



Combined Management Report

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This report combines the Group Management Report of Infineon ("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 Infineon. 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 2018, the "Chip Card & Security" segment changed its name to "Digital Security Solutions". The change in name has no impact on Infineon's organizational structure, strategy or scope of business.

Our 2018 fiscal year

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Finances and strategy

2018 fiscal year

- › Revenue and earnings significantly improved for the fifth year in succession
- › Strong performance enables further dividend increase

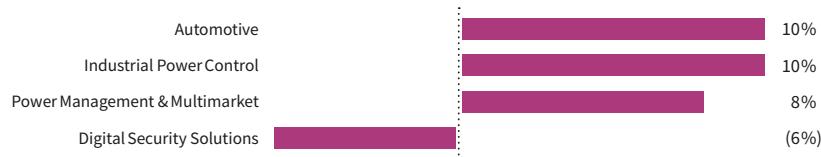
Revenue up by 8 percent; Segment Result Margin of 17.8 percent achieved

In the 2018 fiscal year, Infineon generated **revenue** of €7,599 million, an increase of 8 percent over the previous year's figure of €7,063 million, and within the 9 percent plus or minus 2 percentage points forecast at the beginning of the fiscal year (see the chapter "Outlook"). With this performance, Infineon recorded significant revenue growth for the fifth fiscal year in succession. Revenue growth was driven above all by strong demand for semiconductors used in automotive, industrial, power supply, RF and sensor technology applications. Our segment with the highest volume, Automotive, contributed 55 percent or more than half of total revenue growth of €536 million. In contrast, the Digital Security Solutions segment recorded a 6 percent drop in revenue, mainly due to lower revenue from SIM cards for mobile communications (see the chapter "The Segments"). The underlying pace at which our business is growing was partly masked by the unfavorable development of the US dollar exchange rate, which averaged 1.19 for the year. Had it remained at the previous year's level of 1.11, revenue growth in the 2018 fiscal year would have been 12 percent.

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Revenue growth of the individual segments in the 2018 fiscal year compared to the previous year



Revenue by segment in the 2018 fiscal year





China has been Infineon's most important sales market for several years now and, with €1,921 million, accounted for 25 percent (2017: 25 percent) of Infineon's revenue during the fiscal year under report. This is followed as largest single market by Germany with revenue of €1,171 million and a 15 percent share (2017: 15 percent), the USA with €719 million and a 9 percent share (2017: 10 percent) and Japan with €534 million and a 7 percent share (2017: 7 percent).

Infineon revenue by region in the 2018 fiscal year



¹ Greater China includes China and Taiwan.

Infineon has not only grown strongly, it has also become more profitable. The **Segment Result** for the 2018 fiscal year totaled €1,353 million, 12 percent up on the €1,208 million reported one year earlier. The **Segment Result margin** of 17.8 percent (2017: 17.1 percent) therefore exceeded the 17 percent forecast at the beginning of the fiscal year for the mid-point of the revenue forecast and was in line with our business targets, as revised during the course of the 2018 fiscal year (see the chapters "Group strategy" and "Outlook").

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and page 73 f.

Improvement in key performance indicators

Net income rose to €1,075 million due to the positive Segment Result contribution and the gain of €270 million from the sale of the major part of Infineon's RF power components business to Cree, Inc. on the one hand and higher expenses from discontinued operations and for income taxes on the other (see the section "Review of results of operations"). Compared to the previous year's figure of €790 million, net income improved by 36 percent.

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Earnings per share for the 2018 fiscal year amounted to €0.95 (basic and diluted), 36 percent up on €0.70 (basic and diluted) reported in the previous fiscal year. Adjusted earnings per share (diluted) improved from €0.85 to €0.98 year-on-year (see the chapter "Review of results of operations" for details of the calculation of adjusted earnings per share).

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Free cash flow from continuing operations (see the chapter "Internal management system" for definition) totaled €618 million in the 2018 fiscal year, an increase of €24 million or 4 percent over the previous fiscal year's figure of €594 million. Investments in property, plant and equipment and intangible assets of €1,254 million (2017: €1,022 million) were lower than net cash provided by operating activities of €1,571 million (2017: €1,728 million).

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The **Return on Capital Employed (RoCE)** in the 2018 fiscal year amounted to 20.5 percent and therefore improved compared to previous year's 14.9 percent. The increase was mainly attributable to the year-on-year increase in operating income from continuing operations from €847 million to €1,263 million (for a definition of, and details relating to, the calculation of RoCE, see the chapters "Internal management system" and "Review of financial condition").



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The **gross cash position** (see the chapter “Internal management system” for definition) totaled €2,543 million as of 30 September 2018, an increase of 4 percent compared to the previous year’s figure of €2,452 million. The free cash flow from continuing operations of €618 million described above exceeded the combined total of the dividend payment for the 2017 fiscal year (€283 million) and long-term debt repayments (€321 million including the repayment of a €300 million bond relating to the financing of the acquisition of International Rectifier).

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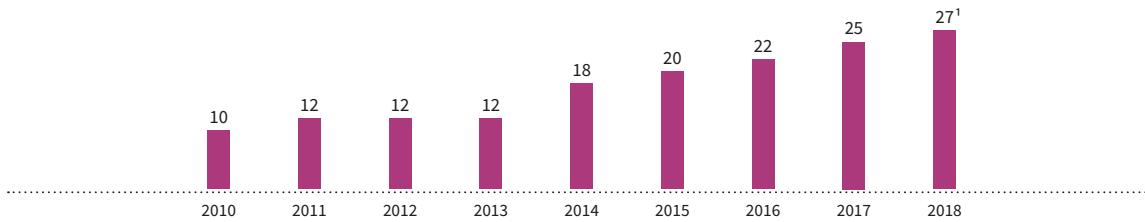
The **net cash position** (see the chapter “Internal management system” for definition) increased by 64 percent to stand at €1,011 million at the end of the 2018 fiscal year (30 September 2017: €618 million).

Planned dividend increase of 8 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 2018 fiscal year, a proposal will be made to the Annual General Meeting (to be held on 21 February 2019) to pay a dividend of €0.27 per share, an increase of 2 cents or 8 percent.

Dividend per share for the 2010 to 2018 fiscal years
in € cents



¹ Proposal to the Annual General Meeting to be held on 21 February 2019.

Developments in the semiconductor industry

Evaluation of the 2018 fiscal year (in Euro)

Worldwide semiconductor revenues totaled €392.020 billion in the 2018 fiscal year (Source: World Semiconductor Trade Statistics (WSTS)). This represents an increase of 10.8 percent compared to the previous year’s value of €353.966 billion. As in the previous year, this increase is attributable to the increase in prices in the memory product category. This product category, which essentially includes DRAM and flash memory products, increased by 34 percent to €133 billion accounting for approximately 34 percent of the entire semiconductor market. The semiconductor market excluding memory products increased by 1.7 percent. During the same period Infineon increased its revenues by 7.6 percent.

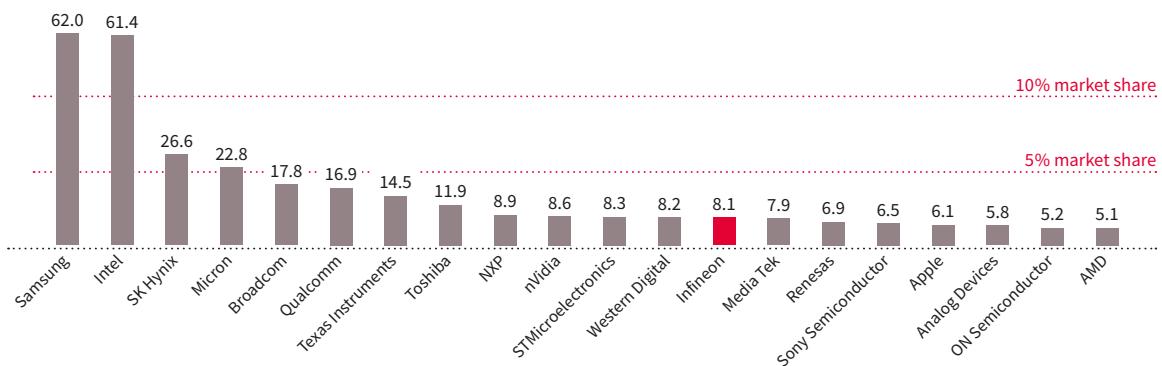
Evaluation of the 2017 calendar year (in US dollars)

In the 2017 calendar year, worldwide semiconductor revenues reached US\$429.674 billion, an increase of 21.9 percent compared to US\$352.597 billion in the previous year (Source: IHS Markit). Only the four largest competitors had a market share of more than 5 percent. Samsung had revenue of US\$62.031 billion representing 14.4 percent market share, and Intel had revenue of US\$61.406 billion representing 14.3 percent market share. Far behind them were the two memory manufacturers SK Hynix (revenue of US\$26.638 billion; market share of 6.2 percent) and Micron (revenue of US\$22.843 billion; market share of 5.3 percent). With revenue amounting to US\$8.148 billion and a market share of 1.9 percent, Infineon was ranked number 13.



Top 20 semiconductor manufacturers for 2017 calendar year

Revenue in billion US\$



Source: Based on or includes content supplied by IHS Markit, Technology Group, "Competitive Landscaping Tool – 2018 (Q2 Update)," August 2018.
Foundries and subcontractors are not included in this market research.

Samsung, SK Hynix and Micron are the leaders in memory. Because of the boom in memory, the three companies also had the highest revenue growth rates of 53.6 percent, 81.2 percent and 79.7 percent, respectively. Intel is the leader in processors. Infineon is neither active in memory nor in processors, which means Infineon does not directly compete with these four companies in these product categories. Among the 20 largest semiconductor vendors, the following companies compete with Infineon: Samsung (only in security ICs; this revenue accounts for less than 1 percent of Samsung revenue), Texas Instruments, Toshiba, NXP, STMicroelectronics, Renesas and ON Semiconductor.

The 20 largest vendors represented 74.4 percent (previous year: 70.5 percent) of global revenue. The remaining 25.6 percent (previous year: 29.5 percent) are spread over more than 1,500 other semiconductor companies. The semiconductor industry is thus highly fragmented. The consolidation process has reached different levels, depending on the product category.

In July 2018, the acquisition of NXP by Qualcomm, announced in October 2016, was cancelled. The planned acquisition of Qualcomm by Broadcom was also unsuccessful; it had been announced in November 2017 and was cancelled in March 2018.

Looking at the regional distribution of semiconductor sales, China has been the dominant factor for many years. In the 2017 calendar year, 47 percent (previous year: 45 percent) of all semiconductors were absorbed by that market. In China, contract manufacturers – so called EMS (Electronic Manufacturing Services) – play a special role. These companies 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 hand. A large portion of the semiconductors mounted in China are subsequently re-exported as part of a finished product.

Global semiconductor sales 2017 by region (total market size US\$430 billion)

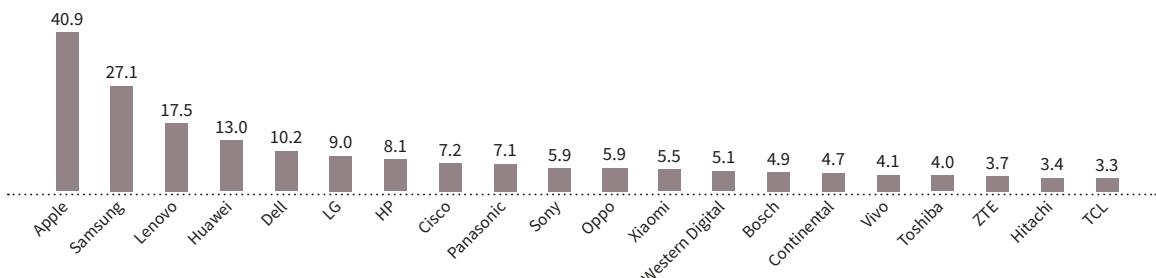


Source: Based on or includes content supplied by IHS Markit, Technology Group, "Application Market Forecast Tool – Q3 2018," September 2018.

The 20 largest semiconductor buyers account for 44.3 percent of the entire purchasing volume, or US\$191 billion. As with the semiconductor manufacturers, a small number of companies clearly leads the ranking list. Here, Apple and Samsung are by far the largest purchasers of semiconductors.

Top 20 semiconductor consumer in 2017 calendar year

Purchasing volume in billion US\$



Source: Based on or includes content supplied by IHS Markit, Technology Group, "OEM Semiconductor Spend Tracker – H1 2018," July 2018.

As a result of the major success of Chinese manufacturers in recent years, especially in the area of smartphones, the number of Chinese semiconductor purchasers increased from two in 2013 to seven in 2017: Lenovo, Huawei, Oppo, Xiaomi, Vivo, ZTE and TCL. With Bosch and Continental, there are two European companies represented in the top 20. The above-average growth rate of the automotive semiconductor market is evident in the development of Bosch. After a purchasing volume of US\$2.7 billion and being ranked 19th in 2013, in 2017, Bosch moved up to position 14 with a purchasing volume of US\$4.9 billion.

Business focus

Group strategy

We want to continue to grow and to create value for our customers and our shareholders as well as for our employees and for society. Therefore, our strategy follows global megatrends which are fundamentally shaping the world today: demographic and social change, climate change and scarce resources, urbanization and digital transformation. Our focus on energy efficiency, mobility, security, the Internet of Things (IoT) and Big Data opens up extraordinary growth opportunities for us that we want to leverage with innovative approaches. Our products and solutions contribute directly to mastering the major challenges of our time, which also makes us particularly attractive as an employer.

According to the United Nations, a total of 8.6 billion people will be living on earth by 2030 – 1 billion more than today. Thanks to better healthcare and advances in medicine, people are living ever longer lives. 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”.

Semiconductors are essential in tapping renewable energy sources. They reduce the power consumed by electric devices; thanks to the developments described above, the number of these devices is constantly increasing. Furthermore, semiconductors enable systems that make transportation cleaner, safer and smarter, and they are the technological 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. Digitalization and networks increase the productivity of industrial manufacturing processes. This development, also referred to as the Industry 4.0, reaches far beyond automation. Thanks to digitalization,

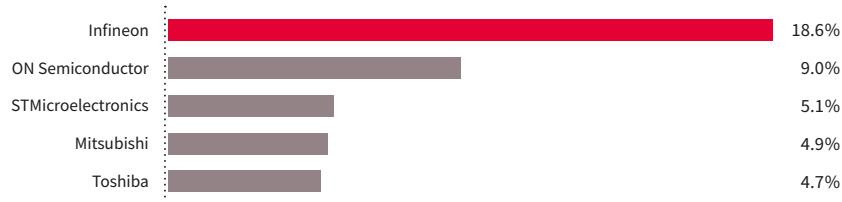
agriculture, for example, can achieve higher yields with more environmentally friendly methods. At the same time the digital transformation opens up new possibilities for consumers. The prerequisite for this is the protection of data exchange from abuse in order to ensure the acceptance of the ever-increasing degree of networking in our society.

Strategic guideline: Strengthening the core business and unlocking new growth markets

Our Group strategy is focusing on the megatrends mentioned above and thus ensures Infineon's long-term structural growth. Our course of action in the individual markets depends on our competitive position, which we analyze in terms of technologies, products and application understanding. This results in three possible categories to start with: Core business, adjacent business and new applications.

The core business includes all those areas in which we have a comprehensive understanding of applications or master the base technologies, and in which we can therefore offer a differentiating product portfolio. Here, we want to at least grow with the market and, in doing so, to maintain or strengthen our leading positions (grow in scale). One example: Power semiconductors are instrumental in the generation, transmission and use of electric power. We understand the systems that are used for electric power conversion and we supply particularly compact and energy-efficient MOSFETs and IGBTs for this purpose. As the clear world market leader in this area, our broad technology and product portfolio lets us actively shape the transition of certain applications to new semiconductor materials such as silicon carbide (SiC) and gallium nitride (GaN), offering our customers the ideal solutions for their needs. Our high-volume manufacturing offers economies of scale and makes it possible for us to provide manufacturing capacities and to grow with our customers.

World discrete power semiconductor and modules market share 2017



Source: Based on or includes content supplied by IHS Markit, Technology Group, "Power Semiconductor Annual Market Share Report," September 2018.

The greatest growth potential is to be found in markets that are adjacent to our core business, which we have however as of yet not addressed at all or only partly. For example, here we can adapt existing technologies and products for additional applications with reasonable effort and can thus increase sales potentials. And in the application fields we have already addressed we can use our system understanding to grow the scope of our business with a broader portfolio of products and solutions to generate higher revenue. Thus, the core mentioned at the beginning is not to be regarded as a static portfolio of activities; much more the adjacent areas will in the mid-term become part of our core business. The core is growing and the boundaries are shifting, because when we make progress in particular markets in terms of technology, products and application understanding, the classification of these markets changes accordingly. To return to the example of power semiconductors: We are proud to cite "Power" as one of our original core competencies. But we are nevertheless continuously developing here, too. We are expanding our portfolio in order to offer our customers an increasing degree of intelligence in addition to "Power". This means for some time now we have been complementing our range of efficient power transistors with additional solutions in order to integrate them in a digital control loop. The products required for intelligent control of these switches tend to be more complex and higher-end because they integrate more functionalities. In the context of constantly more complex systems and shorter development times, many customers appreciate solutions in which we combine "Power" and intelligence.



Technological progress also enables completely new application areas in which broad commercialization is still pending. Sometimes the impulse for new applications comes from innovations in semiconductor technology (for example Time-of-Flight technology for 3D sensing technologies), sometimes groundbreaking concepts on the customer side require the development of suitable semiconductor solutions (such as the combination of various sensor technologies for easier Human Machine Interaction). We actively address these new business areas in order to secure a good starting position in highly promising future markets early on.

We supplement our organic growth with targeted acquisitions. These acquisitions have to meet three criteria: They must be strategically viable as described above, 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 at least 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.

Strategic fields of action: Factors for successful implementation

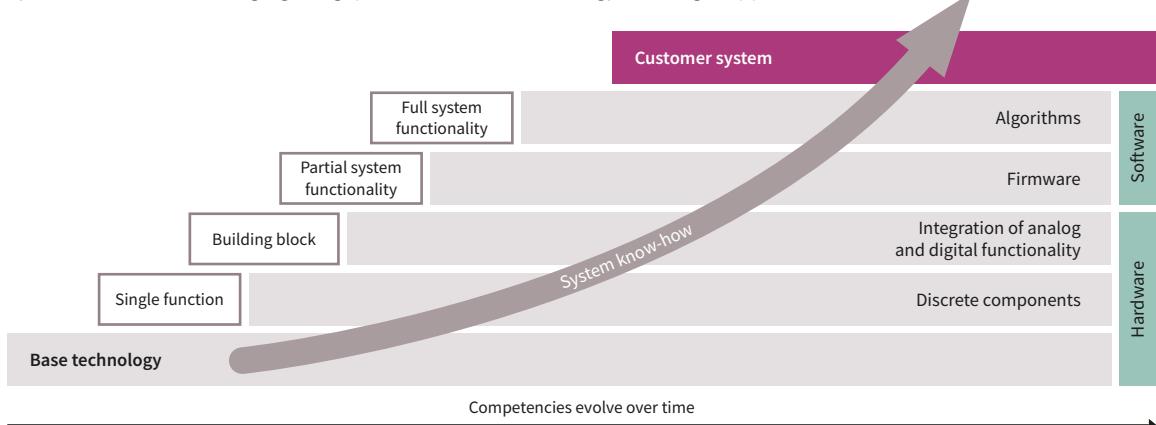
We have established a stable foundation in recent years in order to be successful in our target markets. We have focused on core competencies that are in higher demand today than ever in the face of global megatrends. Over the years, we have built and systematically expanded the technical expertise needed 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 and is 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

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: 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 to act in time, guaranteeing sustainable differentiation in growth applications and increasing profit.

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, which algorithms they use 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. 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.

System know-how is bridging the gap between core technology and target application



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 want 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, the second generation of our digital motor control platform iMOTION™ 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, compact design, 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 is 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 develop better products in cooperation with our customers.

In recent years we have intensified our activities in the area of software, both in strategic partnerships and with our own development activities. The progress we have made is becoming increasingly visible, benefitting our customers. For example, the second generation of our successful automotive microcontroller family AURIX™ can be used for radar signal pre-processing in combination with our radar chips. We have implemented this feature in hardware, but we were only able to do so because we understood the underlying algorithms.

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. One example: Since 31 March 2018, all new passenger car and light utility vehicle models in the EU have been required to feature an automatic emergency call function (eCall). This applies to approximately 20 million new cars annually. In case of an accident, eCall can autonomously send an emergency call via the cellular network to central emergency responders, providing for example location data, the exact time of the accident, the number of occupants in the vehicle and the type of fuel the vehicle uses. Normally, a SIM card would be needed in order to identify the vehicle in the cellular network. Now a permanently installed eSIM chip from Infineon does the job. In addition to the eCall, the eSIM also supports many additional functions that will make driving safer and more comfortable in the future – for example updating software over-the-air (SOTA), vehicle-to-infrastructure communication and on-board multimedia. In developing eSIMs, Infineon consolidates expertise from the areas security, telecommunications and automotive. Infineon already developed eSIM chips ten years ago and is today the leader in their automotive implementation.



Furthermore, we make use of our technology leadership to systematically expand our abilities, strengthen our core business and grow in scope – for example, whenever the requirements of our markets change or when we see long-term growth potential in an adjacent 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. These components are typically more expensive than silicon-based products, but thanks to new system architectures they also open the door to many new types of customer benefit, such as 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 together closely with our highly innovative customers, while on the other hand we provide less technology-oriented customers with solutions that are easy to implement. In the context of the increasing importance of SiC to certain power semiconductor applications, we concluded a long-term strategic wafer supply agreement with Cree, Inc. (USA) in February 2018. This ensures our supply of the most advanced 150-millimeter diameter SiC wafers and prepares us for further structural growth in power semiconductors for automotive and industrial electronics. Now, we have established all the prerequisites for future success in the growing SiC market: access to high-quality wafers, leading technologies at the product level (Trench MOSFET) and module expertise.

