

A large, light blue graphic on the left side of the page, resembling a stylized circuit board or a stylized letter 'G'. It features several thick, rounded lines that curve and connect to form a shape. In the upper left corner of this graphic is a small circle containing a grid of dots. In the center of the graphic is a larger circle, also containing a grid of dots, with a line extending from it to a small square below. The overall design is clean and modern, with a technical or scientific feel.

THE DETERMINING
FACTOR

INFINEON AT A GLANCE



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APPLICATIONS

- Powertrain (engine and transmission control, alternator, start-stop system)
- Hybrid and electric vehicles (motor control, battery management, charger)
- Chassis and comfort electronics (power windows, suspension, air conditioning, lighting, steering, windshield wipers, sunroof, door electronics, electronic control units)
- Safety (ABS, airbag, ESC, electronically controlled chassis suspension, electric power steering, tire pressure monitoring system, radar-based driver assistance system)

KEY CUSTOMERS¹

- Autoliv • Bosch • Continental • Delphi • Denso
- Hella • Hyundai • Lear • Mitsubishi • TRW • Valeo

MAIN COMPETITORS²

- Freescale • NXP • Renesas • STMicroelectronics

MARKET POSITION³

2

With a market share of 9.8%

Source: Strategy Analytics, April 2012



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APPLICATIONS

- Renewable energy generation (photovoltaic systems, wind turbines)
- Energy transmission (offshore windpark HVDC lines, FACTS)
- Uninterruptable power supplies
- Industrial drives
- Industrial vehicles (hybrid buses, agricultural vehicles, heavy construction vehicles, mining vehicles)
- Traction (locomotives, high-speed trains, metro trains, trams)
- Home appliances (induction cooking, induction rice cookers, air conditioning, washing machines)

KEY CUSTOMERS¹

- ABB • Alstom • Bombardier • Delta • Emerson
- Enercon • Goldwind • Rockwell • Schneider Electric
- Semikron • Siemens • SMA Solar Technology

MAIN COMPETITORS²

- Fairchild • Fuji Electric • Mitsubishi • Semikron
- STMicroelectronics

MARKET POSITION³

1

With a market share of 11.9% for discrete power semiconductors and modules

Source: IMS Research (an IHS company), August 2012

2

With a market share of 19.4% for IGBT modules

¹ In alphabetical order. Infineon's major distribution customers are Arrow, Avnet, Beijing Jingchuan, Tomen and WPG Holding.

² In alphabetical order.

³ All figures for 2011 calendar year.

Infineon Technologies AG, Neubiberg (Germany), offers semiconductor and system solutions addressing three central challenges to modern society: energy efficiency, mobility, and security. In the 2012 fiscal year (ending September 30), the Company reported revenues of 3.9 billion euros with close to 26,700 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).



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POWER MANAGEMENT & MULTIMARKET

APPLICATIONS

- Power supplies for computers (telecom, servers, PCs, notebooks, tablet PCs)
- Power supplies for consumer electronics
- Mobile devices for communication and navigation
- Cellular network infrastructure
- Inverter for photovoltaic rooftop systems (< 3kW)
- Light management incl. LED lighting

KEY CUSTOMERS¹

- Dell • Delta • Emerson • Enphase • Ericsson
- Hewlett-Packard • Huawei • LG Electronics
- Microsoft • Osram • Philips • Power One
- Quanta • Samsung • SMA Solar Technology

MAIN COMPETITORS²

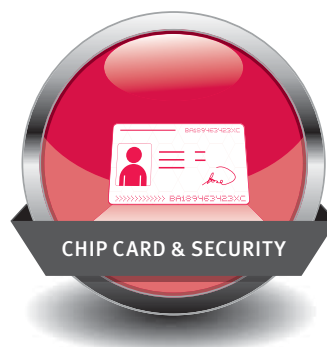
- Fairchild • International Rectifier • NXP • Renesas
- STMicroelectronics • Texas Instruments • Toshiba

MARKET POSITION³

1

With a market share of 12.1%
for MOSFET power transistors

Source: IMS Research (an IHS company), August 2012



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CHIP CARD & SECURITY

APPLICATIONS

- Mobile communication
- Payment systems
- Near Field Communication (NFC)
- Electronic passports, ID cards, healthcare cards, driver's licenses
- Transport, ticketing, access control
- Trusted computing
- Authentication (e.g. for pay TV, games consoles, accessories, spare parts, industrial control systems)

KEY CUSTOMERS¹

- Beijing Watch Data • Gemalto • Giesecke & Devrient
- Hewlett-Packard • Oberthur Technologies
- Safran Morpho • US Government Printing Office

MAIN COMPETITORS²

- NXP • Samsung • STMicroelectronics

MARKET POSITION³

1

With a market share of 24.8%
for smartcard ICs

Source: IMS Research (an IHS company), August 2012

INFINEON KEY DATA
AS AND FOR THE FISCAL YEARS ENDED SEPTEMBER 30 (UNDER IFRS)¹

Fiscal year from October 1 to September 30	2012		2011		2012/2011
	€ millions	in % of revenue	€ millions	in % of revenue	Change in %
Revenue by region	3,904		3,997		(2)
Europe, Middle East, Africa	1,732	44	1,920	48	(10)
Therein: Germany	908	23	1,090	27	(17)
Asia-Pacific (w/o Japan)	1,470	38	1,450	36	1
Therein: China	637	16	663	17	(4)
Japan	252	6	202	5	25
Americas	450	12	425	11	6
Revenue by Segments	3,904		3,997		(2)
Automotive	1,660	43	1,552	39	7
Industrial Power Control	728	19	797	20	(9)
Power Management & Multimarket	929	24	1,003	25	(7)
Chip Card & Security	457	12	428	11	7
Other Operating Segments	125	3	216	5	(42)
Corporate and Eliminations	5	0	1	0	400
Gross Profit/Gross margin	1,427	36.6	1,654	41.4	(14)
Research and development expenses	(455)	11.7	(439)	11.0	4
Selling, general and administrative expenses	(475)	12.2	(449)	11.2	6
Operating income	455		736		(38)
Income from continuing operations	432		744		(42)
Income (loss) from discontinued operations, net of income taxes	(5)		375		(101)
Net income	427		1,119		(62)
Segment Result/Segment Result Margin	527	13.5	786	19.7	(33)
Property, plant and equipment	1,731		1,343		29
Total assets	5,898		5,873		0
Total equity	3,575		3,355		7
Net cash provided by operating activities from continuing operations	667		983		(32)
Net cash used in investing activities from continuing operations	(1,013)		(2,499)		(59)
Net cash used in financing activities from continuing operations	(199)		(352)		(43)
Free cash flow ²	(219)		106		(307)
Depreciation and amortization	428		364		18
Purchases of property, plant and equipment and intangible assets and other assets	(890)		(887)		0
Gross cash position ³	2,235		2,692		(17)
Net cash position ⁴	1,940		2,387		(19)
Basic earnings per share in €	0.40		1.03		(61)
Diluted earnings per share in €	0.39		0.98		(60)
Dividend per share in € ⁵	0.12		0.12		0
Equity ratio	60.6%		57.1%		7
Return on equity ⁶	11.9%		33.4%		(64)
Return on assets ⁷	7.2%		19.1%		(62)
Inventory intensity ⁸	9.6%		8.6%		12
Debt-to-equity ratio ⁹	8.3%		9.1%		(9)
Debt-to-total-capital ratio ¹⁰	5.0%		5.2%		(4)
Return on Capital Employed (RoCE) ¹¹	22.3%		62.1%		(64)
Employees Infineon as of September 30	26,658		25,720		4

- 1 Columns may not add due to rounding.
2 Free cash flow = Cash flow from operating activities from continuing operations and cash outflow from investing activities from continuing operations, excluding purchases or sales of financial investments.
3 Gross cash position = cash and cash equivalents and financial investments.
4 Net cash position = Gross cash position less short- and long-term debt.
5 A dividend per share of €0.12 for the 2012 fiscal year will be proposed to the Annual General Meeting on February 28, 2013.
6 Return on equity = Net income divided by total equity.
7 Return on assets = Net income divided by total assets.
8 Inventory intensity = Inventories (net) divided by total assets.
9 Debt-to-equity ratio = long-term and short-term debt divided by total equity.
10 Debt-to-total-capital ratio = Long-term and short-term debt divided by total assets.
11 Return on Capital Employed (RoCE) = NOPAT (Net Operating Profit After Tax) divided by capital employed.



ENERGY EFFICIENCY MOBILITY SECURITY

Many of our products play a key role in customers' applications.

Our objective is to use our profound understanding of systems and applications to deliver a genuine competitive advantage to our customers.

Differentiation by the most advanced manufacturing technologies.

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REPORT OF THE SUPERVISORY BOARD TO THE ANNUAL GENERAL MEETING

Ladies and Gentlemen,

The 2012 fiscal year was largely overshadowed by the European debt crisis. The ensuing tensions on the world's financial markets also spilled over to the real economy, causing a slowdown in global growth. Infineon also began to feel the impact of macroeconomic uncertainties. Despite these developments, both the Supervisory Board and the Management Board are convinced that Infineon's medium- and long-term growth and earnings prospects remain bright, thanks to the focus of its product range on the key areas of energy efficiency, mobility and security.

During the 2012 fiscal year, the Supervisory Board again conscientiously performed its duties in accordance with the law, the Company's statutes and its internal rules of procedure. It assisted the Management Board in an advisory capacity in its management duties and monitored its governance. In this endeavor, it was continually informed of Infineon's current overall situation, business performance, strategic direction and all other major individual measures. The Supervisory Board was closely involved in any decisions of fundamental importance to Infineon. In this context, it undertook measures to assure itself that manner in which the Management Board governed Infineon's affairs was lawful, compliant and appropriate.

At the regular meetings of the Supervisory Board, the Management Board reported comprehensively and promptly on Infineon's financial condition, business performance and future expectations as well as on cash flow and investment forecasts. Infineon's strategic direction was coordinated with the Supervisory Board and all major topics were discussed in depth with the Management Board. The Supervisory Board was always given sufficient time and opportunity to thoroughly examine any reports and proposed resolutions drawn up by the Management Board and to make suggestions. Information on matters of particular importance was also conveyed to the Supervisory Board at extraordinary meetings.

In addition to the information provided at regular meetings, the Management Board submitted comprehensive quarterly financial reports to the Supervisory Board covering such matters as business performance in the previous quarter, financial data, risks and opportunities, significant issues and major areas of litigation. In between quarterly reports, the Supervisory Board has additionally been provided with information on all developments in the form of monthly reports.



WOLFGANG MAYRHUBER
Chairman of the Supervisory Board

The Chairman of the Supervisory Board, the Chairman of the Investment, Finance and Audit Committee and the Chairwoman of the Strategy and Technology Committee remained at all times in close contact with the Management Board and deliberated on questions relating to strategy, planning, business performance, risks, risk management and compliance at Infineon. The Chairman of the Supervisory Board was informed by the Chief Executive Officer without delay of any important events essential for an accurate assessment of Infineon's situation and performance as well as for the management of Infineon's affairs.

MAIN ACTIVITIES OF THE SUPERVISORY BOARD

The Supervisory Board convened four ordinary and three extraordinary meetings during the 2012 fiscal year, one of which took the form of a telephone conference. No member of the Supervisory Board attended less than half of the Supervisory Board meetings held during the period under report. The average attendance rate was 94 percent.

CURRENT SITUATION, BUSINESS PERFORMANCE AND STRATEGIC DIRECTION

In addition to its regular reporting on Infineon's current situation (in particular the market situation, significant transactions and key financial performance indicators), the Management Board also kept the Supervisory Board informed of its assessment of market developments on the one hand and Infineon's future performance and strategic direction on the other. Production capacity utilization issues and planned investments were also regularly discussed. In addition, the Chairman of the Investment, Finance and Audit Committee and the Chairwoman of the Strategy and Technology Committee reported regularly on the activities of the two committees.

The detailed discussion of strategic matters at full Supervisory Board level is seen as being of crucial importance. To this end, a one-day strategy meeting took place in August 2012, during which Infineon's strategic long-term plan was reported on and in-depth discussions held with respect to financial targets, regional performance (with particular regard to the Asian market) and the positioning of each of the segments.

The Asia-Pacific region is a key market for the semiconductor industry and the continued growth of Infineon in this area is seen as a key component in the Group's business strategy, a view clearly underlined by the significant volume of investment made in the recent past at production sites located there. With this in mind, the Supervisory Board held its full regular meeting in May 2012 at the Infineon site in Singapore, the hub of operations for Infineon's business operations in the Asia-Pacific region. Supervisory Board members also made good use of their stay in Asia to visit Infineon's production sites in Kulim and Malacca (Malaysia), where they were able to obtain a direct impression of production facilities and employee expertise.

TRANSACTIONS AND MEASURES REQUIRING APPROVAL

The rules of procedure governing the actions of the Supervisory Board and the Management Board stipulate that certain transactions and measures require the approval of the Supervisory Board. The list of items requiring approval contained therein was made additionally specific during the fiscal year under report, without having any impact on well-established monitoring routines.

In accordance with the stipulated procedures, Infineon's financial and investment budget (including the overall investment budget) for the 2012 fiscal year, as presented by the Management Board, was approved at the Supervisory Board meeting held on November 22, 2011 and a borrowing limit set. At the meeting held on May 6, 2012, the Supervisory Board gave its consent to the provisional investment budget for the 2013 fiscal year. The Management Board also took the opportunity on this occasion to elucidate a new process for drawing up the investment budget, which the Supervisory Board both acknowledged and concurred with.

MANAGEMENT BOARD COMPENSATION

The German Corporate Governance Code recommends that management board compensation systems are subject to regular review. In this context, the Supervisory Board engaged an external independent compensation expert in the 2012 fiscal year to review the compensation system introduced in 2010. The expert came to the conclusion that the existing system complies both with legal requirements and with the Code's recommendations. In particular, the review concluded that the compensation of Infineon's Management Board is commensurate with market conditions and that the variable compensation component is oriented towards the sustainable growth of the enterprise. The results of the review were discussed at the Executive Committee meeting on July 30, 2012 and at the full Supervisory Board meeting on August 7, 2012. The Supervisory Board concurs with the assessment of the compensation expert.

In addition, the Supervisory Board reviewed the target levels of annual income for each of the Management Board members and found that the agreed targets remain appropriate, both compared to the market in general and in relation to compensation paid within Infineon itself.

Moreover, during the year under report, the Executive Committee and full Supervisory Board deliberated on a successor scheme for the current Long-Term Incentive (LTI) plan, i.e. the plan used to determine the long-term variable compensation component for Management Board members (and executive managers). A new plan is necessary as the Infineon Technologies AG Stock Option Plan 2010, on which the LTI is based, expires at the end of the 2013 fiscal year. Here too, the Supervisory Board called upon the expertise of the compensation expert engaged to review the Management Board compensation system.

In accordance with the advice received, it was resolved that a new share-based LTI scheme should take effect from the beginning of the 2014 fiscal year to replace the previous stock-option-based LTI scheme. This move is intended to strengthen the link between Management Board actions and shareholder interests. For further details, please refer to the Compensation Report presented in the Annual Report.

The compensation expert confirmed that the conclusion reached regarding the appropriateness of the previous compensation system would be the same after the new LTI scheme is introduced. The two boards will present the amended compensation system (i.e. as revised for the new LTI scheme) in February 2013 for approval by shareholders at the Annual General Meeting in accordance with Section 120, paragraph 4 of the German Stock Corporation Act.

CHANGES IN MANAGEMENT BOARD

After taking the decision in the previous fiscal year to add a new area of board responsibility (Sales, Marketing and Strategy Development), the Supervisory Board appointed Arunjai Mittal, previously Head of the Industrial & Multimarket segment, as member of the Management Board at its extraordinary meeting on October 27, 2011 and with effect from January 1, 2012, in line with the proposal made by the Executive Committee.

The departure of Peter Bauer from office as Management Board member and Chief Executive Officer with effect from the end of the 2012 fiscal year also necessitated a number of further board-related decisions. The Supervisory Board very much regrets Mr. Bauer's decision to step down for health reasons, whilst fully understanding and having the greatest respect for his decision. Mr. Bauer, who has helped to shape Infineon's fortunes over a period of many years, became Management Board member in 1999, its spokesman in 2008 and its Chief Executive Officer in 2010. Infineon owes him a great debt of gratitude for his achievements, including the decisive, skilful way in which he steered Infineon out of a very difficult situation and back to profitability. Together with his management team, he has set the course for Infineon's future. The Supervisory Board sincerely thanks Mr. Bauer for his outstanding achievements, and also, in equal measure, for the culture of mutual trust he has inspired when cooperating with the Supervisory Board. The entire Supervisory Board is pleased that Mr. Bauer intends to continue serving Infineon in an advisory capacity.

At its extraordinary meeting on May 13, 2012, the Supervisory Board unanimously appointed Dr. Reinhard Ploss as Peter Bauer's successor to the post of Chief Executive Officer as of October 1, 2012, thereby ensuring continuity in this position. Dr. Ploss joined Infineon more than 25 years ago, becoming a member of the Management Board in 2007, since which time he has been directly responsible for production, logistics and purchasing as well as for research and development. In this role, he has contributed significantly to Infineon's innovative and earnings strength, including the introduction of a pioneering manufacturing strategy serving as the basis for further profitable growth. The Supervisory Board is firmly convinced that this appointment ensures the successful continuation of Infineon's corporate strategy.

LITIGATION

The Supervisory Board was kept well informed of the progress of major legal disputes during the 2012 fiscal year, consulting with the Management Board and deliberating internally about subsequent strategy, with particular regard to disputes with the insolvency administrator managing the assets of Qimonda AG.

CORPORATE GOVERNANCE

The Supervisory Board continues to closely monitor the development of corporate governance standards within Infineon, focusing in particular on implementing the recommendations of the German Corporate Governance Code, to which Infineon has given its commitment. During the year under report, its main focus was on changes to the German Corporate Governance Code adopted by the Government Commission on May 15, 2012.

Number of independent members of the Supervisory Board

The Code now recommends that the list of specific objectives of a supervisory board should, in addition to diversity and internationality, also include a statement regarding what it considers to be an adequate number of independent members. The Supervisory Board deliberated on this issue at its meeting on August 7, 2012 and added the issue of independence to its list of specific objectives. The stated objective is that at least nine (of twelve) of its members should be independent within the meaning of the Code, including a minimum of four (of six) independent shareholder representatives. The current composition of the Supervisory Board is in keeping with these objectives.

Supervisory Board compensation and Declaration of Compliance 2012

The Supervisory Board was also affected by changes to the Code in as much as the recommendation with respect to compensation was revised to the effect that the previous recommendation that supervisory board members should receive performance-related as well as fixed compensation elements (as is the case at Infineon) was removed. If, however, supervisory board members are promised variable compensation, it should, as the Code seems to imply, be based on a multi-year assessment. The current compensation system for members of Infineon's Supervisory Board is not based on a multi-year assessment and therefore does not comply with the Code's revised recommendation. At its meeting on August 7, 2012, the Supervisory Board decided to wait for the time being before proposing a change to the compensation system for members of the Supervisory Board to the Annual General Meeting, given that the current compensation system was only recently revised and approved by shareholders at the 2011 Annual General Meeting. The issue of compensation for Supervisory Board members will be reconsidered during the 2013 fiscal year. It was therefore agreed that Infineon would diverge from the Code's recommendation.

The 2012 Declaration of Compliance, in which the divergence from the Code's recommendation is explained in detail, was published on Infineon's website in November 2012.

Efficiency review for Supervisory Board activities

The Supervisory Board reviews the efficiency of its work once a year, including the efficiency of its interaction with the Management Board. The most recent efficiency review took place in summer 2012, with members of the Supervisory Board requested to complete a questionnaire about their work and the level of cooperation between the two boards. The results of this survey were subsequently discussed at the meeting on August 7, 2012. Significant deficits were not identified.

Potential conflicts of interest

The members of the Management Board and the Supervisory Board disclose any potential conflicts of interest to the Supervisory Board without delay. No conflicts of interest arose among the members of the Management Board and the Supervisory Board in the 2012 fiscal year.

Any material transactions conducted between the Company and members of the Management Board or related parties require the approval of the Supervisory Board. This also applies to any consultancy or service or works contracts a Supervisory Board member may enter into with the Company. As a precaution, in the previous fiscal year (November 2010), the Supervisory Board approved a contract between the Company and the Technische Universität München (Institute for Technical Electronics headed by Prof. Dr. Schmitt-Landsiedel) for the performance of research and development work on sensing for automotive applications; this contract runs until the end of the 2013 fiscal year.

Other comments relating to corporate governance at Infineon can be found in the Corporate Governance Report issued jointly by the two boards.

SUPERVISORY BOARD COMMITTEE REPORTS

As in the previous fiscal year, the Supervisory Board has five committees, namely the Mediation Committee (pursuant to Section 27 paragraph 3 of the German Co-Determination Act), the Executive Committee, the Investment, Finance and Audit Committee, the Strategy and Technology Committee and the Nomination Committee. The committees draw up resolutions or prepare topics which need to be dealt with by the full Supervisory Board. Certain decision-making powers have been delegated to committees, to the extent permitted under German law. As a matter of routine, the chairperson of each committee is required to report on committee meetings at the next relevant full Supervisory Board meeting.

All Supervisory Board committees have an equal number of employee representatives and shareholder representatives, with the exception of the Nomination Committee, which consists exclusively of shareholder representatives. As in the previous fiscal year, Mr. Mayrhuber is Chairman of the Mediation, Nomination and Executive Committees. Dr. Sünner continues to serve as Chairman of the Investment, Finance and Audit Committee and Prof. Dr. Schmitt-Landsiedel remains Chairwoman of the Strategy and Technology Committee.

Executive Committee

The Executive Committee convened in six meetings during the year under review.

The focus of these meetings was on preparing resolutions (as described above) for the full Supervisory Board in connection with the review of the existing Management Board compensation system and personnel changes on the Management Board.

A further task completed was to draw up specific resolutions for the full Supervisory Board with respect to the variable compensation components of members of the Management Board. Important aspects of this work were to determine the degree to which targets for the 2011 fiscal year were achieved, to set new target levels for the 2012 fiscal year and to grant stock options to members of the Management Board.

The committee – and subsequently the full Supervisory Board – also deliberated on the general question of succession planning for Management Board posts, in particular the introduction of structured processes to select suitable managers, both in Germany and abroad, and to further develop promising candidates.

Investment, Finance and Audit Committee

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

Its activities centered on monitoring the financial reporting process, reviewing the quarterly financial statements, conducting the preliminary audit of the separate financial statements, consolidated financial statements and Management Report of Infineon Technologies AG and of the Infineon Group and discussing the audit report with the auditor. Another major task was to examine and discuss Infineon's financial and investment plans and to set a borrowing limit. Matters arising in conjunction with the capital return program established by the Company were also deliberated upon. The committee also considered the effectiveness of the internal control system, internal audit system and risk management system. Compliance issues were also addressed at committee meetings, with the Compliance Officer reporting at each meeting. The committee also received detailed reports on the most significant lawsuits, particularly those pertaining to disputes with the insolvency administrator of Qimonda AG. These disputes and the course of action to be taken were the subject of in-depth discussion.

Other duties performed by the committee included specifying key areas to be examined in audit activities in the 2012 fiscal year and monitoring the auditor's independence as well as the additional services performed by the auditor. It prepared the Supervisory Board's proposal to the Annual General Meeting regarding the selection of the auditor and engaged the auditor to examine the separate and consolidated financial statements as well as carry out the auditor's review of interim financial reports. Fee arrangements with the auditor were also considered.

The auditor attended all of the Audit Committee's ordinary meetings and reported in detail on its audit activities.

Strategy and Technology Committee

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

The focus in this committee was primarily on various aspects of Infineon's long-term strategic plan regarding new technologies, products and markets. The ongoing process of improving organizational structures at Infineon was also debated, alongside the topic of corporate culture and Infineon's strategy to position itself as a "High Performance Company". Last but not least, the committee also addressed the issue of human resources development tools for managers, with particular focus on the Asian region.

Mediation and Nomination Committees

The Mediation Committee did not need to convene during the 2012 fiscal year. The same was also the case for the Nomination Committee, since no Supervisory Board elections were needed to be planned.

Company and Consolidated Financial Statements

KPMG AG Wirtschaftsprüfungsgesellschaft, Berlin, audited the separate financial statements of Infineon Technologies AG and the consolidated financial statements as of September 30, 2012 as well as the Management Report of Infineon Technologies AG and that of the Infineon Group and issued unqualified audit opinions. The quarterly and half-yearly financial reports were subjected to a review by KPMG.

The separate financial statements, the consolidated financial statements prepared in accordance with IFRS, the Management Report and the Management Board's proposal for the appropriation of the unappropriated profit – all prepared by the Management Board – and the long-form reports prepared by KPMG pertaining to the audits of the separate financial statements, the consolidated financial statements and the Management Report, were discussed thoroughly with KPMG at the meeting of the Investment, Finance and Audit Committee held on November 12, 2012. That committee resolved to propose the approval of the two sets of financial statements by the Supervisory Board.

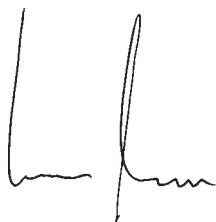
The Chairman of the Investment, Finance and Audit Committee reported on the committee's recommendations at the Supervisory Meeting held on November 21, 2012. The financial statements were examined thoroughly in the presence of the auditor at this meeting and additionally scrutinized by the Supervisory Board to ensure, in particular, that they were lawful, compliant and adequate.

The Management Board reported at the aforementioned Supervisory Board meeting on the scope, key areas and costs of the audit and explained the risk management system. The Management Report of Infineon Technologies AG as well as of the Infineon Group were also examined and found, in the opinion of the Supervisory Board, to be consistent with the reports made by the Management Board to the Supervisory Board. The Supervisory Board concurs with the statements on Infineon's future development. The Supervisory Board has examined and endorses the Management Board's proposal for the appropriation of the unappropriated profit, which provides for a dividend of €0.12 per qualifying share.

Following the final result of the examination by the Supervisory Board, the Supervisory Board has no objections to the financial statements and the audit performed by the auditor. The Supervisory Board concurred with the results of the audit on November 21, 2012 and approved the separate and consolidated financial statements of Infineon Technologies AG as well as those of the Infineon Group. The separate financial statements have thus been adopted.

The Supervisory Board wishes to express its thanks to the Management Board and to all employees working worldwide for their great commitment and outstanding achievements over the past fiscal year and to the employee representatives for their effective cooperation.

Neubiberg, November 2012
On behalf of the Supervisory Board



Wolfgang Mayrhuber
Chairman of the Supervisory Board

THE MANAGEMENT BOARD IN THE 2012 FISCAL YEAR

**DOMINIK ASAM**

Chief Financial Officer (CFO); Mechanical engineer (Dipl.-Ing.), Master of Business Administration (MBA); Member of the Management Board since January 2011

ARUNJAI MITTAL

Member of the Management Board, Regions, Sales, Marketing, Strategy Development and M&A; Studies in electrical engineering at Shivaji University, Kohlapur, India (Dipl.-Ing.); Member of the Management Board since January 2012



DR. REINHARD PLOSS

Since October 2012 Chief Executive Officer (CEO),
Labor Director since August 2010; Doctorate in chemical
engineering (Dr.-Ing.); Member of the Management
Board since June 2007

PETER BAUER

Until September 2012 Chief Executive Officer (CEO);
Electrical engineer (Dipl.-Ing.); Member of the
Management Board since April 1999

LETTER TO SHAREHOLDERS

Neubiberg, November 2012

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

Today, I am addressing you for the first time in a new position. On October 1, 2012 I took over as CEO of Infineon Technologies AG from Peter Bauer. Those of you from Infineon have already known me for quite some time: After joining Siemens/Infineon as a process engineer in 1986, I worked from 2000 to 2005 establishing and developing the Automotive & Industrial segment. Since June 2007 I have been a member of the Management Board, responsible for manufacturing, research and development and human resources.

Peter Bauer and myself, together with fellow board members Dominik Asam and Arunjai Mittal, were responsible for guiding Infineon through a fiscal year 2012 that was anything but easy, although successful in terms of the progress made by Infineon. For more than two years there was some customer demand that we could only partially meet due to capacity constraints in manufacturing, development and sales. Since then, in the last 12 months we have been able to focus on expanding these resources, with the aim of using our leading technologies to fully exploit the potential of the markets which we address.

A BRIEF SUMMARY OF THE 2012 FISCAL YEAR

The European debt crisis cast a shadow of considerable economic uncertainty on the 2012 fiscal year. The resulting reluctance of customers to spend led to a slight drop in revenue of around 2 percent to 3.9 billion euros for Infineon. Despite this moderate decline in revenue, we raised the amount invested in research and development, sales and manufacturing compared with the previous year, in order to fully exploit the unchanged high growth potential in our focus areas of energy efficiency, mobility and security. For this reason, income from continuing operations declined from 744 million euros in the 2011 fiscal year to 432 million euros in the year under report. Nevertheless, the Management and Supervisory Boards have decided to propose to the Annual General Meeting the payment of an unchanged dividend of 12 cents per share for the 2012 fiscal year. At September 30, 2012 the Infineon share stood at 4.94 euros, 12 percent lower than one year earlier. The German share index (DAX) gained 31 percent during the same period. However, when looking at our share's performance over a longer time period, starting with September 30, 2008, the beginning of the financial crisis, the Infineon share has gained 41 percent, whereas the DAX has risen by only 24 percent during that time.

"THE DETERMINING FACTOR" FOR PROFITABLE GROWTH

In Infineon's Annual Report on the 2011 fiscal year entitled "We're making progress", we explained why our innovative strength is indispensable for progress in tackling the world's social challenges of energy efficiency, mobility and security. The key role played by the semiconductors we develop and manufacture in controlling a broad range of applications is also highlighted in that Annual Report, as our products are often "the determining factor".



DR. REINHARD PLOSS
Chief Executive Officer

The progress we are making not only refers to the functionality of applications – which is often vastly improved or, in some cases, even made possible by our products – but also to our finances. We can now look forward to long-term revenue and earnings growth because our products are indispensable. They are making it possible to reduce energy consumption continuously while achieving the same or sometimes even greater output. This is not only true for automobiles, but also for every application powered by electricity. Infineon products are the key to solving the problems of the future with solutions such as motor management in hybrid vehicles, renewable energy, cloud computing or digital security.

Please allow me to explain more closely “the determining factor” that our products represent for their applications. Without our semiconductors in cars, for example, the sophisticated engine controls now commonplace in vehicles would be unthinkable and, similarly, there would be no hybrid drive systems. Cars would use more fuel and thus emit greater volumes of CO₂. Without our products there would be no airbag and no tire pressure sensor – cars would be less safe. In actual fact, the car as we know it today would hardly exist. The average value of the semiconductors installed in a medium-sized car is as low as 250 euros – at an average sales price of 25,000 euros per vehicle. Hence, our chips make a significant contribution to providing a major benefit to the end user, i.e. the driver, making it possible to sell the car for 100 times the total value of the semiconductors installed in it. The same thing is true for high-speed trains. Infineon chips enable these trains to reach speeds of up to 350 kilometers per hour. Each individual chip regulates the equivalent power output of a medium-sized car and even ensures that the energy otherwise lost when braking is fed back into the grid. The total cost of the semiconductors installed in a high-speed train is a comparatively low figure of approximately 100,000 euros – whereas the train itself costs around 10 million euros. Again in this example the value added is around 100 times the value of the semiconductors. Our products create enormous benefits, both for each individual customer and for society as a whole. That is “the determining factor” for our growth. Between 2000 and 2012, Infineon’s revenue rose by an average of 6.9 percent per year. Adjusted for currency factors, with an increase of around 18 percent in revenue compared to that recorded prior to the crisis, we are way ahead of the competition. Going forward, we want to grow more quickly than the historical average.

**MORE THAN JUST GROWTH:
FOUR STRATEGIC BASIC PRINCIPLES SECURE MARGINS**

Growth, however, is not sufficient in itself to achieve success on a long-term, sustainable basis. By adhering to four strategic principles, we make sure that we keep one step ahead of competition and earn an appropriate margin at the same time:

- 1. Outstanding price-performance ratio:** Performance and costs are what counts at system level. The extreme breadth and depth of our product portfolio enables us to cover a wide range of customer requirements. We supply products and applications that deliver outstanding performance and functionality, but also offer cost-efficient solutions. Key factors for our customers are more compact components, less weight and simpler, less expensive cooling. Our components are very attractively priced in comparison to the benefits they generate for our customers' systems.
- 2. Differentiation through in-house manufacturing:** Innovative technologies based on manufacturing technologies developed in-house enable us to minimize power losses when switching high voltages and currents, such as in the adapters used in servers and flat-screen televisions, or for industrial goods such as electric drive systems, wind turbines and high-speed trains. At the same time these technologies are also enabling a reduction of manufacturing costs. Our thin-wafer technology and 300-millimeter manufacturing impressively illustrate the advantages of achieving differentiation through in-house manufacturing.
- 3. Deep understanding of systems and applications:** We understand the challenges and problems the customer is facing better than our competitors. As a former subsidiary of Siemens, we have been supplying semiconductors for energy efficiency, mobility and security applications for over 40 years. For this reason we are now in a position to offer our customers components with superior efficiency and performance that help them increase their ability to compete. Going forward we intend to utilize our profound knowledge of systems and applications to provide entire semiconductor systems rather than just the individual semiconductor components. We are already working on the systems of tomorrow in order to maintain our competitive lead in the future.
- 4. Focus on Asia:** Asia as a region has been the largest growth driver for our business in recent years. Revenue increased in the Asia-Pacific region (excluding Japan) during the past three years. The proportion of revenue in this region amounted to 38 percent in the 2012 fiscal year of which 16 percent was attributable to China. Asia, and particularly China, will continue to be the fastest growing region for Infineon.

Following these principles, we aim in the long-term to achieve an average Segment Result Margin of 15 percent of revenue over the cycle. At 13.5 percent we were slightly below this target for the 2012 fiscal year as we made well-placed, strategic investments in the fields of manufacturing, development and sales. Research and development expenses rose from 439 million euros in the 2011 fiscal year to 455 million euros in the year under report. Selling expenses went up from 291 million euros to 306 million euros during the same period and, at 890 million euros, investments remained at a similar level as the 887 million euros spent one year earlier. However, the expansion of development, sales and manufacturing capacities has done much more than simply put us in a position to handle growing demand at any time. As "the determining factor", we also remain in a position to further shape and develop our target applications and markets. For this reason we are confident of again being able to reach our margin target. In the short-term this goal can only be achieved by significantly raising sales volumes and revenue, and largely depends on economic conditions. If the short-term recovery fails to materialize, we will only be able to achieve our target gradually after reaching a certain level of capacity utilization (and hence efficiency) of our 300-millimeter manufacturing technology.

WHAT NEXT?

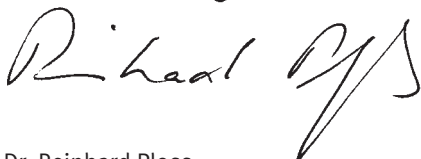
As in the previous year, the European debt crisis and the resulting uncertainty for the global economy will continue to affect us. This creates a challenging demand environment for our products. Assuming a euro/US dollar exchange rate of 1.25, we expect revenue in this fiscal year to decline by a mid to high single-digit percentage. Given this outlook, we have decided on a number of measures to stabilize the margin and will now proceed to implement them. In manufacturing, we will, for example, adjust manufacturing costs through measures such as temporarily switching off under-utilized equipment, reducing the temporary workforce and the selective use of short-time work. Additionally, budgeted investments for the 2013 fiscal year will be significantly reduced to 400 million euros. In research and development and sales and marketing, projects of lesser strategic importance will either be postponed or canceled and costs related to external service providers will be reduced. Furthermore, Infineon has frozen headcount at roughly the same level as at the end of the 2012 fiscal year and postponed certain salary increases. The orientation of the incentive scheme toward long-term margin targets will add to these cost reductions. In total, these measures will lead to cost savings exceeding 100 million euros and will help us combat margin pressure. Taking account of all cost reductions that have already been decided, Infineon forecasts a Segment Result Margin at a mid- to high-single-digit percentage of revenue for the 2013 fiscal year.

“THE DETERMINING FACTOR” – EMPLOYEES

Our organic growth and the expansion of our development, sales and manufacturing capacities have meant an increase in the size of the workforce at Infineon, rising from 25,750 employees at September 30, 2011 to 26,658 employees at September 30, 2012. As in previous years, even in times of economic uncertainty we were able to rely fully on the commitment, energy and dependability of our staff. In the name of the Management Board, I would like to express my thanks to the entire staff for their dedication and the level of achievement they have attained. Each one of you is an essential part of a corporate success story, helping to guide Infineon towards a great future.

Both the staff and the Management Board would like to thank my long-serving management team colleague Peter Bauer. With prudence and far-sightedness he refinanced Infineon during the global financial crisis of 2009, focused Infineon on the growth fields of energy efficiency, mobility and security and finally, through the investment program of the last two years, set a firm course for the future. We are particularly happy that Peter Bauer intends to continue serving Infineon in an advisory capacity.

We also hope that you, shareholders and business partners alike, will continue to be associated with Infineon and accompany us into a profitable future.

Sincerely,


Dr. Reinhard Ploss
Chief Executive Officer

INTERVIEW WITH DR. REINHARD PLOSS AND PETER BAUER

Interview with the new CEO and his predecessor



PETER BAUER

“In terms of expert knowledge and professional experience, no one is better qualified than Reinhard Ploss to build on Infineon’s innovation-driven market leadership.”

Mr. Bauer, how would you assess your last fiscal year as CEO of Infineon Technologies AG?

The 2012 fiscal year was by no means an easy one. The uncertainties triggered by the European debt crisis meant our customers were reluctant to spend, which is reflected in a moderate decline in revenue. This, in turn, presented us with perhaps the most difficult decision that a management board ever has to face: to which extent should we invest in future growth, profitability and market share at the expense of short-term earnings? I am convinced that we have found the best compromise by keeping our expenditure for the future within reasonable bounds, despite the slight decline in revenue. All in all, 2012 wasn’t an easy fiscal year for me, although definitely a successful one in terms of the progress that Infineon is making.

And when you look a little further back, how do you see your time at Infineon and your time as CEO?

For a good quarter of a century Infineon was my professional and, to a certain degree, also my personal home and I have a great many reasons to be grateful for it. I have always had a great deal of admiration for the performance of our products, Infineon’s innovative strength and the ability and dedication of our staff. It was both challenging and motivating to be able to develop Infineon from a leadership position as member of the Management Board since it went public and since 2008 as CEO. The deep recession in 2008 and 2009 and the much needed cost reduction program and successful refinancing of the Company that followed in its wake were for myself and everyone else at Infineon a painful and nerve-racking experience with a positive outcome. And I am happy to admit that I look back with quite some pride and satisfaction on the years from 2010 to 2012, during which the Company recorded a significant increase in growth and earnings and took some great strides in strengthening its position. Infineon is currently ideally positioned for the challenges of the future. I was privileged to be able to contribute to these many achievements, but all of this was just as much a result of the teamwork with the rest of the Management Board as well as the fortitude and energetic performance of the entire staff. I would like to express my sincere thanks to everyone at Infineon for their dedicated cooperation.



DR. REINHARD PLOSS

Born in Bamberg (Germany) on December 8, 1955

1986: Joins Siemens/Infineon as process engineer for ion implantation in wafer manufacturing in Munich (Germany)

1992: Moves to manufacturing in Villach (Austria), initially with duties in bipolar transfer, subsequently becoming head of technology

1996: Returns to Munich, to head the power semiconductor business unit with main focus on development and manufacturing

1999: Takes over the Industrial Power business unit and is additionally named President of eupec GmbH & Co. KG

2000: Takes over management of Automotive & Industrial segment of Infineon Technologies AG

2005: Responsible for development and manufacturing as well as operational management of the Automotive, Industrial & Multimarket segment

June 2007: Appointment to Management Board of Infineon; responsible for Manufacturing, Research & Development

August 2010: Additional appointment as Labor Director

Since October 1, 2012: CEO of Infineon

Reinhard Ploss is married and has one adult son.

In view of this development and the Company's current prospects, what induced you to leave Infineon?

I have suffered from osteoporosis for quite some time. I am unable to continue performing my duties as CEO of Infineon in the way the role itself and my own standards dictate and still look after my health at the same time, which I owe both to myself and to my family. For this reason I have taken the necessary course of action and the decision was made purely for personal and health reasons.

Where did you first cross paths with your successor Dr. Ploss? And from which time in your joint careers do you have particularly vivid memories?

A good 25 years ago, we started at around the same time as engineers in the former Siemens semiconductor branch and have meanwhile known each other for quite a number of years. As the semiconductor branch became Infineon Technologies AG in 1999 and went public one year later, I was an integral part of this process as member of the Management Board. At that time, Reinhard Ploss was responsible for semiconductors for industrial and automotive applications and one of our most important managers. I have particularly good memories of the time from 2004, in which, together with him and a really excellent management team, we had the privilege of managing these operations – which were part of the former Automotive, Industrial & Multimarket segment. Much of what makes up Infineon today came into being during this period, particularly in terms of corporate culture and teamwork. It is no coincidence that these fields form the core of Infineon today and continue to gain market share. This success has a great deal to do with the professional expertise and social skills of Reinhard Ploss. Together we have experienced low points on our common path, but also many moments of triumph, especially in recent years. We have worked together at Management Board level for the last five years. Basically, Reinhard Ploss and myself have been a tandem for many years now. I attribute this success to the fact that our actions are based on the same common values and we share a common view as to how a business should be managed.

What do you particularly appreciate about Dr. Ploss, Mr. Bauer?

Hardly anyone knows Infineon and our industry like Reinhard Ploss. He enjoys an outstanding reputation, both within the Company and among our international business partners. He has been a key driving force behind innovation and profitability at Infineon throughout the years. Groundbreaking developments such as our revolutionary super-junction transistor CoolMOS™ or our IGBTs on thin wafers or more recently our manufacturing strategy for the new 300-millimeter wafers were all instigated under his leadership. Reinhard Ploss is an executive of great integrity and analytical ability, a passionate technician and engineer – a developer through and through. For these reasons, as part of what is now a leaner management team he will continue to be responsible for manufacturing as well as for research and development – and also continue attending to the concerns of the staff in his capacity as Labor Director. He is a levelheaded executive who stands for continuity. That is why he enjoys the broad support of the employees and is an asset to the Company.

Are you leaving unanswered questions behind for your successor?

The dynamics and complexity of the semiconductor industry inevitably lead to the emergence of a great many questions in rapid succession, not all of which could be answered at the point of handing over the baton. Our business, our growth and our margin as well as our competitive position are thoroughly dependent on purposeful innovation. In terms of expert knowledge and professional experience, no one is better qualified than Reinhard Ploss to build on Infineon's innovation-driven market leadership.

Dr. Ploss, which unanswered questions will you be looking to address in your new role as CEO?

It will be all about strengthening and extending Infineon's competitive lead with its efficient, innovative products and simultaneously boosting profitability to its former strength. The degree of success also depends on economic conditions, of course. One year ago we made important decisions regarding the expansion of our manufacturing sites, which are the basis for continued growth – and only through growth can we make profitable use of the opportunities they offer. But size isn't everything and in the long-term it will not be sufficient to differentiate ourselves by means of technologically excellent products alone. We need to safeguard our growth with a superior understanding of customer systems and the outstanding price-performance ratio of our products. In this endeavor we are concentrating our efforts on customer systems in the fields of power semiconductors and integrated microcontroller solutions, or so-called embedded control. We have already taken the first steps in terms of system competence, and in the field of power semiconductors we already supply customers with system solutions for the digital management of power supplies for servers. Previously we merely supplied individual components for this application. In the field of embedded control we are introducing new microcontrollers to the market for industrial automation, electric drive system control and solar inverters, which we are able to combine to form a system solution together with our power semiconductors. We need to capitalize on this expertise, and that is a project I will be tackling together with our management team. We will transform Infineon from a provider of impeccable products to a provider of outstanding system solutions. In regional terms we will be concentrating particularly on Asia – and within the Asian market on China.

How do you reconcile the strategy of securing and extending competitive advantages with the measures adopted at the end of the fiscal year, such as putting a freeze on personnel numbers, postponing salary increases and curtailing investment?

These things do not contradict each other in any way. We are shaping our development, sales and manufacturing landscape based on realistic growth prospects in the medium-term. The capacities existing at the end of the 2012 fiscal year, both in development and sales, but also in manufacturing, are quite capable of handling substantially higher volumes of business. We are convinced of having placed ourselves in a position in which we are highly competitive.

And how do you assess Infineon's current margin situation with regard to your margin target?

We have consciously weighed our current margin against Infineon's medium- and long-term path of expansion. Even though the operating margin is not currently in line with our target, I am convinced we will get back on track in the medium- and long-term. Together with my colleagues in the management team I will do everything in my power to achieve this aim. With Infineon we have been through times of weaker margins and know where that can lead to. We don't want to go back there again. Moreover, in the end I see profitability as a reflection of the degree of customer benefit achieved. If we continue to offer innovative products, which are sought after because they convey a benefit to the customer and also the end user, our efforts will be rewarded in the form of corporate profitability. We are specifically investing in customer benefit, without losing sight of profitability.

Dr. Ploss, which aspect of your new role are you looking forward to the most? And Mr. Bauer, what are you going to miss most about Infineon?

Reinhard Ploss: I am looking forward to writing the next chapter of Infineon's success story together with the entire staff. We currently enjoy a strong feeling of togetherness among staff; there is a common awareness, a joint enthusiasm for achieving success. Together with the management team and the entire staff, I wish to build on this feeling and on Infineon's achievements over the last few years and lead Infineon into a sustainable, prosperous future.

Peter Bauer: I couldn't agree with you more. The level of cohesion within the Company is really quite extraordinary. Although I will continue to be associated with Infineon and in that way help to relieve the pain to a certain degree, I will miss that feeling of belonging together – and that highly satisfying experience of having helped Infineon make progress step by step. In any case, I will follow Infineon's progress very closely and I am sure it will be both exciting and successful.

GROUP MANAGEMENT REPORT



GROUP MANAGEMENT REPORT
 THE INFINEON GROUP

GROUP MANAGEMENT REPORT
 OUR 2012 FISCAL YEAR

CONSOLIDATED FINANCIAL
 STATEMENTS

THE INFINEON GROUP

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This report combines the Group Management Report of the Infineon Group (“Infineon” or “entity”), comprising Infineon Technologies AG (or “the Company”) and its consolidated subsidiaries, and the Management Report of Infineon Technologies AG. It should be read in conjunction with the audited Consolidated Financial Statements, including the information provided in the Notes to the Consolidated Financial Statements, which appear elsewhere in this Annual Report. The Consolidated Financial Statements have been prepared on the basis of a number of accounting policies and assumptions more fully explained in note 1 (Basis of Presentation) and note 2 (Summary of Significant Accounting Policies) to the Consolidated Financial Statements.

INFINEON 2012

First quarter

- 10|2011 Infineon and train manufacturer Bombardier Transportation enter into a strategic partnership in the field of drive electronics for state-of-the-art railway vehicles. Under the terms of the agreement, Infineon is to supply Bombardier Transportation with IGBT modules for locomotives, high-speed trains, underground and urban railways over a period of five years.
- 10|2011 At its Villach (Austria) site, Infineon produces the first chips (“first silicon”) on a 300-millimeter thin wafer for power semiconductors, making it the first company in the world to succeed in taking this step forward.
- 10|2011 Statutory health insurance organizations in Germany begin issuing new electronic health-care cards. Over the coming years, some 60 million electronic healthcare cards are due to be replaced. Infineon will supply at least 40 percent of the security controllers based on the Integrity Guard security technology.

Second quarter

- 01|2012 Presentation of the new 32-bit microcontroller family XMC4000 for industrial applications. These microcontrollers use a Cortex™M4 processor from ARM®. Targeted applications for the new processor include electric drives, solar inverters and the automation of manufacturing and buildings.
- 01|2012 Infineon announces new packages for power semiconductors. These comply with the JEDEC Standard H-PSOF (Heatsink Plastic Small Outline Flat lead) and are suitable for high-voltage applications used in automobile electronics, such as electric power steering systems, alternators and other applications with high currents as well as for battery management in hybrid vehicles.
- 02|2012 Infineon's new ORIGA™2 authentication chip protects mobile device users better from counterfeit components such as fake (and often faulty) batteries employing the industry's battery interface (BIF) specification established by the global industrial association MIPI Alliance (Mobile Industry Processor Interface). The ORIGA™2 chip is also suitable for use in printer cartridges, replacement parts, medical disposables, network components or accessories such as earphones, speakers, docking stations and chargers.

Third quarter

- 04|2012 Infineon supplies security chips for “girogo”, a project set up by the German Banking Industry Committee (Deutsche Kreditwirtschaft) for dual interface bank cards (contact-based and contactless). Integrated contactless technology enables payment of sums up to €20 in less than one second. Infineon is the world's first chip manufacturer to comply both with the strict security standards of the German Banking Industry Committee and the requirements for contactless technology.
- 04|2012 Infineon wins the prestigious “Supply Chain Management Award 2012” for its exemplary fully integrated supply chain solution. This logistics award, sponsored by various organizations including PricewaterhouseCoopers, is presented each year for the best value-added chain in the manufacturing sector.

- 05|2012 Infineon introduces the new multicore 32-bit microcontroller family AURIX™ for use in automotive applications. Equipped with up to three independent 32-bit TriCore™ processor cores, these controllers comply with the highest safety standards in automotive applications and are designed to meet future requirements both for powertrains and for functional safety applications built into automobiles.
- 05|2012 Infineon ships the two-billionth sensor chip, putting it up with the world's market leaders for semiconductor-based magnetic sensors and pressure sensors. Magnetic sensors are used for wheel speed measurement in anti-lock braking systems and pressure sensors in side airbag systems.
- 05|2012 Infineon receives the Toyota "Excellent Quality Award" for its CAN transceiver for the fourth year in succession. The award is only presented to suppliers who have delivered zero-defect quality throughout the year.
- 05|2012 Continental selects Infineon's KP200 pressure sensor for use in a new safety system developed in collaboration with a well-known automobile manufacturer. The new pressure sensor is part of an active safety system built into the front bumper of the car and designed to protect pedestrians in the event of a collision.

Fourth quarter

- 07|2012 The automotive industry supplier Continental AG and its Automotive Group awarded Infineon the title "Supplier of the Year 2011" in the "Electronics" category for product quality and technology, customer orientation and logistics performance. This is the third time in succession that Infineon has been presented with an award of this kind.
- 08|2012 Infineon is awarded a new contract by the US Government Printing Office to supply security chip technology embedded in the US electronic passport (contract term: five years). This project is currently the largest ePassport program in the world.
- 09|2012 Continental decides to exclusively use Infineon security chips in the new generation of digital tachographs. The security chips are certified in accordance with the "Common Criteria EAL5+ high" European Union Directive.
- 09|2012 Infineon's Integrity Guard security technology has been nominated for the "Deutscher Zukunftspreis 2012" (a prize awarded by the President of Germany for technology and innovation). This security technology was developed for applications that require the highest level of data security and long-term resilience. Application fields include governmental identification documents, banking cards and credit cards as well as networked systems such as IT infrastructures and the intelligent smart grid electricity network. The award was presented on November 28, 2012, after the preparation of the Consolidated Financial Statements and the Group Management Report.
- 09|2012 Infineon received confirmation that it meets the criteria for continued inclusion in the Dow Jones Sustainability Europe IndexSM for the third year in succession. Infineon is the only European semiconductor manufacturer to be listed in this index.

STRATEGY AND FINANCE – REVIEW AND OUTLOOK

With its concentration on the focus areas of energy efficiency, mobility and security Infineon is well-positioned to meet its long-term growth and earnings targets and to achieve an appropriate return on capital, even in times of economic uncertainties. Infineon's products play a key role in many facets of modern life.



CHALLENGING 2012 FISCAL YEAR

- ❖ Revenue and earnings down due to economic uncertainties at a time of high investment for the future.
- ❖ Return on capital employed nevertheless higher than cost of capital.
- ❖ €212 million in total disbursed to the capital market either as dividend or in the form of returned capital.

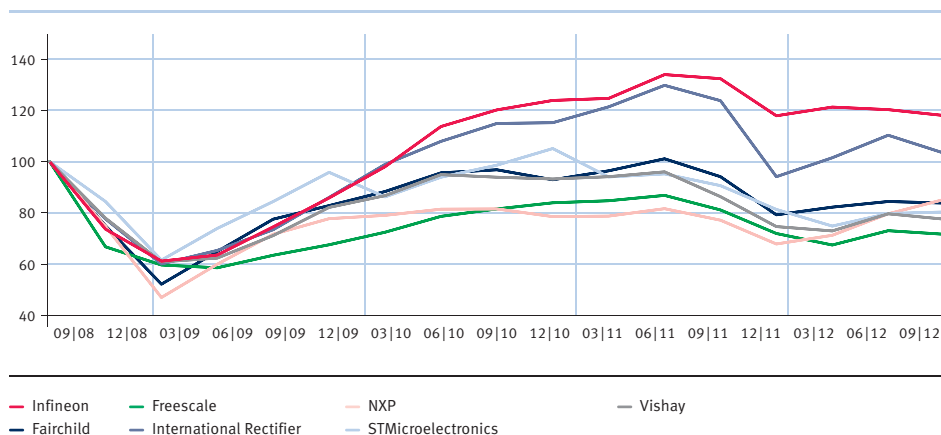
BOTH REVENUE AND EARNINGS DOWN IN DIFFICULT MARKET ENVIRONMENT

The 2012 fiscal year was certainly not an easy one for Infineon, with the sector having to grapple with increasing global economic uncertainties in the face of the European debt crisis. In terms of progress made, however, the year can nevertheless be regarded as a successful one for the Group.

Despite the fact that **revenue** slipped by roughly 2 percent from €3,997 million to €3,904 million, Infineon's performance nevertheless shows that Group revenue has developed better than that of its main competitors since September 2008.

Indexed revenue development of Infineon¹ and competitors

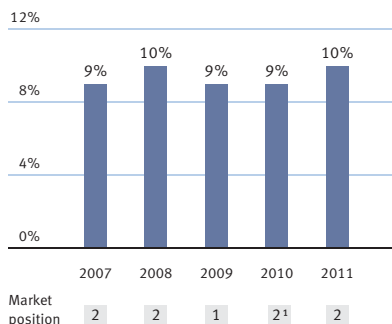
September 2008 = 100



¹ Infineon revenues excluding Wireline Communications and Wireless mobile phone business. Infineon's US dollar based revenue proportion is normalized with the exchange rate from September 30, 2008.

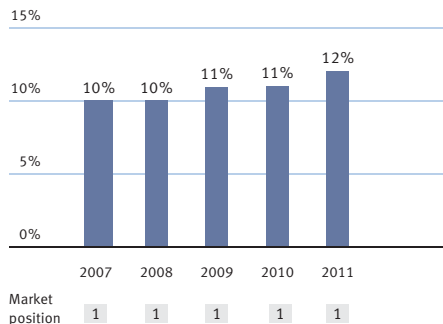
Market share for automotive and power semiconductors has risen significantly compared to the previous year and Infineon has asserted its position as market leader in the field of smartcard ICs for the 15th year in succession.

Market share development and market position in automotive semiconductors



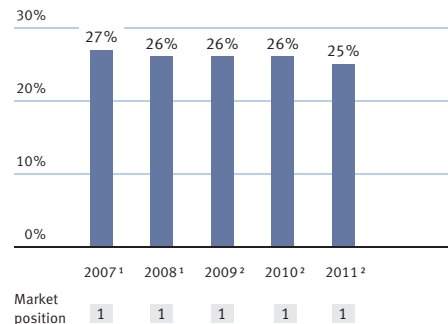
¹ In April 2010 Renesas Technology and NEC Electronics merged to create Renesas Electronics which became the new number 1 with a market share of 14 percent.
Source: Strategy Analytics "Automotive Semiconductor Vendor Market Shares 2011", April 2012

Market share development and market position in power semiconductors¹



¹ Discrete power semiconductors and modules
Source: IMS Research (an IHS company) "The World Market for Power Semiconductor Discretes & Modules" Editions 2007 – 2012

Market share development and market position in smartcard ICs



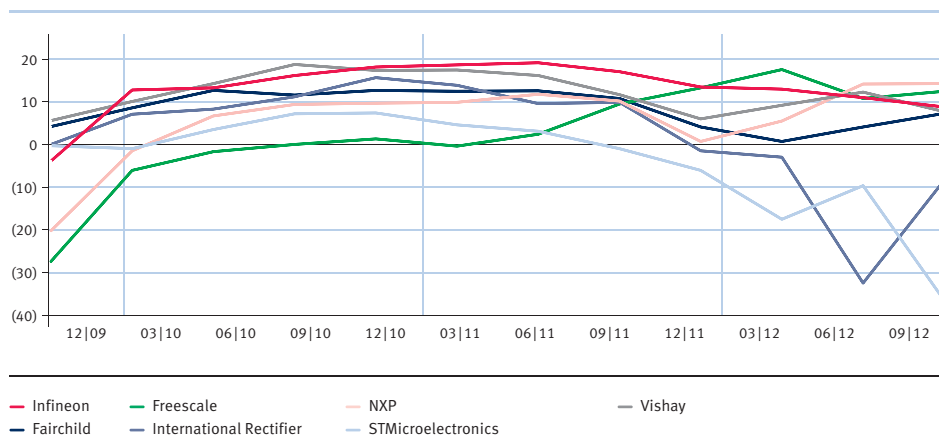
Sources: ¹ Frost & Sullivan "World Smart Card IC Markets"
² IMS Research (an IHS company) "Smart Cards and Smart Card ICs – World"

The **Segment Result** for the 2012 fiscal year totaled €527 million, almost 33 percent down on the previous year's €786 million, giving rise to a **Segment Result Margin** of 13.5 percent (2011 fiscal year: 19.7 percent). One of the reasons for the decrease in margin is our strategic expansion of research and development, selling and manufacturing capacities, which should enable us to exploit the growth potential offered in our focus areas of energy efficiency, mobility and security. In this context, research and development expenses increased year-on-year by just under 4 percent to €455 million (2011 fiscal year: €439 million). Selling expenses went up during the same period by approximately 5 percent from €291 million to €306 million. Investments in infrastructure projects totaled €890 million and were therefore almost unchanged from the previous year's high level (2011 fiscal year: €887 million). The depreciation and amortization expense for the fiscal year under report amounted to €428 million, approximately 18 percent higher than one year earlier (2011 fiscal year: €364 million).

The operating margin (operating profit expressed as a percentage of revenue) was better than that of most of our competitors.

Development of operating income margin of Infineon and competitors

in percent



Income from continuing operations fell by 42 percent from €744 million to €432 million, reflecting the downturn in revenue referred to above, caused by less favorable economic conditions on the one hand and an increase in research and development, selling and manufacturing expenses on the other.

Income from discontinued operations net of income taxes was a negative €5 million and hence significantly down on the profit of €375 million reported in the previous year, which, among other items, had included a post-tax gain on the sale of the Wireless mobile phone business as well as the profit earned on Wireless mobile phone business operations prior to the sale on January 31, 2011.

Net income dropped accordingly by almost 62 percent to €427 million (2011 fiscal year: €1,119 million).

Earnings per share (basic and diluted) amounted to €0.40 and €0.39 respectively for the 2012 fiscal year, a deterioration of 61 percent and 60 percent respectively compared to the previous year's figures of €1.03 (basic) and €0.98 (diluted).

Free cash flow (for definition: see section "Internal Management System") was a negative €219 million for the 2012 fiscal year, significantly lower than the previous year's positive free cash flow of €106 million. This decrease is the combined outcome of lower revenue, higher research and development and selling expenses and continued high levels of investment in manufacturing infrastructure.

see page 122

Our **gross cash position** (for definition: see section "Internal Management System") at September 30, 2012 stood at €2,235 million, some 17 percent lower than at the end of the previous fiscal year (€2,692 million). The lower gross cash position resulted partly from negative free cash flow and partly from disbursements made in conjunction with our capital return program (€82 million) and the dividend for fiscal year 2011 (€130 million) (see section "Capital return measures continued despite reduction in earnings").

see page 125

The **net cash position** (for definition: see section "Internal Management System") dropped as a consequence by almost 19 percent to stand at €1,940 million at the end of the reporting period (September 30, 2011: €2,387 million).

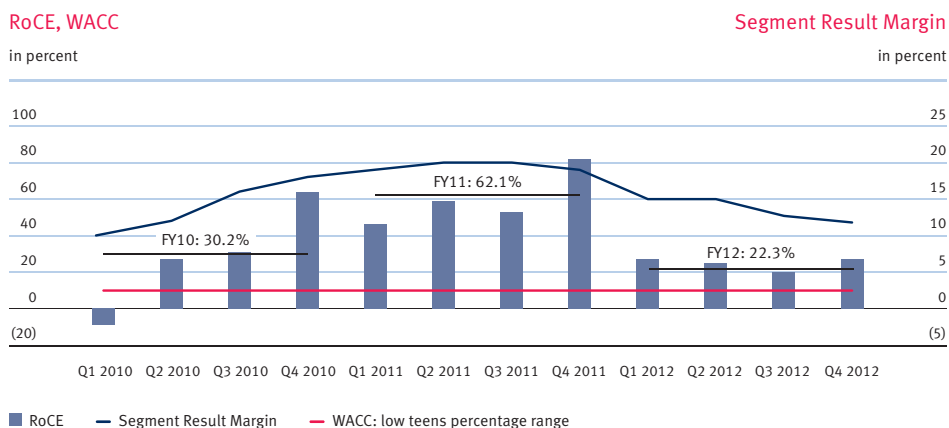
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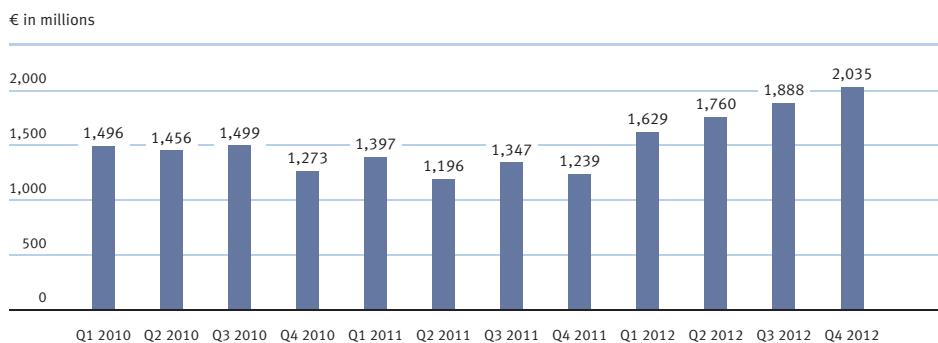
see page 123

INFINEON AGAIN EARNS PREMIUM OVER COST OF CAPITAL IN 2012 FISCAL YEAR

One of our corporate objectives is to earn a **return on capital employed (RoCE)** higher than the cost of capital, thus creating economic value added for shareholders. Although the **RoCE** dropped significantly below its 2012 level of 62.1 percent, at 22.3 percent, it was nevertheless well above our weighted average cost of capital (WACC). For the definition of details relating to the computation of RoCE, please see section “Internal Management System”.



Capital employed



CAPITAL RETURN MEASURES CONTINUED DESPITE REDUCTION IN EARNINGS

Despite the reduction in earnings in the 2012 fiscal year we ensured that investors continued to partake in the Infineon success story. In this vein, we paid a dividend totaling €130 million on March 9, 2012, the day after the Annual General Meeting.

In conjunction with our capital return program we also repurchased subordinated convertible bonds due 2014 with a nominal amount of €24 million for approximately €62 million during the year under report. Approximately €20 million was used in accordance with the relevant authorizations given by the Annual General Meeting on February 17, 2011 to repurchase Infineon shares (own shares) via put options.

In keeping with our desire to pursue a sustainable dividend policy, a proposal will be made to the shareholders at the Annual General Meeting on February 28, 2013 that a dividend of €0.12 per share be paid, unchanged from the previous fiscal year.

THE DETERMINING FACTOR – OUR PROSPECTS FOR GROWTH AND PROFIT

LONG-TERM GROWTH DRIVEN BY BENEFITS GAINED IN OUR FOCUS AREAS OF ENERGY EFFICIENCY, MOBILITY AND SECURITY

Economic difficulties in Europe and Asia led to a decline in both revenue and earnings for Infineon in the 2012 fiscal year. Lower demand also gives us reason to expect a similar trend in the 2013 fiscal year (see “Report on expected developments, together with associated material risks and opportunities – Outlook” section). Nonetheless, we are convinced that demand for our products will grow in the long-term. We supply vital components, system expertise and know-how for our three focus areas – energy efficiency, mobility and security. We believe our strategy will enable us to add considerable value to and thereby play an essential role in the market success of our customers’ products.

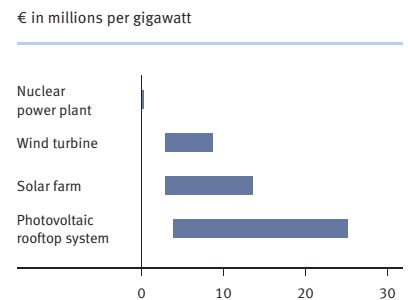
KEY ROLE IN BOOSTING EFFICIENCY IN THE GENERATING AND USAGE OF ENERGY

Amid growing concerns regarding the environmental and geopolitical consequences of the continued use of fossil fuels and nuclear energy, a growing number of countries worldwide are in search of alternative ways of generating electric power from renewable sources in order to supply sufficient energy for the needs of the future. Germany is a typical example and is looking to raise the percentage of its electric power supplies generated using renewable sources from 20 percent in the 2011 calendar year to 80 percent by the year 2050. Wind and solar power are very likely to play a major role in this endeavor. Power semiconductors made by Infineon are key components in these innovative systems and play an essential part in converting renewable energy into electric power as well as feeding it into the grid. Renewable energy requires considerably more power semiconductors per gigawatt than conventional power stations. For example, €9 million worth of semiconductors are required per one gigawatt of generation capacity to run a high-power wind turbine, €12 million per gigawatt for a state-of-the-art solar park and €25 million per gigawatt for the inverters of a modern rooftop installation. These figures represent many times the amount needed per gigawatt in conventional power plants.

Greater efficiency in the use of electric power is another long-term growth driver, as rising energy prices and higher CO₂ emission levels are fueling public interest in efficient, intelligent energy management solutions. Better energy management means lower energy costs and reduced CO₂ emissions for private and commercial customers alike. Data centers are an impressive example of the implications. In 2010, 27 gigawatts of electric power were required to operate all of the data centers worldwide. A one-percent improvement in efficiency not only leads to reducing energy consumption by a total of 270 megawatts, it also diminishes the complexity and cuts down the space needed to house one of these data centers. A study conducted by Stanford University estimates that the total annual energy consumed by data centers worldwide has increased by 56 percent between 2005 and 2010 and that it is currently approaching the amount required to cover the entire energy needs of Australia.

❖ see page 165 ff.

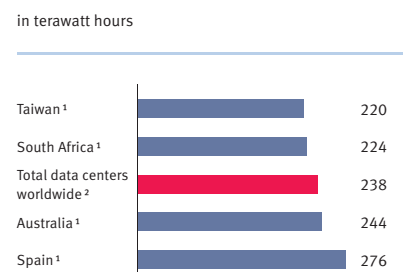
Semiconductor content per gigawatt of generation capacity



■ Semiconductor content (minimum to maximum)

Source: Internal assessments

Total energy consumption of data centers worldwide compared to energy consumption of selected countries in the year 2010



¹ Source: International Energy Agency (IAE) “2011 Key World Energy Statistics”

² Source: Jonathan G. Koomey, Stanford University: “Growth in Data Center Electricity use 2005 to 2010”, August 2011

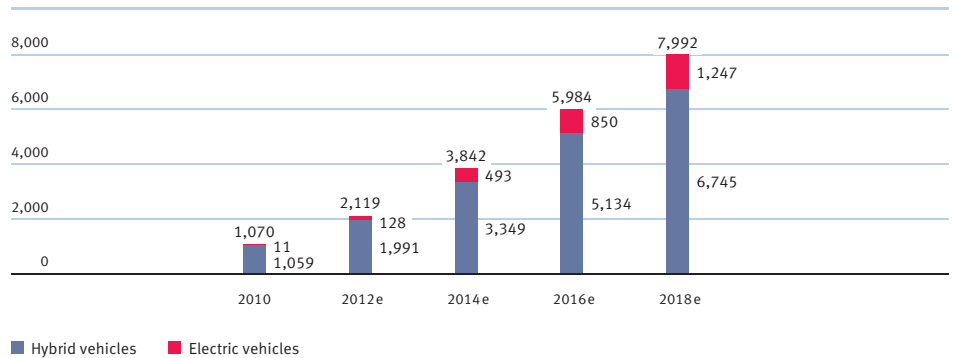
In view of these dimensions, even minor improvements in the energy efficiency of data centers can have a meaningful impact when seen on a global scale. Infineon power semiconductors are market leading and key components in reducing conversion losses and thereby serve to improve the energy efficiency of data centers.

KEY ROLE IN THE FUTURE OF MOBILITY

Semiconductors have been a key factor in powering electric vehicles for decades and also played an important part in the widespread use of innovations such as electronic fuel injection systems, airbags, ABS systems, power-assisted steering and driver assistance technology. In view of the rising cost of fuel and the need to reduce CO₂ emissions to curb global warming, consumers are now increasingly looking for cars that are not only safe and convenient to use, but also feature outstanding fuel efficiency and eco-friendliness. The trend is additionally supported by progressively strict legislation and government subsidies that encourage CO₂ reduction, thereby creating the conditions for rapid growth in demand for hybrid and electrically powered vehicles, two of the fastest-growing segments of the automobile market.

Expected growth of hybrid and electric vehicles

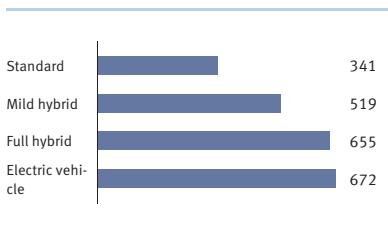
vehicles in thousand



Source: Strategy Analytics "Automotive Semiconductor Demand Forecast 2010 – 2019", July 2012

Semiconductor content per vehicle in the year 2015

in US\$



Source: Strategy Analytics "Automotive Semiconductor Demand Forecast 2010 – 2019", July 2012

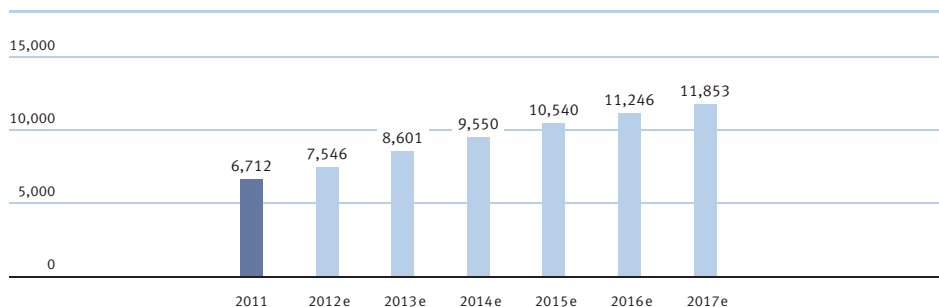
Power semiconductors are vital components for driving electric motors by the power stored in the vehicle's battery. Infineon can considerably benefit from this trend as the value of semiconductors per hybrid or electric car is around twice as high as the value installed in vehicles powered by conventional combustion engines. A major portion of these are power semiconductors, in which Infineon is the global market leader.

KEY ROLE IN SECURITY FOR CONNECTED SYSTEMS

Electronic transactions have revolutionized numerous aspects of daily life, including banking, consumer behavior, ticketing systems in public transport, personal identification and data processing. Until recently, these fields of application were relying on traditional technologies such as magnetic stripe cards and software-based encryption in order to carry out secure transactions. However, the increasing threat of attacks and the desire for additional benefits such as contactless payment functions have brought about a paradigm shift away from traditional technologies towards smartcards based on microcontrollers. The market research company IMS Research predicts that the continued proliferation of smartcards will lead to considerable growth in sales volumes over the next few years. The volume is expected to increase from the current figure of seven billion to almost 12 billion units by the 2017 calendar year.

Expected growth of smartcard ICs

in millions of units



Source: IMS Research (an IHS company) "Smart Cards and Smart Card ICs", August 2012

STRATEGIC INVESTMENTS TO STRENGTHEN OUR COMPETITIVE EDGE ENSURE ATTRACTIVE FINANCIAL RETURNS

While the market trends described above will ensure continued growth in demand for Infineon products, the following four strategic basic principles will make sure that we are able to earn a long-term average financial return throughout an entire cycle on a sustainable basis, over and above our cost of capital.

1. OUTSTANDING PRICE-PERFORMANCE RATIO

Despite their diminutive size and the relatively small percentage they comprise of the total cost of end applications, semiconductors play a crucial role in their functionality. For example, although Infineon's IGBT chips are no larger than a fingernail, each square centimeter of an IGBT is capable of switching up to 110 kilowatts of electric output. This characteristic enables the developers of high-performance electric systems who utilize our products not only to minimize the size of their systems, but also improve their efficiency, reduce their weight and complexity and simplify their cooling requirements. All of these factors help our customers to clearly differentiate their products from others in their target markets in terms of price-performance ratio. The competitive edge our products give to our customers has enabled us to achieve leading positions in our target markets of automotive electronics, industrial electronics and security.

Outstanding achievements in research and development (R&D) are both the basis and the precondition for products to meet with market success. Some examples from the recent past are innovative technologies such as our CoolMOS™ high-voltage MOS power transistor family, the use of new materials such as silicon carbide and gallium nitride (see "Research & Development" section) and our innovative AURIX™ microcontroller architecture as well as Integrity Guard (see "The Segments – Chip Card & Security" section). In order to retain our leading market positions, we spent a total of €455 million on R&D in the course of the 2012 fiscal year, thereby exceeding the €439 million spent in this field during the 2011 fiscal year. These investments are helping us ensure that Infineon's products will continue to generate substantial added value for our customers in the future.

❖ see page 80

❖ see page 74 ff.

2. DIFFERENTIATION THROUGH IN-HOUSE MANUFACTURING

Manufacturing know-how is a crucial aspect in “standing out” from the competition and therefore Infineon attaches great importance to in-house manufacturing. This is particularly important in the case of power semiconductors, as their electrical properties are highly dependent on the manufacturing process. Our 300-millimeter thin wafer technology is a prime example (see “Research & Development” section), as it constitutes a major advantage for improving power density that is proprietary to Infineon.

Secondly, our in-house manufacturing capacities also enable us to leverage our leading position in the manufacturing of semiconductors for the automobile, energy and chip card markets. Even though the products in our portfolio are used in greatly varying fields, many of them benefit from the complementary use of manufacturing lines and processes. For example, the manufacturing platforms used to manufacture industrial power modules are the same as those that turn out the power modules installed in electric and hybrid vehicles. These synergies enable us to benefit from economies of scale that produce cost advantages in manufacturing, purchasing and logistics.

Moreover, the requirements of our target markets for the semiconductors used in automotive, industrial and security applications are among the most stringent worldwide and demand the highest possible standards in terms of quality and logistics. These requirements not only serve as a barrier to entry for new competitors, they also serve to differentiate us from the current competition. Customers on the quality-oriented automobile market decide in favor of Infineon because we have been supplying them with reliable, fault-free products for a number of years, a fact duly acknowledged by the numerous supplier awards we have received (see “The Segments – Automotive” section). When it comes to logistics we include all of our supply chain partners in our product planning process, from the suppliers of our suppliers right through to the customers of our customers. This strategy enables us to react swiftly to changing market conditions and thereby ensure our customers are supplied with the right products at the right time. Receiving the “Supply Chain Management Award 2012” from PricewaterhouseCoopers and other industry groups (see “Manufacturing” section) clearly demonstrates how our logistics performance is even setting standards outside the semiconductor industry.

The amount of investment totaling €890 million in the 2012 fiscal year is practically identical to that of the previous fiscal year. One main focal point of our investment is to maintain and extend our previously mentioned competitive edge through the innovative use of manufacturing concepts and techniques.

3. DEEP UNDERSTANDING OF SYSTEMS AND APPLICATIONS

Our customers address global markets in which they are continually required to boost their competitiveness. For this reason they are not only looking for suppliers who sell them single components, but for partners who understand their requirements and are ready to offer them viable solutions. Infineon’s 1,633 sales and marketing staff have made it their aim to identify and understand the fields of application in which our components and our specific know-how can provide customers with added value vital to their continually changing needs. These activities involve us right from the concept phase of future customer projects and applications, enabling us to secure growth, reliability of forecasts, and earnings. Initial successes in this new strategy are:

New concepts such as digitally controlled power supply interacting with high-power power semiconductors make it possible to considerably improve the efficiency of power supplies to servers.

... see page 84

... see page 47

... see page 87

The use of our system knowledge in automotive applications helps create solutions for products such as airbags or electric window lifters and minimize both the size of our products and our customers' costs. In doing so we make full use of our worldwide first 130-nanometer Smart Power manufacturing technology SPT9 (Smart Power technology, 9th generation) for automotive electronics.

We have taken account of our increased orientation on target markets organizationally. As from January 1, 2012 we have divided the former Industrial & Multimarket segment into the two new segments now known as Industrial Power Control and Power Management & Multimarket. Our clear focus on the various target markets and fields of application of the two newly structured segments enables us to react far more quickly and flexibly to the requirements of our customers and to changing market situations.

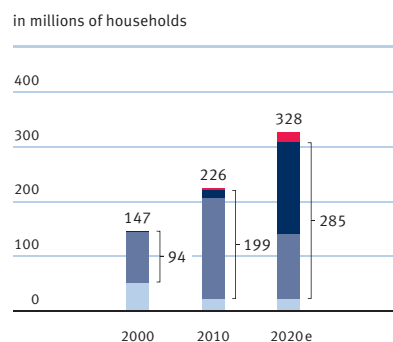
Infineon increased its selling expenses from €291 million in the 2011 fiscal year to €306 million in the 2012 fiscal year in order to further strengthen its competence in this field.

4. FOCUS ON ASIA

The stellar economic growth seen in Asia and particularly in China in recent decades has fostered burgeoning demand for all sorts of products, from entertainment electronics to home appliances and automobiles. We have been able to participate in this trend, as many of our semiconductor solutions are integrated in these products. Infineon has also benefited from the expansion of electric power generation and distribution infrastructure, both in China and other emerging countries, in a bid to supply sufficient energy to power the products that in turn contain a whole range of Infineon components. A study conducted by McKinsey predicts that the number of consumers in China's middle classes will rapidly increase in the course of this decade, which indicates potential for further growth in the sale of our products.

Infineon's investments and projects in the Asia-Pacific region demonstrate our commitment to maximizing opportunities for profitable growth in the region. In the field of research and development we have established competence centers in Singapore and Beijing to develop semiconductor solutions for the regional market. In the field of sales and marketing, Infineon has not only brought new hires on board within the region, it has also established formal partnerships with some of the region's leading companies, including well-known names such as Hyundai Motors in Korea for the automotive sector and wind turbine manufacturer Goldwind in China. These alliances will help Infineon bolster its position in the Asian market. We are also currently expanding our manufacturing capacities, particularly in Malaysia and China, enabling us to take full advantage of the existing market potential.

Expected development of urban households by annual household income



in millions of households	2000	2010	2020 ¹
Affluent (more than 34,000 US\$)	0.0	4.5	19.7
Upper middle class (16,000 – 34,000 US\$)	1.5	13.6	167.3
Lower middle class (6,000 – 16,000 US\$)	92.6	185.3	118.1
Poor (less than 6,000 US\$)	52.9	22.6	23.0

Source: McKinsey "Meet the 2020 Chinese Consumer", March 2012

THE SEGMENTS

Whether driver assistance systems, renewable energy, mobile devices, contactless payment – our products can be found in a wide range of applications. Millions of people worldwide use our high-tech solutions every day.

AUTOMOTIVE



INDUSTRIAL
POWER CONTROL



POWER MANAGEMENT
& MULTIMARKET



CHIP CARD & SECURITY



Infineon's business is focused on three major social challenges: energy efficiency, mobility and security. All three hold the promise of healthy growth for Infineon in the long-term.



ENERGY EFFICIENCY

Energy efficiency plays a key role in modern society. The world's population is growing constantly and increasing the global demand for energy. The supply of fossil fuels is set to decline in the foreseeable future and electricity is becoming the most important energy carrier of the 21st century. Firstly, because it can be transported both quickly and cost-effectively, and secondly because it can be efficiently converted.

Semiconductors from Infineon boost energy efficiency and offer greater benefit at all stages of the energy industry's value-added chain – in generation, transmission, and especially in the use of electrical power. They form the basis for the intelligent and optimized use of energy in industrial applications, in power supply for computers and consumer electronics as well as in cars.



MOBILITY

Human mobility requirements are another major challenge modern society is currently facing. This is true for both individual mobility and mass transit systems.

Infineon supplies semiconductor solutions for the automotive industry as well as for a broad range of train systems, thus facilitating people's mobility both within and between urban centers. We strive to develop increasingly compact solutions for high-speed and metropolitan trains, electric and hybrid vehicles, vehicles with combustion engines, and even electrically powered two-wheelers, enabling us to offer our customers greater functionality in an ever-shrinking footprint.



SECURITY

Security has meanwhile become an essential requirement in today's society – crucial for trust, protection and privacy in view of the broad use of electronic devices that are connected with information networks. The trend towards greater security initially emerged in the fields of telecommunications, financial transactions, government identification documents and trusted computing. The fields of industrial and automotive application systems now also perceive a similar need to protect themselves from threats that can endanger personal safety, the ability of companies to function efficiently or even national security interests.



AUTOMOTIVE

- Revenue €1,660 million, segment result €219 million.
- New standards demand additional passive and particularly active safety functions.
- Increasing significance of data encryption and protection against manipulation.

Passenger vehicle with combustion engine

Europe is innovation leader in the field of combustion engine efficiency. Given that approximately 95 percent of all newly registered vehicles are powered exclusively by combustion engines, this field holds the greatest potential for reducing emissions. [See “Legal requirements for CO₂ reduction”, page 44, to find out how the EU targets for 2020 can be achieved by means of intelligent engine management.](#)



Safety and security

Well established passive safety systems have helped reduce the consequences of accidents on the roads. We are currently seeing the emergence of active safety systems that are designed to help avoid accidents. In the field of active pedestrian protection systems, for example, Infineon is making an important contribution with its KP200 pressure sensor. ➔ See “Integration of sensor elements and control logic is the main focus of innovation for magnetic and pressure sensors”, page 45.



Among carmakers there is a growing desire to make it more and more difficult to manipulate and tune their engines. Infineon has already implemented a security module in various automotive micro-controllers. ➔ See “Chip Card & Security: Security as cross-segment competence”, page 76.

e-scooters

From e-scooter to cordless screwdriver – the precise controlling of electric motors requires varying types of magnetic sensors, depending on the type of motor. Infineon is one of the world’s leading manufacturers of semiconductor sensors. ➔ See “Electromobility on two wheels”, page 45.



Hybrid vehicles

Local CO₂ legislation worldwide is encouraging the wider use of electrically powered vehicles. That is good news for Infineon as hybrid, electric and hydrogen-powered vehicles all require a far greater proportion of semiconductors than conventionally-powered vehicles. ➔ See “Electromobility on four wheels”, page 44.

BRIEF DESCRIPTION

Infineon is one of the few semiconductor manufacturers able to combine a highly diversified product portfolio with extensive system know-how and superior quality. These are the competencies that have made us the preferred partner of our customers for more than 40 years. Our innovation focus is on integrating functionality, so we are concentrating our attention on semiconductors that provide an outstanding price-performance ratio. We have set our sights on the following growth drivers: improving energy efficiency, increasing driving safety, and the fast-growing low-cost car segment. Depending on requirements, whether these may be powertrain, driving safety or comfort electronics, a suitable solution can be put together comprising microcontrollers, intelligent sensors and power semiconductors from our product portfolio.

STRATEGIC DIRECTION

Over the next few years, if not decades, we see three major trends which will dominate the development of automotive engineering and which we support to a significant degree with our products:

LOW-EMISSION VEHICLES: With future drive systems and compliance with increasingly stringent emission standards in mind, we are collaborating with our lead customers in developing control systems based on microcontrollers, sensors and power electronics. We are contributing towards reducing CO₂ emissions by making combustion engines increasingly efficient. Infineon is also taking a leading role in the semiconductor industry as regards the increasing electrification of vehicles, both in the powertrain as a whole and in the various power units.

SAFE VEHICLES: With our products we cater to a wide variety of active and passive safety applications that help reduce the number of road accidents: airbags, side impact protection, electronic power steering, seatbelt tensioners, tire pressure monitoring, radar-based driver assistance systems, and antilock braking system (ABS)/electronic stability control (ESC). In order to guarantee the reliable performance of these safety applications in vehicle systems that are becoming increasingly integrated, cryptographic encoding technologies are required. In all these areas we are able to draw on our globally leading security expertise.

AFFORDABLE CARS: The automobile has come to epitomize individual mobility. Yet in growth regions like India, China, Russia and South America, one requirement is paramount: affordability. In partnership with our customers we are striving to design vehicles that match people's needs, i.e. using high-quality components and profound system knowledge to drive down system costs, thereby meeting our customers' cost targets.

THE AUTOMOTIVE SEGMENT IN THE 2012 FISCAL YEAR

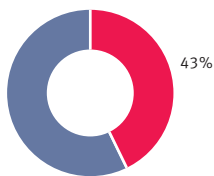
Infineon's Automotive segment recorded revenue of €1,660 million in the 2012 fiscal year, up 7 percent year-on-year.

Segment Result amounted to €219 million, nearly 22 percent down on the previous fiscal year.

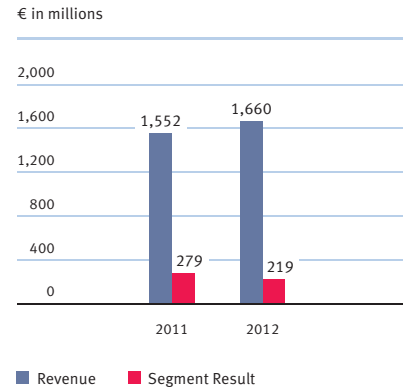
Further information on the segment's business performance can be found in the section "Segment Performance – Automotive", page 136.

The Automotive segment represents a share of 43 percent of Group revenue from continuing operations.

