-stop system › Transmission control	Security › Communication (car-to-car, car-to-infrastructure) › Digital tachograph › Original spare parts authentication › Protection against manipulation (e.g. odometer) › Protection against software manipulation
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G 15
 World automotive semiconductor market share 2016



Source: Strategy Analytics, "Automotive Semiconductor Vendor Market Shares", April 2017



Market position

The world market for automotive semiconductors surpassed the US\$30 billion mark for the first time ever in the 2016 calendar year. It increased from US\$27.363 billion in the 2015 calendar year by 10.4 percent to US\$30.214 billion (Source: Strategy Analytics). All regions contributed significantly to growth. The fastest growing region was China, as has been the case in previous years. With a growth rate of 18.8 percent the Chinese market reached a volume of US\$5.556 billion, putting it only slightly behind the North American market (US\$5.745 billion), which grew by 6.4 percent. China will most likely advance to become the second-largest market for automotive semiconductors in the 2017 calendar year. Europe, the largest market (US\$9.858 billion) grew by 8.3 percent. While global vehicle production increased by approximately 5 percent, the value of semiconductors per vehicle increased by approximately 6 percent. This trend was already evident in previous years and can be expected to continue in upcoming years. This means the growth of the automotive semiconductor market will be driven increasingly by the equipment of the vehicles (primarily by driver assistance systems) and the transition to electro-mobility, and less so by increases in vehicle manufacturing volumes.

 see graph 15
page 40

While the market leader NXP lost 0.2 percentage points in market share (from 14.2 percent to 14.0 percent), Infineon gained 0.3 percentage points (from 10.4 percent to 10.7 percent). Renesas lost market share for the fourth year in a row and in 2016 dropped under the 10 percent mark to 9.8 percent. The five largest market players together accounted for a market share of 49.7 percent.

Infineon was able to improve its number one position for automotive power semiconductors by 0.4 percentage points to reach a 25.6 percent market share. Infineon retained its market share for microcontrollers almost unchanged at 8.7 percent (previous year: 8.6 percent). Infineon gained 0.6 percentage points of market share for sensors to reach 12.5 percent and thus strengthened the number two position. Infineon is hardly represented or not represented at all in the remaining product categories, including memory, optical components and non-power-related analog ICs.



REVENUE
€1,206 million

SEGMENT RESULT
€183 million

Industrial Power Control

The Industrial Power Control segment in the 2017 fiscal year

The core competency of the Industrial Power Control segment is the efficient conversion of electric energy along the entire value chain: generation, transmission and consumption. Applications range all the way from wind turbines and HVDC (high-voltage direct current) transmission to the household refrigerator. The product portfolio includes discrete IGBTs, unpackaged IGBT components (the so-called bare die business), IGBT modules, drivers and controllers as well as the combination of drivers and switches in what are called Intelligent Power Modules (IPMs). Infineon is the global market leader for IGBT-based power semiconductors (discreted and modules).

We saw very high levels of demand for power semiconductors across all regions and applications in the 2017 fiscal year. Business with components for major home appliances developed particularly well, for example, with air conditioners and refrigerators. More and more manufacturers are making the transition to inverterized motors in which the rotation speed adjusts to the respective current load situation (Variable Speed Drives or VSDs). This principle implies a different motor design which allows for more efficient operation. Our motor control platform iMOTION™, the second generation of which we introduced in the last fiscal year, is specifically designed to meet the requirements of VSD applications: It combines hardware in various levels of integration with software. Entirely in keeping with our strategic “Product to System” approach, we are reducing our customers’ system costs by up to 30 percent in spite of increasing semiconductor content while also shortening the time to market. Consumers benefit from lower electricity bills and higher comfort. Therefore, this product is in high demand.

Furthermore, the market introduction of our silicon carbide (SiC) MOSFET technology went very well. The first available product of the CoolSiC™ family is our Easy 1B module which we have been offering since the end of the previous fiscal year. In the 2018 fiscal year we will expand the product portfolio to include bare die and discrete MOSFETs. Two of the leading manufacturers of PV inverters, SMA and KACO, have already decided to rely on our MOSFET technology in upcoming device generations. Here SiC enables more compact and lighter systems and thus creates value for our customers. We are excellently positioned to benefit from the dynamic of the SiC market. Nevertheless, the market for IGBT-based power semiconductors is and will remain significantly bigger in the foreseeable future. Thus, we are striving to expand our market leadership here through further innovation. Our comprehensive product portfolio lets us address both price-sensitive and high-end applications with tailored solutions.

The trend towards the electrification of industrial and delivery vehicles also continued in the 2017 fiscal year. The electronic components in these vehicles are exposed to strong temperature fluctuations, vibrations and dirt. This means that in addition to efficiency and power density, the ruggedness and reliability of our components are strong sales arguments for our customers. The same is true for hybrid and electric busses. For example, several tens of thousands of electric busses are already driving on the streets of China with modules from Infineon – and the number continues to grow.

Revenue development

see graph 16

In the Industrial Power Control segment Infineon recorded revenue of €1,206 million in the 2017 fiscal year, an increase of 13 percent compared to €1,072 million revenue in the previous year. The segment contributed 17 percent of Group revenue.

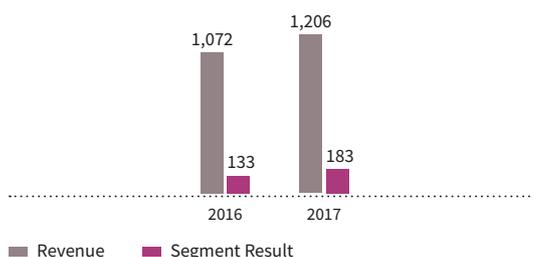
The revenue increase was primarily driven by the household appliance business. The main reasons were first of all the high demand for air conditioners in Asia and Eastern Europe, second the increase in our supply share with important Asian customers, and third the market success of our compact, highly-integrated IGBT modules, referred to as IPMs (Intelligent Power Modules) and the members of our iMOTION™ product family. Furthermore, the depletion of previous excess inventories at Chinese household appliance manufacturers resulted in additional positive effects.

The second largest source of revenue increase was components for renewable energy (wind and photovoltaics). Both of these business areas have approximately the same size in terms of revenue. The wind turbine and PV inverter businesses were both primarily driven by the installation of new capacities in China, where government measures are supporting the high development targets.

In the largest business segment, industrial drives, overall there was a slight decline in demand. While individual industrial applications, for example, small drives or bulk processing, referred to as discrete factory automation, experienced revenue increases, other high-power applications such as oil and natural gas production stagnated or even declined.

There was no major change in revenues in the other areas, including traction, uninterruptable power supplies, energy transmission and industrial vehicles.

16
 Revenue and Segment Result
 of the Industrial Power Control segment
 € in millions





Development of Segment Result

Segment Result was €183 million, representing an increase of 38 percent compared to the previous year's Segment Result of €133 million. The Segment Result Margin was 15.2 percent (previous year: 12.4 percent).

Segment Result was positively impacted mainly by the increased revenue. Furthermore, in the 2017 fiscal year the temporary ramp-up costs for the frontend manufacturing facility Kulim 2 (Malaysia) were lower than in the previous year.

Applications

Energy generation	Energy transmission	Energy consumption		
<ul style="list-style-type: none"> › Energy storage › Photovoltaic systems › Wind power turbines 	<ul style="list-style-type: none"> › FACTS (Flexible AC Transmission Systems) › Offshore wind farm HVDC lines 	<p>Home appliances</p> <ul style="list-style-type: none"> › Air conditioners › Dishwashers › Induction cooktops › Microwave ovens › Refrigerators › Washing machines <p>Industrial vehicles</p> <ul style="list-style-type: none"> › Agricultural vehicles › Construction vehicles › Forklifts › Hybrid busses 	<p>Industrial drives¹</p> <ul style="list-style-type: none"> › Air conditioning technology › Automation technology › Drives › Elevator systems › Escalators › Materials handling › Rolling mills <p>Traction</p> <ul style="list-style-type: none"> › High-speed trains › Locomotives › Metro trains › Trams 	<p>Charging stations for electric vehicles</p> <p>Robotics</p> <p>Uninterruptable power supplies</p>

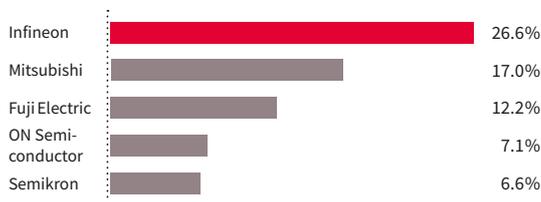
¹ Including motors, compressors, pumps and fans.

Market position

see graph 17

The world market for IGBT-based power semiconductors – discrete IGBT power transistors and IGBT modules – reached US\$4.392 billion in the 2016 calendar year, an increase of 3.9 percent compared to the previous year's value of US\$4.229 billion (Source: IHS Markit). Infineon was able to further improve its leadership position with a market share of 26.6 percent (an increase of 1.2 percentage points). The five largest market players together accounted for a market share of 69.5 percent.

17
 World IGBT-based power semiconductor market share 2016



Source: Based on or includes content supplied by IHS Markit, Technology Group, "Power Semiconductor Annual Market Share Report", August 2017.



Power Management & Multimarket



REVENUE
€2,148 million

SEGMENT RESULT
€427 million

The Power Management & Multimarket segment in the 2017 fiscal year

The Power Management & Multimarket segment includes business with power semiconductors for power supplies, components for cellular infrastructure and mobile devices as well as high-reliability components for applications in harsh environments.

Infineon is the clear number one in the global MOSFET market. In addition to leading technology for low-voltage (up to 40 volts), mid-range (from 40 to 500 volts) and high-voltage applications (over 500 volts), our broad product portfolio also includes the corresponding drivers and controllers. The target applications typically require the highest possible energy efficiency and power density. The products from Power Management & Multimarket set standards here. One important application area in the low-voltage sector is DC-DC power supplies for servers. We are excellently positioned here with our system solution for digital voltage regulation. Digital control loops allow for higher efficiency at both low and high load levels. Our solution comprises an integrated power stage as well as digital controllers that comply with the standard specifications (VR12.5, VR13) and which are used by the leading server manufacturers. Furthermore, we are very successful in low-voltage applications with our OptiMOS™ family. For example, these components are required to control DC motors like they can be found in battery-powered devices. Our highly successful CoolMOS™ family for high voltages is typically used in AC-DC power supplies, for example, for servers, desktop PCs, notebooks and televisions. Our broad portfolio ranges from cost-optimized variants for price-sensitive markets all the way to especially high-performance components for high-end devices. Based on our position as the clear MOSFET market leader, we also intend to strengthen our competencies in power control going forward.

During the previous fiscal year, first customers have begun to successfully use our gallium nitride (GaN) technologies in AC-DC applications, in particular in high-performance power supplies for data centers. The products of the CoolGaN™ family enable better conversion efficiency at lower system costs and with more compact system designs. The transition to GaN requires the customer to make modifications to system architecture. We support them with our far-reaching system understanding.

The trend towards mobile devices containing more and more sensors is continuing. Our technology portfolio puts us in an excellent position here, too. For example, since last summer we also offer our silicon microphones in a package that we have developed ourselves. This enables us to optimize the interaction of membrane and package, and thus increase sensitivity while reducing noise. Infineon's own Dual Backplate technology has doubled the distance at which the microphone can clearly detect voice commands from a user. Besides addressing the unabated demand for silicon microphones from the smartphone sector, we are now also able to tap the growth potential of voice-controlled devices due to the outstanding characteristics of our products. Going forward we will also benefit from our strategic investment in XMOS Limited, a speech recognition technology specialist. With this step we have intensified our already existing partnership and will gain access to technological information at a level of detail that would otherwise not be possible. This will give us an even better understanding of the interaction of sensors, processors and algorithms and will strengthen our position in a promising market that we are already addressing today with leading MEMS technology. We are also continuously expanding our product portfolio for radar-based sensors. These sensors are used in mobile devices as well as in industrial applications such as robots and multicopters in order to detect obstacles. They also play an increasingly important role in the interaction between humans and machines and are used, for example, in gesture recognition.

Revenue development

see graph 18

In the Power Management & Multimarket segment Infineon recorded revenue of €2,148 million in the 2017 fiscal year, an increase of 5 percent compared to €2,041 million revenue in the previous year. The segment contributed 31 percent of the Group revenue.

The revenue increase was driven by our power semiconductor business. This includes our business segments for AC-DC power supplies and DC-DC power supplies, both of which have grown double-digit.

Our OptiMOS™ power transistors for the low- and mid-range voltage classes benefitted from the rising number of applications with DC motors, in particular with brushless DC motors. Examples here are battery-powered do-it-yourself tools as well as multicopters for transport, agriculture and leisure. At the same time demand for our OptiMOS™ power transistors remained high in applications without motors, for example, in PV inverters and in DC-DC power supplies with digital control loops in servers. Here, besides our OptiMOS™ low-voltage power transistors our control ICs and driver ICs are benefiting as well.

The revenue boost for AC-DC power supplies came on the one hand from a positive economic environment across all application areas and on the other hand from a significant expansion in the model range of our high-voltage power transistors in the CoolMOS™ family. The technological lead demonstrated by these products is reflected among other things in the outstanding market success of our products in the equipping of electric vehicle charging stations in China. The highest demand for CoolMOS™ products is however for power supplies of all types, in particular for high-efficiency power supplies used for servers in data centers.

The weakness in the area of smartphones which appeared in the second half of the 2016 fiscal year continued until the middle of the 2017 fiscal year. Demand did not recover until the second half of the fiscal year. Nevertheless there was still a drop in revenue for this business over the entire 2017 fiscal year.

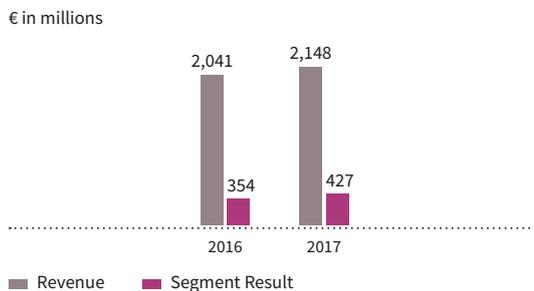
As in past years, network business, in particular with the fourth generation (LTE), was dominated by activities in China. Here, infrastructure investments declined, resulting in revenue below the previous year's level in this area.

Development of Segment Result

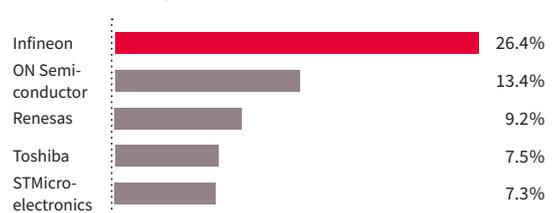
Segment Result was €427million, representing an increase of 21 percent compared to the previous year's Segment Result of €354 million. The Segment Result Margin was 19.9 percent (previous year: 17.3 percent).

Segment Result was positively impacted by the higher revenue. Furthermore, the temporary ramp-up costs for the frontend manufacturing facility Kulim 2 (Malaysia) were lower in the 2017 fiscal year than in the previous year.

18
 Revenue and Segment Result
 of the Power Management & Multimarket segment



19
 World standard power MOSFET market share 2016



Source: Based on or includes content supplied by IHS Markit, Technology Group, "Power Semiconductor Annual Market Share Report", August 2017.



Applications

Charging stations for electric vehicles

DC motors

- > eBikes
- > DIY tools (cordless screwdrivers, etc.)
- > Multicopters
- > Pedelecs

HiRel

- > Commercial aviation
- > Defense technologies
- > Oil and natural gas exploration
- > Space systems
- > Submarine telecommunications cables

LED and conventional lighting systems

Power management

- > Consumer electronics
- > Home appliances
- > Mobile devices
- > PCs and notebooks
- > Servers
- > Telecom

Cellular infrastructure

- > Base stations

Internet of Things

- > Communications
- > Sensors
- > Voice control

Mobile devices

- > Activity trackers
- > Navigation devices
- > Smartphones
- > Tablets

Market position

The world market for standard MOSFET power transistors had a volume of US\$5.775 billion in calendar year 2016, an increase of 5.1 percent compared to the previous year's value of US\$5.496 billion (Source: IHS Markit). Infineon is still the clear market leader with a market share of 26.4 percent (previous year: 25.9 percent). The distance to the second place competitor was 13.0 percentage points (previous year: 11.9 percentage points). The five largest market players together account for a market share of 63.8 percent.

see graph 19
page 45



REVENUE
€708 million

SEGMENT RESULT
€124 million

Chip Card & Security

The Chip Card & Security segment in the 2017 fiscal year

The Chip Card & Security segment has over 30 years of experience dealing with the most demanding and largest security projects in the world. As a leading provider of security solutions we address the classic smart-card applications, while also offering solutions for the area of embedded security within larger electronic systems.

Traditional application areas include payment cards, electronic government IDs, SIM cards for mobile communication and ticketing solutions. Business with governmental identification documents continued to grow in the 2017 fiscal year. In Europe we supply approximately 70 percent of all ID document projects and won further business here as well as in Asia, Africa and Latin America. We were also successful in smaller and regional security projects with which we further diversified our customer portfolio. Thus, for example, more and more public transportation network operators are choosing ticketing solutions based on the open security standard CIPURSE™. Infineon provided crucial support for the development and introduction of CIPURSE™. Going forward Infineon will also be contributing its security expertise in the definition of standards in the area of mobile communication: Since spring 2017, we have been a member of GSMA (Global System for Mobile Communications Association). As the leading industry association in the cellular communications industry it defines, for example, the requirements for new embedded SIM (eSIM) solutions. eSIMs are integrated in a connected device during the manufacturing process and are required for identification with the network operator. Among other things our broad portfolio includes the world's smallest eSIM chip for especially compact portable devices such as smartwatches. eSIMs are also used in the car: certified eSIM security controllers from Infineon are used for the emergency call function (eCall) which will be mandatory for all new cars in the EU as of 31 March 2018.

In an increasingly connected world the idea of security can no longer be limited to the protection of stored information, but rather has to include protection during data transmission as well. This is why Embedded Security is becoming increasingly important in the era of the Internet of Things. Hardware-based security solutions are necessary in order to authenticate components or even entire systems and to ensure the integrity of information. This is the only way to effectively protect against unauthorized access to mobile devices such as laptops, tablets and wearables, as well as to information and communications infrastructure and industrial facilities. In this context, solutions that are easy to implement – such as our successful OPTIGA™ Trusted Platform Module and OPTIGA™ Trust chip families – are particularly attractive to our customers. With our software and system expertise we are able to provide reference designs. In addition, we offer support in the certification of security solutions and provide software that is closely related to our security controllers (for example, firmware, driver software and hardware-related application software). These services reduce our customers' development expenses and accelerate the time to market of their products.

Revenue development

see graph 20

In the Chip Card & Security segment Infineon recorded revenue of €708 million in the 2017 fiscal year, an increase of 1 percent compared to €703 million in revenue for the previous year. The segment contributed 10 percent of the Group revenue.

As in the previous year, business with governmental identification documents contributed the largest amount to revenue growth. Business with replacement documents is significantly increasing due to the high penetration of chip-based documents in many countries around the world. In addition, more and more countries are introducing additional chip-based documents.

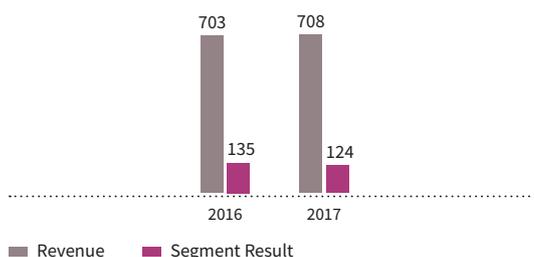
Business with payment cards is still mainly subject to developments in China and USA markets. The initial roll-out phase was already concluded towards the end of the previous year; now replacement business is following. On the whole payment card market development was weaker than forecast for the 2017 fiscal year. Nevertheless, it was possible to keep revenue at almost the same level achieved previously.

A number of smartphones and smartwatches equipped with our embedded Secure Element (eSE) security chip were partly replaced by new models during the 2017 fiscal year. As a result this area experienced the segment's largest drop in revenue. It was not possible to compensate for these losses because only a small number of manufacturers are active in the market with only a small number of products.

On the other hand it was very gratifying to see the development of demand for our security solutions for embedded SIM, TPM (Trusted Platform Module) and authentication. Our embedded SIM solution, used mainly in eCall vehicle applications, achieved the highest revenue growth, almost doubling the previous year's level. In this context we are benefitting from legal requirements that all new cars sold in Europe must have an emergency call (eCall) function starting in March 2018. The automotive industry has however already begun equipping many new cars with an eCall function this year.

Demand for our TPM solutions increased considerably, driven by their use in computers, servers and a variety of connected devices. A similar trend was visible for our authentication solutions.

20
 Revenue and Segment Result
 of the Chip Card & Security segment
 € in millions



Development of Segment Result

The Segment Result was €124 million, a decline of 8 percent compared to the Segment Result of the previous year of €135 million. The Segment Result Margin was 17.5 percent (previous year: 19.2 percent). The Segment Result was impacted primarily by increased operating expenses. This includes on the one hand the increase in headcount in the areas of research and development, administration and sales, which started in the previous year, and on the other hand higher development expenses due to a larger number of customer projects and the expansion of the product portfolio. These activities were partly already initiated in the previous year and represent an adjustment of our organizational structure to the strong increases in revenue experienced in recent years.

Applications

Authentication <ul style="list-style-type: none"> › Accessories › Game consoles › Industrial control systems › Spare parts 	Automotive <ul style="list-style-type: none"> › Connected vehicles (e.g. eCall, car-to-car, car-to-infrastructure) › Electronic toll collection › Protection against manipulation (e.g. odometer, digital tachograph) 	Internet of Things <ul style="list-style-type: none"> › Connected driving › Industrial Internet (Industry 4.0) › IT › Smart Home 	Payment systems <ul style="list-style-type: none"> › Credit/debit cards › Mobile payment › NFC-based contactless payment
	Government identification documents <ul style="list-style-type: none"> › Driver's licenses › Healthcare cards › National identity cards › Passports 	Mobile communications <ul style="list-style-type: none"> › Conventional SIM cards › High-end SIM cards › Machine-to-machine communication 	Ticketing, access control
			Trusted Computing

Market position

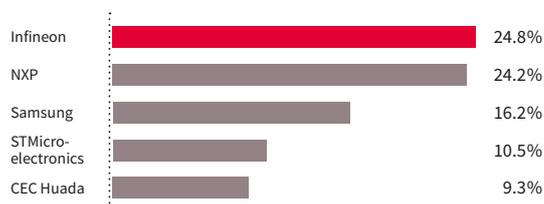
The world market for microcontroller-based chip card ICs includes contact-based and contactless ICs for applications in SIM cards, payment cards, governmental identification documents, access control, transport and machine-to-machine communication. This market shrank by 1.8 percent in the 2016 calendar year, from US\$2.84 billion in calendar year 2015 to US\$2.79 billion (Source: IHS Markit).

During this period Infineon was the fastest growing of all market players, gaining 0.9 percentage points in market share to reach a new market share of 24.8 percent (previous year: 23.9 percent). Infineon now once again holds the number 1 position. The five largest market players together accounted for a market share of 85.0 percent.

see graph 21

21

World microcontroller-based chip card ICs market share 2016



Source: Based on or includes content supplied by IHS Markit, Technology Group, "Smart Cards Semiconductors", July 2017.



