



Annual Report 2016

Infineon Technologies AG



Infineon at a glance

Infineon Technologies AG is a world leader in semiconductor solutions that make life easier, safer and greener. Microelectronics from Infineon is the key to a better future. In the 2016 fiscal year (ending September 30), the Company reported sales of about €6.5 billion with some 36,300 employees worldwide. Infineon is listed on the Frankfurt Stock Exchange (ticker symbol: IFX) and in the USA on the over-the-counter market OTCQX International Premier (ticker symbol: IFNNY).



Automotive

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Applications

- › Assistance systems and safety systems
- › Comfort electronics
- › Powertrain
- › Security

Product range

- › 32-bit automotive microcontrollers for powertrain, safety and driver assistance systems
- › Discrete power semiconductors
- › IGBT modules
- › Industrial microcontrollers
- › Magnetic and pressure sensors
- › Power ICs
- › Radar
- › Transceivers (CAN, LIN, Ethernet, FlexRay)
- › Voltage regulators

Key customers¹

Autoliv / Bosch / BYD / Continental / Delphi / Denso / Hella / Hitachi / Hyundai / Keihin / Lear / Mando / Mitsubishi / Omron / Tesla / Valeo / ZF

Market position²

#2 with a market share of 10.4%

Source: Strategy Analytics, April 2016



Industrial Power Control

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Applications

- › Charging stations for electric vehicles
- › Energy transmission
- › Home appliances
- › Industrial drives
- › Industrial vehicles
- › Renewable energy generation
- › Traction
- › Uninterruptable power supplies

Product range

- › Bare die business
- › Discrete IGBTs
- › Driver ICs
- › IGBT modules (low-power, medium-power, high-power)
- › IGBT module solutions incl. IGBT stacks

Key customers¹

ABB / Alstom / Bombardier / CSR Times / Danfoss / Eaton / Emerson / Goldwind / Midea / Rockwell / Schneider Electric / Siemens / Toshiba / Vestas / Yaskawa

Market position²

#1 with a market share of 27.6%

for IGBT-based power semiconductors

Source: IHS Markit, October 2016

1 In alphabetical order. Infineon's major distributions customers are Arrow, Avnet, Jingchuan, Tomen, Weikeng and WPG Holding (SAC).



Power Management & Multimarket

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Applications

- › Charging stations for electric vehicles
- › DC motors
- › HiRel (high-reliability components)
- › LED and conventional lighting systems
- › Power management (adapters, chargers, power supplies)
- › Mobile devices
- › Cellular infrastructure

Product range

- › Control ICs
- › Customized chips (ASICs)
- › Discrete low-voltage and high-voltage power MOSFETs
- › GPS low-noise amplifier
- › Low-voltage and high-voltage driver ICs
- › MEMS and ASICs for silicon microphones
- › RF antenna switches
- › RF power transistors
- › TVS (transient voltage suppressor) diode

Key customers¹

AAC / Airbus / Artesyn / Boeing / Cisco / Dell / Delta /
Ericsson / Hewlett Packard Enterprise / Huawei / Lenovo /
LG Electronics / Lite-On / muRata / Nokia / Osram /
Panasonic / Quanta / Samsung / ZTE

Market position²

#1 with a market share of 26.4%
for standard MOSFET power transistors

Source: IHS Markit, October 2016



Chip Card & Security

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Applications

- › Authentication
- › Automotive
- › Governmental identification documents
- › Healthcare cards
- › Internet of Things
- › Mobile communications
- › Payment systems incl. mobile payment
- › Secure NFC transactions
- › Ticketing, access control
- › Trusted computing

Product range

- › Contact-based security controllers
- › Contactless security controllers
- › Dual-interface security controllers
(contact-based and contactless)

Key customers¹

Gemalto / Giesecke & Devrient / Google / HP / Lenovo /
Microsoft / Oberthur Technologies / Safran Morpho /
Samsung / US Government Publishing Office /
Watchdata

Market position²

#2 with a market share of 24.8%
for microcontroller-based chip card ICs

Source: IHS Markit, July 2016

² All figures for 2015 calendar year. The market share of the five largest competitors is shown in the "Market position" section of the relevant segment. The figures provided in those sections with respect to changes in market share relate to the 2014 market share figures as calculated in 2016. Due to changes in the way the market is analyzed, these figures may differ from the 2014 market share figures reported in 2015.

Infinion key data

As at and for the fiscal years ended September 30 (under IFRS)¹

Fiscal year from October 1 to September 30	2016		2015		2016/2015
	€ in millions	in % of revenue	€ in millions	in % of revenue	Change in %
Revenue by region	6,473		5,795		12
Europe, Middle East, Africa	2,147	33	2,020	35	6
Therein: Germany	1,000	15	942	16	6
Asia-Pacific (w/o Japan)	3,083	48	2,666	46	16
Therein: China	1,574	24	1,337	23	18
Japan	424	6	399	7	6
Americas	819	13	710	12	15
Therein: USA	661	10	568	10	16
Revenue by segment	6,473		5,795		12
Automotive	2,651	41	2,350	41	13
Industrial Power Control	1,073	16	971	17	11
Power Management & Multimarket	2,050	32	1,796	31	14
Chip Card & Security	698	11	665	11	5
Other Operating Segments	8	0	14	0	(43)
Corporate and Eliminations	(7)	0	(1)	0	---
Gross profit/Gross margin	2,330	36.0	2,080	35.9	12
Research and development expenses	(770)	11.9	(717)	12.4	7
Selling, general and administrative expenses	(791)	12.2	(778)	13.4	2
Operating income	763		555		37
Income from continuing operations	741		622		19
Gain (loss) from discontinued operations, net of income taxes	2		12		(83)
Net income	743		634		17
Segment Result/Segment Result Margin	982	15.2	897	15.5	9
Property, plant and equipment	2,119		2,093		1
Total assets	9,087		8,741		4
Total equity	5,023		4,665		8
Net cash provided by operating activities from continuing operations	1,313		957		37
Net cash used in investing activities from continuing operations	(1,098)		(2,593)		58
Net cash provided by (used in) financing activities from continuing operations	(229)		1,363		---
Free cash flow ²	490		(1,654)		+++
Depreciation and amortization	833		760		10
Capital expenditure	826		785		5
Gross cash position ²	2,240		2,013		11
Net cash position ²	471		220		+++
Basic earnings per share in €	0.66		0.56		18
Diluted earnings per share in €	0.66		0.56		18
Adjusted earnings per share in € – diluted	0.76		0.60		27
Dividend per share in € ³	0.22		0.20		10
Equity ratio	55.3%		53.4%		4
Return on equity ⁴	14.8%		13.6%		9
Return on assets ⁴	8.2%		7.3%		12
Inventory intensity ⁴	13.1%		12.9%		2
Debt-to-equity ratio ⁴	35.2%		38.4%		(8)
Debt-to-total-capital ratio ⁵	19.5%		20.5%		(5)
Return on Capital Employed (RoCE) ²	15.0%		12.8%		17
Infinion employees as of September 30	36,299		35,424		2

1 Columns may not add up due to rounding. The business with XMC industrial microcontrollers developed by Automotive and Chip Card & Security was transferred to Power Management & Multimarket and Industrial Power Control with effect from October 1, 2015. The previous year figures have been adjusted accordingly.

2 See the chapter "Internal management system" for definition, [P] page 57.

3 A dividend per share of €0.22 for the 2016 fiscal year will be proposed to the Annual General Meeting on February 16, 2017.

4 See the chapter "Review of financial condition" for definition, [P] page 73.

5 Debt-to-total-capital ratio = long-term and short-term debt divided by total assets.

Our year

2016

Infineon continued to grow during the 2016 fiscal year. Revenue increased organically by 7 percent, and by 12 percent including the contribution from International Rectifier. Segment Result increased to €982 million, corresponding to a margin of 15.2 percent.

We make our customers more successful with leading technology and system understanding. Here we benefit from long-term, global megatrends and develop solutions that make life easier, safer and greener.

Today our traditional core competencies are in greater demand than ever. At the same time we are preparing for the successes of tomorrow. During the past fiscal year we further strengthened our position in important future-oriented technologies through strategic acquisitions.

Our growth strategy has proven itself and has earned the proper recognition: In February 2016 the rating agency S&P Global Ratings evaluated our credit-worthiness as “BBB” (outlook “stable”), the highest credit-worthiness rating of any European semiconductor company. Furthermore, we earned the highest rating of any European semiconductor manufacturer in the Dow Jones Sustainability Index (DJSI) and are listed in the DJSI World Index.

Our year at a glance

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€6.473 billion
Revenue (+12%)

€982 million
Segment Result
($\hat{=}$ 15.2% Margin)

“BBB”
Credit rating

#1 in Europe
Sustainability rating by DJSI

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Letter to shareholders

Neubiberg, November 2016

*Dear shareholders
and business partners,
dear Infineon colleagues,*

Infineon performed very well in the previous fiscal year. In spite of the difficult economic situation and a sluggish semiconductor market we grew once again and have achieved our targets. Revenue increased to 6,473 million euros, Segment Result improved to reach 982 million euros, equivalent to a margin of 15 percent. Earnings per share rose to 66 cents. After two years in which we had benefited from the positive world economic situation, the 2016 fiscal year presented us with challenges that we have readily mastered. We want our shareholders to have their fair share in this development. The Management Board and the Supervisory Board will therefore propose a dividend of 22 cents per share at the Annual General Meeting on February 16, 2017.

The 2016 fiscal year has proven that Infineon as a company enjoys solid health and pursues the right strategy. In recent years we have laid the foundation that ensures stability even in difficult times. We have focused on applications, technologies and products that are more in demand today than ever before in the context of global megatrends: automotive semiconductors, industrial power semiconductors, radio-frequency components and security solutions. Semiconductors are essential in tapping renewable energy sources. They reduce the amount of energy consumed by electric devices and facilitate systems that make transportation safer and cleaner. They are also at the heart of modern communications and enable fast and secure data traffic in an increasingly connected world. We have gained the expertise necessary to do all this over many years, and we continue to systematically expand it. Competence and good ideas are an excellent place to start, but a truly innovative company is characterized by the successful execution of ideas in the market.

All our activities are based on our strategic approach "Product to System", which we apply along our entire value chain to make our customers successful. This strategy is supported by additional elements: a culture of permanent innovation, continuous pursuit of technology leadership, a strong dedication to quality, differentiated in-house manufacturing and a go-to-market approach tailored to a variety of markets. As a result, we can offer our customers leading products at the highest possible quality and supply reliability, and can thus achieve our goal of growing profitably and faster than the market. This is our recipe for success, today and in the future.



Dr. Reinhard Ploss
Chief Executive Officer

The developments of recent years were recognized by the international rating agency S&P Global Ratings (S&P; formerly Standard & Poor's Ratings Services), which in February 2016 for the first time issued a long-term credit rating for Infineon. S&P has rated our creditworthiness as "BBB" (outlook "stable"). This gives Infineon the best current S&P rating of any European semiconductor manufacturer. The rating recognizes Infineon's growth, well above average compared to the rest of the industry, as well as our leading market position in several areas. S&P was also impressed by our strong financial profile. This rating offers us access to more favorable financing conditions in the capital market, which in turn helps enhance our organic growth strategy with strategic and financially viable acquisitions. We are actively shaping the current wave of consolidation in the semiconductor industry, for example with our planned acquisition of the US corporation Wolfspeed.

We want to keep growing faster than the market in the future as well. This is why we are rigorously continuing on the path we have chosen. As a semiconductor manufacturer we are one of the first stages of the value chain for many industry segments. Our technologies are the basis for a large number of innovations that make life easier, safer and greener. This means we have to recognize at an early stage the direction in which our markets will develop over the coming years and we have to establish the prerequisites necessary to address the requirements of the future today. Our objective in this context is to use our knowledge to create innovations that can change markets and clearly differentiate us from our competition on a long-term basis.



The planned acquisition of Wolfspeed will expand our expertise once more. It will make us number one in silicon carbide-based power semiconductors while at the same time laying the foundations for becoming the market leader in radio-frequency power components. We are expanding our portfolio with future-oriented technologies and are thus addressing future growth markets such as electro-mobility, renewable energies and next-generation cellular infrastructures for the Internet of Things. And what's more: We are accelerating the market launch of these innovative technologies and helping to meet modern society's need for energy efficiency, networking and mobility with the most innovative semiconductor solutions. We expect the acquisition to be immediately accretive to Infineon's adjusted earnings-per-share.

Wolfspeed is an investment in the future. However, we already laid the foundation for today's success in past months and years. This is particularly evident for example in our Automotive segment. Around 90 percent of the innovations in vehicles – and thus the greatest differentiation potential for automobile manufacturers – are based on electronics. The electrification of the powertrain and the growing penetration of advanced driver assistance systems (with autonomous vehicles being the long-term goal) have triggered a far-reaching transformation in the automotive industry. Infineon, as the system leader in automotive, is greatly benefiting from this development. This year these two sub-markets have reached a significant magnitude and will account for half of our automotive growth over the next five years. Our Automotive segment is thus an excellent example of our overall corporate strategy: In the past our technology innovations put us in a leading position, which we have further expanded with system understanding and the ability to adapt to changing demands. In the future this adaptability will continue to help us make our customers more successful with our products and solutions.

Companies must be able to constantly reinvent themselves in order to remain successful in the long term. This means employees are called on to engage in new structures and new processes and fill them with life. Therefore I would like to take this opportunity to thank the employees of Infineon in the name of the entire Management Board. Your outstanding abilities, your motivation and your passion have made it possible for us to continue growing even in the face of this year's stagnating market and fierce competition. We have even managed to outpace the overall semiconductor market by more than the average of the 16 previous years. We look forward to joining together with you to reap the harvest of our hard work in the coming years and to address the next tasks awaiting us.



Our solutions address the central challenges of our time: energy efficiency, sustainable mobility and security in an increasingly connected world. This means we are used to thinking in terms of long timelines and to planning our actions well in advance. And we consider their long-term impacts. This is why sustainability is an essential component of our corporate culture. On the one hand, sustainability is an important demand driver, since energy-efficient power semi-conductors account for approximately 60 percent of our revenue. On the other hand we also emphasize using resources diligently in manufacturing and constantly try to improve the sustainability of our own business activities. As a company we want to do our part in passing on a livable world to future generations. In recognition of the significance of this topic we will in the future publish an independent Sustainability Report. You will find this year's Sustainability Report on our website. We have reduced the scope of the Annual Report in comparison with previous editions so that we can provide you with all the relevant information in an even more concise way, in response to the desire expressed by a large number of our shareholders.

@ [www.infineon.com/
sustainability_
reporting](http://www.infineon.com/sustainability_reporting)

What lies ahead of us? Infineon will continue to grow. For the 2017 fiscal year, we expect revenue to increase by 6 percent year-on-year – plus or minus 2 percentage points. At the mid-point of the forecast revenue range the Segment Result Margin will be approximately 16 percent. Going forward, the further ramp and utilization of our 300-millimeter site in Dresden will have a positive impact on our earnings. Additionally, we will benefit from cost advantages due to the integration of International Rectifier's manufacturing landscape as well as from a stronger US dollar. Considering these factors, we have decided to raise our margin target throughout the cycle from previously 15 percent to now 17 percent of revenue.

We sincerely hope you will continue to accompany us on this path also in the future.

*Sincerely,
Reinhard Ploss*

Dr. Reinhard Ploss
Chief Executive Officer



The Management Board

- **Dr. Reinhard Ploss**

Chief Executive Officer

Reinhard Ploss has been a member of the Management Board of Infineon Technologies AG since 2007. He has been Chief Executive Officer since October 1, 2012, responsible for Segments, Group Strategy, Communications & Government Relations, Human Resources (Labor Director), Legal, Research & Development.

Reinhard Ploss was born on December 8, 1955 in Bamberg. He studied process engineering at the Technical University of Munich and in 1986 received his doctorate. He began his career at Infineon (Siemens AG until 1999) in the same year.

- **Dr. Helmut Gassel**

Chief Marketing Officer

Helmut Gassel has been a member of the Management Board and Chief Marketing Officer of Infineon Technologies AG since 2016. He is responsible for Sales & Marketing, Regions, Strategy Development, Mergers & Acquisitions and Intellectual Property.

Helmut Gassel was born on March 13, 1964 in Dortmund, Germany. He studied at the Ruhr-University in Bochum and received a degree in physics and a doctorate in electrical engineering. He joined Infineon (Siemens AG until 1999) in 1995.

- **Dominik Asam**

Chief Financial Officer

Dominik Asam has been the Chief Financial Officer of Infineon Technologies AG since 2011, responsible for Accounting & Reporting, Financial Controlling, Financial Planning, Investor Relations, Tax, Treasury, Audit, Compliance, Export Control, Risk Management, Business Continuity and Information Technology.

Dominik Asam was born on March 6, 1969 in Munich. He studied at the Technical University of Munich and the École Centrale in Paris. He is a graduate mechanical engineer and an “Ingénieur des Arts et Manufactures”. In addition, he completed an MBA at INSEAD in Fontainebleau, France. Dominik Asam joined Infineon in 2003.

- **Jochen Hanebeck**

Member of the Management Board

Jochen Hanebeck has been a member of the Management Board of Infineon Technologies AG since 2016. He is responsible for Operations, including Manufacturing, Logistics, Quality, Customs and Purchasing.

Jochen Hanebeck was born on February 2, 1968 in Dortmund. He received a degree in electrical engineering from RWTH Aachen University. He has been with Infineon since 1994 (Siemens AG until 1999).



Management Board and Supervisory Board
The Management Board



From left to right:
Dominik Asam, Dr. Reinhard Ploss, Jochen Hanebeck, Dr. Helmut Gassel



Report of the Supervisory Board to the Annual General Meeting

Ladies and gentlemen,

Infineon has grown strongly in recent years, and – contrary to many of its competitors and despite the current contraction of the semiconductor market – remains firmly on growth course. Infineon's success story is attributable in particular to its strategic focus on fast-growing, future-oriented technologies such as energy efficiency, electro-mobility, driver assistance systems, renewables, and the Internet of Things. Following the successful integration of International Rectifier, the largest acquisition in Infineon's corporate history, we are now on the verge of securing a decisive long-term technological lead for ourselves in precisely these rapidly growing markets with our planned purchase of the Wolfspeed division of the US company Cree. We greatly look forward to writing the next chapter in Infineon's success story, not least due to the momentum provided by a partially reorganized and strengthened management team.

Main activities of the Supervisory Board

During the 2016 fiscal year, the Supervisory Board diligently performed all the duties incumbent upon it in accordance with the law, the Company's statutes and its own terms of reference. Throughout the year, we consulted extensively with the Management Board and diligently oversaw its activities in both an advisory and a monitoring capacity. Our input was based on the detailed information provided to us by the Management Board at Supervisory Board and committee meetings relating to business developments, significant transactions, the quarterly financial reports and corporate planning. In addition to coordinating its overall strategy with us, the Management Board sought our advice on a range of relevant specific measures. The Supervisory Board was given ample opportunity to thoroughly examine any reports and resolutions proposed by the Management Board at all times. In this context, we undertook various measures to assure ourselves that the governance of Infineon's corporate affairs was lawful, compliant and appropriate.

The Supervisory Board was provided with written quarterly reports on Infineon's business performance, key financial data, risks and opportunities, major areas of litigation and other important topics. Between quarterly reports, the Management Board also kept us informed of current developments in the form of monthly reports.



Wolfgang Mayrhuber
Chairman of the Supervisory Board

In my capacity as Chairman of the Supervisory Board, I maintained regular contact with the Management Board, as did the respective chairpersons of the Investment, Finance and Audit Committee and the Strategy and Technology Committee. I was informed without delay by the Chief Executive Officer of all significant events relevant to the business.

The full Supervisory Board Committee convened for six ordinary and two extraordinary meetings during the 2016 fiscal year. Attendance at the meetings of the full Supervisory Board averaged nearly 94 percent, while attendance at Supervisory Board committee meetings was 100 percent.

Financial and investment planning, acquisitions, business strategy

At its meeting held on November 17, 2015, the Supervisory Board approved the financial and investment budget, including the overall investment budget and the borrowing limit determined for the 2016 fiscal year, as presented by the Management Board.

Acquisitions – whether previously implemented or currently planned – were a key topic of focus for the Supervisory Board during the fiscal year under report. Concerning the acquisition of International Rectifier, the Management Board reported on the highly successful conclusion of the integration process. Moreover, following the issuance of two corporate bonds (“euro bonds”) during the 2015 fiscal year to repay the euro-denominated portion of the initial loan to finance the acquisition, the US dollar-denominated loan was also refinanced in the 2016 fiscal year in the form of a US Private Placement of notes. These new financing arrangements have enabled Infineon to take advantage of the favorable interest environment, put fixed long-term interest rates in place and further improve the company’s debt maturity profile.

Above all, however, at several ordinary and two extraordinary meetings, the Supervisory Board spent a significant amount of time considering the planned acquisition of Wolfspeed, a division of the US semiconductor manufacturer Cree. The Supervisory Board was extensively briefed on possible alternatives to the deal and on the rationale for the acquisition. Following extensive consultations, the Supervisory Board approved the acquisition and the related financing arrangements. The Supervisory Board shares the Management Board’s positive assessment of the excellent fit of Infineon’s and Wolfspeed’s business and know-how as well as the expectation that the acquisition will strengthen Infineon’s leading position in major growth markets.



The Supervisory Board continues to appreciate the importance of devoting one meeting per year exclusively to strategic topics. Accordingly, at the meeting held on August 3, 2016, the key elements of Infineon's strategy, the principal technological trends currently shaping the sector, and the requirements and political framework for doing business in the USA und China, including Infineon's positioning in these regions, were all discussed at considerable length. Furthermore, the Supervisory Board addressed the impact and potential opportunities arising in view of the trend towards consolidation within the semiconductor industry.

Personnel matters

It was with the deepest regret that the Supervisory Board accepted the request of Arunjai Mittal, Member of the Management Board, to leave Infineon at the end of the 2016 fiscal year due to family reasons. At a personal level, Mr. Mittal was highly esteemed by staff, the Management Board and members of the Supervisory Board alike. He has received highly deserved recognition for his outstanding work in various key positions at Infineon. Over a period of many years, he helped build up Infineon's power semiconductor business and continued this valuable work with outstanding success after becoming a member of the Management Board at the beginning of 2012. Mr. Mittal played a significant role in developing Infineon's position in major growth markets and, with the takeover of International Rectifier, successfully oversaw the largest acquisition in the company's history. We would like to express our particular thanks to Mr. Mittal and wish him well for the future in both his private and professional life.

During the fiscal year under report, in light of Infineon's growth, the Supervisory Board took the decision to enlarge the Management Board from three to four members. Infineon's revenue has practically doubled since the beginning of the decade. The demanding nature of the duties performed by the Management Board has increased massively. We had deliberated for some time on how to best maintain the level of momentum within an increasingly complex environment and also to relieve our Chief Executive Officer Dr. Reinhard Ploss from certain responsibilities, and thought the time had come to bolster the management team. In the course of filling the newly created Management Board position and finding a suitable successor for Mr. Mittal, the Supervisory Board gave consideration to both internal and external solutions, including focusing on potential female candidates. A human resources consultant was engaged to conduct the external search and also to evaluate potential internal candidates. At the conclusion of this process, the decision to appoint managers from within the organization was seen as the best option for Infineon. The choice fell on two highly experienced people, both of whom have outstanding track records in responsible positions at Infineon over many years: Jochen Hanebeck, previously Division President Automotive, was appointed Member of the Board for the newly created "Operations" function, effective July 1, 2016 and for a period of three years. Dr. Helmut Gassel, previously Division President Industrial Power Control, was appointed Member of the Management Board and Chief Marketing Officer. He is responsible for Sales & Marketing, Regions, Strategy Development, Mergers & Acquisitions and Intellectual Property, also effective July 1, 2016 and for a period of three years. The Supervisory Board wishes these two new members of the Board every success.



Management Board compensation

The German Corporate Governance Code recommends subjecting management board compensation systems to regular review. The most recent review at Infineon took place in 2014. During the fiscal year under report, the Supervisory Board again engaged an external independent compensation expert to review the compensation system and the target annual incomes of the individual members of the board. The compensation expert concluded that the compensation system complies with both the legal requirements and the recommendations set out in the German Corporate Governance Code (DCGK). In particular, the expert concluded that the compensation of Infineon's Management Board is commensurate with market conditions and that the variable compensation component is oriented towards promoting the sustainable growth of the enterprise. Furthermore, the target annual incomes of the individual members of the Management Board were found to be appropriate. The compensation expert did, however, point out the existence of some scope for maneuverability. The results of the compensation expert's review, presented in a final report in the fall, were discussed in detail at the Executive Committee meeting held on October 24, 2016 and by the full Supervisory Board at its meeting held on November 15, 2016. The Supervisory Board concurs with the assessment of the compensation expert.

The Supervisory Board decided to adapt the pension arrangements for Dr. Reinhard Ploss, the Company's Chief Executive Officer, who had previously been contractually entitled to receive a pension based on a defined benefit fixed amount. This entitlement, however, was based on him leaving Infineon at the age of 60 and did not reflect the fact that Dr. Ploss' appointment as Chief Executive Officer runs until 2020. The Supervisory Board's recognition of the need to take action was confirmed in the report drawn up by the external compensation expert. In accordance with the compensation system for the Management Board in place since 2010, Mr. Asam, Mr. Mittal, Dr. Gassel and Mr. Hanebeck – all of whom took up office after approval of the new system – have received a defined contribution pension commitment (rather than a defined benefit pension commitment based on the number of years of service), which is essentially identical to the Infineon pension plan applicable to all employees. Dr. Ploss' service contract was also changed in line with this defined contribution basis.

P see page 106

Details of Management Board compensation – in particular the amounts paid to individual members in the 2016 fiscal year – can be found in the comprehensive Compensation Report in the Annual Report.



Supervisory Board compensation

The Supervisory Board compensation system was also subjected to a thorough review by an independent compensation expert during the year under report. The system was subsequently amended in line with a proposal put forward by the Management Board and Supervisory Board to the Annual General Meeting on February 18, 2016. The objective of the amendment was to remove the previous variable compensation component and to determine Supervisory Board compensation purely on the basis of fixed amounts in future. Due to the removal of the variable compensation component, the fixed compensation component was simultaneously increased to a commensurate market level. Shareholders approved the proposals put forward by the Management Board and the Supervisory Board to the 2016 Annual General Meeting by a large majority. The corresponding amendment to the Articles of Association was entered in the commercial register in March 2016, at which stage it became valid. The compensation rule took effect retrospectively as from October 1, 2015.

Litigation

The Supervisory Board was provided with regular and comprehensive information regarding major legal disputes during the 2016 fiscal year, which were then thoroughly discussed with the Management Board. The main items addressed were the Company's appeal against the fine imposed by the EU Commission in 2014 relating to antitrust proceedings and the dispute with the insolvency administrator of Qimonda AG pertaining to alleged residual liability claims.

Corporate governance

Updated Declaration of Compliance 2015 and Declaration of Compliance 2016

The Declaration of Compliance issued in November 2015 was updated by the declaration issued in March 2016, to the extent that the previously reported deviation relating to section 5.4.6 of the German Corporate Governance Code (compensation of the Supervisory Board) was eliminated. The deviation had been declared in connection with the performance-related compensation component paid to the members of the Supervisory Board. Due to the fact that this compensation component was not based on a multi-year assessment, it was unclear as to whether it fully complied with the Code's requirements. Following the amendment made to the Supervisory Board compensation system, namely the elimination of performance-related compensation, the Code's recommendation on supervisory board compensation is now being fully complied with.

In the most recent Declaration of Compliance, issued in November 2016, the Board of Management and the Supervisory Board declared that Infineon Technologies AG has complied and continues to comply with all of the Code's recommendations.

The original versions of all Declarations of Compliance can be found on Infineon's website.



Efficiency review for Supervisory Board activities

The Supervisory Board examines the efficiency of its activities annually. Based on the questionnaire tried and tested in past examinations, in summer 2016 Supervisory Board members were again requested to provide comprehensive feedback regarding their work and the extent of cooperation between the two boards. The results of this survey were discussed in detail at the Supervisory Board meeting held on August 4, 2016. No noteworthy shortcomings were identified.

Potential conflicts of interest

The Supervisory Board again addressed the issue of potential conflicts of interest during the year under report, concluding that no such conflict of interest exists for Infineon. In particular, consent was given for Dr. Ploss to take on a mandate in the Board of Trustees of the Technische Universität München.

Further information on corporate governance at Infineon can be found in the joint Corporate Governance Report of the two boards, which has been made publicly available on Infineon's website.

Report on the work of the Supervisory Board's Committees

The committees draw up resolutions or prepare topics that need to be dealt with by the full Supervisory Board. Certain decision-making powers have been delegated to the committees, to the extent permitted under German law. The chairpersons of each committee routinely report on committee meetings at the next relevant full Supervisory Board meeting.

Nomination and Mediation Committee

The Nomination Committee convened once during the year under report to deliberate in general terms on succession planning and the future composition of shareholder representatives in the Supervisory Board and the necessary measures. As a result, there have been various discussions between the Nomination Committee's chairperson and the committee members regarding ongoing developments in this process.

The Mediation Committee did not need to convene.

Executive Committee

The Executive Committee held one ordinary and five extraordinary meetings during the year under report.

The ordinary meeting focused on preparing the Supervisory Board's resolutions with respect to the measurement of the Management Board's variable compensation. The main aspects of this work were to determine the degree to which targets for the 2015 fiscal year had been achieved and to set new target levels for the 2016 fiscal year.

In the extraordinary meetings, the Executive Committee prepared the amendment to the Supervisory Board compensation system. It also drew up the full Supervisory Board's resolutions relating to Mr. Mittal's resignation, the enlargement of the Management Board, and the appointments of Dr. Gassel and Mr. Hanebeck.



Investment, Finance and Audit Committee

The Investment, Finance and Audit Committee convened five times during the year under review.

Its activities centered on monitoring the financial reporting process, reviewing the half-year and quarterly financial statements, conducting the preliminary audit of the Separate Financial Statements, Consolidated Financial Statements and Combined Management Report for Infineon Technologies AG and the Infineon Group, and discussing the audit reports with the auditor. The committee also examined and deliberated on the financial and investment budget as well as the borrowing limit for the 2016 fiscal year. Furthermore, the committee considered the effectiveness of the internal control system, internal audit system and risk management system. The committee's members also received reports from the Compliance Officer on a regular basis as well as regular updates on significant legal disputes.

Moreover, the committee took time to address various financing issues (the restructuring of loans originally raised to finance the acquisition of International Rectifier and the financing of the planned acquisition of Wolfspeed) and made recommendations for the corresponding Supervisory Board resolutions.

Other duties performed by the committee included specifying key areas to be examined by the external auditor, monitoring the auditor's independence, and considering the scope of non-audit-related services performed by the auditor. In this context, the committee gave detailed consideration to the new statutory requirements for fiscal year-end audits, particularly the stricter rules that will apply in future to non-audit-related services provided by the auditor.

The committee prepared the Supervisory Board's proposal to the Annual General Meeting regarding the selection of the auditor and issued the contracts for the corresponding audit engagements. The relevant fee arrangements were also considered.

The committee (and the full Supervisory Board) gave lengthy consideration to the report drawn up by KPMG on the statutorily prescribed audit regarding compliance with the so-called EMIR Directive, which, among other things, imposes certain requirements on entities such as Infineon with regard to derivatives management.

The auditor attended the meetings of the Investment, Finance and Audit Committee and reported in detail on its audit activities.



Strategy and Technology Committee

The Strategy and Technology Committee convened three times during the year under report.

The committee was provided with information on the current status of patents within the semiconductor industry, including details of Infineon's strategy in this field. It also closely examined International Rectifier's product portfolio and, as part of the integration process, inquired into the progress being made to achieve uniform customer interfaces in the areas of sales, marketing, logistics and finance. It also focused its attention on the Chip Card & Security and Power Management & Multimarket segments and inquired into the quality improvement initiatives as well as measures aimed at raising customer satisfaction.

In May 2016, Prof. Dr. Schmitt-Landsiedel ceased to be a member of the Strategy and Technology Committee and accordingly also gave up the chair. The position has been taken over by Mr. Bauer, who has both the technical expertise and the necessary practical experience in setting strategies for a technology company operating in a fiercely competitive environment. Beginning of November 2016, Prof. Dr. Schmitt-Landsiedel has for personal reasons also ceased to be a member of the full Supervisory Board. Prof. Dr. Schmitt-Landsiedel has been a member of the Supervisory Board since 2005 and, particularly as longtime chairperson of the Strategy and Technology Committee, substantially contributed to the board's successful work. We would like to express our thanks to Prof. Dr. Schmitt-Landsiedel and wish her well for the future.

Separate and Consolidated Financial Statements

KPMG AG Wirtschaftsprüfungsgesellschaft, Munich, audited the Separate Financial Statements of Infineon Technologies AG and the Consolidated Financial Statements as of September 30, 2016 as well as the Combined Management Report for Infineon Technologies AG and the Infineon Group, and issued unqualified audit opinions thereon. KPMG also reviewed Infineon's half-year and quarterly financial reports.

At the meeting of the Investment, Finance and Audit Committee held on November 14, 2016, intensive discussions were held with the auditor regarding the Separate Financial statements, the Consolidated Financial Statements prepared in accordance with IFRS, the Combined Management Report, the proposed profit appropriation, and the auditor's findings. Based on these discussions, the Investment, Finance and Audit Committee resolved to propose to the Supervisory Board to approve the financial statements after being drawn up by the Management Board and to consent to the proposed profit appropriation.



At the meeting of the Supervisory Board held on November 15, 2016, the Chairman of the Investment, Finance and Audit Committee reported on the committee's recommendations. In the course of this meeting, all topics relevant for the financial statements and all significant audit issues were discussed in detail with the auditor and examined by the Supervisory Board. The examination also covered the proposal to pay a dividend of €0.22 per entitled share.

The Separate Financial Statements, the Consolidated Financial Statements prepared in accordance with IFRS, the Combined Management Report, the Management Board's proposal for the appropriation of unappropriated profit (all prepared by the Management Board) and KPMG's long-form reports on the audits of the Separate Financial Statements, the Consolidated Financial Statements and the Combined Management Report were all made available to the Supervisory Board at its meeting held on November 29, 2016. Taking into account the insights gained at the meeting held on November 15, 2016, the Supervisory Board concluded that it has no objections to the financial statements and the audits performed by the auditor. In its opinion, the Combined Management Report complies with legal requirements. Likewise, the Supervisory Board concurs with the assertions regarding Infineon's future development made therein. The Supervisory Board therefore concurred with the results of the audit and approved the Separate Financial Statements of Infineon Technologies AG and the Consolidated Financial Statements of the Infineon Group. The Separate Financial Statements were accordingly adopted. The Supervisory Board also approved the Management Board's proposal for the appropriation of unappropriated profit.

The Supervisory Board wishes to thank the Management Board and the entire staff for their unfailing commitment and outstanding achievements during the 2016 fiscal year.

Neubiberg, November 2016
On behalf of the Supervisory Board

Wolfgang Mayrhuber
Chairman of the Supervisory Board



Content

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

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

Effective October 1, 2015, business with XMC industrial microcontrollers – developed by Automotive and Chip Card & Security – was transferred to Power Management & Multimarket and Industrial Power Control. The previous year's figures have been adjusted accordingly.

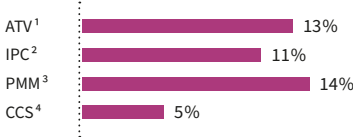


Finances and strategy

2016 fiscal year

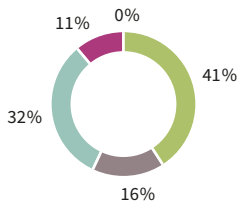
- › Organic growth of 7 percent achieved despite difficult market conditions; Segment Result Margin within forecast range
- › Good performance enables higher dividend

Revenue growth of the individual segments in the 2016 fiscal year compared to the previous year



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

Revenue by segment in the 2016 fiscal year



- Automotive: €2,651 million
- Industrial Power Control: €1,073 million
- Power Management & Multimarket: €2,050 million
- Chip Card & Security: €698 million
- Other Operating Segments, Corporate and Eliminations: €1 million

Revenue up on the back of organic growth, currency effects and acquisition of International Rectifier; Segment Result Margin within forecast range

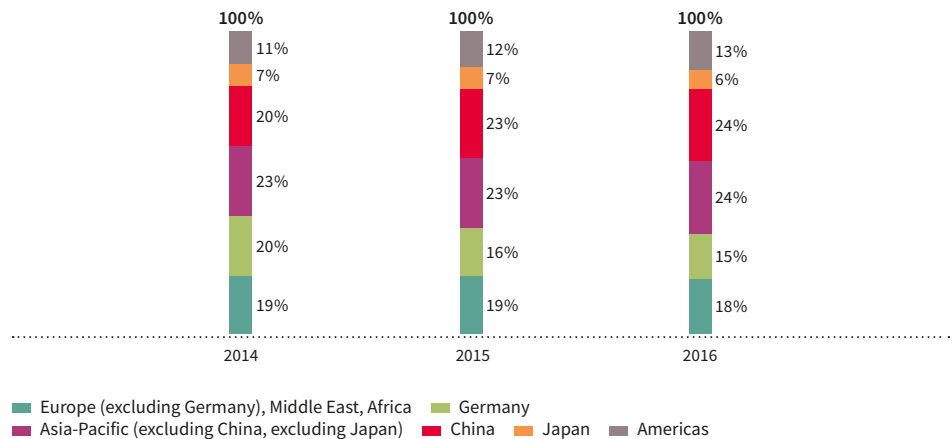
Infineon generated **revenue** of €6,473 million in the 2016 fiscal year, a 12 percent increase on the previous year's figure of €5,795 million. Revenue growth primarily reflects strong sales performances across all segments (see the chapter "The segments" [P](#) page 40 ff.) and the first-time inclusion of International Rectifier for a full twelve-month period, compared with the previous fiscal year, when revenue was included only for the period after closing of the acquisition on January 13, 2015. Considering this fact, Infineon managed to achieve 7 percent organic growth in a difficult economic environment and despite a generally contracting semiconductor market. Infineon's strong business performance was also influenced by currency factors, most notably the appreciation of the US dollar against the euro. Approximately 2 percent of the 12 percent revenue growth was attributable to currency factors.

China has been Infineon's most important sales market for several years now and, with a figure of €1,574 million, accounted for 24 percent (2015: 23 percent) of Infineon's revenue during the fiscal year under report. Germany followed once again with revenue of €1,000 million and a revenue share of 15 percent (2015: 16 percent).

The **Segment Result** for the 2016 fiscal year totaled €982 million, 9 percent up on the €897 million reported one year earlier. At 15.2 percent (2015: 15.5 percent), the **Segment Result Margin** ended up within the range forecast at the beginning of the fiscal year (see the chapter "Outlook" [P](#) page 79 f.).



Infineon revenue by region



P see page 68 f.

Improvement in key performance indicators

Despite ongoing expenses in conjunction with the acquisition of International Rectifier, **net income** benefited from the earnings contribution provided by revenue growth of €678 million (see the chapter “Review of results of operations”) and amounted to €743 million for the fiscal year ended September 30, 2016, an increase of 17 percent on the previous year’s figure of €634 million.

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Earnings per share for the 2016 fiscal year amounted to €0.66 (basic and diluted), 18 percent up on the previous fiscal year’s figure of €0.56 (basic and diluted). Adjusted earnings per share (diluted) improved year-on-year from €0.60 to €0.76 (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 a positive amount of €490 million in the 2016 fiscal year, an improvement of €2,144 million compared to the negative amount of €1,654 million reported in the previous fiscal year. During that reporting period, free cash flow from continuing operations had been negatively impacted by the payment of the purchase price consideration for International Rectifier, payments to the Qimonda insolvency administrator (partial settlement) and payments to the EU Commission (fine imposed in conjunction with chip card antitrust proceedings) totaling €2,047 million. After adjusting for these exceptional items, free cash flow from continuing operations in the 2015 fiscal year was a positive amount of €393 million. Compared to this figure, the year-on-year improvement was 25 percent. Net cash provided by operating activities amounting to €1,313 million (2015: €957 million) thereby exceeded additions to property, plant and equipment and intangible assets in the reporting period totaling €826 million (2015: €785 million).

P see pages 59 and 75

The **Return on Capital Employed (RoCE)** in the 2016 fiscal year amounted to 15.0 percent, well up on the previous year’s figure of 12.8 percent. The improvement was mainly due to the year-on-year increase in operating income from continuing operations from €664 million to €799 million. For a definition of, and details relating to, the calculation of RoCE, see the chapters “Internal Management System” and “Review of financial condition”.

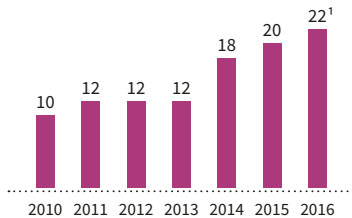
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The **gross cash position** (see the chapter “Internal Management System” for definition) totaled €2,240 million as of September 30, 2016, an increase of 11 percent compared to the previous year’s reported figure of €2,013 million. The free cash flow from continuing operations of €490 million described above exceeded the dividend payment of €225 million for the 2015 fiscal year.



P see page 60

Dividend per share for the
2010 to 2016 fiscal years
in € cents



¹ Proposal to the Annual General Meeting to be held on February 16, 2017.

P see page 95 ff.

The **net cash position** (see the chapter “Internal Management System” for definition) increased by 114 percent to stand at €471 million at the end of the 2016 fiscal year (September 30, 2015: €220 million), in line with the increase in the gross cash position.

Planned dividend increases by 10 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 earnings generated in the 2016 fiscal year and Infineon’s positive business outlook, a proposal will be made to the Annual General Meeting, which will be held on February 16, 2017, to pay a dividend of €0.22 per share, an increase of 2 cents compared to the previous year.

Acquisition of Wolfspeed

On July 14, 2016, Infineon and Cree Inc. (“Cree”), USA, signed a contract relating to the purchase of Cree’s Wolfspeed Power and RF division (“Wolfspeed”). Infineon intends to acquire Wolfspeed (including the related wafer substrate business) for a purchase price of US\$850 million. Wolfspeed, which is based in Research Triangle Park, North Carolina, USA, and employs approximately 550 people worldwide, is a leading provider of power semiconductors based on silicon carbide (SiC) and high-frequency (RF) power components based on gallium nitride on silicon carbide (GaN-on-SiC).

The acquisition will enable us to provide the broadest offering in compound semiconductors based on SiC and GaN and further strengthen our position as a leading supplier of power and RF power components in high-growth markets such as electro-mobility, renewables, and next-generation cellular infrastructure relevant for the Internet of Things. We will therefore become the number one market player for SiC-based power semiconductors and intend to become number one in RF power components by 2020.

The purchase agreement with Cree also includes core competencies in wafer substrate manufacturing for SiC, as well as for SiC with a monocrystalline GaN layer for RF power applications. Covering the entire value chain will enable us to optimize the combination of materials used in our power semiconductor components as part of our strategic “Product to System” approach.

Also, after the acquisition of Wolfspeed, Infineon will be in a position to meet the capital structure targets it has set itself. Furthermore, the long-term credit rating received for the first time in February 2016 will not change as a result of the planned acquisition (see the chapter “Treasury and capital requirements” for detailed information on Infineon’s capital structure targets and its credit rating).

Developments in the semiconductor industry

Semiconductor revenues worldwide totaled €295.996 billion in the 2016 fiscal year (source: World Semiconductor Trade Statistics). This reflects a decrease of 0.1 percent compared to the revenue of €296.353 billion for the 2015 fiscal year. During the same period Infineon could generate an organic growth of revenue of 6.6 percent.



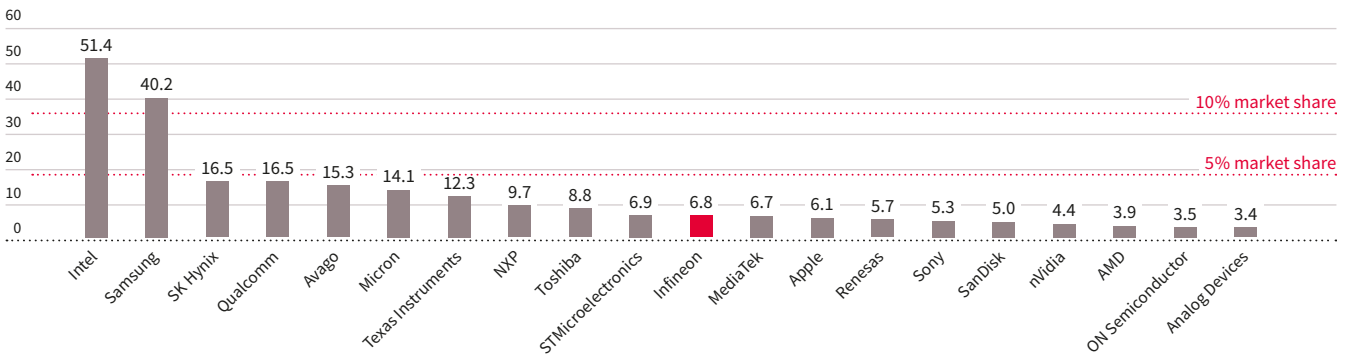
The semiconductor market is highly fragmented. Only the two largest players had a market share in excess of 10 percent in the 2015 calendar year with a market size of US\$347.118 billion (source: market research company IHS Markit), with Intel taking a 14.8 percent share with revenue of US\$51.420 billion and Samsung Electronics taking an 11.6 percent share with revenue of US\$40.156 billion. The market share of all other competitors was below 5 percent. Infineon finished in 11th place with a 2.0 percent market share with revenue of US\$6.813 billion.

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

The 20 largest companies account for 69.8 percent of global revenue. The remaining 30.2 percent is spread over approximately 2,000 other semiconductor companies. These figures highlight the extremely fragmented structure of the semiconductor sector. In the meantime, however, a certain degree of consolidation is taking place within individual product categories. By acquiring International Rectifier, Infineon added momentum to the latest wave of consolidation in the power semiconductor sector. The planned acquisition of Wolfspeed is another important step in this field. Similarly, ON Semiconductor's acquisition of Fairchild on September 19, 2016 will contribute to further consolidation. This transaction has not yet been taken into account in the market figures for the 2015 calendar year.

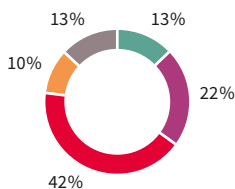
Top 20 semiconductor manufacturers for the 2015 calendar year

Revenue in billion US\$



Source: IHS Markit, "2016 Competitive Landscaping Tool", August 2016. Foundries and subcontractors are not included in this market analysis.

Global semiconductor sales 2015 by region (total market size US\$347 billion)



Legend for Global semiconductor sales 2015 by region:

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

Looking at the regional spread of semiconductor sales, China has been the dominant factor for many years. In the 2015 calendar year, 41.5 percent of all semiconductors were absorbed there. EMS (Electronic Manufacturing Services) play a special role in China. These contract manufacturers assemble electronic products predominantly for Western customers. This business model plays a significant role for durable consumer goods on the one hand and information and telecommunications sector-related products such as servers, PCs, notebooks and cellular phones on the other. A large proportion of the semiconductors sold to China are later on re-exported as part of a finished product.

Source: IHS Markit, "Application Market Forecast Tool", June 2016

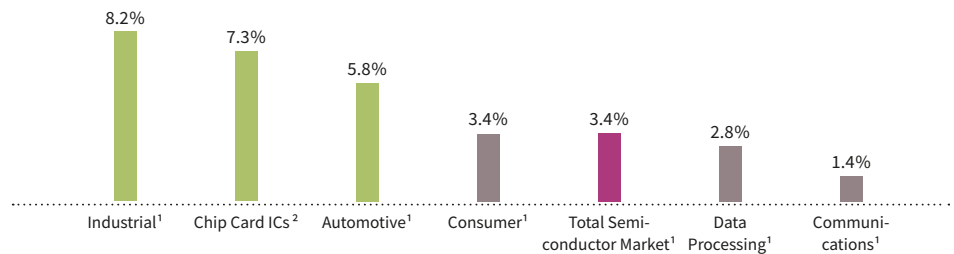


Group strategy

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

Today Infineon addresses the three fastest growing segments of the semiconductor market for the period from 2015 to 2020: Market researchers predict a compound annual growth rate of 8.2 percent for industrial power semiconductors, 7.3 percent for chip card ICs and 5.8 percent for automotive semiconductors. Demand in these segments is driven by long-term, global megatrends.

Compound annual growth rate of the main semiconductor target markets, 2015 to 2020



¹ Source: IHS Markit, "Worldwide Semiconductor Shipment Forecast", October 2016

² Source: ABI Research, "Secure Smart Card & Embedded Security IC Technologies", July 2016; microcontroller ICs

Strategic fundamentals

Global megatrends drive core business

According to the United Nations, the world's population numbered approximately 7.3 billion people in 2015. This figure is expected to climb to 7.8 billion by 2020 and to reach 8.5 billion by 2030. World population continues to grow at a fast pace, accompanied by a corresponding rise in the demand for energy, nutrition, sustainable concepts for traffic within and between expanding metropolitan areas and high-performance communications infrastructure. At the same time natural resources such as fossil fuels and arable land are growing more and more scarce. New solutions are called for if we are to continue providing a constantly growing population with energy and nutrition and a higher standard of living while minimizing the impact on the environment. The key is making "more from less". Microelectronics plays a key role in achieving this goal.