Revenue of the Automotive segment
 in percent of Infineon revenue

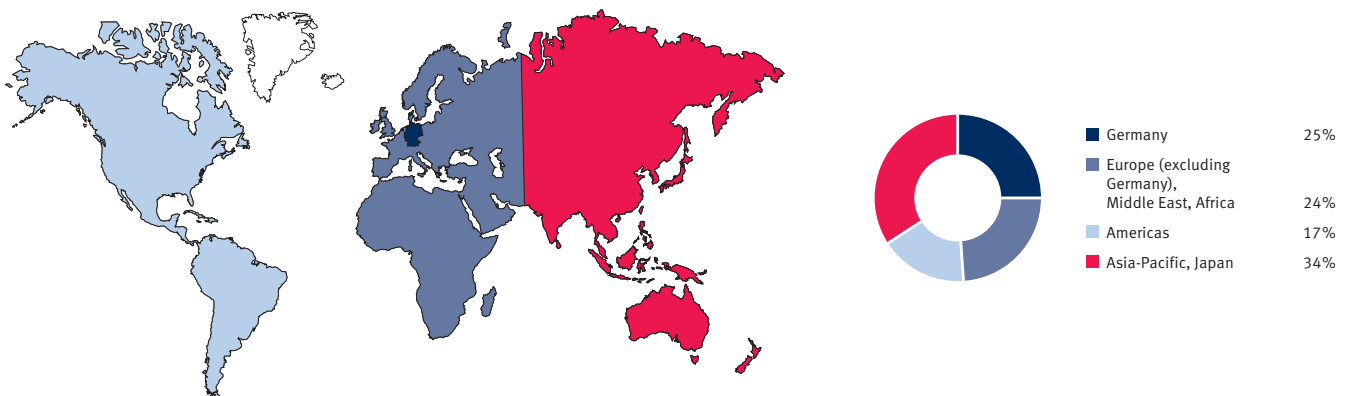


Revenue and Segment Result
 of the Automotive segment



The sharp rise in automobile production in Asia – mostly reflecting developments in China on the one hand and Japan on the other as a result of the catch-up effect in the wake of the natural disaster and reactor meltdown as well as gains in market share in Japan – had an impact on the split of revenue by region: 34 percent of the segment's worldwide revenue was generated in the Asia-Pacific region (including Japan), compared to 30 percent one year earlier.

Regional revenue split of the Automotive segment



MARKETS, APPLICATIONS, PRODUCTS

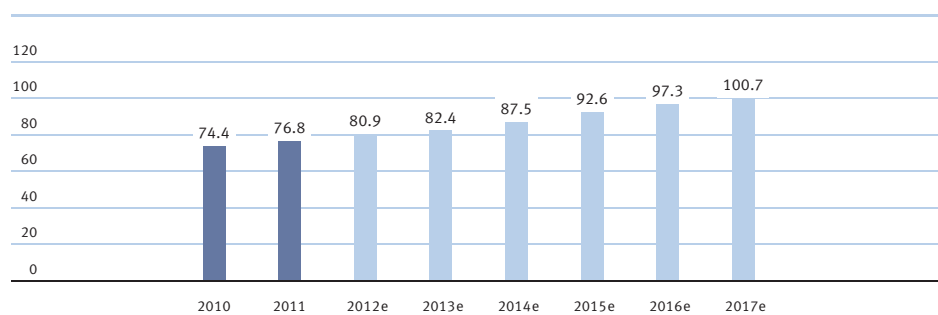
The automotive semiconductor market is determined by the number of vehicles produced and the extent to which those vehicles are equipped with electronic functions. Legislation and regulations that impact safety and fuel consumption also play an important role. Last but not least, the performance of semiconductor companies also depends on adjustments of the inventory levels within the supply chain as well as on the customer structure.

AMERICA, BRAZIL, CHINA, INDIA, RUSSIA AND JAPAN MORE THAN COMPENSATE FOR MARKET WEAKNESS IN EUROPE

According to the market research institute IHS iSuppli, worldwide car production in the 2011 calendar year totaled 76.8 million units. IHS forecasts global car production of 80.9 million units for the 2012 calendar year, an increase of 5.3 percent. The institute predicts slower growth of 1.9 percent or 82.4 million cars in the 2013 calendar year. Average annual production growth for the period from 2011 to 2016 is expected to be 4.8 percent.

Development of worldwide car production

in millions of units



Source: IHS iSuppli "Light Vehicle Production Forecast by Region and OEM Brand", October 2012

The market situation has worsened for mass-volume manufacturers in Europe in recent months. Although the speed of the downturn has slowed somewhat, the economic environment, particularly in Southern Europe, is only likely to recover very sluggishly. The number of new cars sold continued to decline, primarily due to lower consumer spending in Italy, Spain and France.

By contrast, the automobile industry continued to report good sales volumes in most other countries of the world during the period under report. Particularly in North America, Asia, Brazil, Japan and Russia, new car business performed well enough to more than compensate for the market weakness in Europe, enabling sales volumes to rise globally during the period. With 12.7 million new cars sold in the USA, the 2011 calendar year was the best since the recession in 2008 – and latest figures for the 2012 calendar year suggest that this number is likely to be surpassed. However, these figures were still a long way from the record year 2005 when almost 17 million cars were sold. A large number of Americans delayed buying new cars in the years from 2008 to 2011 and in the meantime many cars on the roads are old and in need of replacement. With the unemployment rate falling since August 2011 and consumer confidence picking up, sales demand increased. Car sales in the USA during the first half of the 2012 calendar year were approximately one million units up on the same period one year earlier. Business is also brisk in many other countries. Car sales in Japan during the first six months of the 2012 calendar year were also one million units up on the same period in 2011, while the Chinese market recorded an increase of approximately 500,000 units.

VALUE OF SEMICONDUCTORS PER CAR IN CHINA ONLY HALF THAT OF EUROPE

According to the market research specialist Strategy Analytics, the total value of semiconductor components in an average car in the 2011 calendar year amounted to US\$309 or approximately €250 – a new record figure. Value per vehicle is also forecast to increase in the years to come, in light of the trend towards further improvements in powertrain efficiency, new convenience and safety features, and innovations in entertainment electronics. Standard levels of equipment on the one hand and regulations concerning minimum safety standards and maximum fuel consumption on the other vary greatly from one country to the next.

The total value of semiconductor components per car in the world’s established markets (Europe, North America and Japan) stands at around US\$400, while the average car sold in emerging markets has only half as much value on board. Over the coming years and decades, countries in these regions are likely to catch up with the well established automobile nations. For this reason, the compound annual growth rates for the value of semiconductors per car in China and Brazil (meanwhile the world’s largest and fourth-largest car nations respectively), are likely to be twice as high as those recorded in Europe and North America.

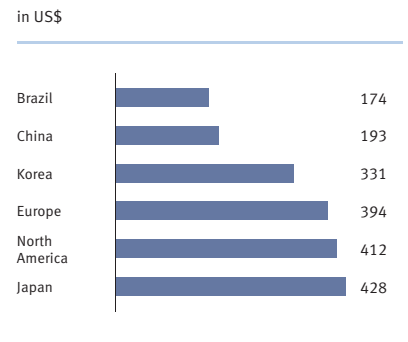
CAR DENSITY IN THE USA TEN TIMES AS HIGH AS IN CHINA

The middle classes of India and China are growing by around 10 million people per year in each country. In Brazil too, several million Brazilians are likely to join the lower middle class in the foreseeable future. Particularly in Africa and Asia, people are being drawn to the megacities, where the switch from the bicycle or moped to the car is seen as an expression of growing prosperity. At 83 cars per 1,000 heads of population, in 2011 China reached the level measured in Europe around 60 years ago. Car density in the USA is higher by a factor of 10.

The fastest growth rate for car production around the world is likely to be generated in future by demand for low-cost cars coming from the BRIC countries (Brazil, Russia, India and China) as well as from countries such as Indonesia, Mexico, Malaysia and Thailand. It is one of the major challenges of our times to make sure that these developments take their course in a manner that causes the least possible damage to the environment and global climate. The manufacturers of these cars will increasingly need to employ innovative electronics that will require intelligent integration at semiconductor level in order to comply with safety, emissions and cost targets for low-cost cars. In order to achieve success in this market segment, we are focusing on ways of facilitating the integration of additional functional features with a view to achieving a particularly good price-performance ratio with our products.

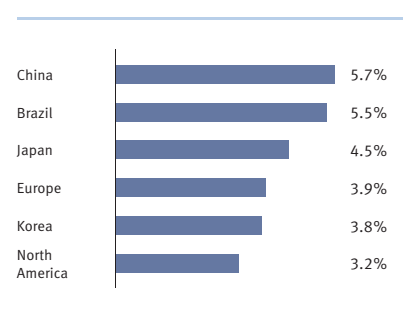
We have already managed to win some major orders in China with a special system chip, developed originally to provide low-cost engine control in four-cylinder cars. This highly integrated chip includes drivers for all loads arising in the application, communication interfaces and all necessary operating voltages. We are only able to produce this high degree of functionality monolithically (i.e. on a single chip) and meet the cost requirements of the market thanks to our particularly efficient Smart Power manufacturing technology SPT9. This system chip fulfills the latest protection and diagnosis requirements and excels through its advantages with regard to electromagnetic interference.

Semiconductor content per vehicle in the year 2011



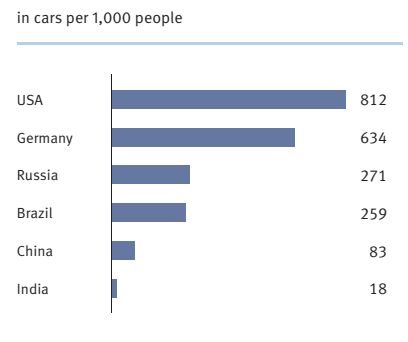
Source: Strategy Analytics “Automotive Semiconductor Demand Forecast 2010 – 2019”, July 2012

Compound annual growth rate of semiconductor content per vehicle from 2011 to 2015



Source: Strategy Analytics “Automotive Semiconductor Demand Forecast 2010 – 2019”, July 2012

Level of vehicle ownership



Source: Wikipedia; http://en.wikipedia.org/wiki/list_of_countries_by_vehicles_per_capita

LEGAL REQUIREMENTS FOR CO₂ REDUCTION; ELECTRONIC SOLUTIONS REPLACING HYDRAULIC SOLUTIONS

Governments throughout the world are attempting to curtail growing CO₂ emissions with new regulations. In the USA, as from 2025, new cars will only be allowed to consume slightly more than four liters of fuel per 100 kilometers. In the EU, new regulations governing CO₂ emissions have already been fixed: By 2020 the fleet average of all European carmakers may not exceed 95 grams of CO₂ per kilometer, compared to today's figure of 167 grams of CO₂ per kilometer. This means reducing consumption from around seven liters of fuel per 100 kilometers to a future maximum of around four liters.

The only way to reduce average fleet emissions to 95 grams of CO₂ per kilometer by 2020 is to continue reducing both vehicle weight and energy consumption. Our innovative power semiconductors can help carmakers reduce the weight of the heavy cable harnesses built into each car and also enable them to further reduce the amount of power they consume. A good example of this innovation is the replacement of relays and fuses with our Power PROFET™ or ConnectFET families that feature both extremely low electrical resistance and outstanding thermal properties. Particularly for start-stop systems, our semiconductor components make it possible to achieve the necessary number of switching cycles, a development greatly appreciated by leading automotive suppliers.

Core component of the power modules in electric power steering systems: high-power transistor in the new H-PSOF package



Another way to reduce fuel consumption is to replace hydraulic systems with electronic solutions. Hydraulic systems create a certain hydraulic pressure over a longer period of time, which often remains unused, whereas our electronic solutions supply the required torque at exactly the right moment. As a result, the greater efficiency of electronically controlled power steering systems can save around 0.35 liters of fuel per 100 kilometers (equivalent to eight grams of CO₂ per kilometer) compared with hydraulic systems. Power steering is an application that requires the highest currents of up to 300 amperes in an all-terrain road vehicle with four-wheel drive (SUV; Sport Utility Vehicle). Infineon has developed complete power modules for this purpose with several power transistors arranged in parallel. At its core is a high-performance transistor in a new package named H-PSOF (Heatsink Plastic Small Outline Flat Lead). This package sets new standards in terms of high-current capability and efficiency and is smaller at the same time. Apart from CO₂ reduction, the direct customer benefit is the far more compact installation size of the controllers combined with higher output. As power transistors with this package are also used in applications manufactured in very high numbers, such as ABS, we have licensed it to Fairchild Semiconductor to ensure that our customers have the advantage of a second source of supply. This move also helps increase customer acceptance of the H-PSOF package and makes it easier for us to enter the market.

ELECTROMOBILITY ON FOUR WHEELS

The transition to electromobility is fostering the development of new drive concepts for both cars and two-wheelers. In megacities, where the average speed of traffic is 10 kilometers per hour, the sharp reduction of local exhaust-gas emissions for the benefit of the environment takes top priority. Local CO₂ legislation worldwide will greatly encourage the wider use of electrically powered vehicles.

Both hybrid and electric cars require a far greater number of semiconductors than conventional models. Whereas the average vehicle powered by a conventional combustion engine is equipped with semiconductors worth around €250, the average hybrid or electric car has around €400 to €500 worth of semiconductors on board. Around three quarters of the additional value consists of power semiconductors. These components are the crucial factor in driving the powerful electric motors. Infineon has comprehensive system know-how, which means we are capable of providing our customers with the best possible proposals in terms of power electronics in hybrid and electric vehicles.

Our HybridPACK™1 semiconductor power module has been specifically developed for electric motors in the performance category up to 30 kilowatts. It has meanwhile become one of the best-selling power modules on the open market and is very successfully operating in Hyundai hybrid cars. An enhanced version of this module has been designed to cater to the fast-growing market for mild-hybrid vehicles. Unlike the full-hybrid vehicles, which can be driven by the electric motor alone, the electric motor in a mild-hybrid car merely acts to support the combustion engine. For this reason mild-hybrid vehicles require lower voltages for the electric motor. Hence power switches in the 400-volt category can be installed, which can be considerably thinner and therefore result in lower losses. We have unique know-how in this field and have mastered the technique of manufacturing extremely thin wafers only 40 micrometers thick.

For full-hybrid and purely electric cars we have developed the HybridPACK™2 power module. In order to promote its broad market distribution and establish it as quasi-standard, we are currently preparing a licensing agreement with Fuji Electric.

ELECTROMOBILITY ON TWO WHEELS

The range and charging infrastructure are not limiting factors for e-scooters. With a range of around 60 kilometers they are capable of covering most daily journeys. The removable battery means they can be charged overnight at home. The largest market by far for these agile two-wheelers is China. Around 30 million e-scooters were sold in China in 2010. There are now around 140 million users of e-mobility on two wheels in China.

We are also serving these growing markets with our integrated magnetic sensors. Depending on the motor control, various Hall sensors are used for the commutation of the electric motor. An iGMR (integrated Giant Magneto Resistive) angle sensor is being increasingly used for highly dynamic loads or precision drives. Furthermore, magnetic sensors offer non-contact, fast, precise position determination for applications such as the accelerator or the gearshift.

Incidentally: Our magnetic sensors are to be found wherever an electric motor is running, for instance in drills, cordless drills and pedelecs.

INTEGRATION OF SENSOR ELEMENTS AND CONTROL LOGIC IS THE MAIN FOCUS OF INNOVATION FOR MAGNETIC AND PRESSURE SENSORS

Greater safety is also an increasingly important issue for car drivers. In addition to the established passive safety systems, we are currently seeing the emergence of active safety systems (so-called “driver assistance” systems). These include features such as radar-based distance warning, lane departure warning and pedestrian protection systems. Some of these features are voluntarily selected as optional equipment, while others are mandatory safety systems designed to further reduce the number of accident victims.

HybridPACK™1 400V IGBT module for mild-hybrid vehicles



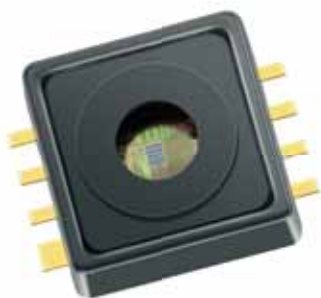
Applications for magnetic sensors

- Electric power steering
- Power windows
- Transmission control
- Industrial drives
- e-bikes (e-scooter, pedelecs)
- Smart metering
- Home appliances
- Electric power tools

Development of safety features

- | | |
|------|-------------------------------------|
| 1971 | Seat belt |
| 1978 | ABS |
| 1980 | Driver airbag |
| 1983 | Pretensioner |
| 1995 | ESC (electronic stability control) |
| 1996 | Side airbag |
| 1998 | Adaptive cruise control |
| 2005 | Tire pressure monitoring system |
| 2008 | Predictive emergency braking system |
| 2010 | Lane departure warning |

KP200 pressure sensor



Applications for pressure sensors

- Pedestrian protection
- Engine and motor control
- Side airbag

Product range

- Microcontrollers (8-bit, 16-bit, 32-bit)
- Magnetic sensors
- Barometric pressure sensors
- Wireless transmit and receive ICs (RF, radar)
- Discrete power semiconductors (MOSFETs, IGBTs)
- Power ICs (voltage regulators, drivers, interface devices)
- IGBT modules

The EU has made it a key issue to halve the death toll caused by traffic accidents between 2010 and 2020. EU regulations to make active pedestrian protection systems mandatory equipment for all new cars as from 2017 are a further step towards achieving this objective. A deformable air hose will be built into the front bumper with a pressure sensor fitted at both ends for redundancy reasons. Upon impact, these sensors measure the pressure change within the air hose, evaluate the data in real-time and transmit them to a central control unit, which in turn activates a mechanism that lifts the car's hood, thereby cushioning the impact of the pedestrian and significantly reducing the risk of injury.

Infineon supplies the KP200 pressure sensors for this life-saving safety system, which has been developed by Continental in collaboration with a major carmaker. The KP200 pressure sensor is already used in side airbags, where it not only measures the air pressure, but also contains the control logic on a second chip. The integration of the sensor and the control logic is one of our main focus areas of innovation in the field of sensors, which we are continually endeavoring to make more efficient and reliable. These attributes, coupled with our longstanding experience and high quality levels, make us the partner of choice in the field of sensors for car and industrial electronics. Infineon is one of the leading manufacturers of semiconductor sensors and sold its two-billionth sensor in the 2012 fiscal year.

PRODUCT RANGE – FIELDS OF APPLICATION

In the 2012 fiscal year the Automotive segment generated around one third of its revenue from semiconductor components specially designed for the powertrain. These include engine and transmission controls, alternator regulation, automatic start-stop systems and the powertrain for electric and hybrid vehicles.

Around one third of revenue was attributable to comfort electronics, including steering, suspension, lighting, air conditioning, sliding roofs, power windows, windshield wipers and central locking systems.

Safety accounted for around one quarter of revenue. The main focus of our products for safety applications is on airbags, electronic power steering (EPS), ABS/electronic stability control (ESC), electronically controlled suspensions, driver assistance by means of radar-based distance warning and tire pressure monitoring.

Applications

Powertrain

- Alternator
- Engine and transmission control
- Start-stop system

Hybrid and electric vehicles

- Battery management
- Charger
- Motor control

Chassis and comfort electronics

- Air conditioning
- Door electronics
- Electronic control units
- Lighting
- Power windows
- Steering
- Sunroof
- Suspension
- Windshield wipers

Safety

- ABS
- Airbag
- Electric power steering
- Electronically controlled chassis suspension
- ESC (Electronic Stability Control)
- Radar-based driver assistance
- TPMS (Tire Pressure Monitoring System)

MARKET POSITION

In the 2011 calendar year Infineon gained more market share than any of its competitors and with an additional 1.0 percentage point Infineon now holds 9.8 percent of the market, its highest level ever (source: Strategy Analytics, April 2012). Infineon has thus secured the second place in the world market behind Renesas Electronics.

Automotive segment revenue in US dollar terms for the 2011 calendar year (calculated by Strategy Analytics) rose by 24 percent to US\$2.27 billion. The market as a whole grew by approximately 12 percent during the same period to US\$23.3 billion.

There have been no major changes in our market positions in Europe (number 1 with 14.7 percent market share), North America (number 2 with 8.5 percent), and in the rest of the world with the focus on Asia-Pacific (number 2 with 9.0 percent). However, Infineon took a great leap forward on the Japanese market, moving up from number 8 the previous year to number 4 and at 3.8 percent of market share achieved the best ranking of all non-Japanese semiconductor manufacturers.

The five largest competitors held 47 percent of the market.

Infineon remained by far the largest supplier of power semiconductors for automotive electronics. According to Gartner, Infineon is in second place worldwide behind Bosch in the sale of sensors for automotive applications.

We registered the largest gains in market share in the field of microcontrollers, particularly with 32-bit controllers, thereby narrowing the gap to Freescale and Renesas, the leading competitors in this segment.

We received an award from Japanese automotive supplier Denso Corporation for the best technological development, resounding proof of our successful activities in this market. The award was presented for Infineon's development of the SP37DL sensor chip, designed for monitoring tire pressure. The new tire pressure sensor makes it possible to reliably identify tires recording a pressure change at a low cost. The four sensors transmit pressure signals to the electronic system, which evaluates them and is capable of conclusively differentiating between the associated tires.

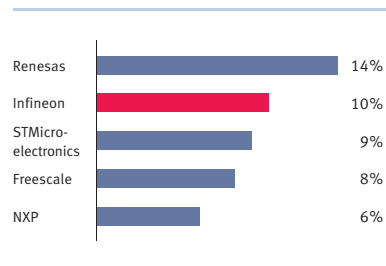
Once a year, Denso honors its best suppliers worldwide in the categories of quality, price-performance ratio, technological development and cooperation. Infineon is the first non-Japanese component supplier to receive an award for technological development from Denso.

Continental, our largest customer, also honored us with its "Supplier of the Year Award" for the third consecutive time in July 2012. Continental has given this award to its best automotive suppliers since the year 2000. In receiving this award, Infineon created a new record – as the first of Continental's 975 suppliers to win this coveted award three years in a row.

Infineon supplies Continental with over 800 different products (including those for airbags, engine controls, transmission controls, door and window control modules, sensor systems and lighting). The fact that we have won the award for three consecutive years is both an affirmation and an incentive to maintain our high standard of customer orientation and continue our efforts to attain zero-defect quality.

Moreover, the Hirose plant of carmaker Toyota presented us with its "Excellent Quality Award" as its best supplier in 2011 for our consistent supply of exceptionally high quality products. More information on this topic is available in the section "Manufacturing".

World market for automotive semiconductors



Source: Strategy Analytics "Automotive Semiconductor Vendor Market Shares", April 2012

Key customers¹

- Autoliv
- Bosch
- Continental
- Delphi
- Denso
- Hella
- Hyundai
- Lear
- Mitsubishi
- TRW
- Valeo

¹ Direct customers excluding distribution customers. Distribution customers: "Infineon at a glance" on the inside front cover.

see page 86



INDUSTRIAL POWER CONTROL

- Revenue €728 million, segment result €118 million.
- Grid expansion and grid quality key topics not just since energy turnaround.
- Urbanization is leading to the building of new metro systems in regions and cities.



Renewable energy

In most countries, the expansion targets for renewable energy accompanying the energy turnaround will mean the additional installation of wind and solar power systems over several decades. ••• See section “Wind power: short-term uncertainty; long-term growth market”, page 53. Our power semiconductors are also in demand when it comes to connecting offshore wind farms to the power grid and stabilizing grid quality. ••• See “Grid expansion needed due to globally increasing demand for electricity”, page 54.

Railway vehicles

Safe, fast public mass transit systems are becoming increasingly decisive factors for the standard of living and the competitiveness of many regions worldwide. The number of new metro systems built has increased significantly over the last 20 years. Around 160 major cities, particularly in Asia, Africa and the Middle East, do not yet have a metro system. ••• See “Mobility within metropolitan areas and between major cities is one of the key topics of the 21st Century”, page 56.





Industrial drives

Electric motors are not only built into drives, but are also to be found in pumps, fans and compressors. They run non-stop in some industrial facilities. The amount of electric power they use can be significantly reduced by means of electronic load and speed regulation. As operating cost is far greater than acquisition cost, an electronic control system pays for itself within a few years.

The most powerful household motors are fitted in the circulation pumps of heating systems and in washing machines.
➔ See “Great savings potential with electric motors in industrial drives and home appliances”, page 55.



Industrial vehicles

Compared to conventional diesel-powered vehicles, heavy construction vehicles can use anything from 10 to 30 percent less fuel when fitted with diesel-electric drive systems. The high torque generated by the electric motor to the axle or the hub of the wheel not only takes the load off the diesel engine, it is good for the environment as well. ➔ See “Buses, construction and mining vehicles are converting to hybrid and diesel-electric drives”, page 56.



BRIEF DESCRIPTION

Compact, extremely powerful and highly efficient: power semiconductors from Industrial Power Control are a vital factor across all aspects of the power supply chain in the 21st Century.

When it comes to generating electricity, our specially designed products for use in wind and solar farms ensure that electricity is produced reliably and economically using energy gained from renewable sources. Power semiconductors also play a key role in the transmission of electric power as they are installed in high-, medium- and low-voltage networks for transforming the voltages and adapting the various frequencies.

Not only that, Infineon power semiconductors also perform a wide range of tasks in daily life, such as in the motor controls of production plants and the drives of both long-distance and local trains, and also in home appliances such as air conditioners, washing machines and induction cookers.

Due to its superior and differentiating technologies, its deep understanding of applications and close customer relationships, Industrial Power Control holds leading positions in these key markets, forming a solid basis for further growth and profitability.

STRATEGIC DIRECTION

Our products are crucial for generating, transmitting and efficiency in the use of electric power. Industrial Power Control thus contributes towards energy efficiency at all levels of electric power distribution. Our leading market position is based on the following core points in our strategy:

TECHNOLOGICAL LEADERSHIP: Power semiconductors are often the determining factor when it comes to the efficiency, size, weight and cost of our customers' products. From the most powerful IGBT modules to the "bare die" business, we provide our customers with outstanding components for their particular applications. We safeguard our technological leadership with innovations such as the 300-millimeter thin wafer manufacturing technology for power semiconductors, the .XT internal packaging technology for IGBT modules and the latest chip technology for IGBT modules.

RELIABLE PARTNER FOR OUR CUSTOMERS: Our components must be able to withstand the rugged environments of customer applications. IGBT modules installed in the inverters of offshore wind turbines or in the drive controls of high-speed trains must function perfectly over several decades. Our long years of industrial experience and innovative strength help us develop the right components for the relevant applications and focus on systems even more strongly in the future. With this strategy and the use of our extensive know-how we help our customers gain faster access to their markets.

THE INDUSTRIAL POWER CONTROL SEGMENT IN THE 2012 FISCAL YEAR

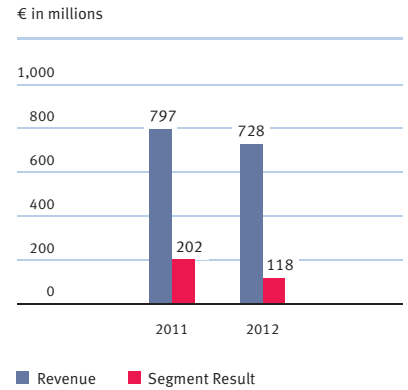
Infineon's Industrial Power Control segment recorded revenue of €728 million in the 2012 fiscal year, almost 9 percent down on the previous year.

Segment Result totaled €118 million, approximately 42 percent lower than the figure posted one year earlier.

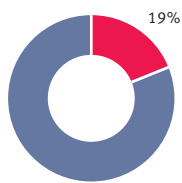
Further information on the segment's business performance can be found in the section "Segment Performance – Industrial Power Control", page 138.

The Industrial Power Control segment makes up 19 percent of Group revenue. 36 percent of segment revenue was attributable to distribution.

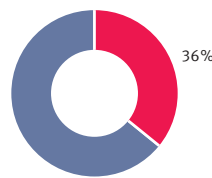
Revenue and Segment Result of the Industrial Power Control segment



Revenue of the Industrial Power Control segment in percent of Infineon revenue

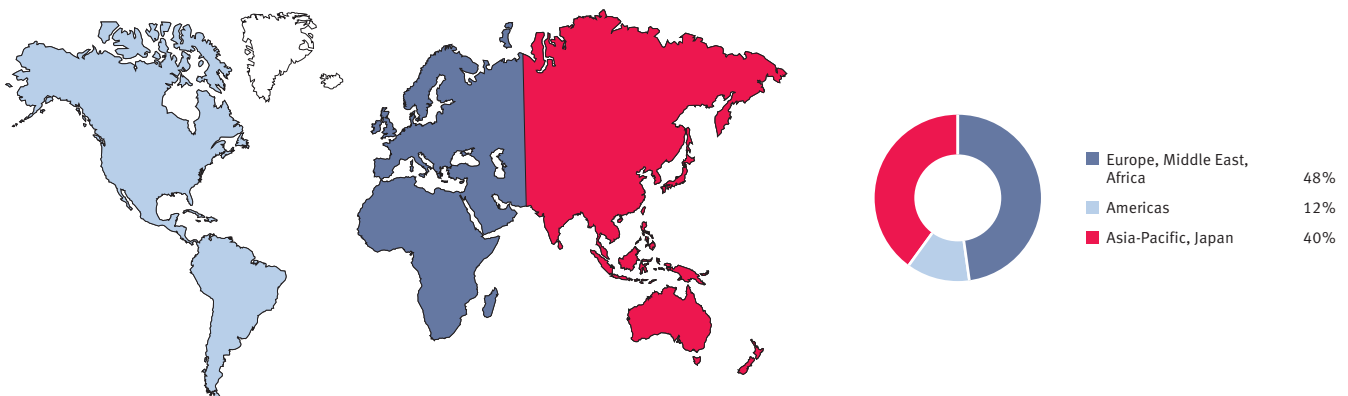


Percentage of revenue of the Industrial Power Control segment through distribution



For historical reasons many of our customers from the capital goods industry are based in Europe and account for 48 percent of our revenue worldwide. The strongest growth in recent years was seen in the Asia-Pacific region – the lion's share in China. The Asia-Pacific region is meanwhile responsible for 40 percent of revenue and, apart from direct customers, a sizeable share is also being achieved through distribution.

Regional revenue split of the Industrial Power Control segment

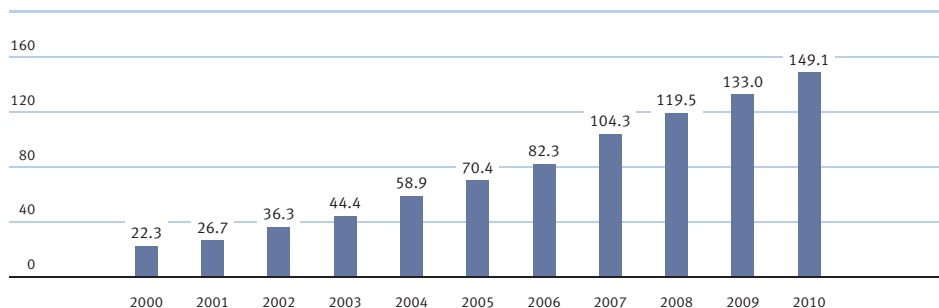


MARKETS, APPLICATIONS, PRODUCTS

The expansion of renewable energy generation is well under way in many countries and the use of wind and solar power to produce electric power has been greatly encouraged and promoted in the European Union over the last few years. Between 2000 and 2010, the amount of power generated by wind increased by a factor of 6 and that produced by photovoltaic systems by a factor of 200.

Electricity supplied by wind power within the EU

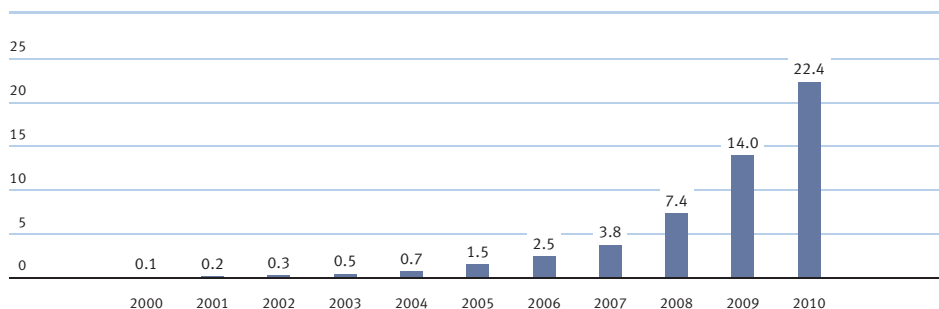
in terawatt hours



Source: Eurostat, Statistical Office of the European communities, Luxembourg
Online Database: <http://epp.eurostat.ec.europa.eu/portal/page/portal/energy/data/database>

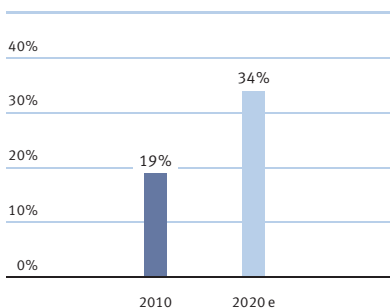
Electricity supplied by solar power within the EU

in terawatt hours



Source: Eurostat, Statistical Office of the European communities, Luxembourg
Online Database: <http://epp.eurostat.ec.europa.eu/portal/page/portal/energy/data/database>

Overall renewable energy share on gross final energy consumption within the EU



Source: Energy Research Centre of the Netherlands (ECN), European Environment Agency: Renewable Energy Projections as Published in the National Renewable Energy Action Plans of the European Member States, November 2011

Partly as a result of global warming, but more recently increasingly due to the reactor meltdown in Fukushima, policymakers and industrialists in practically all countries of the world have put the energy turnaround at the top of the agenda; in some cases with clearly defined targets for the percentage of electric power generated by renewable energy sources. Thus, for instance, the 19 percent of renewable energy in the energy mix measured in Europe in 2010 is scheduled to rise to 34 percent by 2020. The German government even sets a target as high as 80 percent by the year 2050. The use of wind and solar power along with the corresponding grid structure will be gradually expanded over the coming decades and some countries have even made it mandatory to do so.

Power semiconductors are especially useful when electric power is generated from fluctuating sources and then needs to be subsequently fed into the power grid. The value of power semiconductors per megawatt of installed output is several times higher than in the case of conventional coal-fired or nuclear power plants. Our power semiconductors improve energy efficiency not only at the generation and transmission stages, but also during the use of electrical energy. They form the basis for the intelligent and optimal use of energy

in industrial applications, public transportation and home appliances. Due to the reduction in energy consumption that can be achieved, our power semiconductors allow customers to save considerable sums of money and so make good business sense. In many industries, energy efficiency has even become an important competitive criterion. Overall, better results are thereby produced, as inefficient products are eventually replaced by more efficient ones, resulting in the preservation of both resources and the climate. Power semiconductors can therefore be seen as pacemakers for “green technologies”.

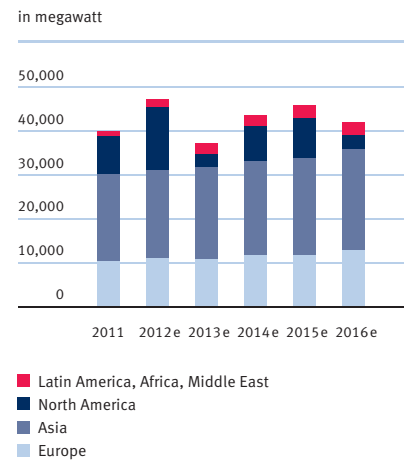
WIND POWER: SHORT-TERM UNCERTAINTY; LONG-TERM GROWTH MARKET

In the field of wind power we expect to see sustainable growth in the medium and long-term. In the short-term, however, i.e. in the next one to two years, the situation is likely to remain difficult due to the sluggish rate of economic growth, problems connecting the first deep-sea, offshore wind farms to the transmission grid and over-capacities. Over the next few years the US market is likely to be hampered by the uncertainty caused by the production-related “Renewable Electricity Production Tax Credit” (PTC) and low gas prices. In China the expansion of the transmission grid will first have to make a lot more progress before new wind turbines can be set up. In Europe, on the other hand, the further addition of onshore wind turbines and the replacement (or “repowering”) of smaller equipment with higher-performance versions at particularly windy locations are having a stabilizing impact. Furthermore, long-term EU expansion plans for offshore wind farms and a growing number of newly installed onshore systems in South America are creating new market opportunities for further growth.

The cost of renewable generation of electric power needs to be brought down to the level of conventional energy sources, which can be partly achieved by raising the output density and improving reliability. The core purpose of a wind turbine is to convert the revolutions of the rotor into electrical power. To date, most turbines have been equipped with mechanical gear systems in which the speed of the rotor is switched to a certain generator speed. Meanwhile, however, the first manufacturers are supplying gearless systems or so-called direct drives. Due to their new concept, gearless turbines are made up of 50 percent fewer parts, an advantage in terms of both weight and reliability. Moreover, the new systems make it possible to control the power feed to the grid more flexibly, which is a benefit for the transmission grid operators. The introduction of this technology will again increase demand for Infineon power semiconductors as the electrical conversion requires IGBT modules with around three times the value of those required by a turbine driving a mechanical gearbox.

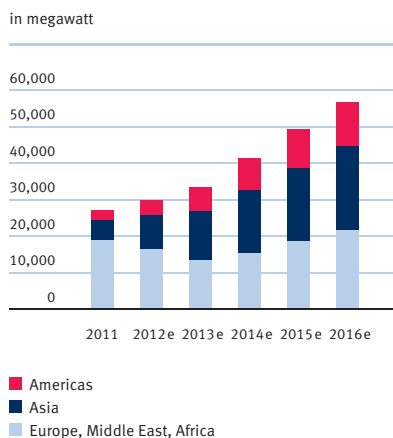
The greatly differentiating technology and the comprehensive range of products Industrial Power Control has to offer make Infineon the market leader for wind power inverters. In the field of IGBT modules, our EconoDUAL™3, EconoPACK™+ and PrimePACK™ with their high power cycling capability and power density continue to set standards in terms of reliability and operating costs for wind farm operators. Our profound understanding of the applications concerned is conclusively reflected in our ModSTACK™ and PrimeSTACK™ families, which provide our customers with a platform for reliable, highly efficient inverters with a short time-to-market at a low development cost.

Worldwide new installations of wind power plants



Source: IHS “Global Wind Energy Market Forecasts: 2012 – 2025”, June 2012

Worldwide new installations of photovoltaic power systems



Source: IMS Research (an IHS company) "The World Market for Photovoltaic Inverters – 2012 Edition", July 2012

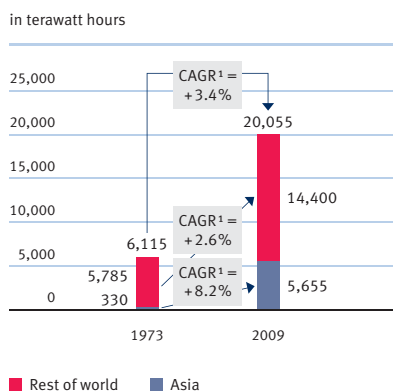
PHOTOVOLTAIC SYSTEMS: HIGHEST GROWTH RATES EXPECTED IN CHINA AND JAPAN

Rapidly falling prices for solar panels and government-backed programs as well as feed-in tariffs have led to a boom in the new installation of solar power systems in recent years, and despite the fact that major markets such as Germany and Italy have meanwhile announced cuts in subsidies, analysts still expect to see further growth on the photovoltaic market. Further expansion is expected in China and Japan in particular, as both countries are exploiting solar power to cover their rising energy needs and reduce their CO₂ emission levels. In Japan, photovoltaic energy has been subsidized by the government with relatively high feed-in tariffs since July 2012.

The effectiveness of a photovoltaic system is determined by the amount of energy fed into the distribution grid in relation to the influx of sunlight. Most attention is usually paid to the efficiency of the solar cells that generate the electricity from sunlight. However, an equally important factor is the efficiency of the inverter responsible for converting the direct current produced by the panels into the alternating current needed for the distribution grid. For the solar farm operator, any conversion losses have a negative impact on the volume of electric power the farm generates over many years. Power semiconductors play a key role in the efficiency of solar inverters since they ensure a further improvement in the profitability of solar power.

Our customers include all of the most renowned inverter manufacturers worldwide. Industrial Power Control is successful in this market because its wide range of products covers all of the requirements for power semiconductors in solar power inverters, including highly efficient discrete IGBTs and IGBT power modules, robust driver ICs and silicon-carbide-based (SiC) diodes and JFETs (Junction Field Effect Transistors). We use our comprehensive knowledge of applications to combine these products to form ideal solutions.

Worldwide electricity generation



¹ CAGR = Compound Annual Growth Rate
Source: Internationale Energieagentur (IAE) "2011 Key World Energy Statistics"

GRID EXPANSION NEEDED DUE TO GLOBALLY INCREASING POWER CONSUMPTION

According to the International Energy Agency, the generation of electric power worldwide exceeded the level of 20,000 terawatt-hours for the first time in 2009. Electric power consumption has therefore risen by an average of 3.4 percent annually since 1973. The most prolific growth was recorded in China and other Asian countries. However, it is not simply sufficient to produce more electric power. In order to transmit and distribute this power it is equally necessary to set up infrastructure from the location of generation to the place where it is consumed. The consumption of electric power is likely to keep increasing: firstly because the world's population continues to grow and secondly due to the higher per-head consumption. This trend, in turn, is bound to lead to more power plants and the further expansion of the power grid.

The expansion of renewable energy production that is being demanded in many countries means that power grid infrastructure needs to be adapted accordingly. There are three reasons for this. Firstly, unlike large nuclear or coal-fired power plants, which feed the power they generate through one large terminal connection into the high-voltage grid, the smaller wind and solar farms tend to need lots of small inverters to connect with the local low-voltage grid. Secondly, in contrast to large power plants, which are mostly located quite near the consumers, be it cities or industrial zones, the geographic freedom regarding where to place wind and solar farms is far more limited. The sunny and windy locations are usually far away from the centers where electric power is consumed, which means new transmission lines need to be erected. Thirdly, the fluctuating electric power produced through wind and solar farms means the grid will have to be built to offer sufficient stability. It must be capable of handling the electric power and transmitting it to the consumer, even at peak times when the wind is strong and the sun is shining brightly.

Power semiconductors from Infineon are an absolute necessity for modern power grids. The high power density of our thyristors and IGBT modules is the determining factor for the efficiency and reliability of FACTS (Flexible AC Transmission Systems). Our understanding of the application has enabled us to develop our IGBT products accordingly to ensure they match the stringent requirements in terms of robustness and reliability needed for sophisticated applications such as HVDC (High-Voltage DC transmission).

GREAT SAVINGS POTENTIAL FOR ELECTRIC MOTORS IN INDUSTRIAL DRIVES AND HOME APPLIANCES

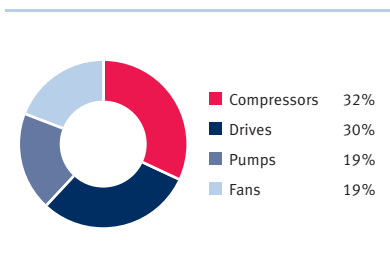
In industry alone, around 300 million electric motors are installed around the globe and use around two thirds of all commercially consumed electric power. The Ecodesign Directive adopted by the European Union stipulates that since 2011 electric motors with an output between 750 watts and 375 kilowatts must, over time and in clearly defined phases, be manufactured to achieve greater efficiency. The energy efficiency class IE2 applies to all electric motors as from June 2011. The stricter energy efficiency class IE3 is valid for motors with outputs between 7.5 and 375 kilowatts as from January 2015. As from January 2017 the IE3 standard will also apply to motors with outputs from 750 watts to 7.5 kilowatts. Alternatively, motors only need to comply with IE2 standards if they are electronically controlled, however only around 15 percent of electric motors are currently controlled in this way.

In addition, regulating the motor speed by means of an inverter, the fixed frequency and voltage of the power grid is adapted to the required frequency or voltage of each particular consumer. Our low-loss, discrete IGBTs, IGBT modules and the accompanying driver ICs and control boards are elementary components of the energy conversion in the inverter. A control loop registers the amount of energy a pump, for example, requires. The inverter then regulates the speed of the drive motor accordingly, thereby reducing the amount of electric power consumed to a minimum. By contrast, conventional pumps operate at a fixed speed determined by the supply frequency, motor type and transmission system.

The rising price of electric power makes the amount saved increasingly significant. Around 95 percent of the life cycle costs of a standard motor are attributable to power consumption and less than 5 percent to the purchase price. Thus investments in state-of-the-art motor technology pay off quickly. The payback period is usually between one and three years.

There are four fields of application for electric motors. For this reason we have a correspondingly wide range of power semiconductors specially designed to cater to the varying types of machinery involved. The most powerful industrial motors operate in the water pumps of power plants and waterworks or wastewater treatment plants, where they reach double-digit megawatt values. Large industrial motors are the power centers of production plants, wherever things are moved or transported. Cranes, conveyor belts, robots or elevators are the typical fields of application. Another major market is for pumps that are used in refrigeration and air conditioning, for the simple production of compressed air and for any application used to move or transport liquids or granulates. The most powerful household motors have several kilowatts of output and are fitted in the circulation pumps of heating systems as well as in washing machines.

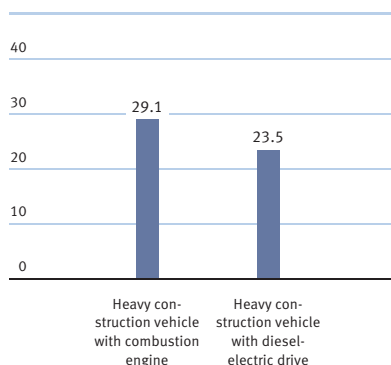
Global electricity demand of electric motors by end-use-application



Source: International Energy Agency "Walking the Torque", May 2011

Fuel consumption

in liters of diesel per hour



Source: Manufacturer information (Caterpillar) for bulldozer

BUSES, CONSTRUCTION AND MINING VEHICLES ARE CONVERTING TO HYBRID OR DIESEL-ELECTRIC DRIVES

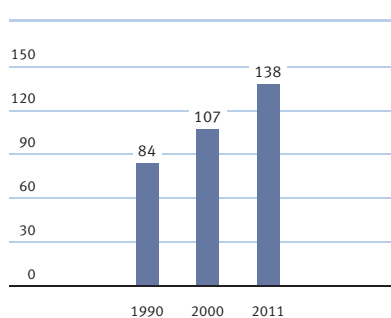
The trend towards electromobility is not only evident in passenger cars, but increasingly also in buses, agricultural and heavy-duty mining vehicles as well as construction machinery, although for completely different reasons. The well-known argument in favor of hybrid buses is the CO₂ emission reduction in inner city areas gained by braking power recuperation. Excavators and earthmovers, however, benefit from the conversion to diesel-electric propulsion with a 10 to 30 percent fuel consumption saving when operated approximately 2,000 hours per year. For a bulldozer, for example, fuel consumption can be reduced from 29.1 liters per hour for a conventional combustion engine model to 23.5 liters per hour for a comparable model with hybrid drive system. At a diesel price of €1.40 per liter, the operator can save €7.84 per hour or €15,680 per year. An additional advantage of hybrid vehicles in general is that they are much quieter than their purely combustion-engine-powered counterparts, which specifically speaks for the use of hybrid-powered buses in inner city traffic.

The various industrial vehicles have reached differing stages on their way to market maturity. Industrial forklift trucks are well established and their sale depends on the economic environment. Hybrid buses have reached the series maturity stage and are being increasingly used in cities and various regions. Hybrid-powered construction machinery is still at the early stages of development, but rising fuel prices are speeding up their market penetration.

Infineon power semiconductors are essential components for achieving the electrification of buses and special machinery and there is hardly a competitor that has a similar length and depth of experience in this combination of industrial and automotive application. With our EconoDUAL™ and PrimePack™ IGBT modules we enable our customers to fulfill the stringent requirements for compact, efficient and extremely reliable inverters.

MOBILITY WITHIN METROPOLITAN AREAS AND BETWEEN MAJOR CITIES IS ONE OF THE KEY TOPICS OF THE 21st CENTURY

According to data published by the United Nations, in 2008 for the first time in history more than half of the world's population of approximately seven billion people lived in cities. The level of urbanization is set to rise and by the year 2050 around two thirds of the by then nine billion people on the planet are likely to be living in megacities. The rise in population density, the amount of road traffic and the CO₂ emissions caused by individual mobility are presenting governments with ever greater challenges.

Number of worldwide metro systems

Source: SCI Verkehr: "Metrofahrzeuge – Weltweite Marktentwicklungen", 2012

Safe, fast public mass transit systems are becoming increasingly decisive factors determining the standard of living and the competitiveness of many regions and cities worldwide. Sustainable and optimally connected mobility within metropolitan areas, but also between cities, is one of the key topics of the 21st century and indeed the number of new metro systems built has increased by around 60 percent over the last two decades. Moreover, existing systems are continually being expanded. There continues to be immense growth potential for future construction of new metro systems. Around 160 cities, particularly in Asia, Africa and the Middle East, do not yet have a metro system.

Our components are used not only in metropolitan and suburban railway systems, trams and metro trains, but also in high-speed trains that travel at up to 350 kilometers per hour. In order to take the special requirements and surrounding conditions into account for trains, such as resistance to high vibrations, high reliability and long product service life, we have developed a broad range of high-performance IGBT modules that we manufacture at our own sites.

PRODUCT RANGE – FIELDS OF APPLICATION

Around half of our business relates to a very wide range of industrial drives, which include motors, pumps, fans and compressors for automation technology, conveyor technology, air conditioning, elevators and escalators.

We earn around one fourth of our revenue with renewable energy, including onshore and offshore wind farms, freestanding photovoltaic installations and rooftop solutions with outputs greater than three kilowatts.

Other significant fields of application are railway vehicles, home appliances, uninterruptible power supply and power transmission systems. The latter includes grid coupling points, offshore inverter platforms and facilities for preserving and stabilizing the power grid quality.

Less significant business fields for us are welding systems, industrial trucks (forklift trucks, for example), construction and mining vehicles, agricultural vehicles and hybrid-powered buses.

MARKET POSITION

GLOBAL MARKET FOR DISCRETE POWER SEMICONDUCTORS AND MODULES

In the 2011 calendar year Infineon was world market leader in the field of power semiconductors for the ninth year in succession. While the market as a whole grew by almost 9 percent from US\$16.189 billion in the 2010 calendar year to US\$17.603 billion in 2011, Infineon increased its revenue by approximately 21 percent from US\$1.732 billion to US\$2.095 billion during the same period. Infineon therefore gained 1.2 percentage points market share to reach a current figure of 11.9 percent (source: IMS Research). The five largest competitors hold 38 percent of the market.

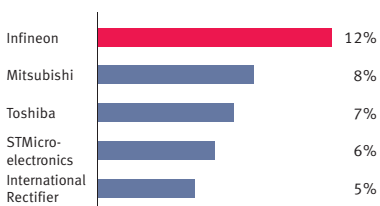
GLOBAL MARKET FOR IGBT MODULES

During the 2011 calendar year, the submarket for IGBT modules achieved revenue of US\$4.034 billion, compared to US\$3.006 billion one year earlier (source: IMS Research), corresponding to a growth rate of approximately 34 percent. During the same period Infineon grew by a good 28 percent from US\$610 million to US\$783 million. With this, Infineon lost 0.9 percentage points market share and now has 19.4 percent.

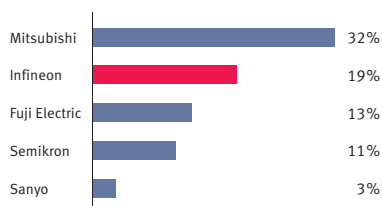
The five largest competitors hold 78 percent of the market.

At approximately US\$1.1 billion, the regional markets of Europe, China and Japan are all of roughly the same size. In Europe, Infineon was able to increase its market share by 0.9 percentage points to 32.4 percent. The largest shift in market share took place in Japan, where Mitsubishi was the big winner, gaining 5.8 percentage points, while Infineon lost 0.2 percentage points.

World market for power semiconductors



World market for IGBT modules



Source: IMS Research (an IHS company), "The World Market for Power Semiconductor Discretes & Modules – Edition 2012", August 2012

Source: IMS Research (an IHS company), "The World Market for Power Semiconductor Discretes & Modules – Edition 2012", August 2012

Product range

- IGBT module solutions incl. IGBT stacks
- IGBT modules:
 - high-power modules
 - medium-power modules
 - low-power modules
- Discrete IGBTs
- „Bare die“ business
- Driver ICs
- Bipolar devices (thyristors, diodes)

Applications

Renewable energy generation

- Photovoltaic systems
- Wind turbines

Energy transmission

- Offshore windpark HVDC lines
- FACTS (Flexible AC Transmission Systems)

Uninterruptable power supplies

Industrial drives

Industrial vehicles

- Agricultural vehicles
- Heavy construction vehicles
- Hybrid buses
- Mining vehicles

Traction

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

Home appliances

- Air conditioning
- Induction cooking
- Induction rice cooker
- Washing machines

Key customers¹

- ABB
- Alstom
- Bombardier
- Delta
- Emerson
- Enercon
- Goldwind
- Rockwell
- Schneider Electric
- Semikron
- Siemens
- SMA Solar Technology

¹ Direct customers excluding distribution customers. Distribution customers: "Infineon at a glance" on the inside front cover.



POWER MANAGEMENT & MULTIMARKET

- Revenue €929 million, segment result €142 million.
- Digital power management revolutionizing design of power supplies.
- Media consumption with mobile devices growing rapidly and calls for expansion of cellular network infrastructure.



Smartphones

Wherever miniature packaging (for example TVS diodes), outstanding quality radio-frequency properties (such as GPS receivers) or special manufacturing technology (such as silicon MEMS microphones) are required for mobile phones, there is a good chance that Infineon will be involved. → See “Mobile devices: smaller chips with an increasing number of functions”, page 65.

Power supply

A data center consumes as much power as a small town. Around half of the power is used for cooling purposes. The less heat a computer dissipates, the less it needs to be cooled. That means a more efficient power supply results in twice the saving. → See “Digital power management as a revolution in power supply”, page 63.



Cellular network infrastructure

The volume of data generated in cellular networks is constantly increasing, particularly due to the level of media consumption via smartphones, tablet PCs and notebooks. For this reason new transmission standards such as LTE and increasingly tightly meshed networks are needed. ➔ See “Cellular network infrastructure: data volume calls for base stations in shopping centers and pedestrian zones”, page 66.



Lighting

LEDs are boosting energy efficiency in the lighting industry. They form the basis for the intelligent and optimal use of lighting in buildings, streets and industrial applications. The AC supply voltage must be converted efficiently to the desired DC voltage. This is where Infineon benefits from its knowledge of computer adapters. ➔ See “Perfect controlling of LEDs improves efficacy and lifetime”, page 63.



Photovoltaic rooftop systems

Deficiencies such as manufacturing tolerances, partial shading or defects in certain panels reduce the amount of power produced by photovoltaic systems. The way the various panels are connected to each other also has an impact on the efficiency of the system as a whole. ➔ See “Micro inverters: higher efficiency for photovoltaic rooftop systems”, page 64.

BRIEF DESCRIPTION

The number of electronic devices in our daily lives is steadily growing. Computers, consumer electronics and mobile devices need to be operated and charged increasingly efficiently to prevent power consumption rising on a similar scale.

The next step in boosting efficiency is via the digital control of the power supply, which we are addressing with specially developed ICs in combination with our established power transistors. With this technology, for example, we are serving the power supply and lighting end markets. In doing so, we primarily rely on the manufacturing expertise of our own sites.

The trend towards social networking is also opening up another fast-growing market for us. Data centers (e.g. cloud computing) and cellular network infrastructures need to be upgraded to cope with huge data volumes. We are currently successful in these fields with our radio-frequency (RF) know-how, packaging technology designed for miniaturization and detailed understanding of the systems involved.

STRATEGIC DIRECTION

“From product to system” – this guiding principle is already being successfully implemented in the Power Management & Multimarket segment. In future, not only will we be supplying individual products, we will also be providing product solutions that achieve outstanding efficiency through our coordinated selection of components, such as those for adapters.

TECHNOLOGICAL LEADERSHIP: With technologically leading products we can provide our customers with added value, whether by installing more functions on one chip, a more efficient power switch or with radio-frequency components. To ensure this remains so in the future, we continually research and develop new architectures, materials and manufacturing technologies.

DIGITAL POWER MANAGEMENT: The switch from the analog to the digital controlling of power supplies is a revolutionary approach in the design of adapters. The only way to achieve the highest degree of efficiency for all load ranges – full load, partial load and standby – is by using digital concepts. Infineon controls all key steps in the digital control loop: power switches, driver ICs and control ICs with their optimized control algorithms.

COOPERATIONS AND STRATEGIC PARTNERSHIPS: The better we understand the customer’s application, the more effectively we can design our products to create the ideal system solution. In turn, the resulting products enable our customers to reduce their development costs, increase their speed of innovation and therefore reduce time-to-market for their products.

THE POWER MANAGEMENT & MULTIMARKET SEGMENT IN THE 2012 FISCAL YEAR

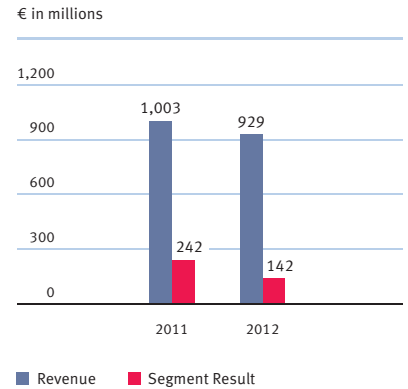
Infineon's Power Management & Multimarket segment recorded revenue of €929 million in the 2012 fiscal year, 7 percent down on the previous year's figure.

The Segment Result amounted to €142 million, 41 percent lower than the Segment Result posted one year earlier.

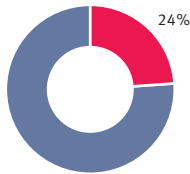
Further information on the segment's business performance can be found in the section "Segment Performance – Power Management & Multimarket", page 139.

The Power Management & Multimarket segment represents 24 percent of Group revenue. 45 percent of segment revenue was attributable to distribution.

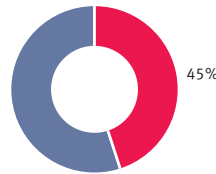
Revenue and Segment Result of the Power Management & Multimarket segment



Revenue of the Power Management & Multimarket segment in percent of Infineon revenue

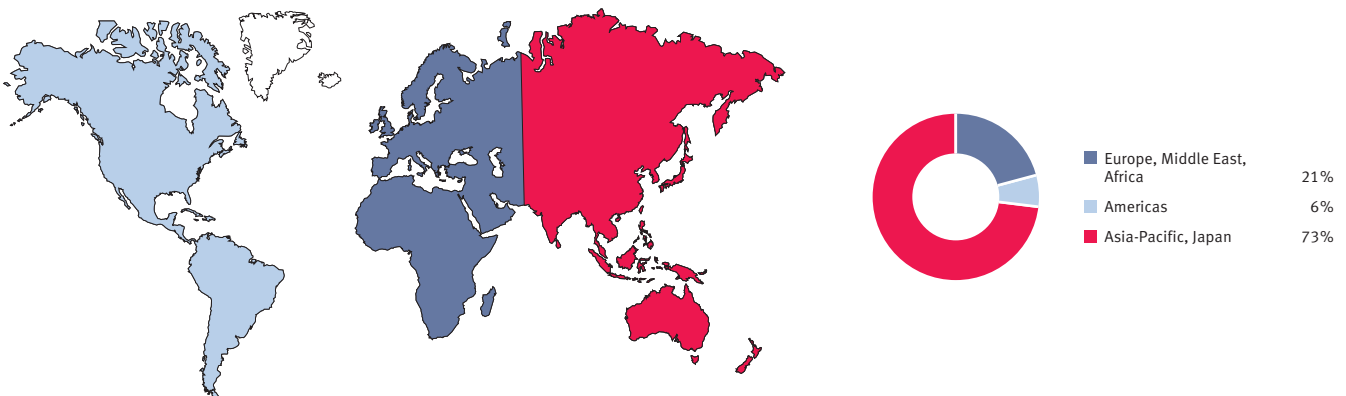


Percentage of revenue of the Power Management & Multimarket segment through distribution



Many of our direct customers in the computing and consumer electronics industries as well as manufacturers of mobile devices are based in Asia, particularly in China and Taiwan. Likewise, practically all contract manufacturers of electronic devices are based in Asia, although many of the design decisions are still made in Europe or the USA. The Power Management & Multimarket segment achieved 73 percent of its worldwide revenue in the Asia-Pacific region (including Japan).

Regional revenue split of the Power Management & Multimarket segment



MARKETS, APPLICATIONS, PRODUCTS

What do mobile devices have to do with data centers? At first glance, not much – but in reality quite a lot. The sale of smartphones is growing continually and there is no sign of market saturation – and with tablet PCs a whole new product category has meanwhile emerged.

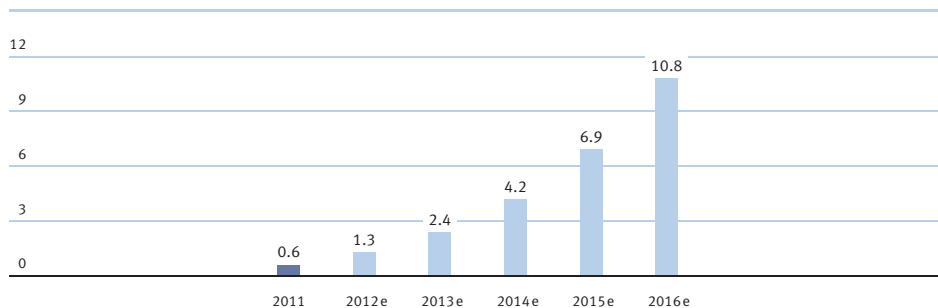
Around 60 hours of new video material is uploaded to YouTube each minute. Every month, 800 million users watch around four billion hours of video material, increasingly on mobile devices. Around 300 million photos are uploaded to the Facebook social networking site every day. Google operates some one million servers. More than 140 million active Twitter users send more than 400 million short messages every day. More than 500,000 data centers are currently operating worldwide.

All of this data needs to be uploaded to the “cloud”, stored and then accessed at will – whether for commercial or private purposes, such as social networking. The data is being increasingly accessed via portable devices. Due to its higher rate of data usage, a smartphone generates around 24 times as much data traffic as a simple mobile telephone. Notebooks and tablet PCs generate far higher volumes. That is what mobile devices have to do with data centers.

According to an estimate by Cisco, the volume of data generated via mobile devices per month is likely to grow from 0.6 exabytes¹ per month in 2011 to 10.8 exabytes by 2016, a very high average growth rate of 78.3 percent per year. The infrastructure needs to be able to handle the volume of data – which can only be done by additionally expanding capacities and through a transition to new networking technologies. Within these growing markets, Infineon sells various products for smartphones and RF power amplifiers for base stations.

Global mobile data traffic

in exabytes per month



Source: Cisco “Visual Networking Index: Global Mobile Data Traffic Forecast Update, 2011 – 2016”, February 2012

Power consumption is an important aspect for data center operators and the largest of these centers requires approximately 90 megawatts of power, which is equivalent to the power needs of 75,000 households. Overall, 2 percent of CO₂ emissions worldwide are attributable to data centers, which puts them at par with the volume produced by air traffic worldwide.

It is therefore obvious that reducing power consumption is not only an advantage for data center operators from a commercial point of view, but also in the best interest of global ecology.

¹ One exabyte corresponds to 1,000,000,000,000,000 bytes, or one billion gigabytes.

DIGITAL POWER MANAGEMENT AS A REVOLUTION IN POWER SUPPLY

Power supply via adapters has been our business for decades, firstly on the primary side for converting alternating to direct current, also known as AC-DC conversion, but also on the secondary side for the fine regulation of direct current, also known as DC-DC conversion. Our best-known products are high-voltage power transistors, which are members of the CoolMOS™ family in the range above 400 volts, and the low-voltage power transistors of the OptiMOS™ family in the range up to 150 volts. The product portfolio is completed by driver ICs for controlling these discrete power transistors.

In future, increasingly sophisticated coordination between driver ICs and discrete power transistors will be necessary. Future generations of power transistors will display different physical behavior, whether through miniaturization or possibly due to new semiconductor materials such as silicon carbide (SiC) or gallium nitride (GaN). Driver ICs therefore need to be developed that are compatible with power transistors, to enable the system as a whole to achieve maximum efficiency. Infineon is one of the few semiconductor manufacturers to develop and manufacture both power transistors and driver ICs in-house and together with its special packaging technology for power semiconductors, Infineon produces the entire range under one roof. We regard this fact as a crucial advantage for our customers.

There is now a further change in the field of power supplies for computers and televisions. The transition from analog to digitally controlled power supply is a great step forward in terms of boosting efficiency. Digital Power Management is the buzzword – which we call .dp. A major part of the intellectual property and know-how and therefore an increasing part of the value added is tied to the control algorithms of these control ICs, which transmit the signals to the driver ICs to switch the power transistors on and off. The acquisition of Primarion four years ago was the foundation for success in the field of DC voltage control, for example for servers. We regard the close cooperation with our broad range of customers from the power supply sector as a competitive advantage. This cooperation enables us to gather system knowledge at an early stage, which is again a necessity when it comes to arriving at the best solution in terms of size, cost and efficiency.

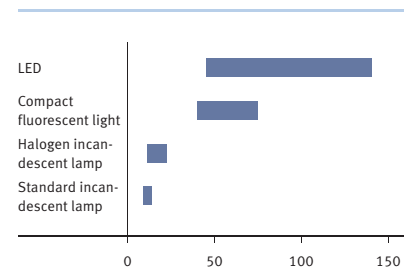
PERFECT CONTROLLING OF LEDS IMPROVES EFFICACY AND LIFETIME

Around 20 percent of the power consumed worldwide is used for lighting. Despite this fact, consumption is dominated by the 100-year-old light bulb, which converts around 95 percent of the electricity it consumes into heat and only 5 percent into light. More efficient lighting systems are capable of making a major contribution to saving energy. However, the predominating lighting technologies are technologically exhausted and incapable of making a significant difference. LEDs will probably prove to be the best solution in the long run. The sale of conventional electric bulbs has already been banned in several countries of the world. Additionally, due to stricter statutory regulations, halogen lamps are also being forced off the market in the medium-term paving the way for the conversion to LED lighting technology. Last but not least, the constantly falling price of LED lighting is likely to lead to increasing adoption.

At the moment, LED technology is mainly being utilized by public and commercial users – for illuminating facades, roads or tunnels. They benefit from the fact that this type of lighting offers a wide range of options in terms of design and usage, but its greatest advantage is its lack of switch-on delay and a considerably higher light yield, which means it consumes around 80 percent less electricity overall. The useful service life is around 30,000 operating hours, around 30 times the average life of a traditional light bulb, and require a mere fraction of the maintenance needed for conventional industrial lighting. Overall, an investment of this type pays for itself within as little as two years – and the environment benefits from the very first hour.

Luminous efficacy

in lumen per watt



Source: Bavarian State Office for Environment, 2009; Wikipedia

In contrast to conventional electric bulbs, LEDs cannot be directly connected to the 230-volt AC power supply. Similar to computer adapters, it is first necessary to efficiently convert the line voltage to the desired low DC voltage. This task is not performed by one single chip, but by a combination of several. In order to achieve both good light output and long lifetime, LEDs need to be controlled with great precision. When it comes to the controlling of both single LEDs and LED chains, Infineon provides complete solutions consisting of high-voltage power transistors from its CoolMOS™ family, special highly integrated power ICs and LED drivers. LEDs can be seen as “digital light” (adjustable, controllable, programmable) – and therefore digital power management is also popular for LED applications. For this reason, semiconductor products are essential components when it comes to improving the efficiency of lighting technology.

MICRO INVERTERS: HIGHER EFFICIENCY FOR PHOTOVOLTAIC ROOFTOP SYSTEMS

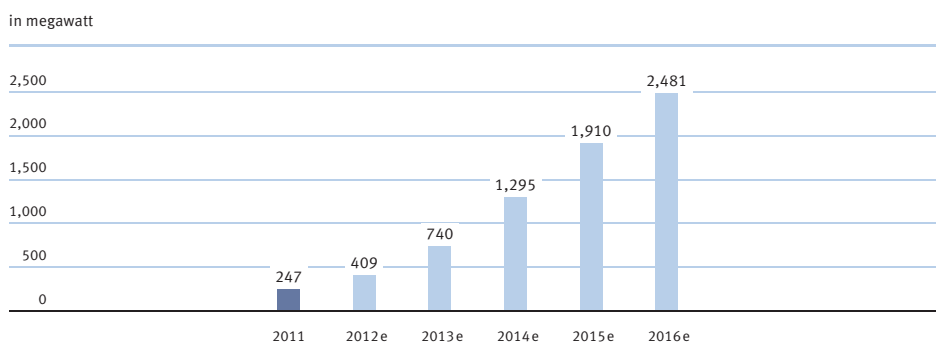
Power semiconductors are also of crucial importance in the design of inverters for photovoltaic (PV) installations. Depending on the performance category, this market is served by our Industrial Power Control and Power Management & Multimarket segments. Solar farms and large rooftop installations of more than around three kilowatts are served by Industrial Power Control.

The Power Management & Multimarket segment serves the market for small-scale rooftop installations with output below three kilowatts, which includes smaller inverters such as string inverters and so-called micro inverters. We have developed a 1,200-volt power transistor using silicon carbide (SiC) technology especially for string inverters. Our range of products for string inverters is completed with SiC diodes and other types of power semiconductor, such as MOSFETs and discrete IGBTs.

Micro inverters use a new approach. In most cases, solar panels are connected in series and to a string inverter, which means that multiples of panels are connected with one another and appear to the string inverter as one large solar panel. Although this approach is less expensive, it lowers the efficiency of the system as a whole, as it is unable to take information regarding the condition of individual panels into account, for example manufacturing tolerances, damage or partial shading. By contrast, in a micro inverter solution, each individual panel is connected to an inverter, which enables the maximum amount of energy to be gained from each panel, leading to greater efficiency for the system as a whole. Individual switching means that each micro inverter is subject to a lower voltage. Our low-voltage OptiMOSTM family of power transistors in the range from 60 to 150 volts, which we introduced last year, is ideally suited to this type of application.

Micro inverters are currently in high demand, particularly in the emerging solar markets such as the USA. Moreover, the value of semiconductors per kilowatt in a PV installation using micro inverters is several times higher than for a string inverter installation.

Worldwide new installations of microinverter-based photovoltaic power systems



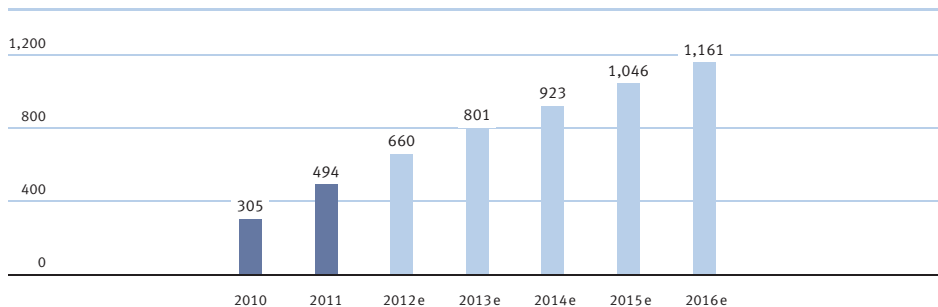
Source: IMS Research (an IHS company), “The World Market for Photovoltaic Inverters – 2012 Edition”, July 2012

MOBILE DEVICES: SMALLER CHIPS WITH AN INCREASING NUMBER OF FUNCTIONS

Unabated growth is still expected for the sale of smartphones. Furthermore, an increasing number of features need to be accommodated within one smartphone, including GPS navigation, a camera, an MP3 player and internet access as well as various mobile phone transmission standards. Hence there is an increasing need to miniaturize these functional units and the electronic components they consist of. Furthermore, the transition to the next transmission standard LTE (Long-Term Evolution) means the RF characteristics of many components are required to achieve an increasing degree of sophistication.

Global smartphone sales

in million units



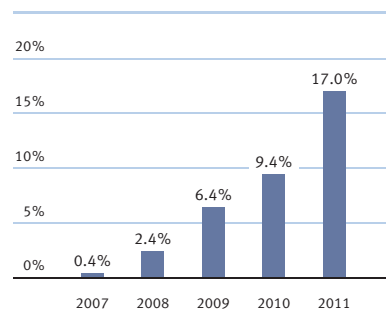
Source: IDC, March 2012

With the sale of our mobile phone business to Intel in January 2011, we parted company with highly complex modules that require a great deal of research. However, we continue to be present in the market for mobile devices with components for which we see potential for differentiation to competitors in terms of RF characteristics, packaging, or manufacturing technology.

From an initial market share of 0.4 percent at market entry in 2007, within five years our silicon MEMS microphones have risen to become the second-bestselling product with a market share of 17.0 percent. MEMS are smaller and thinner than traditional electret microphones and easier to install on the board of a mobile telephone. They also feature better electrical characteristics, such as temperature stability. In order to improve the suppression of background noise, more than one MEMS microphone is meanwhile installed per smartphone or tablet PC. Our microphones and related control ICs can be found in the most popular end devices.

However, the innovations we provide for smartphones extend to cover a whole range of other functional groups that include GPS low noise amplifiers, CMOS-based RF switches and TVS (Transient Voltage Suppressor) diodes.

Infineon's market share development for silicon MEMS microphones



Source: IHS iSuppli, "MEMS Microphones – 2011 Special Report", 2012

CELLULAR NETWORK INFRASTRUCTURE: DATA VOLUME CALLS FOR BASE STATIONS IN SHOPPING CENTERS AND PEDESTRIAN ZONES

The transition to the next generation of mobile phones is not only evident in the mobile devices themselves, but also in the cellular network infrastructure. The 3G infrastructure is currently being expanded in many regions of the world, particularly in the emerging nations. In the more developed countries, mobile phone networks are being fitted or refitted to handle the fourth generation, known as LTE (Long-Term Evolution). Over the years, the output of the RF power amplifiers used in base stations has increased from less than 200 watts to a present level of around 600 watts. In addition, a further trend is also emerging: Due to the dramatic increase in the number of mobile devices, the number of existing base stations is no longer able to handle the exploding volume of data being generated in particular by the growing use of smartphones. The trend is leading to the emergence of heterogeneous infrastructures consisting of conventional base stations and small pico- and femto-cell base stations. The latter have meanwhile been installed in built-up areas such as shopping centers or pedestrian zones as there is quite simply no longer sufficient space for the large base stations to be installed in cities. Space is also scarce in the compact pico- and femto-cell base stations and they have been optimized in terms of cost, weight and heat dissipation.

With our LDMOS (Laterally Diffused MOS) RF power amplifiers, together with the corresponding CMOS driver and packaging, we have the right technology for this trend. Our components feature extremely reliable modules, maximum energy efficiency and minimal dimensions.

PRODUCT RANGE – FIELDS OF APPLICATION

Around one third of Power Management & Multimarket segment revenue relates to power supplies for a wide range of applications including computers, servers, network computers (i.e. routers and switches), telecommunications facilities, and television sets. The power range is between 50 and 3,000 watts. Our components are to be found on the AC input side (i.e. at the point of connection to the power line), and on the DC output side of adapters (i.e. at the point of consumption), and are also used for voltage control at the point of load.

We generate around one fifth of our revenue with components installed in mobile devices such as smartphones, tablet PCs and notebooks.

Other fields of application include cellular network infrastructure, lighting and photovoltaic rooftop installations smaller than three kilowatts in size as well as customer-specific ICs for gaming consoles and industrial applications.

Product range

- Discrete high-voltage power transistors
- Discrete low-voltage power transistors
- Driver ICs
- Control ICs
- RF power amplifiers
- Small-signal components:
 - TVS (Transient Voltage Suppressor) diodes
 - RF switches
 - LNA (Low Noise Amplifier) for satellite navigation
- Silicon MEMS microphones
- Customized chips (ASICs)

Applications

- Power supplies for computers:
 - telecom
 - servers
 - PCs
 - notebooks
 - tablet PCs
- Power supplies for consumer electronics
- Mobile devices for communication and navigation
- Cellular network infrastructure
- Light management incl. LED lighting
- Inverter for photovoltaic rooftop systems (< 3 kW)

MARKET POSITION

STANDARD MOSFET POWER TRANSISTORS

Over the last few years Infineon has continually grown its market share for standard MOSFET power transistors (low- and high-voltage MOSFETs). Starting at number 5 with market share of 8.2 percent in the 2006 calendar year, by 2011 Infineon had achieved its highest market share to date at 12.1 percent and is for the first time number 2 on the market (source: IMS Research, an IHS company). While the market as a whole contracted by 2.1 percent from US\$6.006 billion in the 2010 calendar year to US\$5.879 billion in 2011, Infineon increased its revenue by more than 9 percent during the same period. Infineon thereby gained 1.3 percentage points market share to reach a current market share of 12.1 percent, closing the gap to the market leader to less than 1 percentage point. Infineon was number 1 in China with a market share of 13.7 percent.

The five largest competitors held 54 percent of the world market.

SILICON MEMS MICROPHONES

According to estimates made by market research institute IHS iSuppli, in the 2011 calendar year 1.284 billion silicon MEMS microphones were sold worldwide. Infineon had a 17.0 percent market share, compared with 9.4 percent one year earlier. Infineon was therefore number 2 after Knowles, which had a 75 percent market share, compared to 87 percent one year earlier. While the world market grew by 82 percent, Infineon managed to more than triple its sales volume during the 12-month period. The five largest competitors held 98 percent of the market.

RF POWER AMPLIFIERS FOR CELLULAR NETWORK INFRASTRUCTURE

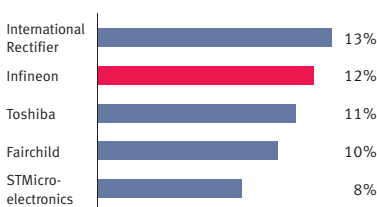
In the market for RF power amplifiers, Infineon was number 3 (unchanged from the previous year) with 17.3 percent market share. According to the market research institute ABI Research, the market as a whole was valued at US\$782 million in calendar year 2011. As in the previous year, Freescale occupied the number 1 spot. However, since 2007 Freescale has lost 14 percentage points of market share from 67 percent to 53 percent in 2011. From 15 percent market share in 2007, NXP made moderate gains to achieve 18 percent. Infineon has been the clear winner over the last few years and continually narrowed the gap to NXP. In 2007 Infineon held a market share of 11.3 percent and has thereby gained 6.0 percentage points within four years to record market share of 17.3 percent in 2011. The five largest competitors held 98 percent of the market.

Key customers¹

- Dell
- Delta
- Emerson
- Enphase
- Ericsson
- Hewlett-Packard
- Huawei
- LG Electronics
- Microsoft
- Osram
- Philips
- Power One
- Quanta
- Samsung
- SMA Solar Technology

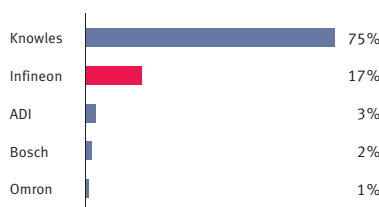
¹ Direct customers excluding distribution customers. Distribution customers: "Infineon at a glance" on the inside front cover.

World market for MOSFET power transistors



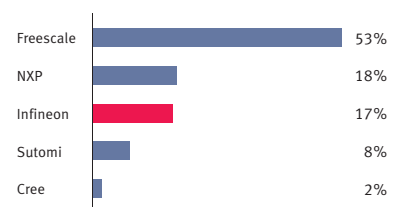
Source: IMS Research (an IHS company), "The World Market for Power Semiconductor Discretes & Modules – Edition 2012", August 2012

World market for silicon MEMS microphones



Source: IHS iSuppli, "MEMS Microphones – 2011 Special Report", 2012

World market for RF power transistors in cellular infrastructure



Source: ABI Research, "RF Power Amplifiers", October 2011



CHIP CARD & SECURITY

- Revenue €457 million, segment result €56 million.
- Hardware-based security becoming increasingly established as cross-segment competence.
- Infineon's digital security technology Integrity Guard nominated for "Deutscher Zukunftspreis" – a prize awarded by the German president for technology and innovation.



Security solutions for governments

Infineon is the leading supplier of the security technology used in passports and supplies numerous countries including China, India, Indonesia and Brazil. Infineon is also involved in the largest project of its kind worldwide – the ePassport of the United States of America. ••• See "Government documents: Infineon is the only provider to equip all five most populous countries in the world with electronic passports", page 73.

Digital security

Government documents are often in use for ten years and longer and it is far from straightforward to ward off attacks over such a long period of time. For that reason we developed Integrity Guard, our latest and multiple award-winning security technology, to fulfill precisely these requirements in personal documents, health care cards and contactless payment applications. ••• See "Digital security technology Integrity Guard and SOLID FLASH™ – Infineon is setting trends in the security industry", page 74.



Near Field Communication (NFC)

Travel tickets, vouchers, admission tickets and lots more can now be paid via smartphone. The contactless NFC technology with our Secure Element makes it all possible. "girogo" is another method of contactless payment and a new variation on the cash card. The version of the card issued by Germany's two major savings banks (Sparkassen and Volksbanken) no longer requires a PIN, making the payment process even faster and more convenient than ever. ➔ See "Mobile phone is now a purse; payment is contactless", page 74.



Security in connected systems

Sensitive data in IT services such as cloud computing or critical infrastructure facilities such as Smart Grids must be protected against manipulation or theft. Chips from Infineon help secure both these and a host of other applications in the automotive and industrial fields. ➔ See "Security as cross-segment competence", page 76.

BRIEF DESCRIPTION

Infineon has been world market leader for security ICs for 15 years now. Based on its core competencies in the fields of security, contactless communication and embedded control, Infineon offers a comprehensive range of semiconductor-based security products for numerous types of smartcards and security applications.

Infineon uses its expertise and the most wide-ranging portfolio of products in the industry to offer security solutions for all relevant fields of application in an increasingly mobile and connected world, including Near Field Communication (NFC), electronic payment, mobile communication, pay TV, public transportation, government identification documents and authentication. Infineon also provides security solutions for trusted computing, smart grids and industrial as well as automotive applications. Infineon's worldwide leading security expertise is the result of more than 25 years of experience in the largest, most sophisticated security projects.

STRATEGIC DIRECTION

The increasing mobility and connectedness of society poses new challenges with regard to data and system security, for which Infineon provides leading-edge, easy-to-implement security solutions. We focus in particular on the following fields of application:

MOBILE & CONTACTLESS PAYMENT: The "mobile purse" is quickly becoming part of daily life. With the development of mobile internet and smartphones, an increasing number of payment functions connected with PoS (Point of Sale) applications are becoming integrated in mobile devices. However, mobile payment not only provides the end consumer with greater convenience and generates new business for service providers, it also demands stricter security requirements. Infineon is ideally established in this field with its broad range of products that enable flexible security solutions for mobile payment.

SYSTEM SECURITY: Hardware-based security provides an outstanding basis for guaranteeing security in connected systems within critical applications, such as IT networks and cloud computing as well as industrial and automotive systems. The two main requirements are tailor-made security concepts and seamless integration in the original applications.

GOVERNMENT APPLICATIONS: Infineon's products provide digital, long-lasting, hardware-based security and thereby help to solve the diverse problems posed by electronic government documents. Infineon is an important, reliable partner in this field worldwide.

THE CHIP CARD & SECURITY SEGMENT IN THE 2012 FISCAL YEAR

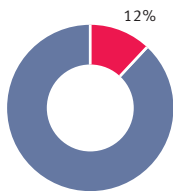
Infineon's Chip Card & Security segment recorded revenue of €457 million in the 2012 fiscal year, an increase of nearly 7 percent compared with the previous fiscal year.

The Segment Result totaled €56 million, approximately 4 percent up on the Segment Result posted one year earlier.

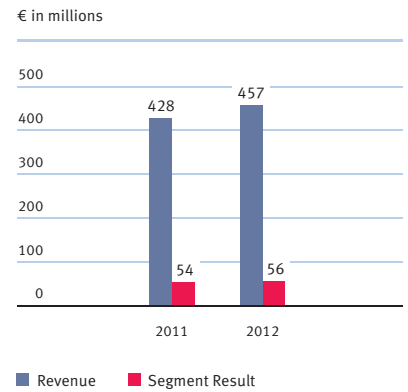
Further information on the segment's business performance can be found in the section "Segment Performance – Chip Card & Security", page 140.

The Chip Card & Security segment accounts for 12 percent of Group revenue.

Revenue of the Chip Card & Security segment in percent of Infineon revenue

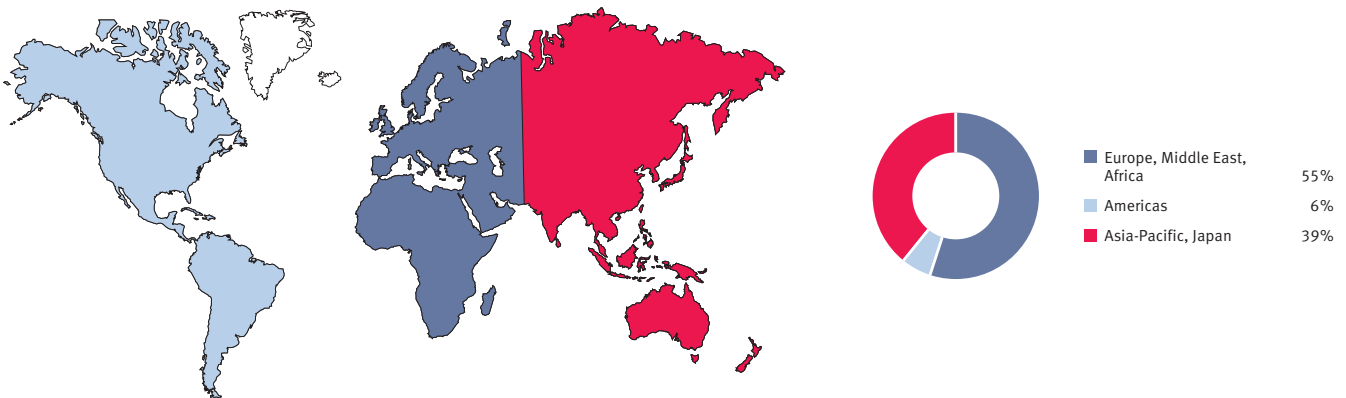


Revenue and Segment Result of the Chip Card & Security segment



Many of our largest customers are based in France and Germany and it is through them that we supply security projects to practically all countries of the world. European customers account for around 55 percent of segment revenue.

Regional revenue split of the Chip Card & Security segment

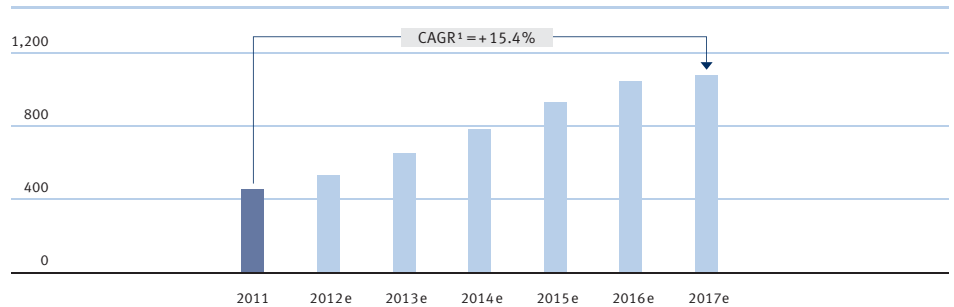


MARKETS, APPLICATIONS, PRODUCTS

As a leading supplier of security technology, Infineon is benefiting from the constantly growing demand for electronic payment cards and security chips in government documents. The market research company IMS Research estimates that the market for electronic payment cards will grow from US\$459 million in the 2011 calendar year to US\$1.082 billion by 2017, an average growth rate of 15.4 percent per year. The market for security chips in government documents is forecast to grow at an average of 15.7 percent per year during the same period. The smartcard market is additionally benefiting from the trend towards high-quality security, such as security-certified SIM cards and a growing number of contactless cards.