Locations

Europe

	General function	Main competence areas in research and development	Manufacturing FE = Frontend BE = Backend
Austria			
Graz	research and development	– Chip card applications – Power semiconductors – Sensor products	
Klagenfurt	service function		
Linz	research and development	– RF ICs	
Vienna	sales		
Villach	sales, research and development	– Power semiconductors, analog and mixed-signal ICs and sensors – Competence center for thin-wafer and compound semiconductor technologies	FE – Power semiconductors – SiC and GaN technology
Denmark			
Herlev	research and development	– HiRel products	
Finland			
Espoo	sales		
France			
Le Puy-Sainte-Réparate	research and development	– Power ICs	
Saint-Denis	sales		
Toulouse	sales		
Germany			
Augsburg	research and development	– Software for chip card applications	
Ditzingen	sales		
Dresden	research and development	– CMOS derivative technologies for RF and sensors, among others – Power semiconductors	FE – 200 mm and 300 mm manufacturing
Duisburg	sales, research and development	– System-on-chip development	
Erlangen	sales		
Großostheim	distribution center		
Hanover	sales		
Karlsruhe	sales, research and development	– Hitex software development tools for embedded systems	
Neubiberg near Munich	headquarters, sales, research and development	– Technology integration – Design flow and library development – IC, software and system development for microcontrollers, ASICs, sensors and chip card ICs – Power electronics	
Neu-Isenburg	sales		
Regensburg	research and development	– Competence center for preassembly and package development – Technology development for sensors	FE – Radio-frequency – Analog and mixed-signal components – Power semiconductors BE – Chip card modules – Power semiconductors – Sensors
Warstein	sales, research and development	– Product development IGBT modules – Assembly and package technology for IGBT modules – Assembly and package technology for SiC modules	BE – IGBT modules – SiC modules



	General function	Main competence areas in research and development	Manufacturing FE = Frontend BE = Backend
Great Britain			
Bristol	sales, research and development	– Microcontroller systems for automotive applications	
Reigate	research and development	– Package concept development – Package pathfinding	
Hungary			
Cegléd			BE – IGBT modules
Ireland			
Dublin	logistics		
Italy			
Milan	sales		
Padova	research and development	– Power ICs	
Pavia	research and development	– Driver ICs for motion control	
Portugal			
Porto	service function		
Romania			
Bucharest	research and development	– Power ICs – Mixed-signal and RF ICs – Chip card ICs	
Russian Federation			
Moscow	sales		
Spain			
Barcelona	sales		
Madrid	sales		
Sweden			
Kista	sales		
Switzerland			
Zurich	sales		
The Netherlands			
Nijmegen	research and development	– Lidar sensors	
Rotterdam	sales		
Turkey			
Istanbul	sales		



Asia-Pacific

	General function	Main competence areas in research and development	Manufacturing FE = Frontend BE = Backend
Australia			
Blackburn	sales		
China			
Beijing	sales, research and development	– Application development	BE – IGBT stack assembly
Hong Kong	sales		
Shanghai	distribution center, sales, research and development	– Application development	
Shenzhen	sales		
Wuxi			BE – Chip card modules – Discrete semiconductors – Power semiconductors – IGBT modules
Xi'an	sales, research and development	– Application development	
India			
Bangalore	sales, research and development	– Software and system development – Design flow and library development	
Indonesia			
Batam			BE – Power ICs
Japan			
Nagoya	sales		
Osaka	sales		
Tokyo	sales		
Korea			
Cheonan			BE – IGBT modules
Seoul	sales, research and development	– System solutions for automotive electronics – System integration for power semiconductors	
Malaysia			
Ipoh	research and development	– Package derivatives	
Kulim			FE – Power semiconductors
Melaka	research and development	– Package technology	BE – Power semiconductors – Discrete semiconductors – Sensors – ICs
Philippines			
Muntinlupa	research and development	– Interface to subcontractors	
Singapore			
	regional headquarters, distribution center, sales, research and development	– IC, software and system development – Package technology – Test concepts	BE – Competence center for final test
Taiwan			
Taipei	sales		



Americas

	General function	Main competence areas in research and development	Manufacturing FE = Frontend BE = Backend
Brasil			
São Paulo	sales		
Mexico			
Tijuana			BE – Power semiconductors
USA			
Chandler	research and development	– development and characterization of GaN components	
El Segundo	sales, research and development	– Components for space and aviation – Package platforms	
Hayward	distribution center		
Kokomo	sales		
Lebanon	sales		
Leominster	sales, research and development	– HiRel power components – HiRel power modules	BE – HiRel power components – HiRel power modules
Livonia	sales		
Mesa	research and development	– Epitaxy	FE – Epitaxy
Milpitas	regional headquarters, sales		
Morgan Hill	research and development	– RF power transistors	BE – RF power transistors
Morrisville	sales		
San Jose	research and development	– Power semiconductors for space, aerospace, defense and high-temperature applications	BE – HiRel hybrid modules
Temecula			FE – Power semiconductors
Tewksbury	research and development	– DC-DC converter, driver ICs and power ICs	
Torrance	research and development	– Control ICs for digital power management	
Warwick	research and development	– Digital power management solutions for DC-DC power stages	



Research and development

G see graph 22

Research and development expenses amounted to €776 million in the 2017 fiscal year, after €770 million in the previous year, representing an increase of €6 million or 1 percent. The year-over-year increase was slower in percentage terms than the increase in revenue which grew by 9 percent. In the 2017 fiscal year we spent 11.0 percent on research and development relative to revenue compared to 11.9 percent in the previous year. With this rate we are well within our target range, i.e. a percentage of revenue in the low- to mid-teens.

At the end of the 2017 fiscal year we employed 6,362 people (17 percent of Infineon’s total workforce) at our research and development sites worldwide; at the end of the 2016 fiscal year this figure stood at 6,057 employees (17 percent of the total workforce). Infineon maintains research and development departments at 36 sites in 15 countries (see the chapter “Locations”).

P see page 49 ff.

The capitalized development costs in the 2017 fiscal year amounted to €129 million (previous year: €98 million). Amortization of capitalized development costs totaled €39 million (previous year: €31 million) in the 2017 fiscal year. Subsidies and grants for research and development decreased from €75 million in the 2016 fiscal year to €68 million in the 2017 fiscal year.

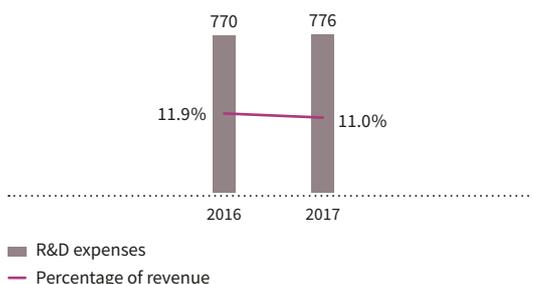
Principal research and development activities

Research and development expenses are not only incurred for product development, but also increasingly for platform developments, for new product families and for new manufacturing technologies. This includes, for example, digital power management, technology platforms for low- and high-voltage power switches, power semiconductors based on the new materials silicon carbide and gallium nitride, and finally new sensor types, in particular those based on our magnetic field, radar, infrared and MEMS (micro-electro-mechanical systems) technologies.

While in the past both research and development were primarily focused on technologies or components, today the systems in which the components are used are playing a decisive role. Innovative system solutions start with the optimization of system functionality. If savings and improvements – for example, for passive components, cooling systems, packages, weight, reliability – create value for the customer, the customer is willing to pay a higher price for the enabling semiconductor component. Here, digital microelectronics are often combined with components from the areas of radio-frequency, control of power components, sensor systems and actuators, resulting in a significant increase in performance. Furthermore, hardware is increasingly being complemented by software.

G 22

R&D expenses
€ in millions



One focus point of our research is in the area of sensor systems. Sensors capture the real, analog world. The signals measured are first digitized and then processed, transmitted and stored as digital values in accordance with the requirements of the intended application. Infineon has almost 40 years of experience in sensor design and sensor manufacturing and offers the most comprehensive portfolio of pressure and magnetic field sensors for automotive applications.

Furthermore, manufacturing technologies and transistor architectures for power semiconductor components based on new materials are an important future-oriented focus area of our research and development activities.

In May of the concluded fiscal year we brought our first MOSFET power transistor based on silicon carbide (SiC) to the market with resounding success. Within the shortest period of time our customers have committed to projects with us comprising an order value in the low three-digit million euro range. Our current main product is a 1,200-volt SiC module (see also the chapter “The segments – Industrial Power Control”). The main applications are PV inverters as well as the infrastructure for electro-mobility, in particular fast charging stations. These successful projects show that the terminated acquisition of Wolfspeed in February 2017 has not had any detrimental impact on our business in this application area. While preparing for the acquisition we accelerated development of the SiC trench MOSFET in order to complete the next technological step. Furthermore, an initiative was launched aiming at accelerating our SiC-related developments and thus the market launch of our own products. New positions were created in all regions and all functional groups (Technology Development, Quality Management, Sales, Application Engineering) for this purpose. Our future development activities in the area of SiC will focus on expanding the product portfolio, both in terms of additional form factors (i.e. the package and the topologies in the modules) and in terms of higher voltage classes (for example 1,700 volts). Additionally, we are working to qualify these components for use in electric vehicles. Some examples of applications here are onboard battery charging units as well as the main inverter for the powertrain in the mid to long term.

P see page 42

We have also made significant progress in the area of gallium nitride (GaN). Initiated almost three years ago, the program developing products based on what is referred to as an Enhancement Mode (e-Mode) GaN transistor has reached another milestone: In the concluded fiscal year we brought the first products of our CoolGaN™ family, a variety of 600-volt GaN power transistors, to the market. They have already generated first revenue.

I see image 03

The main applications for these GaN products are power supplies optimized for the highest possible efficiency for use with high-performance servers in data centers. With ratings of up to 3,000 watts, power supplies using GaN can be designed differently from silicon-based power supplies. Depending on the configuration, this can help realize system cost advantages. The higher efficiency reduces cooling effort and cuts the cost of heat sinks and air conditioning. This is important because efficiency and thus minimization of operating expenses is a key requirement of the operators of the data centers, the likes of Google, Facebook, Amazon Web Services and Microsoft. The power consumption of such major data centers with up to 40,000 servers is in the two-digit megawatt range. An increase in efficiency by one percentage point equals savings of several hundreds of kilowatts. At the same time the compactness, i.e. the power density, measured in watts per cubic centimeter, can be increased. Power density is important because every square meter of floor space in these air-conditioned spaces is very expensive.

Besides servers, power density is also important for extremely thin flat screen monitors as well as in compact chargers and adapters for mobile terminal devices. It will however most likely take quite a while until GaN transistors gain broad acceptance in these price-sensitive markets.

I 03

The new 600 volt GaN power switches offer highest efficient and most compact power supplies for servers in data centers. Electricity consumption and floor space are key to run such data centers economically.



The development of the next generation of our GaN transistor has already begun. Its new architecture makes it possible to realize smaller and thus more cost-effective transistors. This will support the introduction of GaN technology also in price-sensitive markets. We are also working on integrated GaN solutions in which either several transistors or transistors and control are monolithically connected or are packaged together. These compact solutions can be used, for example, for motor control units in washing machines and air conditioners. Volume production of our GaN products takes place in Villach (Austria) in a 150-millimeter wafer manufacturing line. The transition of volume production to 200-millimeter wafers is currently being planned.

Another focus area of our research and development activities is the digital control of power semiconductors. We currently witness the transition from analog control to digital control of power switches. Digital control systems enable much easier adoption to various operating conditions (for example, stand-by, partial load, full load) and also enable better use of the increasingly complex power components. Programmability of the control ICs enables customers to adapt the function of the control unit to meet their requirements with shorter learning cycles. This transition already began several years ago for MOSFET-based control loops; the trend has now also started for IGBT-based control loops. Infineon provides components for all stages of the digital control loop, namely control ICs, driver ICs and power switches.

Infineon makes systematic use of its technical core competencies in close collaboration among the segments. This lets us make efficient use of our economies of scale for power semiconductors, radio-frequency and security.

Infineon is the first company worldwide to demonstrate an algorithm for Post-Quantum Cryptography on contactless security chips

The world of security calls for visionary actions. Infineon's developers have to be able to live mentally in the future and have to think today about how to meet the requirements that will be placed on their products in 10 or 20 years. For example, today's passports have a service life of up to 10 years. Connected vehicles and industrial control systems should also be able to operate securely 20 years from now. This means the implemented security solutions have to provide long-term protection, taking into account at the time of their delivery the kinds of attacks which under certain circumstances may not be possible for many years to come. Quantum computers are part of such a scenario which could mean a threat to today's security functionalities 10, 20 or maybe even 30 years from now. Future quantum computers will be able to perform especially demanding tasks much faster than conventional computers can. Unfortunately the abilities of the quantum computer will include being able to attack many currently applied cryptographic methods with great ease. In order to keep this from happening, Infineon is working now on encryption technology for this future time, referred to as Post-Quantum Cryptography (PQC), in order to integrate these technologies in security products from Infineon. As the developers of the segment Chip Card & Security showed in the concluded fiscal year, entirely new and special algorithms can be implemented on conventional processors which, because of their architecture, are practically impossible or at least extremely difficult for even quantum computers to break.

It was necessary to find new algorithms. That is the essential point. Based on the knowledge of how quantum computers work it was possible to derive an idea of how new encryption algorithms would have to look in order to be impervious to attacks by quantum computers. These new algorithms can run on conventional computer architectures and security controllers. Furthermore, Infineon is now the first IC manufacturer to succeed in showing that PQC algorithms also work on contactless security chips. This achievement is anything but trivial because of the limited resources available on such chips, with only a small amount of storage present for software. And because the chips are contactless, they have to generate their energy from the electromagnetic waves emitted by the reader and must thus operate with a highly limited energy supply. It also has to be possible to transmit the encrypted data in only fractions of a second.

The major objective is to make the algorithm available for a large number of applications, hence for all the smaller products such as payment cards, health care cards and electronic passports. In the next step standards will be defined so that the systems – cards and readers from different manufacturers – will be able to communicate with one another. This might be achieved by 2023. In the following years the first products will then be developed to market readiness.

Patents

Another indication of the innovation power and long-term competitiveness of Infineon is the number and quality of our patents. In the 2017 fiscal year we applied for approximately 1,800 patents worldwide, compared to approximately 2,000 patent applications in the previous year. At the end of the 2017 fiscal year the worldwide patent portfolio consisted of approximately 27,300 patents and patent applications (previous year: approximately 27,000).

Operations

Our manufacturing strategy follows the basic principle that in-house manufacturing has to result in a differentiation potential in terms of costs and/or performance. If this is not the case we outsource manufacturing. This applies both to frontend manufacturing and backend manufacturing. This is the most efficient way to use our capital employed and to optimize our investments.

For frontend manufacturing this principle means that power semiconductors, sensors and radio-frequency components are preferably manufactured at our own manufacturing sites. Here we gain a strategic advantage from our manufacturing technologies and our process expertise because we can offer components which can only be manufactured with leading-edge manufacturing techniques. In the case of CMOS-based process technologies on the other hand we work together with manufacturing partners. This applies to the majority of our products manufactured in 90 nanometer manufacturing technologies as well as all products manufactured in 65 nanometer and smaller technologies. These are primarily highly-integrated products such as microcontrollers and security ICs. In backend manufacturing for certain package types we work with subcontractors in order to ensure adequate capacity growth and to be able to better manage phases of high fluctuation in demand. We will further increase these activities, in particular for the areas of standard power semiconductor packages.

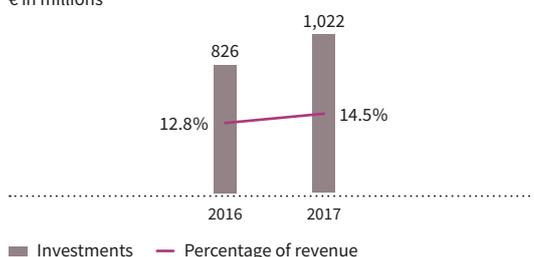
Another successful step in the area of manufacturing technology is the introduction of a larger wafer diameter for manufacturing of power semiconductors. The use of 300-millimeter thin wafers creates significant advantages in terms of productivity and reduces the amount of capital required. However, the technical challenges involved are substantial. Infineon is as of yet the only company to successfully master this transition.

Manufacturing capacities are being continuously expanded as planned, with the next milestone set for the end of calendar year 2017. By then we will equip up to 30 percent of the cleanroom space available in our Dresden (Germany) facility with tools for 300-millimeter thin wafer manufacturing. We expect the productivity advantage will begin to take effect then, and the costs per chip in 300-millimeter manufacturing will drop below the level of our 200-millimeter sites. We benefit from the lower investments per chip already today. Demand for 300-millimeter-capable products such as MOSFETs and IGBTs is very high, so that further expansion steps are already in planning or implementation.

Infineon maintains a total of 18 manufacturing sites in 10 countries: Dresden, Regensburg and Warstein (all Germany); Villach (Austria); Cegléd (Hungary); Beijing and Wuxi (both China); Melaka and Kulim (both Malaysia); Cheonan (Korea); Batam (Indonesia); Singapore; Tijuana (Mexico) as well as Leominster, Mesa, Morgan Hill, San Jose and Temecula (all USA) (see the chapter “Locations”). As of 30 September 2017, 27,105 employees were employed in Operations at these manufacturing sites (previous year: 26,383 employees).

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G 23
Investments¹
€ in millions



¹ Property, plant and equipment and intangible assets



 see graph 23
page 56

In the 2017 fiscal year our investments amounted to €1,022 million, representing an increase of €196 million or 24 percent compared to the €826 million invested in the previous year. Relative to revenues, the investments in the 2017 fiscal year increased to 14.5 percent compared to the previous year's 12.8 percent. €874 million of the overall investment volume were dedicated to property, plant and equipment (previous year: €716 million) and €148 million to intangible assets including capitalized development costs (previous year: €110 million).

Of the amount invested in property, plant and equipment, the largest share is accounted for by investments in manufacturing facilities. Here in turn approximately two thirds went to frontend manufacturing facilities, with the rest essentially going to backend manufacturing facilities.

Milestones and essential investment focuses in manufacturing in the 2017 fiscal year

Investments in the 2017 fiscal year focused on four areas:

1. Expansion of 300-millimeter frontend manufacturing capacities for differentiating manufacturing technologies for power semiconductors such as MOSFET and IGBT power switches. Even though power switches based on compound semiconductors are showing high growth, the by far higher demand in the foreseeable future will come from these classical power semiconductors.
2. Expansion of 200-millimeter frontend manufacturing capacities for differentiating manufacturing technologies such as MEMS-based sensors and radio-frequency components, as well as power semiconductors and magnetic field sensors for automotive applications.
3. Complete retooling of the silicon carbide (SiC) manufacturing lines to 150-millimeter wafers. The volume production of SiC MOSFETs launched in the concluded fiscal year was performed on 150-millimeter wafers from the very beginning. Furthermore, the manufacturing lines for SiC diodes were converted from 100-millimeter wafers to 150-millimeter wafers. Infineon is now one of the first companies worldwide to manufacture its complete SiC portfolio on wafers with a 150 millimeter diameter.
4. Expansion of backend manufacturing capacities for electro-mobility. Backend manufacturing capacities were expanded due to the high demand for IGBT modules for powertrains in hybrid and purely electric vehicles. Expansion for IGBT modules of the HybridPACK™ family took place in Warstein. Furthermore, a second manufacturing building was completed in Wuxi. In the future, IGBT modules of the HybridPACK™ family will be manufactured on one floor of the multi-storey building for subsequent supply to the Chinese electric vehicles market.

The Newport (Wales, UK) site was sold as of the end of the concluded fiscal year. An agreement was made with the new owner on a foundry partnership covering a period of two years. This will allow the new owner to get off to a successful start and puts Infineon in a position to better supply its customers in times of high demand for power semiconductors.

Furthermore, the concluded fiscal year saw investments at the frontend and backend sites primarily in the following areas:

- › Increased level of automation at our frontend and backend sites, for example, improvement of the wafer transport system.
- › Adaptation and retooling of manufacturing lines to accommodate the modified product portfolio, in particular due to the beginning of volume production for new technologies and products.
- › Expansion of backend manufacturing capacities in Melaka, under application of Industry 4.0 elements that increase manufacturing efficiency.
- › Completion of the expansion of wafer manufacturing capacities in Regensburg. Mainly components for automotive applications, in particular radar, are manufactured here.



Internal management system

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The internal management system at Infineon is designed to assist in implementing the Group strategy described in the chapter “Group strategy”. Accordingly, performance indicators are used which enable profitable growth and efficient employment of capital to be measured. Infineon has set itself the targets of:

- › achieving a compound annual revenue growth rate of 8 percent
- › thereby achieving a 17 percent Segment Result Margin over the economic cycle and
- › realizing the abovementioned revenue growth with investments of 13 percent relative to revenue over the economic cycle.

Overall, reaching these financial targets yields in a sustainable increase in the value of the business, brought about by achieving a premium on the cost of capital in the long term.

In this context, growth, profitability and investments are all interdependent. Profitability is the prerequisite for being able to finance operations internally, which, put another way, means opening up potential opportunities for growth. Growth, in turn, requires continual investment in research and development as well as in manufacturing capacities. Growing at a commensurate rate allows Infineon to achieve leading market positions and to generate economies of scope that contribute to greater profitability. Employing financial resources efficiently is a critical factor in achieving these goals.

Infineon deploys a comprehensive controlling system to manage its business with respect to the strategic targets it has set itself. The system involves the use of financial and operating key performance indicators. Information for controlling purposes is derived from annual long-term planning, quarterly outlooks, orders received per week and actual monthly financial results. This knowledge enables management to base its decisions on sound information with respect to the current situation and future expected financial and operational developments. Sustainable business practices and the consideration of forward-thinking qualitative factors are important for Infineon’s long-term success. As an enterprise very much aware of its responsibilities towards society, Infineon also takes account of non-financial factors, mainly in the fields of sustainability (see report “Sustainability at Infineon” on our website @ www.infineon.com/csr_reporting) and human resources (see the chapter “Our employees”). Although these factors are not used to manage business performance, they nevertheless help Infineon achieve its financial targets.

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As part of the process of managing business performance, management also attaches great importance to ensuring that Infineon acts in strict compliance with all relevant legal requirements and, of equal importance, that its internal Corporate Governance Standards are complied with (see the chapter “Corporate Governance”).

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Performance indicators

Principal performance indicators

In order to measure its success in implementing its strategies, Infineon uses the following three overarching performance indicators:

- › Segment Result and Segment Result Margin to measure the operating profitability of its various businesses and of the portfolio as a whole
- › Free cash flow from continuing operations to measure the amount of cash generated or used excluding financing activities
- › Return on Capital Employed (RoCE) to measure capital efficiency

Segment Result is the key figure of the Group for measuring operating performance. Expressed as a percentage of revenue (Segment Result Margin), it measures profitability of revenue and shows how well operations are being managed. The activities of Infineon's segments are managed on the basis of Segment Result. Responsibility for optimizing Segment Result within the framework of Group strategy (as approved by the Management Board) rests with the management teams of the relevant segments, acting, however, in coordination with the Management Board.

Free cash flow from continuing operations enables us to measure how well operating profitability is being converted into cash inflows. This key figure also provides information on the efficient use of working capital and property, plant and equipment.

Infineon also compares the actual as well as the planned Return on Capital Employed (RoCE) against the cost of capital, in order to ensure value creation.

The three performance indicators described above are also the cornerstones of the system for variable compensation within Infineon. Most variable salary components for employees and management are directly linked to these performance indicators.

Since all three performance indicators and especially Segment Result strongly correlate with the revenue growth, the latter is not used as a key performance indicator in its own right, but is covered by the key indicators indirectly.

Segment Result

Segment Result is defined as operating income (loss) excluding the following: the net amount of asset impairments and reversals thereof; the impact on earnings of restructuring and closures; share-based compensation expense; acquisition-related depreciation/amortization and other expenses; gains (losses) on sales of assets, businesses, or interests in subsidiaries as well as other income (expense), including litigation costs (see note 24 to the Consolidated Financial Statements for a computation of the relevant figures). Court and legal fees arising in conjunction with licensing Infineon's patents are included in Segment Result, as is any related income. Segment Result is the indicator that Infineon uses to evaluate the operating performance of its segments (for an analysis of Group and individual segment performance in the 2017 fiscal year, see the chapter "The segments" and the section "2017 fiscal year").

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P see page 38 ff.
and page 16 ff.



Free cash flow

An important key performance indicator for Infineon is the free cash flow figure, defined as net cash provided by or used in operating activities and net cash provided by or used in investing activities, both from continuing operations, after adjusting for cash flows related to the purchase and sale of financial investments. Free cash flow measures the ability to generate sufficient cash flows to finance day-to-day operations and fund required investments out of the ongoing business. It is Infineon's stated target to sustainably generate positive free cash flow (see the chapter "Review of liquidity" for an analysis of free cash flow in the 2017 fiscal year).

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The main levers for generating free cash flow are profitability, the ability to manage working capital efficiently and the levels of investments.

Infineon manages net working capital levels by focusing relentlessly on optimizing levels of inventories, trade receivables and trade payables.

Effective investment management plays a key role with regard to managing free cash flow. Our stated strategy of managing investments systematically should be seen in this context. Free cash flow is considered by Infineon only at Group level and not at segment level.

Return on Capital Employed (RoCE)

The performance indicator RoCE measures the ability of capital to provide a return and is defined as the operating result after tax from continuing operations divided by capital employed. Capital employed consists of non-current assets and net working capital. RoCE shows the correlation between profitability and the capital resources required to run the business.

$$\text{RoCE} = \frac{\text{Operating result after tax from continuing operations}}{\text{Capital employed}}$$

This key performance indicator describes how efficiently a company manages its resources. RoCE is also analyzed by Infineon at Group level only and not at segment level. A comparison of a company's RoCE and its weighted cost of capital provides information on the extent to which returns have been generated in excess of shareholders' and debt holders' expectations. Thus RoCE serves as a tool for value-based management.

Apart from profitability, RoCE is also influenced by asset intensity, of both non-current assets and net working capital. Asset intensity describes the amount of assets necessary to generate a certain level of revenue (for an analysis of the derivation of and change in RoCE in the 2017 fiscal year, see the chapter "Review of financial condition").

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Other performance indicators

The principal performance indicators described above are supplemented by others that provide information about growth potential, cost efficiency by functional area and liquidity.

Growth and profitability performance indicators

Revenue growth is compared continuously with the rate of growth of relevant target markets. This ties in directly with our strategic target of profiting continuously from the growth of our target markets. A further indicator for future revenue growth is the number of design wins, whereby we regularly measure actual outcomes against targets.

As part of the process of analyzing operating profitability in detail, Infineon considers earnings and costs above the Segment Result line. This involves a review of gross profit, research and development expenses, selling, general administrative expenses and the ratio of these items to revenue. These performance indicators are used to manage the business at both Group and segment levels (for an analysis of changes in the fiscal year under report, see the chapter "Review of results of operations").