Based on our technology leadership in transistors, we also want to strengthen our position in solutions for power control and to expand our product portfolio. As the number one in MOSFETs and IGBTs, we see interesting opportunities for growing more strongly than before in this area. This approach is exemplary of the strategy outlined above for moving from a strong core business to penetrate adjacent markets.

Many years ago we intentionally blazed new trails in the field of sensor technologies, anticipating the drastically increasing importance of environmental data in our target markets. Today we have a comprehensive portfolio of sensors for a wide variety of systems in the car, for mobile devices, consumer electronics and the Internet of Things. The example of the silicon microphone shows that we act flexibly and adapt to market demands: Today we offer our leading MEMS technology (Micro-Electro-Mechanical Systems) in our own package and we are working together with our partner XMOS to optimize hardware and software for reliable voice control.

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 and 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.



Here, the digital transformation plays a crucial role, a development from which we benefit in two ways as a globally active semiconductor manufacturer: As both a user and provider of digital solutions. We are achieving excellent results in our well over one hundred digitalization projects. Thus for example we are connecting our sites and organizing our global supply chain to form a virtual factory. In sales and marketing we are using new methods for analyzing Big Data to improve our cross-selling and as a result we can provide more targeted solutions for our customers' needs. With initiatives like this we are building our digital expertise and are becoming even more competitive. We are following an exploratory approach in order to best utilize the potential of the digital transformation. This way we gather experience based on specific application cases and work towards solutions in an iterative process.

Digitalization thus on the one hand provides the opportunity to optimize the value added. On the other hand we can see that digitalization creates a significant revenue potential in our markets, for example in the area of automated driving and in voice and gesture control for devices and machines. Manufacturers are competing to address emerging markets as early as possible and with the most innovative solutions. This generates demand for the corresponding semiconductor solutions; we serve this demand with our portfolio of sensors, microcontrollers, power semiconductors and security controllers as well as with specific software, differentiating ourselves from our competitors.

At our new development center in Dresden (Germany) we will continue to make our portfolio more attractive in the future. Here, the primary focus is on the development of solutions for automotive and power electronics as well as for Artificial Intelligence (AI). In light of the increasing degree of connectivity found in traffic systems, algorithms, AI and the Internet of Things already play a central role today. In the long-term we will use this know-how to offer AI solutions in other target markets as well. Dresden combines development, design and manufacturing. Here we are leveraging synergies and are in a position to develop new products and bring them to market faster.

Digitalization is also changing the way we work together. In this context we have established successful new concepts that do not follow a hierarchical principle, but rather are based on the initiative of the individual employee. In the long-term, this calls for new processes and methods that can accommodate new working and management styles.

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 through lower cost or higher performance. 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 the frontend our 300-millimeter thin-wafer manufacturing for power semiconductors is a sustainable competitive advantage. We are successively equipping the available cleanroom space in Dresden (Germany) with additional tools, and benefit from the resulting higher productivity and lower capital intensity compared to manufacturing on 200-millimeter wafers. Furthermore, on 18 May 2018 we announced the construction of a second, fully automated 300-millimeter factory at the Villach (Austria) site. As the market leader in power semiconductors, we thereby lay the foundation for long-term, profitable growth. We will invest approximately €1.6 billion over a six-year period. Construction work began in November 2018, manufacturing is planned to start at the beginning of 2021. We expect the 300-millimeter manufacturing cleanroom space in Dresden to be fully used by then. The estimated additional potential revenue from the new factory is approximately €1.8 billion annually. In Villach we will rely on the automation and digitalization concepts from Dresden and will develop them further in parallel in order to increase productivity and ensure system and process synergies at both sites. By significantly expanding our manufacturing capacities we are also sending a clear signal to our customers: Infineon is the ideal partner for future growth.



Construction of a new 300-millimeter factory at the Villach site is underway. It will offer an annual potential revenue of approximately €1.8 billion.

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. We have increased capacity in our second production module in Kulim (Malaysia) as planned. This helps us ensure our delivery reliability, particularly important to our customers in the automotive industry. The strong expansion in the area of electro-mobility results in increased demand for power semiconductors. During the previous fiscal year we founded a joint venture with SAIC Motor Corporation Limited for the backend manufacturing of power semiconductor modules. The joint venture SIAPM (SAIC Infineon Automotive Power Modules (Shanghai) Co, Ltd.) provides power semiconductor solutions for electric vehicles in China, the world's largest and fastest-growing market for electro-mobility. Volume production has ramped at the Infineon Wuxi site since August 2018. As the largest automobile manufacturer in China, SAIC Motor is a very good partner when it comes to further strengthening and expanding Infineon's position. Consolidating our strengths lets us significantly increase our manufacturing capacities and supply the growing demands of the overall Chinese market. Together we want to expand and strengthen our businesses, with products that are tailored to the needs of the Chinese electric vehicle industry.

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 configurable standard products for the mass market. Here we have made good progress by emphasizing short-term delivery reliability, continuous and tailored 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.



Strategic deployment of the segments

Infineon is today organized in four segments with their strategic orientation being derived from the Group strategy described above. This structure has proven effective over many years. All activities are primarily allocated to one of four overarching topics. Automotive is responsible for business with semiconductors for automotive electronics. Industrial Power Control concentrates on power semiconductors for industrial applications, while Power Management & Multimarket addresses the more consumer-oriented applications and power supplies in general. Activities relating to traditional and new security applications are consolidated in the Digital Security Solutions segment. These assignments are not to be understood as rigid organizational boundaries. Since our markets continuously converge, we adapt our procedures accordingly and collaborate on an increasingly topic-oriented basis. Furthermore, the digital transformation also calls for new approaches. Teams from different organizational units work together beyond their usual roles of authority by taking on or delegating responsibilities themselves. This also means that the trends and growth drivers we describe in this Annual Report (see the chapter "Growth Drivers") often affect multiple segments. In such cases, one segment retains global ownership of the overall application, while responsibility for the necessary technologies and products remains with the organizational units they originate from. For example, electro-mobility affects Automotive the most; thus Automotive also has system responsibility. Nevertheless Industrial Power Control and Power Management & Multimarket also benefit from the implementation of the necessary charging infrastructure.

 see page 31 ff.

Automotive

The segment Automotive has more than 40 years of experience in the field of automotive electronics.

We focus on the core of the car: drivetrain, safety, comfort. We benefit more than other semiconductor manufacturers both from the trend towards electro-mobility and the development towards automated driving. Both trends are greatly increasing the average semiconductor content per vehicle and are expected to account for approximately half of our growth in the Automotive segment over the next five years. In addition, we also continue to benefit from new functions in the areas of lighting, comfort and safety as well as from the further electrification of conventional car functions.

Our industry-wide leading portfolio of power semiconductors, sensors and microcontrollers puts us in an excellent position on the one hand to address the systems of today and on the other hand to actively shape the transformation of the automotive industry. We are the undisputed market leader in silicon-based IGBTs and IGBT modules; our expertise pushes the development of silicon carbide-based power semiconductors forward. As the number two in the area of sensors, today we already benefit greatly from the continuously increasing number of driver assistance systems. As the degree of automation increases, so does the number of sensors per vehicle. In the long-term radar systems will be enhanced by including additional sensor technologies, a development we are anticipating for example with the development of a Lidar (light detection and ranging) solution. And with the microcontrollers of the AURIX™ family we benefit from the trend towards higher levels of automation. These devices control electronic systems (for example steering and braking systems) and work as a host controller that ensures the functional safety of central computing platforms.

Industrial Power Control

The segment Industrial Power Control specializes in the efficient conversion of electric energy along the entire supply chain (generation, transmission and consumption) with a focus on electric drives. The applications range from the wind power turbine to high voltage direct current transmission (HVDC), energy storage systems and all the way to the refrigerator.

Strategically speaking, discrete IGBTs, IGBT bare dies, which the customer develops further himself, IGBT modules and the associated drivers form the core business of Industrial Power Control. Infineon is the world market leader for IGBT-based power semiconductors (discretes and modules). We want to further expand this position and to take advantage of economies of scale in both research and development and in manufacturing. We are strengthening this core by pursuing technology leadership in silicon carbide as well and leveraging this to create an attractive product portfolio for our customers.



Industrial Power Control uses know-how relating to the application of IGBTs to realize additional growth potentials in adjacent product areas. This applies on the one hand to products for digital power control, including the development of driver algorithms, and on the other hand to what are called Intelligent Power Modules (IPM), i.e. the combination of controller, driver and switch.

Based on this portfolio, Industrial Power Control addresses especially high-growth application fields such as industrial automation, renewable energies and home appliances. At the same time, the portfolio serves emerging applications for power semiconductors such as the charging infrastructure for electric vehicles and electrified commercial and agricultural vehicles.

Power Management & Multimarket

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

In power semiconductors, Power Management & Multimarket has leading technologies for low (up to 40 volts), medium (from 40 volts to 500 volts) and higher voltages (over 500 volts). Together with the corresponding drivers, the MOSFETs of the CoolMOS™ and OptiMOS™ families form the primary focus of the Power Management & Multimarket power semiconductor business. Applications with the highest growth for these products include battery-powered devices (usually in combination with brushless DC motors). In the worldwide MOSFET market, Infineon is the clear number one and benefits from economies of scale both in terms of research and development and in manufacturing. The portfolio of silicon-based power semiconductors is supplemented by switches based on gallium nitride.

In addition, Power Management & Multimarket continuously expands its product portfolio for (digital) power control and places its focus on technologically adjacent markets, for example Point-of-Load controllers for data centers and Class D audio amplifiers. We expanded our Class D audio amplifier portfolio in the previous fiscal year with the acquisition of the Danish start-up company Merus Audio.

In radio-frequency and sensor business – the second mainstay of Power Management & Multimarket besides power semiconductors – Infineon has a strong technological basis with MEMS (in particular silicon microphones), Time-of-Flight for 3D camera applications as well as radar and is today already very successful in the respective markets. At the same time this expertise can be used in an increasing number of application fields that are expected to take off in the coming years, for example Human Machine Interaction (HMI) and facial recognition. Furthermore, Power Management & Multimarket offers radio-frequency components that can be used for example for low noise amplification in mobile telephones and for communication between mobile devices and base stations.

Digital Security Solutions

The segment Digital Security Solutions has 30 years of experience in the world's most demanding and largest digital security projects. The foundation of our activities is comprehensive expertise in traditional smartcard applications. We leverage the core competence for payment cards and government IDs in the high-growth area of embedded security applications. This is because digitalization is penetrating more and more areas of everyday life – and security is becoming a crucial aspect for many applications, for example in the areas of computing, automotive security, Industry 4.0 and the Smart Home. Unlike in the business with card-based security solutions, our customers here tend to have lower security expertise. This makes it particularly important to understand the customers' systems and to offer security solutions which are easy to integrate.

In addition to its role as an independent business unit, the Digital Security Solutions segment has a second important function within the Group: Supporting the three other segments – as a kind of competence center – with the integration of security as a function in their system solutions and in doing so creating additional potential for differentiation.



Financial targets underline our growth ambition

We assume that, in the upcoming years, several structural trends will continue to drive our growth, in particular electro-mobility, renewable energies, manufacturing automation, data centers and an increasing number of battery-powered, connected devices (the description of the most important growth drivers follows in the next chapter) – in some cases even more so than in the past. Thanks to our leading technologies, our understanding of applications and systems and our differentiating expertise in manufacturing, we have achieved an outstanding position in these markets. We want to take advantage of the resulting opportunities and to continue to outgrow the respective markets. We are making targeted investments for this purpose.

In this context we have adapted our target operating model during the previous fiscal year.

Target 1: 9 percent average annual growth in revenue (previously 8 percent)

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 and in some cases even an accelerating demand momentum for our products. 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 the 2018 fiscal year, revenue increased by 8 percent compared to the previous year. Assuming a constant exchange rate for the US dollar, this would have been 12 percent. In the context of the high level of customer demand, we expect revenue to increase by 11 percent plus or minus 2 percentage points in the upcoming 2019 fiscal year. Following a period of such elevated growth, we expect an average annual revenue growth of 9 percent. Infineon is thus continuing its growth path of almost two decades: Since being established as an independent corporation in 1999, our business in its current perimeter has grown organically, i.e. without taking the revenue boost resulting from the acquisition of International Rectifier into account, with an average annual rate of approximately 9 percent.

Target 2: 17 percent Segment Result Margin through the cycle gradually improving (previously 17 percent)

Growth is only one prerequisite for sustainable success. Another criterion is profitability. 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 who are then willing to pay for them. In addition, we want to continue our development activities 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 and plan to gradually improve it. Here, we are relying among other things on economies of scale and on cost advantages from the increasing share of 300-millimeter in our total manufacturing volume as well as on a disproportionately lower increase in operational costs. Research and development expenses will increase in line with revenue. Selling expenses will increase by 90 percent of revenue growth and general and administrative expenses by 60 percent thereof. Also, technology leadership and the strategic approach “Product to System” enable us to maintain a higher degree of differentiation. In the 2018 fiscal year we achieved a Segment Result Margin of 17.8 percent.

Target 3: Investments amounting to 15 percent of revenue (previously 13 percent)

Our planning is oriented towards providing the necessary manufacturing capacities for the expected growth. The accelerated growth is in particular driven by strong demand for power semiconductors, a field in which Infineon's in-house manufacturing provides competitive differentiation. As a result, we have adjusted the targeted investment-to-sales ratio. Annual investments should be an average of 15 percent (previously 13 percent) of revenue. This continues to include approximately 2 percentage points for the capitalization of development expenses in accordance with IFRS; the bulk of the remainder is for the most part accounted for by investments in manufacturing facilities and IT equipment. The targets for growth and investment are closely intertwined. A revenue growth rate increase/reduction from the 9 percent level would entail a slightly less than proportionate change in the investment-to-sales ratio.



In coming years, we also plan to invest a low triple-digit million amount in order to take advantage of possible additional business opportunities and follow structural changes. These investments are not included in the 15 percent ratio described above. In addition, we have already announced investments in front-end cleanrooms and large office buildings, including the 300-millimeter cleanroom and the research and development building at the Villach site (Austria). In the 2019 fiscal year, around €200 million of this will accrue. If these measures are implemented, the investment rate will temporarily be significantly higher than the rate provided in the target operating model.

The investment-to-sales ratio in the previous fiscal year was 16.5 percent.

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, thus enabling their growth. Our debt providers rely on our ability to securely service our debt over a long period of time. 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.

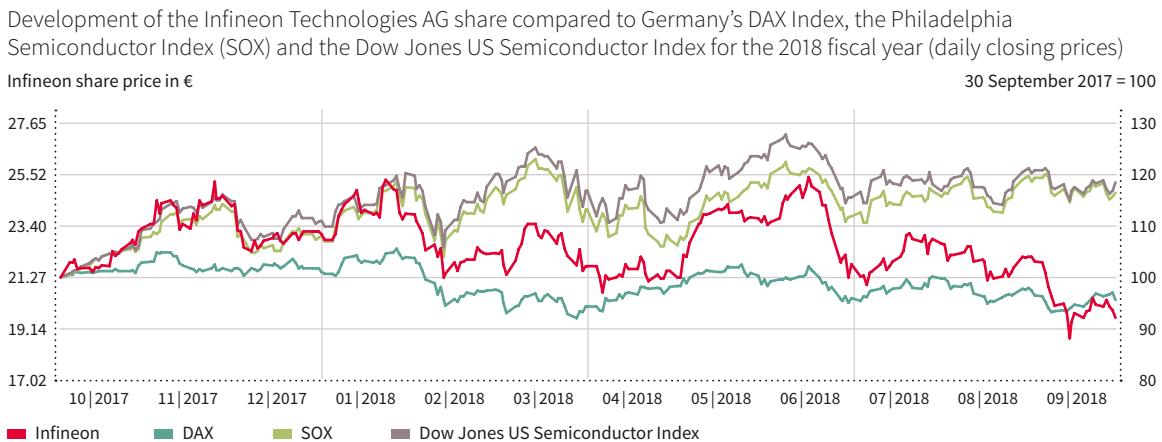
Our gross cash target is €1 billion plus 10 to 20 percent of revenue. The fixed basic amount of €1 billion provides a solid liquidity reserve for contingent liabilities and retirement fund liabilities, which are independent of revenue. Furthermore, 10 to 20 percent of revenue means we always have access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

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 dividends. 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.





Growth drivers

There are numerous application areas with strong growth dynamics in each of the four main trends addressed by Infineon – Energy Efficiency, Mobility, Security and the Internet of Things together with Big Data. We achieve sustainable growth by addressing these applications with our solutions.

Energy Efficiency

Renewable energies

The use of renewable sources is the key to a sustainable energy supply. Infineon benefits from the fact that wind power turbines and solar power plants require a multiple of power semiconductors per gigawatt of power generated as compared to conventional power plants. In contrast to coal, natural gas or nuclear power plants there is no synchronized turbine generating constant 50 hertz alternating current. This means that the generated electricity cannot be fed directly into the grid and power-electronic conversion systems are required. Infineon supplies all the major manufacturers of wind power turbines and solar inverters.

Wind

Here, two trends in particular drive the demand for semiconductors: First of all older, lower performing wind power turbines are being replaced by modern, high-performance ones, a process referred to as “repowering”. Secondly, ever stronger generators are being used in new installations. 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. Future projects will include turbines with an output of 5 megawatts.

Solar power

Infineon enjoys a very broad international presence and has been partnering for years with the world's leading manufacturers of solar inverters. Among other things, we benefit from the growth of Chinese inverter manufacturers, both with regard to the domestic expansion of solar power in China and to the export to other regions. Furthermore, we work together closely with leading European manufacturers who are also very successful in the USA. Efficient conversion and low system costs contribute to reducing electricity generation costs in solar power plants and to achieving grid parity with conventionally generated electricity. This enables continued expansion of solar power, even without subsidies.

Energy storage

The use of renewable energies entails specific requirements along the entire energy supply chain. Generating electricity by wind and sun no longer takes place centrally in a small number of sites, but rather decentrally at many different locations. In addition, fluctuations in power generation cannot always be aligned with current power demand patterns, making temporary storage necessary. This also makes it possible to reduce costs associated with conventional power plants which have in the past been maintained as replacements or reserve capacity to supplement sustainable energy sources. For the period between 2017 and 2025, market researchers forecast average annual growth in storage capacity of 22 percent, to approximately 9,200 megawatts.

Power supplies

AC-DC conversion

Growth in the area of power supplies depends on the performance and even more on the unit growth of devices. We see the highest unit growth in the case of servers; because of the high performance level, a correspondingly high number of power semiconductors is required for power supplies. Demand for computing power and storage capacity is currently driven by social networks and increasingly by machine learning. The Internet of Things and Industry 4.0 will accelerate this trend even more in the future. In addition, we see growth opportunities in business with compact chargers and solutions for wireless charging of smartphones, tablets and lightweight notebooks (or “portables”).

DC-DC conversion

Intelligent Point-of-Load power management is becoming increasingly important in DC-DC conversion. Servers, PCs and communication devices are supplied with higher voltages which are then precisely stepped down to the required low voltages directly at the processor. Another growth driver is the digitalization of the control loop. The requirements for dynamics, efficiency and standby consumption continue to increase. Analog control loops are increasingly reaching their limits and are being replaced by digital systems.

(Smart) Motor control and drives

Automation

Electric drives are at the heart of a large number of systems, for example cranes, conveyor belts and robots. They are used wherever something has to be moved or transported. Electric motors account for approximately 28 percent of worldwide electric power consumption. The savings potential is correspondingly large when efficiency is increased. One possibility for reducing the power consumption of an electric motor is the use of an electronic control unit for speed control, adapting the power supplied to the actual performance required. The market penetration of variable speed drive motor control units will increase. Their implementation requires a large number of the power semiconductors. Their quantity and value depend on the motor's performance class. The next level of automation will be achieved with Industry 4.0. This will in turn trigger a new investment cycle, including collaborative robots; see below in the section “Internet of Things & Big Data”.

 see page 37 ff.



Electric drives are at the heart of a large number of systems, such as cranes, conveyor belts and robots.



Major home appliances

The manufacturers of home appliances are also increasingly relying on variable speed drive motors using inverters. These motors are significantly more energy-efficient, emit less noise and have a longer service life than motors without speed-control. And: The value of the semiconductors they contain is increasing more than ten-fold. Examples are the motors in washing machines and dishwashers, the compressors in refrigerators and the fans in air conditioning systems. Only about one third of all major home appliances sold in 2017 had a speed-controlled motor. Market researchers predict that this ratio will double by 2022: By that time, approximately 65 percent of the machines sold will feature a variable speed drive.

Battery-powered devices

One important type of electric motor is referred to as brushless direct current (BLDC) motor. In BLDC motors the commutation is electronic, depending on rotor position, rotor rotation speed and torque. This calls for the appropriate power semiconductors and, depending on the configuration, also for components for diagnostic and security functions. Because of their high level of energy efficiency and their low power-to-weight ratio, BLDC motors are particularly well-suited for use in battery-powered systems. Examples here are cordless home appliances such as robot vacuum cleaners, cordless drills and electric lawn mowers. In addition to the motors, the storage batteries are also becoming lighter and lighter, enabling longer operating times. This makes battery-powered devices increasingly interesting for professional craftsmen as well.

The same applies to drones. The popularity of these remote-controlled aircraft has long gone beyond the ranks of amateur pilots: Drones are now being used more and more frequently for commercial purposes. Drones require a large number of semiconductors to control the 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.

In addition, all the examples cited above also require power semiconductor components for their charging stations.

Mobility

Global population growth and increasing industrialization are driving the demand for all types of transportation. From forms of mass transportation such as aircraft and trains to privately used vehicles like cars and pedelecs (pedal electric cycles). Cars are considered status symbols and are the key to individual mobility. An annual average growth rate of 2 percent is forecast for worldwide automobile production for the years 2017 to 2022.

Infineon benefits from this trend in two ways: From the increased number of vehicles and, even more so, from the corresponding growth in the number of electronic systems per vehicle. Today, approximately 90 percent of innovations in vehicles are based on electronics. In the opinion of market experts, this share should stay at this level in the years to come.