World market for security ICs in payment cards

US\$ in millions

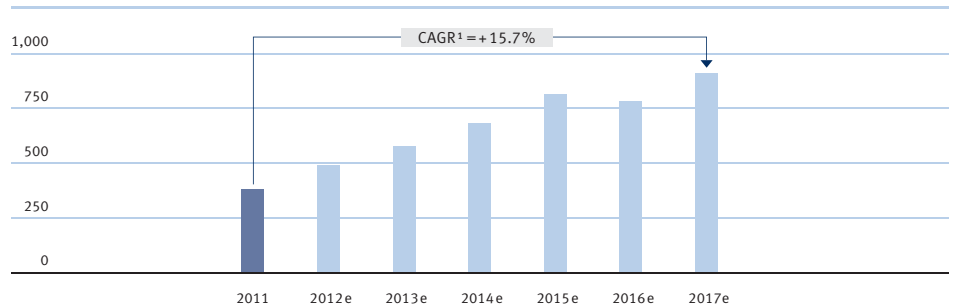


1 CAGR = Compound Annual Growth Rate

Source: IMS Research (an IHS company), "The World Market for Payment and Banking Cards – 2012 Edition", July 2012

World market for security ICs in government identification cards

US\$ in millions



1 CAGR = Compound Annual Growth Rate

Source: IMS Research (an IHS company), "Electronic Government & Healthcare ID Cards Market – World – 2012", August 2012

Apart from the growth in these traditional smartcard markets, we also expect to see the increased use of security technology in completely new applications. These will be mostly based on familiar plastic cards such as the SIM card or the credit card. For instance, for many years now we have been supplying the computer industry with our TPM (Trusted Platform Module) solutions, which are installed in PCs, notebooks and tablet PCs. The launch of Near Field Communications (NFC) with the Secure Element in smartphones took place in the first half of the 2012 fiscal year.

New regional markets are also opening up for our security components. For example, chip-based electronic documents are being introduced in an increasing number of South American and African countries. In both North and South America the migration from payment cards with magnetic stripe to smartcards is planned and chip-based payment cards are also due to be introduced to the Chinese market in the near future.

The development of the modern-day information and communications technology society is largely based on the availability of electronic data and a wide number of connected devices – IT services such as cloud computing or critical infrastructure facilities such as the “Smart Grid” intelligent power grid. It should not be possible to either manipulate or steal the often highly sensitive data. Chips based on our Integrity Guard digital security technology, for example (see the section “Integrity Guard digital security technology and SOLID FLASH™ – Infineon is setting trends in the security industry”), are helping make applications of this type secure, but it is not always necessary to use a separate chip.

❖ see page 74

Hardware-based security will become an increasingly important part of other components. For instance a Hardware Security Module (HSM) will be used in Infineon’s most recently developed family of 32-bit multi-core microcontrollers for automotive applications for improved protection from manipulation and the unauthorized reading out of data and programs. We are at the very beginning of a new development in markets with the prospect of extremely high sales volumes.

GOVERNMENT DOCUMENTS: INFINEON IS THE ONLY PROVIDER TO EQUIP ALL FIVE MOST POPULOUS COUNTRIES IN THE WORLD WITH ELECTRONIC PASSPORTS

According to the US Government Printing Office, Infineon is among the main suppliers of security technology for the new American ePassport. Infineon can therefore continue to expand its successful cooperation, as it has been supplying the US Government Printing Office since the start of the project in 2005. It is the largest ePassport project in the world and in 2011 Infineon was the only manufacturer of semiconductors to have equipped the ePassports of all five most populous countries in the world, namely China, India, the USA, Indonesia and Brazil.

Infineon is also involved in a major smartcard project for public authorities in South Africa. Biometrically secured smartcards will be issued in all nine South African provinces for the purpose of transferring social benefits. The smartcards use the SOLID FLASH™ SLE 77 security controller manufactured by Infineon. The project began in April 2012. Using the new smartcard, in future more than ten million South African citizens will be able to draw their social benefits, even without a bank account, and with far less administrative work.

Infineon also supplies the security chips for the MyKad electronic personal identity card used in Malaysia. Numerous additional functions can be integrated in the card, such as for eGovernment services and digital signatures, or in order to use it as a health card, debit card or driver's license. The new generation of Malaysian identity cards uses the SLE 78 security controller with the Integrity Guard and SOLID FLASH™ security technology developed by Infineon.

SOLID FLASH™-based products unite the highest possible degree of flexibility by using non-volatile memory technologies with outstanding reliability and a sophisticated security concept. The security-certified Flash solution makes it possible to react more quickly to market changes, thanks to shorter development and delivery times as well as flexible product use.

MOBILE PHONE IS NOW A PURSE; PAYMENT IS CONTACTLESS

The mobile phone is now a purse as well: with the development of smartphones, mobile internet and Near Field Communication (NFC) technology, a broad range of functions and applications can now be integrated, such as vouchers, tickets, loyalty points, payment services, etc. People are experiencing a new form of convenience with their mobile phones. They are traveling in public transport using mobile tickets instead of coins or physical tickets, making contactless payment by mobile phone, simultaneously redeeming a coupon and collecting loyalty points or making secure bank transfers. These developments are leading to greater demand for secure data storage and the protection of confidential information on mobile phones.

Infineon supplies the security chip for this application, the so-called Secure Element (SE). The SE can be built into a smartphone (known as an embedded SE), integrated in the SIM/UICC card or installed on a microSD card. Infineon provides solutions that support all three options. The level of security these chips provide must be at least equivalent to that of credit cards.

A similar application is "girogo", the contactless variation of the debit card introduced in Germany under the name "Geldkarte" back in 1996. Consumers in Germany no longer need to hand over their debit cards to make payments below €20, it is sufficient to hold the card within a few centimeters of a card reader. However, the new bank card, which has been issued since April 2012, is a so-called dual interface card, with which the customer can still pay using the contact procedure in which the card is inserted into a pay terminal.

Infineon was the first chip manufacturer worldwide to meet the high security standards of the Deutsche Kreditwirtschaft (Germany's foremost association of banks) and the requirements for contactless capability for the new bank cards within Germany. Security chips from our SLE 78 family are being used together with the Integrity Guard security technology. A total of 45 million cards are scheduled for issue in Germany in the next three to four years, making "girogo" Europe's largest contactless bank card project.

DIGITAL SECURITY TECHNOLOGY INTEGRITY GUARD AND SOLID FLASH™ – INFINEON IS SETTING TRENDS IN THE SECURITY INDUSTRY

Integrity Guard is the latest generation of digital security technology and unique worldwide. Integrity Guard was specifically developed for applications that require the utmost in data security and for that reason need to be particularly well secured for long-term use. Key fields of application for Integrity Guard are official identification documents, embedded control systems in industrial applications and payment applications either via card or smartphone. In Germany, for example, Integrity Guard-based chips are deployed in personal identification cards, in health insurance cards and in contactless payment applications such as the "girogo" project organized by the Deutsche Kreditwirtschaft.

Attacks on security chips are nothing new and they constantly take new forms. For example, attackers pry into the interior of the chip with extremely fine probes in an attempt to monitor processes or deliberately interrupt computing in order to illegally access the data stored on it. In their battle to ward off attackers, the chip manufacturers have built an increasing number of security functions into the chip over the course of time. For a long time the manufacturers reacted to individual, specific types of attack with isolated protective measures, such as special sensors. However, this approach is not an adequate response to today's needs as more sensors simply make the chip more expensive, more complex and therefore less reliable. For this reason the engineers at Infineon decided to take an entirely different path, based on digital security.

With Integrity Guard, for the first time in the history of security chips, sensitive data can only be processed in encrypted form along the complete data path, even in the "heart" of the chip, the central processing unit, making the data useless to an attacker. In addition, the security chip does not have just one, but two central processing units that continually monitor each other with the help of a sophisticated error detection system. Any attempt to manipulate the chip is recognized as it is impossible to manipulate both processing units simultaneously and identically.

Infineon has patented many of the basic functions incorporated in Integrity Guard. The patented technologies include a special method of error detection for the memory systems implemented on the chip. Altogether, more than 10 international patents protect the various Integrity Guard components.

The Integrity Guard security technology won the chip industry's "Sesames Award" as well as the "Innovationspreis der Deutschen Wirtschaft" (a prestigious German business innovation award). In September 2012, Integrity Guard was nominated for the "Deutscher Zukunftspreis" – a prize awarded by the President of Germany for technology and innovation. The award ceremony was due to take place on November 28, 2012, after preparation of the Consolidated Financial Statements and the Group Management Report.

In September 2012 SOLID FLASH™-based SLE 78 security controllers with Integrity Guard digital security technology received the security certification in accordance with Common Criteria EAL6+ from Germany's Federal Office for Information Security (BSI). This is the highest neutral confirmation of chip security received so far, and impressively illustrates that the innovations incorporated in Infineon's security ICs are of the highest standard.

Unlike ordinary ROM-based products, SOLID FLASH™ products unite the utmost flexibility by using non-volatile memory technologies (Flash, EEPROM) with outstanding reliability and a sophisticated security concept. The security-certified Flash products make it possible to react more quickly to market changes, thanks to short delivery times and flexible product use. Furthermore, they provide numerous advantages for logistics, development and the certification process.

Infineon's Integrity Guard security technology nominated for the "Deutscher Zukunftspreis"



DEUTSCHER ZUKUNFTSPREIS
 Preis des Bundespräsidenten
 für Technik und Innovation

Nominated 2012

**Integrity Guard –
 Security for the networked world**

SECURITY AS CROSS-SEGMENT COMPETENCE

Infineon is increasingly using its security know-how, its strong market position and its access to customers in other corporate segments. Infineon's cross-segment competence is often a door-opener to customers from other segments or, in some cases, even the determining factor for selecting Infineon as supplier.

Highly sensitive data need to be protected from manipulation and theft. The following examples show that our market-leading security expertise is no longer only in demand for smartcard applications, but increasingly for the security-related systems of automotive and industrial applications:

Security module in AURIX™: Among carmakers there is a growing desire for a higher degree of protection from the manipulation and tuning of their vehicles, as well as greater protection for their software and intellectual property on the microcontrollers installed in vehicles. The next generation of the security module will be integrated in the next AURIX™ 32-bit multi-core microcontroller architecture: HSM (Hardware Security Module). This extension protects both the chip itself and the software implemented on it against undesired access and manipulation.

Digital tachograph for commercial vehicles: The electronic tachograph stores data such as total length of journey, speed or the vehicle's rpm as well as the driver's driving times and rest periods. Since October 2012, stricter EU regulations have been in force for trucks and buses, designed to prevent tachographs from being manipulated. In its new generation of digital tachographs, Continental only uses security chips supplied by Infineon.

ORIGA™: The ORIGATM chip guarantees the origin and authenticity of authorized original products. The customer can be sure that the product is neither a fake nor a cheap copy. Possible fields of application are the motor controls of industrial equipment, medical devices, cartridges for inkjet printers, batteries for digital cameras and smartphones, adapters for notebooks and accessories for tablet PCs.

M2M: Machine-to-machine (M2M) communication enables automatic data exchange from one device to the next or to service centers. At the heart of every M2M application is a communication module that connects each device with the infrastructure, making it possible to exchange data. Examples of M2M applications are: infotainment in the car, toll systems, smart meters in the energy industry and also telematics systems for emergency calls, maintenance and navigation. Infineon provides the necessary SIM cards with the respective customized specification for these applications.

Infineon security chip installed in Continental's new digital tachograph



PRODUCT RANGE – FIELDS OF APPLICATION

Almost one third of segment revenue relates to SIM cards and around one quarter to payment cards. The rapid rate of growth in applications for government identification documents in recent years has led to them accounting for around one fifth of segment revenue.

The new business fields are responsible for the highest growth rates – including NFC (Near Field Communication), TPM (Trusted Platform Module), authentication and embedded control.

- ◆◆◆◆ Product range
 - Contact-based security controller
 - Contactless security controller
 - Dual-interface security controller (contact-based and contactless)

- ◆◆◆◆ Applications
 - Mobile communication
 - Payment systems
 - Near Field Communication (NFC)
 - Electronic passports, ID cards, healthcare cards, driver's licenses
 - Transport, ticketing, access control
 - Trusted computing
 - Authentication (e.g. for pay TV, games consoles, accessories, spare parts, industrial control systems)

MARKET POSITION

WORLD MARKET LEADER FOR SMARTCARD ICs FOR 15 YEARS

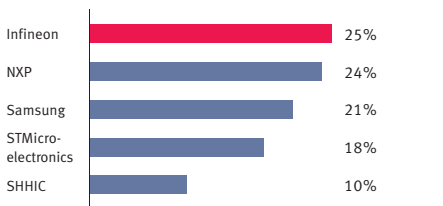
Infineon has been world market leader for smartcard ICs for the last 15 years. According to the latest study conducted by market research experts IMS Research (an IHS company) in calendar year 2011, Infineon commands 24.8 percent of the global market for smartcard ICs. The world market grew by almost 9 percent from US\$2.02 billion in the 2010 calendar year to US\$2.20 billion in 2011. The market as a whole for 2011 comprised 7.5 billion contact-based and contactless smartcard ICs for SIM cards, payment cards and government identification documents. Not included are embedded control applications such as Trusted Platform Module, Secure Element for NFC and brand protection. NXP and Samsung have swapped positions. The five largest market participants held 98 percent of the market in 2011.

WORLD MARKET LEADER EVEN FOR SECURITY ICs IN PAYMENT CARDS

In the submarket for security ICs in payment cards, Infineon remained undisputed market leader with 32.9 percent market share by units. According to IMS Research (an IHS company), the world market in the 2011 calendar year comprised 1.245 billion units; market data by value are not available. The five largest competitors held 97 percent of the market.

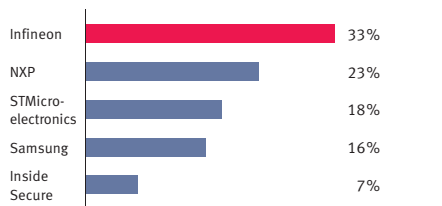
- ◆◆◆◆ Key customers¹
 - Beijing Watch Data
 - Gemalto
 - Giesecke & Devrient
 - Hewlett-Packard
 - Oberthur Technologies
 - Safran Morpho
 - US Government Printing Office

World market for smartcard ICs (by value)



Source: IMS Research (an IHS company), "The World Market for Smart Cards and Smart Card ICs – 2012 Edition", August 2012

World market for security ICs in payment cards (by units)



Source: IMS Research (an IHS company), "The World Market for Payment and Banking Cards – 2012 Edition", July 2012

¹ Direct customers excluding distribution customers. Distribution customers ◆◆◆◆ "Infineon at a glance" on the inside front cover.

RESEARCH & DEVELOPMENT

Research and development expenses plus investments represented almost 34 percent of revenue in the 2012 fiscal year, safeguarding the leadership in our sector in terms of innovation, products and manufacturing technologies.



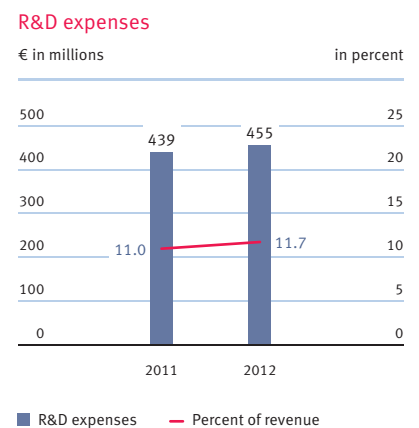
- ❖ Research and development expense up to a level of €455 million in the 2012 fiscal year.
- ❖ First MOSFET Technologies qualified on 300-millimeter thin wafer manufacturing technology.
- ❖ Worldwide first: 3D camera chip for pedestrian and obstacle detection.

Research and development (“R&D”) expense increased by almost 4 percent from €439 million in the 2011 fiscal year to €455 million in the year under report. As a result of the slight drop in revenue (approximately 2 percent) during the same period, the R&D ratio (R&D expense expressed as a percentage of revenue) went up from 11.0 percent to 11.7 percent.

On September 30, 2012, Infineon employed a total of 4,289 people in its 21 research and development centers worldwide, equivalent to 16 percent of the entire workforce (see section “R&D and manufacturing sites”, page 88 f.), compared with 3,900 employees one year earlier. We are pleased to note an increase in the percentage of women working in R&D: Whereas in the 2010 fiscal year women accounted for 14.5 percent of the R&D workforce, by 2011 the figure had risen to 15.4 percent and remained at this level in 2012.

We believe that one of the determining factors in achieving sustainable success is to generate added value for our customers by providing products that give them a competitive advantage. This can, for instance, be generated through the greater functionality of a chip, by the increased efficiency of our components or by providing higher quality products. In order to generate this added value for our customers worldwide we need to meet various requirements: a detailed understanding of the systems of our customers’ applications; close, trusting cooperation with our customers; respect for cultural and regional differences; outstanding manufacturing expertise; an optimal price-performance ratio; quality and adherence to delivery schedules.

Infineon sees itself in a leading role when it comes to innovation and growth. As a leading player in the markets we target and thanks to our strong liquidity position, we have the means to finance the ongoing development of established applications and to make the necessary investments to engage in completely new markets with a view to safeguarding sustainable growth.



PRINCIPAL IN-HOUSE R&D ACTIVITIES

Our research and development activities are concentrated on semiconductor-based products and systems as well as manufacturing and process technologies. Our most important achievements in the 2012 fiscal year were:

New products

With the **XMC4500** we this year launched the first member of our ARM®-based 32-bit microcontroller family XMC4000 onto the market. This family is designed to target industrial applications with complex control algorithms and stringent requirements in terms of computing power. The high efficiency of the function blocks already tried and tested with the automotive controllers together with the industry-standard ARM® core provides customers with a crucial advantage. The XMC4000 family will be further extended over the next few years.

In the field of **battery management for electric vehicles**, Infineon offers not only passive cell balancing but also a solution for active cell balancing. Active cell balancing has the major advantage of being capable of balancing quickly and at low cost cells which are unevenly charged due to the typical variances stemming from their production. This enables better use of the power stored in the battery, increasing the vehicle's range by up to 10 percent.

In addition to passive safety, active safety in particular is becoming increasingly important in automobiles. With our new **3D sensor** we are making an important contribution towards the detection of pedestrians and obstacles in the dark (see "3D camera chip with 100,000 pixels a world first").

❖ see page 84

Under the name **.dp**, which stands for digital power management, we are combining our new products for the digital control loop in the field of power supply. During the last fiscal year we introduced the first products for this important step from the analog to the digital control loop to the market (see section "The Segments – Power Management & Multimarket").

❖ see page 63

New materials

In the search for power semiconductors that offer increasingly high power densities, semiconductors with wide band gaps have meanwhile become the best solution. They are capable of switching higher voltages and require less space than silicon-based components. As they are made up of various elements, they are known as compound semiconductors. The two most important of these are **silicon carbide (SiC)** and **gallium nitride (GaN)**. In addition to the discrete SiC-JFET (Junction Field Effect Transistor) power transistor, we have also begun providing a Japanese customer with a SiC-based power module for photovoltaic inverters.

However, for certain applications GaN is more suitable than SiC. For this reason, at our site in Villach (Austria) we have implemented a complete pilot line for 150-millimeter GaN wafers, including wafer manufacturing. Fully functioning GaN-HEMTs (High Electron Mobility Transistors) are already being produced on this line. These power switches can be operated at far higher frequencies without causing significant switching losses, which makes switch mode power supplies (SMPS) and inverters more efficient and compact. Together with European partners we are involved in the EU-subsidized project "HiPoSwitch" for developing GaN-based transistor architectures, substrate materials and reliability tests.

New manufacturing technologies

With the establishment of a fully integrated manufacturing line linking front-end and back-end operations during the 2012 fiscal year, we reached a crucial milestone in the development of our **300-millimeter thin wafer manufacturing technology** for power semiconductors (see "Fully integrated manufacturing line qualified for 300-millimeter thin wafer manufacturing technology in Villach and Malacca; first technology transfers to Dresden yield positive results").

❖ see page 84

MAJOR RESEARCH AND DEVELOPMENT COOPERATIONS

The broad range of possible applications for semiconductors presents an equally large range of research topics. For this reason Infineon is engaged in numerous research projects with partners from industry, science and universities. As Infineon supplies products for a wide range of industries, the projects are usually of a combined nature. Although several projects were concluded during the 2012 fiscal year, most of them continue to run for the next two to four years.

Automotive

The **e-generation** project was initiated to develop a new generation of components for electrically powered vehicles. The aim of the development is to increase their range, cut costs and improve their suitability for daily use. The main focus of the project is to develop a new generation of components for electrically powered vehicles in which the relationship between efficiency and weight is optimized. Furthermore, the project will investigate the potential that exists to reduce costs by means of modularization and sub-assembly units.

Over the next three years, the **SafeBatt** project (active and passive measures for producing inherently safe lithium-ion batteries) is to conduct research on how to further improve the safety of lithium-ion batteries for electric and hybrid vehicles. The research is to focus on new materials, test methods and semiconductor sensors for use in these types of batteries. Another subject of research is a “digital battery pass” that continually collects, assesses and stores safety-relevant battery parameters throughout the entire lifetime of the battery.

Security

In cooperation with companies and universities from Europe and Brazil, an all-embracing security project has been established, the **SecFuNet** project, which is designed to research security requirements for future ICT (Information and Communications Technology) networks as well as relevant security concepts and technologies. These include virtual networks, cloud computing and virtualization in connection with semiconductor-based security anchors such as microcontrollers or smartcards.

The EU-subsidized **CUMULUS** project has been set up to research how the infrastructure, platforms and software of cloud computing technologies can be improved in terms of security and the protection of privacy.

The partners in the **NewP@ss** project are conducting research to find out how future generations of electronic identification documents can be designed for greater security and efficiency. A key element of the project is the secure use of digital identity documents in mobile applications for smartphones and tablet PCs. The project takes open architectures such as Android, but also Windows Phone and iOS into account.

Design, test, manufacturing

The **VeTeSS** project (Verification and Test Support for Safety Standards) is researching new methods of developing hardware and software components that are standardized, reliable and cost-effective and which help prevent defects in subcomponents from leading to a malfunctioning of the entire security system. The aim is to create new processes by which security systems and their subcomponents can be developed on an automated basis in accordance with the ISO standard 26262 introduced at the end of 2011.

In the EU-funded **EPT300** research project (Enabling Power Technologies on 300-millimeter wafers), 20 partners are researching methods for the future production of power semiconductors based on 300-millimeter thin wafers. The research work addressed in EPT300 covers all of the steps in the value-added chain and goes beyond the research and development work conducted by Infineon in this field to date. In order to produce power semiconductors on such sensitive wafers, apart from production flows and highly automated production processes, new materials and plant technology (e.g. cleanroom manufacturing tools) need to be researched and developed in order to guarantee consistent quality and international competitiveness. There has never been a pilot line promotion of this type in an EU-subsidized project before. Furthermore, EPT300 is the largest EU project that Infineon has ever taken part in.

Research priorities and research alliance partners

e-generation

- Automotive Simulation Center Stuttgart e.V.
- Behr GmbH & Co. KG
- Forschungsinstitut für Kraftfahrwesen und Fahrzeugmotoren FKFS
- Fraunhofer Gesellschaft: Institut für Betriebsfestigkeit und Systemzuverlässigkeit
- Karlsruher Institut für Technologie
- Porsche AG
- Porsche Engineering Group GmbH
- Robert Bosch GmbH
- RWTH Aachen
- Technische Universität Braunschweig
- Technische Universität Dresden
- Universität Ulm
- Volkswagen AG
- ZF Friedrichshafen AG

SafeBatt

- BASF SE
- BMW AG
- Daimler AG
- Deutsche ACCUmotive GmbH & Co. KG
- ElringKlinger AG
- Evonik Litarion GmbH
- Fraunhofer-Gesellschaft: Institut für Chem. Technologie
- Li-Tec Battery GmbH
- SGS Germany GmbH

- Technische Universität Braunschweig
- Technische Universität München
- Universität Münster
- Volkswagen AG
- Wacker Chemie AG

HiPoSwitch

- Aixtron SE
- Artesyn
- EpiGaN
- Ferdinand-Braun-Institut Leibniz-Institut für Höchstfrequenztechnik (FBH)
- Slowakische Akademie der Wissenschaften Bratislava
- Technische Universität Wien
- Universität Padua

SecFuNet

- Ecole Normale Supérieure
- EtherTrust
- FFCUL
- Implementa
- Several partners from Brazil
- Technische Universität München
- Telecom ParisTech
- Twinteq
- Université Pierre et Marie Curie

CUMULUS

- ATOS Spain S.A.
- City University London
- Cloud Security Alliance (CSA)
- Fondazione Ugo Bordoni
- Università degli Studi de Milano
- University of Malaga
- Wellness Telecom

NewP@ss

- Aragon Technology Centre
- CEA Leti
- Compuworx
- EVOLEO Technologies
- Gemalto
- Giesecke & Devrient
- Id3 semiconductors
- Instituto de Telecomunicações Aveiro
- Iquadrat Informatica S.L.
- ISEN Toulon
- NXP Semiconductors
- Saragossa Airport
- Stiftung Secure Information and Communication Technologies
- STMicroelectronics
- Technische Universität Graz

VeTeSS

- AVL List GmbH
- Barcelona Supercomputing Center
- Centro Ricerche Fiat SCPA
- exida.com LLC

- Fico Triad S.A.
- Fraunhofer Gesellschaft:
Institut für integrierte Schaltungen
- ikv++ Technologies AG
- NXP Semiconductors
- Politecnico di Torino
- QRTECH AB
- Rapita Systems Ltd
- SP Sveriges Tekniska Forsknings-
institut AB
- SpringSoft SAS
- Technische Universität Wien
- TWT GmbH Science & Innovation
- University of Oxford
- Virtual Vehicle Competence Center
- Volvo Technology AB

EPT300

- Artesyn Austria GmbH & Co. KG
- Bruco Integrated Circuits B.V.
- CTR Carinthian Tech Research AG
- eutema Technology Management
GmbH & Co. KG
- HAP Handhabungs-, Automatisierungs-
und Präzisionstechnik GmbH Dresden
- Heliox B.V.
- LAM Research AG
- LPE S.p.A.
- mechatronic Systemtechnik GmbH
- Philips Medical Systems Netherland B.V.
- Roth & Rau - Ortner GmbH
- Semikron Elektronik GmbH & Co. KG
- SICO Technology GmbH
- Siltronic AG

FULLY INTEGRATED MANUFACTURING LINE QUALIFIED FOR 300-MILLIMETER THIN WAFER MANUFACTURING TECHNOLOGY IN VILLACH AND MALACCA; FIRST TECHNOLOGY TRANSFERS TO DRESDEN YIELD POSITIVE RESULTS

After the first power semiconductors were produced on 300-millimeter thin wafers in Villach (Austria) at the beginning of the 2012 fiscal year, Infineon reached an additional, highly significant milestone at the end of the fiscal year: Fully integrated manufacturing lines were successfully qualified both at the front-end site in Villach and at the back-end site in Malacca (Malaysia). This means that all of the required steps in both front-end and back-end manufacturing sequences have achieved the standard of quality required for high-volume manufacturing and customer qualification can now be sought. Moreover, the first technology transfer to Dresden (Germany), the second front-end manufacturing site, which has been designed as a 300-millimeter high-volume manufacturing site, has yielded positive results.

The introduction of 300-millimeter thin wafer manufacturing technology for power semiconductors also impacts back-end manufacturing. Once processed, the thin wafers need to be diced into individual chips directly at the front-end site as the fragile silicon wafers would otherwise be unable to withstand the rigors of transportation. The removal of the ultra-thin chips from the dicing tape and their further handling requires new machinery and, above all, manufacturing know-how that has been developed by Infineon in recent years and now brought to maturity for high-volume manufacturing purposes. The first step involved setting up back-end manufacturing lines for 300-millimeter thin wafers both at our site in Malacca and at the premises of a subcontractor. Moreover, 300-millimeter thin wafer back-end manufacturing lines are currently being set up at the other Infineon sites at Warstein (Germany) and Cegléd (Hungary).

With the implementation of 300-millimeter thin wafer manufacturing technology for power semiconductors we are pursuing three strategic objectives: Firstly we are ensuring our long-term growth; secondly we are reducing the capital cost per chip in comparison with 200-millimeter manufacturing technology and thirdly we are achieving greater productivity, which means we are effectively reducing front-end unit costs by 20 to 30 percent once high-volume manufacturing is ramped up to full capacity. As a reaction to the currently lower demand for power semiconductors, high-volume manufacturing at our Dresden and Villach sites will not be ramped up as quickly as predicted one year ago. The achievements mentioned above enable us to guarantee that our target of reducing front-end unit costs will be reached around the middle of the decade.

3D CAMERA CHIP WITH 100,000 PIXELS A WORLD FIRST

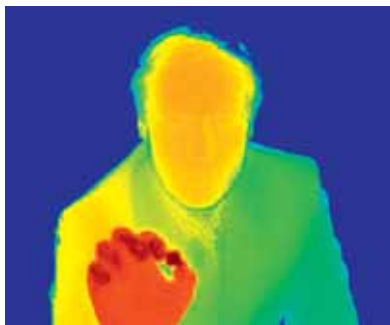
The new 100,000-pixel 3D camera chip is a genuine worldwide innovation that came into being through collaboration with PMD Technologies GmbH, a partner based in Siegen (Germany). The chip addresses an external infrared light source and measures the phase shift of the reflected light. For every pixel from the sensor it therefore supplies not only 2D information, but also the distance and thereby the depth information. Up to one hundred pictures can be taken per second.

A sensor of this type finds practical use, for example, in combination with a conventional high-resolution 2D camera for driver assistance systems. The 3D camera chip enables a spatial vision system to be built into an extremely small space. As the 3D chip already supplies depth information separately, it no longer needs to be computed from the two images of a stereo camera using a vast amount of computing power.

Once installed in a vehicle, our 3D chip entirely covers the important area up to a distance of approximately 50 meters. Its active lighting via infrared LEDs provides the system with night vision capability, which makes it possible to detect pedestrians and obstacles even in the dark.

Further applications for our 3D sensors are in the field of gesture-based controls that are likely to be installed in future generations of automobiles, televisions, computers and game consoles.

This picture was taken using one of these 3D camera chips. The distance from the camera is illustrated by the various colors red (near), yellow, green and finally blue (further away).



MANUFACTURING

- ❖ At €890 million, investments in the 2012 fiscal year at the same level as previous year.
- ❖ Partly capacity expansion, partly modernization.
- ❖ Awards for supply chain management, distribution and quality.

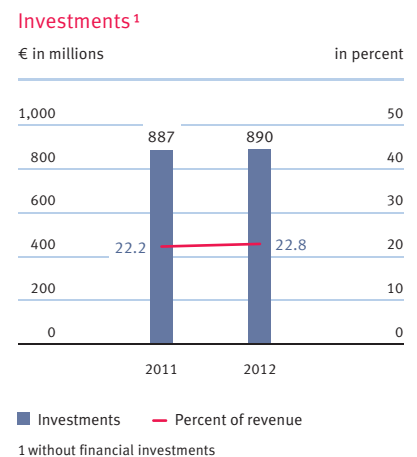
Our strategy for those products we manufacture ourselves and those we obtain from manufacturing partners can be summed up quite simply: In-house manufacturing must provide us with a significant advantage in terms of cost-benefit ratio. Seen in these terms, manufacturing know-how represents a key distinguishing feature in market competition for power semiconductors. For this reason we pursue the strategy of in-house manufacturing for these components. When it comes to CMOS-related manufacturing technologies we collaborate with foundries and therefore all products planned in 65-nanometer manufacturing technology and some currently being made in 90-nanometer manufacturing technology are outsourced.

In the field of back-end manufacturing we cooperate with subcontractors specializing in package assembly and testing of chips; partly on a permanent basis, and partly on a temporary basis in order to better deal with phases of greater demand.

Investments in the 2012 fiscal year totaled €890 million and were therefore practically identical to the €887 million invested one year earlier. Slightly lower revenue meant that investments expressed as a percentage of revenue rose slightly from 22.2 percent in the 2011 fiscal year to 22.8 percent in the year just ended. It should, however, be noted that individual investments of semiconductor manufacturers are designed to cover varying time horizons. Straightforward manufacturing buildings without cleanroom facilities (so-called “shells”) are planned and erected on a long-term basis, regardless of the market situation. Cleanroom equipment, however, is ordered and installed as the need arises and depending on demand or the economic situation.

R&D expenses and investments together were equivalent to 33.2 percent and 34.5 percent of total revenue in the 2011 and 2012 fiscal years, respectively. Both of these factors are planned to safeguard future profitability and help Infineon create the conditions to ensure it remains among the global leaders in terms of both technology and manufacturing – now and in the years ahead.

Our 12 manufacturing sites employed a skilled workforce of 19,274 employees in manufacturing at September 30, 2012.



THE MAIN FOCUS OF INVESTMENT IN THE 2012 FISCAL YEAR

Manufacturing line for automotive-qualified IGBT modules in Warstein: In order to keep pace with the expected demand for IGBT modules in electric and hybrid vehicles, we installed a manufacturing line for automotive-qualified high-performance semiconductor modules at our plant in Warstein (Germany) where HybridPACK™1 and HybridPACK™2 IGBT modules are scheduled for future manufacturing.

Manufacturing sites expanded: The rapid pace of growth across practically all product areas over the last few years has led to a great shortage of floor space at some of our own manufacturing sites and in order to pave the way for the installation of new manufacturing lines, in Warstein, for example, we erected a new logistics building. In Cegléd (Hungary) and Wuxi (China) we extended the manufacturing buildings and in Singapore we commissioned a fully automated material transportation system in the test field.

New manufacturing building in Kulim: The construction of a second manufacturing building (“Kulim 2”) has begun adjacent to the current manufacturing site in Kulim (Malaysia). The topping-out ceremony was held on May 10, 2012. At the end of the 2012 fiscal year the outside shell of the building was closed and will initially only continue until the so-called “weatherproof” status is achieved. This status separates the relatively long but less capital intensive construction phase from the highly capital intensive investment phase to equip the cleanroom. This second phase can be rapidly undertaken at a later date as soon as demand begins to recover.

Further conversion of CMOS manufacturing from aluminum to copper: The conversion from 130-nanometer to 90-nanometer manufacturing technology in Dresden (Germany) involved a switch from aluminum-based to copper-based metal layers. The lower resistivity of copper as compared with aluminum lowers the power dissipation per chip, thereby enabling higher clock frequencies.

300-millimeter thin wafer manufacturing technology remains a key strategic project: Infineon will continue to invest in 300-millimeter thin wafer technology for power semiconductors as the only sure way of retaining its technological preeminence well into the future. However, the further expansion of its manufacturing capacities in Dresden and Villach (Austria) has been postponed taking the current economic environment into account.

AWARDS

In comparison to other industries, logistics for semiconductor products are subject to special conditions that make conventional planning a difficult matter. Therefore semiconductor manufacturers, at the beginning of a value-added chain that leads to a broad range of complex products, are particularly exposed to changing customer demand and the fluctuations become increasingly difficult to manage as they work their way backwards along the chain from one link to the next. This phenomenon, known in the industry as the bullwhip effect, makes it very difficult to plan volumes in the semiconductor business.

Infineon operates 12 manufacturing sites worldwide. This fact, coupled with the worldwide sourcing of raw materials, and customers in widely differing industries, makes sophisticated supply chain management an absolute necessity.

Second manufacturing building in Kulim (Malaysia) shortly before the topping-out ceremony



“Supply Chain Management Award of the Year 2012”

For these reasons we are very pleased to have been awarded one of the most prestigious prizes in this field during the fiscal year. Infineon was presented with the “Supply Chain Management Award 2012” for its exemplary, fully integrated supply chain solution. The annual award is presented to honor the best supply chain in the manufacturing industry and the winner is selected by a panel that includes PricewaterhouseCoopers. Infineon was honored for its supply chain management, which enabled the enterprise to develop strategic advantages in the extremely complex world of semiconductor logistics. Moreover, Infineon was distinguished for its holistic approach as well as its fully integrated planning solution and its differentiated customer interface within the supply chain.

Today, Infineon deploys a fully integrated supply chain that includes all of its value-added partners from sub-suppliers and suppliers to customers and their customers. Planning takes place at numerous levels of hierarchy in order to take into account the varying requirements involved in operational and strategic planning. This seamless integration enables Infineon to react swiftly to any disruptions in the supply chain. In the wake of the catastrophic flooding in Thailand in the fall of 2011, for example, which also affected Infineon suppliers, within a few days the supply chain organization managed to determine the impact on individual customer contracts and propose alternative solutions to its customers.

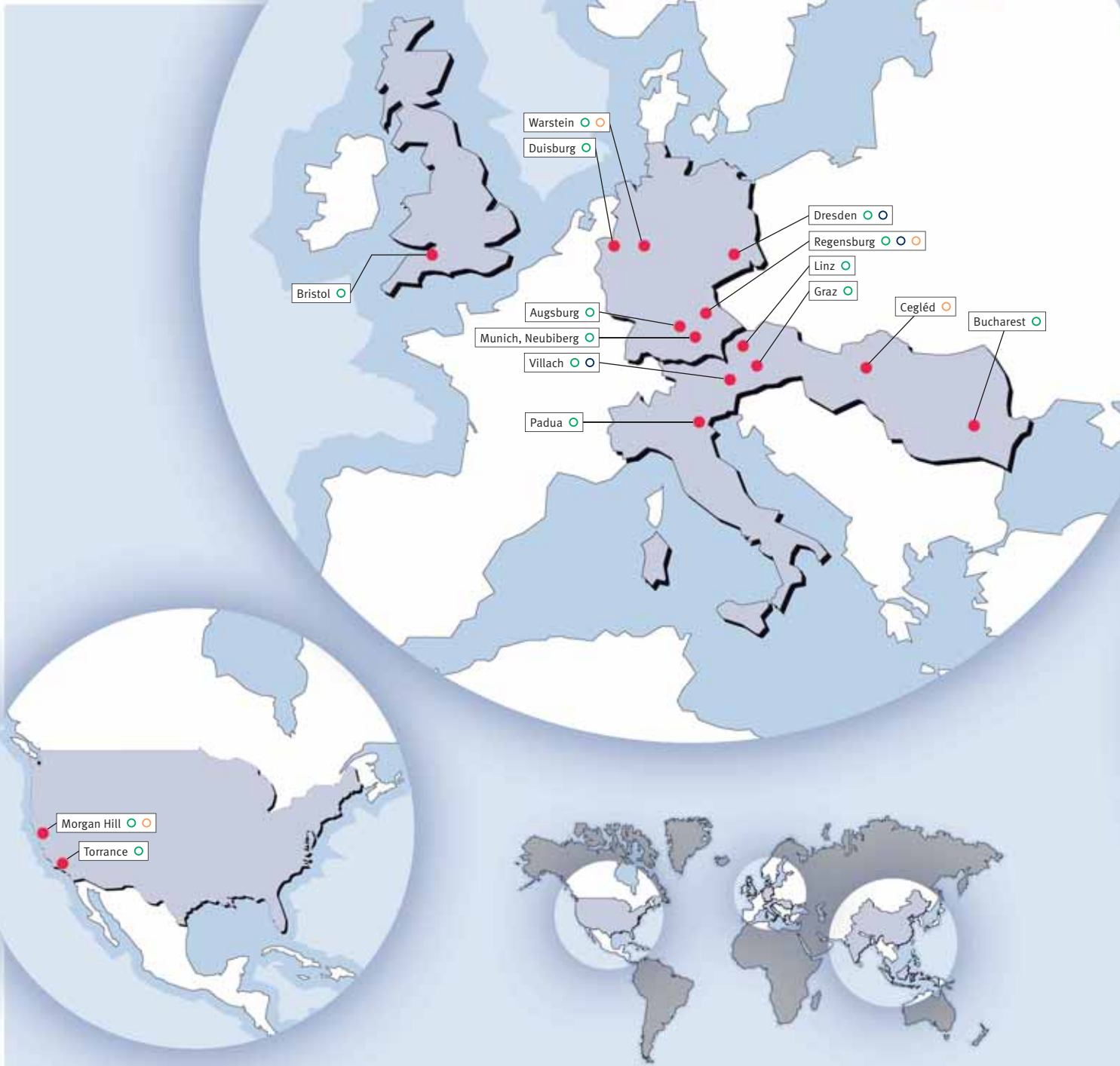
Distributor award in Italy

The foremost distributors and end customers in the Italian electronics market assessed the quality, performance and cooperation of various manufacturers. The result was that for the third time Infineon received an award as best semiconductor supplier from the Italian association of electronics suppliers (Associazione Nazionale Fornitori di Elettronica). The award presentation is recognized as an important event in the European industry and was held in Milan in May 2012.

Each year since 2003 the award has been presented to manufacturers in the electronics industry that achieve excellence through the outstanding quality of their cooperation with distribution partners and customers. Infineon was selected as best semiconductor manufacturer in Italy in 2007 and 2011 and received this most recent award as best manufacturer of semiconductor products.

Infineon receives one of the most coveted logistics prizes: the “Supply Chain Management Award 2012”





Manufacturing sites



Morgan Hill, USA

○ Center of competence for radio-frequency power transistors



Dresden, Germany

○ CMOS, analog/mixed-signal technologies, embedded flash



Regensburg, Germany

○ Analog/mixed-signal, power semiconductors, center of competence for sensors and metallization



Warstein, Germany

○ High-power semiconductor modules, R&D for modules



Cegléd, Hungary

○ High-power semiconductor modules



Villach, Austria

○ Power semiconductors, center of competence for thin wafer technology

○ Chip cards, power semiconductors, discrete semiconductors, sensors, wafer-level packaging, center of competence for package development

R&D AND MANUFACTURING SITES

- Research and Development
- Front-end manufacturing
- Back-end manufacturing



○ Research and development sites

Site	Application/function
Augsburg, Germany	Software for chip card applications
Bangalore, India	Software and system development for automotive, industrial and chip card applications; design flow and library development
Beijing, China	Application development
Bristol, UK	Microprocessor systems for automotive applications
Bucharest, Romania	Power semiconductors for mixed-signal applications; chip card ICs
Dresden, Germany	Technology development
Duisburg, Germany	ASIC and technology development
Graz, Austria	Chip card applications and contactless systems; power semiconductors for automotive; sensor products
Kulim, Malaysia	Technology development
Linz, Austria	Radio-frequency ICs and software development for sensor products
Malacca, Malaysia	Package technology
Morgan Hill, USA	Radio-frequency amplifier components for base stations
Munich, Neubiberg, Germany	Technology integration; design flow development environment; library development; IC, software and system development for microcontrollers, ASICs, chip card ICs and power electronics for automotive and industrial applications; development of manufacturing processes
Padua, Italy	Power semiconductors for mixed-signal applications
Regensburg, Germany	Package technology; manufacturing processes
Seoul, Korea	Automotive electronic system solutions
Shanghai, China	Application development
Singapore	IC, software and system development for automotive and industrial applications; package technology development; development of test concepts
Torrance, USA	Power semiconductors and power ICs
Villach, Austria	Power semiconductors, mixed-signal ICs for automotive and industrial applications; development center for thin wafer technologies
Warstein, Germany	Package technology for IGBT modules and IGBT stacks



Batam, Indonesia
○ Power semiconductors



Kulim, Malaysia
○ Power semiconductors



Malacca, Malaysia
○ Power semiconductors, discrete semiconductors, sensors, ICs, package development



Singapore
○ Center of competence for chip and wafer testing



Beijing, China
○ IGBT stack assembly



Wuxi, China
○ Chip cards, discrete semiconductors

THE INFINEON SHARE

Share information

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	€2,160 million (as of September 30, 2012)
Shares outstanding	€1,080 million (as of September 30, 2012)
Own shares	0 shares (as of September 30, 2012)
Listings	Shares: Frankfurt Stock Exchange (FSE) ADS: over-the-counter (OTC) market (OTCQX)
Option trading	Shares issued by third parties: inter alia Eurex
Ticker symbol	IFX, IFNNY
ISIN Code	DE0006231004
German Security Identification Number (WKN)	623100
CUSIP	45662N103
Bloomberg	IFX GY (Xetra trading system), IFNNY US
Reuters	IFXGn.DE
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 Europe Index SM

Infineon Technologies AG share capital, shares outstanding and market capitalization

As of	September 30, 2012	September 30, 2011	Change
Share capital in € millions	2,160	2,173	(0.60%)
Shares outstanding in millions	1,080	1,087	(0.64%)
Weighted number of shares outstanding in millions – diluted	1,134	1,159	(2.16%)
Market capitalization ¹ in € millions	5,335	6,073	(12.15%)
Market capitalization ¹ in US\$ millions	6,957	8,031	(13.37%)

1 The calculation is based on unrounded figures.

Infineon share statistics

Fiscal year ending September 30	2012	2011	2010
Germany: Xetra closing in €			
Fiscal year closing (end September)	4.94	5.59	5.08
Year high	7.88	8.28	5.54
Year low	4.94	5.00	3.05
Daily average shares traded on regulated German stock exchanges	9,925,683	14,965,342	20,699,149
Thereof Xetra trading in %	94	90	95
USA: OTCQX closing in US\$			
Fiscal year closing (end September)	6.44	7.39	6.93
Year high	10.49	11.87	7.31
Year low	6.17	6.81	4.38
Daily average ADS traded	101,319	82,120	160,308

Shareholder structure¹

Dodge & Cox Investment Managers	9.95% (as per August 5, 2009)
Thereof: Dodge & Cox International Stock Fund	9.88% (as per August 5, 2009)
The Capital Group Companies, Inc.	8.02% (as per September 1, 2012)
Thereof: Capital Research and Management Company	5.06% (as per July 28, 2011)
Thereof: EuroPacific Growth Fund	5.04% (as per September 13, 2012)
BlackRock, Inc.	5.08% (as per April 26, 2011)
Thereof:	
BlackRock HoldCo 2, Inc.	5.003% (as per July 22, 2011)
BlackRock Financial Management, Inc.	5.003% (as per July 22, 2011)
BlackRock Advisors Holdings, Inc.	4.77% (as per June 19, 2012)
BlackRock International Holdings, Inc.	3.01% (as per August 18, 2011)
BR Jersey International Holdings, L.P.	3.01% (as per August 18, 2011)
BlackRock Group Limited	3.01% (as per October 4, 2011)
UBS AG	3.14% (as per July 5, 2012)

¹ The number of shares held by, or attributable to, the investors listed above has been taken from the most recent mandatory notification received by Infineon Technologies AG from each of the relevant entities in accordance with sections 21 and 22 WpHG. The percentage disclosures are based on the share capital or number of shares at the date of receipt of each notification. Details of voting rights notified to the Company in accordance with sections 25 and 25a WpHG which, in addition to shares actually held and to attributable shares, also take account of financial or other instruments which give an entitlement to acquire further shares, are published regularly on Infineon's website at <http://www.infineon.com/cms/en/corporate/investor/infineon-share/shareholder-structure.html>

The Infineon share price fell 12 percent from €5.59 at the end of the 2011 fiscal year to a Xetra closing price of €4.94 on September 30, 2012.

HIGH VOLATILITY IN SHARE PRICE IN THE 2012 FISCAL YEAR

Both the Infineon share and the relevant comparable indices performed well during the first part of the 2012 fiscal year, rising sharply from October 1, 2011 through to spring 2012. The Infineon share initially rose at a pace in line with the relevant comparable indices, only then to move ahead more rapidly from the start of the new calendar year. The high for the 2012 fiscal year was reached at the beginning of April 2012 with a price of €7.88, which meant the share had risen by 41 percent in just over six months. During the same period, the DAX and Philadelphia Semiconductor Index (SOX) both increased by 27 percent while the Dow Jones US Semiconductor Index increased by 26 percent. Subsequent to this period, uncertainties about the state of the economy in view of the European debt crisis caused the Infineon share price and the relevant comparable indices to lose value over a period of several weeks. After the preliminary announcement that earnings for the nine-month period ended June 30, 2012 were weaker than expected, the Infineon share price declined. From this point until the end of September the share price stabilized, performing roughly in line with the DAX and significantly better than the SOX and Dow Jones US Semiconductor Index. Towards the end of September Infineon again issued preliminary figures for the current quarter and its outlook for the 2013 fiscal year. In light of the fact that Infineon was forecasting a reduction in first-quarter revenue and earnings, the share price fell sharply in a generally weak market. The low for the fiscal year (€4.94) was recorded on the final day of trading in September. During the 2012 fiscal year as a whole, the Infineon share price decreased by 12 percent. The relevant comparable indices performed significantly better over this period, with the Dow Jones US Semiconductor Index up by 5 percent, the SOX by 13 percent and the DAX by 31 percent.

For further information please contact Infineon's Investor Relations team:

Phone: +49 89 234 26655

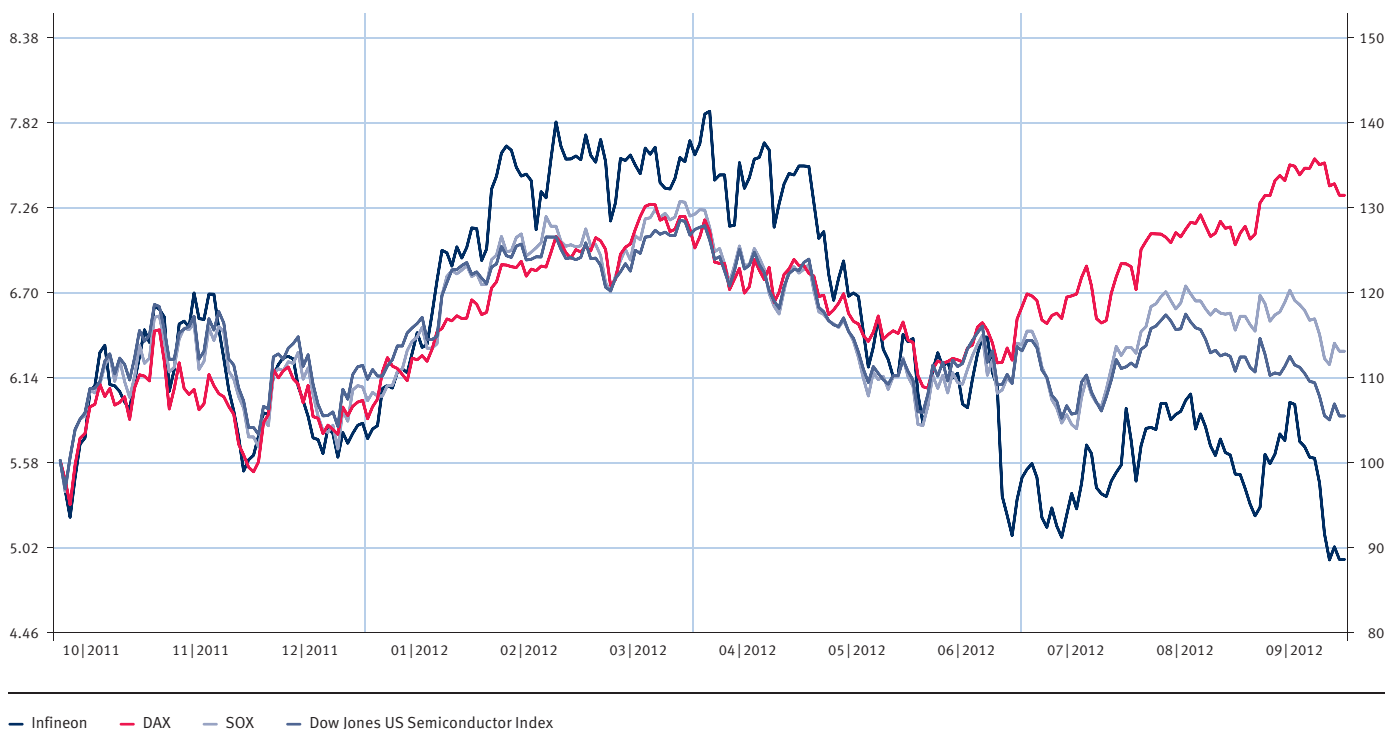
Fax: +49 89 234 955 2987

E-Mail: investor.relations@infineon.com

Development of the Infineon Technologies AG share compared to Germany's DAX Index and Philadelphia Semiconductor Index (SOX) and the Dow Jones US Semiconductor Index from the beginning of the 2012 fiscal year (daily closing prices)

Infineon share price in €

September 30, 2011 = 100



INCLUSION IN INDICES, TRADING VOLUMES AND DIVIDEND

The average volume of Infineon shares traded per day, measured in units, in the Xetra system, on the Frankfurt trading floor and on German regional stock exchanges, went down from 15.0 million shares in the previous fiscal year to 9.9 million shares in the 2012 fiscal year. Accordingly the average daily volume traded in euro terms fell from €101.8 million to €62.6 million per day in the two fiscal years concerned.

One important factor for inclusion in the German stock index, the DAX, is the volume of shares traded in euro terms in the Xetra system and in Frankfurt during the preceding twelve months. The total trading volume of the Infineon share dropped from €24.2 billion to €15.2 billion, as a result of which Infineon's ranking in the DAX fell from 15th to 17th place. The second key criterion for inclusion in the index is the average level of market capitalization. In Infineon's case, the average was €6.3 billion at the end of the 2011 fiscal year, at which stage it was ranked 25th in the DAX. Market capitalization fell during the 2012 fiscal year to €5.9 billion, leaving Infineon in 28th place on the basis of this criterion.

The number of shares outstanding decreased during the 2012 fiscal year and stood at 1,080,306,332 shares at the end of the reporting period (September 30, 2011: 1,086,745,835 shares). The exercising of stock options by employees had the effect of adding 560,497 shares to the total number of shares outstanding over the course of the 2012 fiscal year. In September 2012 the Management Board decided to withdraw from circulation and cancel the 7 million shares held by the Company at that stage in conjunction with the capital return program. After implementing this decision, the number of shares outstanding decreased accordingly. Infineon's capital return program will be continued in the new fiscal year and remains in place until March 31, 2013. At September 30, 2012, there were outstanding put options for the purchase of a further 16 million shares at exercise prices between €4.71 and €6.93. The exercise of these options, or alternatively the direct repurchase of shares via the stock exchange, may result in Infineon acquiring more of its own shares in the new fiscal year.

In the United States the Infineon share is traded in the form of American Depositary Shares ("ADS") on the OTCQX International over-the-counter market under the ticker symbol "IFNNY". The average volume rose to 101 thousand ADS per day from 82 thousand ADS per day in the previous fiscal year. In total, 9.2 million ADS were outstanding at September 30, 2012, compared to the 12.8 million ADS in circulation at the end of the previous fiscal year.

Infineon recommenced paying dividends in the 2011 fiscal year and distributed a dividend of €0.10 per share for the 2010 fiscal year. The Management Board and Supervisory Board proposed to the Annual General Meeting in March 2012 that the dividend for the 2011 fiscal year be increased to €0.12 per share. Following receipt of approval at the Annual General Meeting, dividend payments totaling €130 million were paid to the shareholders. A proposal will be made to the Annual General Meeting to pay an unchanged dividend of €0.12 per share for the 2012 fiscal year. Infineon's strategy is to pursue a dividend policy that enables shareholders to participate appropriately in growing earnings or, in times of flat or declining earnings, to at least keep the dividend at a constant level.

Infineon was included in the Dow Jones Sustainability Europe IndexSM for the first time in September 2010. This index currently comprises the shares of 609 companies, including a further 64 German companies in addition to Infineon. However, Infineon is the only semiconductor company in Europe currently included in the index. Each entity undergoes an annual test to confirm that the criteria for retention in the index have been met. Infineon's compliance with these criteria was confirmed in September 2012 for the third year in succession. Further information on this topic can be found in the Section "Corporate Social Responsibility at Infineon: Setting standards – through innovation and voluntary responsibility".

For an overview of the major indices in which the Infineon share features, see www.infineon.com/cms/en/corporate/investor/index.html

see page 94 ff.

Performance of the Infineon share and worldwide indices through September 30, 2012

	Since end September 2010	Since end September 2011
Infineon (Xetra)	(2.81%)	(11.63%)
DAX	+15.85%	+31.15%
Philadelphia Semiconductor Index (SOX)	+9.46%	+12.83%
Dow Jones US Semiconductor Index	+7.05%	+5.22%

NON-FINANCIAL PERFORMANCE INDICATORS

CORPORATE SOCIAL RESPONSIBILITY AT INFINEON: SETTING STANDARDS – THROUGH INNOVATION AND VOLUNTARY RESPONSIBILITY

www.infineon.com/CSR_Reporting

In addition to the statutory audit regarding the Group Management Report, selected qualitative information and indicators relating to sustainability activities at Infineon were subject to an independent “limited assurance” engagement by KPMG AG Wirtschaftsprüfungsgesellschaft in accordance with the International Standard for Assurance Engagements (ISAE 3000), the pertinent standard for assuring sustainability information. Further information, including the independent assurance report issued, can be found in the Corporate Social Responsibility section of the Infineon website.

The term “sustainability” encompasses the interaction between economical, ecological and social factors. This definition was included in the Brundtland Commission report back in 1987 and remains valid to this day. In 2011 the EU Commission additionally established a definition of Corporate Social Responsibility (CSR) as “the responsibility of enterprises for their impact on society”.

Creating a viable, sustainable society is a challenge that needs to be addressed through the cooperation of stakeholders from society, industry, commerce as well as the political decision makers.

Our strategic focus on the three key themes energy efficiency, mobility and security is making a valuable contribution towards a world of sustainable applications and end-user products and, hence, in the long run, towards a sustainable society. Additionally, we take on voluntary responsibility in line with our CSR pillars:

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The great importance that Infineon attaches to CSR is highlighted by its renewed inclusion in the “Dow Jones Sustainability Europe Index”, in which Infineon is sector leader of the semiconductor industry in the criteria Product Stewardship and Operational Eco-efficiency. The “Sustainability Yearbook” once again included Infineon among the top 15 percent most sustainable companies worldwide; more clear evidence of Infineon’s credentials in this area. 2,500 companies are assessed annually and ranked in terms of sustainability for inclusion in the Sustainability Yearbook.

Infineon has been a participant in the UN Global Compact Initiative since 2004 and has given a voluntary commitment to comply with the UN Global Compact's ten principles relating to human rights, labor, the environment and anti-corruption. These principles form the framework of Infineon's CSR concept, which has been developed with the needs of Infineon's stakeholders – its investors and customers, suppliers and employees – as well as political decision makers in mind. Due consideration was also given to social issues and international standards. Current developments addressed by non-governmental organizations and competitors were also taken into account in the assessment.

Requirements and needs were primarily identified using internationally recognized methods such as the Materiality Matrix and the EFQM (European Foundation for Quality Management) Model for Excellence, a wide-ranging management framework used by more than 30,000 organizations throughout Europe.

Based on this specified framework, Infineon conducted interviews with both internal and external stakeholders on major CSR-relevant issues at Infineon and, after assessment, the results of these interviews were incorporated in our CSR strategy.

As a UN Global Compact participant, Infineon has given a commitment to abide by the stated principles and presents its Communication on Progress on the implementation of its CSR concept:

Human rights		Implementation
Principle 1	Businesses should support and respect the protection of internationally proclaimed human rights.	Infineon's Business Conduct Guidelines reflect our commitment to comply with internationally proclaimed human rights. This also includes protecting the personal dignity and privacy of every individual. We shall not condone human rights abuses. Information concerning this issue is available on our corporate ethics website. The Business Conduct Guidelines shall apply to both internal cooperation and conduct towards external partners. We expect our suppliers and service providers to comply with the requirements included in our Principles of Purchasing, and to monitor their compliance with those principles. Infineon also expects suppliers and service providers to comply with all applicable laws, including those related to working practices and forced labor.
Principle 2	Businesses should make sure they are not complicit in human rights abuses.	
Labor		Implementation
Principle 3	Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining.	Our Business Conduct Guidelines acknowledges the right of employees to join associations and the right to collective bargaining to agree on working conditions. Infineon and the respective employee associations work together constructively and in good faith as well as with mutual respect. In this endeavor, we strive to achieve a fair balance between Infineon's economic interests and those of the employees. Even in cases of dispute, the goal shall always be to maintain viable cooperation in the long-term.
Principle 4	Businesses should uphold the elimination of all forms of forced and compulsory labor.	Infineon's Business Conduct Guidelines reflect Infineon's commitment to comply with international proclaimed Human rights. We are therefore against any form of forced labor.
Principle 5	Businesses should uphold the effective abolition of child labor.	Infineon's Business Conduct Guidelines also address one of the main duties of the Global Compact: We do not permit work to be carried out by persons under the age of 15. Exceptions apply to employment relationships in developing countries under the International Organization Convention 138 (minimum lowered to 14) or to governmentally authorized job training courses or apprenticeship programs that clearly benefit the persons participating.
Principle 6	Businesses should uphold the elimination of discrimination in respect of employment and occupation.	As reflected in the Business Conduct Guidelines, discrimination shall not be tolerated. We do not tolerate any discrimination, harassment or offence based on race, color, national origin, gender, religion, age, disability, union or political affiliation, sexual orientation, marital or family status against an Infineon employee or a business partner. Any forms of sexual harassment, corporal punishment, physical coercion and verbal abuse are prohibited, as well as any intimidating hostile or offensive conduct that interferes with an employee's work performance.

Environment		Implementation
Principle 7	Businesses should support a precautionary approach to environmental challenges.	<p>Developing energy-efficient products is a key element of our desire to save energy and to deal with climate change. In order to ensure efficient resources management, to protect the environment as well as to maintain high standards in occupational health and safety, Infineon established an Environmental Protection, Occupational Health and Safety Management System in all Infineon production sites worldwide that is certified according to ISO 14001 and OHSAS 18001 standards since 2005.</p> <p>For Infineon, responsibility and sustainability are more than just the fulfillment of legal requirements. Our IMPRES program (Infineon Integrated Management Program for Environment, Safety & Health) is a symbiosis between responsibility for humans and environment and economic success and includes our commitment to efficient resources management in the interests of environmental protection and ecological innovation.</p> <p>Efficient energy management is a key issue in the world's attempts to save energy and reduce greenhouse gas emissions. We have therefore integrated our Energy Management System into IMPRES and are currently working on the certification process as part of our multi-site approach in accordance with ISO 50001.</p>
Principle 8	Businesses should undertake initiatives to promote greater environmental responsibility.	
Principle 9	Businesses should encourage the development and diffusion of environmentally friendly technologies.	
Anti-corruption		Implementation
Principle 10	Businesses should work against corruption in all its forms, including extortion and bribery.	<p>The Management Board and the Supervisory Board of Infineon Technologies AG view corporate governance as a comprehensive concept for responsible, transparent and value added corporate management.</p> <p>Infineon's Business Conduct Guidelines define the requirements related to the treatment of business partners and third parties. This also includes compliance with laws and fair business practices, in particular the prohibition of active and passive bribery. This is monitored by the Compliance department.</p>

OUR SEMICONDUCTOR PRODUCTION – A BENCHMARK FOR SUSTAINABILITY

For Infineon, active CSR management is more than just fulfilling legal requirements.

Our IMPRES program ensures that essential aspects of sustainability are embedded within our organization.

IMPRES is implemented at all significant production sites and certified according to ISO 14001 and OHSAS 18001 standards since 2005. We have also begun the preparations to integrate ISO 50001 Energy Management Standards requirements into IMPRES.

Sustainable usage of resources

The shortage of natural resources is one of the great global challenges of our time. The efficient use of resources can therefore make an important contribution towards securing the future. We at Infineon have been rising to this challenge for years.

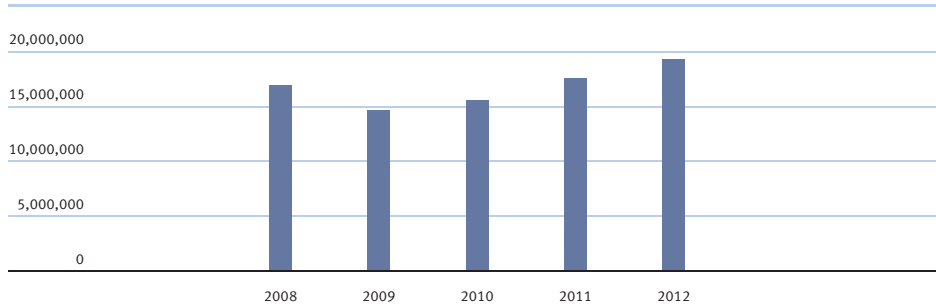
Water

None of Infineon’s production sites are located in regions where there is a shortage of water. We nevertheless see it as our responsibility to use water resources carefully and apply this principle rigorously in our everyday operations. The results of our efforts to reduce water consumption at our manufacturing plants are impressive.

Total water consumption at our front-end and back-end production plants, including Campeon corporate headquarters, totaled 19,330,623 cubic meters (m³) in the past year.

Infineon’s water consumption

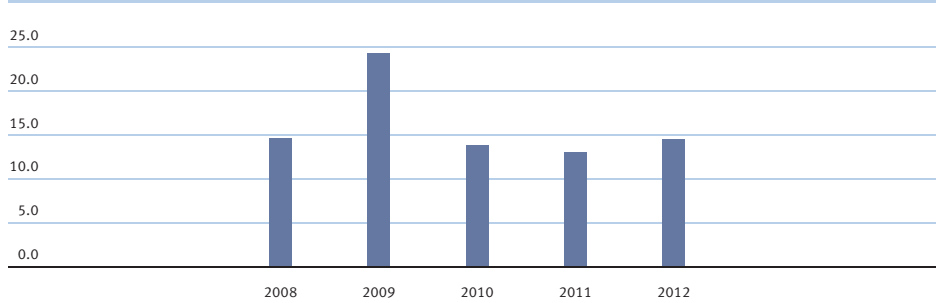
in cubic meters



One internationally recognized parameter for water management at our front-end sites is water consumption per square centimeter manufactured wafer, calculated in liters per square centimeter.

Specific water consumption of the Infineon front-end sites worldwide

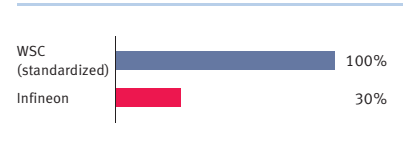
in liters per square centimeter manufactured wafer



In 2011 Infineon’s European front-end sites consumed approximately 70 percent less water to manufacture one square centimeter of wafer than the global average reported in a survey conducted by the World Semiconductor Council (WSC).

Water consumption

per square centimeter manufactured wafer



This result was achieved through strictly applied measures. Infineon's manufacturing sites in Regensburg (Germany) and Villach (Austria) provide specific examples of sustainable water management systems. At these two locations, we withdraw water from wells, which is then cleaned and used to cool our production machinery. We opted for this environmentally friendly approach in order to reduce our energy consumption. The water used in this cooling process is cleaner than when it was extracted and can therefore be discharged directly into near-by rivers.

In fact, much of the water used in production is of such good quality that we have official approval from the relevant authorities to discharge it directly into rivers. The efficient use of water is supplemented by an effective system for waste water collection and treatment. Within this system, waste water is collected in groups according to type, which can then be conditioned using the most appropriate treatment methods. At the end of this process, the treated water can be discharged into the public sewage system, clear evidence of the efficacy of the treatment methods used. A further part of the waste water, if technically feasible, is re-directed into our water reclaim system and re-used in production.

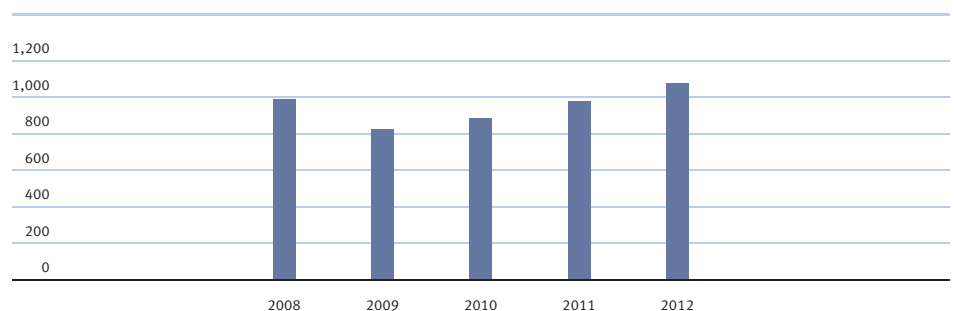
Energy efficiency and climate protection

Energy efficiency is the best and most attractively priced energy resource

Most of the energy used by Infineon at its production facilities is electrical power. Roughly two thirds of this energy is consumed at our front-end manufacturing facilities – mostly for processing silicon wafers – and roughly one third at our back-end facilities, i.e. in the assembly and testing of components. The sophisticated processes used by the semiconductor industry require a stable electrical supply at all times without any power interruptions. Reducing energy intensity at our manufacturing sites without negative impact on our production processes is a challenge to which we have risen for many years now. The focus of our efforts has primarily been on our front-end facilities, partly because of the high levels of energy required to operate front-end processes and partly in deference to the sensitivity of these processes. Total electricity consumption at our front-end and back-end production plants, including our Campeon corporate headquarters, totaled 1,074 gigawatt-hours (GWh) in the past year.

Infineon's electricity consumption

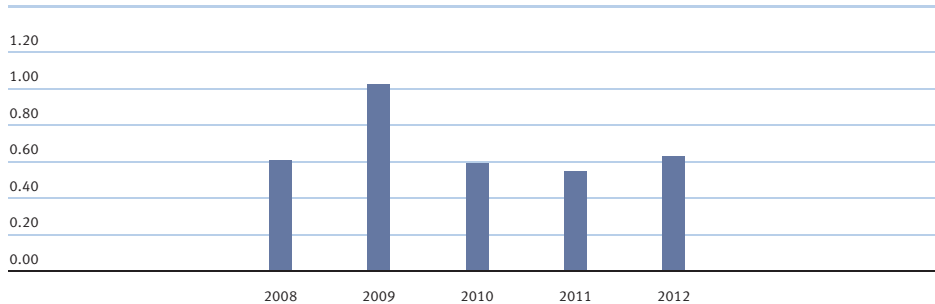
in gigawatt hours



One internationally recognized parameter to assess energy intensity and energy efficiency at our front-end sites is electricity consumption per square centimeter manufactured wafer, calculated in kilowatt-hours per square centimeter.

Specific electricity consumption of the Infineon front-end sites worldwide

in kilowatt hours per square centimeter manufactured wafer



This standard parameter enables us to assess how energy-efficient we are in comparison with international averages. The result is noteworthy: In 2011 Infineon used 51 percent less electricity per square centimeter of manufactured wafer at its European front-end facilities than the worldwide average reported by the World Semiconductor Council (WSC), clear evidence of the high level of efficiency achieved at our production sites in terms of energy consumption.

Infineon’s global energy efficiency program “Energy 2015” applies to all sites and will help us to identify and implement further areas of potential improvement. In Europe alone, the quantity of electricity saved (or simply not consumed due to efficiency improvements) cumulatively during the period from 2002 to 2011 totaled approximately 2.3 terawatt-hours (1 terawatt hour corresponds to 1 billion kilowatt-hours). This is equivalent to the annual consumption of a European city with 2.1 million inhabitants.¹

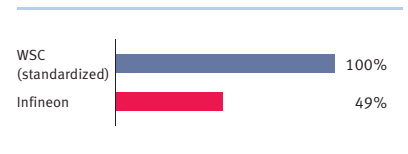
Climate protection: reduction of greenhouse gases

In addition to energy, the use of certain greenhouse gases – so-called “perfluorinated compounds” – are essential for the production of semiconductors and influence our environmental footprint. They are used in the etching processes needed to structure wafers and to clean production equipment used in Chemical Vapor Deposition (CVD) processes. We are very committed to minimizing the emission of these gases as part of our integrated environmental and climate protection concept. Since the use of these compounds depends on the process landscape in each individual set of circumstances, Infineon believes that it is most appropriate to reduce emissions on the basis of a voluntary self-commitment.

Within the framework of the Kyoto Protocol, back in 1998 Infineon gave a voluntary commitment to reduce emissions of PFC gases – calculated in CO₂ equivalents – at relevant production sites to 10 percent below their 1995 values. In a similar vein, Infineon has also signed up for various other voluntary self-commitments, particularly in Europe and Germany. The self-commitment entered into by the German semiconductor industry agreed that PFC emissions would be reduced by up to 8 percent by 2010 compared to their 1995 value (also calculated in CO₂ equivalents).

Electricity consumption

per square centimeter manufactured wafer

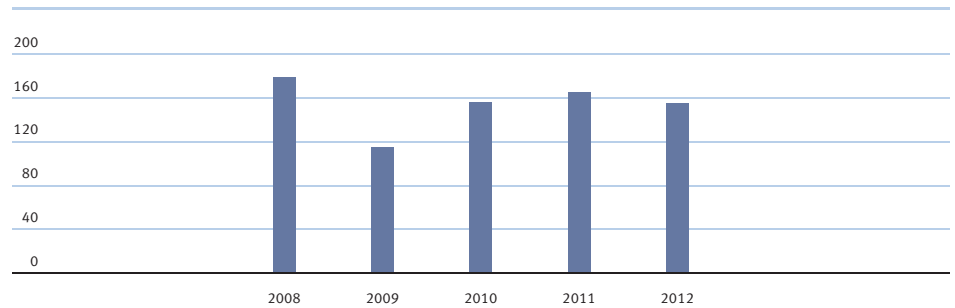


¹ Fachverband für Energie-Marketing und -Anwendung (HEA) e. V. within the VDEW (Trade Association of the Electricity Industry); 4 person-household

Huge efforts have been undertaken by Infineon during the past years to achieve this ambitious target. Processes were continuously optimized as part of a wide range of projects. The introduction of “Remote Plasma Clean” technology, for instance, has increased the conversion factor for nitrogen trifluoride (NF3) from approximately 50 percent to 99 percent. In addition, our front-end manufacturing plants have been working for several years on increasing the proportion of alternative process gases with higher conversion factors and lower global warming potential. As well as strategies based on reduction and substitution, the targeted use of waste air abatement systems to treat PFC-contaminated air has had a significant impact on the reduction of PFC emissions in absolute terms. This was only possible with the aid of investment, process innovation and solution-focused concepts, for example a complete redesign of the waste air abatement concept, which was essential for this sustainable success story. Crucial for the progress made was the high quality of work carried out at the relevant sites and a continual search for improvements. These concepts have meanwhile been implemented at all relevant sites. This outcome is further evidence of the success of our efforts.

Infineon's PFC emissions

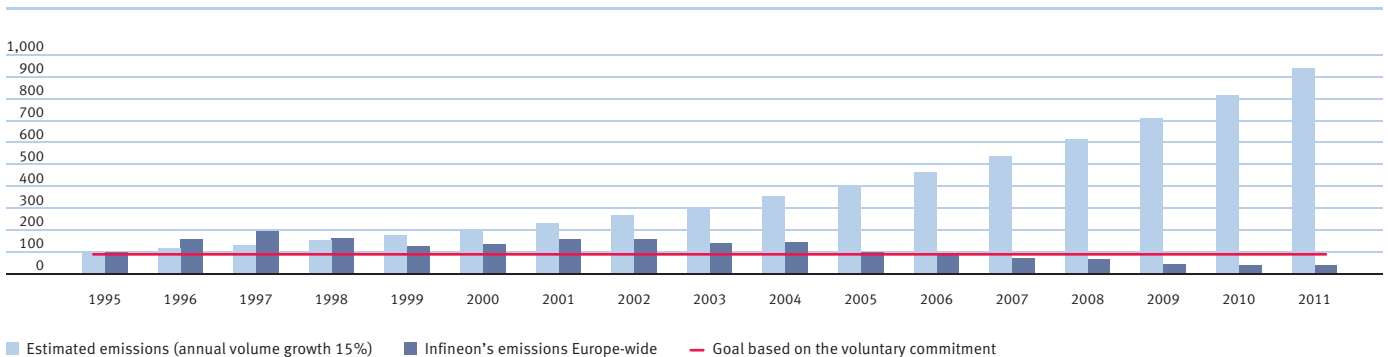
in kilotons CO₂ equivalents



Thanks to these new concepts for the abatement of waste air, and the reduced volume of harmful gases and more efficient processes, Infineon achieved already in 2007 its voluntarily self-committed targets. The progress made also meant that Infineon was able to make a significant contribution to fulfilling the German and European voluntary self-commitments. In Germany, for instance, PFC emissions were reduced by more than 47 percent. The total of PFC emissions by Infineon in the fiscal year 2012 amounted to 155.88 kilotons of CO₂ equivalents. In terms of climate protection we see ourselves as playing a pioneering role and as a reliable partner.

European PFC emissions

in percentage based on the output value (100%) of 1995



Waste management

All production processes generate waste that cannot be avoided despite significant progress made in terms of process optimization. The principal task of Infineon's waste management system is to reduce waste volumes to a minimum and ensure that any waste arising is either recycled or properly disposed of. For this reason, waste is collected separately wherever possible at the point where it is produced. Some materials such as the solvent cyclopentanone are recycled, either internally or externally, whenever economically and ecologically feasible, and can therefore be re-used in the production process. This approach can significantly reduce the purchase of new materials. Specific waste management activities at Infineon in 2011 enabled us to produce approximately 51 percent less waste than the worldwide average reported by the WSC, measured in terms of wafer surface manufactured at our European front-end production facilities, clear evidence of the high degree of efficiency achieved at those facilities and of the pro-active contribution being made towards sustainability in this area.

Chemical safety

Besides resources such as water and energy, numerous chemicals are also used in the manufacture of semiconductors. A set of preventive measures aimed at protecting human health and the environment have been successfully implemented as part of a global approval process and have been incorporated into occupational safety concepts. Achieving full compliance with applicable laws and regulations is also the basis for our actions in this area. The most significant set of regulations comes in the form of European chemicals legislation (REACH: Registration, Evaluation, Authorisation and Restriction of Chemicals; European Regulation (EC) 1907/2006). REACH came into force on June 1, 2007 and deals with the registration, assessment, approval and restriction of chemicals produced for or used in the European market. The introduction of REACH constituted a paradigm change. The responsibility for the implementation now lies mainly with industry itself, instead of just with the public authorities.

Infineon investigated the potential negative impact of REACH, for example the impact of the reduced availability of chemicals, on the supply chain and our production facilities at an early stage. In order to avoid these pitfalls, we initiated the REACH@Infineon project in December 2006, including an evaluation of the impact of REACH on all relevant suppliers. Key suppliers were made familiar with REACH requirements in a series of interviews and workshops. REACH requirements were also incorporated in Infineon's Purchase Specifications and are one of the criteria of the supplier selection process.

Even though the scope of REACH legislation is restricted to Europe, Infineon has opted for a global approach. Compliance with these regulations across the globe provides maximum flexibility worldwide for our processes and for the chemicals used in the manufacturing process.

Infineon's products qualify as Articles in accordance with REACH. In other words, they do not contain any substances that could be released under normal or reasonably foreseeable conditions of use. Substances used in the manufacture of Infineon products are therefore not subject to registration requirements.

Waste generation

per square centimeter manufactured wafer



The REACH Candidate List (a list of substances of very high concern that may be subject to authorization) is published by the European Chemical Agency (ECHA) and currently contains 84 substances¹. Inclusion of a substance in the Candidate List does not preclude its use in products, but does, however, entail certain notification and information requirements. Infineon complies with these requirements for products and packaging materials by including an appropriate paragraph in its Dispatch Notes to European recipients and in the form of a REACH Declaration. The wide range of measures implemented at an early stage enabled us to comply with REACH requirements in a highly efficient way and to avoid disruptions to the supply chain.

The CLP Regulation (European Regulation (EC) no. 1272/2008) came into force on January 20, 2009. This regulation deals with the classification, labeling and packaging of substances and mixtures throughout Europe. Based to a large extent on the so-called “Purple Book” recommendations issued by the United Nations, it sets out a universal system for classifying, labeling and packaging chemicals in the form of safety data sheets and operating procedures. The objective is to standardize, and make more transparent and comparable, the level of protection for human health and the environment on a worldwide basis. The European Directives 67/548/EWG (Dangerous Substances) and 1999/45/EG (Dangerous Preparations) – the legal basis for classification and labeling that is still currently valid – will be revoked with effect from June 1, 2015. Lengthy transitional periods apply with respect to conversion to the new regulation. The CLP Regulation has been mandatory, for instance, for substances since December 1, 2010 and becomes mandatory for mixtures with effect from June 1, 2015. The long transitional period for classification and labeling is meant to ensure that all parties concerned (authorities, business and other interested parties) have sufficient time to make the changeover.

In order to avoid dependence on the specific changeover plans of our suppliers, Infineon will use both classification systems simultaneously up to the end of the transition periods, thus assuring the highest possible level of safety when using chemicals worldwide.

We are generating net ecological benefits

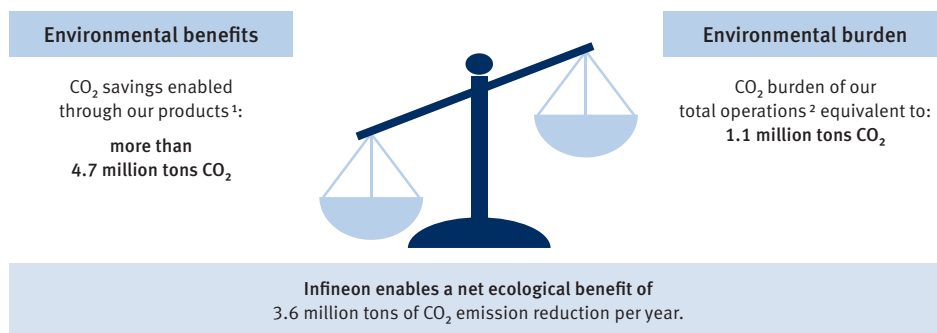
Consistently applied CSR management at our production facilities boosts efficiency and contributes to the reduction of our environmental footprint. However, Infineon goes one step further. Innovations and solutions developed by us in the fields of energy efficiency, mobility and security enable Infineon to create ecologically sustainable applications and raise the ecological efficiency of end-user products across their entire life-cycle. The results of this are striking.

Based on our calculations, Infineon’s production sites’ carbon footprint – considering the impact of all relevant issues from our perspective including materials used and logistics – amounts to 1.1 million tons of CO₂ per year.

Products manufactured by Infineon within this footprint and supplied to our customers enable annual savings in the end-products in which they are incorporated of approximately 4.7 million tons of CO₂ per year. In this way, Infineon generates net ecological benefits of more than 3.6 million tons of CO₂ annually. Infineon helps to save more CO₂ than it generates and can thus boast a positive ecological-balance. Even while accepting that ecological-balance analyses can be subject to imprecision due to the complex issues involved, the conclusion to be drawn from our calculations is clear.

¹ Latest update June 18, 2012

Infineon enables a sustainable society



¹ Considering only Automotive products, lamp ballast control, PC power supply; real figure is higher.

² Including manufacturing, transport, material, chemistry, water/waste water, emissions, energy consumption; values are based on internal figures as well as official data.

OUR RESPONSIBILITY ALONG THE VALUE-ADDED CHAIN

All companies with global operations generally have a complex supplier structure. Compliance with our stated CSR requirements is tested for a whole range of business processes, including the selection of materials, the scope of services provided by suppliers, the purchase of equipment as well as machinery and the construction and utilization of production facilities. These tests are also based on the UN Global Compact Principles. Infineon actively supports external suppliers and service providers in their endeavors to comply with these requirements. Infineon’s requirements in this respect are set out in its “Principles of Purchasing”, which in addition to CSR-related issues, also cover security-related issues as well as delivery capacity. These principles are mandatory for Infineon’s suppliers. A good example of Infineon’s voluntary responsibility is its conflict minerals’ approach.

Conflict minerals

Reporting requirements to the US Securities and Exchange Commission have been extended by Section 1502 (“Conflict Minerals Provision”) of the Dodd-Frank Wall Street Reform and Consumer Protections Act. Companies that use so-called conflict minerals or related derivatives (currently Gold, Tantalum, Tungsten and Tin) are required to report on such usage if the minerals originate from the Democratic Republic of Congo or an adjoining country. Infineon itself does not have any reporting requirements to the SEC.

Nevertheless, since 2009 Infineon on a voluntary basis requests its suppliers to provide information about the use of the above-mentioned metals (including cobalt), in order to support its customers. As the result of our assessment, a “Conflict Metals” statement was drawn up, listing the smelters identified in our supply chain. An analysis of this data by region shows that the smelters concerned are located in Europe (11 percent), Asia (71 percent) and America (18 percent). Therefore, based on our current state of knowledge, none of the smelters is located in the Democratic Republic of Congo or an adjoining country.

On August 22, 2012, the implementation conditions necessary for the entry into force of the reporting requirements were published by SEC. These reporting requirements for those affected companies will be obligatory in 2014 with regards to the year 2013. Infineon will continue supporting its customers and will again evaluate its supply chain with regard to the use of potential conflict minerals in accordance with the recently published requirements.

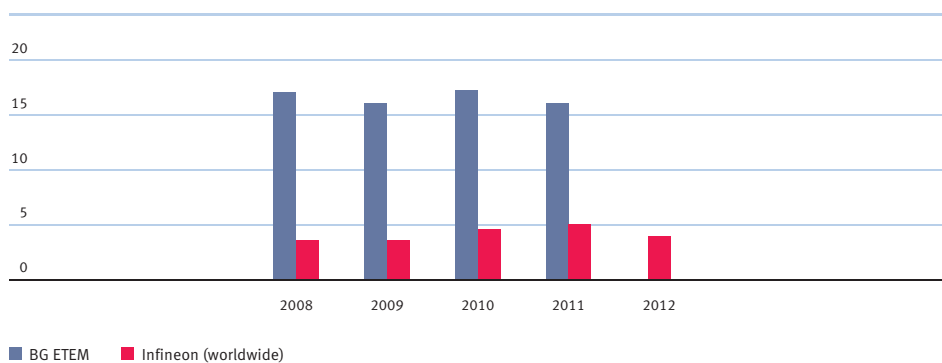
RESPONSIBILITY FOR OUR EMPLOYEES

The safety of our employees is a key issue for Infineon. Our concepts for occupational safety focus on prevention, with the aim of minimizing the occurrence of workplace related accidents. The Occupational Safety and Health Management System in place at Infineon’s production sites and at Campeon corporate headquarters are certified in accordance with the OHSAS 18001 standard. One major aspect of this system is the requirement to carry out a workplace-related risk assessment for all workplaces, documenting and evaluating all potential risks. Based on this, experts devise individual concepts for workplace safety that are applied worldwide, through which risks to employees in the work environment can be largely ruled out. The effectiveness of these measures is regularly assessed and appropriate changes made whenever necessary. At the same time, Infineon is constantly striving to find ways to minimize potential risks. For example, in the area of chemical safety, this could be the replacement of dangerous substances by alternative chemicals that are potentially less harmful.

The low number of accidents confirms the efficacy of our system. The rate of accidents at Infineon is substantially lower than the average reported by BG ETEM, the German Social Accident Insurance Institution for the Energy, Textile, Electrical and Media Products Sectors (Berufsgenossenschaft Energie Textil Elektro Medienerzeugnisse). Infineon records accidents on a very prudent basis. We record all work-related accidents that result in an employee being absent from the workplace for at least one day, whereas BG ETEM only records accidents after three days of absence. Data disclosed for Infineon refer to the relevant fiscal year, while data reported by BG ETEM refer to the calendar year. In the 2012 fiscal year Infineon had a rate of 4 accidents per 1,000 employees.