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Liquidity performance indicators

A rolling cash flow forecast helps ensure that Infineon has appropriate levels of liquidity at its disposal and an optimal capital structure. Liquidity is managed at Group level, not at segment level, and uses the following key performance indicators:

- › **Gross cash position:** Cash and cash equivalents plus financial investments
- › **Net cash position:** Gross cash position less short-term and long-term debt
- › **Net working capital:** Current assets less cash and cash equivalents, less financial investments, less assets classified as held for sale, less current liabilities excluding short-term debt, and current maturities of long-term debt, excluding liabilities classified as held for sale
- › **Investments:** The total amount invested in property, plant and equipment and intangible assets, including capitalized development costs

For an analysis of changes in these key performance indicators during the previous fiscal year, see the chapter “Review of liquidity”.

P see page 75 ff.

Moreover, in order to avoid costs resulting from overcapacity and/or capacity bottlenecks, the key operational figures for capacity utilization and forecast capacity requirements are analyzed. The results of this analysis are used in determining investment requirements.

Actual and target values for performance indicators

The chapter “Outlook” contains a table showing the actual values achieved in the 2017 fiscal year for the key performance indicators, along with expectations for the 2017 fiscal year and the 2018 fiscal year.

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Sustainability at Infineon

Sustainability activities are described in the report “Sustainability at Infineon”, which is available on Infineon’s website.

@ www.infineon.com/csr_reporting

Our employees

Our human resources work focuses on developing our existing workforce and recruiting new staff as required. We firmly believe that effective human resources management is the key to commercial success, as only fulfilled, healthy and successful employees are able to deliver long-term peak performance and support us in meeting the growth and profitability targets set out at the beginning of this report. We continually endeavor to promote the performance and potential of our employees in the best possible way. The three pillars of “Leadership excellence”, “Promoting talent” and “Our workforce” combine the range of activities we deploy to achieve this objective.



Leadership excellence

Open and honest feedback

see graph 24

An organization cannot progress without open and honest feedback. This basic premise is reflected in our values, which are collectively defined in our “High Performance Behavior Model”. These values are not purely theoretical: The High Performance Behavior Model shows how we aim to achieve Infineon’s targets and set priorities.

These behavioral descriptions play a significant role, for example, in the annual dialogs with employees under the global STEPS process (abbreviation for Steps To Employees’ Personal Success). However, our fundamental culture of openness does not stop there. Feedback from teams to their managers is just as important as feedback from managers to staff. In addition to the STEPS dialogs, we have therefore established the format of the “leadership dialog”, which is carried out every two years for senior level management with direct responsibility for five or more members of staff. Managers receive structured feedback from their staff as part of the leadership dialog process, thus enabling them to reflect on their individual leadership conduct, identify strengths and potential areas for improvement and hence promote cooperation, both with and within the team.

A culture of feedback does not only come about during the dialog between manager and staff, it is also an important aspect of working together in teams and projects, and is therefore proactively encouraged. Whether gathering information from operating departments in the form of employee questionnaires, obtaining feedback as part of the general process of corporate communications or assessing outcomes when key project or process steps are achieved, all of these techniques constitute an integral part of our daily working routines.

Open feedback is always important to us in constructive dialog with our employees’ representatives at the various sites. Co-determination is a key factor in our human resources work. Together, and in a spirit of trust, we are building the basis for successfully implementing our key topics in the respective bodies, particularly in the Central Works Council and the Management Staff Representation Committee.

Regular participation in the Great Place to Work® survey enables us to measure the progress we are making in terms of leadership and feedback culture. Our objective is to provide our employees with a working environment in which they can give their very best. Results from the spring 2016 survey show that we have made improvements in all categories compared to 2013. Particularly gratifying for us is that 78 percent of all employees participating in the survey responded with “All in all, this is a very good place to work”.

High Performance Behavior Model





Management development

Good leadership is essential for Infineon's success, as it enables each individual to perform his or her tasks effectively and therefore contribute to the success of the Company. At the same time, our employees expect to be able to develop their skills and competencies within a suitable environment. With this in mind, creating an attractive working environment and long-term employee retention at Infineon are key tasks for our managers.

We provide support for our managers in the form of numerous learning and development opportunities at the various leadership levels. Our approach to learning involves a variety of methods based on both theory and practice. We work on concrete examples at face-to-face training events and e-learning. Mentoring programs and learning-in-tandem also promote learning outcomes which can be quickly put into practice.

The "Infineon Leadership Excellence Program" provides a training framework to support managers as far as possible in their leadership role and management responsibility. In addition to the training provided, participating managers carry out a self-assessment, which is subsequently followed up by coaching.

Alongside the "Infineon Leadership Excellence Program", we also offer training on a range of topics required in specific situations. One example of this is the "New Leader Orientation" program – an in-house workshop for new managers focusing on leadership culture and management tools at Infineon. In another training program offered in Asia – "Leadership in Healthy Lifestyle" – our top managers learn how to make the most of their resources and increase health awareness. The e-learning-based "Health & Care" program focuses on the issue of health as a managerial task.

Promoting talent

Talent marketing and management

At Infineon, depending on their individual knowledge and talents, development opportunities are available to employees in a variety of careers, based on Infineon's needs. Four career paths have already been established:

- › the professional career as an "Individual Contributor", in which individual expertise in a traditional business field, such as finance, purchasing or sales, is promoted;
- › the "Technical Ladder", which enables our technical experts to develop;
- › the Project Management career, which offers our project managers clear prospects for their personal development and careers – and emphasizes the importance of implementing development projects for Infineon's success; and
- › the Management career path for (junior) managers.

As an international company, we wish to offer our staff development prospects beyond organizational and national boundaries. The worldwide Development Conferences, during which managers discuss the specific development of our talents with the Human Resources team, are an important instrument in this endeavor.

In the Asia-Pacific region (including Japan), due to the expectations of employees and the specific local context, in addition to the Infineon career paths, we offer specially designed talent management programs: "ENGINE" for management careers and "TechStar" for technical careers. Both programs focus on the key areas of training, interaction with management and the practical application of what has been learnt in specific projects.



Encouraging diversity

As an international company, the diversity of our staff is particularly important to us. Our global diversity management provides the framework for a corporate culture which values the individuality of each staff member and promotes equal opportunities – irrespective of age, disability, ethnic-cultural origin, gender, religion, belief or sexual identity. The focal points of our commitment to diversity may vary from one location to another and are tailored to suit local needs.

The promotion of women to management positions is one of the key focus areas of our diversity management policy. We had set ourselves the ambitious target of increasing the percentage of female executives to 15 percent by the end of the 2020. We succeeded in raising the proportion of women at the middle and senior management level from 13.4 percent in 2016 to 13.9 percent in 2017. Individual measures and performance indicators are being put in place across the business with a view to achieving the target. We remain committed to our long-term target of 20 percent of women in management positions.

G see graph 25

	Employees Total	Female ¹	Male ¹
Middle and senior level management ^{2,3}	6,268	13.9%	86.1%
Entry level management ²	6,978	26.5%	73.5%
Non-management staff	24,233	46.5%	53.5%
Total	37,479	37.3%	62.7%

1 Figures based on the workforce as of 30 September 2017, in the respective comparison group.

2 At Infineon, the management function includes not only the leadership of employees but also leadership through specialist expertise as well as project management functions as defined in the internal job evaluation system.

3 Including the Management Board.

In conjunction with the “Law on Equal Participation of Women and Men in Leadership Positions in the Private and Public Sector”, Infineon Technologies AG and Infineon Technologies Dresden GmbH have set targets for the percentage of women in the two leadership levels below the Management Board. Details of levels of attainment as of 30 June 2017 and the new targets are contained in the chapter “Corporate Governance”.

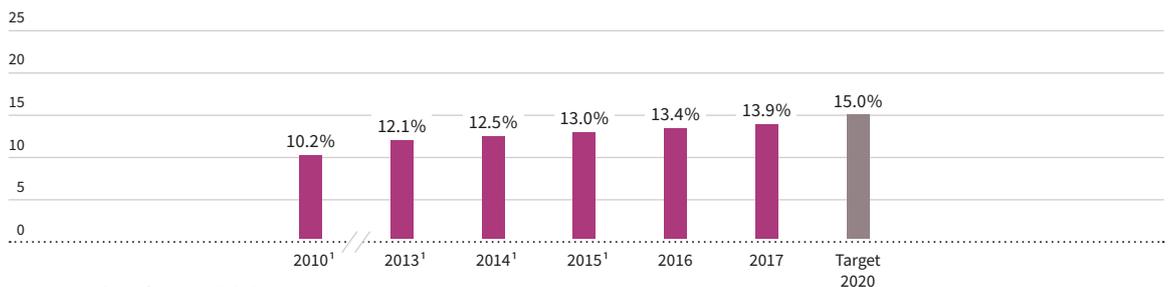
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Cooperation with universities

Infineon keenly promotes close contact with both students and academics with the aim of recruiting young professionals – for instance, through special “High Potential” programs: Infineon has been a member of the UNITECH network for promoting talented engineers since 2002. In the meantime, UNITECH has developed into a sustainable recruiting ground for international, high-caliber staff for Infineon. Our cooperation with the Collège des Ingénieurs (CDI) has proven highly successful over the years. Infineon has established itself as an attractive and reliable partner for this international MBA program.

At selected top universities in China, Infineon organizes “Student Dialogs” and “Infineon Days” and sponsors “Joint Labs”, “Training Labs” and an endowment chair for the long-term promotion of application-based research and teaching.

G 25
Women in management positions (Infineon worldwide)



1 International Rectifier not included



Qualifications and training

We give high priority to staff training. We continuously keep an eye on our employees with all their skills and aptitudes to ensure their personal and professional development.

Our focus in this area is on professional training aimed at developing the technical know-how and innovation skills of our workforce; programs concentrating on improving the leadership and feedback culture within the organization; training courses on the development of social skills and aptitudes; project management training. In addition, in-house training opportunities, such as mentoring programs and on-the-job training, are also of importance to us.

Our workforce

Health management

The health of our staff is imperative. We therefore protect and promote it through our occupational health management program. Preventive programs, such as “Fit4Health” in Germany and Austria or H.A.P.P.Y. (Healthy Active People Program for You) in Singapore boost health awareness in our staff.

Competence development

How do we equip ourselves optimally for the working world of the future? We endeavor to answer this question with our strategic competence management program, which identifies the skill sets necessary for the future and suggests relevant development paths.

Our offering of functional training is made available primarily via the “Academy Connect” platform. Cooperation has been established among a total of 11 global “functional academies” (operating in specific segments and fields) as well as other internal training providers, with a view to providing coordinated learning to build up professional expertise. Academies exist, for example, in the fields of purchasing, finance, manufacturing, quality management and supply chain. The learning content on offer is expanded on an ongoing basis, as through the professional and targeted development of our staff we aim to reinforce our corporate strategy and increase productivity.

Employees and personnel expense

As of 30 September 2017 Infineon had a worldwide workforce of 37,479 employees, compared to 36,299 employees one year earlier.

The worldwide personnel cost for current, internal Infineon employees in the 2017 fiscal year totaled €2,206 million (2016 fiscal year: €2,047 million). This amount includes wages and salaries, including overtime and allowances, as well as social costs (pension expenses and social contributions).

Outlook

Our human resources work focuses on continuing successful initiatives and programs and developing new measures in response to current requirements. Infineon’s long-term human resources strategy continually contributes to meeting our high-performance aspirations. Our aim is to deploy our workforce both competently and correctly, motivating employees to contribute to Infineon’s overall success through their own personal success.

With this aim in mind, our human resources work focuses on the three pillars “Leadership excellence”, “Promoting talent” and “Our workforce”. Over the coming years, we intend to set the right course for the future by further developing our human resources initiative “Connect”, thereby strengthening our aspiration to be a high-performance company. State-of-the-art digital technologies will be deployed to make our HR processes even more efficient. Standardizing and simplifying our systems and processes throughout the organization will also help us achieve this goal. “Connect” will enable us to align our actions with our stated business strategy and to develop our corporate culture further.



The Infineon share

@ It is possible to participate in the telephone conferences via the internet as a webcast on our Investor Relations pages (www.infineon.com/investor).

We are available to our private shareholders by email (investor.relations@infineon.com) and by telephone (+49 89 234-26655).

Basic information on shares

Share types	Ordinary registered shares in the form of shares or American Depositary Shares (ADS) with a notional value of €2 each (ADS: shares = 1:1)
Share capital	€2,272,401,858 (as of 30 September 2017), €2,265,346,218 (as of 30 September 2016)
Shares issued ¹	1,136,200,929 (as of 30 September 2017), 1,132,673,109 (as of 30 September 2016)
Own shares	6 million shares (as of 30 September 2017)
ISIN	DE0006231004
WKN	623100
Ticker symbol	IFX (share), IFNNY (ADS)
Bloomberg	IFX GY (Xetra trading system), IFNNY US
Reuters	IFX-XE, IFNNY-XE
Listings	Shares: Frankfurt Stock Exchange (FSE)
Market capitalization ²	€24,039 million (as of 30 September 2017)
Daily average shares traded on Xetra	4,143,726 (in the 2017 fiscal year)
Trading in the USA	ADS, over-the-counter trading on the OTC market (OTCQX)
Market capitalization ²	US\$28,504 million (as of 30 September 2017)
Daily average ADS traded	98,358 (in the 2017 fiscal year)
Index membership (selected)	DAX 30 Dow Jones STOXX Europe 600 Dow Jones Euro STOXX TMI Technology Hardware & Equipment Dow Jones Germany Titans 30 MSCI Germany S&P-Europe-350 Dow Jones Sustainability World Index Dow Jones Sustainability Europe Index

@ A full overview of other major indices in which the Infineon share is represented can be found on Infineon's website at www.infineon.com/cms/en/about-infineon/investor/infineon-share/index-membership/

¹ The number of shares issued includes own shares.

² Own shares were not taken into consideration for calculation of market capitalization.

Bond information

1.0% Infineon Bond from 10 March 2015	due on 10 September 2018, ISIN: XS1191115366
1.5% Infineon Bond from 10 March 2015	due on 10 March 2022, ISIN: XS1191116174
Rating of S&P Global Ratings	since February 2016: "BBB" (outlook "stable")

Further share price increase in 2017 fiscal year

During the 2017 fiscal year the Infineon share continued the upward trend seen in previous years, finishing the fiscal year at a closing price of €21.27, 34 percent higher than its closing price of €15.88 at the end of fiscal 2016. During the first few months of the 2017 fiscal year the price of the Infineon share developed for the most part sideways with slight fluctuations. The price of the Infineon share reached its low for the year, €15.33, on 2 December 2016. After this, the price rose with more volatile price fluctuations, resulting in a year end price of €21.27. This was also the highest price for the 2017 fiscal year. With an increase of 34 percent during the 2017 fiscal year, the value of the Infineon share outperformed comparable benchmark indices, the DAX and Dow Jones U.S. Semiconductor Indices. In this period the DAX rose by 22 percent and the Dow Jones U.S. Semiconductor Index rose by 29 percent. During the same period the Philadelphia Semiconductor Index (SOX) rose by 40 percent, thus even exceeding the increase of the Infineon share.

Trading volumes and DAX ranking

The average volume of Infineon shares traded, measured in units, in the Xetra system, declined by 25 percent in the 2017 fiscal year compared to the previous year. 4.1 million shares were traded daily in the 2017 fiscal year, compared to 5.5 million shares in the previous year. On the other hand the average daily trading volume of Infineon shares measured in euros rose 8 percent from €68.5 million in fiscal 2016 to €74.3 million in the 2017 fiscal year.

 see graph 26
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In the USA, the Infineon share is traded in the form of American Depositary Shares (“ADS”) on the OTCQX International over-the-counter market under the ticker symbol “IFNNY”. The average daily ADS trading volume dropped in the 2017 fiscal year from 216 thousand ADS to 98 thousand ADS. The number of ADS outstanding rose on the other hand from 16.7 million ADS at the end of the 2016 fiscal year to 21.8 million ADS as of 30 September 2017.

In the DAX ranking, Infineon improved by one place in terms of market capitalization, moving from 17th place at the end of the 2016 fiscal year to 16th place at the end of the 2017 fiscal year. In terms of the volume traded in euros in Xetra and on the Frankfurt trading floor during the last twelve months, Infineon ranked 19th in the 2017 fiscal year, unchanged compared to the previous year.

Shareholder structure

G see graph 27

As of 30 September 2017, three shareholders each held more than 3 percent of the Infineon shares issued. At the end of the 2016 fiscal year, four shareholders held more than 3 percent of shares each. At 9.52 percent, the share capital held by retail investors at the end of the 2017 fiscal year remained more or less stable, compared to 9.53 percent at the end of the previous year.

Dividend

In recent years Infineon has continuously increased the dividend payment up to €0.20 per share for the 2015 fiscal year. In the previous fiscal year, the Management Board and Supervisory Board proposed a further increase of the dividend by 10 percent to €0.22 per share for the 2016 fiscal year to the Annual General Meeting on 16 February 2017. The shareholders approved the proposal. Thus, in compliance with the new regulations of the German Stock Corporation Act (AktG), the amount of €248 million was paid out to shareholders on the third business day after the Annual General Meeting, 21 February 2017. At that point in time the number of shares entitled to a dividend was 1,126,673,109 units. As of 30 September 2017 the number of shares issued was 1,136,200,929. This figure includes the unchanged amount of 6 million shares owned by the Company, which are not entitled to a dividend. Based on Infineon’s positive business developments, a proposal is to be made to shareholders at the 2018 Annual General Meeting to increase the dividend for the 2017 fiscal year by 3 cents from €0.22 to €0.25. For more information on Infineon’s dividend policy, see “Sustainable value creation for our shareholders” in the chapter “Group strategy”.

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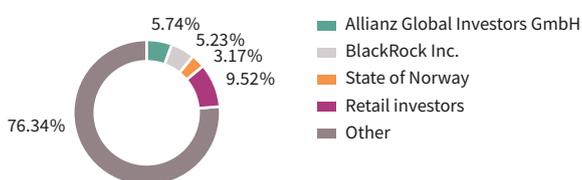
G 26

Development of the Infineon Technologies AG share compared to Germany’s DAX Index, the Philadelphia Semiconductor Index (SOX) and the Dow Jones US Semiconductor Index for the 2017 fiscal year (daily closing prices)



G 27

Shareholder structure



Dividend for fiscal year	Dividend per share in €
2010	0.10
2011	0.12
2012	0.12
2013	0.12
2014	0.18
2015	0.20
2016	0.22
Proposal 2017	0.25



Group performance

Review of results of operations

The consolidated statement of operations

€ in millions, except earnings per share	2017	2016
Revenue	7,063	6,473
Gross profit	2,621	2,330
Research and development expenses	(776)	(770)
Selling, general and administrative expenses	(819)	(791)
Other operating income and expenses, net	(43)	(6)
Operating income	983	763
Net financial result (financial income and expenses, net)	(53)	(61)
Income from investments accounted for using the equity method	3	3
Income tax	(142)	36
Income from continuing operations	791	741
Income (loss) from discontinued operations, net of income taxes	(1)	2
Net income	790	743
Basic earnings per share (in euro)	0.70	0.66
Diluted earnings per share (in euro)	0.70	0.66
Adjusted earnings per share (in euro) – diluted	0.85	0.76

Net income improved

Net income improved by €47 million to €790 million year-on-year. Revenue grew by 9 percent to €7,063 million thanks to positive sales developments. The resulting earnings contribution, largely reflecting positive sales volume trends, helped operating income to rise by 29 percent or €220 million to €983 million. This increase was offset by a higher income tax expense (see note 4 to the Consolidated Financial Statements). The amounts reported include acquisition-related depreciation, amortization and other expenses totaling €153 million (2016: €191 million), mainly for International Rectifier (predominantly expenses recognized in conjunction with the purchase price allocation).

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Earnings per share (basic and diluted) amounted to €0.70 per share and were therefore up on the previous fiscal year (2016: €0.66).

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Adjusted earnings per share (diluted) improved further from €0.76 to €0.85 per share (see “Further improvement in adjusted earnings per share” in this chapter for details of the calculation).

Revenue growth reflects positive sales volume trends

Revenue grew by €590 million to €7,063 million in the 2017 fiscal year (2016: €6,473 million). All four operating segments reported year-on-year revenue growth on the back of positive sales volume trends (see the chapter “The segments”). Revenue growth was driven mainly by strong demand for semiconductors used in automotive, industrial and power supply applications. The top-selling Automotive segment contributed more than half (56 percent) to total revenue growth.

G see graph 28
page 69

P see page 38 ff.

No significant impact of currency effects on revenue

The majority of **revenue** was generated in **foreign currencies** in the 2017 fiscal year, with revenue denominated in US dollars accounting for the largest share. The average euro/US dollar exchange rate of around US\$ 1.11 did not change compared to the previous year. Across all currencies and over the fiscal year as a whole, currency factors contributed less than 1 percent to the revenue increase. Thereby the currency impact compared to the previous fiscal year is measured by applying the previous fiscal year's relevant average exchange rates to 2017 fiscal year revenue.

Significance of Asia-Pacific continues to grow; China ahead of Germany as most important sales market

€ in millions, except percentages	2017		2016	
	Revenue	%	Revenue	%
Europe, Middle East, Africa	2,272	32%	2,147	33%
Therein: Germany	1,094	15%	1,000	15%
Asia-Pacific (excluding Japan)	3,447	49%	3,083	48%
Therein: China	1,735	25%	1,574	24%
Japan	463	7%	424	6%
Americas	881	12%	819	13%
Therein: USA	714	10%	661	10%
Total	7,063	100%	6,473	100%

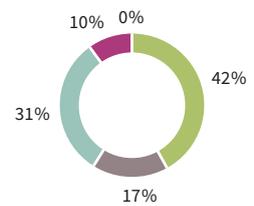
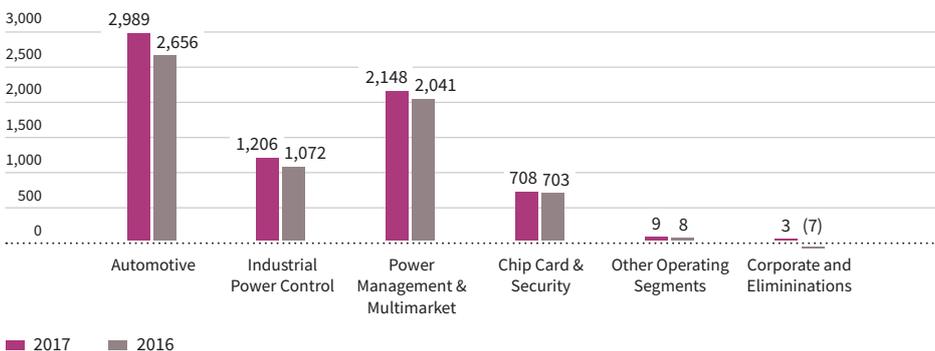
With an increase of €364 million, more than one half (62 percent) of revenue growth related to the Asia-Pacific region (excluding Japan), followed by the Europe, Middle East and Africa region, which recorded a €125 million or 21 percent increase in revenue, and the Americas region, where revenue rose by €62 million (11 percent of total revenue growth).

The Asia-Pacific region (excluding Japan) was already the largest region in the previous fiscal year, when it accounted for 48 percent of revenue. The importance of the Asia-Pacific region (excluding Japan) continued to grow during the fiscal year under report, accounting for 49 percent of revenue, followed by the Europe, Middle East and Africa region with 32 percent.

China accounted for €1,735 million or 25 percent of Infineon's worldwide revenue and therefore for the largest share at individual country level, followed by Germany at €1,094 million or 15 percent.

G 28

Revenue by segment
€ in millions



Share of Group revenue 2017

- Automotive
- Industrial Power Control
- Power Management & Multimarket
- Chip Card & Security
- Other Operating Segments, Corporate and Eliminations

Increase in gross margin

The **gross margin** increased from 36.0 percent to 37.1 percent year-on-year. The improvement was mainly attributable to revenue growth – in particular in the Automotive segment – and the resulting higher capacity utilization. Positive currency factors also played a role. The line item “Cost of goods sold” still includes the earnings impact arising in conjunction with the purchase price allocation and acquisition-related expenses for International Rectifier (in particular higher depreciation/amortization on intangible assets and property, plant and equipment, which were revalued to their fair value as part of the purchase price allocation) amounting to €89 million (2016: €96 million).

€ in millions, except percentages	2017	2016
Cost of goods sold	4,442	4,143
Change year-on-year	7%	12%
Percentage of revenue	62.9%	64.0%
Gross profit	2,621	2,330
Percentage of revenue (gross margin)	37.1%	36.0%

Operating expenses as percentage of revenue continue to fall

Operating expenses (research and development expenses and selling, general and administrative expenses) increased year-on-year by €34 million to €1,595 million (2016: €1,561 million), corresponding to 22.6 percent of revenue (2016: 24.1 percent).

Research and development expenses (R&D expenses)

Grants received in conjunction with R&D projects and capitalized development costs reduce the amount of **R&D expenses** recognized.