Opportunities in the convergence of the real and digital worlds

Semiconductors are essential in tapping renewable energy sources. They reduce the power consumed by electric devices and enable systems that make transportation safer and cleaner. Furthermore, semiconductor technology is the backbone of modern communication and data technologies. Answers to the challenges of our time would be unthinkable without the use of semiconductors. And this becomes even more true as the real and digital worlds converge, generating new potentials. Digitalization increases the productivity of industrial manufacturing processes. This development, also referred to as the Industrial Internet, reaches far beyond



automation. Thanks to digitalization, agriculture for example can achieve higher yields with more environmentally friendly methods; at the same time new possibilities open up for consumers. This also includes protection of data exchange from abuse, thus ensuring the acceptance of the ever-increasing degree of networking in our society. Infineon benefits from these trends because they stimulate long-term demand in our target markets.

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

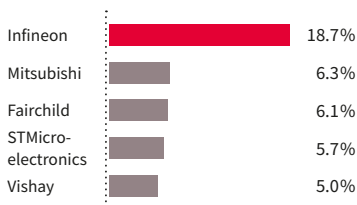
Not only does Infineon rely on the right growth drivers, it also has the expertise and the strategic concepts needed to benefit from these drivers. Our strategy is based on three pillars. First, we focus on those markets in which we can achieve a leading position: automotive, power supplies, industrial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

This concept can be clearly illustrated by a number of examples: Demands for the reduction of CO₂ emissions in the automobile promote the development of electric vehicles. At the same time, the desire for better road safety is helping the breakthrough of radar-based assistance systems. Both of these developments result in higher demand for semiconductors. Furthermore, our power semiconductors are making all kinds of power supplies more efficient and more compact: New materials such as silicon carbide make it possible for example to design power inverters for photovoltaic systems that are significantly smaller than previous models and approximately 20 percent less expensive to manufacture – while the value of the power semiconductors they contain increases. Radio-frequency components based on gallium nitride are a prerequisite for fast mobile communication networks compliant with the 5G standard. Sensor technologies open up new application fields such as Augmented Reality in smartphones and intuitive operation of a large number of devices by gesture control. Security controllers ensure protection of data traffic in an increasingly connected world.

Infineon makes use of its core competencies across all segments

Core competency	ATV	IPC	PMM	CCS
Power	●	●	●	
Power control	●	●	●	
Embedded control	●			●
Sensor systems	●		●	
Radio-frequency	●		●	●
Security	●			●
Manufacturing	●	●	●	

World discrete power semiconductor and modules market share 2015



Source: IHS Markit, “Power Semiconductor Discretes & Modules Report”, October 2016

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



Acquisitions add to organic growth

We supplement our organic growth with targeted acquisitions. These acquisitions have to meet three criteria: They must be strategically viable, financially reasonable and culturally fitting. An acquisition thus has to strengthen Infineon's market position according to our strategic orientation and has to be a viable addition to our range of expertise. The business acquired has to increase our profit, contribute to our margin target of 17 percent (previously 15 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.

These are also the criteria we used in evaluating the planned acquisition of Wolfspeed, which we announced on July 14, 2016 and which we expect to close at the beginning of the 2017 calendar year. Wolfspeed will strengthen our position in important growth markets such as electro-mobility, renewable energies and next generation mobile communications infrastructure for the Internet of Things. The transaction also includes the related silicon carbide wafer substrate business. We want the future-oriented technology of silicon carbide-based power semiconductors and gallium nitride-based radio-frequency power components to help us grow faster than the market and secure a leading position in the corresponding segments or work towards a leading position within the foreseeable future. We expect the acquisition to be immediately accretive to Infineon's adjusted earnings per share. And Wolfspeed's culture, in which the development of leading technology know-how is highly regarded, fits excellently with Infineon.

Success factors in strategy

We have established a stable foundation in recent years by focussing 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. At the center of all this is our strategic approach "Product to System", which we apply along our entire value chain, oriented towards the success of our customers. This approach is supported by additional elements: A strong innovation culture, continuous pursuit of technology leadership, well-developed quality consciousness, differentiated manufacturing and tailor-made go-to-market strategies fitting the various individual markets. This puts us in a position to offer our customers leading products as well as the highest possible quality and supply reliability. In doing so we achieve the objective of growing profitably and faster than the market.

The strategic approach "Product to System" defines our actions

As illustrated above, our strategic approach "Product to System" goes well beyond thinking in terms of technologies and products. We want to understand what markets demand and how they are changing. Only then will we be able to understand how we can change the markets ourselves. Thus we consider more than just the direct sales opportunities for our products and solutions: We also look at our customers' success factors and the development of end-markets. By doing so, we recognize at an early stage when the foundation of our business is changing. This is a prerequisite for timely reaction, guaranteeing sustainable differentiation in growth applications and increasing profit. For example, we ask ourselves how we can help make the next generation of radar systems for assisted driving both less expensive and more precise at the same time. Our optimized chip set and a new assembly technology that simplifies overall



system assembly enable more progress than when we concentrate only on cutting costs of individual products. The situation is similar for the example of silicon carbide technologies in photovoltaic inverters discussed above. Thinking in terms of systems characterizes all aspects of our entrepreneurial actions, from our differentiated manufacturing to specific sales concepts for dynamic sub-markets and close collaboration with customers, tailored to meet the respective requirements. This way we want to make sure that Infineon takes optimum advantage of its leading position in the various markets and key technologies. Extensive resources are necessary in order to provide both a broad portfolio and in-depth system expertise. This means Infineon can offer the product with the best possible price/performance ratio for every application at competitive costs.

Technology leadership means added value for customers

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

Furthermore, we systematically expand our abilities, for example whenever the requirements of our markets change, or when we see long-term growth potential in a new business segment. Thus, as the market leader, we began researching new materials for power semiconductors at an early stage. Silicon carbide and gallium nitride are particularly well-suited for use in the field of power electronics. The planned acquisition of Wolfspeed will increase our strengths in this area. At the same time, in sensor technologies we intentionally moved into new territory some time ago, fully aware of the fact that detection of environmental data would become increasingly important in our target markets. Today we have a comprehensive portfolio of sensors for a wide range of systems in automotive applications, for mobile devices, consumer electronics and the Internet of Things. We have increased our share in the market for silicon microphones, one example of acoustic sensors, from 1.5 percent in calendar year 2007 to a current 31.1 percent.

We continuously enhance our expertise in order to be able to always offer the best solution in every business segment. Our strategic approach "Product to System" goes beyond incremental continuous improvement of products and lets us leverage potential enhancements for our customers at the system level.



Innovation drives differentiation

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

This is why innovation and system thinking ideally complement one another. We think about what the key factors are and how we can combine several innovative, sometimes at first sight minimal steps to form a larger whole that will in turn provide an additional and substantial benefit for the customer. Thus today our claim to innovation covers all areas of our company: logistics, operations, technology, products, system solutions and partnership with the customer. Depending on particular market demands we focus on different aspects. Several units within the company act like start-ups, while others use a comprehensive approach to leverage new areas of differentiation. Of course in doing so we implement the entire spectrum of possibilities and expertise that Infineon has to offer. This is all driven by a well-developed culture of collaboration which is one of our permanent differentiating features.

The development of the 3D image sensor REAL3™ is a good example of a start-up concept. It all began with the idea of a highly innovative technology, without a clear specific idea of which applications would make best use of its potential. A team worked together with key customers to develop and test a variety of applications. In the meantime we have seen initial successes in the smartphone business and with automotive safety applications that help protect fatigued or distracted drivers from accidents. In the field of industrial power semiconductors we are following a different approach: Our MIPAQ™ Pro power module addresses inverters for wind, solar and industrial power applications. Here our customers' requirements are clearly defined and we differentiate ourselves in the market by means of a combination of leading technologies, system understanding and security expertise. The module enables compact designs, provides high reliability and is also equipped with a security controller that makes it possible to authenticate original components.

Strategic advantages through in-house manufacturing

All our actions are aimed at creating value for the customer and at opening up opportunities for differentiation to us. This also applies to manufacturing. We manufacture in-house provided we can thereby differentiate ourselves from the competition in the market. On the other hand, when it comes to standard technologies, usually in the case of highly-integrated products such as microcontrollers and chipcard 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 highly demanding manufacturing technologies. Several years ago we were the first company in the world to develop highly-integrated circuits for the 77 gigahertz frequency range based on innovative silicon germanium technology. This cuts the cost of radar systems which as a result are used more widely in vehicles outside of the premium segment, making street traffic safer.



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

Another milestone in terms of manufacturing technologies is the introduction of a larger wafer diameter for power semiconductor manufacturing. The use of 300-millimeter thin wafer technology provides significant advantages in productivity and reduces use of capital. However, the technical challenges are substantial. Infineon is as yet the only company to successfully complete this step. The advantages in terms of productivity will manifest themselves as soon as we reach 20 to 30 percent of the currently planned full capacity, a level we expect to reach by the end of 2017.

Flexible go-to-market strategies accommodate rapidly changing markets

Going forward we will address our customers with more flexibility and innovative go-to-market strategies. Historically, Infineon has grown through close collaboration with key customers, with whom we have successfully defined products that enabled us to penetrate the broad market thereafter. We reach many of our smaller customers through distributors. We will increase our leverage of the enormous potential of the distribution channel with standardized but flexible products for the mass market. Here we benefit from the acquisition of International Rectifier, which has for quite some time successfully used this model, characterized by short-term delivery reliability, continuous and pragmatic adjustment of the product portfolio and close partnership with distributors. Digitalization and the Internet of Things will create new challenges. 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. 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.

Digitalization changes the way we work

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



Financial targets underline our claim to grow

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

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

Target 1: 8 percent average annual growth in revenue

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

Target 2: 17 percent Segment Result through the cycle

Growth is only one prerequisite for sustainable success. Another criterion is profitability. Here the margin achieved by our products is an indicator for the value our products create for the customer. When we work profitably on a sustainable basis, it means that we steer our developments to the point where they provide the highest benefit to our customers. Working profitably means using innovative strength effectively by meeting the demand of the customer and the markets. In addition, we want to continue our development and sales achievements at unabated speed even in difficult market phases. Going forward, we want to achieve an average Segment Result Margin of 17 percent of sales through the cycle (the previous target was 15 percent). Today, we are benefiting from a stronger US dollar, giving us some margin tailwind compared to the situation when we published our previous targets. In order to achieve this goal on a sustainable basis, we are relying among other things on cost advantages from the integration of International Rectifier's manufacturing Landscape as well as from the further ramp and utilization of our 300-millimeter site in Dresden (Germany). We also leverage economies of scale in research and development and sales through leading positions in our target markets. And technology leadership and the strategic approach "Product to System" enable us to maintain a higher degree of differentiation. In the 2016 fiscal year we achieved a Segment Result Margin of 15.2 percent.

Target 3: Investments amounting to 13 percent of revenue

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



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

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

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

And we also increase output by continuously increasing the productivity of all our manufacturing processes. Taken together, all these strategies work towards achieving the target of investing an average of approximately 13 percent of revenue over the cycle. This includes approximately 2 percent of capitalized development costs. In the fiscal year just completed the investment ratio amounted as targeted to 13 percent. Our investment volume is defined so that it will help us realize our target objective of an average growth in revenue of 8 percent annually.

Capital structure targets demonstrate our reliability

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

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

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

The rating agency S&P Global Ratings (S&P) has evaluated Infineon's creditworthiness as "BBB" (outlook "stable") (see the chapter "Treasury and Capital Requirements"). At present this gives Infineon the best S&P rating of any European semiconductor manufacturer.

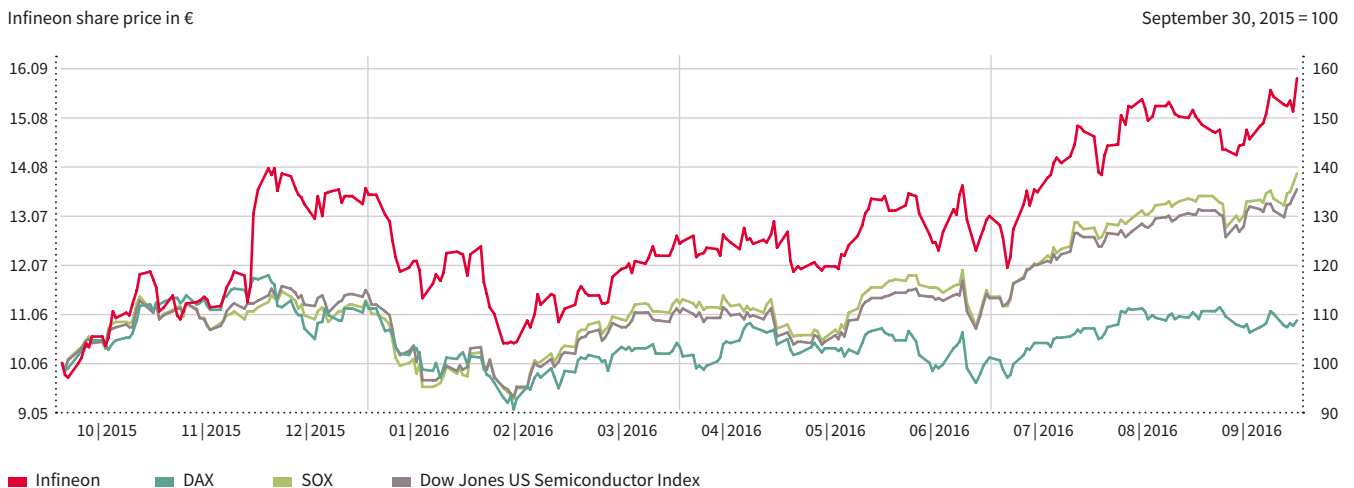


Sustainable value creation for our shareholders

We are convinced that organic growth in the medium to long term creates the highest value. A good indicator here is the spread between the Return on Capital Employed (RoCE) and the Weighted Average Cost of Capital (WACC). Even after the acquisition of International Rectifier in the previous fiscal year our Returns on Capital Employed exceed our capital costs. In periods without effects related to acquisitions, our RoCE corresponds to approximately twice the amount of the WACC when our financial targets are achieved. We intend to continue to achieve this kind of return on every euro we invest in organic growth and in doing so to continuously increase our enterprise value.

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

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 2016 fiscal year (daily closing prices)



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



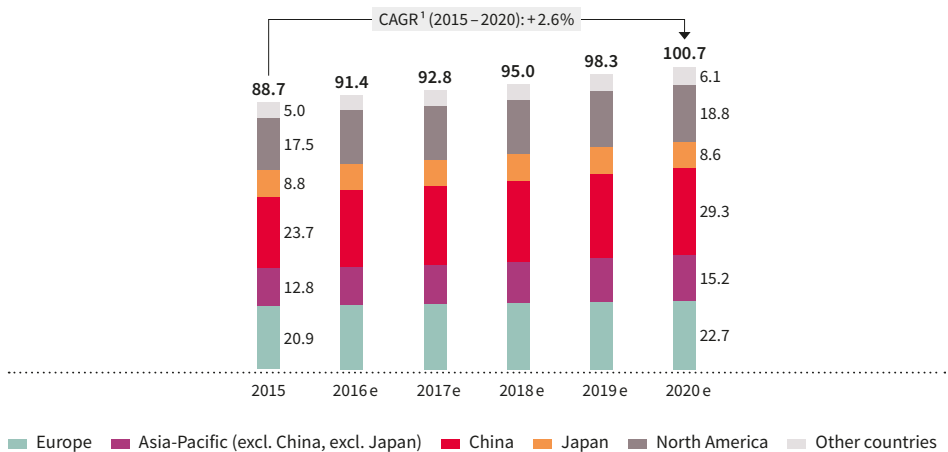
Growth drivers

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

Individual mobility

Increasing prosperity usually leads to the desire for individual mobility. This is particularly evident in newly industrializing countries: The middle classes in India and China are growing annually by around ten million people each, a development which also drives rising demand for automobiles. In Africa the transition from the bicycle or moped to the car is also a sign of increasing prosperity. An average annual growth rate of 2.6 percent is expected for worldwide automobile production for the years 2015 to 2020 (Source: IHS Markit).

Worldwide light vehicle production by region
in millions of vehicles



¹ CAGR = Compound Annual Growth Rate
Source: IHS Markit, “Annual Light Vehicle Production Forecast”, August 2016

And the number of electronic applications in the vehicle itself also continues to rise, with approximately 90 percent of the innovations now based on electronics. According to forecasts by market experts, this rate will remain unchanged in the years to come. Overall, a constant increase in electronic equipment in vehicles can be observed across all regions. Innovative solutions for safety and comfort functions typically first penetrate premium-class vehicles, after which they are then gradually introduced in mid-range and compact classes, increasing the semiconductor value per vehicle.

“Vision Zero” and Automated Driving

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



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

Active safety systems are then enhanced to become driver assistance systems, which are of increasing importance for road safety, since they provide the driver with extensive support while driving. For example, they assist in critical situations and help correct driving errors when necessary, thus reducing the risk of accidents. Systems for partial and completely automated driving consist essentially of sensors (such as radar, interior and exterior cameras), a central high-performance computer (the intelligence of the system, so to speak) for evaluation of the sensor data and the calculation of the driving strategy, and lastly of actuators (steering, braking, engine control and transmission). As a leading provider of system solutions Infineon has an extensive product portfolio for assistance systems and automated driving.

The microcontrollers of our AURIX™ family ensure the reliability of the systems. In its function as main controller, AURIX™ sends out the commands for the actuators in automated operations. Furthermore, it has another key role as safety anchor in that it safeguards the components not qualified according to automotive industry standards.

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

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

Networking, data and IT security

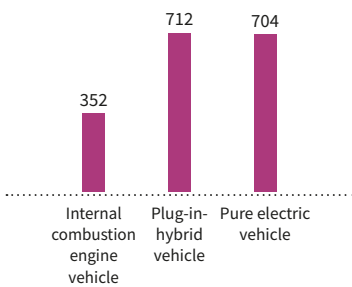
Another important trend is the continuously rising degree of interconnection between vehicles. This development opens up opportunities for many new services, but also increases the danger of unauthorized access to systems by a third party. This means secure data exchange among the various on-board systems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



CO₂ reduction

The automotive industry is constantly working to reduce emissions. These efforts are in part required by legal regulations: Thus, for example a new European Commission rule requires the reduction of average fleet emissions to 95 grams CO₂ per kilometer by the year 2021. A lively discussion is currently taking place surrounding exhaust gas testing procedures under more realistic conditions. If the legislature should decide on regulations for new, more realistic testing procedures, it would implicitly mean tighter CO₂ reduction rules, which would in turn increase the demand for semiconductors. Furthermore, today customers increasingly make purchase decisions while fully aware of the fact that reduced fuel consumption saves money, minimizes impact on health and the environment and thus contributes to improving the quality of life, especially in metropolitan areas.

Average semiconductor content of various types of vehicles in US\$



Source: Strategy Analytics, "Automotive Semiconductor Demand Forecast 2014–2023", May 2016

Optimization of the internal combustion engine alone will not be enough in order to achieve defined objectives and service customer demands for sustainable mobility. Above and beyond this, the efficiency of electric power consumption within the vehicle will have to be improved and hydraulic or mechanical solutions will have to be replaced with more efficient electrical and therefore semiconductor-based solutions. Furthermore a rise in the number of hybrid and electric vehicles will be a necessity in the effort to reduce the fleet average of many vehicle manufacturers to the required target value. Hybrid and electric vehicles are characterized by significantly higher semiconductor content than conventional vehicle models. Today's solutions, from mild and plug-in hybrid vehicles up to completely electric vehicles, convert the battery's direct current into the alternating current required by the electric drive. Infineon offers a wide variety of power semiconductor components for these various systems. While a car with a conventional internal combustion engine contains an average semiconductor value of US\$352, the value contained in an average hybrid or electric vehicle is approximately US\$700. Here approximately three quarters of the incremental semiconductor content is accounted for by power semiconductors. They are the decisive factor in the high power electric drives and are also the key to cutting costs. Innovative system solutions and in particular the use of silicon carbide-based components have an enormous potential when it comes to making electric driving more affordable.

Charging stations for electric vehicles

The need for an appropriate charging infrastructure grows as electric vehicles become more widely adopted. A well-developed network of charging stations is another incentive for purchasing electric vehicles. In order to raise the level of electro-mobility acceptance, China has begun operation of charging stations along the country's eight most important highways, including the important connection between Beijing and Shanghai. By 2020 as many as 10,000 charging stations with 120,000 charging points will be in operation, with a corresponding investment volume of approximately US\$770 million. The charging stations are rated at up to 100 kilowatts and each one requires power semiconductors worth from US\$200 to US\$300. The network of publicly accessible charging stations can be expected to grow in other countries in the years to come as well. In addition to dedicated electric service stations, it is also possible to integrate charging stations in street lights.



Efficient power conversion

Renewable energy

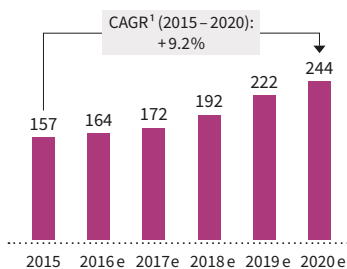
For both environmental and economic reasons it is not possible to meet the increasing need for electric power using fossil fuels to a similar extent as in the past. Europe, the USA, China and Japan have therefore defined development targets for renewable energy that will reduce CO₂ emissions in the coming decades to their respective target values. In December 2015 at the World Climate Conference in Paris the participating nations reached a climate protection agreement which for the first time anchors the upper limit for global warming in international law at a mandatory maximum of two degrees Celsius. Furthermore, greenhouse gas neutrality is to be achieved in the second half of this century. The agreement took effect as of November 4, 2016.

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

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

Photovoltaics: The market researcher IHS Markit expects an average annual growth rate of 9.2 percent for power semiconductor modules for solar energy until 2020. For several years now we have been observing a structural change resulting from the gradual migration of the business from Europe to Asia and the USA. Infineon enjoys a very broad international presence and has been partnering for years with the world's leading manufacturers of photovoltaic inverters. Among other things, we benefit from the growth of Chinese inverter manufacturers, both in terms of the expansion of photovoltaics in China itself and from the export of inverters to other regions. Furthermore, we are working together closely with leading European manufacturers who are also very successful in the USA. Efficient conversion and low system costs help cut power generation costs in photovoltaic systems while helping reach grid parity in comparison to conventionally generated power. This makes it possible to pursue further expansion while eliminating the need for subsidies. The advantages of power semiconductors based on silicon carbide can be fully exploited in inverters. The transition to this new technology will cut system costs for manufacturers in the future, while the value of the semiconductors used to build the inverters will rise. The planned acquisition of Wolfspeed will let us accelerate this development and in doing so help us win further market share.

World market for standard IGBT modules in solar energy
US\$ in millions



¹ CAGR = Compound Annual Growth Rate
Source: IHS Markit, "Power Semiconductor Intelligence Service", September 2016



Traction systems

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

By now China has become the largest railway vehicle market in the world. Here in particular high-speed trains, overland trains and urban rail play a major role. We also expect a more vibrant market for traction systems in the rest of Asia. Here industrialization is leading to rising demand in particular for urban and regional rail systems. Further growth markets are South Africa, South America, the Middle East and most probably in the future the USA. Our customers are the world's largest manufacturers in the traction sector, including Bombardier Transportation, China's CRRC and Siemens.

Automation

Industrial motors are at the heart of a large number of systems, for example cranes, conveyor belts and robots. They are used wherever objects need to be moved or transported. Electric motors are also used in refrigeration pumps and air conditioning and the simple production of compressed air. The strongest industrial electric drives are found in sluices, cement mills, pumps in municipal waterworks, in air compressors used in the production of technical gases and in compressors for natural gas pipelines. Approximately 300 million electric motors have been installed around the world in industrial applications alone, accounting for approximately two thirds of commercially consumed electric power. This constitutes a substantial lever when it comes to savings resulting from improvements in the degree of efficiency. One possibility to reduce the energy consumed by an electric motor is to use an electronic control system to regulate speed, i.e. adapting performance to suit current needs. The market penetration of speed-regulating motor controls can thus be expected to increase. Modern manufacturing facilities in which constant adjustment of rotation speed is necessary are not even possible without regulated electric motors. The next level of automation will be achieved with the Industrial Internet, which will give rise to a new investment cycle. At present only around 15 percent of the electric drives in use are controlled electronically. This is good news for Infineon: The realization of a speed-controlled motor unit requires a large number of the power semiconductors we provide to the market. Their number and value depend on the performance class of the motor.

Brushless DC motors

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

Power tools: Millions of households around the world rely on cordless power tools when making repairs. Since the end customer expects robust and reliable portable tools, the purchase decision is based not only on price, but especially on ease of use and long battery life. Battery-operated power tools also have to be equipped with diagnostic and safety functions in order to create user confidence in the application through quality and safety. The demand for suitable semiconductor solutions is correspondingly high.



Multicopters are finding increasing use for commercial purposes and require a large number of various semiconductor components



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

Major home appliances

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

Power supplies

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

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

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



Networking and sensor systems

Radio-frequency power components

Radio-frequency (RF) power components form the foundation for modern communication technologies. One of the main application areas is mobile communications infrastructure. Mobile data traffic is constantly increasing: While 5.3 exabytes (5.3 billion gigabytes) were transferred each month using mobile communications in the year 2015, experts expect the values for the year 2021 to reach 52 exabytes per month. At the beginning of the internet era downloading (downlink) was the prevalent data traffic direction. This has changed as a result of mass adoption of the smartphone and the rise of social media. Data traffic in uplink has risen drastically due to uploading pictures and videos as well as messaging services, making both directions almost symmetrical today.

Every new mobile communication standard needs to accommodate increasing numbers of mobile communication subscribers as well as an exponential increase in data traffic. Cell sizes are shrinking, and as a result more network access nodes are being installed. The infrastructure for upcoming mobile communications standards such as 5G and its successors will use frequencies of up to 80 gigahertz. Only the most advanced compound semiconductors can provide the necessary output power at these high frequencies. Compound semiconductors based on gallium nitride-on-silicon (GaN-on-Si) offer a high degree of integration and make it possible to use frequencies as high as 10 gigahertz. The acquisition of International Rectifier approximately two years ago specifically strengthened us in this area. Semiconductors based on gallium nitride-on-silicon carbide (GaN-on-SiC) even make it possible to use frequencies as high as 80 gigahertz. The planned acquisition of Wolfspeed will expand our portfolio to include this future-oriented technology as well, making us the provider of the most comprehensive product range and creating the foundation for us to become market leader in radio-frequency power components.

Radio-frequency small-signal components

RF components are not only required in the base stations of cellular infrastructures, but also in mobile devices. With every new smartphone generation more and more frequency ranges have to be supported. During the transition from one mobile communications standard to the next the requirements on signal quality and thus on the RF properties of many components rise. As an example, closely adjacent frequency bands require more precise frequency filters, more sensitive signal amplifiers and a larger number of faster antenna switches. Today's smartphones and tablets use our RF CMOS switches for switching between various antennas, among other things.

We are currently substantially benefiting from the increasing number of LTE (Long-Term Evolution)-capable smartphones. This fourth-generation transmission standard has a significantly higher level of complexity compared to the third generation (UMTS). LTE-capable smartphones contain more RF components with a higher degree of integration than earlier smartphone generations. The transition to the 5G standard will mean an increase in this complexity.



Radio-frequency and optical sensors

RF components play an important role in sensor technologies as well. In addition to automotive applications we also see a wide variety of interesting use cases in mobile devices and consumer electronics. For example, radar chips can be used to precisely control devices with hand movements. Gesture recognition technology thus opens a whole range of new possibilities for the interaction between humans and machines.

On the other hand our REAL3™ image sensor chip works based on infrared light. It lets devices see in three dimensions using the time-of-flight principle. For each pixel the chip determines how long the light transmitted takes to travel from the source to the object and back again, and uses this data to calculate the distance to the object. Infineon is the only provider worldwide whose image sensor chip meets the requirements of the Google technology platform Tango. The technology is featured in the PHAB2 Pro smartphone from Lenovo and enables three-dimensional images of the surrounding environment. This makes it possible to represent objects in what is referred to as Augmented Reality. Other applications are for example alertness assistants and fatigue detection in partially automated driving as well as gesture recognition in vehicles.

MEMS (Micro-Electromechanical Systems) sensors

MEMS-based silicon microphones are our most important product family when it comes to sensors for mobile devices. The latest generation of mobile devices requires several differing microphone variants with increasingly better signal-to-noise ratios. Improved acoustic capabilities not only mean the potential to differentiate for the smartphone manufacturer, but also an entirely new range of possible applications for high-performance microphones. Thus for example additional microphones significantly improve voice control even in scenarios with high background noise levels and improve the acoustic quality of telephone calls. Furthermore, microphones fulfilling the highest technical requirements are installed next to the camera in order to achieve even higher audio quality for video recordings made with the smartphone.

On top of unit growth in terms of devices and the growing number of microphones installed per device, we also significantly benefit from the fact that besides smartphones, tablets and notebook computers are also switching to silicon microphones. And entirely new device classes are emerging as potential application areas, including for example headphones featuring active noise cancellation.

At the same time devices are being designed to include more and more functions that require detection of additional physical parameters. This further drives demand for new sensors. Barometric pressure sensors support new functions such as indoor navigation in high-rise buildings and shopping centers. Gas sensors can monitor air quality: An appropriately equipped smartphone could for example warn the user of potentially harmful smog levels. We see enormous growth opportunities in the application areas of consumer electronics, automotive electronics and the Internet of Things.

Security

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



Contactless payment with a ring:
A security controller from Infineon,
including antenna, is built into
the ring



Government identification documents

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

Security for mobile devices

Today payment services can be integrated in 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"), integrated in a SIM/UICC card or located on a microSD card. Infineon offers the necessary solutions for all three alternatives.

Security for the Internet of Things

The Internet of Things refers to devices and machines connected to the internet, thus enabling data exchange and device control (for example home appliances, electricity meters, sensors, webcams). The trend towards increased levels of networking is having the greatest impact in the areas automotive, Industrial Internet, Smart Home and information and communications infrastructure. Here security plays a decisive role. The increasing number of hacking attacks underlines the importance of the appropriate precautions. In order to secure electronic systems, it is important that only authorized devices are connected with one another so that they can be protected against data manipulation and cyberattacks. Security thus has to be ensured at as many critical end-points as possible, often referred to in this context as the topic of embedded security. Infineon supplies the OPTIGA™ product family of various security chips and security solutions for authentication of electronic systems: From complex IT infrastructures with large numbers of servers and computers all the way down to tablets such as the Microsoft Surface Pro 4 or routers such as the Google OnHub.

Security as cross-segment expertise

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

The segments



REVENUE

€2,651 million

SEGMENT RESULT

€396 million

The power module HybridPACK™ DSC (double sided cooling) is ideal for use in main inverters and generators for hybrid and electric vehicles



Automotive

The Automotive segment in the 2016 fiscal year

Infineon is the leading provider of system solutions for automotive electronics, with over 40 years of experience and the industry's most comprehensive portfolio of power semiconductors, sensors and microcontrollers. Following the guiding principle of "clean, safe and smart" the Automotive segment addresses the industry's current megatrends: Electro-mobility, automated driving as well as connectivity and advanced security. Our profound system understanding helps car manufacturers in their efforts to reduce CO₂ emissions and to avoid accidents. Electro-mobility and automated driving increase the semiconductor bill-of-material per vehicle and are expected to account for 50 percent of our growth in Automotive on a 5-years horizon. Infineon is the only semiconductor manufacturer to benefit from both of these megatrends.

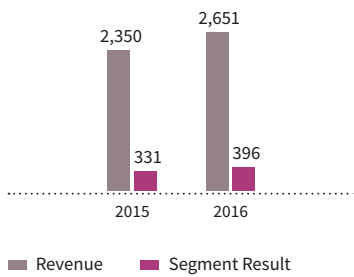
Over the last two years the market for electric vehicles has finally reached the tipping point and gained considerable momentum. In China alone production tripled in calendar year 2015 to approximately 340,000 units. Long treated as a vision of the distant future, electro-mobility has now reached a significant market size. Today's hybrid and electric vehicles contain an average semiconductor bill-of-material of approximately US\$700, more than twice as much as cars with internal combustion engines. Hybrid vehicles have to accommodate a compact and high-performance inverter in the already crowded motor compartment. In the previous fiscal year we introduced the HybridPACK™ DSC (double sided cooling) module, reducing the size and weight of the inverter by approximately 60 percent compared to previous solutions while maintaining the same performance levels. We therefore expect a lot of interest from car manufacturers. Power semiconductors based on silicon carbide will enable even more compact inverters and on-board chargers in the future. The planned acquisition of Wolfspeed will significantly strengthen our portfolio in this area.

Advanced Driver Assistance Systems (ADAS) support the driver with the increasingly complex task of driving: While passive systems such as seatbelt tensioners and airbags reduce the impact of a possible collision, active systems such as emergency braking assistants even intervene independently in the driving process to prevent collisions altogether. The next level is cars that drive autonomously – first only in certain environments, later on completely without a driver. The first models that can park automatically are already on the market. Infineon offers a comprehensive product portfolio for driver assistance systems. In addition to our sensors and power semiconductors, our AURIX™ microcontrollers are being used more and more frequently in ADAS applications.

Another important trend is that vehicles are getting more and more connected. This enables many new services, while entailing the danger of unauthorized access by third parties. The exchange of data among the various on-board systems as well as with other vehicles and infrastructures has therefore to be secured. We offer the right solutions for a secure vehicle architecture with our IT security expertise and the chips from our Chip Card & Security segment.



Revenue and Segment Result
of the Automotive segment
€ in millions



Revenue development

The Automotive segment generated revenues totaling €2,651 million in the 2016 fiscal year, an increase of 13 percent on the previous year's figure of €2,350 million. The segment contributed 41 percent of Group revenue.

As in the previous year, the megatrends electro-mobility and automated driving were key growth drivers in the 2016 fiscal year. Furthermore, for the first time International Rectifier contributed to revenue throughout the entire 2016 fiscal year instead of only approximately eight and a half months in the previous year.

Worldwide demand for hybrid and electric vehicles soared. This was especially true in China, which has in the meantime become the world's largest market for electro-mobility. Another record-breaking year for production and sales is expected for the 2016 calendar year for vehicles with plug-in hybrid or pure electric drives.

The ever increasing penetration of driver assistance systems for automated driving led to an increase in demand for our radar sensor ICs and our AURIX™ family 32-bit multi-core micro-controllers. Design-wins secured in previous years in the areas of active safety systems as well as for camera-based driver assistance systems resulted in a significant revenue increase for AURIX™ microcontrollers in the 2016 fiscal year.

The increasing demand for radar sensor ICs was due on the one hand to the increasing market penetration of radar-based driver assistance systems and on the other hand to the higher number of radar sensors per vehicle. In particular our 77 gigahertz radar solutions for driver assistance systems were in very high demand. At present Infineon is the leading supplier to the most important manufacturers of radar systems in the Europe, North America and Asia regions. As a result of the rising demand for 77 gigahertz radar sensor ICs, we sold more than 12 million units in the completed fiscal year and thus about the same number compared with the two preceding years taken together. In order to be able to continue meeting these rising demands in the future, expansion of the frontend manufacturing capacities has begun for this product in Regensburg (Germany).

Sales figures for the vehicle markets in Europe, North America and China were up. The high demand for vehicles in the upper middle class, in particular sports utility vehicles (SUVs) continued globally. This vehicle type is characterized by a comparably high level of additional features for safety and comfort functions. Furthermore, vehicles from German car manufacturers, in particular premium class vehicles, were in particularly high demand in all regions.

Development of Segment Result

The Segment Result totaled €396 million, an increase of 20 percent to the previous year's figure of €331 million. The Segment Result Margin stood at 14.9 percent (previous year: 14.1 percent) of revenue.

The Segment Result was positively influenced by higher revenues. In addition, improved productivity, in particular in the second half of the 2016 fiscal year, helped increase the Segment Result Margin. However, this was partly offset by temporary ramp-up costs for the new frontend manufacturing facility Kulim 2 (Malaysia).



Applications

Assistance and safety systems

- > Airbag
- > Anti-blocking system
- > Automatic parking
- > Blind spot detection
- > Distance warning systems
- > Electronic chassis control
- > Electronic power steering
- > Electronic stability control
- > Lane departure warning system
- > Tire pressure monitoring system

Comfort electronics

- > Air conditioning
- > Door electronics
- > Electronic control units
- > Electronic seat adjustment
- > Hatchback
- > Lighting
- > Power window
- > Steering
- > Sunroof
- > Suspension
- > Windshield wipers

Powertrain

- > Battery charging control
- > Battery management
- > Combustion engine control
- > Electric motor control
- > Generator control
- > Start-stop system
- > Transmission control

Security

- > Communication (car-to-car, car-to-infrastructure)
- > Digital tachograph
- > Original spare parts authentication
- > Protection against hardware manipulation (e.g. odometer)
- > Protection against software manipulation

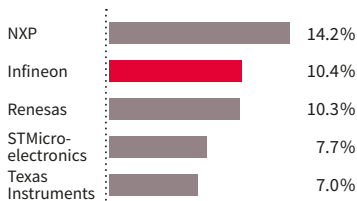
Market position

In spite of the strong growth in the still relatively small application areas of driver assistance systems and electro-mobility and the overall rise in demand for automotive semiconductors, in the 2015 calendar year the world market shrank slightly by 0.6 percent to US\$27.363 billion, down from US\$27.537 billion in the 2014 calendar year (source: Strategy Analytics). The reasons were essentially currency effects (on the one hand the strengthening of the Yen to the US dollar and on the other hand the strengthening of the Euro to the US dollar). There were major differences in growth rates in the individual regions. The markets in North America, Europe and Korea developed uniformly and declined by 2 to 3 percent. However, the market in Japan shrank by 11.2 percent, dropping behind the Chinese market. The market in China itself grew by 17.0 percent and has become the third largest market in the world for the first time.

Renesas lost 1.7 percentage points of market share, dropping behind Infineon. However, the NXP acquisition of Freescale created a new number 1. This meant that Infineon maintained the number 2 position with a market share of 10.4 percent (previous year: 10.5 percent). The five largest competitors together held 49.6 percent of the market.

In terms of power semiconductors for automotive applications, Infineon was able to strengthen its number 1 position by 0.4 percentage points to reach a market share of 25.2 percent. For microcontrollers Infineon remained in third place with an almost unchanged market share of 8.6 percent (previous year: 8.7 percent). In sensors Infineon gained 0.4 percentage points of market share to reach 11.9 percent, strengthening its number 2 position. Infineon is not present or hardly present in the remaining product categories, including among other things memory, optical components and analog ICs not related to power semiconductors.

World automotive semiconductor market share 2015



Source: Strategy Analytics, "Automotive Semiconductor Vendor Market Shares", April 2016



REVENUE

€1,073 million

SEGMENT RESULT

€126 million

Industrial Power Control

The Industrial Power Control segment in the 2016 fiscal year

The core competence of the Industrial Power Control segment is the conversion of electrical energy for medium to high power performance. Applications range from the refrigerator, with a few hundred watts, all the way to natural gas compressors with as much as 50 megawatts. The product portfolio includes discrete IGBTs, IGBT modules, drivers and controllers as well as their combination in so-called Intelligent Power Modules (IPMs) or pre-fabricated stack units. Infineon is the world market leader for IGBT-based power semiconductors (discretes and modules).



The PrimePACK™ module series is especially configured for the demanding conditions found in wind power turbines

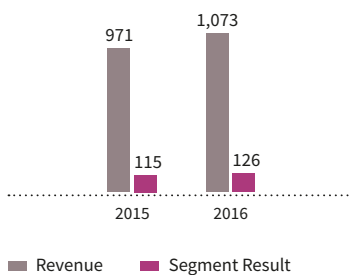


In the 2016 fiscal year business with components for renewable energy sources developed particularly well. During this period, wind power turbines with Infineon technology were installed around the world, totaling a capacity of more than 23 gigawatts. We have also been highly successful with a module series especially designed for the challenging conditions in wind turbines. It combines our PrimePACK™ packaging technology with IGBT5 power transistors and the new .XT interconnection technology, making the module particularly efficient, compact and durable. Fully in line with our strategic “Product to System” approach they also cut system costs for our customers while increasing the value of the built-in semiconductors.

Also the leading manufacturers of photovoltaic inverters rely on our application understanding and our outstanding technologies. The strengths of power semiconductors based on silicon carbide (SiC) can be particularly well exploited in this market. Today we already offer SiC diodes and hybrid modules; we have also announced a SiC MOSFET. The planned acquisition of Wolfspeed will enable us to accelerate the trend towards SiC-based power semiconductors and will further strengthen our competitive position in the market.

We also benefit from the growing electrification of commercial and agricultural vehicles, where electronic components are subjected to strong temperature fluctuations, heavy vibrations and dirt. In addition to efficiency and power density, in this market the ruggedness and reliability of our components are also strong and compelling sales arguments for our customers. The same is true for hybrid and electric busses. For example, several tens of thousands of electric busses are already driving on the streets of China with modules from Infineon, and the number continues to grow.

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



Revenue development

The Industrial Power Control segment generated revenues totaling €1,073 million in the 2016 fiscal year, an increase of 11 percent compared to €971 million in the previous year. The segment contributed 16 percent of Group revenue.

The revenue increase was primarily driven by renewable energies. The worldwide increase in wind and photovoltaic power capacities continued. The development targets of several important countries such as China, the USA or India drove the increased demand. The disproportionately high growth rates of recent years in this area also led to a change of revenue distribution by end-markets. In the meantime renewable energies account for approximately one fifth of the segment’s revenues.

The segment also benefited from the rise of electro-mobility. Revenue from IGBT modules for hybrid and electric busses increased significantly, in particular with Chinese customers. In other areas, such as drives and traction systems as well as in natural gas and oil production, we saw flat or slightly declining demand. Furthermore, for the first time International Rectifier contributed to revenue throughout the entire 2016 fiscal year, compared with only about eight and a half months in the previous year.

In the first half of the 2016 fiscal year, the major home appliance business was characterized by weakness due to inventories held by Chinese customers. Outside of China demand was satisfying, especially in Korea. Nevertheless, the year-on-year growth rate turned out to be disproportionately high. As a result major home appliances became the third largest business of the segment.

Development of Segment Result

The Segment Result totaled €126 million, an increase of 10 percent compared to the previous year’s figure of €115 million. The Segment Result Margin stood at 11.7 percent (previous year: 11.8 percent) of revenue.

The Segment Result was positively influenced by higher revenues. This was partly offset by currency effects and temporary ramp-up costs for the new frontend manufacturing facility Kulim 2 (Malaysia).



Applications

Charging stations for electric vehicles

- › Energy transmission
- › FACTS (Flexible AC Transmission Systems)
- › Offshore wind farm HVDC lines

Home appliances

- › Air conditioners
- › Dishwashers
- › Induction cookers
- › Microwave ovens
- › Refrigerators
- › Washing machines

Industrial drives¹

- › Air conditioning technology
- › Automation technology
- › Drives
- › Elevator systems
- › Escalators
- › Materials handling
- › Robotics
- › Rolling mills

Industrial vehicles

- › Agricultural vehicles
- › Construction vehicles
- › Forklifts
- › Hybrid busses

Traction

- › High-speed trains
- › Locomotives
- › Metro trains
- › Trams

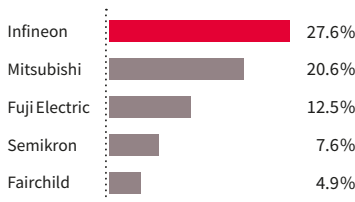
Renewable energy generation

- › Photovoltaic systems
- › Wind power turbines

Uninterruptable power supplies

¹ Including motors, compressors, pumps and fans.

World IGBT-based power semiconductor market share 2015



Source: IHS Markit, "Power Semiconductor Discretes & Modules Report", October 2016

Market position

The world market for IGBT-based power semiconductors – discrete IGBT power semiconductors and IGBT modules – reached US\$3.944 billion in the 2015 calendar year, a decline of 11.8 percent compared to the previous year value of US\$4.473 billion (source: IHS Markit). Infineon was able to increase its market share from 26.5 percent in the previous year to 27.6 percent in the 2015 calendar year and increased the distance to the number 2 in the market to 7.0 percentage points (previous year: 4.9 percentage points). The five largest competitors together held 73.2 percent of the market.



REVENUE

€2,050 million

SEGMENT RESULT

€328 million

The 800 Volt CoolMOS™ P7 series is optimized with regard to efficiency, ease of application and system costs



Power Management & Multimarket

The Power Management & Multimarket segment in the 2016 fiscal year

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

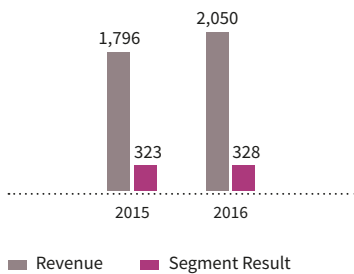
Infineon is the clear number one in the global MOSFET market. Based on leading base technologies, we offer a broad product portfolio including drivers, controllers and MOSFET power transistors for low-voltage (up to 40 volts), mid-range (from 40 volts up to 500 volts) and high-voltage applications (over 500 volts). Our products set the standard for the two central requirements of the market: conversion efficiency and power density. One important field of application in the low-voltage range is power supplies for servers. We are excellently positioned here with our system solution for digital DC voltage regulation. It includes an integrated power stage as well as digital controllers which comply with the standard specifications (VR12.5, VR13) and which are used together with our OptiMOS™ power transistors by the leading server manufacturers. Our highly successful CoolMOS™ family for high voltages is typically used in AC-DC power supplies. In the previous fiscal year we expanded our portfolio to include a variant with an optimized price/performance ratio for the mass market (800 volt CoolMOS™ P7) and a derivative for high-end applications (CoolMOS™ C7 Gold). These are just two of many examples for the extensive breadth of our portfolio, ranging from standard products to highly developed and differentiating components.



The trend towards more and more sensors in mobile devices is unbroken. We profit from this development with our leading MEMS (Micro-Electromechanical Systems) technology: As an example, our barometric pressure sensors are particularly small and efficient. They operate in a broad temperature range and can detect altitudes with an accuracy down to only a few centimeters. This makes them ideally suited for applications in areas such as navigation, localization, health and weather monitoring in smartphones, wearables and devices of the Internet of Things. Furthermore, we continuously expand our portfolio of radar-based sensors. These sensors are used in mobile devices as well as in industrial applications, for example for precise tank level metering.

The planned acquisition of Wolfspeed will also strengthen our position in radio-frequency power components for next-generation cellular infrastructures (5G). This lays the foundation for us taking over the leading position in the future.

Revenue and Segment Result of the Power Management & Multimarket segment
€ in millions



Revenue development

The Power Management & Multimarket segment generated revenues totaling €2,050 million in the 2016 fiscal year, an increase of 14 percent compared to the previous year's figure of €1,796 million. The segment contributed 32 percent of Group revenue.

This growth in revenue was primarily driven by increased demand for MOSFET power transistors in all voltage classes. Furthermore, for the first time International Rectifier made a contribution to revenues over the entire 2016 fiscal year, as opposed to only approximately eight and a half months in the previous year.

On the one hand, our low- and mid-voltage OptiMOS™ power semiconductors benefited greatly from the increasing number of applications with direct current motors, in particular with brushless direct current motors. Examples are battery-powered do-it-yourself tools as well as multicopters for transport, agriculture and leisure. In these areas in particular the acquisition of International Rectifier made an essential contribution to the expansion of our product and application portfolios and thus to diversification. On the other hand, the demand for OptiMOS™ power transistors remained high also in applications without motors: for example in power supplies for servers as well as in photovoltaic inverters. In servers, demand grew in particular for DC-DC power supplies with digital control. Besides our OptiMOS™ power transistors for low-voltage applications, also our control ICs and driver ICs were sought after.

Electro-mobility is not only a driver for our Automotive segment, but also for our Power Management & Multimarket segment. When it comes to the charging infrastructure either IGBT or MOSFET power transistors are used, depending on topology. In China's charging infrastructure rollout, MOSFET power transistors are the technology of choice. In this application the technological edge of our CoolMOS™ high-voltage power transistors became evident once more. Their benchmark energy efficiency reduces cooling requirements. This allows building more compact charging stations. Thanks to this leading technology we were chosen as the preferred supplier in China.

In general, the launch of new smartphone models did not trigger end customer demand as expected. Therefore, global sales of smartphones hardly increased year over year. Therefore, in the 2016 fiscal year the business with components for smartphones remained below our original expectations. However, our diversification strategy was successful in the second half of the 2016 fiscal year: For the first time we achieved significant revenue with local Chinese smartphone manufacturers.



As in previous years, the business with wireless communications infrastructure, in particular for fourth generation (LTE) networks, was dominated by activities in China. Network expansion did not accelerate any further. As a result, revenues in this area remained slightly below the previous year's level.

Development of the Segment Result

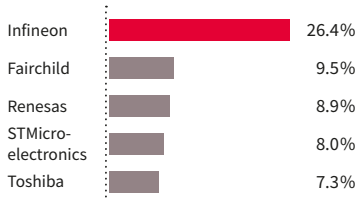
The Segment Result totaled €328 million, an increase of 2 percent compared to the previous year's figure of €323 million. The Segment Result Margin was 16.0 percent (previous year: 18.0 percent) of revenue.