Statistics for occupational accidents Infineon worldwide

per 1,000 employees



Apart from fostering occupational safety, we also provide a wide range of opportunities for our employees to actively improve their health.

WE ARE SOCIALLY ENGAGED: CORPORATE CITIZENSHIP

Infineon attaches great importance to positively interacting with local communities in the regions in which it operates. Infineon activities should reflect its spirit in the areas of environmental sustainability, economic development and social commitment.

Based on the results of the Infineon CSR EFQM process and building on the issues identified in our Materiality Matrix, Infineon decided to establish its own set of Corporate Citizenship Guidelines. These guidelines describe the opportunities and focus areas that Infineon considers to be the basis for its Corporate Citizenship activities. These guidelines are based on the ten principles contained in the UN Global Compact, the OECD's (Organisation for Economic Co-operation and Development) UN Millennium Development Goals and the UN Local Agenda 21. The initiatives and organizations that Infineon selects to support must comply with all relevant legal provisions applicable in the country or region, in which the Corporate Citizenship Initiative has been developed, and in which it will take place. Infineon only supports initiatives that respect all social and ethical groups in the country or region concerned. All initiatives must comply with the requirements contained in the Infineon Business Conduct Guidelines and with the UN Global Compact Principles.

Furthermore, appropriate assessment must be carried out to determine the accountability, credibility, reputation and security of all initiatives prior to any undertaking on Infineon's part. In the future, adequate monitoring of the activities supported, in terms of fulfillment of the desired purpose, shall take place.

Infineon's Corporate Citizenship strategy is based on clearly defined focus areas. One of these includes measures aimed at "Responding to Natural and Humanitarian Disasters", in which Infineon and its employees worldwide collaborate to support voluntary work and donation activities in the case of such disasters. Infineon also supports "Environment, Safety and Health (ESH) Activities", activities which address "Local Social Needs" and those supporting the motto "Education for Future Generations".

ESH activities: Infineon strives to keep the impact on the local community's environment to a minimum. With this goal in mind, for example, employees from the Infineon plant in Malacca (Malaysia), organized a river-bank clean-up campaign in June 2012 in conjunction with the "Melaka State Event". Thanks to the employees' active participation, the banks of the Putat river could be cleaned up.

Addressing local social needs: Infineon endeavors to support social activities together with the local community, one example of which is the "Learn for Life" project. Infineon organized a number of events over the past two years to help children with mental or psychological issues in the Chong'An municipal district (Wuxi Administrative Area). A large number of volunteers joined in to provide help. This year we were honored to be invited to the Wuxi Charity Party, which was held at the local educational television company on May 16, 2012 under the slogan: "Share the Culture, Fulfill the Dream".

Under the motto “Bringing joy to many children by fulfilling small wishes”, the Munich “Giving Tree” (“Geschenke-Regen”) campaign was carried out for the fourth year in succession at our Campeon headquarters. The aim of this Christmas campaign is to bring joy to children from disadvantaged social backgrounds, giving Infineon employees the opportunity to fulfill children’s wishes at Christmas time. The children noted their wishes on a card with their name and put them in an envelope. The envelopes were then hung on a Christmas tree in the Campeon employee canteen. Employees wishing to participate were able to collect these wishes in December and fulfill them in their own personal way.

Together with the Munich “Geschenke-Regen” organization, the Infineon team selected and visited four institutions to whose children the gifts would be given. Many of those children have faced tragic lives and circumstances in the past and were receiving their very first individual Christmas present.

Education for future generations: Education is the foundation for the future of each individual. Investing in the education of young people creates the environment in which people can develop their skills, and at the same time, make it possible for society to meet future challenges. In Malacca (Malaysia) Infineon donated more than 400 used computers and notebooks to Tzu Chi schools and non-governmental organizations. This equipment will help the young people concerned to improve their chances in life. This project also addresses a principal pillar of sustainability: environmental protection. The 400 used computers and notebooks were cleaned, formatted, tested and then distributed to more than 40 schools and non-governmental organizations over the course of the last two years.

RECOGNITION FOR OUR ENDEAVORS

Over the years, Infineon has won many awards from a wide range of environmental organizations, customers and other initiatives for its work in the area of CSR. Infineon is extremely proud of the awards it has been honored with.

Infineon Austria won the “TRIGOS Carinthia Award” for the fourth year in succession during the year under report. This annual award for CSR activities has been presented for the last eight years in Austria by a group of organizations, including the Red Cross, SOS Kinderdörfer, the Chamber of Commerce and the Association of Austrian Industry, who awards prizes to companies in Austria showing particular social responsibility. Infineon Austria was awarded the prize in the “Ecology” category for sustainability achievements in the field of electro-mobility and for activities related to the generation of local heating supply from biomass.

The FTSE4Good Index Series assesses performance of companies with internationally recognized CSR standards that require to meet stringent environmental, social and governance criteria. Infineon was again included in the FTSE4Good Index Series in 2012.

Infineon has earned this recognition thanks to an ongoing learning and improvement process. Helping to shape global developments on a pro-active basis, good cooperation with the community and taking voluntary responsibility for people and the environment are the underlying tenets of our integrated approach. This approach is alive at Infineon – both in our strategic concepts and in our day-to-day activities.

FTSE4 Good



OUR EMPLOYEES

Our employees take on responsibility, deliver achievements, and enjoy success – both for themselves personally and for Infineon as a whole. An important part of the Human Resources function is to ensure that employees are able to perform to the best, to make them aware of development opportunities and to help them achieve their full potential. The ability to recruit, promote and retain employees is a crucial factor for Infineon’s success. With this in mind, we focused on three pillars over the past fiscal year: “Leadership Excellence”, “Promoting talent” and “Organizational development and employee commitment”. We have continued existing programs and initiatives, as we are convinced that consistency and continuity are the best recipe for success in human resources matters.

LEADERSHIP EXCELLENCE

Leadership culture

During the last fiscal year, our global management training program was launched under the title “Leading People in a High Performance Company”. The principal aim of this program is to develop leadership skills that enable managers to encourage their staff to perform to the very best. The training program conveys a deeper understanding of key aspects of leadership and gives an insight into leadership techniques. Seeing a reflection of one’s own leadership style can help to improve leadership skills. It also ensures that there is a common understanding of leadership, thus shaping leadership culture within the organization. More than 1,000 managers from all levels worldwide have participated in this training program by the end of the 2012 fiscal year. The goal is to have had all managers participate in the program by the end of the 2013 fiscal year.

Focus of the training “Leading people in a High Performance Company”:
 basic aspects of leadership



Source: Nonnast & Kollegen

During the 2008 fiscal year, we began focusing on how to improve production yields at our site in Warstein (Germany). Since 2009, production staff have been fully integrated in the process of achieving optimal yields and quality. 2011 saw a phase of strong growth, rendering it necessary to reorganize the structure of production management. We reduced the staff-to-manager ratio from as many as 50 operators per shift supervisor down to a maximum of 15 operators per shift supervisor. The whole set of skills required by a manager was expanded by the “Leading People in a High Performance Company” training program, thus improving the overall quality and responsiveness of our management team. Local management is able to react rapidly and on a decentralized basis to the requirements of a cyclical market. This ability was demonstrated at the Warstein site not long before the end of the 2012 fiscal year, where we reacted quickly with short-time working arrangements in response to stagnating demand.

Managers in the Asia-Pacific region are constantly being put to the test by the enormous differences between cities, countries and regions: they have to identify local business drivers and embed these in a global strategy. Very often, they have the task of creating a bridge between Eastern and Western cultures. It is at this very point that the “Global Leadership Program” starts: Over the course of the training program managers develop an understanding of the various Asian cultures and markets and their specific requirements. They have the opportunity to exchange experiences with external stakeholders as well as with colleagues and customers. They obtain an insight into how the pro-active adoption of measures can impact the business and how they can successfully lead global teams.

At the Campeon site, training for top management was expanded by sessions on “Leadership & Health”, focusing on the impact of leadership quality on employees’ health. By the end of the 2012 fiscal year, 60 percent of top managers from the German-speaking region had participated in this program.

Open and honest feedback

Constructive feedback is extremely important for an open corporate culture and employee satisfaction. This is relevant in both directions: feedback from managers to staff, and conversely, from staff to managers. We have strengthened existing channels with the aid of the “High Performance Behavior Model”, in order to ensure open and honest feedback. The model translates corporate strategy into concrete behavioral descriptions. Eight dimensions describe in short, simple and clear words which types of behavior help us to become a High Performance Company.

A revised version of “STEPS”, the basis for our annual dialog with employees, was rolled out worldwide during the 2011 fiscal year – in Germany, however, initially only for senior managers, since a corresponding agreement with the Works Council is still being negotiated. One of the main benefits of the revised version is that it improves the quality of the dialog between managers and staff members. The manager provides feedback on the results (WHAT) the employee has achieved as well as on the behavior (HOW), in each case following the structure of the High Performance Behavior Model. In this way, behavior and attitude, and hence the long-term basis for success, are more in focus.

Employees have the opportunity to provide feedback to the managers, too. This helps the manager to reflect on his/her own leadership style, identify strengths and potential areas of improvement and hence increase the performance of the team as a whole. The members of top management have also given their commitment to perform their leadership dialog.

PROMOTING TALENT

Talent management

The concept of “Development Conferences” was integrated in the STEPS process worldwide at the beginning of the 2012 fiscal year. This tool enables Infineon to identify and promote talent systematically – even beyond organizational boundaries. Employees receive special attention from various managers, and the opportunity to develop across departments. The advantage for Infineon: talented employees are trained with greater versatility within the organization, creating a larger pool of candidates suitable to fill a greater number of successor positions.

Infineon’s specialist career path “Technical Ladder” is particularly important for our technically-minded employees who wish to develop their careers without assuming direct leadership responsibilities. This career path builds on strategic expertise as the basis for human resources planning.

In the Asia-Pacific region, talent is attracted, developed and retained with the aid of our Talent Management Program. Managing talent is a crucial factor for success and is therefore an important task for managers – both inside and outside the region – and accordingly receives the full support of the Human Resources department. Top management has an essential role to play, firstly in identifying talent and then supporting development measures such as mentoring or the STEPS process.

In order to give equal consideration to management and technical careers, two programs are on offer in the Asia-Pacific region, namely the “ENGINE” program since 2011 (for management careers) and the TechStar program since 2012 (for technical careers). Both programs focus on four key areas: education, interaction with management, knowledge transfer and the practical application of what has been learnt in specific projects.

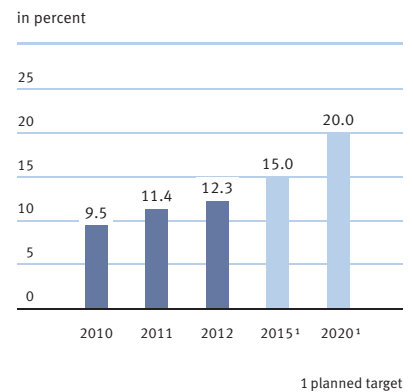
Encouraging diversity

Increasing the number of women in management positions is an important aspect of Infineon’s diversity management strategy. In the period from 2006 to 2012, we have succeeded in raising the share of women in senior positions from 9 percent to over 12 percent. Our target, however, is even higher: we want to see it rise to 15 percent by 2015 and to 20 percent by 2020. A range of measures is in place to make this possible. In an attempt to understand how Infineon’s corporate culture impacts the number of women in management positions, we participated in the project “Changes in Corporate Culture – Avoiding Career Breaks”, initiated by the Federal Ministry for Families, Senior Citizens, Women and Youth (BMFSJ) and executed by the Fraunhofer-Institute. The aim of the project was to highlight ways in which the percentage of women in management can be increased.

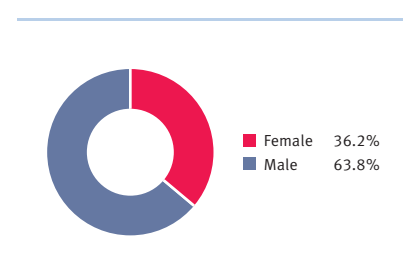
In December 2011, the Gender Diversity Network was initiated. Managers play an important role by enabling a corporate culture based on equal opportunities. The network currently comprises 29 managers (21 women and 8 men). The mission of the network is clearly defined: to make equal opportunities a core issue at Infineon and to ensure that attractive working conditions are available, both for women and men.

Finding the right balance between career and private life – for both women and men – has also been on the agenda at Infineon for many years. Depending on their requirements, all our major German and Austrian sites as well as our site in Singapore have their own in-house kindergartens or work together with local organizations offering day-care facilities for children. A kindergarten was opened at the Villach (Austria) site in September 2012 with multilingual facilities based on a learning concept that emphasizes science and technology. Infineon also offers a number of alternatives for flexible working hours for employees at different life stages, in the form of trust-based working hours, part-time work or teleworking arrangements.

Women in management positions (Infineon worldwide)



Female/male employees (Infineon worldwide 2012)



Cooperation and research arrangements with universities

Infineon is promoting strategic cooperation with universities in order to supplement teaching and research with hands-on experience in subjects which are relevant for Infineon. These activities are particularly important in the Asia-Pacific region.

For example, we have been working with the Chinese-German College at the University of Tongji in Shanghai (China) for ten years, and, in May 2012, we extended the endowment for the Chair for Embedded Systems and Microcontrollers until 2017. In Germany, we strengthened our collaboration with the Technische Universität Munich (TUM). Over the coming five years, Infineon will fund the Chair for Power Electronic Systems, which creates a bridge between semiconductor technology from the assembly and interconnection technologies to the successful integration of semiconductors in products and systems for applications of all kinds. During the 2012 fiscal year, members of the Infineon Management Board gave guest lectures at both TUM and the INSEAD Business School, Fontainebleau (France).

The community of doctoral students at Infineon also grew closer together with the establishment of the PhD Network in May 2012. It offers networking opportunities for some 80 doctoral students, supervisors and professors. Joint discussions and frequent exchanges sow the seeds for a culture of innovation across a broad range of scientific and business fields.

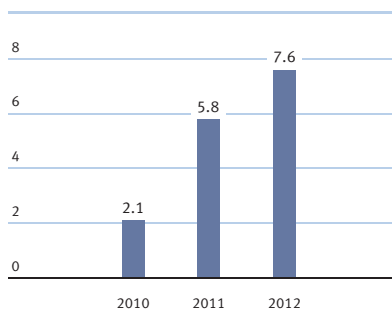
Qualifications and training

In times of demographic change, it is all the more important to build on our commitment to vocational training. During the 2012 fiscal year we took on 79 apprentices in Germany. As of September 30, 2012, Infineon employed a total of 200 apprentices, 20 more than one year earlier. During the year under report, a new basic training course (electronic engineer for devices and systems) was added to Infineon's vocational training program. At September 30, 2012 Infineon had more than 150 interns or employees working towards doctorates and approximately 260 work students on its payroll in Germany.

Training expenses rose sharply (+31 percent) to € 7.6 million (2011 fiscal year: € 5.8 million). Our focus in this area was on developing the know-how and innovative skills of our workforce, project management training and improving the leadership and feedback culture within the organization. As in previous years, we also offered a wide range of in-house training opportunities in the form of internally organized training sessions, innovation events and technical symposia, which took place at most of our sites worldwide.

Training expenses

€ in millions



ORGANIZATIONAL CHANGE AND EMPLOYEE COMMITMENT

Change management support

A team of change management experts in Munich (Germany) and Singapore together with the Human Resources business partners offer support for a variety of change and reorganization projects as well as leadership development.

One of the main reorganization projects over the past fiscal year was to split Industrial & Multimarket into two new segments: Industrial Power Control and Power Management & Multimarket. At the same time, the Sales & Marketing department was reorganized. Overall, around 2,000 employees were affected worldwide. Together with the previous and new management, the team developed and implemented the new organizational structure. Keeping employees well informed of forthcoming changes was an important factor for the success of the reorganization: A survey showed that even at an early stage in the process the employees already identified themselves with the new structure.

The Test Excellence Program (TEP) in Singapore is focusing on securing the site's competitive advantage: It aims to double productivity while halving costs. The program comprises a number of over-arching projects dealing with automation, expertise, equipment efficiency,

productivity and quality. Change management helped to anchor the changes within the organization, and ensure the backing of the employees concerned. One visible success of the program was the introduction of a new, state-of-the-art automatic material handling system that speeds up movements of materials in and out of their places of storage.

Competence development

In order to raise productivity and ensure Infineon's future success, we are developing our employees according to our business strategies; this also helps to retain our employees in the long-term by allowing them to develop and advance within the organization. Continuous learning and knowledge transfer are the cornerstones of High Performance. Strategic competence development identifies the skill sets and expertise we will need in the future and highlights structured career development for our employees.

Infineon's largest production and testing site in Malacca (Malaysia) has launched a program for strategic competence development. The goal of this initiative is to ensure that all key areas of expertise are strategically developed. In this context, some 80 requirement profiles were drawn up at workshops attended by managers from all areas of the business. These profiles describe main tasks and responsibilities and are the basis for approximately 250 individual occupational profiles covering the site's requirements. Dialogs with employees during the STEPS process were used to identify training needs. Based on this, the project team created a new training road map as well as new training courses. One success of the project is that those profiles make the expectations placed on employees more transparent. The successful outcome of this initiative has given us the inspiration to set up a group-wide concept for expertise management in the future. Successful pilot projects are already running in Singapore, Wuxi (China), Cegléd (Hungary) and Villach (Austria).

Dialog with employees

Infineon has participated in the Great Place to Work® study since 2009. In the 2012 fiscal year, the employee survey was rolled out internationally to Asia-Pacific, Japan and North America, either on the basis of a full survey or on a random sample, depending on the size of the site. In Asia-Pacific and North America the participation rates were particularly high (90 percent on average in Asia-Pacific and 83 percent in North America).

There were two highly positive results. Firstly, employees are proud of Infineon and identify themselves with its products and solutions; secondly, they recommend Infineon as an employer. This is partly due to our economic success, but also due to our strategic focus on energy efficiency, mobility and security. Employees also appreciate the high level of workplace safety, a result that is especially gratifying since more than half of the survey's participants work in production. The survey also showed, however, that there is still room for improvement in the areas of leadership and feedback. Overall, the feedback confirmed that we have taken the right steps to invest in developing guiding principles, corporate culture, leadership qualities and personnel development. In an attempt to understand the reasons for certain quantitative results, qualitative focus groups were set up to conduct further analyses in the Asia-Pacific, Japan and North America regions. Top management also discussed the outcome of the survey and decided on various specific measures, including mechanisms to strengthen existing programs and the continuation of the dialog with employees with a view to improving the culture of leadership and feedback within Infineon.

One example is the series of events held at the Campeon headquarters under the title "My Infineon. My Opportunities.", showcasing the benefits of working for Infineon and inviting participants to engage in dialog. Events were organized covering the topics "Learning and Development", "Diversity" and "Health-care and Provision for the Future". The concept was adapted for use at other sites, including Malacca (Malaysia), Singapore and Warstein (Germany).

Regular online chats also help to improve the dialog process. During the past fiscal year, two Management Board members took part in such a chat and answered questions from over 500 employees: Peter Bauer on the topic “What makes Infineon an attractive employer?” and Arunjai Mittal on the topic of Asian growth markets. In another online chat, employees had the chance to pose questions about Infineon’s new intranet to experts from the Internal Communication (IC) and Information Technology (IT) departments. During 2012, Infineon’s intranet was thoroughly redesigned and modernized. Amongst some of the new features, the internal online magazine “eMag” was enhanced with a new function allowing employees to input feedback directly. A social media platform was also added to the intranet, networking employees across all sites and giving them the opportunity to engage in dialog and exchange knowledge.

We value the ideas submitted by our employees under the “Your Idea Pays” (YIP) scheme. The number of ideas submitted has increased significantly (2012: 37,000, 2011: 24,000) as have the number of ideas implemented (2012: 22,000, 2011: 17,000). The total benefits realized in the 2012 fiscal year are estimated to be in the region of €65 million. One employee idea, for instance, involved a suggestion to optimize the testing process: savings were subsequently made by using semiconductors rather than mechanical relays to carry out tests, resulting in longer periods of use, and hence lower maintenance costs.

Compensation

The performance bonus was paid to more than 7,000 employees in 2011 fiscal year, exclusively on the basis of Infineon’s profitability: a change that was well received within the organization. Further progress was made during the 2012 fiscal year to make compensation more flexible. A new company tariff agreement was signed with the workers union IG Metall Bavaria in March 2012 and is valid for approximately 3,000 employees at the German sites Campeon (including Augsburg, Erlangen, Großostheim and Hanover) and Regensburg. This agreement includes a flexible and transparent performance bonus for tariff-paid employees in Bavaria, assuring they participate in Infineon’s profit and earn an attractive and market-compatible pay package. This approach affords greater cost flexibility to Infineon and greater ability to adjust to market developments: Bonus payments will be higher in good years and lower in years when earnings decline. It also means that all employees are focussed to the same extent on Infineon’s success.

OUR WORKFORCE

Employee numbers, recruitment and personnel expense

This overview shows the workforce broken down according to function and region at the end of each fiscal year.

Employees

	2012	%	2011	%	2010	%
Function:						
Production	19,274	72	18,892	74	17,924	67
Research & Development	4,289	16	3,900	15	5,771	22
Sales & Marketing	1,633	6	1,534	6	1,520	6
Administrative	1,462	6	1,394	5	1,439	5
Total	26,658	100	25,720	100	26,654	100
Region:						
Europe	12,427	47	11,681	46	12,275	46
Therein: Germany	8,408	32	7,926	31	8,826	33
Americas	491	2	476	2	640	2
Asia/Pacific	13,624	51	13,450	52	13,619	51
Therein: China	1,423	5	1,278	5	1,633	6
Japan	116	–	113	–	120	1
Total	26,658	100	25,720	100	26,654	100

As of September 30, 2012 Infineon employed a total of 26,658 employees worldwide (September 30, 2011: 25,720 employees).

In total, 2,967 new employees were hired worldwide during the 2012 fiscal year. Most of the new employees were recruited in the production area (2,176 employees), and at our Asian sites including Japan (1,888 employees). The percentage of new employees with a university degree increased to over 56 percent (2011: 55 percent). Most of the newly recruited employees with a degree joined Infineon in the Asia-Pacific region (more than 1,000), followed by Germany (more than 400) and other locations in Europe (more than 200). The proportion of women recruited was 34 percent worldwide, and 25 percent in Germany. The proportion of women recruited with a university degree was 42 percent worldwide.

In addition to permanent positions, Infineon also employed 3,171 temporary employees worldwide on 30 September 2012, of which 57 percent were located in the Asia-Pacific region (including Japan). We make use of the flexibility this offers in particular within the production area, about 83 percent of external employees work in this area.

The worldwide personnel cost for current, internal Infineon employees in the 2012 fiscal year was €1,276 million (2011 fiscal year: €1,304 million). This amount includes wages and salaries, overtime and allowances, as well as social, pension and similar costs.

It is Infineon's target to generate solid earnings even during weaker phases of the market. In view of the decline in revenue and lower capacity utilization, we have implemented a headcount freeze since July 2012.

Age structure, length of service and employee fluctuation

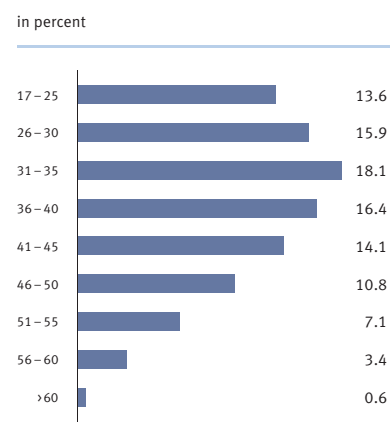
The average age of employees with fixed employment contracts is 37.1 years, marginally higher than one year earlier (2011 fiscal year: 36.4 years). The proportion of employees in the 17-30 years age group decreased from 31.9 percent to 29.5 percent, whereas the proportion of those belonging to the middle age group (31-45 years) and those above 46 years both went up (2012 fiscal year: 48.7 and 21.8 percent, 2011 fiscal year: 47.8 and 20.5 percent).

These changes in the age structure and the rise in the average age of employees were accompanied by a small increase in the average tenure of Infineon employees worldwide, which rose from 9.0 years to 9.4 years. The tenure of employees within Germany remained constant at 13.7 years.

The worldwide employee turnover rate during the 2012 fiscal year was 8.3 percent, declining by 1.0 percentage point compared to the previous year (2011 fiscal year: 9.3 percent). This percentage figure includes voluntary terminations and other reasons for leaving. Voluntary terminations worldwide decreased from 7.9 percent in 2011 to 6.6 percent in 2012. The reduction in the employee turnover rate was particularly pronounced in the Asia-Pacific region: down from 14.4 percent to 12.8 percent. In Germany, the rate fell to 2.5 percent (including voluntary resignations and other reasons for leaving; 2011: 2.8 percent).

Altogether, good progress has been made to develop Infineon into a High Performance Company, and to support our employees in attaining outstanding achievements. We have focused on creating a culture, in which we work together with our employees to draw the best from their potential and transform it into added value. We will continue to pursue this strategy in the future in order to ensure the motivation and performance of our employees.

Age structure (Infineon worldwide 2012)

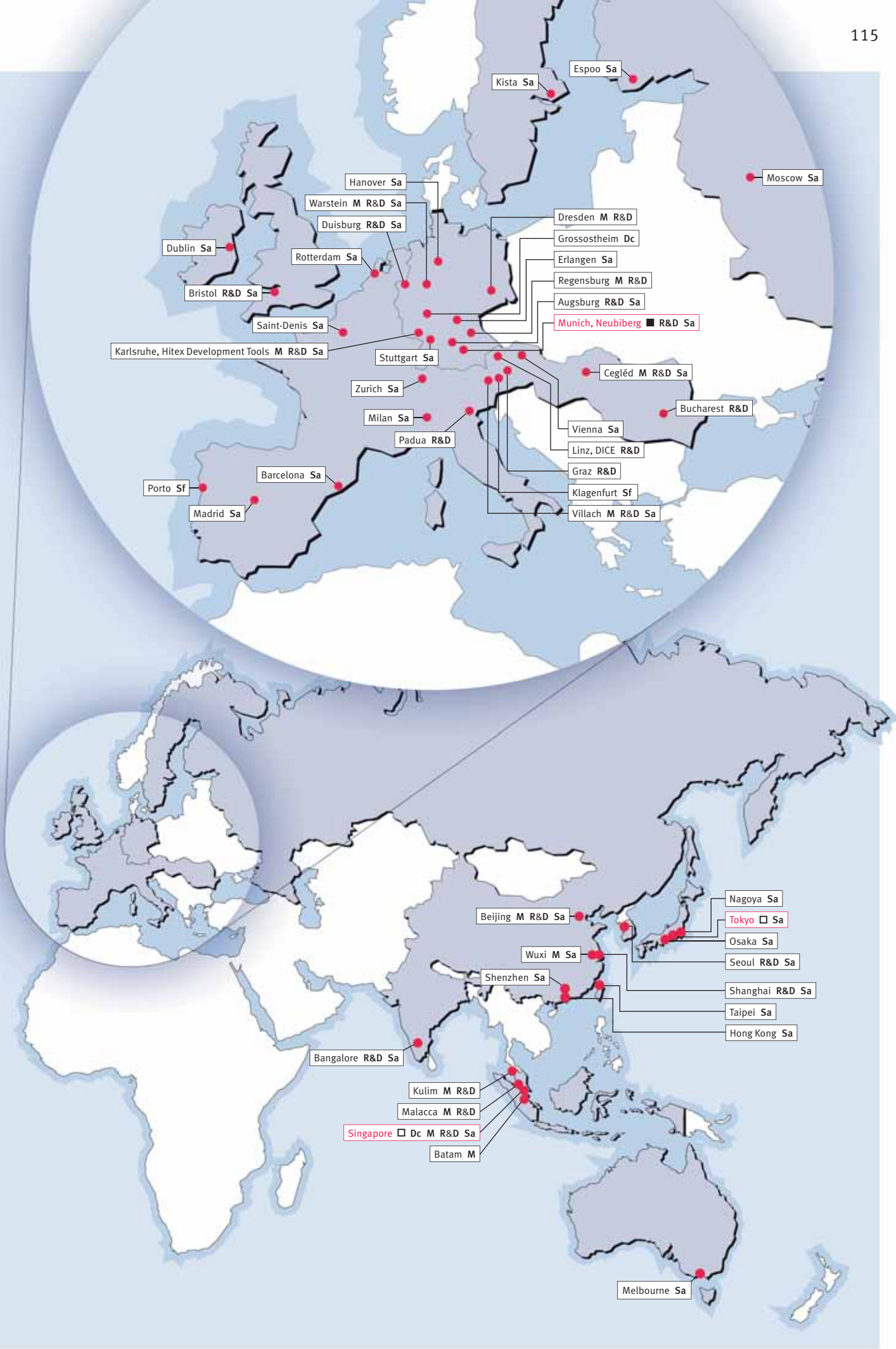


INFINEON WORLDWIDE

Infineon sites

■	Headquarters	Dc	Distribution center
□	Local headquarters	M	Manufacturing
		R&D	Research and Development
		Sa	Sales
		Sf	Service function





GROUP MANAGEMENT REPORT



GROUP MANAGEMENT REPORT
THE INFINEON GROUP

GROUP MANAGEMENT REPORT
OUR 2012 FISCAL YEAR

CONSOLIDATED FINANCIAL
STATEMENTS

OUR 2012 FISCAL YEAR

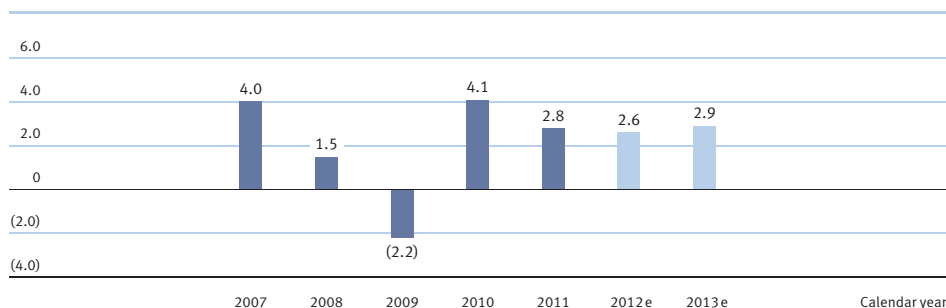
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DEVELOPMENTS IN THE GLOBAL ECONOMY AND WITHIN THE SEMICONDUCTOR INDUSTRY IN THE 2012 FISCAL YEAR

World economic growth continued to lose pace over the course of the 2012 calendar year. In its latest world economic outlook published on October 8, the International Monetary Fund (IMF) forecasts global economic growth of 2.6 percent for the 2012 calendar year, compared to the 2.8 percent growth recorded in the previous 12-month period. The primary cause of the lack of economic momentum was the recent escalation of the sovereign debt crisis in the euro zone, which, due to global trading structures, has long since spilled over to negatively impact economies in the rest of the world. Although this dampening effect was largely compensated by growth rates in the emerging markets, this factor alone has not been sufficient to drive overall growth upwards. The euro zone as a whole is expected to slip into recession during the 2012 calendar year (negative growth of 0.4 percent in 2012, compared to positive growth of 1.4 percent in 2011). In its fall forecast, the IMF predicts a growth rate of 2.2 percent (2011: 1.8 percent) for the US economy. Japan's real gross domestic product (GDP) is also forecast to grow by 2.2 percent in 2012, compared to a 0.8 percent contraction of the previous year. One of the reasons for this significant rise is reconstruction expenditure following the natural disaster and reactor meltdown that took place on March 11, 2011. Although the emerging economies of Asia were the drivers of global economic growth in 2012, here too, the momentum has slowed considerably. The IMF predicts an increase in GDP of 6.1 percent for 2012 after the 7.3 percent recorded one year earlier. The IMF expects to see a 7.8 percent rise in the Chinese economy in the 2012 calendar year, compared to 9.2 percent in 2011.

World economic growth

in percent



Source: International Monetary Fund, October 2012

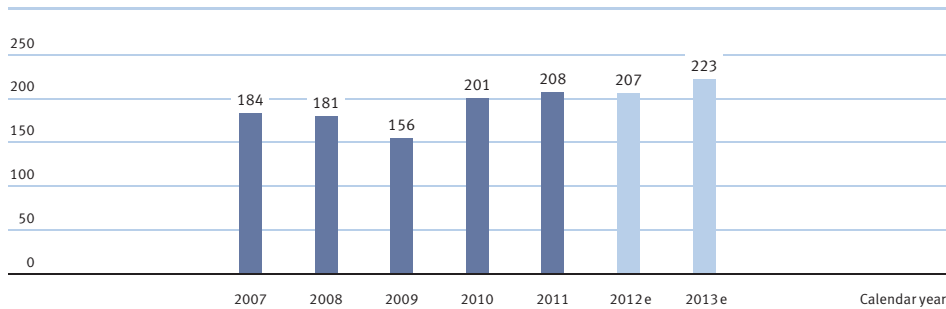
The worldwide economic slowdown has also made itself felt in the semiconductor market. The semiconductor market relevant for Infineon (excluding memory products and micro-processors) is predicted to undergo moderate contraction in the 2012 calendar year. Analysts at IHS iSuppli expect to see a 0.5 percent decline in the 2012 calendar year, compared to the 3.6 percent rise recorded in the 2011 calendar year. IHS iSuppli forecasts a drop of 5.8 percent for the European semiconductor market in the 2012 calendar year, down sharply from the 5.3 percent growth recorded one year earlier. In a contrasting trend, the US semiconductor market is likely to expand by 1.6 percent (2011: 2.0 percent rise).

Semiconductor markets in Japan and the Asia-Pacific region are forecast to grow only very slightly (0.2 percent) in both cases during the 2012 calendar year (2011: 1.1 percent contraction in Japan, 4.6 percent rise in Asia-Pacific). For the Chinese semiconductor market (excluding memory products and microprocessors) the experts at IHS iSuppli forecast a rise of just under 1.8 percent in the 2012 calendar year, compared to the 0.9 percent growth recorded one year earlier.

According to IHS iSuppli the semiconductor market excluding memory products and microprocessors is likely to shrink by 2.0 percent in the 2012 fiscal year compared to the 2011 fiscal year. The latest market figures from WSTS (“World Semiconductor Trade Statistics”) forecast an even more pronounced drop in revenue in the semiconductor market relevant for Infineon, indicating a decrease of around 3.5 percent for the 2012 fiscal year.

Development of the semiconductor market¹

US\$ in billions



¹ Excluding memory products and microprocessors

Source: IHS iSuppli “Application Market Forecast Tool, Regional Shipments”, September 2012

To read more about expected developments in the world economy and the semiconductor market, see the section “Report on expected developments, together with associated material risks and opportunities – Outlook”.

see page 165 ff.

INTERNAL MANAGEMENT SYSTEM

Generating a premium return over the cost of capital is a key element of the financial objectives of Infineon, aimed at increasing the value of the business on a sustainable basis. Infineon endeavors to achieve this objective by employing capital efficiently to optimize revenue and earnings in line with prevailing economic conditions. Infineon's planning and management system comprises a variety of tools that enable us to assess current performance as the basis for strategy and investment decisions. Our aim is to make the best possible use of our business and entrepreneurial potential at all times.

As a high-technology company, Infineon operates within a cyclical and fast-moving economic environment. Continual innovation in products and technologies is essential for maintaining a leading market position. Infineon's manufacturing technologies are an important differentiating factor for our business in many market sectors. In this situation, it is crucial for Infineon to generate sufficient funds to be able to finance high levels of research and development expenses and invest in manufacturing capabilities. Additional production capacity is added to take advantage of growth potential, but always after giving full consideration to using existing capacities as efficiently as possible in order to minimize idle cost.

Profitability is the key factor in financing operations internally and requires, of course, the efficient use of financial resources.

Infineon's Management Board and managers responsible for the individual segments, manufacturing units and corporate functions all have a common focus on the following three success factors:

- profitability of the business portfolio,
- focus on cash flow generation,
- efficient use of capital.

Infineon uses a comprehensive controlling system to manage its business on the basis of these three success factors. The system involves the use of financial and operating key performance indicators. Information for controlling purposes is derived from the annual long-term forecast, quarterly forecasting and actual results, allowing top management to base its decisions on sound information with respect to the current situation and future expected financial and operational developments.

PERFORMANCE INDICATORS

KEY PERFORMANCE INDICATORS AND FIGURES

In order to measure the effects of these selected parameters on the key success factors, Infineon uses the following metrics for corporate management:

- Segment Result to measure the operating profitability of the different businesses and of the portfolio as a whole,
- Free cash flow to measure the amount of cash generated and used excluding financing activities, and
- 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 also measures the quality of revenue performance and shows how well operations are being managed. The operating performance of Infineon's segments is managed on the basis of Segment Result, for which – in the interests of optimal performance – segment management bears direct responsibility.

Free cash flow enables us to measure how well operating profitability is being converted into cash inflows and is also a reflection of the efficient use of working capital. Investments aimed at developing future growth potential may reflect a conscious decision to accept a lower free cash flow.

Infineon also compares the actual/planned return on capital employed (RoCE) against the cost of capital, in order to ensure its primary financial target of creating economic value added.

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

Segment Result

Segment Result is defined as operating income (loss) excluding the following: asset impairments (net of reversals); the earnings impact of restructuring charges and other related closure costs; share-based compensation expense, acquisition-related amortization and gains (losses); gains (losses) on sales of assets, businesses, or interests in subsidiaries, and other income (expense), including litigation settlement costs. This is the measure that Infineon uses to evaluate the operating performance of its segments (see section "Segment Performance" below for a review of Segment Result in the 2012 fiscal year).

... see page 136 ff.

The following table reconciles Segment Result to operating income for the fiscal years ended September 30, 2012 and 2011:

€ in millions	2012	2011
Segment Result	527	786
Plus/minus:		
Asset impairment reversals/asset impairments and assets classified as held for sale, net	(28)	5
Impact on earnings of restructuring measures and closures, net	(1)	-
Share-based compensation expense	(2)	(2)
Acquisition-related depreciation/amortization and losses	(3)	(3)
Losses on sales of assets, businesses, or interests in subsidiaries, net	(1)	-
Other expenses	(37)	(50)
Operating income	455	736

In order to ensure profitability, the return on revenue is measured by comparing Segment Result to revenue (Segment Result Margin). The aim for the business as a whole and for the four operating segments is to generate a Segment Result Margin over the entire market cycle that is significantly higher than the margin required to cover the cost of capital.

The following table shows the Segment Result at Group and segment level as well as the Segment Result Margin for the Group and the four operating segments for the fiscal years ended September 30, 2012 and 2011:

€ in millions, except percentages	2012		2011	
Automotive	219	13.2%	279	18.0%
Industrial Power Control	118	16.2%	202	25.3%
Power Management & Multimarket	142	15.3%	242	24.1%
Chip Card & Security	56	12.3%	54	12.6%
Other Operating Segments	5		14	
Corporate and Eliminations	(13)		(5)	
Total	527	13.5%	786	19.7%

Infineon continuously implements measures in all segments in order to improve Segment Result, particularly by focusing on raising manufacturing productivity and quality standards, achieving greater productivity in research and development, optimizing the product mix and improving the flexibility of the cost base.

Stringent control of operational expenses also plays a key role in our endeavors, and we pay particular attention to these to ensure that operational overheads are maintained at appropriate levels in relation to revenue. This is achieved by keeping business processes streamlined and implementing efficiency initiatives. When necessary, these measures are supplemented in the form of short-term initiatives such as projects aimed at optimizing general and administrative expenses.

Free cash flow

An important key performance indicator for Infineon is free cash flow, defined as net cash provided by/used in operating activities and net cash used in/provided by investing activities, after adjusting for cash flows related to the purchase and sale of financial investments. Free cash flow measures the ability to generate sufficient cash inflows 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. In the fiscal year under report, Infineon consciously accepted a negative free cash flow in order to make necessary investments and ensure that it remains competitive in the future (see section "Review of liquidity" for an analysis of free cash flow in the 2012 fiscal year).

see page 144 ff.

The following table shows the free cash flow calculation for the fiscal years ended September 30, 2012 and 2011:

€ in millions	2012	2011
Net cash provided by operating activities from continuing operations	667	983
Net cash used in investing activities from continuing operations	(1,013)	(2,499)
Purchase of and proceeds from sales of financial investments, net	127	1,622
Free cash flow	(219)	106

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

Infineon has improved working capital management substantially in recent years by focusing relentlessly on optimizing levels of inventories, trade receivables and trade payables.

Since Infineon's business is extremely capital intensive, effective investment management plays a key role in optimizing free cash flow. Free cash flow is considered by Infineon only at Group level and not at segment level.

Investments are managed using a combined top-down/bottom-up approach. Investment focus is set in conjunction with the Annual Long-Term Plan, at which stage a capital investment budget is formulated for the Group. The operating units then agree on their investment projects based on the pre-defined focus points and the approved budget. The budget and the projects contained therein are regularly monitored and adjusted on the basis of scenario forecasts as the need arises. Infineon takes a flexible approach to investment that enables it to match planned investments to new requirements and changing market conditions. However, there are limits to flexibility set by long lead times involved in setting up production capacities, commissioning, and obtaining the necessary customer qualifications. Individual investment projects are continuously monitored for compliance with timetables and budgets.

Return on capital employed (RoCE)

RoCE is defined as the net operating result after tax from continuing operations divided by capital employed. Capital employed consists of fixed assets and net current assets. RoCE shows the correlation between profitability and the capital resources required to run the business. It describes how efficiently a company manages its resources. RoCE is also only analyzed by Infineon at Group level 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 shareholders' and debt holders' expectations regarding returns have been met. Thus RoCE serves as a tool for value-based management.

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

The following table shows the calculation of RoCE for the fiscal years ended September 30, 2012 and 2011:

€ in millions	2012	2011
Operating income	455	736
Additional:		
Financial income excluding interest income ¹	–	2
Income from investments accounted for using the equity method	(1)	4
Income tax benefit	1	30
Less:		
Financial expense excluding interest expense ²	(1)	(2)
Net operating income from continuing operations after tax	454	770
Assets	5,898	5,873
Less:		
Cash and cash equivalents	(425)	(1,007)
Financial investments	(1,810)	(1,685)
Assets classified as held for sale	(5)	(5)
Total current liabilities	(1,678)	(2,005)
Additional:		
Short-term debt and current maturities of long-term debt	55	68
Liabilities classified as held for sale	–	–
Capital employed	2,035	1,239
RoCE	22.3%	62.1%

•••• see page 240

1 Financial income in the 2012 fiscal year amounted to €38 million, of which €38 million related to interest income. The corresponding figures in the previous fiscal year were €39 million and €37 million, respectively (see note 9 to the Consolidated Financial Statements).

•••• see page 240

2 Financial expense in the 2012 fiscal year amounted to €61 million, of which €60 million related to interest expense. The corresponding figures in the previous fiscal year were €65 million and €63 million, respectively (see note 10 to the Consolidated Financial Statements).

Apart from profitability, RoCE is also influenced by asset intensity, of both fixed assets and net working capital. Asset intensity describes how many assets are necessary to generate a specific amount of revenue. The RoCE of 22.3 percent achieved in the 2012 fiscal year was significantly lower than the previous year's 62.1 percent. The main reasons for this development were a steep rise in capital employed on the one hand and the deterioration in earnings due to the global economic slowdown on the other. The reported RoCE was calculated using actual capital employed, without adjustment for exceptional factors such as provisions recorded in connection with the Qimonda insolvency and current financial liabilities arising on the issuance of put options on own shares in conjunction with Infineon's capital return program, both of which had the effect of reducing capital employed.

OTHER PERFORMANCE INDICATORS

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

Growth and profitability performance indicators

Revenue and the rate of revenue growth are used to assess growth potential. 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 and administrative expenses and the ratio of these items to revenue. These performance indicators are used to manage the business both at Group and at segment level.

The following table compares how these performance indicators have changed at Group level in the fiscal years to September 30, 2012 and 2011:

€ in million, as a % of revenue, except for growth rate of revenue	2012		2011	
Revenue and revenue growth rate	3,904	(2.3%)	3,997	21.3%
Gross profit	1,427	36.6%	1,654	41.4%
Research and development expenses	455	11.7%	439	11.0%
Selling, general and administrative expenses	475	12.2%	449	11.2%

Liquidity performance indicators

A rolling cash flow forecast helps to ensure that Infineon has appropriate levels of liquidity. Liquidity is managed at Group level (and not at segment level) using 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, intangible assets and other similar items, including capitalized research and development costs.

The following table shows key performance indicators for the fiscal years ended September 30, 2012 and 2011:

€ in millions	2012	2011
Gross cash position	2,235	2,692
Net cash position	1,940	2,387
Net working capital	(353)	(663)
Investments	890	887

Moreover, in order to avoid idle cost and 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 leading indicators

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

- **Orders received:** the aggregate of all orders received by an entity from customers during the relevant reporting period.
- **Orders received as a percentage of revenue:** the ratio of orders booked and revenue recognized during the relevant 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 in a period, it is seen as an indication of future revenue growth. In this case the Book-to-Bill ratio will be greater than one. A rate of less than one indicates that future revenue is likely to decline. However, due to the specific nature of Infineon's business (e.g. consignment inventory arrangements for major customers), orders received is not used to a significant extent to manage the business and evaluate performance. In the case of consignment inventory arrangements, orders received and related revenue are recorded at the same time (i.e. when the goods are taken from storage). As a result, this type of business is not reflected in the order backlog.

The following table shows operational leading indicators for the fiscal years ended September 30, 2012 and 2011:

€ in millions, except Book-to-Bill-ratio	2012	2011
Orders received	3,302	4,231
Book-to-Bill-ratio	0.85	1.06

Actual and target values for performance indicators

Infineon announces its financial targets for the Group each year and updates them over the course of the fiscal year as necessary. In this way additional qualitative assertions can be made about the development of the performance indicators used in order to take account of uncertainties with respect to future economic developments.

The following table shows the key performance indicators used, including actual and forecast values:

€ in millions, except percentages	2011	2012	2012	2013
	Actuals	Original outlook	Actuals	Outlook
Principal performance indicators				
Segment Result Margin	19.7%	Low to mid-teens range	13.5%	Expected at mid-to high single-digit percentage of revenue
Free cash flow	106	Clearly negative	(219)	Positive
Supplementary performance indicators				
Growth and profitability performance indicators				
Revenue increase/decrease compared to previous year	21.3%	Decrease at mid-single-digit percentage rate compared to FY 2011	(2.3%)	Mid- to high-single-digit percentage decrease compared to FY 2012
Gross margin	41.4%	Below 40% of revenue	36.6%	Between 32% and 34% of revenue
Research and development expenses	439	Increase of 5 – 10% compared to FY 2011	455	Rise by around 10% compared to FY 2012
Selling, general and administrative expenses	449	Increase of 5 – 10% compared to FY 2011	475	Slight rise compared to FY 2012
Liquidity performance indicators				
Gross cash position	2,692	Higher than actual target of 30 – 40% of revenue	2,235	Higher than actual target of 30 – 40% of revenue
Net cash position	2,387	Net cash position (cash holdings higher than debt)	1,940	Net cash position (cash holdings higher than debt)
Working capital	(663)	Higher than at September 30, 2011	(353)	Increase compared to FY 2012
Investments	887	Similar level to FY 2011	890	Approximately €400 million
Operational leading indicators				
Book-to-Bill-ratio	1.06	No forecast	0.85	Increase necessary to achieve targeted revenue

As per the above summary, Infineon's forecasts for the 2012 fiscal year were fairly accurate. Revenue declined as expected due to a slowdown in the global economy. This factor, combined with an increase in production and operational costs (also in line with forecast), caused margins to deteriorate (see section "Review of results of operations" for a description of Infineon's business performance). As expected, free cash flow during the past fiscal year was negative €219 million, reflecting continued high levels of investment. The latter also caused capital employed to rise, which – in conjunction with lower earnings than in the 2011 fiscal year – resulted in a lower RoCE. Our liquidity position remained strong throughout the past fiscal year and developed as expected (see section "Review of financial condition" for a description of Infineon's liquidity situation).

❖ see page 128 ff.

❖ see page 144 ff.

Further comments on prospects for the 2013 fiscal year are provided in the "Outlook" sub-section of the section "Report on expected developments, together with associated material risks and opportunities – Outlook".

❖ see page 165 ff.

REVIEW OF RESULTS OF OPERATIONS

REVIEW OF PRINCIPAL ITEMS IN THE CONSOLIDATED STATEMENT OF OPERATIONS

€ in millions, except earnings per share	2012	2011
Revenue	3,904	3,997
Gross profit	1,427	1,654
Research and development expenses	(455)	(439)
Selling, general and administrative expenses	(475)	(449)
Other operating income and expense, net	(42)	(30)
Operating income	455	736
Net financial result (financial income and expense, net)	(23)	(26)
Loss/Income from investments accounted for using the equity method	(1)	4
Income tax benefit	1	30
Income from continuing operations	432	744
Loss/Income from discontinued operations, net of income taxes	(5)	375
Net income	427	1,119
Basic earnings per share (in euro)	0.40	1.03
Diluted earnings per share (in euro)	0.39	0.98

ECONOMIC SLOWDOWN DURING A PHASE OF CAPACITY EXPANSION, BROADENED RESEARCH AND DEVELOPMENT AS WELL AS SELLING ACTIVITIES COMBINED WITH THE ABSENCE OF WIRELESS MOBILE PHONE BUSINESS CAUSE SHARP DROP IN GROUP NET INCOME

Net income dropped in the 2012 fiscal year to €427 million, compared to the €1,119 million reported one year earlier, a deterioration of almost 62 percent.

Continuing operations were impacted by the general economic slowdown at a time when Infineon was investing in production capacities and was broadening its research and development and selling activities. Income from continuing operations for the year under report therefore fell to €432 million (2011: €744 million).

Infineon reports a loss from discontinued operations of €5 million for the 2012 fiscal year compared to a profit of €375 million in the 2011 fiscal year. The previous year's result from discontinued operations included a post-tax gain of €352 million on the sale of the Wireless mobile phone business to Intel Corporation ("Intel"), the operating profit from the Wireless mobile phone business operations up to the closing date on January 31, 2011 amounting to €189 million, and an expense of €176 million recorded in connection with Qimonda.

REVENUE SLIGHTLY DOWN

Revenue fell by 2 percent compared to the previous fiscal year. Similarly, the overall semiconductor market relevant for Infineon (excluding memory products and microprocessors) contracted over this period against the background of global economic uncertainty (see "Developments in the global economy and within the semiconductor industry in the 2012 fiscal year"). The drop in revenue was mostly attributable to the lower level of business recorded by Other Operating Segments with Intel Mobile Communications ("IMC") and Lantiq, while revenue increases for the Automotive and Chip Card & Security segments largely offset decreases recorded by the Industrial Power Control and Power Management & Multimarket segments (for more details see "Segment performance").

... see page 118 f.

... see page 136 ff.

€ in millions, except percentages	2012	2011
Revenue	3,904	3,997
Changes year-on-year	(2%)	21%
Exchange rate impact compared to previous fiscal year	135	(60)
Percentage of revenue	3%	(2%)

Strength of US dollar had a positive impact on revenue in the 2012 fiscal year

Almost 50 percent of revenue was generated in foreign currencies in the 2012 fiscal year, of which the US dollar accounted for the largest portion by far.

The US dollar/euro exchange rate remained volatile throughout the year, with the US dollar generally performing better than the euro in the wake of the euro crisis. Starting the year at €1.35, the euro/US dollar exchange rate recorded its high for the year at the end of October 2012 at €1.42 and its low for the year in July 2012 at €1.21. The closing rate at the end of the 2012 fiscal year was €1.29, giving an average exchange rate over the 2012 fiscal year of €1.30. This compares with a high and low in the 2011 fiscal year of €1.49 and €1.29, respectively, and an average rate of €1.40.

The strength of the US dollar against the euro had a positive impact on revenue. Over the full fiscal year, revenue was positively impacted by approximately €135 million due to exchange rate effects (measured by applying the previous fiscal year's average exchange rate to fiscal year 2012 revenue).

Decrease in revenue not influenced by sale of businesses

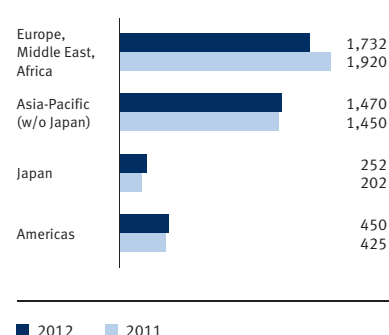
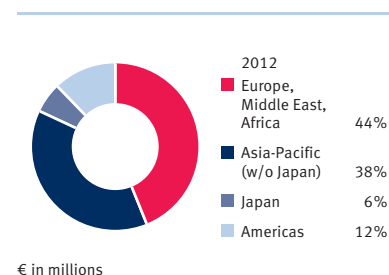
Revenue reported for the 2012 and 2011 fiscal years was not affected by business acquisitions/disposals. Revenue relating to the Wireless mobile phone business sold in the previous year was already included in discontinued operations in the 2011 fiscal year.

Increasing importance of Asia reflected in regional distribution of revenue

€ in millions, except percentages	2012		2011	
Europe, Middle East, Africa	1,732	44%	1,920	48%
Therein: Germany	908	23%	1,090	27%
Asia-Pacific (excluding Japan)	1,470	38%	1,450	36%
Therein: China	637	16%	663	17%
Japan	252	6%	202	5%
Americas	450	12%	425	11%
Total	3,904	100%	3,997	100%

Europe remains the largest sales market for Infineon, despite the Asian region continuing to grow in importance. In this context, the proportion of revenue accounted for by Europe dropped by 4 percentage points, while the Asia-Pacific region increased its proportion by 2 percentage points. America and Japan accounted for an increase of 1 percentage point each, mostly due to exchange rate factors. In addition to the impact of a stronger yen, the change in Japan also reflects the catch-up effect in demand following the natural disaster and reactor meltdown in the previous year.

Revenue by region



Stable customer structure again in the 2012 fiscal year

As in previous years, Infineon works very closely with a host of major customers. In the 2012 fiscal year, business with its 25 largest customers accounted for 71 percent of revenue.

MORE PRONOUNCED DECREASE IN GROSS PROFIT DUE TO CAPACITY EXPANSION AND RISING PRICES FOR MATERIALS

Gross profit (revenue less cost of goods sold) amounted to €1,427 million in the 2012 fiscal year (2011: €1,654 million). The combined effect of higher amortization and depreciation expenses on fixed assets due to investments in capacity expansion which were not fully utilized during the year under report, higher personnel costs and increased prices for materials (particularly for precious metals) and lower revenue resulted in a **deterioration in gross margin** from 41.4 percent in the 2011 fiscal year to 36.6 percent in the year under report.

Part of cost of goods sold is incurred in currencies other than the euro. To some extent, the effects of exchange rates on cost of goods sold offset similar impacts on revenue. The net impact of exchange rate changes on gross profit in the 2012 fiscal year was a positive amount of €65 million.

€ in millions, except percentages	2012	2011
Cost of goods sold	2,477	2,343
Changes year-on-year	6%	14%
Percentage of revenue	63.4%	58.6%
Gross profit	1,427	1,654
Percentage of revenue (gross margin)	36.6%	41.4%

Cost of goods sold rises while revenue declines slightly

Cost of goods sold in the 2012 fiscal year amounted to €2,477 million, an increase of €134 million or 6 percent compared to the previous year's €2,343 million.

Cost of goods sold comprises mainly:

- cost of materials – primarily the cost of raw wafers,
- personnel expense,
- amortization and depreciation,
- overheads, including the maintenance of production facilities, operational supplies and equipment and license fees,
- assembly and test costs charged by suppliers,
- manufacturing support, including facilities, utilities, quality control, automation costs and management costs, and
- cost of subcontractors and foundries.

In addition to volume-related factors, the gross margin is also influenced by the following:

- capacity utilization level of production facilities and potential idle cost,
- amortization of intangible assets acquired for consideration and capitalized development costs,
- product warranty costs,
- write-downs on excess and obsolete inventories, and
- grants received that are spread over the remaining useful life of production plant and equipment.

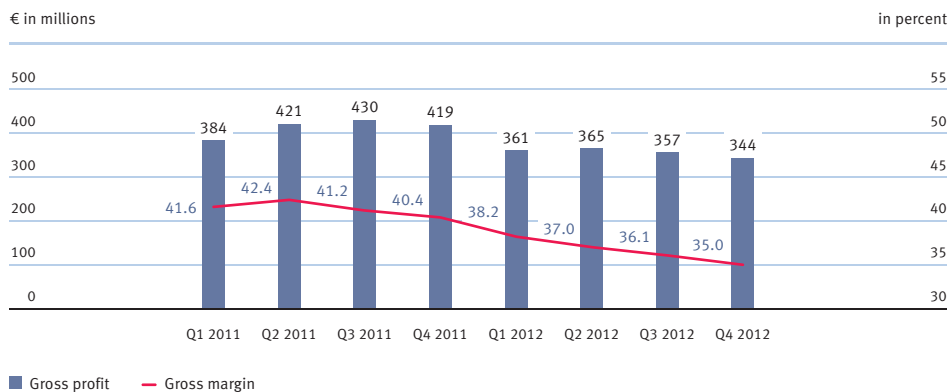
Infineon manufactures a large percentage of its products in-house and therefore has a relatively high level of fixed costs. For this reason, many elements of cost of goods sold do not react in proportion to rises and falls in revenue. Unlike variable costs, fixed costs do not automatically decrease when sales are declining, i.e. when capacity utilization is likely to deteriorate. This situation can give rise to idle cost, as fixed costs continue to be incurred at times of lower capacity utilization. The shrinking gross margin is therefore likely to be more pronounced than the decrease in revenue when sales are falling and capacity utilization is deteriorating. Production capacity expansion has exacerbated this effect: During the past fiscal year, it has been one of the major factors – alongside personnel expense and increases in prices for materials – causing a 14 percent decrease in gross margin compared to only a 2 percent drop in revenue. The reverse will be the case when revenue is growing, i.e. the increase in gross margin will be more pronounced than that of revenue until such time as full capacity utilization is reached. Investments in production capacities for semiconductor products generally require longer lead times due to demanding technological requirements, making it difficult to keep investment levels in line with short-term fluctuations in demand.

GROSS MARGIN DOWN

The **gross margin** fell from 41.4 percent in the previous fiscal year to 36.6 percent in the year under report. In the 2011 fiscal year the gross margin had benefited from higher revenue and better capacity utilization. In the 2012 fiscal year the drop in revenue, capacity expansion and higher expenses had the effect of reducing the gross margin significantly.

Production capacities were almost fully utilized in the 2011 fiscal year, with a utilization rate of 90 to 100 percent (including capacities built up in the 2010 and 2011 fiscal years). This rate fell to 80 to 93 percent in the 2012 fiscal year, causing a significant increase in idle cost.

Development of gross profit and gross margin



INCREASE IN RESEARCH AND DEVELOPMENT EXPENSES AND SELLING GENERAL AND ADMINISTRATIVE EXPENSES AS PART OF STRATEGY TO SECURE FUTURE GROWTH

Research and development expenses (R&D)

R&D expenses consist primarily of personnel expenses, cost of material, depreciation, amortization and the maintenance of the laboratory facilities used in conjunction with R&D activities. R&D projects include technology and product development projects. R&D expenses also cover third-party costs related to technology and product development as well as the cost of joint product and technology development arrangements with partners.

As of September 30, 2012 we possess more than 17,250 patent registrations and patents (hereafter referred to as “patents”) in more than 30 countries worldwide. These patents belong to approximately 7,200 patent families (with each patent family covering all the patents that are attributable to the same inventions).

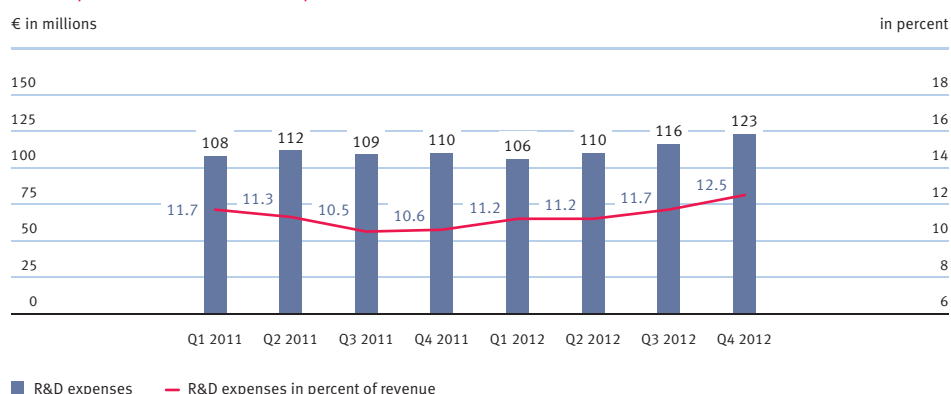
€ in millions, except percentages	2012	2011
Research and development expenses	455	439
Changes year-on-year	4%	10%
Percentage of revenue	11.7%	11.0%
Grants received	53	60
Percentage of revenue	1.4%	1.5%
Capitalized development costs	57	39
Percentage of research and development expenses	13%	9%

R&D expenses in the 2012 fiscal year increased by €16 million or 4 percent compared to the previous year, mainly due to higher personnel costs (increased workforce and pay rises) as well as to higher non-personnel-related costs for R&D activities in all operating segments. R&D activities were increased in particular for the Automotive and Power Management & Multimarket segments with a view to satisfying current and future market requirements through further product innovations, hence promoting future growth. The principal R&D activities undertaken during the 2012 fiscal year are described in more detail in the section “Research and development”. As a result of the decrease in revenue on the one hand and the increase in R&D expenses on the other, R&D expenses as a proportion of revenue went up from 11.0 percent to 11.7 percent.

see page 78 ff.

Capitalized development costs increased from €39 million in the 2011 fiscal year to €57 million in the year under report. Grants received in conjunction with R&D activities went down by €7 million.

R&D expenses: absolute and in percent of revenue



Selling, general and administrative expenses

Selling expenses comprise mainly personnel and non-personnel costs related to sales activities as well as the cost of marketing, customer samples, marketing incentives and other marketing activities.

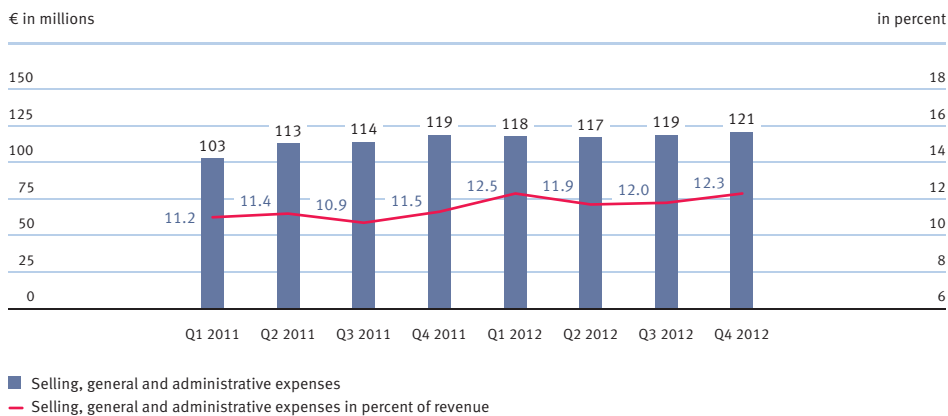
General and administrative expenses primarily consist of personnel costs for administrative staff, non-manufacturing-related overhead costs, and consultancy, legal and other fees for professional services.

€ in millions, except percentages	2012	2011
Selling, general and administrative expenses	475	449
Changes year-on-year	6%	16%
Percentage of revenue	12.2%	11.2%

Selling, general and administrative expenses rose from €449 million to €475 million, mainly as a result of increased personnel expenses. As a percentage of revenue they went up from 11.2 percent to 12.2 percent.

We incurred only minor marketing expenses for advertising and trade fairs due to our sales and customer structure, accounting for less than 1 percent of selling, general and administrative expenses in the 2012 fiscal year.

Selling, general and administrative expenses: absolute and in percent of revenue



NET OF OTHER OPERATING INCOME AND EXPENSES HIGHER AT MINUS €42 MILLION

Net other operating income and expenses gave rise to a net expense of €42 million for the 2012 fiscal year, compared to a net expense of €30 million one year earlier. This increase was primarily attributable to higher impairment losses recognized on fixed assets and on assets classified as held for sale.

Further details relating to other operating income and expenses are provided in note 8 to the Consolidated Financial Statements.

see page 240

NET FINANCIAL RESULT ALMOST UNCHANGED

€ in millions	2012	2011
Financial income	38	39
Financial expense	(61)	(65)
Net financial result	(23)	(26)

Net financial result (financial income less financial expense), improved marginally in the 2012 fiscal year by €3 million to a net expense of €23 million. Included in this figure is a loss of €6 million arising in conjunction with repurchases of subordinated bonds due 2014 during the period under report (see note 27 to the Consolidated Financial Statements). The previous year's net financial expense of €26 million included a loss of €18 million in conjunction with the above-mentioned repurchases.

•••• see page 253 ff.

TAX BENEFIT AS RESULT OF REASSESSMENT OF DEFERRED TAX ASSETS

Deferred tax assets, which in Infineon's case relate primarily to tax loss carry-forwards and unused tax credits, are required to be assessed at the end of each reporting period in order to determine whether utilization is probable.

The reassessment of the valuation allowance on deferred tax assets and the use of previously unrecognized tax benefits resulted in the fiscal year 2012 in the reversal of valuation allowances of €57 million (2011: €44 million) on deferred tax assets.

Income before tax and income tax expense were as follows:

€ in millions, except percentages	2012	2011
Germany	199	404
Foreign	232	310
Income from continuing operations before income taxes	431	714
Current tax expense:		
Germany	(11)	29
Foreign	(36)	(39)
	(47)	(10)
Deferred tax benefit:		
Germany	40	40
Foreign	8	–
	48	40
Income tax benefit	1	30
Effective tax rate	0%	(4%)

•••• see page 241 f.

Further details with respect to income tax expense are provided in note 11 to the Consolidated Financial Statements.

EXPENSES IN CONNECTION WITH QIMONDA'S INSOLVENCY GIVE RISE TO LOSS FROM DISCONTINUED OPERATIONS

The result from discontinued operations, net of income taxes, for the 2012 and 2011 fiscal years comprised the following:

€ in millions	2012	2011
Qimonda	(10)	(176)
Wireline Communications business	–	10
Wireless mobile phone business	5	541
Result from discontinued operations, net of income taxes	(5)	375

The result from discontinued operations, net of income taxes, amounted to a negative €5 million in the 2012 fiscal year, compared to a positive €375 million in the previous year. This includes post-tax expenses of €10 million incurred in conjunction with the Qimonda insolvency and a net income of €5 million on the Wireless mobile phone business (see note 5 to the Consolidated Financial Statements).

... see page 237 f.

The deterioration in the result from discontinued operations compared to the previous year primarily reflects the fact that the previous year's figures include both the gain on the sale of the Wireless mobile phone business and the profit from Wireless mobile phone business operations up to the closing of the sale on January 31, 2011 totaling €541 million. The post-tax expense of €176 million recognized in the previous fiscal year in connection with Qimonda's insolvency was also significantly higher.

EARNINGS PER SHARE DOWN AS RESULT OF DETERIORATION IN EARNINGS

As described above, net income for the 2012 fiscal year of €427 million (2011: €1,119 million) was significantly lower than in the previous fiscal year which in turn resulted in a similarly sharp drop in **earnings per share**. Basic and diluted earnings per share for the 2012 fiscal year amounted to €0.40 and €0.39 respectively, compared to basic and diluted earnings per share for the 2011 fiscal year of €1.03 and €0.98.

SEGMENT PERFORMANCE

SEGMENT RESULT MARGIN OF 13.5 PERCENT IN 2012 FISCAL YEAR

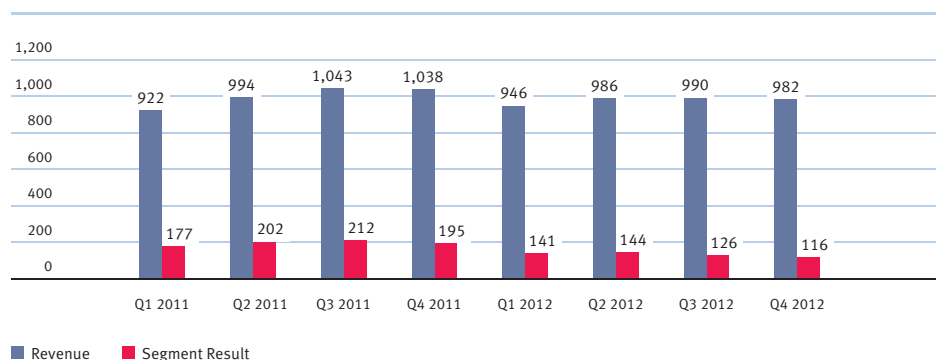
The revenue performance of each of Infineon's operating segments was influenced to different degrees by the general global economic climate and the knock-on effect it had on the semiconductor market. The Industrial Power Control and Power Management & Multimarket segments both reported lower revenue, whereas the Automotive segment achieved increased revenue, caused by an increased demand for semiconductors used in automotive applications, and was able to register its best revenue performance to date in the third quarter of the 2012 fiscal year. The Chip Card & Security segment also recorded higher revenue. The most pronounced decreases in revenue were recorded by Other Operating Segments as a result of the wind-down of business with IMC and Lantiq.

Segment Result for the 2012 fiscal year dropped to €527 million (2011: €786 million), mainly reflecting the impact of higher cost of goods sold and lower revenue on gross profit. At the same time, operational expenses (research and development expenses and selling, general and administrative expenses) also went up.

The Segment Result Margin for the year under report was 13.5 percent, compared to 19.7 percent one year earlier.

Revenue and Segment Result

€ in millions



AUTOMOTIVE

€ in millions, except percentages	2012	2011
Revenue	1,660	1,552
Share of Total Revenue	43%	39%
Segment Result	219	279
Share of Segment Result of Infineon	42%	35%
Segment Result Margin	13.2%	18.0%

The Automotive segment generated **revenue** totaling €1,660 million in the 2012 fiscal year, an increase of 7 percent over the previous year (2011: €1,552 million).

Revenue was higher in every quarter compared to the corresponding periods one year earlier. Although seasonal trends were similar to those of the previous year, the pace of growth clearly dropped in the third and fourth quarter. Third-quarter revenue of €428 million represented a new all-time high.

Sales volume figures across the automobile industry reflected diverging performances by the various manufacturers. French and Italian carmakers felt the impact of declining demand in southern European countries over the course of the year, while German automotive manufacturers – in particular manufacturers focusing on vehicles in the premium segment – continued to do well with exports rising on the back of strong demand from North America, China and Russia. Another automobile manufacturer to achieve strong sales volume growth was the Korean company Hyundai, which has been on a growth course for a number of years.

Meanwhile, Infineon has become the largest non-Japanese manufacturer of automotive semiconductors on the Japanese market. We maintained the rapid pace of growth achieved in this market in recent years and, partly thanks to the catch-up in demand following the natural disaster and reactor meltdown in 2011, made a good contribution to revenue growth.

The market for electro-mobility vehicles developed at varying rates. Sales figures for the much larger market for hybrid vehicles (measured in sales units) went up in line with market forecasts. The smaller segment for purely electric vehicles, on the other hand, continues to grow at a much slower pace, with high battery costs, short ranges and the limited infrastructure for charging vehicle batteries currently still inhibiting higher sales. Despite these hurdles, electro-mobility remains the fastest growing line of business for the Automotive segment and we have no doubt of our long-term success in this area. Car manufacturers are set to increase the number of new model launches in the 2013 and 2014 calendar years, resulting in further substantial increases in revenue for Infineon in this line of business over the coming years.

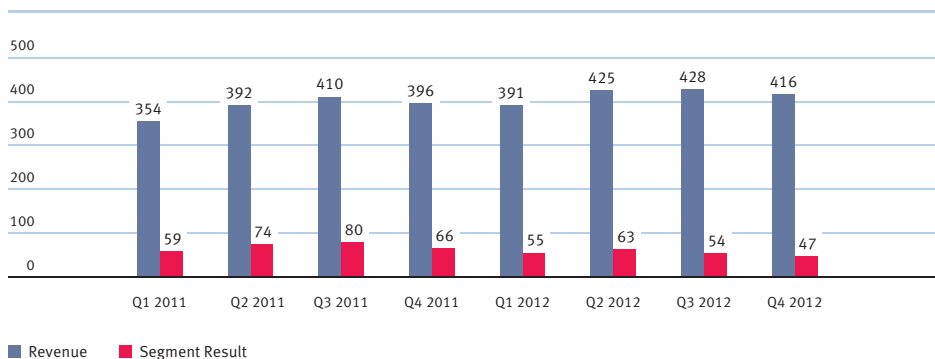
Segment Result for the 2012 fiscal year amounted to €219 million, down €60 million or 22 percent on the previous year's €279 million.

This deterioration arose despite higher revenue and mainly reflects the increase in the depreciation and amortization expense following two years of substantial investment in fixed assets. The slowdown during the second half of the year gave rise to idle cost in some of the segment's operations. We continued, however, to invest in technologies and products on the one hand and in marketing and sales on the other, in line with our long-term strategy.

The focus of research and development expenses was on the continued development of our strategically important 32-bit multicore microcontroller architecture AURIX™ for automotive applications and the 32-bit microcontroller family XMC4000 for industrial applications. R&D expenses also increased for other fields, such as the H-PSOF package for high-performance transistors and the 3D camera chip used in sensor applications.

Automotive: Revenue and Segment Result for the last eight quarters

€ in millions



INDUSTRIAL POWER CONTROL

€ in millions, except percentages	2012	2011
Revenue	728	797
Share of Total Revenue	19%	20%
Segment Result	118	202
Share of Segment Result of Infineon	22%	26%
Segment Result Margin	16.2%	25.3%

The Industrial Power Control segment generated **revenue** totaling €728 million in the 2012 fiscal year, a decrease of 9 percent compared to the previous year (2011: €797 million).

The segment's end markets showed little sign of recovering over the course of the year. The Book-to-Bill ratio was well below one in all quarters, largely due to inventory reductions by our customers.

After falling for three quarters in succession, business with industrial drives – representing approximately one half of revenue of the Industrial Power Control segment – finally bottomed out in the third quarter and picked up slightly in the fourth. High-speed train infrastructure expansion proceeded at a slow pace, most noticeably in China, where levels of rail transport investment had been second to none in recent years.

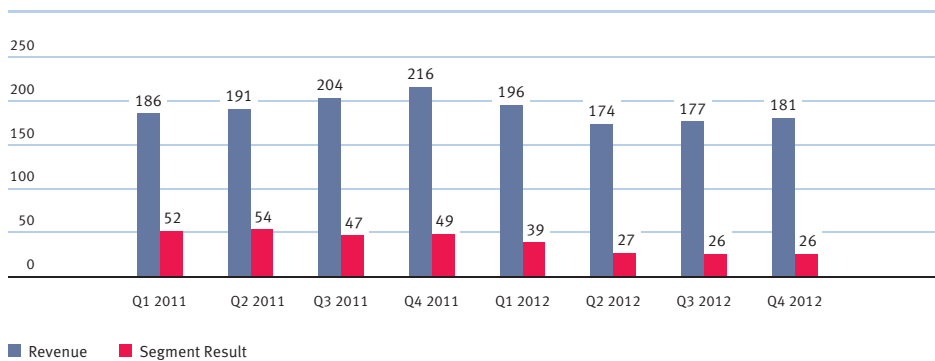
Business with renewable energy – wind and photovoltaics taken together account for approximately one fifth of segment revenue – remained more or less flat throughout the year under report. The rapid growth rates recorded in this field in recent years have slowed down, reflecting a number of factors, including reductions in feed-in-tariffs for electricity from photovoltaic sources in a number of European countries, the expiry of subsidy programs in the USA for renewable energy facilities and also technical difficulties in connecting wind farms in deep waters to the onshore grid. Sales of products for wind turbines in China reflected reluctance on the part of customers to invest in new equipment, mainly due to problems relating to grid quality and stability, which need to be improved before new wind turbines can be installed. Some signs of improvement were noticeable from the third quarter onwards.

Segment Result for the 2012 fiscal year amounted to €118 million, down €84 million or 42 percent on the previous year's €202 million.

The main reasons for this deterioration were lower revenue, the higher expense recorded for depreciation and amortization due to investments made in the 2011 and 2012 fiscal years on the one hand and under-utilization costs at production sites during the second, third and fourth quarters on the other. Marginally higher research and development expenses and marketing and selling expenses also had a negative impact on the segment's earnings performance.

Industrial Power Control: Revenue and Segment Result for the last eight quarters

€ in millions



POWER MANAGEMENT & MULTIMARKET

€ in millions, except percentages	2012	2011
Revenue	929	1,003
Share of Total Revenue	24%	25%
Segment Result	142	242
Share of Segment Result of Infineon	27%	31%
Segment Result Margin	15.3%	24.1%

The Power Management & Multimarket segment generated **revenue** totaling €929 million in the 2012 fiscal year, a decrease of 7 percent compared to the previous year (2011: €1,003 million).

Power Management & Multimarket generates approximately three quarters of its revenue in US dollars or in currencies linked to the US dollar. Changes in the euro/US dollar exchange rate can therefore have a significant influence on segment performance. The rise in the value of the US dollar against the euro over the course of the 2012 fiscal year had a positive impact on revenue.

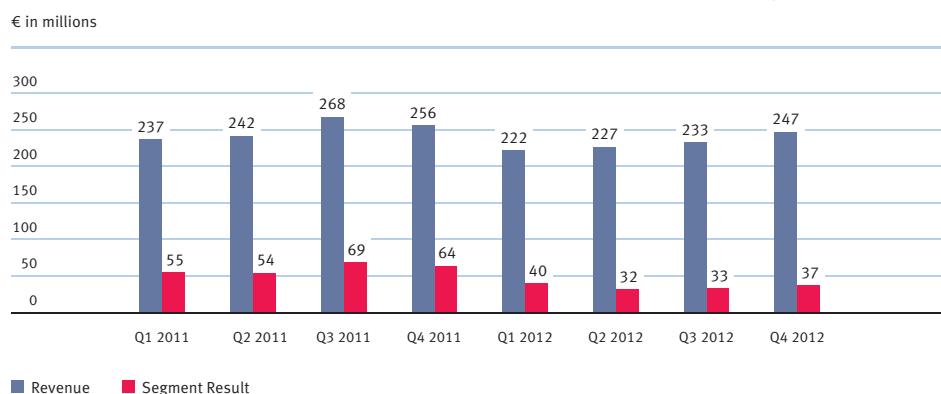
Working in opposite direction however, sales of desktop PCs and notebooks weakened during the second half of the year, negatively impacting revenue generated with the high- and low-voltage MOS power transistors used in power supply units for these categories of computer. By contrast, business with components for power supplies for servers performed well thanks to ongoing strong demand for servers used in data centers (e.g. cloud computing). The launch of a new range of products for digital power management, comprising MOS power transistors, driver ICs and digital control ICs turned out positively.

Other products launched during the past fiscal year deserving mention include the ORIGATTM2 family used to monitor battery performance and the MEMS-based microphones used in smartphones.

Segment Result for the 2012 fiscal year amounted to €142 million, down €100 million or 41 percent on the previous year's €242 million.

The main reasons for the deterioration were lower revenue, the higher expense recorded for depreciation and amortization due to investments made in the 2011 and 2012 fiscal years on the one hand and under-utilization costs at production sites during the second and third quarters on the other. Higher research and development expenses and marketing and selling expenses also had a negative impact on the segment's earnings performance.

Power Management & Multimarket: Revenue and Segment Result for the last eight quarters



CHIP CARD & SECURITY

€ in millions, except percentages	2012	2011
Revenue	457	428
Share of Total Revenue	12%	11%
Segment Result	56	54
Share of Segment Result of Infineon	11%	7%
Segment Result Margin	12.3%	12.6%

The Chip Card & Security segment generated **revenue** totaling €457 million in the 2012 fiscal year, an increase of 7 percent over the previous year (2011: €428 million).

The conversion to 90-nanometer volume production, which commenced in the 2011 fiscal year and was completed in the 2012 fiscal year, resulted in two positive effects over the course of the year under report, firstly the elimination of the delivery bottlenecks experienced in the past and secondly an improvement in the cost position for components used in high-volume applications (i.e. SIM cards and payment cards).

Demand for products in the segment's established lines of business (SIM cards, government identification and pay TV) held up well. Similarly, the growth areas authentication and Near Field Communication (NFC) continued to develop positively. These developments, combined with the improved ability to deliver as described above, meant that revenue rose steadily in each of the four quarters of the 2012 fiscal year. In the second, third and fourth quarters revenue was up both in comparison to the preceding quarter and to the corresponding quarter one year earlier.

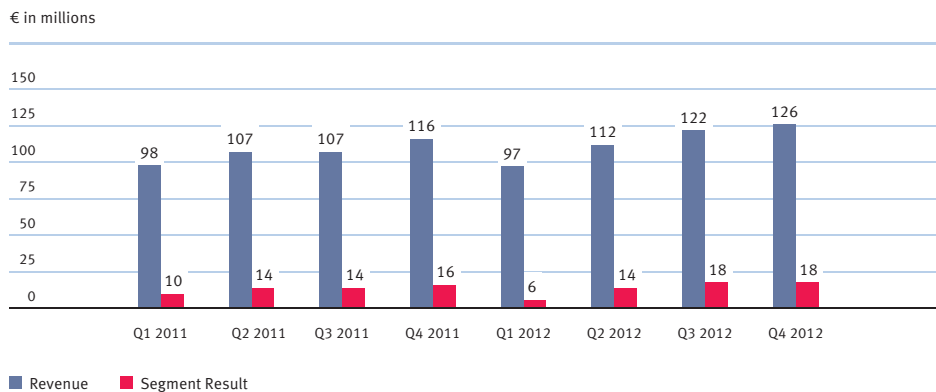
The revenue increases recorded in the second and third quarters also reflected the impact of a pay TV project. Even though this revenue was missing in the fourth quarter, strong demand for the segment's products, particularly components for SIM cards, payment cards and government identification, ensured that revenue continued to grow.

During the fourth quarter the segment commenced deliveries of a security chip to Continental for that customer's digital tachographs, further evidence of the success we are having in marketing our security technology for new applications.

Segment Result for the 2012 fiscal year amounted to €56 million, up €2 million or 4 percent on the previous year's €54 million.

The improvement in Segment Result was therefore slightly less pronounced than that of revenue, mostly reflecting a small decrease in gross margin due to the increased cost of materials, a higher cost of capital and a changed product mix. By contrast, the ratio of operational expenses to revenue decreased slightly, reflecting a moderate rise in selling expenses and slight decreases in general and administrative expenses and R&D expenses.

Chip Card & Security: Revenue and Segment Result for the last eight quarters



OTHER OPERATING SEGMENTS

€ in millions, except percentages	2012	2011
Revenue	125	216
Share of Total Revenue	3%	5%
Segment Result	5	14
Share of Segment Result of Infineon	1%	2%

Other Operating Segments mainly comprise activities remaining with Infineon after the sale or discontinuance of a business operation. They include post-sale activities arising from the fact that the businesses sold still rely on goods sold or services rendered by Infineon or remaining activities that cannot be allocated to another segment and which will be phased out gradually. Product supplies to Lantiq following the sale of the Wireline Communications business fall under this category. Similarly, goods and services sold to IMC during a defined transitional period following the sale of the Wireless mobile phone business are also allocated to Other Operating Segments. The same applies to business with analog and digital TV tuners.

Revenue in the 2012 fiscal year decreased to €125 million (2011: €216 million), mainly as a result of lower revenue recorded for business with Lantiq and IMC. Overall, the Segment Result decreased to €5 million (2011: €14 million).

CORPORATE AND ELIMINATIONS

The Segment Result for Corporate and Eliminations was a negative amount of €13 million and €5 million for the fiscal years ended September 30, 2012 and 2011, respectively. The deterioration in this case was due to start-up costs for 300-millimeter production in Dresden (Germany).

REVIEW OF FINANCIAL CONDITION

€ in millions, except percentages	2012	2011	Change year-on-year
Current assets	3,510	3,971	(12%)
Non-current assets	2,388	1,902	26%
Total assets	5,898	5,873	0%
Current liabilities	1,678	2,005	(16%)
Non-current liabilities	645	513	26%
Total liabilities	2,323	2,518	(8%)
Total equity	3,575	3,355	7%
Statement of Financial Position Ratios:			
Return on assets ¹	7.2%	19.1%	
Equity ratio ²	60.6%	57.1%	
Return on equity ³	11.9%	33.4%	
Debt-to-equity ratio ⁴	8.3%	9.1%	
Inventory intensity ⁵	9.6%	8.6%	
RoCE ⁶	22.3%	62.1%	

1 Return on assets = Net income/Total assets.

2 Equity ratio = Total equity/Total assets.

3 Return on equity = Net income/Total equity.

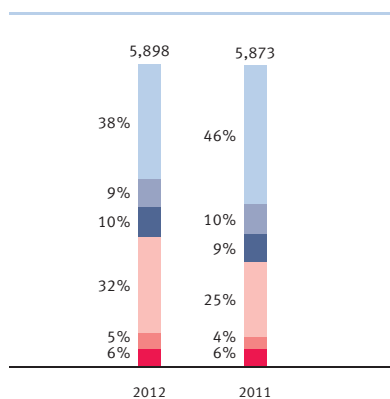
4 Debt-to-equity ratio = (long-term and short-term debt)/Total equity.

5 Inventory intensity = Inventories (net)/Total assets.

6 Calculation see section "Internal Management System".

see page 120 ff.

Assets



€ in millions	2012	2011
Gross cash position	2,235	2,692
Trade and other receivables	539	593
Inventories	567	507
Assets classified as held for sale	5	5
Property, plant and equipment and intangible assets	1,877	1,454
Deferred tax assets	315	262
Other assets	360	360
Total	5,898	5,873

TOTAL ASSETS ALMOST UNCHANGED, COMPENSATING EFFECT OF INCREASE IN NON-CURRENT ASSETS AND DECREASE IN CURRENT ASSETS

Compared to September 30, 2011, total assets changed by just €25 million from €5,873 million to €5,898 million, with current assets down by €461 million and non-current assets up by €486 million, mostly reflecting investment in property, plant and equipment. On the equity and liabilities side of the balance sheet, current liabilities went down by €327 million, mainly as a result of lower trade payables and provisions. By contrast, non-current liabilities went up by €132 million, primarily due to higher pension liabilities. The dividend payment and actuarial losses on pension plans recognized directly in equity had the effect of reducing equity. Overall, equity increased by €220 million during the fiscal year ended September 30, 2012 due to the net income recorded for the period.

The lower net income reported for the 2012 fiscal year generally resulted in deteriorating key performance indicators. The return on equity for the 2012 fiscal year fell to 11.9 percent (2011: 33.4 percent) and the total return on assets dropped to 7.2 percent (2011: 19.1 percent).