€ in millions, except percentages	2017	2016
Research and development expenses	776	770
Change year-on-year	1%	7%
Percentage of revenue	11.0%	11.9%
Therein included grants received	68	75
Percentage of revenue	1.0%	1.2%
For information: capitalized development costs	129	98
Percentage of research and development expenses	16.6%	12.7%

R&D expenses amounted to €776 million in the 2017 fiscal year, an increase of €6 million or 1 percent compared to the previous year’s figure of €770 million. At 11.0 percent (2016: 11.9 percent) of revenue, R&D expenses therefore remained within the target range of a low- to mid-teen percentage of revenue. Research and development activities were intensified, additional staff recruited and other measures taken in order to broaden the basis for further growth. A total of 6,362 employees worked in research and development functions at the end of the reporting period (30 September 2016: 6,057 employees).

The main R&D activities undertaken during the 2017 fiscal year are described in more detail in the chapter “Research and development”.

see page 53 ff.

Selling, general and administrative expenses

€ in millions, except percentages	2017	2016
Selling, general and administrative expenses	819	791
Change year-on-year	4%	2%
Percentage of revenue	11.6%	12.2%

At 11.6 percent of revenue **selling, general and administrative expenses** were lower in percentage terms than in the previous fiscal year (12.2 percent). In absolute terms, they went up by €28 million or 4 percent to €819 million, and therefore at a less pronounced rate than revenue growth.

Other operating expenses increased

The net amount from other operating income and expenses decreased from negative €6 million to negative €43 million year-on-year. The amount reported includes the loss of €13 million arising from the sale of 100 percent of the shares of IR Newport Limited ("Newport") (see note 5 to the Consolidated Financial Statements) and contractually agreed compensation of €12 million paid to the US company Cree Inc. as a consequence of the non-completion of the Wolfspeed acquisition.

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Effective tax rate of 15.2 percent

Based on pre-tax income of €933 million and income tax expenses of €142 million, the effective tax rate for the 2017 fiscal year amounted to 15.2 percent. In the 2016 fiscal year, an income tax benefit of €36 million was recorded mainly due to deferred income tax arising in conjunction with the acquisition and integration of International Rectifier.

As in the previous fiscal year, income tax expense for the 2017 fiscal year was affected by foreign tax rates, non-deductible expenses, tax credits and changes in valuation allowances on deferred tax assets.

P see page 133 ff.

Further details regarding income tax expense are provided in note 4 to the Consolidated Financial Statements.

Earnings per share improved

The improvement in net income resulted in a corresponding increase in **earnings per share**. Compared to earnings per share of €0.66 (basic and diluted) in the previous fiscal year, the corresponding figures for the 2017 fiscal year both amounted to €0.70.

Further improvement in adjusted earnings per share

Earnings per share in accordance with IFRS are influenced by amounts relating to purchase price allocations for acquisitions (in particular International Rectifier) as well as by other exceptional items. To enable better comparability of operating performance over time, Infineon computes **adjusted earnings per share (diluted)** as follows:

€ in millions (unless otherwise stated)	2017	2016
Earnings from continuing operations attributable to shareholders of Infineon Technologies AG – diluted	791	742
Plus/minus:		
Impairments on assets including assets classified as held for sale, net of reversals	5	16
Impact on earnings of restructuring and closures, net	3	(7)
Share-based compensation expense	13	9
Acquisition-related depreciation/amortization and other expenses	153	191
Losses (gains) on sales of assets, businesses, or interests in subsidiaries, net	15	4
Other income and expense, net	36	6
Tax effects on adjustments	(49)	(49)
Revaluation of deferred tax assets resulting from the annually updated earnings forecast	–	(59)
Adjusted earnings from continuing operations attributable to shareholders of Infineon Technologies AG – diluted	967	853
Weighted-average number of shares outstanding (in million) – diluted	1,134	1,129
Adjusted earnings per share (in euro) – diluted ¹	0.85	0.76

¹ The calculation of the adjusted earnings per share is based on unrounded figures.

Adjusted net income and adjusted earnings per share (diluted) should not be seen as a replacement or superior performance indicator, but rather as additional information to net income and earnings per share (diluted) determined in accordance with IFRS. The calculation of earnings per share in accordance with IFRS is presented in detail in note 6 to the Consolidated Financial Statements.

P see page 136

G see graph 29 and 30

Review of financial condition

€ in millions, except percentages	30 September 2017	30 September 2016	Change year-on-year
Current assets	4,871	4,492	8%
Non-current assets	5,074	4,595	10%
Total assets	9,945	9,087	9%
Current liabilities	2,098	1,530	37%
Non-current liabilities	2,211	2,534	(13%)
Total liabilities	4,309	4,064	6%
Total equity	5,636	5,023	12%
Statement of Financial Position ratios:			
Return on assets ¹	7.9%	8.2%	
Equity ratio ²	56.7%	55.3%	
Return on equity ³	14.0%	14.8%	
Debt-to-equity ratio ⁴	32.5%	35.2%	
Inventory intensity ⁵	12.5%	13.1%	
RoCE ⁶	14.9%	15.0%	

1 Return on assets = Net income/Total assets

2 Equity ratio = Total equity/Total assets

3 Return on equity = Net income/Total equity

4 Debt-to-equity ratio = (Long-term and short-term debt)/Total equity

5 Inventory intensity = Inventories (net)/Total assets

6 Calculation see following section about RoCE in this chapter

G 29

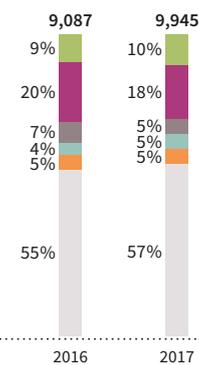
Assets



€ in millions	2016	2017
Gross cash position	2,240	2,452
Trade and other receivables	774	851
Inventories	1,191	1,240
Property, plant and equipment	2,119	2,659
Intangible assets	1,656	1,586
Deferred tax assets	623	612
Other assets	484	545
	9,087	9,945

G 30

Liabilities and equity



€ in millions	2016	2017
Trade and other payables	857	1,020
Debt	1,769	1,834
Pension plans and similar commitments	604	503
Provisions	403	489
Other liabilities	431	463
Equity	5,023	5,636
	9,087	9,945

Increase in current assets mainly reflects improved gross cash position

Current assets went up by 8 percent to €4,871 million at the end of the reporting period, compared to €4,492 million as of 30 September 2016. Therein Infineon's gross cash position (sum total of cash and cash equivalents and financial investments) increased by €212 million (see "Gross cash position and net cash position" in the chapter "Review of liquidity" for further information). In addition, inventories and trade receivables increased by €126 million in total as a result of organic revenue growth across the segments.

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Increase in non-current assets due to full consolidation of MoTo and investments

Non-current assets increased by €479 million from €4,595 million at the end of the previous fiscal year to stand at €5,074 million as of 30 September 2017. Infineon acquired 93 percent of the shares of MoTo Objekt Campeon GmbH & Co. KG ("MoTo") effective 30 December 2016, since which time MoTo's assets and liabilities have been fully consolidated by the Infineon Group. Property, plant and equipment increased by €366 million as a result. Other investments in property, plant and equipment totaled €874 million. Depreciation during the twelve-month period amounting to €652 million had a counter effect. Investments related primarily to the manufacturing sites in Melaka and Kulim (both Malaysia), Dresden and Regensburg (both Germany) and Villach (Austria). Goodwill and other intangible assets went down by €58 million due to exchange rate factors. Investments in intangible assets (€148 million) were lower than the amortization expense (€160 million).

Increase in liabilities mainly due to full consolidation of MoTo

Total liabilities stood at €4,309 million as of 30 September 2017 and were therefore €245 million (6 percent) higher than as of 30 September 2016 (€4,064 million). Trade payables increased by €163 million, mainly as a consequence of organic revenue growth recorded by the segments and high levels of investment. Debt went up by €65 million in total, whereby liabilities of €219 million resulting from the full consolidation of MoTo financial liabilities described above were offset by repayments of non-current debt amounting to €119 million. Currency factors reduced debt by €40 million. Information on debt maturities is provided in note 12 to the Consolidated Financial Statements.

G see graph 31

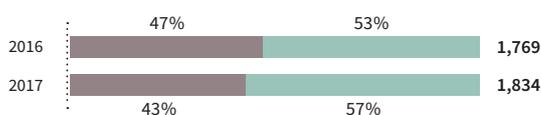
P see page 142 f.

Provisions and liabilities to employees increased by €57 million due to the fact that allocations to the provision for performance-related employee remuneration for the fiscal year under report exceeded payments made for the previous fiscal year. Working in the opposite direction, provisions for pension plans and similar commitments decreased by €101 million, mainly reflecting actuarial gains attributable to the current trend in interest rates (see note 14 to the Consolidated Financial Statements for further information).

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G 31

Debt by currencies



€ in millions	2016	2017
Euro	939	1,044
US dollar	830	790
	1,769	1,834



Equity up mainly due to net income for the year

Equity increased by €613 million (12 percent) to €5,636 million at the end of the reporting period (30 September 2016: €5,023 million). The main items increasing equity were net income for the 2017 fiscal year (€790 million) and actuarial gains (€118 million, net of tax), the latter arising in conjunction with pension plans and similar commitments and recognized in other comprehensive income (see notes 14 and 15 to the Consolidated Financial Statements). The main items decreasing equity were the dividend paid for the 2016 fiscal year (€248 million) and currency effects (€66 million).

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The equity ratio improved to 56.7 percent as of the end of the reporting period (30 September 2016: 55.3 percent).

RoCE of 14.9 percent generated

Operating income from continuing operations after tax rose by 6 percent from €799 million to €847 million year-on-year. Capital employed increased by 7 percent from €5,334 million as of 30 September 2016 to €5,695 million as of 30 September 2017. As a result, the **Return on Capital Employed (RoCE)** fell slightly from 15.0 percent to 14.9 percent. The performance again enabled Infineon to more than cover its cost of capital in the 2017 fiscal year.

RoCE for the 2017 and 2016 fiscal years is calculated as follows:

€ in millions	2017	2016
Operating income	983	763
Plus/less:		
Financial result excluding interest result ¹	3	(3)
Gain from investments accounted for using the equity method	3	3
Income tax	(142)	36
Operating income from continuing operations after tax ①	847	799
Assets	9,945	9,087
Plus/less:		
Cash and cash equivalents	(860)	(625)
Financial investments	(1,592)	(1,615)
Assets classified as held for sale	(23)	-
Total current liabilities	(2,098)	(1,530)
Short-term debt and current maturities of long-term debt	323	17
Capital employed ②	5,695	5,334
RoCE ①/②	14.9%	15.0%

¹ Financial result in the 2017 and 2016 fiscal year amounted to negative €53 million and negative €61 million, respectively, and included negative €56 million and negative €58 million, respectively, of interest result.

The reported RoCE was calculated using actual capital employed, without adjustment for exceptional factors such as provisions recorded in connection with the Qimonda insolvency, purchase price allocations for acquisitions as well as changes in deferred tax assets and liabilities, each of which influences the level of capital employed.

Review of liquidity

Cash flow

€ in millions	2017	2016
Net cash provided by operating activities from continuing operations	1,728	1,313
Net cash used in investing activities from continuing operations	(1,131)	(1,098)
Net cash used in financing activities from continuing operations	(340)	(229)
Net change in cash and cash equivalents from discontinued operations	(5)	(22)
Net change in cash and cash equivalents	252	(36)
Effect of foreign exchange rate changes on cash and cash equivalents	(17)	(12)
Change in cash and cash equivalents	235	(48)

Net cash provided by operating activities from continuing operations significantly up on previous year

Net cash provided by operating activities from continuing operations in the 2017 fiscal year amounted to €1,728 million, an improvement of €415 million on the €1,313 million reported for the previous fiscal year. Taking income from continuing operations before depreciation, amortization, impairment losses, interest and taxes amounting to €1,806 million (2016: €1,612 million) as the starting point, cash-relevant changes in trade receivables, trade payables, inventories, provisions, other assets and other liabilities totaling €81 million also contributed to the increase in net cash provided by operating activities from continuing operations. Cash outflows for interest and taxes totaled €191 million.

Net cash used in investing activities from continuing operations influenced by investments in property, plant and equipment and acquisition of MoTo

Net cash used in investing activities from continuing operations totaled €1,131 million in the 2017 fiscal year, including investments in property, plant and equipment (€874 million) and in intangible and other assets (€148 million). Cash used to acquire the MoTo shares amounted to €112 million, net of cash acquired.

Net cash used in investing activities from continuing operations in the previous fiscal year amounted to €1,098 million. Investments in property, plant and equipment and in intangible assets totaled €826 million. Net purchases of financial investments of €275 million resulted in a cash outflow as well.

Dividend payment and debt repayments result in net cash used in financing activities from continuing operations

Net cash used in financing activities from continuing operations in the 2017 fiscal year totaled €340 million and was mainly impacted by the payment of the dividend for the 2016 fiscal year (€248 million). In addition, long-term debt amounting to €119 million was repaid (see note 12 to the Consolidated Financial Statements). These outflows were offset by inflows of €26 million arising on the issue of shares in conjunction with the Infineon Stock Option Plan.

Net cash used in financing activities from continuing operations in the 2016 fiscal year amounted to €229 million, comprising mainly a cash outflow of €225 million for the dividend payment for the 2015 fiscal year.

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Free cash flow

Infineon reports the free cash flow figure, defined as net cash provided by and/or used in operating activities and net cash provided by and/or used in investing activities, both from continuing operations, after adjusting for cash flows related to the purchase and sale of financial investments. Free cash flow serves as an additional performance indicator, since Infineon holds part of its liquidity in the form of financial investments. This does not mean that the free cash flow calculated in this way is available to cover other disbursements, since dividend, debt-servicing obligations and other fixed disbursements are not deducted. Free cash flow should not be seen as a replacement or superior performance indicator, but rather as an additional useful item of information over and above the disclosure of the cash flow reported in the Consolidated Statement of Cash Flows, and as a supplementary disclosure to other liquidity performance indicators and other performance indicators derived from the IFRS figures. Free cash flow only includes amounts from continuing operations, and is derived as follows from the Consolidated Statement of Cash Flows:

€ in millions	2017	2016
Net cash provided by operating activities from continuing operations	1,728	1,313
Net cash used in investing activities from continuing operations	(1,131)	(1,098)
Purchases of (proceeds from sales of) financial investments, net	(3)	275
Free cash flow	594	490

Net cash provided by operating activities exceeds investments

Free cash flow in the 2017 fiscal year amounted to €594 million. Net cash provided by operating activities from continuing operations amounting to €1,728 million easily exceeded total cash outflows of €1,134 million used for investments in property, plant and equipment, intangible and other assets as well as for the acquisition of the MoTo shares.

Free cash flow in the previous fiscal year amounted to €490 million. In that year, net cash provided by operating activities from continuing operations amounting to €1,313 million exceeded investments in property, plant and equipment, intangible and other assets totaling €826 million.

Gross cash position and net cash position

The following table reconciles the gross cash position and the net cash position (i.e. after deduction of debt). Since some liquid funds are held in the form of financial investments, which, for IFRS purposes, are not considered to be “cash and cash equivalents”, Infineon reports on its gross and net cash positions in order to provide investors with a better understanding of its overall liquidity. The gross and net cash positions are determined as follows from the Consolidated Statement of Financial Position:

€ in millions	30 September 2017	30 September 2016
Cash and cash equivalents	860	625
Financial investments	1,592	1,615
Gross cash position	2,452	2,240
Less:		
Short-term debt and current maturities of long-term debt	323	17
Long-term debt	1,511	1,752
Total debt	1,834	1,769
Net cash position	618	471

Free cash flow totaling €594 million easily exceeded the dividend payment of €248 million and the repayment of debt amounting to €119 million. The gross cash position as of 30 September 2017 increased accordingly by €212 million.



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Taking into account the financial resources available to Infineon – including internal liquidity on hand, net cash that can be generated in future and available credit facilities (€72 million; 2016: €720 million; see note 12 to the Consolidated Financial Statements for further information) – we assume that we will be able to cover our planned capital requirements for the 2018 fiscal year. This includes fixed contractual obligations, such as investments, leasing arrangements, fixed service and supply agreements for commodities, input materials, electricity, gas and other similar items (see note 18 to the Consolidated Financial Statements for further information). Planned investments are discussed in the chapter “Outlook”.

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P see page 78 ff.

Principles and structure of Infineon’s treasury

The Infineon treasury’s stated objective is to ensure financial flexibility based on a solid capital structure. It is of prime importance for all companies in the semiconductor industry to ensure that sufficient cash funds are available to finance operating activities and planned investments throughout all phases of the business cycle. Debt should only constitute a modest proportion of the financing mix, so that headroom is available at all times.

Group-wide treasury principles are in place regarding all issues relating to liquidity and financing, such as banking policies and strategies, execution of financing agreements, liquidity and investment management worldwide, currency and interest rate risk management and the handling of external and intragroup cash flows.

Treasury at Infineon is based on a centralized approach in which the Group Finance & Treasury department is responsible for all major tasks and processes worldwide relating to financing and treasury matters.

In the context of centralized liquidity management and where permitted by law and economically feasible, cash pooling structures are in place for liquidity management purposes in order to ensure the best possible allocation of liquidity within the Group and reduce external financing requirements. Liquidity accumulated at Group level is invested centrally by the Group Finance & Treasury department, based on a conservative approach to investments, in which preservation of capital is prioritized over return maximization. The Group Finance & Treasury department is also responsible for managing currency and interest rate risks. We employ the following derivative financial instruments for hedging purposes: forward foreign currency contracts to reduce exchange rate exposures (to the extent foreign currency cash flows are not offset within the Group) and commodity swaps to reduce price risks for expected purchases of gold. We do not use derivative financial instruments for trading or speculative purposes. Further information regarding derivative financial instruments and the management of financial risks is provided in notes 22 and 23 to the Consolidated Financial Statements.

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Furthermore, to the extent permitted by law, all financing activities and credit lines worldwide are arranged, structured and managed either directly or indirectly by the Group Finance & Treasury department in accordance with stipulated treasury principles.

Report on expected developments, together with associated material risks and opportunities

Outlook

Actual and target values for performance indicators

The following table and subsequent comments compare the actual and forecast values of Infineon's key performance indicators for the 2017 fiscal year and show the outlook for the 2018 fiscal year.

On 24 March 2017, Infineon raised its outlook for revenue, Segment Result Margin and investments. The outlook for revenue growth was increased at that stage from 6 percent, plus or minus 2 percentage points, to a range of between 8 and 11 percent. At the mid-point of the revenue range, the outlook for the Segment Result Margin was raised to about 17 percent (previously about 16 percent). As a result of the better-than-expected growth in revenue and orders received, the figure for planned investments in property, plant and equipment and intangible assets (including capitalized development costs) was raised from about €950 million to about €1,050 million. Both figures included approximately €35 million for a new office building at Infineon's headquarters in Neubiberg near Munich.

P see Annual Report 2016, page 79 – 83

The following comparison of actuals and outlook for the 2017 fiscal year relates only to the original outlook made in November 2016, as presented in the Annual Report 2016.

€ in millions, except percentages	Actuals FY 2016	Original Outlook FY 2017	Actuals FY 2017	Outlook FY 2018
Principal performance indicators				
Segment Result Margin	15.2%	About 16% (at the mid-point of the planned range for revenue growth)	17.1%	About 17% (at the mid-point of the planned range for revenue growth)
Free cash flow from continuing operations	490	Between €400 million and €500 million	594	Between €500 million and €600 million
RoCE	15.0%	Slight decrease compared to FY 2016	14.9%	Slight increase
Supplementary performance indicators				
Growth and profitability performance indicators				
Change in revenue compared to previous year	12%	Increase by 6% plus/minus 2 percentage points	9%	Increase by 9% plus/minus 2 percentage points
Gross margin	36.0%	Slight increase compared to FY 2016	37.1%	Slight increase
Research and development expenses	770 7%	Increase below revenue growth	776 1%	Increase slightly above revenue growth
Selling, general and administrative expenses	791 2%	Increase below revenue growth	819 4%	Increase below revenue growth
Liquidity performance indicators				
Gross cash position	2,240 €1 bn +19%	In the range of €1.7 billion – €2.4 billion and therefore within the target range of €1 billion + 10% to 20% of revenue	2,452 €1 bn +21%	In the range of €1.8 billion – €2.6 billion and therefore within the target range of €1 billion + 10% to 20% of revenue
Net cash position	471	Net cash position (gross cash position higher than debt)	618	Net cash position (gross cash position higher than debt)
Working capital	739	Between €750 million and €900 million	621	Between €650 million and €850 million
Investments	826	About €950 million	1,022	Between €1.1 billion and 1.2 billion



Comparison of original outlook and actual figures for the 2017 fiscal year

The original forecast envisaged a Segment Result Margin of 16 percent at the mid-point of the planned range for revenue growth. Revenue grew by 9 percent in the 2017 fiscal year with year. Consequently, the actual growth rate finished 1 percentage point above the originally stated range of 4 to 8 percent. The higher growth rate helped generate a Segment Result Margin of 17.1 percent. Free cash flow totaled €594 million in the 2017 fiscal year, therefore also above the expected range of between €400 million and €500 million. At 14.9 percent, as predicted, the Return on Capital Employed (RoCE) was slightly down on the previous year's figure of 15.0 percent.

The gross margin improved from 36.0 percent in the 2016 fiscal year to 37.1 percent in the 2017 fiscal year, in line with expectations. Operating expenses developed better than expected. In the outlook, the prediction was that research and development expenses as well as selling, general and administrative expenses would exhibit an increase below revenue growth. Selling, general and administrative expenses increased by 4 percent, which was 5 percentage points below the rate of revenue growth and in line with expectations. Research and development expenses increased by only 1 percent, well below the 9 percent revenue growth achieved and significantly better than originally forecast.

Explanatory comments to the outlook for the 2018 fiscal year

Assumed euro/US dollar exchange rate

As a globally operating organization, Infineon generates revenue not only in euros, but also in foreign currencies, predominantly US dollars. It also incurs expenses in US dollars and, to some extent, in currencies correlated to the US dollar, such as the Singapore dollar, the Malaysian ringgit and the Chinese renminbi. The impact of non-euro denominated revenue and expenses usually does not balance out. For this reason, fluctuations in exchange rates, particularly between the euro and the US dollar, influence the amounts reported for revenue and earnings. A rising US dollar has a positive impact, whereas a falling US dollar has an adverse impact on revenue and earnings. Excluding the effect of currency hedging instruments, the impact of a deviation of 1 cent in the actual exchange rate of the US dollar against the euro compared to the forecast rate would amount to a change in Segment Result of approximately €3 million per quarter or approximately €12 million per fiscal year compared to the forecast value. These figures assume, however, that the exchange rates of currencies correlated with the US dollar – in which expenses arise for Infineon – change in parallel to the euro/US dollar exchange rate. In terms of revenue, the impact of exchange rates is limited almost entirely to the euro/US dollar rate, where a deviation of 1 cent in the actual exchange rate compared to the forecast rate would have an impact on revenue of approximately €9 million per quarter or approximately €36 million per fiscal year. Planning for the 2018 fiscal year is based on an assumed average exchange rate of US\$1.15 against the euro.

Growth prospects for the global economy and the semiconductor market

The world economy grew by 2.5 percent in the 2016 calendar year. Based on the assessment of experts at the International Monetary Fund (IMF), growth is expected to reach 3.0 percent in the 2017 calendar year. In fall 2016, the growth rate for the 2017 calendar year was still predicted at 2.8 percent. Over the course of the 2017 calendar year, the global economy has therefore developed better than expected. According to the experts, the upswing is on a solid footing and is set to continue throughout the 2018 calendar year. The expected growth rate for the 2018 calendar year is 3.1 percent. Various geopolitical risks remain, however. An escalation of the North Korean conflict, for instance, could slow down the upswing.

The markets served by Infineon are also benefiting from the healthy state of the global economy. The global semiconductor market relevant for Infineon (i.e. excluding memory ICs and microprocessors) grew by 1.4 percent in the 2016 calendar year (source: IHS Markit, Technology Group) and is expected to grow by 7.3 percent year-on-year in the 2017 calendar year. Growth of 4.7 percent is forecast for the 2018 calendar year.

Market analysts forecast that the global semiconductor market as a whole (i.e. including memory ICs and microprocessors) will grow by 17.8 percent in the 2017 calendar year, reflecting the sharp rise in demand for memory ICs. Sales of memory ICs are expected to generate revenue growth of 51.0 percent in the 2017 calendar year. Assuming that growth in the area of memory ICs returns to normal, the total semiconductor market is expected to expand by 5.4 percent in the 2018 calendar year. All growth figures are based on market sizes measured in US dollars.



Revenue increase of 9 percent expected, plus or minus 2 percentage points, compared to the previous fiscal year

Based on our expectations for the global economy and for the semiconductor market segments relevant for Infineon as described above and an assumed average exchange rate of US\$1.15 against the euro, Infineon forecasts revenue growth of 9 percent, plus/minus 2 percentage points, for the 2018 fiscal year. The Automotive segment is expected to grow at a meaningfully faster rate than the Group average. The Industrial Power Control and Power Management & Multimarket segments are both expected to report growth rates below the Group average. Due to the difficult market situation, revenue in the Chip Card & Security segment is forecast to remain similar to the previous fiscal year. The average euro/US dollar exchange rate during the 2017 fiscal year was 1.11 and thus more favorable for Infineon's revenue and earnings performance than the exchange rate of 1.15 now assumed for the coming fiscal year.