The Segment Result increased with higher revenues. This was largely offset by higher operating expenses, especially for research and development, as well as by temporary ramp-up costs for the new frontend manufacturing facility Kulim 2 (Malaysia), impacting the Segment Result margin negatively.

Applications

Charging stations for electric vehicles DC motors › eBikes › DIY tools (cordless screwdrivers etc.) › Multicopters › Pedelecs	HiRel › Commercial aviation › Defense technologies › Oil and natural gas exploration › Space systems › Submarine telecommunications LED and conventional lighting systems	Power management › Consumer electronics › Home appliances › IT and telecom › PCs and notebooks › Servers › Smartphones › Tablets	Mobile devices › Activity trackers › Navigation devices › Smartphones › Tablets Cellular infrastructure › Base stations
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World standard power MOSFET market share 2015



Source: IHS Markit, "Power Semiconductor Discretes & Modules Report", October 2016

Market position

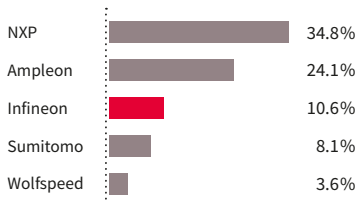
Standard MOSFET power transistors

The world market for standard MOSFET power transistors (low-voltage and high-voltage MOSFETs) reached US\$5.484 billion in the 2015 calendar year, an 8.8 percent decline compared to the previous year's value of US\$6.012 billion (source: IHS Markit). With a 26.4 percent market share Infineon continues to be the clear market leader (previous year: 25.3 percent). The distance to number 2 was 16.9 percentage points (previous year: 14.1 percentage points). The five largest competitors together held 60.1 percent of the market.

Radio-frequency power transistors

The world market for radio-frequency power transistors reached US\$1.513 billion in calendar year 2015 (source: market research firm ABI Research. A comparison with the previous year was not available, since no market study was conducted for calendar year 2014). With a market share of 10.6 percent Infineon was in third place in the market (no specification available regarding the previous year). The five largest competitors together accounted for an 81.2 percent market share.

World RF power semiconductors market share 2015



Source: ABI Research, "RF Power Semiconductors", July 2016



REVENUE
€698 million

SEGMENT RESULT
€135 million

With the advent of the Internet of Things, the awareness of the need for hardware-based security technologies for connected systems is continuously rising



Chip Card & Security

The Chip Card & Security segment in the 2016 fiscal year

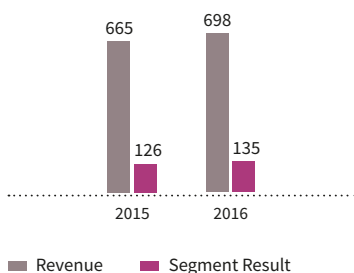
The Chip Card & Security segment has around 30 years of experience with the largest and most demanding security projects in the world. As a leading provider of security solutions we address the classic smart-card applications, while also offering solutions for embedded security within larger electronic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

Traditional application areas include payment cards, electronic government IDs, SIM cards for mobile communication and ticketing solutions. Particularly the business with government IDs continued to grow during the previous fiscal year. In Europe we supply around 70 percent of all ID document projects. We not only won further business in Europe but also in Asia and South America. We are also successful in smaller and regional security projects by which we further diversified our customer portfolio. During the summer, the operators of the Korean civilian airports KAC (Korea Airports Corporation) began to implement a new building access control system for example. Airports are among the best protected premises in the world, therefore security requirements are particularly high. The solution now being implemented is based on the open CIPURSE™ security standard; Infineon supplies the chips for the employee IDs. The project is another milestone on the road to establishing CIPURSE™, after two major cities in Europe and South America have started using the standard for their public transportation ticketing systems. Infineon provided crucial support in the development and introduction of CIPURSE™ as we are convinced of the advantages of open standards.

The main challenge in many application areas is realizing the highest possible level of security while using the least amount of space. Here we have an excellent position: This summer the company NFC Ring presented a ring with a contactless payment function using a security controller from Infineon. It communicates with the payment terminal in a matter of milliseconds using a tiny antenna and initiates the secure payment transaction while using encryption procedures. The ring can be used for payment in the same manner as a chip-based credit card but is much more convenient. Infineon is the world's first and as of yet only semiconductor company to fulfill the requirements of the international EMV (Europay International, MasterCard and VISA) standard.

The continuous evolution of the Internet of Things makes security functions embedded in connected devices more and more important. Embedded security is used to secure mobile devices such as laptop computers, tablets and wearables, as well as securing information and communication infrastructures, industrial facilities and connected vehicles. Awareness of the need for hardware-based security technologies is continuously growing in this area. Solutions which are easy to implement, such as our successful OPTIGA™ TPM chip, are particularly attractive to our customers. Furthermore we provide support in the certification of security solutions, provide reference designs and offer software that is closely related to our security controllers (for example firmware, driver software and hardware-related application software). With these services we reduce the development costs of our customers and accelerate the market launch of their products.

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



Revenue development

The Chip Card & Security segment generated revenues totaling €698 million in the 2016 fiscal year, an increase of 5 percent compared to the previous year's figure of €665 million. The segment contributed 11 percent of Group revenue.

Compared with the 2015 fiscal year, in which almost all business segments contributed to revenue growth, individual business segments developed quite differently during the previous fiscal year. The largest contribution to revenue growth came from business with government IDs. We were also able to win new projects in Europe, Asia and South America.



After the payment card business benefited extraordinarily strongly from the delivery of chip-based credit cards in the USA and China in the 2015 fiscal year with an increase of approximately 50 percent, this business was expected to decelerate in the 2016 fiscal year. It showed, therefore, growth only in the high single-digit range. After the initial roll-out phase, now the replacement phase will begin, as is typical for the payment cards market.

High-end SIM cards with mobile payment functionality benefited in the 2015 fiscal year from the market launch of several very successful smartphones. There was no such special effect in the 2016 fiscal year. In the same manner, in the Pay TV business, typically characterized by project business, major projects also ended with the 2015 fiscal year. Thus, there was a decline in revenue in the 2016 fiscal year compared to the previous year.

However, demand for notebooks and tablets containing our TPM (Trusted Platform Module) chip was very positive. Also demand from smartphones and smartwatches for our embedded Secure Element (eSE) security chips was strong. Overall, we expect the highest long-term growth rates in the area of embedded security, which includes authentication solutions in addition to the two other applications mentioned above.

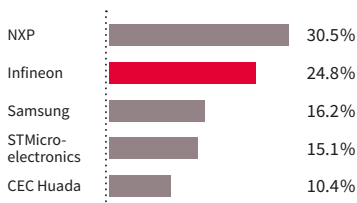
Development of Segment Result

The Segment Result totaled €135 million, an increase of 7 percent on the previous year's figure of €126 million. The Segment Result Margin stood at 19.3 percent (previous year: 18.9 percent), the highest profitability of this segment since the inception of the company. The Segment Result improved with higher revenues which was partly offset by currency effects.

Applications

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

World microcontroller-based chip card ICs market share 2015



Source: IHS Markit, "Smart Cards Semiconductors", July 2016

Market position

The world market for microcontroller-based chipcard ICs includes contact-based and contactless ICs for applications in SIM cards, payment cards, government IDs, access control, transport as well as machine-to-machine communication. This market grew by 2.6 percent in the 2015 calendar year, from US\$2.65 billion in the 2014 calendar year to US\$2.72 billion (source: IHS Markit). Infineon held a market share of 24.8 percent in the 2015 calendar year.

Infineon grew the fastest among all other market participants and was able to acquire 1.1 percentage points of market share. The distance to the market leader was reduced to 5.7 percentage points (previous year: 7.0 percentage points). The five largest competitors together held 97.0 percent of the market.



Locations

Europe

	Function	Research and Development	Manufacturing FE = Frontend BE = Backend
Austria			
Graz		<ul style="list-style-type: none"> – Chip card applications – Power semiconductors – Sensor products 	
Klagenfurt	service function		
Linz		– RF ICs	
Vienna	sales		
Villach	sales	<ul style="list-style-type: none"> – Power semiconductors, analog and mixed-signal ICs and sensors – Competence center for thin-wafer and compound semiconductor technologies 	FE – Power semiconductors – SiC and GaN technology
Denmark			
Skovlunde		– HiRel products	
Finland			
Espoo	sales		
France			
Le Puy-Sainte-Réparate		– Power ICs	
Saint-Denis	sales		
Germany			
Augsburg		– Software for chip card applications	
Ditzingen	sales		
Dresden		<ul style="list-style-type: none"> – CMOS derivative technologies for RF and sensors, among others – Power semiconductors 	FE – 200 mm and 300 mm manufacturing
Duisburg	sales	– System-on-chip development	
Erlangen	sales		
Großostheim	distribution center		
Karlsruhe	sales	– Hitex software development tools for embedded systems	
Hanover	sales		
Neubiberg near Munich	headquarters, sales	<ul style="list-style-type: none"> – Technology integration – Design flow and library development – IC, software and system development for microcontrollers, ASICs, sensors and chip card ICs – Power electronics 	
Neu-Isenburg	sales		
Regensburg		<ul style="list-style-type: none"> – Competence center for preassembly and package development – Technology development for sensors 	FE – Radio-frequency – Analog and mixed-signal components – Power semiconductors BE – Chip card modules – Power semiconductors – Sensors
Warstein	sales	<ul style="list-style-type: none"> – Product development IGBT modules – Assembly and package technology for IGBT modules 	BE – IGBT modules



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



Asia-Pacific

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



Americas

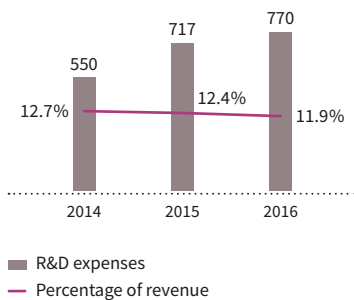
	Function	Research and Development	Manufacturing FE = Frontend BE = Backend
Brasil			
São Paulo	sales		
Mexico			
Tijuana			BE – Power semiconductors
USA			
Chandler		– Development and characterization of GaN components	
Durham	sales		
El Segundo	sales	– Components for space and aviation – Package platforms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



Research and Development

R&D expenses

€ in millions



Research and development expenses (R&D expenses) amounted to €770 million in the 2016 fiscal year, after €717 million in the previous year, representing an increase of €53 million or 7 percent. The year-over-year increase was slower in percentage terms than the increase in revenue which grew by 12 percent. In the 2016 fiscal year we spent 11.9 percent on R&D relative to revenue compared to 12.4 percent in the previous year. With this rate we are well within our target range, i.e. a percentage of revenue in the low- to mid-teens.

At the end of the 2016 fiscal year we employed 6,057 employees (17 percent of Infineon's total workforce) at our research and development sites worldwide; at the end of the 2015 fiscal year this figure stood at 5,778 employees (16 percent of the total workforce). Infineon maintains R&D departments at 34 sites in 14 countries (see the chapter "Locations", [P](#) page 49 ff.).

The capitalized development costs in the 2016 fiscal year amounted to €98 million (previous year: €100 million). Amortization of capitalized development costs totaled €31 million (previous year: €29 million) in the 2016 fiscal year. Subsidies and grants for R&D increased from €59 million in the 2015 fiscal year to €75 million in the 2016 fiscal year.

Principal research and development activities

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

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

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



Furthermore, Infineon researches and develops a highly diverse range of sensor types. We have already received the first customer orders for the digital barometric pressure sensor we introduced last year, which will in turn generate revenue in the 2017 fiscal year. In addition to automotive applications, our 3D image sensor REAL3™ will now also be used in consumer electronics. The technology for 3D capture of the environment will be put to use in the smart-phone PHAB2 Pro from Lenovo.

Together with the Belgian nano- and microelectronics research center Imec, Infineon has started development of a highly-integrated 79 gigahertz CMOS radar sensor chip. CMOS technology enables a higher degree of integration and allows a reduction in manufacturing costs. The objective is a cost-effective one-chip solution, although signal quality and transmission power are lower compared to the silicon-germanium-based radar sensor chips. We will therefore continue to build our 77 gigahertz radar sensor chip for long-range applications based on silicon germanium. The 79 gigahertz band has particular advantages over the established 24 gigahertz band. In the short-range it allows higher angle and distance resolution. Automated parking and blind spot detection are the target applications here. Infineon's portfolio of radar sensor chips, the most comprehensive in the industry, makes it possible to realize the radar-based safety cocoon for semi and fully automated driving.

In addition to sensors, manufacturing technologies and transistor architectures for power semiconductor components based on new materials are another important focus area of our R&D activities. In the 2016 fiscal year we announced a new MOSFET power transistor based on silicon carbide (SiC). The strengths of SiC are found in applications of 600 volts and higher. This material enables power switches with significantly lower switching and conduction losses. However, because of the expensive substrate material involved, SiC also has a cost disadvantage. Therefore, SiC will become the material of choice wherever compactness and efficiency are key requirements, for example in on-board chargers and powertrains for electric and hybrid vehicles, as well as in photovoltaic inverters. Modification of the system design and topology will make it possible for other applications to make use of these advantages as well. This is due to the fact that disproportionally high savings with other components make it possible to reduce system costs in spite of the higher expenses associated with SiC MOSFET. The same is true for power transistors based on gallium nitride. Here we are currently developing the next generation of transistors, which will be used in highly-compact power supplies.

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

Infineon makes systematic use of its technical core competencies in close collaboration among the Segments (see the table in the chapter "Group Strategy/Strategic Fundamentals"). This lets us make efficient use of our economies of scale for power semiconductors, radio-frequency and security.

Patents

Another indication of the innovation power and long-term competitiveness of Infineon is the number and quality of our patents. In the 2016 fiscal year we applied for approximately 2,000 patents worldwide, compared to approximately 2,200 patent applications in the previous year. At the end of the 2016 fiscal year the worldwide patent portfolio consisted of approximately 27,000 patents and patent applications (previous year: approximately 25,000 patents and patent applications). The planned acquisition of Wolfspeed will add approximately 2,000 patents and patent applications.

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Operations

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

For frontend manufacturing this principle means that power semiconductors, sensors and radio-frequency components are preferably manufactured at our own manufacturing sites. Here we gain a strategic advantage from our manufacturing technologies and our process expertise because we can offer components which can only be manufactured with leading-edge manufacturing techniques. In the case of CMOS-based process technologies on the other hand we work together with manufacturing partners. This applies to the majority of our products manufactured in 90 nanometer manufacturing technologies as well as all products manufactured in 65 nanometer and 40 nanometer manufacturing technologies. These are primarily highly-integrated products such as microcontrollers and security ICs. In backend manufacturing for certain package types we work with subcontractors in order to ensure adequate capacity growth and to be able to better manage phases of high fluctuation in demand. Standard power semiconductor packages are an example here.

Another successful step in the area of manufacturing technology is the introduction of a larger wafer diameter for manufacturing of power semiconductors. The use of 300-millimeter thin wafers creates significant advantages in terms of productivity and reduces the amount of capital required. However, the technical challenges involved are substantial. Infineon is as of yet the only company to successfully complete this step. Further information on the ramp-up of 300-millimeter thin wafer technology can be found at the end of this chapter.

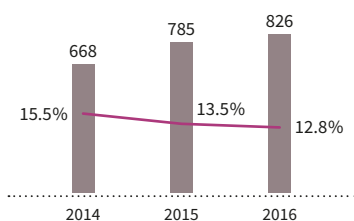
Infineon maintains a total of 19 manufacturing sites in eleven countries: Dresden, Regensburg and Warstein (all Germany); Villach (Austria); Newport (Wales, UK); Cegléd (Hungary); Beijing and Wuxi (both China); Malacca and Kulim (both Malaysia); Cheonan (Korea); Batam (Indonesia); Singapore; Tijuana (Mexico) as well as Leominster, Mesa, Morgan Hill, San Jose and Temecula (all USA) (see the chapter “Locations”). As of September 30, 2016, 26,383 employees were employed in Operations at these manufacturing sites (previous year: 25,909 employees).

In the 2016 fiscal year our investments amounted to €826 million, representing an increase of €41 million or 5 percent compared to the €785 million invested in the previous year. Relative to revenues, the investments in the complete fiscal year stood at 12.8 percent, slightly lower compared to the previous year’s 13.5 percent. €716 million of the overall investment volume went on property, plant and equipment (previous year: €646 million) and €110 million went on intangible assets including capitalized R&D costs (previous year: €139 million).

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

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Investments¹
€ in millions



■ Investments — Percentage of revenue

¹ Property, plant and equipment and intangible assets



Milestones and essential investment focuses in manufacturing in the 2016 fiscal year

Continued high demand for automotive power semiconductors resulted in further expansion of the second manufacturing building at the frontend site at Kulim, known as “Kulim 2”. The “Ready for Equipment” milestone, i.e. the beginning of equipping the cleanroom, was reached on January 15, 2016. The official opening of the manufacturing building took place on schedule on May 13, 2016. This date also marked the beginning of volume production.

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

- › Expansion of 200-millimeter frontend manufacturing capacities for differentiating manufacturing technologies such as MEMS-based sensors, radio-frequency components, as well as power semiconductors and magnetic field sensors for automotive applications.
- › Expansion of 300-millimeter frontend manufacturing capacities (see following paragraph).
- › Increased level of automation at our frontend and backend sites, for example improvement of the wafer transport system and mathematically optimized manufacturing planning.
- › Expansion of backend manufacturing capacities, in particular in Malacca, and also in Wuxi with the construction of a second manufacturing facility.
- › 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.

Ramp-up of 300-millimeter thin wafer manufacturing takes place as planned

The continuous expansion of manufacturing capacities for our 300-millimeter frontend manufacturing network, consisting of the sites in Dresden and Villach, progressed as planned. The next milestones are set for the end of calendar year 2017. By then we want to have equipped 20 to 30 percent of the available cleanroom space with 300-millimeter thin wafer manufacturing equipment. We then expect 300-millimeter manufacturing costs per chip to reach the level of our 200-millimeter manufacturing.

The utilization level of the 300-millimeter manufacturing capacities is increasing for several reasons. First of all, it is no longer possible to meet demands for our power semiconductor components with the 200-millimeter fabs alone. Secondly, we are shifting part of the manufacturing activities from Newport to Dresden. And finally, in the future certain new products will be manufactured on 300-millimeter manufacturing lines only, for example the 800 volt power transistor CoolMOS™ P7, introduced in the 2016 fiscal year.



Internal management system

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

- › achieving a compound annual revenue growth rate of 8 percent
- › thereby achieving a 17 percent (previously 15 percent) Segment Result Margin over the economic cycle, and
- › limiting investments to 13 percent of revenue over the economic cycle

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

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

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

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

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Performance indicators

Principal performance indicators

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

- › Segment Result 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 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 revenue growth correlates with all three performance indicators and especially with Segment Result, it is not used as a key performance indicator in its own right.

Segment Result

Segment Result is defined as operating income (loss) excluding the following: the net amount of asset impairments and reversals thereof; the impact on earnings of restructuring and closures; share-based compensation expense; acquisition-related depreciation/amortization and other expenses; gains (losses) on sales of assets, businesses, or interests in subsidiaries as well as other income (expense), including litigation costs (see note 23 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 2016 fiscal year, see the chapter "The segments" and the section "2016 fiscal year").

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P see page 40 ff. and page 18 ff.



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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 financial condition" for an analysis of free cash flow in the 2016 fiscal year).

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

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

Effective investment management plays a key role with regard to managing free cash flow. Our stated strategy of managing investments systematically and limiting them to 13 percent of revenue should be seen in this context. Free cash flow is considered by Infineon only at Group level and not at segment level.

Return on Capital Employed (RoCE)

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

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

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

Apart from profitability, RoCE is also influenced by asset intensity, of both non-current assets and net working capital. Asset intensity describes the amount of assets necessary to generate a certain level of revenue (for an analysis of the derivation of and change in RoCE in the 2016 fiscal year, see the chapter "Review of financial condition").

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Other performance indicators

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

Growth and profitability performance indicators

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



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

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Liquidity performance indicators

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

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

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

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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.

Operational early indicators

The analysis of current and future performance is rounded off by using the following operational early indicators:

- › **Orders received:** The aggregate of all orders received by the Group from customers during the relevant reporting period
- › **Orders received as a percentage of revenue:** The ratio of orders received and revenue recognized during the same accounting period (book-to-bill ratio)

The book-to-bill ratio gives a good indication of future trends in demand. If orders received are greater than revenue recognized within a given period, it is seen as an indication of future revenue growth.

For an analysis of orders received and the book-to-bill ratio in the previous fiscal year, see the chapter “Review of results of operations”.

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Actual and target values for performance indicators

The chapter “Outlook” contains a table showing the actual values achieved in the 2016 fiscal year for the key performance indicators, along with expectations for the 2016 fiscal year and the 2017 fiscal year.

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Sustainability at Infineon

@ www.infineon.com/sustainability_reporting

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

Our employees

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

Leadership excellence

Open and honest feedback

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

High Performance Behavior Model





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

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

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

Management development

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

We provide support to our managers in the form of numerous learning and development opportunities at the various leadership levels. Our approach to learning involves a variety of methods based on both theory and practice. We work on concrete practical examples at face-to-face training events and through computer-based trainings.

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



Promoting talent

Talent marketing and management

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

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

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

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

Encouraging diversity

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

The promotion of women to management positions is one of the key focus areas of our diversity management policy. We had set ourselves the ambitious target of increasing the percentage of female executives to 15.0 percent by the end of the 2015. Despite a steady upward trend in recent years to 13.4 percent, we did not quite achieve this target. We intend to reinforce our efforts and now plan to achieve the target by 2020. Individual measures and performance indicators are being put in place across the business with a view to achieving the target. We remain committed to our long-term target of 20 percent of women in management positions.

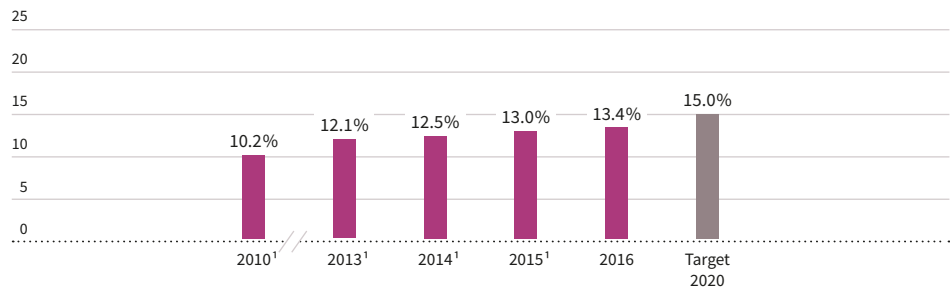
	Employees Total	Female ¹	Male ¹
Middle and senior level management ²	5,999	13.4	86.6
Entry level management ²	6,538	25.7	74.3
Non-management staff	23,762	46.9	53.1
Total	36,299	37.5	62.5

¹ Figures expressed in percentages based on the workforce at September 30, 2016.

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



Women in management positions (Infineon worldwide)



¹ International Rectifier not included

In conjunction with the “Law on Equal Participation of Women and Men in Leadership Positions in the Private and Public Sector”, Infineon Technologies AG and Infineon Technologies Dresden GmbH have set targets for the percentage of women in the two leadership levels below the Management Board. We will report on the extent of target attainment for the Supervisory Board, Management Board/Board of Directors as well as for the two leadership levels below board level (see the chapter “Corporate Governance”) as of June 30, 2017.

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Cooperation with universities

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

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

Qualifications and training

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

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



Our workforce

Health management

The health of our staff is imperative. We therefore protect and promote it through our occupational health management program. Preventive programs, such as “Fit4Health” in Germany and Austria or H.A.P.P.Y. (Healthy Active People Program for You) in Singapore boost health competence in our staff. Additional demand-oriented local health initiatives supplement the range of measures on offer.

Competence development

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

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

Employees and personnel expense

As of September 30, 2016 Infineon had a worldwide workforce of 36,299 employees, compared to 35,424 employees one year earlier.

The worldwide personnel cost for current internal Infineon employees in the 2016 fiscal year totaled €2,047 million (2015 fiscal year: €1,939 million). This amount includes wages and salaries, including overtime and allowances, as well as social costs (pension expenses and social contributions).

Outlook

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

With this aim in mind, our human resources work focuses on the three pillars “Leadership excellence”, “Promoting talent” and “Our workforce”. Furthermore, the “HR Operational Excellence” initiative continues to improve our key processes in human resources. With a combination of stable processes and efficient instruments, the HR team – in its role as strategic partner and adviser for management and staff – accompanies Infineon on its high-performance path.

Subsequent to completing the integration of International Rectifier during the 2016 fiscal year, one of the areas to which the HR department will turn its attention during the 2017 fiscal year will be the scheduled acquisition of Wolfspeed.



The Infineon share

I Questions may be directed to us via e-mail or telephone hotline:
Phone: +49 89 234-26655
Fax: +49 89 234-955 2987
E-mail: investor.relations@infineon.com

@ Interested parties are able to participate in telephone conferences via a webcast in the Investor Relations section of the Infineon website:
www.infineon.com/investor

@ 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/

Basic information on shares and bonds

Share types	Ordinary registered shares in the form of shares or American Depositary Shares (ADS) with a notional value of €2 each (ADS: shares = 1:1)
Share capital	€2,265,346,218 (as of September 30, 2016), €2,258,542,962 (as of September 30, 2015)
Shares issued ¹	1,132,673,109 (as of September 30, 2016), 1,129,271,481 (as of September 30, 2015)
Own shares	6 million shares (as of September 30, 2016)
ISIN	DE0006231004
WKN	623100
Ticker symbol	IFX (share), IFNNY (ADS)
Bloomberg Reuters	IFX GY (Xetra trading system), IFNNY US IFX-XE, IFNNY-XE
Listings	Shares: Frankfurt Stock Exchange (FSE)
Market capitalization ²	€17,892 million (as of September 30, 2016)
Daily average shares traded on Xetra	5,469,535 (in the 2016 fiscal year)
Trading in the USA	ADS, over-the-counter trading on the OTC market (OTCQX)
Market capitalization ²	US\$20,032 million (as of September 30, 2016)
Daily average ADS traded	216,173 (in the 2016 fiscal year)
Index membership (selected)	DAX 30 Dow Jones STOXX Europe 600 Dow Jones Euro STOXX TMI Technology Hardware & Equipment Dow Jones Germany Titans 30 MSCI Germany S&P-Europe-350 Dow Jones Sustainability World Index Dow Jones Sustainability Europe Index
1.0% Infineon Bond from March 10, 2015	due on September 10, 2018, ISIN: XS1191115366
1.5% Infineon Bond from March 10, 2015	due on March 10, 2022, ISIN: XS1191116174
Rating of S&P Global Ratings	since February 2016: "BBB" (outlook "stable")

¹ The number of shares issued includes own shares.

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

Further share price increase in 2016 fiscal year

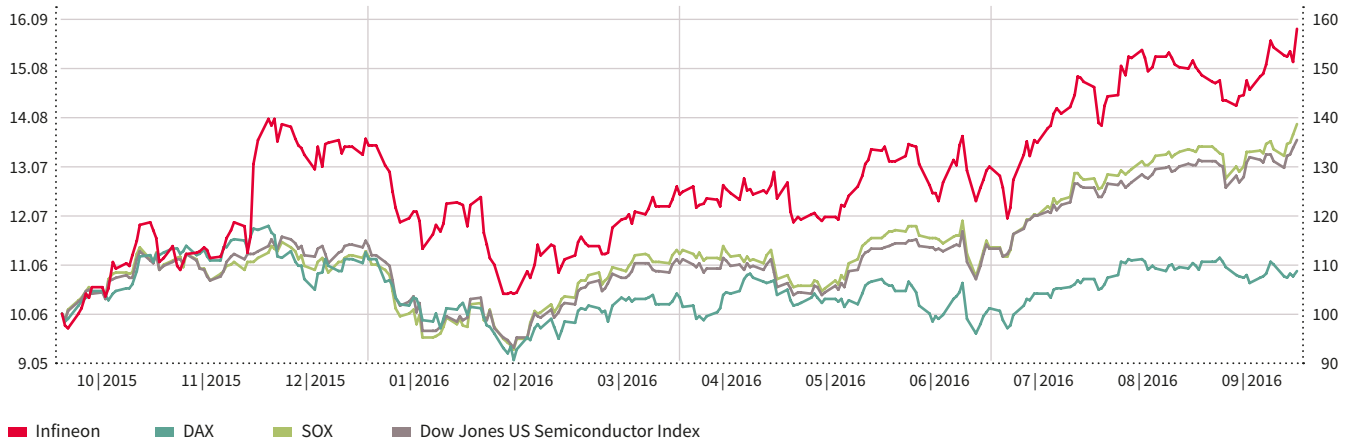
During the 2016 fiscal year the Infineon share continued the upward trend seen in previous years, finishing the fiscal year at a closing price of €15.88, 58 percent higher than its closing price of €10.06 at the end of fiscal 2015. The price of the Infineon share reached its low for the year, €9.75, at the beginning of the fiscal year. After that, the price rose continuously, with at times volatile price fluctuations. The Infineon share reached its high for the year of €15.88 on the last day of trading in the fiscal year, September 30, 2016. During the 2016 fiscal year the value of the Infineon share significantly outperformed comparable benchmark indices. In this period the Philadelphia Semiconductor Index (SOX) rose by 39 percent and the Dow Jones US Semiconductor Index rose by 35 percent. The 9 percent increase in value of the DAX was significantly lower in the fiscal year just completed.



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 2016 fiscal year (daily closing prices)

Infineon share price in €

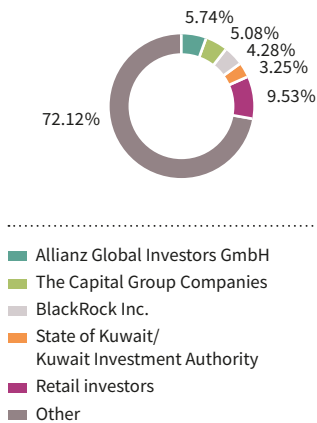
September 30, 2015 = 100



Trading volumes and DAX ranking

The average volume of Infineon shares traded, measured in units, in the Xetra system, dropped by 28 percent in the 2016 fiscal year compared to the previous year. 5.5 million shares were traded daily in the 2016 fiscal year, compared to 7.6 million shares in the previous year. The average daily trading volume of Infineon shares in euros fell slightly by 7 percent from €73.7 million in fiscal 2015 to €68.5 million in the 2016 fiscal year.

Shareholder structure



The Infineon share is traded in the USA in the form of American Depositary Shares (“ADS”) on the OTCQX International over-the-counter market under the ticker symbol “IFNNY”. The average trading volume rose from 147 thousand ADS per day in the previous fiscal year to 216 thousand ADS per day in the 2016 fiscal year. The number of ADS outstanding also dropped to 16.7 million units at September 30, 2016, from 23.2 million ADS at the end of the 2015 fiscal year.

Infineon improved by 5 places in the DAX ranking in terms of market capitalization, moving from 22nd place at the end of the 2015 fiscal year to 17th place at the end of the 2016 fiscal year. In terms of the volume traded in euros in Xetra and on the Frankfurt trading floor during the last twelve months, Infineon ranked 19th in the 2016 fiscal year, up from 21st place in the previous year.

Shareholder structure

As of September 30, 2016, four shareholders each held more than 3 percent of the Infineon shares issued; two of the four shareholders held more than 5 percent. At the end of the 2015 fiscal year, six shareholders held more than 3 percent of shares each. The share capital held by retail investors dropped from 11.79 percent at the end of the 2015 fiscal year to 9.53 percent at September 30, 2016.

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

Dividend

After the dividend for the 2014 fiscal year had already been increased from €0.12 to €0.18, the Management Board and Supervisory Board decided to propose a further increase of the dividend to €0.20 per share for the 2015 fiscal year to the Annual General Meeting on February 18, 2016. The shareholders approved the proposal and thus on February 19, 2016 the amount of €225 million was paid out to shareholders. At that point in time the number of shares entitled to a dividend was 1,123,271,481 units. At September 30, 2016 the number of shares issued was 1,132,673,109. This figure includes the unchanged amount of 6 million shares owned by the company, which are not entitled to a dividend. Based on positive business developments and Infineon’s positive business outlook, a proposal will be made to shareholders at the 2017 Annual General Meeting to increase the dividend for the 2016 fiscal year by 2 cents or 10 percent from €0.20 to €0.22. 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	2016	2015
Revenue	6,473	5,795
Gross profit	2,330	2,080
Research and development expenses	(770)	(717)
Selling, general and administrative expenses	(791)	(778)
Other operating income and expenses, net	(6)	(30)
Operating income	763	555
Net financial result (financial income and expenses, net)	(61)	(39)
Income from investments accounted for using the equity method	3	4
Income tax	36	102
Income from continuing operations	741	622
Income from discontinued operations, net of income taxes	2	12
Net income	743	634
Basic earnings per share (in euro)	0.66	0.56
Diluted earnings per share (in euro)	0.66	0.56
Adjusted earnings per share (in euro) – diluted	0.76	0.60

Net income improved

Net income improved year-on-year by €109 million to €743 million for the 2016 fiscal year on the back of revenue growth. The €83 million decrease in acquisition-related depreciation, amortization and other expenses (2016: €191 million; 2015: €274 million) for International Rectifier (primarily expenses recognized in conjunction with the purchase price allocation) was largely offset by a €66 million reduction in income tax benefits.

Earnings per share (basic and diluted) amounted to €0.66 per share and were therefore higher than one year earlier (2015: €0.56).

Adjusted earnings per share (diluted) improved sharply from €0.60 to €0.76 per share (see “Sharp improvement in adjusted earnings per share” in this chapter for details of the calculation).

Good sales performance and the full-year inclusion of International Rectifier drive revenue growth

Revenue grew by €678 million to €6,473 million in the year under report (2015: €5,795 million). The increase primarily reflects strong business performances across all segments (see the chapter “The segments”) and the first-time inclusion of International Rectifier for a full twelve-month period, contrasting with the previous fiscal year when revenue was included only for the period after closing of the acquisition on January 13, 2015.

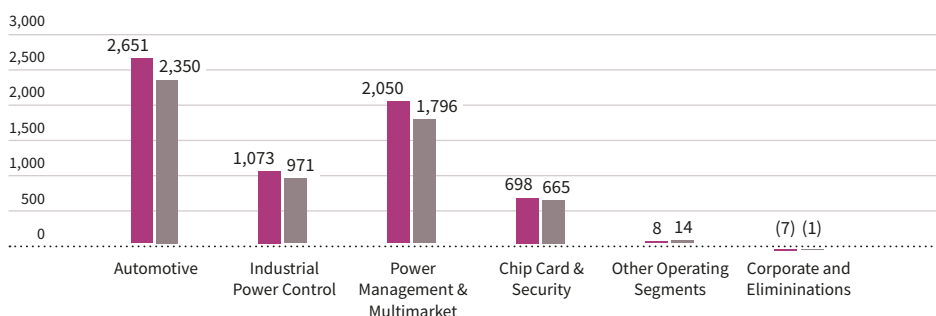
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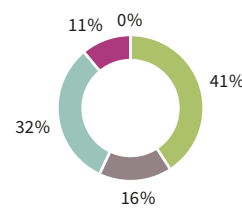


Revenue by segment

€ in millions



■ 2016 ■ 2015



Share of Group Revenue 2016

■ Automotive
■ Industrial Power Control
■ Power Management & Multimarket
■ Chip Card & Security
■ Other Operating Segments

Positive currency impact on revenue from US dollar

A significant share of **revenue** was generated in **foreign currencies** in the 2016 fiscal year, with revenue denominated in US dollars accounting for the largest share. The average euro/US dollar exchange rate changed from 1.14 in the previous fiscal year to 1.11 in the 2016 fiscal year. Across all currencies and over the fiscal year as a whole, currency factors contributed approximately 2 percent to the revenue increase. The currency impact is measured by applying the previous fiscal year's relevant average exchange rates to the 2016 fiscal year revenue.

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

€ in millions, except percentages	2016		2015	
Europe, Middle East, Africa	2,147	33%	2,020	35%
Therein: Germany	1,000	15%	942	16%
Asia-Pacific (excluding Japan)	3,083	48%	2,666	46%
Therein: China	1,574	24%	1,337	23%
Japan	424	6%	399	7%
Americas	819	13%	710	12%
Therein: USA	661	10%	568	10%
Total	6,473	100%	5,795	100%

The acquisition of International Rectifier resulted in better access to the Chinese and US markets, a fact reflected in above-average revenue growth in these regions. Infineon also grew in all other regions.

With an increase of €417 million, more than one half (62 percent) of revenue growth related to the Asia-Pacific region (excluding Japan), followed by the Europe, Middle East and Africa region, which recorded a €127 million or 19 percent increase in revenue, and the Americas region, where revenue rose by €109 million (16 percent of total revenue growth).

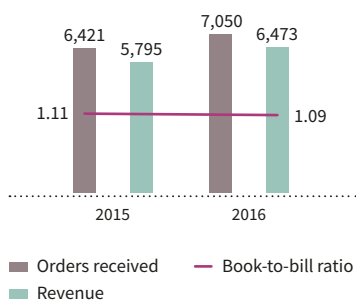
The Asia-Pacific region (excluding Japan) had already become the largest region in the previous fiscal year, when it accounted for 46 percent of revenue, ahead of the Europe, Middle East and Africa region with 35 percent. The importance of the Asia-Pacific region (excluding Japan) continued to grow in the year under report, accounting for 48 percent of revenue, compared to the 33 percent generated in the Europe, Middle East and Africa region.

China accounted for €1,574 million or 24 percent of Infineon's worldwide revenue and therefore for the largest share at individual country level, followed by Germany at €1,000 million or 15 percent.



Orders received and revenue

€ in millions,
except book-to-bill ratio



Book-to-bill ratio still at high level

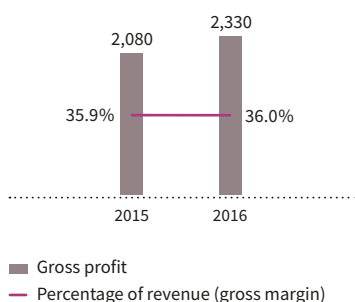
The book-to-bill ratio was virtually unchanged at 1.09 (2015: 1.11) and therefore remained at a high level. The value of orders received increased by 10 percent to €7,050 million in the 2016 fiscal year (2015: €6,421 million).

Gross margin slightly improved

The **gross margin** improved slightly from 35.9 percent to 36.0 percent year-on-year. Lower expenses in conjunction with the purchase price allocation and other acquisition-related expenses for International Rectifier were largely offset by higher costs of goods sold, attributable to a change in the product mix and to start-up expenses for Kulim 2 and 300-millimeter manufacturing. Moreover, further investments were made in manufacturing facilities, with a view to creating a broader base for sustainable growth. Expenses in conjunction with the purchase price allocation and other acquisition-related expenses for International Rectifier reduced earnings by €96 million in the 2016 fiscal year, compared with €143 million in the previous fiscal year and relate in particular to amortization and depreciation on intangible assets and property, plant and equipment. In the previous fiscal year, additional expenses arose from consuming inventories revalued to their fair value in conjunction with the purchase price allocation.

Gross profit and gross margin

€ in millions



A part of the cost of goods sold is incurred in currencies other than the euro. To some extent, the effects of exchange rates on the cost of goods sold offset a similar impact on revenue, with the result that the positive currency effect on the gross margin was lower in the fiscal year under report.

€ in millions, except percentages	2016	2015
Cost of goods sold	4,143	3,715
Change year-on-year	12%	39%
Percentage of revenue	64.0%	64.1%
Gross profit	2,330	2,080
Percentage of revenue (gross margin)	36.0%	35.9%

Slight decrease in ratio of operating expenses to revenue

Operating expenses (research and development expenses and selling, general and administrative expenses) increased year-on-year by €66 million to €1,561 million (2015: €1,495 million), corresponding to 24.1 percent of revenue (2015: 25.8 percent).

Research and development expenses (R&D expenses)

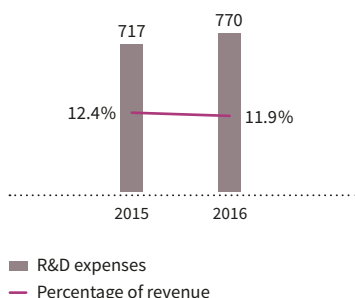
Grants received in conjunction with R&D projects and capitalized development costs reduce the amount of **R&D expenses** recognized.

€ in millions, except percentages	2016	2015
Research and development expenses	770	717
Change year-on-year	7%	30%
Percentage of revenue	11.9%	12.4%
Therein included grants received	75	59
Percentage of revenue	1.2%	1.0%
For information: capitalized development costs	98	100
Percentage of research and development expenses	12.7%	13.9%



R&D expenses

€ in millions



R&D expenses amounted to €770 million in the 2016 fiscal year, an increase of €53 million or 7 percent compared to the previous year's figure of €717 million. At 11.9 percent (2015: 12.4 percent) of revenue, R&D expenses therefore remained within the target range of a low- to mid-teen percentage of revenue. The principal reasons for the increase were the inclusion of International Rectifier for the full twelve-month period compared to the previous year and the fact that research and development activities were intensified. Among other measures taken, additional staff was recruited with the aim of broadening the basis for further growth. A total of 6,057 employees worked in research and development functions at the end of the reporting period (September 30, 2015: 5,778 employees).

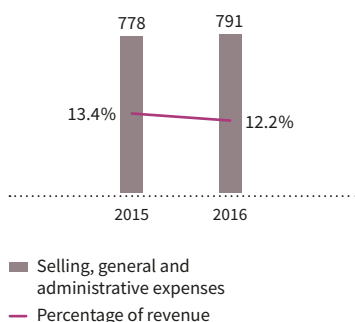
The main R&D activities undertaken during the 2016 fiscal year are described in more detail in the chapter "Research and Development" [P](#) page 53 f.

Selling, general and administrative expenses

€ in millions, except percentages	2016	2015
Selling, general and administrative expenses	791	778
Change year-on-year	2%	57%
Percentage of revenue	12.2%	13.4%

Selling, general and administrative expenses

€ in millions



At 12.2 percent of revenue selling, **general and administrative expenses** were lower in percentage terms than in the previous fiscal year (13.4 percent). In absolute terms, however, they edged up by €13 million to €791 million, mainly due to the inclusion of International Rectifier for the full twelve-month period. Unlike in the current fiscal year, the previous year's figures also included transaction-related costs (legal services and bank fees) relating to the acquisition of International Rectifier.

Reduction of deferred tax liabilities and changes in valuation allowances on deferred tax assets give rise to deferred tax benefit

As in the previous fiscal year, tax expense for the 2016 fiscal year was affected by foreign tax rates, non-deductible expenses, tax credits and changes in valuation allowances on deferred tax assets. Overall, an income tax benefit of €36 million arose on income from continuing operations before income tax of €705 million. The deferred income tax benefit arose primarily in conjunction with the acquisition and integration of International Rectifier. In addition to the reversal of deferred tax liabilities relating to the purchase price allocation, income of €43 million was recognized as a result of changes in valuation allowances on tax credits, which became utilizable as a result of the integration of International Rectifier.

In the previous fiscal year, the reassessment and reversal of valuation allowances on deferred tax assets amounting to €209 million resulted in an income tax benefit of €102 million, based on income from continuing operations before income tax of €520 million.

Further details regarding income tax are provided in note 7 to the Consolidated Financial Statements.

[P](#) see page 144 f.



Earnings per share improved

The improvement in net income resulted in a corresponding increase in **earnings per share**. Compared to earnings per share of €0.56 (basic and diluted) in the previous fiscal year, the corresponding figures for the 2016 fiscal year both amounted to €0.66.

Sharp 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)	2016	2015
Earnings from continuing operations attributable to shareholders of Infineon Technologies AG – diluted	742	620
Plus/minus:		
Impairments on assets including assets classified as held for sale, net of reversals	16	31
Impact on earnings of restructuring and closures, net	(7)	13
Share-based compensation expense	9	6
Acquisition-related depreciation/amortization and other expenses	191	274
Losses (gains) on sales of assets, businesses, or interests in subsidiaries, net	4	2
Other income and expense, net	6	16
Tax effects on adjustments	(49)	(73)
Revaluation of deferred tax assets resulting from the annually updated earnings forecast	(59)	(209)
Adjusted earnings from continuing operations attributable to shareholders of Infineon Technologies AG – diluted	853	680
Weighted-average number of shares outstanding – diluted	1,129	1,125
Adjusted earnings per share (in euro) – diluted ¹	0.76	0.60

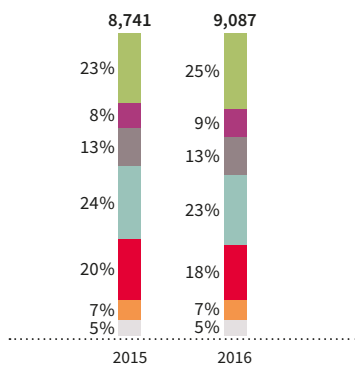
¹ The calculation of the adjusted earnings per share is based on unrounded figures.

Adjusted net income and adjusted earnings per share (diluted) should not be seen as a replacement or superior performance indicator, but rather as additional information to the 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 8 to the Consolidated Financial Statements.

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Assets



€ in millions	2015	2016
Gross cash position	2,013	2,240
Trade and other receivables	742	774
Inventories	1,129	1,191
Property, plant and equipment	2,093	2,119
Intangible assets	1,738	1,656
Deferred tax assets	604	623
Other assets	422	484
Total	8,741	9,087

Review of financial condition

€ in millions, except percentages	September 30, 2016	September 30, 2015	Change year-on-year
Current assets	4,492	4,115	9%
Non-current assets	4,595	4,626	(1%)
Total assets	9,087	8,741	4%
Current liabilities	1,530	1,585	(3%)
Non-current liabilities	2,534	2,491	2%
Total liabilities	4,064	4,076	0%
Total equity	5,023	4,665	8%

Statement of Financial Position Ratios:

Return on assets ¹	8.2%	7.3%
Equity ratio ²	55.3%	53.4%
Return on equity ³	14.8%	13.6%
Debt-to-equity ratio ⁴	35.2%	38.4%
Inventory intensity ⁵	13.1%	12.9%
RoCE ⁶	15.0%	12.8%

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

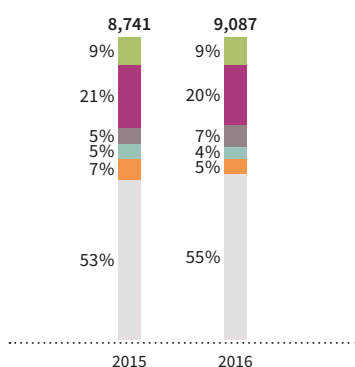
⁵ Inventory intensity = Inventories (net)/Total assets

⁶ Calculation see following section about RoCE in this chapter

Increase in current assets due to higher gross cash position

Current assets were up by 9 percent to €4,492 million at the end of the reporting period, compared to €4,115 million as of September 30, 2015. Infineon's gross cash position (sum total of cash and cash equivalents and financial investments) improved by €227 million (see "Gross cash position and net cash position" in the chapter "Review of liquidity" [P](#) page 77). In addition, trade receivables and inventories increased by €94 million in total as a result of organic revenue growth across the segments.

Liabilities and equity



€ in millions	2015	2016
Trade and other payables	802	857
Debt	1,793	1,769
Pension plans and similar commitments	426	604
Provisions	474	403
Other liabilities	581	431
Equity	4,665	5,023
Total	8,741	9,087

Slight decrease in non-current assets

Non-current assets decreased slightly from €4,626 million as of September 30, 2015 to €4,595 million as of September 30, 2016. Investments in property, plant and equipment totaling €716 million were higher than the depreciation expense of €665 million during the same period. Investments related mainly to the manufacturing sites in Regensburg (Germany), Kulim (Malaysia), Villach (Austria) and Malacca (Malaysia). By contrast, investments in intangible assets amounting to €110 million were lower than the amortization expense for the period totaling €168 million.

Current liabilities marginally lower; non-current liabilities almost unchanged

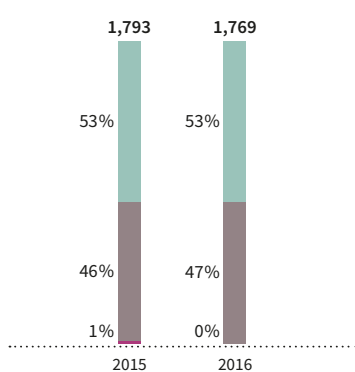
Current liabilities stood at €1,530 million at the end of the reporting period, €55 million (3 percent) lower than at September 30, 2015 (€1,585 million). **Non-current liabilities** remained almost unchanged at €2,534 million (September 30, 2015: €2,491 million).

Current provisions and liabilities for obligations to employees decreased by €58 million, largely reflecting the fact that payments made for prior-year performance-related remuneration exceeded the amount accrued for the 2016 fiscal year. By contrast, trade payables were €55 million higher than one year earlier, mainly as a corollary to the organic revenue growth recorded by the segments and the resulting increase in inventories.