DECREASE IN CURRENT ASSETS AS A RESULT OF LOWER GROSS CASH POSITION

Current assets went down by 12 percent to €3,510 million as of September 30, 2012, compared to €3,971 million as of September 30, 2011. The main reason for the drop was the €457 million decrease in the gross cash position (sum of cash and cash equivalents and financial investments), mainly attributable to the ongoing high level of investment in organic growth, the capital return program and the dividend payment for the previous fiscal year.

INVESTMENT IN ORGANIC GROWTH CAUSES NON-CURRENT ASSETS TO INCREASE

Non-current assets rose by €486 million (26 percent) from €1,902 million as of September 30, 2011 to €2,388 million as of September 30, 2012, principally due to investments in property, plant and equipment. As the amount invested was significantly greater than the depreciation expense, the carrying amount of property, plant and equipment rose by a total of €388 million. Investments included the further expansion of manufacturing sites in Kulim (Malaysia), Villach (Austria) and Dresden (Germany). Intangible assets increased by €35 million over the course of the 2012 fiscal year, mainly in conjunction with capitalized development costs (including investment expenses to develop 300-millimeter thin wafer technology).

LIABILITIES REDUCED BY SETTLEMENT OF TRADE PAYABLES, LOWER EMPLOYEE BONUSES AND EXERCISE OF PUT OPTIONS; PENSION LIABILITIES UP DUE TO CHANGES IN DISCOUNT RATES

Current liabilities stood at €1,678 million as of September 30, 2012, €327 million (16 percent) lower than at September 30, 2011 (€2,005 million). The two main reasons for this reduced figure were the €113 million drop in trade and other payables and the €100 million decrease in current provisions, mainly reflecting lower bonus payments to employees. In addition, put options on own shares amounting to €20 million were exercised by financial institutions and lapsed put options were not fully replaced by newly issued put options.

Compared to September 30, 2011 (€513 million), **non-current liabilities** increased by €132 million or 26 percent to stand at €645 million as of September 30, 2012, mainly due to the €125 million increase in pension plans and similar commitments resulting from the use of lower discount rates reflecting the general interest rate situation on capital markets.

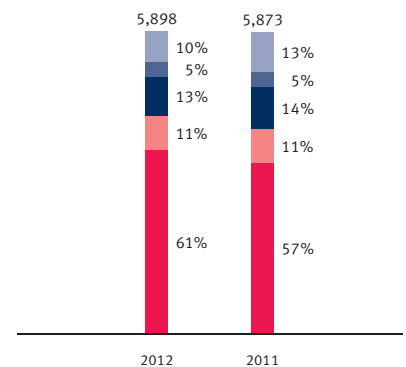
EQUITY UP DUE TO NET INCOME FOR THE YEAR

Equity increased by €220 million (7 percent) to stand at €3,575 million at the end of the reporting period (September 30, 2011: €3,355 million), primarily due to net income of €427 million recorded for the 2012 fiscal year. The lower volume of outstanding put options and option premiums received compared to the previous year had the effect of increasing equity, as did the 0.6 million stock options exercised by employees.

By contrast, equity was reduced by payment of the dividend for the previous fiscal year (€130 million) and by actuarial losses on pension plans (€112 million, net of taxes). In addition to the negative impact of €6 million recognized in net income for the year, the repurchase of subordinated convertible bonds due 2014 reduced additional paid-in capital by €31 million, net of taxes. Conversion rights attached to more than 10.4 million shares were obtained through the repurchase of these bonds.

The equity ratio improved to 60.6 percent as of the end of the reporting period (September 30, 2011: 57.1 percent).

Liabilities and equity



€ in millions	2012	2011
Trade and other payables	622	735
Debt	295	305
Provisions	740	836
Other liabilities	666	642
Equity attributable to shareholders of Infineon Technologies AG	3,575	3,355
Total	5,898	5,873

REVIEW OF LIQUIDITY

CASH FLOW

€ in millions	2012	2011
Net cash provided by operating activities from continuing operations	667	983
Net cash used in investing activities from continuing operations	(1,013)	(2,499)
Net cash used in financing activities from continuing operations	(199)	(352)
Net increase/decrease in cash and cash equivalents from discontinued operations	(40)	1,206
Net decrease in cash and cash equivalents	(585)	(662)
Effect of foreign exchange rate changes on cash and cash equivalents	3	2
Change in cash and cash equivalents	(582)	(660)

Significant decrease in net cash provided by operating activities from continuing operations due to reductions in trade payables and provisions

Net cash provided by operating activities from continuing operations in the 2012 fiscal year amounted to €667 million, €316 million lower than one year earlier (2011: €983 million). Taking income from continuing operations before depreciation and amortization, interest and taxes as the starting point (€909 million), the principal items reducing net cash provided by continuing operations during the fiscal year under report were decreases in trade payables, other liabilities and provisions (accounting in total for net cash outflow of €174 million) and a €62 million increase in inventories.

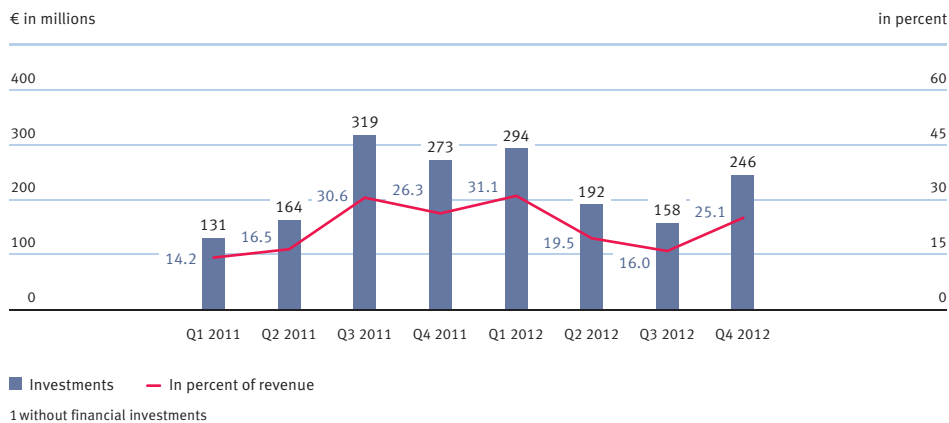
In the 2011 fiscal year, net cash provided by operating activities from continuing operations amounted to €983 million. Again, taking income from continuing operations before the expense for amortization, depreciation and impairment losses, interest and taxes as the starting point (€1,100 million), the principal items reducing net cash provided by continuing operations in the 2011 fiscal year were increases in trade receivables and inventories relating to continuing operations (€122 million in total) and income taxes paid (€60 million). By contrast, the increase in trade payables had a positive effect of €87 million.

Substantial investment in property, plant and equipment results in corresponding cash outflows

Net cash used in investing activities from continuing operations in the 2012 fiscal year totaled €1,013 million, of which €832 million related to investments in property, plant and equipment, with the primary focus on expanding front-end capacities in Kulim (Malaysia), Villach (Austria) and Dresden (Germany). In addition to expanding front-end capacities and constructing a new manufacturing building in Kulim, back-end manufacturing capacities were expanded in Malacca (Malaysia), Warstein (Germany) and Cegléd (Hungary). A total of €58 million was invested in intangible assets, including investments in internal development projects relating to the development of 300-millimeter thin wafer technology for power semiconductors and product development. Disbursements for financial investments (primarily money deposits with a maximum term of three to six months) amounted to €127 million (net).

In the previous fiscal year, net cash used in investing activities from continuing operations amounted to €2,499 million, of which €1,622 million related to the purchase and sale of financial investments and €845 million to investments in property, plant and equipment.

Investments¹



Dividend payment and capital return program result in net cash outflow from financing activities from continuing operations

Net cash used in financing activities from continuing operations totaled €199 million in the 2012 fiscal year, of which €130 million was used to pay the dividend for the 2011 fiscal year. In addition, subordinated convertible bonds due 2014 were repurchased for €62 million (nominal amount: €24 million) and 3 million of the Company's own shares were acquired for €20 million via put options. Option premiums amounting to €8 million were received for put options issued on own shares.

In the previous fiscal year, net cash used in financing activities from continuing operations totaled €352 million, of which €173 million related to the repurchase of subordinated convertible bonds due 2014 with a nominal amount of €59 million. In addition, other long-term debt was reduced by €52 million, a dividend of €109 million paid to the shareholders for the fiscal year 2010 and an amount of €26 million disbursed for put options exercised on own shares. Option premiums received for put options issued on own shares amounted to €8 million.

Change in cash and cash equivalents from discontinued operations

Net cash used by discontinued operations in the 2012 fiscal year totaled €40 million, of which €32 million related to the scheduled repayment of amounts received from IMC following a transitional phase which took place over a number of months, during which Infineon performed procurement activities on behalf of IMC.

In the previous fiscal year, net cash provided by discontinued operations totaled €1,206 million and resulted primarily from cash proceeds of €1,020 million received on the sale of the Wireless mobile phone business.

FREE CASH FLOW

Infineon reports the free cash flow figure (defined as net cash provided by/used in operating activities and net cash used in/provided by investing activities) 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 a “more valuable” performance indicator, but rather as an additional useful piece 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	2012	2011
Net cash provided by operating activities from continuing operations	667	983
Net cash used in investing activities from continuing operations	(1,013)	(2,499)
Purchase of and proceeds from sales of financial investments, net	127	1,622
Free cash flow	(219)	106

Substantial investment in organic growth results in high negative free cash flow figure

Free cash flow for the 2012 fiscal year amounted to negative €219 million, compared to a positive €106 million in the previous fiscal year. Net cash provided by operating activities only covered 75 percent of additions to property, plant and equipment and intangible assets totaling €890 million.

By contrast, free cash flow one year earlier resulted in a positive €106 million and net cash provided by operating activities was sufficient to cover all investments in property, plant and equipment and intangible assets amounting to €887 million.

Liquidity position

€ in millions



GROSS CASH POSITION AND NET CASH POSITION

The following table reconciles the gross cash position and 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, 2012	September 30, 2011
Cash and cash equivalents	425	1,007
Financial investments	1,810	1,685
Gross cash position	2,235	2,692
Less:		
Long-term debt	240	237
Short-term debt and current maturities of long-term debt	55	68
Total financial debt	295	305
Net cash position	1,940	2,387

The **gross cash position** at September 30, 2012 amounted to €2,235 million, down by €457 million on the €2,692 million reported at September 30, 2011. The decrease in the gross cash position mainly reflects the negative free cash flow as well as disbursements in conjunction with the capital return program and the dividend payment.

The **net cash position**, which is defined as the gross cash position less short-term and long-term debt, decreased accordingly by €447 million from €2,387 million at September 30, 2011 to €1,940 million at September 30, 2012.

TREASURY AND CAPITAL REQUIREMENTS

STRUCTURE AND PRINCIPLES OF INFINEON'S TREASURY

Our principal objective for group-wide treasury activities at Infineon is to ensure financial flexibility on the basis of a solid capital structure. It is of prime importance for all companies in the semiconductor industry that sufficient cash funds are available to finance operating activities and planned investments throughout all phases of the business cycle. Furthermore, debt should only constitute a modest proportion of the financing mix. Based on these principles, Infineon has defined the following three key objectives for capital management:

- Gross cash position of between 30 and 40 percent of revenue
- Positive net cash position
- Gross debt of 2x EBITDA at most

We are 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, which apply throughout Infineon, are set out in the corresponding "Treasury Policy" and are regularly reviewed and updated. Three levels of responsibility play a key role for treasury principles:

- The CFO is responsible for setting treasury principles and, after consultation with the CEO, for approving the treasury policy. The Treasury Committee, consisting of the CFO and selected members of senior management, decides on treasury-related matters, including exchange rates for planning purposes and currency hedging strategies, and issues the appropriate principles to ensure that these strategies are implemented.
- The Group Finance and Treasury department is responsible for specific corporate treasury transactions and for ensuring that Infineon's treasury principles are implemented worldwide.
- At subsidiary company level, responsibility for treasury matters lies with local managing directors (with commercial responsibility) and heads of finance, or, in the case of larger entities, with dedicated treasurers. Controlling functions at Group level ensure that transactions undertaken by individual business entities are in line with treasury principles.

CORPORATE TREASURY FUNCTION

Treasury principles at Infineon are firmly based on a centralized approach in which the Group Finance and Treasury department is responsible for all significant tasks and processes worldwide relating to financing and treasury matters. Starting point for the treasury function is the creation of a multi-year cash flow and liquidity plan that covers various scenarios. For the purposes of short-term liquidity management at operational level, all consolidated subsidiaries are included in a monthly rolling cash flow forecast. Simultaneously, a cash flow forecast is drawn up using a bottom-up approach based on the operating segments' forecasts. At the end of each quarter, the two forecasts are compared by a "Working Capital Committee" and checked for plausibility and possible deviations.

Cash pooling structures are in place for centralized liquidity management purposes. To the extent permitted by law and economically feasible, subsidiaries are required to transfer all surplus cash to corporate bank accounts in order to ensure the best possible allocation of liquidity within the Group and cover 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 managed centrally by the Group Finance and Treasury department and invested in accordance with asset management principles, based on a conservative approach to investments, in which security takes precedence over rates of return. The Group Finance and Treasury department is also responsible for the efficient management of currency and interest rate risks. These risks are determined on the basis of consolidated cash flow forecasts, since only cash flows not offset within the Group are hedged externally (for further information see note 37 to the Consolidated Financial Statements).

... see page 272 ff.

Furthermore, to the extent permitted by law, all financing activities and credit lines worldwide are arranged, structured and managed either directly or indirectly by the Group Finance and 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 these treasury responsibilities is the use of capable and financially sound financial institutions. The selection of partner banks worldwide is based on the central Group Finance and Treasury department's banking principles. Infineon maintains business relationships with various international commercial and investment banks and avoids becoming dependent on individual banks. Partner banks must demonstrate a high level of creditworthiness. Infineon assesses the creditworthiness of banks using a methodology that calculates investment thresholds for individual banks each day, based on current ratings (Standard & Poor's, Moody's or Fitch) and credit default swap premiums. Any breaches of stipulated thresholds must be reported and risk exposures unwound. Infineon has spread its liquidity investments over more than 10 banks. At September 30, 2012 no financial institution was responsible for more than 15 percent of Infineon's liquidity investments.

CAPITAL REQUIREMENTS FOR THE 2013 FISCAL YEAR

We require capital for the 2013 fiscal year, among others, to:

- finance our operations,
- finance planned investments,
- make scheduled debt and interest payments,
- make payments for provisions and contingent liabilities as they fall due or arise,
- service our capital return program and
- pay the proposed dividend.

We expect to meet these requirements through:

- cash flows generated from operations,
- available cash funds and our cash reserves in the form of financial investments and
- available credit facilities.

FINANCING OUR OPERATIONS

Based on our forecast for the 2013 fiscal year, we anticipate being able to finance operations out of cash flows provided by operating activities. Further information regarding fixed contractual obligations as of September 30, 2012 (such as leasing arrangements, fixed service and supply agreements for commodities, input materials, electricity, gas and other similar items) is provided in note 39 to the Consolidated Financial Statements.

❖ see page 280 f.

INVESTMENTS

Semiconductor production is very capital-intensive. Infineon increased investment levels significantly in the 2011 and 2012 fiscal years, after years of investing with restraint. Depending on market developments and on Infineon's specific situation, we are currently planning a marked reduction in investments in the 2013 fiscal year as part of the set of measures initiated by the Management Board to improve the Segment Result Margin in the medium-term (see section "Report on expected developments, together with associated material risks and opportunities – Outlook"). Firm investment commitments as of September 30, 2012 totaled €167 million.

❖ see page 165 ff.

DEBT REPAYMENT AND INTEREST PAYMENTS

As of September 30, 2012 Infineon's debt totaled €295 million, of which an amount of €55 million falls due for repayment in the 2013 fiscal year. An additional cash requirement of €11 million arises for interest payments in the 2013 fiscal year.

CAPITAL RETURN PROGRAM AND PROPOSED DIVIDEND

In May 2011 Infineon announced its intention to use up to €300 million of its funds to return capital to shareholders. This may be done by writing put options on Infineon shares, outright repurchases of Infineon shares via the Frankfurt Stock Exchange's Xetra trading system or through repurchases of further portions of Infineon's outstanding unsecured convertible bonds. Details about the structure and status of these measures as of September 30, 2012 are disclosed in notes 27 and 30 to the Consolidated Financial Statements. The unused portion of the capital return program as of September 30, 2012 amounted to €126 million, of which €89 million relates to the exercise value of outstanding put options on own shares at September 30, 2012.

❖ see page 253 ff.
and page 255 ff.

Infineon proposes to pay a dividend of €0.12 per share for the 2012 fiscal year. Subject to shareholder approval, this would result in a distribution of approximately €129 million (for the previous fiscal year: €130 million). For further information, see note 30 to the Consolidated Financial Statements.

❖ see page 255 ff.

PROVISIONS AND CONTINGENT LIABILITIES

Infineon issues guarantees in the normal course of business, primarily for the payment of import duties, the rental of buildings and contingent obligations related to government grants received. As of September 30, 2012, the undiscounted amount of potential future payments for guarantees was €127 million, of which up to a maximum of €16 million could have a cash flow impact in the 2013 fiscal year.

In addition, provisions and contingent liabilities exist for various risks – particularly risks related to Qimonda's insolvency which are described in detail in note 38 to the Consolidated Financial Statements, and which could result in a further cash outflow if the risks materialize.

COVERAGE OF CAPITAL REQUIREMENTS

Our gross cash position as of September 30, 2012 amounted to €2,235 million. We also have access to various stand-alone short- and long-term credit facilities from various financial institutions totaling €166 million.

Free cash flow from continuing operations is likely to be positive for the 2013 fiscal year, since net cash provided by operations is expected to exceed planned investments.

We have also applied for government grants in connection with specified investment projects. There is no assurance, however, that these funds will be approved, either on time or at all. Further information regarding grants received is provided in note 6 to the Consolidated Financial Statements.

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 are confident of being able to cover our planned capital requirements for the fiscal year 2013. Currently Infineon is not planning any significant financing measures in the coming fiscal year and has therefore not taken steps to obtain an official rating from any of the leading rating agencies.

DERIVATIVE FINANCIAL INSTRUMENTS

Infineon employs derivative financial instruments such as interest rate swap arrangements, forward currency contracts and option contracts. The purpose of these transactions is to reduce the impact of interest rate and exchange rate fluctuations on foreign-currency-denominated net future cash flows. In addition, commodity swaps are employed to reduce the purchase price risk on anticipated purchases of gold. Derivative financial instruments are not used for trading or speculative purposes. Further information about derivative financial instruments and the management of financial risks is provided in notes 36 and 37 to the Consolidated Financial Statements.

••••• see page 275 ff.

••••• see page 239

••••• see page 267 ff.
and page 272 ff.

OVERALL STATEMENT OF THE MANAGEMENT BOARD WITH RESPECT TO INFINEON'S FINANCIAL CONDITION AS OF THE DATE OF THIS REPORT

The 2012 fiscal year was a challenging one for Infineon. The robust business model the Company has built up, however, enabled it to rise to those challenges successfully. At the same time, the course was set for further sustainable and profitable growth in the future.

After recording a growth rate of more than 20 percent in the previous fiscal year, revenue in the 2012 fiscal year decreased slightly, mainly due to the reluctance of consumers to spend in the face of global economic uncertainties caused by the European sovereign debt crisis and a slowdown of growth in Asia. Within this difficult market environment, Infineon was again able to increase market share with automobile-related and power semiconductors and assert its position as market leader in the field of chip-card ICs. The return on capital employed was once again well above the cost of capital. Investors were able to participate directly in Infineon's success via the dividend and capital return program.

The key areas of energy efficiency, mobility and security on which we are focusing still hold the promise of good growth rates in the medium and long-term. In order to take advantage of this potential, it is essential that we keep up the flow of product and manufacturing innovation and ensure that our production facilities are operating efficiently and flexibly. After a phase of almost two years in which we had to cope with production bottlenecks, Infineon proceeded in the 2011 fiscal year to implement an ambitious investment program, continued in the 2012 fiscal year, in a move intended to expand production capacities and make use of the latest manufacturing innovations, such as 300-millimeter thin wafer technology, and hence achieve greater competitiveness by improving efficiency and boosting productivity. Coupled with well-targeted expenditures on R&D as well as broader selling activities, Infineon is able to meet the increasingly sophisticated requirements of its customers and benefit from the long-term growth of its target markets.

Despite the various challenges it came with, the 2012 fiscal year was nevertheless a successful one for Infineon. In most respects, we achieved the targets we had set. The Segment Result Margin stood at 13.5 percent and was thus just within the targeted mid-teen range. Infineon asserted its very strong competitive position in the markets it serves. Coupled with our very solid financial resources – as of September 30, 2012 we report a gross cash position of €2.2 billion and an equity ratio of 60.6 percent – we consider Infineon to be well equipped to cope with the current situation, in which demand seems likely to continue to decline in the short-term. Subject to certain limitations, Infineon will seek to keep future investment volumes, within certain limits, in line with demand and reduce outflows substantially. Cost-cutting measures will also be implemented in order to reduce the downward pressure on margins. The overriding objective throughout is to add value for shareholders by securing long-term and sustainable success for Infineon.

APPLICATION OF ACCOUNTING OPTIONS AND DISCRETIONARY PLANNING OPPORTUNITIES

The description and assessment of Infineon's earnings performance and financial condition presented in the Group Management Report is dependent on the underlying recognition and measurement methods applied and the assumptions and estimates used. These are described in detail in notes 2 and 3 to the Consolidated Financial Statements and are, in all material respects, unchanged from the previous year.

❖ see page 222 ff.
and page 235 ff.

Off-balance-sheet arrangements such as the sale of receivables, sale-and-lease-back transactions and non-consolidated special-purpose entities were not undertaken during the 2012 and 2011 fiscal years.

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, Human Resources, strategic and product-oriented Research and Development activities and also worldwide Corporate and Marketing Communication. Furthermore, it manages logistical processes throughout the Group. Infineon Technologies AG has its own manufacturing facilities, located in Regensburg and Warstein (Germany). Since most of the transactions within the Infineon Group involving derivative financial instruments are handled by Infineon Technologies AG, the same terms and conditions for derivative financial instruments and covered risks are valid both for Infineon Technologies AG and for the Infineon Group.

The risks and opportunities as well as the future development of Infineon Technologies AG are, to a large extent, the same as those defined for the Infineon Group, as further described in the section "Report on expected developments, together with associated material risks and opportunities".

Infineon Technologies AG prepares its individual financial statements in accordance with the requirements of the German Commercial Code ("HGB"). The complete financial statements are published separately.

see page 155 ff.

Statement of Operations¹ (condensed)

€ in millions	2012	2011
Revenue	4,070	6,055
Cost of goods sold	(3,197)	(4,791)
Gross profit	873	1,264
Operating expenses	(735)	(847)
Result from investments, net	458	16
Other income (expense), net	(57)	352
Income before taxes	539	785
Income tax expenses	(4)	(29)
Net income	535	756
Cancellation of own shares according to section 237 paragraph 3 number 2 AktG	(14)	–
Transfers to retained earnings according to section 58 paragraph 2 and 2a AktG	(391)	(378)
Income from capital reduction according to section 240 sentence 1 AktG	14	–
Transfer to capital reserves according to section 237 paragraph 5 AktG	(14)	–
Unappropriated profit at the end of year	130	378

¹ Prepared in accordance with the German Commercial Code (HGB).

Infineon Technologies AG reports net income of €535 million for the fiscal year 2012. After transferring €405 million to revenue and capital reserves, the unappropriated profit amounts to €130 million.

Infineon Technologies AG's net income for the 2012 fiscal year was positively impacted by income from the reversal of an impairment loss previously recorded on its investment in Infineon Technologies Holding B.V. The carrying amount of the investment was increased by €342 million. Due to the sale of the Wireless mobile phone business with effect from January 31, 2011, revenue and cost of goods sold are not fully comparable with the amounts reported in the previous fiscal year. Infineon Technologies AG recorded a drop in revenue (33 percent) and gross profit (31 percent) for the 2012 fiscal year.

Infineon Technologies AG's net income for the 2011 fiscal year was influenced significantly by a gain of €649 million recognized on the sale of the Wireless mobile phone business and by expenses relating to the insolvency of Qimonda AG and Qimonda Dresden GmbH & Co. OHG (€195 million).

Statement of Financial Position¹ (condensed)

€ in millions	2012	2011
Tangible and intangible fixed assets	464	433
Investments	2,888	2,902
Non-current assets	3,352	3,335
Inventories	280	227
Receivables and other assets	564	661
Cash and marketable securities	2,145	2,332
Current assets	2,989	3,220
Total assets	6,341	6,555
Shareholders' equity	4,521	4,131
Provisions	1,012	1,066
Payables and other liabilities	808	1,358
Total liabilities and shareholders' equity	6,341	6,555

¹ Prepared in accordance with the German Commercial Code (HGB).

The Company's financial condition is largely unchanged. Cash and marketable securities decreased slightly (€187 million), as did payables and other liabilities (€550 million) on the other side of the balance sheet. The increase in shareholders' equity (€390 million) primarily reflects net income for the year (€535 million) and the exercise of stock options by employees (€4 million), less the impact of the payment of the dividend for the 2011 fiscal year (€130 million) and the purchase of own shares (€20 million).

Within provisions, personnel-related provisions decreased by €63 million and the warranty provision by €11 million, while provisions relating to Qimonda AG and Qimonda Dresden GmbH & Co. OHG increased (€26 million), as did pension provisions (€20 million).

Payables and other liabilities declined by €550 million during the fiscal year under report, mainly owing to a €455 million decrease in payables to affiliated companies.

The equity ratio as of September 30, 2012 was 71.3 percent (September 30, 2011: 63.0 percent).

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 HGB.

Infineon Technologies AG reports unappropriated profit of €130 million in its financial statements for the fiscal year ended September 30, 2012. A cash dividend of €0.12 per share for the 2012 fiscal year will be proposed at the Annual General Meeting. The proposed dividend is subject to approval by shareholders.

The Company paid a dividend of €0.12 per share for the 2011 fiscal year, resulting in a total distribution of €130 million.

SIGNIFICANT EVENTS AFTER THE END OF THE REPORTING PERIOD

Under the terms of the capital return program, put options on own shares with an exercise value of €22 million were exercised in the period to November 16, 2012 thereby repurchasing 3.5 million shares. This resulted in a reclassification from “Put options on own shares” to “Own shares” within equity. The exercise had no effect on the Consolidated Statement of Operations.

REPORT ON EXPECTED DEVELOPMENTS, TOGETHER WITH ASSOCIATED MATERIAL RISKS AND OPPORTUNITIES

RISK AND OPPORTUNITY REPORT

RISK POLICY: UNDERLYING PRINCIPLES OF OUR RISK AND OPPORTUNITIES MANAGEMENT

Effective risk and opportunities management is a key component in all of our business activities and supports us in our goal of achieving sustainable, profitable growth. The semiconductor business is characterized to a very high degree by periods of rapid growth followed by periods of significant market contraction. Our risks and opportunities are affected by the need for capital investment in order to achieve and sustain our market position as well as the sector's extraordinarily rapid pace of technological change. Gaining a leading edge through technological innovation also has a legal dimension. In view of the special characteristics of the semiconductor industry, Infineon's risk policy is aimed at taking advantage of identified opportunities as quickly as possible in the way most appropriate to growing the value of the business. At the same time, existing risks and those associated with opportunities should be actively managed, particularly if they could pose a threat to the going-concern status of any of the Group's entities. In order to achieve this objective, risk management at Infineon is closely linked to business forecasting and the achievement of business strategies. Ultimate responsibility for risk management lies with the Infineon Management Board.

Various 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 Opportunities Management System" and the "Internal Control System with respect to Financial Reporting Processes" described below, it also includes our group-wide forecasting, management and internal reporting processes on the one hand and the Compliance Management System on the other.

DEVELOPMENTS IN RISK AND OPPORTUNITIES MANAGEMENT IN THE 2012 FISCAL YEAR

A wide range of improvements was made to our Risk and Opportunities Management System over the course of the 2012 fiscal year, with all organizational units applying updated procedures with effect from the start of the fourth quarter. The changes establish a significantly more transparent link between the Risk and Opportunities Management System and short-/medium-term forecasting processes in terms of both content and timing, improve the way that Infineon's risk and opportunities profile is reported internally and generally contribute to more intensive management of, and communication about, risks and opportunities. The following section describes the Risk and Opportunities Management System in its current setup.

RISK AND OPPORTUNITIES MANAGEMENT SYSTEM

Infineon's risk management system is based on a group-wide Enterprise Risk Management (ERM) approach encompassing all relevant risks and opportunities. This 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 Opportunities Management rests with the Risk Management and Internal Control System (ICS) function within the central finance department and with designated Risk Officers working at segment, corporate and regional levels. Responsibility for the identification, assessment, management and reporting of risks and opportunities lies with the management of the organizational unit concerned.

In organizational terms, the Risk and Opportunities Management System is structured in a closed-loop, multiple-stage process, which stipulates the manner and criteria to be applied to identify, assess, 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 relevant consolidated entities, an analysis of the overall situation at segment, regional and Group level, and reporting to the Management Board on the risks and opportunities situation and 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 assessed on a net basis, i.e. after factoring in any risk mitigation or hedging measures such as internal control system benefits or hedging contracts. All relevant risks and opportunities are assessed uniformly across the Group in quantitative and/or qualitative terms based on the variables "potential impact on earnings" and "likelihood of occurrence". The time periods and the measurement categories used are closely linked to our short- and medium-term business forecasts and corporate objectives.

All reported risks and opportunities in their entirety are reviewed at Group level for possible correlation and overlap factors and are analyzed using an Infineon-specific categorization model. Regular risk and opportunities analysis and new developments in risk management culture are supplemented by annual, interdisciplinary workshops held at segment, corporate and regional levels. Important information relevant to Infineon's Risk and Opportunities 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/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/Opportunity Manager is also responsible for defining and monitoring appropriate measures aimed at implementing the adopted management strategy. For our system to be successful, it is essential that risks and opportunities are managed and monitored pro-actively and with a great deal of commitment. In this context, the following measures have been put in place:

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 financial condition and earnings performance by closely monitoring changes in key early warning indicators and by developing specific response strategies appropriate to the current position within the economic cycle, e.g. by rigorously re-aligning capacities and inventories at an early stage, initiating cost-cutting measures and flexibly utilizing external production capacities.

At an operational level, we have adopted various quality management strategies aimed at avoiding **quality risks** (such as “Zero Defect” and “Six Sigma”), to prevent or solve problems and to improve our business processes. Our 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 encompasses supplier development as well. Our processes incorporate procedures to identify the reasons for any quality-related problems at an early stage and are accompanied by regular initiatives to improve quality, thus avoiding any adverse long-term effects.

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 authorization rules 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 consist of cross-functional expert teams 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 applied these days in the area of cybercrime, we have initiated a **data security program** to provide the greatest possible protection against hacking attacks and related risks to our IT systems, networks, products, solutions and services.

In view of past and likely future energy price rises, we are pro-actively reviewing the issue of **energy efficiency**, particularly with our energy-intensive, front-end production in mind, and pressing ahead with the implementation of an Energy Management System based on ISO standard 50001. More detailed information is also provided in the section “Corporate Social Responsibility at Infineon: Setting standards – through innovation and voluntary responsibility”.

❖ see page 94 ff.

We minimize compliance and legal risks relating to **intellectual property rights and patents** by pursuing a well-defined patent strategy, including thorough patent research, targeted 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-license 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 are currently in the process of strengthening our group-wide **Compliance Management System**, the objective of which is to manage compliance-related risks on a systematic, comprehensive and sustainable basis. Under this system, major preventive procedures are further developed, other elements of the system revamped or strengthened and appropriate responses worked out for possible or actual incidences of non-compliance with internal or external regulations.

As far as financial risks are concerned, we reduce the risk of **interest and exchange rate fluctuations** by entering into appropriate hedging contracts.

Insurance policies have been taken out as protection against potential claims and liability risks in order to avoid or at least minimize any adverse impact on Infineon’s financial condition and earnings performance.

Compliance with the ERM approach is monitored by the corporate Risk Management and Internal Control System (ICS) departments using procedures incorporated in business processes. Group Internal Audit also employs targeted procedures to test compliance with legal requirements and Infineon guidelines, including rules relating to risk and opportunities management and, where appropriate, initiates corrective measures. The Supervisory Board's Investment, Finance and Audit Committee oversees the effectiveness of the Risk Management System. As part of the year-end audit, the external Group auditor also examines our early warning system pursuant to Section 91 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 to the Chief Financial Officer (CFO) and the Investment, Finance and Audit Committee of the Supervisory Board.

Internal Control System with respect to 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 that there is reasonable assurance 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, and ensures the required degree of effectiveness stipulated by German law (BilMoG). The system monitors compliance with stated principles and stipulated procedures based on preventive and retrospective controls. Among other things, we regularly check that:

- the Group's uniform financial reporting, measurement and accounting entry 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;
- explicit processes and controls exist to guarantee the completeness and correctness of the year-end financial statements and financial reporting;
- processes exist 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.

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. This involves identifying and updating significant risks relating to accounting and financial reporting in the relevant legal entities and corporate functions. The controls defined for the identification of 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 the self-assessment of the appropriate extent and effectiveness of the controls. The results of this self-assessment are documented and reported in a global IT system. Any deficiencies identified are remedied with due consideration given to their potential impact.

In addition, all legal entities, segments and relevant corporate functions confirm with their Representation Letter that all business transactions are accounted for and all assets and liabilities have been reflected in the Statement of Financial Condition.

Assessment of effectiveness

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 the 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 internal controls.

The Risk Management and ICS are continuously reviewed to comply with internal and external requirements – for example those defined by BilMoG. The improvement of the ICS supports the continuous monitoring of the relevant risk areas within the responsible organizational units.

SIGNIFICANT RISKS

In the following section, we describe risks that could have a materially adverse impact on Infineon's earnings and financial condition, its share price and/or its reputation. The order in which the risks are presented reflects, within each risk category, our current assessment of their relevance for Infineon and therefore provides a good indication of the current significance of risks for us.

STRATEGIC RISKS

Unsettled political and economic climate

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 lower revenues than originally expected. Risks can also arise due to political and social changes in countries in which we manufacture and/or sell our products.

We are currently very closely watching the financial and economic crisis in the European Union, where, under the pressure of high levels of public sector debt, governments are implementing a wide range of measures to consolidate budgetary shortfalls and cut investments. As a consequence of these developments, the level of trust of consumers and companies is waning, while unemployment figures are on the rise. Additional macroeconomic risks also arise in conjunction with a possible exit of individual countries from the euro zone and from the threat of rising inflation. Regardless of our assessment of potential scenarios and outcomes within this complex of risks, these developments could possibly have a materially adverse impact on Infineon's earnings and financial condition.

Response to cyclical market and sector developments

The worldwide semiconductor market is highly cyclical. Therefore, we face risks with respect to rapid market change in our target markets. As a result, our own forecasts of future business developments may be subject to a greater degree of uncertainty. In the past, the cyclical pattern of "V curves" was regularly repeated, at the end of which Infineon was able to participate in the upturn after a period of market weakness. It is, however, possible that future market downturns will follow another pattern, for example an L shape. 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 earnings and financial condition.

Increased market competition and interchangeability of products

The rapid pace of technological change in the market also results in the greater interchangeability of products. This can result in aggressive pricing tactics in the market that sometimes mean that our long-term, strategic targets with respect to market share gains and maintenance, product pricing and/or profitability cannot be achieved in full. This situation could have a materially adverse impact on Infineon's earnings and financial condition.

OPERATIONAL RISKS

Increasingly dynamic markets

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

Thus, despite the fact that manufacturing processes and production sites have become more flexible, fluctuations in capacity utilization levels and purchase commitments, coupled with idle costs at production sites, nevertheless pose a cost risk factor.

This situation is exacerbated by the fact that some of our products are highly dependent on the degree of success enjoyed 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. We therefore face the challenge, in the case of unexpectedly high demand, of having to deliver increased volumes that require an appropriate level of upfront investment. All these factors could have an adverse impact on Infineon's earnings and financial condition.

Product development delays

The ever-increasing complexity of technologies and products, shorter development cycles and greater customer expectations can cause a great deal of stress in the field of product development. Buffer times built into processes to compensate for potential delays have to be reduced. 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 Infineon's earnings and financial condition.

Product quality trends

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 deliver. The smallest shortfalls in product quality can lead to product recalls and potential costs in conjunction with liability claims. In addition, quality risks could also damage Infineon's image and thus have a negative impact on future revenue and earnings.

Data and IT systems security

The reliability and security of our information technology systems is of crucial importance to Infineon. At the same time, the world has seen a general rise in the level of threats to data security. Increasing dependence on IT systems to support business processes on the one hand and internal and external communications on the other add to the exposure to risk. 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, production, selling or administration functions, which, in turn, could have an adverse impact on Infineon's reputation, competitiveness and financial condition.

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

Production cost trends – raw material prices, cost of materials and process costs

Our medium- and long-term forecasts have to take account of expected production cost trends. In this context, planned measures to optimize production 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 production and energy requirements expose us to substantial price risks. At the time of writing, financial instruments are in place to hedge our gold wire price risk exposure during the 2013 fiscal year, based on planned volume requirements. We are also dependent on supplies of rare earths required for selected processes related to process integration. The prices of raw materials and energy have been recently 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 a materially adverse impact on our earnings performance.

Flexibility in determining and adjusting production volumes

Front-end and back-end production 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 have needed 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 revenue and earnings performance.

One risk that semiconductor companies operating in-house production facilities face in common, is that of delays in the ramping-up of production volumes at new production sites, coupled with the required transfer of technology. One good example of this arises in the Automotive segment, where customers' product approval and testing processes can take place over an extended period of time, thus influencing our global production strategy as well as short- and medium-term capacity utilization. Failure to anticipate necessary production changes in good time could result in capacity shortages and hence lower revenue on the one hand and idle costs on the other, both of which would have an adverse impact on Infineon's earnings performance.

Dependence on individual production sites

Our South East Asian manufacturing sites are of critical importance for production. If, for example, political upheavals or natural disasters in the region were to curtail our ability to manufacture at these sites on the planned scale or to export products manufactured at those sites, it would have a material negative impact on Infineon's financial condition and earnings performance. Our current production 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 on its own.

Dependence on individual suppliers

We cooperate with a number of different suppliers who provide us with materials and services, or who take over 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 a materially adverse impact on Infineon's financial condition and earnings performance.

Need for qualified staff

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

FINANCIAL RISKS

Risk of default by banking partners

The relatively high level of our cash holdings expose us to the potential risk of a default by one of our banking partners. We counter this risk – which could still arise despite various state-insured deposit protection mechanisms – by a combination of risk avoidance analyses and risk spreading measures. If these measures were to be ineffective, there could be a materially adverse impact on Infineon's financial condition and earnings performance.

Currency risks

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 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. Depending on how exchange rates develop, these hedging contracts could have a significant influence on cash flows. In these circumstances, exchange rate fluctuations could also have an impact on earnings.

❖ see page 272 ff.

Further information regarding the management of financial risks is provided in note 37 to the Consolidated Financial Statements.

LEGAL AND COMPLIANCE RISKS

Qimonda insolvency

Due to the insolvency proceedings relating to Qimonda and claims brought against Infineon, we are exposed to a substantial amount of potential liabilities, which are described in detail in note 38 to the Consolidated Financial Statements.

❖ see page 275 ff.

As of September 30, 2012 we recorded provisions in connection with these matters. 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

Like other companies in the semiconductor industry, claims are made against us on various occasions that we have infringed other parties' protected rights, delivered defective products or breached statutory duties. Regardless of the outcome of these claims, we may incur substantial costs in the process of defending ourselves.

Whereas 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 brought against Infineon will stand up in court, thus resulting in significant claims for damages or restrictions in selling the products concerned. Any such outcome could have an adverse impact on Infineon's earnings performance.

❖ see page 275 ff.

Further information is provided in note 38 to the Consolidated Financial Statements.

Impact of our global operations

Our global business strategy envisages that we maintain R&D locations and manufacturing sites across the globe. The location of such facilities is determined by market entry hurdles, technology and cost factors. Risks could therefore arise based upon adverse economic and geo-political 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 loss of reputation.

Asian markets are particularly important for us in conjunction with our long-term growth strategy. Our operations in China are impacted by the fact that the legal system in that country is still going through a phase of development and change. One example of this is the fact that local regulations make it mandatory to enter into partnerships with local companies. These circumstances could lead to Infineon's intellectual property no longer being sufficiently protected and that intellectual property developed in China could not be freely transferred to other countries and locations, thus impairing revenue and profitability.

Acquisitions and cooperation arrangements

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 Infineon's financial condition and earnings performance.

In the case of smaller acquisitions or portfolio decisions, there is always a risk of non-compliance with anti-trust regulations due to lack of knowledge or failure to make the people involved in such deals adequately aware of the issues. This can result in high levels of cost for work performed in-house (e.g. time spent by management) and/or by external service providers (e.g. attorneys) and in settling fines. Infineon's image may also suffer damage 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.

OVERALL STATEMENT BY GROUP MANAGEMENT ON RISK SITUATION

The overall risk assessment is based on a consolidated view of all significant individual risks. Some individual risks have increased in significance for the Group (e.g. cyclical fluctuations and changes in demand), while the threat from risks in other areas has diminished compared with previous reporting periods. Regardless of these specific changes, we assess the overall risk situation as largely unchanged.

At the date of this report we are not aware of any substantial risks which jeopardize Infineon's going-concern status.

OPPORTUNITIES

The principal opportunities for Infineon are described in the following section. The list is not exhaustive and represents only a cross-section of opportunities available. Our assessment of these opportunities is subject to continuous change, reflecting the fact that our business, our markets and the technologies we use are continuously subject to new developments, bringing with them new opportunities, causing others to become less relevant or otherwise changing the significance of an opportunity for us.

Support for change in energy policies and consideration of climate change issues

The shortage of fossil resources and greater awareness of environmental issues are changing people's assessment of the importance of renewable sources of energy. Rising emissions represent a threat to the environment and have become one of the foremost priority topics on the global political and economic agenda.

The International Energy Agency forecasts that more than one quarter of worldwide energy demand will be covered by renewable energy by the year 2030. The same agency also thinks it possible that so-called "Smart Grids" will be able to reduce CO₂ emissions annually by 0.9 to 2.2 gigatonnes by the year 2050. With its innovative technologies, the semiconductor industry has a key role to play in these developments. The reliability of power stations, their efficiency and the reduction of energy transportation losses to a minimum are, for example, all heavily dependent on the performance of products developed and supplied by the semiconductor industry.

We are also seeing a trend away from the production of small or pilot-scale series in areas such as cleantech and electro-mobility towards international mass markets with corresponding increases in demand for the technologies and products supplied by the semiconductor industry.

Success in supporting these global reactions to the challenges posed by climate change can open up new markets and fields of application for our products and technologies and additionally enable us to expand existing business.

Market access and activities in China

Our activities in China – considered by us to be a highly significant market for the future – are currently limited for a number of reasons, including market-entry restrictions reflecting the fact that Infineon is perceived as an international competitor.

If we were to succeed in positioning Infineon in China as an integral part of Chinese industry (and hence Chinese society), that could open up a multitude of new opportunities that would have a positive impact on our business.

New technologies and materials

We are constantly striving to develop new technologies, products and solutions and to improve existing ones, both on our own and in collaboration with our customers. We therefore continue to invest in R&D activities relating to the use of new technologies and materials. It is possible that technologies and materials in current use lose their predominance in the foreseeable future, such as silicon, which could reach its physical limit in some areas of application.

We therefore see numerous opportunities for using new technologies such as those associated with gallium nitride or silicon carbide, to develop new and more powerful lower-cost products, which could have a positive impact on Infineon's earnings and financial condition.

Liquidity position

Our current liquidity position, which is also described in the section “Review of liquidity”, enables us to obtain favorable refinancing conditions, despite the uncertainty currently prevailing on the capital market. This fact gives Infineon above-average financial headroom and entrepreneurial flexibility to implement our business strategies and initiatives.

Significance of electronic components

The number of electronic components and parts in products throughout practically all sectors has been growing unabatedly for many years and there is no sign that this trend will reverse. The technologies and applications provided by the semiconductor industry constitute key elements of these electronic components and parts. We are confident that successfully anticipating new demand for products and solutions, developing components in collaboration with customers and making good progress with our own innovations will enable us to participate in the growth of the market and generate further improvements in earnings.

Ability to supply due to available capacities

Our own in-house front-end and back-end capacities, the availability of external production capacities and the options available to expand production capacities at our site in Kulim (Malaysia) puts us in a far more flexible position than before to cover required production volumes. The availability of additional capacities, combined with the pro-active strategic and operational planning of internal and external resources, will enable us to cover rising demand from existing and new customers in the event of a market upturn. This opportunity exists, despite the additional idle costs currently incurred due to capacity under-utilization, and could have a positive impact on Infineon’s future market share and earnings performance.

OUTLOOK

ASSUMPTIONS WITH RESPECT TO EXCHANGE RATE DEVELOPMENTS

As a globally operating organization, Infineon generates revenue not only in euros, but also in US dollars, and to a smaller extent, in other currencies. Similarly, it also incurs costs in US dollars and in other currencies. The impact of non-euro denominated revenue and costs does not always even out. 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 one cent in the actual exchange rate of the US dollar against the euro compared to the forecast rate would be a change in Segment Result of approximately €1 million per quarter or approximately €4 million per fiscal year compared to the forecasted value. The currency impact is somewhat more pronounced for revenue: A deviation of one cent in the actual exchange rate of the US dollar against the euro compared to the forecast rate would have an impact on revenue of between €3 million and €4 million per quarter (between €12 million and €16 million per year). Planning for the fiscal year 2013 is based on an assumed average exchange rate for the US dollar against the euro of 1.25.

GROWTH PROSPECTS FOR THE GLOBAL ECONOMY AND THE SEMICONDUCTOR MARKET

Forecasts for the global economy are on the modest side for the 2013 calendar year. After dipping to an anticipated 2.6 percent in the 2012 calendar year, economic experts from the International Monetary Fund (IMF) are forecasting that global gross domestic product (GDP) will rise by 2.9 percent in the 2013 calendar year. The outlook for 2012 is weak, but nevertheless just about positive, largely based on the assumption that tensions on the world's financial markets in the wake of the European debt crisis will gradually decrease. Any further escalation in the debt crisis would, in the opinion of the experts, probably result in a recession in the euro zone and hold down growth in the remainder of the world's economies due to the resulting impact on trading relationships and on international financial markets. It is also imperative that fiscal consolidation does not get out of hand in the USA when the budget for 2013 is set. If the two parties, Democrats and Republicans, cannot agree to expenditure cuts that do not hurt the economy too much, automatic budget cuts will kick in from January 1, 2013. The growth forecast also depends on whether the Chinese economy achieves a "soft landing" or not. The pace of global growth is then predicted to rise to 3.5 percent for the 2014 calendar year.

High levels of risk in macroeconomic terms, a lack of economic momentum as well as the expiry of state-sponsored economic stimulus measures also left their mark on the semiconductor sector. Worldwide revenue in this sector declined, for instance, as the 2012 calendar year proceeded. As recently as in fall 2011, a growth rate of 5 percent was still being predicted for the global semiconductor market (excluding memory products and microprocessors¹) in the 2012 calendar year. Analysts at the market research company IHS iSuppli now expect the market to contract by 0.5 percent. Assuming a global recession can be avoided, growth rates of 8 percent and 6 percent are forecast for the 2013 and 2014 calendar years respectively. Over the period 2012 through 2016, the global semiconductor market (excluding memory products and microprocessors) is expected to grow at an average rate of 6 percent p.a. Growth rates of 7, 6 and 4 percent are forecast for automotive, industrial and chip card semiconductors, respectively.

INFINEON FORECASTS A DECREASE IN REVENUE IN 2013 COMPARED TO THE 2012 FISCAL YEAR BY A MID- TO HIGH-SINGLE-DIGIT PERCENTAGE RATE

The global economy saw relatively weak growth in the 2012 fiscal year. Analysts are of the opinion that the risk of a global recession due to the European debt crisis has receded. At the same time, expectations for global growth are on the low side and there is still a great deal of uncertainty regarding the possible impact of the European debt crisis. The fact that predictions for the global semiconductor market (excluding memory products and microprocessors) in 2013 are more optimistic than those for the global economy as a whole can be put down to the assumption that the relevant markets will pick up sharply during the second half of the calendar year. By contrast, IHS iSuppli analysts are forecasting that revenue will be flat or decrease during the first half of the 2013 calendar year. Even as the finishing touches were being put to the "Outlook" section of the 2011 Annual Report, it was necessary to word Infineon's revenue outlook ("decrease in revenue at a mid-single-digit rate compared to the 2011 fiscal year") somewhat more cautiously than market analysts ("semiconductor market excluding microprocessors and memory chips to grow by more than 5 percent in the 2012 calendar year"). This was due partly to the difference between Infineon's fiscal year-end to September 30 and the calendar year – Infineon's fiscal year included the weak fourth quarter from the 2011 calendar year, but not the fourth

¹ The global semiconductor market includes a high proportion of microprocessors and memory chips. Infineon does not have or no longer has operations these product segments and therefore only follows and reports on developments in the semiconductor market excluding these areas.

quarter from the 2012 calendar year which at that stage was still expected to be a strong one. Another key factor was that the forecasts made by market analysts needed to be subsequently revised to take account of the downturn that Infineon had already been able to identify on the basis of actual orders received and customer indications. Last but not least, Infineon's revenue was also affected by declining sales to Lantiq and IMC generated within Other Operating Segments. Overall, Infineon reported a decrease in revenue of 2 percent for the 2012 fiscal year (or a mid-single-digit percentage at constant exchange rates) and was therefore within the range forecasted at the beginning of the fiscal year. The discrepancy between the market researcher's outlook and Infineon's own forecast for the 2013 fiscal year is due to the same reasons. Infineon forecasts that Group revenue will decrease by a mid-to high-single-digit percentage rate compared to the previous fiscal year.

Revenue of the Automotive, Power Management & Multimarket and Chip Card & Security segments is expected to develop better than the average rate for the Group as a whole, whereas the Industrial Power Control segment will more than likely record a bigger decrease than the Group average. Moreover, revenue recorded by Other Operating Segments is scheduled to fall by some 80 percent from €125 million in the 2012 fiscal year to around €20 to €30 million in the 2013 fiscal year, reflecting further decreases in business with Lantiq and IMC. The decrease in revenue generated by Other Operating Segments will, on its own, cause Group revenue to decline by 2.5 percent compared to the 2012 fiscal year.

Based on the assumption that global economic conditions remain stable, Infineon forecasts an upturn in revenue in the 2014 fiscal year.

MEASURES FOR MARGIN STABILIZATION

Given the macroeconomic uncertainties and the prospect of further decreases in revenue, Infineon has decided on a number of measures to stabilize its margin and will now proceed to implement them. In manufacturing, Infineon will, for example, adjust production costs through measures such as temporarily switching off underutilized equipment, reducing the temporary workforce and the selective use of short-time work. Additionally, budgeted investments for fiscal year 2013 will be reduced from the previously-planned amount of €500 million to €400 million. In R&D, Sales and Marketing as well as Administration, projects of lesser strategic importance will either be postponed or cancelled and costs related to external service providers will be reduced. Furthermore, Infineon has frozen its headcount at roughly the level reached at the end of the 2012 fiscal year and postponed certain salary increases. The orientation of the incentive scheme to long-term margin targets will add to these cost reductions. In total, the sum of all measures will lead to cost savings exceeding €100 million.

GROSS MARGIN BETWEEN 32 AND 34 PERCENT EXPECTED

The gross margin achieved by Infineon partially depends on the level of production capacity utilization. After a year in which demand was constantly higher than available capacities, management took the decision in summer 2011 to expand production capacities. This decision was duly implemented at all Infineon sites worldwide. Facilities were also equipped at the Dresden (Germany) and Villach (Austria) sites for the production of 300-millimeter thin wafers, while a second production building at the Kulim (Malaysia) site was built to an almost weatherproof state for the event that volume production of 200-millimeter thin wafers is required at short notice. Infineon also expanded its Assembly & Test capacities worldwide.

A new building was added in Cegléd (Hungary) to expand production capacities for high-performance IGBT modules. Infineon's gross margin in the future will now depend on the extent to which existing production capacities and additional production space are utilized. Owing to global economic uncertainties, actual revenue in the 2012 fiscal year and forecast revenue for the 2013 fiscal year are significantly lower than the amounts originally planned, with a corresponding adverse impact on gross margin. High investment levels in the 2011 and 2012 fiscal years will result in a rising level of depreciation and amortization expense, which will depress gross margin. Overall, assuming that the forecast revenue figure is achieved, and with the measures described above, Infineon forecasts a gross margin of between 32 and 34 percent for the current fiscal year.

The various measures described above will also have some impact on years subsequent to the 2013 fiscal year. Rising revenue at that stage should result in better fixed cost coverage and hence have a positive impact on the gross margin. The outcome of these developments is that the gross margin should rise in the 2014 fiscal year compared to the 2013 fiscal year on the back of increased Group revenue.

OPERATIONAL EXPENSES: SLIGHT INCREASE IN SELLING EXPENSES, STRONGER RISE IN RESEARCH AND DEVELOPMENT EXPENSES, REDUCTION IN ADMINISTRATIVE EXPENSES

Our forecasts for operational expenses in the 2013 fiscal year show noticeable increases in R&D and selling expenses, whereas general and administrative expenses are set to decrease.

The main focus of our endeavors in research and development will be to continue working on the 300-millimeter thin wafer technology till we achieve volume production capability. A second key point of emphasis will be on the technological development still needed to improve the power density and extend the useful life of our power semiconductors. The primary aim of optimizing the product characteristics of power semiconductors is to boost the efficiency of the system as a whole, consisting of power semiconductors, driver ICs and microcontrollers. We will also continue investing in the expansion of technology platforms from which various products were successfully launched in the 2012 fiscal year. The XMC4000 family of microcontrollers for industrial applications and the integration of power and controller functionalities on one chip using the 130-nanometer BCD process are excellent examples of this strategy. In the field of Digital Power Management, in the 2013 fiscal year we will continue to work on introducing integrated switches for controlling the power supply to microprocessors, adapters and LEDs.

Silicon carbide has a host of physical advantages over conventional silicon when it comes to selecting the best material for manufacturing power semiconductors. However, because of its comparatively high market price, mainly due to the expensive silicon carbide wafers, only a few customers have chosen products made out of this innovative material in a small number of selected applications for which efficiency is particularly crucial. Infineon continues researching and developing to expand its product portfolio to include individual components and modules based on silicon carbide in order to further reduce production costs. As a result of the rapidly falling wafer prices, Infineon expects silicon carbide components to offer plenty of market potential in the medium-term. Gallium nitride is yet another alternative to silicon that is not far from market readiness. In this field too, Infineon's research and development activities are quite considerable.

Overall, research and development expenses will rise by around 10 percent in the 2013 fiscal year.

In order to distribute and sell the products we are developing long-term projects, and to consolidate and expand on the market position previously achieved as well as continuing to grow, sales capacities also need to be expanded. For this reason selling expenses are likely to increase by around 5 percent during the current fiscal year. The workforce will be primarily enlarged by additional application development engineers and direct sales staff. The main regional focus will be on the Asian markets, where more than half of the new positions were created. However, the sales force in Europe and North America is set to grow, too. Another important factor is the need for additional staff for designing and expanding Infineon's internet website in order to support our sales activities. Infineon will be adopting strict measures to keep administrative expenses to a minimum in the 2013 fiscal year and general and administrative expenses are likely to be slightly lower than those of the previous year. Overall, however, it is forecast that there will be a slight rise in total selling, general and administrative expenses.

SEGMENT RESULT MARGIN EXPECTED AT MID- TO HIGH-SINGLE-DIGIT PERCENTAGE OF REVENUE

In the 2013 fiscal year Infineon will endeavor to counter the downward pressure on margins caused by lack of revenue growth on the one hand and rising R&D and selling expenses on the other by pushing ahead with the cost-saving measures described above, by cutting back on general and administrative expenses and by reducing investments sharply. A mid- to high-single-digit percentage decrease in revenue compared to the 2012 fiscal year is forecast to give rise to a Segment Result Margin in the mid- to high-single-digit percentage range of revenue.

Should economic developments subsequent to the 2013 fiscal year generate any significant revenue growth, Segment Result Margin should then rise compared to the 2013 fiscal year. Infineon's long-term goal is to achieve a Segment Result Margin of 15 percent on average over the economic cycle. This can only be reached in the short-term through significant increases in sales volume and revenue, and is therefore dependent on economic developments. If an economic upturn fails to materialize in the short-term, we will only be able to achieve the target over time as production capacity utilization improves in line with the expected rise in demand and thanks to the benefits of 300-millimeter thin wafer production, assuming it accounts for an appropriate share of volumes.

OTHER EXPENSES

Infineon forecasts that the non-segment result in the 2013 fiscal year will amount to approximately minus €50 million, an improvement on the loss of €72 million reported for the 2012 fiscal year.

The financial result is expected be a net expense of €23 million, more or less unchanged from the 2012 fiscal year. Lower market interest rates and a lower volume of interest-bearing assets invested will offset the effect of lower interest expense following the repurchase of subordinated convertible bonds (nominal amount: €24 million) during the 2012 fiscal year.

A further factor is that bond repurchases in 2012 fiscal year were executed at rates well above 100 percent and therefore resulted in accounting losses totaling €6 million, which were reported as part of the net financial result. Infineon has assumed that there will be no expense from bond repurchases in the 2013 fiscal year. If any convertible bonds are repurchased in the 2013 fiscal year the net financial result will deteriorate compared to the amounts forecasted above.

The convertible bond falls due for repayment or conversion in May 2014, reducing the related interest expense in the 2014 fiscal year and eliminating it in the 2015 fiscal year.

The cash effective tax rate for the Infineon Group is expected to be approximately 15 percent which comprises cash effective foreign taxes at comparable rates plus cash effective taxes in Germany. Due to the existence of tax loss carry-forwards and the minimum taxation rules in Germany, only 40 percent of German profits will be subjected to current tax, giving rise to a cash effective tax rate in Germany of approximately 12 percent. Infineon expects the cash effective tax rate to remain at this level until the tax loss carry-forwards are utilized. As of September 30, 2012 corporation tax losses and municipal trade tax losses available for carry-forward in Germany amounted to €3.0 billion and €4.1 billion respectively. Infineon expects to achieve a cash effective tax rate of 15 percent beyond the 2013 fiscal year.

WORKING CAPITAL EXPECTED TO INCREASE

Working capital at Infineon increased from a negative amount of €663 million at the start of the fiscal year to a negative €353 million as of September 30, 2012. This trend is expected to be repeated in the 2013 fiscal year. Based on the assumption that business picks up significantly in the second half of the fiscal year, trade receivables and inventories are expected to stay at roughly the same levels or possibly rise slightly. Over the same period, trade payables and other liabilities will decrease as a result of lower investment volumes. Other current liabilities are also expected to go down as a result of the expiry of the put option program. These items will have the effect of increasing working capital in the 2013 fiscal year. If Infineon were to reach an out-of-court settlement with the insolvency administrator managing the assets of Qimonda AG, the utilization of provisions is likely to result in a corresponding increase in working capital. Since such a settlement agreement cannot be predicted with any certainty, Infineon has not taken any account of such payments in its forecasts.

Beyond the 2013 fiscal year, the expected increase in revenue is likely to have the effect of further increasing working capital.

INVESTMENTS, PRODUCTION CAPACITIES AND DEPRECIATION/AMORTIZATION

The high level of investment over the last two fiscal years has put Infineon in a good position to react to growing demand at short notice. Although the ongoing uncertainty plaguing the world economy means that both current and short-term revenue volumes are likely to fall short of the original budget, medium- and long-term prospects for growth continue to be promising in view of Infineon's product range tailored to the focus areas of energy efficiency, mobility and security. Currently existing capacity levels can flexibly and reliably accommodate any increase in demand for the foreseeable future. For this reason, investments in the 2013 fiscal year will be significantly reduced to around €400 million, as compared to the €890 million invested in the 2012 fiscal year.

Infineon will be primarily investing in the qualification and start-up of 300-millimeter thin wafer volume production. In the previous year's Annual Report we announced the setting up of a 300-millimeter thin wafer pilot line at our site in Villach (Austria). We have meanwhile implemented this project with very good results. The technology was successfully introduced at the Villach site in the fall of 2011 and the first 300-millimeter thin wafer products are now ready for qualification.

Apart from setting up the 300-millimeter thin wafer production line, similar to the previous fiscal year, the topics of quality and innovation continue to represent the key focus of investment. In order to achieve these aims, existing production lines will be revised and new machinery and technologies will be purchased and made operational over the course of the 2013 fiscal year.

Beyond the 2013 fiscal year, investments will be in the region of 15 percent of revenue.

Production staff numbers only grew by around 2 percent in the last fiscal year and there are no current plans for further headcount increases during the 2013 fiscal year.

In addition to the investment measures described above, Infineon also arranges certain production capacities with subcontractors. During the 2012 fiscal year, for instance, various CMOS high-volume technologies were qualified at the premises of production partners TSMC and UMC.

The high level of investment in the previous fiscal year will result in further increasing depreciation in the 2013 fiscal year, which will amount to some €470 million, as compared with €428 million in the 2012 fiscal year.

In subsequent years the expense for amortization and depreciation is likely to be more in line with investments, albeit with a certain time delay.

FREE CASH FLOW

Free cash flow from continuing operations in the 2012 fiscal year was negative, but should turn into a positive figure again in the 2013 fiscal year. Operating activities are expected to generate solid cash flows, which should clearly exceed the reduced investments of approximately €400 million.

After the fiscal year 2013, Infineon is aiming to achieve a return to revenue growth with Segment Result Margin settling in the long-term at 15 percent. Based on investments equivalent to approximately 15 percent of revenue, a corresponding expense for amortization and depreciation and a small increase in working capital, free cash flows should be clearly positive.

CASH FLOWS FROM FINANCING ACTIVITIES

Infineon recommenced paying dividends in the 2011 fiscal year and distributed a dividend of €0.10 for the 2010 fiscal year. The dividend for the 2011 fiscal year was raised to €0.12 per share. The total amounts distributed for the 2010 and 2011 fiscal years amounted to €109 million and €130 million respectively. The Company intends to propose to the Annual General Meeting that an unchanged dividend of €0.12 per share be paid for the 2012 fiscal year. In the event that the Annual General Meeting approves this proposal, the total dividend would amount to approximately €129 million. Infineon's strategy is to pursue a dividend policy that enables shareholders to participate appropriately in growing earnings or, in times of flat or declining earnings, to keep the dividend at a constant level. Infineon assumes that future dividends will at least be kept constant. If the global economic uncertainties caused by the European debt crisis turn out to have less of a dampening effect on economic growth than expected, and Infineon is able as a result to return to accelerated growth and a double-digit Segment Result Margin, it is likely that it will pay rising dividends per share after the 2013 fiscal year.

Dividend for fiscal year	Dividend per share
2010	€0.10
2011	€0.12
Proposal 2012	€0.12

Statements giving notice of such transactions are published on our website at www.infineon.com (“About Infineon/Investor/Corporate Governance/Directors’ Dealings”) and conveyed to the company register.

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The capital return program started in the 2011 fiscal year, including the use of derivative instruments, has been continued during the 2012 fiscal year. By the end of September 2012, a total of 7 million shares had been repurchased for €46 million as a result of options exercised. The program expires on March 31, 2013. As of September 30, 2012, there were outstanding put options for the purchase of a further 16 million shares at exercise prices between €4.71 and €6.93. It is therefore possible that further shares will be repurchased during the first two quarters of the 2013 fiscal year as a result of the exercise of options (see also the section “Significant events after the end of the reporting period”). Over the course of the 2012 fiscal year, Infineon also reduced the outstanding volume of convertible bonds due 2014 by €24 million (nominal) to €113 million (nominal) as of September 30, 2012 by buying back further bonds, with a cash outflow of €62 million. Repurchases of convertible bonds could continue in the 2013 fiscal year. Whether and the extent to which convertible bonds are bought back in the course of the 2013 fiscal year will depend on the development of the underlying share price, the availability of liquidity as well as the price and availability of convertible bonds. The convertible bond falls due for repayment or conversion in May 2014. In addition, Infineon also intends to repay debt of €55 million during the 2013 fiscal year, previously raised to finance a number of projects, mostly in Austria.

The aim is to achieve a consolidated balance sheet structure that would result in an “investment grade” credit rating for the purposes of refinancing via external debt. In this context, Infineon is pursuing the long-term strategy of maintaining a gross cash position of between 30 and 40 percent of revenue. Further targets are to maintain a net cash position and to keep gross financial liabilities to a maximum level of two times EBITDA. Infineon’s forecasts indicate that these targets will be surpassed in the 2013 fiscal year. Given that its gross cash position significantly exceeds the stated target, no major financing transactions are planned for the coming fiscal year.

LONG-TERM GROWTH DRIVERS FOR INFINEON’S BUSINESS

Infineon operates in sectors with high growth rates. From 2012 to 2016 the experts at IHS iSuppli forecast average growth of 7 percent for the automotive sector and 6 percent for the industrial semiconductor market. According to IHS iSuppli, the chip card semiconductor market is likely to grow at an average rate of 4 percent per annum during the same period.

The high rates of growth in the markets served by Infineon are driven by three key themes, namely energy efficiency, mobility and security.

Energy efficiency: Renewable energy is beginning to play an increasingly major role in power generation worldwide. This trend is also becoming more evident since the natural disaster and reactor meltdown in Japan. In terms of both the transmission and the consumption of electric power, it is becoming more and more crucial to improve the efficiency of all devices used worldwide. All of these factors will boost demand for power semiconductors.

Mobility: Increasing numbers of people need to be mobile for business or private purposes. The number of people who also have the financial means to achieve this aim is continuously growing worldwide. Infineon basically makes mobility possible with products manufactured by its Automotive and Industrial Power Control segments. Not only is the number of cars, trains and public transport services constantly growing, but also the value of power semiconductors and other Infineon products integrated within them.

Security: The amount of critical data being stored and/or accessed increases every day. The products Infineon manufactures in the Chip Card & Security segment help protect authorized users and devices from unauthorized access to their personal data. They also help store data in a secure way.

Infineon has gained a leading market position in all of its four operating segments by offering outstanding products, comprehensive technological and manufacturing know-how and a profound understanding of systems built on long-term relationships with key customers. All of these factors, coupled with intensive R&D work, place Infineon in pole position to benefit from ongoing trends.

NEW PRODUCTS

Infineon announced the launch of a host of new products in the course of the 2012 fiscal year. Examples of some of these are presented below:

In January 2012 Infineon introduced a new generation of 32-bit microcontrollers. As a supplement to automotive controllers, the XMC4000 family of microcontrollers now addresses industrial applications. The application of a widely-used processor architecture, the Cortex™ M4 processor from ARM®, means that programming is kept to a minimum, thereby forming the basis for straightforward use in a broad range of industrial applications. The new family of microcontrollers was launched at the Embedded World Trade Fair held in Nuremberg (Germany) in February 2012.

In May 2012 Infineon announced a new generation of automotive microcontrollers. Compared to even the most powerful components currently available, the new family of 32-bit multi-core controllers known as AURIX™ not only deliver twice the processing power but also fulfill future requirements for power train and functional security applications as well as protection from manipulation. The controller supports the highest security level ASIL-D (Automotive Safety Integrity Level) and has an integrated Hardware Security Module (HSM). This HSM uses a hardware-based encrypting technology that has been developed by Infineon's Chip Card & Security segment. The AURIX™ microcontroller is destined to be embedded in the design of numerous applications required by automotive suppliers in the 2013 fiscal year. Fields of application include engine control devices, transmission controllers and those for applications such as electric and hybrid vehicles, suspension systems, braking systems, electronic power-assisted steering, airbags and driver assistance systems.

The KP200 pressure sensor is already an integral part of side airbag systems. Since June 2012, however, this product has found another field of application. In collaboration with carmaker Daimler, the automotive supplier Continental has developed a new safety system that includes the use of this pressure sensor. The system is built into the front bumper and designed to better protect pedestrians in the event of a collision.

In September 2012 Continental announced its intention to exclusively use security chips supplied by Infineon in its new generation of digital tachographs. Thus Infineon has succeeded in entering a new field of application for security chips in commercial vehicles – another good example of the cross-segment transfer of security applications. Digital tachographs have been mandatory equipment in all newly registered trucks and buses in the EU since May 2006 and now the regulations governing these tachographs have been made even stricter. As from October 2012, in accordance with an EU directive, only new-generation devices may be installed, which are even more effectively protected from manipulation and interference.

Infineon began offering silicon carbide diodes as early as 2001. Compared with conventional silicon, this innovative material is far more suitable for applications with higher switching frequencies and thus reduces energy losses in the system. In May 2012 Infineon also presented the first silicon-carbide-based transistor. The use of the still relatively expensive silicon carbide products makes particular sense wherever outstanding energy efficiency is a crucial factor. The more stringent the requirements, the more attractive it therefore becomes to use high-grade materials of this kind, such as in photovoltaic inverters.

In 2008 Infineon first introduced radar sensors based on silicon germanium for automotive applications. In October 2012 Infineon presented a single-chip radar solution made of this material for use in industrial and commercial sensor systems. Other possible fields of application for this new family of products are level indicators in containers and tanks for both liquids and solids, intelligent door openers, security systems such as burglar alarm systems, lighting control systems and the collision avoidance technology that protects all kinds of industrial vehicles. When developing the chip, the industry experts made use of the experience previously gained with automotive radar sensors, significantly reducing the development period. Together with a systems design company, Infineon showcased a demonstrator at the electronica trade fair in Munich in November 2012. The first deliveries are due to be made during the current fiscal year.

INFINEON'S TARGET OPERATING MODEL

Over the past years, Infineon has restructured its business and successfully focused its product portfolio. Infineon enjoys leading market positions in all of its four segments – Automotive, Industrial Power Control, Power Management & Multimarket and Chip Card & Security. The plan is to maintain and improve on these market positions through organic growth. Revenue of approximately €3.8 billion was generated by these segments in the 2012 fiscal year. Given the current market position and the growth drivers described above, Infineon expects to be able to achieve an annual average revenue growth rate in excess of the historical average of 7 percent over the economic cycle.

In terms of profitability, Infineon is aiming to achieve a Segment Result Margin of approximately 15 percent and a gross margin of 40 percent plus over the economic cycle. Expense ratios at a low to mid-teen percentage for R&D and at a low teen percentage for selling and administrative expenses are being targeted. Thanks to Infineon's high gross cash position and its very moderate level of gross debt, net financial result is likely to be only marginally negative. Due to the existence of tax loss carry-forwards, Infineon expects a cash effective tax rate of approximately 15 percent until such time that the tax loss carry-forwards have been utilized.

Reflecting the need to create additional production capacity, also encompassing innovative and cost-efficient 300-millimeter production, the ratio of investments to revenue in both of the last two fiscal years was over 20 percent, whereas in the current year, it is more likely to be in the region of 10 percent. Looking beyond the 2013 fiscal year, investments are forecasted at a level equivalent to approximately 15 percent of revenue.

Infineon believes that the business model described in this report and its current corporate structure puts it in a strong position. In the future, however, Infineon's operating model is likely to shift away from being a provider of highly efficient semiconductor components towards becoming a provider of complete semiconductor systems, thus increasing benefits for customers and shortening the time between product development and market launch. Customers will also benefit in terms of market share, revenue and selling prices.

OVERALL STATEMENT ON THE EXPECTED DEVELOPMENT OF THE INFINEON GROUP

Based on the likelihood that the global economy will only grow at a moderate pace and in the face of ongoing uncertainties caused by the global debt crisis, Infineon forecasts a mid- to high-single-digit percentage decrease in Group revenue in the 2013 fiscal year compared to one year earlier and a mid- to high-single-digit Segment Result Margin.

Infineon enjoys leading market positions in all four of its segments. Energy efficiency, mobility and security are the drivers that will bring growth to the Group. Infineon has excellent products and technologies and long-standing relationships with customers who are themselves leaders in their own sectors. The aim now is to consolidate and build on the market positions already attained. There are currently no plans to sell any significant parts of the business. Based on this strategy, the Management Board considers that Infineon is well positioned to achieve further profitable revenue growth beyond the fiscal year 2013.

Summary of outlook for revenue and earnings

	2012	2013	2014
Revenue growth	(2%)	Mid- to high-single-digit percentage decrease compared to 2012 FY	Significant recovery
Gross margin	36.6% of revenue	Between 32% and 34% of revenue	Increase compared to 2013 FY
Segment Result Margin	13.5% of revenue	In the mid- to high-single-digit percentage of revenue	Increase compared to 2013 FY

Within operational costs, R&D expenses are set to rise by approximately 10 percent and selling expenses by approximately 5 percent, while general and administrative expenses are expected to fall. Infineon also expects to incur expenses of approximately €50 million for items not allocated to operating segments. Net financial result will remain roughly in line with the net expense of €23 million recorded in the 2012 fiscal year. The availability of tax loss carry-forwards means that the cash effective tax rate in the 2013 fiscal year will be in the region of 15 percent.

Investments will be reduced significantly compared to the 2012 fiscal year and amount to approximately €400 million. The expense for amortization and depreciation is estimated at approximately €470 million. As a result of the planned reduction in investments and the solid cash flow from operating activities, Infineon forecasts a positive free cash flow in the 2013 fiscal year even if working capital increases.

INFORMATION PURSUANT TO SECTION 289, PARAGRAPH 4, AND SECTION 315, PARAGRAPH 4, OF THE GERMAN COMMERCIAL CODE

STRUCTURE OF THE SUBSCRIBED CAPITAL

The share capital of Infineon Technologies AG increased by €1,120,994 in the 2012 fiscal year as the result of the exercise of 560,497 stock options. Following the cancellation of 7,000,000 own shares and the related capital reduction, the share capital was reduced by €14,000,000 and stood at €2,160,612,664 as of September 30, 2012. This sum is divided into 1,080,306,332 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.

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. The Company did not hold any own shares at the end of the reporting period (September 30, 2011: 4 million).

Shares of Infineon Technologies AG are listed on the Frankfurt Stock Exchange (FSE) under the symbol “IFX” and are also traded in the form of American Depositary Shares (“ADS”) on the OTCQX International over-the-counter market under the ticker symbol “IFNNY”, with each Infineon ADS representing one Infineon ordinary share.

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”). Shareholders are prohibited from voting under certain circumstances pursuant to section 136 AktG, for example, and Infineon Technologies AG has no voting rights from its own shares according to section 71b AktG. Non-compliance with the notification requirements pursuant to section 21, paragraph 1 or 1a of the German Securities Trading Act (Wertpapierhandelsgesetz – “WpHG”) can, according 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 registered 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, 2012, 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 that date are presented in the Notes to the Consolidated Financial Statements 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.

SYSTEM OF CONTROL OF VOTING RIGHTS WHERE EMPLOYEES OWN SHARES AND THEIR CONTROL RIGHTS ARE NOT EXERCISED DIRECTLY

Employees who hold shares in 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 January 1, 2012, Infineon Technologies AG's Management Board was expanded from three to four members. Following Peter Bauer's departure from office on September 30, 2012 the Management Board comprises again three members effective October 1, 2012. 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 on the first ballot, the appointment may be approved on a recommendation of the Mediation Committee on 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 of 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 1, 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 on 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

Authorized Capital

Authorized Capital 2010/I

Section 4, paragraph 8, 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 through February 10, 2015 once or in partial amounts by a total of up to €648,000,000 by issuing up to 324,000,000 new no par value registered shares, carrying a dividend right as of the beginning of the fiscal year in which they are issued, against contributions in cash or in kind (Authorized Capital 2010/I). Shareholders have subscription rights in principle in the event of capital increases against contributions in cash. However, the Management Board is authorized, with the approval of the Supervisory Board, to exclude the subscription rights of the shareholders

- (a) in order to exclude fractional amounts from the subscription right,
- (b) insofar as such action is necessary in order to grant holders of options or conversion rights attached to convertible bonds that have already been or will in future be issued by the Company or its subordinated group companies subscription rights to new shares to the extent they would be entitled after exercise of the option or conversion rights or after fulfillment of any conversion obligations,
- (c) if the issue price of the new shares is not substantially lower than the price on the stock exchange and the shares issued with the subscription rights of the shareholders excluded pursuant to section 186, paragraph 3, sentence 4, AktG 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.

The Management Board is additionally authorized, with the approval of the Supervisory Board, to exclude the subscription rights of the shareholders in relation to capital increases against contributions in kind. However, in order to protect the shareholders against the dilution of their holdings, the Management Board of Infineon Technologies AG has undertaken to make use of this authorization to exclude the subscription rights of the shareholders in the case of capital increases against contributions in cash or in kind out of the Authorized Capital 2010/I only up to an amount equivalent to 10 percent of the share capital at the time the authorization comes into force or – if the latter value should be lower – the share capital existing at the time the authorization is exercised. Any capital increase utilizing the Authorized Capital 2010/I with the subscription rights of the shareholders excluded is thus limited to a maximum of 108,030,633 no par value shares or €216,061,266 as of September 30, 2012 (that is to say 10 percent of the share capital in place at that time).

The Management Board determines the further content of the rights attached to the shares and the terms of the share issue with the approval of the Supervisory Board.

Authorized Capital 2010/II

Section 4, paragraph 9, of the Articles of Association additionally authorizes the Management Board, with the approval of the Supervisory Board, to increase the share capital in the period through February 10, 2015, once or in partial amounts, by a total of up to €40,000,000 by issuing up to 20,000,000 new no par value registered shares against contributions in cash for the purpose of issuance to employees of the Company or its group companies (Authorized Capital 2010/II). The subscription rights of the shareholders are excluded in relation to these shares. The Management Board determines the further content of the rights attached to the shares and the terms of the share issue with the approval of the Supervisory Board.

The aforementioned authorizations of the Management Board to issue new shares out of Authorized Capital 2010/I are intended to enable the Management Board to raise capital flexibly and on economically advantageous terms, taking advantage of attractive financing opportunities, even at short notice, whenever they may arise in the market. Accordingly, Authorized Capital 2010/II will be used to service share-based employee participation programs. It could also be used for the Performance Share Program for Employees which is planned by the Company (see Compensation Report for details).

❖ see page 195 ff.

No shares were issued during the 2012 fiscal year out of the various authorized capital amounts described above.

Conditional Capital

Conditional Capital I

Section 4, paragraph 4, of the Articles of Association provides for the share capital of Infineon Technologies AG to be conditionally increased by up to a nominal amount of €34,628,048 (Conditional Capital I, registered in the Commercial Register as “Conditional Capital 1999/I”). The conditional capital increase is to be effected by issuing up to 17,314,024 new no par value registered shares, carrying a dividend right as of the beginning of the fiscal year in which they are issued, but only to the extent that the holders of subscription rights granted under the “Infineon Technologies AG 2001 International Long Term Incentive Plan” on the basis of the authorization granted on April 6, 2001 choose to exercise their subscription rights.

Conditional Capital III

At the end of the fiscal year 2012, section 4, paragraph 5, of the Articles of Association provided for the share capital of Infineon Technologies AG to be conditionally increased by up to a nominal amount of €29,000,000 (Conditional Capital III, registered in the Commercial Register as “Conditional Capital 2001/I”). The conditional capital increase is to be effected by issuing up to 14,500,000 new no par value registered shares, carrying a dividend right as of the beginning of the fiscal year in which they are issued, but only to the extent that the holders of subscription rights granted under the “Infineon Technologies AG 2001 International Long-Term Incentive Plan” on the basis of the authorization issued on April 6, 2001, or the holders of subscription rights granted under the “Infineon Technologies AG Stock Option Plan 2006” on the basis of the authorization issued on February 16, 2006, choose to exercise their subscription rights. During the 2012 fiscal year, a total of 560,497 new no par value registered shares corresponding to a proportionate amount of €2 per share were issued out of Conditional Capital III as a result of the exercise of share options in conjunction with the “Infineon Technologies AG Stock Option Plan 2006”. Conditional Capital III decreased accordingly by €1,120,994 to €27,879,006. 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.

Conditional Capital 2002

Section 4, paragraph 6, of the Articles of Association provides for the share capital of Infineon Technologies AG to be conditionally increased by up to €134,000,000 by issuing up to 67,000,000 new no par value registered shares carrying a dividend right as of the beginning of the fiscal year in which they are issued (Conditional Capital 2002, registered in the Commercial Register as “Conditional Capital 2007/II”). The conditional capital increase serves the purpose of granting shares to the holders of the convertible bond issued in May 2009 by Infineon Technologies Holding B.V., which is guaranteed by Infineon Technologies AG. The conditional capital increase is effected only insofar as conversion rights from the convertible bond are exercised or any conversion obligations under these notes are fulfilled. The Management Board is authorized to determine the further details of implementation of the conditional capital increase.

Conditional Capital 2009/I

Section 4, paragraph 7, of the Articles of Association provides for the share capital of Infineon Technologies AG to be conditionally increased by up to €149,900,000 by issuing up to 74,950,000 new no par value registered shares carrying a dividend right as of the beginning of the fiscal year in which they are issued (Conditional Capital 2009/I). The conditional capital increase serves the purpose of granting shares to the holders of the convertible bond issued in May 2009 by Infineon Technologies Holding B.V., which is guaranteed by Infineon Technologies AG. The conditional capital increase is effected only insofar as conversion rights from the convertible bond are exercised or conversion obligations under these notes are fulfilled and insofar that no cash settlement is made or own shares are used to service the obligations.

Conditional Capital 2010/I

Section 4, paragraph 10, of the Articles of Association provides for the Company's share capital to be conditionally increased by up to a nominal amount of €24,000,000 by issuing up to 12,000,000 new no par value registered shares (Conditional Capital 2010/I). The conditional increase in capital is effected only insofar as the holders of subscription rights issued in the period through September 30, 2013 under the "Infineon Technologies AG Stock Option Plan 2010" choose to exercise their subscription rights to Company shares and the Company does not provide a cash settlement or own shares to satisfy these subscription rights. The new shares have dividend rights from the start of the fiscal year of their issue.

Conditional Capital 2010/II

Section 4, paragraph 11, of the Articles of Association provides for the share capital also to be conditionally increased by up to €260,000,000 by issuing up to 130,000,000 new no par value registered shares carrying a dividend right from the start of the fiscal year of their issue (Conditional Capital 2010/II). The conditional capital increase serves the purpose of granting shares to the holders of bonds with warrants and/or convertible bonds issued by the Company or a subordinated group company against payment in cash on the basis of the authorization of the Annual General Meeting of February 11, 2010. The conditional capital increase is effected only insofar as conversion rights attached to the bonds are exercised or conversion obligations under the bonds are fulfilled and insofar that no cash settlement is made or own shares are used to service the obligations. The Management Board is authorized to determine the further details of implementation of the conditional capital increase.

The issue of stock options backed by conditional capital is a practical and common option that has been used for many years in German companies in the compensation of board members and executives. Infineon has also used this instrument on several occasions. To the extent that Infineon will deploy other compensation components of a long-term nature in future, the existing amounts of conditional capital are used – during the remaining term of the option programs – to service subscription rights arising from share options already issued. Other conditional capital amounts cover the conversion rights of holders of the convertible bond issued by Infineon Technologies Holding B.V. To the extent that conditional capital amounts are no longer required for this purpose (for instance where bonds have been repurchased and invalidated), the Management Board and the Supervisory Board will normally propose at the Annual General Meeting to cancel the respective conditional capital amounts.

With the exception of Conditional Capital III (see relevant section), no shares were issued during the 2012 fiscal year out of the conditional capital amounts described above. Further details of the various stock option plans are provided in note 32 to the Consolidated Financial Statements. Further details of the convertible bond issued by Infineon Technologies Holding B.V. are provided in note 27 to the Consolidated Financial Statements.

❖ see page 259 ff.

❖ see page 253 ff.

AUTHORIZATION TO ISSUE BONDS WITH WARRANTS AND/OR CONVERTIBLE BONDS

The Annual General Meeting on February 11, 2010 authorized the Management Board, in the period through February 10, 2015, 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 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) during the ten exchange trading days prior to the date of adoption of the resolution by the Management Board to issue the bonds or, insofar as the shareholders have subscription rights for the bonds, during the days on which subscription rights for the bonds are traded on the Frankfurt Stock Exchange, but excluding the last two exchange trading days for such subscription rights. Without prejudice to section 9, paragraph 1, AktG, the option or conversion price may be reduced pursuant to a dilution protection clause in accordance with the terms of the bonds if the Company increases its share capital before the end of the option or conversion period, honoring the subscription rights of the shareholders, or issues or guarantees further bonds and the holders of option rights or of convertible bonds are not granted subscription rights in this respect. The terms may also provide for a value-preserving adjustment of the option or conversion price or of the option or conversion rate in the event of other measures potentially leading to a dilution of the commercial value of the option or conversion rights. In any event, the notional portion of the share capital attributable to the underlying each convertible bond may not exceed the nominal value of the bond.

The Management Board is authorized, subject to the requirements resolved by the Annual General Meeting, to determine the further details of the issue and features of the bonds and their terms.

The aforementioned authorizations of the Management Board to issue bonds with warrants or convertible bonds are intended to enable the Management Board to raise capital flexibly and on economically advantageous terms to cover capital requirements as they arise, taking advantage of attractive financing opportunities, even at short notice, whenever they present themselves in the market.

PURCHASE OF OWN SHARES; CAPITAL RETURN PROGRAM

A resolution passed by the Annual General Meeting on February 17, 2011 authorizes Infineon Technologies AG, in the period through February 16, 2016, 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 purpose of trading in its own shares. The Company may exercise the authorization once or a number of times for one or a number of purposes. The authorization may also be used by dependent companies or companies in which the Company has a majority holding or by third parties acting for the Company or for dependent companies or companies whom the Company has a majority holding. 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 (referred to jointly as a “public purchase offer”), or via a bank that is engaged to complete the acquisition as part of a defined repurchase program.

- (a) If shares are acquired through the stock exchange, the purchase price per share (excluding incidental costs) paid by the Company may not be more than 10 percent above or below the price established in the Xetra (or comparable successor system) opening auction on the trading day.
- (b) If shares are acquired by means of a public purchase offer, a fixed purchase price or purchase price range may be specified. The purchase price per share (excluding incidental costs) paid by the Company in this case may be no more than 10 percent above and no more than 20 percent below the arithmetic mean of the closing prices of the share in Xetra trading (or a comparable successor system) on the last three exchange trading days prior to the day of publication of the public purchase offer (“effective date”). If significant price changes occur after the effective date, the purchase price may be adjusted accordingly; in this case, the relevant time frame is the three exchange trading days prior to the public announcement of any such adjustment. The volume of the purchase may be limited. If the total subscription for the public purchase offer exceeds this volume, the Company adopts a quota-based purchase approach. Provision may be made for a preferred acceptance of smaller quantities (up to 100 offered shares per shareholder). The public purchase offer may also provide for further terms and conditions.
- (c) A bank can be engaged as part of a defined repurchase program to acquire either an agreed number of shares or shares for a previously defined total purchase price, on a previously defined minimum number of trading days in Xetra trading (or a comparable successor system) and in any case by no later than the end of a previously agreed period, and to transfer them to the Company. In such cases, (i) the bank must acquire the shares through the stock exchange and (ii) the purchase price per share to be paid by the Company must include a discount with respect to the arithmetic mean of the volume-weighted average price (“VWAP”) of the Infineon share in Xetra trading (or a comparable successor system) over the actual period in which shares are repurchased. In addition, the bank must (iii) purchase the shares to be supplied through the stock exchange at prices falling within the range defined under a) in respect of direct acquisition by the Company.