Slight upward trend in gross margin expected

At the mid-point of the planned range for revenue growth, the gross margin for the 2018 fiscal year is expected to rise slightly. The gross margin will continue to be negatively influenced by acquisition-related expenses.

Operating expenses predicted to increase

Infineon expects operating expenses to increase in absolute terms as a result of revenue growth. Research and development expenses are likely to rise at a slightly more pronounced rate than revenue. Selling, general and administrative expenses are expected to increase at a lower rate than revenue. Acquisition-related expenses included in operating expenses are predicted to be slightly below the previous fiscal year's level.

Segment Result Margin of approximately 17 percent expected

Based on the forecast changes in revenue and expenses described above, in the 2018 fiscal year the Segment Result Margin is expected to amount to 17 percent at the mid-point of the planned range for revenue growth.

Non-segment result

Infineon expects the non-segment result for the 2018 fiscal year to be a negative amount in the region of €150 million (2017 fiscal year: negative €225 million) mainly due to acquisition related expenses. Approximately €100 million of the forecast amount relates to non-cash-relevant depreciation and amortization arising in conjunction with the International Rectifier acquisition.

Financial result

The financial result (financial income less financial expense) for the 2017 fiscal year was a net expense of €53 million. A financial result at a similar level is expected for the 2018 fiscal year.

Income taxes

The effective current tax rate for the Infineon Group in the 2018 fiscal year is forecast at approximately 15 percent. This tax rate is influenced in particular by tax losses available for carry-forward in Germany.

In Germany, Infineon's current tax expense is based on the applicable "minimum taxation" rules, under which only 40 percent of taxable profits arising in Germany are subject to current tax due to the utilization of tax loss carry-forwards. This results in a current tax rate of approximately 12 percent in Germany. As of 30 September 2017, tax loss carry-forwards for German corporation tax and municipal trade tax purposes amounted to €1.8 billion and €2.9 billion respectively.

Working capital

Working capital is forecast to finish the 2018 fiscal year at between €650 million and €850 million.

Investments and depreciation/amortization

Investments (defined by Infineon as the sum of purchases of property, plant and equipment, purchases of intangible assets and capitalized development costs) are expected to rise to between €1.1 billion and €1.2 billion in the 2018 fiscal year. In the 2017 fiscal year this figure amounted to €1,022 million, comprising investments in property, plant and equipment (€874 million) and in capitalized development costs and other intangible assets (€148 million). Investments in capitalized development costs and other intangible assets in the 2018 fiscal year are planned at a similar level to one year earlier.



The ratio of investments to revenue at the mid-point of the planned range of revenue growth for the 2018 fiscal year should be about 15 percent and hence above the target level of 13 percent of revenue. This development reflects high investments in additional manufacturing capacities in light of rising demand, especially for electro-mobility products. Planned investments in manufacturing facilities during the 2018 fiscal year will focus on expanding frontend capacities, including further expansion of Infineon's 200-millimeter as well as its 300-millimeter manufacturing capacities. A significant amount is also earmarked to upgrade backend facilities and capacities. A smaller part of the investments will be used to ensure that existing frontend manufacturing facilities remain state-of-the-art in terms of automation, quality, innovation and infrastructure.

Depreciation and amortization are expected to be in the region of €880 million.

Free cash flow from continuing operations

Free cash flow in the 2018 fiscal year is forecast to come in at between €500 million and €600 million.

Gross cash position

The gross cash position is expected to finish the 2018 fiscal year at a level between €1.8 billion and €2.6 billion. Hence, Infineon again expects to meet its capital structure targets in the 2018 fiscal year. See "Capital structure targets demonstrate our reliability" in the chapter "Group strategy" for more information on capital structure targets.

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RoCE

The Return on Capital Employed (RoCE) is expected to increase slightly in the 2018 fiscal year, with slight increases forecast for both net income and capital employed.

Overall statement on the expected development of the Infineon Group

Based on forecasts for the global economy and the semiconductor market in the 2018 calendar year, Infineon expects revenue growth of 9 percent year-on-year, plus or minus 2 percentage points. On this basis, the gross margin should increase slightly. At the mid-point of the planned range of revenue growth, the Segment Result Margin is expected to come in at about 17 percent. Investments will rise to between €1.1 billion and €1.2 billion. Depreciation and amortization are expected to be in the region of €880 million. Free cash flow from continuing operations is expected to reach an amount of between €500 million and €600 million. The Return on Capital Employed (RoCE) is predicted to increase slightly.

Risk and opportunity report

Risk policy: Underlying principles of our risk and opportunity management

Effective risk and opportunity management is central to all of our business activities and plays an important role in implementing the strategic targets described in the chapter "Group strategy" – namely achieving sustainable, profitable growth and preserving our financial resources through efficient employment of capital. Infineon's risk and opportunity profile is characterized by periods of rapid growth, followed by periods of significant market decline, a substantial need for capital investment in order to achieve and sustain our market position and an extraordinarily rapid pace of technological change. Gaining a leading edge through technological innovation also has a legal dimension. Against this background, Infineon's risk policy is aimed firstly at taking advantage of identified opportunities as quickly as possible in a way most appropriate to increasing the value of the business, and secondly at pro-actively mitigating risks – particularly those capable of posing a threat to Infineon's going-concern status – by adopting appropriate countermeasures. Risk management at Infineon is therefore closely linked to forecasting and the implementation of our business strategies. Ultimate responsibility for risk management lies with the Infineon Management Board.

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Coordinated risk management and control system elements are in place that enable us to pursue our stated risk policy in practice. Alongside the "Risk and Opportunity Management System" and the "Internal Control System with respect to Financial Reporting Processes" described below, it also includes the related forecasting, management and internal reporting processes as well as the Compliance Management System.

Risk and Opportunity Management System

Infinion’s centralized risk management system is based on a Group-wide, management-oriented Enterprise Risk Management (ERM) approach, which aims to cover all relevant risks and opportunities. The approach is based on the “Enterprise Risk Management – Integrated Framework” developed by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The objective of the system is the early identification, assessment and management of risks that could have a significant influence on Infineon’s ability to achieve its strategic, operational, financial and compliance-related targets. We therefore define risk/opportunity as the occurrence of future uncertainties that could result in a negative or positive variance from forecast. We incorporate all relevant organizational units within the Group in this analysis, thus covering all segments, significant centralized functions and regions.

Responsibility for processes and systems relating to Risk and Opportunity Management rests with the Risk Management and Internal Control System (ICS) function within the corporate finance department and with designated Risk Officers working at segment, corporate function and regional levels. Responsibility for the identification, measurement, management and reporting of risks and opportunities lies with the management of the organizational unit concerned.

In organizational terms, the Risk and Opportunity Management System is structured in a closed-loop, multiple-stage process, which stipulates the manner and criteria to be applied to identify, measure, manage and report on risks and opportunities and defines how the system is to be monitored as a whole. Major components of the system are a quarterly analysis of risks and opportunities, reporting by all consolidated entities, an analysis of the overall situation at segment, regional and Group level, reporting to the Management Board on the risks and opportunities situation as well as major management measures undertaken. The Management Board, in turn, reports regularly to the Supervisory Board’s Investment, Finance and Audit Committee. Where necessary, standard processes are supplemented by the ad-hoc reporting of any major risks identified between regular reporting dates.

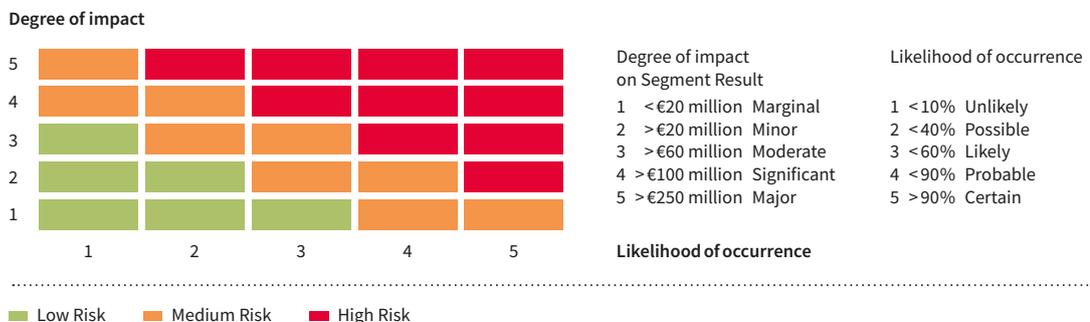
Risks and opportunities are measured on a net basis, i.e. after factoring in any risk mitigation or hedging measures, but without offsetting any provisions recognized. The time periods and the measurement categories used are closely linked to our short- and medium-term business planning and Group targets.

All relevant risks and opportunities are assessed uniformly across the Group in quantitative and/or qualitative terms, based on the dimensions **degree of impact** on operations, liquidity, earnings, cash flows and reputation on the one hand and **likelihood of occurrence** on the other.

The scales used to measure these two factors (degree of impact and likelihood of occurrence) and the resulting risk assessment matrix are depicted in the following graph.

see graph 32

32
 Risk assessment matrix





Based on the potential degree of impact on operations, liquidity, earnings, cash flows and reputation as well as the estimated probability of occurrence, a risk is classified as “high”, “medium” or “low”.

All reported risks and opportunities in their entirety are reviewed for the Infineon Group for possible correlation and overlap factors and are analyzed using an Infineon-specific categorization model. Regular risks and opportunities analysis and new developments in risk management culture are supplemented by interdisciplinary workshops held at segment, corporate and regional levels. Important information relevant for Infineon’s Risk and Opportunity Management System is available to all employees via our intranet system, including access to ERM tools and ERM guidelines, containing job descriptions for all functions involved in the process as well as all information necessary for reporting purposes.

Risk and Opportunity Managers are designated at appropriate hierarchical levels to manage and monitor identified risks and opportunities, and are responsible for formally determining a set of appropriate strategies (avoidance, mitigation, transfer to other parties, acceptance). Working closely with corporate functions and individual managers, the Risk and Opportunity Manager is also responsible for defining and monitoring measures aimed at implementing the adopted management strategy. For our system to be successful, it is essential that risks and opportunities are managed and monitored pro-actively and with a great deal of commitment.

Compliance with the ERM approach is monitored by the corporate Risk Management and ICS departments using procedures incorporated in business processes. Group Internal Audit also tests compliance with legal requirements and Infineon guidelines and, where appropriate, rules relating to Risk and Opportunity Management and initiates corrective measures.

The Supervisory Board’s Investment, Finance and Audit Committee oversees the effectiveness of the Risk Management System. As part of the statutory audit, the external Group auditor also examines our early warning system pursuant to section 91, paragraph 2, of the German Stock Corporation Act to ascertain its suitability to detect risks that could pose a threat to Infineon’s going-concern status and reports annually thereon to the Chief Financial Officer (CFO) and the Investment, Finance and Audit Committee of the Supervisory Board.

Internal Control System with respect to the financial reporting process

The principal focus of the Internal Control System (ICS) is on the financial reporting process, with the aim of monitoring the proper maintenance and effectiveness of accounting systems and financial reporting. The primary objective of the ICS is to minimize the risk of misstatement in Infineon’s internal and external reporting and to ensure with a reasonable amount of certainty that the Consolidated Financial Statements comply with all relevant regulations. Appropriate controls must therefore be in place throughout the organization to ensure such compliance. Clear lines of responsibility are assigned to each of the processes.

The ICS is an integral part of the accounting process in all relevant legal entities and corporate functions. The system monitors compliance with stated principles and stipulated procedures based on preventive and detective controls. Among other things, we regularly check that:

- › Group-wide financial reporting, measurement and accounting guidelines are continually updated and adhered to;
- › Intragroup transactions are fully accounted for and properly eliminated;
- › Issues relevant for financial reporting and disclosures in connection with agreements entered into are recognized and appropriately presented;
- › Processes and controls are in place to explicitly guarantee the completeness and correctness of the year-end financial statements and financial reporting;
- › Processes are in place for the segregation of duties and for the dual control principle in the context of preparing financial statements, as well as for authorization and access rules for relevant IT accounting systems.



Assessment of effectiveness

We systematically assess the effectiveness of the ICS with regard to the corporate accounting process. An annual risk analysis is initially performed and the defined controls are revised, as and when required. The assessment involves identifying and updating significant risks relating to accounting and financial reporting in the relevant legal entities and corporate functions. The controls defined for identifying risks are documented in accordance with Group-wide guidelines. Regular random tests are performed to assess the effectiveness of the controls. These tests constitute the basis for an assessment of the appropriate extent and effectiveness of the controls. The results are documented and reported in a global IT system. Any deficiencies identified are remedied with due consideration given to their potential impact.

Furthermore, in a Representation Letter, all legal entities, segments and relevant corporate functions confirm that all business transactions, all assets and liabilities and all income and expense items have been recognized in the financial statements.

At the end of the annual cycle, the material legal entities review and confirm the effectiveness of the ICS with regard to the accounting and financial reporting process. The Management Board and the Investment, Finance and Audit Committee of the Supervisory Board are regularly informed about any significant control deficiencies and the effectiveness of the internal controls.

The Risk Management and Internal Control System are continuously reviewed to ensure compliance with internal and external requirements. Regular improvements made to the system contribute to the continuous monitoring of the relevant risk areas within the responsible organizational units.

Significant risks

In the following section, we describe risks that could have a significant or materially adverse impact on Infineon's operations, liquidity, earnings, cash flows and reputation and which have therefore been allocated to the risk classes "high" or "medium". Depending on the potential degree of impact and the estimated likelihood of occurrence, the risk class is shown in parentheses for each risk (e.g. "RC: high").

Strategic risks

Unsettled political and economic climate (RC: high)

As a globally operating company, our business is highly dependent on global economic developments. A worldwide economic downturn – particularly in the markets we serve – may result in us not achieving our forecasted revenue. Risks can also arise due to political and social changes, particularly in countries in which we manufacture and/or sell our products.

In this context, we are particularly monitoring the European debt crisis. As a consequence of the ongoing high levels of public sector debt, measures are increasingly being taken to consolidate budgetary shortfalls and cut investment expenditure. Uncertainty among consumers and companies is growing and unemployment remains high in many EU countries. Risks also arise in conjunction with current geopolitical risks, such as the conflict between the USA and North Korea as well as unrest and civil wars in the Middle East.

We have once again achieved above-average revenue growth in China, as a result of which the share of Group revenue generated in this region rose again slightly from 24 percent in the 2016 fiscal year to 25 percent in the 2017 fiscal year. Our dependence on the Chinese market therefore remains and constitutes a slightly higher risk than one year earlier. This risk includes the possibility of lower demand for exports to China and hence a decline in manufacturing capacity utilization levels. There is also a risk that an increased volume of previously imported semiconductors will be manufactured in China and that a greater volume of semiconductors manufactured in China will be exported. Regardless of our assessment of potential scenarios and outcomes within this complex set of risks, these developments could have an adverse impact on Infineon's operations, financial condition, liquidity, cash flows and earnings.

Cyclical market and sector development (RC: high)

The worldwide semiconductor market is dependent on global economic growth and hence subject to fluctuations. Our target markets continue to be exposed to the risk of short-term market fluctuations. As a result, our own forecasts of future business developments are subject to a high degree of uncertainty. It is possible, for instance, that future market downturns will follow another pattern, for example, an L shape. The absence of market growth or its decline would make it considerably more difficult to attain our own growth target. In the event that we are unprepared for market fluctuations, or our response to such fluctuations turns out to be inappropriate, this could have a sustained materially adverse impact on Infineon's operations, financial condition, liquidity and earnings.

Increased market competition and commoditization of products (RC: high)

The rapid pace of technological change in the market also results in a greater replaceability of our products. Due to the resulting aggressive pricing policies, we may be unable to achieve our long-term strategic goals of gaining and/or maintaining market share and of product pricing. Moreover, accelerating M&A (Merger and Acquisition) activity within the semiconductor industry could result in even tougher competition. Potential benefits for competitors in this market include improved cost structures and stronger sales channels. Overall, this situation could have an adverse impact on Infineon's earnings.

Operational risks

Data and IT systems security (RC: high)

The reliability and security of Infineon's information technology systems are of crucial importance. At the same time, the world has seen a general rise in the level of threats to data security. This applies to the deployment of IT systems to support business processes on the one hand and internal and external communications on the other. Despite the array of precautionary measures put in place, any major disruption to these systems could result in risks relating to the confidentiality, availability and reliability of data and systems used in development, manufacturing, selling or administration functions, which, in turn, could have an adverse impact on our reputation, competitiveness and operations.

Potential virus attacks, in particular on IT systems used in manufacturing processes, present additional risks that could result in loss of manufacturing or supply bottlenecks.

Increasingly dynamic markets (RC: high)

The accelerating pace of events in the markets in which we operate, increased demands for flexibility by our customers and short-term changes in order volumes could result in rising costs due to the under-utilization of manufacturing capacities, higher inventory levels and unfulfilled commitments to suppliers.

Thus, despite the fact that manufacturing processes and sites have become even more flexible, fluctuations in capacity utilization levels and purchase commitments, coupled with idle costs at manufacturing sites, nevertheless pose risks related to our cost position. These risks could possibly jeopardize our ability to attain growth and profitability targets that are based on cycle averages.

The situation is exacerbated by the fact that our products are highly dependent on the degree of success achieved by individual customers in their own markets. Furthermore, there is a risk of losing future business and design wins if we are unable to deliver volumes over and above our contractual obligations if called upon by the customer to do so. In the case of unexpectedly high demand, we therefore face the challenge of having to deliver increased volumes that require an appropriate level of upfront investment. This could have an adverse impact on our planned investment ratio and, ultimately, on earnings.

Dependence on the success of specific customers may also grow if they account for an above-average share of Infineon's revenue and earnings. This situation could be driven by an exceptionally strong performance by the relevant customer, resulting, for instance, from exceptional demand for its products or from consolidation trends, in particular those affecting our first- and second-tier customers.



Product quality trends (RC: medium)

Product quality assurance is a key success factor for the business. Potential quality risks – for example, due to the high utilization levels – can affect yield fluctuations and hence our ability to supply customers. Shortfalls in product quality can lead to product recalls and potential costs related to liability claims. In addition, quality risks could also damage Infineon's reputation and thus have a significant adverse impact on future earnings.

Product development delays (RC: medium)

The ever-increasing complexity of technologies and products, shorter development cycles and higher customer expectations can cause a great deal of tension in the field of product development. Buffer times built into processes to compensate for potential delays are reduced accordingly. In the event of being unable to execute our development plans at the desired quality levels, the outcome could be development delays and increased development costs, which could have an adverse impact on our financial condition, liquidity, cash flows and earnings.

Manufacturing cost trends – raw material prices, cost of materials and process costs (RC: medium)

Our medium- and long-term forecasts are based on expected manufacturing cost trends. In this context, measures aimed at optimizing manufacturing costs for raw materials and supplies, energy, labor and automation, as well as for bought-in services from external business partners, may not be feasible to the extent envisaged.

Moreover, our dependence on various materials (such as wafer substrates) and raw materials (such as gold and copper) used in manufacturing, as well as our energy requirements expose us to substantial price risks. We are also dependent on supplies of the so-called rare earths required for selected manufacturing processes in conjunction with process integration. At the time of writing, financial instruments are in place to hedge our price risk exposure for gold wire during the 2018 fiscal year, based on planned volume requirements. The prices of raw materials and energy have recently been subject to significant fluctuation, and there is no reason to assume the situation will change in the near future. If we are unable to offset cost rises or pass them on to customers via price adjustments, it could have an adverse impact on earnings.

Determining and adjusting manufacturing volumes (RC: medium)

Frontend and backend manufacturing need to be optimally synchronized to enable Infineon to develop competitive and high-quality products designed to provide customized technological solutions. In view of the rapid pace of technological change and increasingly stringent customer requirements, coordination processes need to become increasingly sophisticated. Failure to continue making progress in this area could result in quality problems, product development or market maturity delays as well as higher R&D expenses and hence adversely impact our earnings performance.

One risk that semiconductor companies operating in-house manufacturing facilities typically face is that of delays in the ramping-up of production volumes at new manufacturing sites, or in case of transfers of technologies. One good example is in the Automotive segment, where customers' product approval and testing processes can take place over an extended period of time, thus influencing our global manufacturing strategy as well as short- and medium-term capacity utilization. Failure to anticipate these changes in the manufacturing process in good time could result in capacity shortages and hence lower revenue on the one hand as well as costs incurred due to under-utilization on the other.

Dependence on individual manufacturing sites (RC: medium)

Our South East Asian manufacturing sites are of critical importance for our production. If, for example, political upheavals or natural disasters in the region were to impede our ability to manufacture at these sites on the planned scale or to export products manufactured at those sites, it would have an adverse impact on our financial condition, liquidity and earnings. Our current manufacturing capacities in this region are, to a large extent, not insured against political risks such as expropriation of assets. The transfer of manufacturing capacities from these sites would, therefore, not only involve a great deal of time and technical effort, Infineon would also be required to bear the necessary cost of investment.



Dependence on individual suppliers (RC: medium)

We cooperate with numerous suppliers who provide us with materials and services, or who manage parts of our supply chain. We do not always have alternative sources for some of these suppliers and therefore depend on their ability to deliver products of the required quality. Failure of one or more of these suppliers to meet their obligations to Infineon could have an adverse impact on our earnings performance.

Need for qualified staff (RC: medium)

One of our key success factors is the availability of sufficient qualified employees at all times. There is, however, a general risk of losing qualified staff or not being able to recruit, train and retain adequately qualified staff within the business. A lack of technical or management staff could, among other things, restrict future growth and hence adversely impact our earnings performance.

Financial risks

Currency risks (RC: medium)

Our involvement and participation in various regional markets around the world creates cash flows in a number of currencies other than the euro – primarily in US dollars. A significant share of revenue on the one hand and of operating costs and investments on the other is denominated in US dollars and correlated currencies. For the most part, Infineon generates a US dollar surplus from these transactions.

Specified currencies are hedged Group-wide by means of derivative financial instruments. These hedges are based on forecasts of future cash flows, the occurrence of which is uncertain. Under these circumstances, exchange rate fluctuations could – despite hedging measures – also have an adverse impact on earnings.

Risk of default by banking partners (RC: medium)

The relatively high level of our holdings of liquid funds (gross cash position) exposes us to the potential risk of a default by one or more of the banking partners with whom we do business. We mitigate this risk – which could still arise despite various state-insured deposit protection mechanisms – by a combination of risk avoidance analyses and risk-diversification measures. The failure of these measures could have a materially adverse impact on Infineon's financial condition and liquidity situation.

P see page 162 ff.

Further information regarding the management of financial risks is provided in note 23 to the Consolidated Financial Statements.

Legal and compliance risks

Qimonda insolvency (RC: medium)

P see page 154 f.

Due to the insolvency proceedings relating to Qimonda and claims brought against Infineon, we are exposed – even after the partial settlements reached – to substantial risks, which are described in detail in note 19 to the Consolidated Financial Statements.

Provisions are recognized in connection with these matters as of 30 September 2017. The provisions reflect the amount of those liabilities that management believes are probable and can be estimated with reasonable accuracy at that time. There can be no assurance that these provisions will be sufficient to cover all liabilities that may be incurred in conjunction with the insolvency proceedings relating to Qimonda.

Intellectual property rights and patents (RC: medium)

As with many other companies in the semiconductor industry, allegations are made against us from time to time that we have infringed other parties' protected rights. Regardless of the prospects of success of such claims, substantial legal defense costs can arise.

Whilst we often benefit from cross-licensing arrangements with major competitors and are keen to broaden the protection offered in this area by entering into new agreements, no such opportunities exist to safeguard against risks of this nature in the case of companies specializing in the exploitation of patent rights.



We cannot rule out that patent infringement claims will be upheld in a court of law, thus resulting in significant claims for damages or restrictions in selling the products concerned. Any such outcome could in turn have an adverse impact on our earnings performance.

P see page 154 ff.

Further information in regards to litigation and government inquiries are provided in note 19 to the Consolidated Financial Statements.

Impact of our global operations (RC: medium)

Our global business strategy requires the maintenance of R&D locations and manufacturing sites throughout the world. The location of such facilities is determined by market entry hurdles, technology and cost factors. Risks could, therefore, arise from adverse economic and geopolitical developments in our regional markets, changes in legislation, and policies affecting trade and investment aimed at limiting free trade and varying practices of the regulatory, tax, judicial and administrative bodies in the jurisdictions where we operate. These risks could restrict our business activities in those countries. We could also be exposed to fines, sanctions and damage to reputation.

Asian markets are particularly important to our long-term growth strategy. Our operations in China are influenced by a legal system that may be subject to change. One example is the fact that local regulations could make it mandatory to enter into partnerships with local companies. These circumstances could lead on the one hand to Infineon's intellectual property no longer being sufficiently protected and on the other to intellectual property developed by Infineon in China not being freely transferable to other countries and locations, thus impairing revenue and profitability.

Acquisitions and cooperation arrangements (RC: medium)

In order to develop or expand our business, we may seek to acquire other businesses or enter into various forms of cooperation arrangements. In the case of acquisitions, there is a risk that these activities prove to be unsuccessful, particularly regarding the integration of people and products in existing business structures. These issues could adversely impact our financial condition and earnings performance.