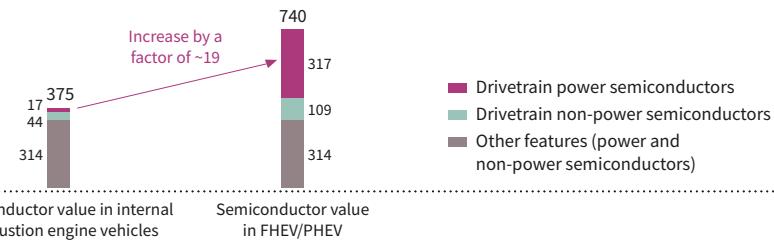
Electro-mobility

The automotive industry is continuously working to reduce emissions. A European Commission regulation requires the reduction of average fleet emissions to 95 grams of CO₂ per kilometer by 2021. More realistic exhaust gas testing procedures such as the WLTP cycle (Worldwide Harmonized Light-Duty Vehicles Test Procedure), in effect since 2017, mean further, implicit tightening of CO₂ abatement rules. This will in turn increase demand for semiconductors. The optimization of the combustion engine alone will not be sufficient to fulfill legal requirements and satisfy customer demands for sustainable mobility. Instead, systems consuming energy in the vehicle will increasingly have to be made more efficient, and hydraulic or mechanical solutions will have to be replaced by more efficient electromechanical and thus semiconductor-based systems.

In order to reduce the fleet average to the mandated target CO₂ value, many car manufacturers add hybrid or electric vehicles to their product portfolio. These vehicles have a significantly higher semiconductor content than conventional cars. Infineon offers a wide range of corresponding power semiconductor components. While the current average semiconductor content of a car with a conventional combustion engine is US\$375, the amount in full or plug-in hybrid vehicles is US\$740, and for pure electric vehicles as much as US\$750. Here, power semiconductors make up approximately three quarters of the additional semiconductor content.

Transition from internal combustion engine vehicles to hybrid electric vehicles increases demand for power semiconductors in the drivetrain by a factor of ~19

in US\$



Source: Strategy Analytics, "Automotive Semiconductor Demand Forecast 2016 – 2025," May 2018; Infineon

There are also what are referred to as mild-hybrid vehicles, based on 48 volt technology. These vehicles can recuperate a certain amount of braking energy, while at the same time emissions can be reduced by more efficient systems. Mechanical functions are being increasingly replaced by electric ones. The 48 volt onboard system handles the power supply for higher-performance systems such as the electric turbocharger, electric power-steering and electronic stability control and enables better braking energy recuperation. Market researchers calculate approximately US\$75 in additional power semiconductors will be necessary to power these systems as well as for the coupling of the two on-board power networks.



Vehicles with electric drivetrain have a significantly larger semiconductor content than vehicles with combustion engines.

In addition to CO₂, hazardous substances such as nitrogen oxides (or NO_x) are catching more and more attention. They are produced when fossil fuels are burned and result in a higher level of particulate matter pollution, in addition to a number of other factors. In metropolitan areas, diesel engines account for the largest share of NO_x emissions, which is why some cities have already banned older diesel vehicles. The prospect of not being able to drive at all in such diesel-free urban zones or only with restrictions will influence the customer's purchase decision and represents a medium to long-term competitive disadvantage for the diesel compared to other propulsion types.



Charging infrastructure for electro-mobility

The steadily increasing number of electric vehicles also requires a corresponding charging infrastructure. A well-developed network of charging stations increases the incentive to buy an electric vehicle. In order to promote the acceptance level of electro-mobility, China has begun operating charging stations along the country's eight most important highways. This also includes the important connection between Beijing and Shanghai. By 2020, 10,000 charging stations with 120,000 charging points are to be implemented, with an investment volume of approximately US\$770 million. Also other countries will most likely constantly expand their networks of publicly accessible charging stations in the coming years. Depending on the system topology, the charging stations use different types of power semiconductors, as offered by our Industrial Power Control and Power Management & Multimarket segments.

Automated driving

“Vision Zero” describes one of the largest objectives of the automotive industry: Vehicles are to be made so safe that no serious or fatal accidents occur anymore; today approximately 90 percent of such accidents are attributable to human error. Active safety systems can either completely prevent an accident or at least significantly reduce its consequences by directly intervening in the driving process. Examples here are pedestrian detection, adaptive cruise control and blind spot detection. These functions are no longer reserved for luxury vehicles, as they are becoming commonplace in the mid-range.

Step by step active safety systems are being enhanced to become driver assistance systems. By supporting the driver, they increase both driving comfort and road safety. Among other things they assist in critical situations or help correct a driver error when necessary, for example with automatic emergency braking maneuvers. Systems for partially and fully automated driving essentially consist of the sensors (for example radar, cameras in the vehicle’s interior or exterior), together with a central high-performance computer for the evaluation of sensor data as well as calculation of the driving strategy (the system’s intelligence). The third element is the actuators (steering, brakes, engine control and transmission). As a leading provider of system solutions Infineon has a comprehensive product portfolio for assistance systems and for automated driving.

Traction systems

Sustainable and fast mobility within metropolitan areas as well as between big cities is one of the key topics of the 21st century. Today reliable and rapid public transportation determines more than ever the quality of life and competitiveness in many regions and cities worldwide. 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 rail vehicle markets in the world. We also see the reinvigoration of the market for traction systems in the rest of Asia, where, as a result of industrialization and urbanization, urban rail systems and regional trains are in high demand.



Security

Government IDs

Government IDs refer to passports, identity cards, driving licenses and in the broader sense also to health care cards. These documents are increasingly being equipped with a security chip. The market penetration of chip-based government IDs is constantly increasing. More and more countries are making the transition to 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 vendors of security technologies in the electronic passports of the USA. Infineon has been supplying the US GPO since the project was launched 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.

Secure authentication 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 primarily affects the areas automotive, Industry 4.0, Smart Home and information and communication infrastructures. Here, security plays a decisive role. The rising number of hacking attacks underlines the importance of appropriate precautions. In order to secure electronic systems, it is important to only connect authorized and authenticated devices with one another in order to protect them against cyber-attacks and manipulation of data. This means security has to be integrated into as many critical end-points as possible, often referred to in this context as the topic of embedded security. With the OPTIGA™ product series Infineon supplies various security chips and security solutions for the authentication of electronic systems: From complex IT infrastructure with numerous servers and routers all the way down to computers and tablets.

Security for industrial applications (Smart Factories)

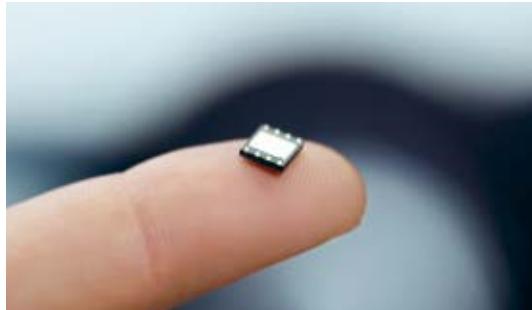
The fourth Industrial Revolution is in full swing. In the era of Industry 4.0 companies are using modern technologies to design their manufacturing to be faster and more cost-effective, to reduce scrap rates and to minimize incidents and downtimes through predictive maintenance. Networking and digitalization of factories however create points of attack for hackers. To protect themselves, companies must therefore take security into account from the very beginning of Industry 4.0 projects. A combination of software and hardware-based security solutions can protect networked machines and communication nodes. Examples are the OPTIGA™ TPM chips from Infineon, which can be integrated in routers, industrial PCs and complex control units and which serve to identify devices to communication partners in the network. They thus authenticate themselves in the network and secure data transmission.

Security for connected vehicles

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 data exchange among the various on-board systems as well as with other vehicles and the infrastructure has to be kept secure. Vehicle and personal safety on the one hand and data and IT security on the other hand can no longer be considered in isolation from one another. The vehicle is becoming a networked computer on four wheels and is also becoming a part of the Internet of Things. The demand for data and IT security in the vehicle is rising. We see our opportunity here with hardware-based security in the form offered by our security controllers – either as a separate component or integrated in our automotive microcontrollers.



Since March 2018, all new passenger cars and light utility vehicle models in the EU have been required to feature an automatic emergency call function (eCall). This requires an embedded SIM card (eSIM). In addition to the eCall, the chip also supports several other functions which make driving safer and more comfortable, for example software over-the-air updates (SOTA) and vehicle-to-infrastructure communication.



Embedded SIM cards meet the special quality requirements of the automotive sector: They are robust, durable and highly resistant to high temperature fluctuations.

Internet of Things & Big Data

Collaborative robots

The field of robotics has been attracting special attention for several years now. In addition to the continuing development of conventional industrial robots, more and more industry sectors are implementing collaborative robots, known as "cobots". Cobots work together with humans in the manufacturing process and are no longer separated from their human colleagues by protective equipment, as the typical industrial robot is; the requirements regarding their reliability and safety are therefore very high. Cobots will relieve and support humans in difficult and dangerous tasks. Their further development continues the trend towards intuitive robot programming and self-learning robots. Infineon offers not only the necessary sensors, microcontrollers and power semiconductors, but also provides numerous start-ups in this market with know-how in the area of motor control, sensor systems, communications connections and security.

Human Machine Interaction

Human Machine Interaction is concerned with how humans and automated systems interact and communicate with one another. The focus has long moved past classic industrial machines and now affects computers, digital systems and devices for the Internet of Things, i.e. the link between the real and digital world. More and more devices are networked and perform their tasks automatically. Operation of all these machines, systems and devices has to be as intuitive as possible and must not overwhelm the user. Smooth communication between humans and machines requires the right interfaces. A system can for example be controlled using text entry on the keyboard or mouse, but touchscreens, voice and gesture control are more natural.

Voice

Voice control systems such as Amazon Alexa, Google Assistant, Apple Siri, Samsung Bixby and Microsoft Cortana offer a convenient and intuitive way of control to the user. Providing users with even more comfort will mean reducing the error rate in voice command processing. We are working on this together with our partner XMOS Ltd. in England. Infineon supplies highly sophisticated silicon microphones and XMOS speech processing modules for devices in the Internet of Things. As it matures, voice control will become relevant for more and more device classes and will become one of the most important control types.

Gesture

Gesture control has several advantages over touchscreens: For example, the user doesn't have to touch the device and can thus issue commands from a distance. At the same time, gesture control opens up the third dimension, enhancing the traditional two-dimensional user interface. Google and Infineon have developed a new type of gesture control called "Soli", using radar technology: The radar chip from Infineon can transmit and receive waves reflected from the user's finger. When someone makes a hand gesture, the result is a different reflection pattern. Google algorithms recognize the hand or finger gesture based on the change of these reflection patterns over time and thus recognize the gesture. This even works in the dark and with dirty fingers in the kitchen, workshop or laboratory.

Virtual Reality/Augmented Reality

Virtual and Augmented Reality are not only used for games, they are also important in Industry 4.0. For example apps for Microsoft's Hololens enable virtual training for technicians. The Fraunhofer Institute for Factory Operation and Automation (IFF) rents its mixed-reality laboratory Elbedome out to companies. This laboratory can represent machines, factories and complete cities on a 360 degree projection surface using six laser projectors. This gives developers and customers the impression of standing in the middle of the planned factory.

Our 3D image sensor chip REAL3™ enables a three-dimensional depiction of the environment at high image quality and is used in both smartphones and in driver assistance systems.



Virtual and Augmented Reality are also used in industry, for example for simulation and training purposes.

Smart Home

"Smartification" is finding its way into the home as well. While in the industrial context the primary issue is increasing productivity, applications in the private environment are usually focused on comfort. A Smart Home is capable of telling all the machines in it what to do and activating every device at just the right time. In addition to increased comfort, the Smart Home's better energy efficiency and higher security are additional important aspects. The Infineon portfolio of sensors, power semiconductors and security controllers offers the right solutions for a networked home.

Mobile communications

Mobile data traffic is constantly increasing in volume: While 15 Exabyte (i.e. 15 billion gigabytes) per month were transferred via cellular communications in 2017, experts expect a volume of 107 Exabyte per month for the 2023 year. In order to be prepared for the exponentially increasing data volumes, to achieve higher data transmission rates and to improve network coverage, network providers are turning to a high-performance infrastructure. The migration of network architecture to smaller cells enables among other things the use of higher frequency ranges and better exploitation of the available frequency spectrum. Radio-frequency (RF) components are required for both the communication between mobile devices and the base station and for wireless backhaul from local networks to the main network.



Radio-frequency technologies are also used in mobile devices. Every new smartphone generation requires support for more frequency bands. The transition from one cellular communications standard to the next means an increase in the requirements on signal quality. Our components help to separate closely adjacent frequency bands and amplify weak signals with low noise levels. The transition to the 5G standard will mean a further increase in complexity, which presents additional potential for our high-performance components.

Human Resources strategy

Our Human Resources strategy makes an important contribution to ensuring that Infineon can achieve its growth and profitability targets. This includes competitive talent management, an attractive working environment and high-performance HR processes.

In order to remain innovative, competitive and successful in the future, Infineon constantly searches for the most talented individuals. And the further increasing scarcity of experts facing a steadily growing number of vacancies makes this no easy task. This is particularly the case in the area of the STEM subjects, Science, Technology, Engineering and Mathematics: exactly those fields which are of particular importance to Infineon. We are therefore reviewing our recruiting measures on a regular basis and are working on an integrated system for talent management.

One of our great advantages is Infineon's positive employer image, which helps win over and retain talents. The fact that we make future-oriented products and create value for society makes our company very attractive to potential employees. We also define ourselves by the way we work together: with a well-developed culture of feedback, "Leadership Excellence" applied every day and an international working environment with colleagues from over 100 nations. We are proud of this diversity. The most recent Great Place to Work® survey confirmed the satisfaction of the workforce – not only in Germany, but also worldwide. More than 80 percent of Infineon employees gave their employer an excellent evaluation: "Taking everything into account, I would say this is a great place to work."

At the same time, we are preparing the company for the working environment of the future – also in order to remain attractive to new generations of employees. This entails the flexible design of working conditions (for example work hours, mobile working, sabbatical) as well as the ongoing development of workstations in manufacturing ("industry 4.0"). Here we highly value constructive dialog and trust-based collaboration with Workers' Councils. We also orient our learning formats to future working environments, offering for example mobile learning with apps as well as virtual learning groups. Our objective in doing so is to continuously support our employees and to encourage them to try out new methods, while making use of the opportunities of digitalization.

Furthermore, we are working on an HR infrastructure that allows the organization to react flexibly to growth and changing requirements, without costs increasing as fast as revenue. In order to achieve this, we constantly improve core processes in HR, for example performance management, the process of succession planning and organizational development. We use the new processes and tools to strengthen the employees in the self-directed performance of their responsibilities for their personal development. People are the focus of our actions: The highest level of long-term entrepreneurial performance can only be achieved by happy, healthy and successful employees.

You will find further information including detailed statistics in the 2018 sustainability report and in the 2018 Human Resources report.

@ www.infineon.com/csr_reporting
@ www.infineon.com/hrreport

The segments



Automotive

REVENUE
€3,284 million

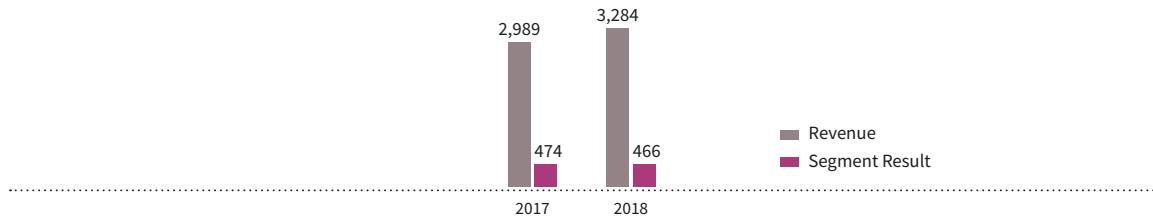
SEGMENT RESULT
€466 million

The Automotive segment in the 2018 fiscal year

Revenue development

In the Automotive segment, Infineon recorded revenue of €3,284 million in the 2018 fiscal year, an increase of 10 percent compared to the €2,989 million revenue of the previous year. The segment contributed 43 percent of the Group revenue.

Revenue and Segment Result of the Automotive segment
€ in millions



As in previous years, the major growth drivers were the megatrends electro-mobility and automated driving. Both developments resulted in a particularly strong increase in the semiconductor content per vehicle and are expected to ensure over half of our growth in the Automotive segment over the next five years. They are among the structural growth factors which fundamentally support Infineon's above-average growth. In addition, we continue to benefit from new functions in the areas of lighting, comfort and safety as well as from the continuing electrification of previously hydraulic and electro-mechanical subsystems.

We supply powertrain solutions for all types of electric vehicles: pure electric vehicles as well as hybrid and plug-in hybrid vehicles including 48 volt technology. In China, the world's largest market for electro-mobility, the number of vehicles manufactured and registered with plug-in hybrid or pure electric drives continued to increase sharply. Here the number of units manufactured increased from 517,000 in the 2016 calendar year by 53.6 percent to 794,000 units in the 2017 calendar year. Sales of electric vehicles increased in the other regions as well, especially due to a wider variety of models, making it possible to address a new group of buyers. In addition to the increase in units, this year we also saw innovative drive configurations which will further increase demand for power modules. For example, in order to increase performance one electric motor is used on each axle. Furthermore, the motors are configured for higher performance, which often requires two IGBT modules per motor. As a result of these two trends, each vehicle has four IGBT modules instead of one IGBT module.



The spread of driver assistance systems associated with automated driving led to an increase in the demand for our radar sensor ICs as well as for our 32-bit multi-core microcontrollers of the AURIX™ family. In particular the AURIX™ microcontrollers benefitted from the design-wins in the previous years in the area of safety systems, for example in electric power steering. Infineon traditionally holds a strong position for 32-bit microcontrollers in the area of powertrain. Infineon is now specifically addressing the areas of safety systems and driver assistance systems by developing corresponding 32-bit microcontroller derivatives, in particular the new, second generation of the AURIX™ family. For example, we are adding new functions for radar signal preprocessing to our radar sensor ICs. Our customers benefit from components which ideally fit together. We are thus expanding our range of applications from the powertrain to the area of safety and in doing so are entering new growth markets.

The increasing demand for radar sensor ICs came on the one hand from the increasing market penetration of radar-based driver assistance systems and on the other hand from the higher number of radar sensors per vehicle. In particular our 77 gigahertz radar solutions for driver assistance systems remained in high demand. Infineon is one of the leading suppliers to the most important manufacturers of radar systems in all regions.

The demand for luxury and upper mid-range vehicles – especially for SUVs (Sport Utility Vehicles) – remained on a high level worldwide. This vehicle type is typically equipped with significantly more safety and comfort functions.

Development of the Segment Result

Segment Result was €466 million and thus slightly lower than the previous year's Segment Result of €474 million. As a percent of revenue, the Segment Result margin was 14.2 percent (previous year: 15.9 percent).

Segment Result was positively impacted by the increased result contribution from the higher revenue as well as by advances in productivity. The decline in the Segment Result margin is essentially the result of very strong revenue growth of products for electro-mobility. Compared to a share of approximately 7 percent in the previous year, their share of segment revenue is in the meantime approximately 10 percent; however, due to the large investments in development and manufacturing, the profitability of these products is still not at the average margin level of the Automotive segment. In order to be able to drive further growth, during the previous fiscal year we already began ramping-up additional backend manufacturing lines for products in the area of electro-mobility, continuing to incur temporary ramp-up costs, on the one hand in Warstein (Germany) and on the other hand in the first manufacturing building in Wuxi (China). In addition, the positive effects were compensated by higher research and development costs, primarily in the area of driver assistance systems.

Applications

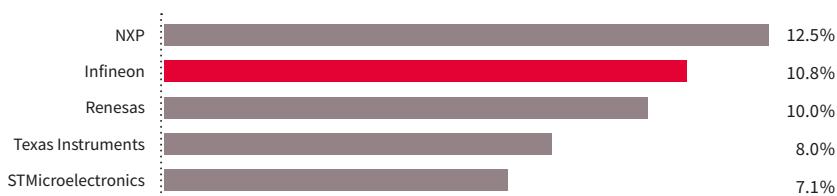
Assistance systems and safety systems	Comfort electronics	Powertrain	Security
<ul style="list-style-type: none">› Airbag› Anti-blocking system› Automatic parking› Autonomous emergency braking system› Blind spot detection› Cruise control› Distance warning systems› Electronic chassis control› Electronic power steering› Electronic stability control› Lane departure warning system› Tire pressure monitoring system	<ul style="list-style-type: none">› Air conditioning› Door electronics› Electronic control units› Electronic seat adjustment› Hatch door› Lighting› Power window› Steering› Sunroof› Suspension› Windshield wipers	<ul style="list-style-type: none">› Alternator control› Battery charging control› Battery management› Combustion engine control› Electric motor control› Generator control› Start-stop system› Transmission control	<ul style="list-style-type: none">› Communication (car-to-car, car-to-infrastructure)› Digital tachograph› Original spare parts authentication› Protection against manipulation (e.g. odometer)› Protection against software manipulation



Market position

The world market for automotive semiconductors grew by 14.1 percent from US\$30.214 billion in the 2016 calendar year to US\$34.469 billion in the 2017 calendar year (Source: Strategy Analytics). All regions contributed to growth. Europe remained by far the largest region. For the first time, China displaced North America as the second largest region. In China during the 2017 calendar year, Infineon was able to increase its revenue with automotive semiconductors by 23.6 percent and its market share by 1.1 percentage points to 12.0 percent. Our strong increase of 18.5 percent in revenue in Japan is positive as well. In this region Infineon is increasingly perceived as a competent system partner who can deliver the desired quality and who is winning larger and larger orders. As a result, our market share in Japan has almost doubled, from 3.1 percent in 2010 to 6.1 percent in 2017.

World automotive semiconductor market share 2017



Source: Strategy Analytics, "Automotive Semiconductor Vendor Market Shares," April 2018

While market share only changed by some tenths of a percentage point for the second to fifth largest players, the market leader lost 1.5 percentage points, primarily through the sales of essential parts of its power semiconductor portfolio. Infineon increased its revenue by 15.8 percent and thus gained 0.1 percentage points of market share to 10.8 percent. The five largest market players together accounted for a market share of 48.4 percent.