The Company is authorized not only to sell shares in the Company acquired under this authorization via the stock exchange or by means of a public offer addressed to all shareholders, but also to make use of them for any other legally admissible purpose, specifically including the following:

- (a) The shares may be cancelled without this cancellation or its implementation requiring any further resolution of the Annual General Meeting. The Management Board may also decide in this connection that the share capital will not be affected by the cancellation and that the proportion of non-cancelled shares in the share capital will be increased accordingly. The Management Board is authorized to amend the number of shares indicated in the Articles of Association accordingly in this case.

- (b) The shares may be offered and transferred to third parties in connection with corporate mergers or the acquisition of companies, parts of companies or participations in companies.
- (c) The shares may, subject to the consent of the Supervisory Board, be sold to third parties for cash payment including by means other than through the stock exchange or through an offer to all shareholders provided that the price at which the shares are sold (excluding incidental selling costs) is not substantially lower than the share price established in the Xetra (or comparable successor system) opening auction on the day of the sale. Furthermore, the total value of the shares sold in these cases may not exceed 10 percent of the share capital as determined either at the time of this authorization becoming effective or at the time of its exercise. The notional portion of the share capital that relates to shares issued or used with the subscription rights of the shareholders excluded in direct or analogous application of section 186, paragraph 3, sentence 4, AktG is to be included in this amount. Also to be included in this number are the shares that have already been issued or can still be issued in future to service conversion or option rights insofar as the underlying bonds were issued during the lifetime of this authorization with the subscription rights of the shareholders excluded in analogous application of section 186, paragraph 3, sentence 4, AktG.
- (d) The shares may be used to meet the Company's obligations under bonds with warrants and convertible bonds issued or guaranteed by it in the past or in the future.
- (e) The shares may be used directly or indirectly to meet obligations under the "Infineon Technologies AG Stock Option Plan 2006" or the "Infineon Technologies AG Stock Option Plan 2010".
- (f) The shares may be offered for acquisition and transferred to persons who are employed by the Company or by a company affiliated with the Company.

The Company may use these authorizations to utilize its own shares on its own, through dependent companies or companies in whom it has a majority holding or through third parties acting for it or for dependent companies or companies in which it has a majority holding. The authorizations may be used once or a number of times, individually or together, and in their maximum value or in fractions of their maximum value. Subscription rights of the shareholders with respect to the shares affected by these measures are excluded insofar as the shares concerned are used in accordance with the aforementioned authorizations clauses b) to f) above. 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 17, 2011, the acquisition of Infineon Technologies AG shares may also be effected using equity derivatives. The Management Board is authorized (i) to sell options that when exercised require the Company to acquire Company shares (put options) and (ii) to acquire options that when exercised entitle the Company to acquire Company shares (call options). The acquisition may furthermore be effected using a combination of put and call options (referred to collectively as "derivatives"). The acquisition of shares using derivatives may also be effected via a bank that is engaged to complete the acquisition as part of a defined repurchase program.

The total number of shares underlying the derivatives employed in accordance with this authorization may not exceed 5 percent of the share capital at the time of the resolution. The shares acquired through the exercise of this authorization are to be counted toward the acquisition limit for the shares acquired in accordance with the authorization to acquire own shares directly described above. The term of the individual derivatives may in each case be no longer than 18 months, must expire by no later than February 16, 2016 and must be defined such that the acquisition of own shares either to exercise or to satisfy the derivatives cannot be effected after February 16, 2016.

The derivative transactions must be concluded with a bank or via the stock exchange. It must be ensured that obligations under the derivatives are met only using shares that have been acquired previously, in compliance with the principle of equal treatment, via the stock exchange at the current price of the share in Xetra trading (or a comparable successor system) at the time of acquisition via the stock exchange. The price agreed in the derivative (excluding incidental acquisition costs but taking into account the option premium paid or received) for the acquisition of a share when options are exercised may be no more than 10 percent above and no more than 30 percent below the arithmetic mean of the closing prices of the share in Xetra trading (or a comparable successor system) on the last three exchange trading days prior to the conclusion of the derivative transaction.

The acquisition price paid by the Company for derivatives may not be substantially higher than, and the sale price received by the Company for derivatives may not be substantially lower than, the theoretical market value of the options concerned as determined in accordance with accepted methods of financial mathematics, considering among other things the agreed exercise price.

If own shares are acquired using derivatives in accordance with the foregoing rules, any right of the shareholders to conclude such derivative transactions with the Company will be excluded in analogous application of section 186, paragraph 3, sentence 4, AktG. The shareholders similarly 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 rules laid out above relating to the authorization to acquire own shares directly apply as appropriate to the use of own shares acquired using derivatives.

Infineon Technologies AG decided on May 9, 2011 to make use of the authorization to repurchase shares granted by the Annual General Meeting on February 17, 2011. The Company intends to use up to €300 million for capital return measures in the period through March 2013. Capital may be returned via put options on Infineon shares. Another possibility is the outright repurchase of own shares in Xetra trading on the Frankfurt Stock Exchange. A further option is to repurchase outstanding convertible bonds.

In accordance with applicable legal provisions, the repurchase of shares may only be executed for the purposes of cancelling shares as part of a share capital reduction or servicing convertible bonds or employee participation programs, since, in accordance with section 14 (2) and section 20a (3) of the German Securities Trading Act the repurchase of shares is carried out in compliance with the provisions of the Commission Regulation (EC) No. 2273/2003 dated December 22, 2003. In accordance with these regulations, Infineon Technologies AG cancelled 7 million repurchased shares in the 2012 fiscal year and reduced its share capital accordingly. The share repurchase program may be suspended and resumed again at any time subject to the time limits set by the Annual General Meeting and in accordance with additional legal provisions. Further information about the share repurchase program, put options issued and shares acquired is published regularly on the Company's website at www.infineon.com/cms/de/corporate/investor/infineon-share/share-buyback.html. The status of the program as of September 30, 2012 is presented in note 42 to the Consolidated Financial Statements.

Further information about the share repurchase program, put options issued and shares acquired is published regularly on the Company's website at www.infineon.com/cms/de/corporate/investor/infineon-share/share-buyback.html

see page 285 ff.

SIGNIFICANT AGREEMENTS IN THE EVENT OF A CHANGE OF CONTROL AS A RESULT OF A TAKEOVER BID

The convertible bond issued by Infineon Technologies AG on May 26, 2009 through Infineon Technologies Holding B.V. that matures in 2014 (for further information see note 27 to the Consolidated Financial Statements) contains a change of control clause granting holders an early redemption option in the event of a change of control as defined in the clause.

see page 253 ff.

The terms of the put options issued by Infineon Technologies AG, which entitle the holder to sell Infineon shares at an exercise price previously agreed, also contain change of control clauses that can lead to modification of the option terms under certain circumstances.

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

The aforementioned change of control clauses relating to the convertible bond and put options reflect standard market practice for financial instruments of this nature in the interests of creditor protection. The change of control clauses negotiated with the contract partners of Infineon Technologies AG as part of its general business activities are also in line with standard market practice. The same applies for the subsidy agreements and approvals as well as the joint venture agreements entered into by Infineon.

AGREEMENTS FOR COMPENSATION IN THE EVENT OF A TAKEOVER BID

If a member of the Management Board leaves his or her position in connection with a change of control, 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 the member resigns, or at a minimum of 24 months and a maximum of 36 months in the event the member is removed from office or dismissed by Infineon Technologies AG. Further details are contained in the Compensation Report.

see page 195 ff.

The change of control clauses agreed with the members of the Management Board correspond to the recommendation made in section 4.2.3, paragraph 5, of the German Corporate Governance Code. Such clauses are intended to provide 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.

There are no comparable arrangements for employees.

CORPORATE GOVERNANCE

CORPORATE GOVERNANCE REPORT

CORPORATE GOVERNANCE PRACTICES

Corporate Governance – standards for effective and responsible corporate management

The Management Board and the Supervisory Board of Infineon Technologies AG view corporate governance as a comprehensive concept for responsible, transparent and value-led corporate management. Good corporate governance fosters trust in our entity among national and international investors, the financial markets, business partners, employees and the public. The Management Board, the Supervisory Board and the management ensure that corporate governance is actively implemented and continuously developed throughout the entity. Corporate governance at Infineon encompasses not only the German Corporate Governance Code (Deutscher Corporate Governance Kodex – “DCGK”), but also the standards of the internal control system, compliance – especially the Infineon Business Conduct Guidelines – and regulations on organizational and supervisory duties within the entity, which are available to all employees on the Infineon intranet.

Business Conduct Guidelines

We conduct our business responsibly and in compliance with legal requirements and administrative regulations – and we have established several guidelines for this purpose. Infineon Technologies AG’s “Business Conduct Guidelines” is the most important of these and are published in the Internet at www.infineon.com (via Infineon/Investor/Corporate Governance) and are mandatory for the Management Board and all employees worldwide. The Business Conduct Guidelines are regularly reviewed and updated. They include in particular regulations on compliance with the law, interaction with business partners and third parties, the avoidance of conflicts of interest, interaction with Company institutions, data and information management and environmental protection, health and safety. The guidelines also contain regulations concerning the handling of complaints and reports of breaches of the guidelines.

Corporate Compliance Officer and Compliance Panel

A dedicated Compliance Office set up on June 1, 2011 was allocated an increased budget during the course of the 2012 fiscal year and its staffing levels increased. Regional compliance functions in Asia and Austria were also strengthened with additional staff. These measures confirm Infineon’s clear commitment to absolute compliance with the law and to maintaining ethical standards which protect the legitimate interests of employees, suppliers, customers, and shareholders, safeguard Infineon’s reputation, and take account of its needs. In addition to meeting the traditional compliance objectives, such as risk mitigation and increases in efficiency and effectiveness, compliance is promoted with a view to strengthening Infineon’s image as a reliable and fair business partner and thus contributing to its overall success.

The Corporate Compliance Officer reports directly to the Infineon Chief Financial Officer (CFO). He or she is involved in setting guidelines, develops the Infineon compliance program, initiates or takes part in compliance audits, advises employees, receives complaints and tip-offs, including those made anonymously, and coordinates investigations into compliance-related incidents. In addition, he or she carries out regular compliance training measures for employees on topics such as anti-trust law and anti-corruption. Extensive training measures were carried out during the 2012 fiscal year. The Corporate Compliance

❖ www.infineon.com (via Infineon/
Investor/Corporate Governance)

Officer is supported by regional Compliance Officers. Infineon Technologies AG has also established a Compliance Panel, composed of experienced managers from the Legal, Human Resources, Internal Audit and Business Continuity departments and the Corporate Compliance Officer. The members of the Compliance Panel meet regularly. The primary task of the panel is to deliberate on the current status of compliance throughout Infineon and to discuss issues and reach decisions aimed at improving the compliance system at Infineon.

Risk management

The Management Board considers the systematic and effective management of risks and opportunities as part of good corporate governance and one of our key success factors. It forms a part of our business operations and ensures that risks and opportunities are detected early and exposure to risk is minimized. This transparency of the risk situation throughout the entity contributes to increasing its value systematically and continuously.

Our group-wide risk and opportunity management system, which is continuously adapted to changes in circumstances, consists of four sub-processes: risk identification, risk analysis, risk controlling, and risk monitoring. Its effectiveness is reviewed regularly by the Supervisory Board's Investment, Finance and Audit Committee.

Details of risk management at Infineon are presented in the Risk and Opportunity Report, which provides an in-depth description of both risk and opportunity management and the internal control system at Infineon.

❖ see page 155 ff.

Transparent management

We submit a regular quarterly report covering business developments and Infineon's financial position and performance to our shareholders according to a defined financial calendar. The members of the Management Board regularly inform shareholders, analysts, media and general public about the quarterly and annual results. Our comprehensive investor relations service features regular meetings and telephone conferences with analysts and institutional investors. All notices and disclosures are usually available on our website (www.infineon.com) in German and English.

Infineon Technologies AG also issues ad hoc announcements in addition to its regular reporting to publicize information that is not in the public domain and the disclosure of which is deemed to affect the value of the Infineon share significantly.

The Company has set up a Disclosure Committee comprising members from various specialist departments to review and approve certain financial and other material information, either published in the course of the regular financial reporting or ad hoc announcements.

German law requires the Management Board to render a responsibility statement. The information required for this purpose is confirmed internally vis-à-vis the Management Board by senior executives bearing management responsibility.

D&O insurance

The Company maintains a directors' and officers' group liability insurance ("D&O Insurance"). The D&O Insurance policy covers personal liability in the event of claims made in particular against members of the Management and the Supervisory Board for indemnification of losses incurred in the performance of their duties. A deductible of 10 percent of the loss up to the amount of one and a half times the annual fixed compensation of the Management or the Supervisory Board member concerned has been agreed in accordance with the statutory regulation in section 93, paragraph 2, AktG (for the Management Board) and the recommendation in section 3.8 of the DCGK (for the Supervisory Board).

FINANCIAL REPORTING AND AUDITING

Starting with the 2009 fiscal year, Infineon Technologies AG has prepared its Consolidated Financial Statements exclusively in accordance with International Financial Reporting Standards (IFRS) as applicable in the EU. The Separate Financial Statements of Infineon Technologies AG continue to be prepared in accordance with the German Commercial Code (HGB). The Separate and Consolidated Financial Statements of Infineon Technologies AG and the combined Management Report (Lagebericht) are published within 90 days of the end of the fiscal year after approval by the Supervisory Board.

Infineon's financial reporting system for the 2012 fiscal year is audited by KPMG AG Wirtschaftsprüfungsgesellschaft, Munich (KPMG). The half-yearly financial report was also subjected to review by KPMG. The audit also considers Infineon's system for the early identification of risks and the submission of the Declaration of Compliance in accordance with section 161 of the German Stock Corporation Act. The Investment, Finance and Audit Committee discusses the quarterly reports and the half-yearly financial report with the Management Board prior to publication. We have agreed with KPMG that the Chairman of the committee should be informed immediately if any possible reasons for exclusion or bias occur during the audit, unless they can be eliminated immediately. The auditors should also report immediately on all findings and occurrences material to the Supervisory Board's work that arise in the course of the audit and review engagements.

DIRECTORS' DEALINGS

Members of the Management Board and the Supervisory Board and specified persons bearing management responsibility with regular access to inside information, as well as parties related to them, are required pursuant to section 15a of the German Securities Trading Act (Wertpapierhandelsgesetz) to notify the Company as well as the Federal Financial Supervisory Authority (Bundesanstalt für Finanzdienstleistungsaufsicht – BaFin) of own transactions involving Company shares. This only applies, however, if the total value of the transactions made by one of the above mentioned persons amounts to €5,000 or more in one calendar year. The Company is obliged to publish the notifications it receives and have them recorded in the Company Register. Such notices are also reported to BaFin.

No such transactions were notified to the Company during the 2012 fiscal year.

COMPENSATION OF THE MANAGEMENT BOARD AND THE SUPERVISORY BOARD

Details of Management Board and Supervisory Board compensation in the 2012 fiscal year are presented in the comprehensive Compensation Report, which also forms part of the Group Management Report of Infineon Technologies AG.

••••• see page 195 ff.

SHAREHOLDERS AND THE ANNUAL GENERAL MEETING

Infineon shareholders take their decisions at the Annual General Meeting, which is held at least once a year. Each share carries one vote. Shareholders can attend the Annual General Meeting as long as they are registered in the share register and have signed up for the meeting in time. The Annual General Meeting decides on all issues assigned to it by law, most notably on the formal approval of the conduct of business by the Management Board and the Supervisory Board, the profit appropriation, the election of the auditors and amendments to the Articles of Association. Shareholders are entitled to make counter-proposals to motions introduced by management and to speak and ask questions at the Annual General Meeting and also have the right, subject to certain conditions, to challenge resolutions of the Annual General Meeting, to request an extraordinary judicial review and to claim damages from corporate bodies of the Company on behalf of the Company when they identify incidences of misconduct or serious deficiencies in the Company's management and control. We wish to support our shareholders as far as possible in the exercise of their rights at the Annual General Meeting. Shareholders can register for our Annual General Meeting electronically, participate in voting by postal voting or by sending online instructions e.g. to their proxies and they can follow the general debate via the internet. All documents and information relating to the Annual General Meeting can be found on our website. Our Investor Relations Department, moreover, can be contacted throughout the year both by telephone and electronically to ensure the exchange of information between us and our shareholders.

INFINEON STOCK OPTION PLANS

Infineon's stock option plans are detailed in the notes to the Consolidated Financial Statements no. 32; the full text of the plans may be viewed at www.infineon.com ("About Infineon/Investor/Corporate Governance/Stock Option Plan")

❖ see page 259 ff.
❖ www.infineon.com ("About Infineon/Investor/Corporate Governance/Stock Option Plan")

DECLARATION CONCERNING THE MANAGEMENT OF THE COMPANY (Part of the Group Management Report – unaudited)

DECLARATION OF COMPLIANCE WITH THE GERMAN CORPORATE GOVERNANCE CODE ISSUED FOR THE 2012 FISCAL YEAR BY THE MANAGEMENT BOARD AND SUPERVISORY BOARD OF INFINEON TECHNOLOGIES AG IN ACCORDANCE WITH SECTION 161 OF THE GERMAN STOCK CORPORATION ACT

The Management Board and Supervisory Board have issued the following declaration pursuant to section 161 AktG in November 2012:

"Since the submission of the last Declaration of Compliance in November 2011, Infineon Technologies AG has complied with all recommendations of the Government Commission of the German Corporate Governance Code ("Government Commission") in the version of May 26, 2010.

The new version of the German Corporate Governance Code dated May 15, 2012 ("Code") came into effect on June 15, 2012. Infineon Technologies AG has also complied, and will comply in the future, with the recommendations contained in this version of the Code with the following exception:

Section 5.4.6 of the Code includes the recommendation that performance-related compensation of the members of the Supervisory Board "shall be oriented toward sustainable growth of the enterprise". The similarity in terminology to the requirements contained in the German Stock Corporation Act with respect to compensation of management board members seems to imply that performance-related compensation should, in the opinion of the Government Commission, also be based on a "multi-year assessment" for Supervisory Board members.

Members of the Supervisory Board of Infineon Technologies AG receive both fixed and performance-related compensation, the latter only being paid if and to the extent that earnings per share exceed a pre-defined amount. Contrary to section 5.4.6 of the Code, the performance-related compensation of members of the Supervisory Board is not based on a multi-year assessment.

The Management Board and the Supervisory Board consider that the compensation structure currently in place for the Supervisory Board is already oriented toward long-term success of the Company even without a multi-year assessment, since the minimum amount required to trigger the compensation payment increases year-on-year, thus setting an incentive for improving earnings each year. In view of the amendments passed recently by a large majority of shareholders at the Annual General Meeting with respect to Supervisory Board compensation, the two boards do not consider it necessary to take any immediate action. Both representative bodies will, however, address this issue again over the course of the new fiscal year.”

RELEVANT DISCLOSURES IN RESPECT OF CORPORATE GOVERNANCE PRACTICES

The Company complies with all legal requirements with respect to corporate governance. With one exception stated in the Declaration of Compliance, Infineon complies with the recommendations of the DCGK. Furthermore, corporate governance practises in particular underpin the guidelines for corporate conduct (“Infineon Business Conduct Guidelines”) as well as the regulations relating to organizational and supervisory duties. Both of these sets of regulations are available to all employees worldwide on the Infineon intranet.

DESCRIPTION OF THE MODE OF OPERATION OF THE MANAGEMENT BOARD AND SUPERVISORY BOARD AND OF THE COMPOSITION AND MODE OF OPERATION OF THE SUPERVISORY BOARD’S COMMITTEES

Infineon Technologies AG is subject to German stock corporation law, which stipulates a two-tier administrative system, with the Management Board responsible for management and the Supervisory Board responsible for corporate oversight. We are convinced that this separation of the two functions is an important precondition for good corporate governance. The Management Board and the Supervisory Board cooperate closely in Infineon’s interest.

Management Board

Effective January 1, 2012, Infineon Technologies AG’s Management Board was expanded from three to four members with the appointment of Arunjai Mittal. However following Peter Bauer’s departure from office effective September 30, 2012, the Management Board returned to three members effective October 1, 2012. In accordance with the DCGK, the Supervisory Board has set an age limit for Management Board membership under which members of the Management Board in general should be no more than 67 years old. In accordance with its rules of procedure, the Supervisory Board takes account of diversity as well as technical and personal suitability in respect of the composition of the Management Board and will in particular endeavor to ensure appropriate female representation.

The Management Board is the Company’s executive body. It is obliged to serve the Company’s interests and thereby pursue the goal of sustainably increasing the Company’s value taking into account the interest of all stakeholders. It determines the Company’s commercial objectives, strategic direction and corporate policy and defines how the Company is to be organized.

According to German stock corporation law, the Management Board has overall responsibility for the management of the Company. The Company's Management Board has adopted rules of procedure with the consent of the Supervisory Board. These rules stipulate that the Company is managed jointly by all of the Management Board members, who should work together in a cooperative manner to this end. Collaboration between the Management Board and the Supervisory Board is coordinated by the Chief Executive Officer (CEO). The CEO maintains regular contact with the Chairman of the Supervisory Board, with whom he discusses the key aspects of Infineon's strategy, planning, course of business and risk management. At the ordinary meetings of the Supervisory Board, the Management Board reports comprehensively and promptly on Infineon's business performance, its economic situation, the economic situation of the individual segments, as well as Infineon's financial and investment planning. The CEO notifies the Chairman of the Supervisory Board without delay of any matters that are of material importance for assessing the position and development of the Company or for its management.

Supervisory Board

Work of the Supervisory Board

The Supervisory Board advises and monitors the Management Board as it manages the entity. The Supervisory Board is informed by the Management Board regularly, comprehensively, and in a timely manner on all matters of relevance and agrees Infineon's corporate strategy and its implementation with the Management Board. The Supervisory Board discusses the quarterly reports and reviews and approves both the Separate Financial Statements and the Consolidated Financial Statements of Infineon Technologies AG. Major decisions of the Management Board, such as group-wide financial and investment planning and major acquisitions and equity investments, divestitures, and financial measures, are subject to its approval. Further details are stipulated in the rules of procedure of the Management Board and the Supervisory Board. When Supervisory Board votes end in a tie, the Chairman of the Supervisory Board has two votes if voting is carried out a second time and again results in a tie.

The duties of the Supervisory Board and its committees are regulated by law, by the Articles of Association and by the rules of procedure of the Supervisory Board and its committees. In addition, the DCGK contains recommendations about Supervisory Board work.

The Supervisory Board reviews the efficiency of its work, including its interaction with the Management Board, once a year. The efficiency review is performed on the basis of a questionnaire addressing different areas and criteria of the Supervisory Board's work. The results are subsequently discussed at a Supervisory Board meeting. In the 2010 fiscal year, an external independent consultant was engaged for the first time to conduct a detailed survey of Supervisory Board activities. The most recent efficiency review took place in summer 2012, again on the basis of a questionnaire. No significant deficits in efficiency were identified.

Composition of the Supervisory Board

The Supervisory Board of Infineon Technologies AG has twelve members and comprises an equal number of shareholder representatives and employee representatives as stipulated in the German Co-Determination Act (Mitbestimmungsgesetz). The shareholder representatives are elected by the Annual General Meeting, the employee representatives by employee delegates at Infineon's German facilities in accordance with the German Co-Determination Act. The normal term of office of Supervisory Board members is approximately five years. New elections were held in the 2010 fiscal year for both the shareholder representative and the employee representative positions on the Supervisory Board. The Annual General Meeting held on February 17, 2011 elected Mr. Wolfgang Mayrhuber as a member of the Supervisory Board as successor to Prof. Dr. Klaus Wucherer. At its meeting held on the same day, the Supervisory Board elected Mr. Mayrhuber as its Chairman. The terms of office of all Supervisory Board members will expire at the end of the Annual General Meeting that resolves on the approval of the acts of the members of the Supervisory Board for the 2014 fiscal year.

The overall composition of the Supervisory Board should comply with the principles of diversity in the opinion of the Supervisory Board. This means firstly that the composition of the Supervisory Board should take into account the diversity to be found in an open and innovative global company like Infineon as far as possible and secondly that nobody should be selected or dropped as a candidate for the Supervisory Board simply because he or she possesses or lacks a certain diversity factor. "Diversity" as the term is used here denotes international (in the sense of roots, upbringing, education or professional activity rather than citizenship), gender and age diversity.

The Supervisory Board specified concrete objectives regarding its composition at its meeting on November 22, 2010 in accordance with the recommendation in section 5.4.1 DCGK (version: May 2010). Section 5.4.1 of the new version of the DCGK dated May 15, 2012 also includes the recommendation that the Supervisory Board should, in future, also specify concrete objectives regarding the appropriate number of independent Supervisory Board members. The Supervisory Board's objectives were expanded in a resolution dated August 7, 2012 as follows:

"The Supervisory Board comprises an equal number of employee and shareholder representatives. The Supervisory Board cannot influence the selection of candidates for the Supervisory Board by the employees; similarly, shareholder representatives on the Supervisory Board are elected by the Company's shareholders at the Annual General Meeting and not by the Supervisory Board. Nevertheless it is a stated objective of the Supervisory Board that the Supervisory Board should comprise

- (i) at least nine "independent" representatives [...] (including at least four shareholder representatives),
- (ii) at least two women and
- (iii) at least four "international" representatives [...].

The Supervisory Board already meets these minimum criteria and it is intended that it continues to do so at all times in future."

Furthermore, the Supervisory Board complies with the age limit defined in its rules of procedure, which states that in general nobody older than the age of 69 should be proposed for membership of the Supervisory Board.

The Supervisory Board will take this requirements profile and these objectives into account in its future nominations to the Annual General Meeting. In doing so, the Supervisory Board will also disclose any of the candidate's business or other relationships with the Company, the Company's representative bodies and/or a major shareholder in the Company, if it considers that an impartial shareholder making an objective decision about the election would consider such information to be of relevance. The same applies in respect of the Nomination Committee insofar as it carries out the preparatory work for the Supervisory Board decision. The Supervisory Board recommends that its members elected by the employees also do what they can, within the scope of their influence, to have the requirements profile and objectives taken into account in the election nominations made by the relevant bodies on the employees' side. The Supervisory Board also recommends that the objectives be taken into account by any of its members making an application for the appointment of a Supervisory Board member by the courts.

Supervisory Board committees

The Supervisory Board rules of procedure provide for the formation of three committees: the Mediation Committee, the Executive Committee, and the Investment, Finance and Audit Committee. The Supervisory Board has also established both a Strategy and Technology Committee and the Nomination Committee recommended in the DCGK. All Supervisory Board committees have an equal number of employee representatives and shareholder representatives apart from the Nomination Committee, which consists exclusively of shareholder representatives. The precise composition of the committees and the principal tasks they perform are described as follows:

The **Executive Committee** consists of the Chairman of the Supervisory Board, the Vice-Chairman, one shareholder representative and one employee representative. The duties of this committee include preparing the appointment and dismissal of members of the Management Board and drawing up the resolution (taken by the Supervisory Board) on Management Board compensation. It is also responsible for concluding, amending and terminating contracts with Management Board members except in matters involving pay.

The **Investment, Finance and Audit Committee** (“Audit Committee”) consists of the Chairman of the Supervisory Board, the Vice-Chairman and one further representative each of the shareholders and employees. The Chairman of the Investment, Finance and Audit Committee, Dr. Eckart Sünner, has particular expertise in and extensive experience of financial reporting on account of his many years of service as chairman of the audit committee of another DAX-listed corporation and accordingly qualifies as an “independent financial expert” pursuant to section 100, paragraph 5, AktG.

The Audit Committee monitors the Company’s financial reporting process and discusses and examines the Separate Financial Statements and Consolidated Financial Statements prepared by the Management Board, the combined Management Report (Lagebericht) and the quarterly and half-yearly financial reports. It gives recommendations with respect to the approval of the Separate Financial Statements and Consolidated Financial Statements by the Supervisory Board based on the independent auditors’ report, engages the independent auditors selected by the Annual General Meeting to audit the Separate Financial Statements and Consolidated Financial Statements and review the Interim Financial Reports, specifies the key areas to be examined in audit activities jointly with the independent auditors and is responsible for setting the independent auditors’ compensation.

Other matters addressed by the Audit Committee include the effectiveness of the internal control system, internal audit system and risk management system. It has the authority in this connection both to contact any employee of the entity directly and to seek external assistance. Internal Audit reports annually to the Audit Committee, which can also specify an audit plan and key areas to be considered in audits.

Furthermore, the Audit Committee is responsible for the discussion of compliance issues. The Management Board and the Corporate Compliance Officer regularly report to the Audit Committee on the structure and work of the compliance organization and on any particular compliance issues.

The **Mediation Committee**, which consists of the Chairman of the Supervisory Board, the Vice-Chairman, one shareholder representative and one employee representative, submits specific recommendations to the Supervisory Board concerning the appointment of members of the Management Board if the first round of the election on the appointment does not result in the required majority of two thirds of the members of the Supervisory Board.

The **Strategy and Technology Committee**, which consists of three shareholder representatives and three employee representatives, concerns itself with Infineon's business strategy and key technology issues.

The **Nomination Committee**, which consists of the Chairman of the Supervisory Board and two further shareholder representatives, proposes to the Supervisory Board suitable candidates for recommendation to the Annual General Meeting.

All committees regularly submit detailed reports on their work to the Supervisory Board. Further information about the work of the Supervisory Board and its committees may be found, together with details of the people who serve on them, in note 42 to the Consolidated Financial Statements ("Management Board and Supervisory Board") and in the report of the Supervisory Board to the Annual General Meeting.

... see page 285 ff.

Avoidance of conflicts of interest

The members of the Management Board and Supervisory Board disclose any conflicts of interest to the Supervisory Board without delay. No conflicts of interest arose among the members of the Management Board and Supervisory Board in the 2012 fiscal year. Material transactions between the Company and members of the Management Board or related parties require the approval of the Supervisory Board. This also applies to consulting and other service or work contracts a Supervisory Board member enters into with the Company. As a precaution, the Supervisory Board approved in November 2010 a contract between the Company and the Technische Universität München (Institute for Technical Electronics headed by Prof. Dr. Schmitt-Landsiedel) for the performance of research and development work on sensing for automotive applications.

Shareholdings of Management and Supervisory Board members

As of September 30, 2012, the shares in Infineon Technologies AG held by all members of the Management Board and Supervisory Board did not exceed 1 percent of the shares issued by the Company.

... see page 285 ff.

Information about the composition of the Management Board, Supervisory Board and the Supervisory Board's committees can be found in note 42 to the Consolidated Financial Statements.

COMPENSATION REPORT

This Compensation Report, which forms an integral 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 the 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 (Deutscher Corporate Governance Kodex – “DCGK”) in the version of May 15, 2012. 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 and the compensation paid to the individual members of the Management Board are defined and regularly reviewed by the full Supervisory Board on the basis of proposals from the Executive Committee. 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 Management Board member are also to be considered, as is Infineon’s wider pay structure. The stated objective is that the compensation structure should be designed in such a way that it promotes sustainable business development. 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.

During the 2012 fiscal year, the Supervisory Board engaged an external independent compensation expert to conduct the first review of the compensation system introduced effective October 1, 2010. The broad-based report subsequently submitted by the compensation expert concluded that the Company’s compensation system continues to comply in all respects with the applicable legal requirements and the recommendations of the DCGK (for details see section “Review of Management Board compensation; changes to the Management Board compensation system and to individual Management Board member employment contracts with effect from the 2013 fiscal year”).

❖ see page 205 ff.

Components of the Management Board compensation system

The members of the Management Board receive as compensation for their service an annual income which – based on a 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).



••••• see page 120 ff.

The **short-term incentive (STI)** is intended to reward performance in the preceding fiscal year in line with Infineon's recent progress. Assuming a 100 percent target achievement, the STI constitutes approximately 20 percent of annual income. It is set by the Supervisory Board in a two-phase process: (i) Two equally-weighted target functions for the key performance indicators free cash flow and return on capital employed (RoCE) are defined uniformly at the beginning of each fiscal year for all Management Board members. Underpinning the consistent approach taken to managing the business, the same target functions are also used as the basis for determining the variable compensation components (bonus payments) for Infineon employees and are described in more detail in the section "Internal Management System". (ii) At the end of the fiscal year, the actual STI is determined by the Supervisory board on the basis of the actual level of target achievement for free cash flow and RoCE.

An STI is paid only if the level of target achievement reaches the 50 percent threshold for both performance indicators; no annual bonus is paid for years in which target achievement falls short of this hurdle for either one of the two parameters. Actual target achievement is determined separately for each target if the threshold is surpassed. The arithmetic mean of the level of target achievement for the two targets is then calculated and it is this figure that is used to determine the actual amount to be paid for the STI. 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). 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 situation 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 upwards adjustment is the cap of 250 percent.

If the term of office on the board begins or ends during the fiscal year, the entitlement to STI is determined on a pro-rata monthly basis (one twelfth for each month started). Management Board members are not entitled to receive an STI bonus for the fiscal year in which they resign from office of their own will or if their contract is terminated for good cause.

The **mid-term incentive (MTI)** is intended to reward sustained performance by the Management Board in line with 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 to be "oriented towards sustainable development of the enterprise". The MTI constitutes approximately 20 percent of the target annual income.

A new MTI tranche commences at the beginning of each fiscal year. Each tranche has a term of three years and is paid in cash at the end of the 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 every 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 threshold is exceeded, the level of target achievement determined for the STI in the relevant year also applies for the purposes 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.

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 developments. When exercising its judgement 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. The upper limit for the MTI (with or without discretionary adjustment by the Supervisory Board) is capped at 200 percent, or in other words, payment cannot be more than double the target MTI per MTI tranche.

If the term of office commences during a fiscal year, the MTI tranche is determined on a pro-rata basis (one thirty-sixth for each month of a full MTI tranche started). Upon leaving Infineon, mechanisms are in place to ensure that a Management Board member can only receive MTI payment for the actual number of MTI tranches during his/her term of office. Similarly, MTI tranches started forfeit if the Management Board member's mandate or employment contract is brought to an end before the due date, for instance in the case of dismissal from office or termination of contract for good cause.

Management Board members Peter Bauer and Dr. Reinhard Ploss, who were already in their position prior to the introduction of the new compensation system as of October 1, 2010, are covered by a transitional arrangement for the 2012 fiscal year (so-called "settlement amount") designed to compensate them for the lack of a maturing MTI tranche. This transitional arrangement was also applied for the 2011 fiscal year. This "quasi" MTI is calculated on the basis of the level of target achievement for RoCE and free cash flow for the 2011 and 2012 fiscal years. For the purposes of calculating the average level of target achievement for these two years (excluding any discretionary adjustment by the Supervisory Board), a minimum level of at least 50 percent is agreed in each case. The settlement amounts due to Mr. Bauer and Mr. Ploss are then determined on the basis of the level of target achievement so calculated.

The **long-term incentive (LTI)** is intended to reward long-term and – like the MTI – sustained performance on the part of members of the Management Board and ensure that their interests are aligned with the interests of the Company's shareholders. Assuming a 100 percent target achievement, the LTI constitutes approximately 15 percent of the target annual income of each individual member of the Management Board. It is intended that the Supervisory Board will continue to award the members of the Management Board an LTI in the form of an annual tranche of stock options corresponding to the portion of the target annual income accounted for by the LTI for as long as the Company maintains a stock option plan which provides adequate scope to create a long-term incentive using this instrument. Any stock options granted are subject as a general rule to the plan conditions also applicable to employees. In line with resolutions taken at the Annual General Meeting, the stock options are subject to a four-year vesting period and a three-year exercise period as well as a relative performance target (outperformance of the relevant semiconductor comparative index SOX over a specified time period) and an absolute performance target (minimum increase in Infineon share price of 20 percent). If the gain from exercised stock options amounts to more than 250 percent of the target annual income attributable to the LTI for the year concerned, a number of options will expire such that the gain is reduced to the 250 percent mark (cap).

The number of options to be awarded is calculated on the basis of their fair market value. The fair market value figure used to determine the number of stock options disregards the cap applicable to these options and is consequently equivalent to the fair market value of the (uncapped) options granted by the Company to employees under the Infineon stock option plan. Using this higher (because the cap, a value-reducing factor, is not considered) fair market value to determine the number of stock options results in the members of the Management Board receiving a lower number of stock options than would otherwise be the case.

The Supervisory Board is required to define suitable alternative LTI instruments of commensurate value if it is impossible under existing stock option plans to create an LTI of adequate scope.

The Supervisory Board has decided upon a new LTI concept for fiscal years commencing after October 1, 2013 and plans to propose to the shareholders to decide on this matter at the 2013 Annual General Meeting in conjunction with a resolution on the new Management Board compensation system (for details see section “Review of Management Board compensation; changes to the Management Board compensation system and to individual Management Board member employment contracts with effect from the 2013 fiscal year”).

In addition, the Supervisory Board retains the discretion of granting an **additional bonus** for special achievements.

❖ see page 205 ff.

MANAGEMENT BOARD COMPENSATION IN THE 2012 FISCAL YEAR

Total cash compensation

The active members of the Management Board in the 2012 fiscal year received total fixed non-performance-related compensation (basic annual salary plus benefits-in-kind) of €3,105,029 for their service (the active members in the previous year received €2,800,527).

The members of the Management Board also received variable performance-related cash compensation totaling €2,584,860 for their service during the 2012 fiscal year (2011: €4,012,643), which consists of the short-term incentive (STI) totaling €1,366,560 (2011: €2,382,586) and the settlement amounts paid to Mr. Bauer and Dr. Ploss (as replacement for MTI payments not yet matured) totaling €1,218,300 (2011: €1,630,057).

The STI is based on a target achievement level of 105.5 percent for the RoCE target and 102.5 percent for the free cash flow target. The MTI (in the form of a settlement amount) is calculated on the basis of an average target achievement level of 177.8 percent for the RoCE target (250.0 percent for the 2011 fiscal year, 105.5 percent for the 2012 fiscal year) and of 136.6 percent for the free cash flow target (170.7 percent for the 2011 fiscal year, 102.5 percent for the 2012 fiscal year). Weighting both targets equally yields an arithmetic (mean) target achievement level for the 2012 fiscal year of 157.2 percent for the MTI (as basis for the settlement amounts).

No additional bonus was granted by the Supervisory Board.

Total cash compensation in the 2012 fiscal year accordingly amounted to €5,689,889 (2011: €6,813,170).

Share-based compensation

Under the terms of the Infineon Technologies AG Stock Option Plan 2010 ("Stock Option Plan 2010"), the exercise price for a new share amounts to 120 percent of the average share price over the five trading days preceding the day of issue of the option. The options issued may only be exercised if the Infineon share price is equal to or exceeds the exercise price during the term of the option (absolute performance target). In addition, the share price must outperform the Philadelphia Semiconductor Index (SOX) (relative performance target). The initial reference figures (100 percent) for this purpose are the arithmetic mean of the Infineon share price and the daily closing price of the SOX over a three-month period following the issue of the stock options. The Infineon share price must then exceed the SOX (daily closing price), as measured using the respective reference values, at least once on at least ten consecutive trading days in the period beginning one year after the issue of the stock options and lasting until the end of their lifetime.

Further details of the plan may be found in note 32 to the Consolidated Financial Statements (Stock Option Plans).

❖ see page 259 ff.

Based on the Stock Option Plan 2010, Mr. Bauer received 209,714 stock options (in his capacity as Chief Executive Officer), Mr. Asam 220,000 stock options and Dr. Ploss 125,714 stock options in (and for) the 2012 fiscal year. 94,286 of the stock options granted to Mr. Asam in the 2012 fiscal year relate to the pro-rata LTI for the 2011 fiscal year. These stock options are subject to an exercise cap of 250 percent of their fair market value at grant date. The exercise cap is calculated using the fair market value of an option without any value-reducing limit (€1.75; 2011: €2.46). No share options were exercised or forfeited during the 2012 fiscal year; 95,000 (2011: 100,000) of the stock options granted to Mr. Bauer expired. In the previous year 200,000 stock options were granted to Mr. Bauer, 120,000 to Dr. Ploss and 120,000 to Prof. Dr. Eul, who was still an active member of the Management Board at that stage. The stock options granted continue to be valid if the board member concerned leaves office: They expire without replacement if a Management Board member's mandate or employment contract is brought to an end before the due date, for instance in the case of dismissal from office or termination of contract for good cause.

Mr. Mittal was appointed as member of the Management Board effective January 1, 2012 and was not included in the annual allocation of stock options in December 2011. When the next tranche of stock options is allocated (scheduled for December 2012), he will be awarded stock options for his service in the 2012 fiscal year (pro-rata from January 1, 2012) and for the 2013 fiscal year.

The active members of the Management Board in the 2012 fiscal year have received the following stock options:

Share based compensation

Management Board member	Fiscal year	Options outstanding at the beginning of the fiscal year		Options granted in the fiscal year	
		Number	Average exercise price ¹ in €	Number	Average exercise price ¹ in €
Peter Bauer (CEO)	2012	475,000	9.65	209,714	7.03
	2011	375,000	10.93	200,000	8.62
Dominik Asam (since January 1, 2011)	2012	–	–	220,000	7.03
	2011	–	–	–	–
Prof. Dr. Hermann Eul (until January 31, 2011)	2012	–	–	–	–
	2011	180,000	11.03	120,000	8.62
Arunjai Mittal (since January 1, 2012)	2012	–	–	–	–
	2011	–	–	–	–
Dr. Reinhard Ploss	2012	120,000	8.62	125,714	7.03
	2011	–	–	120,000	8.62
Total	2012	595,000		555,428	
	2011	555,000		440,000	

1 Weighted average

2 Due to the early retirement of Mr. Bauer at September 30, 2012 the total expenses related to this share-based compensation are recognized in fiscal year 2012.

Other awards and benefits

Infineon Technologies AG entered into a restitution agreement in the 2009 fiscal year with the members of the Management Board active at that time. These agreements provide for the Company to cover, to the extent permitted by law, all costs and expenses incurred by Management Board members in the performance of their duties for the Company in connection with legal, governmental, regulatory and parliamentary proceedings and investigations and with arbitration proceedings, in which the Management Board member is involved in conjunction with activities on behalf of the Company. However, the agreements specifically exclude any restitution of costs insofar as the proceedings concern an action or omission on the part of the Management Board member that constitutes a culpable breach of the Management Board member's duty of care pursuant to section 93, paragraph 2, German Stock Corporation Act ("AktG"). No payments were made by the Company during the 2012 fiscal year under these restitution arrangements.

Total compensation

Total compensation paid to the serving members of the Management Board for the 2012 fiscal year amounting to €7,065,167 (2011: €8,248,662) is broken down in the table below (gross excluding statutory deductions). The amount shown for Long-Term Incentive corresponds to the "share-based compensation" described above. Total compensation also includes the expense recorded for provisions in connection with the MTI 2011 – 2013 (portion for the second year) and 2012 – 2014 (portion for the first year) tranches which have not yet matured; the increase compared to the previous year was due to an additional allocation to the MTI provision in line with the target achievement levels attained for RoCE and free cash flow for the 2012 fiscal year:

stock options during their service on the Management Board:

	Options outstanding at the end of the fiscal year			Options available for exercise at the end of the fiscal year		Total expense for share-based compensation ² in €	
	Number	Average exercise price ¹ in €	Range of exercise prices in €	Average remaining term ¹ in years	Number		Average exercise price ¹ in €
	589,714	8.79	7.03 – 13.30	4.06	180,000	11.03	375,803
	475,000	9.65	8.20 – 13.30	3.14	275,000	10.93	37,030
	220,000	7.03	7.03	6.21	–	–	27,614
	–	–	–	–	–	–	–
	–	–	–	–	–	–	–
	300,000	10.07	8.20 – 13.30	3.26	180,000	11.03	144,653
	–	–	–	–	–	–	–
	–	–	–	–	–	–	–
	245,714	7.81	7.03 – 8.62	5.72	–	–	43,944
	120,000	8.62	8.62	6.22	–	–	22,218
	1,055,428				180,000		447,361
	895,000				455,000		203,901

Total compensation

in €	Fiscal year	Non-performance-related compensation		Performance-related compensation				Total compensation	
		Basic annual salary	Other ¹	Short-Term Incentive	Mid-Term Incentive				
					Settlement ²	Provision for the 2011 – 2013 tranche	Provision for the 2012 – 2014 tranche		Long-Term Incentive ³
Management Board member									
Peter Bauer (CEO)	2012	1,100,000	50,971	485,680	734,124	161,893	161,893	205,520	2,900,081
	2011	1,100,000	41,288	982,241	982,241	327,414	–	288,000	3,721,184
Dominik Asam (since January 1, 2011)	2012	685,000	34,691	320,320	–	106,773	106,773	123,200	1,376,757
	2011	513,750	143,402	485,862	–	161,954	–	96,585	1,401,553
Prof. Dr. Hermann Eul (until January 31, 2011)	2012	–	–	–	–	–	–	–	–
	2011	300,000	6,073	266,667	–	–	–	172,800	745,540
Arunjai Mittal (since January 1, 2012))	2012	513,750	14,152	240,240	–	–	80,080	92,400	940,622
	2011	–	–	–	–	–	–	–	–
Dr. Reinhard Ploss	2012	685,000	21,465	320,320	484,176	106,773	106,773	123,200	1,847,707
	2011	685,000	11,014	647,816	647,816	215,939	–	172,800	2,380,385
Total	2012	2,983,750	121,279	1,366,560	1,218,300	375,439	455,519	544,320	7,065,167
	2011	2,598,750	201,777	2,382,586	1,630,057	705,307	–	730,185	8,248,662

¹ The compensation shown under “Other” comprises primarily the monetary value of the provision of a company car, life-insurance and invalidity premiums on behalf of Management Board members and inventor’s fees. The figures shown for Mr. Asam for the 2011 fiscal year include money reimbursed to cover relocation expenses and the costs of dual residence.

² The MTI was introduced as part of the new Management Board compensation system effective October 1, 2010. The figures reported for the 2011 and 2012 fiscal years relate to settlement amounts paid to Mr. Bauer and Dr. Ploss to prevent them losing out as a result of there being no maturing MTI tranche.

³ The figures for the current Management Board members (Bauer, Asam and Dr. Ploss) are based on a fair market value per option of € 0.98 (2011: €1.44), which was calculated on the basis of a Monte-Carlo simulation model taking account of the value-reducing cap. Mr. Mittal is entitled to a pro-rata LTI for the 2012 fiscal year. The stock options are expected to be issued in December 2012. The number of stock options granted depends on their fair market value taking no account of the cap applicable to these options and cannot be determined until the day of issue. In the absence of an actual value, the value of the LTI component has been determined on the basis of the value of the options granted to the other members of the Management Board in December 2011, which was €0.98.

Members of the Management Board did not receive any loans from Infineon in either the 2012 or 2011 fiscal year.

Similarly, they did not receive any benefits from third parties in the 2012 and 2011 fiscal years, whether promised or actually paid, for their board activities at Infineon.

COMMITMENTS TO THE MANAGEMENT BOARD UPON TERMINATION OF EMPLOYMENT

Allowances and pension entitlements in the 2012 fiscal year

The members of the Management Board who were in their position prior to the introduction of the new compensation system in 2010 are contractually entitled to a defined benefit pension payment. Pension entitlements of members of the Management Board serving during the 2012 fiscal year include an annual pension of €450,000 payable to Mr. Bauer and one of €190,000 payable to Dr. Ploss (September 30, 2012 values). Dr. Ploss' pension entitlement increases annually by €5,000 for each full year of service on the board, up to a maximum amount of €210,000. These entitlements are already vested both contractually and under the applicable statutory provisions and are secured in the form of a pension reinsurance policy financed via a Contractual Trust Arrangement (CTA) and pledged to the board members concerned. These pension entitlements are to be reviewed every three years from the start of payment of the pension and increased by a percentage equal to the percentage increase in the consumer price index for Germany as defined by the German Federal Statistical Office. Pension entitlements for former members of the Management Board normally begin from the age of 60. They may be paid earlier if a member leaves for medical reasons, which, at Mr. Bauer's request, will not apply to his departure from office.

In accordance with the new compensation system introduced in 2010, Mr. Asam and Mr. Mittal have both received a defined contribution pension commitment essentially resembling the Infineon pension plan applicable to all employees (rather than a defined benefit pension commitment partially based on years of service under the old system): The Company has accordingly set up a personal pension account (basic account) for Mr. Asam and Mr. Mittal and makes annual pension contributions to the basic account. The Company pays interest on the balance in the basic account annually until disbursement of the pension begins and may also award surplus credits. The balance of the basic account when disbursement of the pension begins (due to age, invalidity or death) – increased by the adjusting amount in the event of invalidity or death – constitutes the retirement benefit entitlement and is paid out to the board member or his or her surviving dependents in twelve annual installments, or, if so requested by the board member, in eight annual installments, as a lump sum or life-long pension. Entitlements due to Mr. Asam and Mr. Mittal that have already vested contractually or under the applicable statutory provisions are, with effect from October 1, 2012 secured in the form of a pension reinsurance policy financed via a CTA and pledged to the board member concerned.

The plan rules applicable for Mr. Asam and Mr. Mittal differ in terms of the initial 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 of his previous employment, Mr. Asam will receive from the Company for each fiscal year of his membership of the Management Board an annual 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. The pension contribution for Mr. Asam for the 2012 fiscal year has, as in the previous year, been set at 30 percent of his basic annual salary which amounts to €205,500. Those pension entitlements of Mr. Asam resulting from the defined contribution made become vested once a period of three years has elapsed from the date on which he took up his position unless (i) Mr. Asam leaves the Management Board before the three-year period has elapsed or (ii) the Supervisory Board declines to reappoint Mr. Asam beyond the end of the three-year period for good cause pursuant to section 84, paragraph 3, AktG.

Mr. Mittal already has a pension entitlement from his previous employment with Infineon that became vested under the applicable statutory provisions in September 2006. The contract appointing him to the board specifically states that the amounts made available to cover his vested pension entitlements represent a continuation of this vested entitlement (and are therefore not subject to any separate vesting arrangements). The Company makes a fixed annual pension contribution on behalf of 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. The defined contribution for the 2012 fiscal year (pro-rata due to the fact that he was appointed during the fiscal year) amounts to €154,125.

The amounts credited to the pension entitlements accounts of Mr. Asam and Mr. Mittal – in line with the plan rules applicable to Infineon employees – is paid out on or after reaching the age of 67, provided the employment contract has also ended, or, on request, at an earlier point in time if the employment contract ends on or after reaching the age of 60.

A total of €247,956 (2011 €3,947,714) was expensed and added to the pension provision in the 2012 fiscal year in accordance with IFRS for pension entitlements for the serving members of the Management Board (excluding interest cost). The sharp decrease compared to the previous year was primarily attributable to the new pension plan rules applied in the 2011 fiscal year in relation to Mr. Bauer and the initial creation of a pension account for Mr. Asam. The expenses relating to these items – and for the move of Prof. Eul to Intel – were all recognized in the 2011 fiscal year. By contrast, the pension expense for the 2012 fiscal year does not contain any expense for Mr. Bauer. The expense for the allocation to pension provisions in the 2012 fiscal year therefore only relates to Mr. Asam, Mr. Mittal and Dr. Ploss.

The following overview shows the annual pension entitlements at the beginning of retirement for the Management Board members serving in the 2012 fiscal year on the basis of the entitlements already acquired:

Pension entitlements

in €	Fiscal Year	Pension entitlements (annual) as of beginning of pension period	Agreed pension contributions for the respective fiscal year	Present value of pension entitlement	Expenses in connection with increase in pension provision (excluding interest expense)
Management Board member					
Peter Bauer (CEO)	2012	450,000	–	7,984,810	–
	2011	450,000	–	5,560,565	1,959,991
Dominik Asam ¹ (since January 1, 2011)	2012	–	205,500	979,836	111,491
	2011	–	154,125	358,658	313,335
Prof. Dr. Hermann Eul (until January 31, 2011)	2012	–	–	–	–
	2011	220,000	–	2,970,416	1,555,097
Arunjai Mittal ¹ (since January 1, 2012)	2012	–	154,125	1,753,419	23,905
	2011	–	–	–	–
Dr. Reinhard Ploss	2012	190,000	–	3,853,093	112,560
	2011	185,000	–	2,770,032	119,291
Total	2012	640,000	359,625	14,571,158	247,956
	2011	855,000	154,125	11,659,671	3,947,714

¹ Defined contribution pension commitment in accordance with the new compensation system approved in 2010.

With the exception of the contractually vested initial component the pension entitlements of Mr. Asam become vested after three years from the date on which he took up his position.

Early termination of employment contract

The employment contracts with the members of the Management Board include a change of control clause. A change of control for the purposes of this clause occurs when a third party, individually or together with another party, acquires at least 30 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”). Management Board members have the right to resign and terminate their contracts within twelve months of the announcement of such a change of control and any that choose to do so are entitled to continued payment of their annual remuneration for the full remaining duration of their contract up to a maximum of 36 months. If Infineon Technologies AG removes a member of the Management Board or terminates his or her contract within twelve months of the announcement of a change of control, the Management Board member concerned is entitled to continued payment of the annual remuneration for the full remaining duration of the contract subject to a minimum period of 24 months and a maximum period of 36 months.

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

At Mr. Bauer’s request, the Supervisory Board decided to entitle him to continue to make use of the Company’s security services free of charge and at the previous level for a further year after leaving office as CEO, i.e. until September 30, 2013. The value of this fringe benefit cannot be determined at present since the actual level of the services that will be used is not known. Any income tax expense resulting from the provision of these services will be borne by Mr. Bauer.

PAYMENTS TO FORMER MEMBERS OF THE MANAGEMENT BOARD IN 2012 FISCAL YEAR

Former members of the Management Board received total payments of €1,058,912 (severance and pension payments) in the 2012 fiscal year (2011: €6,199,333). The steep decrease in expense in the year under report is due to compensation amounts paid in the 2011 fiscal year to Management Board members leaving office. As of September 30, 2012, pension liabilities for former members of the Management Board amounted to €42,192,107 (2011: €29,749,461).

REVIEW OF MANAGEMENT BOARD COMPENSATION; CHANGES TO MANAGEMENT BOARD COMPENSATION SYSTEM AND INDIVIDUAL EMPLOYMENT CONTRACTS WITH EFFECT FROM 2013 FISCAL YEAR

Review of Management Board compensation system and individual employment contracts

In accordance with section 4.2.2 DCGK, the Supervisory Board engaged an external independent compensation expert during the 2012 fiscal year to review the appropriateness of the Management Board compensation system in place at Infineon Technologies AG since October 1, 2010. The review report submitted confirmed that the compensation system complies in all respects with applicable stock corporation requirements and with the recommendations of the DCGK in terms of both structure and level of compensation. In the opinion of the independent compensation expert, compensation of the Company's Management Board is commensurate with market conditions and variable compensation, as required by the German Stock Corporation Act, is oriented toward sustainable growth of the enterprise. The Supervisory Board concurred with the findings of the review.

The target annual incomes set for individual Management Board members were also subjected to detailed scrutiny by the Supervisory Board, which concluded that the contractually agreed target annual incomes remain appropriate and that no action is currently needed with respect to the level of Management Board compensation (for details of the changes required in conjunction with Dr. Ploss' appointment as CEO, see section "Proposed changes to Dr. Ploss' employment contract").

❖ see page 206 f.

Introduction of new long-term incentive plan (LTI); changes to Management Board employment contracts

The Stock Option Plan 2010 will expire after grant of the third and final tranche. This grant is expected to take place in December 2012. The Executive Committee and full Supervisory Board have therefore given thought during the 2012 fiscal year to devising a successor plan for the long-term compensation component applied uniformly both for Management Board members and senior executives at Infineon. In this context, the Supervisory Board drew on the assistance of in-house specialists and the external independent compensation expert engaged to review the Management Board compensation system. The starting point of the Supervisory Board was to find a suitable replacement plan that creates genuine long-term participation rather than the somewhat "loose" participation attributable to stock options with long-terms. Any new plan should also serve to create a greater linkage between the actions of the Management Board and the interests of the shareholders. Furthermore, there should not be any change in the current ratio between fixed (45 percent) and variable compensation (55 percent) and in the importance attached to the long-term compensation component (as part of variable compensation).

Based on the preparatory work undertaken by the Executive Committee, the Supervisory Board decided at its meeting on August 7, 2012 on a new Long-Term Incentive (LTI) that is to come into force with effect from the 2014 fiscal year. The independent compensation expert confirmed that the introduction of the new LTI would not change the conclusion reached in the report regarding the appropriateness of the compensation system. According to the expert, the new plan, both its structure and the level of compensation it would result in (assuming a comparable level of annual contributions), would equally comply with applicable legal and DCGK requirements.

The Management Board has expressed its intention for the new LTI also to apply as the long-term, variable compensation component for Infineon senior executives with effect from the 2014 fiscal year, preferably on a worldwide basis. Such a move would synchronize the interests of the Management Board and its management team especially with respect to the long-term compensation component.

Parameters for the new (Management Board) LTI: The new compensation element will be a so-called “Performance Share” plan. The (virtual) performance shares will be allocated – initially on a provisional basis – on October 1 of each fiscal year for the fiscal year beginning on that date. The performance shares will be allocated on the basis of the contractually agreed “LTI allocation amount”. The prerequisite for the definitive allocation of the (at that stage still virtual) performance shares is (i) that the relevant Management Board member invests 25 percent of his/her individual LTI allocation amount in Infineon shares and (ii) that the holding period of four years applicable 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) during the period between the date of the performance shares’ provisional allocation and the end of the holding period. If the conditions for definitive allocation of performance shares are met at the end of the holding period (allocation of all or only the performance shares that are not performance-related), the Management Board member has a claim against the Company for the transfer of the corresponding number of (real) Infineon shares. Only at that stage are the shares transferred to a board member’s securities account. These shares are freely accessible to the board member concerned: the same also applies at the end of the holding period to Infineon shares acquired in conjunction with the own-investment requirement: there is no performance-related hurdle for these shares.

The Supervisory Board reserves the right to make a cash settlement to the Management Board member rather than actually transfer Infineon shares.

It is envisaged that performance shares will be issued for the first time in accordance with the new LTI at the beginning of the 2014 fiscal year. The Management Board and the Supervisory Board intend to present for approval the Management Board compensation system which is new only with respect to its LTI aspects to the Annual General Meeting in February 2013 in accordance with section 120, paragraph 4, AktG.

The new versions of Mr. Asam’s and Mr. Mittal’s employment contracts (revised for the new LTI, but otherwise largely unchanged) will be presented to the Supervisory Board for discussion and approval in November 2012.

Proposed changes to Dr. Ploss’ employment contract

Dr. Ploss’ employment contract will also be brought into line with the new LTI.

The Supervisory Board took the opportunity on the occasion of Mr. Bauer’s resignation and Dr. Ploss’ appointment as CEO, to align the latter’s employment contract with his new role. Based on a target annual income of €2,100,000 (instead of the previous €1,521,000), the various compensation components change with effect from the date of change of office (October 1, 2012), as follows:

- The basic annual salary (fixed) amounts to €945,000 (instead of the previous €685,000).
- Based on 100 percent target achievement, the STI amounts to €420,000 (instead of the previous €308,000).
- Also based on 100 percent target achievement, the MTI is increased to €420,000 (instead of the previous €308,000).
- Each of the LTIs in the form of the current Stock Option Plan (2013 fiscal year) and the new Performance Share Plan (from 2014 fiscal year onwards) amounts to €315,000 (instead of the previous €220,000).

In addition, and as a change to the previous rule, retirement benefits will be paid to Dr. Ploss from the age of 60 (rather than 65). This shall only be the case, however, if Dr. Ploss is no longer with the Company at that stage; if he is still with the Company, payment of the retirement benefits commences at the appropriate later date.

The Supervisory Board agreed to the above changes in Dr. Ploss' employment contract at its meeting on August 7, 2012. The employment contract containing these changes and the rules for the new LTI will be discussed and decided on definitively by the Supervisory Board in November 2012.

SUPERVISORY BOARD COMPENSATION

Compensation structure

The Supervisory Board compensation system was subject to a thorough review in the 2010 fiscal year and came into force, with (retrospective) effect from October 1, 2010, by inclusion into the Company's Articles of Association, in line with a proposal put forward by the Management Board and Supervisory Board to the Annual General Meeting on February 17, 2011. Compensation paid to the Supervisory Board takes into account the responsibilities and scope of tasks of the members of the Supervisory Board as well as Infineon's economic position and performance. 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 three components:

- **Fixed compensation (basic remuneration)** of €50,000. This amount applies to each Supervisory Board member and is payable within one month of the close of the fiscal year;
- a **variable compensation** component amounting to €1,500 for every €0.01 by which earnings per share exceed a minimum threshold of €0.30, where this minimum threshold is increased by €0.03 every year with the first increase taking effect for the fiscal year beginning October 1, 2011. The variable compensation component is determined in each case on the basis of the basic (undiluted) earnings per share from continuing operations determined in accordance with the pertinent financial reporting regulations. The variable compensation component is limited to €50,000 per fiscal year. It also applies to each Supervisory Board member and falls due for payment once the Annual General Meeting following the fiscal year to which the compensation relates has ended;
- 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 €50,000, each vice-chairman receives an allowance of €37,500, the Chairman of the Investment, Finance and Audit Committee and the Chairwoman of the Strategy and Technology Committee each receive an allowance of €25,000 and each member of a Supervisory Board committee – with the exception of the Nomination Committee and the Mediation Committee – receives an allowance of €15,000. 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 close of the fiscal year.

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 function for which an allowance is paid, the relevant compensation components are reduced on a pro-rata basis.

As part of the total compensation, the Company additionally grants each member of the Supervisory Board a meeting attendance fee of €2,000 in respect of each meeting of the Supervisory Board or one of its committees attended in person. The meeting attendance fee is paid only once in cases in which more than one meeting is held on a given day.

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 to be charged to them in this connection. The Company also pays any value-added tax incurred on their total remuneration and meeting attendance fees for the members of the Supervisory Board.

Compensation of the Supervisory Management for the 2012 fiscal year

The total compensation (including meeting attendance fees) paid to the individual members of the Supervisory Board on a pro-rata basis for their service on the Supervisory Board and on a Supervisory Board committee in the 2012 fiscal year comprises the following (these figures do not include value added tax at 19 percent):

Compensation of the Supervisory Board

In €	Fiscal year	Fixed compensation	Variable remuneration ¹	Allowance for specific functions	Meeting attendance fees	Total compensation
Supervisory Board member						
Wigand Cramer	2012	50,000	10,500	15,000	22,000	97,500
	2011	50,000	50,000	15,000	20,000	135,000
Alfred Eibl	2012	50,000	10,500	15,000	18,000	93,500
	2011	50,000	50,000	15,000	20,000	135,000
Peter Gruber	2012	50,000	10,500	15,000	18,000	93,500
	2011	50,000	50,000	15,000	20,000	135,000
Gerhard Hobbach	2012	50,000	10,500	15,000	24,000	99,500
	2011	50,000	50,000	15,000	20,000	135,000
Hans-Ulrich Holdenried	2012	50,000	10,500	15,000	26,000	101,500
	2011	50,000	50,000	15,000	24,000	139,000
Prof. Dr. Renate Köcher	2012	50,000	10,500	–	8,000	68,500
	2011	50,000	50,000	–	16,000	116,000
Wolfgang Mayrhuber (pro-rata from February 17, 2011)	2012	50,000	10,500	50,000	32,000	142,500
	2011	33,333	33,333	33,333	18,000	117,999
Manfred Puffer	2012	50,000	10,500	–	18,000	78,500
	2011	50,000	50,000	–	12,000	112,000
Gerd Schmidt	2012	50,000	10,500	37,500	26,000	124,000
	2011	50,000	50,000	37,500	26,000	163,500
Prof. Dr. Doris Schmitt-Landsiedel	2012	50,000	10,500	25,000	18,000	103,500
	2011	50,000	50,000	25,000	20,000	145,000
Jürgen Scholz	2012	50,000	10,500	15,000	18,000	93,500
	2011	50,000	50,000	15,000	20,000	135,000
Dr. Eckart Sünner	2012	50,000	10,500	25,000	20,000	105,500
	2011	50,000	50,000	25,000	18,000	143,000
Prof. Dr.-Ing. Klaus Wucherer (pro-rata until February 17, 2011)	2012	–	–	–	–	–
	2011	20,833	20,833	20,833	20,000	82,499
Total	2012	600,000	126,000	227,500	248,000	1,201,500
	2011	604,166	604,166	231,666	254,000	1,693,998

¹ Based on earnings per share of €0.40 in 2012 and €0.68 in 2011.

Members of the Supervisory Board did not receive any loans from Infineon either in the 2012 or 2011 fiscal year.

Other matters (2012 fiscal year)

As a precaution and in accordance with section 114 AktG, in November 2010 the Supervisory Board approved a contract between the Company and the Technische Universität (TU) München (Institute for Technical Electronics headed by Prof. Dr. Schmitt-Landsiedel) for the performance of research and development work on sensing for automotive applications. The contract runs until September 30, 2013. In accordance with the terms of the contract, an amount of €45,000 was paid by the Company to the TU München in the 2012 fiscal year.

FORWARD-LOOKING STATEMENTS

The Group 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 which reflect currently available information and present estimates. They are subject to a wide range 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.

Neubiberg, November 2012

Management Board

Dr. Reinhard Ploss

Dominik Asam

Arunjai Mittal

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CONSOLIDATED STATEMENT OF OPERATIONS

for the year ended September 30, 2012

€ in millions	Notes	2012	2011
Revenue		3,904	3,997
Cost of goods sold		(2,477)	(2,343)
Gross profit		1,427	1,654
Research and development expenses		(455)	(439)
Selling, general and administrative expenses		(475)	(449)
Other operating income	8	25	23
Other operating expense	8	(67)	(53)
Operating income		455	736
Financial income	9	38	39
Financial expense	10	(61)	(65)
Loss/Income from investments accounted for using the equity method	19	(1)	4
Income from continuing operations before income taxes		431	714
Income tax benefit	11	1	30
Income from continuing operations		432	744
Loss/Income from discontinued operations, net of income taxes	5	(5)	375
Net income		427	1,119
Attributable to:			
Non-controlling interests		–	–
Shareholders of Infineon Technologies AG		427	1,119
Basic earnings per share attributable to shareholders of Infineon Technologies AG (in euro):			
Basic earnings per share from continuing operations	12	0.40	0.68
Basic earnings per share from discontinued operations	12	–	0.35
Basic earnings per share	12	0.40	1.03
Diluted earnings per share attributable to shareholders of Infineon Technologies AG (in euro):			
Diluted earnings per share from continuing operations	12	0.39	0.66
Diluted earnings per share from discontinued operations	12	–	0.32
Diluted earnings per share	12	0.39	0.98

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the year ended September 30, 2012

€ in millions	2012	2011
Net income	427	1,119
Currency translation effects	10	–
Actuarial losses on pension plans and similar commitments	(112)	(20)
Net change in fair value of hedging instruments	8	(7)
Other comprehensive income for the year, net of tax	(94)	(27)
Total comprehensive income for the year, net of tax	333	1,092
Attributable to:		
Non-controlling interests	–	–
Shareholders of Infineon Technologies AG	333	1,092

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

as of September 30, 2012

€ in millions	Notes	2012	2011
ASSETS:			
Current assets:			
Cash and cash equivalents		425	1,007
Financial investments	13	1,810	1,685
Trade and other receivables	14	539	593
Inventories	15	567	507
Income tax receivable		6	30
Other current financial assets	16	9	2
Other current assets	17	149	142
Assets classified as held for sale	5	5	5
Total current assets		3,510	3,971
Property, plant and equipment	18	1,731	1,343
Goodwill and other intangible assets	22	146	111
Investments accounted for using the equity method	19	32	34
Deferred tax assets	11	315	262
Other financial assets	20	124	124
Other assets	21	40	28
Total non-current assets		2,388	1,902
Total assets		5,898	5,873

€ in millions	Notes	2012	2011
LIABILITIES AND EQUITY:			
Current liabilities:			
Short-term debt and current maturities of long-term debt	27	55	68
Trade and other payables	23	622	735
Current provisions	24	710	810
Income tax payable		69	59
Other current financial liabilities	25	100	159
Other current liabilities	26	122	174
Total current liabilities		1,678	2,005
Long-term debt	27	240	237
Pension plans and similar commitments	35	293	168
Deferred tax liabilities	11	4	7
Long-term provisions	24	30	26
Other financial liabilities	28	8	4
Other liabilities	29	70	71
Total non-current liabilities		645	513
Total liabilities		2,323	2,518
Shareholders' equity:	30		
Ordinary share capital		2,160	2,173
Additional paid-in capital		5,674	5,854
Accumulated deficit		(4,199)	(4,514)
Other reserves		28	10
Own shares		–	(26)
Put options on own shares		(88)	(142)
Equity attributable to shareholders of Infineon Technologies AG		3,575	3,355
Total liabilities and equity		5,898	5,873

CONSOLIDATED STATEMENT OF CASH FLOWS

for the year ended September 30, 2012

€ in millions	2012	2011
Net income	427	1,119
Plus/Minus: net income from discontinued operations, net of income taxes	5	(375)
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	428	364
Income tax benefit	(1)	(30)
Net interest result	22	26
Provision for doubtful accounts	5	1
Losses (gains) on sales of financial investments	–	2
Gains on sales of businesses and interests in subsidiaries	–	(2)
Losses (gains) on disposals of property, plant and equipment	1	(1)
Expenses (income) from investments accounted for using the equity method	1	(4)
Dividends received from associated companies	–	5
Impairment charges	28	(4)
Share-based compensation	2	2
Change in trade and other receivables	51	(71)
Change in inventories	(62)	(51)
Change in other current assets	(14)	(27)
Change in trade and other payables	(96)	87
Change in provisions	(78)	57
Change in other current liabilities	(20)	(10)
Change in other assets and liabilities	(34)	(48)
Interest received	36	27
Interest paid	(15)	(24)
Income tax paid	(19)	(60)
Net cash provided by operating activities from continuing operations	667	983
Net cash provided by (used in) operating activities from discontinued operations	(28)	263
Net cash provided by operating activities	639	1,246

€ in millions	2012	2011
Purchases of financial investments	(2,369)	(2,905)
Proceeds from sales of financial investments	2,242	1,283
Proceeds from sales of businesses and interests in subsidiaries	–	2
Purchases of intangible assets and other assets	(58)	(42)
Purchases of property, plant and equipment	(832)	(845)
Proceeds from sales of property, plant and equipment and other assets	4	8
Net cash used in investing activities from continuing operations	(1,013)	(2,499)
Net cash provided by investing activities from discontinued operations	(12)	946
Net cash used in investing activities	(1,025)	(1,553)
Proceeds from issuance of long-term debt	70	29
Repayments of long-term debt	(67)	(81)
Repurchase of convertible subordinated bonds	(62)	(173)
Proceeds from issuance of ordinary shares	2	–
Purchases of own shares	(20)	(26)
Proceeds from the issuance of put options on own shares	8	8
Dividend payments	(130)	(109)
Net cash used in financing activities from continuing operations	(199)	(352)
Net cash used in financing activities from discontinued operations	–	(3)
Net cash used in financing activities	(199)	(355)
Net increase (decrease) in cash and cash equivalents	(585)	(662)
Effect of foreign exchange rate changes on cash and cash equivalents	3	2
Cash and cash equivalents at beginning of period	1,007	1,667
Cash and cash equivalents at end of period	425	1,007

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year ended September 30, 2012

€ in millions, except for number of shares	Ordinary shares issued		Additional paid-in capital	Accumulated deficit
	Shares	Amount		
Balance as of October 1, 2010	1,086,742,085	2,173	6,048	(5,613)
Net income	-	-	-	1,119
Other comprehensive income for the period, net of tax	-	-	-	(20)
Total comprehensive income for the period, net of tax	-	-	-	1,099
Dividends	-	-	(109)	-
Issuance of ordinary shares:				
Exercise of stock options	3,750	-	-	-
Share based compensation	-	-	2	-
Purchase of own shares	-	-	-	-
Put options on own shares	-	-	8	-
Other changes in equity	-	-	(95)	-
Balance as of September 30, 2011	1,086,745,835	2,173	5,854	(4,514)
Balance as of October 1, 2011	1,086,745,835	2,173	5,854	(4,514)
Net income	-	-	-	427
Other comprehensive income for the period, net of tax	-	-	-	(112)
Total comprehensive income for the period, net of tax	-	-	-	315
Dividends	-	-	(130)	-
Issuance/cancellation of ordinary shares:				
Exercise of stock options	560,497	1	1	-
Cancellation of own shares	(7,000,000)	(14)	(32)	-
Share-based compensation	-	-	2	-
Purchase of own shares	-	-	-	-
Put options on own shares	-	-	10	-
Other changes in equity	-	-	(31)	-
Balance as of September 30, 2012	1,080,306,332	2,160	5,674	(4,199)

Foreign currency translation adjustment	Other reserves		Own shares	Put options on own shares	Total equity attributable to shareholders of Infineon Technologies AG	Non-controlling interests	Total equity
	Unrealized gains (losses) on securities	Unrealized gains (losses) on cash flow hedge					
16	3	(2)	-	-	2,625	-	2,625
-	-	-	-	-	1,119	-	1,119
-	-	(7)	-	-	(27)	-	(27)
-	-	(7)	-	-	1,092	-	1,092
-	-	-	-	-	(109)	-	(109)
-	-	-	-	-	-	-	-
-	-	-	-	-	2	-	2
-	-	-	(26)	-	(26)	-	(26)
-	-	-	-	(142)	(134)	-	(134)
-	-	-	-	-	(95)	-	(95)
16	3	(9)	(26)	(142)	3,355	-	3,355
16	3	(9)	(26)	(142)	3,355	-	3,355
-	-	-	-	-	427	-	427
10	-	8	-	-	(94)	-	(94)
10	-	8	-	-	333	-	333
-	-	-	-	-	(130)	-	(130)
-	-	-	-	-	2	-	2
-	-	-	46	-	-	-	-
-	-	-	-	-	2	-	2
-	-	-	(20)	-	(20)	-	(20)
-	-	-	-	54	64	-	64
-	-	-	-	-	(31)	-	(31)
26	3	(1)	-	(88)	3,575	-	3,575

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 systems solutions. The focus of activities is on automotive electronics, industrial electronics and chip-card-based security. Infineon products are also used in a wide variety of microelectronic applications, for example in computer systems, telecommunications systems and consumer goods. The product range comprises standard components, customer-specific solutions for devices and systems, specific components for digital, analog, and mixed-signal applications as well as embedded, non-volatile memories. Most of Infineon’s revenue is generated by power semiconductors, the remainder by embedded control products (microcontroller designs adapted to the specific requirements of the application) and other product categories. Infineon’s operations, 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, Federal Republic of Germany. The Company is registered in the Commercial Register of the District Court of Munich under the number HRB 126492.

1 BASIS OF PREPARATION

The Consolidated Financial Statements prepared by Infineon Technologies AG as parent company for the year ended September 30, 2012 have been prepared in accordance with International Financial Reporting Standards (“IFRS”) and related Interpretations effective as of September 30, 2012 as issued by the International Accounting Standards Board (“IASB”) to the extent such 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 fiscal year end for Infineon is September 30.

The requirements of the Standards applied have been complied with in full and lead to the Consolidated Financial Statements providing a true and fair view on the net assets, financial position and results of operations of the Infineon Group.

Infineon’s accounting policies are described in notes 2 and 3.

The Consolidated Financial Statements comprise the Consolidated Statement of Operations, Consolidated Statement of Comprehensive Income, Consolidated Statement of Financial Position, Consolidated Statement of Cash Flows, Consolidated Statement of Changes in Equity and Notes to the Consolidated Financial Statements. The Consolidated Statement of Operations is presented using the cost of sales method.

The accounting policies used, as well as the explanatory comments and disclosures made, in the IFRS Consolidated Financial Statements for the year ended September 30, 2012 are based, as a general rule, on those used in the Consolidated Financial Statements for the 2011 fiscal year.

For ease of comparison, certain prior year figures have been adjusted to bring them into line with the current basis of presentation. This applies in particular to the following matters:

- Following the split of Industrial & Multimarket Segment into two new segments, namely Industrial Power Control and Power Management & Multimarket, Infineon changed its internal and external reporting for segments (see note 40) with effect from January 1, 2012. Prior year amounts were adjusted accordingly.
- In the notes to the Consolidated Financial Statements, certain analyses of individual items in the prior year Statement of Operations and Statement of Financial Position have been adjusted to reflect the current presentation.

The Company’s Management Board approved the Consolidated Financial Statements on November 16, 2012, for submission to the Company’s Supervisory Board.

All amounts herein are shown in euro (or “€”) except where otherwise stated. Deviations between amounts presented are possible due to rounding. Negative amounts are presented in parentheses.

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 Consolidated Financial Statements for the year ended September 30, 2012 and which have an impact on Infineon's Consolidated Financial Statements:

- **Amendment to IAS 24 "Related Party Disclosures (2009)"**. The amendment clarifies the definition of related parties. The amendment does not have a significant impact on the Consolidated Financial Statements.
- **Amendments to IFRS 7 "Financial instruments: Disclosures – Transfers of financial assets"**. The amendments require additional disclosures to be made when financial assets are transferred. The changes do not have a significant impact on the Consolidated Financial Statements.
- **"Improvements to IFRS (2010)"**. The Standard brings together numerous smaller changes to existing standards and Interpretations in conjunction with an annual program of improvements to IFRS. The amendments have different effective dates and do not have a significant impact on the Consolidated Financial Statements.

FINANCIAL REPORTING RULES ISSUED NOT YET ADOPTED

The following new or amended Standards have been issued recently 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, 2012 since they are not yet mandatory or, alternatively, have not yet been endorsed by the EU:

- **Amendment to IAS 1 "Presentation of Financial Statements – Presentation of Items of Other Comprehensive Income"** (effective date: July 1, 2012). The amendment requires that a distinction be made in the Statement of Comprehensive Income between items that will be recognized in future periods in the Statement of Operations and those which will not.
- **"Improvements to IFRS (2011)"** (effective date: January 1, 2013). The Standard brings together numerous smaller changes to existing standards resulting from an annual program of improvements to IFRS.
- **IFRS 13 "Fair Value Measurement"** (effective date: January 1, 2013). The Standard sets out in a single IFRS a framework for measuring fair value, including a definition of the term and a description of the methods that can be used to measure it. It also expands the disclosures about fair value measurement.
- **Amendment to IAS 19 "Employee Benefits"** (effective date: January 1, 2013). The changes relate to the recognition and measurement of the cost of defined benefit pension plans and termination benefits. Among other measures, the amendment affects the calculation of the expected return on plan assets, which in future must be based on the discount rate. It also withdraws the option to recognize actuarial gains and losses over time and requires that actuarial gains and losses are recognized immediately in other comprehensive income. Infineon already recognizes actuarial gains and losses on defined benefit pension plans immediately in other comprehensive income.
- **Amendment to IFRS 7 "Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities"** (effective date: January 1, 2013). The amendment requires additional disclosures on offsetting rights. In addition to extended disclosures on offsetting activities actually carried out pursuant to IAS 32, disclosure is required on existing rights to offset regardless of whether the offsetting is actually carried out.
- **Amendment to IAS 32 "Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities"** (effective date: January 1, 2014). The standard specifies the requirements for offsetting financial assets and financial liabilities in the Statement of Financial Position, whilst retaining the previous offsetting model in IAS 32. To meet the new offsetting requirements an entity's right to offset must not be contingent on a future event and must be currently enforceable. It is further specified that a gross settlement system also complies with the offsetting requirements according to IAS 32.
- **IFRS 10 "Consolidated Financial Statements"** (effective date: January 1, 2013; expected postponement of effective date for EU companies to January 1, 2014). The Standard replaces the rules contained at present in IAS 27 and SIC 12 with respect to control and consolidation and introduces a uniform consolidation model.
- **IFRS 11 "Joint Arrangements"** (effective date: January 1, 2013; expected postponement of effective date for EU companies to January 1, 2014). The new Standard replaces the existing IAS 31 on joint ventures and introduces revised terminology and classification of entities that are party to joint arrangements.

- **IFRS 12 “Disclosure of Interests in Other Entities”** (effective date: January 1, 2013; expected postponement of effective date for EU companies to January 1, 2014). The new Standard requires the disclosure of information that enables users of financial statements to evaluate the nature of, the risks associated with, and the financial effects of its interests in subsidiaries, associated companies, joint arrangements and unconsolidated structured entities (special purpose entities).
- **Revised version of IAS 28 “Investments in Associates and Joint Ventures”** (effective date: January 1, 2013; expected postponement of effective date for EU companies to January 1, 2014). The amendments take into account the consequences of changes of the new IFRS 10, IFRS 11 and IFRS 12 and expand the scope of application of IAS 28 to joint ventures.
- **IFRS 9 “Financial Instruments”** (effective date: January 1, 2015). The standard is the result of the first of three phases of the project to replace IAS 39 “Financial Instruments: Recognition and Measurement” and governs the classification and measurement of financial assets and financial liabilities. In the future financial assets are to be measured either at amortized cost or at fair value. The requirements for classification and measurement of financial liabilities are carried forward unchanged from IAS 39 apart from modifications to the requirements relating to the consideration of an entity’s own credit risk in connection with the exercise of fair value options. The two further phases of the project concerning impairment to financial instruments and hedge accounting are currently being revised by the IASB.

The new Standards and Amendments to existing Standards are mandatory for annual periods beginning on or after the stipulated effective date.

As a general rule, new Standards and Amendments to existing Standards are not adopted by Infineon before their effective date, even if this is permitted for certain Standards.

Infineon is currently assessing the impact of the Standards not yet applied on the presentation of Infineon’s financial condition, liquidity position and results of operations.

A number of other Standards and Interpretations have been issued, which, from today’s perspective, are not expected to have any impact on the Consolidated Financial Statements.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying Consolidated Financial Statements have been drawn up using the following consolidation principles and accounting policies:

BASIS OF CONSOLIDATION

The Consolidated Financial Statements 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 is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. Ownership of the majority of voting rights is an indication of control; in this context, any potential voting rights must also be taken into account for the purposes of assessing control.

An entity is included in the Consolidated Financial Statements from the date on which Infineon has the right to control the entity concerned (acquisition date). Upon the first-time consolidation of an entity, the acquired assets and liabilities are measured on the basis of their fair value. Any excess of cost of acquisition over Infineon’s 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 cost of acquisition is recognized as a gain.

The financial statements of entities included in the Consolidated Financial Statements are prepared using uniform accounting policies. The effect of intragroup transactions on assets and liabilities as well as unrealized gains and losses arising from intragroup relationships are eliminated on consolidation.

Infineon deconsolidates a subsidiary when it loses control over the financial and operating policies of such entity and no longer benefits from such entity’s activities. Examples of the loss of control are the sale (full or partial) of shares in a subsidiary, the relinquishing of voting rights and the opening of insolvency proceedings at the level of a subsidiary.

A list of subsidiaries of Infineon Technologies AG is provided in note 42.

INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

Investments in associated companies and joint ventures (as defined below) are accounted for using the equity method (combined: "Investments Accounted for Using the Equity Method").

(A) Associated companies

An "associated company" is an entity in which Infineon has significant influence, but not a controlling interest, over the operating and financial management policy decisions of the entity. Significant influence is generally presumed when Infineon holds between 20 percent and 50 percent of the voting rights.

(B) Joint ventures

A "joint venture" is a contractual arrangement whereby two or more parties undertake an economic activity that is subject to joint control.

Equity method

Under the equity method, the initial investment in an associated company or joint venture is recognized at cost and increased or decreased at each subsequent reporting date for Infineon's share of profits or losses, dividends paid and other changes in equity of the associated company or joint venture, to the extent they relate to the investment.

Goodwill arising from the acquisition of an associated company or joint venture is included in the carrying amount of the investment (net of accumulated impairment losses). Impairment losses in excess of Infineon's carrying amount of the investment in the entity are charged against other assets held by Infineon related to the investment such as intercompany loans or other receivables. If the carrying amount of the investment and of other assets related to the investment are written down to zero, it must be determined whether additional losses are required to be recognized if Infineon has an obligation to fund such losses.

The effects of all significant transactions between Infineon and entities accounted for using the equity method are eliminated to the extent of Infineon's interest in the equity-method investee.

When an equity method investee's fiscal year end differs by not more than three months from the Company's fiscal year-end, the Company's share of profit or loss of the respective company is recognized with a time lag.

OTHER EQUITY INVESTMENTS

Other equity investments, where the Company has an ownership interest in the entity of less than 20 percent, are recorded at cost less any necessary write-downs for impairment if a fair value cannot be reliably determined.

REPORTING CURRENCY AND FOREIGN CURRENCY TRANSLATION

The currency of the primary economic environment in which an entity operates and normally generates and expends cash is considered to be the functional currency of that entity. The functional currency of Infineon Technologies AG is the euro. The Consolidated Financial Statements prepared in euros. The functional currency of foreign subsidiaries corresponds either to the local currency or the euro.

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 entity accounting for such items are translated at the closing exchange rate prevailing at the end of the relevant reporting period. Exchange rate gains and losses 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 using period-end exchange rates. Income and expenses of these entities are translated using the average exchange rate for the period under report. Exchange differences arising from the translation of assets and liabilities in comparison with the translations reported in the previous periods are recognized directly in equity and reported as a component of "other reserves" within equity.

The exchange rates of the primary currencies (€1.00 quoted in currencies specified below) used in the preparation of the accompanying Consolidated Financial Statements are as follows:

€1 quoted into currencies	Closing rate		Annual average exchange rate	
	September 30, 2012	September 30, 2011	2012	2011
Japanese yen	99.8200	104.2200	102.5161	112.6511
Malaysian ringgit	3.9611	4.2999	4.0449	4.2609
Singapore dollar	1.5844	1.7502	1.6413	1.7598
US dollar	1.2845	1.3631	1.3004	1.3946

RECOGNITION AND MEASUREMENT PRINCIPLES

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

Statement of financial position item	Measurement principle
Assets	
Cash and cash equivalents	Nominal amount
Financial investments	Fair value/amortized cost
Trade and other receivables	Amortized cost
Inventories	Lower of 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 cost
Goodwill	Impairment-only-approach
Intangible assets (except goodwill)	
with finite useful life	Amortized cost
with indefinite useful life	Impairment-only-approach
Other financial assets (current and non-current) (categories in accordance with IAS 39)	
Loans and receivables	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 cash flow hedges	Fair value directly through equity
Other assets (current and non-current)	Amortized cost
Equity and liabilities	
Trade and other payables	Amortized cost
Debt	Amortized cost
Provisions	
Pensions	Projected unit credit method
Other provisions	Expected settlement amount
Other financial liabilities (current and non-current) (categories in accordance with IAS 39)	
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	Amortized cost
Other liabilities (current and non-current)	Amortized cost
Put options on own shares	Present value of nominal amount at date of issue
Own shares	Cost

CASH AND CASH EQUIVALENTS

Cash and cash equivalents represent cash, deposits and liquid short-term investments with a maturity at acquisition date of three months or less and are measured on the basis of their nominal amount.