In the case of smaller acquisitions or portfolio decisions, there is always a risk of non-compliance with anti-trust regulations due to lack of knowledge or failure to make the people involved in such transactions adequately aware of the issues. This can result in high levels of cost (e.g. significant time spent by management, assignment of attorneys) and fines. Infineon's reputation may also suffer under these circumstances.

Tax, fair trade and capital market regulations can all entail additional risks. In order to mitigate these risks, we rely upon the advice of both in-house and external experts and provide suitable training to our employees.

Measures to implement our risk management strategy

At a strategic risk level, we endeavor to mitigate the typical risks that arise in the semiconductor sector from economic and demand fluctuations and the risks related to Infineon's operations, financial condition, liquidity and earnings by closely monitoring changes in early warning indicators as well as by developing specific response strategies appropriate to the current position within the economic cycle. This can be done, for instance, by rigorously adjusting capacities and inventory levels at an early stage, initiating cost-saving measures and making flexible use of external manufacturing capacities, both at frontend and backend facilities.

At an operational level, we have adopted various quality management strategies aimed at avoiding quality risks (such as "Zero Defects" and "Six Sigma"), to prevent or solve problems and to improve our business processes. Our company-wide quality management system has been certified on a worldwide basis in accordance with ISO 9001 and ISO/TS 16949 for a number of years and also encompasses supplier development. Our processes and initiatives to ensure continuous quality improvement in corporate procedures are aimed at identifying and eliminating the reasons for quality-related problems at an early stage.



A structured project management system is in place to handle development projects, including customer-specific projects. Clear project milestones and verification procedures required to be carried out during a project as well as clearly defined limits of authority help us identify potential project risks at an early stage and counter these risks with specific measures.

We seek to minimize procurement-related risks through appropriate purchasing strategies and techniques, including constant product and cost analysis (“Best Cost Country Sourcing” and “Focus-on-Value”). These programs include cross-functional teams of experts who are responsible for the standardization of purchasing processes with respect to material and technical equipment.

In response to the general increase in threats to data security and the high degree of professionalism meanwhile applied in the area of cybercrime, we have initiated an information security program to further improve protection against hacking attacks and related risks to our IT systems, networks, products, solutions and services. Information security is achieved primarily with the aid of Infineon’s systematically applied and global Information Security Management System (ISMS), the prime objectives of which are to identify and measure all potential IT risks and to ensure that effective processes and tools are in place to minimize and avoid risk. The ISMS covers all areas of Infineon’s business and is certified to the globally recognized ISO/IEC 27001 norm. All relevant risk areas are continuously monitored and optimized in conjunction with regular internal and external audits.

We minimize legal risks relating to intellectual property rights and patents by pursuing a well-defined patent strategy, including thorough patent research and selective development and registration of Infineon patents as well as precautionary protective measures in the form of agreements with major competitors. We aim to increase the number and scope of such cross-licensing agreements with leading competitors in order to reduce patent-related risks. However, no such opportunities exist to safeguard against risks of this nature in the case of companies specializing in exploiting patent rights.

We have established a Group-wide compliance management system with the aim of managing compliance-related risks on a systematic, comprehensive and sustainable basis. Under this system, major preventive procedures are continuously developed, other elements of the system revamped or strengthened, and appropriate responses established for possible or actual incidences of non-compliance with internal or external regulations. The Compliance Officer reports on a quarterly basis to the Chief Financial Officer and bi-annually to the Investment, Finance and Audit Committee of the Supervisory Board.

In certain cases, insurance policies have been taken out to protect against potential claims and liability risks, with the aim of avoiding or at least minimizing any adverse impact on Infineon’s financial condition and liquidity.

Overall statement by Group Management on risk situation

The overall risk assessment is based on a consolidated view of all significant individual risks. We are not currently aware of any substantial risks capable of jeopardizing Infineon’s going-concern status.

Opportunities

The principal opportunities are described in the following section. The list is not exhaustive and represents only a cross-section of the opportunities available. Our assessment of these opportunities is subject to continuous change, reflecting the fact that our business, our markets and the technologies we deploy are continuously subject to new developments, bringing with them fresh opportunities, causing others to become less relevant or otherwise changing the significance of an opportunity from our perspective. Depending on the potential degree of impact and the estimated probability of occurrence, each of these opportunities is assigned to an “opportunity class” (OC) in the same way that risks are allocated to a risk class. These classifications are shown in parentheses (e.g. “OC: medium”).

New technologies and materials (OC: medium)

We are constantly striving to develop new technologies, products and solutions and to improve on existing ones, both separately and in collaboration with customers. We therefore continually invest in research and development relating to the use of new technologies and materials. Technologies and materials in current use may well lose their predominance in the foreseeable future, such as silicon, which is reaching its physical limits in some applications.

We see numerous opportunities for working with new materials, such as those associated with silicon carbide or gallium nitride, to develop more powerful and lower-cost products. These materials could well have a positive influence on our ability to attain our strategic growth and profitability targets.

Strategic approach “Product to System” (OC: medium)

With the “Product to System” strategic approach, we seek to identify additional benefits on a system level for our customers from within our broad portfolio of technologies and products. The strategy enables us to exploit available revenue potential even more effectively and thereby achieve our growth and margin targets. This approach also enables us to reduce customers’ development costs and shorten lead times required to bring their products to market.

Support for change in energy policies and consideration of climate change issues (OC: medium)

Population growth and increasing industrialization in all parts of the world are resulting in ever-greater global demand for energy. Electric power is becoming the most important energy carrier of the 21st century. Renewables are already playing a key role in reducing carbon emissions. The long-term objective is to achieve global decarbonization by the end of the century, as resolved at the Climate Change Conference held in Paris (France) in December 2015.

Infineon’s semiconductors enable electric power to be generated from renewable energy sources. They also boost energy efficiency and offer efficiency gains at all stages of the energy industry’s value-added chain, whether in generation, transmission, or above all in the use of electrical power. They form the basis for the intelligent and efficient use of electrical power, for instance in industrial applications, power supplies for computers, consumer electronics and vehicles.

Ability to supply due to available capacities (OC: medium)

Our in-house manufacturing capacities, together with those of our external partners, provide us with sufficient flexibility to meet demand requirements. Growing demand for power semiconductors has been met in particular by the expansion of our 300-millimeter manufacturing facilities in Dresden (Germany) and the second manufacturing facility at Kulim 2 (Malaysia). Manufacturing capacity at our plant in Regensburg (Germany) has been expanded in response to greater demand for 77 GHz radar sensor ICs. Capacity has also been expanded in Warstein (Germany) as a result of increased demand for IGBT modules for hybrid and all-electric cars.

The availability of additional capacities, combined with the pro-active strategic and operational planning of internal and external resources, enable us to meet rising demand from both existing and new customers in the event of a market upturn. We benefited from this trend during the previous fiscal year.

Market access and activities in China (OC: medium)

Infineon generates more revenue in China than in any other country. Accordingly, developments and growth opportunities in China are of the utmost importance to the Group and relate to the following markets that we serve:

Vehicle production in China is still expanding, albeit at a slower pace. At the same time, rapid growth in the production of plug-in hybrid and all-electric vehicles has turned China into the world’s largest market for electro-mobility.

China is the world’s biggest market for trains and home to CRRC, the world’s largest train manufacturer by far, which is an Infineon customer. The continued expansion of the domestic rail network and a growing volume of international infrastructure projects both represent growing business opportunities for Infineon.



At the G20 summit held in Hangzhou (China) in September 2016, China ratified the Paris climate agreement, thereby giving its formal commitment to reducing carbon emissions. As a consequence, the importance of expanding renewable energy sources in China has increased enormously. Our presence in this market, alongside our collaboration with leading companies in the wind and solar power sectors, will create further opportunities for long-term growth.

Our success in positioning Infineon in China as an integral part of Chinese industry (and hence Chinese society) could well open up a multitude of new opportunities that is highly likely to have a positive impact on the growth and profitability of our business.

Further growth in semiconductor content in vehicles (OC: medium)

We expect semiconductor content per vehicle to continue growing. The primary driving force behind this trend is the rising demand for active safety features and driver assistance systems.

We are also convinced that current global carbon emissions targets cannot be achieved without further electrification. The need for increased efforts in this field is relevant not only for electro-mobility (i.e. hybrid, plug-in hybrid and all-electric vehicles), but also for power units in vehicles with combustion engines. IT security within the vehicle is also further gaining in importance. Thanks to our expertise in the field of security controllers, we are extremely well positioned to exploit opportunities in this area.

Growth from mobile applications (OC: medium)

The continued trend towards mobility is also reflected in the unbroken high demand for smartphones and tablets. We benefit from this development in two ways. Firstly, through the components we supply for mobile devices (silicon-MEMS microphones, TVS diodes, GPS signal amplifiers, CMOS-RF switches), and secondly, through power semiconductors, which form the key components for energy-efficient chargers (high-voltage and low-voltage power transistors, driver ICs and control ICs).

Security applications (OC: medium)

The trend towards electronic identity documents is having a positive impact on Chip Card & Security segment revenue. Paper-based documents are increasingly being replaced by chip-based versions, due to the higher level of security they offer. New markets are also emerging in conjunction with the Internet of Things and the Industrial Internet (“Industry 4.0”). The authentication of devices is playing an increasingly important role in both of these fields, for which Infineon offers the corresponding security chips.

Liquidity position (OC: medium)

Our current liquidity position, which we describe in the chapter “Review of liquidity”, enables us to obtain favorable refinancing conditions. This fact gives Infineon both the financial headroom and the entrepreneurial flexibility it needs to implement its business strategies and initiatives.

 see page 75 ff.



Overall statement of the Management Board with respect to Infineon's financial condition as of the date of this report

Infineon made very good progress in the 2017 fiscal year. Revenue grew by 9 percent from €6,473 million to €7,063 million year-on-year. Segment Result improved by 23 percent from €982 million to €1,208 million, giving a margin of 17.1 percent. We already achieved our average margin target of 17 percent over the cycle, which had been raised at the beginning of the 2017 fiscal year, in the year of its announcement. Adjusted earnings per share (diluted) increased to 85 cents. Despite investments, free cash flow from continuing operations improved from €490 million to €594 million year-on-year. The international rating agency S&P Global Ratings (S&P) continues to rate Infineon's creditworthiness with an investment grade rating of "BBB" (outlook "stable"). Infineon therefore currently holds the highest S&P rating of any European semiconductor manufacturer. We want our shareholders to participate appropriately in the excellent progress that Infineon is making. Therefore, at the Annual General Meeting to be held on 22 February 2018, it will be proposed to raise the dividend by 3 cents (14 percent) to €0.25 per share.

During the past fiscal year, we not only increased revenue and earnings, but also made significant progress in a number of strategic innovation projects, particularly the ramp-up of our 300-millimeter thin-wafer manufacturing facility in Dresden (Germany) and the market launch of silicon carbide – the base technology for power transistors with superior properties – enabling Infineon to generate its first revenue with silicon carbide MOSFETs.

In recent years, we have created a solid foundation for our business and focused our attention on technologies, products and applications, which are in greater demand than ever due to global megatrends. Over a period of many years we have built up, systematically expanded and successfully deployed the competencies needed – to the benefit of our customers. Based on our strategic "Product to System" approach, we focus our efforts along the entire value-added chain on the success of our customers. This approach is complemented by other elements; a comprehensive culture of innovation, the continual pursuit of technological leadership, strong quality awareness, product differentiation enabled by in-house production, and an approach customized to the various markets. In this way we ensure our continued success, both now and in the future.

It is our intention to continue growing faster than the market as we move forward. We remain committed to our target of a compound annual revenue growth rate of 8 percent over the cycle. With an increase of 12 percent in the 2016 fiscal year, followed by 9 percent in the fiscal year under report, we have surpassed this mark for two years in succession. However, the semiconductor market remains cyclical. Sooner or later, macroeconomic conditions will change and demand in the automotive and industrial sectors – which has been extremely high of late – will revert to normal levels. For the 2018 fiscal year, we expect year-on-year revenue growth of 9 percent, plus or minus 2 percentage points, based on an assumed depreciation of the US dollar/euro exchange rate to US\$1.15. At the mid-point of the range for forecast revenue, we expect to achieve a Segment Result Margin of approximately 17 percent for the 2018 fiscal year. Planned investments for the 2018 fiscal year are expected to be between €1.1 billion and €1.2 billion.

Infineon Technologies AG

In addition to reporting on the Infineon Group, in the following section we also provide information on the performance of Infineon Technologies AG.

Infineon Technologies AG is the parent company of the Infineon Group and performs the Group's management and corporate functions. It takes on major Group-wide responsibilities such as Finance and Accounting, Corporate Compliance, Human Resources, strategic and product-oriented R&D activities, and also Corporate and Marketing Communication worldwide. Furthermore, it manages supply chain processes throughout the Group. Infineon Technologies AG has its own manufacturing facilities, located in Regensburg and Warstein (both in Germany).

Unlike the Consolidated Financial Statements, which are prepared in accordance with International Financial Reporting Standards ("IFRS"), Infineon Technologies AG's Separate Financial Statements are prepared in accordance with the provisions of the German Commercial Code ("HGB"). The complete Separate Financial Statements are published separately.

Earnings position

Statement of income of Infineon Technologies AG in accordance with the German Commercial Code (condensed)

€ in millions	2017	2016 ¹
Revenue	5,789	5,378
Cost of goods sold	(4,228)	(3,839)
Gross profit	1,561	1,539
Research and development expenses	(907)	(787)
Selling expenses	(259)	(240)
General and administrative expenses	(172)	(161)
Other income (expense), net	7	36
Result from investments, net	478	37
Interest result	(74)	-
Other financial result	24	21
Income tax	(46)	(38)
Income after taxes/net income	612	407
Transfers to retained earnings according to section 58, paragraph 2, AktG	(306)	(158)
Unappropriated profit at the end of year	306	249

¹ Information on the reclassifications in the 2016 fiscal year can be found in the individual financial statements of Infineon Technologies AG.

Infineon Technologies AG recorded 8 percent revenue growth in the 2017 fiscal year. Gross profit was almost unchanged year-on-year. Infineon Technologies AG reports net income of €612 million for the 2017 fiscal year. This figure includes a profit distribution of €337 million from Infineon Technologies Holding B.V., Rotterdam (the Netherlands) (2016: €0 million). After transferring a total of €306 million to retained earnings, the unappropriated profit amounted to €306 million.

Net assets and financial position

Statement of financial position of Infineon Technologies AG in accordance with the German Commercial Code (condensed)

€ in millions	30 September 2017	30 September 2016
Intangible assets, property, plant and equipment	708	637
Financial assets	6,300	6,185
Non-current assets	7,008	6,822
Inventories	617	613
Receivables and other assets	903	832
Cash and cash equivalents, marketable securities	2,216	1,954
Current assets	3,736	3,399
Prepaid expenses	44	40
Active difference resulting from offsetting	4	4
Total assets	10,792	10,265
Share capital	2,260	2,253
Capital reserves	1,226	1,207
Retained earnings	3,203	2,897
Unappropriated profit	306	249
Shareholders' equity	6,995	6,606
Special reserve with an equity portion	1	1
Provisions for pensions and similar obligations	140	93
Other provisions	350	316
Provisions	490	409
Bonds	804	804
Trade payables	316	284
Liabilities to affiliated companies	1,291	1,301
Other liabilities	885	848
Liabilities	3,296	3,237
Deferred income	10	12
Total liabilities and shareholders' equity	10,792	10,265

Within assets, increases were recorded for financial assets (€115 million) due to the capital increase at Infineon Technologies Vermögensverwaltungsgesellschaft mbH in connection with the acquisition of the shares of MoTo GmbH & Co. KG (see note 3 to the Consolidated Financial Statements) and for cash and cash equivalents and marketable securities (short-term investments) (€262 million). Cash and cash equivalents and marketable securities account for 59 percent of current assets.

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The increase in equity (€389 million) was mainly attributable to net income of €612 million recorded in the 2017 fiscal year. Payment of the dividend for the 2016 fiscal year (€248 million) reduced equity accordingly.

Provisions for pensions and similar obligations increased by €47 million as a result of the reduction in the average market interest rate for the past ten years used to measure obligations. Other provisions increased by a total of €34 million, mainly due to higher provisions for performance-related employee remuneration. Liabilities went up by €59 million in the 2017 fiscal year, mainly due to a €37 million increase in other liabilities.

The equity ratio at the end of the reporting period was 64.8 percent, compared to 64.4 percent one year earlier.



Dividend

Under the German Stock Corporation Act (Aktiengesetz), the amount of dividends available for distribution to shareholders is based on the level of unappropriated profit (Bilanzgewinn) recorded by the ultimate parent, as determined in accordance with the German Commercial Code (HGB).

Infineon Technologies AG reports unappropriated profit of €306 million in its financial statements for the fiscal year ended 30 September 2017. Due to the strong business performance, a proposal will be made to shareholders at the Annual General Meeting 2018 to increase the dividend for the 2017 fiscal year by 3 cents to € 0.25 per share. The disbursement of the proposed dividend is subject to approval by shareholders.

The Company paid a dividend of €0.22 per share (€248 million in total) for the 2016 fiscal year.

P see page 28

For information regarding Infineon's long-term dividend policy, see "Sustainable value creation for our shareholders" in the chapter "Group Strategy".

Expected developments, together with associated material risks and opportunities

The expected developments, together with associated material risks and opportunities of Infineon Technologies AG are very similar to those of the Infineon Group. Moreover, it is assumed that the result from investments will play a major role in Infineon Technologies AG's earnings performance. As a general rule, Infineon Technologies AG participates in the risks of its subsidiaries and equity investments on the basis of the relevant shareholding. As the parent company, Infineon Technologies AG is integrated in the Infineon Group's overall risk management system and internal control system. For more information on this topic, together with associated material risks and opportunities of Infineon Technologies AG, see the chapter "Risk and opportunity report".

P see page 81 ff.

Most transactions within the Infineon Group involving derivative financial instruments are handled by Infineon Technologies AG. The comments provided in "Principles and structure of Infineon's treasury" within the chapter "Review of liquidity" regarding the nature and scope of transactions with derivative financial instruments and hedged risks apply to Infineon Technologies AG. Reference is also made to the Notes to the Separate Financial Statements of Infineon Technologies AG.

P see page 77

Significant events after the end of the reporting period

P see page 169

Significant events after the end of the reporting period correspond to the events described in note 25 to the Consolidated Financial Statements.



Corporate Governance

Information pursuant to section 289, paragraph 4, and section 315, paragraph 4, of the German Commercial Code (HGB)¹

Structure of the subscribed capital

The share capital of Infineon Technologies AG stood at €2,272,401,858 as of 30 September 2017. This sum is divided into 1,136,200,929 non-par registered shares, each of which represents a notional portion of the share capital of €2. Each share carries one vote and gives an equal right to the profit of the Company based on the profit appropriation resolved by shareholders at the Annual General Meeting.

The Company held 6 million of the abovementioned issued shares as own shares at the end of the reporting period (30 September 2016: 6 million). Own shares held by the Company on the date of the Annual General Meeting do not carry a vote and are not entitled to participate in profit.

Restrictions on voting rights or the transfer of shares

Restrictions on the voting rights of shares may, in particular, arise as the result of the regulations of the German Stock Corporation Act (Aktiengesetz – “AktG”). For example, pursuant to section 136 AktG shareholders are prohibited from voting under certain circumstances and, according to section 71b AktG, Infineon Technologies AG has no voting rights from its own shares. Furthermore, non-compliance with the notification requirements pursuant to section 21, paragraphs 1 or 1a of the German Securities Trading Act (Wertpapierhandelsgesetz – “WpHG”) and to section 25, paragraph 1 or section 25a, paragraph 1, WpHG can, pursuant to section 28 WpHG, have the effect that certain rights (including the right to vote) may, temporarily at least, not exist. We are not aware of any contractual restrictions on voting rights or the transfer of shares.

Pursuant to section 67, paragraph 2, AktG, only those persons recorded in the share register of Infineon Technologies AG are recognized as shareholders of the Company. In order to be recorded in the share register of Infineon Technologies AG, shareholders are required to submit to the Company the number of shares held by them and their name or company name, their address and, where applicable, their registered office and their date of birth. Pursuant to section 67, paragraph 4, AktG, Infineon Technologies AG is entitled to request information from any party listed in the share register regarding the extent to which shares, to which the entry in the share register relates, are actually owned by the registered party and, if it does not own the shares, to receive the information necessary for the maintenance of the share register in relation to the party for whom the party concerned holds the shares. Section 67, paragraph 2, AktG stipulates that the shares concerned do not confer voting rights until such time as the information requested has been supplied in the appropriate manner.

Shareholdings exceeding 10 percent of the voting rights

Section 21, paragraph 1, WpHG requires each shareholder whose voting rights reach, exceed or, after exceeding, fall below 3, 5, 10, 15, 20, 25, 30, 50 or 75 percent of the voting rights of a listed corporation to notify such corporation and the German Federal Financial Supervisory Authority (Bundesanstalt für Finanzdienstleistungsaufsicht – “BaFin”) immediately. As of 30 September 2017, we have not been notified of any direct or indirect shareholdings reaching or exceeding 10 percent of the voting rights. The shareholdings notified to us as of 30 September 2017 are presented in the Notes to the Financial Statements of Infineon Technologies AG under the information pursuant to section 160, paragraph 1, No. 8 AktG.

 see page 173 ff.

Shares with special control rights

No shares conferring special control rights have been issued.

Nature of control over voting rights when employees participate in the Company’s capital and do not exercise their control rights directly

Employees who participate in the capital of Infineon Technologies AG exercise their control rights directly in accordance with the applicable laws and the Articles of Association, just like other shareholders.

¹ In accordance with section 80 of the Introductory Act to the German Commercial Code (EGHGB), the sections 289a, paragraph 1 and 315a, paragraph 1 HGB – in the version pertaining to the CSR Directive Implementation Act dated 11 April 2017 – are applicable for the first time for the fiscal year beginning after 31 December 2016 (i.e. for Infineon’s 2018 fiscal year).

Rules governing the appointment and dismissal of members of the Management Board

Section 5, paragraph 1, of the Articles of Association stipulates that the Management Board of Infineon Technologies AG shall consist of at least two members. The Management Board currently comprises four members. Members of the Management Board are appointed and dismissed by the Supervisory Board in accordance with section 84, paragraph 1, AktG. As Infineon Technologies AG falls within the scope of the German Co-Determination Act (Mitbestimmungsgesetz – “MitbestG”), the appointment or dismissal of members of the Management Board requires a two-thirds majority of the votes of the members of the Supervisory Board (section 31, paragraph 2, MitbestG). If such majority is not achieved at the first ballot, the appointment may be approved on a recommendation of the Mediation Committee at a second ballot by a simple majority of the votes of the members of the Supervisory Board (section 31, paragraph 3, MitbestG). If the required majority is still not achieved, a third ballot is held in which the Chairman of the Supervisory Board has two votes (section 31, paragraph 4, MitbestG). If the Management Board does not have the required number of members, in urgent cases, the local court (Amtsgericht of Munich) makes the necessary appointment upon petition of a party concerned pursuant to section 85, paragraph 1, AktG.

Pursuant to section 84, paragraph 1, sentence 1, AktG, the maximum term of appointment for members of the Management Board is five years. Re-appointment or extension of the term of office, in each case for a maximum of five years, is permitted (section 84, paragraph 1, sentence 2, AktG). Section 5, paragraph 1, of the Articles of Association and section 84, paragraph 2, AktG stipulate that the Supervisory Board may appoint a chairman and a deputy chairman to the Management Board. The Supervisory Board may revoke the appointment of a member of the Management Board and the Chairman of the Management Board for good cause (section 84, paragraph 3, AktG).

Rules governing the amendment of the Articles of Association

Pursuant to section 179, paragraph 1, AktG, responsibility for amending the Articles of Association rests with the Annual General Meeting. However, section 10, paragraph 4, of the Articles of Association gives the Supervisory Board the authority to amend the Articles of Association insofar as such amendments relate merely to the wording, such as changes in the share capital amount resulting from a capital increase out of conditional or authorized capital or a capital decrease by means of cancellation of own shares. Unless the Articles of Association provide for another majority, section 179, paragraph 2, AktG stipulates that resolutions of the Annual General Meeting regarding the amendment of the Articles of Association require a majority of at least three quarters of the share capital represented. Section 17, paragraph 1, of the Articles of Association of Infineon Technologies AG provides in principle for resolutions to be passed with a simple majority of the votes cast and, when a capital majority is required, with a simple majority of the capital unless a higher majority is required by law or in accordance with other stipulations contained in the Articles of Association.

Powers of the Management Board to issue shares

The powers of the Management Board to issue shares derive from section 4 of the Articles of Association, in conjunction with applicable legal provisions. Further information relating to the Company's existing Authorized and Conditional Capital can be found in note 15 to the Consolidated Financial Statements.

 see page 149 f.