Industrial Power Control

REVENUE

€1,323 million

SEGMENT RESULT

€256 million

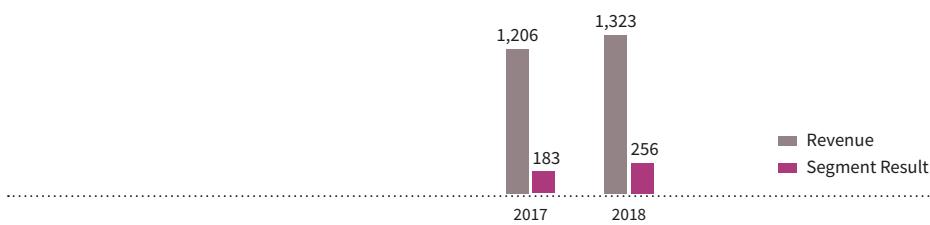
The Industrial Power Control segment in the 2018 fiscal year

Revenue development

In the Industrial Power Control segment Infineon recorded revenue of €1,323 million in the 2018 fiscal year, an increase of 10 percent compared to the €1,206 million revenue of the previous year. The segment contributed 17 percent of the Group revenue.

Revenue and Segment Result of the Industrial Power Control segment

€ in millions





In the previous fiscal year, almost all areas contributed to the revenue increase. The growth rates of the businesses electric drives, traction systems, industrial power supplies and home appliances were significantly above the segment average. The largest absolute revenue increase came from the electric drives business. Electric drives is also the largest business in absolute terms accounting for approximately one third of segment revenue. Here, the revenue increased in each individual quarter and reached a new all-time high. The reason was essentially an increase in demand in the area of factory automation. Demand here came from all power classes.

Home appliances, accounting for approximately 20 percent of revenue and in the meantime the second-largest business, also achieved revenue growth significantly above the segment average. Revenue in this business has more than doubled in the last three years. Primarily responsible for this success are both our IPMs (Intelligent Power Modules) of the CIPOS™ family and the motion control components of our iMOTION™ family. We supply reference designs and ready-to-use solutions for these compact modules. They are used in home appliances of all types, from hair dryers to washing machines all the way to air conditioning systems. The market acceptance for our products is also evidenced by the increase of our market share for IPMs. With almost 40 percent growth compared to 2016, this product category increased in the 2017 calendar year twice as fast as compared to the market (see the section "Market position").

P see page 44

Renewable energy declined slightly. In China, by far the largest country for photovoltaics and responsible for approximately half of worldwide new installations, a stagnation resulted from the announcement by the Chinese government at the beginning of June that the new installations would be limited to approximately 50 gigawatts in the 2018 calendar year and that the feed-in tariff would be reduced. The impact of this effect was mitigated by the fact that other regions increased their expansion goals. These include Europe, the Middle East, Africa and Southeast Asia. In the area of wind turbines there was a noticeable drop in revenue for us in spite of the stable development. Lower demand for power stacks could not be compensated by the significantly higher demand for power modules.

In energy distribution we are now benefitting from the expansion of our product portfolio over the last years, especially in the voltage class of 4,500 volt. The acceptance of our IGBT modules for high-voltage direct current transmission (HVDC), in particular for connecting offshore windparks to the power grid on land brought us very high growth in this area.

As in the previous year, traction once again showed approximately 20 percent growth. Demand was at high levels in all quarters. Once again, the most important region was China, where there was demand for all types of traction: high-speed trains, urban rail systems and electric or half-electric locomotives for freight trains.

The other business areas, among others industrial vehicles, only marginally contributed to revenue increase.

Development of the Segment Result

Segment Result was €256 million, representing an increase of 40 percent compared to the previous year's Segment Result of €183 million. Based on revenue, the Segment Result margin was 19.3 percent (previous year: 15.2 percent).

Segment Result was positively impacted mainly by the increased result contribution from revenue growth. Furthermore productivity improvements, among other things higher capacity utilization levels in the 300-millimeter manufacturing line in Dresden and a higher-margin product mix in the individual product categories had a positive effect on profitability.



Applications

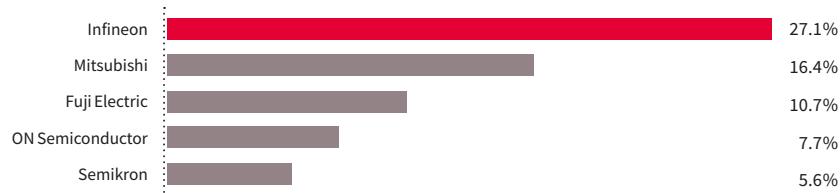
Energy generation	Energy transmission	Energy consumption		
<ul style="list-style-type: none"> › Energy storage › Photovoltaic systems › Wind power turbines 	<ul style="list-style-type: none"> › FACTS (Flexible AC Transmission Systems) › Offshore wind farm HVDC lines 	<p>Home appliances</p> <ul style="list-style-type: none"> › Air conditioners › Dishwashers › Induction cooktops › Microwave ovens › Refrigerators › Vacuum cleaners › Washing machines <p>Industrial vehicles</p> <ul style="list-style-type: none"> › Agricultural vehicles › Construction vehicles › Electric delivery 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>Industrial power supplies</p> <p>Robotics</p>

¹ Including motors, compressors, pumps and fans.

Market position

The world market for IGBT-based power semiconductors – discrete IGBT power transistors and IGBT modules – reached US\$5.255 billion in the 2017 calendar year, an increase of 16.5 percent compared to the previous year value of US\$4.510 billion (Source: IHS Markit). Infineon was able to further improve its leadership position with a market share of 27.1 percent (an increase of 1.2 percentage points). The five largest market players together accounted for a market share of 67.5 percent.

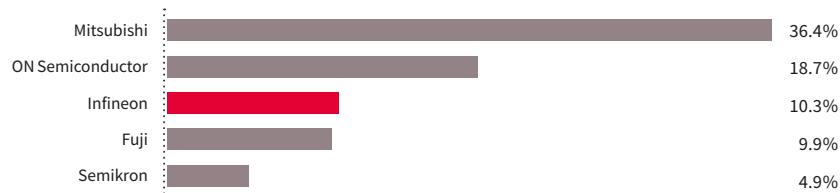
World IGBT-based power semiconductor market share 2017



Source: Based on or includes content supplied by IHS Markit, Technology Group, "Power Semiconductor Annual Market Share Database 2017," September 2018.

An important sub-market of IGBT-based power semiconductors covers IPMs (Intelligent Power Modules). In the 2017 calendar year we were able to increase our revenue in this area by 39.2 percent, approximately twice as much as the market growth of 19.9 percent. As a result, we added 1.4 percentage points of market share to reach 10.3 percent. For the first time we achieved a double-digit market share and thus entered the top 3 in this area.

World IPM market share 2017



Source: Based on or includes content supplied by IHS Markit, Technology Group, "Power Semiconductor Annual Market Share Database 2017," September 2018.

In the category of discrete IGBTs we were able to grow our market share by 2.0 percentage points to reach 38.5 percent.



Power Management & Multimarket

REVENUE
€2,318 million

SEGMENT RESULT
€532 million

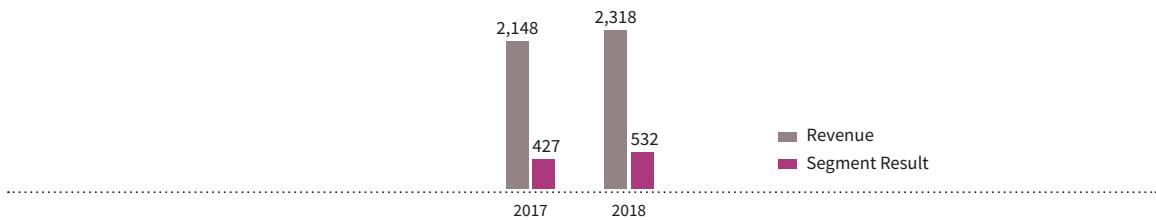
The Power Management & Multimarket segment in the 2018 fiscal year

Revenue development

In the Power Management & Multimarket segment Infineon recorded revenue of €2,318 million in the 2018 fiscal year, an increase of 8 percent compared to the €2,148 million revenue of the previous year. The segment contributed 31 percent of the Group revenue.

Revenue and Segment Result of the Power Management & Multimarket segment

€ in millions



The revenue increase was essentially driven by power semiconductors. This includes AC-DC power supplies and DC-DC power management. Both business areas recorded strong growth and combined accounted for approximately two-thirds of the segment revenue. Revenue was reduced by the effects of the 6 March 2018 sale of the largest part of our RF power component business to the US company Cree, Inc. The revenue target stated at the beginning of the fiscal year for the segment was nevertheless retained and achieved.

Demand in DC-DC power management mainly came from two application areas: battery-powered applications and data centers. Our OptiMOS™ power transistors of the low-voltage and mid-voltage classes benefitted from the increase in the number of applications using DC motors, in particular with brushless DC motors. Examples of such applications are drills, screwdrivers, lawn mowers, hedge trimmers, power saws as well as multi-copters for transport, agriculture and recreation. Furthermore, we saw an increase in demand for electric two-wheelers such as eBikes, pedelecs (pedal electric cycles) and eScooters.

In the data centers we are present with DC-DC power management as well as with AC-DC power supplies. In DC-DC power management, in addition to our OptiMOS™ low-voltage power transistors, our control and driver ICs and thus complete solutions for digital control contributed to revenue. In the 2018 fiscal year, AC-DC power supplies in data centers generated the highest demand for the high-voltage power transistors of our CoolMOS™ family. On the one hand classic data centers are being expanded; on the other hand there was high demand for servers optimized for machine learning. These special servers often have greater computing power and as a result require stronger power supplies. The revenue boost in AC-DC power supplies was also rooted in a positive economic environment across all application areas as well as in an expansion in the model range of the CoolMOS™ family. The technological competitive edge of these products was evident among other things in the major market success for equipping charging stations for electric vehicles in China as well as the worldwide use of onboard chargers in electric vehicles and plug-in hybrid vehicles.

The RF and sensors business also recorded high growth. While in the first half-year of the 2017 fiscal year weak performance was evident in the area of smartphones, demand in the 2018 fiscal year came back. In particular, our silicon microphones as well as various radio-frequency components such as low-noise amplifiers, antenna switches and antenna tuners benefitted from this development.



Development of the Segment Result

Segment Result was €532 million, representing an increase of 25 percent compared to the previous year's Segment Result of €427 million. As a percent of revenue, the Segment Result margin was 23.0 percent (previous year: 19.9 percent).

Segment Result was positively impacted by the increased profit contribution from increased revenue. Furthermore, a better productivity, among other things higher capacity utilization levels in the 300-millimeter manufacturing line in Dresden (Germany), and a higher-margin product mix in the individual product categories had a positive effect on profitability.

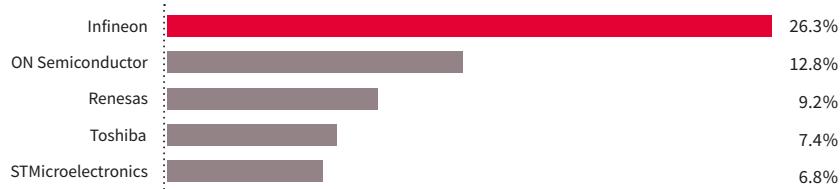
Applications

Battery-powered applications	HiRel	Power management	Cellular infrastructure			
› DIY tools (cordless screwdrivers, drills, etc.)	› Commercial aviation › Defense technologies › Oil and natural gas exploration › Space systems › Submarine telecommunications cables	› Consumer electronics › Home appliances › Mobile devices › PCs and notebooks › Servers › Telecom	› Base stations			
› eBikes	LED and conventional lighting systems					
› eScooter						
› Hedge trimmer						
› Lawn mower						
› Multi-copters						
Charging stations for electric vehicles						
Internet of Things						
› Communications						
› Sensors						
› Smart Speaker						
› Voice control						
Mobile devices						
› Activity trackers						
› Navigation devices						
› Smartphones						
› Tablets						

Market position

The world market for standard MOSFET power transistors reached US\$6.650 billion in the 2017 calendar year, an increase of 13.7 percent compared to the previous year value of US\$5.851 billion (Source: IHS Markit). Infineon's revenue increased by 15.1 percent. Because of our expanded capacities – in particular the expansion of the 300-millimeter manufacturing capacities in Dresden (Germany) as well as the expansion of 200-millimeter manufacturing capacities in Kulim (Malaysia) – we could better cover high market demands than all our competitors and achieved the largest gain in market share with 0.3 percentage points.

World standard power MOSFET market share 2017



Source: Based on or includes content supplied by IHS Markit, Technology Group, "Power Semiconductor Annual Market Share Database 2017," September 2018.

With a market share of 26.3 percent, Infineon continues to be the clear market leader (previous year: 26.0 percent). The distance to the number two competitor was 13.5 percentage points (previous year: 13.0 percentage points). The five largest market players together accounted for a market share of 62.5 percent.



Digital Security Solutions

(previously Chip Card & Security)

REVENUE
€664 million

SEGMENT RESULT
€105 million

The Digital Security Solutions segment in the 2018 fiscal year

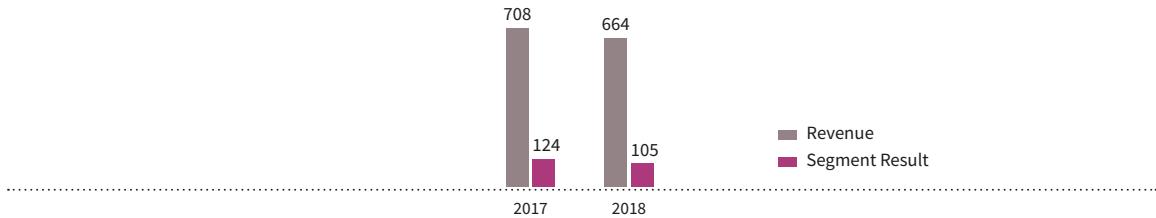
As of 1 October 2018 we changed the name of the segment “Chip Card & Security” to “Digital Security Solutions”. The previous name is associated too strongly with the form factor chip card and hardware. However, for several years now our embedded security solutions have been aimed at entirely new customers with a significantly larger overall number of applications. The new name reflects the growing importance of security solutions in an increasingly connected world, with a chip as the highly reliable anchor for security. The name change has no effect on the organizational structure, the strategy or the business scope.

Revenue development

In the Digital Security Solutions segment Infineon recorded revenue of €664 million in the 2018 fiscal year, a decrease of 6 percent compared to the €708 million revenue of the previous year. The segment contributed 9 percent of the Group revenue.

Revenue and Segment Result of the Digital Security Solutions segment

€ in millions



The decline in revenue is primarily attributable to the area SIM cards for mobile communication. For strategic reasons we have only been participating selectively in invitations for project proposals for several years now. As a result, the revenue in this area has been continuously dropping and in the meantime accounts for only a low single-digit percentage of revenue. The two largest areas, government ID and payment, account combined for approximately two-thirds of segment revenue and were not been able to compensate for this development. For project-related reasons there was a decline in revenue in the area of government ID: A major project for the replacement of conventional passports with digital passports peaked during the 2017 fiscal year and has been progressing at a lower level since then. The payment business on the other hand recorded an increase in revenue. This was mainly driven by the transition from purely contact-based cards to dual-interface cards which can be used as both, contact-based or contactless cards. We benefit especially from this trend due to our core competence in the area of contactless technologies.



After almost doubling in the 2017 fiscal year, revenue from embedded SIM (eSIM) once again increased slightly in the 2018 fiscal year. eSIMs are assembled in the customer device as a replacement for classic SIM cards and ensure identification with the network provider. eSIMs are also used in cars: Our certified eSIM security controllers are used for the emergency call (eCall) function which has been mandatory in the EU since 31 March 2018 for all of the approximately 17 million new cars sold. In addition to many other automobile manufacturers, Daimler also relies on our eSIMs. The Mercedes-Benz system "MercedesMe connect" also offers fundamental supplementary services such as accident management, break-down and maintenance management and remote vehicle diagnostics, in addition to the legally mandated emergency call function.

In the area of transport and ticketing we have seen increasing acceptance of the ticketing standard CIPURSE™ among the operators of public transportation networks, for example in Barcelona. CIPURSE™ is an open standard of OSPT (Open Standard for Public Transportation). Infineon has provided decisive support for the development and introduction of CIPURSE™. In the 2018 fiscal year, revenues were generated for the first time, based on several design-wins in recent years.

We achieved another success with our Trusted Platform Module (TPM) family. Juniper, the leading provider in the area of automated, scalable and secure networks, now integrates our OPTIGA™ TPM security solutions in its routers, firewalls and other devices.

Revenue also increased in the area of authentication. Our customers rely on our security competence in order to protect their products, their business models and ultimately their customers. We have won designs and established further strategic partnerships in the areas Internet of Things, Industry 4.0 (Industrial Internet), Smart Home, Smart City as well as connected vehicles. Several of these projects are part of field tests or have prototype character. Consequently, revenue is still low during this phase. However, the potential revenue will be significant once these applications achieve the necessary degree of maturity. It is part of our strategic orientation to be the leading provider of security solutions, consisting of security chip and software. This type of security solution is the decisive success factor in particular for the applications mentioned above.

In this context we are very pleased that in the meantime we achieve approximately one quarter of our revenue with software-related projects. Our software (for example firmware, driver software, hardware-related application software) and system competence puts us in a position to provide reference designs and security modules which are ready-to-use. We also offer support in the certification of security solutions. With these services we reduce our customers' development expenses and accelerate the time-to-market of their products. The investments made in these areas in previous years are now beginning to pay off. One example here is our SECORA™ Pay security solutions which make it particularly easy for card manufacturers to integrate dual-interface chip technologies in their product portfolios; they are thus able to react flexibly to regional market requirements. The high level of acceptance of the SECORA™ Pay brand is evident in the many projects we have already won in the 2018 fiscal year, with SECORA™ Pay just launched in November 2017.

Development of the Segment Result

Segment Result was €105 million, representing a decrease of 15 percent compared to the previous year's Segment Result of €124 million. As a percent of revenue, the Segment Result margin was 15.8 percent (previous year: 17.5 percent). Segment Result was negatively impacted mainly by a lower profit contribution from the declining revenue. Furthermore, operating costs increased on the one hand due to the strategically planned long-term expansion of headcount in the areas research and development, administration and sales and on the other hand due to higher development costs resulting from a larger number of customer projects and the expansion of the product portfolio. By doing this, we intend to further expand our software and system competence in particular.



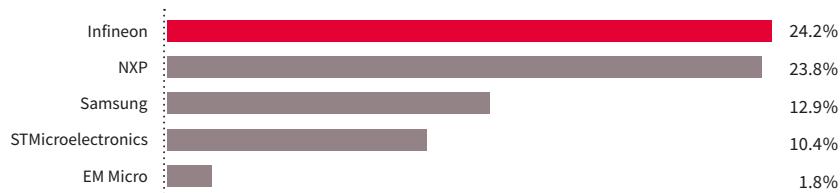
Applications

Authentication	Automotive	Government identification documents	Internet of Things	Payment systems
› Accessories	› Connected vehicles (e.g. eCall, car-to-car communications, car-to-infrastructure communications)	› Driver's licenses	› Connected driving	› Credit/debit cards
› Brand protection	› Electronic toll collection	› Healthcare cards	› Industrial Internet (Industry 4.0)	› Mobile payment
› Game consoles	› Protection against manipulation (e.g. odometer, digital tachograph)	› National identity cards	› IT	› NFC-based contactless payment
› Industrial control systems		› Passports	› Smart City	Ticketing, access control
			› Smart Home	
				Trusted Computing
			Mobile communications	
			› Conventional SIM cards	
			› High-end SIM cards	
			› Embedded SIM (machine-to-machine communication)	

Market position

The world market for security ICs had a volume of US\$3.260 billion in the 2017 calendar year, a decrease of 0.2 percent compared to the previous year's value of US\$3.266 billion (Source: ABI Research). Infineon's revenue increased by 0.6 percent. Infineon won 0.2 percentage points of the market and as new market leader has a small lead over its closest competitor. Our gain in market share is essentially due to changes in the two major segments government identification documents and payment cards. Infineon was able to expand its sales in both segments significantly above the market growth rate, while the previous market leader lost a rather significant share in the market. The five largest market players together account for a market share of 73.1 percent.

World smart card and secure ICs market share 2017

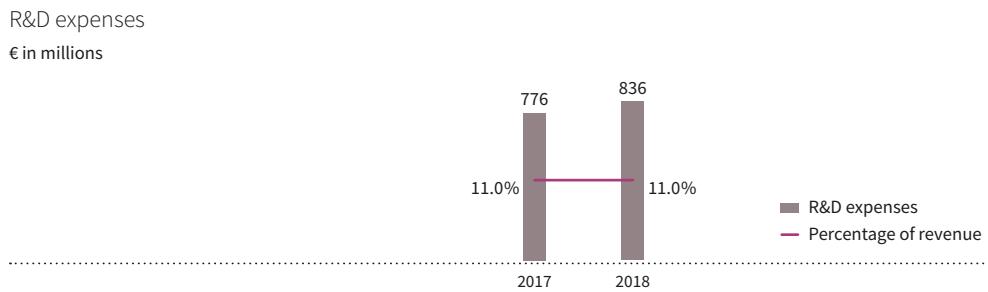


Source: ABI Research, "Smart Card & Secure ICs," October 2018.

Until the previous year, our source of relevant information was IHS Markit. Since IHS Markit no longer analyzes the security IC market, we now refer to information from the market study by ABI Research. In contrast to our market observations in the past years, memory-based security ICs as well as various embedded security ICs are now included.

Research and development

Research and development expenses in the 2018 fiscal year amounted to €836 million after €776 million in the previous year, representing an increase of €60 million or 8 percent. Research and development expenses thus increased proportionally to revenue, which also increased by 8 percent. In the 2018 fiscal year we spent 11 percent of revenue on research and development relative to revenue, exactly the same ratio as in the previous year. With this ratio we are well within our target range, i.e. a percentage of revenue in the low to mid-teens. In order to retain our innovative strength in the future, research and development expenses should increase proportionally to revenue.