FINANCIAL INSTRUMENTS

A financial instrument is a contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity. Financial instruments containing both equity and liability elements (e.g. convertible bonds which give the holder the right to convert the bond into shares of the company), are required to be evaluated in accordance with IAS 32, "Financial Instruments: Presentation" and, where necessary, divided into their equity and liability components.

Financial assets consist, in particular, of cash and cash equivalents, financial investments, trade and other receivables as well as derivative financial instruments held for trading purposes with a positive fair value at the end of the reporting period.

Financial liabilities comprise primarily trade and other payables, debt and derivative financial instruments with a negative fair value at the end of the reporting period.

Financial instruments are initially recognized at their fair value. Transaction costs directly attributable to the acquisition or issuance of financial instruments are only recognized in determining 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 that an asset is delivered to or by Infineon.

Financial assets are derecognized when the rights to receive cash flows from the investments have expired or have been transferred and Infineon has transferred substantially all risks and rewards of ownership. Financial liabilities are derecognized when they are extinguished, that is when the obligation specified in the respective contract is discharged, cancelled or has expired.

Financial assets and financial liabilities

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". No financial assets were classified to the other IAS 39 category "Assets held-to-maturity" in the fiscal years 2012 and 2011. "Designated hedging instruments (cash flow hedges)" also belong to financial assets.

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.

The classification of a financial asset or financial liability to one of the categories stated above is determined on initial recognition of the relevant item.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, unless their maturity is more than 12 months at the end of the relevant reporting period, in which they are then reported as non-current. Loans and receivables of Infineon include the items "Cash and cash equivalents" as well as "Trade and other receivables". Fixed-term deposits and commercial paper (reported as financial investments) with an original term of between 3 and 12 months from the date of acquisition are also classified as "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 impaired when there is objective evidence that Infineon will not be able to collect all amounts due according to the original terms of the receivables. Objective evidence that indicates an impairment would include, for example, known financial difficulties or the insolvency of a creditor and results in the recognition of a corresponding allowance (impairment loss). Allowances are also recognized on the basis of the aging profile of past-due receivables. The corresponding impairment loss is recognized in the Statement of Operations via an allowance account. When a payment default becomes certain (e.g. in the case of insolvency proceedings or a voluntary settlement agreement), loans and receivables are reclassified as uncollectible and derecognized along with the previously recognized allowance.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial instruments that are designated in this category or not allocated to any of the other categories. They comprise principally marketable securities carried as current assets and reported as "Financial investments" (see note 13).

Available-for-sale financial assets are measured at their fair value at the end of the relevant reporting period. Changes in the fair value of available-for-sale financial assets are recognized directly in equity. Upon disposal, they are recognized through profit or loss. If the fair value is permanently or significantly lower than the amortized cost, an impairment loss is recognized through profit or loss.

Infineon assesses declines in fair value at the end of each reporting period to determine whether there is objective evidence that a financial asset or group of financial assets is impaired. In the case of available-for-sale financial assets, a significant or prolonged decline in the fair value of the financial asset below its cost is considered as an indicator that the assets are impaired. If any such evidence exists for available-for-sale financial assets, 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 on that financial asset previously recognized in profit or loss - is removed from equity and recognized in profit or loss.

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

Financial assets or liabilities measured at fair value through profit or loss comprise almost entirely derivatives used to hedge currency or interest rate risks when hedge-accounting is not being applied.

Derivative financial instruments are categorized as held for trading and measured at fair value through profit or loss unless they are designated as hedging instruments with hedge-accounting being applied. All fair value gains and losses are recognized through profit or loss. Changes in the fair value of undesignated derivative financial instruments that relate to operations are recorded as part of cost of goods sold, while undesignated derivative financial instruments relating to financing activities are recorded in financial income or financial expense.

All financial instruments in this category are measured on the basis of the value at the trading date. Derivative financial instruments with a positive fair value at the end of the reporting period are reported as "Other current financial assets" and those with a negative fair value at the end of the reporting period are reported as "Other current financial liabilities". There were no derivative financial instruments with a remaining term of more than 12 months in place as of September 30, 2012 and 2011.

Designated hedging instruments (cash flow hedges)

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

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

The effective portion of changes in the fair value of derivative financial instruments that are designated and qualify as cash flow hedges is recognized in equity. "Effective" is the degree to which changes in the fair value or cash flows of the hedged item 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 immediately in profit or loss. Amounts accumulated in equity are recycled in profit or loss in the periods when the hedged item affects profit or loss (i.e. when the forecasted transaction being hedged takes place e.g. at consumption of hedged commodities).

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 and is recognized when the forecasted transaction is ultimately recognized in profit or loss. When a forecast 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

All other financial liabilities, including trade payables and debt instruments, are measured at amortized cost using the effective interest method. This also applies to the debt component of compound financial instruments such as the subordinated convertible bond issued by Infineon and obligations in conjunction with the put options issued by the Company on own shares.

Compound financial instruments

Compound financial instruments issued by Infineon comprise convertible bonds which give the holder the right to exchange the bonds for shares in Infineon. The number of underlying shares is fixed and does not vary on the basis of the shares' fair value.

The liability component of such a compound financial instrument is recognized as a liability measured at the fair value of a comparable liability without conversion option. The conversion right component is qualified as an equity instrument. It is recognized within equity upon issuance of the compound financial instrument measured at an amount corresponding to the difference between the total fair value of the instrument and the fair value of the debt component. On initial recognition of the instrument, directly attributable transaction costs are allocated proportionately to the relevant carrying amounts of the equity and debt components in the Statement of Financial Position.

The liability component is measured at amortized cost using the effective interest method, whereas the equity component remains unchanged during the term of the compound financial instrument.

In the event that the compound financial instrument is redeemed before its due date, the consideration paid is allocated to the equity and debt components. The difference at redemption date between the carrying amount of the liability component and the fair value of a comparable liability without conversion right is recognized as interest expense or income. The difference between the consideration paid and the fair value of a comparable liability without the conversion rights results in a reduction in equity (additional paid-in capital).

Put options on own shares

Put options issued by Infineon on its own shares are reported as "Obligation to acquire own shares" within other current financial liabilities if the put option is required to be settled by delivery of a fixed number of shares in return for a fixed amount specified in advance. The obligation is recognized at the date of issue of the put option, measured at the present value of the amount expected to settle the option. A corresponding amount is recognized to reduce equity, reported within equity as "Put options on own shares". The option premium received on the issue of the put options is recognized as additional paid-in capital. The liabilities are recognized on an accruals basis, with the accrued interest recorded as an interest expense. The liability is extinguished when the put options are exercised, at which point the corresponding amounts are reclassified within equity from "Put options on own shares" to "Own shares". If the put option lapses, the amounts previously recognized as a reduction of equity and as a liability are derecognized.

INVENTORIES

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

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

Write-downs are recorded on inventories using a consistent approach throughout Infineon. Write-downs are determined at product level for 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 on the basis of the tax laws enacted by the end of the reporting period in the countries in which the relevant entity operates.

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 conjunction with business combinations. Similarly, deferred taxes are not recognized on the initial recognition of an asset or liability in conjunction with a transaction which 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 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. Deferred tax assets and liabilities are measured using tax rates (and laws) that have been enacted or substantially enacted by the end of the reporting period and are expected to apply when the related deferred tax asset is realized or the deferred tax liability is settled.

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 taxpayers that are jointly assessed for income tax purposes.

Income taxes are recognized in profit or loss, with the exception of income taxes relating to items recognized directly in equity.

DISCONTINUED OPERATIONS

Discontinued operations are reported when a component of an entity either is classified as held for sale or has been already disposed of. A discontinued operation must be either (a) a separate major line of business or geographical area of operations, (b) part of a single coordinated plan to dispose of a separate major line of business or geographical area of operations or (c) a subsidiary acquired exclusively with view to resale.

Discontinued operations are presented as separate line items in the Consolidated Statement of Operations and Consolidated Statement of Cash Flows. The line item “Income from discontinued operations, net of income taxes” includes results of discontinuing operations as well as gains and losses on the disposal of discontinued operations.

Prior year figures in the Consolidated Statement of Operations and Consolidated Statement of Cash Flows are restated so that the disclosures relate to all operations that have been classified as discontinued operations as of the reporting date.

In the fiscal years 2012 and 2011, Infineon reports the Wireline Communications business, Wireless mobile phone business (both already disposed of) and Qimonda as discontinued operations.

ASSETS AND LIABILITIES HELD FOR SALE

Items classified as “Assets held for sale” relate to non-current assets or groups of assets (e.g. assets of a subsidiary held for sale or assets related to discontinued operations), the carrying amounts of which will be realized primarily by way of a highly probable divestment transaction within the next twelve months or an already executed divestment transaction, and not through continued use. Assets held for sale are reported in the Statement of Financial Position as a separate line item within current assets. Liabilities disposed of in a transaction together with assets held for sale are reported separately on the liabilities and equity side of the Statement of Financial Position, within current liabilities, as “Liabilities held for sale”.

Long-lived assets classified as held for sale are no longer depreciated on a scheduled basis. Instead, they are tested for impairment at the end of the reporting period and measured at the lower of cost or fair value less costs to sell.

PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are measured at amortized acquisition or construction cost. Items of property, plant and equipment are depreciated over their estimated useful life. An impairment loss is recognized in addition if an asset's value falls below amortized cost.

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

Where an obligation exists to dismantle or remove an 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 upon completion and the asset depreciated over its estimated useful life. A liability is recognized for the same amount, the carrying amount of which is increased in future periods by unwinding the interest component.

If the construction phase of property, plant or equipment extends over more than 12 months, the interest incurred on borrowed capital up to the date of completion is capitalized as part of the cost of acquisition or construction in accordance with IAS 23, "Borrowing Costs". No interest was capitalized in the fiscal years ended September 30, 2012 and 2011.

Ongoing expenses for the maintenance and repair of property, plant and equipment are generally recognized in profit or loss as they occur. These subsequent costs are capitalized if a repair (such as a complete overhaul of technical equipment) will result in significant additional future economic benefits.

Property, plant and equipment is depreciated using the straight-line method. Land property rights and construction in progress are not depreciated. The following depreciation periods, based on the estimated useful lives of the respective assets, are applied consistently throughout Infineon:

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

Impairment losses are recognized to take account of declines in value that go beyond regular depreciation and are expected to be permanent. Corresponding reversals are made when the reasons for previous impairments no longer exist, provided that the reversal does not cause the carrying amount to exceed amortized cost.

When 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 expenses.

Infineon does not apply the revaluation model as described in IAS 16, "Property, Plant and Equipment".

Investment Properties

Infineon does not own any investment properties and therefore does not apply IAS 40, "Investment Properties".

LEASES

Infineon is a lessee of property, plant and equipment. In the case of operating leases, the costs of leasing an asset are spread on a straight-line basis over the term of the lease arrangement. All leases where Infineon is lessee that meet certain specified criteria intended to represent situations where the substantive risks and rewards of ownership have been transferred to the lessee are accounted for as finance leases pursuant to IAS 17, "Leases". This is the case when substantially all of the risks and rewards of ownership of the asset are transferred to Infineon.

RECOVERABILITY OF INTANGIBLE ASSETS AND OTHER LONG-LIVED ASSETS

Goodwill

Goodwill is an asset that represents the future economic benefits arising from other assets acquired in a business combination that are not individually identified and separately recognized. Goodwill is the excess of the acquisition cost of a business over the net fair value of acquired, separately identifiable assets, liabilities and contingent liabilities at the date of acquisition. Goodwill arising from acquisitions of subsidiaries 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) that are expected to benefit from the synergies expected to be generated by the business combination. This level is beneath the segment level and represents the smallest group of assets that generate cash inflows from continuing use that are largely independent of the cash inflows of other assets or asset groups. Actual goodwill is almost entirely attributable to several CGUs of the Power Management & Multimarket segment.

Acquired goodwill is measured at cost and is not amortized systematically. Instead, it is tested for impairment annually in the fourth quarter of the fiscal year and, additionally, whenever there are events or changes in circumstances (triggering events) which indicate that the carrying amount may not be recoverable. The impairment test for goodwill is performed at the CGU level. The recoverable amount is the higher of the fair value less costs to sell and the value in use. If the carrying value of the respective CGU including allocated goodwill exceeds the recoverable amount, then the goodwill must be written down accordingly. Such impairments cannot be reversed in a subsequent period. The determination of the recoverable amount requires a significant degree of management judgment.

Infineon determines the recoverable amount of a particular CGU on the basis of its value in use. Infineon measures value in use by estimating the future cash flows that will be generated by the continuing operations of the CGU and using an appropriate interest rate to discount these cash flows to their present value.

Cash flows are forecasted on the basis of financial forecasts covering a period of five years. Cash flows are projected based on past experience, current operating results and the strategic business plan approved in the fourth quarter of the fiscal year. Infineon's annual forecasts are calculated bottom up based on certain central assumptions applied consistently throughout the Infineon Group. Certain cash flow assumptions (for example depreciation/amortization, investments in fixed assets, change in working capital) are calculated based on defined parameters. Cash flows for periods beyond the planning horizon are calculated using a terminal value. In the fiscal year 2012, a terminal growth rate of 1 percent was used (2011: 3 percent); this growth rate is derived from publicly available market studies from market research institutes and does not exceed the historical long-term average growth rate for the sector in which the relevant CGUs operate.

The discount rate is based on Infineon's weighted average cost of capital (WACC) before tax for the affected CGUs within the Power Management & Multimarket segment. The discount rate reflects the current market rate of return as well as the specific risks attached to each CGU. In accordance with IAS 36, Infineon determines the appropriate WACC for the CGUs based on market information collated for a peer group relevant to Infineon. The market information used includes beta factors, leverage rates, credit premiums, and the risk-free interest rates. A discount factor of 11.0 percent (2011: 9.6 percent) was used in the fiscal year 2012 to measure the recoverable amount of each CGU. Infineon also performs sensitivity analyses, applying different parameters – which Infineon considers to be possible but not probable – to determine the WACC and terminal value. 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. The recoverability of goodwill was confirmed for each of these scenarios. The validity of the parameters used was also reviewed by the Management Board who continually monitor whether triggering events potentially indicate that the recoverable amount has fallen below the book value, prior to the approval of the Consolidated Financial Statements.

Other intangible assets

Other intangible assets consist primarily of purchased intangible assets, such as licenses and technology – measured initially at acquisition cost – as well as capitalized development costs. These intangible assets have finite useful lives ranging from 3 to 10 years and are carried at amortized cost using the straight-line method. For the criteria used to capitalize development costs see the “Research and Development Costs” section.

Infineon did not hold any other intangible assets with indefinite useful lives in either the 2012 or 2011 fiscal years.

Other long-lived assets

Infineon reviews all other long-lived assets, including property, plant and equipment, 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 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 based on discounted estimated future cash flows. Considerable management judgment is necessary to estimate discounted 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 there has been a change in estimates used to determine the asset's recoverable amounts since the last impairment loss was recognized. The maximum reversal of an impairment loss would lead to the carrying amount that would have been determined (net of amortization or depreciation) if no impairment loss had been recognized for that asset in prior years.

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 each country and are mostly dependent on the length of service and the salary of the employee concerned. Infineon has both defined contribution and defined benefit plans.

In the case of defined contribution plans, Infineon pays amounts based on statutory or contractual regulations to a separate entity (a fund) or to public-sector pension agencies or private-sector pension insurance companies. Once the contributions are paid, Infineon has no further obligation to pay benefits. The contributions are recognized as expense in the year in which they fall due and are included in costs by function and hence as part of the operating result. Infineon records a liability for amounts payable under the provisions of its 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 available.

All other plans that do not fall under the definition of a defined contribution plan are accounted for as defined benefit plans. The latter relate to Infineon's commitments to pay future vested and current benefits to present and former employees and their dependants. These obligations 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. In this context, actuarial procedures are applied for which it is necessary to make specific assumptions. The most important of these are the discount rate, the return on plan assets, 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 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 interest component of the allocation to the pension provision and the expected interest income from plan assets – are recognized on a net basis within costs by function and hence as part of the operating result. The interest component of the allocation to the pension provision and the expected interest income from plan assets are reported as financial expense or financial income as part of the financial result. 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. Infineon applies this accounting option with regard to the recognition of actuarial gains and losses in order to avoid volatilities of reported earnings in the Consolidated Statement of Operations. This accounting treatment of recognition of actuarial gains and losses complies with the method stipulated in the amended IAS 19 “Employee Benefits” and which is a mandatory requirement for Infineon in fiscal years starting on and after October 1, 2013.

Past-service costs are recognized immediately in profit or loss, unless the changes to the pension plan are conditional on the employees remaining in service for a specified period of time (the vesting period). In this case, the past-service costs are recorded on a straight-line basis over the vesting period.

PROVISIONS

Provisions are recognized for present legal and constructive obligations arising from past events that are likely to result in a future outflow of resources, provided that a reliable estimate can be made of the amount of the obligations.

Provisions are measured at their expected settlement amount in accordance with IAS 37, “Provisions, Contingent Liabilities and Contingent Assets” or, where applicable, 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 the financial effect of those outcomes are determined by the judgment of Infineon’s management, supplemented by experience of similar transactions and, in some cases, reports from independent experts (such as attorneys). The evidence considered includes any additional evidence provided by events after the reporting period and up to the publication of the Annual Report. If the measurement of a provision involves assessment of a large number of factors, 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 mid-point of the range is used.

Where Infineon does not expect cash flows to arise within the next twelve months and the time value of money 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 assessments of the time value of money 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 fulfilling the contract and the expected cost of terminating the contract. Additions to provisions are generally recognized in profit or loss.

Claims for reimbursements from third parties are not offset against provisions, instead they are capitalized separately if their realization is virtually certain.

If the projected obligation decreases as a result of a change in the estimate, the provision is reversed by the corresponding amount and the resulting income recognized in the operating expense item(s) in which the original charge was recognized.

CONTINGENT LIABILITIES

Contingent liabilities are on the one hand possible obligations, whose existence will be confirmed only by the occurrence of one or more uncertain future events not wholly within the control of Infineon. They can also be present obligations that will probably not result in the outflow of resources or the amount of which 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.

OWN SHARES

Own shares held by Infineon are measured at cost, including directly attributable transaction costs, and reported as a reduction of equity. In the case of own shares acquired by way of issuing put options on own shares, acquisition cost corresponds to the present value of the exercise value of the put options discounted back at issuance date. When own shares are cancelled at a subsequent date, Infineon's share capital is reduced by the appropriate pro rata amount of the shares to total share capital. Additional paid-in-capital is reduced by the difference between acquisition cost and the amount deducted from share capital.

SEGMENT REPORTING

The Management Board of Infineon Technologies AG, in its role as Infineon's chief operating decision maker, allocates resources and assesses the performance of the operating segments. Segments and regions are identified and key performance figures selected on the basis of internal reports and the internal reporting system (management approach). Underlying data used in this context are derived from the Consolidated Financial Statements drawn up in accordance with IFRS.

Up to December 31, 2011 Infineon's business was structured on the basis of three operating segments, namely Automotive, Industrial & Multimarket and Chip Card & Security. On January 1, 2012 the segment Industrial & Multimarket was split into the segments Industrial Power Control and Power Management & Multimarket. Infineon's business is thereby structured in four operating segments since January 1, 2012.

The remaining activities of operations that have been sold are aggregated into "Other Operating Segments". Results and specific group functions not allocated to the operating segments are aggregated under "Corporate and Eliminations".

REVENUE RECOGNITION

Infineon generates revenue from the sale of its semiconductor products and 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, including computer systems, telecommunications systems and consumer goods. Revenue is allocated to segments on the basis of differences in product type and applications.

In addition, Infineon generates a small portion of its revenue from licensing its intellectual property to third parties, as well as development arrangements.

Revenue is measured on the basis of the fair value of the consideration received or receivable.

Revenue from products sold

Revenue from products sold is recognized in accordance with IAS 18, "Revenue" when the conditions for revenue recognition are met. Revenue is recognized when the significant risks and rewards of ownership of the goods are transferred to the buyer and it is probable that the economic benefits associated with the sale will flow to Infineon. The amount of revenue recognized is based on the fair value of the consideration received or receivable less returns, settlement discounts and bonuses.

Infineon recognizes revenue on sales to distributors generally by using the "sell in" method (i.e. when 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. Under price protection, a credit may be provided to the distributor if Infineon reduces its price on products held in the distributor's inventory. In addition, a distributor can apply for a ship & debit credit when the distributor wishes to reduce the sales price to an end customer on a specific sales transaction. The authorization of the distributor's refund remains fully within the control of Infineon. Infineon calculates the provision for price protection in the same period the related revenue is recorded based on historical price trends and sales rebates, analysis of credit memo data, specific information contained in the price protection agreement, and other factors known at the time. The historical price trend is determined based on the difference between the invoiced price and the standard list price to the distributor. The inventory turnover, the transparency of inventory 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. Infineon monitors potential price adjustments on an ongoing basis.

In addition, distributors can, in certain cases, also apply for stock rotation and scrap allowances. Allowances for stock rotation returns are accrued based on expected stock rotation as per the contractual agreement. Distributor scrap allowances are accrued based on the contractual agreement and, upon authorization of the claim, reimbursed up to a certain maximum of the average inventory value. Historically, actual returns under such return provisions have been insignificant. Infineon monitors such product returns on an ongoing basis.

In some cases, rebate programs are offered to specific customers or distributors whereby the customer or distributor may apply for a rebate upon achievement of a defined sales volume. Customers or distributors are also partially compensated for commonly defined cooperative advertising on a case-by-case basis.

Other returns are permitted only for quality-related reasons in the normal course of business within the applicable warranty period. Infineon records provisions for warranty costs as a charge to cost of goods sold, based on historical experience and other known warranty costs.

License income and income from development arrangements

License income and income from development arrangements is recognized when the related service has been rendered, in any event not prior to the commencement of the license agreement. Payments received are generally non-refundable. They are deferred where applicable and recognized over the period in which Infineon is obliged to provide services (e.g. when customers make payments to Infineon for development activities).

Per-unit license fees are recognized as revenue when the license is used by the customer.

RESEARCH AND DEVELOPMENT COSTS

Costs of research activities undertaken with the prospect of gaining new scientific or technical knowledge and understanding are expensed as incurred.

Costs for development activities, the results of which are applied to a plan or design for the production of new or substantially improved products and processes, 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 expenditure 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 22). 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, if applicable, impairment charges. Internally generated intangible assets are amortized – after the completion of the development phase and following the ramp-up of production – as part of cost of goods sold over a period of three to seven years.

Capitalized development costs are reviewed for impairment annually as long as amortization over the expected useful life has not begun and, additionally, when evidence for an impairment exists.

GRANTS

Grants for investments include both tax-free government grants and taxable grants for investments in property, plant and equipment. The recognition of the grant starts when it is reasonably assured that Infineon will comply with the conditions attached to the grant and when it is reasonably assured that the grant will be received. Tax-free government grants are deferred and recognized over the remaining useful life of the related asset. Taxable grants are deducted from the cost of the related asset and thereby reduce depreciation expense in future periods.

Grants that are related to expenditures included in profit or loss are presented as a reduction of the related expense in the Consolidated Statement of Operations (see note 6).

SHARE-BASED COMPENSATION

Infineon has share-based compensation plans in place (stock option plans), in conjunction with which stock options are granted to members of the Management Board and to selected senior managers. In accordance with IFRS 2 "Share-based Payment", Infineon's stock option plans qualify as equity-settled share-based compensation and are accounted for accordingly. The fair value of the stock options is calculated at grant date using an option pricing valuation model and recognized as expense on a straight-line basis over the vesting period during which Infineon receives consideration from the employee in the form of work performed. The expense is charged to costs by function as part of the operating result and credited directly to equity (additional paid-in capital). The amount recognized as expense is adjusted in order to reflect the actual number of equity instruments that can ultimately be exercised by employees.

The proceeds received net of any directly attributable transaction costs are credited to ordinary share capital and additional paid-in capital when the stock options are exercised.

3 MANAGEMENT ESTIMATES AND ASSUMPTIONS

The preparation of financial statements in accordance with IFRS requires management to make estimates and assumptions which have an impact on amounts presented and on related disclosures.

Estimates and assumptions are subject to regular review and may need to be adjusted in subsequent accounting periods. They can change from one period to the next and have a material impact on the financial condition, liquidity position and results of operations. Critical accounting estimates could include estimates where management reasonably could have used a different estimate in the current accounting period.

Estimates and assumptions are applied by management to the best of its knowledge based on current events and circumstances. Nevertheless, actual events may result in deviations from these estimates.

Areas involving estimates and assumptions that could most likely be affected if actual events deviate from these estimates are:

- recoverability of non-financial assets,
- valuation of inventories,
- recoverability of deferred tax assets,
- pension plan accounting,
- recognition and measurement of provisions,
- recoverability of trade and other receivables and
- revenue recognition.

All estimates and assumptions are based on conditions and assessments made at the end of the reporting period and taking account of any new information coming to light prior to the authorization of the Management Board to issue the Consolidated Financial Statements on November 16, 2012.

RECOVERABILITY OF NON-FINANCIAL ASSETS

The review of long-lived assets, including goodwill and other intangible assets, for impairment requires material estimates and assumptions. These include the weighted average cost of capital ("WACC") and the parameters used to determine the WACC, future cash flows derived from Infineon's planning including underlying planning assumptions and parameters, and the terminal growth rate.

VALUATION OF INVENTORIES

Inventories are valued at the lower of weighted average cost or net realizable value. Infineon reviews the recoverability of inventory based on regular monitoring of the size and composition of inventory positions, current economic events and market conditions, projected future product demand, technological developments and the pricing environment. This evaluation is inherently judgmental and requires material estimates, including both the forecasted product demand and price development, both of which may be susceptible to significant change.

Adjustments to the valuation and write-downs of inventory could be necessary in future periods due to reduced semiconductor demand in the industries that Infineon serves, technological obsolescence due to rapid developments of new products and technological improvements, or changes in economic events and conditions that impact the market price for Infineon's products. The resulting adjustment to the valuation of inventory due to these or other factors could have a significant impact on the results of operations.

RECOVERABILITY OF DEFERRED TAX ASSETS

Infineon tests deferred tax assets for impairment as of the end of each reporting period. The assessment of recoverability requires management to make assumptions about the amount of future taxable profit and other positive and negative variables. The actual utilization of deferred tax assets depends on Infineon's ability to generate the corresponding taxable profits in the future so that tax loss carry-forwards or tax credits can be used before they expire.

On the basis of this assessment, the carrying amount of deferred tax assets stood at €315 million and €262 as of September 30, 2012 and 2011, respectively. Valuation allowances recognized on deferred tax assets amounted to €1,254 million as of September 30, 2012 and €1,275 million as of September 30, 2011.

The total recognized amount of deferred tax assets may have to be reduced if future taxable profits and income are lower than expected or if changes in tax law limit the time or amount of tax loss carry-forwards or tax credits available for use. Conversely, the recognized total amount may have to be increased if future taxable profits and income are higher than expected.

PENSION PLAN ACCOUNTING

Infineon's pension benefit costs are determined in accordance with actuarial computations using the projected-unit-credit method, which relies on assumptions including discount rates and expected return on plan assets. Discount rates are established based on prevailing market rates for high-grade corporate bonds from issuers carrying a very high credit rating. The assumptions regarding the expected return on plan assets consider long-term historical returns, investment strategy, and future estimates of long-term investment returns. Other key assumptions for pension liabilities and costs are based on current market conditions. A significant variation in one or more of these underlying assumptions could have a material effect on the measurement of the long-term obligations. For further information see note 35.

RECOGNITION AND MEASUREMENT OF PROVISIONS

As described in note 38, Infineon is subject to various legal actions and claims, including intellectual property matters as well as matters in connection with Qimonda's insolvency that arise in and outside the normal course of business.

Infineon regularly assesses the likelihood of any adverse outcome or judgments related to these matters, as well as the range of possible payments. Infineon recognizes provisions and payables for obligations and risks in conjunction with legal disputes, including provisions for significant legal costs which Infineon assesses at the end of each reporting period are more likely than not to be incurred (i.e. 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 that it will not have to) and the obligation or risk can be estimated with reasonable accuracy at this time. Accordingly, Infineon has recorded a provision and charged operating income in the Consolidated Financial Statements related to certain asserted and unasserted claims existing as of the end of each reporting period. As additional information becomes available, any potential liability related to these actions is reassessed and the assessments are revised if necessary. These provisions could be subject to change in the future based on new developments in each matter, or changes in circumstances, which could have a material impact on Infineon's financial condition, liquidity position and results of operations. Although management makes estimates and assumptions to the best of their knowledge based on current events and activities, actual outcomes could differ from estimates.

In addition, considerable estimates and judgment are also required to determine other provisions, in particular for warranty and license obligations. The estimates and judgment are primarily derived based on historical experience and the judgment of knowledgeable personnel.

RECOVERABILITY OF TRADE AND OTHER RECEIVABLES

The allowance for doubtful accounts involves significant management judgment and review of individual receivables based on individual customer creditworthiness, current economic developments and analysis of historical bad debts at a portfolio level. Insofar as the determination of the valuation allowance is derived from a portfolio-level analysis of historical bad debts, a decline of receivables will result in a corresponding reduction of such provisions and vice versa.

REVENUE RECOGNITION

Reductions to revenue for estimated product returns and allowances for discounts, volume rebates and price protection are recorded, based on historical experience, at the time the related revenue is recognized. This process requires the exercise of judgment in evaluating the above-mentioned factors and requires material estimates.

In future periods, Infineon may be required to build additional provisions in particular as a result of a deterioration in the semiconductor pricing environment. If this or other factors resulted in an adjustment to sales discount and price protection allowances, then new estimates would be required.

4 ACQUISITIONS

Infineon did not acquire any businesses in the fiscal years ended September 30, 2012 and 2011.

5 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 formally opened. Insolvency proceedings were also opened for further domestic and foreign subsidiaries of Qimonda. Some of these insolvency proceedings have already been completed. The results 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.

Certain provisions relating to Qimonda’s insolvency were required to be adjusted in the fiscal years 2012 and 2011 as a result of new developments.

A detailed description of the Qimonda-related risks is provided in note 38 (“Commitments and contingencies – Qimonda matters”).

SALE OF THE WIRELINE COMMUNICATIONS BUSINESS – DISCONTINUED OPERATIONS

On November 6, 2009, the Wireline Communications business was sold to various companies (“Lantiq”) which are affiliates of Golden Gate Private Equity Inc. All results relating to the Wireline Communications business arising subsequent to the transaction are reported as “Loss/Income from discontinued operations, net of income taxes” for all periods presented in the Consolidated Statements of Operations.

Following the sale Infineon continued to supply products and services to Lantiq. These are reported as continuing operations in the Consolidated Statement of Operations and within “Other Operating Segments” for reporting purposes.

SALE OF THE WIRELESS MOBILE PHONE BUSINESS – DISCONTINUED OPERATIONS

On August 30, 2010, Infineon entered into a purchase agreement with Intel Corporation (“Intel”), pursuant to which it agreed to sell the mobile phone business of the Wireless Solutions segment (“Wireless mobile phone business”) for a consideration of US\$ 1.4 billion. Businesses with analog and digital TV tuners and satellite radio receivers and with radio frequency power transistors for amplifiers in cellular basestations are the only areas of the Wireless Solutions segment that remained with Infineon. The sale was completed on January 31, 2011. All assets, patents, other intellectual property and selected liabilities allocated to the Wireless mobile phone business were transferred separately. This business is being continued by the purchaser under the name “Intel Mobile Communications” (“IMC”).

The pre-tax gain recorded in the full 2011 fiscal year on the sale of the Wireless mobile phone business amounted to €507 million. The pre-tax gain on the sale increased by €11 million in the 2012 fiscal year due to the reversal of provisions. In total – taking account of all items with a profit or loss impact that have arisen since the contract was concluded in August 2010, including transaction costs and effects of the US dollar hedge of the purchase price – the pre-tax gain amounted to €537 million.

The tax expense recorded on the gain of the Wireless mobile phone business in the 2011 fiscal year amounted to €155 million; this tax expense increased by €9 million during the 2012 fiscal year. A change in the administrative guidelines of the German tax authorities which is generally relevant to a transaction in connection with the sale of the Wireless mobile phone business resulted, among other matters, in an expense for an adjustment to tax provisions in the 2012 fiscal year.

The results of the Wireless mobile phone business up to completion of the sale were recognized in the Consolidated Statement of Operations as part of “Loss/Income from discontinued operations, net of income taxes”. Expenses that were previously allocated to the Wireless mobile phone business, and which continue to be incurred after the sale are not affected by this classification and continue to be reported under “Income from continuing operations”.

Following the sale, Infineon continues to sell products and render services to IMC. The results from these activities are reported in loss/income from discontinued operations to the extent that these activities were being performed for a limited time period of a few months and served to ensure the transfer of the Wireless mobile phone business to IMC. These activities included the performance of procurement-related services on behalf of IMC, for which Infineon received upfront payments in the 2011 fiscal year amounting to €32 million which were repaid to IMC in the 2012 fiscal year. By contrast, sales of products and services to IMC which are not covered by the activities described above are reported as continuing operations in the Consolidated Statement of Operations and within “Other Operating Segments” for segment reporting purposes.

ASSETS CLASSIFIED AS HELD FOR SALE

Assets reported as held for sale amounting to €5 million for September 30, 2012 and 2011, respectively, relate to items of property, plant and equipment acquired from Qimonda Dresden GmbH & Co. OHG (“Qimonda Dresden”) which Infineon intends to sell.

In the 2012 fiscal year, impairment losses of €8 million were recognized on assets classified as held for sale.

LOSS/INCOME FROM DISCONTINUED OPERATIONS, NET OF INCOME TAXES

The results of Qimonda, the Wireline Communication business, and the Wireless mobile phone business presented in the Consolidated Statements of Operations as discontinued operations for the years ended September 30, 2012 and 2011, consist of the following components:

€ in millions	2012	2011
Qimonda		
Expenses resulting from Qimonda’s insolvency	(11)	(187)
Loss before tax	(11)	(187)
Income tax benefits	1	11
Qimonda’s share of discontinued operations, net of income taxes	(10)	(176)
Wireline Communications business		
Revenue	1	–
Costs and expenses	–	1
Profit before tax	1	1
Income tax benefit	–	1
Profit after tax	1	2
Pre-tax gain/loss on the sale of the Wireline Communications business	(1)	8
Income tax expense on gain	–	–
Post-tax gain/loss on the sale of the Wireline Communications business	(1)	8
Wireline Communication’s share of discontinued operations, net of income taxes	–	10
Wireless mobile phone business		
Revenue	2	698
Costs and expenses	1	(481)
Profit before tax	3	217
Income tax expense	–	(28)
Profit after tax	3	189
Pre-tax gain on the sale of the Wireless mobile phone business	11	507
Income tax expense on gain	(9)	(155)
Post-tax gain on the sale of the Wireless mobile phone business	2	352
Wireless mobile phone business’ share of discontinued operations, net of income taxes	5	541
Loss/Income from discontinued operations, net of income taxes	(5)	375

6 GRANTS AND SUBSIDIES

Infineon has received economic development funding from various governmental institutions, including grants for the construction of manufacturing facilities, as well as grants to subsidize research and development activities and employee development. Grants and subsidies included in profit or loss in the Consolidated Financial Statements during the fiscal years ended September 30, 2012 and 2011 are as follows:

€ in millions	2012	2011
Included in the Consolidated Statement of Operations in:		
Research and development expenses	53	60
Cost of goods sold	24	13
Selling, general and administrative expenses	1	–
Total	78	73

Deferred government grants amounted to €18 million and €19 million as of September 30, 2012 and 2011, respectively (see notes 25 and 29). The amounts of grants receivable as of September 30, 2012 and 2011 were €58 million and €57 million, respectively (see notes 14 and 20).

In the 2012 and 2011 fiscal years, respectively, taxable investment grants amounted to €12 million and €6 million were deducted from the acquisition or construction cost of fixed assets.

7 COST OF PURCHASED SERVICES AND MATERIALS AS WELL AS PERSONNEL EXPENSE

The Consolidated Statement of Operations (continuing and discontinued operations) includes the following amounts of expense for purchased services, materials and personnel.

Expenses for purchased services and materials comprised the following in the fiscal years 2012 and 2011:

€ in millions	2012	2011
Raw materials, supplies and purchased goods	899	1,383
Cost of purchased services	833	1,131
Expenses for licenses	51	65
Total (continuing and discontinued operations)	1,783	2,579

Personnel expenses are as follows for the years ended September 30, 2012 and 2011:

€ in millions	2012	2011
Wages and salaries	1,090	1,125
Social insurance levies, pensions and similar obligations	186	179
Total (continuing and discontinued operations)	1,276	1,304

The average number of employees by geographic region is as follows for the fiscal years 2012 and 2011:

	2012	2011
Europe	12,212	11,597
Therein: Germany	8,272	8,030
Americas	485	512
Asia-Pacific (without Japan)	13,532	13,604
Therein: China	1,349	1,512
Japan	113	113
Total	26,342	25,826

8 OTHER OPERATING INCOME AND EXPENSE

Other operating income is as follows for the years ended September 30, 2012 and 2011:

€ in millions	2012	2011
Rental income	13	10
Other income from customers	5	–
Insurance claims	2	4
Gains on disposals of assets	2	2
Income from other equity investments	2	1
Other	1	6
Total	25	23

Other operating expense is as follows for the years ended September 30, 2012 and 2011:

€ in millions	2012	2011
Expenses in connection with legal disputes	28	61
Impairments and reversal of impairments of goodwill, intangible assets, tangible assets and assets classified as held for sale	28	(5)
Expenses in connection with rental income	7	5
Losses on disposals of assets	3	1
Onerous lease agreements	–	(15)
Other	1	6
Total	67	53

9 FINANCIAL INCOME

The amount of financial income is as follows for the 2012 and 2011 fiscal years:

€ in millions	2012	2011
Interest income	38	37
Valuation changes and gains on sales of financial investments	–	1
Other financial income	–	1
Total	38	39

10 FINANCIAL EXPENSE

The amount of financial expense is as follows for the 2012 and 2011 fiscal years:

€ in millions	2012	2011
Interest expense	60	63
Valuation changes and losses on sales of financial investments	1	2
Total	61	65

Interest expense for the 2012 and 2011 fiscal years include a pre-tax loss of €6 million and €18 million arising on the repurchase of convertible bonds due 2014 (see note 27).

11 INCOME TAX BENEFIT

Income tax benefit from continuing operations for the years ended September 30, 2012 and 2011, is as follows:

€ in millions	2012	2011
Current tax expense	(47)	(10)
Deferred tax benefit	48	40
Income tax benefit	1	30

The German combined statutory tax rate for Infineon Technologies AG is 29 percent for the 2012 and 2011 fiscal years. This comprised a corporate tax rate of 15 percent, plus a solidarity surcharge of 5.5 percent and a municipal trade tax rate of 13 percent.

A reconciliation of income taxes from continuing operations for the fiscal years ended September 30, 2012 and 2011, determined using the German combined statutory tax rate of 29 percent for the 2012 and 2011 fiscal years, is as follows:

€ in millions	2012	2011
Expected income tax expense	(125)	(207)
Increase in available tax credits	41	52
Tax rate differential	21	33
Non-deductible expenses and tax-exempt income, net	10	76
Prior year taxes	(3)	28
Change in municipal trade tax rate in Germany	–	2
Change in valuation allowance on deferred tax assets	57	44
Other	–	2
Actual income tax benefit	1	30

Deferred tax assets and liabilities as of September 30, 2012 and 2011 relate to the following:

€ in millions	September 30, 2012		September 30, 2011	
	Deferred tax assets	Deferred tax liabilities	Deferred tax assets	Deferred tax liabilities
Intangible assets	16	(24)	23	(13)
Property, plant and equipment	103	(7)	104	(8)
Provisions and pension obligations	137	(112)	114	(108)
Tax loss carry-forwards	1,036	–	1,060	–
Tax credit carry-forwards	290	–	235	–
Other	136	(10)	133	(10)
Total deferred taxes	1,718	(153)	1,669	(139)
Valuation allowance	(1,254)	–	(1,275)	–
Netting	(149)	149	(132)	132
Total	315	(4)	262	(7)

In Germany Infineon had corporation tax loss carry-forwards of €3.0 billion and municipal trade tax loss carry-forwards of €4.1 billion as of September 30, 2012. In other jurisdictions, Infineon had tax loss carry-forwards of €68 million and unused tax credit carry-forwards of €290 million. Such tax loss carry-forwards and tax credit carry-forwards are generally limited to use by the particular entity that generated the loss or credit, provided that they have not expired under current law.

Infineon assessed its deferred tax assets and the need for a valuation allowance. The existence of tax loss carry-forwards is generally strong evidence that the utilization of deferred tax assets is not probable. For the assessment of deferred tax assets in Germany, Infineon therefore focused in particular on the historically profitable continuing operations.

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 €315 million and €262 million as of September 30, 2012 and 2011, respectively.

The change of the net amount of deferred tax assets and liabilities during the 2012 and 2011 fiscal years can be analyzed as follows:

€ in millions	2012	2011
Deferred taxes, net as of the beginning of the fiscal year	255	297
Deferred tax (expense) benefit attributable to discontinued operations	–	(82)
Deferred tax benefit attributable to continuing operations	48	38
Change in German tax rate	–	2
Deferred taxes recognized in equity	4	–
Foreign currency translation	4	–
Deferred taxes, net as of the end of the fiscal year	311	255

Infineon did not provide for income taxes or foreign withholding taxes on cumulative earnings of foreign subsidiaries as of September 30, 2012 and 2011, as these earnings are intended to be indefinitely reinvested in those operations. It is not practicable to estimate the amount of unrecognized deferred tax liabilities for these undistributed foreign earnings.

Including the items credited directly to equity and the expense/benefit from continuing and discontinued operations, the income tax expense/benefit consisted of the following:

€ in millions	2012	2011
Tax income from continuing operations	1	30
Tax expense from discontinued operations	(8)	(172)
Tax income recognized directly in equity	7	13
Tax expense	–	(129)

12 EARNINGS PER SHARE

Basic earnings per share (“EPS”) is calculated by dividing group net income by the weighted average number of ordinary shares outstanding during the reporting period. The number of shares outstanding is increased when stock options are exercised and decreased by share repurchases and the acquisition of shares following the exercise of put options on own shares.

Basic earnings per share are calculated as follows:

	2012	2011
Earnings per share – basic (€ in millions):		
Earnings from continuing operations attributable to shareholders of Infineon Technologies AG	432	744
Earnings from discontinued operations, net of income taxes attributable to shareholders of Infineon Technologies AG	(5)	375
Earnings attributable to shareholders of Infineon Technologies AG	427	1,119
Weighted-average number of shares outstanding (in millions):		
– Ordinary share capital	1,086.6	1,086.7
– Adjustment for own shares	(6.3)	(0.3)
Weighted-average number of shares outstanding - basic	1,080.3	1,086.4
Basic earnings per share¹ (in €):		
Earnings from continuing operations attributable to shareholders of Infineon Technologies AG	0.40	0.68
Earnings from discontinued operations, net of income taxes attributable to shareholders of Infineon Technologies AG	–	0.35
Earnings per share attributable to shareholders of Infineon Technologies AG – basic	0.40	1.03

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

The weighted-average number of shares outstanding of the ordinary share capital increased pro rata during the 2012 fiscal year by the exercise of 560,497 stock options by employees and decreased pro rata due to the cancellation of 7 million own shares. The pro rata effect of the acquisition up to the date of cancellation of the 7 million own shares is shown as "Adjustment for own shares".

The calculation of diluted EPS is based on the assumption that all potentially dilutive instruments are converted into ordinary shares – with the consequence of 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. The convertible bond due 2014 is a potential dilutive instrument. Stock options and outstanding put options issued on own shares are also potential dilutive instruments if the exercise price is lower than the average share price for the period (for the stock options) or higher than the average share price for the period (for the put options on own shares).

Diluted earnings per share are calculated as follows:

	2012	2011
Earnings per share – diluted (€ in millions):		
Earnings from continuing operations attributable to shareholders of Infineon Technologies AG	432	744
Adjustment for interest expense on convertible bond	14	17
Earnings from continuing operations attributable to shareholders of Infineon Technologies AG – diluted	446	761
Earnings from discontinued operations, net of income taxes attributable to shareholders of Infineon Technologies AG	(5)	375
Earnings attributable to shareholders of Infineon Technologies AG – diluted	441	1,136
Weighted-average number of shares outstanding – basic (in millions):	1,080.3	1,086.4
Adjustments for:		
– Effect of potential conversion of convertible bond	52.7	71.0
– Effect of stock options	1.2	1.3
– Effect of put options on own shares	0.1	0.1
Weighted-average number of shares outstanding – diluted	1,134.3	1,158.8
Diluted earnings per share¹ (in €):		
Earnings from continuing operations attributable to shareholders of Infineon Technologies AG	0.39	0.66
Earnings from discontinued operations, net of income taxes attributable to shareholders of Infineon Technologies AG	–	0.32
Earnings per share attributable to shareholders of Infineon Technologies AG – diluted	0.39	0.98

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

The weighted-average number of potentially dilutive instruments which did not have a dilutive impact were not taken into account in the calculation of diluted earnings per share. For the 2012 and 2011 fiscal years this included 12.2 million and 12.1 million, respectively, of stock options issued to members of the management board and employees, since their exercise price was higher than the average share price during the reporting period. Similarly 6.2 million and 4.7 million of the put options written on own shares from May 2011 onwards were not taken into account in the computation for the 2012 and 2011 fiscal years since their exercise price was lower than the average share price during the reporting period.

For details regarding the terms and conditions of the stock option plans see note 32.

13 FINANCIAL INVESTMENTS

Financial investments comprise deposits with banks and investments in securities. Fixed-term bank deposits have an original term of up to six months. These items qualify as “loans and receivables” pursuant to IAS 39, “Financial Instruments: Recognition and Measurement” and are measured at amortized cost. Financial investments also include available-for-sale securities which are measured at their fair value at the end of the relevant accounting period, with unrealized gains and losses that are not considered other-than-temporary impairments recognized in equity. Upon disposal the gains and losses from available-for-sale securities are recognized through profit or loss.

Financial investments at September 30, 2012 and 2011 comprise the following (for further information see also notes 36 and 37):

€ in millions	2012	2011
Fixed-term bank deposits	1,754	1,628
Securities	56	57
Financial investments	1,810	1,685

14 TRADE AND OTHER RECEIVABLES

Trade and other receivables due within one year at September 30, 2012 and 2011 consist of the following:

€ in millions	2012	2011
Third party – trade	485	527
Related parties – trade	5	5
Trade accounts receivable, gross	490	532
Allowance for doubtful accounts	(16)	(22)
Trade accounts receivable, net	474	510
Grants receivable (note 6)	53	57
Third party – financial and other receivables	11	23
Employee receivables	1	3
Total	539	593

Changes in the allowance for doubtful accounts on trade receivables for the years ended September 30, 2012 and 2011 were as follows:

€ in millions	2012	2011
Allowance for doubtful accounts at beginning of year	22	29
Usage of allowance, net	(6)	(8)
Current year's allowance	–	1
Allowance for doubtful accounts at end of year	16	22

Financial and other third party receivable were written down by €5 million in the fiscal year 2012.

The following table provides separate disclosure on the age of third party trade accounts receivable that are outstanding but not impaired at the reporting date:

€ in millions	Carrying amount	Thereof neither impaired nor past due	Of which not impaired but past due as of reporting date				
			Past due 0–30 days	Past due 31–60 days	Past due 61–180 days	Past due 181–360 days	Past due > 360 days
Third party – trade, net of allowances as of September 30, 2012	469	455	8	–	–	2	4
Third party – trade, net of allowances as of September 30, 2011	505	495	5	1	–	–	4

With respect to trade accounts receivable that are not due 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 financial assets (see note 20).

15 INVENTORIES

Inventories at September 30, 2012 and 2011 consist of the following:

€ in millions	2012	2011
Raw materials and supplies	77	70
Work in progress	309	262
Finished and purchased goods	181	175
Total	567	507

The amount of inventories recognized as expense in the 2012 and 2011 fiscal years corresponds approximately to the cost of goods sold for each fiscal year.

Inventories at September 30, 2012 and 2011 are stated net of write-downs of €85 million and €68 million, respectively.

16 OTHER CURRENT FINANCIAL ASSETS

Other current financial assets at September 30, 2012 and 2011 comprise derivative financial instruments amounting to €9 million and €2 million, respectively (see note 36).

17 OTHER CURRENT ASSETS

Other current assets at September 30, 2012 and 2011 consist of the following:

€ in millions	2012	2011
VAT and other tax receivables	64	83
Prepaid expenses	35	33
Other	50	26
Total	149	142

18 PROPERTY, PLANT AND EQUIPMENT

A summary of changes in property, plant and equipment for the years ended September 30, 2012 and 2011 is as follows:

Changes in property, plant and equipment 2012

€ in millions	Cost						September 30, 2012
	October 1, 2011	Additions	Disposals	Reclassification	Transfers ¹	Foreign currency effects	
Land and buildings	686	46	(3)	11	–	3	743
Technical equipment and machinery	4,371	456	(68)	233	–	15	5,007
Other plant and office equipment	1,100	73	(78)	12	–	3	1,110
Payments on account and construction in progress	296	247	(1)	(256)	(9)	1	278
Total	6,453	822	(150)	–	(9)	22	7,138

Changes in property, plant and equipment 2011

€ in millions	Cost						September 30, 2011
	October 1, 2010	Additions	Disposals	Reclassification	Transfers ¹	Foreign currency effects	
Land and buildings	659	29	(4)	1	1	–	686
Technical equipment and machinery	3,852	461	(63)	125	(9)	5	4,371
Other plant and office equipment	1,104	72	(92)	10	5	1	1,100
Payments on account and construction in progress	135	304	(2)	(136)	(5)	–	296
Total	5,750	866	(161)	–	(8)	6	6,453

¹ For the year ended September 30, 2011 and 2012, transfers relate primarily to assets that were classified as held for sale.

Depreciation on property, plant and equipment is presented in the Consolidated Statement of Operation mainly in cost of goods sold.

Impairments are recognized as other operating expense in the Consolidated Statement of Operations. No property, plant and equipment was transferred to a third party as security or pledged as of September 30, 2012 and 2011.

Accumulated depreciation and impairment							Carrying amount		
October 1, 2011	Depreciation	Disposals	Reclassification	Transfers ¹	Impairments	Foreign currency effects	September 30, 2012	September 30, 2012	September 30, 2011
(482)	(24)	3	–	–	(6)	(2)	(511)	232	204
(3,613)	(329)	67	(5)	–	(9)	(14)	(3,903)	1,104	758
(1,015)	(57)	77	5	–	–	(3)	(993)	117	85
–	–	–	–	–	–	–	–	278	296
(5,110)	(410)	147	–	–	(15)	(19)	(5,407)	1,731	1,343

Accumulated depreciation and impairment							Carrying amount		
October 1, 2010	Depreciation	Disposals	Reclassification	Transfers ¹	Impairments	Foreign currency effects	September 30, 2011	September 30, 2011	September 30, 2010
(461)	(24)	3	1	(1)	–	–	(482)	204	198
(3,390)	(282)	63	–	3	(2)	(5)	(3,613)	758	462
(1,061)	(41)	90	(1)	(7)	6	(1)	(1,015)	85	43
–	–	–	–	–	–	–	–	296	135
(4,912)	(347)	156	–	(5)	4	(6)	(5,110)	1,343	838

19 INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD**High Power Bipolar Business**

Effective September 30, 2007, and based on an agreement between the Company and Siemens AG (“Siemens”) dated September 28, 2007, the Company contributed all assets and liabilities of its high power bipolar business (including licenses, patents, and front-end and back-end production assets) to a newly formed legal entity called Infineon Technologies Bipolar GmbH & Co. KG (“Bipolar”) and Siemens subsequently acquired a 40 percent interest in Bipolar. The transaction received regulatory approval and subsequently closed on November 30, 2007. The joint venture agreement grants Siemens certain contractual participating rights which inhibit Infineon from exercising control over Bipolar. Accordingly, Infineon accounts for the interest in Bipolar under the equity method. The fiscal year-end of Bipolar is September 30.

LS Power Semitech Co., Ltd.

In the 2009 fiscal year, the Company entered into a joint venture agreement with LS Industrial Systems Co., Ltd. (“LSIS”), which closed on November 27, 2009, to establish the joint venture LS Power Semitech Co., Ltd. (“LS”). LSIS holds 54 percent and the Company holds 46 percent of LS. LS develops, manufactures and sells molded power modules for household appliances. The investment in the joint venture is accounted for using the equity method. The fiscal yearend of LS is December 31, which is the fiscal yearend of LSIS. The Company’s share in the results of LS is recognized based on interim financial statements with a three month time lag with no material impact.

Cryptomathic Holding ApS

The Company acquired its 25 percent share in Cryptomathic Holding ApS (“Cryptomathic”) in May 2002. Cryptomathic – through its subsidiary Cryptomathic A/S – develops and sells software and services in the field of digital security. The fiscal yearend for Cryptomathic is December 31. Because of the share of 25 percent the Company holds in Cryptomathic, the investment is accounted for using the equity method. The Company’s share in the results of Cryptomathic is recognized based on interim financial statements with a three month time lag with no material impact.

Summarized financial information

The summarized financial information for investments accounted for using the equity method (not adjusted for the percentage ownership held by Infineon), for the years ended September 30, 2012 and 2011 is as follows:

€ in millions	2012							
	Current assets	Non-current assets	Current liabilities	Non-current liabilities	Equity	Revenue	Gross profit	Net income (loss)
Bipolar	62	15	16	11	50	95	8	1
LS	9	21	6	12	12	15	–	(6)
Cryptomathic	5	1	2	–	4	7	4	1
Total	76	37	24	23	66	117	12	(4)

€ in millions	2011							
	Current assets	Non-current assets	Current liabilities	Non-current liabilities	Equity	Revenue	Gross profit	Net income (loss)
Bipolar	65	14	19	9	51	99	19	10
LS	11	19	3	10	17	13	(1)	(6)
Cryptomathic	5	–	2	–	3	8	5	2
Total	81	33	24	19	71	120	23	6

20 OTHER FINANCIAL ASSETS

Other non-current financial assets at September 30, 2012 and 2011 consist of the following:

€ in millions	2012	2011
Restricted cash	83	83
Securities	14	14
Investments in other equity investments	6	13
Long-term receivables	5	4
Grants receivable (note 6)	5	–
Other	11	10
Total	124	124

Restricted cash at September 30, 2012 and 2011, primarily consists of a rental deposit in escrow in connection with the Campeon office complex of €75 million (see note 39), and €7 million in connection with interest payments for Infineon's subordinated convertible bonds due 2014 (see note 27).

21 OTHER ASSETS

Other non-current assets at September 30, 2012 and 2011 consist of the following:

€ in millions	2012	2011
Advance payments	13	15
Prepaid expenses	26	13
Other	1	–
Total	40	28

22 GOODWILL AND OTHER INTANGIBLE ASSETS

The following table presents a summary of changes in intangible assets for the years ended September 30, 2012 and 2011. Amortization of intangible assets is mainly presented in cost of goods sold. Impairments of intangible assets are presented as other operating expense.

Changes in goodwill and other intangible assets 2012

€ in millions	Cost						September 30, 2012
	October 1, 2011	Additions internally developed	Additions other	Disposals	Transfers	Foreign currency effects	
Goodwill acquired for consideration	21	–	–	–	–	–	21
Internally developed intangible assets	137	57	–	–	–	–	194
Other intangible assets	141	–	1	(1)	–	–	141
Total	299	57	1	(1)	–	–	356

Changes in goodwill and other intangible assets 2011

€ in millions	Cost						September 30, 2011
	October 1, 2010	Additions internally developed	Additions other	Disposals	Transfers	Foreign currency effects	
Goodwill acquired for consideration	21	–	–	–	–	–	21
Internally developed intangible assets	98	73	–	–	(34)	–	137
Other intangible assets	144	–	7	(8)	(2)	–	141
Total	263	73	7	(8)	(36)	–	299

Reference is made to note 2, subsection “Recoverability of intangible assets and other long-lived assets” with respect to the procedures and assumptions used for the annual impairment test for goodwill.

No intangible assets were transferred to a third party as security or pledged as of September 30, 2012 and 2011.

Accumulated amortization and impairment						Carrying amounts		
October 1, 2011	Amortization	Disposals	Transfers	Impairment	Foreign currency effects	September 30, 2012	September 30, 2012	September 30, 2011
-	-	-	-	-	-	-	21	21
(58)	(12)	-	-	(5)	-	(75)	119	79
(130)	(6)	1	-	-	-	(135)	6	11
(188)	(18)	1	-	(5)	-	(210)	146	111

Accumulated amortization and impairment						Carrying amounts		
October 1, 2010	Amortization	Disposals	Transfers	Impairment	Foreign currency effects	September 30, 2011	September 30, 2011	September 30, 2010
-	-	-	-	-	-	-	21	21
(45)	(13)	-	-	-	-	(58)	79	53
(131)	(6)	8	(1)	-	-	(130)	11	13
(176)	(19)	8	(1)	-	-	(188)	111	87

23 TRADE AND OTHER PAYABLES

Trade and other payables at September 30, 2012 and 2011 consist of the following:

€ in millions	2012	2011
Third party – trade	603	705
Related parties – trade	12	15
Trade payables	615	720
Related parties – other payables	2	11
Other	5	4
Total	622	735

Trade payables have a maturity of less than one year. The reported carrying amount of trade payables corresponds to their fair value.

Long-term trade payables with a maturity of more than one year are reported in other financial liabilities (see note 28).

24 PROVISIONS

Provisions at September 30, 2012 and 2011 consist of the following:

€ in millions	2012	2011
Personnel costs	188	278
Warranties	109	119
Provisions related to Qimonda	326	300
Other	117	139
Total	740	836

Provisions for personnel costs include, among others, costs of variable compensation, severance payments, service anniversary awards, other personnel costs and related social security costs.

Provisions for warranties mainly represent the estimated future cost of fulfilling contractual requirements associated with products sold.

Provisions relating to Qimonda are described in detail in note 38.

Other provisions comprise provisions for penalties for default or delay on contracts, asset retirement obligations, litigations (other than provisions relating to Qimonda) and miscellaneous other liabilities.

Of the total amounts of €740 million and €836 million of provisions as of September 30, 2012 and 2011, respectively, the cash outflow is expected to occur within one year in respect of €710 million and €810 million, respectively. For the majority of the remaining €30 million and €26 million as of September 30, 2012 and 2011, respectively, the cash outflow is expected within two to five years.

The change in provisions during the fiscal year ended September 30, 2012 is as follows:

€ in millions	October 1, 2011	Additions	Usage	Reversals	September 30, 2012
Personnel costs	278	146	(206)	(30)	188
Warranties	119	43	(7)	(46)	109
Provisions related to Qimonda	300	36	(10)	–	326
Other	139	33	(27)	(28)	117
Total	836	258	(250)	(104)	740

The total amounts of provisions are reflected in the Consolidated Statement of Financial Position as of September 30, 2012 and 2011, respectively, as follows:

€ in millions	2012	2011
Current	710	810
Non-current	30	26
Total	740	836

25 OTHER CURRENT FINANCIAL LIABILITIES

Other current financial liabilities at September 30, 2012 and 2011 consist of the following:

€ in millions	2012	2011
Obligation to acquire own shares (note 30)	89	143
Interest	8	9
Derivative financial instruments with negative fair values (note 36)	3	7
Total	100	159

The obligation to acquire own shares in connection with Infineon's capital return program (see note 30) is reported within other current financial liabilities. The obligation amounts to €89 million as of September 30, 2012 and corresponds to the exercise value of outstanding put options on Infineon Technologies AG shares discounted to their present value as at issue date, plus the unwinding of interest up to the end of the reporting period.

26 OTHER CURRENT LIABILITIES

Other current liabilities at September 30, 2012 and 2011 consist of the following:

€ in millions	2012	2011
Payroll obligations to employees	58	46
Advance payments	31	66
Deferred income	15	26
VAT and other taxes payable	9	18
Deferred government grants (note 6)	7	13
Other	2	5
Total	122	174

27 DEBT

Debt at September 30, 2012 and 2011 consists of the following:

€ in millions	2012	2011
Current portion of long-term debt	55	68
Short-term debt and current maturities of long-term debt	55	68
Convertible subordinated bonds, 7.5%, due 2014	100	114
Loans payable to banks:		
Unsecured loans, weighted average interest rate 1.40% (2010: 2.27%), due 2012 – 2022	140	123
Long-term debt	240	237
Total	295	305

On May 26, 2009, the Company (as guarantor), through its subsidiary Infineon Technologies Holding B.V. (as issuer), issued €196 million in new subordinated convertible bonds due 2014 at a discount of 7.2 percent in an offering to institutional investors in Europe. The bonds can be converted at any time at the option of the bondholders into a maximum of originally 74.9 million ordinary shares of the Company. After adjustments in connection with antidilution clauses at the time of the Company's share capital increase in August 2009 as well as for the dividend payments for the fiscal years 2010 and 2011, the conversion price currently stands at €2.26. The bonds pay interest at 7.5 percent per year. The principal of the bonds is unsecured and ranks pari passu with all present and future unsecured subordinated obligations of the issuer. The coupons on the bonds are secured and unsubordinated. The bondholders benefit from a negative pledge relating to future capital market indebtedness and have an early redemption option in the event of a change of control. Since December 16, 2011, Infineon Technologies AG can offer the bondholders to redeem the outstanding bonds due 2014 at their nominal amount plus interest accrued up to the repayment date, if the Company's closing share price exceeds 150 percent of the conversion price on 15 out of 30 consecutive trading days. If following such offer the bondholders choose conversion of the convertible bonds, they receive in addition to the underlying shares, the present value of the outstanding interest payments until final maturity. The bonds are listed on the Open Market (Freiverkehr) of the Frankfurt Stock Exchange. €31 million attributable to the conversion right of the bondholders was recognized in additional paid-in capital in the 2009 fiscal year when the subordinated convertible bonds due 2014 were issued. The debt component of the convertible bonds is recorded at amortized cost using the effective interest method.

In conjunction with its capital return program (see note 30), the Company repurchased subordinated convertible bonds due 2014 with a nominal amount of €24 million for approximately €62 million during the 2012 fiscal year. The repurchases resulted in a pre-tax accounting loss of €6 million which is reported as interest expense within financial expense. Additional paid-in capital was reduced by €31 million (net of tax), reflecting the repurchase of conversion rights to shares attached to the repurchased bonds. During the 2011 fiscal year, the Company had already repurchased convertible bonds with a nominal amount of €59 million for €173 million, partly in conjunction with the capital return program. The remainder of the bonds outstanding at the balance sheet date with a nominal value of €113 million can be converted into up to 50 million shares. As in the previous year, the repurchased bonds were canceled at the balance sheet date.

Loans payable to banks, including the current portion thereof, relate primarily to project financing at Infineon Technologies Austria AG.

In June 2009 and September 2010, local financial institutions granted working capital and project loan facilities to Infineon Technologies (Wuxi) Co. Ltd. amounting to a total of US\$176 million (€137 million). Of this, Infineon Technologies (Wuxi) Co. Ltd has cancelled US\$93 million of the project loan facilities as at the balance sheet date. The remaining lines of credit totaling US\$83 million (€65 million) are secured in the event of utilization by a corporate guarantee. These multi-year facilities, which are available for general corporate purposes, were not being utilized as of September 30, 2012.

Infineon has also established several additional independent financing arrangements, in the form of both short- and long-term lines of credit. The total lines of credit as of September 30, 2012 are summarized in the following table:

€ in millions			As of September 30, 2012		
Term	Nature of financial institution commitment	Purpose/Intended use	Aggregate facility	Drawn	Available
Short-term	Firm commitment	General corporate purposes, working capital, guarantees	65	–	65
Short-term	No firm commitment	Working capital, cash management	101	–	101
Long-term ¹	Firm commitment	Project finance	195	195	–
Total			361	195	166

¹ Including current maturities.

Interest expense incurred in connection with debt for the years ended September 30, 2012 and 2011, was €19 million and €25 million, respectively.

Aggregate amounts of debt maturing subsequent to September 30, 2012 are as follows:

Fiscal year ending September 30 (€ in millions)	Amount
2013	55
2014	208
2015	13
2016	3
2017 and after	16
Total	295

Aggregate amounts of interest on debt payable subsequent to September 30, 2012 are as follows:

Fiscal year ending September 30 (€ in millions)	Amount
2013	11
2014 ¹	20
2015	–
2016	–
2017 and after	–
Total	31

1 Includes the difference between the carrying and nominal value of the subordinated convertible bonds due 2014 (unwinding effects).

28 OTHER FINANCIAL LIABILITIES

Other non-current financial liabilities amounted to €8 million and €4 million as of September 30, 2012 and 2011, respectively.

29 OTHER LIABILITIES

Other non-current liabilities as of September 30, 2012 and 2011 consist of the following:

€ in millions	2012	2011
Deferred income	39	45
Deferred personnel expenses	17	12
Deferred government grants (note 6)	11	6
Other	3	8
Total	70	71

30 EQUITY

ORDINARY SHARE CAPITAL

As a result of the exercise of 560,497 stock options by employees (compared to 3,750 exercised in the fiscal year 2011), the ordinary share capital of Infineon Technologies AG increased during the 2012 fiscal year by €1,120,994. Due to the cancellation of 7,000,000 own shares and the corresponding capital decrease, the ordinary share capital was reduced by €14,000,000. As of September 30, 2012, the ordinary share capital stood at €2,160,612,664 and is sub-divided into 1,080,306,332 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 (the entitlement to a dividend) as resolved by the Annual General Meeting. Own shares held by the Company carry no voting rights and are not entitled to dividend. As of September 30, 2012, the Company did not hold any own shares (2011: 4 million).

ADDITIONAL PAID-IN CAPITAL

Additional paid-in capital reported in the Consolidated Statement of Financial Position decreased by €180 million in the 2012 fiscal year, of which €130 million related to the dividend paid in March 2012. The Company repurchased subordinated convertible bonds due 2014 with an exercise value of €24 million for approximately €62 million during the 2012 fiscal year. €31 million, net of tax, was recorded directly as a reduction of additional paid-in capital, reflecting the repurchase of conversion rights for 10.4 million shares resulting from the repurchase of convertible bonds, measured on the basis of the current conversion ratio (see note 27). Additional paid-in capital was increased by €8 million in the 2012 fiscal year as a result of option premiums received in connection with put options on own shares (see below). As a consequence of the cancellation of 7,000,000 own shares and the related capital reduction, additional paid-in capital was in return reduced by €32 million. The exercise of employee stock options increased additional paid-in capital by €1 million. Expenses amounting to €2 million for share-based compensation were recorded, additional paid-in capital increased by the same amount (see note 32).

Additional paid-in capital reported in the Consolidated Statement of Financial Position decreased by €194 million in the 2011 fiscal year, of which €109 million related to the dividend paid in February 2011. The Company repurchased subordinated convertible bonds due 2014 with a nominal amount of €59 million for approximately €173 million during the 2011 fiscal year. €95 million, net of tax, was recorded directly as a reduction of additional paid-in capital. Additional paid-in capital was increased by €8 million in the 2011 fiscal year as a result of option premiums received in connection with put options on own shares.

AUTHORIZED SHARE CAPITAL

As of September 30, 2012, the Company's Articles of Association provide for two authorized capitals totaling €688,000,000.

Section 4(8) 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 February 10, 2015 once or in partial amounts by a total of up to €648,000,000 by issuing up to 324,000,000 new no par value registered shares, carrying a dividend right as of the beginning of the fiscal year in which they are issued, against contributions in cash or in kind (Authorized Capital 2010/I). The Management Board is authorized, with the approval of the Supervisory Board, to exclude the subscription rights of the shareholders in certain cases.

However, in order to protect the shareholders against the dilution of their holdings, the Management Board of Infineon Technologies AG has undertaken to make use of this authorization to exclude the subscription rights of the shareholders in the case of capital increases against contributions in cash or in kind out of the Authorized Capital 2010/I, only up to an amount equivalent to 10 percent of the share capital at the time the authority comes into force or, if the latter value should be lower, the equity capital existing at the time the authority is exercised. Any capital increase utilizing the Authorized Capital 2010/I with the subscription rights of the shareholders excluded is thus currently limited to a maximum of 108,030,633 no par value shares or €216,061,266, that is to say 10 percent of the share capital currently in place.

Section 4(9) of the Articles of Association further provides that the Management Board is authorized, with the approval of the Supervisory Board, to increase the share capital in the period until February 10, 2015 once or in partial amounts by a total of up to €40,000,000 by issuing up to 20,000,000 new no par value registered shares against contributions in cash for the purpose of issuing shares to employees of the Company or its group companies (Authorized Capital 2010/II). The subscription rights of the shareholders are excluded in relation to these shares.

CONDITIONAL CAPITAL

The Company's conditional capital recorded in the Commercial Register amounts to €630,407,054. It has been created through six conditional capital increases:

- Conditional Capital I (registered in the Commercial Register as "Conditional Capital 1999/I") pursuant to section 4(4) of the Articles of Association in an aggregate nominal amount of up to €34,628,048 that may be used to issue up to 17,314,024 new registered shares in connection with the Company's "Infineon Technologies AG 2001 International Long-Term Incentive Plan" ("Long-Term Incentive Plan 2001") (see note 32);
- Conditional Capital III (registered in the Commercial Register as "Conditional Capital 2001/I") pursuant to section 4(5) of the Articles of Association in an aggregate nominal amount of up to €27,879,006 that may be used to issue up to 13,939,503 new registered shares in connection with the Company's Long-Term Incentive Plan 2001 and "Infineon Technologies AG Aktienoptionsplan 2006" ("Stock Option Plan 2006") (see note 32);
- Conditional Capital 2002 (registered in the Commercial Register as "Conditional Capital 2007/II") pursuant to section 4(6) of the Articles of Association in an aggregate nominal amount of up to €134,000,000 that may be used to issue up to 67,000,000 new registered shares upon conversion of the convertible bonds issued in May 2009 (see note 27);

- Conditional Capital 2009/I pursuant to section 4(7) of the Articles of Association in an aggregate nominal amount of €149,900,000 that may be used to issue up to 74,950,000 new registered shares upon conversion of the convertible bonds issued in May 2009 (see note 27).
- Conditional Capital 2010/I pursuant to section 4(10) of the Articles of Association in an aggregate nominal amount of up to €24,000,000 that may be used to issue up to 12,000,000 new registered shares in connection with the Company's "Infineon Technologies AG Aktienoptionsplan 2010" ("Stock Option Plan 2010").
- Conditional Capital 2010/II pursuant to section 4 (11) of the Articles of Association in an aggregate nominal amount of €260,000,000 that may be used to issue up to 130,000,000 new registered shares upon conversion of warrant or convertible bonds, which the Company may issue at any time prior to February 10, 2015.

OTHER RESERVES

Other reserves changed as follows during the fiscal years ended September 30, 2012 and 2011:

€ in millions	2012			2011		
	Pretax	Tax effect	Net	Pretax	Tax effect	Net
Unrealized gains (losses) on hedging instruments	8	–	8	(7)	–	(7)
Foreign currency translation adjustment	10	–	10	–	–	–
	18	–	18	(7)	–	(7)

ACCUMULATED DEFICIT

The following table shows a reconciliation of accumulated deficit as of September 30, 2012 and 2011:

€ in millions	
As of October 1, 2010	(5,613)
Net income attributable to shareholders of Infineon Technologies AG	1,119
Actuarial loss on post employment benefit obligations net of tax of €0 million	(20)
As of September 30, 2011	(4,514)
Net income attributable to shareholders of Infineon Technologies AG	427
Actuarial loss on post employment benefit obligations net of tax of €4 million	(112)
As of September 30, 2012	(4,199)

PUT OPTIONS ON OWN SHARES AND OWN SHARES

On May 9, 2011 Infineon Technologies AG resolved to repurchase shares on the basis of the authorization given by shareholders at the Annual General Meeting on February 17, 2011. In the period through March 2013, the Company intends to use up to €300 million for measures aimed at returning capital to shareholders. The capital return may be effected through writing put options on Infineon shares, outright repurchases of Infineon shares using the Frankfurt Stock Exchange's Xetra trading system or through repurchases of further portions of Infineon's outstanding convertible bonds (see note 27). According to applicable law, the repurchased shares may only be used to cancel shares and thereby reduce share capital or for covering conversion rights of convertible bonds or for servicing employee options, because the share buyback will be carried out in accordance with sections 14 (2) and 20a (3) of the German Securities Trading Act in connection with the provisions of Commission Regulation (EC) No. 2273/2003 of December 22, 2003. The Company made use of this, and cancelled all shares repurchased in the 2012 and 2011 fiscal years, reducing the ordinary share capital accordingly.

The planned capital return program may be suspended and resumed at any time within the time limits assigned by the Annual General Meeting and in compliance with other statutory provisions.

From the beginning of the program and up to September 30, 2012, the Company had issued put options with a maximum term of nine months and for an exercise value of €302 million on Infineon shares (i.e. own shares). As of September 30, 2012 put options with an exercise value of €89 million remain outstanding (September 30, 2011: €144 million). The put options outstanding as of September 30, 2012 correspond to a total of 16 million shares (September 30, 2011: 26 million shares) with various fixed exercise prices and the obligation to physically deliver the shares. Options for 3 million shares were exercised during the 2012 fiscal year (4 million in the 2011 fiscal year). All 7 million own shares held by the Company in the fiscal year 2012 have been cancelled effective September 19, 2012, and the ordinary share capital was decreased correspondingly. The Company held no own shares as of September 30, 2012, while a total of 4 million own shares were on hand as of September 30, 2011, measured at their repurchase cost of €26 million.

The following table contains a reconciliation of the number of put options issued in the 2012 and 2011 fiscal year and the number of put options outstanding as of September 30, 2012 and 2011:

In each case stated in millions	Exercise value in €	Underlying number of shares
Put options issued in the 2011 fiscal year	182	32
Less: put options lapsed in the 2011 fiscal year	(12)	(2)
Less: put options exercised in the 2011 fiscal year	(26)	(4)
Outstanding put options as of September 30, 2011	144	26
Put options issued during the 2012 fiscal year	120	22
Less: put options lapsed in the 2012 fiscal year	(155)	(29)
Less: put options exercised in the 2012 fiscal year	(20)	(3)
Outstanding put options as of September 30, 2012	89	16

Premiums received for the put options issued in the 2012 fiscal year amounted to €8 million (2011 fiscal year: €8 million) and resulted in a corresponding increase of additional paid-in capital.

The obligation to acquire own shares recognized as of September 30, 2012 measured at the present value of the amount expected to settle the outstanding put options amounting to €88 million (September 30, 2011: €142 million) results in a corresponding reduction in equity, which is reported within the equity line item "Put options on own shares". The obligation is recognized within "Other current financial liabilities" (see note 25), measured on an accrual basis with interest unwound over the term of the instrument. The relevant liabilities are extinguished when the put options are settled by payment. At that stage, the amount previously recorded is reclassified, within equity, from "Put options on own shares" to "Own shares". If the options are not exercised, the relevant liability is derecognized and equity increases accordingly.

DIVIDENDS

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) of the ultimate parent, as determined in accordance with the HGB. All dividend payments must be approved by the Company's shareholders at the Annual General Meeting.

For the 2011 fiscal year, a cash dividend of €0.12 per share (total amount: €130 million) was paid in accordance with the resolution passed at the Annual General Meeting on March 8, 2012. In the 2011 fiscal year, a cash dividend of €0.10 per share (total amount: €109 million) was paid for the 2010 fiscal year.

It will be proposed that a dividend of €0.12 for each share entitled to receive a dividend be paid out of the unappropriated profit reported by Infineon Technologies AG for the 2012 fiscal year. Taking into account the fact that own shares held by the Company at the time of the Annual General Meeting are not entitled to receive a dividend, this would result in an expected distribution of approximately €129 million. Since payment of the dividend depends on approval being given by the shareholders at the Annual General Meeting which is set to take place on February 28, 2013, a liability for the dividend has not been recognized in the Consolidated Financial Statements.

31 CAPITAL MANAGEMENT

Our principal objective for group-wide capital management at Infineon is to ensure financial flexibility on the basis of a solid capital structure. It is of prime importance for all companies in the semiconductor industry that sufficient cash funds are available to finance operating activities and planned investments throughout all phases of the business cycle. Furthermore, debt should only constitute a modest proportion of the financing mix. Based on these principles Infineon has defined the following three key objectives for capital management:

- Gross cash position of between 30 and 40 percent of revenue
- Positive net cash position
- Gross debt of 2x EBITDA at most

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

Capital management as well as Infineon's objectives and definitions of ratios are based on IFRS figures. Infineon defines its net cash position or net debt position, as the case may be, as gross cash less the total of short-term and long-term debt (gross debt). 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/amortization.

As of September 30, 2011, Infineon had a net cash position of €2,387 million which decreased to €1,940 million over the course of the 2012 fiscal year. This cash outflow was mainly driven by Infineon's investments which also resulted in a decrease of the gross cash position from €2,692 million at end of the previous fiscal year to €2,235 million at September 30, 2012. Based on revenue of €3,904 million, the ratio of gross cash to revenue was 57.2 percent as of September 30, 2012 and thus above the targeted range. This continues to give Infineon sufficient financial flexibility to ensure that, in addition to financing its planned investments and paying regular dividends, it is able to implement measures to return capital to shareholders as planned (see note 30).

A gross-debt-to-EBITDA ratio of 0.3 as of September 30, 2012 demonstrates Infineon's financing headroom.

32 SHARE-BASED COMPENSATION

The following stock option plans are in place: the Long-Term Incentive Plan 2001 approved in 2001 as well as the Stock Option Plan 2006 and the Stock Option Plan 2010.

In 2001, the Company's shareholders approved the Long-Term Incentive Plan 2001. Under the terms of the Long-Term Incentive Plan 2001, the Company could grant up to 51.5 million options over a five-year period. The exercise price of each option equals 105 percent of the average closing price of the Company's stock during the five trading days prior to the grant date. Granted options have a vesting period of between two and four years, are subject to the Company's stock reaching the exercise price on at least one trading day, and expire seven years from the grant date.

In 2006, the Company's shareholders approved the Stock Option Plan 2006 which replaced the Long-Term Incentive Plan 2001. Under the terms of the Stock Option Plan 2006, the Company could grant up to 13 million options over a three-year period. The exercise price of each option equals 120 percent of the average closing price of the Company's stock during the five trading days prior to the grant date. Granted options are only exercisable if the Infineon share outperforms the Philadelphia Semiconductor Index ("SOX") for at least three consecutive days on at least one occasion during the term of the option. Granted options have a vesting period of three years, subject to the Company's stock reaching the exercise price on at least one trading day during the term, and expire six years from the grant date.

In 2010, the Company's shareholders approved the Stock Option Plan 2010 which replaced the Stock Option Plan 2006. Under the terms of the Stock Option Plan 2010, the Company can grant up to 12 million options over a three-year period. The exercise price of each option equals 120 percent of the average closing price of the Company's stock during the five trading days prior to the grant date.

The exercise of granted options is conditional on the Infineon share price having outperformed the benchmark index SOX. Initially, the respective reference values (100 percent) for this purpose are determined as the arithmetic means of the Infineon share prices and the closing prices of the SOX over the three-month period following the grant of the stock options. The Infineon share price must then exceed the SOX (closing price), as measured using the respective reference values, at least once per trading day on at least ten consecutive trading days in the period beginning one year after the grant of the stock options and lasting until the end of their term. The aforementioned comparison must be made for each grant of the stock options with the reference values updated accordingly.

Under the Stock Option Plan 2010, the Supervisory Board decides annually within a period of 45 days after publication of the annual results or the results of the first, second or third quarters of a fiscal year, but no later than two weeks before the end of the quarter, how many options to grant to the Management Board. During that same period the Management Board decides the number of options to grant to eligible employees.

In compliance with the requirements of section 87, Paragraph 1 sentence 3 of the German Stock Corporation Act, the Supervisory Board has set the conditions for the variable component of the remuneration of the members of the Management Board resulting from the first allocation of the Stock Option Plan 2010 such that they are linked to sustainable business development and has introduced a cap in the event of exceptional developments.

Several Conditional Capitals further described in the Group Management Report (section "Information Pursuant to section 289, Paragraph 4, and section 315, Paragraph 4, of the German Commercial Code") and in note 30 "Equity" ensure that the options that have been or will be issued under the Long-Term Incentive Plan 2001, the Stock Option Plan 2006 and the Stock Option Plan 2010 can be satisfied with new shares. However, at the discretion of the Company, the beneficiary may be offered the choice of purchasing Infineon Technologies AG shares held by the Company or receiving a cash settlement in place of the shares issued from the Conditional Capitals created for this purpose.

A summary of the status of the 2001, 2006 and 2010 stock option plans as of September 30, 2010 and changes during the fiscal years ended September 30, 2011 and 2012 are presented below (options in millions, exercise price in euro):

	Number of options	Weighted-average exercise price
Options outstanding as of September 30, 2010	15.7	9.22
Granted	3.5	8.62
Exercised	–	–
Forfeited and expired	(6.3)	11.18
Options outstanding as of September 30, 2011	12.9	8.10
Exercisable at September 30, 2011	7.2	9.62
Options outstanding as of September 30, 2011	12.9	8.10
Granted	3.7	7.03
Exercised	(0.6)	2.72
Forfeited and expired	(2.9)	8.90
Options outstanding as of September 30, 2012	13.1	7.85
Exercisable at September 30, 2012	6.2	7.93

The following table summarizes information about stock options outstanding as of September 30, 2012 and 2011 (options in millions):

Range of exercise prices	September 30, 2012		September 30, 2011	
	Number of options	Weighted-average remaining life (in years)	Number of options	Weighted-average remaining life (in years)
Below €5	1.7	2.67	2.3	3.68
€5 – €10	9.9	4.06	9.0	2.79
€10 – €15	1.5	0.35	1.6	1.36
Total	13.1	3.45	12.9	2.78

In total, 560,497 stock options were exercised during the 2012 fiscal year. The average share price at exercise date was €5.91. In total, 3,750 stock options were exercised during the 2011 fiscal year. The average share price at exercise date was €8.04.

The fair value of each option grant issued pursuant to the Long-Term Incentive Plan 2001 was estimated at grant date using the Black-Scholes option-pricing model. For options granted prior to October 1, 2005, Infineon relied on historical volatility measures when estimating the fair value of stock options granted to employees. For options granted after October 1, 2005, Infineon used a combination of implied volatilities from traded options on Infineon's ordinary shares and historical volatility when estimating the fair value of stock options granted to employees and management board members, as it believes that this methodology better reflects the expected future volatility of its stock. The expected life of options granted was estimated based on historical experience.

The fair value of each option grant issued pursuant to the Stock Option Plan 2006 and Stock Option Plan 2010 was estimated at grant date using a Monte Carlo simulation model. This model takes into account vesting conditions relating to the performance of the SOX and its impact on fair value. Infineon uses a combination of implied volatilities from traded options on the Company's ordinary shares and historical volatility when estimating the fair value of stock options granted to employees and management board members, as it believes that this methodology best reflects the expected future volatility of its stock. The expected life of options granted was estimated using the Monte Carlo simulation model.

The forfeiture of options is estimated based on historical experience and recorded at the date of forfeitures. The risk-free interest rate is determined at grant date using the yields on German federal treasury notes (Bundesanleihen) with a comparable term.

On December 16, 2010, 440,000 stock options were issued to members of the Management Board and 3,024,250 to selected employees. The following average assumptions were used in the fair value calculation of the stock options issued in December 2010:

	Employees	Management board members
Average assumptions:		
Risk-free interest rate	2.72%	2.72%
Expected volatility, underlying shares	51%	51%
Expected volatility, SOX index	31%	31%
Expected correlation of underlying shares and SOX index	31%	31%
Average share price at measurement date	€7.18	€7.18
Exercise price	€8.62	€8.62
Forfeiture rate, per year	3.40%	3.40%
Expected dividend yield	1.42%	1.42%
Expected life in years	6.6	6.3
Fair value per option at grant date in €	2.46	1.44

On December 15, 2011, 555,428 stock options were issued to members of the Management Board and 3,120,000 to selected employees. The following average assumptions were used in the fair value calculation of the stock options issued in December 2011:

	Employees	Management board members
Average assumptions:		
Risk-free interest rate	1.46%	1.46%
Expected volatility, underlying shares	43%	43%
Expected volatility, SOX index	32%	32%
Expected correlation of underlying shares and SOX index	36%	36%
Average share price at measurement date	€5.86	€5.86
Exercise price	€7.03	€7.03
Forfeiture rate, per year	3.40%	3.40%
Expected dividend yield	2.05%	2.05%
Expected life in years	6.65	6.37
Fair value per option at grant date in €	1.75	0.98

The fair value per option for members of the Management Board differs from that for employees in that the maximum gain that can arise from the exercise of stock options by members of the Management Board is capped at 250 percent of the fair value of the options at grant date (without consideration of the cap); any options above this cap expire. The cap therefore has the effect of reducing the value of the stock options. Further information is provided in the Compensation Report.

SHARE-BASED COMPENSATION EXPENSE

Share-based compensation expense for the fiscal years ended September 30, 2012 and 2011 amounted to €2 million, respectively.

33 SUPPLEMENTAL CASH FLOW INFORMATION

There were no significant non-cash transactions from acquisition or financing activities during the 2012 and 2011 fiscal years.

Cash and cash equivalents reported as of September 30, 2012 and 2011 totaling €425 million and €1,007 million, respectively, include €21 million and €31 million, respectively, which were subject to 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 transfer of cash is legally restricted, e.g. consolidated companies located in the People's Republic of China.

34 RELATED PARTIES

Infineon also has transactions in the normal course of business with equity method investees and other related companies (collectively, "related parties"). The related parties which are controlled or significantly influenced by Infineon are disclosed in note 42. Related parties also include members of key management personnel, in particular Management and Supervisory Board members.

Infineon purchases certain of its raw materials and services from, and sells certain of its products and services to related parties. Purchases from and sales to related parties are generally effected at manufacturing cost plus a mark-up.

Related party receivables consist primarily of trade, financial, and other receivables from equity method investees and related companies, and totaled €5 million as of September 30, 2012 and 2011.

Related Party payables consist primarily of trade, financial, and other payables to equity method investees and related companies, and totaled €14 million and €26 million as of September 30, 2012 and 2011, respectively.

Sales and service charges to related parties totaled €22 million and €23 million in the 2012 and 2011 fiscal years, respectively, while purchases from related parties totaled €121 million and €144 million in the 2012 and 2011 fiscal years, respectively.