Non-current liabilities increased slightly from €2,491 million as of September 30, 2015 to €2,534 million as of September 30, 2016. Liabilities for pension plans and similar commitments went up by €178 million, primarily due to actuarial losses. By contrast, deferred tax liabilities decreased by €137 million, mainly reflecting the reduction of deferred tax liabilities relating to the acquisition of International Rectifier and the reversal of allowances on deferred tax assets relating to German and foreign entities.

Debt by currencies



€ in millions	2015	2016
Euro	947	939
US dollar	828	830
Other	18	0
Total	1,793	1,769

Percentage share of debt denominated in euro unchanged

The percentage share of total debt (short- and long-term) denominated in euros remained unchanged at 53 percent compared to the end of the previous fiscal year. The percentage share of debt denominated in US dollars increased marginally to 47 percent (2015: 46 percent). The US\$934 million loan, which Infineon had raised with various international banks in conjunction with the acquisition of International Rectifier, was fully repaid out of proceeds from the issue of USPP notes (US Private Placement).

Information on debt maturities is provided in note 14 to the Consolidated Financial Statements [P](#) page 152.

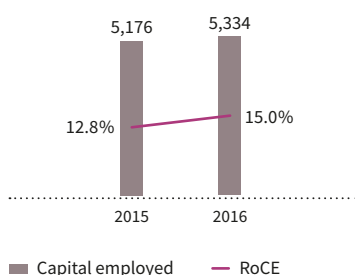
Equity up due to net income for the year

Equity increased by €358 million (8 percent) to €5,023 million at the end of the reporting period (September 30, 2015: €4,665 million), mainly due to the net income generated in the 2016 fiscal year amounting to €743 million. Working in the opposite direction, equity was reduced during the reporting period by the dividend of €225 million paid for the 2015 fiscal year and by actuarial losses amounting to €159 million (net of tax) – recognized in other comprehensive income – arising in conjunction with pension plans and similar commitments (see notes 15 and 20 to the Consolidated Financial Statements [P](#) page 153 and 157 ff.).

The equity ratio improved to 55.3 percent as of the end of the reporting period (September 30, 2015: 53.4 percent).

RoCE

€ in millions



Increase in earnings gives rise to higher RoCE

The operating income from continuing operations after tax rose year-on-year from €664 million to €799 million, as a result of which the return on capital employed (RoCE) also increased from 12.8 percent to 15.0 percent, despite the fact that capital employed went up from €5,176 million as of September 30, 2015 to €5,334 million as of September 30, 2016. The performance again enabled Infineon to more than cover its cost of capital in the 2016 fiscal year.



RoCE for the 2016 and 2015 fiscal years is calculated as follows:

€ in millions	2016	2015
Operating income	763	555
Plus:		
Financial income excluding interest income ¹	-	4
Gain from investments accounted for using the equity method	3	4
Less:		
Income tax	36	102
Financial expense excluding interest expense ²	(3)	(1)
Operating income from continuing operations after tax ①	799	664
Assets	9,087	8,741
Less:		
Cash and cash equivalents	(625)	(673)
Financial investments	(1,615)	(1,340)
Assets classified as held for sale	-	-
Total current liabilities	(1,530)	(1,585)
Plus:		
Short-term debt and current maturities of long-term debt	17	33
Liabilities classified as held for sale	-	-
Capital employed ②	5,334	5,176
RoCE ①/②	15.0%	12.8%

1 Financial income in the 2016 and 2015 fiscal year amounted to €6 million and €10 million, respectively, and consisted of €6 million, respectively, of interest income.

2 Financial expense in the 2016 and 2015 fiscal year amounted to €67 million and €49 million, respectively, and consisted of €64 million and €48 million, respectively, of interest expense.

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

Review of liquidity

Cash flow

€ in millions	2016	2015
Net cash provided by operating activities from continuing operations	1,313	957
Net cash used in investing activities from continuing operations	(1,098)	(2,593)
Net cash provided by (used in) financing activities from continuing operations	(229)	1,363
Net change in cash and cash equivalents from discontinued operations	(22)	(140)
Net change in cash and cash equivalents	(36)	(413)
Effect of foreign exchange rate changes on cash and cash equivalents	(12)	28
Change in cash and cash equivalents	(48)	(385)



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

Net cash provided by operating activities from continuing operations in the 2016 fiscal year amounted to €1,313 million, an improvement of €356 million on the €957 million reported for the previous fiscal year. The main reason for the improvement was the €259 million increase in income from continuing operations before scheduled depreciation, amortization, impairment charges, interest and taxes totaling €1,612 million (2015: €1,353 million). In addition, the figure reported for the previous fiscal year includes a payment of €104 million to settle disputes relating to the continuation of the right to use Qimonda patents as well as a payment of €83 million to the EU Commission relating to a fine imposed in conjunction with chip card antitrust proceedings.

Net cash used in investing activities from continuing operations mainly reflects investments in property, plant and equipment

Net cash used in investing activities from continuing operations totaled €1,098 million in the 2016 fiscal year, resulting primarily from investments in property, plant and equipment (€716 million) and in intangible and other assets (€110 million). Net purchases of financial investments resulted in a cash outflow of €275 million.

Net cash used in investing activities from continuing operations in the previous fiscal year amounted to €2,593 million, including €1,869 million (after deduction of cash acquired) for the acquisition of International Rectifier. Investments in property, plant and equipment and in intangible and other assets totaled €785 million.

Dividend payment results in net cash used in financing activities from continuing operations

Net cash used in financing activities from continuing operations totaled €229 million in the 2016 fiscal year. This figure includes primarily the cash outflow for the dividend payment for the 2015 fiscal year amounting to €225 million. In April 2016, Infineon also successfully completed a US Private Placement (USPP) of notes with a volume of US\$935 million, which provided net proceeds amounting to €819 million. The US dollar loan of US\$934 million raised in conjunction with the acquisition of International Rectifier was subsequently repaid, resulting in a cash outflow of €820 million.

Net cash provided by financing activities from continuing operations in the 2015 fiscal year amounted to €1,363 million, comprising mainly a net cash inflow of €1,584 million in conjunction with the financing of the acquisition of International Rectifier and a cash outflow for the dividend paid for the 2014 fiscal year amounting to €202 million.

Net cash used for discontinued operations

Net cash used for discontinued operations in the 2016 fiscal year totaled €22 million, mainly due to payments to the Qimonda insolvency administrator (€14 million) relating to settlement agreements reached for residual liability claims pertaining to Qimonda Dresden employees and legal defense costs.

In the previous fiscal year, net cash used for discontinued operations amounted to €140 million, of which €125 million (net of value added tax reimbursed) related to payments in conjunction with the partial settlement reached with the Qimonda insolvency administrator.



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 includes only amounts from continuing operations, and is derived as follows from the Consolidated Statement of Cash Flows:

€ in millions	2016	2015
Net cash provided by operating activities from continuing operations	1,313	957
Net cash used in investing activities from continuing operations	(1,098)	(2,593)
Purchases of (proceeds from sales of) financial investments, net	275	(18)
Free cash flow	490	(1,654)

Net cash provided by operating activities exceeds investments

Free cash flow in the 2016 fiscal year was a positive amount of €490 million. Net cash provided by operating activities from continuing operations amounting to €1,313 million exceeded investments in property, plant and equipment and intangible assets totaling €826 million.

By contrast, free cash flow in the previous fiscal year was a negative amount of €1,654 million, which included €1,869 million (after deduction of cash acquired) relating to the acquisition of International Rectifier. In addition, payments to the Qimonda insolvency administrator, net of proceeds from the sale of the Qimonda patents, and to the EU Commission reduced free cash flow from continuing operations by €178 million.

Gross cash position and net cash position

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

€ in millions	September 30, 2016	September 30, 2015
Cash and cash equivalents	625	673
Financial investments	1,615	1,340
Gross cash position	2,240	2,013
Less:		
Short-term debt and current maturities of long-term debt	17	33
Long-term debt	1,752	1,760
Total debt	1,769	1,793
Net cash position	471	220

Free cash flow totaling €490 million easily exceeded the dividend payment of €225 million. The gross cash position as of September 30, 2016 increased accordingly by €227 million.



Significant events after the end of the reporting period

On November 17, 2016, Infineon signed a purchase agreement to acquire 93 percent of the shares of MoTo Objekt Campeon GmbH & Co. KG (“MoTo”). The purchase requires the approval of the responsible regulatory authorities. The transaction is expected to be completed towards the end of the 2016 calendar year and will result in the subsequent full consolidation of MoTo.

MoTo is the owner and lessor of the existing Campeon office complex in Neubiberg, near Munich, the location of Infineon’s headquarters. A lease agreement relating to the office complex, with a lease term of 20 years, has been in place with MoTo since October 2005. After a period of 15 years, Infineon has the right to acquire the property or lease it for an additional five-year period (see note 24 to the Consolidated Financial Statements).

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The shares are being sold by Geneba RE 3 B.V. The purchase consideration amounts to €113 million and will be financed by Infineon out of cash on hand. The acquisition will earn a rate of return well above Infineon’s borrowing cost and, as from the beginning of the 2017 fiscal year, is accretive to the Segment Result by a low double-digit million euro amount. Free cash flow for the 2017 fiscal year will decrease as a result of the payment of the €113 million purchase consideration. In subsequent years, the transaction will result in an increase in free cash flow of between €20 million and €30 million per year. MoTo’s existing financial liabilities amounting to approximately €220 million will increase Infineon’s debt accordingly.

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

On July 14, 2016, Infineon and Cree signed a contract relating to the purchase of Cree’s Wolfspeed business. Infineon intends to acquire Wolfspeed, including the related wafer substrate business, for a purchase price of US\$850 million. Closing, which is expected to take place at the beginning of the 2017 calendar year, requires approval from the responsible regulatory authorities. For this reason, the forecasts made in this chapter only relate to the Infineon Group’s operations. Once the acquisition has been successfully completed, the outlook will be adjusted to take account of the new corporate structure.

On November 17, 2016, Infineon signed a purchase agreement to acquire 93 percent of the shares of MoTo Objekt Campeon GmbH & Co. KG (MoTo) (see the chapter “Significant events after the end of the reporting period”). The impact of this transaction on Infineon’s key performance indicators is included in the outlook provided below.

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Outlook

Actual and target values for performance indicators

The following table and subsequent comments compare the actual values of Infineon's key performance indicators with the original forecasts for the 2016 fiscal year and show the outlook for the 2017 fiscal year. The performance figures for the 2016 fiscal year include the financial figures of International Rectifier for a full fiscal year. Actuals shown for the 2015 fiscal year include figures for International Rectifier from January 13, 2015 onwards, in other words with effect from the acquisition closure date.

€ in millions, except percentages	Actuals FY 2015	Original Outlook FY 2016	Actuals FY 2016	Outlook FY 2017
Principal performance indicators				
Segment Result Margin	15.5%	About 16% (at the mid-point of the planned range for revenue growth)	15.2%	About 16% (at the mid-point of the planned range for revenue growth)
Free cash flow from continuing operations	(1,654)	Between €500 and €600 million	490	Between €400 and €500 million
RoCE	12.8%	Slight increase compared to FY 2015	15.0%	Slight decrease compared to FY 2016
Supplementary performance indicators				
Growth and profitability performance indicators				
Change in revenue compared to previous year	34%	Increase by 13% plus/minus 2 percentage points	12%	Increase by 6% plus/minus 2 percentage points
Gross margin	35.9%	Slight increase compared to FY 2015	36.0%	Slight increase compared to FY 2016
Research and Development expenses	717 30%	Increase in line with or slightly below revenue growth	770 7%	Increase below revenue growth
Selling, general and administrative expenses	778 57%	Increase slightly below revenue growth	791 2%	Increase below revenue growth
Liquidity performance indicators				
Gross cash position	2,013 34.7%	In the range of 30%–40% relative to revenue, therefore within the target of 30%–40%	2,240 34.6%	In the range of €1.7–€2.4 billion and therefore within the target range of €1 billion +10% to 20% of revenue
Net cash position	220	Net cash position (gross cash position higher than debt)	471	Net cash position (gross cash position higher than debt)
Working capital	550	Between €700 and €850 million	739	Between €750 and €900 million
Investments	785	About €850 million	826	About €950 million



Comparison of original outlook and actual figures for the 2016 fiscal year

A Segment Result Margin of 16 percent was forecast at the mid-point of the planned range for revenue growth. Actual revenue growth in the 2016 fiscal year was 12 percent, 1 percentage point lower than the mid-point. The Segment Result Margin of 15.2 percent was therefore in line with expectations. Free cash flow totaled €490 million in the 2016 fiscal year, slightly below the expected range of between €500 million and €600 million. The Return of Capital employed (RoCE) improved year-on-year from 12.8 percent to 15.0 percent and therefore in line with expectations.

Revenue grew by 12 percent in the 2016 fiscal year and therefore within the forecast range of 13 percent plus/minus 2 percentage points. The gross margin increased as forecast slightly from 35.9 percent to 36.0 percent year-on-year. Operating expenses developed better than expected. Growth in line with or slightly below revenue growth had been forecast for research and development expenses as well as for selling, general and administrative expenses. Research and development expenses increased by 7 percent, 5 percentage points below the rate of revenue growth and therefore in line with expectations. By contrast, selling, general and administrative expenses increased by only 2 percent, compared with revenue growth of 12 percent, and therefore at a substantially less pronounced rate than revenue.

Explanatory comments to the outlook for the 2017 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 in US dollars. It also incurs expenses both in US dollars and in currencies closely 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. 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 €2 to €3 million per quarter, or approximately €8 to €12 million per fiscal year compared to the forecast value. These figures assume, however, that the exchange rates of currencies correlated with the US dollar – in which expenses arise for Infineon – change in parallel to the euro/US dollar exchange rate. In terms of revenue, the impact of exchange rates is limited almost entirely to the euro/US dollar rate, where a deviation of 1 cent in the actual exchange rate compared to the forecast rate would have an impact on revenue of approximately €8 million per quarter, or approximately €32 million per fiscal year. Planning for the 2017 fiscal year is based on an assumed average exchange rate for the US dollar against the euro of US\$1.10.

Growth prospects for the global economy and the semiconductor market

The world economy grew by 2.6 percent in the 2015 calendar year. Global gross domestic product (GDP) is expected to grow by around 2.4 percent in the 2016 calendar year. The world economy has therefore continued to move sideways and without the increase in momentum which had still been predicted by economists at the International Monetary Fund (IMF) in the fall of 2015. At that stage, the forecast growth rate for the 2016 calendar year stood at 3.0 percent, which was subsequently adjusted downwards as the year progressed in the face of deteriorating economic conditions. Like previous years, the 2016 calendar year was dominated by geopolitical crises and fears of terrorism. On top of this came the surprising vote of the British electorate to leave the European Union. This decision, which is likely to have negative repercussions for economic growth, will also raise levels of uncertainty over the coming years. Outside Europe the US economy progressed rather weakly compared to the previous growth. China labored on with the process of economic transformation and Japan, too, showed no signs of economic recovery. Countries such as Brazil and Russia, where state revenues are closely tied to oil and commodity prices, continued to suffer from low, albeit slowly recovering prices.



IMF economists forecast a growth rate of 2.8 percent for the 2017 calendar year. Economic stimulus measures in China, Japan and other countries, as well as low interest rates, should have a positive impact on demand in the fields of consumer spending and investments. The expected continued recovery in oil and commodity prices would also provide some welcome financial headroom for raw material-exporting countries. Brazil and Russia could therefore exit their two-year-long recession at some stage during the 2017 calendar year. Nevertheless, the level of risks and challenges to which the world – and hence the world economy – is exposed remains high. Protectionist tendencies, the threat of terrorism and unresolved conflicts in various countries and regions are just some of the factors that could have a negative impact.

The global semiconductor market has mirrored the world economy's performance over the past two years. After slipping by 2.0 percent in the 2015 calendar year, the semiconductor market is expected to register another slight contraction in the 2016 calendar year.

At an expected growth rate of 4.8 percent, the outlook for the global semiconductor market is considerably more optimistic for the 2017 calendar year.

Revenue increase of 6 percent expected, plus or minus 2 percentage points, compared to the previous fiscal year

Based on our expectations for the global economy and for the semiconductor market segments relevant for Infineon as described above, Infineon forecasts revenue growth of 6 percent, plus/minus 2 percentage points, for the 2017 fiscal year. The Automotive segment is expected to grow at a substantially faster rate than the Group average. Growth in the Industrial Power Control segment is forecast to be roughly in line with or slightly higher than the Group average. The Power Management & Multimarket and Chip Card & Security segments are both expected to report growth rates below the Group average.

Slight upward trend in gross margin expected

At the mid-point of the planned range for revenue growth, the gross margin for the 2017 fiscal year is expected to rise slightly. The gross margin will still be negatively influenced by acquisition-related expenses.

Operating expenses expected to increase

Infineon expects operating expenses to increase in absolute terms as a result of revenue growth. As a percentage of revenue, however, the increase should be lower than revenue growth. Research and development expenses and selling, general and administrative expenses are both forecast to increase below revenue growth. Acquisition-related expenses included in operating expenses are expected to be slightly below the previous fiscal year's level.

Segment Result Margin of approximately 16 percent expected

Based on the forecast changes in revenue and expenses described above, the Segment Result Margin in the 2017 fiscal year is expected to increase to approximately 16 percent, at the mid-point of the planned range for revenue growth.

Non-segment result

Infineon expects the non-segment result for the 2017 fiscal year to be a negative amount of between €200 million and €250 million, mainly attributable to acquisition-related expenses (2016 fiscal year: minus €219 million). Approximately €130 million of the forecasted amount relates to non-cash-relevant depreciation and amortization arising in conjunction with the International Rectifier acquisition.



Financial result

At September 30, 2016, debt amounted to €1,769 million, compared with cash and cash equivalents and financial investments totaling €2,240 million. The financial result (financial income less financial expense) for the 2016 fiscal year was a net expense of €61 million. After the planned acquisition of Wolfspeed takes legal effect, Infineon will raise additional debt of approximately US\$720 million and use some of its gross cash position to finance the purchase price. The resulting higher level of debt, combined with the lower amount of interest income that will be earned on reduced volumes of cash and cash equivalents, means that the financial result for the 2017 fiscal year will decline year-on-year.

Income taxes

The effective current tax rate (cash tax) for the Infineon Group in the 2017 fiscal year is forecast at approximately 15 percent. This tax rate is based on income, excluding the impact of the purchase price allocation in connection with the International Rectifier acquisition, and comprises the cash-effective German and foreign income taxes of Infineon Group entities.

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 as a result of the utilization of tax loss carry-forwards. This results in a cash-effective tax rate of approximately 12 percent in Germany. At September 30, 2016, tax loss carry-forwards for German corporation tax and municipal trade tax purposes amounted to €2.0 billion and €3.1 billion respectively.

Working capital

Working capital is forecast to finish the 2017 fiscal year at between €750 million and €900 million.

Investments and depreciation/amortization

Investments (defined by Infineon as the sum of purchases of property, plant and equipment, purchases of intangible assets and capitalized development assets) are planned to rise in the 2017 fiscal year to approximately €950 million. This figure compares with €826 million in the 2016 fiscal year, comprising investments in property, plant and equipment (€716 million) and capitalized development assets and other intangible assets (€110 million). Investments in capitalized development assets and other intangible assets in the 2017 fiscal year are planned at a similar level to one year earlier. The total figure for planned investments in the region of €950 million includes approximately €35 million for a new office building at Infineon's headquarters in Neubiberg near Munich. The ratio for investments as a percentage of revenue (at the mid-point of the planned range for the 2017 fiscal year) is forecast at 13.8 percent. Excluding expenditure on the new office building, the percentage rate is about 13 percent.

The investments in operations relate in roughly equal portions to frontend-related capacity expansion measures, improvements to existing frontend manufacturing facilities and backend-related investments, and will contribute to the expansion of Infineon's 200-millimeter as well as its 300-millimeter manufacturing capacities. Continuous investments in automation, quality, innovation and infrastructure will also ensure that frontend manufacturing facilities keep pace with changing technological requirements. Around one third of capital expenditure in the 2017 fiscal year will be used to improve and expand backend manufacturing facilities.

Depreciation and amortization are expected to be in the region of €830 million.

Free cash flow from continuing operations

Free cash flow in the 2017 fiscal year is forecast to reach an amount of between €400 million and €500 million.



Gross cash position and net cash position

The gross cash position is expected to finish the 2017 fiscal year at a level of between €1.7 billion and €2.4 billion. Hence, Infineon expects to meet its capital structure targets again in the 2017 fiscal year. See “Capital structure targets demonstrate our reliability” in the chapter “Group strategy” for information on capital structure targets.

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RoCE

Capital employed is forecast to rise in the 2017 fiscal year, with net income remaining more or less stable. The Return on Capital Employed (RoCE) is therefore expected to decrease slightly compared to its previous year’s level of 15.0 percent. This decrease is due to the fact that the expected improvement in Segment Result is offset by higher tax expenses, as well as an increase in capital employed that is the result of the consolidation of MoTo (see the chapter “Significant events after the end of the reporting period”).

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Overall statement on the expected development of the Infineon Group

Based on forecasts for the global economy and the semiconductor market in the 2017 calendar year, Infineon predicts year-on-year revenue growth of 6 percent, plus or minus 2 percentage points. The gross margin is expected to improve slightly. At the mid-point of the planned range for revenue growth, the Segment Result Margin is expected to come in at about 16 percent. Investments will be about €950 million. Depreciation and amortization are expected to be about €830 million. Free cash flow from continuing operations is expected to reach an amount of between €400 million and €500 million. The Return on Capital Employed (RoCE) is expected to decrease slightly compared to its previous year’s level of 15.0 percent.

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

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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 and compliance-related targets. We therefore define risk/opportunity as the occurrence of future uncertainties that could result in a negative or positive variance from forecast. We incorporate all relevant organizational units within the Group in this analysis, thus covering all segments, significant centralized functions and regions.

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

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

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

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

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

Risk assessment matrix

Degree of Impact

5						Degree of Impact on Segment Result	Likelihood of Occurrence
4						1 <€20 million Marginal	1 <10% Unlikely
3						2 >€20 million Minor	2 <40% Possible
2						3 >€60 million Moderate	3 <60% Likely
1						4 >€100 million Significant	4 <90% Probable
						5 >€250 million Major	5 >90% Certain
	1	2	3	4	5	Likelihood of Occurrence	

Low Risk Medium Risk High Risk



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

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

Risk and Opportunity Managers are designated at appropriate hierarchical levels to manage and monitor identified risks and opportunities, and are responsible for formally determining a set of appropriate strategies (avoidance, mitigation, transfer to other parties, acceptance). Working closely with corporate functions and individual managers, the Risk and Opportunity Manager is also responsible for defining and monitoring measures aimed at implementing the adopted management strategy. For our system to be successful, it is essential that risks and opportunities are managed and monitored 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 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 Internal Control System is an integral part of the accounting process in all relevant legal entities and corporate functions. The system monitors compliance with stated principles and stipulated procedures based on preventive and detective controls. Among other things, we regularly check that:

- › Group-wide financial reporting, measurement and accounting guidelines are continually updated and adhered to;
- › Intragroup transactions are fully accounted for and properly eliminated;
- › Issues relevant for financial reporting and disclosures in connection with agreements entered into are recognized and appropriately presented;



- › Processes and controls are in place to explicitly guarantee the completeness and correctness of the year-end financial statements and financial reporting;
- › Processes are in place for the segregation of duties and for the dual control principle in the context of preparing financial statements, as well as for authorization and access rules for relevant IT accounting systems.

Assessment of effectiveness

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

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

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

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

International Rectifier's ICS was integrated in the Infineon Group's ICS during the 2016 fiscal year in conjunction with the merger of legal entities and processes.

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 in countries in which we manufacture and/or sell our products.



In this context, we are particularly monitoring the European debt crisis. As a consequence of high levels of public sector debt, measures are increasingly being taken to consolidate budgetary shortfalls and cut investment expenditure. Uncertainty among consumers and companies is growing and unemployment remains high in many EU countries. A number of geopolitical risks, such as the crisis in Ukraine as well as unrest and civil wars in the Middle East, represent additional risk factors.

We have once again achieved above-average revenue growth in China, as a result of which the share of Group revenue generated in this region rose again slightly from 23 percent in the 2015 fiscal year to 24 percent in the 2016 fiscal year. Our dependence on the Chinese market therefore remains and constitutes a slightly higher risk than one year earlier. This risk includes the possibility of lower demand for exports to China and hence a decline in manufacturing capacity utilization levels. There is also a risk that an increased volume of previously imported semiconductors will be manufactured in China going forward. Regardless of our assessment of potential scenarios and outcomes within this complex set of risks, these developments could have an adverse impact on Infineon's operations, financial condition, liquidity, cash flows and earnings.

Cyclical market and sector development (RC: high)

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

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

The rapid pace of technological change in the market also results in a greater replaceability of our products. Due to the resulting aggressive pricing policies, we may be unable to achieve our long-term strategic goals of gaining and/or maintaining market share and of product pricing. Moreover, accelerating M&A (merger and acquisition) activity within the semiconductor industry could result in even tougher competition. Potential benefits for competitors in this market include improved cost structures and stronger sales channels. 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 is of crucial importance. At the same time, the world has seen a general rise in the level of threats to data security. This applies increasingly to both the application of IT systems to support business processes and to internal and external communications. Despite the array of precautionary measures put in place, any major disruption to these systems could result in risks relating to the confidentiality, availability and reliability of data and systems used in development, manufacturing, selling or administration functions, which, in turn, could have an adverse impact on our reputation, competitiveness and operations.

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



Increasingly dynamic markets (RC: high)

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

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 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 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 raw materials (such as gold and copper) used in manufacturing and 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 2017 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, 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, coupled with the required transfer of technology. One good example is in the Automotive segment, where customers' product approval and testing processes can take place over an extended period of time, thus influencing our global manufacturing strategy as well as short- and medium-term capacity utilization. Failure to anticipate these changes in the manufacturing process in good time could result in capacity shortages and hence lower revenue on the one hand as well as costs incurred due to under-utilization on the other.

Dependence on individual manufacturing sites (RC: medium)

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

Dependence on individual suppliers (RC: medium)

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

Need for qualified staff (RC: medium)

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

Financial risks

Currency risks (RC: medium)

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



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

Risk of default by banking partners (RC: medium)

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

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Further information regarding the management of financial risks is provided in note 22 to the Consolidated Financial Statements.

Legal and compliance risks

Qimonda insolvency (RC: medium)

Due to the insolvency proceedings relating to Qimonda and claims brought against Infineon, we are exposed – even after the partial settlement reached on September 11, 2014 – to a substantial amount of potential liabilities, which are described in detail in note 23 to the Consolidated Financial Statements.

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Provisions are recognized in connection with these matters as of September 30, 2016. 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 such provisions recorded will be sufficient to cover all liabilities that may ultimately be incurred in relation to these matters.

Intellectual property rights and patents (RC: medium)

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

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

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

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Further information is provided in note 23 to the Consolidated Financial Statements.

Impact of our global operations (RC: medium)

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



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

Acquisitions and cooperation arrangements (RC: medium)

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

In the case of smaller acquisitions or portfolio decisions, there is always a risk of non-compliance with antitrust 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 standard. All relevant risk areas are continuously monitored and optimized in conjunction with regular internal and external audits.

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

We have established a Group-wide compliance management system with the aim of managing compliance-related risks on a systematic, comprehensive and sustainable basis. Under this system, major preventive procedures are continuously developed, other elements of the system revamped or strengthened, and appropriate responses established for possible or actual incidences of non-compliance with internal or external regulations. The Compliance Officer reports on a quarterly basis to the 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 could reach its physical limits in some areas of application.



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

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

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

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

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

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

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

Our in-house manufacturing capacities, together with those of our external partners, provide us with sufficient flexibility to meet requirements. Growing demand for power semiconductors has been met in particular by the expansion of our 300-millimeter manufacturing facilities in Dresden (Germany) and the opening of a second manufacturing facility at Kulim 2 (Malaysia). In response to rising demand for 77 GHz radar sensor ICs, the decision has been taken to expand capacities at our plant in Regensburg (Germany).

The availability of additional capacities, combined with the proactive 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.

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 utmost importance to the Group and relate to the following markets that we serve:

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

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



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

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

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

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

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

Growth from mobile applications (OC: medium)

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

Security applications (OC: medium)

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

Liquidity position (OC: medium)

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

International Rectifier acquisition (OC: medium in the Annual Report 2015)

The opportunities arising from the acquisition of International Rectifier, described in the 2015 Annual Report, were integrated during the 2016 fiscal year in the medium-term forecasts of the segments and are therefore no longer explicitly presented here.

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Treasury and capital requirements

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. Infineon has defined key capital management targets based on these general principles. These resulting capital structure targets were adjusted at the beginning of 2016, to reflect the strong revenue growth and the positive development of Infineon's profitability in recent years.

Accordingly, Infineon plans to maintain a liquidity level (gross cash position) of at least €1 billion and additionally 10 to 20 percent of revenue. The previous target range for the gross cash position was between 30 and 40 percent of revenue. The upper limit for gross debt remains unchanged and should not exceed two times EBITDA (earnings from continuing operations before interest and taxes plus scheduled depreciation and amortization).

The balance of these two figures is no longer subject to a separate target (previously: positive net cash position).

Infineon is not subject to any statutory or legal capital requirements, nor are any defined in the Articles of Association.

Treasury principles and responsibilities

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 principles are authorized by the Chief Financial Officer (CFO) and reviewed and updated regularly. They are set out in a corresponding "Treasury Policy" which is applicable Group-wide.

Corporate treasury function

Treasury at Infineon is firmly 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.

Cash pooling structures are in place for corporate liquidity management purposes. To the extent permitted by law and economically feasible, subsidiaries transfer all surplus cash to corporate bank accounts in order to ensure the best possible allocation of liquidity within the Group and cover the financing requirements of other Group companies. In this way we are able to minimize external financing requirements and maintain an optimal capital structure with a correspondingly positive impact on financing costs. Settling intragroup transactions via internal bank accounts set up in accordance with our in-house banking approach, we are also able to reduce the volume of external banking transactions and hence bank fees.

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. Foreign currency cash flows which are not offset within the Group are hedged externally (see note 22 to the Consolidated Financial Statements for further information).

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Furthermore, to the extent permitted by law, all financing activities and credit lines worldwide are arranged, structured and managed either directly or indirectly by the central Finance & Treasury department in accordance with stipulated treasury principles. Debt is normally unsecured and based on customary market terms and conditions.

A crucial factor for the reliable implementation of treasury responsibilities is the use of capable and financially sound financial institutions. Infineon maintains business relationships with various international and local commercial and investment banks and avoids becoming dependent on individual banks. Partner banks must demonstrate a high level of creditworthiness. Infineon has spread its excess liquidity investments across more than ten banks. At September 30, 2016 no financial institution was responsible for more than 13 percent of Infineon's liquidity investments.

Capital requirements for the 2017 fiscal year

Financing our operations

Based on our forecast for the 2017 fiscal year, we anticipate being able to finance operating activities out of cash flows provided by operating activities. Further information regarding fixed contractual obligations as of September 30, 2016 (such as leasing arrangements, fixed service and supply agreements for commodities, input materials, electricity, gas and other similar items) is provided in note 24 to the Consolidated Financial Statements.

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Investments

Semiconductor manufacturing is very capital-intensive. Infineon's target ratio for future fiscal years for expected investments as a percentage of revenue over the economic cycle (for definition see the chapter "Internal Management System") is approximately 13 percent. Depending on the business situation, Infineon is currently planning investments for the 2017 fiscal year of approximately €950 million (for details see the chapter "Outlook"). Firm investment commitments as of September 30, 2016 totaled €275 million.

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Debt repayment

As of September 30, 2016, Infineon's debt totaled €1,769 million, of which an amount of €17 million falls due for repayment in the 2017 fiscal year.

Proposed dividend

A dividend of €0.22 per share will be proposed to Infineon's shareholders for the 2016 fiscal year. Subject to shareholder approval, this will result in a distribution of approximately €248 million (for the previous fiscal year: €225 million). For further information see note 15 to the Consolidated Financial Statements.

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Acquisition of Wolfspeed

On July 14, 2016, the Company and Cree Inc. ("Cree"), USA, signed an agreement for the acquisition of Cree's Wolfspeed business. Infineon intends to buy Wolfspeed (including the related wafer substrate business) for a purchase price of US\$850 million. The acquisition is subject to regulatory approvals in the relevant jurisdictions and customary closing conditions. The transaction will be financed by Infineon using cash on hand and three committed bank credit facilities with terms of up to five years (see note 14 to the Consolidated Financial Statements).

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Acquisition of a majority shareholding in MoTo Objekt Campeon GmbH & Co. KG

On November 17, 2016 Infineon entered into an agreement with Geneva RE 3 B.V. (Geneba) relating to the purchase of the latter's 93 percent shareholding in MoTo Objekt Campeon GmbH & Co. KG (MoTo) for an amount of €113 million (see the chapter "Significant events after the end of the reporting period"). The transaction will be financed by Infineon using cash on hand.

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Coverage of capital requirements

Our gross cash position as of September 30, 2016 amounted to €2,240 million. We also have access to various stand-alone short- and long-term credit facilities from various financial institutions totaling €720 million. Free cash flow from continuing operations (for definition: see the chapter "Internal Management System") will be between €400 and €500 million in the 2017 fiscal year, since cash provided by operating activities is expected to exceed planned investments.

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Taking into account the financial resources available to Infineon – including internal liquidity on hand, net cash that can be generated and available credit facilities – we assume that we will be able to cover our planned capital requirements for the 2017 fiscal year. This also includes guarantees issued mainly for the rental of buildings (see note 24 to the Consolidated Financial Statements).

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Derivative financial instruments

We employ the following derivative financial instruments for hedging purposes: forward foreign currency contracts to reduce exchange rate exposures and commodity swaps to reduce price risks for expected purchases of gold. We have concluded two Euro/US Dollar Deal Contingent Forward contracts to hedge part of the exchange rate risks relating to the purchase price obligation for the planned acquisition of Wolfspeed. We do not use derivative financial instruments for trading or speculative purposes. Further information regarding derivative financial instruments and the management of financial risks is provided in notes 21 and 22 to the Consolidated Financial Statements.

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Rating

Infineon was assigned a long-term credit rating from the international rating agency S&P for the first time in February 2016. The solid investment grade rating "BBB" (outlook "stable") reflects among other things Infineon's adjusted capital structure targets. S&P has confirmed Infineon's rating following the announcement of the planned acquisition of Wolfspeed.



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

Infineon performed well in the 2016 fiscal year, despite a difficult economic environment. We achieved our growth targets – revenue grew by 12 percent to €6,473 million and Segment Result improved by 9 percent to €982 million, the latter corresponding to a margin of 15.2 percent. Despite higher investments, free cash flow from continuing operations improved to €490 million. In the previous fiscal year, adjusted for the three exceptional items (the acquisition of International Rectifier, the Qimonda partial settlement relating to patents, and the EU fine), free cash flow amounted to €393 million. Our performance in recent years has also been a convincing one for the international rating agency, S&P Global Ratings (S&P; formerly Standard & Poor's Ratings Services), which assigned a first-time long-term credit rating to Infineon in February 2016. S&P rates Infineon's creditworthiness with a "BBB" (outlook "stable") investment grade rating. 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 February 16, 2017, the Management Board and the Supervisory Board will propose to raise the dividend by 2 cents (10 percent) to €0.22 per share.

The 2016 fiscal year has shown that Infineon enjoys sound health and is pursuing the right strategy. In recent years, we have created a solid foundation for our business and focused our attention on applications, technologies and products, which are in greater demand than ever due to global megatrends. Over a period of many years we have built up, systematically expanded and successfully deployed to the benefit of our customers the competencies needed. Based on our strategic "Product to System" approach, we focus our efforts along the entire value-added chain on the success of our customers. This approach is complemented by other elements, namely an all-embracing culture of innovation, continuous striving for technological leadership, and extreme quality awareness. In-house production makes a genuine difference and facilitates a customized approach to the various markets, ensuring our continued success, both now and in the future.

The planned acquisition of Wolfspeed will enable us to further broaden our range of expertise. The move will make us the leading market player in silicon carbide-based power semiconductors, while at the same time paving the way to become market leader in RF power components. We are integrating tomorrow's technologies in our portfolio today, enabling us to address future growth markets such as electro-mobility, renewables, and next-generation cellular infrastructure relevant for the Internet of Things. The acquisition of Wolfspeed will enable us to bring these innovative technologies to market more quickly and make a meaningful contribution to serving the needs of a modern-day society by providing state-of-the-art semiconductor solutions for energy efficiency, connectivity and mobility. We expect the acquisition to have an immediate positive impact on Infineon's adjusted earnings per share.

It is also our intention to continue growing faster than the market in the future. Applying the same focused approach that served us well to date, we remain committed to our target of a compound annual revenue growth rate of 8 percent over the cycle and intend to generate a Segment Result Margin of 17 percent (previously 15 percent) across the cycle going forward. Our intention is to achieve this growth with an average ratio of investments to revenue of 13 percent over the economic cycle.



For the 2017 fiscal year, we expect year-on-year revenue growth – not yet taking into account the planned acquisition of Wolfspeed – of 6 percent, plus or minus 2 percentage points, based on an assumed US dollar/euro exchange rate of US\$1.10. For the mid-point of the range for forecast revenue, we expect to achieve a Segment Result Margin of approximately 16 percent for the 2017 fiscal year. Planned investments for the 2017 fiscal year are in the region of €950 million.

Infineon Technologies AG

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

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

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

Earnings position

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

€ in millions	2016	2015
Revenue	5,357	5,243
Cost of goods sold	(3,781)	(3,698)
Gross profit	1,576	1,545
Research and development expenses	(742)	(724)
Selling expenses	(181)	(153)
General and administrative expenses	(303)	(400)
Other income (expense), net	37	48
Result from investments, net	37	361
Interest result	-	(52)
Other financial result	21	(7)
Income before taxes	445	618
Income tax	(38)	(47)
Net income	407	571
Transfers to retained earnings according to section 58 paragraph 2 AktG	(158)	(137)
Transfers to retained earnings according to section 58 paragraph 2a AktG	-	(208)
Unappropriated profit at the end of year	249	226

Infineon Technologies AG posted a slight increase in revenue and gross profit (2 percent) in the 2016 fiscal year. The sharp year-on-year drop in the result from investments was mainly due to income recorded in the previous fiscal year in conjunction with the reversal of an impairment charge on the investment in Infineon Technologies Holding B.V., which took the carrying amount of the investment to the maximum level permitted under German Commercial Code. Infineon Technologies AG reports a net income of €407 million for the 2016 fiscal year. After transferring a total of €158 million to retained earnings, the unappropriated profit amounted to €249 million.



Net assets and financial position

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

€ in millions	2016	2015
Intangible assets, property, plant and equipment	637	530
Financial assets	6,185	5,245
Non-current assets	6,822	5,775
Inventories	613	517
Receivables and other assets	832	1,481
Cash and cash equivalents, marketable securities	1,954	1,672
Current assets	3,399	3,670
Prepaid expenses	40	39
Active difference resulting from offsetting	4	3
Total assets	10,265	9,487
Share capital	2,253	2,247
Capital reserves	1,207	1,179
Retained earnings	2,897	2,737
Distributable profit	249	226
Shareholders' equity	6,606	6,389
Special reserve with an equity portion	1	1
Provisions for pensions and similar obligations	93	142
Other provisions	316	362
Provisions	409	504
Bonds	804	804
Liabilities to banks	-	795
Trade payables	284	253
Liabilities to affiliated companies	1,301	678
Other liabilities	848	48
Liabilities	3,237	2,578
Deferred income	12	15
Total liabilities and shareholders' equity	10,265	9,487

Infineon Technologies AG's financial position compared to one year earlier was influenced by a number of factors. Within assets, increases were recorded for investments (€940 million) as well as for cash and cash equivalents and marketable securities (€282 million), reflecting changes to the investment structure within the Infineon Group. At the same time, receivables from affiliated companies decreased. The increase in equity (€217 million) was mainly attributable to net income of €407 million recorded in the 2016 fiscal year. Payment of the dividend for the 2015 fiscal year (€225 million) reduced equity accordingly.

Provisions for pensions and similar obligations decreased by €49 million as a result of a new statutory rule, applied for the first time, requiring liabilities to be discounted using the average market interest rate for the past ten fiscal years. Other provisions decreased overall by €46 million. Liabilities increased by €659 million over the twelve-month period, mainly owing to a €623 million increase in liabilities to affiliated companies. The bank loan of €792 million (US\$934 million) taken out in conjunction with the acquisition of International Rectifier was fully repaid out of proceeds from a US Private Placement (USPP) of notes, thus resulting in a decrease in liabilities to banks and an increase in other liabilities.

The equity ratio at the end of the reporting period was 64.4 percent, compared to 67.3 percent one year earlier.



Dividend

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

Infineon Technologies AG reports unappropriated profit of €249 million in its financial statements for the fiscal year ended September 30, 2016. Based on earnings generated and Infineon's positive business outlook, a proposal will be made to the Annual General Meeting to pay a dividend of €0.22 per share for the 2016 fiscal year, an increase of €0.02 compared to the previous fiscal year. The disbursement of the proposed dividend is subject to approval by shareholders.

For the 2015 fiscal year, the Company paid a dividend of €0.20 per share (€225 million in total).

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

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Expected developments, together with associated material risks and opportunities

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

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Most transactions within the Infineon Group involving derivative financial instruments are handled by Infineon Technologies AG. The comments provided in the chapter "Treasury and capital requirements" regarding the nature and scope of transactions with derivative financial instruments and hedged risks apply to Infineon Technologies AG. Reference is also made to the notes to the Separate Financial Statements of Infineon Technologies AG.

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Corporate Governance

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

Structure of the subscribed capital

The share capital of Infineon Technologies AG stood at €2,265,346,218 as of September 30, 2016. This sum is divided into 1,132,673,109 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 (September 30, 2015: 6 million). Own shares held by the Company on the date of the Annual General Meeting do not carry a vote and are not entitled to participate in profit.

Restrictions on voting rights or the transfer of shares

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

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

Shareholdings exceeding 10 percent of the voting rights

Section 21, paragraph 1, WpHG requires each shareholder whose voting rights reach, exceed or, after exceeding, fall below 3, 5, 10, 15, 20, 25, 30, 50 or 75 percent of the voting rights of a listed corporation to notify such corporation and the German Federal Financial Supervisory Authority (Bundesanstalt für Finanzdienstleistungsaufsicht – “BaFin”) immediately. As of September 30, 2016, 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 September 30, 2016 are presented in the Notes to the Financial Statements of Infineon Technologies AG under the information pursuant to section 160, paragraph 1, No. 8 AktG.

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.

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

Section 5, paragraph 1, of the Articles of Association stipulates that the Management Board of Infineon Technologies AG shall consist of at least two members. Effective July 1, 2016, the Management Board was expanded from three to four members. The Supervisory Board decides on the exact number of members of the Management Board and on their appointment and dismissal in accordance with section 5, paragraph 1, of the Articles of Association and section 84, paragraph 1, AktG. As Infineon Technologies AG falls within the scope of the German Co-Determination Act (Mitbestimmungsgesetz – "MitbestG"), the appointment or dismissal of members of the Management Board requires a two-thirds majority of the votes of the members of the Supervisory Board (section 31, paragraph 2, MitbestG). If such majority is not achieved at the first ballot, the appointment may be approved on a recommendation of the Mediation Committee at a second ballot by a simple majority of the votes of the members of the Supervisory Board (section 31, paragraph 3, MitbestG). If the required majority is still not achieved, a third ballot is held in which the Chairman of the Supervisory Board has two votes (section 31, paragraph 4, MitbestG). If the Management Board does not have the required number of members, in urgent cases, the local court (Amtsgericht of Munich) makes the necessary appointment upon petition of a party concerned pursuant to section 85, paragraph 1, AktG.

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

Rules governing the amendment of the Articles of Association

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

Powers of the Management Board to issue shares

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

Authorization to issue bonds with warrants and/or convertible bonds

The Annual General Meeting held on February 13, 2014 authorized the Management Board, in the period through February 12, 2019, either once or in partial amounts, to issue bonds with warrants and/or convertible bonds (referred to collectively as "bonds") in an aggregate



nominal amount of up to €2,000,000,000, to guarantee such bonds issued by subordinated Group companies of the Company and to grant holders of bond options or conversion rights to up to 130,000,000 no-par-value registered Company shares, representing a notional portion of the share capital of up to €260,000,000, in accordance with the relevant terms of the bonds. The Management Board is authorized, with the approval of the Supervisory Board, to exclude the subscription rights of the shareholders to the bonds,

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

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

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

Purchase of own shares

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

Infineon shares acquired or being acquired on the basis of this or an earlier authorization may – if not sold either via the stock exchange or by means of a public offer to purchase addressed to all shareholders – be used for all legally admissible purposes. The shares may also be 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 bonds with warrants and convertible bonds and stock option plans, offered for sale or granted as a remuneration component to members of representative bodies and employees within the Group, and/or used to repay securities-backed loans. The subscription right of shareholders is excluded in all of the above cases (except when the shares are 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 February 28, 2013, the acquisition of Infineon Technologies AG shares may also be effected using equity derivatives. The total number of shares that can be acquired using derivatives may not exceed 5 percent of the Company's share capital, determined either at the time of this authorization becoming effective or at the time of its exercise through the use of the derivatives. The shares acquired through the exercise of this authorization are to be counted toward the acquisition threshold for the shares acquired in accordance with the authorization to acquire own shares as described above. The authorization stipulates other restrictions when derivatives are deployed, including their execution, term, servicing and acquisition price.

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

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

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

Significant agreements in the event of a change of control

Various financing contracts with lending banks and capital market creditors (see note 14 to the Consolidated Financial Statements) contain defined change-of-control clauses which give creditors the right to call for early repayment. These clauses reflect standard market practice.

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

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

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 security if a change-of-control situation occurs, and to preserve their independence in the event of a takeover bid.

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Comparable arrangements for employees are only in place in a small number of individual cases. Notwithstanding this, the terms of the Performance Share Plan, in which members of the Management Board and Infineon managers and selected Infineon employees worldwide participate, contains a rule that takes effect in the event of a defined change-in-control event, namely, when a party holds at least 30 percent of the voting rights in Infineon Technologies AG. The principal stipulation of the rule is that the four-year vesting period provided by the plan ends prematurely in the event of a change of control. This Performance Share Plan rule does not apply to members of the Management Board.

Corporate Governance Report

@ [www.infineon.com/
corporate-governance-report](http://www.infineon.com/corporate-governance-report)

The Corporate Governance Report is publicly available at www.infineon.com/corporate-governance-report.

Declaration on Corporate Governance

@ [www.infineon.com/declaration-on-
corporate-governance](http://www.infineon.com/declaration-on-corporate-governance)

The Corporate Governance Report in accordance with section 289a HGB is publicly available at www.infineon.com/declaration-on-corporate-governance.

Compensation report

This Compensation report, which forms part of the 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 May 5, 2015 (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 from the Executive Committee. In accordance with applicable legal requirements and the recommendations of the DCGK, the compensation paid to the members of the Management Board is intended to reflect the typical level and structure of management board compensation at comparable companies in Germany and elsewhere, as well as Infineon’s economic position and future prospects. The duties, responsibilities and performance of each member of the Management Board are also to be considered, as is Infineon’s wider pay structure. This includes considering Management Board compensation in relation to the compensation of senior management and of the workforce as a whole, including changes in the level of compensation over time. The stated objective is that the compensation structure should be designed in such a way that it promotes sustainable business development, with a cap in place in the event of exceptional developments. Infineon aims to set compensation at a level that is competitive both nationally and internationally, so as to inspire and reward dedication and success in a dynamic environment.

The periodic review of the Management Board compensation system was performed by an external independent compensation expert during the 2016 fiscal year. Regardless of the existence of some scope for maneuverability, the expert concluded that the Company’s compensation system complies with the requirements of the German Stock Corporation Act (Aktiengesetz) and the DCGK and is in line with current market conditions (for details of the review, see “Review of the Management Board compensation system and individual contracts” in this chapter).



Components of the Management Board compensation system

There have been no changes in the Management Board compensation system in the 2016 fiscal year compared to the 2015 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 contractual basic annual salary that has no link to performance and is paid in twelve equal monthly installments.
- › Variable (performance-related) compensation: The variable compensation comprises three components: an annual bonus (short-term incentive), a multiple-year bonus (mid-term incentive) and a long-term variable compensation component (long-term incentive).

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

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

An STI is paid only if, on the basis of the approved financial statements, the levels of target achievement reach at least the 50 percent threshold for both performance indicators (free cash flow, RoCE). If one of the two target thresholds is not achieved, no annual bonus is paid for the relevant fiscal year. If the thresholds are achieved, the arithmetic mean of the two target achievements is calculated and used as the percentage rate to determine the actual STI amount. A cap of 250 percent applies, meaning that the maximum amount that can be paid is two-and-a-half times the target STI (= 100 percent), regardless of the actual 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 calculated on a pro-rata monthly basis (one twelfth for each month started). Members of the Management Board are not entitled to receive an STI bonus for the fiscal year in which they resign from office or terminate their contracts of their own volition or if their contract is terminated by the Company for good cause.