At the end of the 2018 fiscal year we employed 7,161 people (18 percent of Infineon's total work force) at our research and development sites; at the end of the 2017 fiscal year the figure was 6,362 employees (17 percent of the total work force). Infineon maintains research and development departments at 35 sites in 15 countries: Graz, Linz and Villach (all Austria); Beijing and Xi'an (both China); Herlev (Denmark); Augsburg, Dresden, Duisburg, Erlangen, Karlsruhe, Neubiberg near Munich, Regensburg and Warstein (all Germany); Le Puy-Sainte-Réparade (France); Bristol and Reigate (both Great Britain); Bangalore (India); Padua and Pavia (both Italy); Seoul (Korea); Ipoh and Melaka (both Malaysia); Nijmegen (The Netherlands); Muntinlupa (Philippines); Bucharest (Romania); Singapore; Chandler, El Segundo, Leominster, Mesa, Milpitas, San José, Tewksbury and Warwick (all USA).

In the 2018 fiscal year, the capitalized development costs totaled €143 million (previous year: €129 million). Amortization of capitalized development costs in the 2018 fiscal year amounted to €50 million (previous year: €39 million). Subsidies and grants for research and development increased from €68 million in the 2017 fiscal year to €86 million in the 2018 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 technologies and new product families and for new manufacturing technologies. This includes, for example, digital power management, technology platforms for low-voltage and high-voltage power switches, power semiconductors based on the new materials silicon carbide and gallium nitride and new sensor types, in particular those based on our magnetic field, radar, Lidar, infrared and MEMS technologies.

While in the past both research and development primarily focused on technologies or components, today the systems in which the components are used play 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 and reliability create value for the customer, the customer is willing to pay a higher price for the semiconductor component providing these advantages. Here, digital microelectronics is often combined with RF components, control ICs, drivers, sensors and actuators, resulting in a significant increase in performance. Furthermore, hardware is increasingly being complemented by software.

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. Then, the digital values are processed, transmitted and stored according to the requirements of the target application. Sensors also play an increasingly important role in operating machines and devices, referred to as human machine interaction. In this area we are developing our portfolio of MEMS-based silicon microphones and pressure sensors as well as 3D ToF sensors and radar sensors. In addition, we are working on new sensor types for capturing other physical measurements. Infineon has about 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.

In the area of RF applications we intend to provide radio-frequency solutions for smartphones and cellular infrastructure. In addition to today's components – essentially low-noise signal amplifiers, antenna switches and antenna tuners – we will introduce further products including frequency filters and 5G antenna modules.

Manufacturing technologies and transistor architectures for power semiconductor components based on new materials are also an important focus area of our research and development activities. In the search for more and more efficient power semiconductors for more and more compact power supplies and control units, primarily silicon carbide (SiC, a compound of silicon and carbon) and gallium nitride (GaN, a compound of gallium and nitrogen) have proven to be the materials of choice. Compared to silicon-based components, these new semiconductor materials can switch high voltages and high currents with smaller dimensions and less loss. The material properties of SiC and GaN components make them suitable for different voltage classes. While the SiC technology is advantageous for voltages of over 1,000 volts, GaN technology is well suited for use with 600 volts or less.

As the market player with one of the most comprehensive portfolios of power semiconductors, Infineon focuses on understanding the customer application. The goal is to offer our customers the solution with the best price-performance ratio. Such a solution can also be based on a combination of silicon and SiC components. The balance between cost and performance advantages of the individual components is essential to a sustainable improvement of the customer's system. This may apply to the efficiency, costs, size, weight or time-to-market.

Today's main applications for SiC are solar inverters, industrial power supplies as well as the charging infrastructure for electro-mobility, in particular ultra-fast charging stations. We also regard auxiliary units in trains as a promising future application. In the medium-term, control units for variable speed drives for the widest possible range of motor types and operating modes (stepping motors, robotics, high RPM, high torque) also represent an interesting field of application. On top of that the use of SiC in electric vehicles also represents enormous potential. Possible applications here are initially the on-board charger, followed by the main inverter.



The focus of our future development activities in the area of SiC is on the expansion of the product portfolio, both in terms of additional form factors (this applies to the package and the topologies in the modules) and to higher voltage classes (starting with 1,200 volts up to 1,700 volt and 3,300 volts).

Compared to silicon transistors, gallium nitride (GaN) transistors also offer new and interesting properties which can be used in power supplies, for example. However, only entirely new power supply topologies will take full advantage of GaN. Then the maximum efficiency gain can be realized with an especially compact design of the overall power conversion system.

The main applications of these GaN products are power supplies optimized for the highest efficiency for use in high-performance servers in data centers and telecommunication equipment. The GaN power supplies, ranging up to 3,000 watts, can be designed differently compared with silicon-based power supplies. Depending on the configuration, this can also make it possible to realize system-cost advantages. The higher efficiency reduces the cooling effort, thus cutting expenses for heat sinks and air conditioning. Highest efficiencies and thus a minimization of ongoing operating expenses is key for data center operators – Google, Facebook, Amazon Web Services and Microsoft, to cite just a few examples – because the power consumption of such data centers with as many as 40,000 servers is in the double-digit megawatt range. An improvement in efficiency by 1 percentage point equals savings of several hundred kilowatts. In addition the compactness, i.e. the power density, measured in watts per cubic centimeter, can also be increased. This is important as every square meter of floor space in the air-conditioned server rooms is expensive.

Power density is not only important for servers but also for extremely thin flat screen monitors and for compact chargers and adapters for mobile devices. However, in these very price-sensitive markets it will take quite some time before GaN transistors achieve widespread acceptance.

We have made significant progress in the area of gallium nitride (GaN). The first products of our CoolGaN™ family, various 600 volt GaN power transistors based on what is called an enhancement mode (e-Mode) GaN transistor, are ready for volume production. The development of the next generation of our GaN transistors has already begun. This new architecture allows for smaller and thus more cost-efficient transistors, favoring the introduction of GaN technologies also in price-sensitive markets. We are also working on integrated GaN solutions in which either several transistors or transistors and drivers are monolithically integrated (also referred as system-on-chip) or assembled as system-in-package. These compact solutions can be used for example in motor control units for washing machines or air conditioners. In the upcoming months we will announce several of these new products at various trade fairs. Volume production of our GaN products takes place in Villach (Austria) in a 150-millimeter wafer manufacturing line. The transition to volume production on 200-millimeter wafers is currently being planned.

In addition to the new materials, another focus area of our research and development activities is the digital control of power semiconductors. We are currently witnessing the transition from analog control to digital control of power switches. Digital control systems enable much easier adaptation to various operating conditions (for example, stand-by, partial load, full load) and also increase the efficiency of increasingly complex power components. Programmability of the control ICs enables customers to adapt the function of the control unit to the requirements even 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. In particular, the controllers of the iMOTION™ family are attracting great interest in the market. We will expand this successful family and will develop products with integrated drivers and integrated power switches.



Infineon is a pioneer in developing encryption algorithms. We achieved an outstanding success with encryption methods that are capable of withstanding the computing power of future quantum computers. In the previous year we were the first company in the world to demonstrate the implementation of an algorithm for what is referred to as post-quantum cryptography in contactless security chips. The main challenges to overcome were the small dimensions of the chips and the limited memory capacities to store and execute such a complex algorithm as well as the data transmission bandwidth. In November 2017, Infineon won the renowned industry prize “SESAMES Award” in two of six categories, “Cyber Security” and “eGovernment” for this achievement. The “SESAMES Award” is presented each year for the best innovations in the area of digital security and is regarded as one of the highest honors in the industry.

Founding of a new development center in Dresden

In May 2018, Infineon announced the establishment of a new development center in Dresden. The development center is to drive the development of new products for automotive and power electronics as well as for Artificial Intelligence (AI). System integration becomes ever more important for the complex interaction of semiconductors in vehicles of continuously increasing technical complexity. In addition to chip design, modeling complex systems and developing highly-integrated products will be among the development center’s core tasks.

As traffic systems are becoming more and more connected algorithms, AI and the Internet of Things all play a central role. Here we expect significant growth impulses in coming years. The development center will be intensively involved in these topics as well. Advances made initially in the automotive area can also be adopted by other applications, for example robotics.

Investigations are to determine how we can develop universal AI functions that can be integrated in a large number of chips for various target systems. One major challenge here is the constantly rising chip complexity. Findings on costs and the manufacturability of such complex chips or the partitioning of these functions on several chips is crucial. This is why the development center is situated at the intersection point between development, design and manufacturing. Synergies are created through feedback from the manufacturing lines, making it possible to develop new products faster thereby shortening time-to-market.

Activities are planned to begin at the end of the 2018 calendar year. Initially, 100 new jobs will be created, rising mid-term to approximately 250 jobs.

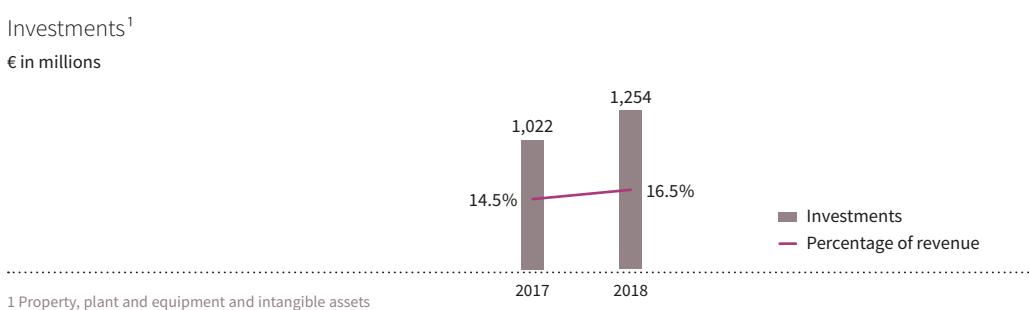
Patents

Another indication of Infineon’s innovative power and long-term competitive strength is the number and quality of our patents. In the 2018 fiscal year we applied for approximately 1,550 patents worldwide, compared to approximately 1,800 patent applications in the previous year. At the end of the 2018 fiscal year, the worldwide patent portfolio consisted of approximately 26,850 patents and patent applications (previous year: approximately 27,300).



Operations

In the 2018 fiscal year, our investments amounted to €1,254 million, representing an increase of €232 million or 23 percent compared to the €1,022 million invested in the previous year. Relative to revenues, the investments in the 2018 fiscal year increased to 16.5 percent compared to the previous year's 14.5 percent. €1,090 million of the overall investment volume was dedicated to property, plant and equipment (previous year: €874 million) and €164 million to intangible assets including capitalized research and development costs (previous year: €148 million).



By far the largest share of the amount invested in property, plant and equipment is accounted for by investments in manufacturing facilities. Approximately two thirds of this amount went to frontend manufacturing facilities, with the rest essentially going to backend manufacturing facilities.

Infineon maintains a total of 17 manufacturing sites in 10 countries: Villach (Austria); Beijing and Wuxi (both China); Dresden, Regensburg and Warstein (all Germany); Cegléd (Hungary); Batam (Indonesia); Cheonan (Korea); Melaka and Kulim (both Malaysia); Tijuana (Mexico); Singapore; and Leominster, Mesa, San José and Temecula (all USA). As of 30 September 2018 there were 28,532 people employed in manufacturing at these sites (previous year: 27,105 employees).

Milestones and essential investment focuses in manufacturing during the 2018 fiscal year

Investments in the 2018 fiscal year focused on the following areas:

1. Expansion of 300-millimeter fronted manufacturing capacities in Dresden in differentiating manufacturing technologies for power semiconductors such as the high-voltage MOSFETs of our CoolMOS™ family and IGBT power switches.
2. Expansion of 200-millimeter frontend manufacturing capacities in Kulim in differentiating manufacturing technologies for sensors as well as discrete and integrated power semiconductors.
3. Continued ramp of volume production capacity of our SiC MOSFETs and SiC diodes on 150-millimeter wafers. Infineon is now one of the first companies worldwide to manufacture its entire SiC portfolio on wafers with a 150 millimeter diameter.



4. Expansion of backend manufacturing capacities for IGBT modules for industrial and automotive applications.
Backend manufacturing capacities were expanded to accommodate the strong demand for IGBT modules for the drivetrain for hybrid and pure electric vehicles. This expansion took place in Warstein for IGBT modules of the HybridPACK™ family as well as in Wuxi at the new joint venture with the Chinese automobile manufacturer SAIC Motor Corporation Ltd. The joint venture, named SIAPM (SAIC Infineon Automotive Power Modules (Shanghai) Co., Ltd.), was formed on 7 February 2018 and has been manufacturing since August 2018.
5. Because of its cost position, operation of the Temecula (USA) site is planned to continue until 2021 only, and either to sell it before this date or close it. The products manufactured in Temecula will be transferred to other Infineon sites or will be outsourced to external manufacturing partners.

Furthermore, during the previous fiscal year investments were made in frontend and backend sites primarily in the following areas:

- › Further increases in the 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.
- › Equipment for innovative technologies and further improvements in quality.

Infineon writes the next chapter in its growth strategy: Decision in favor of the second 300-millimeter fab

We have for some time now seen a rapid increase in the demand for power electronics. In order to be able to accommodate our customers' increasing requirements in the coming years, we decided in May 2018 to build a second 300-millimeter fab.

We will build a fully automated facility for the manufacture of 300-millimeter thin wafers at the Villach (Austria) site, which has been for many years our competence center for power electronics. Construction started in November 2018. Volume manufacturing is planned to begin in early 2021, with maximum manufacturing capacity achieved as early as 2026. Total investments will reach approximately €1.6 billion. When operating at full capacity, the estimated additional revenue resulting from the fab will be approximately €1.8 billion annually.

By significantly expanding our manufacturing capacity we are also increasing our competitive strength. Here, our strategy is long-term and independent of possible short-term downturns in the cycle. We want to rigorously take advantage of the opportunities presented to us by the forecast strong market growth.

The new factory can be completed significantly faster at the Villach site than would be the case for a factory at a new site, since Villach on the one hand already has a 300-millimeter thin wafer pilot line and on the other hand has the know-how needed for the various manufacturing technologies. The expansion will bring us significant economies of scale and will thus also let us improve our efficiency.

The expansion of silicon manufacturing capacities will also ultimately facilitate the expansion of manufacturing capacities for silicon carbide and gallium nitride. Existing buildings and manufacturing lines can be reused for these compound semiconductors. This results in capex-efficient expansion of capacities.



Internal management system

 see page 20 ff.

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.

Over the economic cycle, Infineon has set itself the targets of:

- › achieving a compound annual revenue growth rate of 9 percent
- › thereby achieving an average Segment Result Margin of minimum 17 percent, and
- › realizing the above-mentioned revenue growth with an investment ratio of 15 percent relative to revenue.

In the coming years, we also plan to invest a low triple-digit million amount in total in order to take advantage of possible additional business opportunities and follow structural changes. These are not included in the 15 percent ratio described above. In addition, there are already announced investments in front-end cleanrooms and large office buildings, including the 300-millimeter cleanroom and the research and development building at the Villach site (Austria). In the 2019 fiscal year, around €200 million of this will accrue. If these measures are implemented, the investment rate will temporarily be significantly higher than the rate envisaged in the target operating model. In view of strong customer demand, Infineon expects revenue to increase by 11 percent plus or minus 2 percentage points in the 2019 fiscal year. The Segment Result Margin is expected to come in at 18 percent at the mid-point of the range for revenue growth (see the chapter “Outlook”).

 see page 73 ff.

Overall, reaching these financial targets gives rise to 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 scale 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 data. 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](http://www.infineon.com/csr_reporting)) and human resources (see the chapter “Human resources strategy”). Although these factors are not used to manage business performance, they nevertheless help Infineon achieve its financial targets.

 see page 39

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”).

 see page 91 ff.



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 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 (excluding capitalized development costs); 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 2018 fiscal year, see the chapter "The segments" and the section "2018 fiscal year").

see page 159 ff.

see page 40 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 2018 fiscal year).

[P] see page 71

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 continuously 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 at Group level only 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 the change in RoCE in the 2018 fiscal year, see the chapter "Review of financial condition").

[P] see page 69

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").

[P] see page 62 ff.



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.

 see page 70 ff.

For an analysis of changes in these key performance indicators during the 2018 fiscal year, see the chapter "Review of liquidity".

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

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The chapter "Outlook" contains a table showing the actual values achieved in the 2018 fiscal year for the key performance indicators, along with expectations for the 2018 fiscal year and the 2019 fiscal year.

Sustainability at Infineon

Sustainability activities are described in the separate report "Sustainability at Infineon".

In accordance with the stipulations of the German CSR Directive Implementation Act, Infineon Technologies AG is required to publish a non-financial report at both Company and Group level for the first time for the 2018 fiscal year. This report is published jointly for Infineon Technologies AG and the Infineon Group as a summarized separate non-financial report within the sustainability report. The information required by law is marked accordingly to distinguish it from the voluntary reporting according to the GRI standards. The entire report "Sustainability at Infineon" including the chapters of the Non-Financial Report have been subjected to a limited assurance audit by KPMG AG Wirtschaftsprüfungsgesellschaft, Munich (Germany).

The separate report "Sustainability at Infineon" including the summarized Non-Financial Report is available on Infineon's website. [@ www.infineon.com/csr_reporting](http://www.infineon.com/csr_reporting)



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 Depository Shares (ADS) with a notional value of €2 each (ADS:shares = 1:1)
Share capital	€2,273,991,668 (as of 30 September 2018), €2,272,401,858 (as of 30 September 2017)
Shares issued ¹	1,136,995,834 (as of 30 September 2018), 1,136,200,929 (as of 30 September 2017)
Own shares	6 million shares (as of 30 September 2018)
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	€22,134 million (as of 30 September 2018)
Daily average shares traded on Xetra	5,437,588 (in the 2018 fiscal year)
Trading in the USA	ADS, over-the-counter trading on the OTC market (OTCQX)
Market capitalization ²	US\$25,696 million (as of 30 September 2018)
Daily average ADS traded	165,496 (in the 2018 fiscal year)
Index membership (selected)	DAX 30 TecDAX 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 Europe Index Dow Jones Sustainability World 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

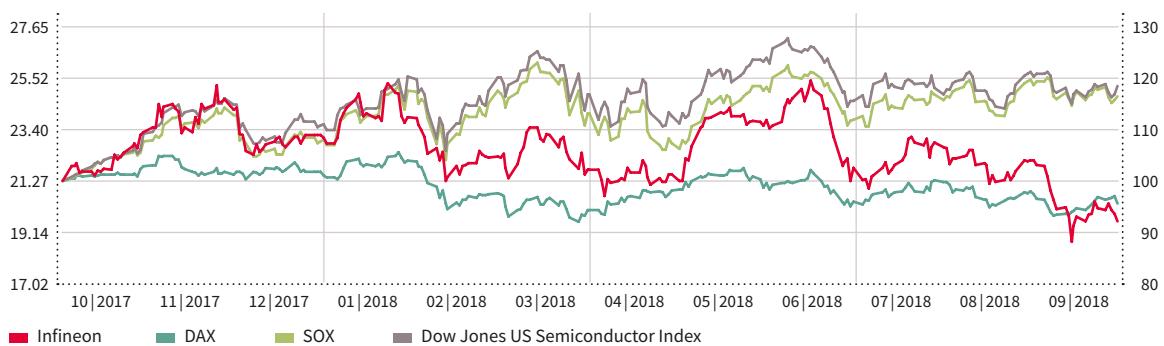
1.5% Infineon Bond from 10 March 2015	due on 10 March 2022, ISIN: XS1191116174
Rating of S&P Global Ratings	since February 2016: "BBB" (outlook "stable")

Share price development

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 2018 fiscal year (daily closing prices)

Infineon share price in €

30 September 2017 = 100





The Infineon share finished the 2018 fiscal year at a closing price of €19.57, a decline of 8 percent compared to the closing price of €21.27 at the end of the 2017 fiscal year. In general, the share's price developed positively during the first nine months of the previous fiscal year. The share value fluctuated between prices of approximately €21 and €25 and reached its highest value for the year in mid-June at €25.49. After this point a stronger share price decline began, with the lowest price in the previous fiscal year of €18.71 recorded in mid-September.

The value development of comparable benchmark indices was highly varied. While the DAX also experienced a decline of minus 5 percent during the same period, the comparable industry benchmark indices rose considerably at the same time. The Philadelphia Semiconductor Index (SOX) increased by 17 percent and the Dow Jones US Semiconductor Index rose by 19 percent while US peers benefited from the strength of the euro. In US dollar terms, Infineon's performance was negatively impacted by the devaluation of the US dollar.

Trading volumes and stock indices

The average volume of Infineon shares traded in the Xetra system, measured in units, increased by 32 percent in the 2018 fiscal year compared to the previous fiscal year. 5.4 million shares were traded daily in the 2018 fiscal year, compared to an average of 4.1 million shares traded daily in the previous fiscal year. Measured in euros the average daily trading volume even rose by 65 percent: In the 2017 fiscal year it was €74.3 million per day, while in the 2018 fiscal year Infineon shares worth €122.6 million were traded daily.

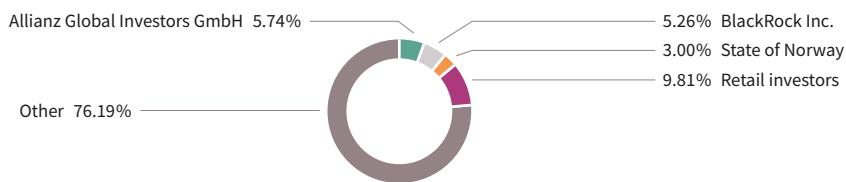
In the USA, the Infineon share is traded in the form of American Depository Shares ("ADS") on the OTCQX International over-the-counter market under the ticker symbol "IFNNY". The average daily ADS trading volume also rose in the 2018 fiscal year. The average daily number of ADS traded in the 2018 fiscal year increased to 165 thousand, compared to 98 thousand ADS per day in the previous year. The number of ADS outstanding rose from 21.8 million ADS as of 30 September 2017 to 31.7 million ADS at the end of the previous fiscal year.