Authorization to issue bonds with warrants and/or convertible bonds

The Annual General Meeting held on 13 February 2014 authorized the Management Board, in the period through 12 February 2019, either once or in partial amounts, to issue bonds with warrants and/or convertible bonds (referred to collectively as “bonds”) in an aggregate nominal amount of up to €2,000,000,000, to guarantee such bonds issued by subordinated Group companies of the Company and to grant holders of bond options or conversion rights to up to 130,000,000 no-par-value registered Company shares, representing a notional portion of the share capital of up to €260,000,000, in accordance with the relevant terms of the bonds. The Management Board is authorized, with the approval of the Supervisory Board, to exclude the subscription rights of the shareholders to the bonds,

- › if the issue price is not substantially lower than the theoretical market value of the bonds, as determined in accordance with accepted methods of financial mathematics; however this only applies insofar as the shares to be issued to service the option and/or conversion rights established on this basis in aggregate do not exceed 10 percent of the share capital, either at the time of this authorization becoming effective or at the time of its exercise;
- › in order to exclude fractional amounts resulting from a given subscription ratio from the subscription rights of the shareholders to the bonds or insofar as such action is necessary in order to grant holders of option or conversion rights from bonds that have either already been or will in future be issued by the Company or its subordinated Group companies subscription rights to that extent to which they would be entitled after exercise of their rights or after fulfillment of any conversion obligations.

Even if the dilution protection regulations are applied, the option or conversion price must equal at least 90 percent of the average stock exchange price of the Company's shares in the Xetra closing auction on the Frankfurt Stock Exchange (or a comparable successor system); further details – including the conditions under which the option or conversion price may be reduced – are set out in the authorization.

The Management Board is authorized, subject to the requirements resolved by shareholders at the Annual General Meeting, to determine the further details of the bond issue, including its terms and conditions.

Purchase of own shares

A resolution passed by the Annual General Meeting on 28 February 2013 authorizes Infineon Technologies AG, in the period through 27 February 2018, to acquire its own shares, within the statutory boundaries, in an aggregate amount not exceeding 10 percent of the share capital at the time the resolution was passed or – if the latter amount is lower – of the share capital in existence at the time the authorization is exercised. The Company may not use the authorization for the purposes of trading in its own shares. The Management Board decides whether own shares are acquired through the stock exchange, by means of a public offer to purchase addressed to all shareholders or a public invitation to submit offers for sale or via a bank or other entity that meets the requirements of section 186, paragraph 5, sentence 1, AktG. The authorization includes differentiating requirements – in particular with regard to the permissible purchase price – for each method of acquisition.

Infineon shares acquired or being acquired on the basis of this or an earlier authorization may – if not sold either via the stock exchange or by means of a public offer to purchase addressed to all shareholders – be used for all legally admissible purposes. The shares may also be canceled or offered to third parties in conjunction with business combinations or the acquisition of companies, parts of companies or participations in companies. Under specified circumstances subject to the consent of the Supervisory Board, the shares may also be sold to third parties in return for cash payment (including by means other than through the stock exchange or through an offer to all shareholders), used to meet the Company's obligations under bonds with warrants and convertible bonds and stock option plans, offered for sale or granted as a remuneration component to members of representative bodies and employees within the Group, and/or used to repay securities-backed loans. The subscription right of shareholders is excluded in all of the above cases (except when the shares are canceled). In addition, the subscription rights of shareholders are excluded in respect of fractional amounts in instances in which the shares are sold through a public offer addressed to all shareholders.

According to a resolution passed by the Annual General Meeting on 28 February 2013, the acquisition of Infineon Technologies AG shares may also be effected using equity derivatives. The total number of shares that can be acquired using derivatives may not exceed 5 percent of the Company's share capital, determined either at the time of this authorization becoming effective or at the time of its exercise through the use of the derivatives. The shares acquired through the exercise of this authorization are to be counted toward the acquisition threshold for the shares acquired in accordance with the authorization to acquire own shares as described above. The authorization stipulates other restrictions when derivatives are deployed, including their execution, term, servicing and acquisition price.

If own shares are acquired using derivatives in accordance with the requirements stipulated in the authorization, any right of the shareholders to conclude such derivative transactions with the Company will be excluded in analogous application of section 186, paragraph 3, sentence 4, AktG. Similarly, the shareholders have no right to conclude derivative transactions with the Company insofar as arrangements for the conclusion of derivative transactions include a preferred offer for the conclusion of derivative transactions concerning small volumes of shares.

Shareholders have a right to sell their Infineon shares in this connection only insofar as the Company is required to accept the shares under the derivative transactions. No other right to sell shares will apply in this connection.

The use of own shares, acquired through derivatives, is governed by the same rules as applicable for the direct acquisition of own shares.



Significant agreements in the event of a change of control

P see page 142 f.

Various financing contracts with lending banks and capital market creditors (see note 12 to the Consolidated Financial Statements) contain defined change-of-control clauses which give creditors the right to call for early repayment. These clauses reflect standard market practice.

Furthermore, certain patent cross-licensing agreements, development agreements, subsidy agreements and approvals, supply contracts, joint venture agreements and license agreements contain customary change-of-control clauses, according to which a change in control of Infineon Technologies AG triggers the right of the other party at its sole discretion to terminate or to continue the agreement as well as other rights which may, under certain circumstances, be unfavorable for Infineon.

If a member of the Management Board leaves his or her position in connection with a defined change of control (namely, where a party holds at least 50 percent of the voting rights in Infineon Technologies AG) that member is currently entitled to continued payment of the relevant annual remuneration for the entire remaining contract term. In accordance with a special contract termination right granted to members of the Management Board, the period of continued payment is capped at a maximum of 36 months in the event that the member resigns, or at a minimum of 24 months and a maximum of 36 months in the event that the member is removed from office or dismissed by Infineon Technologies AG. Further details are contained in the Compensation Report.

P see page 99 ff.

The change-of-control clauses agreed with the members of the Management Board correspond to the recommendation made in section 4.2.3, paragraph 5, of the German Corporate Governance Code. Such clauses are intended to give members of the Management Board financial security in the event of a change of control, with a view to preserving their independence in this situation.

Comparable arrangements for employees are only in place in a small number of individual cases. Notwithstanding the above points, the conditions of both the Performance Share Plan (open to participation by members of the Management Board, managers and other selected employees of the worldwide company) and the Restricted Stock Unit Plan (additionally applicable to specified employees of Infineon in the USA) contain rules that are triggered in the event of a defined change of control (namely holding at least 30 percent of the voting rights of Infineon Technologies AG). For the most part, these rules specify that the vesting periods that are envisaged by the relevant plans are aborted in the event of a change of control. The corresponding rule in the Performance Share Plan does not, however, apply to members of the Management Board, given that the service contracts take precedence.

Corporate Governance Report

The Corporate Governance Report is publicly available.

@ www.infineon.com/corporate-governance-report

Declaration concerning the management of the Company

The Declaration on Corporate Governance in accordance with section 289a and section 315, paragraph 5, of the German Commercial Code (HGB)¹ has been made publicly accessible.

@ www.infineon.com/cms/en/about-infineon/investor/corporate-governance/corporate-governance

Compensation report

This Compensation Report, which forms part of the Combined Management Report, explains the principles applied in determining compensation for the Management Board and Supervisory Board of Infineon Technologies AG and the level of remuneration paid to the individual members of the Management Board and Supervisory Board in accordance with the applicable legal requirements and the recommendations of the German Corporate Governance Code in the version dated 7 February 2017 (Deutscher Corporate Governance Kodex – “DCGK”). Infineon believes that transparent and understandable reporting of Management Board and Supervisory Board compensation represents a fundamental element of good corporate governance.

¹ In accordance with Article 80 of the Introductory Act to the German Commercial Code (EGHGB), the sections 289f and 315d of the German Commercial Code (HGB) – in the version pertaining to the CSR Directive Implementation Act dated 11 April 2017 – are applicable for the first time for the fiscal year beginning after 31 December 2016 (i.e. for Infineon's 2018 fiscal year).

Management Board compensation

Compensation system

The Management Board compensation system – similar to the compensation paid to the individual members of the Management Board – is defined and regularly reviewed by the full Supervisory Board on the basis of proposals made by the Executive Committee. In accordance with applicable legal requirements and the recommendations of the DCGK, the compensation paid to members of the Management Board is intended to reflect the typical level and structure of management board compensation at comparable companies, as well as Infineon's economic position and future prospects. The duties, responsibilities and performance of each member of the Management Board are also to be considered, as is Infineon's wider pay structure. This includes considering Management Board compensation in relation to the compensation of senior management and of the workforce as a whole, including changes in the level of compensation over time. The stated objective is that the compensation structure should be designed in such a way that it promotes sustainable business development, with a cap in place in the event of exceptional developments. Infineon aims to set compensation at a level that is competitive both nationally and internationally, so as to inspire and reward dedication and success in a dynamic environment.

The periodic review of the Management Board compensation system by an external independent compensation expert, started during the previous fiscal year, was completed during the 2017 fiscal year. Notwithstanding the existence of some scope for maneuverability, the expert concluded that the Company's compensation system complies with the requirements of the German Stock Corporation Act (Aktiengesetz) and the DCGK and is in line with current market conditions (for details of the review see "Review of the Management Board compensation system and individual contracts" in this chapter).

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Components of the Management Board compensation system

There have been no changes to the Management Board compensation system in the 2017 fiscal year compared to the previous fiscal year.

All members of the Management Board receive as compensation for their service an annual income which – based on target achievement of 100 percent – comprises approximately 45 percent fixed compensation and approximately 55 percent variable compensation components:

- › **Fixed compensation:** The fixed compensation comprises a contractually agreed basic annual salary that is not linked to performance and is paid in twelve equal monthly installments.
- › **Variable (performance-related) compensation:** The variable compensation comprises three components – an annual bonus (short-term incentive), a multiple-year bonus (mid-term incentive) and a long-term variable compensation component (long-term incentive).

The **short-term incentive (STI)** is intended to reward performance over the preceding fiscal year, reflecting Infineon's recent progress. Assuming a 100 percent target achievement of the variable compensation, the STI constitutes approximately 20 percent of target annual income. It is set by the Supervisory Board in a two-phase process:

- (i) At the beginning of each fiscal year, the target functions with respect to the two key performance indicators "free cash flow" and "Return on Capital Employed (RoCE)" are defined uniformly for all members of the Management Board. Underpinning the consistent approach taken to managing the business, the same target indicators – supplemented by the Segment Result – are used as the basis for determining the variable compensation components (bonus payments) for Infineon managers and employees. The two key performance indicators referred to above, which are described in more detail in the chapter "Internal Management System", are equally weighted for the purposes of measuring the STI.
- (ii) At the end of the fiscal year, the actual levels of target achievement for free cash flow and RoCE and, hence the amount of the STI payouts, are determined by the Supervisory Board.

see page 58 ff.

An STI is paid only if, on the basis of the approved financial statements, the levels of target achievement reach at least the 50 percent threshold for both performance indicators (free cash flow, RoCE). If one of the two target thresholds is not achieved, no annual bonus is paid for the relevant fiscal year. If the thresholds are achieved, the arithmetic mean of the two target achievements is calculated and used as the percentage rate to determine the actual STI amount. A cap of 250 percent applies, meaning that the maximum amount that can be paid is two-and-a-half times the target STI (= 100 percent), regardless of an actual higher achievement level. The Supervisory Board

may, in addition, increase or reduce the amount to be paid in each case by up to 50 percent, as it sees fit, based on the performance of the Management Board as a whole, Infineon's position, and any exceptional factors. A lower limit applies in this case such that the amount to be paid cannot be less than the amount that would be due given 50 percent target achievement. The upper limit for an upward adjustment is the cap of 250 percent.

If the term of office on the Board begins or ends during a fiscal year, the entitlement to STI is reduced on a pro-rata monthly basis (by one twelfth for each full month missing from the complete STI tranche). A member of the Management Board is not entitled to receive an STI bonus for the fiscal year in which he/she resigns from office (unless the resignation is for a reason ("good cause"), for which the member is not responsible) or if the board member's contract is terminated by the Company for good cause.

The **mid-term incentive (MTI)** is intended to reward sustained performance by the Management Board reflecting Infineon's medium-term progress. In combination with the long-term incentive, the MTI therefore ensures compliance with the stock corporation law requirement that the structure of compensation is "oriented toward sustainable growth of the enterprise". Assuming a 100 percent target achievement of the variable compensation, the MTI constitutes approximately 20 percent of target annual income.

A new MTI tranche, each with a term of three years, commences every fiscal year. The incentive is paid in cash at the end of the three-year term. The amount of the payment is determined on the basis of actual RoCE and free cash flow figures during each three-year period. For these purposes, the target values for RoCE and free cash flow for each individual year of an MTI tranche correspond to the STI targets set each year in advance. The level of achievement for both the RoCE target and the free cash flow target must reach a threshold of 50 percent in each year of the relevant three-year period, otherwise it is deemed – for MTI purposes – to be zero for the year concerned. If the thresholds are exceeded, the level of target achievement determined for the STI applies for the relevant annual tranche of the MTI. The MTI to be paid at the end of the three-year period is determined by calculating the arithmetic mean of the three annual target achievement levels. Unlike the STI, the MTI is paid as calculated, even if the mean level of target achievement for the three-year period is below 50 percent. A cap of 200 percent applies, meaning that the maximum amount that can be paid is two times the target MTI (= 100 percent), regardless of the actual achievement level.

The Supervisory Board may increase or reduce the amount to be paid under the MTI in each case by up to 50 percent, as it sees fit, based on the performance of the Management Board as a whole, Infineon's situation and any exceptional factors. When exercising its judgment in this respect, the Supervisory Board also takes into account the extent to which the three-year target for revenue growth and Segment Result (set each year by the Supervisory Board exclusively for this purpose) has been achieved and the degree of success achieved complementing organic growth through M&A activities. Unlike the STI, there is no lower limit for the amount by which the Supervisory Board can adjust the MTI; for the upper limit, however, the cap applies (200 percent).

If the term of office commences during a fiscal year, the MTI tranche is reduced on a pro-rata basis (by 1/36 for each full month missing from the complete MTI tranche). Upon leaving Infineon, regulations ensure as a general rule that the member of the Management Board can only receive an MTI payment for the number of MTI tranches corresponding to the member's term of office, reduced where appropriate, on a pro-rata basis. MTI tranches already started are forfeited if a mandate or service contract of a member of the Management Board comes to an end before the due date, for instance if a member resigns from office (unless the resignation is for good cause for which the member is not responsible) or if the board member's contract is terminated by the Company for good cause.

The **long-term incentive (LTI)** is intended to reward long-term and, similar to the MTI, sustained performance on the part of members of the Management Board and, additionally, to ensure that their interests are aligned with the interest of the Company's shareholders regarding a positive share price development. Assuming a 100 percent target achievement of the variable compensation, the LTI constitutes approximately 15 percent of target annual income.

With effect from the 2014 fiscal year, the LTI is awarded in the form of a Performance Share Plan. As well as being relevant for members of the Management Board, the new LTI also applies – with minor differences attributable to specific circumstances and as a benefit paid voluntarily by the Company – to Infineon managers and selected Infineon employees worldwide.



(Virtual) performance shares were allocated previously on 1 October of each fiscal year for the fiscal year beginning on that date – initially on a provisional basis. Following a recommendation made by the Executive Committee, on 3 August 2017 the Supervisory Board resolved that the provisional allocation of performance shares for LTI purposes will take place in future on 1 March of each fiscal year. Consequently, based on the four-year term of the relevant tranche, the definitive allocation of (real) Infineon shares will take place at the end of the month of February four years later.

The performance shares are allocated on the basis of the contractually agreed “LTI allocation amount” in euro. This amount is reduced accordingly if the member of the Management Board takes up office during a fiscal year. The number of performance shares is determined by dividing the LTI allocation amount by the average price of the Infineon share (Xetra closing price) during the nine months prior to the allocation date. The prerequisites for the definitive allocation of the – at that stage still virtual – performance shares are (i) that the member of the Management Board invests 25 percent of his/her individual LTI allocation amount in Infineon shares in compliance with an own-investment requirement pertaining to the provisional allocation) and (ii) that the holding period of four years applicable both for the member’s own-investment and for the performance shares has come to an end. 50 percent of the performance shares are also performance-related; they are only allocated definitely if (iii) the Infineon share outperforms the Philadelphia Semiconductor Index (SOX) between the date of the performance shares’ provisional allocation and the end of the holding period. If the conditions for the definitive allocation of performance shares – either of all or of only those that are not performance-related – are met at the end of the holding period, the member of the Management Board acquires a claim against the Company for the transfer of the corresponding number of (real) Infineon shares. Performance shares which do not achieve the target are forfeited. The value of the performance shares definitively granted to the member of the Management Board per LTI tranche at the end of the holding period may not exceed 250 percent of the relevant LTI allocation amount; the performance shares above this amount are forfeited (cap).

The shares are transferred to a securities custodian account attributable to the member of the Management Board; thereafter he/she can freely dispose of them. The same also applies to Infineon shares acquired in conjunction with the own-investment requirement at the end of the holding period.

The Supervisory Board has the right, at the end of the holding period, to make a value-equivalent cash settlement to the member of the Management Board rather than actually transfer Infineon shares. On 3 August 2017 the Supervisory Board resolved that the performance shares maturing on expiry of 30 September 2017 relating to the tranche awarded on 1 October 2013 will not be allocated in the form of Infineon shares, but rather – in accordance with the option specified in the Performance Share Plan – will be settled in cash.

If the member of the Management Board leaves office during the first two years of the full four-year holding period applicable to the performance shares of a particular LTI tranche, those performance shares are forfeited unless the reason for leaving office is ill-health, good cause for which the member is not responsible or the fact that the age limit specified in the service contract has been reached. Only the holding period for the own-investment shares expires when the member of the Management Board leaves office; at that stage the member of the Management Board concerned can freely dispose of the shares. If the member of the Management Board resigns from office at a later date – unless the resignation is for good cause for which the member is not responsible or if the board member’s contract is terminated by the Company for good cause – the LTI tranche (including the own-investment) remains in place unchanged. The member of the Management Board is then treated in all respects as if he/she were still in office; there is no pro rata reduction in the LTI tranche due to leaving office early.

The Supervisory Board is required to define suitable alternative LTI instruments of commensurate value if it is impossible or not desired by the Supervisory Board to offer an LTI on the basis of the Performance Share Plan.

Prior to the introduction of the Performance Share Plan, the Company maintained a stock option plan as an LTI, which was resolved at the 2010 Annual General Meeting. Subject to compliance with the terms of the Stock Option Plan 2010 – particularly the attainment of the absolute and percentage performance targets – the stock options allocated to members of the Management Board on the basis of this plan may still be exercised until 14 December 2019.

Additionally, the Supervisory Board has the option – based in all cases on its own best judgment – to grant a **special bonus**, among other things for special achievements of the Management Board or its individual members. This bonus is capped, however, at a maximum of 30 percent of the fixed compensation of the member of the Management Board.



Management Board compensation in the 2017 fiscal year in accordance with German Accounting Standard 17 (DRS 17)

Total compensation

Total compensation to members of the Management Board pursuant to DRS 17 and benefits to the individual members of the Management Board – also presented in accordance with DRS 17 – are shown in the following table:

in €	Dr. Reinhard Ploss Chief Executive Officer		Dominik Asam Chief Financial Officer		Dr. Helmut Gassel ³ Member of the Management Board	
	2017	2016	2017	2016	2017	2016
Fixed compensation						
Basic annual salary	1,075,000	1,075,000	750,000	750,000	685,000	171,250
Fringe benefits	36,154	35,724	43,203	41,185	47,728	8,714
Total fixed compensation	1,111,154	1,110,724	793,203	791,185	732,728	179,964
Variable compensation						
Single-year variable compensation (STI)	670,080	474,720	474,640	336,260	429,968	76,153
Multi-year variable compensation						
Mid Term Incentive (MTI) ¹						
2014 – 2016 tranche	–	288,460	–	201,537	–	–
2015 – 2017 tranche	243,040	158,240	172,153	112,087	–	–
2016 – 2018 tranche	243,040	158,240	172,153	112,087	155,951	25,384
2017 – 2019 tranche	243,040	–	172,153	–	155,951	–
Long Term Incentive (LTI)						
Performance Share Plan ²	315,608	244,367	211,838	164,024	190,238	–
Total variable compensation	1,714,808	1,324,027	1,202,937	925,995	932,108	101,537
Total compensation	2,825,962	2,434,751	1,996,140	1,717,180	1,664,836	281,501

1 The values include the annual MTI tranche granted in the respective fiscal year based on the fulfilment of the plan requirements.

2 The figures for the active members of the Management Board in the 2017 fiscal year are based on a fair market value per performance share amounting to €11.25 (2016: €7.07), which was calculated using a Monte-Carlo simulation model taking account of the value-reducing cap.

3 With effect from 1 July 2016 Dr. Helmut Gassel was appointed to the Management Board with responsibility for strategy development, sales and marketing, and the regions.

in €	Jochen Hanebeck ³ Member of the Management Board		Arunjai Mittal ⁴ Member of the Management Board		Total Management Board	
	2017	2016	2017	2016	2017	2016
Fixed compensation						
Basic annual salary	685,000	171,250	–	562,500	3,195,000	2,730,000
Fringe benefits	32,016	7,697	–	26,962	159,101	120,282
Total fixed compensation	717,016	178,947	–	589,462	3,354,101	2,850,282
Variable compensation						
Single-year variable compensation (STI)	429,968	76,153	–	336,260	2,004,656	1,299,546
Multi-year variable compensation						
Mid Term Incentive (MTI) ¹						
2014 – 2016 tranche	–	–	–	201,537	–	691,534
2015 – 2017 tranche	–	–	–	112,087	415,193	382,414
2016 – 2018 tranche	155,951	25,384	–	112,087	727,095	433,182
2017 – 2019 tranche	155,951	–	–	–	727,095	–
Long Term Incentive (LTI)						
Performance Share Plan ²	190,238	–	–	–	907,922	408,391
Total variable compensation	932,108	101,537	–	761,971	4,781,961	3,215,067
Total compensation	1,649,124	280,484	–	1,351,433	8,136,062	6,065,349

1 The values include the annual MTI tranche granted in the respective fiscal year based on the fulfilment of the plan requirements.

2 The figures for the active members of the Management Board in the 2017 fiscal year are based on a fair market value per performance share amounting to €11.25 (2016: €7.07), which was calculated using a Monte-Carlo simulation model taking account of the value-reducing cap.

3 With effect from 1 July 2016 Jochen Hanebeck was appointed to the Management Board with responsibility for operations.

4 With effect from 30 June 2016 Arunjai Mittal resigned from the Management Board, his service contract ended with effect from 30 September 2016.



Members of the Management Board did not receive any loans from Infineon, either in the 2017 or 2016 fiscal years.

Similarly, they did not receive any benefits from third parties in the 2017 and 2016 fiscal years, whether promised or actually paid, for their Board activities at Infineon.

Fringe benefits

In accordance with their service contracts, members of the Management Board are entitled to a chauffeur-driven company car, which may also be used for private purposes. Operating and maintenance costs for the company car and chauffeur are borne by the Company. Taxes arising on the fringe benefit related to private usage are borne by the members of the Management Board.

The Company also maintains accident insurance policies for members of the Board in the case of death (€3 million) and invalidity (€5 million).

Share-based compensation

P see page 100 ff.

As described in the section “Management Board compensation”, the contractually agreed LTI is granted to members of the Management Board by the Company in the form of “performance shares”. The average price of the Infineon share relevant for the number of performance shares granted for the 2017 fiscal year was €13.01 (2016: €10.56).

A fair market value of €11.25 (2016: €7.07) per performance share granted in the 2017 fiscal year was determined, taking account – among other things – of the cap of 250 percent cap set on the LTI allocation amount.

The following table shows the number of performance shares awarded to members of the Management Board in the 2017 fiscal year. In addition, the table contains information relating to the Stock Option Plan 2010, on the basis of which stock options were allocated to members of the Management Board for the final time in the 2013 fiscal year.

Member of the Management Board	Fiscal year	Performance Share Plan			
		Virtual performance shares outstanding at the beginning of the fiscal year	Virtual performance shares newly granted at the beginning of the fiscal year		Virtual performance shares outstanding at the end of the fiscal year
		Number	Number	Fair value grant date in €	Number
Dr. Reinhard Ploss (Chief Executive Officer)	2017	125,136	28,054	315,608	153,190
	2016	90,572	34,564	244,367	125,136
Dominik Asam (Chief Financial Officer)	2017	85,288	18,830	211,838	104,118
	2016	62,088	23,200	164,024	85,288
Dr. Helmut Gassel ¹ (Member of the Management Board)	2017	-	16,910	190,238	16,910
	2016	-	-	-	-
Jochen Hanebeck ² (Member of the Management Board)	2017	-	16,910	190,238	16,910
	2016	-	-	-	-
Arunjai Mittal ³ (Member of the Management Board)	2017	-	-	-	-
	2016	62,088	-	-	62,088
Total	2017	210,424	80,704	907,922	291,128
	2016	214,748	57,764	408,391	272,512

1 With effect from 1 July 2016 Dr. Helmut Gassel was appointed to the Management Board with responsibility for strategy development, sales and marketing, and the regions.

2 With effect from 1 July 2016 Jochen Hanebeck was appointed to the Management Board with responsibility for operations.

3 With effect from 30 June 2016 Arunjai Mittal resigned from the Management Board, his service contract ended with effect from 30 September 2016.