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

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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 target 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 the level of target achievement for the purposes of the MTI is set to 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 the 50 percent threshold. 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 level of achievement of the three-year target for revenue growth and Segment Result that is set each year by the Supervisory Board exclusively for this purpose. 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 determined on a pro-rata basis (1/36 for each month of a full MTI tranche started). Upon leaving Infineon, regulations ensure that the member of the Management Board can only receive an MTI payment for the actual number of MTI tranches during his/her term of office. 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 or terminates the contractual arrangements of his/her own volition or if the contract is terminated by the Company for good cause.

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

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

The (virtual) performance shares are allocated – initially on a provisional basis – on October 1 of each fiscal year for the fiscal year beginning on that date. The performance shares are allocated on the basis of the contractually agreed “LTI allocation amount” in euros. 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 relevant member of the Management Board invests 25 percent of his or her individual LTI allocation amount in Infineon shares (with the own-investment already required to be undertaken in conjunction with the provisional allocation) and (ii) that the holding period of four years applicable both for the member's own-investment and for the performance shares has come to an end. Moreover, 50 percent of the performance shares are performance-related; they are only allocated definitively if (iii) the Infineon share outperforms



the Philadelphia Semiconductor Index (SOX) between the date of the performance shares' provisional allocation and the end of the holding period. If the conditions for the definitive allocation of performance shares – either of all or of only those that are not performance-related – are met at the end of the holding period, the member of the Management Board acquires a claim against the Company for the transfer of the corresponding number of (real) Infineon shares. Performance shares which do not achieve the target are forfeited. The value of the performance shares definitively granted to the member of the Management Board per LTI tranche at the end of the holding period may not exceed 250 percent of the relevant LTI allocation amount; the performance shares above this amount are forfeited (cap).

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

The Supervisory Board has the right, at the end of the holding period, to make a value-equivalent cash settlement to the member of the Management Board rather than actually transfer Infineon shares.

If the member of the Management Board leaves office during the first two years of the full four-year holding period applicable to the performance shares of a particular LTI tranche, those performance shares are forfeited unless the reason for leaving office is that the member of the Management Board has reached the age limit specified in his/her service contract. Only the holding period for the own-investment shares expires when the member of the Management Board leaves office; at that stage the member of the Management Board concerned can freely dispose of the shares. If the member of the Management Board leaves office at a later date – except the member resigns from office or terminates the contractual arrangements of his/her own volition, or if the contract is terminated by the Company for good cause – the LTI tranche (including the own-investment) remains in place unchanged. The member of the Management Board is then treated in all respects as if he/she were still in office; there is no pro rata reduction in the LTI tranche due to leaving office early.

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

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

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



Management Board compensation in the 2016 fiscal year in accordance with German Accounting Standard 17 (DRS 17)

Total compensation

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

in €	Dr. Reinhard Ploss Chief Executive Officer		Dominik Asam Chief Financial Officer		Dr. Helmut Gassel ³ Member of the Management Board	
	2016	2015	2016	2015	2016	2015
Fixed compensation						
Basic annual salary	1,075,000	1,075,000	750,000	750,000	171,250	-
Fringe benefits	35,724	35,909	41,185	41,368	8,714	-
Total fixed compensation	1,110,724	1,110,909	791,185	791,368	179,964	-
Variable compensation						
Single-year variable compensation (STI)	474,720	831,840	336,260	589,220	76,153	-
Multi-year variable compensation						
Mid Term Incentive (MTI) ¹						
2013 – 2015 tranche	-	242,620	-	177,921	-	-
2014 – 2016 tranche	288,460	242,620	201,537	177,921	-	-
2015 – 2017 tranche	158,240	277,280	112,087	196,407	-	-
2016 – 2018 tranche	158,240	-	112,087	-	25,384	-
Long Term Incentive (LTI)						
Performance Share Plan ²	244,367	228,277	164,024	153,225	-	-
Total variable compensation	1,324,027	1,822,637	925,995	1,294,694	101,537	-
Total compensation	2,434,751	2,933,546	1,717,180	2,086,062	281,501	-

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

2 The figures for the active members of the Management Board in the 2016 fiscal year are based on a fair market value per performance share amounting to €7.07 (2015: €5.31), which was calculated using a Monte-Carlo simulation model taking account of the value-reducing cap.

3 With effect from July 1, 2016 Dr. Helmut Gassel was appointed Member of the Management Board and Chief Marketing Officer. He is responsible for Sales & Marketing, Regions, Strategy Development, Mergers & Acquisitions and Intellectual Property.

in €	Jochen Hanebeck ³ Member of the Management Board		Arunjai Mittal ⁴ Member of the Management Board		Total	
	2016	2015	2016	2015	2016	2015
Fixed compensation						
Basic annual salary	171,250	-	562,500	750,000	2,730,000	2,575,000
Fringe benefits	7,697	-	26,962	29,445	120,282	106,722
Total fixed compensation	178,947	-	589,462	779,445	2,850,282	2,681,722
Variable compensation						
Single-year variable compensation (STI)	76,153	-	336,260	589,220	1,299,546	2,010,280
Multi-year variable compensation						
Mid Term Incentive (MTI) ¹						
2013 – 2015 tranche	-	-	-	177,921	-	598,462
2014 – 2016 tranche	-	-	201,537	177,921	691,534	598,462
2015 – 2017 tranche	-	-	112,087	196,407	382,414	670,094
2016 – 2018 tranche	25,384	-	112,087	-	433,182	-
Long Term Incentive (LTI)						
Performance Share Plan ²	-	-	-	153,225	408,391	534,727
Total variable compensation	101,537	-	761,971	1,294,694	3,215,067	4,412,025
Total compensation	280,484	-	1,351,433	2,074,139	6,065,349	7,093,747

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 2016 fiscal year are based on a fair market value per performance share amounting to €7.07 (2015: €5.31), which was calculated using a Monte-Carlo simulation model taking account of the value-reducing cap.

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

4 With effect from June 30, 2016 Arunjai Mittal resigned from the Management Board, his service contract ended with effect from September 30, 2016. The variable compensation elements STI and MTI awarded to Arunjai Mittal in the 2016 fiscal year were earned entirely during his membership of the Management Board.



In accordance with a mutual agreement reached with the Supervisory Board, Mr. Mittal resigned as member of the Management Board effective June 30, 2016, with his service contract coming to an end effective September 30, 2016. In the period between the resignation date and definitively leaving office at the end of the 2016 fiscal year, Mr. Mittal continued to serve the Company on a similar scale to his previous workload, in order to facilitate the transfer of duties and allow his successor to familiarize himself with the job. For the period from July to September 2016, Mr. Mittal received the following compensation: fixed compensation of €187,500, fringe benefits amounting to €8,948. In line with contractual terms, multi-year variable compensation (MTI) also continues to be paid to Mr. Mittal for the currently relevant tranches (see table). Accordingly, the actual level of target achievement was assumed for the 2014 – 2016 tranche ending September 30, 2016, while for the 2015 – 2017 and 2016 – 2018 tranches, a provision of €393,320.13 was recognized, based on the forecasted average level of target achievement for the period 2016 to 2018 (119.7 percent). In addition, it was agreed in the contract termination agreement between Mr. Mittal and the Company that the Performance Shares (LTI) previously allocated to Mr. Mittal are not forfeited as a consequence of his resignation. On October 1, 2015, Mr. Mittal was allocated 23,200 Performance Shares with a fair value of €164,024 for the 2016 fiscal year. At the same time, Mr. Mittal has given a commitment – for the period of one year following the termination of his contract i.e. until September 30, 2017 – not to work for any of Infineon's major competitors. In accordance with the contract termination agreement concluded with Mr. Mittal, the Company is not required to pay any compensation for this post-contractual non-competition clause. Total multi-year variable compensation, paid at the termination of Mr. Mittal's activities on the Management Board, amounted to €557,344.13.

Members of the Management Board did not receive any loans from Infineon, either in the 2016 or 2015 fiscal years.

Similarly, they did not receive any benefits from third parties in the 2016 and 2015 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 privately. 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.

Share-based compensation

As described in the section "Management Board compensation", the contractually agreed LTI is granted to members of the Management Board in the form of "performance shares". The average price of the Infineon share relevant for the number of performance shares granted for the 2016 fiscal year was €10.56 (2015: €8.49).

A fair market value of €7.07 (2015: €5.31) per performance share granted in the 2016 fiscal year was determined, taking account – among other things – of the 250 percent cap set on the LTI allocation amount.

The following table shows the number of performance shares awarded to members of the Management Board in the 2016 fiscal year. In addition, the table contains information relating to the Stock Option Plan 2010, on the basis of which stock options were allocated to members of the Management Board for the final time in the 2013 fiscal year.

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	Performance Share Plan				
	Fiscal year	Virtual performance shares outstanding at the beginning of the fiscal year	Virtual performance shares newly granted at the beginning of the fiscal year		Virtual performance shares outstanding at the end of the fiscal year
		Number	Number	Fair value grant date in €	Number
Member of the Management Board					
Dr. Reinhard Ploss (Chief Executive Officer)	2016	90,572	34,564	244,367	125,136
	2015	47,582	42,990	228,277	90,572
Dominik Asam (Chief Financial Officer)	2016	62,088	23,200	164,024	85,288
	2015	33,232	28,856	153,225	62,088
Dr. Helmut Gassel ¹ (Member of the Management Board)	2016	-	-	-	-
	2015	-	-	-	-
Jochen Hanebeck ² (Member of the Management Board)	2016	-	-	-	-
	2015	-	-	-	-
Arunjai Mittal ³ (Member of the Management Board)	2016	62,088	-	-	62,088
	2015	33,232	28,856	153,225	62,088
Total	2016	214,748	57,764	408,391	272,512
	2015	114,046	100,702	534,727	214,748

1 With effect from July 1, 2016 Dr. Helmut Gassel was appointed Member of the Management Board and Chief Marketing Officer. He is responsible for Sales & Marketing, Regions, Strategy Development, Mergers & Acquisitions and Intellectual Property.

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

3 With effect from June 30, 2016 Arunjai Mittal resigned from the Management Board, his service contract ended with effect from September 30, 2016. The total cost of share-based compensation for Mr. Mittal relates to his period as member of the Management Board. We refer to the performance shares allocated to Mr. Mittal during the 2016 fiscal year in "Management Board compensation in the 2016 fiscal year in accordance with German Accounting Standard 17 (DRS 17)" in this chapter. The cost of these performance shares amount to €164,136.

	Stock Option Plan 2010						Total expense for share-based compensation in €
	Fiscal year	Stock options outstanding at the beginning of the fiscal year	Stock options outstanding at the end of the fiscal year	Stock options exercised in the fiscal year	Stock options forfeited in the fiscal year ¹	Exercisable stock options outstanding at the end of the fiscal year	
		Number	Number	Number	Number	Number	
Member of the Management Board							
Dr. Reinhard Ploss (Chief Executive Officer)	2016	433,214	307,500	95,800	29,914	120,000	323,243
	2015	433,214	433,214	-	-	120,000	314,286
Dominik Asam (Chief Financial Officer)	2016	350,952	130,952	167,740	52,260	-	213,678
	2015	350,952	350,952	-	-	-	217,610
Dr. Helmut Gassel ² (Member of the Management Board)	2016	-	-	-	-	-	-
	2015	-	-	-	-	-	-
Jochen Hanebeck ³ (Member of the Management Board)	2016	-	-	-	-	-	-
	2015	-	-	-	-	-	-
Arunjai Mittal ⁴ (Member of the Management Board)	2016	229,167	229,167	-	-	-	160,607
	2015	229,167	229,167	-	-	-	197,925
Total	2016	1,013,333	667,619	263,540	82,174	120,000	697,528
	2015	1,013,333	1,013,333	-	-	120,000	729,821

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

2 With effect from July 1, 2016 Dr. Helmut Gassel was appointed Member of the Management Board and Chief Marketing Officer. He is responsible for Sales & Marketing, Regions, Strategy Development, Mergers & Acquisitions and Intellectual Property.

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

4 With effect from June 30, 2016 Arunjai Mittal resigned from the Management Board, his service contract ended with effect from September 30, 2016. The total cost of share-based compensation for Mr. Mittal relates to his period as member of the Management Board. We refer to the performance shares allocated to Mr. Mittal during the 2016 fiscal year in "Management Board compensation in the 2016 fiscal year in accordance with German Accounting Standard 17 (DRS 17)" in this chapter. The cost of these performance shares amount to €164,136.



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Further details regarding the performance shares granted on October 1, 2016 for the 2017 fiscal year to the members of the Management Board are provided in note 17 to the Consolidated Financial Statements.

Special bonuses

The Supervisory Board did not award any special bonuses to members of the Management Board during the 2016 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 proceedings concerned constitute a breach of the duty of care owed in conjunction with section 93, paragraph 2, AktG.

Management Board compensation in the 2016 fiscal year in accordance with the German Corporate Governance Code

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

Compensation granted in accordance with DCGK

The following table shows the value of compensation granted for the 2015 and 2016 fiscal years, including fringe benefits, as well as the minimum and maximum values that can be achieved for the 2016 fiscal year.

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

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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			
	2016	2015	2016 (min.)	2016 (max.)	2016	2015	2016 (min.)	2016 (max.)
Fixed compensation								
Basic annual salary	1,075,000	1,075,000	1,075,000	1,075,000	750,000	750,000	750,000	750,000
Fringe benefits	35,724	35,909	35,724	35,724	41,185	41,368	41,185	41,185
Total fixed compensation	1,110,724	1,110,909	1,110,724	1,110,724	791,185	791,368	791,185	791,185
Variable compensation								
Single-year variable compensation (STI)	480,000	480,000	-	1,200,000	340,000	340,000	-	850,000
Multi-year variable compensation								
Mid Term Incentive (MTI)								
2015 – 2017 tranche	-	480,000	-	-	-	340,000	-	-
2016 – 2018 tranche	480,000	-	-	960,000	340,000	-	-	680,000
Long Term Incentive (LTI)								
Performance Share Plan ¹	244,367	228,277	122,183	912,500	164,024	153,225	82,012	612,500
Total variable compensation	1,204,367	1,188,277	122,183	3,072,500	844,024	833,225	82,012	2,142,500
Pension expense	-	219,796	-	-	271,061	272,721	271,061	271,061
Total compensation (DCGK)	2,315,091	2,518,982	1,232,907	4,183,224	1,906,270	1,897,314	1,144,258	3,204,746

1 The figures of the active members of the Management Board in the 2016 fiscal year are based on a fair market value per performance share amounting to €7.07 (2015: €5.31), which was calculated using a Monte-Carlo simulation.

2 With effect from July 1, 2016 Dr. Helmut Gassel was appointed Member of the Management Board and Chief Marketing Officer. He is responsible for Sales & Marketing, Regions, Strategy Development, Mergers & Acquisitions and Intellectual Property. Due to current actuarial assumptions past service costs for Dr. Gassel amounting to €1,981,124 have been recorded in the 2016 fiscal year in accordance with IAS 19.

3 With effect from July 1, 2016 Jochen Hanebeck was appointed to the Management Board with responsibility for Operations. Due to current actuarial assumptions past service costs for Mr. Hanebeck amounting to €2,326,793 have been recorded in the 2016 fiscal year in accordance with IAS 19.

4 With effect from June 30, 2016 Arunjai Mittal resigned from the Management Board, his employment ended with effect from September 30, 2016. With relation to his pension expense, in accordance with his contract of employment Mr. Mittal is treated as if he had remained a member of the Management Board until September 30, 2016.

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For information regarding the compensation paid to Mr. Mittal after termination of his Board activities (i.e. for the months July to September 2016), see “Management Board compensation in the 2016 fiscal year in accordance with German Accounting Standard 17 (DRS 17)” in this chapter.



Dr. Helmut Gassel ² Member of the Management Board				Jochen Hanebeck ³ Member of the Management Board				Arunjai Mittal ⁴ Member of the Management Board			
2016	2015	2016 (min.)	2016 (max.)	2016	2015	2016 (min.)	2016 (max.)	2016	2015	2016 (min.)	2016 (max.)
171,250	-	171,250	171,250	171,250	-	171,250	171,250	562,500	750,000	562,500	562,500
8,714	-	8,714	8,714	7,697	-	7,697	7,697	26,962	29,445	26,962	26,962
179,964	-	179,964	179,964	178,947	-	178,947	178,947	589,462	779,445	589,462	589,462
77,000	-	-	192,500	77,000	-	-	192,500	340,000	340,000	-	850,000
-	-	-	-	-	-	-	-	-	340,000	-	-
231,000	-	-	462,000	231,000	-	-	462,000	340,000	-	-	680,000
-	-	-	-	-	-	-	-	-	153,225	-	-
308,000	-	-	654,500	308,000	-	-	654,500	680,000	833,225	-	1,530,000
25,458	-	25,458	25,458	29,321	-	29,321	29,321	241,677	241,183	241,677	241,677
513,422	-	205,422	859,922	516,268	-	208,268	862,768	1,511,139	1,853,853	831,139	2,361,139

Allocation amount in accordance with DCGK

Since compensation granted to members of the Management Board for the 2016 fiscal year does not always coincide 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 2016 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 this sense, in addition to the fixed compensation and the STI granted for the 2016 fiscal year, the allocation amount for the 2014–2016 MTI tranche also flowed to the members of the Management Board in the 2016 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. 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 2016 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 ¹ Member of the Management Board		Jochen Hanebeck ² Member of the Management Board		Arunjai Mittal ³ Member of the Management Board	
	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015
Fixed compensation										
Basic annual salary	1,075,000	1,075,000	750,000	750,000	171,250	-	171,250	-	562,500	750,000
Fringe benefits	35,724	35,909	41,185	41,368	8,714	-	7,697	-	26,962	29,445
Total fixed compensation	1,110,724	1,110,909	791,185	791,368	179,964	-	178,947	-	589,462	779,445
Variable compensation										
Single-year variable compensation (STI)	474,720	831,840	336,260	589,220	76,153	-	76,153	-	336,260	589,220
Multi-year variable compensation										
Mid Term Incentive (MTI)										
Tranche 2013 – 2015	-	552,300	-	405,020	-	-	-	-	-	405,020
Tranche 2014 – 2016	706,080	-	507,792	-	-	-	-	-	507,792	-
Long Term Incentive (LTI)										
Stock Option Plan 2010	550,000	-	962,500	-	-	-	-	-	-	-
Performance Share Plan	-	-	-	-	-	-	-	-	-	-
Total variable compensation	1,730,800	1,384,140	1,806,552	994,240	76,153	-	76,153	-	844,052	994,240
Pension expense	-	219,796	271,061	272,721	25,458	-	29,321	-	241,677	241,183
Total compensation (DCGK)	2,841,524	2,714,845	2,868,798	2,058,329	281,575	-	284,421	-	1,675,191	2,014,868

- 1 With effect from July 1, 2016 Dr. Helmut Gassel was appointed Member of the Management Board and Chief Marketing Officer. He is responsible for Sales & Marketing, Regions, Strategy Development, Mergers & Acquisitions and Intellectual Property. Due to current actuarial assumptions past service costs for Dr. Gassel amounting to €1,981,124 have been recorded in the 2016 fiscal year in accordance with IAS 19.
- 2 With effect from July 1, 2016 Jochen Hanebeck was appointed to the Management Board with responsibility for Operations. Due to current actuarial assumptions past service costs for Mr. Hanebeck amounting to €2,326,793 have been recorded in the 2016 fiscal year in accordance with IAS 19.
- 3 With effect from June 30, 2016 Arunjai Mittal resigned from the Management Board, his service contract ended with effect from September 30, 2016. With relation to his pension expense, in accordance with his contract of employment Mr. Mittal is treated as if he had remained a member of the Management Board until September 30, 2016.

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For information regarding the compensation allocated to Mr. Mittal after termination of his Board activities (i.e. for the months July to September 2016), see “Management Board compensation in the 2016 fiscal year in accordance with German Accounting Standard 17 (DRS 17)” in this chapter.

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

Allowances and pension entitlements in the 2016 fiscal year

The members of the Management Board who were in their positions prior to the introduction of the new compensation system in 2010 are contractually entitled to a defined benefit pension payment; these entitlements were not affected by the new compensation system. In the 2016 fiscal year, this only relates to Dr. Ploss, who, under these arrangements, has an entitlement to an annual retirement benefit of €210,000. This entitlement is already vested, both contractually and under the applicable statutory provisions (for details of the review of pension entitlements of Dr. Ploss adopted by the Supervisory Board, see the end of this section).



In accordance with the compensation system in place since 2010, Mr. Asam, Dr. Gassel, Mr. Hanebeck and Mr. Mittal – all of whom took up office after the new system had been approved – have each received a defined contribution pension commitment (rather than a defined benefit pension commitment based on the number of years of service), 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.

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 (Pensionsversicherungsverein), the Company maintains pension reinsurance policies in favor of, and pledged to, the members of the Management Board concerned.

The plan rules applicable for Mr. Asam on the one hand and Dr. Gassel, Mr. Hanebeck and Mr. Mittal on the other differ in terms of the initial defined component, the annual transfer to the pension account, and the vesting period:

In addition to a one-time, contractually vested initial component of €540,000 paid as compensation for the loss of vested retirement pension entitlements in connection with the termination agreement with his previous employer, Mr. Asam will receive from the Company for each fiscal year of his membership on the Management Board a pension contribution amounting to between 25 and 40 percent, as determined by the Supervisory Board, of the relevant agreed basic annual salary, i.e. fixed compensation. As in the previous year, the pension contribution for Mr. Asam for the 2016 fiscal year has been set at 30 percent of his basic annual salary, which amounts to €225,000. The pension entitlements arising from the defined contributions made on behalf of Mr. Asam became vested with effect from December 31, 2013.

Dr. Gassel, Mr. Hanebeck and Mr. Mittal have statutorily vested pension entitlements dating from their previous periods of employment 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, Mr. Hanebeck and Mr. Mittal 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. Pension contributions for the 2016 fiscal year amounted to €225,000 for Mr. Mittal and €51,375 each for Dr. Gassel and Mr. Hanebeck (proportionate pension contribution for three months of Board activities).

The amounts credited to the pension entitlement accounts of Dr. Gassel, Mr. Hanebeck and Mr. Mittal – 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.



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In conjunction with its review of the Management Board compensation system and the compensation of individual members of the Management Board (for details of the review, see “Review of Management Board compensation and individual contracts”), the Supervisory Board passed a resolution to bring the existing pension plan for Dr. Ploss into line with changed circumstances. The previous fixed amount arrangement did not reflect current circumstances, in particular the fact that Dr. Ploss’ appointment as Chief Executive Officer runs until 2020. The Supervisory Board’s recognition of the need to take action was confirmed in the report drawn up by the external compensation expert. Under the new arrangements, Dr. Ploss receives a defined contribution pension commitment for the period from January 2016 onwards, similar to the arrangements already in place for the other members of the Management Board and essentially identical to the Infineon pension plan applicable to all employees. In the case of Dr. Ploss, the fixed contribution amount has been set at 30 percent of his agreed basic annual salary.

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. As Dr. Ploss’s pension entitlement is already fully vested, no service cost arises for the 2016 fiscal year. The service cost reported in the table for Dr. Gassel, Mr. Hanebeck and Mr. Mittal only relates to periods of current Board activities. The present value of pensions and benefit entitlements also depends on changes in the discount rates that are required to be applied (September 30, 2016: 1.0 percent; September 30, 2015: 2.4 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 (Chief Executive Officer)	2016	210,000	–	6,832,791	–
	2015	205,000	–	5,634,266	219,796
Dominik Asam (Chief Financial Officer)	2016	–	225,000	2,558,440	271,061
	2015	–	225,000	2,163,812	272,721
Dr. Helmut Gassel ¹ (Member of the Management Board)	2016	–	51,375	2,780,620	25,458
	2015	–	–	–	–
Jochen Hanebeck ² (Member of the Management Board)	2016	–	51,375	3,540,697	29,321
	2015	–	–	–	–
Arunjai Mittal ³ (Member of the Management Board)	2016	–	225,000	2,511,117	241,677
	2015	–	225,000	3,322,550	241,183
Total	2016	210,000	552,750	18,223,665	567,517
	2015	205,000	450,000	11,120,628	733,700

1 With effect from July 1, 2016 Dr. Helmut Gassel was appointed Member of the Management Board and Chief Marketing Officer. He is responsible for Sales & Marketing, Regions, Strategy Development, Mergers & Acquisitions and Intellectual Property. Due to current actuarial assumptions past service costs for Dr. Gassel amounting to €1,981,124 have been recorded in the 2016 fiscal year in accordance with IAS 19.

2 With effect from July 1, 2016 Jochen Hanebeck was appointed to the Management Board with responsibility for Operations. Due to current actuarial assumptions past service costs for Mr. Hanebeck amounting to €2,326,793 have been recorded in the 2016 fiscal year in accordance with IAS 19.

3 With effect from June 30, 2016 Arunjai Mittal resigned from the Management Board, his employment ended with effect from September 30, 2016. With relation to his pension provisions, in accordance with his contract of employment Mr. Mittal is treated as if he had remained a member of the Management Board until September 30, 2016.

Early termination of service contracts

The service contracts of members of the Management Board include a change of control clause, which stipulates the terms that apply when the activities of a member of the Management Board are terminated in the event of a significant change in Infineon’s ownership structure. A change of control for the purposes of this clause occurs when a third party, individually or together with another party, acquires at least 50 percent of the voting rights in Infineon Technologies AG as defined in section 30 of the German Securities Acquisition and Takeover Act (Wertpapiererwerbs- und Übernahmegesetz – “WpÜG”). Members of the Management Board have the right to resign and terminate their service contracts within 12 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 up 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 12 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 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.

Benefits to members of the Management Board who left office during the 2016 fiscal year

In accordance with a mutual agreement reached with the Supervisory Board, Mr. Mittal resigned as member of the Management Board effective June 30, 2016, with his service contract coming to an end effective September 30, 2016. In the period between the resignation date and definitively leaving office at the end of the 2016 fiscal year, Mr. Mittal continued to serve the Company on a similar scale to his previous workload, in order to facilitate the transfer of duties and allow his successor to familiarize himself with the job. Accordingly, Mr. Mittal continued to receive employment benefits in accordance with his service contract until September 30, 2016. In addition, Mr. Mittal was allowed to keep the performance shares allocated to him prior to October 1, 2015, despite his resignation from the Management Board. At the same time, Mr. Mittal has given a commitment – for the period of one year following the termination of his contract i.e. until September 30, 2017 – not to work for any of Infineon's major competitors. In accordance with the contract termination agreement concluded with Mr. Mittal, the Company is not required to pay any compensation for this post-contractual non-competition clause.

For information regarding the compensation paid to Mr. Mittal after termination of his Board activities (i.e. for the months July to September 2016), see “Management Board compensation in the 2016 fiscal year in accordance with German Accounting Standard 17 (DRS 17)” in this chapter.

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Payments to former members of the Management Board in the 2016 fiscal year

Former members of the Management Board received total payments of €1,200,241 (primarily pension benefits) in the 2016 fiscal year (2015: €1,124,622). As of September 30, 2016, accrued pension liabilities for former members of the Management Board amounted to €77,037,350 (2015: €60,212,071).

Review of the Management Board compensation system and individual contracts

In accordance with section 4.2.2 DCGK, the Supervisory Board engaged an external, independent compensation expert during the 2016 fiscal year to review the Management Board compensation system in place since October 1, 2010 and conclude on its compliance with applicable legislation and overall appropriateness. In this context, the target annual incomes of each individual member of the Management Board were subjected to detailed scrutiny. The review came to the conclusion that the Company's compensation system complies with both the legal requirements and the recommendations set out in the German Corporate Governance Code (DCGK). In particular, it was deemed 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. Furthermore, the individual target annual incomes of the members of the Management Board are appropriate, both horizontally (i.e. looking at comparable companies) and vertically (i.e. looking at Infineon's various employee groupings). The compensation expert did, however, point out the existence of some scope for maneuverability with regard to the target annual incomes and pension arrangements. The results of the compensation expert's review, presented in a final report in the fall 2016, were discussed in detail during the Executive Committee meeting held on October 24, 2016 and by the full Supervisory Board on November 15, 2016. The Supervisory Board concurred with the conclusions reached by the compensation expert. It therefore passed a resolution to change the pension arrangements in place for Dr. Ploss for the period from January 2016 onwards to a defined contribution basis (for details, see “Allowances and pension entitlements in the 2016 fiscal year” in this chapter).

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Supervisory Board compensation

Compensation structure

The Supervisory Board compensation system was subject to a thorough review by an independent expert in the 2016 fiscal year and amended with (retrospective) effect from October 1, 2015, in line with a proposal put forward by the Management Board and Supervisory Board to the Annual General Meeting on February 18, 2016. The objective of the amendment was to remove the previous variable compensation component and structure Supervisory Board compensation in future in compliance with the recommendations of the DCGK. Due to the removal of the variable compensation component, the fixed compensation component was simultaneously increased to a commensurate market level. Shareholders approved the proposals put forward by the Management Board and Supervisory Board to the 2016 Annual General Meeting with a large majority.

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

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



Compensation of the Supervisory Board for the 2016 fiscal year

The total compensation (including meeting attendance fees) paid to the individual members of the Supervisory Board in the 2016 fiscal year comprises the following (these figures do not include value-added tax at 19 percent):

Supervisory Board compensation

in €	Fiscal year	Fixed compensation	Variable compensation ¹	Allowance for specific functions	Meeting attendance fees	Total compensation
Member of the Supervisory Board						
Peter Bauer ²	2016	90,000	-	10,417	16,000	116,417
	2015	33,333	13,000	-	8,000	54,333
Wigand Cramer ³	2016	-	-	-	-	-
	2015	20,833	8,125	6,250	10,000	45,208
Johann Dechant ²	2016	90,000	-	30,000	30,000	150,000
	2015	33,333	13,000	25,000	14,000	85,333
Dr. Herbert Diess ²	2016	90,000	-	-	14,000	104,000
	2015	33,333	13,000	-	8,000	54,333
Annette Engelfried ²	2016	90,000	-	15,000	20,000	125,000
	2015	33,333	13,000	10,000	12,000	68,333
Reinhard Gottinger ³	2016	-	-	-	-	-
	2015	20,833	8,125	6,250	4,000	39,208
Peter Gruber	2016	90,000	-	15,000	22,000	127,000
	2015	50,000	19,500	15,000	16,000	100,500
Gerhard Hobbach	2016	90,000	-	15,000	24,000	129,000
	2015	50,000	19,500	15,000	16,000	100,500
Hans-Ulrich Holdenried	2016	90,000	-	15,000	28,000	133,000
	2015	50,000	19,500	15,000	20,000	104,500
Prof. Dr. Renate Köcher	2016	90,000	-	-	12,000	102,000
	2015	50,000	19,500	-	12,000	81,500
Dr. Susanne Lachenmann ²	2016	90,000	-	15,000	22,000	127,000
	2015	33,333	13,000	10,000	10,000	66,333
Wolfgang Mayrhuber	2016	90,000	-	90,000	34,000	214,000
	2015	50,000	19,500	50,000	28,000	147,500
Dr. Manfred Puffer	2016	90,000	-	-	14,000	104,000
	2015	50,000	19,500	-	14,000	83,500
Gerd Schmidt ³	2016	-	-	-	-	-
	2015	20,833	8,125	15,625	10,000	54,583
Prof. Dr. Doris Schmitt-Landsiedel	2016	90,000	-	16,667	22,000	128,667
	2015	50,000	19,500	25,000	16,000	110,500
Jürgen Scholz	2016	90,000	-	15,000	22,000	127,000
	2015	50,000	19,500	15,000	16,000	100,500
Kerstin Schulzendorf ²	2016	90,000	-	-	10,000	100,000
	2015	33,333	13,000	-	8,000	54,333
Dr. Eckart Süner	2016	90,000	-	25,000	24,000	139,000
	2015	50,000	19,500	25,000	18,000	112,500
Diana Vitale ²	2016	90,000	-	-	16,000	106,000
	2015	33,333	13,000	-	8,000	54,333
Total	2016	1,440,000	-	262,084	330,000	2,032,084
	2015	745,830	290,875	233,125	248,000	1,517,830

1 Based on earnings per share (undiluted) from continuing operations of €0.55 in the 2015 fiscal year. The Supervisory Board compensation was restructured with effect from October 1, 2015 from which date a variable compensation component was no longer awarded.

2 For members of the Supervisory Board who joined since February 12, 2015, the compensation was awarded on a pro-rata basis.

3 For members of the Supervisory Board serving up until February 12, 2015, the compensation was awarded on a pro-rata basis.



Members of the Supervisory Board did not receive any loans from Infineon in either the 2016 or 2015 fiscal years.

Other matters

The company signed a contract on August 25, 2015 with the Technische Universität München relating to the provision of research and development services, to be performed primarily within the remit of the Chair of Professor Schmitt-Landsiedel. The Supervisory Board therefore approved the contract as a precautionary measure on August 4, 2015. In accordance with this contract the first rate of €50,000 was paid to the Technische Universität München in the 2016 fiscal year.

Neubiberg, November 22, 2016

Management Board

Dr. Reinhard Ploss

Dominik Asam

Dr. Helmut Gassel

Jochen Hanebeck



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Consolidated Statement of Operations

for the year ended September 30, 2016 and 2015

€ in millions	Notes	2016	2015
Revenue		6,473	5,795
Cost of goods sold		(4,143)	(3,715)
Gross profit		2,330	2,080
Research and development expenses		(770)	(717)
Selling, general and administrative expenses		(791)	(778)
Other operating income		17	28
Other operating expenses		(23)	(58)
Operating income		763	555
Financial income		6	10
Financial expenses		(67)	(49)
Gain from investments accounted for using the equity method		3	4
Income from continuing operations before income taxes		705	520
Income tax	7	36	102
Income from continuing operations		741	622
Income from discontinued operations, net of income taxes	4	2	12
Net income		743	634
Attributable to:			
Non-controlling interests		(1)	2
Shareholders of Infineon Technologies AG		744	632
Basic earnings per share (in euro) attributable to shareholders of Infineon Technologies AG: ¹			
Basic earnings per share (in euro) from continuing operations	8	0.66	0.55
Basic earnings per share (in euro) from discontinued operations	8	-	0.01
Basic earnings per share (in euro)	8	0.66	0.56
Diluted earnings per share (in euro) attributable to shareholders of Infineon Technologies AG: ¹			
Diluted earnings per share (in euro) from continuing operations	8	0.66	0.55
Diluted earnings per share (in euro) from discontinued operations	8	-	0.01
Diluted earnings per share (in euro)	8	0.66	0.56

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



Consolidated Statement of Comprehensive Income

for the year ended September 30, 2016 and 2015

€ in millions	Notes	2016	2015
	15		
Net income		743	634
Actuarial losses on pension plans and similar commitments		(159)	(27)
Total items not expected to be reclassified to profit or loss in the future		(159)	(27)
Currency translation effects		(28)	100
Net change in fair value of hedging instruments		(6)	(37)
Net change in fair value of available-for-sale financial assets		(1)	(1)
Total items expected to be reclassified to profit or loss in the future		(35)	62
Other comprehensive income (loss) for the year, net of tax		(194)	35
Total comprehensive income for the year, net of tax		549	669
Attributable to:			
Non-controlling interests		(1)	2
Shareholders of Infineon Technologies AG		550	667



Consolidated Statement of Financial Position

as of September 30, 2016 and 2015

€ in millions	Notes	September 30, 2016	September 30, 2015
ASSETS			
Cash and cash equivalents		625	673
Financial investments	9	1,615	1,340
Trade receivables	10	774	742
Inventories	11	1,191	1,129
Income tax receivable	7	6	2
Other current assets		281	229
Total current assets		4,492	4,115
Property, plant and equipment	12	2,119	2,093
Goodwill and other intangible assets	12	1,656	1,738
Investments accounted for using the equity method		32	33
Non-current income tax receivable	7	3	3
Deferred tax assets	7	623	604
Other non-current assets		162	155
Total non-current assets		4,595	4,626
Total assets		9,087	8,741
LIABILITIES AND EQUITY			
Short-term debt and current maturities of long-term debt	14	17	33
Trade payables		857	802
Short-term provisions	13	327	402
Income tax payable	7	120	123
Other current liabilities		209	225
Total current liabilities		1,530	1,585
Long-term debt	14	1,752	1,760
Pension plans and similar commitments	20	604	426
Deferred tax liabilities	7	10	147
Long-term provisions	13	76	72
Other non-current liabilities		92	86
Total non-current liabilities		2,534	2,491
Total liabilities		4,064	4,076
Shareholders' equity:	15		
Ordinary share capital		2,265	2,259
Additional paid-in capital		5,016	5,213
Accumulated deficit		(2,312)	(2,897)
Other reserves		91	126
Own shares at cost		(37)	(37)
Equity attributable to shareholders of Infineon Technologies AG		5,023	4,664
Non-controlling interests		-	1
Total equity		5,023	4,665
Total liabilities and equity		9,087	8,741



Consolidated Statement of Cash Flows

for the year ended September 30, 2016 and 2015

€ in millions	Notes	2016	2015
Net income	18	743	634
Minus: income from discontinued operations, net of income taxes		(2)	(12)
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	12	833	760
Income tax	7	(36)	(102)
Net interest result		58	42
Gains on disposals of property, plant and equipment		5	(7)
Dividends received from joint ventures		2	1
Impairment charges	12	16	31
Other non-cash result		6	-
Change in trade receivables	10	(25)	(65)
Change in inventories	11	(66)	(133)
Change in trade payables		57	50
Change in provisions	13	(72)	(48)
Change in other assets and liabilities		(60)	(95)
Interest received		6	8
Interest paid		(26)	(14)
Income tax paid	7	(126)	(93)
Net cash provided by operating activities from continuing operations		1,313	957
Net cash used in operating activities from discontinued operations		(22)	(140)
Net cash provided by operating activities		1,291	817
Purchases of financial investments	9	(4,130)	(1,478)
Proceeds from sales of financial investments	9	3,855	1,496
Purchases of other equity investments		-	(14)
Acquisitions of businesses, net of cash acquired	3	(11)	(1,869)
Purchases of intangible assets and other assets	12	(110)	(139)
Purchases of property, plant and equipment	12	(716)	(646)
Proceeds from sales of property, plant and equipment and other assets		14	57
Net cash used in investing activities from continuing operations		(1,098)	(2,593)
Net cash used in investing activities from discontinued operations		-	-
Net cash used in investing activities		(1,098)	(2,593)
Net change in short-term debt	14	(8)	2
Net change in related party financial receivables and payables	19	(1)	-
Proceeds from issuance of long-term debt	14	824	2,398
Repayments of long-term debt	14	(846)	(831)
Change in cash deposited as collateral		1	-
Proceeds from issuance of ordinary shares	15	26	11
Cash outflows due to changes of non-controlling interests	3	-	(15)
Dividend payments	15	(225)	(202)
Net cash provided by (used in) financing activities from continuing operations		(229)	1,363
Net cash used in financing activities from discontinued operations		-	-
Net cash provided by (used in) financing activities		(229)	1,363
Net change in cash and cash equivalents		(36)	(413)
Effect of foreign exchange rate changes on cash and cash equivalents		(12)	28
Cash and cash equivalents at beginning of period		673	1,058
Cash and cash equivalents at end of period		625	673



Consolidated Statement of Changes in Equity

for the year ended September 30, 2016 and 2015

€ in millions, except for number of shares	Note	Ordinary shares issued		Additional paid-in capital	Accumulated deficit
		Shares	Amount		
	15				
Balance as of October 1, 2014		1,127,739,230	2,255	5,414	(3,502)
Net income		-	-	-	632
Other comprehensive income (loss) for the period, net of tax		-	-	-	(27)
Total comprehensive income (loss) for the period, net of tax		-	-	-	605
Dividends		-	-	(202)	-
Issuance of ordinary shares:					
Exercise of stock options		1,532,251	4	9	-
Share-based compensation		-	-	6	-
Put options on own shares		-	-	-	-
Other changes in equity		-	-	(14)	-
Balance as of September 30, 2015		1,129,271,481	2,259	5,213	(2,897)
Balance as of October 1, 2015		1,129,271,481	2,259	5,213	(2,897)
Net income		-	-	-	744
Other comprehensive income (loss) for the period, net of tax		-	-	-	(159)
Total comprehensive income (loss) for the period, net of tax		-	-	-	585
Dividends		-	-	(225)	-
Issuance of ordinary shares:					
Exercise of stock options		3,401,628	6	19	-
Share-based compensation		-	-	9	-
Balance as of September 30, 2016		1,132,673,109	2,265	5,016	(2,312)



Consolidated Financial Statements
Consolidated Statement of Changes in Equity

	Other reserves			Own shares	Put options on own shares	Total equity attributable to shareholders of Infineon Technologies AG	Non- controlling interests	Total equity
	Foreign currency translation adjustment	Securities	Hedges					
	26	3	35	(37)	(40)	4,154	4	4,158
	-	-	-	-	-	632	2	634
	100	(4)	(34)	-	-	35	-	35
	100	(4)	(34)	-	-	667	2	669
	-	-	-	-	-	(202)	-	(202)
	-	-	-	-	-	13	-	13
	-	-	-	-	-	6	-	6
	-	-	-	-	40	40	-	40
	-	-	-	-	-	(14)	(5)	(19)
	126	(1)	1	(37)	-	4,664	1	4,665
	126	(1)	1	(37)	-	4,664	1	4,665
	-	-	-	-	-	744	(1)	743
	(28)	(1)	(6)	-	-	(194)	-	(194)
	(28)	(1)	(6)	-	-	550	(1)	549
	-	-	-	-	-	(225)	-	(225)
	-	-	-	-	-	25	-	25
	-	-	-	-	-	9	-	9
	98	(2)	(5)	(37)	-	5,023	-	5,023



Notes to the Consolidated Financial Statements

The Infineon Group (“Infineon”) comprising Infineon Technologies AG (“the Company”) and its subsidiaries design, develop, manufacture and market a broad range of semiconductors and related system solutions. The focus of activities is on applications for automotive electronics, industrial electronics, information and communications infrastructure as well as hardware-based security. The product range includes standard, application-specific and customer-specific components as well as system solutions for power, digital, analog, high frequency and mixed-signal applications. More than half of Infineon’s revenue is generated by power semiconductors, the remaining revenue is attributable to high frequency components, sensors, driver components as well as microcontrollers for automotive, industrial and security applications. Research and development sites, manufacturing facilities, investments and customers are located mainly in Europe, Asia and North America.

Infineon Technologies AG is a listed company under German law and ultimate parent company of the Infineon Group. The principal office of the Company is Am Campeon 1 – 12, 85579 Neubiberg (Germany). The Company is registered in the Commercial Register of the District Court of Munich (Germany) under the number HRB 126492.

1 Basis of the Consolidated Financial Statements

The Consolidated Financial Statements prepared by Infineon Technologies AG as ultimate parent company for the year ended September 30, 2016 have been prepared in accordance with International Financial Reporting Standards (“IFRS”) and related interpretations effective as of September 30, 2016 as issued by the International Accounting Standards Board (“IASB”) to the extent to which the IFRS and interpretations have been adopted by the European Union (“EU”). The Consolidated Financial Statements also comply with the supplementary requirements set forth in section 315a, paragraph 1, of the German Commercial Code (“Handelsgesetzbuch” or “HGB”). The aforementioned standards were complied with in full.

The Consolidated Statement of Operations is presented using the cost of sales method.

The fiscal year end for both Infineon and the Company is September 30 of each year.

The Group currency is the euro (“€”).

Deviations between amounts presented are possible due to rounding. Negative amounts are presented in parentheses.

The Company’s Management Board presented the Consolidated Financial Statements on November 22, 2016.

Financial reporting rules applied for the first time

The IASB has issued the following Standards or amendments to Standards, which are required to be applied in the Consolidated Financial Statements for the year ended September 30, 2016:

Standard/amendment/interpretation	Effective date	Impact on Infineon
IAS 19		
“Employee benefits” for defined benefit plans (Amendments to IAS 19)	February 1, 2015	immaterial
Annual IFRS improvement cycle 2010 – 2012	February 1, 2015	immaterial
Annual IFRS improvement cycle 2011 – 2013	January 1, 2015	immaterial

Financial reporting rules issued not yet applied

The following new or amended Standards have been issued by the IASB and will be relevant to Infineon from today’s perspective. They have not been applied in the Consolidated Financial Statements as of September 30, 2016 since they are not yet mandatory or, alternatively, have not yet been endorsed by the EU. The new or amended Standards



are applicable for fiscal years beginning on or after their respective effective date. As a general rule, they are not applied before their effective date, even if this is permitted for certain standards.

Standard/amendment/interpretation	Effective date	Expected impact on Infineon
IAS 1 Presentation of financial statements (Disclosure initiative – Amendments to IAS 1)	January 1, 2016	immaterial
IAS 7 Cash flow statements (Disclosure initiative – Amendments to IAS 7)	January 1, 2017	immaterial
IAS 12 Recognition of deferred tax assets for unrealized losses (Amendments to IAS 12)	January 1, 2017	immaterial
IAS 16/IAS 38 Clarification of acceptable methods of depreciation and amortization (Amendments to IAS 16 and IAS 38)	January 1, 2016	none
IFRS 9 Financial instruments	January 1, 2018	impacts are still being analyzed
IFRS 11 Accounting for acquisitions of interests in joint operations (Amendments to IFRS 11)	January 1, 2016	none
IFRS 15 Revenue from contracts with customer	January 1, 2018	impacts are still being analyzed
IFRS 16 Leases	January 1, 2019	impacts are still being analyzed
Annual IFRS improvement cycle 2012–2014	January 1, 2016	immaterial

2 Summary of Significant Accounting Policies

Basis of consolidation

The Consolidated Financial Statements presented here include the financial statements of Infineon Technologies AG and its direct and indirect subsidiaries on a consolidated basis. A subsidiary is defined as an entity which, directly or indirectly, is controlled by Infineon Technologies AG.

Control exists when Infineon is subjected to variable returns arising from its engagement with the subsidiary or has a right to such, and has the ability to influence these returns as a result of its power over the subsidiary. Power means that Infineon has existing rights that give Infineon the current ability to direct the relevant activities (the activities that significantly affect the aforementioned returns).

An entity is included in the Consolidated Financial Statements from the date on which Infineon acquires control. Upon first-time consolidation of an entity, the acquired assets and liabilities are measured on the basis of their fair value at the acquisition date. Any excess of consideration paid (purchase price) over the share of the fair value of acquired assets, liabilities and contingent liabilities is recognized as goodwill. Any excess of Infineon's share of the fair value of items acquired over consideration paid is recognized as a gain.

The financial statements of entities included in the Consolidated Financial Statements are prepared using uniform valuation and accounting policies.

The balance sheet effects of intragroup transactions as well as gains and losses arising from intragroup business relationships are eliminated on consolidation.

A list of subsidiaries of Infineon Technologies AG is provided in note 26.

Functional currency, reporting currency and foreign currency translation

The functional currency of Infineon Technologies AG is the euro. The Consolidated Financial Statements have been prepared with the euro as reporting currency.

Foreign currency transactions are translated into the functional currency of the relevant entity using the exchange rates prevailing at the transaction date. Monetary assets and liabilities which are not denominated in the functional currency of the reporting entity are translated at the closing exchange rate prevailing at the end of the relevant reporting period. Exchange rate gains and losses from the currency translation are recognized in the Consolidated Statement of Operations as part of the operating result.



The assets and liabilities of foreign subsidiaries with functional currencies other than the euro are translated into euros using period-end exchange rates. Income and expenses of these entities are translated using the average exchange rate for the period under report. All cumulative differences arising from the currency translation of the equity in foreign subsidiaries arising from changes to exchange rates are recognized directly in equity in “Other reserves”.

The exchange rates of the primary currencies (€1 in foreign currency units) used in the preparation of the accompanying Consolidated Financial Statements, in alphabetical order, are as follows:

€1 in units of foreign currency	Closing rate		Annual average exchange rate	
	September 30, 2016	September 30, 2015	2016	2015
Japanese yen	112.9300	134.1300	122.8719	136.4560
Malaysian ringgit	4.6434	4.9410	4.5685	4.2186
Singapore dollar	1.5270	1.5960	1.5266	1.5429
US dollar	1.1225	1.1170	1.1065	1.1432

Recognition and measurement principles

The following table summarizes the principal measurement bases used in the preparation of the Consolidated Financial Statements:

Balance sheet item	Measurement principle
Assets	
Cash and cash equivalents	Nominal amount
Financial investments	Fair value/amortized cost
Trade receivables	Fair value/amortized cost
Inventories	Lower of acquisition or production cost and net realizable value
Assets classified as held for sale	Lower of carrying amount and fair value less costs to sell
Property, plant and equipment	(Amortized) Acquisition or production cost
Goodwill	Impairment-only approach
Intangible assets (except goodwill):	
with definite useful life	(Amortized) Acquisition or production cost
with indefinite useful life	Impairment-only approach
Other assets (current and non-current):	
Other financial assets:	
Loans and receivables	Fair value/amortized cost
Available-for-sale	Fair value directly through equity
Measured at fair value through profit or loss	Fair value through profit or loss
Designated hedging instruments	Fair value directly through equity
Remaining other assets	(Amortized) Cost
Equity and liabilities	
Trade payables	Fair value/amortized cost
Debt	Fair value/amortized cost
Provisions	
Pensions	Projected unit credit method
Other provisions	Expected settlement amount
Other liabilities (current and non-current):	
Other financial liabilities:	
Measured at fair value through profit or loss	Fair value through profit or loss
Designated hedging instruments	Fair value directly through equity
Other financial liabilities	Fair value/amortized cost
Remaining other liabilities	Fair value/amortized cost
Put options on own shares	Present value of nominal amount at date of issue
Own shares	Acquisition cost



Cash and cash equivalents

Cash and cash equivalents represent cash and all financial resources with a maturity at acquisition date of three months or less, and are measured at their nominal amount.