In the DAX ranking, Infineon improved by one place in terms of market capitalization, moving from 16th place at the end of the 2017 fiscal year to 15th place at the end of the 2018 fiscal year. In terms of the volume traded in euros in Xetra and on the Frankfurt trading floor during the last twelve months, Infineon moved up seven places: After ranking 19th in the previous year, at the end of the 2018 fiscal year Infineon was ranked 12th. The Infineon share has been a part of the TecDAX since 25 September 2018 and as of 30 September 2018 was ranked 3rd, both in terms of market capitalization und trading volume, respectively.

Shareholder structure

As of 30 September 2018, three shareholders each held 3 percent or more than 3 percent of the Infineon shares issued. At the end of the 2017 fiscal year, the same three shareholders held more than 3 percent of shares each. The share capital held by retail investors increased slightly from 9.52 percent at the end of the 2017 fiscal year to 9.81 percent at the end of the 2018 fiscal year.

Shareholder structure



Dividend

In recent years Infineon has continuously increased its dividend payment. The dividend payment for the 2017 fiscal year was €0.25 per share. On 27 February 2018, the third business day after the Annual General Meeting, a total amount of €283 million was paid out to shareholders. At that point in time the number of shares entitled to a dividend was 1,130,200,929. As of 30 September 2018 the number of shares issued was 1,136,995,834. 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 development, a proposal is to be made to shareholders at the 2019 Annual General Meeting to increase the dividend for the 2018 fiscal year by 2 cents from €0.25 to €0.27 per share. For more information on Infineon's dividend policy, see "Sustainable value creation for our shareholders" in the chapter "Group strategy".



Group performance

Review of results of operations

The consolidated statement of operations

€ in millions, except earnings per share	2018	2017
Revenue	7,599	7,063
Gross profit	2,885	2,621
Research and development expenses	(836)	(776)
Selling, general and administrative expenses	(850)	(819)
Other operating income and expenses, net	270	(43)
Operating income	1,469	983
Net financial result (financial income and expenses, net)	(53)	(53)
Income from investments accounted for using the equity method	(5)	3
Income tax	(193)	(142)
Income from continuing operations	1,218	791
Loss from discontinued operations, net of income taxes	(143)	(1)
Net income	1,075	790
Basic earnings per share (in euro)	0.95	0.70
Diluted earnings per share (in euro)	0.95	0.70
Adjusted earnings per share (in euro) – diluted	0.98	0.85

Net income significantly improved

Net income improved by €285 million to €1,075 million year-on-year. Despite the unfavorable development of the US dollar exchange rate, revenue grew by 8 percent to €7,599 million thanks to the positive development of business volumes. Operating income jumped by 49 percent, or €486 million, to €1,469 million, partly on the back of revenue growth and partly boosted by the gain from the sale of the major part of the RF power components business to Cree, Inc. Higher research and development expenses as well as higher selling, general and administrative expenses had a dampening effect on the increase in operating income. Operating income includes acquisition-related depreciation, amortization and other expenses totaling €118 million (2017: €153 million), mainly for International Rectifier (predominantly expenses recognized in conjunction with the purchase price allocation). In addition, income tax (see note 5 to the Consolidated Financial Statements) and the loss from discontinued operations (see note 6 to the Consolidated Financial Statements) were up, also lessening the increase in net income.

[P] see page 129 ff.
[P] see page 131 f.

Earnings per share (basic and diluted) amounted to €0.95 per share and were therefore higher than one year earlier (2017: €0.70).

[P] see page 66
Adjusted earnings per share (diluted) improved further from €0.85 to €0.98 per share (see “Further improvement in adjusted earnings per share” in this chapter for details of the calculation).

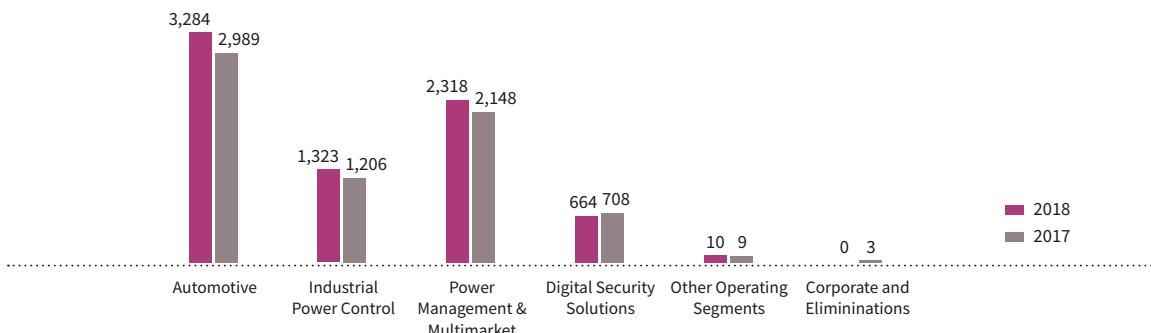
Revenue growth reflects positive sales volume trends

Revenue grew by €536 million to €7,599 million in the 2018 fiscal year (2017: €7,063 million). The segment with the highest volume, Automotive, contributed more than one half (55 percent) of total revenue growth, which was driven above all by strong demand for semiconductors used in automotive, industrial, power supply, RF and sensor technology applications. In contrast, the Digital Security Solutions segment recorded a 6 percent drop in revenue, mainly due to lower volumes of SIM cards for mobile communications. See the chapter “The Segments” for details.

[P] see page 40 ff.

Revenue by segment

€ in millions



Share of Group Revenue 2018



Negative impact of currency effects on revenue growth

The majority of **revenue** was generated in **foreign currencies** in the 2018 fiscal year, with revenue denominated in US dollars accounting for the largest share. The average euro/US dollar exchange rate changed from around 1.11 in the previous fiscal year to 1.19 in the 2018 fiscal year. Mainly due to the unfavorable development of the US dollar exchange rate, currency effects across all currencies and over the fiscal year as a whole curbed revenue growth by approximately 4 percentage points. The year-on-year currency impact is measured by applying the previous fiscal year's relevant average exchange rates to 2018 fiscal year revenue.

Significance of Greater China remains strong; China ahead of Germany as most important sales market

€ in millions, except percentages	2018		2017	
Europe, Middle East, Africa	2,443	32%	2,272	32%
therein: Germany	1,171	15%	1,094	15%
Asia-Pacific (excluding Japan, Greater China)	1,129	15%	1,071	15%
Greater China	2,599	34%	2,376	34%
therein: China	1,921	25%	1,735	25%
Japan	534	7%	463	7%
Americas	894	12%	881	12%
therein: USA	719	9%	714	10%
Total	7,599	100%	7,063	100%

With an increase of €223 million (42 percent), the Greater China region accounted for the largest portion of revenue growth by far followed by the Europe, Middle East and Africa region with a €171 million increase (32 percent of total revenue growth), Japan with a €71 million increase (13 percent of total revenue growth) and the Asia-Pacific region (excluding Japan, Greater China) with a €58 million increase (11 percent of total revenue growth). In terms of percentage, the highest revenue growth was achieved with 15 percent in Japan.



The regional distribution of revenue is unchanged compared to the previous fiscal year. As in the previous year, Greater China is the largest region in revenue terms, once again accounting for 34 percent of total revenue, followed by the Europe, Middle East and Africa region with 32 percent.

China accounted for €1,921 million or 25 percent of Infineon's worldwide revenue and therefore for the largest share at individual country level, followed by Germany at €1,171 million or 15 percent.

Increase in gross margin

The **gross margin** increased from 37.1 percent to 38.0 percent year-on-year, mainly reflecting the impact of revenue growth and lower ramp-up costs. Rising prices for wafer substrates and other materials such as copper had an offsetting effect. 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 of intangible assets and property, plant and equipment, which were revalued to their fair value as part of the purchase price allocation) amounting to €67 million (2017: €89 million).

€ in millions, except percentages	2018	2017
Cost of goods sold	4,714	4,442
Change year-on-year	6%	7%
Percentage of revenue	62.0%	62.9%
Gross profit	2,885	2,621
Percentage of revenue (gross margin)	38.0%	37.1%

Operating expenses as percentage of revenue continue to fall

Operating expenses (research and development expenses and selling, general and administrative expenses) increased by €91 million to €1,686 million year-on-year (2017: €1,595 million), corresponding to 22.2 percent of revenue (2017: 22.6 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	2018	2017
Research and development expenses, gross	1,065	973
Minus:		
grants received	(86)	(68)
capitalized development costs	(143)	(129)
Research and development expenses	836	776
Change year-on-year	8%	1%
Percentage of revenue	11.0%	11.0%

R&D expenses amounted to €836 million in the 2018 fiscal year, an increase of €60 million or 8 percent compared to the previous year's figure of €776 million. The percentage increase in R&D expenses in the 2018 fiscal year was in line with revenue growth. Their share as a percentage of revenue remained unchanged at 11.0 percent. 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 7,161 employees worked in research and development functions at the end of the reporting period (30 September 2017: 6,362 employees).

[P] see page 50 ff.

The main R&D activities undertaken during the 2018 fiscal year are described in more detail in the chapter "Research and development".



Selling, general and administrative expenses

€ in millions, except percentages	2018	2017
Selling, general and administrative expenses	850	819
Change year-on-year	4%	4%
Percentage of revenue	11.2%	11.6%

At 11.2 percent of revenue **selling, general and administrative expenses** were lower in percentage terms than in the previous fiscal year (11.6 percent). In absolute terms, they went up by €31 million or 4 percent to €850 million, and therefore at a less pronounced rate than revenue growth.

Other operating income increased

The net amount from other operating income and expenses developed positively compared to the previous fiscal year, turning from negative €43 million to positive €270 million. The net amount reported for the 2018 fiscal year includes, in particular, the gain of €270 million which arose on the sale of the major part of the RF power components business to Cree, Inc. (see note 6 to the Consolidated Financial Statements).

see page 131

Effective tax rate of 13.7 percent

Based on pre-tax income of €1,411 million and an income tax expense of €193 million, the effective tax rate for the 2018 fiscal year amounted to 13.7 percent. The equivalent figures for the 2017 fiscal year were an income tax expense of €142 million (15.2 percent) on pre-tax income of €933 million.

As in the previous fiscal year, income tax expense for the 2018 fiscal year was affected by foreign tax rates, non-deductible expenses, tax credits and changes in valuation allowances on deferred tax assets.

see page 129 ff.

Further details regarding income tax expense are provided in note 5 to the Consolidated Financial Statements.

Loss from discontinued operations

The loss from discontinued operations, net of income taxes, for the 2018 fiscal year amounted to €143 million (2017: €1 million). The deterioration was mainly attributable to the increase in provisions for Qimonda in connection with pending legal proceedings. For further information on risks relating to the Qimonda insolvency see note 19 to the Consolidated Financial Statements.

see page 148 ff.

Sharp improvement in earnings per share

The improvement in net income resulted in a corresponding increase in **earnings per share**. Compared to earnings per share of €0.70 (basic and diluted) in the previous fiscal year, the corresponding figures for the 2018 fiscal year both amounted to €0.95.



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)	2018	2017
Net income from continuing operations attributable to shareholders of Infineon Technologies AG – diluted	1,218	791
Plus/minus:		
Impairments on assets (excluding capitalized development costs) including assets classified as held for sale, net of reversals ¹	7	5
Impact on earnings of restructuring and closures, net	–	3
Share-based compensation expense	13	13
Acquisition-related depreciation/amortization and other expenses	118	153
(Gains)/losses on sales of assets, businesses, or interests in subsidiaries, net	(272)	15
Other income and expense, net	18	36
Tax effects on adjustments	9	(49)
Revaluation of deferred tax assets resulting from the annually updated earnings forecast	5	–
Adjusted net income from continuing operations attributable to shareholders of Infineon Technologies AG – diluted	1,116	967
Weighted-average number of shares outstanding (in million) – diluted	1,134	1,134
Adjusted earnings per share (in euro) – diluted ²	0.98	0.85

1 Without impairments/reversals of impairments on capitalized development costs since 1 October 2017, but impairments in connection with the sale of the largest part of the Radio Frequency Power Components business to Cree, Inc. are included here. Previous periods figures were not adjusted.

2 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 7 to the Consolidated Financial Statements.

[P] see page 132



Review of financial condition

€ in millions, except percentages	30 September 2018	30 September 2017	Change year-on-year
Current assets	5,423	4,871	11%
Non-current assets	5,456	5,074	8%
Total assets	10,879	9,945	9%
Current liabilities	2,182	2,098	4%
Non-current liabilities	2,251	2,211	2%
Total liabilities	4,433	4,309	3%
Total equity	6,446	5,636	14%
Statement of Financial Position ratios:			
Return on assets ¹	9.9%	7.9%	
Equity ratio ²	59.3%	56.7%	
Return on equity ³	16.7%	14.0%	
Debt-to-equity ratio ⁴	23.8%	32.5%	
Inventory intensity ⁵	13.6%	12.5%	
RoCE ⁶	20.5%	14.9%	

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

[P] see page 69

Current assets influenced by increase in inventories and trade receivables

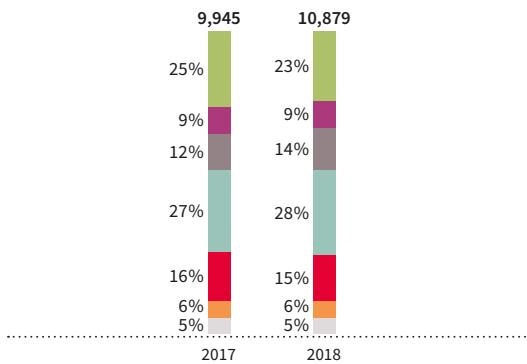
Current assets increased by 11 percent from €4,871 million at the end of the previous fiscal year to €5,423 million as of 30 September 2018. Contributing to this development, inventories and trade receivables went up by €360 million in total, reflecting revenue growth across the segments. In addition, Infineon's gross cash position (sum total of cash and cash equivalents and financial investments) increased by €91 million (see "Gross cash position and net cash position" in the chapter "Review of liquidity" for further information).

[P] see page 71 f.

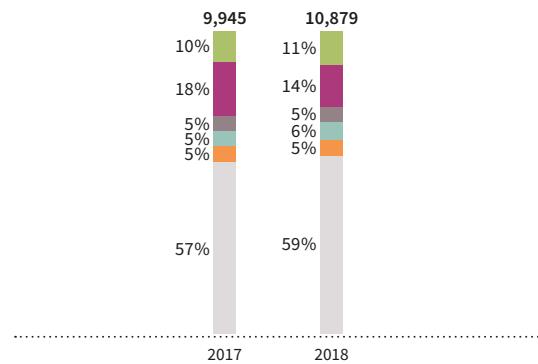
Increase in non-current assets due to higher level of investments

Non-current assets increased by €382 million from €5,074 million to €5,456 million over the course of fiscal year under report. Investments in property, plant and equipment totaling €1,090 million were higher than the depreciation and amortization expense of €702 million. Investments related primarily to the manufacturing sites in Dresden, Regensburg (both Germany), Kulim, Melaka (both Malaysia) and Villach (Austria). Investments in intangible assets (€164 million) were slightly higher than the corresponding amortization expense (€159 million).

Assets



Liabilities and equity



€ in millions

	2017	2018
Gross cash position	2,452	2,543
Trade and other receivables	851	971
Inventories	1,240	1,480
Property, plant and equipment	2,659	3,038
Intangible assets	1,586	1,596
Deferred tax assets	612	648
Other assets	545	603
Total Assets	9,945	10,879

	2017	2018
Trade and other payables	1,020	1,181
Debt	1,834	1,532
Pension plans and similar commitments	503	552
Provisions	489	636
Other liabilities	463	532
Equity	5,636	6,446
Total Liabilities and Equity	9,945	10,879

Increase in trade payables and provisions more than offset decrease in debt

Total liabilities stood at €4,433 million as of 30 September 2018 and were therefore €124 million (3 percent) higher than one year earlier (€4,309 million). Trade payables increased by €161 million, mainly as a consequence of the revenue growth recorded by the segments and high levels of investment. Current and non-current provisions went up in total by €147 million (see note 13 to the Consolidated Financial Statements for details), while pensions plans and similar commitments increased by €49 million (see note 14 to the Consolidated Financial Statements for details).

[P] see page 137

[P] see page 138 ff.

[P] see page 136 f.

By contrast, debt decreased overall by €302 million. This figure includes the repayment of a €300 million bond relating to refinancing for the acquisition of International Rectifier. Information on debt maturities is provided in note 12 to the Consolidated Financial Statements.

Debt by currencies



	2017	2018
Euro	1,044	726
US dollar	790	806
Total	1,834	1,532



Equity up mainly due to net income for the year

Equity increased by €810 million (14 percent) to stand at €6,446 million at the end of the reporting period (30 September 2017: €5,636 million). The increase was mainly attributable to net income for the 2018 fiscal year amounting to €1,075 million. The payment of the dividend for the 2017 fiscal year reduced equity by €283 million.

The equity ratio improved to 59.3 percent as of the end of the reporting period (30 September 2017: 56.7 percent).

RoCE of 20.5 percent generated

Operating income from continuing operations after tax rose by 49 percent from €847 million to €1,263 million year-on-year. Capital employed, however, increased by only 8 percent from €5,695 million as of 30 September 2017 to €6,168 million as of 30 September 2018. As a result, the **Return on Capital Employed (RoCE)** rose sharply from 14.9 percent to 20.5 percent. The performance again enabled Infineon to more than cover its cost of capital in the 2018 fiscal year.

RoCE for the 2018 and 2017 fiscal years is calculated as follows:

€ in millions	2018	2017
Operating income	1,469	983
Plus/minus:		
Financial result excluding interest result ¹	(8)	3
Gain from investments accounted for using the equity method	(5)	3
Income tax	(193)	(142)
Operating income from continuing operations after tax ①	1,263	847
 Assets	 10,879	 9,945
Plus/minus:		
Cash and cash equivalents	(732)	(860)
Financial investments	(1,811)	(1,592)
Assets classified as held for sale	(11)	(23)
Total current liabilities	(2,182)	(2,098)
Short-term debt and current maturities of long-term debt	25	323
Capital employed ②	6,168	5,695
RoCE ①/②	20.5%	14.9%

¹ The financial result for both the 2018 and 2017 fiscal year amounted to negative €53 million, and included negative €45 million and negative €56 million, respectively, of net 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	2018	2017
Net cash provided by operating activities from continuing operations	1,571	1,728
Net cash used in investing activities from continuing operations	(1,163)	(1,131)
Net cash used in financing activities from continuing operations	(542)	(340)
Net change in cash and cash equivalents from discontinued operations	4	(5)
Cash-relevant change in cash and cash equivalents	(130)	252
Effect of foreign exchange rate changes on cash and cash equivalents	2	(17)
Change in cash and cash equivalents	(128)	235

Net cash provided by operating activities from continuing operations down year-on-year

Net cash provided by operating activities from continuing operations in the 2018 fiscal year amounted to €1,571 million, down by €157 million compared to the previous fiscal year's figure of €1,728 million. Taking income from continuing operations before depreciation, amortization, impairment losses, interest, income taxes and the gain from the sale of the major part of the RF power components business to Cree, Inc., amounting to €2,054 million (2017: €1,806 million) as the starting point, changes in inventories, trade receivables and trade payables totaling €209 million reduced net cash provided by operating activities from continuing operations (2017: increased by €13 million). Cash outflows for interest and income taxes totaled €262 million (2017: €191 million).

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

Net cash used in investing activities from continuing operations totaled €1,163 million in the 2018 fiscal year, including investments in property, plant and equipment (€1,090 million) and in intangible and other assets (€164 million). Net purchases of financial investments amounted to €210 million. These outflows were partly offset by cash received in connection with the sale of the major part of the RF components business to Cree, Inc. (see note 6 to the Consolidated Financial Statements) amounting to €323 million.

Net cash used in investing activities from continuing operations in the previous fiscal year totaled €1,131 million. Investments in property, plant and equipment and in intangible assets amounted to €1,022 million.

Debt repayments and dividend payment result in net cash used in financing activities from continuing operations

Net cash used in financing activities from continuing operations in the 2018 fiscal year totaled €542 million and was mainly impacted by repayments of long-term debt amounting to €321 million (see note 12 to the Consolidated Financial Statements). In addition, the dividend for the 2017 fiscal year amounting to €283 million was paid.

Net cash used in financing activities from continuing operations in the 2017 fiscal year amounted to €340 million, comprising mainly a cash outflow of €248 million for the dividend payment for the 2016 fiscal year.

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P see page 136



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	2018	2017
Net cash provided by operating activities from continuing operations	1,571	1,728
Net cash used in investing activities from continuing operations	(1,163)	(1,131)
Purchases of (proceeds from sales of) financial investments, net	210	(3)
Free cash flow	618	594

Net cash provided by operating activities exceeds investments

Free cash flow in the 2018 fiscal year amounted to €618 million. Net cash provided by operating activities from continuing operations amounting to €1,571 million exceeded cash outflows of €1,254 million used for investments in property, plant and equipment, intangible and other assets. The free cash flow includes the cash received in connection with the sale of the major part of the RF components business to Cree, Inc. (see note 6 to the Consolidated Financial Statements).

P see page 131

Free cash flow in the previous 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 shares of MoTo Objekt Campeon GmbH & Co. KG.

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 2018	30 September 2017
Cash and cash equivalents	732	860
Financial investments	1,811	1,592
Gross cash position	2,543	2,452
Minus:		
Short-term debt and current maturities of long-term debt	25	323
Long-term debt	1,507	1,511
Total debt	1,532	1,834
Net cash position	1,011	618

The gross cash position as of 30 September 2018 increased by €91 million. Free cash flow totaling €618 million exceeded the sum of the dividend payment (€283 million) and the repayment of debt (€321 million). The release of €75 million of restricted cash also had a positive effect.



[P] see page 136

Taking into account the financial resources available to Infineon – including internal liquidity on hand, net cash that can be generated, and available credit facilities (€72 million; 2017: €72 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 2019 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”.