Member of the Management Board	Fiscal year	Stock Option Plan 2010					Total expense for share-based compensation in €
		Stock options outstanding at the beginning of the fiscal year	Stock options outstanding at the end of the fiscal year	Stock options exercised in the fiscal year	Stock options expired in the fiscal year ¹	Exercisable stock options outstanding at the end of the fiscal year	
Dr. Reinhard Ploss (Chief Executive Officer)	2017	307,500	-	208,200	99,300	-	376,461
	2016	433,214	307,500	95,800	29,914	120,000	323,243
Dominik Asam (Chief Financial Officer)	2017	130,952	-	62,800	68,152	-	285,173
	2016	350,952	130,952	167,740	52,260	-	213,678
Dr. Helmut Gassel ² (Member of the Management Board)	2017	-	-	-	-	-	94,858
	2016	-	-	-	-	-	-
Jochen Hanebeck ³ (Member of the Management Board)	2017	-	-	-	-	-	94,858
	2016	-	-	-	-	-	-
Arunjai Mittal ⁴ (Member of the Management Board)	2017	-	-	-	-	-	-
	2016	229,167	229,167	-	-	-	160,607
Total	2017	438,452	-	271,000	167,452	-	851,350
	2016	1,013,333	667,619	263,540	82,174	120,000	697,528

1 When exercising stock options members of the Management Board may only make gains up to a pre-determined amount (cap). Where the cap has been reached in the fiscal year stock options have expired.

2 With effect from 1 July 2016 Dr. Helmut Gassel was appointed to the Management Board with responsibility for strategy development, sales and marketing, and the regions.

3 With effect from 1 July 2016 Jochen Hanebeck was appointed to the Management Board with responsibility for operations.

4 With effect from 30 June 2016 Arunjai Mittal resigned from the Management Board, his service contract ended with effect from 30 September 2016.

Further details regarding the performance shares granted to the members of the Management Board on 1 October 2016 for the 2017 fiscal year are provided in note 17 to the Consolidated Financial Statements. In a change from previous practice, the performance shares for the 2018 fiscal year will not be allocated to the members of the Management Board until 1 March 2018.

see page 151 f.

Special bonuses

The Supervisory Board did not award any special bonuses to members of the Management Board during the 2017 fiscal year.

Other awards and benefits

In the 2009 fiscal year, the Company entered into a restitution agreement with each of the active members of the Management Board at that time. Dr. Ploss is the only current member of the Management Board affected by the agreement. These agreements stipulate that the Company covers all costs and expenses of any legal, governmental, regulatory and/or parliamentary proceedings and investigations as well as arbitration proceedings, in which the member of the Management Board is involved in conjunction with his/her activities on behalf of the Company. However, the agreements specifically exclude any restitution of costs if the Company initiates proceedings against the member of the Management Board for a breach of the duty of care owed in conjunction with section 93, paragraph 2, German Stock Corporation Act (Aktiengesetz).

Management Board compensation in the 2017 fiscal year in accordance with the German Corporate Governance Code

The DCGK recommends that the individual compensation components of each member of the Management Board be disclosed in accordance with specified criteria. It also recommends that disclosure is based on the model tables – in part diverging from DRS 17 – provided in the appendix to the Code.

Compensation granted in accordance with DCGK

The following table shows the value of compensation granted for the 2016 and 2017 fiscal years, including fringe benefits, as well as the minimum and maximum values that can be achieved for the 2017 fiscal year.

Unlike in the disclosures in accordance with DRS 17, the STI is required to be disclosed pursuant to the DCGK at the target value (i.e. the value in the event of 100 percent target achievement). The MTI is required to be disclosed – in a deviation from DRS 17 – at the target value for an “average probability scenario” at the grant date. For these purposes, Infineon assumes 100 percent target achievement. In addition, the pension expense, i.e. the service cost pursuant to IAS 19 (see “Commitments to members of the Management Board upon termination of their Board activities” in this chapter), is also required to be included in the amount of total compensation disclosed in accordance with the DCGK.

see page 108 ff.



Compensation granted to members of the Management Board in accordance with the DCGK (total compensation and compensation components) as well as the minimum and maximum values that can be achieved are shown in the following table:

in €	Dr. Reinhard Ploss Chief Executive Officer				Dominik Asam Chief Financial Officer			
	2017	2016	2017 (min.)	2017 (max.)	2017	2016	2017 (min.)	2017 (max.)
Fixed compensation								
Basic annual salary	1,075,000	1,075,000	1,075,000	1,075,000	750,000	750,000	750,000	750,000
Fringe benefits	36,154	35,724	36,154	36,154	43,203	41,185	43,203	43,203
Total fixed compensation	1,111,154	1,110,724	1,111,154	1,111,154	793,203	791,185	793,203	793,203
Variable compensation								
Single-year variable compensation (STI)	480,000	480,000	-	1,200,000	340,000	340,000	-	850,000
Multi-year variable compensation								
Mid Term Incentive (MTI)								
2016 – 2018 tranche	-	480,000	-	-	-	340,000	-	-
2017 – 2019 tranche	480,000	-	-	960,000	340,000	-	-	680,000
Long Term Incentive (LTI)								
Performance Share Plan ¹	315,608	244,367	157,804	912,500	211,838	164,024	105,919	612,500
Total variable compensation	1,275,608	1,204,367	157,804	3,072,500	891,838	844,024	105,919	2,142,500
Pension expense ²	321,123	-	321,123	321,123	297,220	271,061	297,220	297,220
Total compensation (DCGK)	2,707,885	2,315,091	1,590,081	4,504,777	1,982,261	1,906,270	1,196,342	3,232,923

1 The figures of the active members of the Management Board in the 2017 fiscal year are based on a fair market value per performance share amounting to €11.25 (2016: €7.07), which was calculated using a Monte-Carlo simulation.

2 Income from past service costs for Dr. Ploss amounting to €1,114,773 have been recorded in the 2017 fiscal year (see “Benefits and pension entitlements in the 2017 fiscal year” in this chapter).

3 With effect from 1 July 2016 Dr. Helmut Gassel was appointed to the Management Board with responsibility for strategy development, sales and marketing, and the regions.

4 With effect from 1 July 2016 Jochen Hanebeck was appointed to the Management Board with responsibility for operations.

5 With effect from 30 June 2016 Arunjai Mittal resigned from the Management Board, his employment ended with effect from 30 September 2016.



Dr. Helmut Gassel ³ Member of the Management Board				Jochen Hanebeck ⁴ Member of the Management Board				Arunjai Mittal ⁵ Member of the Management Board			
2017	2016	2017 (min.)	2017 (max.)	2017	2016	2017 (min.)	2017 (max.)	2017	2016	2017 (min.)	2017 (max.)
685,000	171,250	685,000	685,000	685,000	171,250	685,000	685,000	-	562,500	-	-
47,728	8,714	47,728	47,728	32,016	7,697	32,016	32,016	-	26,962	-	-
732,728	179,964	732,728	732,728	717,016	178,947	717,016	717,016	-	589,462	-	-
308,000	77,000	-	770,000	308,000	77,000	-	770,000	-	340,000	-	-
-	231,000	-	-	-	231,000	-	-	-	340,000	-	-
308,000	-	-	616,000	308,000	-	-	616,000	-	-	-	-
190,238	-	95,119	550,000	190,238	-	95,119	550,000	-	-	-	-
806,238	308,000	95,119	1,936,000	806,238	308,000	95,119	1,936,000	-	680,000	-	-
132,853	25,458	132,853	132,853	162,385	29,321	162,385	162,385	-	241,677	-	-
1,671,819	513,422	960,700	2,801,581	1,685,639	516,268	974,520	2,815,401	-	1,511,139	-	-

Allocation amount in accordance with DCGK

Since compensation granted to members of the Management Board for the 2017 fiscal year does not coincide fully with amounts disbursed in a particular fiscal year, a separate table is presented – in accordance with the relevant DCGK recommendation – showing the amounts flowing to members of the Management Board for the 2017 fiscal year (the “allocation amount” (“Zufluss”)).

In line with the DCGK recommendations, the fixed compensation and the STI are required to be disclosed as the allocation amount for the relevant fiscal year concerned. In the case of the MTI, the DCGK recommends that this is disclosed as flowing to members of the Management Board in the fiscal year in which the plan term of the relevant MTI tranche ends. In addition to the fixed compensation and the STI granted for the 2017 fiscal year, the allocation amount for the 2015-2017 MTI tranche therefore flowed to the members of the Management Board in the 2017 fiscal year. In accordance with the DCGK, share-based payments are deemed to be allocated on the basis of the relevant time and value for German tax law purposes. The performance shares issued on 1 October 2013 which were settled in cash after the end of the 2017 fiscal year (see “Components of the Management Board compensation system” in this chapter) will not be disclosed as having flowed until the 2018 fiscal year in the following table. In line with the DCGK recommendations, the pension expense (meaning the service cost pursuant to IAS 19) constitutes the allocation amount (see previous table), even though it is not – strictly speaking – an allocation.

P see page 100 ff.



The total compensation allocated to the individual members of the Management Board for the 2017 fiscal year in accordance with DCGK – analyzed by component – is shown in the following table:

in €	Dr. Reinhard Ploss Chief Executive Officer		Dominik Asam Chief Financial Officer		Dr. Helmut Gassel ² Member of the Management Board		Jochen Hanebeck ³ Member of the Management Board		Arunjai Mittal ⁴ Member of the Management Board	
	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016
Fixed compensation										
Basic annual salary	1,075,000	1,075,000	750,000	750,000	685,000	171,250	685,000	171,250	-	562,500
Fringe benefits	36,154	35,724	43,203	41,185	47,728	8,714	32,016	7,697	-	26,962
Total fixed compensation	1,111,154	1,110,724	793,203	791,185	732,728	179,964	717,016	178,947	-	589,462
Variable compensation										
Single-year variable compensation (STI)	670,080	474,720	474,640	336,260	429,968	76,153	429,968	76,153	-	336,260
Multi-year variable compensation										
Mid Term Incentive (MTI)										
2014 – 2016 tranche	-	706,080	-	507,792	-	-	-	-	-	507,792
2015 – 2017 tranche	678,720	-	480,760	-	-	-	-	-	-	-
Long Term Incentive (LTI)										
Stock Option Plan 2010	1,525,500	550,000	550,000	962,500	-	-	-	-	-	-
Performance Share Plan	-	-	-	-	-	-	-	-	-	-
Total variable compensation	2,874,300	1,730,800	1,505,400	1,806,552	429,968	76,153	429,968	76,153	-	844,052
Pension expense ¹	321,123	-	297,220	271,061	132,853	25,458	162,385	29,321	-	241,677
Total compensation (DCGK)	4,306,577	2,841,524	2,595,823	2,868,798	1,295,549	281,575	1,309,369	284,421	-	1,675,191

¹ Income from past service costs for Dr. Ploss amounting to €1,114,773 have been recorded in the 2017 fiscal year (see "Benefits and pension entitlements in the 2017 fiscal year" in this chapter).

² With effect from 1 July 2016 Dr. Helmut Gassel was appointed to the Management Board with responsibility for strategy development, sales and marketing, and the regions.

³ With effect from 1 July 2016 Jochen Hanebeck was appointed to the Management Board with responsibility for operations.

⁴ With effect from 30 June 2016 Arunjai Mittal resigned from the Management Board, his service contract ended with effect from 30 September 2016.

Commitments to members of the Management Board upon termination of their Board activities

Benefits and pension entitlements in the 2017 fiscal year

In accordance with the Management Board compensation system in place since 2010, the members of the Management Board have, in the meantime, all received a defined contribution pension commitment, which is essentially identical to the Infineon pension plan applicable to all employees. The Company has accordingly set up a personal pension account (basic account) for each beneficiary and makes annual pension contributions to it. The Company adds annual interest to the balance in the basic account using the highest statutory interest rates valid for the insurance industry (guaranteed interest rates) until disbursement of the pension begins and may also award surplus credits. Ninety-five percent of any income earned over and above the guaranteed interest rate is credited to the pension account, either at the date on which disbursement of the pension begins or, at the latest, when the beneficiary reaches the age of 60. The balance of the basic account when disbursement of the pension begins (due to age, invalidity or death) – increased by an adjusting amount in the event of invalidity or death – constitutes the retirement benefit entitlement and is paid out to the member of the Management Board or his or her surviving dependents in twelve annual installments, or, if so requested by the member of the Management Board, in eight annual installments, as a lump sum or as a life-long pension. In addition to the defined contribution pension plan that has been in place for Dr. Ploss since 1 January 2016, a fully vested fixed-amount pension entitlement of €210,000 p.a. also exists for his Board activities up to 31 December 2015 which will not increase in future.



If the entitlements of members of the Management Board (i) have not yet legally vested or (ii) have legally vested, but are not protected by the state pension insurance scheme (Pensionssicherungsverein), the Company maintains pension reinsurance policies in favor of, and pledged to, the members of the Management Board concerned.

The plan rules applicable to members of the Management Board differ in terms of the initial defined component, the annual transfer to the pension account and the vesting period.

- › The defined contribution pension plan in place for Dr. Ploss is also based on a fixed contribution amount of 30 percent of the relevant agreed basic annual salary. The pension contribution made by the Company for the 2017 fiscal year amounted to €322,500.
- › On joining the Management Board, the Company made a one-time, contractually vested initial pension contribution of €540,000 on behalf of Mr. Asam as compensation for the loss of vested retirement pension entitlements in connection with the termination agreement with his previous employer. For each fiscal year of his membership on the Management Board, Mr. Asam also receives a pension contribution from the Company amounting to between 25 and 40 percent, as determined by the Supervisory Board, of the relevant agreed basic annual salary. As in the previous year, the pension contribution for Mr. Asam for the 2017 fiscal year has been set at 30 percent of his basic annual salary and therefore amounts to €225,000. The pension entitlements arising from the defined contributions made on behalf of Mr. Asam vested with effect from 31 December 2013.
- › Dr. Gassel and Mr. Hanebeck have statutorily vested pension entitlements as a result of their previous periods of employment in senior management positions with Infineon. The contracts appointing them to the Board specifically state that the amounts made available to cover their vested pension entitlements represent a continuation of those vested entitlements and are, therefore, not subject to any separate vesting arrangements. The Company makes a fixed annual pension contribution on behalf of Dr. Gassel and Mr. Hanebeck for each full fiscal year of service on the Board, equivalent to 30 percent of the relevant agreed basic annual salary. The Supervisory Board is not required to decide each time on the amount to be contributed. The pension contributions for the 2017 fiscal year for Dr. Gassel and Mr. Hanebeck amounted in each case to €205,500.

The amounts credited to the pension entitlement accounts of the members of the Management Board – in line with the plan rules applied to Infineon employees – are paid out on or after reaching the age of 67, provided the service contract has also ended, or, upon request, at an earlier point in time if the service contract ends on or after reaching the age of 60. If the beneficiaries elect that their pension be paid out in monthly installments, the pension amount is adjusted automatically each year in accordance with the Infineon pension plan.

Alongside the annual retirement entitlements and related benefit amounts, the following table shows the present values of pension entitlements earned to date and the service cost in accordance with IFRS. The service cost reported in the table for Dr. Gassel and Mr. Hanebeck only relates to periods of current Board activities. The present value of pension and benefit entitlements is particularly dependent on changes in the discount rate required to be applied (30 September 2017: 1.8 percent, 30 September 2016: 1.0 percent).



Pension entitlements

in €	Fiscal year	Pension entitlements (annual) as of beginning of pension period	Benefit amounts determined for the relevant fiscal year	Present value of pension and benefit entitlement	Original service cost (earned in the current year)
Member of the Management Board					
Dr. Reinhard Ploss ¹ (Chief Executive Officer)	2017	-	322,500	629,343	321,123
		210,000	-	4,876,940	-
	2016	210,000	-	6,832,791	-
Dominik Asam (Chief Financial Officer)	2017	-	225,000	2,586,986	297,220
	2016	-	225,000	2,558,440	271,061
Dr. Helmut Gassel ² (Member of the Management Board)	2017	-	205,500	2,716,822	132,853
	2016	-	51,375	2,780,620	25,458
Jochen Hanebeck ³ (Member of the Management Board)	2017	-	205,500	3,361,736	162,385
	2016	-	51,375	3,540,697	29,321
Arunjai Mittal ⁴ (Member of the Management Board)	2017	-	-	-	-
	2016	-	225,000	2,511,117	241,677
Total	2017	210,000	958,500	14,171,827	913,581
	2016	210,000	552,750	18,223,665	567,517

1 The upper line for Dr. Ploss shows the contribution amount, the present value and the service cost relating to the defined contribution entitlements additionally granted to him with effect from 1 January 2016. The second line shows the pension entitlements and the present value of his fixed amount pension plan. Income from past service cost amounting to €1,114,773 was recognized in the 2017 fiscal year.

2 With effect from 1 July 2016 Dr. Helmut Gassel was appointed to the Management Board with responsibility for strategy development, sales and marketing, and the regions.

3 With effect from 1 July 2016 Jochen Hanebeck was appointed to the Management Board with responsibility for operations.

4 With effect from 30 June 2016 Arunjai Mittal resigned from the Management Board, his employment ended with effect from 30 September 2016.

Early termination of service contracts

The service contracts of members of the Management Board include a change of control clause, which stipulates the terms that apply when the activities of a member of the Management Board are terminated in the event of a significant change in Infineon's ownership structure. A change of control for the purposes of this clause occurs when a third party, individually or together with another party, acquires at least 50 percent of the voting rights in Infineon Technologies AG as defined in section 30 of the German Securities Acquisition and Takeover Act (Wertpapiererwerbs- und Übernahmegesetz – "WpÜG"). Members of the Management Board have the right to resign and terminate their service contracts within twelve months of the announcement of such a change of control and any who choose to do so are entitled to continued payment of their annual remuneration through to the end of the originally agreed duration of their contract, up to a maximum of 36 months. If Infineon Technologies AG removes a member of the Management Board or terminates his or her contract within twelve months of the announcement of a change of control, the members of the Management Board concerned are entitled to continued payment of their annual remuneration through to the end of the originally agreed duration of their contract, subject to a minimum period of 24 months and a maximum period of 36 months.

The Management Board service contracts otherwise contain no promises of severance pay for situations in which contracts are terminated early.

Payments to former members of the Management Board in the 2017 fiscal year

Total compensation (primarily pension benefits) of €1,324,427.14 (2016: €1,200,241) is granted to the former members of the Management Board in the 2017 fiscal year. As of 30 September 2017, accrued pension liabilities for former members of the Management Board amounted to €67,862,601 (2016: €77,037,350).

Review of the Management Board compensation system and individual contracts

In accordance with section 4.2.2 DCGK, the Supervisory Board has engaged an external, independent compensation expert to review the Management Board compensation system in place since 1 October 2010 and conclude on its compliance with applicable legislation and its overall appropriateness. In this context, the target annual incomes of each individual member of the Management Board were subjected to detailed scrutiny. The expert's report concluded that the Company's compensation system complies with legal requirements and with the recommendations set out in the German Corporate Governance Code (DCGK). In particular, the expert concluded that the compensation of Infineon's Management Board is commensurate with market conditions and that the variable compensation component is oriented towards the sustainable growth of the enterprise. Notwithstanding the conclusion that the individual target annual incomes of the members of the Management Board are appropriate, both horizontally (i.e. looking at comparable companies) and vertically (i.e. looking at Infineon's various employee groupings), the report points out the existence of some scope for maneuverability. The results of the compensation expert's review, presented in a final report in fall 2016, were discussed in detail during the Executive Committee meetings held on 24 October 2016 and 9 May 2017 and by the full Supervisory Board on 15 November 2016 and 18 May 2017. The Supervisory Board concurred with the conclusions reached by the compensation expert. It has therefore resolved to increase the compensation of the members of the Management Board with effect from 1 October 2017 – in the case of Dr. Ploss by 15 percent and in the case of Mr. Asam, Dr. Gassel and Mr. Hanebeck by 10 percent respectively. The intention is for the relation of the individual compensation components and hence the compensation structure overall to remain unchanged.

Supervisory Board compensation

Compensation structure

The Supervisory Board compensation system was most recently amended at the Annual General Meeting held on 18 February 2016, with (retrospective) effect from 1 October 2015. The objective of the amendment was to remove the previous variable compensation component and structure Supervisory Board compensation in future in compliance with the recommendations of the DCGK.

The compensation due to the Supervisory Board in each fiscal year (total compensation) is governed by section 11 of the Company's Articles of Association and comprises the following:

- › A **fixed compensation (basic remuneration)** of €90,000. This amount applies to each member of the Supervisory Board and is payable within one month of the close of the fiscal year.
- › An **allowance** recognizing the additional work involved in performing certain functions within the Supervisory Board: The Chairman of the Supervisory Board receives an allowance of €90,000, each Vice-chairman receives an allowance of €30,000, the Chairman of the Investment, Finance and Audit Committee and the Chairman of the Strategy and Technology Committee each receive an allowance of €25,000 and each member of a Supervisory Board committee receives an allowance of €15,000 – with the exception of the Nomination Committee and the Mediation Committee. The additional allowance is payable only if the body to which the Supervisory Board or committee member belongs has convened or passed resolutions in the fiscal year concerned. A member of the Supervisory Board performing more than one of the functions indicated receives only the highest single additional allowance payable to a member performing the functions concerned. The allowance is paid to the relevant holder of office within one month of the end of the fiscal year.
- › A meeting attendance fee of €2,000 per meeting of the Supervisory Board or one of its committees that is attended in person. The meeting attendance fee is paid only once if more than one meeting of the relevant committees takes place on a given day.

In the event that a member, during a fiscal year, joins (or leaves) the Supervisory Board or one of its committees, or takes on a Supervisory Board function for which an allowance is paid, the relevant compensation components are disbursed on a pro-rata basis, i.e. payment of one twelfth of the relevant annual compensation component for each (started) month of membership or exercise of function.

Members of the Supervisory Board, moreover, are reimbursed for all expenses incurred in connection with the performance of their Supervisory Board duties and for any value-added tax payable by them in this connection. The Company also pays any value-added tax incurred on their total remuneration (including meeting attendance fees) for the members of the Supervisory Board.



Compensation of the Supervisory Board for the 2017 fiscal year

The total compensation (including meeting attendance fees) paid to the individual members of the Supervisory Board in the 2017 fiscal year comprises the following (these figures do not include value-added tax at 19 percent):

Supervisory Board compensation

in €	Fiscal year	Fixed compensation	Allowance for specific functions	Meeting attendance fees	Total compensation
Member of the Supervisory Board					
Peter Bauer	2017	90,000	25,000	18,000	133,000
	2016	90,000	10,417	16,000	116,417
Johann Dechant	2017	90,000	30,000	26,000	146,000
	2016	90,000	30,000	30,000	150,000
Dr. Herbert Diess	2017	90,000	-	6,000	96,000
	2016	90,000	-	14,000	104,000
Annette Engelfried	2017	90,000	15,000	20,000	125,000
	2016	90,000	15,000	20,000	125,000
Peter Gruber	2017	90,000	15,000	18,000	123,000
	2016	90,000	15,000	22,000	127,000
Gerhard Hobbach	2017	90,000	15,000	18,000	123,000
	2016	90,000	15,000	24,000	129,000
Hans-Ulrich Holdenried	2017	90,000	15,000	24,000	129,000
	2016	90,000	15,000	28,000	133,000
Prof. Dr. Renate Köcher	2017	90,000	-	16,000	106,000
	2016	90,000	-	12,000	102,000
Dr. Susanne Lachenmann	2017	90,000	15,000	18,000	123,000
	2016	90,000	15,000	22,000	127,000
Wolfgang Mayrhuber	2017	90,000	90,000	36,000	216,000
	2016	90,000	90,000	34,000	214,000
Géraldine Picaud ¹	2017	60,000	-	6,000	66,000
	2016	-	-	-	-
Dr. Manfred Puffer	2017	90,000	-	20,000	110,000
	2016	90,000	-	14,000	104,000
Prof. Dr. Doris Schmitt-Landsiedel ²	2017	15,000	-	-	15,000
	2016	90,000	16,667	22,000	128,667
Jürgen Scholz	2017	90,000	15,000	18,000	123,000
	2016	90,000	15,000	22,000	127,000
Kerstin Schulzendorf	2017	90,000	-	12,000	102,000
	2016	90,000	-	10,000	100,000
Dr. Eckart Süner	2017	90,000	25,000	20,000	135,000
	2016	90,000	25,000	24,000	139,000
Diana Vitale	2017	90,000	-	12,000	102,000
	2016	90,000	-	16,000	106,000
Total	2017	1,425,000	260,000	288,000	1,973,000
	2016	1,440,000	262,084	330,000	2,032,084

1 Joined as Member of the Supervisory Board since 16 February 2017. The compensation for 2017 therefore was awarded on a pro-rata basis.

2 Joined as Member of the Supervisory Board until 8 November 2017. The compensation for 2017 therefore was awarded on a pro-rata basis.

Members of the Supervisory Board did not receive any loans from Infineon in either the 2017 or 2016 fiscal years.

Neubiberg, 17 November 2017

Management Board

Dr. Reinhard Ploss

Dominik Asam

Dr. Helmut Gassel

Jochen Hanebeck