Financial instruments

Financial instruments are initially recognized at their fair value. Transaction costs directly attributable to the acquisition or issuance of financial instruments are only included in the carrying amount if the financial instruments are not measured at fair value through profit or loss.

Regular purchases and sales of financial assets are recognized on the basis of the settlement date. The settlement date is the date on which an asset is delivered to or by Infineon.

Financial assets are derecognized when the rights to receive payments from the investments have expired or have been transferred and Infineon has transferred all risks and rewards associated with ownership. Financial liabilities are derecognized when they are extinguished, that is when the contractual obligation is discharged, cancelled or expired.

Infineon classifies financial assets into the following categories: "Loans and receivables", "Available-for-sale financial assets" and "Financial assets measured at fair value through profit and loss". "Designated hedging instruments (cash flow hedges)" also belong to financial assets. Financial instruments of the category "Assets held-to-maturity" were not held by Infineon.

Infineon classifies financial liabilities into the following categories: "Financial liabilities measured at fair value through profit and loss" and "Other financial liabilities". Furthermore, "Designated hedging instruments (cash flow hedges)" belong to financial liabilities.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. At Infineon the balance sheet items "Cash and cash equivalents", "Financial investments", "Trade receivables" and current and non-current "Other assets" all contain financial assets which are classified in the category "Loans and receivables".

Loans and receivables are measured on initial recognition at their fair value plus incidental acquisition costs. Subsequently, they are measured at amortized cost using the effective interest method. Loans and receivables are tested for impairment. They are considered to be impaired when there is objective evidence that Infineon will not receive all amounts contractually due at the relevant due date. Objective evidence that indicates that impairment should be recorded would include, for example, known financial difficulties or the insolvency of a debtor. The impairment is recorded as an expense in profit or loss (in a separate allowance account). When a payment default becomes certain, such loans and receivables are considered to be uncollectible and derecognized along with the previously recognized allowance.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are either designated as available for sale, or are not allocated to any of the other categories (see above).

Upon acquisition, available-for-sale financial assets are measured at fair value taking into account transaction costs. Subsequently they are measured at their fair value at the end of the relevant reporting period. Transaction costs relating to the acquisition of available-for-sale financial assets with a definite term and fixed or determinable payments are capitalized and recognized in the Consolidated Statement of Operations using the effective interest method. Changes in the fair value of available-for-sale financial assets are recognized directly in equity. If the fair value is permanently or significantly lower than the amortized cost, then an impairment loss is recognized through profit or loss.



For available-for-sale financial assets, a significant or prolonged decline in the fair value of the financial asset below its acquisition cost is considered as an indicator that the assets are impaired. If any such evidence exists, the cumulative loss that had been recognized directly in equity – measured as the difference between the acquisition cost and the current fair value, less any impairment loss previously recognized in profit or loss – is removed from equity with affecting income.

When financial assets classified as available-for-sale are sold, the accumulated fair value adjustments previously recognized in equity are reclassified to profit or loss.

Financial assets or liabilities measured at fair value through profit or loss

At Infineon financial assets or liabilities measured at fair value through profit or loss comprise almost entirely of derivatives used to hedge currency risks for which hedge accounting is not applied.

Designated hedging instruments (cash flow hedges)

Certain derivative financial instruments are used to hedge foreign currency risks or risks of commodity price changes (such as gold prices) for expected and highly probable future transactions in order to minimize the associated risk (cash flow hedges).

Derivative financial instruments are measured at their fair value and included in “Other current assets” or “Other current liabilities”.

The effective portion of changes in the fair value of derivative financial instruments that are designated as cash flow hedges and are part of hedging relationships that meet the criteria for hedge accounting is recognized directly in equity. “Effective” is the degree to which changes in the fair value or cash flows of the hedged items that are attributable to a hedged risk are offset by changes in the fair value or cash flows of the hedging instrument. The gain or loss relating to the ineffective portion is recognized in profit or loss. Amounts accumulated in equity are recycled in profit or loss in the periods in which the underlying hedged item affects profit or loss.

When a hedging instrument expires or is sold, or when a hedging relationship no longer meets the criteria for hedge accounting, any cumulative gain or loss existing at that time remains in equity until the underlying transaction actually occurs. When a forecasted transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to profit or loss.

Other financial liabilities

Upon acquisition other financial liabilities are measured at fair value after deduction of transaction costs. In subsequent periods they are measured at amortized cost using the effective interest method. The liabilities are derecognized when the contractual obligations are discharged, cancelled or expired.

Inventories

Inventories encompass assets to be consumed in the production process or in the rendering of services (raw materials and supplies), that are in the production process at the balance sheet date (work in progress), or held for sale in the ordinary course of business (finished and purchased goods).

Inventories are measured at the lower of acquisition or fully absorbed production cost – calculated using the weighted-average method – and net realizable value. Net realizable value corresponds to realizable sale proceeds under normal business conditions less estimated expected costs to complete and sell. Production cost comprises costs of material, production wages and an appropriate portion of attributable overheads, including attributable depreciation and amortization on property, plant and equipment and intangible assets. Overhead mark-ups are determined on the basis of normal capacity utilization levels.

Write-downs to net realizable value are recorded on inventories using a consistent approach throughout Infineon and are determined at product level for technically obsolete and slow-moving inventories on the basis of the amount of revenues expected to be generated by the relevant product.



Current and deferred income taxes

The current income tax expense is calculated in accordance with taxation provisions in force at the end of the reporting period.

Deferred taxes are calculated on temporary differences between the tax base and the book value of assets and liabilities, and on tax losses available for carry-forward. By contrast, no deferred tax is recognized on goodwill arising in connection with business combinations. Similarly, deferred taxes are not recognized on the initial recognition of an asset or liability in connection with a transaction that is not a business combination and which, at the time of the transaction, affects neither the pre-tax income according to IFRS nor taxable profit. Deferred tax assets and liabilities are measured using applicable tax rates and laws that have been enacted by the end of the reporting period or are about to be enacted, and are to be applied when the related deferred tax asset is realized or the deferred tax liability is settled.

Deferred tax assets in respect of deductible temporary differences and tax loss carry-forwards which exceed deferred tax liabilities in respect of taxable temporary differences, are only recognized to the extent that it is probable that the relevant Group entity can generate sufficient taxable profit to realize the corresponding benefit. Infineon reviews deferred tax assets for impairment at every reporting date. The assessment requires management to make assumptions about future taxable profits as well as other positive and negative influencing factors.

Deferred tax assets and liabilities are netted to the extent they relate to the same tax authority and to the same taxpayer or a group of different taxpayers who are jointly assessed for income tax purposes.

Income taxes are recognized in the Consolidated Statement of Operations, with the exception of income taxes relating to items recognized directly in equity or in other comprehensive income.

For uncertain tax positions additional tax provisions are recorded or, in case of tax losses carried forward, respective deferred tax assets are reduced accordingly. The assessment of uncertain tax positions is based on best estimate.

Property, plant and equipment

Property, plant and equipment are measured at amortized acquisition or construction cost, and its value is reduced by scheduled depreciation and considering any impairment.

The cost of acquisition comprises the acquisition price plus incidental acquisition costs, and subsequent acquisition costs, less any reduction received on the acquisition price. The cost of self-constructed equipment comprises direct costs as well as appropriate allocations of the necessary material and manufacturing overheads.

Where an obligation exists to decommission or dismantle a fixed asset or restore a site to its former condition at the end of its useful life, the present value of the related future payments is capitalized along with the cost of acquisition or construction at the point of purchase or completion, and is depreciated over the estimated useful life of the underlying asset. A liability is recognized for the same amount, the carrying amount of which is compounded in future periods.

Scheduled depreciation on property, plant and equipment is recorded using the straight-line method. Land, property rights and construction in progress are not depreciated on a scheduled basis. Scheduled depreciation on property, plant and equipment is based on the following useful lives, as applied consistently throughout Infineon:

	Years
Buildings	10 – 25
Technical equipment and machinery	3 – 10
Other plant and office equipment	1 – 10

When fixed assets are sold, decommissioned or scrapped, the difference between the net proceeds and the carrying amount of the assets is recognized as a gain or loss in other operating income or expense.



Intangible assets (excluding goodwill)

Intangible assets consist primarily of purchased intangible assets, such as licenses, technology and customer relationships (including order backlog), which are measured at acquisition cost, as well as capitalized development costs. These intangible assets have definite useful lives and are valued at their amortized acquisition or production costs with amortization recorded using the straight-line method over their expected economic life.

Scheduled amortization of intangible assets is based on the following useful lives:

	Years
Capitalized development costs	3 – 5
Customer relationships	1 – 12
Technologies	4 – 12
Licenses and similar rights	3 – 5
Other intangible assets	2 – 8

Infineon did not hold any intangible assets with indefinite useful lives in either the 2016 or 2015 fiscal years.

Leases

Infineon is a lessee of property, plant and equipment which are categorized as operating or finance leases in accordance with IAS 17 “Leases”. In the case of operating lease contracts, the lease costs are spread on a straight-line basis over the term of the lease arrangement.

Recoverability of intangible assets and other long-lived assets

Goodwill

Goodwill is an intangible asset that represents the future economic benefits arising from assets acquired in a business combination that cannot be individually identified and separately recognized. Goodwill is the excess of the consideration transferred for an interest in a business over the net fair value of acquired, separately identifiable assets, liabilities and contingent liabilities as at the date of acquisition. Goodwill arising from acquisitions of businesses is reported in the line item “Goodwill and other intangible assets” in the Consolidated Statement of Financial Position. Separately identifiable intangible assets acquired in a business combination are recognized and reported separately from goodwill.

Goodwill acquired in a business combination is allocated to the cash-generating units (CGUs) or groups of CGUs that will benefit from the synergies generated by the business combination. A CGU represents the smallest identifiable group of assets that generates cash inflows from continuing activities and that is as independent as possible from other assets or asset groups.

Acquired goodwill is only impaired if there is evidence of impairment. Its value is tested at the operating segment level for possible impairment annually as at June 30 and, additionally, whenever there are events or changes in circumstances that indicate that the carrying amount may not be recoverable. The recoverable amount is the higher of the fair value less costs to sell and the value in use. If the carrying amount of the respective operating segment including allocated goodwill exceeds the recoverable amount of this entity, the goodwill is impaired accordingly. Such impairments cannot be reversed in subsequent periods.

Infineon determines the recoverable amount of a particular unit to which goodwill has been allocated on the basis of its value in use. The value in use is measured by estimating the present value of future cash flows that will be generated by the continuing operations of the entity discounted using an appropriate discount rate.



Cash flows, including the underlying parameters such as revenue growth and gross margin, are projected based on past experience, current operating results and the five-year strategic business plan approved in the fiscal year just ended. The plan is calculated bottom-up based on certain central assumptions applied consistently throughout Infineon. Cash flows for periods beyond the planning horizon are estimated using a terminal value. Terminal growth rates used do not take into account investments to increase capacity for which no cash outflow has taken place, and are derived from publicly available market studies from market research institutes and do not exceed the historical long-term average growth rate for the sector in which the relevant segment operates.

The discount rate is based on the after-tax weighted average cost of capital (WACC) for the entity in question. The Capital Asset Pricing Model (CAPM) is used to calculate the cost of equity. The relevant pre-tax WACC used to discount future pre-tax cash flows in line with IAS 36, is derived from estimated future after-tax cash flows and the after-tax WACC using a typical tax rate for each reporting segment. The risk-free interest rate is derived using the Svensson method taking into account risk premiums, and the beta factor and debt ratio are derived from a group of companies comparable to the operating segment. In this way the discount rate derived reflects the current market rate of return as well as the specific risks attached to the respective segment.

The following table shows the allocation of the carrying amount of goodwill to the segments, as well as the valuation parameters used:

Segment	Book value of allocated goodwill € in millions		pre-tax WACC ¹ in %		after-tax WACC ¹ in %		terminal growth rate ¹ in %	
	2016	2015	2016	2015	2016	2015	2016	2015
Industrial Power Control	51	51	12.8	13.9	9.9	10.3	1	1
Power Management & Multimarket	746	750	14.0	15.0	10.7	11.0	1	1
Corporate	2	2						
Total	799	803						

¹ Valuation parameters as of June 30, 2016 and 2015.

In addition, by applying different parameters that Infineon considers to be possible but not probable, sensitivity analyses are performed on the calculation of revenue growth, gross margins, the WACC and terminal growth rate. In this way, Infineon takes account of the inherently uncertain nature of estimates and carries out impairment tests on goodwill based on scenarios that are less favorable than those considered most likely. Changes considered to be possible to the parameters identified would have had no effect on the value of goodwill.

As a result of the impairment tests and the resulting sensitivity analyses carried out, Infineon concluded that none of the operating segments gave rise to an impairment of goodwill in the year under report. As at the reporting date, there were no triggering events that indicate that the recoverable amount of an entity to which goodwill had been allocated could have fallen below the book value.



Intangible assets and other non-current assets

Infineon reviews non-current assets, including property, plant and equipment and intangible assets for possible impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. The recoverability of assets held is measured by comparing the carrying amount of the asset with its recoverable amount. The recoverable amount of an asset is defined as the higher of its fair value less costs to sell and its value in use. The value in use is generally calculated based on discounted future cash flows of the CGU to which the asset is allocated. Considerable management judgment is necessary to estimate future cash flows.

If such assets are considered to be impaired, the impairment recognized is measured as the amount by which the carrying value of the assets exceeds their recoverable amount. An impairment loss recognized in prior periods for an asset other than goodwill is reversed insofar as, since the last impairment, a change in the underlying assumptions has occurred which leads to a lower impairment requirement. The maximum possible reversal of an impairment loss is that which would lead to the carrying amount that would have been determined (net of scheduled depreciation and amortization) if no impairment loss had been recognized for that asset in prior years.

Capitalized development costs (see also “Research and development costs” in this chapter) that are not subject to scheduled depreciation are tested for impairment annually and additionally whenever there are indications of impairment. Indications for impairment in particular include a reduction of expected revenues or increased costs.

Pensions and similar obligations

Infineon provides benefits to most of its employees for the period after they have retired, either directly or as a result of payments to private and public institutions. The benefits provided differ according to the legal, economic and tax circumstances prevailing in the respective country and are mostly dependent on the length of service and the salary of the employee concerned. The occupational pension plans include both defined contribution and defined benefit plans.

In the case of defined contribution plans, Infineon pays pre-determined amounts based on statutory or contractual regulations to an independent fund or to public or private pension insurance companies. Once the contributions are paid, Infineon has no further performance obligation. The contributions are recognized as expense in the year in which they fall due and are included in costs by function within the operating result. Liabilities are recorded for payments due to the various defined contribution plans. Prepaid contributions are recognized as an asset to the extent that a cash refund or a reduction of future payments is possible.

All other plans that do not fall under the definition of a defined contribution plan are accounted for as defined benefit plans. These relate to the commitments of Infineon to pay vested rights and current benefits to eligible present and former employees and their dependants. The obligations also relate to retirement pensions. The liability recognized in respect of defined benefit pension plans is the present value of the defined benefit obligation (DBO) at the end of the reporting period less the fair value of the plan assets, together with adjustments for past service costs. The present value of the DBO and resulting pension cost are determined in accordance with IAS 19 “Employee Benefits” annually for each separate plan by independent, qualified actuaries using the projected-unit-credit method. For the calculation, actuarial procedures are applied for which it is necessary to make specific assumptions. The most important of these are the discount rate, future expected increases in salaries and pensions, and mortality rates.

Discount rates are determined on the basis of market yields at the end of the reporting period on high-grade, fixed interest corporate bonds from issuers carrying a very high credit rating that are denominated in the currency in which the benefits will be paid and that have remaining maturities approximating the terms of the related pension liability.



All items of income and expense relating to defined benefit plans, with the exception of the net interest result, are recognized on a net basis in the functional areas within the operating result. The net interest result arising from the multiplication of the net pension obligation (pension obligation less plan assets) by the discount rate is reported as financial expense. Actuarial gains and losses resulting from experience adjustments for defined benefit pension obligations and plan assets and from changes in actuarial assumptions are recognized directly in equity and presented in the Consolidated Statement of Comprehensive Income in the period in which they arise. Past service costs are recognized immediately in profit or loss.

Provisions

Provisions are recognized for present legal and/or constructive obligations arising from past events that are likely to result in a future outflow of resources, the amount of which can be reliably estimated.

With regard to legal proceedings and litigation, for example the Qimonda insolvency, Infineon regularly assesses the probability of an unfavorable outcome. Infineon records provisions and liabilities, including provisions for significant legal costs, for those obligations and risks relating to legal disputes which it assesses at the relevant reporting date are likely to occur. That is where, from Infineon's perspective at the date of assessment, there is compelling evidence which indicates an obligation or risk, and the obligation or risk can be quantified with reasonable accuracy at the time of assessment. As soon as additional information is available the affected estimates are reviewed and, where necessary, provisions for these proceedings are revised.

Provisions are measured at their expected settlement amount in accordance with IAS 37 "Provisions, Contingent Liabilities and Contingent Assets" or, where applicable, also in accordance with IAS 19 "Employee Benefits". The amount recognized for a provision is the best estimate of the expenditure required to settle the present obligation. Estimates of outcomes and financial effects are dependent upon the judgment of management, supplemented by experience gained from similar transactions and, where appropriate, the assessment of independent experts. The evidence considered also includes events after the reporting period and up to the date of preparation of the Consolidated Financial Statements. If the circumstances to be assessed encompass a large number of possible outcomes, the obligation is estimated by weighting all possible outcomes by their associated probabilities (expected value method). Where there is a continuous range of possible outcomes and each point in that range is as likely as any other, the average is used.

Where cash flows are expected to arise after the next twelve months and the interest effect is considered material, provisions are stated at the present value of expected cash outflows. For the purposes of the present value calculation, Infineon uses a pre-tax interest rate that reflects current market interest rate expectations and the risks specific to the liability. In estimating the future outflow of economic benefits Infineon also includes inflation assumptions if applicable. Provisions for onerous contracts are measured at the lower of the expected cost of fulfilment or termination of the contract. Additions to provisions are generally recognized in profit or loss.

There is no offsetting with positive profit or loss effects. Claims for reimbursements from third parties are not offset against provisions, instead they are capitalized separately if their realization is virtually certain.

If the obligation decreases as a result of a change in the estimate, the provision is reversed proportionately and the resulting income recognized in the same functional area of the Consolidated Statement of Operations in which the original charge was recognized.



Contingent liabilities

Contingent liabilities are either possible obligations whose actual existence is dependent on the occurrence of one or more uncertain future events not wholly within the control of Infineon. Or they are present obligations that will probably not result in the outflow of resources or whose outflow of resources cannot be quantified reliably. Contingent liabilities are not recognized in the Statement of Financial Position, instead they are disclosed and described in the Notes to the Consolidated Financial Statements (see notes 23 and 24).

Revenue recognition

Infineon generates revenues from the sale of semiconductor products and related system solutions. Infineon's semiconductor products include a wide variety of chips and components used in electronic applications ranging from automotive electronics and industrial applications to chip cards. Infineon's products are also used in a wide variety of microelectronic applications, such as computer systems, telecommunications systems and consumer goods. Revenue is allocated to the individual segments on the basis of differences in product type and applications.

In addition, Infineon generates a small portion of its revenue from the granting of licenses.

Revenues from product sales are recognized when the significant risks and rewards of ownership of the goods are transferred to the buyer and it is sufficiently probable that the economic benefits associated with the sale will flow to Infineon. The amount of revenues recognized is based on the fair value of the consideration received or receivable taking into account returns, settlement discounts and bonuses.

In principle Infineon recognizes revenue on sales to distributors by using the "sell in" method, that is when a product is sold to the distributor. In accordance with established business practice in the semiconductor industry, under certain circumstances distributors can apply for price protection and ship and debit credit notes. Price protection allows a distributor to request a credit note for unsold products held in inventory if Infineon reduced the standard list price of these products. In addition, in certain cases the distributor may request a ship and debit credit note for retrospective price adjustments. The authorization of these credits remains fully within the control of Infineon. Infineon calculates the provision for price protection and ship and debit in the period in which the related revenue is recorded. The ship and debit provision is determined based on rolling trends in the difference between the contract price and the standard list price to the distributor. The price protection provision is based on actual list prices and distributor inventory on hand. The availability of detailed distributor inventory data, the transparency of pricing for standard products and the long distributor pricing history enable Infineon to reliably estimate provisions for price protection and ship & debit credit notes at the end of the reporting period.

Distributors can, subject to certain conditions, return a limited amount of inventory (stock return) or request scrap allowances. Stock return credit notes are accrued based on expected stock returns in accordance with the contractual agreement combined with historical experience. Distributor scrap allowances are accrued based on the contractual agreement and, upon submission of a valid claim, are granted up to a certain maximum based on turnover in a given period. Infineon monitors such product returns on an ongoing basis and adjusts accrual assumptions accordingly. Other returns are only permitted for quality defects within the ordinary warranty period.

In some cases, rebate programs are offered to specific customers or distributors whereby the customer or distributor is granted a rebate upon achievement of a defined sales volume. Such rebates are taken into account for revenue recognition purposes.

Cost of goods sold

Cost of goods sold includes the manufacturing costs of products sold during the reporting period. In addition, among other things cost of goods contain idle costs, inventory risks, warranty issues as well as the amortization of capitalized development costs. Recognized foreign currency effects as well as changes in the fair value of undesignated derivative financial instruments that are connected to the operating business are recognized in cost of goods.



Research and development costs

Costs of research activities undertaken in order to gain new scientific or technical knowledge are expensed as incurred.

Costs for development activities, the results of which lead to a plan or design for the production of new or substantially improved products or process improvements, are capitalized if the development costs can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable and Infineon intends, and has sufficient resources, to complete development and use or sell the asset. The costs capitalized include the cost of materials, direct labor and directly attributable general overhead expense that serves to prepare the asset for use. Such capitalized costs are presented as internally generated intangible assets within "Goodwill and other intangible assets" (see note 12). Development costs, which do not fulfill the criteria for capitalization, are expensed as incurred. Capitalized development costs are stated at cost less accumulated amortization and impairment charges. After the completion of the development phase and following the ramp-up of production, internally generated intangible assets are generally amortized as part of cost of goods sold over a period of three to five years.

Grants

Grants for investments include both tax-free investment grants and taxable grants for investments in property, plant and equipment. Grants are recognized when it is reasonably assured that Infineon will comply with the conditions attached to the grant, and it is reasonably assured that the grant will be received. Tax-free investment grants are deferred and recognized over the remaining useful life of the subsidized asset. Taxable grants are deducted from the purchase and production cost of the related asset and thereby reduce depreciation and amortization expense in future periods.

Grants that are related to expenses are presented as a reduction of the related expense in the Consolidated Statement of Operations (see note 5).

Estimates and assumptions

The preparation of financial statements in accordance with IFRS requires management to make estimates and assumptions that have an impact on the presented amounts and the associated disclosures.

Estimates and assumptions undergo regular review and must be adjusted where appropriate. They can vary from period to period and have a material effect on the financial condition, liquidity position and results of operations of Infineon.

Although these estimates and assumptions are applied by management to the best of its knowledge based on current events and circumstances, actual events may result in deviations from these estimates.

Areas containing estimates and assumptions and that are consequently most likely to be affected when actual results vary from estimates are:

- › recognition and recoverability of deferred tax assets (see "Current and deferred income taxes" and note 7),
- › valuation of inventory (see "Inventories" and note 11),
- › recoverability of non-financial assets especially goodwill (see "Recoverability of intangible assets and other long-lived assets" and note 12),
- › recognition and valuation of provisions (see "Provisions" and notes 13 and 23), and
- › valuation of pension plans (see "Pensions and similar obligations" and note 20).

All assumptions and estimates are based on the circumstances and assessments as of the balance sheet date, and taking into account knowledge gained up to the approval by the Management Board of the Consolidated Financial Statements on November 22, 2016.



3 Acquisitions

International Rectifier Corporation

The acquisition of 100 percent of the shares and associated voting rights of International Rectifier Corporation (“International Rectifier”) based in El Segundo, California (USA) was closed by Infineon on January 13, 2015.

The purchase price allocation for International Rectifier was finalized in January 2016; there were no adjustments in the 2016 fiscal year.

Wolfspeed

On July 14, 2016, the Company and Cree Inc. USA (“Cree”) signed a contract for the acquisition of Cree’s Wolfspeed business. Infineon intends to buy Wolfspeed (including the related wafer substrate business) for a purchase price of US\$850 million. With the acquisition Infineon broadens its strategic portfolio of compound semiconductors.

Cree’s Board of Directors and Infineon’s Supervisory Board have already approved the acquisition. The approval of the responsible regulatory authorities is required to conclude the transaction. Completion and execution of the transaction is expected at the beginning of the 2017 calendar year.

4 Disposals and discontinued operations

Qimonda – discontinued operations

On January 23, 2009, Qimonda AG (“Qimonda”), a majority owned company, filed an application at the Munich Local Court to commence insolvency proceedings. On April 1, 2009, the insolvency proceedings opened. Insolvency proceedings were also opened for further domestic and foreign subsidiaries of Qimonda. Some of these insolvency proceedings have already been completed. The impacts of these proceedings are reported as discontinued operations in Infineon’s Consolidated Statement of Operations and Consolidated Statement of Cash Flows, to the extent that the underlying events occurred before the commencement of insolvency proceedings. To the extent that the events occurred after the commencement of insolvency proceedings, their results are reported as part of continuing operations.

In the 2016 and 2015 fiscal years adjustments to individual provisions arose as a result of recent developments in connection with the insolvency of Qimonda, as well as subsequent income from other discontinued operations. These led to earnings after tax as shown in the table below.

The current risks and provisions relating to Qimonda’s insolvency are described in detail in note 23, section “Proceedings in relation to Qimonda”.

Gain/loss from discontinued operations, net of income taxes

€ in millions	2016	2015
Qimonda’s share of discontinued operations, net of income taxes	(1)	12
Others business’ share of discontinued operations, net of income taxes	3	-
Income from discontinued operations, net of income taxes	2	12



5 Grants and subsidies

Infineon has received grants and subsidies from various governmental institutions under government business development programs, including grants for the construction of manufacturing facilities, for research and development activities and employee development. Grants and subsidies taken into consideration in profit or loss in the Consolidated Financial Statements during the 2016 and 2015 fiscal years are as follows:

€ in millions	2016	2015
Included in the Consolidated Statement of Operations in:		
Cost of goods sold	33	40
Research and development expenses	75	59
Selling, general and administrative expenses	2	2
Total	110	101

For the compliance with the requirements attached to the grants and subsidies received and potential repayment requirements in case of nonfulfillment, see note 24.

6 Cost of materials and purchased services as well as personnel expense

The Consolidated Statement of Operations (continuing and discontinued operations) includes the following expenses for purchased services, materials and personnel.

Expenses for purchased services and materials comprised the following in the 2016 and 2015 fiscal years:

€ in millions	2016	2015
Cost of raw materials, supplies and purchased goods	1,412	1,263
Cost of purchased services	1,295	1,206
Total (continuing and discontinued operations)	2,707	2,469

Personnel expenses comprised the following in the 2016 and 2015 fiscal years:

€ in millions	2016	2015
Wages and salaries	1,734	1,670
Social insurance levies, pensions and similar obligations	313	269
Total (continuing and discontinued operations)	2,047	1,939

The average number of employees by geographic region is as follows for the 2016 and 2015 fiscal years:

	2016	2015
Europe	14,971	14,168
Therein: Germany	9,727	9,258
Asia-Pacific (without Japan)	17,148	16,738
Therein: China	1,998	1,890
Japan	172	167
Americas	3,705	2,898
Therein: USA	2,092	1,753
Total	35,996	33,971



7 Income tax

Income tax from continuing operations for the fiscal years ended September 30, 2016 and 2015, is as follows:

€ in millions	2016	2015
Current tax expense	(116)	(151)
Deferred tax benefit	152	253
Income tax	36	102

Current tax expenses include an income tax benefit relating to previous fiscal years of €10 million.

A deferred tax benefit of €87 million results from the creation and reversal of temporary differences.

The German combined statutory tax rate for Infineon Technologies AG is 29 percent for the 2016 and 2015 fiscal years. This comprises a corporate tax rate of 15 percent, plus a solidarity surcharge of 5.5 percent and a municipal trade tax rate of 13 percent.

Taxable income earned by foreign subsidiaries is determined on the basis of the tax laws applicable in the relevant countries and is taxed based on the applicable tax rates for these countries.

A reconciliation of income taxes from continuing operations for the fiscal years ended September 30, 2016 and 2015, using as a basis the German combined statutory tax rate of 29 percent for the 2016 and 2015 fiscal years is as follows:

€ in millions	2016	2015
Expected income tax expense	(203)	(151)
Change in available tax credits	70	13
Tax rate differential	27	14
Effects from the difference between local and functional currency (Malaysia)	7	(23)
Non-deductible expenses and tax-exempt income, net	25	(10)
Prior year taxes	19	(41)
Change in valuation allowance on deferred tax assets	63	309
Effects due to changes in tax rate	32	(3)
Other	(4)	(6)
Actual income taxes	36	102

Effects due to changes in tax rate arise mainly from the integration of International Rectifier in Singapore and the resulting applicability of a lower tax rate.

Deferred tax assets and liabilities as of September 30, 2016 and 2015 comprise the following:

€ in millions	September 30, 2016		September 30, 2015	
	Deferred tax assets	Deferred tax liabilities	Deferred tax assets	Deferred tax liabilities
Intangible assets	17	(206)	5	(255)
Property, plant and equipment	93	(26)	66	(43)
Provisions and pension obligations	190	(173)	152	(125)
Tax loss carry-forwards	492	-	447	-
Unused tax credits and excess foreign tax credits	146	-	128	-
Other	142	(62)	110	(28)
Total deferred taxes	1,080	(467)	908	(451)
Netting	(457)	457	(304)	304
Total	623	(10)	604	(147)



In Germany Infineon Technologies AG had corporation tax loss carry-forwards of €2.0 billion and municipal trade tax loss carry-forwards of €3.1 billion as of September 30, 2016.

In other jurisdictions corporation tax loss carry-forwards amounted to €142 million and local income tax loss carry-forwards amounted to €303 million. Additionally unused tax credits and excess foreign tax credits of €389 million exist.

Infineon assessed its deferred tax assets for the need for a valuation allowance. Based on the results of this assessment of deferred tax assets, considering all positive and negative factors and information relating to the foreseeable future, Infineon recognized deferred tax assets, after netting, of €623 million as of September 30, 2016.

No deferred taxes were recorded for the following items (gross amounts):

€ in millions	2016	2015
Tax loss carry forwards (Corporate tax and local income tax)	2,427	3,451
Tax credits	243	190
Temporary differences	740	668

There are no material tax loss carry-forwards for which no deferred tax assets were recognized and which are subject to expiration under statutory tax regulations. There are no material tax credits for which no deferred tax assets were recognized and which will expire within the next 12 years.

The change of the net amount of deferred tax assets and liabilities can be broken down as follows:

€ in millions	2016	2015
Deferred taxes, net as of the beginning of the fiscal year	457	373
Deferred tax arising from business acquisitions	-	(172)
Deferred tax benefit attributable to continuing operations	153	253
Deferred taxes recognized in equity	5	4
Foreign currency translation	(2)	(1)
Deferred taxes, net as of the end of the fiscal year	613	457

Infineon did not provide for additional income taxes or foreign withholding taxes on the cumulative retained earnings of foreign subsidiaries as of September 30, 2016 and 2015, to the extent that these earnings are intended to be indefinitely reinvested in those operations.

Including the items recognized directly in equity and the expense/benefit from continuing and discontinued operations, the income tax benefit consisted of the following:

€ in millions	2016	2015
Income taxes from continuing operations	36	102
Income taxes from discontinued operations	(3)	(1)
Income taxes recognized directly in equity	5	4
Income taxes	38	105

8 Earnings per share

Basic earnings per share are calculated by dividing earnings by the weighted average number of shares outstanding during the reporting period. The calculation of the diluted earnings per share is based on the assumption that all potentially dilutive instruments are converted into ordinary shares, resulting in a corresponding increase in the number of shares on the one hand and a corresponding reduction in the charge on earnings for these instruments, such as interest expense, on the other.



Basic and diluted earnings per share are calculated as follows for the fiscal years ended September 30, 2016 and 2015:

€ in millions (unless otherwise stated)	2016	2015
Earnings attributable to shareholders of Infineon Technologies AG – basic and diluted	744	632
thereof from continuing operations	742	620
thereof from discontinued operations	2	12
Weighted-average number of shares outstanding (in millions):		
– Ordinary share capital	1,131.2	1,128.6
– Adjustment for own shares	(6.0)	(6.0)
Weighted-average number of shares outstanding – basic	1,125.2	1,122.6
Adjustments for:		
– Effect of stock options and performance shares	4.1	2.7
Weighted-average number of shares outstanding – diluted	1,129.3	1,125.3
Basic and diluted earnings per share¹ (in euro):		
Earnings per share (in euro) from continuing operations	0.66	0.55
Earnings per share (in euro) from discontinued operations, net of income taxes	–	0.01
Earnings per share (in euro) – basic and diluted	0.66	0.56

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

9 Financial investments

Financial investments comprise fixed-term deposits with banks, investment funds, money market funds and securities. While fixed-term deposits with banks with an original term of more than three months and money market funds qualify as loans and receivables pursuant to IAS 39 “Financial Instruments: Recognition and Measurement”, investment funds and securities are categorized as available-for-sale financial assets (for valuation see note 2).

Financial investments at September 30, 2016 and 2015 comprise the following (for further information see also notes 21 and 22):

€ in millions	September 30, 2016	September 30, 2015
Fixed-term bank deposits and money market funds	1,157	1,156
Investment funds	399	122
Securities	59	62
Financial investments	1,615	1,340



10 Trade receivables

Trade receivables due within one year at September 30, 2016 and 2015 consist of the following:

€ in millions	September 30, 2016	September 30, 2015
Trade receivables, third parties	784	751
Trade receivables, related parties	1	2
Trade receivables, gross	785	753
Allowance for doubtful accounts	(11)	(11)
Trade receivables, net	774	742

Changes in the allowance for doubtful accounts for the 2016 and 2015 fiscal years were as follows:

€ in millions	2016	2015
Allowance for doubtful accounts at beginning of the fiscal year	11	7
Usage of allowance, net	-	-
Current year's allowance, net of reversals	-	4
Allowance for doubtful accounts at end of the fiscal year	11	11

Third party trade receivables that are outstanding but not impaired at the reporting date comprise the following:

€ in millions	Carrying amount	Thereof neither impaired nor past due	Of which not impaired but past due	
			Past due 0 – 30 days	Past due > 31 days
Third party trade receivables, net of allowances as of September 30, 2016	773	753	14	6
Third party trade receivables, net of allowances as of September 30, 2015	740	718	16	6

With respect to trade receivables that are not overdue and not impaired at the end of the reporting period, there are no indications that customers, based on their past credit history and current creditworthiness assessments, are not able to meet their obligations.

Receivables with a maturity of more than one year are presented as other non-current assets.

11 Inventories

Inventories at September 30, 2016 and 2015 consist of the following:

€ in millions	September 30, 2016	September 30, 2015
Raw materials and supplies	111	98
Work in progress	701	649
Finished goods and merchandise	379	382
Total	1,191	1,129

Cost of sales consist mainly of inventory-related expenses in the 2016 and 2015 fiscal years.

Inventories at September 30, 2016 and 2015 are stated net of write-downs of €136 million and €117 million, respectively.



12 Property, plant and equipment, goodwill and other intangible assets

A summary of changes in property, plant and equipment as well as in goodwill and other intangible assets for the years ended September 30, 2016 and 2015 is as follows:

Changes in property, plant and equipment and goodwill and other intangible assets 2016

	Cost						September 30, 2016
	October 1, 2015	Additions	Acquisitions through business combinations	Disposals	Reclassification	Foreign currency effects	
€ in millions							
Property, plant and equipment							
Land, land rights and buildings	1,003	26	-	(9)	73	2	1,095
Technical equipment and machinery	7,220	336	-	(95)	210	(23)	7,648
Other plant and office equipment	1,175	83	-	(64)	15	1	1,210
Payments on account and construction in progress	314	271	-	(3)	(298)	-	284
Total property, plant and equipment	9,712	716	-	(171)	-	(20)	10,237
Goodwill and other intangible assets							
Goodwill acquired for consideration	803	-	-	-	-	(4)	799
Capitalized development costs	419	98	-	-	-	-	517
Customer relationships	395	-	-	-	-	1	396
Technologies	294	-	-	(12)	-	1	283
Licenses and similar rights	201	12	-	(1)	-	-	212
Other intangible assets	18	-	-	-	-	-	18
Total goodwill and other intangible assets	2,130	110	-	(13)	-	(2)	2,225

Changes in property, plant and equipment and goodwill and other intangible assets 2015

	Cost						September 30, 2015
	October 1, 2014	Additions	Acquisitions through business combinations ¹	Disposals	Reclassification	Foreign currency effects	
€ in millions							
Property, plant and equipment							
Land, land rights and buildings	875	30	82	(2)	11	7	1,003
Technical equipment and machinery	6,529	326	258	(106)	173	40	7,220
Other plant and office equipment	1,123	73	14	(57)	14	8	1,175
Payments on account and construction in progress	272	217	25	(4)	(198)	2	314
Total property, plant and equipment	8,799	646	379	(169)	-	57	9,712
Goodwill and other intangible assets							
Goodwill acquired for consideration	25	-	729	-	-	49	803
Capitalized development costs	327	100	-	(8)	-	-	419
Customer relationships	-	-	374	-	-	21	395
Technologies	-	-	278	-	-	16	294
Licenses and similar rights	154	18	32	(5)	-	2	201
Other intangible assets	-	-	17	-	-	1	18
Total goodwill and other intangible assets	506	118	1,430	(13)	-	89	2,130

¹ For the year ended September 30, 2015, amounts shown under "Acquisitions through business combinations" relate to assets acquired in connection with the acquisition of International Rectifier.



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	Depreciation and impairment						Carrying amount		
	October 1, 2015	Depreciation/ amortization	Disposals	Reclassi- fication	Impairments	Foreign currency effects	Septem- ber 30, 2016	Septem- ber 30, 2016	Septem- ber 30, 2015
	(693)	(42)	9	-	6	(11)	(731)	364	310
	(5,867)	(536)	89	-	(7)	16	(6,305)	1,343	1,353
	(1,059)	(87)	64	-	-	-	(1,082)	128	116
	-	-	-	-	-	-	-	284	314
	(7,619)	(665)	162	-	(1)	5	(8,118)	2,119	2,093
	-	-	-	-	-	-	-	799	803
	(159)	(31)	-	-	(15)	-	(205)	312	260
	(53)	(68)	-	-	-	-	(121)	275	342
	(32)	(43)	5	-	-	-	(70)	213	262
	(144)	(20)	1	-	-	-	(163)	49	57
	(4)	(6)	-	-	-	-	(10)	8	14
	(392)	(168)	6	-	(15)	-	(569)	1,656	1,738

	Depreciation and impairment						Carrying amount		
	October 1, 2014	Depreciation/ amortization	Disposals	Reclassi- fication	Impairments	Foreign currency effects	Septem- ber 30, 2015	Septem- ber 30, 2015	Septem- ber 30, 2014
	(649)	(34)	2	1	(9)	(4)	(693)	310	226
	(5,421)	(510)	96	(1)	(6)	(25)	(5,867)	1,353	1,108
	(1,029)	(83)	57	-	-	(4)	(1,059)	116	94
	-	-	3	-	(3)	-	-	314	272
	(7,099)	(627)	158	-	(18)	(33)	(7,619)	2,093	1,700
	-	-	-	-	-	-	-	803	25
	(125)	(29)	8	-	(12)	(1)	(159)	260	202
	-	(52)	-	-	-	(1)	(53)	342	-
	-	(32)	-	-	-	-	(32)	262	-
	(131)	(17)	5	-	(1)	-	(144)	57	23
	-	(3)	-	-	-	(1)	(4)	14	-
	(256)	(133)	13	-	(13)	(3)	(392)	1,738	250



Impairments on property, plant and equipment in the previous fiscal year consisted primarily of €15 million of leasehold improvements (other plant and office equipment) and technical equipment in connection with the termination of manufacturing operations at Techview in Singapore which was disposed of in the 2016 fiscal year. In this regard €4 million of impairments were released. The release was recognized as other operating expense in the Consolidated Statement of Operations as was the impairment in the previous year. The impairment to internally developed intangible assets of €15 million (prior year: €12 million) relates to the impairment of capitalized development projects owing to lower expected contributions to earnings from these projects. Impairments of intangible assets are presented as other operating expense.

Reference is made to note 2, section “Recoverability of intangible assets and other long-lived assets” with respect to the procedures and assumptions used for the annual impairment test for goodwill as well as the carrying amount of goodwill allocated to individual CGUs or groups of CGUs.

Depreciation on property, plant and equipment is presented in the Consolidated Statement of Operations mainly in cost of goods sold. Amortization of intangible assets is mainly presented in cost of goods sold or selling, general and administrative expenses.

No property, plant and equipment was pledged as of September 30, 2016 (prior year: €13 million), equally no intangible assets were transferred to a third party as security or pledged as of September 30, 2016 and 2015.

13 Provisions

Short-term and long-term provisions at September 30, 2016 consist of the following:

€ in millions	October 1, 2015	Additions	Usage	Reversals	September 30, 2016
Obligations to employees	322	217	(241)	(10)	288
Warranties	56	12	(5)	(17)	46
Provisions related to Qimonda (see note 23)	41	5	(11)	(3)	32
Other	55	9	(14)	(13)	37
Total provisions	474	243	(271)	(43)	403
Thereof short-term	402				327
Thereof long-term	72				76

Obligations to employees include, among others, costs of variable compensation, outstanding vacation and flextime, service anniversary awards, other personnel costs and social security costs.

Provisions for warranties mainly represent the estimated future cost of fulfilling contractual requirements associated with products sold.

Other provisions comprise provisions for litigations (other than provisions relating to Qimonda), asset retirement obligations, onerous contracts and miscellaneous other liabilities.

Of the total provisions as of September 30, 2016 and 2015, a cash outflow of €327 million and €402 million, respectively, is expected to occur within one year. With the exception of the service anniversary awards of €27 million and €22 million as of September 30, 2016 and 2015, respectively, the cash outflow for the majority of the remaining €49 million and €50 million as of September 30, 2016 and 2015, respectively, is expected within two to seven years.



14 Debt

Debt at September 30, 2016 and 2015 consists of the following:

€ in millions	September 30, 2016	September 30, 2015
Current maturities of long-term debt, weighted average interest rate: 1.37% (2015: 3.48%)	17	25
Loans payable to banks, weighted average interest rate in the previous year: 4.35%	-	8
Short-term debt and current maturities of long-term debt	17	33
Loans payable to banks:		
Unsecured loans, weighted average interest rate 0.52% (2015: 1.76%), due 2017–2023	128	968
Bond €300 million, coupon 1.00%, due 2018	298	298
Bond €500 million, coupon 1.50%, due 2022	496	494
USPP notes US\$935 million, weighted average interest rate 4.09%, due 2024–2028	830	-
Long-term debt	1,752	1,760
Total	1,769	1,793

Infineon successfully completed a US private placement of notes (USPP) with a nominal value of US\$935 million in April 2016. The senior, unsecured USPP notes, which bear average annual interest of 4.09 percent, consist of the following:

- › Notes with a nominal value of US\$350 million due in 2024,
- › Notes with a nominal value of US\$350 million due in 2026, and
- › Notes with a nominal value of US\$235 million due in 2028.

The term loan in the amount of US\$934 million, which Infineon had raised from several international banks in connection with the acquisition of International Rectifier (see note 3), was repaid in full out of the USPP proceeds on April 13, 2016.

Moreover, as of September 30, 2016, besides two senior and unsecured bonds of €800 million, there are other financial liabilities which primarily relate to financing for Infineon Technologies Austria AG.

In addition, Infineon has established several independent financing arrangements in the form of both short- and long-term credit facilities, in order to finance operating business requirements.

Furthermore, in connection with the pending acquisition of Wolfspeed (see note 3), Infineon concluded a financing agreement for three senior unsecured lines of credit with several international banks: a line of US\$250 million with a term of three years, a line of €200 million with a term of four years and a line of US\$250 million with a term of five years. The lines will be drawn down at the time the acquisition is completed.

The total lines of credit as of September 30, 2016 and 2015 are summarized in the following table:

€ in millions	September 30, 2016			September 30, 2015		
	Aggregate facility	Drawn	Available	Aggregate facility	Drawn	Available
Short-term	91	17	74	110	33	77
Long-term	773	127	646	968	968	-
Total	864	144	720	1,078	1,001	77



Aggregate amounts of debt and interest maturing in the coming years are as follows:

€ in millions	September 30, 2016		September 30, 2015	
	Debt	Interest	Debt	Interest
Less than 1 year	17	46	33	29
1–2 years	303	46	16	28
2–3 years	108	43	303	28
3–4 years	8	42	943	27
5 years and after	1,341	186	514	22
Total	1,777	363	1,809	134

Interest expense incurred in connection with debt for the years ended September 30, 2016 and 2015, was €64 million and €48 million, respectively.

15 Equity

Ordinary share capital

The ordinary share capital of Infineon Technologies AG increased during the 2016 fiscal year by €6,803,256. 3,401,628 new shares were issued as a result of the exercise of stock options by employees as well as by current and past members of the Management Board (2015: 1,532,251). As of September 30, 2016 the ordinary share capital stood at €2,265,346,218 divided into 1,132,673,109 no par value registered shares, each representing €2 of the Company's ordinary share capital. Each share grants the holder one vote and an equal portion of the profits in the form of a dividend as resolved by the Annual General Meeting. As of September 30, 2016, of the above mentioned total number of issued shares the Company held 6 million own shares (2015: 6 million). Own shares held by the Company as at the date of the Annual General Meeting carry no voting rights and are not entitled to dividend.

Additional paid-in capital

Additional paid-in capital reported in the Consolidated Statement of Financial Position decreased by €197 million in the 2016 fiscal year, of which €225 million related to the dividend paid in February 2016. The exercise of stock options by employees as well as by current and past members of the Management Board increased additional paid-in capital by €19 million. Expenses amounting to €9 million for share-based compensation were recorded in the 2016 fiscal year, additional paid-in capital increased by the same amount (see note 17).

Additional paid-in capital reported in the Consolidated Statement of Financial Position decreased by €201 million in the 2015 fiscal year, of which €202 million related to the dividend paid in February 2015. As a result of the acquisition of the remaining 33.6 percent share in LS Power Semitech Co., Ltd. (LSPS), Korea, from LS Industrial Systems Co., Ltd. (LSIS), Korea for €15 million on April 30, 2015, additional paid-in capital decreased by €10 million and non-controlling interests were reduced by €5 million. The exercise of employee stock options increased additional paid-in capital by €9 million. Expenses amounting to €6 million for share-based compensation were recorded in the 2015 fiscal year, additional paid-in capital increased by the same amount.

Authorized share capital

As of September 30, 2016, the Company's Articles of Associations provide for two authorized share capitals amounting to up to €706,000,000 (the Authorized Share Capital 2016/I was created by the Annual General Meeting on February 18, 2016):

- › Section 4(4) of the Articles of Association provides that the Management Board is authorized, with the approval of the Supervisory Board, to increase the share capital in the period until its expiry in February 11, 2020 once or in partial amounts by a total of up to €676,000,000 through the issue of new no par value registered shares, carrying a dividend right from the beginning of the fiscal year in which they are issued, against contributions in cash or in kind (Authorized Capital 2015/I). The Management Board is authorized, with the approval of the Supervisory Board, to exclude the subscription rights of the shareholders in certain cases. In accordance with German law, cash capital increases with subscription rights excluded pursuant to section 186, paragraph 3, fourth sentence of the AktG, are not permitted to exceed 10 percent of a company's share capital – neither at the time of the authorization becoming effective nor at the time of its exercise. For share capital increases against contributions in kind or a combination of cash contributions and contributions in kind, the authorization further provides an upper limit of 20 percent of the share capital, again measured either at the time the authorization becomes effective or, if the value is lower, at the time of its exercise.



- › Section 4(7) of the Articles of Association provides that the Management Board is authorized, with the approval of the Supervisory Board, to increase the share capital in the period up to February 17, 2021 – either once or in partial amounts – by a total of up to €30,000,000 by issuing new no par value registered shares against contributions in cash for the purpose of increasing the issue to employees of the Company or its Group companies (Authorized Capital 2016/I). The subscription rights of the shareholders are excluded in relation to these shares. The shares may be issued in such a manner that the contribution to be paid on such shares is covered by the portion of the profit for the year that the Management Board and Supervisory Board could transfer to revenue reserves in accordance with section 58, paragraph 2, AktG.