[P] see page 147

[P] see page 73 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. Derivative financial instruments are not used 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.

[P] see page 152 ff.

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 2018 fiscal year and show the outlook for the 2019 fiscal year.

€ in millions, except percentages	Actuals FY 2017	Original Outlook FY 2018	Actuals FY 2018	Outlook FY 2019
Principal performance indicators				
Segment Result Margin	17.1%	About 17% (at the mid-point of the planned range for revenue growth)	17.8%	About 18% (at the mid-point of the planned range for revenue growth)
Free cash flow from continuing operations	594	Between €500 million and €600 million	618	Slightly positive up to €200 million
RoCE	14.9%	Slight increase	20.5%	Moderate decrease
Supplementary performance indicators				
Growth and profitability performance indicators				
Change in revenue compared to previous year	9%	Increase by 9% plus/minus 2 percentage points	8%	Increase by 11% plus/minus 2 percentage points
Gross margin	37.1%	Slight increase	38.0%	Slight increase
Research and development expenses	776	Increase slightly above revenue growth	836	Increase in line with revenue growth
Selling, general and administrative expenses	819	Increase below revenue growth	850	Increase below revenue growth
Liquidity performance indicators				
Gross cash position	2,452 €1 billion + 21%	In the range of €1.8 billion to €2.6 billion and therefore within the target range of €1 billion + 10% to 20% of revenue	2,543 €1 billion + 20%	In the range of €1.9 billion to €2.7 billion and therefore within the target range of €1 billion + 10% to 20% of revenue
Net cash position	618	Net cash position (gross cash position higher than debt)	1,011	Net cash position (gross cash position higher than debt)
Working capital	621	Between €650 million and €850 million	712	Between €1.0 billion and €1.2 billion
Investments	1,022	Between €1.1 billion and 1.2 billion	1,254	Between €1.6 billion and 1.7 billion

Comparison of original outlook and actual figures for the 2018 fiscal year

Revenue growth of 9 percent plus or minus 2 percentage points was forecast for the 2018 fiscal year. The actual growth figure of 8 percent was therefore within the expected range. Year-on-year growth was negatively impacted by the weaker US dollar. A Segment Result Margin of 17 percent was forecast at the mid-point of the planned range for revenue growth. Although revenue growth was slightly below the mid-point of the planned range, the Segment Result Margin came in at 17.8 percent.



Free cash flow totaled €618 million in the 2018 fiscal year and was therefore slightly above the expected range of between €500 million and €600 million. This outcome includes the proceeds from the sale of the major part of the RF power components business to Cree, Inc., offset in part by higher-than-expected investments and cash outflows in connection with the establishment of a joint venture with SAIC Motor Corporation Limited (China) and the acquisition of the start-up company Merus Audio (Denmark).

The forecast for Return on Capital Employed (RoCE) had been for a level slightly higher than the previous year's figure of 14.9 percent. Thanks to the strong operating performance and the gain from the sale of the major part of the RF power components business, RoCE increased to a better-than-expected 20.5 percent.

The gross margin improved from 37.1 percent in the 2017 fiscal year to 38.0 percent in 2018 fiscal year, in line with expectations. Operating expenses developed in line with or slightly better than expected. The prediction for research and development expenses was an increase slightly above revenue growth. The actual increase was limited to 8 percent, in line with revenue growth. Selling, general and administrative expenses were forecast to increase at a rate below revenue growth. The actual increase of 4 percent in the 2018 fiscal year was therefore in line with the forecast.

Explanatory comments to the outlook for the 2019 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 does not always 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 line with the euro/US dollar exchange rate. In terms of revenue, the impact of exchange rates is limited primarily to the euro/US dollar rate, where a deviation of 1 cent in the actual exchange rate compared to the forecast rate would continue to have an impact on revenue of approximately €9 million per quarter or approximately €36 million per fiscal year. Planning for the 2019 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 3.2 percent in the 2017 calendar year. In the spring of 2018, experts at the International Monetary Fund (IMF) initially predicted a slight increase in the global growth rate for the 2018 calendar year to 3.4 percent. Over the summer and fall of 2018, these expectations were corrected downwards gradually, so that the IMF's latest prediction for economic growth in the 2018 calendar year now also stands at 3.2 percent. For the 2019 calendar year, the experts are currently predicting global economic growth of 3.1 percent. However, the simmering trade dispute with the USA, increasing protectionist tendencies as well as rising interest rates and oil prices are seen as potential risks for future growth.

The markets served by Infineon continue to benefit from the solid growth rates still being predicted for the global economy. The global semiconductor market relevant for Infineon (i.e. excluding memory ICs and microprocessors) grew by 9.7 percent in the 2017 calendar year on a US dollar basis. The market research company IHS Markit predicts that this market will grow by 8.6 percent in the 2018 calendar year and then by a further 6.1 percent in the 2019 calendar year. In other words, the pace of growth of the global world semiconductor market relevant for Infineon is forecast to slow down, while still remaining faster than that predicted for the global semiconductor market as a whole (i.e. including memory ICs and microprocessors). The actual growth of this market in the 2017 calendar year was 21.9 percent. An increase of 15.8 percent and a decrease of 4.3 percent are predicted for the 2018 and 2019 calendar year, respectively. These predictions mainly reflect how the market for memory ICs is expected to develop. After an actual growth rate of 60.7 percent in the 2017 calendar year, the market for memory ICs is predicted to grow by 31.8 percent and 2.4 percent in the calendar years 2018 and 2019 respectively. All growth figures are based on market sizes measured in US dollars.



Revenue growth of 11 percent expected, plus or minus 2 percentage points, compared to the previous fiscal year

Based on the 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 11 percent, plus or minus 2 percentage points, for the 2019 fiscal year. Revenue growth in the Automotive segment is expected to be well above the Group average. The Power Management & Multimarket segment is predicted to grow about in line with the Group average while the Industrial Power Control segment is likely to report growth slightly below the Group average. Due to adverse market conditions, revenue for the Digital Security Solutions segment is expected to be down by a mid-single digit percentage year-on-year.

Slight upward trend in gross margin expected

If revenue growth were to reach the mid-point of the planned range, the gross margin for the 2019 fiscal year is expected to rise slightly compared to the previous year. 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 in line with revenue growth. 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 18 percent expected

Based on the forecast changes in revenue and expenses described above, in the 2019 fiscal year the Segment Result Margin is expected to amount to 18 percent if revenue growth were to reach the mid-point of the planned range.

Non-segment result

Infineon expects the non-segment result for the 2019 fiscal year to be a loss of between €100 million and €150 million (2018 fiscal year: loss of €116 million) mainly due to acquisition related expenses. Approximately €90 million of the forecasted amount relates to non-cash-relevant depreciation and amortization arising in conjunction with purchase price allocation.

Financial result

The financial result (financial income less financial expense) for the 2018 fiscal year was a net expense of €53 million. The €300 million bond, with a coupon of 1.0 percent, was repaid as due in mid-September. The negative financial result is expected to improve slightly in the 2019 fiscal year.

Income taxes

The effective current tax rate for the Group in the 2019 fiscal year is forecast to be about 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 2018, tax loss carry-forwards for German income tax and trade tax purposes amounted to €1.6 billion and €2.6 billion respectively.

Working capital

Working capital is forecast to finish the 2019 fiscal year at between €1.0 billion and €1.2 billion.

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 in a range between €1.6 billion and €1.7 billion in the 2019 fiscal year. In the 2018 fiscal year, this figure amounted to €1,254 million, comprising investments in property, plant and equipment of €1,090 million and in capitalized development costs and other intangible assets of €164 million. Investments in capitalized development costs and other intangible assets in the 2019 fiscal year should reach a slightly lower level than one year earlier.



Planned investments in manufacturing facilities during the 2019 fiscal year will focus on expanding frontend capacities, including further expansion of Infineon's 300-millimeter as well as its 200-millimeter manufacturing capacities in Dresden (Germany) and Kulim (Malaysia), respectively. Considerable funds will also be invested in the upgrade of existing frontend manufacturing facilities, ensuring that they remain state-of-the-art in terms of automation, quality, innovation and infrastructure. A significant amount is also earmarked to upgrade backend facilities and capacities. In addition, as already announced, a low triple-digit million amount will be invested in new buildings, mainly in the new 300-millimeter facility in Villach (Austria).

Depreciation and amortization are expected to be in the region of €1,000 million. Thereof about €90 million of that amount are related to depreciation and amortization resulting from purchase price allocations, mainly in connection with the acquisition of International Rectifier.

Free cash flow from continuing operations

Free cash flow in the 2019 fiscal year is forecast to be slightly positive and up to €200 million.

Gross cash position

The gross cash position is expected to finish the 2019 fiscal year at a level between €1.9 billion and €2.7 billion. Hence, Infineon again expects to meet its capital structure targets in the 2019 fiscal year. See "Capital structure targets demonstrate our reliability" in the chapter "Group strategy" for more information on capital structure targets.

RoCE

The Return on Capital Employed (RoCE) is expected to moderately decrease in the 2019 fiscal year. The RoCE of 20.5 percent for the 2018 fiscal year included, among other things, the gain from the sale of the major part of the RF power components business to Cree, Inc. Net income is expected to decline, while capital employed will increase in the 2019 fiscal year.

Overall statement on the expected development of the Group

Based on forecasts for the global economy and the semiconductor market in the 2019 calendar year, Infineon expects revenue growth of 11 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 be in the region of about 18 percent. Investments will rise to a range between €1.6 billion and €1.7 billion. Depreciation and amortization are expected to be in the region of €1,000 million. Free cash flow from continuing operations is expected to be slightly positive and up to €200 million. The Return on Capital Employed (RoCE) is predicted to decrease moderately.

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.



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 planning, management and internal reporting processes as well as the Compliance Management System.

Risk and Opportunity Management System

Infineon'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, legal and compliance targets. We therefore define risk/opportunity as the occurrence of future uncertainties that could result in a negative or positive variance from plan. 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.

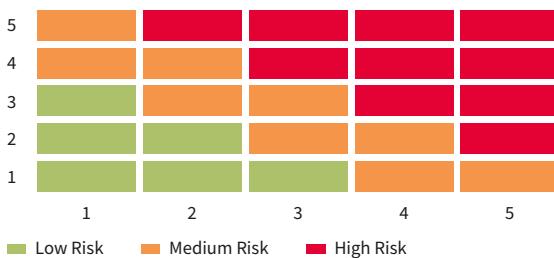
Risks and opportunities are measured on a net basis, i.e. after factoring in any risk mitigation or hedging measures, but without offsetting any provisions recognized. The time periods and the measurement categories used are closely linked to our short- and medium-term business planning and entrepreneurial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

Risk assessment matrix

Degree of Impact



Degree of Impact on Segment Result		
	< €20 million	Marginal
1	< €20 million	Marginal
2	> €20 million	Minor
3	> €60 million	Moderate
4	> €100 million	Significant
5	> €250 million	Major

Likelihood of Occurrence		
	< 10%	Unlikely
1	< 10%	Unlikely
2	< 40%	Possible
3	< 60%	Likely
4	< 90%	Probable
5	> 90%	Certain



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 Infineon for possible correlation and overlap factors, and are analyzed using an Infineon-specific categorization model. 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 proactively 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, valuation 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 and Opportunities Management System as well as the 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 including 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.

Trade and customs disputes could constrain global trade thereby dampening global economic growth, triggered by political tensions and/or trade conflicts between individual countries or regions, which – as a result of short-term or unforeseeable decisions – could have a significant impact on Infineon's revenue and earnings performance.

Ten years after the onset of the global financial and economic crisis following the collapse of Lehman Brothers Holding Inc., the debt situation in a number of European countries remains very tense. The terms of the United Kingdom's exit from the European Union (Brexit) also remain unclear.

We have once again achieved above-average revenue growth in China and the share of Group revenue generated in this region in the 2018 fiscal year remained at 25 percent like in the previous year. Our dependence on the Chinese market therefore remains. This risk includes the possibility of lower external demand 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, cash flows 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 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 and 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 2019 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 currency risks 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 of 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-spreading measures. The failure of these measures could have a materially adverse impact on Infineon's financial condition and liquidity situation.

see page 155 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: high)

see page 148 ff.

Due to the insolvency proceedings of Qimonda and the related action of the insolvency administrator, we are exposed 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 2018. 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, 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.

see page 148 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 if adverse economic and geopolitical crises were to affect our regional markets and if country-specific legislation and regulations were to influence our investment activities and the ability to trade freely. Differing practices in the way tax, judicial and administrative regulations are interpreted could therefore also have a negative impact on operations. 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. 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/or 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 further revenue potential 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 and renewables are 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 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.

Digitalization (OC: medium)

The trend towards digitalization represents a significant business opportunity for Infineon. This is reflected on one hand in the optimization of internal processes, for example for our interconnected manufacturing capabilities on a global scale. At the same time, our portfolio of sensors, microcontrollers, power semiconductors, security controllers and specific software puts us in an excellent position to exploit growing market potential. Thanks to our "Product to system" strategic approach, we are ideally placed to penetrate and develop the markets involved. Good examples already visible today include automated driving, voice and gesture control of devices and machines, and the advancing development of the Internet of Things and Big Data.

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. In particular, further expansion of 300-millimeter manufacturing in Dresden (Germany), of the second manufacturing module in Kulim (Malaysia) and the planned construction of a second, fully automated 300-millimeter factory at the Villach site (Austria) will help meet growing demand for power semiconductors.

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 again 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. For this reason, during the 2018 fiscal year Infineon and SAIC Motor (China's largest car manufacturer) established SIAPM, a joint venture that offers power semiconductor solutions for electric vehicles. Volume production has already commenced. The joint venture strengthens our position in China, whilst also offering additional potential for Infineon's future global business.

China is the world's largest market for trains and, with CRRC (an Infineon customer) home to the world's largest train manufacturer by far. 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 and 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 electro-mobility, 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 Digital Security Solutions 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)

 see page 70 ff.

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



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

We have now been able to report significant revenue growth and improved earnings for five years in a row. Revenue increased by 8 percent to €7,599 million compared to €7,063 million in the previous year, despite the unfavorable development of the US dollar exchange rate. Segment Result increased by 12 percent from €1,208 million to €1,353 million, giving a margin of 17.8 percent. We therefore achieved our margin target of "at least 17 percent over the cycle" (as raised during the 2018 fiscal year) despite the above-mentioned weakness of the US dollar and the continued sharp increase in prices for wafer substrates and other materials such as copper. Adjusted earnings per share (diluted) increased to €0.98 cents. Despite higher investments, free cash flow from continuing operations improved from €594 million to €618 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 21 February 2019, it will be proposed to raise the dividend by 2 cents to €0.27 per share.

The 2018 fiscal year was not only extremely successful in terms of reported figures, it was also a defining year for Infineon's future. Our focus on topics of high relevance for society as well as our technological strength are expected to provide us with excellent growth opportunities in the coming years. For this reason, we have adjusted our long-term financial targets over the cycle and are aiming for an average revenue growth rate of 9 percent per year, a Segment Result Margin prospectively in excess of 17 percent and an investment-to-sales ratio of 15 percent. In order to enable the aforementioned growth, a number of key strategic decisions were made during the 2018 fiscal year. Highlighting just two of them, we announced the construction of a second 300-millimeter factory in Villach (Austria) and set up a manufacturing joint venture with China's largest automotive manufacturer, SAIC Motor, which will give us even better access to the largest and fastest growing market for electric vehicles.

Our growth strategy is based on three pillars: achieving economies of scale in our core business, broadening our scope to adjacent markets and engaging in new, long-term growth areas. Our strategic approach "product to system" provides an excellent basis for developing our core business. By gaining an extensive understanding of our customers' requirements, we are able to develop solutions that take account of all system aspects and therefore offer a competitive advantage to the customer.

After being restrained to 8 percent in the 2018 fiscal year by adverse currency developments, we expect revenue growth of 11 percent, plus or minus 2 percentage points, on the back of high customer demand and assuming a euro/US dollar exchange rate of 1.15. For the fiscal years thereafter, Infineon assumes that revenue will grow at an average rate of 9 percent per year. At the mid-point of the forecast revenue range, we expect to achieve a Segment Result Margin of approximately 18 percent for the 2019 fiscal year. Investments in a range between €1.6 billion and €1.7 billion have been planned for the 2019 fiscal year.



Infineon Technologies AG

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

Infineon Technologies AG is the parent company of Infineon 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	2018	2017
Revenue ¹	5,357	5,789
Cost of goods sold ¹	(3,896)	(4,228)
Gross profit	1,461	1,561
Research and development expenses	(1,003)	(907)
Selling expenses	(282)	(259)
General and administrative expenses	(200)	(172)
Other income (expense), net	150	7
Result from investments, net	980	478
Interest result	(81)	(74)
Other financial result	-	24
Income tax	(43)	(46)
Income after taxes/net income	982	612
Transfers to retained earnings according to section 58, paragraph 2, AktG	(491)	(306)
Unappropriated profit at the end of year	491	306

¹ The decreases in revenue and cost of goods sold compared to the previous fiscal year were mainly attributable to a change in the accounting treatment of intragroup transactions. The change in accounting treatment had no impact on earnings due to the fact that the cost of goods sold was reduced by the same amount. Further information is provided in the Separate Financial Statements of Infineon Technologies AG.

The gross profit margin for the 2018 fiscal year decreased by 6 percent to 27 percent year-on-year. Infineon Technologies AG reports net income of €982 million for the 2018 fiscal year. This includes a profit distribution of €744 million (2017: €337 million) from Infineon Technologies Holding B.V., Rotterdam (The Netherlands). After transferring a total of €491 million to retained earnings, unappropriated profit amounted to €491 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 2018	30 September 2017
Intangible assets, property, plant and equipment	753	708
Financial assets	6,331	6,300
Non-current assets	7,084	7,008
Inventories ¹	966	617
Receivables and other assets	1,378	903
Cash and cash equivalents, marketable securities	2,318	2,216
Current assets	4,662	3,736
Prepaid expenses	40	44
Active difference resulting from offsetting	3	4
Total assets	11,789	10,792
Share capital	2,262	2,260
Capital reserves	1,230	1,226
Retained earnings	3,717	3,203
Unappropriated profit	491	306
Shareholders' equity	7,700	6,995
Special reserve with an equity portion	1	1
Provisions for pensions and similar commitments	216	140
Other provisions	524	350
Provisions	740	490
Bonds	504	804
Loans payable to banks	1	-
Trade payables	376	316
Liabilities to affiliated companies ¹	1,567	1,291
Other liabilities	881	885
Liabilities	3,329	3,296
Deferred income	19	10
Total liabilities and shareholders' equity	11,789	10,792

¹ The increases in inventories and liabilities to affiliated companies were mainly attributable to a change in the accounting treatment of intragroup transactions in the 2018 fiscal year. Further information is provided in the Separate Financial Statements of Infineon Technologies AG.

Total assets increased by 9 percent from €10,792 million as of 30 September 2017 to €11,789 million as of 30 September 2018. Current assets went up by €926 million. Cash and cash equivalents and marketable securities totaled €2,318 million at the end of the reporting period (30 September 2017: €2,216 million) and accounted for 50 percent of current assets.

The increase in equity (€705 million) was mainly attributable to net income of €982 million for the 2018 fiscal year. Payment of the dividend for the 2017 fiscal year (€283 million) reduced equity accordingly.

Provisions for pensions and similar commitments increased by €76 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 €174 million, mainly due to higher provisions for Qimonda in connection with pending legal proceedings (see note 19 to the Consolidated Financial Statements). Liabilities increased by 1 percent from €3,296 million at the end of the previous fiscal year to €3,329 million as of 30 September 2018.

The equity ratio at the end of the reporting period was 65.3 percent, compared to 64.8 percent one year earlier.

For information on own shares, please refer to the disclosures relating to section 160, paragraph 1, no. 2, German Stock Corporation Act (AktG) provided in the Separate Financial Statements of Infineon Technologies AG.

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Dividend

Under the German Stock Corporation Act 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 €491 million in its financial statements for the fiscal year ended 30 September 2018. Due to the strong business performance, a proposal will be made to shareholders at the Annual General Meeting 2019 to increase the dividend for the 2018 fiscal year by 2 cents from €0.25 to €0.27 per share. The disbursement of the proposed dividend is subject to approval by shareholders.

The Company paid a dividend of €0.25 per share (€283 million in total) for the 2017 fiscal year.

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 Infineon. 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 Infineon'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".

Most transactions within Infineon 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 as well. Reference is also made to the Notes to the Separate Financial Statements of Infineon Technologies AG.

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Corporate Governance

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

Structure of the subscribed capital

The share capital of Infineon Technologies AG stood at €2,273,991,668 as of 30 September 2018. This sum is divided into 1,136,995,834 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 above-mentioned issued shares as own shares at the end of the reporting period (30 September 2017: 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 33, paragraphs 1 or 2 of the German Securities Trading Act (Wertpapierhandelsgesetz – “WpHG”) and to section 38, paragraph 1 or section 39, paragraph 1, WpHG can, pursuant to section 44 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.

Direct or indirect shareholdings exceeding 10 percent of the voting rights

Section 33, 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 2018, 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 2018 are presented in the Notes to the Separate Financial Statements of Infineon Technologies AG under the information pursuant to section 160, paragraph 1, No. 8 AktG.

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.

Statutory regulations and Articles of Association provisions governing the appointment and dismissal of members of the Board of Management and amendments to the Articles of Association

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).

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, in particular with respect to the issuing or buying back of 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 143 f.

Authorization to issue convertible bonds and/or bonds with warrants

The Annual General Meeting on 22 February 2018 authorized the Management Board, in the period through 21 February 2023, either once or in partial amounts, to issue convertible bonds and/or bonds with warrants (referred to collectively as "bonds") in an aggregate nominal amount of up to €4,000,000,000, to guarantee such bonds issued by subordinated Group companies of the Company and to grant bondholders conversion or option 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 right of shareholders to subscribe to the bonds,

- › if the issue price is not substantially lower than the bonds' theoretical market value as determined in accordance with accepted valuation methods, in particular those based on financial mathematics; however, this right of exclusion only applies insofar as the shares to be issued to service the conversion or option 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 conversion or option rights arising from bonds that have 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 or option obligations;
- › insofar as bonds are issued in return for a capital contribution in kind, provided that the value of such capital contribution in kind is appropriate in relation to the market value of the bonds.

Even if the dilution protection regulations are applied, the conversion or option price must equal at least 80 percent of the arithmetic mean of the closing prices of the Company's share in XETRA trading on the Frankfurt Stock Exchange (or comparable successor system); further details – including the conditions under which the conversion or option price may be reduced – are set out in the authorization.

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

Authorization to acquire own shares

A resolution passed by the Annual General Meeting on 22 February 2018 authorizes Infineon Technologies AG, in the period through 21 February 2023, 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 cancelled 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 convertible bonds and bonds with warrants 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 cancelled). 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 22 February 2018, 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 both at the time of this authorization becoming effective and 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. The shareholders have no right to conclude derivative transactions with the Company.

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 that are subject to the condition of a change of control as a result of a takeover bid and compensation agreements with members of the Management Board or with employees in the event of a takeover bid

see page 136 f.

Various financing agreements 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. In addition, one financing agreement stipulates that in the event of a change of control, Infineon Technologies AG may be required to provide collateral in the form of cash rather than a guarantee.

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 the agreement 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 removed from office by Infineon Technologies AG. Further details are contained in the Compensation Report.

see page 95 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.

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 289f and section 315d, of the German Commercial Code (HGB)¹ has been made publicly accessible.

@ www.infineon.com/declaration-on-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.

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 peer 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 that 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.

In the 2018 fiscal year, the Supervisory Board engaged an independent external remuneration expert to perform the regular review of the Management Board compensation system. 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 see “Review of the Management Board compensation system, compensation components and individual contracts” in this chapter).

see page 104 f.

Components of the Management Board compensation system

There have been no changes to the Management Board compensation system in the 2018 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 components, 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.

see page 56 ff.



- (ii) At the end of the fiscal year, the actual levels of target achievement and hence, the amount of the STI payouts, are determined by the Supervisory Board by reference to the levels of target achievement for free cash flow and RoCE as reported in the audited financial statements.

An STI is paid only if 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 contract of the member of the Board 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 components, 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 monthly 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 his/her 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 contract of the member of the Board 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 components, 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 to Infineon managers and selected Infineon employees worldwide, in their case however unlike for the Management Board on a voluntarily basis and with minor differences attributable to specific circumstances.

In the 2018 fiscal year, the allocation of the (virtual) performance shares – initially made on a provisional basis – took place for the first time as of 1 March for the fiscal year beginning on the preceding 1 October. 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 (see “Review of the Management Board compensation system, compensation components and individual contracts” in this chapter).

Performance shares are allocated provisionally on the basis of the contractually agreed “LTI allocation amount” in euros, agreed upon individually in the contract of each member of the Management Board. This amount is reduced accordingly if the member of the Management Board takes up office during a fiscal year (by one twelfth for each full month missing for the relevant 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 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 lapse (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. As in the previous year, the Supervisory Board resolved on 3 August 2018 that the performance shares maturing on expiry of 30 September 2018 relating to the tranche awarded on 1 October 2014 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.

The rules governing situations where a member joins or leaves the Management Board during an on-going LTI tranche were revised during the 2018 fiscal year (see “Review of the Management Board compensation system, compensation components and individual contracts” in this chapter).

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. The stock options allocated to members of the Management Board on the basis of the “Stock Option Plan 2010” were all exercised during the 2017 fiscal year.

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. In each case, however, the bonus is capped at a maximum of 30 percent of the fixed compensation of the member of the Management Board concerned.



Management Board compensation in the 2018 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 Member of the Management Board	
	2018	2017	2018	2017	2018	2017
Fixed compensation						
Basic annual salary	1,240,000	1,075,000	825,000	750,000	750,000	685,000
Fringe benefits	36,461	36,154	44,940	43,203	65,596	47,728
Total fixed compensation	1,276,461	1,111,154	869,940	793,203	815,596	732,728
Variable compensation						
Single-year variable compensation (STI)	630,850	670,080	430,125	474,640	389,980	429,968
Multi-year variable compensation						
Mid Term Incentive (MTI) ¹						
2015 – 2017 tranche	–	243,040	–	172,153	–	–
2016 – 2018 tranche	183,520	243,040	129,993	172,153	117,759	155,951
2017 – 2019 tranche	183,520	243,040	129,993	172,153	117,759	155,951
2018 – 2020 tranche	210,283	–	143,375	–	129,993	–
Long Term Incentive (LTI)						
Performance Share Plan ²	298,168	315,608	191,662	211,838	170,373	190,238
Total variable compensation	1,506,341	1,714,808	1,025,148	1,202,937	925,864	932,108
Total compensation	2,782,802	2,825,962	1,895,088	1,996,140	1,741,460	1,664,836

in €	Jochen Hanebeck Member of the Management Board		Total Management Board	
	2018	2017	2018	2017
Fixed compensation				
Basic annual salary	750,000	685,000	3,565,000	3,195,000
Fringe benefits	33,500	32,016	180,497	159,101
Total fixed compensation	783,500	717,016	3,745,497	3,354,101
Variable compensation				
Single-year variable compensation (STI)	389,980	429,968	1,840,935	2,004,656
Multi-year variable compensation				
Mid Term Incentive (MTI) ¹				
2015 – 2017 tranche	–	–	–	415,193
2016 – 2018 tranche	117,759	155,951	549,031	727,095
2017 – 2019 tranche	117,759	155,951	549,031	727,095
2018 – 2020 tranche	129,993	–	613,644	–
Long Term Incentive (LTI)				
Performance Share Plan ²	170,373	190,238	830,576	907,922
Total variable compensation	925,864	932,108	4,383,217	4,781,961
Total compensation	1,709,364	1,649,124	8,128,714	8,136,062

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 2018 fiscal year are based on a fair market value per performance share amounting to €15.25 (2017: €11.25), which was calculated using a Monte-Carlo simulation model taking account of the value-reducing cap.



Members of the Management Board did not receive any loans from Infineon, neither in the 2018 nor 2017 fiscal years.

Similarly, they did not receive any benefits from third parties in the 2018 and 2017 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).

Other fringe benefits related mainly to statutory obligations such as the payment of inventor's compensation or to general benefits/discounts available to all Infineon employees.

Share-based remuneration

[P] see page 95 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 2018 fiscal year was €21.48 (2017: €13.01).

A fair market value of €15.25 (2017: €11.25) per performance share granted in the 2018 fiscal year was determined, taking account of the cap of 250 percent cap set on the LTI allocation amount as well as the performance hurdle.

The following table shows the number of performance shares awarded to members of the Management Board in the 2018 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	Fair value grant date	Virtual performance shares exercised in the fiscal year ¹	Virtual performance shares expired in the fiscal year ²	Virtual performance shares outstanding at the end of the fiscal year
		Number	Number	in €	Number	Number	Number
Dr. Reinhard Ploss (Chief Executive Officer)	2018	153,190	19,552	298,168	35,967	11,615	125,160
	2017	125,136	28,054	315,608	-	-	153,190
Dominik Asam (Chief Financial Officer)	2018	104,118	12,568	191,662	25,119	8,113	83,454
	2017	85,288	18,830	211,838	-	-	104,118
Dr. Helmut Gassel (Member of the Management Board)	2018	16,910	11,172	170,373	-	-	28,082
	2017	-	16,910	190,238	-	-	16,910
Jochen Hanebeck (Member of the Management Board)	2018	16,910	11,172	170,373	-	-	28,082
	2017	-	16,910	190,238	-	-	16,910
Total	2018	291,128	54,464	830,576	61,086	19,728	264,778
	2017	210,424	80,704	907,922	-	-	291,128

¹ The share price of the virtual performance shares exercised in the fiscal year 2018 amounts to €21.90.

² The expiration of the virtual performance shares results from the cap. The finally allocated performance shares may not exceed 250 percent of the respective LTI allocation amount.



Stock Option Plan 2010							
		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 ¹	Stock options expired in the fiscal year	Exercisable stock options outstanding at the end of the fiscal year	Total expense for share-based compensation
Member of the Management Board	Fiscal year	Number	Number	Number	Number	Number	in €
Dr. Reinhard Ploss (Chief Executive Officer)	2018	-	-	-	-	-	198,986
	2017	307,500	-	208,200	99,300	-	376,461
Dominik Asam (Chief Financial Officer)	2018	-	-	-	-	-	134,669
	2017	130,952	-	62,800	68,152	-	285,173
Dr. Helmut Gassel (Member of the Management Board)	2018	-	-	-	-	-	95,379
	2017	-	-	-	-	-	94,858
Jochen Hanebeck (Member of the Management Board)	2018	-	-	-	-	-	95,379
	2017	-	-	-	-	-	94,858
Total	2018	-	-	-	-	-	524,413
	2017	438,452	-	271,000	167,452	-	851,350

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 previous fiscal year stock options have expired.

Further details regarding the performance shares which vested on 30 September 2017 and to the performance shares awarded to the members of the Management Board on 1 March 2018 for the 2018 fiscal year are provided in note 17 to the Consolidated Financial Statements.

[P] see page 146

Special bonuses

The Supervisory Board did not award any special bonuses to members of the Management Board during the 2018 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 2018 fiscal year in accordance with the German Corporate Governance Code

The DCGK recommends that the individual compensation components for 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 2017 and 2018 fiscal years, including fringe benefits, as well as the minimum and maximum values that can be achieved for the 2018 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 on a scale ranging from 0 to 200 percent. 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.

[P] see page 102 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			
	2018	2017	2018 (min.)	2018 (max.)	2018	2017	2018 (min.)	2018 (max.)
	Fixed compensation				Fixed compensation			
Basic annual salary	1,240,000	1,075,000	1,240,000	1,240,000	825,000	750,000	825,000	825,000
Fringe benefits	36,461	36,154	36,461	36,461	44,940	43,203	44,940	44,940
Total fixed compensation	1,276,461	1,111,154	1,276,461	1,276,461	869,940	793,203	869,940	869,940
Variable compensation								
Single-year variable compensation (STI)	550,000	480,000	–	1,375,000	375,000	340,000	–	937,500
Multi-year variable compensation								
Mid Term Incentive (MTI)								
2017–2019 tranche	–	480,000	–	–	–	340,000	–	–
2018–2020 tranche	550,000	–	–	1,100,000	375,000	–	–	750,000
Long Term Incentive (LTI)								
Performance Share Plan ¹	298,168	315,608	149,084	1,050,000	191,662	211,838	95,831	675,000
Total variable compensation	1,398,168	1,275,608	149,084	3,525,000	941,662	891,838	95,831	2,362,500
Pension expense ²	318,442	321,123	318,442	318,442	279,374	297,220	279,374	279,374
Total compensation (DCGK)	2,993,071	2,707,885	1,743,987	5,119,903	2,090,976	1,982,261	1,245,145	3,511,814

in €	Dr. Helmut Gassel Member of the Management Board				Jochen Hanebeck Member of the Management Board			
	2018	2017	2018 (min.)	2018 (max.)	2018	2017	2018 (min.)	2018 (max.)
	Fixed compensation				Fixed compensation			
Basic annual salary	750,000	685,000	750,000	750,000	750,000	685,000	750,000	750,000
Fringe benefits	65,596	47,728	65,596	65,596	33,500	32,016	33,500	33,500
Total fixed compensation	815,596	732,728	815,596	815,596	783,500	717,016	783,500	783,500
Variable compensation								
Single-year variable compensation (STI)	340,000	308,000	–	850,000	340,000	308,000	–	850,000
Multi-year variable compensation								
Mid Term Incentive (MTI)								
2017–2019 tranche	–	308,000	–	–	–	308,000	–	–
2018–2020 tranche	340,000	–	–	680,000	340,000	–	–	680,000
Long Term Incentive (LTI)								
Performance Share Plan ¹	170,373	190,238	85,186	600,000	170,373	190,238	85,186	600,000
Total variable compensation	850,373	806,238	85,186	2,130,000	850,373	806,238	85,186	2,130,000
Pension expense	124,723	132,853	124,723	124,723	148,449	162,385	148,449	148,449
Total compensation (DCGK)	1,790,692	1,671,819	1,025,505	3,070,319	1,782,322	1,685,639	1,017,135	3,061,949

1 The figures of the active members of the Management Board in the 2018 fiscal year are based on a fair market value per performance share amounting to €15.25 (2017: €11.25), 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.

Allocation amount in accordance with DCGK

Since compensation granted to members of the Management Board for the 2018 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 2018 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 2018 fiscal year, the allocation

amount for the 2016-2018 MTI tranche therefore flowed to the members of the Management Board in the 2018 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 awarded on 1 October 2014 which were settled in cash after the end of the 2018 fiscal year (see “Components of the Management Board compensation system” in this chapter) will not be disclosed as having flowed until the 2019 fiscal year. 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.

The total compensation allocated to the individual members of the Management Board for the 2018 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 Member of the Management Board		Jochen Hanebeck Member of the Management Board	
	2018	2017	2018	2017	2018	2017	2018	2017
Fixed compensation								
Basic annual salary	1,240,000	1,075,000	825,000	750,000	750,000	685,000	750,000	685,000
Fringe benefits	36,461	36,154	44,940	43,203	65,596	47,728	33,500	32,016
Total fixed compensation	1,276,461	1,111,154	869,940	793,203	815,596	732,728	783,500	717,016
Variable compensation								
Single-year variable compensation (STI)	630,850	670,080	430,125	474,640	389,980	429,968	389,980	429,968
Multi-year variable compensation								
Mid Term Incentive (MTI)								
2015–2017 tranche	–	678,720	–	480,760	–	–	–	–
2016–2018 tranche	584,640	–	414,120	–	281,358	–	281,358	–
Long Term Incentive (LTI)								
Stock Option Plan 2010	–	1,525,500	–	550,000	–	–	–	–
Performance Share Plan	–	–	–	–	–	–	–	–
due in the financial year 2018 ¹	787,500	–	550,000	–	–	–	–	–
Total variable compensation	2,002,990	2,874,300	1,394,245	1,505,400	671,338	429,968	671,338	429,968
Pension expense ²	318,442	321,123	279,374	297,220	124,723	132,853	148,449	162,385
Total compensation (DCGK)	3,597,893	4,306,577	2,543,559	2,595,823	1,611,657	1,295,549	1,603,287	1,309,369

1 Represents 250 percent of the LTI allocated amount (cap) at the time of granting the virtual performance shares in financial year 2013.

2 Income from past service costs for Dr. Ploss amounting to €1,114,773 have been recorded in the 2017 fiscal year.

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

Benefits and pension entitlements in the 2018 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.

- › 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 2018 fiscal year has been set at 30 percent of his basic annual salary and therefore amounts to €247,500. 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 2018 fiscal year for Dr. Gassel and Mr. Hanebeck amounted in each case to €225,000.
- › 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 2018 fiscal year amounted to €372,000.

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 2018: 1.7 percent, 30 September 2017: 1.8 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)	2018	–	372,000	977,189	318,442
	2017	210,000	–	5,046,826	–
Dominik Asam (Chief Financial Officer)	2018	–	247,500	2,787,031	279,374
	2017	–	225,000	2,586,986	297,220
Dr. Helmut Gassel ² (Member of the Management Board)	2018	–	225,000	2,241,660	124,723
	2017	–	205,500	2,716,822	132,853
Jochen Hanebeck ² (Member of the Management Board)	2018	–	225,000	2,702,051	148,449
	2017	–	205,500	3,361,736	162,385
Total	2018	210,000	1,069,500	13,754,757	870,988
	2017	210,000	958,500	14,171,827	913,581

¹ The upper line for Dr. Ploss in the 2018 fiscal year respectively 2017 shows the contribution amount, the present value and the service cost relating to the defined contribution pension commitment additionally granted to him with effect from 1 January 2016. The second line shows the pension entitlement 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 As a result of the separate allocation to pension entitlement accounts and guaranteed interest component – compared to the previous year's flat-rate allocation – the present value of the pension provision for Dr. Gassel and Mr. Hanebeck as of 30 September 2018 was reduced by €475,162 and €659,685 respectively (including the effect of changes in interest rates).

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 2018 fiscal year

Total compensation (primarily pension benefits) of €1,527,437.89 (2017: €1,324,427.14) was paid to former members of the Management Board in the 2018 fiscal year. As of 30 September 2018, accrued pension liabilities for former members of the Management Board amounted to €68,838,837 (30 September 2017: €67,862,601).

Review of the Management Board compensation system, compensation components and individual contracts

Review of the Management Board compensation system

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 from an objective perspective. 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 contained 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. The individual target annual incomes of the members of the Management Board are appropriate, both horizontally (i.e. looking at peer companies) and vertically (i.e. looking at Infineon's various employee groupings). Regardless of this, however, there would be scope for the compensation to be increased, especially for the Chief Executive Officer. The results of the compensation expert's review were discussed in detail during the Executive Committee meeting held on 25 October 2018 and by the full Supervisory Board on 20 November 2018. The Supervisory Board concurred with the conclusions reached by the external expert.

Increase in Management Board compensation

The increases in the compensation of the members of the Management Board resolved by the Supervisory Board in the 2017 fiscal year – in the case of Dr. Ploss by approximately 15 percent and in the case of Mr. Asam, Dr. Gassel and Mr. Hanebeck by approximately 10 percent respectively – took effect from the beginning of the 2018 fiscal year. The increases did not, however, change the relation of the individual compensation components or the compensation structure as a whole.

Other adjustments

On 3 August 2017, the Supervisory Board resolved to move the allocation date for granting performance shares to members of the Management Board for LTI purposes from 1 October to 1 March of a fiscal year, in line with the rules applicable for managers and employees. This amendment was applied for the first time for the LTI allocation in the 2018 fiscal year.

In addition, following extensive discussions at the Supervisory Board meetings held on 21 November 2017, 16 May 2018 and 3 August 2018, prepared by the Executive Committee, a new (simplified) set of rules came into force on 1 October 2018 for LTI purposes when a member leaves the Management Board:

- › The previous two-year minimum waiting period rule – which prevented the payment of a current LTI tranche if the member of the Board left office during this period – no longer applies.

- › Instead, the LTI will be reduced in future proportionately if the length of service of a member of the Board – specifically in the year in which the LTI is allocated – is shorter than the fiscal year to which the LTI award relates. This situation usually arises when a member of the Board does not begin his duties exactly at the beginning of a fiscal year or does not leave office exactly at the end of a fiscal year. The allocation amount is reduced in each case by one twelfth for each full month missing for the fiscal year in which the LTI is allocated.
- › In a change from the previous rules, the allocation amount will also be reduced in future proportionately in the case of a so-called “good leaver”, i.e. a member of the Board leaving office without any fault on his/her part, for instance in the event of reaching the stipulated age limit. The group of “good leavers” now also includes cases in which a member of the Board fulfills his/her contract properly up to the end of the agreed term and leaves the Company only because the contract has not been extended. By contrast, if a member of the Board resigns from office (unless the resignation is for good cause for which the member is not responsible) or if a contract of a member of the Board is terminated by the Company for good cause (a so-called “bad leaver”), all performance shares not yet definitely allocated are forfeited when the member of the Board leaves office.

Supervisory Board compensation

Compensation structure

The compensation due to the Supervisory Board (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.
- › **Allowances** 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 2018 fiscal year

The total compensation (including meeting attendance fees) paid to the individual members of the Supervisory Board in the 2018 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	2018	90,000	25,000	18,000	133,000
	2017	90,000	25,000	18,000	133,000
Johann Dechant	2018	90,000	30,000	28,000	148,000
	2017	90,000	30,000	26,000	146,000
Dr. Herbert Diess	2018	90,000	-	10,000	100,000
	2017	90,000	-	6,000	96,000
Dr. Wolfgang Eder ¹	2018	60,000	10,000	12,000	82,000
	2017	-	-	-	-
Annette Engelfried	2018	90,000	15,000	18,000	123,000
	2017	90,000	15,000	20,000	125,000
Peter Gruber	2018	90,000	15,000	18,000	123,000
	2017	90,000	15,000	18,000	123,000
Gerhard Hobbach	2018	90,000	15,000	20,000	125,000
	2017	90,000	15,000	18,000	123,000
Hans-Ulrich Holdenried	2018	90,000	15,000	22,000	127,000
	2017	90,000	15,000	24,000	129,000
Prof. Dr. Renate Köcher	2018	90,000	-	10,000	100,000
	2017	90,000	-	16,000	106,000
Dr. Susanne Lachenmann	2018	90,000	15,000	18,000	123,000
	2017	90,000	15,000	18,000	123,000
Wolfgang Mayrhuber ²	2018	37,500	37,500	18,000	93,000
	2017	90,000	90,000	36,000	216,000
Géraldine Picaud ³	2018	90,000	-	20,000	110,000
	2017	60,000	-	6,000	66,000
Dr. Manfred Puffer	2018	90,000	-	-	90,000
	2017	90,000	-	20,000	110,000
Prof. Dr. Doris Schmitt-Landsiedel ⁴	2018	-	-	-	-
	2017	15,000	-	-	15,000
Jürgen Scholz	2018	90,000	15,000	20,000	125,000
	2017	90,000	15,000	18,000	123,000
Kerstin Schulzendorf	2018	90,000	-	14,000	104,000
	2017	90,000	-	12,000	102,000
Dr. Eckart Sünner	2018	90,000	68,333	24,000	182,333
	2017	90,000	25,000	20,000	135,000
Diana Vitale	2018	90,000	-	14,000	104,000
	2017	90,000	-	12,000	102,000
Total	2018	1,447,500	260,833	284,000	1,992,333
	2017	1,425,000	260,000	288,000	1,973,000

1 Joined as Member of the Supervisory Board since 22 February 2018. The compensation for 2018 therefore was awarded on a pro rata basis.

2 Joined as Member of the Supervisory Board until 22 February 2018. The compensation for 2018 therefore was awarded on a pro rata basis.

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

4 Joined as Member of the Supervisory Board until 8 November 2016. 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 2018 or 2017 fiscal years.

Neubiberg, 20 November 2018

Management Board

Dr. Reinhard Ploss

Dominik Asam

Dr. Helmut Gassel

Jochen Hanebeck