Conditional capital

As of September 30, 2016, the Company's Articles of Associations provide for two conditional capitals amounting to up to €281,714,094 (the previous Conditional Capital III was cancelled by the Annual General Meeting on February 18, 2016):

- › Pursuant to section 4(5) of the Articles of Association the share capital is conditionally increased by up to €21,714,094 through the issue up to 10,857,047 new no par value registered shares in connection with the Company's "Infineon Technologies AG Aktienoptionsplan 2010" ("Stock Option Plan 2010") (see note 17) (Conditional Capital 2010/I). During the 2016 fiscal year, a total of 3,401,628 new no par value shares with a proportionate amount of share capital of €2 per share were issued out of the Conditional Capital 2010/I as a result of the exercise of share options in connection with the Stock Option Plan 2010. Conditional Capital 2010/I decreased accordingly by €6,803,256 to €14,910,838. The corresponding change to the Articles of Association was submitted after the end of the reporting period and entered into the Commercial Register as requested.
- › Pursuant to section 4 (6) of the Articles of Association the share capital is conditionally increased by up to €260,000,000 through the issue of up to 130,000,000 new no par value registered shares to satisfy the rights of the holders of warrants or convertible bonds, which the Company may issue at any time prior to February 12, 2019 (Conditional Capital 2014).

Other reserves

Changes in other reserves during the 2016 and 2015 fiscal years are as follows:

€ in millions	September 30, 2016			September 30, 2015		
	Pretax	Tax	Net after tax	Pretax	Tax	Net after tax
Foreign currency translation differences	(28)	-	(28)	100	-	100
Deal Contingent Forward	(6)	-	(6)	(39)	-	(39)
Realized (gains) losses resulting from hedge accounting	(1)	-	(1)	6	-	6
Unrealized gains (losses) resulting from hedge accounting	4	(3)	1	(3)	2	(1)
Realized (gains) losses resulting from securities	-	-	-	(4)	1	(3)
Unrealized (losses) resulting from securities	(1)	-	(1)	(1)	-	(1)
Total	(32)	(3)	(35)	59	3	62

Accumulated deficit

The following table shows a reconciliation of accumulated deficit as of September 30, 2015 and 2016:

€ in millions	
As of October 1, 2014	(3,502)
Net income attributable to shareholders of Infineon Technologies AG	632
Actuarial loss on post-employment benefit obligations net of tax of €1 million	(27)
As of September 30, 2015	(2,897)
Net income attributable to shareholders of Infineon Technologies AG	744
Actuarial gains on post-employment benefit obligations net of tax of €5 million	(159)
As of September 30, 2016	(2,312)



Dividends

For the 2015 fiscal year, a cash dividend of €0.20 per share (total amount: €225 million) was paid. For the 2014 fiscal year, a cash dividend of €0.18 per share (total amount: €202 million) was paid.

Due to the results achieved in the reporting period as well as a positive business outlook, a dividend of €0.22 for each share entitled to a dividend shall be proposed to be paid from the €249 million of distributable profits of Infineon Technologies AG for the 2016 fiscal year, an increase of €0.02 compared to the previous year. This would result in an expected distribution of approximately €248 million. The payment of this dividend depends on the approval of the Annual General Meeting on February 16, 2017.

16 Capital management

Infineon's main capital management objective is to ensure financial flexibility on the basis of a solid capital structure. As with comparable companies in the semiconductor industry, it is of prime importance that sufficient cash funds are available to finance operating activities and planned investments throughout all phases of the business cycle. On the other hand, debt should only constitute a modest portion of the financing mix. Based on these principles Infineon has defined key objectives for capital management. These capital structure targets were adjusted in February 2016 to reflect the strong revenue growth and the positive development of Infineon's profitability and will continue to be pursued by Infineon after the planned acquisition of Wolfspeed (see note 3).

Accordingly, Infineon plans to maintain a liquidity level (gross cash position) of at least €1 billion plus additionally 10 to 20 percent of revenue. The previous target range for the gross cash position amounted to 30 to 40 percent of revenue. The upper limit for gross debt of no more than two times EBITDA continues to apply. The net amount of these two capital structure targets is no longer subject to its own target (previously: positive net cash position).

Infineon is not subject to any statutory capital requirements, nor are any such defined in the Articles of Association.

In February 2016, for the first time, Infineon was assigned a long-term credit rating "BBB" (outlook "stable") by the international rating agency S&P Global Ratings (S&P). The solid investment grade rating reflects among other things Infineon's adjusted capital structure targets. S&P confirmed Infineon's rating following the announcement of the planned acquisition of Wolfspeed (see note 3).

Capital management as well as the corresponding targets and definitions are based on indicators determined on the basis of the consolidated IFRS financial statements. Gross cash is defined as the total of cash, cash equivalents and financial investments. Infineon defines EBIT as earnings (loss) from continuing operations before interest and taxes and EBITDA as EBIT plus scheduled depreciation and amortization.

The gross cash position increased from €2,013 million as of September 30, 2015, to €2,240 million as of September 30, 2016 (for details see the chapter "Review of liquidity" in the Combined Management Report). Based on revenue of €6,473 million, the ratio of gross cash to revenue was €1 billion plus 19.2 percent of revenue as of September 30, 2016, thereby at the upper end of the target range. In the previous year the ratio of gross cash to revenue was €1 billion plus 17.5 percent of revenue.

The gross debt to EBITDA ratio was 1.1 as of September 30, 2016 (1.4 in 2015). Infineon continues to have sufficient financial flexibility to ensure that in addition to financing its planned investments it is also able to pay regular dividends (see note 15) and complete the pending acquisition of Wolfspeed.



Both the term loan of US\$934 million which Infineon had raised in connection with the acquisition of International Rectifier as well as the USPP notes of US\$935 million which have been used for full repayment of the term loan in April 2016, contain a number of standard covenants, including among other things, change of control clauses as well as the compliance with a debt coverage ratio. This covenant ratio, which provides for a certain relationship between the size of debt (adjusted) and earnings (adjusted), was complied with in the 2016 fiscal year; Infineon achieved a ratio that was significantly above the minimum requirement. The entire outstanding USPP notes which amounted to US\$935 million as at September 30, 2016 (see note 14) can become immediately repayable if the covenant agreement is not complied with by Infineon.

17 Share-based compensation

The Company makes use of the Stock Option Plan 2010 and, from the 2014 fiscal year, the Performance Share Plan in order to provide share-based compensation.

Performance share plan

The following is an overview of the allocations made:

Tranche	End of the waiting period	Average share price of the nine months before grant in €	Number of performance shares at September 30, 2016	Fair value per performance share in € ¹
Fiscal year 2016: Employees	September 30, 2019	10.56	1,186,294	7.26
Fiscal year 2016: Management Board	September 30, 2019	10.56	80,964	7.07
Fiscal year 2015: Employees	September 30, 2018	8.49	1,003,944	5.44
Fiscal year 2015: Management Board	September 30, 2018	8.49	100,702	5.31
Fiscal year 2014: Employees	September 30, 2017	6.62	1,199,588	5.72
Fiscal year 2014: Management Board	September 30, 2017	6.62	114,046	5.20

¹ The fair value of the performance shares at the grant date is determined by an external expert using a recognized financial-mathematical method (Monte Carlo simulation model).

As at October 1, 2016, 80,704 (virtual) performance shares were allocated to the Management Board and 960,160 (virtual) performance shares were allocated to employees.

Stock Option Plan 2010

6.0 million and 9.5 million stock options with an average exercise price per option of €7.18 and €7.33 were outstanding as at September 30, 2016 and 2015, respectively. Of these, 1.9 million were exercisable as at both September 30, 2016 and 2015.

Costs for share-based compensation

The costs for share-based compensation amounted to €9 million and €6 million in the 2016 and 2015 fiscal years, respectively.

18 Supplemental cash flow information

There were no significant non-cash transactions from acquisition or financing activities during the 2016 and 2015 fiscal years.

Cash and cash equivalents reported as of September 30, 2016 and 2015 totaling €625 million and €673 million, respectively, include €115 million and €85 million, respectively, which were subject to legal transfer restrictions and so were not available for general use by Infineon. This amount represents cash and cash equivalents of consolidated companies located in countries where the transfer of cash is legally restricted, for example the People's Republic of China.



19 Transactions with related companies and persons

Infineon has transactions in the normal course of business with associated and other related companies (collectively, “related companies”). The related companies which are controlled or significantly influenced by Infineon are disclosed in note 26. Related persons are persons in key management positions in particular members of the Management and Supervisory Board (see note 26) and their close relatives (collectively “related persons”).

Related companies

Infineon purchases certain raw materials and services from and sells certain products and services to related companies. These purchases from and sales to related companies are generally effected at arm’s length.

Related companies receivables and payables as of September 30, 2016 and 2015 consist of the following:

€ in millions	September 30, 2016		September 30, 2015	
	Joint ventures	Other related companies	Joint ventures	Other related companies
Trade and other receivables	1	–	1	1
Financial receivables	–	1	–	–
Trade and other payables	8	1	8	1
Financial payables	–	1	–	1

Sales and service charges to and products and services received from related companies in the 2016 and 2015 fiscal years consist of the following:

€ in millions	2016		2015	
	Joint ventures	Other related companies	Joint ventures	Other related companies
Sales and service charges	3	1	5	1
Products and services received	77	14	80	20

As of September 30, 2016, sales and services relationships with related companies resulted in purchase commitments of €5 million (September 30, 2015: €1 million).

Related persons

The active members of the Management Board in the 2016 fiscal year received total fixed non-performance-related compensation for their services of €2.9 million (2015: €2.7 million). In addition, the members of the Management Board received variable performance-related compensation for their services in the 2016 fiscal year totaling €2.8 million (2015: €3.9 million). This comprised a Short Term Incentive of €1.3 million (2015: €2.0 million), and a Mid Term Incentive of €1.5 million (2015: €1.9 million). Furthermore, the Management Board received a Long Term Incentive (LTI) which, since 2014, takes the form of performance shares. The expense resulting from the LTI amounted to €0.4 million (2015: €0.5 million). The total compensation granted to active members of the Management Board amounted to €6.1 million in the 2016 fiscal year (2015: €7.1 million).

In accordance with a mutual agreement reached with the Supervisory Board, Mr. Mittal resigned as member of the Management Board effective June 30, 2016 and his service contract came to an end effective September 30, 2016. During the period between his resignation from the Management Board and the end of his service contract at the end of the 2016 fiscal year, Mr. Mittal continued to be available in his previous role in order to facilitate the transfer of duties and the induction of his successor. Mr. Mittal is still entitled to a payment of €557,344.13 under his service contract which expired on September 30, 2016.



For information regarding the compensation paid to Mr. Mittal after termination of his Management Board activities, see “Management Board compensation in the 2016 fiscal year in accordance with German Accounting Standard 17 (DRS 17)” in the compensation report in the chapter “Corporate Governance Report”.

The total compensation of the members of the Supervisory Board of Infineon Technologies AG in the 2016 fiscal year, including attendance fees, amounted to €1.7 million (2015: €1.5 million). Employee representatives in the Supervisory Board who are employed by Infineon also receive a salary for their activities as employees.

Former members of the Management Board received total payments of €1.2 million (in particular pension payments) in the 2016 fiscal year (2015: €1.1 million).

As of September 30, 2016, pension liabilities for former members of the Management Board amounted to €77.0 million (2015: €60.2 million).

Neither Infineon Technologies AG nor any of its subsidiaries have granted loans to any member of the Supervisory or Management Boards.

Disclosure of the individual remuneration of the members of the Management Board and the Supervisory Board as required by section 315a (1) in connection with section 314 (1) no. 6a, sentences 5 to 8 of the German Commercial Code, is provided in the Compensation Report which is part of the Combined Management Report.

In the 2016 and 2015 fiscal years there were no further significant transactions between Infineon and related persons which fall outside of the scope of the existing employment, service or appointment terms, or of the contractual arrangements for their remuneration.

20 Pension plans

Defined benefit pension plans

Infineon’s employee benefit plans consist of domestic and foreign defined benefit and defined contribution pension plans providing retirement, disability and surviving dependents’ benefits. For the Infineon Group, the significant benefit plans in Germany pertain to Infineon Technologies AG, and among the foreign benefit plans to Infineon Technologies Austria AG.

In Germany Infineon primarily offers defined contribution benefits which provide for the employees when they reach retirement age, or in the event of disability or death. With the Infineon pension plan new entrants receive a defined contribution benefit which is funded by Infineon. Payments by the Infineon pension plan are generally made in twelve installments. For active employees who were, before the Infineon Pension Plan came into force, entitled to benefits in the form of an annuity, this commitment is the overriding one and thereby the possibility of an annuity is guaranteed. Together with former employees, whose pension benefit obligations are no longer transferred into the Infineon Pension Plan, this group makes up the largest part of the obligation at this time. The statutory framework is provided by the Company Pension Act (in German: Betriebsrentengesetz or BetrAVG) and by employment law in general. An appropriate provision is recorded for the German defined benefit pension plans, which are partly backed by plan assets. Individual agreements are in place for the members of the Management Board which are backed by pension reinsurance policies (detailed in the “Compensation Report” chapter).

The benefit obligation of some foreign plans is measured according to the income in the last month or year of service, others are dependent on average income over the service period. Furthermore, in certain countries Infineon makes severance payments irrespective of the reason for the termination of employment, these payments are usually defined by law in the relevant country. The liabilities arising from foreign defined benefit pension plans are partly covered by plan assets.

The valuation date of the German and foreign pension plans is September 30, respectively.



The Group defined benefit pension plans are exposed to risks arising from changes to actuarial assumptions such as interest rates, salary and pension trends, investment risks and longevity risks. A low discount rate leads to higher pension liabilities. Equally, a lower than expected growth in plan assets could lead to a deterioration of the funded status, or require the payment of additional contributions.

The development of Infineon's German (domestic) and non-German (foreign) pension plans and the plan assets to September 30, 2016 and 2015 is presented in the following table:

€ in millions	2016			2015		
	Domestic plans	Foreign plans	Total	Domestic plans	Foreign plans	Total
Change in defined benefit obligations taking into account future salary increases:						
Present value at beginning of year	(773)	(141)	(914)	(730)	(131)	(861)
Current service cost	(21)	(5)	(26)	(21)	(4)	(25)
Past service income	(5)	-	(5)	-	3	3
Interest cost	(18)	(5)	(23)	(17)	(5)	(22)
Actuarial gains (losses) for:						
Experience adjustments	(2)	(1)	(3)	(27)	(3)	(30)
Adjustments to demographic assumptions	-	(13)	(13)	-	(1)	(1)
Adjustments to financial assumptions	(159)	(20)	(179)	8	(2)	6
Acquisitions	-	-	-	-	(3)	(3)
Plan settlements	-	-	-	-	7	7
Benefits paid by Infineon	14	8	22	14	4	18
Foreign currency effects	-	5	5	-	(6)	(6)
Present value of defined benefit obligation at end of year	(964)	(172)	(1,136)	(773)	(141)	(914)
Change in fair value of plan assets:						
Fair value of plan assets at beginning of year	437	51	488	430	52	482
Expected return on plan assets	11	2	13	10	2	12
Actuarial gains (losses)	23	11	34	(2)	(3)	(5)
Contributions from Infineon	13	11	24	13	6	19
Benefits paid	(14)	(8)	(22)	(14)	(4)	(18)
Plan settlements	-	-	-	-	(7)	(7)
Foreign currency effects	-	(5)	(5)	-	5	5
Fair value of plan assets at end of year	470	62	532	437	51	488
Net pension liability	(494)	(110)	(604)	(336)	(90)	(426)
Thereof: Infineon Technologies AG	(461)	-	-	(313)	-	(313)
Thereof: Infineon Technologies Austria AG	-	(56)	-	-	(40)	(40)



Pension obligations are reported in the Consolidated Statement of Financial Position under “Pension plans and similar commitments”.

Since no asset ceilings applied, the funded status of the Infineon pension plans corresponds to the amounts reported in the Consolidated Statement of Financial Position as at September 30, 2016 and 2015.

The funding of the defined benefit obligations is as follows:

€ in millions	September 30, 2016			September 30, 2015		
	Domestic plans	Foreign plans	Total	Domestic plans	Foreign plans	Total
Plans that are wholly unfunded	11	93	104	10	71	81
Plans that are wholly or partly funded	953	79	1,032	763	70	833
Total	964	172	1,136	773	141	914

Actuarial assumptions

The weighted-average assumptions used in calculating the actuarial values for the pension plans are as follows:

in %	September 30, 2016		September 30, 2015	
	Domestic plans	Foreign plans	Domestic plans	Foreign plans
Discount rate at the end of the fiscal year	1.0	2.2	2.4	3.2
Rate of salary increase	2.0	2.3	2.0	2.4
Projected future pension increases	2.0	0.6	2.0	0.7

Discount rates are derived from high-grade fixed interest corporate bonds from issuers carrying a very high credit rating.

Sensitivity analysis

The following sensitivity analysis table shows how the present value of all defined benefit pension obligations would be affected by changes in the aforementioned actuarial assumptions. In each case they reflect the effect of changes in one actuarial assumption holding all other assumptions constant.

€ in millions	September 30, 2016			September 30, 2015		
	Domestic plans	Foreign plans	Total	Domestic plans	Foreign plans	Total
Present value of defined benefit pension plans with:						
a 50 basis points higher discount rate	878	160	1,038	708	131	839
a 50 basis points lower discount rate	1,059	186	1,245	847	152	999
a 50 basis points higher expected rate of salary increase	975	177	1,152	783	145	928
a 50 basis points lower expected rate of salary increase	954	167	1,121	765	137	902
a 50 basis points higher expected rate of pension increase	982	177	1,159	795	146	941
a 50 basis points lower expected rate of pension increase	940	164	1,104	754	136	890
Increase in life expectancy by one year	992	172	1,164	790	143	933

The 2005 G actuarial tables by Dr. Klaus Heubeck were used for Germany, and for Austria the AVÖ 2008-P (Ang.) tables were applied.



Investment strategies

The pension plans' assets are invested with several fund managers. The investment guidelines require a mix of active and passive investment management programs covering different asset classes. Taking the duration of the underlying liabilities into account, a portfolio of investments of plan assets in equity, debt and other securities, and reinsurance policies is targeted to maximize the total long-term return on assets for a given level of risk. Investment risk is monitored on an ongoing basis through periodic portfolio reviews, coordination with investment managers and annual liability measurements. Investment policies and strategies are periodically reviewed as part of detailed studies of assets and liabilities by independent investment advisors and actuaries to ensure the objectives of the plans are met, taking into account any changes in benefit plan structure, market conditions or other material items. The aim is to optimize the risk-return portfolio of plan assets against the liabilities using a diversified portfolio of investments within a defined risk budget and to thereby increase the funding ratio in the long term.

Plan asset allocation

As of September 30, 2016 and 2015 the allocation of invested plan assets to the major asset categories is as follows:

€ in millions	September 30, 2016		September 30, 2015	
	Quoted in an active market	Not quoted in an active market	Quoted in an active market	Not quoted in an active market
Government bonds	140	–	146	–
Corporate bonds	153	1	130	3
Equity securities	133	–	78	–
Cash and cash equivalents	6	–	33	–
Reinsurance policies	–	33	–	33
Property	3	19	3	23
Other	25	19	24	15
Total	460	72	414	74

Government and corporate bonds are traded in liquid markets and the majority of them have an investment grade rating.

The position "Other" in the table above comprises mainly commodity funds and certificates.

As a matter of policy Infineon's pension plans do not invest in shares or debt instruments of Infineon.

The actual return on plan assets in the fiscal year ended September 30, 2016 was €47 million (2015: €7 million).



Amounts recognized in profit or loss and in total comprehensive income

The expenses and income of defined benefit plans for the years ended September 30, 2016 and 2015 comprise the following:

€ in millions	2016			2015		
	Domestic plans	Foreign plans	Total	Domestic plans	Foreign plans	Total
Current service cost	(21)	(5)	(26)	(21)	(4)	(25)
Interest cost	(18)	(5)	(23)	(17)	(5)	(22)
Expected return on plan assets	11	2	13	10	2	12
Amortization of unrecognized past service (cost) benefit	(5)	–	(5)	–	3	3
Pension cost	(33)	(8)	(41)	(28)	(4)	(32)

Service costs are recorded within cost of goods sold to the extent that they relate to production employees, otherwise they are recorded as research and development or selling, general and administrative expenses. Interest costs and expected return on plan assets were recorded net as part of financial expense.

Actuarial losses of €160 million and €30 million have been recognized outside of the Consolidated Statement of Operations in other comprehensive income for the years ended September 30, 2016 and 2015, respectively.

As of September 30, 2016 and 2015, cumulative actuarial losses amounted to €482 million and €322 million, respectively. In addition, cumulative actuarial losses amounting to €7 million, resulting from deferred compensation and health care plans, are also recognized directly in other comprehensive income.

In the 2017 fiscal year, payments of €21 million are expected to be made to plan assets which relate to benefits paid directly to pension recipients by the Group companies.

The weighted average duration of defined benefit plans is around 18 years as of September 30, 2016 and 2015, respectively.

The following table shows the expected disbursements for defined benefit plans for the next ten fiscal years as at September 30, 2016 and 2015:

€ in millions	September 30, 2016	September 30, 2015
Less than 1 year	21	21
1 – 2 years	22	21
2 – 5 years	81	82
5 – 10 years	191	197
Total	315	321

Defined contribution plans

In connection with defined contribution plans, fixed contributions are made to external insurance providers or funds. Infineon has no further performance obligations or risks with regard to these pension plans in excess of the fixed contributions paid. Additionally the Group makes contributions to government pension schemes. Expenses for defined contribution plans amounted to €162 million and €144 million in the fiscal years ended September 30, 2016 and 2015, respectively.



21 Additional disclosures on financial instruments

The following table presents the carrying amounts and the fair values of financial instruments by their respective classes, and a breakdown by category of financial instruments as defined by IAS 39.

€ in millions	Categories of financial assets					Fair value
	Carrying amount	At fair value through profit or loss	Available for sale	Loans and receivables	Designated cash flow hedges	
Financial assets						
Balance as of September 30, 2016						
Current assets:						
Cash and cash equivalents	625	-	-	625	-	625
Financial investments	1,615	-	458	1,157	-	1,615
Trade receivables	774	-	-	774	-	774
Other current assets	88	-	-	87	1	88
Non-current assets:						
Other non-current assets	132	-	32	100	-	132
Total	3,234	-	490	2,743	1	3,234
Balance as of September 30, 2015						
Current assets:						
Cash and cash equivalents	673	-	-	673	-	673
Financial investments	1,340	-	184	1,156	-	1,340
Trade receivables	742	-	-	742	-	742
Other current assets	74	1	-	73	-	74
Non-current assets:						
Other non-current assets	129	-	32	97	-	129
Total	2,958	1	216	2,741	-	2,958



€ in millions	Categories of financial liabilities				Fair value
	Carrying amount	At fair value through profit or loss	Other financial liabilities (amortized cost)	Designated hedging instruments (cash flow hedges)	
Financial liabilities					
Balance as of September 30, 2016					
Current liabilities:					
Short-term debt and current maturities of long-term debt	17	-	17	-	17
Trade payables	857	-	857	-	857
Other current liabilities	121	2	111	8	121
Non-current liabilities:					
Long-term debt	1,752	-	1,752	-	1,827
Other non-current liabilities	8	-	8	-	8
Total	2,755	2	2,745	8	2,830
Balance as of September 30, 2015					
Current liabilities:					
Short-term debt and current maturities of long-term debt	33	-	33	-	33
Trade payables	802	-	802	-	802
Other current liabilities	137	7	128	2	137
Non-current liabilities:					
Long-term debt	1,760	-	1,760	-	1,759
Other non-current liabilities	32	-	32	-	32
Total	2,764	7	2,755	2	2,763

For assets measured at amortized costs categorized as “Loans and receivables”, it is assumed that the fair values correspond to their carrying amounts. The same assumption applies to liabilities resulting from trade payables and other current liabilities categorized as “Other financial liabilities (amortized cost)”.

Financial instruments measured at fair value are allocated to the following measurement levels in accordance with IFRS 13. The allocation to the different levels is based on the market proximity of the valuation parameters used in the determination of the fair value:

- › Level 1: quoted prices (unadjusted) in active markets for identical assets and liabilities,
- › Level 2: valuation parameters whose prices are not the ones considered in Level 1, but which can be observed either directly or indirectly for the assets or liabilities,
- › Level 3: valuation parameters for assets and liabilities which are not based on observable market data.



The allocation to the levels as of September 30, 2016 and 2015 is as follows:

€ in millions	Fair value	Fair value by category		
		Level 1	Level 2	Level 3
2016 fiscal year				
Current assets:				
Financial investments	458	399	59	-
Other current assets	1	-	1	-
Non-current assets:				
Other non-current assets	32	18	-	14
Total	491	417	60	14
Current liabilities:				
Other current liabilities	10	-	10	-
Total	10	-	10	-
2015 fiscal year				
Current assets:				
Financial investments	184	122	62	-
Other current assets	1	-	1	-
Non-current assets:				
Other non-current assets	32	19	-	13
Total	217	141	63	13
Current liabilities:				
Other current liabilities	9	-	9	-
Total	9	-	9	-

There is no active market for the securities included in financial investments. The fair value is calculated as the present value of future expected cash flows, taking into account valuation parameters which can be observed in the market (Level 2).

Other current liabilities contain derivative financial instruments, including cash flow hedges. Their fair value is determined by discounting future cash flows according to the discounted cash flow method. Where possible, valuation parameters observed on the reporting date in the relevant markets (such as currency rates or commodity prices) drawn from reliable external sources are used (Level 2).

Other non-current assets include equity holdings and investments in funds. Where these are traded on an active market, the fair value is based on the actual market price (Level 1). For equity investments where no actively traded market price is available, the fair value is determined by considering existing contractual arrangements based on externally observable dividend policy (Level 3).

In addition, other non-current assets include an option to sell shares in an equity holding for a fixed price. The option is recognized as a derivative financial instrument and is not designated as a hedging instrument. The fair value is determined using the Black-Scholes option pricing model (Level 3).

In the 2016 and 2015 fiscal years there were no reclassifications between the levels.



The net gain or loss on financial instruments (including interest income and expense) within continuing operations in the Group Statement of Operations amounted to the following:

€ in millions	2016	2015
Available-for-sale financial assets	2	5
Loan and receivables	(22)	64
Held for trading	7	(21)
Other financial liabilities	(33)	(77)
Designated hedging instruments (cash flow hedges)	(2)	(6)
Total	(48)	(35)

The currency effects included within net gains and losses amount to positive €1 million (2015: negative €2 million). This net currency effect arose exclusively from recognized financial instruments.

Interest income from financial instruments not measured at fair value through profit and loss in the 2016 and 2015 fiscal year amounted to €6 million, respectively; interest expense from such financial instruments amounted to €53 million (2015: €39 million).

Infineon does not net financial instruments. The Infineon Group conducts derivative transactions according to the global netting agreement (Master Agreement) of the International Swaps and Derivatives Association (ISDA) and other comparable national framework agreements. Under the terms of these agreements, any netting arising from the occurrence of certain future events would have no material effect on the balance sheet presentation of these financial instruments.

Derivative financial instruments and hedging activities

Infineon holds derivative financial instruments exclusively for hedging purposes. This includes the use of forward exchange contracts and commodity swaps. The objective is to reduce the impact of exchange rate and commodity price fluctuations on future net cash flows.

The nominal values and fair values of Infineon's derivative instruments as of September 30, 2016 and 2015 are as follows:

€ in millions	September 30, 2016		September 30, 2015	
	Nominal value	Fair value	Nominal value	Fair value
Forward exchange contracts sold	165	-	171	(2)
Forward exchange contracts purchased	167	(2)	145	(4)
Designated cash flow hedges				
Deal Contingent Forward	455	(8)	-	-
Commodity swaps	39	1	41	(2)
Total		(9)		(8)

Foreign exchange derivatives are entered into by Infineon to offset the exchange risk from anticipated cash receipts from operating activities. In 2016 as in 2015 no foreign exchange derivatives used to hedge ongoing business were designated as cash flow hedges.



In order to partly hedge against the exchange rate risk associated with the purchase price obligation arising from the planned acquisition of Wolfspeed (see note 3), the Company entered into two transaction-dependent Euro/US Dollar foreign currency forward contracts (Deal Contingent Forwards) in July 2016. Each had a nominal value of US\$250 million and was accounted for as a cash flow hedge. As at September 30, 2016 the two Deal Contingent Forwards had a total fair value of negative €8 million. The change in value of negative €6 million was recorded in other reserves. In the 2016 fiscal year Deal Contingent Forward ineffectiveness totaling €2 million was recorded in the Consolidated Statement of Operations. When the acquisition of Wolfspeed is completed, which is expected to take place at the beginning of the 2017 calendar year, the effective part of the hedges will be recognized when the goodwill arising from the transaction is determined.

To offset the price risks of highly probable gold purchases in the coming fiscal years, Infineon entered into swaps which are designated as cash flow hedges. The fair value of these swaps amounted to positive €1 million as of September 30, 2016 and negative €2 million as of September 30, 2015. €4 million of unrealized gains arose from these transactions in the 2016 fiscal year (2015: €3 million unrealized losses), these increased other reserves by a corresponding amount. At the same time, €1 million of gains were realized in the 2016 fiscal year on swap transactions concluded in the previous year (2015: €3 million of losses); this amount was transferred from other reserves into the Consolidated Statement of Operations. As in the previous year, no hedge ineffectiveness was recorded in the Consolidated Statement of Operations for these hedging relationships. As in the previous year, no gains or losses were transferred from other reserves to profit or loss as a result of cash flow hedges for future raw material purchases being cancelled following the decision that the occurrence of the hedged transaction had become unlikely.

22 Financial risk management

Infineon's activities expose it to a variety of financial risks: market risk (including foreign exchange risk, interest rate risk and price risk), credit risk and liquidity risk. Infineon's financial risk management program seeks to minimize potential adverse effects on its profitability and liquidity. Infineon uses derivative financial instruments to hedge certain risks to which it is exposed. Financial risk management is carried out by the central Finance & Treasury (FT) department in accordance with policies approved by the Chief Financial Officer. The FT department identifies, evaluates and hedges financial risks in close cooperation with the operating units. The FT department's policy contains principles for overall risk management as well as policies covering specific areas such as foreign exchange risk, interest rate risk, credit risk, the use of derivative and non-derivative financial instruments, and the investment of excess liquidity.

Market risk

Market risk is defined as the risk of losses resulting from adverse changes in the market prices of financial instruments, including those related to foreign exchange rates, interest rates and other price risks.

Infineon is exposed to various market risks in the ordinary course of business, primarily resulting from changes in foreign exchange rates and interest rates. Infineon enters into a range of derivative financial transactions with various counterparties to limit such risks. Derivative instruments are used only for hedging purposes and not for trading or speculative purposes.

Foreign exchange risk

Foreign exchange risk within the meaning of IFRS 7 is the risk arising from changes to foreign exchange rates. Accordingly, foreign exchange risks are associated with monetary financial instruments that are denominated in a foreign currency that is one that does not correspond to the functional currency, and the foreign currency represents the relevant risk variable. Risks arising from the translation into Infineon's reporting currency are not risks within the meaning of IFRS 7.

Although Infineon prepares the Consolidated Financial Statements in euros, a varying but significant portion of its revenue as well as cost of goods sold, research and development and product distribution costs are denominated in currencies other than the euro, primarily the US dollar. Fluctuations in the exchange rates of these currencies compared to the euro had an effect on the results of Infineon in the 2016 and 2015 fiscal years.



The Management Board has established policies that require Infineon's individual legal entities to manage the foreign exchange risk with respect to their functional currency. Group entities prepare a monthly rolling cash flow forecast by currency in order to determine foreign exchange risks. The net foreign exchange positions determined in these forecasts are required to be hedged, usually by entering into internal hedging contracts. Infineon's policy with respect to limiting short-term foreign currency exposure is to hedge at least 75 percent of its estimated net cash flow for the following two months, at least 50 percent of its estimated net cash flow for the third month and, depending on the nature of the underlying transactions, a portion for the periods thereafter. Part of the foreign currency risk cannot be mitigated due to differences between actual and forecasted amounts. Infineon calculates this remaining risk based on net cash flows considering items in the Statement of Financial Position, actual orders received or placed and all other planned cash receipts and payments.

For the net result related to foreign currency derivatives and foreign currency transactions included within net income see note 21.

The following table shows the effects on profit or loss and equity for continuing operations of a 10 percent shift in exchange rates for the major foreign currencies (which can be found in note 2) as of September 30, 2016 and 2015. The assumed exchange rate changes relate only to financial instruments within the meaning of IFRS 7.

€ in millions	Profit or Loss		Equity	
	+10%	(10%)	+10%	(10%)
September 30, 2016	6	(7)	(40)	49
September 30, 2015	11	(13)	-	-

Interest rate risk

In accordance with IFRS 7 "Financial Instruments: Disclosures", interest rate risk is defined as the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in interest rates.

Infineon is exposed to interest rate risk through its financial assets and debt instruments resulting from bond issuances and debt financing. Due to the cyclical nature of its core business and the need to maintain high operational flexibility, Infineon holds a relatively high level of liquid financial assets that are invested in short-term fixed-interest instruments. These investments generally have a contract duration of between one and twelve months in order to achieve short-term interest rate returns. The risk to these assets of changing interest rates is partially offset by financial liabilities, some of which are based on variable interest rates.

To reduce the net remaining risks caused by changes in interest rates, Infineon is able to make use of interest rate derivatives in order to align the fixed interest periods of assets and liabilities.

IFRS 7 requires a sensitivity analysis showing the effect of possible changes in market interest rates on profit or loss and equity. Infineon prepares this using the iteration method. Infineon does not hold any fixed-rate financial assets or liabilities that are measured at fair value through profit or loss. Furthermore, Infineon did not hold any fixed-rate available for sale financial assets either in 2016 or 2015.

Changes in market interest rates affect interest income and interest expense on variable rate financial instruments. Assuming an increase (decrease) of 100 basis points in market interest rates in 2016, interest income in the 2016 fiscal year would have been worse (better) by €2 million; assuming an increase (decrease) of 100 basis points in market interest rates in 2015, interest income in the 2015 fiscal year would have been worse (better) by €9 million.



Other price risk

According to IFRS 7 “Financial Instruments: Disclosures”, other price risk is defined as the risk that the fair value or future cash flows of a financial instrument could fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), irrespective of whether those changes are caused by factors specific to the individual financial instrument or its issuer, or by factors affecting all similar financial instruments traded in the market.

Infineon held financial instruments that are exposed to market price risks. A change in the relevant market prices would have no significant impact on the result of the 2016 and 2015 fiscal years.

Additionally, Infineon is exposed to price risks with respect to raw materials upon which it is dependent. Infineon seeks to minimize these risks through its procurement policy (including the use of multiple sources, where possible) and its operating procedures. In line with these measures Infineon concluded additional financial derivative contracts for certain commodity supplies (gold) for the following fiscal year in order to mitigate the remaining risk arising from the fluctuation of commodity prices. The change in relevant market prices as of September 30, 2016 and September 30, 2015 had no significant impact on equity of the 2016 and 2015 fiscal years.

Credit risk

Credit risk arises when a customer or other counterparty of a financial instrument fails to discharge its contractual obligations. Infineon is exposed to this risk as a consequence of its ongoing operations, the financial investments and certain financing activities. Infineon’s credit risk arises primarily from trade receivables, cash and cash equivalents, financial investments and derivative financial instruments. Excluding the impact of any collateral received, the carrying amount of financial investments, cash and cash equivalents and trade receivables corresponds to the maximum credit risk.

Credit risk with respect to trade receivables is limited by the large number and geographic diversity of the customer base. Infineon controls credit risk through comprehensive credit evaluations for all major customers, the use of credit limits and monitoring procedures. New customers are evaluated for creditworthiness in accordance with Infineon guidelines. Credit limits are also in place for individual customers and creditworthiness and credit limits are constantly monitored. A further measure taken to reduce credit risk is the use of reservation of title clauses. However, despite continuous monitoring, Infineon cannot fully exclude the possibility of a loss arising from the default of one of its contract parties.

Worldwide foreign exchange and interest hedging contracts as well as the investment of liquid assets in cash equivalents and financial investments are entered into with major financial institutions worldwide that have high credit ratings. Infineon assesses the creditworthiness of banks using a methodology that establishes investment limits for individual banks that are updated on a daily basis based on current ratings (S&P, Moody’s or Fitch) and credit default swap premiums. Any possible breaches of stipulated investment thresholds result in an immediate notification and a call to reduce the risk.

Infineon has spread its cash investments over more than 10 banks. At September 30, 2016 no financial institution was responsible for more than 13 percent (2015: 15 percent) of Infineon’s cash investments. This gives rise to a maximum risk of €177 million (2015: €203 million) in the event of the default of a single financial institution assuming no deposit insurance scheme is in place. Infineon also holds derivative financial instruments with a positive fair value of €1 million in 2016 and 2015, respectively.

Financing and liquidity risk

Financing and liquidity risk is the risk that an entity will encounter difficulties in meeting obligations associated with financial liabilities.

Liquidity risk could arise from a potential inability of Infineon to meet maturing financial obligations. Infineon’s liquidity management provides that sufficient levels of cash and other liquid assets are available as well ensuring the availability of funding through adequate levels of committed credit facilities.



The following table discloses the maturity profile for non-derivative financial liabilities and a cash flow analysis for derivative financial instruments with negative fair values. The table shows the undiscounted contractually agreed cash flows that result from the respective financial liability. Cash flows are recognized at the date when Infineon becomes a contractual partner to the financial instrument. Amounts in foreign currencies are translated using the closing rate at the reporting date. The value of financial instruments with variable interest payments is determined using the interest rate from the last interest fixing date before September 30, 2016. The cash outflows of financial liabilities that can be repaid at any time are assigned to the period in which the earliest redemption is possible.

€ in millions		Due in					
as of September 30, 2016	Total	2017	2018	2019	2020	2021	beyond 2021
Non derivative financial liabilities	3,137	1,052	352	152	52	46	1,483
Derivative financial liabilities:							
Cash outflow	709	709	-	-	-	-	-
Cash inflow ¹	(698)	(698)	-	-	-	-	-
Total	3,148	1,063	352	152	52	46	1,483
as of September 30, 2015	Total	2016	2017	2018	2019	2020	beyond 2020
Non derivative financial liabilities	2,906	1,004	46	332	970	14	540
Derivative financial liabilities:							
Cash outflow	209	209	-	-	-	-	-
Cash inflow ¹	(201)	(201)	-	-	-	-	-
Total	2,914	1,012	46	332	970	14	540

¹ Cash inflows from derivative financial liabilities that arise upon settlement of the instrument.

23 Legal risks

Litigation and government inquiries

Smartcard antitrust litigation

In October 2008 the EU Commission initiated an investigation into the Company and other manufacturers of chips for smartcards for alleged violations of antitrust laws. On September 3, 2014 the EU Commission imposed a fine of €83 million on Infineon which was paid in October 2014. Infineon rejects the allegations as unfounded. Moreover Infineon believes its procedural rights to have been violated by the EU Commission and brought an action against the decision to fine before the European Court of Justice in Luxembourg in mid-November 2014. An oral hearing took place on April 28, 2016.

Two class actions for damages in connection with the EU Commission investigative proceedings have been filed in Canada: the first action was filed in the state of British Columbia in July 2013, and the second in the state of Quebec in September 2014. The actions followed the press reports on the investigation and subsequent decision of the EU Commission. No dates have been set for court proceedings.

In December 2014, an indirect customer filed a lawsuit against Infineon and Renesas in London (Great Britain) which was served upon the Company on April 20, 2015. In this lawsuit the plaintiff claims for damages in an amount still to be determined in connection with the allegations of the EU Commission.

Any further statements about these matters by the Company could therefore seriously compromise the Company's position in these proceedings.



Proceedings in relation to Qimonda

All significant assets, liabilities and business activities attributable to the memory business (Memory Products) were carved out from Infineon and transferred to Qimonda in the form of a non-cash contribution with economic effect from May 1, 2006. Qimonda filed an application at the Munich Local Court to commence insolvency proceedings on January 23, 2009. On April 1, 2009, the insolvency proceedings formally opened. The insolvency of Qimonda has given rise to various disputes between the insolvency administrator and Infineon.

On September 11, 2014 the Company and the insolvency administrator reached a partial settlement including the acquisition by Infineon of Qimonda's patent business which was closed on October 9, 2014. On the closing day the Company paid €260 million to the insolvency administrator. With the partial settlement all claims made by the insolvency administrator have been settled, apart from those relating to the proceedings in connection with the alleged activation of a shell company and liability for impairment of capital as well as the residual liability of Qimonda Dresden.

Alleged activation of a shell company and liability for impairment of capital

The insolvency administrator filed a request for declaratory judgment in an unspecified amount against Infineon Technologies AG and, by way of third party notice, Infineon Technologies Holding B.V. and Infineon Technologies Investment B.V., at Regional Court Munich I in November 2010. This requested that Infineon be deemed liable to make good the deficit balance of Qimonda as it stood when the insolvency proceedings in respect of the assets of Qimonda began, i.e., to refund to Qimonda the difference between the latter's actual business assets when the insolvency proceedings began and its share capital (in German: "Unterbilanzhaftung"). The insolvency administrator contended that the commencement of operating activities by Qimonda amounted to what is considered in case law to be the activation of a shell company (in German: "Wirtschaftliche Neugründung"), and that this activation of a shell company was not disclosed in the correct manner. On March 6, 2012, with respect to another matter, the German Federal High Court issued a ruling on principle that any liability resulting from the activation of a shell company only depends on the situation at the date of the activation of a shell company and not, as asserted by the insolvency administrator, on the situation at the date on which insolvency proceedings are opened.

In addition to the request for declaratory judgment against Infineon in an unspecified amount, on February 14, 2012 the insolvency administrator also lodged a request for payment based on an alternative claim (in German: "Hilfsantrag"), as well as making other additional claims. In conjunction with this alternative claim, the insolvency administrator has requested the payment of at least €1.71 billion plus interest in connection with the alleged activation of a shell company. On June 15, 2012 the insolvency administrator increased his request for payment of February 14, 2012 on the grounds of activation of a shell company to at least approximately €3.35 billion plus interest. Furthermore, the insolvency administrator continues to base a substantial part of his alleged payment claims, as already asserted out of court against Infineon in August 2011 for an unspecified amount, on so-called liability for impairment of capital (in German "Differenzhaftung"). This claim is based on the allegation that, from the very beginning, the carved-out memory products business had a negative billion euro value. The insolvency administrator therefore asserts that Infineon is obliged to make good the difference between this negative value and the lowest issue price (in German: "geringster Ausgabebetrag") of the subscribed stock. Additionally the insolvency administrator has asserted a claim for repayment of allegedly unjustly charged consultancy fees in an amount of €10 million in connection with the flotation of Qimonda.

The alleged impairment of capital runs contrary to two valuations prepared as part of the preparatory documentation for the capital increase by independent auditing companies, one of which had been engaged by Infineon and the other of which was acting in the capacity of a court-appointed auditor of non-cash contributions and post-formation acquisitions. The auditing company engaged by Infineon concluded in its valuation that the business area contributed had a value of several times the lowest issue price of the shares issued, while the court-appointed auditor of non-cash contributions and post-formation acquisitions confirmed to the court that the lowest issue price of the shares issued was covered – as legally required – by the value of the non-cash contributions. Additionally, in the course of its defense against the claims asserted by the insolvency administrator, Infineon has commissioned several expert opinions all of which arrive at the same conclusion, that the objections raised by the insolvency administrator against the valuation of the non-cash contribution are not valid.



The legal dispute has, in the meantime, focused on the claims asserted for alleged lack of value. On August 29, 2013 the court appointed an independent expert to clarify the valuation issues raised by the insolvency administrator and to address technical matters.

The legal dispute is being pursued with great effort by both parties, and many extensive written submissions have already been exchanged between the parties. Both sides have engaged numerous specialists and experts who are supporting the respective parties with assessments and opinions.

Due to the highly complex nature of the issues to be decided and the level of the claims asserted, it is not clear at this stage if this legal dispute can be resolved with an out of court settlement, and, if this is not the case, when a first-instance court decision would be reached.

Residual liability of Infineon as former shareholder of Qimonda Dresden GmbH & Co. OHG

Infineon was a shareholder with personal liability of Qimonda Dresden until the carve-out of the memory business; as a result certain long-standing creditors have residual liability claims against Infineon. These claims can only be exercised by the insolvency administrator acting in the name of the creditors concerned. In the meantime settlements have been concluded with most of the major liability creditors.

Liabilities, provisions and contingent liabilities relating to Qimonda

Infineon recognizes provisions and liabilities for such obligations and risks which it assesses at the end of each reporting period are more likely than not to be incurred (that is where, from Infineon's perspective at the end of each reporting period, the probability of having to settle an obligation or risk is greater than the probability of not having to) and the obligation or risk can be estimated with reasonable accuracy at this time.

As described above, Infineon faces certain risks in connection with the insolvency proceedings relating to the assets of Qimonda and that entity's subsidiaries. As a result, Infineon recorded provisions and liabilities in connection with some of the above-mentioned matters totaling €32 million and €55 million as of September 30, 2016 and September 30, 2015, respectively. Of the provisions recorded as of September 30, 2016, €12 million has been provided in connection with the residual liability as former shareholder of Qimonda Dresden. For the defense of the proceedings still pending for the alleged activation of a shell company and liability for impairment of capital, the Company has recorded a provision of €18 million as of September 30, 2016. Remaining provisions in connection with the Qimonda insolvency total €2 million as of September 30, 2016.

There can be no certainty that the provisions recorded for Qimonda will be sufficient to cover all of the liabilities that could ultimately be incurred in relation to the insolvency of Qimonda and, in particular, the matters discussed above. In addition, it is possible that liabilities and risks materialize that are currently considered to be unlikely to do so, and accordingly represent contingent liabilities that are not included in provisions. This applies in particular to the legal dispute for alleged activation of a shell company and liability for impairment of capital described above. Should the alleged claims prove to be valid, substantial financial obligations could arise for Infineon which could have a material adverse effect on its business and its financial condition, liquidity position and results of operations. Any further statements about these matters by the Company could seriously compromise the Company's position in these proceedings.



Other

Infineon is also involved in various other legal disputes and proceedings in connection with its existing or previous business activities. These can relate to products, services, patents, environmental issues and other matters.

Based on its current knowledge, Infineon does not believe that the ultimate resolution of these other pending legal disputes and proceedings will have a material adverse effect on Infineon's financial condition, liquidity position and results of operations. However future revisions to this assessment cannot be ruled out and any reassessment of the miscellaneous legal disputes and proceedings could have a material adverse effect on the financial condition, liquidity position and results of operations, particularly in the period in which reassessment is made.

Furthermore, in connection with its existing or previous business operations, Infineon is also exposed to numerous legal risks which have until now not resulted in legal disputes. These include risks related to product liability, environment, capital market, anti-corruption, competition and antitrust legislation as well as other compliance regulations. Claims could also be made against Infineon in connection with these matters in the event of breaches of law committed by individual employees or third parties.

Provisions and contingent liabilities for legal proceedings and other uncertain legal issues

Provisions relating to legal proceedings and other uncertain legal issues are recorded when it is probable that a liability has been incurred and the associated amount can be reasonably estimated. To the extent that liabilities arising from legal disputes and other uncertain legal positions are not probable or cannot be reliably estimated, then they qualify as contingent liabilities.

Any potential liability is reviewed again as soon as additional information becomes available and the estimates are revised if necessary. Provisions with respect to these matters are subject to future developments or changes in circumstances in each of the matters, which could have a material adverse effect on Infineon's financial condition, liquidity position and results of operations.

A settlement or adverse judicial decision in any of the matters described above could result in significant financial liabilities for Infineon and other adverse effects, and these in turn could have a material adverse effect on its business and financial condition, liquidity position and results of operations. Irrespective of the validity of the allegations and the success of the aforementioned claims and other matters described above, Infineon could incur significant costs in the defense of these matters.



24 Other financial commitments

In addition to provisions and liabilities, Infineon also has other financial obligations, relating in particular to lease and long-term rental arrangements, and unconditional purchase commitments. These are explained in more detail below.

Undiscounted future minimum operating lease and rental payments arising from operating lease contracts at September 30, 2016 amounted to €465 million (September 30, 2015: €446 million). The corresponding payment obligations fall due as follows:

Payments due in (€ in millions)	Total	Less than 1 year	1 – 2 years	2 – 3 years	3 – 4 years	4 – 5 years	After 5 years
Payment obligations as of September 30, 2016							
Payments arising from lease contracts	598	118	91	77	56	54	202
Payments arising from sub-lease contracts	(133)	(15)	(15)	(15)	(15)	(15)	(58)
Total	465	103	76	62	41	39	144
Payment obligations as of September 30, 2015							
Payments arising from lease contracts	594	100	72	61	59	53	249
Payments arising from sub-lease contracts	(148)	(17)	(15)	(15)	(15)	(14)	(72)
Total	446	83	57	46	44	39	177

Total rental expenses under operating lease contracts amounted to €83 million and €67 million in the 2016 and 2015 fiscal years, respectively, and related mainly to minimum lease payments.

The total income arising from sub-lease contracts amounted to €16 million for the years ended September 30, 2016 and 2015, respectively.

Contracts already entered into for commenced or planned investments in property, plant and equipment (purchase commitments) at September 30, 2016 amounted to €274 million (September 30, 2015: €200 million).

Purchase commitments for planned investments in intangible assets at September 30, 2016 amounted to €1 million (September 30, 2015: €2 million).

Long-term purchase commitments are in place for the supply of commodities and raw materials, in particular for wafers, semiconductor intermediate products, electricity and gas. Overall, these minimum purchase commitments give rise to other financial obligations amounting to approximately €810 million as at the reporting date (September 30, 2015: €728 million). These contracts generally have terms of between one and five years. Purchases under these agreements are recorded as incurred in the normal course of business. Infineon assesses its anticipated purchase requirements on a regular basis in order to meet customer demand for its products. An assessment of potential losses under these purchase contracts is made on a regular basis for example in the event that anticipated purchase quantities fall below the minimum contractual quantities.

In conjunction with its investing activities, Infineon receives government grants and subsidies related to the construction and financing of certain of its production facilities. Grants are also received for selected research and development projects. These amounts are recognized upon the achievement of specified criteria. Certain of these grants have been received contingent upon Infineon complying with certain project-related requirements, such as creating a specified number of jobs over a defined period of time. Infineon is committed to maintaining these requirements, and from today's perspective Infineon expects to be able to do so. Nevertheless, should such requirements not be met, as of September 30, 2016, a maximum of €66 million (September 30, 2015: €71 million) of these subsidies could be refundable. This amount does not include any potential liabilities for Qimonda-related subsidies (see note 23).



In total, Infineon has guarantees outstanding to third parties as of September 30, 2016 amounting to €33 million (September 30, 2015: €29 million) mainly related to rentals of buildings.

Infineon, through certain of its sales and other agreements may, in the normal course of business, be obligated to indemnify its counterparties under certain conditions for warranties, patent infringement or other matters. The maximum amount of potential future payments under these types of agreements is not predictable with any degree of certainty, since the potential obligation is contingent on events that may or may not occur in the future, and depends on certain facts and circumstances specific to each agreement. Historically, payments made by Infineon under these types of agreements have not had a material adverse effect on Infineon's financial condition, liquidity position and results of operations.

On December 23, 2003, the Company entered into a long-term lease contract with MoTo Objekt Campeon GmbH & Co. KG ("MoTo"). This included an agreement to lease our office complex south of Munich, Campeon, whose construction was completed by MoTo in the second half of 2005. Infineon has no obligations with respect to financing MoTo and has taken over no guarantees related to the construction. The Company took on Campeon under an operating lease arrangement in October 2005 and completed the move of its employees to this new location in the 2006 fiscal year. The complex was leased by the Company for a period of 20 years. After 15 years the Company has the option to acquire the complex or otherwise continue the lease for the remaining period of five years. Pursuant to the agreement, the Company placed a rental deposit of €75 million in escrow, which was included in cash deposited as collateral as part of other non-current assets in the Consolidated Statement of Financial Position as of September 30, 2016. Lease payments are subject to limited adjustments based on specified financial ratios of Infineon. The agreement was classified as an operating lease, in accordance with IAS 17, with monthly lease payments expensed on a straight-line basis over the lease term. On November 17, 2016, Infineon entered into an agreement with Geneva RE 3 B.V. (Geneva) relating to the purchase of the latter's 93 percent shareholding in MoTo for an amount of €113 million. The purchase requires the approval of the responsible regulatory authorities. The transaction is expected to be completed towards the end of the 2016 calendar year and will result in the subsequent full consolidation of MoTo.

25 Segment reporting

Identification of segments

Infineon identifies reportable segments on the basis of the differences between the types of products and their applications.

During the 2016 fiscal year, Infineon's business was structured on the basis of four operating segments, namely Automotive, Industrial Power Control, Power Management & Multimarket and Chip Card & Security. Additionally Infineon differentiates between Other Operating Segments and Corporate and Eliminations.

Automotive

The Automotive segment designs, develops, manufactures and markets semiconductors for use in automotive applications.

Industrial Power Control

The Industrial Power Control segment designs, develops, manufactures and markets semiconductors for the conversion of electric energy in the medium to high power range. The components are used to generate energy, transmit it with low losses and use it efficiently.

Power Management & Multimarket

The Power Management & Multimarket segment designs, develops, manufactures and markets semiconductors for energy-efficient power supplies as well as for mobile devices and cellular infrastructure.

Chip Card & Security

The Chip Card & Security segment designs, develops, manufactures and markets hardware-based security products for card applications and connected systems.



Other Operating Segments

Other Operating Segments comprises the remaining activities of businesses that have been disposed of, and other business activities. Since the closing of the sale of the Wireless mobile phone business, supplies of product to Intel Mobile Communications under the corresponding production agreements, other than those assigned to discontinued operations, are included in this segment.

Corporate and Eliminations

Corporate and Eliminations reflects the elimination of intragroup revenue and profits/losses to the extent that these arise between the segments.

Similarly, certain items are included in Corporate and Eliminations which are not allocated to the other segments. These include certain corporate headquarter costs and specific strategic technology initiatives, such as the 300-millimeter thin-wafer technology, which are not allocated to the segments since they arise from corporate decisions not within the direct control of segment management.

Furthermore, raw materials, supplies and work in progress of the common production frontend facilities, and raw materials and supplies of the common backend facilities, are not under the control or responsibility of the operating segment management and are therefore allocated to corporate functions. Only work in progress of backend facilities and finished goods are allocated to the operating segments.

Chief Operating Decision Maker, definition of Segment Result and allocation of assets and liabilities to the individual segments

The Management Board, as joint Chief Operating Decision Maker, decides how resources are allocated to the segments.

Based on revenue and Segment Result, the Management Board assesses performance and defines operating targets and budgets for the segments.

Segment Result is defined as the operating income (loss) excluding: asset impairments (net of reversals); impact on earnings of restructuring measures and closures; share-based compensation expense; acquisition-related depreciation/amortization and other expenses; gains (losses) on sales of assets, businesses, or interests in subsidiaries and other income (expense), including the costs of legal proceedings.

Decisions relating to financing and the investment of cash funds are taken at a Group level and not at a segment level. For this reason, financial income and financial expense (including interest income and expense) are not allocated to the segments.

Neither assets, liabilities nor cash flows per segment are reported to the Management Board, nor is segment performance assessed on this basis.

The exception to this approach is certain inventory information which is regularly analyzed at a segment level. Infineon also allocates depreciation and amortization expense to the operating segments based on production volume and products produced using standard costs.



Segment information

The following tables present selected segment data:

€ in millions	2016	2015
Revenue:		
Automotive	2,651	2,350
Industrial Power Control	1,073	971
Power Management & Multimarket	2,050	1,796
Chip Card & Security	698	665
Other Operating Segments	8	14
Corporate and Eliminations	(7)	(1)
Total	6,473	5,795

The business with XMC industrial microcontrollers developed by Automotive and Chip Card & Security was transferred to Power Management & Multimarket and Industrial Power Control with effect from October 1, 2015. The previous year's figures have been adjusted accordingly.

The operating segments do not currently have any trading relationships with one another. Accordingly, there was no intersegment revenue during the 2016 and 2015 fiscal years. Costs are recharged if applicable without impact on profit or loss.

€ in millions	2016	2015
Segment Result:		
Automotive	396	331
Industrial Power Control	126	115
Power Management & Multimarket	328	323
Chip Card & Security	135	126
Other Operating Segments	1	5
Corporate and Eliminations	(4)	(3)
Total	982	897

The following table provides the reconciliation of Segment Result to income from continuing operations before income taxes:

€ in millions	2016	2015
Segment Result	982	897
Plus/minus:		
Impairment on assets including assets classified as held for sale, net of reversals	(16)	(31)
Impact on earnings of restructuring and closures, net	7	(13)
Share-based compensation expense	(9)	(6)
Acquisition-related depreciation/amortization and other expenses	(191)	(274)
Gains (losses) on sales of assets, businesses, or interests in subsidiaries, net	(4)	(2)
Other income and expense, net	(6)	(16)
Operating income	763	555
Financial income	6	10
Financial expenses	(67)	(49)
Gain (loss) from investments accounted for using the equity method, net	3	4
Income from continuing operations before income taxes	705	520



In the 2016 fiscal year €6 million (2015: €3 million) of impairments of intangible assets, property, plant and equipment assets and assets classified as held for sale was allocated to the Automotive segment, €4 million (2015: €8 million) to the Industrial Power Control segment, €1 million (2015: €1 million) to the Power Management & Multimarket segment and €4 million (2015: €0 million) to the Chip Card & Security segment. €1 million (2015: €19 million) was allocated to Corporate and Eliminations.

Of the €191 million (2015: €274 million) “acquisition-related depreciation/amortization and other expenses” incurred in the 2016 fiscal year, €96 million (2015: €143 million) is attributable to cost of goods sold, €10 million (2015: €15 million) to research and development expenses and €85 million (2015: €116 million) to selling, general and administrative expenses.

€ in millions	2016	2015
Depreciation and amortization:		
Automotive	302	284
Industrial Power Control	120	112
Power Management & Multimarket	186	165
Chip Card & Security	82	82
Other Operating Segments	3	3
Depreciation and amortization allocated to the segments	693	646
Depreciation and amortization not allocated to the segments	140	114
Total depreciation and amortization	833	760

Income from joint ventures accounted for using the equity method totaled €3 million and €4 million in the 2016 and 2015 fiscal years, respectively, and was recognized in the Industrial Power Control segment. This allocated income is however not included in the Segment Result.

€ in millions	September 30, 2016	September 30, 2015
Inventories:		
Automotive	338	321
Industrial Power Control	115	126
Power Management & Multimarket	255	228
Chip Card & Security	49	58
Other Operating Segments	-	-
Corporate and Eliminations	434	396
Total	1,191	1,129

Entity-wide disclosures in accordance with IFRS 8

The following is a summary of revenue and of non-current assets by geographic area for the years ended September 30, 2016 and 2015:

€ in millions	2016	2015
Revenue:		
Europe, Middle East, Africa	2,147	2,020
Therein: Germany	1,000	942
Asia-Pacific (without Japan)	3,083	2,666
Therein: China	1,574	1,337
Japan	424	399
Americas	819	710
Therein: USA	661	568
Total	6,473	5,795

The allocation of revenues from external customers is based on the customers’ billing location. The average number of employees by geographic region is provided in note 6.



No single customer accounted for more than 10 percent of Infineon's revenue during the 2016 and 2015 fiscal year.

€ in millions	September 30, 2016	September 30, 2015
Non-current assets:		
Europe	1,718	1,504
Therein: Germany	1,095	982
Asia-Pacific (without Japan)	834	939
Therein: China	38	31
Japan	2	1
Americas	1,286	1,449
Therein: USA	1,279	1,402
Total	3,840	3,893

Non-current assets do not include financial instruments, deferred tax assets and assets from employee benefits.

26 Additional information in accordance with HGB

Information pursuant to section 161 Stock Corporation Act (AktG)

The Declaration of Compliance prescribed by section 161 AktG was drawn up by the Management Board and the Supervisory Board and made permanently available to the public on the internet at www.infineon.com ("About Infineon/Investor/Corporate Governance/Declaration of Compliance").

Accounting fees pursuant to section 314, paragraph 1, no. 9 HGB

Year-end audit fees

At the Annual General Meeting held on February 18, 2016, the shareholders elected KPMG AG Wirtschaftsprüfungsgesellschaft ("KPMG"), Munich, as auditor for the 2016 financial statements and the Consolidated Financial Statements of Infineon Technologies AG. The audit fees charged by KPMG in the 2016 fiscal year amounted to €1.7 million for the audit of the Consolidated Financial Statements and various separate financial statements.

Fees for other attestation services

In addition to the amounts described above, KPMG charged an aggregate of €0.1 million in the 2016 fiscal year for other attestation services.

Fees for tax advisory services

In addition to the amounts described above, KPMG charged the Company an aggregate of €0.4 million in the 2016 fiscal year for tax consulting services.

Fees for other services

Fees of €30 thousand were charged by KPMG in the 2016 fiscal year for other services.

Management Board and Supervisory Board

Management compensation in the 2016 fiscal year

As required by section 314 (1), no. 6a, sentences 5 to 8 HGB, the remuneration of the individual members of the Management Board and the Supervisory Board is disclosed in the Compensation Report which is part of the Combined Management Report.



Management Board

The members of the Management Board during the 2016 fiscal year were as follows:

Name	Age	Term expires	Position	Membership of Supervisory Boards and governing bodies of domestic and foreign companies (as at September 30, 2016)
Dr. Reinhard Ploss	60	September 30, 2020	Chairman of the Management Board, Chief Executive Officer, Labor Director	<p>Member of the Supervisory Board</p> <ul style="list-style-type: none"> › Infineon Technologies Austria AG, Villach, Austria (Chairman) <p>Member of the Board of Directors</p> <ul style="list-style-type: none"> › Infineon Technologies (Kulim) Sdn. Bhd., Kulim, Malaysia (Chairman)
Dominik Asam	47	December 31, 2018	Member of the Management Board, Executive Vice President, Chief Financial Officer	<p>Member of the Supervisory Board</p> <ul style="list-style-type: none"> › EPCOS AG, Munich › Infineon Technologies Austria AG, Villach, Austria <p>Member of the Board of Directors</p> <ul style="list-style-type: none"> › Infineon Technologies Americas Corp., Wilmington, Delaware, USA › Infineon Technologies Asia Pacific Pte., Ltd., Singapore › Infineon Technologies China Co., Ltd., Shanghai, People's Republic of China
Dr. Helmut Gassel (since July 1, 2016)	52	June 30, 2019	Member of the Management Board	<p>Member of the Board of Directors</p> <ul style="list-style-type: none"> › Infineon Technologies Americas Corp., Wilmington, Delaware, USA (since July 1, 2016) › Infineon Technologies Asia Pacific Pte., Ltd., Singapore (Chairman) (since July 1, 2016) › Infineon Technologies Japan K.K., Tokyo, Japan (Chairman) (since July 1, 2016)
Jochen Hanebeck (since July 1, 2016)	48	June 30, 2019	Member of the Management Board	<p>Member of the Supervisory Board</p> <ul style="list-style-type: none"> › Infineon Technologies Austria AG, Villach, Austria (since June 14, 2016) › Infineon Technologies Dresden GmbH, Dresden (until June 15, 2016) <p>Member of the Board of Directors</p> <ul style="list-style-type: none"> › Infineon Technologies (Kulim) Sdn. Bhd., Kulim, Malaysia (since August 12, 2016)
Arunjai Mittal (until June 30, 2016)	45		Member of the Management Board, Executive Vice President	<p>Member of the Supervisory Board</p> <ul style="list-style-type: none"> › tesa SE, Hamburg <p>Member of the Board of Directors</p> <ul style="list-style-type: none"> › Infineon Technologies Americas Corp., Wilmington, Delaware, USA (until June 30, 2016) › Infineon Technologies Asia Pacific Pte., Ltd., Singapore (Chairman) (until June 30, 2016) › Infineon Technologies India Pvt. Ltd., Bangalore, India (until June 30, 2016) › Infineon Technologies Japan K.K., Tokyo, Japan (until June 30, 2016)



The Supervisory Board

The members of the Supervisory Board during the 2016 fiscal year, the Supervisory Board position held by them, their occupation, their membership of other supervisory and governing bodies and their ages are as follows:

Name	Age	Term expires	Occupation	Membership of Supervisory Boards and comparable governing bodies of domestic and foreign companies (as at September 30, 2016)
Wolfgang Mayrhuber Chairman	69	Annual General Meeting 2020	Management Consultant	Member of the Supervisory Board <ul style="list-style-type: none"> › Deutsche Lufthansa AG, Cologne (Chairman) › Münchener Rückversicherungs-Gesellschaft AG, Munich Member of the Board of Directors <ul style="list-style-type: none"> › Heico Corporation, Hollywood, Florida, USA
Johann Dechant ¹ Deputy Chairman	51	Annual General Meeting 2020	Chairman of the Infineon Works Council, Regensburg, Infineon Technologies AG	Member of the Administrative Board <ul style="list-style-type: none"> › BKK of Siemens AG, Heidenheim/Brenz
Peter Bauer	56	Annual General Meeting 2020	Management Consultant	Member of the Supervisory Board <ul style="list-style-type: none"> › OSRAM Licht AG, Munich (Chairman) › OSRAM GmbH, Munich (Chairman)
Dr. Herbert Diess	57	Annual General Meeting 2020	Member of the Management Board Volkswagen AG, Wolfsburg	Member of the Supervisory Board <ul style="list-style-type: none"> › Porsche Austria GmbH, Salzburg, Austria (since December 23, 2015) › Porsche Holding GmbH, Salzburg, Austria (since December 3, 2015) › Porsche Retail GmbH, Salzburg, Austria (since December 23, 2015) Member of the Board of Directors <ul style="list-style-type: none"> › FAW-Volkswagen Automotive Co., Ltd., Changchun, People's Republic of China (since November 1, 2015) › Shanghai Volkswagen Automotive Co., Ltd., Anting, People's Republic of China (since November 1, 2015) Member of the Advisory Board <ul style="list-style-type: none"> › Porsche Holding GmbH, Salzburg, Austria (since December 1, 2015)
Annette Engelfried ¹	51	Annual General Meeting 2020	Labor union secretary IG Metall district management, Berlin-Brandenburg-Saxony	Member of the Supervisory Board <ul style="list-style-type: none"> › Infineon Technologies Dresden GmbH, Dresden
Peter Gruber ¹ Representative of Senior Management	55	Annual General Meeting 2020	Senior Vice President Operations Finance Infineon Technologies AG	Member of the Supervisory Board <ul style="list-style-type: none"> › Infineon Technologies Dresden GmbH, Dresden Member of the Board of Directors <ul style="list-style-type: none"> › Infineon Technologies (Kulim) Sdn. Bhd., Kulim, Malaysia
Gerhard Hobbach ¹	54	Annual General Meeting 2020	Member of the Infineon Works Council, Campeon, Infineon Technologies AG	
Hans-Ulrich Holdenried	65	Annual General Meeting 2020	Management Consultant	Member of the Supervisory Board <ul style="list-style-type: none"> › Wincor Nixdorf AG, Paderborn (until September 30, 2016)
Prof. Dr. Renate Köcher	64	Annual General Meeting 2020	Managing Director Institut für Demoskopie Allensbach GmbH, Allensbach	Member of the Supervisory Board <ul style="list-style-type: none"> › Allianz SE, Munich › BMW AG, Munich › Robert Bosch GmbH, Gerlingen › Nestlé Deutschland AG, Frankfurt/Main
Dr. Susanne Lachenmann ¹	49	Annual General Meeting 2020	Development Engineer	
Dr. Manfred Puffer	53	Annual General Meeting 2020	Management Consultant	Member of the Supervisory Board <ul style="list-style-type: none"> › Athene Lebensversicherung AG, Wiesbaden Member of the Board of Directors <ul style="list-style-type: none"> › Athene Holding Ltd., Pembroke, Bermuda › Athene Life Re Ltd., Pembroke, Bermuda
Prof. Dr. Doris Schmitt-Landsiedel (until November 8, 2016)	63	Annual General Meeting 2020	Professor Munich Technical University, Munich	



Name	Age	Term expires	Occupation	Membership of Supervisory Boards and comparable governing bodies of domestic and foreign companies (as at September 30, 2016)
Jürgen Scholz ¹	55	Annual General Meeting 2020	First authorized agent of IG Metall, Regensburg	Member of the Supervisory Board › Krones AG, Neutraubling Member of the Administrative Board › BKK of BMW AG, Dingolfing
Kerstin Schulzendorf ¹	54	Annual General Meeting 2020	Independent works council representative of the Infineon Works Council, Dresden, Infineon Technologies Dresden GmbH	
Dr. Eckart Sünnner	72	Annual General Meeting 2020	Independent Attorney	Member of the Supervisory Board › K+S AG, Kassel
Diana Vitale ¹	41	Annual General Meeting 2020	Deputy Chairwoman of the Infineon Works Council, Warstein, Infineon Technologies AG	

¹ Employee representative

Supervisory Board committees

Mediation Committee

Wolfgang Mayrhuber (Chairman)

Johann Dechant

Hans-Ulrich Holdenried

Jürgen Scholz

Executive Committee

Wolfgang Mayrhuber (Chairman)

Johann Dechant

Gerhard Hobbach

Hans-Ulrich Holdenried

Investment, Finance and Audit Committee

Dr. Eckart Sünnner (Chairman)

Johann Dechant

Annette Engelfried

Wolfgang Mayrhuber

Strategy and Technology Committee

Peter Bauer (Chairman)

Peter Gruber

Hans-Ulrich Holdenried

Dr. Susanne Lachenmann

Wolfgang Mayrhuber

Jürgen Scholz

Nomination Committee

Wolfgang Mayrhuber (Chairman)

Prof. Dr. Renate Köcher

Dr. Manfred Puffer

The members of the Company's Supervisory Board, individually or in aggregate, do not own, directly or indirectly, more than 1 percent of Infineon Technologies AG's outstanding share capital as of September 30, 2016.

The business address of each member of the Supervisory Board is: Infineon Technologies AG, Am Campeon 1-12, D-85579 Neubiberg (Germany).



Subsidiaries, joint ventures and other related companies as of September 30, 2016

Name of company	Registered office	Share- holdings in %	Equity (€ in millions)	Net result (€ in millions)	Foot- note
Fully consolidated subsidiaries:					
DICE Danube Integrated Circuit Engineering GmbH & Co. KG	Linz, Austria	72	1.93	1.88	3
Hitex GmbH	Karlsruhe, Germany	100	2.16	0.00	3, 13
Infineon Integrated Circuit (Beijing) Co., Ltd.	Beijing, People's Republic of China	100	14.69	1.48	6
Infineon Semiconductors (Wuxi) Co. Ltd.	Wuxi, People's Republic of China	100	19.66	(2.70)	9
Infineon Technologies (Advanced Logic) Sdn. Bhd.	Malacca, Malaysia	100	25.23	3.29	3
Infineon Technologies (Kulim) Sdn. Bhd.	Kulim, Malaysia	100	125.34	(11.78)	3
Infineon Technologies (Malaysia) Sdn. Bhd.	Malacca, Malaysia	100	148.72	15.70	3
Infineon Technologies (Wuxi) Co., Ltd.	Wuxi, People's Republic of China	100	118.75	10.02	6
Infineon Technologies (Xi'an) Co., Ltd.	Xi'an, People's Republic of China	100	6.77	0.20	6
Infineon Technologies Americas Corp.	Wilmington, Delaware, USA	100	n. a.	n. a.	
Infineon Technologies Asia Pacific Pte Ltd	Singapore, Singapore	100	193.40	55.68	3
Infineon Technologies Australia Pty. Ltd.	Bayswater, Australia	100	1.35	0.20	3
Infineon Technologies Austria AG	Villach, Austria	100	520.53	122.59	3
Infineon Technologies Batam PT	Batam, Indonesia	100	13.96	1.69	3
Infineon Technologies Cegléd Kft.	Cegléd, Hungary	100	14.63	0.76	3
Infineon Technologies Center of Competence (Shanghai) Co., Ltd.	Shanghai, People's Republic of China	100	3.47	0.27	6
Infineon Technologies China Co., Ltd.	Shanghai, People's Republic of China	100	141.80	9.92	6
Infineon Technologies Dresden GmbH	Dresden, Germany	100	224.27	0.00	3, 14
Infineon Technologies Epi Services, Inc.	Wilmington, Delaware, USA	100	(11.48)	1.22	8
Infineon Technologies Federal Solutions Inc.	Wilmington, Delaware, USA	100	n. a.	n. a.	
Infineon Technologies Finance GmbH	Neubiberg, Germany	100	369.89	0.00	3, 13
Infineon Technologies France S.A.S.	St. Denis, France	100	11.52	0.08	3
Infineon Technologies Holding 2 B.V.	Rotterdam, The Netherlands	100	n. a.	n. a.	
Infineon Technologies Holding Asia Pacific Pte. Ltd.	Singapore, Singapore	100	n. a.	n. a.	
Infineon Technologies Holding B.V.	Rotterdam, The Netherlands	100	2,031.23	222.50	3
Infineon Technologies Hong Kong Sales Limited	Hong Kong, People's Republic of China	100	20.81	5.00	7
Infineon Technologies Hong Kong, Ltd.	Hong Kong, People's Republic of China	100	1.61	0.24	3
Infineon Technologies India, Pvt. Ltd.	Bangalore, India	100	15.10	0.76	4
Infineon Technologies Investment B.V.	Rotterdam, The Netherlands	100	0.13	0.00	3
Infineon Technologies Italia s.r.l.	Milan, Italy	100	1.82	0.49	3
Infineon Technologies IT-Services GmbH	Klagenfurt, Austria	100	6.69	3.91	3
Infineon Technologies Japan K.K.	Tokyo, Japan	100	15.09	5.07	3
Infineon Technologies Korea Co., Ltd.	Seoul, Republic of Korea	100	4.06	0.95	3
Infineon Technologies Maasstad C.V.	Rotterdam, The Netherlands	100	n. a.	n. a.	
Infineon Technologies Neu-Isenburg Vertriebs GmbH	Neu-Isenburg, Germany	100	10.56	2.63	5
Infineon Technologies Newport Holding Limited	Newport, Great Britain	100	35.76	0.00	7
Infineon Technologies Nordic AB	Kista, Sweden	100	5.52	0.32	3
Infineon Technologies North Carolina Inc.	Wilmington, Delaware, USA	100	n. a.	n. a.	
Infineon Technologies Philippines, Inc.	Muntinlupa City, Philippines	100	(0.36)	(0.05)	8
Infineon Technologies Power Semitech Co., Ltd.	Cheonan, Republic of Korea	100	17.58	8.75	3
Infineon Technologies Reigate Ltd.	Newport, Great Britain	100	157.26	2.00	7
Infineon Technologies Romania & Co. Societate in Comandita	Bucharest, Romania	100	1.77	0.88	3
Infineon Technologies Shared Service Center, Unipessoal Lda.	Maia, Portugal	100	1.66	0.32	3
Infineon Technologies Taiwan Co., Ltd.	Taipei, Taiwan	100	3.49	1.22	3
Infineon Technologies U.K. Ltd.	Bristol, Great Britain	100	0.56	0.01	3
Infineon Technologies US HoldCo Inc.	Wilmington, Delaware, USA	100	2,225.98	0.00	3



Name of company	Registered office	Shareholdings in %	Equity (€ in millions)	Net result (€ in millions)	Footnote
Infineon Technologies US InterCo LLC	Wilmington, Delaware, USA	100	1,580.94	(6.48)	3
Infineon Technologies Vermögensverwaltungsgesellschaft mbH	Neubiberg, Germany	100	0.03	0.00	3, 13
International Rectifier HiRel Denmark Aps	Skovlunde (Copenhagen), Denmark	100	1.58	0.09	7
International Rectifier HiRel Products, Inc.	Wilmington, Delaware, USA	100	3.64	0.20	8
International Rectifier Japan Co., Ltd.	Tokyo, Japan	100	9.96	0.35	8
International Rectifier Malaysia Sdn Bhd	Kuala Lumpur, Malaysia	100	0.46	0.02	7
International Rectifier Mauritius, Inc.	Curepipe, Mauritius	100	4.33	(0.07)	8
IR Newport Limited	Newport, Great Britain	100	149.67	(5.22)	7
Molstanda Vermietungsgesellschaft mbH	Neubiberg, Germany	100	1.92	(12.64)	6
Rectificadores Internacionales, S.A. de C.V.	Tijuana, Mexico	100	9.03	(0.58)	8
Shanghai International Rectifier Trading, Ltd.	Shanghai, People's Republic of China	100	2.90	(1.20)	6
Joint ventures:					
Infineon Technologies Bipolar GmbH & Co. KG	Warstein, Germany	60	67.88	0.97	3, 15
Infineon Technologies Biplaris Kft.	Cegléd, Hungary	60	1.80	0.22	3
Other companies (non consolidated):¹					
Advanced Power Electronics Corp.	Hsinchu County, Taiwan	n. a.	n. a.	n. a.	12
CHiL Semiconductors Corporation	Wilmington, Delaware, USA	100	0.00	0.00	3
DICE Danube Integrated Circuit Engineering GmbH	Linz, Austria	72	0.10	0.00	3
EPOS embedded core & power systems GmbH & Co. KG	Duisburg, Germany	100	0.50	0.18	3
EPOS embedded core & power systems Verwaltungs GmbH	Duisburg, Germany	100	0.05	0.00	3
eupec Thermal Management Inc. (in liquidation)	Wilmington, Delaware, USA	51	(0.03)	0.00	3
Haus der Zukunft gGmbH	Berlin, Germany	n. a.	n. a.	n. a.	12
Hitex (UK) Limited	Coventry, Great Britain	88	1.60	0.27	3
Infineon Technologies Austria Pensionskasse AG	Villach, Austria	100	0.85	(0.05)	6
Infineon Technologies Bipolar Verwaltungs GmbH	Warstein, Germany	60	0.03	0.00	3
Infineon Technologies Canada, Inc.	St. John, New Brunswick, Canada	100	0.00	0.00	3
Infineon Technologies Delta GmbH	Neubiberg, Germany	100	0.02	0.00	3
Infineon Technologies Gamma GmbH	Neubiberg, Germany	100	0.02	0.00	3
Infineon Technologies Iberia S.L.U.	Madrid, Spain	100	0.14	0.04	3
Infineon Technologies Ireland Ltd.	Dublin, Ireland	100	0.41	0.12	3
Infineon Technologies Mantel 24 GmbH	Neubiberg, Germany	100	0.02	0.00	3
Infineon Technologies Mantel 26 AG	Neubiberg, Germany	100	0.04	0.00	3
Infineon Technologies Mantel 27 GmbH	Neubiberg, Germany	100	0.03	0.00	11, 13
Infineon Technologies Polska sp.z.o.o.	Warsaw, Poland	100	n. a.	n. a.	
Infineon Technologies Romania s.r.l.	Bucharest, Romania	100	0.03	0.00	6
Infineon Technologies RUS LLC	Moscow, Russian Federation	100	0.12	0.03	6
Infineon Technologies Schweiz GmbH	Zurich, Switzerland	100	0.20	0.03	3
Infineon Technologies South America Ltda.	São Paulo, Brazil	100	(0.04)	(0.01)	3
International Rectifier Power Management Private Limited (in liquidation)	Bangalore, India	100	0.16	0.00	4
IR Infotech Private, Ltd. (in liquidation)	Mumbai, India	100	0.92	0.00	10
IR International Holdings China, Inc.	Wilmington, Delaware, USA	100	0.00	0.00	8
IR International Holdings, Inc.	Wilmington, Delaware, USA	100	0.00	0.00	8
KAI Kompetenzzentrum Automobil- und Industrieelektronik GmbH	Villach, Austria	100	0.10	0.00	6
KFE Kompetenzzentrum Fahrzeug Elektronik GmbH	Lippstadt, Germany	24	1.72	(0.32)	6
MicroLinks Technology Corp.	Kaohsiung, Taiwan	n. a.	n. a.	n. a.	12
OSPT IP Pool GmbH	Neubiberg, Germany	100	0.02	0.00	3



Name of company	Registered office	Shareholdings in %	Equity (€ in millions)	Net result (€ in millions)	Footnote
R Labco, Inc.	Wilmington, Delaware, USA	100	0.00	0.00	8
Schweizer Electronic AG	Schramberg, Germany	9	51.45	5.46	6
TTTech Computertechnik AG	Wien, Austria	n. a.	n. a.	n. a.	12
Xi'an IR PERI Company, Ltd.	Xi'an, People's Republic of China	50	n. a.	n. a.	
Qimonda AG and its subsidiaries:²					
Celis Semiconductor Corp.	Colorado Springs, Colorado, USA	17	-	-	2
Itarion Solar Lda.	Vila do Conde, Portugal	40	-	-	2
Qimonda (Malaysia) Sdn. Bhd. in liquidation	Malacca, Malaysia	77	-	-	2
Qimonda AG in insolvency	Munich, Germany	77	-	-	2
Qimonda Asia Pacific Pte. Ltd.	Singapore, Singapore	77	-	-	2
Qimonda Belgium BVBA in insolvency	Leuven, Belgium	77	-	-	2
Qimonda Beteiligungs GmbH in insolvency	Munich, Germany	77	-	-	2
Qimonda Bratislava s.r.o. in liquidation	Bratislava, Slovakia	77	-	-	2
Qimonda Dresden GmbH & Co. OHG in insolvency	Dresden, Germany	77	-	-	2
Qimonda Dresden Verwaltungsgesellschaft mbH in insolvency	Dresden, Germany	77	-	-	2
Qimonda Europe GmbH in liquidation	Munich, Germany	77	-	-	2
Qimonda Finance LLC in insolvency	Wilmington, Delaware, USA	77	-	-	2
Qimonda Flash Geschäftsführungs GmbH in liquidation	Dresden, Germany	77	-	-	2
Qimonda Flash GmbH in insolvency	Dresden, Germany	77	-	-	2
Qimonda France SAS in liquidation	St. Denis, France	77	-	-	2
Qimonda Holding B.V. in insolvency	Rotterdam, The Netherlands	77	-	-	2
Qimonda International Trade (Shanghai) Co. Ltd.	Shanghai, People's Republic of China	77	-	-	2
Qimonda Investment B.V.	Rotterdam, The Netherlands	77	-	-	2
Qimonda IT (Suzhou) Co., Ltd. in liquidation	Suzhou, People's Republic of China	77	-	-	2
Qimonda Italy s.r.l. in liquidation	Padua, Italy	77	-	-	2
Qimonda Korea Co. Ltd. in liquidation	Seoul, Republic of Korea	77	-	-	2
Qimonda Licensing LLC	Fort Lauderdale, Florida, USA	77	-	-	2
Qimonda Memory Product Development Center (Suzhou) Co., in liquidation	Suzhou, People's Republic of China	77	-	-	2
Qimonda North America Corp. in insolvency	Wilmington, Delaware, USA	77	-	-	2
Qimonda Richmond LLC in insolvency	Wilmington, Delaware, USA	77	-	-	2
Qimonda Solar GmbH	Dresden, Germany	77	-	-	2
Qimonda Taiwan Co. Ltd. in liquidation	Taipei, Taiwan	77	-	-	2
Qimonda UK Ltd. in liquidation	High Blantyre, Scotland	77	-	-	2

1 Certain subsidiaries were not consolidated due to immateriality.

2 On January 23, 2009 Qimonda AG applied to the Munich District Court for insolvency proceedings to be opened. Insolvency proceedings were formally opened on April 1, 2009. The equity and earnings of Qimonda AG and its subsidiaries are not disclosed due to the substantial and ongoing restriction of Infineon's rights as a result of Qimonda AG's insolvency. Additionally, Qimonda and its subsidiaries are not included in the Company's Consolidated Financial Statements. In addition, the list of subsidiaries held by Qimonda AG was based on information from September 30, 2010, since Infineon had not received any further information from the insolvency administrator of Qimonda AG with respect to the insolvency or liquidation of Qimonda companies. Since all Qimonda-related investments were written down in full in previous years, this has no effect on Infineon's net assets, financial position and results of operations.

3 Equity and net result as of September 30, 2015.

4 Equity and net result as of March 31, 2015.

5 Equity and net result as of June 30, 2015.

6 Equity and net result as of December 31, 2015.

7 Equity and net result as of September 30, 2015 (period from July 1, 2014 until September 30, 2015).

8 Equity and net result as of September 30, 2015 (period from July 1, 2015 until September 30, 2015).

9 Equity and net result as of December 31, 2015 (period from April 17, 2015 until December 31, 2015).

10 Equity and net result as of May 13, 2013 (period from April 1, 2013 until May 13, 2013).

11 Equity and net result as of September 30, 2015 (period from October 16, 2014 until September 30, 2015).

12 Share of less than 5 percent.

13 Exemption pursuant to Section 264 (3) German Commercial Code from the obligations to disclose the annual financial statements pursuant to Section 325 German Commercial Code.

14 Exemption pursuant to Section 264 (3) German Commercial Code from certain obligations to prepare annual financial statements and a management report pursuant to section 264 et seq. German Commercial Code and from the obligations to disclose the annual financial statements pursuant to Section 325 German Commercial Code.

15 Infineon accounts for its interest using the equity method because there are certain contractual participation rights of the other joint venturer inhibiting Infineon from exercising control.



Neubiberg, November 22, 2016
Infineon Technologies AG

Management Board

Dr. Reinhard Ploss

Dominik Asam

Dr. Helmut Gassel

Jochen Hanebeck



Further Information

Responsibility Statement by the Management Board

To the best of our knowledge, and in accordance with the applicable reporting principles, the Consolidated Financial Statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the Group, and the Combined Management Report includes a fair review of the development and performance of the business and the position of the Group, together with a description of the principal opportunities and risks associated with the expected development of the Group.

Neubiberg, November 29, 2016

Infineon Technologies AG

Dr. Reinhard Ploss

Dominik Asam

Dr. Helmut Gassel

Jochen Hanebeck

Auditor's Report

We have audited the consolidated financial statements prepared by the Infineon Technologies AG, Neubiberg, comprising the statements of financial position, operations, comprehensive income, cash flows and changes in equity, together with the management report of the Company and the Group for the business year from October 1, 2015 to September 30, 2016. The preparation of the consolidated financial statements and the Group Management Report in accordance with IFRSs, as adopted by the EU, and the additional requirements of German commercial law pursuant to § 315a Abs. 1 HGB [Handelsgesetzbuch "German Commercial Code"] are the responsibility of the Managing Board of the Company. Our responsibility is to express an opinion on the consolidated financial statements and on the Group Management Report based on our audit.

We conducted our audit of the consolidated financial statements in accordance with § 317 HGB and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the consolidated financial statements in accordance with the applicable financial reporting framework and in the Group Management Report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Group and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the consolidated financial statements and the Group Management Report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the annual financial statements of those entities included in consolidation, the determination of entities to be included in consolidation, the accounting and consolidation principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements and Group Management Report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion, based on the findings of our audit, the consolidated financial statements comply with IFRSs, as adopted by the EU, the additional requirements of German commercial law pursuant to § 315a Abs. 1 HGB and give a true and fair view of the net assets, financial position and results of operations of the Group in accordance with these requirements. The Group Management Report is consistent with the consolidated financial statements and as a whole provides a suitable view of the Group's position and suitably presents the opportunities and risks of future development.

Munich, November 22, 2016

KPMG AG
Wirtschaftsprüfungsgesellschaft

Braun
Wirtschaftsprüfer

Wolper
Wirtschaftsprüfer

Technology Glossary

300-millimeter technology

Comprehensive term for the manufacture and processing of wafers with a diameter of 300 millimeters.

Analog-mixed-signal

“Mixed-signal” is a generic term for integrated circuits that operate simultaneously with analog and digital signals. Owing to similar requirements in terms of development and manufacturing processes, they are generally grouped together with integrated circuits operating exclusively with analog signals, hence giving rise to the combination “analog-mixed-signal”.

ASIC

Application Specific Integrated Circuit. Logic IC specially constructed for a specific application and customer; implemented on an integrated circuit.

Authentication

Authentication means the ability to prove one’s own identity, i.e., proof of the authentic original. However, authentication does not necessarily refer to people only, but also to any tangible or intangible object, such as a device or an electronic document. A user can be authenticated in any one of three different ways: 1.) By providing a certain piece of information, i.e., the user knows something, such as a password; 2.) Through the use of a possession, i.e., the user possesses something, such as a key; 3.) Through the direct presence of the user, i.e., the user is someone or something, such as in the form of a biometric feature.

Backend manufacturing

The part of the semiconductor manufacturing process that happens after the wafer has left the cleanroom (frontend manufacturing). This includes testing the chips at wafer level, repairing the chips if necessary, dicing the wafers and packaging the individual chips. There is a growing trend among semiconductor manufacturers to outsource the assembly, and sometimes even the testing, to independent assembly companies. Much of the assembly capacity is based in the Pacific Rim countries.

Bare die

A bare die is a single, unpackaged chip. Bare die business means the sale of fully processed, unpackaged chips. The packaging and subsequent testing of the packaged chips is performed by the customer. Bare die business is mostly conducted with IGBT module manufacturers that produce their own modules but not their own semiconductors.

Bipolar

A power bipolar transistor is a specialized version of a bipolar transistor that is optimized for conducting and blocking large electric currents (up to several hundred amperes) and very high voltages (up to several 1,000 volts). In industry, the power bipolar transistor – like the power MOSFET (see MOSFET) often used as an alternative – constitutes an important industrial semiconductor component for influencing electric current.

CMOS

Complementary Metal Oxide Semiconductor. Standard semiconductor manufacturing technology used to manufacture microchips with low power usage and a high level of integration.

Compound Semiconductor

In contrast to silicon-based semiconductors, compound semiconductors consist of several chemical elements. The combination of materials from the chemical main group III (e.g. gallium) and V (e.g. nitrogen) have the electrical conductivity of semiconductors. This also applies to the combination of materials from the main group IV (carbon, silicon). These compound semiconductors (e.g. gallium nitride or silicon carbide) are therefore of highest importance in technical applications in semiconductor technology, especially for power semiconductors.

Converter

Control unit that can convert AC voltages of various rates and frequencies. This is achieved by means of power electronics. Converters are used in wind turbines, for example, in order to feed fluctuating wind energy into the power network with a voltage of constant frequency. In electric drive technology, for example in engine controllers and trains, a converter is used to generate an output voltage of variable, load-dependent frequency from a mains supply of constant frequency.

Epitaxy

From the Greek epi “upon” and taxis “arrangement” or “orientation”. Epitaxy is a form of crystalline growth that occurs both in nature (such as in minerals) and in the technical world. In semiconductor technology, epitaxy is the artificial growth of crystalline layers on a substrate, which is usually a wafer. Epitaxy enables various doping profiles for transistors to be created, which are not feasible using other methods such as diffusion or ion implantation.

FACTS

Flexible AC Transmission System – control systems used in electrical engineering. They are used in the field of electrical power supply to specifically control power transmission and distribution in AC networks, in which in principle components of power electronics and therefore power semiconductors such as IGBT modules are used. The controlling of power transfers can be implemented in alternating current networks by changing the idle and active power by means of capacitor batteries or compensation coils.

Frontend manufacturing

Frontend process is the designation for all process steps in cleanrooms that the entire wafer must complete. These are lithography, diffusion, ion implantation and application of circuitry levels. Some stations must be completed a number of times. At the end of the frontend process, the wafer may have been through as many as 500 individual process steps. After the conclusion of the frontend manufacturing, the processed wafers are transferred to backend manufacturing for testing and packaging (see Backend manufacturing).

Gallium nitride

Gallium nitride (abbreviated to GaN) is a compound semiconductor material made from gallium (chemical symbol Ga) and nitrogen (chemical symbol N). GaN is used for components including radio-frequency power MOSFETs (see MOSFET) on account of the material's special properties (such as good thermal conductivity and high electron mobility).

Hall sensor

A sensor based on the Hall principle, used for measuring magnetic fields, named after the US physicist Edwin Herbert Hall (1855 – 1938). Hall sensors are used in automobiles, for example, for detecting pedal positions or for measuring the speed at which shafts rotate.

HVDC

High-voltage direct-current transmission. HVDC transmission is a method of transmitting electrical energy at high direct-current voltages of up to 800,000 volts over distances of more than 1,000 kilometers. HVDC transmission is also used for connecting offshore wind farms to the electricity grid on the mainland.

IC

Integrated Circuit. Electronic Component parts composed of semiconductor materials such as silicon; numerous components, including transistors, resistors, capacitors and diodes can be integrated into ICs and interconnected.

IGBT Module

Insulated Gate Bipolar Transistor Module. IGBTs are semiconductor components used increasingly in power electronics due to their robustness, high blocking voltage, and their ability to be triggered with negligible power. Modules are formed using several IGBTs in parallel within a single casing. These modules are used to drive electric motors both in automotive and industrial applications. Motor speed and torque can be regulated along a gradual scale. Trains such as Germany's ICE and France's TGV use IGBT modules for an efficient and rapid electrical drive control.

Integrity Guard

Integrity Guard (IG) is a revolutionary security technology designed for chip cards and security applications, with which Infineon is ringing in a new era in the field of hardware-based security. IG was specially developed for sophisticated, long-life applications such as payment cards and government identification documents. IG enables a security controller for the first time to provide complete error detection and comprehensive encryption of all chip functions across the entire data path within the chip. For this reason it is known as "digital security". IG is used in the security controllers of the SLE 77 and 78 families and has won numerous international awards.

Inverter

An inverter, also called a DC/AC converter, is an electrical device for converting DC voltage into AC voltage, or direct current into alternating current. Inverters are used in solar power plants, for example, for converting the DC voltage generated in the solar modules into AC voltage, which is then fed into the electricity network.

MEMS

Micro-electro-mechanical system. A micro-electro-mechanical system, or simply a microsystem, is a miniaturized device, assembly or part that contains components of minute dimensions (only measurable in micrometers) that work together as a system. Usually a microsystem consists of one or more sensors, actuators and control electronics on one chip. Infineon manufactures microphones as MEMS. Due to their diminutive size, low power consumption, good shielding from interfering signals and low-cost production, these types of microphone are being increasingly installed in mobile devices such as smartphones, tablets, cameras, and accessories such as headsets and hearing aids.

MOSFET

Metal-Oxide-Semiconductor Field-Effect Transistor. MOSFET is currently the most widely used transistor architecture. MOSFETs are used both in highly integrated circuits and in power electronics as special power MOSFETs.

NFC

Near field communication. An international communication standard for contactless data exchange over short distances. The initial drafts of the communication standard appeared several years ago, but the technology did not break through until 2011 when it was included in the first smartphones. NFC can be used as an access key to content on terminals and for services such as cashless payment and paperless ticketing.

Power transistor

Power transistor is a term used in electronics to refer to a transistor for switching or controlling large voltages, currents and outputs. There is no standard method of differentiating between transistors for signal processing and power transistors. Power transistors are mainly produced in packages that enable installation on heat sinks, as it is otherwise impossible to handle the dissipation loss of several kilowatts that occurs with some types and applications (see power semiconductor).

Schottky diode

A special diode that has a metal-semiconductor junction rather than a semiconductor-semiconductor junction. The most frequently used semiconductor material up to 250 Volts is silicon. Silicon carbide (SiC) is used for voltages in excess of 300 Volts (see Silicon Carbide). SiC Schottky diodes offer a number of advantages over conventional diodes in power electronics. When used together with IGBT transistors, it is possible to dramatically reduce switching losses in the diode itself, as well as in the transistor. The name derives from the German physicist Walter Schottky (1886 – 1976).

Silicon Carbide

Compound semiconductor made from silicon (chemical symbol Si) and carbon (chemical symbol C). The abbreviation is SiC. Because of its special material properties (e.g. good thermal conductivity), SiC is used for Schottky diodes, as well as elsewhere (see Schottky diode).

Switch-mode power supply

A switch-mode power supply is an electronic module that transforms an AC voltage into a DC voltage. Switch-mode power supplies are more efficient than mains transformers and can be more compact and lighter than conventional power supplies containing a heavy transformer with a ferrous core. Switch-mode power supplies are mainly used in PCs, notebooks and servers. However, they also achieve a very high level of efficiency even at low power, so they are increasingly found in plug-in power supply units, for example as chargers for mobile phones.

Thin wafer

A wafer is typically around 350 microns (μm) thick when sawn into individual chips. A thin wafer is one that has been polished down to less than 200 microns thick (a human hair or a sheet of paper, by comparison, is about 60 microns thick). Thin wafer technology offers benefits: Thinner chips mean losses can be reduced and the heat generated can be dissipated more effectively. Another advantage is that electrically active patterns can be produced on the backside as well, enabling the chip to provide completely new functions. Thin wafer chips also allow more compact packages.

TPM

Trusted Platform Module. A chip that adds elementary security functions such as license and data protection to a computer or similar device. TPMs can be integrated into tablet PCs, smartphones and consumer electronics as well as PCs and notebooks. A trusted computing platform (see Trusted Computing) can be created by combining a specially configured operating system and appropriate software with a device containing a TPM.

Trusted Computing

Trusted Computing means that the hardware and software used in PCs, as well as other computer-controlled systems, such as mobile phones, can be controlled. This is achieved by means of an additional chip, the Trusted Platform Module (TPM), which can use cryptography to measure the integrity of the hardware and of the software data structures, while also saving these values in a verifiable way.

Financial calendar

Thursday, February 2, 2017¹

Publication of first quarter 2017 results

Thursday, February 16, 2017

Annual General Meeting 2017

(Start 10:00 a.m. CET)

ICM – International Congress Center Munich
(Germany)

Thursday, May 4, 2017¹

Publication of second quarter 2017 results

Tuesday, August 1, 2017¹

Publication of third quarter 2017 results

Tuesday, November 14, 2017¹

Publication of fourth quarter and
fiscal year 2017 results

¹ preliminary

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Imprint

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Note

The following were brand names of Infineon Technologies AG in the 2016 fiscal year: Infineon, the Infineon logo, AURIX, CoolMOS, HybridPACK, MIPAQ, OPTIGA, OptiMOS, PrimePACK, REAL3.

Forward-looking statements

This Report contains forward-looking statements about the business, financial condition and earnings performance of the Infineon Group.

These statements are based on assumptions and projections resting upon 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.



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