REMUNERATION OF MANAGEMENT

The active members of the Management Board in the 2012 fiscal year received total non-performance-related compensation of €3.1 million (2011: €2.8 million). In addition, the members of the Management Board received variable performance-related cash compensation for the 2012 fiscal year totaling €2.6 million (2011: €4.0 million). This comprised an amount of 1.4 million (2011: €2.4 million) in conjunction with Short-Term Incentive arrangements and a settlement amount of €1.2 million (2011: €1.6 million) paid to Mr. Bauer and Dr. Ploss as a Mid-Term Incentive. The total cash compensation in the 2012 fiscal year therefore amounts to €5.7 million (2011: €6.8 million). No additional bonus was paid. Furthermore, based on the Stock Option Plan 2010, 209,714 stock options were issued to Mr. Bauer as Chairman of the Management Board, 220,000 stock options were issued to Mr. Asam and 125,714 stock options were issued to Dr. Ploss, all with a fair value of €0.98 each. 94,286 stock options issued to Mr. Asam in 2012 belong to the Long-Term Incentive granted pro rata for fiscal year 2011. Since Mr. Mittal was appointed to the Management Board with effect from January 1, 2012, he could not be taken into account in the annual allocation of stock options in December 2011. In accordance with his contract, he will receive stock options at the date of the next allocation of stock options (in December 2012) for his activities in the 2012 fiscal year, on a pro rata basis with effect from January 1, 2012. The total amount of compensation paid to the serving members of the Management Board for the 2012 fiscal year therefore amounted to €7.1 million (2011: €8.2 million). The total amount of compensation granted includes provisions of €0.8 million (2011: €0.7 million) for the Mid-Term Incentive (MTI) relating to the 2012 fiscal year for the tranches 2011 – 2013 and 2012 – 2014.

The total aggregate compensation of the members of the Supervisory Board of the Infineon Technologies AG in the 2012 fiscal year – including attendance fees – in accordance with the new compensation system approved by the Annual General Meeting on February 17, 2011, amounted to €1.2 million (2011: €1.7 million). Employee representatives in the Supervisory Board employed by Infineon also receive a salary for their activities.

Former members of the Management Board received total payments of €1.1 million (principally pension payments) in the 2012 fiscal year (2011: €6.2 million).

As of September 30, 2012, pension liabilities for former members of the Management Board amounted to €42.2 million (2011: €29.7 million).

Neither Infineon Technologies AG nor any of its subsidiaries have granted loans to any member of the Supervisory or Management Boards.

For the disclosure of the individual remuneration of the members of the Management Board and the Supervisory Board as required by section 315a in connection with section 314 (1) no. 6a, sentences 5 to 9 of the German Commercial Code see the Compensation Report which is part of the Group Management Report.

In the 2012 and 2011 fiscal years, respectively, there were no transactions between Infineon and members of the Management Board and Supervisory Board which do not fall within the scope of the existing rules governing the employment, service or appointment of those individuals or of the contractual arrangements for their remuneration.

35 PENSION PLANS

DEFINED BENEFIT PENSION PLANS

Obligations at the end of the reporting period

Pension benefits provided by Infineon are currently organized primarily through defined benefit pension plans which cover a significant portion of Infineon's employees. Plan benefits are principally based upon years of service and remuneration. Certain pension plans are based on salary earned in the last year or last five years of employment, while others are fixed plans depending on average salary and position. The measurement date for Infineon's pension plans is September 30.

Information with respect to Infineon's pension plans for the years ended September 30, 2012 and 2011 is presented for German ("Domestic") plans and non-German ("Foreign") plans:

€ in millions	2012			2011		
	Domestic plans	Foreign plans	Total	Domestic plans	Foreign plans	Total
Change in defined benefit obligations:						
Present value of defined benefit obligation at beginning of year	(422)	(84)	(506)	(456)	(83)	(539)
Current service cost	(10)	(4)	(14)	(12)	(2)	(14)
Past service cost	–	–	–	(4)	–	(4)
Interest cost	(20)	(5)	(25)	(18)	(4)	(22)
Actuarial gains (losses)	(126)	(14)	(140)	10	–	10
Divestitures	–	–	–	43	1	44
Curtailments	–	–	–	5	–	5
Benefits paid	11	3	14	10	4	14
Foreign currency effects	–	(5)	(5)	–	–	–
Present value of defined benefit obligation at end of year	(567)	(109)	(676)	(422)	(84)	(506)
Change in fair value of plan assets:						
Fair value at beginning of year	307	31	338	317	30	347
Expected return on plan assets	15	2	17	16	2	18
Actuarial gains (losses)	22	1	23	(26)	(1)	(27)
Divestitures	–	–	–	–	(1)	(1)
Company contributions	11	6	17	10	6	16
Benefits paid	(11)	(4)	(15)	(10)	(5)	(15)
Foreign currency effects	–	3	3	–	–	–
Fair value of plan assets at end of year	344	39	383	307	31	338

The funding of the present value of the defined benefit obligations is as follows:

€ in millions	2012			2011		
	Domestic plans	Foreign plans	Total	Domestic plans	Foreign plans	Total
Plans that are wholly unfunded	73	50	123	56	38	94
Plans that are wholly or partly funded	494	59	553	366	46	412
Total	567	109	676	422	84	506

The funded status has developed since the 2008 fiscal year as follows:

€ in millions		Present value of defined benefit obligations	Fair value of plan assets	Funded status
2012	Domestic plans	(567)	344	(223)
	Foreign plans	(109)	39	(70)
	Total	(676)	383	(293)
2011	Domestic plans	(422)	307	(115)
	Foreign plans	(84)	31	(53)
	Total	(506)	338	(168)
2010	Domestic plans	(456)	317	(139)
	Foreign plans	(83)	30	(53)
	Total	(539)	347	(192)
2009	Domestic plans	(360)	305	(55)
	Foreign plans	(65)	25	(40)
	Total	(425)	330	(95)
2008	Domestic plans	(348)	329	(19)
	Foreign plans	(83)	37	(46)
	Total	(431)	366	(65)

The funded status of Infineon's pension plans as at September 30, 2012 and 2011 is equal to the amounts recognized in the Consolidated Statement of Financial Position because no asset ceiling limits apply.

Actuarial parameters

Differences between expected and actual developments (experience adjustments) are shown in the following table. Experience adjustments arise when the expected change in plan assets and liabilities – measured on the basis of actuarial assumptions – differ from actual changes in assets and liabilities, excluding the effect of changes in interest rates.

€ in millions		Differences between expected and actual developments:	
		of present value of defined benefit obligations	of fair value of plan assets
2012	Domestic plans	(4)	22
	Foreign plans	(4)	1
	Total	(8)	23
2011	Domestic plans	(8)	(26)
	Foreign plans	(3)	(1)
	Total	(11)	(27)
2010	Domestic plans	(3)	3
	Foreign plans	–	1
	Total	(3)	4
2009	Domestic plans	(1)	(14)
	Foreign plans	3	(4)
	Total	2	(18)
2008	Domestic plans	8	(68)
	Foreign plans	(2)	(5)
	Total	6	(73)

The actual positive return on plan assets in the fiscal year ended September 30, 2012 was €41 million. In the previous year, plan assets had yielded a negative return of €9 million.

The weighted-average assumptions used in calculating the actuarial values for the pension plans are as follows:

in %	2012		2011	
	Domestic plans	Foreign plans	Domestic plans	Foreign plans
Discount rate at the end of the fiscal year	3.5	3.8	5.0	4.6
Rate of salary increase	2.0	2.2	2.0	1.9
Projected future pension increases	2.0	0.7	2.0	0.8
Expected return on plan assets at the beginning of the fiscal year	5.0	7.3	5.0	7.2

Discount rates are established based on prevailing market rates for high-grade corporate bonds from issuers carrying a very high credit rating that, if the pension benefit obligation were settled at the measurement date, would provide the necessary future cash flows to pay the benefit obligation when due. Infineon assumes that short-term changes in interest rates will not affect the measurement of its long-term obligations.

Investment strategies

The investment strategy of Infineon's pension assets involves a sufficient level of flexibility to quickly react to investment opportunities as they occur, while maintaining reasonable parameters to ensure that prudence and care are exercised in the execution of the investment program. Infineon's pension plans' assets are invested with several investment managers. The plans employ a mix of active and passive investment management programs. Considering the duration of the underlying liabilities, a portfolio of investments of plan assets in equity securities, debt securities and other assets is targeted to maximize the long-term return on assets for a given level of risk. Investment risk is monitored on an ongoing basis through periodic portfolio reviews, meetings with investment managers and annual liability measurements. Investment policies and strategies are periodically reviewed to ensure the objectives of the plans are met considering any changes in benefit plan design, market conditions or other material items.

Expected long-term rate of return on plan assets

Establishing the expected rate of return on pension assets requires judgment. Infineon's approach in determining the long-term rate of return for plan assets is based upon historical financial market relationships, the types of investment classes in which pension plan assets are invested, long-term investment strategies, as well as the expected compounded return Infineon can reasonably expect the portfolio to earn over appropriate time periods.

Infineon reviews the expected long-term rate of return annually and revises it as appropriate. Also, Infineon periodically commissions detailed asset/liability studies to be performed by third-party professional investment advisors and actuaries.

Plan asset allocation

As of September 30, 2012 and 2011 the percentage of plan assets invested and the targeted allocation to major asset categories are as follows:

in %	Targeted allocation		2012		2011	
	Domestic plans	Foreign plans	Domestic plans	Foreign plans	Domestic plans	Foreign plans
Equity securities	27	21	27	22	21	23
Debt securities	53	14	52	13	39	12
Other	20	65	21	65	40	65
Total	100	100	100	100	100	100

The position "Other" in the table above includes commodity funds, real-estate funds, liability insurances and cash.

Infineon's asset allocation targets for its pension plan assets are based on its assessment of business and financial conditions, demographic and actuarial data, funding opportunities, related business risk factors, market sensitivity analysis and other relevant factors. The overall allocation is expected to help protect the plans' funded status while generating sufficiently stable real returns (i.e., net of inflation) to meet current and future benefit payment needs. Due to active portfolio management, the asset allocation may differ from the target allocation up to certain limits for different classes.

As a matter of policy, Infineon's pension plans do not invest in shares of Infineon.

Amounts recognized in profit or loss and in total comprehensive income

The net periodic pension cost of defined benefit plans for the years ended September 30, 2012 and 2011 comprise the following:

€ in millions	2012			2011		
	Domestic plans	Foreign plans	Total	Domestic plans	Foreign plans	Total
Current service cost	(10)	(4)	(14)	(12)	(2)	(14)
Interest cost	(20)	(5)	(25)	(18)	(4)	(22)
Expected return on plan assets	15	2	17	16	2	18
Amortization of unrecognized past service (cost) benefit	–	–	–	(4)	–	(4)
Curtailment gain recognized	–	–	–	5	–	5
Net periodic pension cost	(15)	(7)	(22)	(13)	(4)	(17)
Pension expense relating to discontinued operations	–	–	–	(3)	–	(3)
Pension expense relating to continuing operations	(15)	(7)	(22)	(10)	(4)	(14)

Pension costs are recorded within cost of sales 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 are recorded as part of financial expense.

The past service costs relating to the pension plans are amortized in equal amounts over the average period until the benefits become vested.

Actuarial losses of €117 million and €17 million have been recognized in the Consolidated Statement of Changes in Equity and the Consolidated Statement of Comprehensive Income for the years ended September 30, 2012 and 2011, respectively. As of September 30, 2012 and 2011, cumulative actuarial losses amounted to €184 million and €67 million, respectively. In addition, cumulative actuarial gains/losses amounting to €7 million, resulting from deferred compensation and retiree health care plans, are also recognized directly in equity.

Disbursements totaling €15 million are projected to be made in the 2013 fiscal year in connection with defined benefit plans.

DEFINED CONTRIBUTION PLANS

In connection with defined contribution plans Infineon makes fixed contributions to external insurance providers or funds. Infineon has no further legal or constructive obligations with regard to these pension plans in excess of the contributions paid. Infineon also pays contributions to government pension schemes. Infineon recognized €103 million and €95 million as an expense for defined contribution plans in the financial years ended September 30, 2012 and 2011.

36 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 instrument as defined by IAS 39.

€ in millions	Categories of financial assets					Fair value
	Carrying amount	At fair value through profit or loss	Designated cash flow hedges	Available for sale	Loans and receivables	
Financial assets						
Balance as of September 30, 2012						
Current assets:						
Cash and cash equivalents	425	–	–	–	425	425
Financial investments	1,810	–	–	56	1,754	1,810
Trade and other receivables	539	–	–	–	539	539
Other current financial assets	9	3	6	–	–	9
Non-current assets:						
Other financial assets	124	–	–	20	104	124
Total	2,907	3	6	76	2,822	2,907
Balance as of September 30, 2011						
Current assets:						
Cash and cash equivalents	1,007	–	–	–	1,007	1,007
Financial investments	1,685	–	–	57	1,628	1,685
Trade and other receivables	593	–	–	–	593	593
Other current financial assets	2	2	–	–	–	2
Non-current assets:						
Other financial assets	124	–	–	26	98	124
Total	3,411	2	–	83	3,326	3,411

€ in millions	Categories of financial liabilities					
	Carrying amount	At fair value through profit or loss	Designated cash flow hedges	Other financial liabilities	Lease liabilities	Fair value
Financial liabilities						
Balance as of September 30, 2012						
Current liabilities:						
Short-term debt and current maturities of long-term debt	55	–	–	55	–	55
Trade and other payables	622	–	–	622	–	622
Other current financial liabilities	100	3	–	97	–	100
Non-current liabilities:						
Long-term debt	240	–	–	240	–	246
Other financial liabilities	8	–	–	8	–	8
Total	1,025	3	–	1,022	–	1,031
Balance as of September 30, 2011						
Current liabilities:						
Short-term debt and current maturities of long-term debt	68	–	–	68	–	68
Trade and other payables	735	–	–	735	–	735
Other current financial liabilities	159	7	–	152	–	159
Non-current liabilities:						
Long-term debt	237	–	–	237	–	248
Other financial liabilities	4	–	–	4	–	4
Total	1,203	7	–	1,196	–	1,214

Fair values of derivative financial instruments are determined using quoted market prices or according to the discounted cash flow method. As a result of the short-term nature of cash and cash equivalents, financial investments, trade and other receivables, payables to third parties and related entities, and other current financial assets and liabilities, it is assumed that the fair values of such items correspond to their carrying amounts.

Non-current assets classified as “available-for sale” are measured at their fair values, based on market prices quoted on an active market or calculated as the present value of future expected cash flows. Current assets classified as “available-for sale” are measured by using valuation models whose input factors are based on observable market data.

The fair value of Infineon’s unsecured term loans and interest-bearing notes payable approximate their carrying amounts as their interest rates approximate current market rates. At September 30, 2012, the subordinated convertible bonds, due 2014, were trading at a 127.0 percent (2011: 160.2 percent) premium to par based on quoted market values. The fair values of forward currency contracts and currency options are determined on the basis of market conditions prevailing at the end of the reporting period. Recognized valuation models are used to determine the fair value of currency options. The fair value of an option is impacted by the length of its remaining term and by other factors such as the current market exchange rate and volatility of the underlying currency.

Financial instruments measured at fair value are allocated to different measurement levels in accordance with IFRS 7. This includes financial instruments that are

- valued according to quoted prices in an active market for identical financial instruments (Level 1),
- valued according to quoted prices in an active market for comparative financial instruments or using valuation models whose main input factors are based on observable market data (Level 2), or
- valued using input factors that are not based on observable market data (Level 3).

The following table shows the amounts allocated to each measurement level as of September 30, 2012:

€ in millions	Fair value	Fair value by category		
		Level 1	Level 2	Level 3
2012 Fiscal year				
Financial assets				
Current assets:				
Financial investments	56	–	56	–
Other current financial assets	9	–	9	–
Assets classified as held for sale	–	–	–	–
Non-current assets:				
Other financial assets	20	14	–	6
Total	85	14	65	6
Financial liabilities				
Current liabilities:				
Other current financial liabilities	3	–	3	–
Total	3	–	3	–
2011 Fiscal year				
Financial assets				
Current assets:				
Financial investments	57	–	57	–
Other current financial assets	2	–	2	–
Assets classified as held for sale	–	–	–	–
Non-current assets:				
Other financial assets	26	14	–	12
Total	85	14	59	12
Financial liabilities				
Current liabilities:				
Other current financial liabilities	7	–	7	–
Total	7	–	7	–

The following table contains information about net gains (losses) from continuing operations by category of financial instruments for the 2012 and 2011 fiscal years:

€ in millions	Financial assets and financial liabilities at fair value through profit or loss						Total
	Available-for-sale financial assets	Loans and receivables	Designated as at fair value through profit or loss	Held for trading	Other financial liabilities	Cash flow hedges	
Fiscal year 2012:							
Total removed from equity and recognized in profit or loss	-	-	-	-	-	-	-
Fair value gain (loss) recognized directly in equity	-	-	-	-	-	8	8
Net gains (losses) recognized in equity	-	-	-	-	-	8	8
Interest result	1	37	-	-	(58)	(2)	(22)
Net foreign exchange gain (loss)	-	31	-	(5)	(32)	-	(6)
Fair value gain (loss)	(2)	-	-	-	-	-	(2)
Impairment loss (reversal)	-	(5)	-	-	-	-	(5)
Total recognized in profit or loss	(1)	63	-	(5)	(90)	(2)	(35)
Total net gain (loss)	(1)	63	-	(5)	(90)	6	(27)
Fiscal year 2011:							
Total removed from equity and recognized in profit or loss	-	-	-	-	-	-	-
Fair value gain (loss) recognized directly in equity	-	-	-	-	-	(7)	(7)
Net gains (losses) recognized in equity	-	-	-	-	-	(7)	(7)
Interest revenue	4	32	-	-	(60)	(2)	(26)
Net foreign exchange gain (loss)	-	-	-	13	(5)	7	15
Fair value gain (loss)	-	-	-	-	-	-	-
Impairment loss (reversal)	-	(2)	-	-	-	-	(2)
Total recognized in profit or loss	4	30	-	13	(65)	5	(13)
Total net gain (loss)	4	30	-	13	(65)	(2)	(20)

DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING ACTIVITIES

Infineon periodically enters into derivative financial instruments such as interest swap arrangements, foreign exchange forward and option contracts as well as commodity swaps. The objective of these transactions is to reduce the impact of interest rate, exchange rate and commodity price fluctuations on Infineon's future net cash flows. Derivative financial instruments are used by Infineon for hedging purposes, not for trading or speculative purposes.

The notional amounts and fair values of Infineon's derivative instruments as of September 30, 2012 and 2011 are as follows:

€ in millions	2012		2011	
	Notional amount	Fair value	Notional amount	Fair value
Forward exchange contracts sold				
US dollar	144	1	145	(5)
Japanese yen	–	–	6	–
Singapore dollar	–	–	–	–
Great Britain pound	1	–	–	–
Forward exchange contracts purchased				
US dollar	38	–	23	–
Japanese yen	10	–	25	–
Singapore dollar	21	–	21	–
Great Britain pound	7	–	5	–
Malaysian ringgit	46	(1)	56	–
Currency options sold				
US dollar	–	–	–	–
Interest rate swaps	–	–	–	–
Commodity swaps	52	6	–	–
Other	–	–	–	–
Fair value, net		6		(5)

Foreign exchange derivatives are entered into by Infineon to offset the exchange risk from anticipated cash receipts. Neither in 2012 nor in 2011 were any foreign exchange derivatives designated as cash flow hedges.

For the fiscal years ended September 30, 2012 and 2011, no gains or losses were reclassified from other reserves to profit or loss as a result of the discontinuation of foreign currency cash flow hedges resulting from a determination that it was probable that the original forecasted transaction would not occur.

To offset price risks of highly probable future commodity purchases (gold), Infineon entered into commodity swaps which are designated as a cash flow hedge in the 2012 fiscal year. The fair value of the commodity swaps amounted to €6 million as of September 30, 2012. Fair value changes of commodity swaps (€6 millions in 2012) are recorded in other reserves. Infineon did not record any hedge ineffectiveness in the 2012 fiscal year.

37 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 overall financial risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on its financial performance. Infineon uses derivative financial instruments to hedge certain risks. Financial risk management is carried out by a central Finance & Treasury (FT) department in accordance with policies approved by the Management Board. The FT department identifies, evaluates and hedges financial risks in close co-operation with the operating units. The FT department's policy contains principles for overall risk management as well as documented policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk, use of derivative financial instruments and non-derivative financial instruments, and investment of excess liquidity.

MARKET RISK

Market risk is defined as the risk of losses related to adverse changes in the market prices of financial instruments, including those related to foreign exchange rates and interest rates.

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 diverse derivative financial transactions with several 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 is the risk that the fair value of future cash flows of a financial instrument will fluctuate due to changes in foreign exchange rates.

Although Infineon prepares the Consolidated Financial Statements in euros, a significant portion of its revenue as well as cost of goods sold, manufacturing, development and distribution costs are denominated in currencies other than the euro, primarily the US dollar. Fluctuations in the exchange rates of these currencies to the euro had an effect on the results of Infineon in the 2012 and 2011 fiscal years.

Management has established policies which require Infineon's individual legal entities to manage their foreign exchange risk against their functional currency. Group entities prepare a monthly rolling cash flow forecast by currency in order to determine foreign exchange exposures. 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 exposure cannot be mitigated due to differences between actual and forecasted amounts. Infineon calculates the net cash flow considering items in the Statement of Financial Position, actual orders received or made and all other planned proceeds and disbursements.

For the 2012 and 2011 fiscal years, net gains (losses) related to foreign currency derivatives and foreign currency transactions included in determining net income amounted to negative €6 million and positive €15 million, respectively.

The following table shows the effects on continuing operations of a 10 percent shift in the currency exchange rates for the major foreign currencies as of September 30, 2012 and 2011:

€ in millions	Profit or Loss		Equity	
	+10%	(10%)	+10%	(10%)
September 30, 2012				
EUR/USD	8	(10)	-	-
EUR/MYR	(1)	2	-	-
EUR/YEN	1	(1)	-	-
EUR/SGD	-	-	-	-
September 30, 2011				
EUR/USD	(10)	13	-	-
EUR/MYR	(2)	3	-	-
EUR/YEN	-	1	-	-
EUR/SGD	(1)	1	-	-

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 market 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 high cyclicality of its core business and the need to maintain high operational flexibility, its liquid financial assets are kept at a relatively high level. These assets are mainly invested in short-term fixed-interest instruments. The risk of changing interest rates affecting these assets is partially offset by financial liabilities, some of which are based on variable interest rates.

To reduce the risk caused by changes in market interest rates, Infineon is able to make use of interest rate derivatives, such as interest swaps, 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 on profit or loss and equity. Infineon prepares this using the iteration method. Infineon does not hold any fixed-rate financial assets or liabilities which are measured at fair value through profit or loss. Furthermore, Infineon did not hold any fixed-rate available-for-sale financial assets either in 2012 or 2011.

Changes in market interest rates affect interest income and interest expense on floating interest financial instruments. A change of 100 basis points in interest rates at the reporting date would have increased or decreased profit or loss by €1 million in the 2012 and 2011 fiscal years respectively.

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 will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

Infineon holds financial instruments which are exposed to market price risks. A change in the relevant market prices of 5 percent would increase or decrease profit or loss by €0.2 million and €0.1 million for the 2012 and 2011 fiscal years, respectively.

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 sourcing policies (including the use of multiple sources, where possible) and its operating procedures. In line with these measures Infineon concludes additional financial derivative contracts to mitigate the remaining risk which arises from the fluctuation of commodity prices. A change in the relevant market prices of 5 percent would have an equity effect of €0.2 million in the 2012 fiscal year.

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 in conjunction with its ongoing operations, the investment of cash funds and certain financing activities. Financial instruments that expose Infineon to credit risk consist primarily of 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 of geographically diverse customers that make up 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 company guidelines. Credit limits are also in place for individual customers. Creditworthiness and credit limits are constantly monitored. A further measure taken to reduce credit risk is the use of reservation of title clauses in sales contracts. However, despite continuous monitoring, Infineon cannot fully exclude the possibility of a loss arising from the default of one of its contract parties.

FT enters into foreign exchange and interest hedging contracts and invests cash funds in cash equivalents and financial investments worldwide with major financial institutions that have high credit ratings. Infineon assesses the creditworthiness of banks using a methodology that calculates investment thresholds for individual banks each day, based on current ratings (Standard & Poor's, Moody's or Fitch) and credit default swap premiums. Any breaches of stipulated thresholds must be reported and risk exposures unwound.

Infineon has spread its liquidity investments over more than 10 banks. At September 30, 2012 no financial institution was responsible for more than 15 percent of Infineon's liquidity investments. This gives rise to the maximum risk of €300 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 €9 million.

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 Infineon's potential inability to meet maturing financial obligations. Infineon's liquidity risk management provides that sufficient levels of cash and other funds are available at short notice as well ensuring the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions. Due to the dynamic nature of the underlying businesses, the Infineon ensures flexibility in funding by maintaining the continual availability of committed credit lines.

The following table discloses a maturity analysis 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 which 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. Financial instruments with variable interest payments are determined using the interest rate from the last interest fixing date before September 30, 2012. The cash outflows of financial liabilities that can be repaid at any time are assigned to the period where the earliest redemption is possible.

€ in millions	Contractual cash flows	2013	2014	2015	2016	2017	Thereafter
Non derivative financial liabilities	1,053	785	234	13	4	3	14
Derivative financial liabilities:							
Cash outflow	174	174	–	–	–	–	–
Cash inflow ¹	(171)	(171)	–	–	–	–	–
Total	1,056	788	234	13	4	3	14

¹ Cash inflows of derivatives financial liabilities are also included when the instrument is gross settled in order to show all contractual cash flows.

38 COMMITMENTS AND CONTINGENCIES

LITIGATION AND GOVERNMENT INQUIRIES

Antitrust litigation

In September 2004, the Company entered into a plea agreement with the Antitrust Division of the U.S. Department of Justice in connection with its investigation into alleged antitrust violations in the Dynamic Random Access Memory (DRAM) industry. A number of putative price-fixing class action lawsuits have been filed in U.S. state and federal courts against the Company, its U.S. subsidiary Infineon Technologies North America Corp. ("IF North America") and other DRAM suppliers by indirect purchasers, state attorneys general of various U.S. states and territories, California schools, political subdivisions and public agencies. The lawsuits allege, among other things, violations of federal and state antitrust laws and violations of state unfair competition laws relating to the sale and pricing of DRAM products during specified time periods commencing in or after 1998 through at the latest June 2002. The lawsuits seek actual and treble damages in unspecified amounts, penalties, costs, attorneys' fees, and injunctive and other equitable relief.

The Company has executed a settlement agreement resolving these various lawsuits, subject to certain conditions. As part of the settlement, the Company agreed to pay approximately US\$29 million, which the Company has deposited into an escrow fund. After final court approval, the Company will be released from claims by the state attorneys general and by any class members who do not elect to opt out of the settlement. Prior to the time of final court approval of the settlement, there is a risk that class members may opt out of the class.

Between December 2004 and February 2005, two putative class proceedings were filed in the Canadian province of Quebec, and one was filed in each of Ontario and British Columbia against the Company, IF North America and other DRAM manufacturers on behalf of all direct and indirect purchasers resident in Canada who purchased DRAM or products containing DRAM between July 1999 and June 2002, seeking damages, investigation and administration costs, as well as interest and legal costs. Plaintiffs primarily allege conspiracy to unduly restrain competition and to illegally fix the price of DRAM.

The provisions recorded in connection with these civil class action litigations encompass provisions for legal expenses and those liabilities and risks that the Company believes are likely to materialize and that can be estimated with reasonable accuracy at this time. Any disclosure of the Company's estimate of potential outcomes could seriously prejudice the position of the Company in these suits.

Other government inquiries

In October 2008, the Company learned that the European Commission had commenced an investigation involving the Company's Chip Card & Security business for alleged violations of antitrust laws. In 2009 and again in October 2012, the Company received written requests for information from the European Commission. The Company is cooperating with the Commission in answering the requests. No reasonable estimated amount can be attributed at this time to the potential outcome of this investigation.

In June 2010, the Brazil Secretariat of Economic Law of the Ministry of Justice ("SDE") announced that it had initiated an investigation related to alleged anticompetitive activities within the DRAM industry. The SDE's Notice of Investigation names the Company, various DRAM manufacturers and certain executives, and focuses on the period from July 1998 to June 2002. The SDE's Notice of Investigation is based on the investigations carried out in the United States and in Europe. The provisions recorded encompass provisions for legal expenses and those liabilities and risks that the Company believes are likely to materialize and that can be estimated with reasonable accuracy at this time. Any disclosure of the Company's estimate of potential outcomes could seriously prejudice the position of the Company in these suits.

Patent litigation

In November 2008, Volterra Semiconductor Corporation (“Volterra”) filed suit against Primarion, Inc. (an affiliate of the Company), the Company, and IF North America (jointly the “Defendants”) in the United States District Court for the Northern District of California, alleging infringement of five U.S. patents by certain products that were offered by Primarion and claimed relief for damages, enhanced damages for willful infringement and injunctive relief. Volterra later withdrew one patent; four patents remain in the case. In May 2011, the court decided that two of the patents were infringed. This decision was anticipated by the Company. It has accordingly made preparations to appeal this outcome and recorded provisions for legal expenses and those liabilities and risks that the Company believes are likely to materialize and that can be estimated with reasonable accuracy at the present time. The case is now in the damages phase. However, fact discovery showed that the damages theory originally set forth by Volterra of profits lost through price erosion by the U.S. entity and owner of the patents-in-suit turned out to be legally flawed, as the entity that makes most sales used as a basis for this claim is its Asian subsidiary, and the profits do not “inexorably flow” back to the U.S. entity. Volterra is now seeking to plead a different, to-be-specified damages theory, such as diminution of value of its subsidiary. Infineon objects to a change of damages theory at this late stage in the proceedings. The court will hear the parties on these motions on December 7, 2012. Suit will not commence with respect to the two remaining patents before damages have been adjudicated with respect to the former two patents. Any disclosure of the Company’s estimate of potential outcomes could seriously prejudice the position of the Company in these suits. There can be no assurance that the provisions recorded will be sufficient to cover all of the liabilities that could ultimately be incurred in relation to this litigation. In January 2010, the Company also filed suit against Volterra in the United States District Court for the District of Delaware for infringement of four U.S. patents. The case was initially stayed. In December 2011, the stay was lifted and the case transferred to California, where it is now in the discovery stage.

In April 2011, the Company sued Atmel Corporation for infringement of eleven of its patents in the District of Delaware. In July 2011, Atmel responded, denying liability and countersuing the Company, alleging infringement of, initially, six of its patents, as well as breach of a confidentiality agreement allegedly entered into by the parties during previous negotiations involving some of the patents-in-suit. In March 2012, Atmel extended its countersuit by four further allegedly infringed patents. In August 2012, the parties agreed to drop four patents each from the lawsuit, leaving seven Infineon and six Atmel patents in litigation. In the Markman hearing on November 8 and 9, 2012, the court heard from the parties how the asserted claims of the patents-in-suit should be construed. Any disclosure of the Company’s estimate of potential outcomes could seriously prejudice the position of the Company in these suits.

QIMONDA MATTERS

All significant assets, liabilities and business activities attributable to the memory business (Memory Products) were carved out and transferred to Qimonda in the form of a non-cash contribution with financial effect from May 1, 2006. A number of different service agreements were concluded with Qimonda in addition to the demerger and contribution agreement of April 25, 2006 as part of the establishment of Qimonda as a separate legal entity. 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. Qimonda was joined in declaring insolvency by a number of German and international subsidiaries of Qimonda, notably including Qimonda Dresden and Qimonda Flash GmbH (“Qimonda Flash”).

The insolvency of Qimonda, Qimonda Dresden and Qimonda Flash has given rise to various disputes between the administrator of these companies and Infineon, some of which are already before the courts. Infineon and the administrator are in talks and are endeavoring to find a mutually acceptable overall solution.

Legal disputes

Alleged activation of a shell company and liability for impairment of capital

The administrator filed suit against Infineon at Regional Court Munich I in November 2010, requesting 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, that is to say 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 administrator contends that the commencement of operating activities by Qimonda amounts to what is considered in case law to be the activation of a shell company (in German: “Wirtschaftliche Neugründung”), that this activation of a shell company was not disclosed in the correct manner and that as a consequence of this failure to provide correct disclosure, the party activating the company – Infineon – is liable for the deficit balance at the time the insolvency proceedings began. The first oral hearing took place on January 19, 2012. A second oral hearing was held on November 15, 2012. On March 6, 2012, 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 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 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 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 on so-called liability for impairment of capital (in German "Differenzhaftung").

The alleged claims in connection with the liability for impairment of capital were asserted against Infineon out of court in August 2011 for an unspecified amount. The administrator asserts that the non-cash contribution provided by Infineon in the context of the capital increase to Qimonda was overvalued and that the equivalent value (lowest issue price) of the subscribed stock was therefore not met.

This argument 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 by the value of the non-cash contributions.

Continuation of the rights of use of Infineon and its licensees in respect of the patents transferred to Qimonda

Infineon transferred numerous patents to Qimonda in the course of its contribution of the memory business. It retained rights of use in respect of these patents in the contribution agreement, which also contains provisions concerning cross licensing. The administrator has declared non-performance of this agreement. If the administrator's decision were found to be legal, the Company and its subsidiaries would no longer be licensed to use patents transferred by it to Qimonda in the form of contributions or patents applied for by Qimonda itself subsequent to the carve-out. Moreover, this could leave the Company unable to sublicense such patents in full to third parties. This could also affect contract partners of the Company with which the Company has concluded cross patent license agreements, possibly leading to compensation claims against the Company.

The Company filed an action for declaratory judgment against the administrator regarding this matter with Regional Court Munich I in January 2011. This action was intended to produce a decision by the court confirming that the rights of use of Infineon and its licensees with respect to the aforementioned intellectual property of the Qimonda Group still exist. On February 9, 2012 the Regional Court Munich I upheld Infineon's action almost completely, only dismissing the action with respect to the patents transferred to third parties or expired prior to the opening of insolvency proceedings on the one hand and with respect to rights to receive information on the other. The administrator's counteraction was dismissed. Both parties have appealed against the rulings to the Regional Appeal Court of Munich. An oral hearing has been set for December 6, 2012.

The administrator applied to the US Bankruptcy Court for the Eastern District of Virginia in October 2009 for an order stating that rights of use under US patents of Qimonda do not fall under a protective provision of US insolvency law, according to which such rights of use continue to exist despite the insolvency of the licensor. The administrator bases its argument here on the view that the legal protection afforded to licenses in insolvency pursuant to section 365(n) of the US Bankruptcy Code applies only to US insolvency proceedings and not to insolvency proceedings in other countries (in this case Germany). Infineon and other semiconductor manufacturers have filed objections to this application.

The US Bankruptcy Court upheld the administrator's claim in November 2009, but the US District Court for the Eastern District of Virginia then sent the case back to the US Bankruptcy Court in July 2010 instructing that the legitimate interests of the licensees and the creditors in the insolvency should be carefully weighed up against the background of the purpose of the statutory regulation. In October 2011, the US Bankruptcy Court decided, after having diligently balanced the interests of the parties, that section 365(n) of the US Bankruptcy Code applies with respect to Qimonda's US patents, thus the licenses under these patents remain valid. The administrator appealed against the decision of the U.S. Bankruptcy Court directly to the Court of Appeals for the Fourth Circuit. The Court of Appeals for the Fourth Circuit has accepted the direct appeal on June 28, 2012.

Extrajudicial claims

Inotera

Qimonda sold a stake in the joint venture Inotera Memories, Inc. ("Inotera") to Micron Technology, Inc. ("Micron") for US\$400 million in October 2008. The administrator subsequently challenged Micron over the sale under insolvency law and filed suit against Micron with Regional Court Munich I. The administrator suggested in short letters sent in April and August 2010 that it may also pursue corporate liability claims against Infineon in connection with the sale of the Inotera stake. The administrator has yet to substantiate the purported claims against Infineon in these letters.

Other claims made by the administrator

The administrator brought forward further claims against the Company, for the first time in writing in the final quarter of the 2011 fiscal year.

He asserts that certain legal transactions between Qimonda and Infineon would breach provisions under stock corporation law banning the return of contributions on the grounds that the transactions concerned were of an unconventional nature and disadvantageous for Qimonda.

He also asserts that Infineon, in its capacity as the controlling company, caused Qimonda to enter into disadvantageous legal transactions without compensating it accordingly and that the provisions of stock corporation law pertaining to post-formation acquisitions were breached in connection with numerous contracts concluded between Qimonda and Infineon at the same time as the memory business was being contributed to Qimonda.

The administrator is furthermore contesting certain payments from Qimonda to Infineon under insolvency law on the basis that the payments were postponed by Infineon, that Infineon was already aware Qimonda was insolvent at the time of the payment or that there was an imbalance between activity and payment.

Finally, the administrator also asserts that it is entitled to claim against Infineon because the latter did not provide Qimonda with a financing structure and liquidity resources adequate to enable its survival.

Assessment of these claims by Infineon

The administrator's purported claims omit in most cases to mention any specific figures and often amount to no more than general assertions without any supporting detail. Infineon has rejected these claims made to date in writing on the basis of its understanding of the matters involved. The assessment of the situation and legal position is highly complex and is still ongoing, but findings to date indicate that Infineon has good arguments with which to mount a successful defense should any of the purported claims come before the court. Risks and uncertainties of a not inconsiderable magnitude remain, however, not least because several of the combinations of factors involved are not covered by case law from the highest instance.

Claims asserted orally by the administrator

Infineon and Qimonda concluded contracts concerning the separation of IT systems as part of the carve-out of the memory business. The administrator asserted in a meeting held in the 2011 fiscal year that the provisions of stock corporation law pertaining to post-formation acquisitions were breached in the conclusion of these contracts and that the contracts were of an unconventional nature. The administrator also maintained that it was entitled to claim against Infineon in relation to the (sub) letting agreements concluded between Qimonda and Infineon in connection with the carve-out of the memory business.

Insolvency of Qimonda Dresden

Infineon was a shareholder with personal liability in Qimonda Dresden until the carve-out of the memory business, meaning that certain long-standing creditors have residual liability claims against Infineon. These claims, which include the potential repayment of public subsidies, trade tax demands, receivables of service providers and suppliers and employee-related claims such as salaries and social security contributions, can only be exercised by the administrator acting in the name of the creditors concerned. Infineon and the administrator concluded a framework agreement covering the organized processing of residual liability issues on July 7, 2011. Infineon and the administrator also agreed in this connection that Infineon may recover 70 percent of the residual liability payments from the insolvent assets as an ordinary rather than a secondary creditor. Settlements have subsequently been concluded with some of the residual liability creditors.

Other claims

Claims have been filed against the Company and its subsidiary Infineon Technologies Dresden GmbH (Infineon Dresden) by former Infineon employees, who were transferred to Qimonda or Qimonda Dresden as part of the carve-out of Qimonda and who seek to be re-employed by Infineon. All court decisions so far have been found in favor of the Company or Infineon Dresden. The most recent claims were resolved in January 2012 by way of settlement in conjunction with appeal proceedings before the German Federal Labor Court.

The Company may still be exposed to other claims arising in connection with contracts, offers, uncompleted transactions, continuing obligations, liabilities, risks and other obligations transferred to Qimonda in connection with the carve-out of the memory business.

Provisions

Infineon recognizes provisions and payables for obligations and risks which it assesses at the end of each reporting period are more likely than not to be incurred (i.e. 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 that it will not have 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 of Qimonda and that entity's subsidiaries. Certain of these matters led Infineon to record provisions of €326 million and €300 million as of September 30, 2012 and September 30, 2011, respectively. Presenting details of further actual amounts included in provisions for specific liabilities and risks associated with the insolvency of Qimonda could seriously prejudice Infineon's legal or negotiating position, so no such disclosures are made.

There can be no certainty that the provisions recorded 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 not possible at this time to estimate amounts for or present comments on liabilities and risks that could materialize but are currently considered to be unlikely to do so, and accordingly such matters are not included in provisions.

Infineon evaluates the merits of the various claims in each of these matters continuously, defends itself vigorously and seeks to find alternative solutions in the best interest of Infineon as it deems appropriate. 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.

OTHER

Infineon is also involved in various other legal disputes and proceedings in connection with its existing or previous business activities. These relate to products, services, patents, environmental protection 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 its financial condition, liquidity position and results of operations. It remains entirely possible, however, that this assessment may have to be revised in future and that any re-assessments of the miscellaneous legal disputes and proceedings could have a material adverse effect on financial condition, liquidity position and results of operations, particularly in the period in which a re-assessment is made. In conjunction with its existing or previous business operations, Infineon is also exposed to numerous legal risks which have until now not resulted in legal disputes and proceedings. This includes 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 the event of breaches of law committed by individual employees or third parties.

PROVISIONS AND THE POTENTIAL EFFECT OF THESE MATTERS

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. If the estimated amount of the liabilities is within a range of amounts and all amounts within the range are essentially equally probable, the provision recorded is equal to the mid-point of the range.

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.

An adverse final resolution of 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. Infineon evaluates the merits of the various claims in each of these matters continuously, defends itself vigorously and seeks to find alternative solutions in the best interest of Infineon as it deems appropriate. 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 defending against or settling such allegations and this too could have a material adverse effect on its financial condition, liquidity position and results of operations.

39 CONTINGENT LIABILITIES AND OTHER FINANCIAL COMMITMENTS

CONTINGENT LIABILITIES

Contingent liabilities relate to possible future events, the occurrence of which would result in an obligation for Infineon. The incurrence of such an obligation is considered to be “not probable” at the reporting date, but cannot be ruled out entirely.

The following table summarizes Infineon’s contingent liabilities with respect to external parties, other than those related to litigation, as of September 30, 2012:

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
Guarantees	127	16	3	4	16	7	81

In total, Infineon has guarantees outstanding to external parties as of September 30, 2012 amounting to €127 million. Guarantees are mainly issued for the payment of import duties, rentals of buildings, and contingent obligations related to government grants received.

OTHER FINANCIAL OBLIGATIONS AND OTHER RISKS

In addition to liabilities, provisions and contingent 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.

Future minimum operating lease and rental payments (undiscounted) amounted to €555 million (September 30, 2011: €532 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
Leases	555	48	45	38	53	52	319

Future cash receipts from sub-leases are expected to amount to €62 million; these amounts were considered in the above minimum lease and rental payments.

Total rental expenses under operating leases amounted to €71 million and €74 million for the years ended September 30, 2012 and 2011, respectively.

Investment commitments for property, plant and equipment (purchase commitments) at September 30, 2012 amounted to €145 million (September 30, 2011: €447 million).

Purchase commitments for intangible assets at September 30, 2012 amounted to €22 million (September 30, 2011: €39 million).

In connection with the current raw material supply, long-term purchase commitments are in place for various supplies including wafers, strategic raw materials, semiconductor intermediate products, electricity and gas. Overall, these minimum purchase commitments give rise to other financial obligations amounting to approximately €533 million (September 30, 2011: €479 million). These contracts 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 to meet customer demand for its products. An assessment of losses under these agreements is made on a regular basis for example in the event that budgeted purchase quantities fall below the specified 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. Nevertheless, should such requirements not be met, as of September 30, 2012, a maximum of €31 million of these subsidies could be refundable. From today's perspective, Infineon expects to be able to comply with the conditions attached to the grants. Such amount does not include any potential liabilities for Qimonda-related subsidies (see note 38).

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 conditions that may or may not occur in future, and depends on specific facts and circumstances related 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 operating lease agreement with MoTo Objekt Campeon GmbH & Co. KG ("MoTo") to lease Campeon, an office complex constructed by MoTo south of Munich. MoTo was responsible for the construction, which was completed in the second half of 2005. Infineon has no obligations with respect to financing MoTo and has provided no guarantees related to the construction. The Company occupied 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 for a period of 20 years. After year 15, the Company has a non-bargain purchase 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 restricted cash as part of other financial assets in the Consolidated Statement of Financial Position as of September 30, 2012. Lease payments are subject to limited adjustment based on specified financial ratios related to 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.

40 SEGMENT REPORTING

IDENTIFICATION OF SEGMENTS

Infineon identifies reportable segments on the basis of the differences between products sold.

Until December 31, 2011, Infineon's business was structured on the basis of its three operating segments, namely Automotive, Industrial & Multimarket and Chip Card & Security. The Industrial & Multimarket segment was split into two separate segments effective January 1, 2012, namely the Industrial Power Control segment and the Power Management & Multimarket segment. Thus Infineon's business was structured on the basis of four operating segments effective January 1, 2012. Additionally Infineon differentiates between "Other Operating Segments" and "Corporate & Eliminations".

Segment reporting for prior period amounts has been adjusted accordingly.

Automotive

The Automotive segment designs, develops, manufactures and markets semiconductors for use in automotive applications. Together with its product portfolio, it offers corresponding system know-how and support to its customers.

Industrial Power Control

The Industrial Power Control segment designs, develops, manufactures and markets semiconductors for the generation, transmission and economy in the use of electrical energy.

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 mobile phone network infrastructures.

Chip Card & Security

The Chip Card & Security segment designs, develops, manufactures and markets semiconductor-based security products for mobile payment applications and IT networks.

Other operating segments

Other Operating Segments comprises the remaining activities for product lines that have been disposed of and other business activities. Since the closing of the sale of the Wireline Communications business and the Wireless mobile phone business, sales to Lantiq and IMC 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. This includes 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 and work-in-process of the common production front-end facilities, and raw materials of the common back-end facilities, are not under the control or responsibility of any of the operating segment managers and are therefore allocated to corporate functions. Only work-in-progress of back-end 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 the Chief Operating Decision Maker, decides how resources are allocated to the segments.

Based on revenue and segment result, the Management Board assesses performance and formulates operating targets and budgets for the segments.

Infineon defines Segment Result as operating income (loss) excluding: asset impairments (net of reversals); the net impact on earnings of restructuring measures and closures; share-based compensation expense; acquisition-related depreciation/amortization and (gains) losses; gains (losses) on sales of assets, businesses, or interests in subsidiaries as well as other income (expense), including litigation settlement costs.

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.

Assets and liabilities are not allocated to the segments and segment performance is not assessed on the basis of these figures. Similarly, cash flows are not determined on a segment basis.

The exception to this approach is the collation and regular analysis of data on inventories at a segment level. Infineon also allocates depreciation and amortization expense to the operating segments based on production volume and product mix using standard costs.

SEGMENT INFORMATION

The following tables present selected segment data:

€ in millions	2012	2011
Revenue:		
Automotive	1,660	1,552
Industrial Power Control	728	797
Power Management & Multimarket	929	1,003
Chip Card & Security	457	428
Other Operating Segments	125	216
Corporate and Eliminations	5	1
Total	3,904	3,997

The operating segments do not have any trading relationships with one another. Accordingly, there was no intersegment revenue during the 2012 and 2011 fiscal years. Costs are recharged without impact on profit or loss.

€ in millions	2012	2011
Segment Result:		
Automotive	219	279
Industrial Power Control	118	202
Power Management & Multimarket	142	242
Chip Card & Security	56	54
Other Operating Segments	5	14
Corporate and Eliminations	(13)	(5)
Total	527	786

The following table provides the reconciliation of Segment Result to Infineon's income from continuing operations before income taxes:

€ in millions	2012	2011
Segment Result	527	786
Plus/minus:		
Asset impairment reversals/asset impairments and assets classified as held for sale, net	(28)	5
Impact on earnings of restructuring measures and closures, net	(1)	–
Share-based compensation expense	(2)	(2)
Acquisition-related depreciation/amortization and losses	(3)	(3)
Losses on sales of assets, businesses, or interests in subsidiaries, net	(1)	–
Other expenses	(37)	(50)
Operating income	455	736
Financial income	38	39
Financial expense	(61)	(65)
Income from investments accounted for using the equity method, net	(1)	4
Income from continuing operations before income taxes	431	714

€ in millions	2012	2011
Depreciation and amortization:		
Automotive	179	124
Industrial Power Control	81	53
Power Management & Multimarket ¹	102	113
Chip Card & Security	51	20
Other Operating Segments	15	13
Corporate and Eliminations ²	–	41
Total	428	364

¹ Includes in the 2012 and 2011 fiscal years €3 million of acquisition-related depreciation and amortization which are not included in Segment Result.

² Includes in the 2011 fiscal year depreciation and amortization remaining with Infineon after sale of the Wireless mobile phone business.

Income from associated companies and joint ventures accounted for using the equity method totaled negative €1 million and €4 million in the 2012 and 2011 fiscal years. This income was recognized in the Industrial Power Control segment but is not included in the Segment Result.

€ in millions	2012	2011
Inventories:		
Automotive	171	120
Industrial Power Control	85	62
Power Management & Multimarket	97	102
Chip Card & Security	28	25
Other Operating Segments	1	19
Corporate and Eliminations	185	179
Total	567	507

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, 2012 and 2011:

Revenue by region

€ in millions	2012	2011
Revenue:		
Europe, Middle East, Africa	1,732	1,920
Therein: Germany	908	1,090
Asia-Pacific (without Japan)	1,470	1,450
Therein: China	637	663
Japan	252	202
Americas	450	425
Total	3,904	3,997

€ in millions	2012	2011
Property, plant and equipment; goodwill and other intangible assets:		
Europe	1,233	898
Therein: Germany	709	555
Asia-Pacific (w/o Japan)	633	546
Therein: China	18	15
Japan	1	1
Americas	10	9
Total	1,877	1,454

Revenues from external customers are based on the customers' billing location. Regional employment data is provided in note 7.

For the 2012 fiscal year revenue with one single customer accounted for €399 million of the total revenue recorded. The revenue is allocated to all four operative segments of Infineon. No single customer accounted for more than 10 percent of Infineon's sales during the 2011 fiscal year.

41 SIGNIFICANT EVENTS AFTER THE END OF THE REPORTING PERIOD

Under the terms of the capital return program, put options on own shares with an exercise value of €22 million were exercised in the period to November 16, 2012 thereby repurchasing 3.5 million shares. This resulted in a reclassification from "Put options on own shares" to "Own shares" within equity. The exercise had no effect on the Consolidated Statement of Operations.

42 ADDITIONAL INFORMATION IN ACCORDANCE WITH HGB

APPLICATION OF EXEMPTION REGULATIONS

The entities stated below have entered into control and profit and loss transfer agreements with Infineon Technologies AG and, in accordance with section 264 paragraph 3 HGB, intend to apply some of the exemption rules pertaining to the preparation, audit and publication of their annual financial statements:

- Hitex Development Tools GmbH, Karlsruhe,
- Infineon Technologies Finance GmbH, Neubiberg,
- Infineon Technologies Mantel 19 GmbH, Neubiberg, and
- Infineon Technologies Mantel 21 GmbH, Neubiberg.

Infineon Technologies Dresden GmbH applies the exemptions contained in section 264 paragraph 3 HGB and does not prepare a management report.

Due to the insolvency of Qimonda AG, Munich, Qimonda AG and its subsidiaries are not included in Infineon's Consolidated Financial Statements. Infineon has no information as to whether Qimonda AG draws up Consolidated Financial Statements or intends to utilize any exemptions with respect to the preparation of Consolidated Financial Statements.

INFORMATION PURSUANT TO SECTION 160 PARAGRAPH 1 NO. 2 STOCK CORPORATION ACT (AKTG)

On May 9, 2011 the Company resolved to repurchase shares on the basis of the authorization given by shareholders at the Annual General Meeting on February 17, 2011. In the period through March 2013, the Company intends to use up to €300 million for measures aimed at returning capital to shareholders. Capital may be returned via put options on Infineon shares, outright repurchases of Infineon shares using the Frankfurt Stock Exchange's Xetra trading system or through further repurchases of Infineon's outstanding convertible bonds. In accordance with legal requirements, any shares repurchased will be cancelled to reduce the Company's share capital or used for servicing exercised convertible bonds or servicing exercised employee stock options. The share repurchase will be carried out in accordance with section 14 (2) and section 20a (3) of the German Securities Trading Act (Wertpapierhandelsgesetz, "WpHG") in line with the provisions of Commission Regulation (EC) No. 2273/2003 of December 22, 2003.

During the 2012 fiscal year the Company issued put options on own shares with a maximum term of nine months and for an exercise value of €120 million under the terms of this program. Options for a total of 3 million shares were exercised prior to September 30, 2012. The Company acquired 2 million own shares corresponding to €4 million (0.2 percent) of ordinary share capital for a total cost of €13 million in November 2011 and a further 1 million own shares corresponding to €2 million (0.1 percent of ordinary share capital) for a total cost of €7 million in December 2011. The Company had already acquired 4 million own shares during the 2011 fiscal year. All 7 million own shares held by the Company in the 2012 fiscal year were cancelled effective September 19, 2012, and the ordinary share capital decreased accordingly. The Company did not therefore own shares as of September 30, 2012.

Put options for an exercise value of €89 million were outstanding as of September 30, 2012 which relate to a total of 16 million shares with various fixed exercise prices and which require physical delivery of the shares. Details pertaining to the share repurchase program, put options issued and shares acquired are published regularly on the Company's website at www.infineon.com/cms/de/corporate/investor/infineon-share/share-buyback.html.

INFORMATION PURSUANT TO SECTION 160 PARAGRAPH 1 NO. 8 STOCK CORPORATION ACT (AKTG)

Section 21, paragraph 1, of the German Securities Trading Act requires each shareholder whose voting rights reach, exceed or, after exceeding, fall below the 3, 5, 10, 15, 20, 25, 30, 50 or 75 percent thresholds of a listed corporation to notify such corporation and the German Federal Supervisory Authority for Financial Services (Bundesanstalt für Finanzdienstleistungsaufsicht, "BaFin") immediately, but no later than four trading days after such shareholder has reached, exceeded or fallen below such a threshold. The Company has been notified of the changes in existing voting rights set forth below. The stated percentages refer to the share capital held at the date of the respective notification; the number of shares stated below is taken from the most recent shareholder notification and may therefore no longer be up to date.

- On August 7, 2009, Dodge & Cox Investment Managers, San Francisco, (USA), has informed the Company according to section 21, paragraph 1 WpHG that via shares the voting rights of Dodge & Cox, San Francisco, (USA), on Infineon Technologies AG, Neubiberg, Germany, had fallen below the threshold of 10 percent on August 5, 2009 and on that date amounted to 9.95 percent (this corresponds to 106,771,627 voting rights). 9.88 percent of the voting rights are attributable to the company pursuant to section 22, Paragraph 1, Sentence 1, no. 6 WpHG by Dodge & Cox International Stock Fund, a further 0.08 percent of the voting rights are attributable to it pursuant to section 22, Paragraph 1, Sentence 1, No. 6 WpHG by Dodge & Cox Global Stock Fund, which itself holds less than 3 percent of the voting rights.
- On August 7, 2009, Dodge & Cox Investment Managers, San Francisco, (USA), has informed the Company according to section 21, paragraph 1 WpHG that, via shares the voting rights of Dodge & Cox International Stock Fund, San Francisco, (USA), in Infineon Technologies AG, Neubiberg, Germany, had fallen below the threshold of 10 percent on August 5, 2009 and on that date amount to 9.88 percent (this corresponds to 105,919,119 voting rights).
- On April 27, 2011, BlackRock, Inc., New York, (USA) has informed the Company according to section 21, paragraph 1 WpHG that via shares its voting rights in Infineon Technologies AG, Neubiberg, Germany, had exceeded the threshold of 5 percent on April 26, 2011 and on that day amounted to 5.08 percent of the voting rights (this corresponds to 55,152,748 voting rights). 5.08 percent of the voting rights (this corresponds to 55,152,748 voting rights) are to be attributed to the company pursuant to section 22, paragraph 1, sentence 1, No. 6 sentence 2 WpHG.
- On October 16, 2012, BlackRock Holdco 2, Inc., Wilmington, (USA) has informed the Company according to section 21, paragraph 1 WpHG that via shares its voting rights in Infineon Technologies AG, Neubiberg, Germany, had exceeded the threshold of 5 percent on July 22, 2011 and on that day amounted to 5.003 percent of the voting rights (this corresponds to 54,366,338 voting rights). 5.003 percent of the voting rights (this corresponds to 54,366,338 voting rights) are to be attributed to the company pursuant to section 22, paragraph 1, sentence 1, No. 6 sentence 2 WpHG.
- On October 16, 2012, BlackRock Financial Management, Inc., New York, (USA) has informed the Company according to section 21, paragraph 1 WpHG that via shares its voting rights in Infineon Technologies AG, Neubiberg, Germany, had exceeded the threshold of 5 percent on July 22, 2011 and on that day amounted to 5.003 percent of the voting rights (this corresponds to 54,366,338 voting rights). 5.003 percent of the voting rights (this corresponds to 54,366,338 voting rights) are to be attributed to the company pursuant to section 22, paragraph 1, sentence 1, No. 6 sentence 2 WpHG.
- On October 16, 2012, BlackRock Advisors Holdings, Inc., New York, (USA) has informed the Company according to section 21, paragraph 1 WpHG that via shares its voting rights in Infineon Technologies AG, Neubiberg, Germany, had fallen below the threshold of 5 percent on June 19, 2012 and on that day amounted to 4.77 percent of the voting rights (this corresponds to 51,806,426 voting rights). 4.77 percent of the voting rights (this corresponds to 51,806,426 voting rights) are to be attributed to the company pursuant to section 22, paragraph 1, sentence 1, No. 6 sentence 2 WpHG.
- On October 16, 2012, BlackRock Group Limited, London, (Great Britain) has informed the Company according to section 21, paragraph 1 WpHG that via shares its voting rights in Infineon Technologies AG, Neubiberg, Germany, had exceeded the threshold of 3 percent on October 4, 2011 and on that day amounted to 3.18 percent of the voting rights (this corresponds to 34,603,240 voting rights). 3.18 percent of the voting rights (this corresponds to 34,603,240 voting rights) are to be attributed to the company pursuant to section 22, paragraph 1, sentence 1, No. 6 sentence 2 WpHG.
- On October 17, 2012, BlackRock International Holdings, Inc., New York, (USA) has informed the Company according to section 21, paragraph 1 WpHG that via shares its voting rights in Infineon Technologies AG, Neubiberg, Germany, had exceeded the threshold of 3 percent on August 18, 2011 and on that day amounted to 3.01 percent of the voting rights (this corresponds to 32,749,985 voting rights). 3.01 percent of the voting rights (this corresponds to 32,749,985 voting rights) are to be attributed to the company pursuant to section 22, paragraph 1, sentence 1, No. 6 sentence 2 WpHG.

- On October 17, 2012, BR Jersey International Holdings, L.P., St. Helier, Jersey, (Channel Islands) has informed the Company according to section 21, paragraph 1 WpHG that via shares its voting rights in Infineon Technologies AG, Neubiberg, Germany, had exceeded the threshold of 3 percent on August 18, 2011 and on that day amounted to 3.01 percent of the voting rights (this corresponds to 32,749,985 voting rights). 3.01 percent of the voting rights (this corresponds to 32,749,985 voting rights) are to be attributed to the company pursuant to section 22, paragraph 1, sentence 1, No. 6 sentence 2 WpHG.
- On September 6, 2012, The Capital Group Companies, Inc., Los Angeles, (USA) has informed the Company according to section 21, paragraph 1 WpHG that via shares its voting rights in Infineon Technologies AG, Neubiberg, Germany, had exceeded the thresholds of 3 and 5 percent on September 1, 2012 and on that date amounted to 8.02 percent (this corresponds to 87,237,100 voting rights). According to section 22, paragraph 1, sentence 1, no. 6 WpHG in connection with section 22, paragraph 1, sentences 2 and 3 WpHG, 8.02 percent of the voting rights (this corresponds to 87,237,100 voting rights) is to be attributed to the Company. Of those, 45,285,000 voting rights (this corresponds to 4.17 percent of the voting rights in Infineon Technologies AG) are held by Euro Pacific Growth Fund, Inc.
- On August 2, 2011, Capital Research and Management Company, Los Angeles, (USA) has informed the Company according to section 21, paragraph 1 WpHG that via shares its voting rights in Infineon Technologies AG, Neubiberg, Germany, had exceeded the threshold of 5 percent on July 28, 2011 and on that day amounted to 5.06 percent (this corresponds to 55,007,300 voting rights). 5.06 percent of the voting rights (this corresponds to 55,007,300 voting rights) are to be attributed to the company pursuant to section 22, paragraph 1, sentence 1, No. 6 WpHG.
- On September 18, 2012, EuroPacific Growth Fund, Inc., Los Angeles, (USA) has informed the Company according to section 21, paragraph 1 WpHG that via shares its voting rights in Infineon Technologies AG, Neubiberg, Germany, had exceeded the threshold of 5 percent on September 13, 2012 and on that day amounted to 5.04 percent of the voting rights (this corresponds to 54,808,978 voting rights).
- On July 11, 2012, UBS AG, Zurich, Switzerland, has informed the Company according to section 21, paragraph 1 WpHG that via shares its voting rights in Infineon Technologies AG, Neubiberg, Germany, had exceeded the threshold of 3 percent on July 5, 2012 and on that date amounted to 3.14 percent (this corresponds to 34,096,715 voting rights). 3.07 percent of the voting rights (this corresponds to 33,365,787 voting rights) are attributable to the Company pursuant to section 22, paragraph 1, sentence 1, no. 1 WpHG.

A comparable notification requirement is provided for in section 25 WpHG with regard to financial instruments that result in an unconditional entitlement to unilaterally acquire shares carrying voting rights. Furthermore, on February 1, 2012, a further notification requirement pursuant to section 25a WpHG became effective, relating to financial and other instruments that entitle their holder to acquire shares with voting rights either de facto or in economic terms. Notifications pursuant to sections 25, 25a WpHG are accessible via the Company's website or the internet platform of Deutsche Gesellschaft für Ad-hoc-Publizität mbH respectively.

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 by publication on Infineon's website at www.infineon.com ("About Infineon/Investor/Corporate Governance/Declaration of Compliance").

ACCOUNTING FEES PURSUANT SECTION 314 PARAGRAPH 1 NO. 9 HGB

Year-end audit fees

At the Annual General Meeting held on March 8, 2012, the shareholders elected KPMG AG Wirtschaftsprüfungsgesellschaft ("KPMG"), as Company and group auditor for the 2012 fiscal year. The audit fees charged by KPMG in the 2012 fiscal year amounted to €0.8 million for the audit of the Consolidated Financial Statements and various separate financial statements.

Fees for other advisory services

In addition to the amounts described above, KPMG charged the Company an aggregate of €0.2 million in the 2012 fiscal year for other audit services. These services consisted primarily of services rendered in connection with the review of quarterly financial statements.

Fees for tax advisory services

In addition to the amounts described above, KPMG charged the Company an aggregate of €0 million in the 2012 fiscal year for professional services.

Other fees

Fees of €0 million were charged by KPMG in the 2012 fiscal year for other services.

MANAGEMENT BOARD AND SUPERVISORY BOARD**Management compensation in 2012 fiscal year**

The remuneration of the individual members of the Management Board and the Supervisory Board, as required by section 314 (1) no. 6a, sentences 5 to 9 HGB, is disclosed in the Compensation Report (part of the Group Management Report).

Management Board

The members of the Management Board during the 2012 fiscal year were as follows (status: September 30, 2012):

Name	Age	Term expires	Position	Membership of Supervisory Boards and governing bodies of domestic and foreign companies
Peter Bauer	52	September 30, 2012	Chairman of the Management Board, Chief Executive Officer	Member of the Board of Directors <ul style="list-style-type: none"> Infineon Technologies Asia Pacific Pte., Ltd., Singapore (Chairman) (until April 1, 2012) Infineon Technologies China Co., Ltd., Shanghai, People's Republic of China (until September 30, 2012) Infineon Technologies Japan K.K., Tokyo, Japan (until September 30, 2012) Infineon Technologies North America Corp., Wilmington, Delaware, USA (Chairman) (until January 25, 2012)
Dominik Asam	43	December 31, 2013	Member of the Management Board, Executive Vice President, Chief Financial Officer	Member of the Supervisory Board <ul style="list-style-type: none"> Infineon Technologies Austria AG, Villach, Austria Member of the Board of Directors <ul style="list-style-type: none"> Infineon Technologies Asia Pacific Pte., Ltd., Singapore Infineon Technologies China Co., Ltd., Shanghai, People's Republic of China Infineon Technologies North America Corp., Wilmington, Delaware, USA
Arunjai Mittal (since January 1, 2012)	41	December 31, 2014	Member of the Management Board, Executive Vice President	Member of the Supervisory Board <ul style="list-style-type: none"> Infineon Technologies Austria AG, Villach, Austria Member of the Board of Directors <ul style="list-style-type: none"> Infineon Technologies Asia Pacific Pte., Ltd., Singapore (Chairman) (since April 1, 2012) Infineon Technologies India, Pvt. Ltd., Bangalore, India (since June 6, 2012) Infineon Technologies Industrial Power, Inc., Wilmington, Delaware, USA (Chairman) Infineon Technologies North America Corp., Wilmington, Delaware, USA (Chairman) (since January 25, 2012)
Dr. Reinhard Ploss	56	September 30, 2015	Member of the Management Board, Executive Vice President, Labor Director	Member of the Supervisory Board <ul style="list-style-type: none"> Infineon Technologies Austria AG, Villach, Austria (Chairman) Infineon Technologies Dresden GmbH, Dresden (Chairman) (until July 31, 2012) Member of the Board of Directors <ul style="list-style-type: none"> Infineon Technologies India, Pvt. Ltd., Bangalore, India (until June 6, 2012) Infineon Technologies (Kulim) Sdn. Bhd., Kulim, Malaysia (Chairman)

The Supervisory Board

The members of the Supervisory Board during the 2012 fiscal year, the Supervisory Board position held by them, their position, their membership in comparable governing bodies and their ages are as follows (Status: September 30, 2012):

Name	Age	Term expires	Position	Membership of Supervisory Boards and comparable governing bodies of domestic and foreign companies
Wolfgang Mayrhuber Chairman	65	Annual General Meeting 2015	Management Consultant	Member of the Supervisory Board <ul style="list-style-type: none"> • BMW AG, Munich • Münchener Rückversicherungs-Gesellschaft AG, Munich • Lufthansa Technik AG, Hamburg • Austrian Airlines AG, Vienna, Austria Member of the Board of Directors <ul style="list-style-type: none"> • Heico Corporation, Hollywood, Florida, USA Member of the Administrative Board <ul style="list-style-type: none"> • UBS AG, Zurich, Switzerland
Gerd Schmidt ¹ Deputy Chairman	58	Annual General Meeting 2015	Chairman of the Infineon Works Council, Regensburg	
Wigand Cramer ¹	59	Annual General Meeting 2015	Labor union secretary IG Metall, Berlin	
Alfred Eibl ¹	63	Annual General Meeting 2015	Chairman of the Infineon Works Council, Munich-Campeon (until September 16, 2012) Chairman of the Infineon Central Works Council	
Peter Gruber ¹ Representative of Senior Management	51	Annual General Meeting 2015	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	50	Annual General Meeting 2015	Member of the Infineon Works Council, Munich-Campeon	
Hans-Ulrich Holdenried	61	Annual General Meeting 2015	Management Consultant	Member of the Supervisory Board <ul style="list-style-type: none"> • Integrata AG, Stuttgart • Wincor Nixdorf AG, Paderborn
Prof. Dr. Renate Köcher	60	Annual General Meeting 2015	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 (since March 30, 2012) • Nestlé Deutschland AG, Frankfurt am Main (since May 25, 2012)
Dr. Manfred Puffer	49	Annual General Meeting 2015	Management Consultant	Member of the Board of Directors <ul style="list-style-type: none"> • Athene Holding Ltd., Pembroke, Bermuda (since March 29, 2012) • Athene Life Re Ltd., Pembroke, Bermuda (since March 29, 2012)
Prof. Dr. Doris Schmitt-Landsiedel	59	Annual General Meeting 2015	Professor Munich Technical University	
Jürgen Scholz ¹	51	Annual General Meeting 2015	First authorized agent of IG Metall, Regensburg	Member of the Supervisory Board <ul style="list-style-type: none"> • Kronen AG, Neutraubling Member of the Administrative Board <ul style="list-style-type: none"> • BKK BMW AG, Dingolfing
Dr. Eckart Sünner	68	Annual General Meeting 2015	Of Counsel Allen & Overy, Mannheim	Member of the Supervisory Board <ul style="list-style-type: none"> • K+S AG, Kassel

¹ Employee representative

The Supervisory Board maintains the following principal committees:

Executive Committee

Wolfgang Mayrhuber (Chairman)

Gerhard Hobbach

Hans-Ulrich Holdenried

Gerd Schmidt

Investment, Finance and Audit Committee

Dr. Eckart Sünner (Chairman)

Wigand Cramer

Wolfgang Mayrhuber

Gerd Schmidt

Mediation Committee

Wolfgang Mayrhuber (Chairman)

Alfred Eibl

Hans-Ulrich Holdenried

Gerd Schmidt

Nomination Committee

Wolfgang Mayrhuber (Chairman)

Prof. Dr. Renate Köcher

Dr. Manfred Puffer

Strategy and Technology Committee

Prof. Dr. Doris Schmitt-Landsiedel (Chairwoman)

Alfred Eibl

Peter Gruber

Hans-Ulrich Holdenried

Wolfgang Mayrhuber

Jürgen Scholz

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, 2012.

The business address of each Supervisory Board is: Infineon Technologies AG, Am Campeon 1 – 12, D-85579 Neubiberg, Germany.

SUBSIDIARIES AND ASSOCIATED COMPANIES AS OF SEPTEMBER 30, 2012

Name of company	Registered Office	Equity (€ in millions)	Shareholdings in %	Footnote
Fully consolidated subsidiaries:				
Hitex Development Tools GmbH	Karlsruhe, Germany	2.16	100	3
Infineon Integrated Circuit (Beijing) Co., Ltd.	Beijing, People's Republic of China	2.75	100	6
Infineon Technologies (Advanced Logic) Sdn. Bhd.	Malacca, Malaysia	24.58	100	3
Infineon Technologies (Kulim) Sdn. Bhd.	Kulim, Malaysia	107.63	100	3
Infineon Technologies (Malaysia) Sdn. Bhd.	Malacca, Malaysia	122.02	100	3
Infineon Technologies (Wuxi) Co., Ltd.	Wuxi, People's Republic of China	107.12	100	6
Infineon Technologies (Xi'an) Co., Ltd.	Xi'an, People's Republic of China	8.23	100	6
Infineon Technologies Asia Pacific Pte. Ltd.	Singapore, Singapore	177.08	100	3
Infineon Technologies Australia Pty. Ltd.	Bayswater, Australia	0.95	100	3
Infineon Technologies Austria AG	Villach, Austria	541.23	100	3
Infineon Technologies Batam P.T.	Batam, Indonesia	10.43	100	3
Infineon Technologies Cegléd Kft.	Cegléd, Hungary	8.17	100	3
Infineon Technologies Center of Competence (Shanghai) Co., Ltd.	Shanghai, People's Republic of China	3.11	100	6
Infineon Technologies China Co., Ltd.	Shanghai, People's Republic of China	85.04	100	6
Infineon Technologies Dresden GmbH	Dresden, Germany	224.27	100	3
Infineon Technologies Finance GmbH	Neubiberg, Germany	369.89	100	3
Infineon Technologies France S.A.S.	St. Denis, France	52.63	100	3
Infineon Technologies Holding B.V.	Rotterdam, The Netherlands	2,194.49	100	3
Infineon Technologies Hong Kong, Ltd.	Hong Kong, People's Republic of China	1.10	100	3
Infineon Technologies India, Pvt. Ltd.	Bangalore, India	21.95	100	4
Infineon Technologies Industrial Power, Inc.	Wilmington, Delaware, USA	7.83	100	3
Infineon Technologies Investment B.V.	Rotterdam, The Netherlands	1.04	100	3
Infineon Technologies Italia s.r.l.	Milan, Italy	0.78	100	3
Infineon Technologies IT-Services GmbH	Klagenfurt, Austria	5.45	100	3
Infineon Technologies Japan K.K.	Tokyo, Japan	4.13	100	3
Infineon Technologies Korea Co. Ltd.	Seoul, Republic of Korea	4.76	100	3
Infineon Technologies Nordic AB	Kista, Sweden	5.52	100	3
Infineon Technologies North America Corp.	Wilmington, Delaware, USA	114.93	100	3
Infineon Technologies Romania & Co. Societate in Comandita	Bucharest, Romania	0.84	100	6
Infineon Technologies Shared Service Center, Unipessoal Lda.	Vila do Conde, Portugal	0.84	100	3
Infineon Technologies Taiwan Co. Ltd.	Taipei, Taiwan	1.45	100	3
Infineon Technologies U.K. Ltd.	Bristol, Great Britain	3.18	100	3
Molstanda Vermietungsgesellschaft mbH	Neubiberg, Germany	7.42	94	6
Joint Ventures/Associated companies:				
Cryptomathic A/S	Arhus, Denmark	11.33	25	6
Cryptomathic Holding ApS	Arhus, Denmark	3.97	25	6
Infineon Technologies Bipolar GmbH & Co. KG	Warstein, Germany	69.07	60	3
Infineon Technologies Bipoláris Kft.	Cegléd, Hungary	0.72	60	3
LS Power Semitech Co., Ltd.	Cheonan, Republic of Korea	15.55	46	6

Name of company	Registered Office	Equity (€ in millions)	Shareholdings in %	Footnote
Immaterial subsidiaries: ¹				
DICE Danube Integrated Circuit Engineering GmbH	Linz, Austria	0.09	72	³
DICE Danube Integrated Circuit Engineering GmbH & Co. KG	Linz, Austria	10.95	72	³
EPOS embedded core & power systems GmbH & Co. KG	Duisburg, Germany	0.50	100	³
EPOS embedded core & power systems Verwaltungs GmbH	Duisburg, Germany	0.04	100	³
eupec Thermal Management Inc.	Wilmington, Delaware, USA	0.18	51	³
Hitex (UK) Limited	Coventry, Great Britain	1.17	88	³
Infineon Technologies Mantel 26 AG	Neubiberg, Germany	0.05	100	³
Infineon Technologies Austria Pensionskasse AG	Villach, Austria	0.69	100	⁶
Infineon Technologies Bipolar Verwaltungs GmbH	Warstein, Germany	0.03	60	³
Infineon Technologies Canada, Inc.	St. John, New Brunswick, Canada	0.00	100	³
Infineon Technologies Delta GmbH	Neubiberg, Germany	0.02	100	³
Infineon Technologies Iberia S.L.U.	Madrid, Spain	0.12	100	³
Infineon Technologies Ireland Ltd.	Dublin, Ireland	0.45	100	³
Infineon Technologies Mantel 19 GmbH	Neubiberg, Germany	0.05	100	³
Infineon Technologies Mantel 21 GmbH	Neubiberg, Germany	0.03	100	³
Infineon Technologies Gamma GmbH	Neubiberg, Germany	0.02	100	³
Infineon Technologies Mantel 24 GmbH	Neubiberg, Germany	0.02	100	³
Infineon Technologies Mantel 25 GmbH	Neubiberg, Germany	0.02	100	³
Infineon Technologies Pluto GmbH in liquidation	Neubiberg, Germany	0.22	100	³
Infineon Technologies Romania s.r.l.	Bucharest, Romania	0.03	100	⁶
Infineon Technologies RUS LLC	Moscow, Russian Federation	0.07	100	⁶
Infineon Technologies Schweiz GmbH	Zurich, Switzerland	0.21	100	³
Infineon Technologies SensoNor AS in liquidation	Horten, Norway	0.03	100	³
Infineon Technologies South America Ltda.	São Paulo, Brazil	0.27	100	³
KFE Kompetenzzentrum Fahrzeug Elektronik GmbH	Lippstadt, Germany	0.28	24	⁶
Kompetenzzentrum Automobil- und Industrieelektronik GmbH	Villach, Austria	0.09	60	⁶
Magellan Technology Pty. Ltd.	Annandale, Australia	1.25	18	⁵
MicroLinks Technology Corp.	Kaohsiung, Taiwan	0.05	2	⁶
OSPT IP Pool GmbH	Neubiberg, Germany	0.02	100	³

Name of company	Registered Office	Equity (€ in millions)	Shareholdings in %	Footnote
Qimonda AG and its subsidiaries:²				
Qimonda AG in insolvency	Munich	–	77	
Celis Semiconductor Corp.	Colorado Springs, Colorado, USA	–	17	
Itarion Solar Lda.	Vila do Conde, Portugal	–	40	
Qimonda (Malaysia) Sdn. Bhd. in liquidation	Malacca, Malaysia	–	77	
Qimonda Asia Pacific Pte. Ltd.	Singapore, Singapore	–	77	
Qimonda Belgium BVBA in insolvency	Leuven, Belgium	–	77	
Qimonda Beteiligungs GmbH in insolvency	Munich, Germany	–	77	
Qimonda Bratislava s.r.o. in liquidation	Bratislava, Slovakia	–	77	
Qimonda Dresden GmbH & Co. OHG in insolvency	Dresden, Germany	–	77	
Qimonda Dresden Verwaltungsgesellschaft mbH in insolvency	Dresden, Germany	–	77	
Qimonda Europe GmbH in liquidation	Munich, Germany	–	77	
Qimonda Finance LLC in insolvency	Wilmington, Delaware, USA	–	77	
Qimonda Flash Geschäftsführungs GmbH in liquidation	Dresden, Germany	–	77	
Qimonda Flash GmbH in insolvency	Dresden, Germany	–	77	
Qimonda France SAS in liquidation	St. Denis, France	–	77	
Qimonda Holding B.V. in insolvency	Rotterdam, The Netherlands	–	77	
Qimonda International Trade (Shanghai) Co. Ltd.	Shanghai, People's Republic of China	–	77	
Qimonda Investment B.V.	Rotterdam, The Netherlands	–	77	
Qimonda IT (Suzhou) Co., Ltd. in liquidation	Suzhou, People's Republic of China	–	77	
Qimonda Italy s.r.l. in liquidation	Padua, Italy	–	77	
Qimonda Korea Co.Ltd. in liquidation	Seoul, Republic of Korea	–	77	
Qimonda Licensing LLC	Fort Lauderdale, Florida, USA	–	77	
Qimonda Memory Product Development Center (Suzhou) Co., in liquidation	Suzhou, People's Republic of China	–	77	
Qimonda North America Corp. in insolvency	Wilmington, Delaware, USA	–	77	
Qimonda Richmond, LLC in insolvency	Wilmington, Delaware, USA	–	77	
Qimonda Solar GmbH	Dresden, Germany	–	77	
Qimonda Taiwan Co. Ltd. in liquidation	Taipei, Taiwan	–	77	
Qimonda UK Ltd. in liquidation	High Blantyre, Scotland	–	77	

1 Certain immaterial subsidiaries were not consolidated in the 2012 and 2011 fiscal years. Infineon evaluates the significance of these subsidiaries once a year. Net income, external revenue and total assets of all subsidiaries deemed to be immaterial were less than 1 percent of Infineon's net income, external revenue and total assets, respectively.

2 On January 23, 2009 Qimonda AG applied to the Munich District Court 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. 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 as of September 30, 2011.

4 Equity as of March 31, 2011.

5 Equity as of June 30, 2012.

6 Equity as of December 31, 2011.

Neubiberg, November 16, 2012

Infineon Technologies AG
Management Board

Dr. Reinhard Ploss

Dominik Asam

Arunjai Mittal

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 Infineon Group, and the Group Management Report includes a fair review of the development and performance and position of the Group, together with a description of the principal opportunities and risks associated with the expected development of the Group.

Neubiberg, November 21, 2012

Infineon Technologies AG

Dr. Reinhard Ploss

Dominik Asam

Arunjai Mittal

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, 2011 to September 30, 2012. 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 16, 2012

KPMG AG
Wirtschaftsprüfungsgesellschaft

Braun
Wirtschaftsprüfer

Wolper
Wirtschaftsprüfer

FINANCIAL DATA

2009 – 2012

€ in millions, except otherwise stated	2012	2011	2010	2009
CONSOLIDATED STATEMENTS OF OPERATIONS DATA				
Revenue by region				
Europe, Middle East, Africa	1,732	1,920	1,528	1,019
Therein: Germany	908	1,090	862	530
Asia-Pacific (w/o Japan)	1,470	1,450	1,202	768
Therein: China	637	663	595	359
Japan	252	202	184	116
Americas	450	425	381	281
Revenue by Segment				
Automotive	1,660	1,552	1,268	839
Industrial & Multimarket ¹	–	–	1,429	948
Industrial Power Control	728	797	–	–
Power Management & Multimarket	929	1,003	–	–
Chip Card & Security	457	428	407	341
Other Operating Segments	125	216	194	48
Corporate and Eliminations	5	1	(3)	8
Total Revenue	3,904	3,997	3,295	2,184
Gross profit	1,427	1,654	1,237	497
Gross margin	36.6%	41.4%	37.5%	22.8%
Research and development expenses	(455)	(439)	(399)	(319)
Selling, general and administrative expenses	(475)	(449)	(386)	(332)
Other operating income and expense, net	(42)	(30)	(104)	(29)
Operating income (loss)	455	736	348	(183)
Net financial result	(23)	(26)	(66)	(53)
Income (loss) from investments accounted for using the equity method	(1)	4	8	7
Income tax benefit (expense)	1	30	22	(4)
Income (loss) from continuing operations	432	744	312	(233)
Income (loss) from discontinued operations, net of income taxes	(5)	375	348	(441)
Net income (loss)	427	1,119	660	(674)
Basic earnings (loss) per share attributable to shareholders of Infineon Technologies AG (in €):				
Basic earnings (loss) per share from continuing operations	0.40	0.68	0.29	(0.27)
Basic earnings (loss) per share from discontinued operations	–	0.35	0.32	(0.46)
Basic earnings (loss) per share	0.40	1.03	0.61	(0.73)
Diluted earnings (loss) per share attributable to shareholders of Infineon Technologies AG (in €):				
Diluted earnings (loss) per share from continuing operations	0.39	0.66	0.28	(0.27)
Diluted earnings (loss) per share from discontinued operations	–	0.32	0.30	(0.46)
Diluted earnings (loss) per share	0.39	0.98	0.58	(0.73)
Key data for the Consolidated Statement of Operations				
Return on sales ²	10.9%	28.0%	20.0%	(30.9%)
EBIT ³	453	740	363	(189)
EBIT margin ⁴	11.6%	18.5%	11.0%	(8.7%)
EBITDA ⁵	881	1,104	699	264
Segment Result				
Automotive	219	279	198	(117)
Industrial & Multimarket ¹	–	–	294	40
Industrial Power Control	118	202	–	–
Power Management & Multimarket	142	242	–	–
Chip Card & Security	56	54	22	(4)
Other Operating Segments	5	14	(4)	(9)
Corporate and Eliminations	(13)	(5)	(35)	(50)
Segment Result:	527	786	475	(140)
Segment Result Margin	13.5%	19.7%	14.4%	(6.4%)

€ in millions, except otherwise stated	2012	2011	2010	2009
CONSOLIDATED STATEMENT OF FINANCIAL POSITION DATA				
Total assets	5,898	5,873	4,993	4,366
Gross cash position	2,235	2,692	1,727	1,507
Net cash position	1,940	2,387	1,331	802
Inventories	567	507	514	460
Assets classified as held for sale	5	5	495	112
Property, plant and equipment	1,731	1,343	838	928
Goodwill and other intangible assets	146	111	87	369
Debt	295	305	396	850
Provisions	740	836	608	525
Liabilities classified as held for sale	–	–	177	9
Total liabilities	2,323	2,518	2,368	2,273
Total equity	3,575	3,355	2,625	2,093
Statement of Financial Position Ratios				
Equity ratio	60.6%	57.1%	52.6%	47.9%
Return on equity	11.9%	33.4%	25.1%	(32.2%)
Return on assets ⁶	7.2%	19.1%	13.2%	(15.4%)
Return on Capital Employed (RoCE)	22.3%	62.1%	30.2%	(11.9%)
CONSOLIDATED STATEMENTS OF CASH FLOWS DATA				
Net cash provided by operating activities from continuing operations	667	983	958	282
Net cash provided by (used in) investing activities from continuing operations	(1,013)	(2,499)	(355)	25
Net cash provided by (used in) financing activities from continuing operations	(199)	(352)	(487)	391
Net increase (decrease) in cash and cash equivalents from discontinued operations	(40)	1,206	136	(446)
Depreciation and amortization	428	364	336	453
Purchases of property, plant and equipment and intangible assets and other assets	(890)	(887)	(325)	(115)
Cash flow	(585)	(662)	252	252
Free cash flow	(219)	106	573	274
The IFX Share (as of September 30)				
Dividend per share ⁷ in €	0.12	0.12	0.10	–
Dividend ⁷ in € million	129	130	109	–
Closing price Xetra Trading System in €	4.94	5.59	5.08	3.86
Closing price OTCQX in US dollar	6.44	7.39	6.93	5.60
Shares outstanding in million	1,080	1,087	1,087	1,087
Market capitalization in € million	5,335	6,073	5,521	4,189
Market capitalization in US dollar million	6,957	8,031	7,514	6,129
Infineon-Employees (as of September 30 in total figures)	26,658	25,720	26,654	26,464

1 The Industrial & Multimarket segment was split into two separate segments effective January 1, 2012, namely the Industrial Power Control segment and the Power Management & Multimarket segment. Prior year figures have been adjusted accordingly.

2 Return on Sales = Net income divided by revenue.

3 EBIT = Earnings from continuing operations before interest and tax.

4 EBIT margin = EBIT divided by revenue.

5 EBITDA = EBIT plus scheduled depreciation and amortization.

6 Return on assets = Net income divided by total assets.

7 A cash dividend of €0.12 per share for the 2012 fiscal year will be proposed at the Annual General Meeting. This would result in a distribution of approximately €129 million.

FINANCIAL GLOSSARY

ADS

American Depositary Shares – ADSs are U.S.-traded securities represented by an American Depositary Receipt for non-U.S. issuers. These securities simplify the access to U.S. capital markets for non-U.S.-based companies, and in turn provide U.S. investors with investment opportunities in non-U.S. securities. Since the delisting from the New York Stock Exchange (“NYSE”), the Infineon ADSs have been traded over the counter on the OTCQX International Premier market as a sponsored Level 1 program. After the deregistration the ADSs continue being traded on the OTCQX market with the ticker symbol IFNNY.

Associated Companies

An entity in which the Company has significant influence, but not a controlling interest, over the operating and financial management policy decisions of the entity. Significant influence is generally presumed when the Company holds between 20 percent and 50 percent of the voting rights.

Carve-Out

Legal separation of business operations (e.g. business units).

Cash flow

The cash-effective balance arising from inflows and outflows of funds over the fiscal year. The Consolidated Statement of Cash Flows is part of the Consolidated Financial Statements and shows how the Company generated cash during the period and where it spent cash, in terms of operating activities (cash the Company made by purchasing/selling goods and services), investing activities (cash the Company spent for investment, or cash it raised from divestitures), and financing activities (cash the Company raised by selling stocks, bonds and loans or spent for the redemption of stocks or bonds).

Convertible bond

Convertible notes/bonds are interest-bearing securities which normally – in addition to the right to receive interest and repayment of the nominal amount – give the bearer a conversion option. During the term of the option (conversion period), the bearer can exchange the convertible bond/note for a specified number of shares of the issuing entity. The conversion ratio is stipulated and is typically adjusted for transactions affecting the shareholders, such as dividend payments. If the bondholder/noteholder does not convert the bond/note into shares during the conversion period, the issuer redeems the bond/note at the end of the term at its nominal amount.

DAX

Deutscher Aktienindex – The German Stock Index tracking the 30 major German companies traded on the Frankfurt Stock Exchange, in terms of order volume or market capitalization.

Deferred tax

Since tax laws often differ from the recognition and measurement requirements of financial accounting standards, differences can arise between (a) the amount of taxable income and pre-tax financial income for a year and (b) the tax bases of assets or liabilities and their reported amounts in financial statements. A deferred tax liability and corresponding expense results from income that has already been earned for accounting purposes but not for tax purposes. Conversely, a deferred tax asset and corresponding benefit results from amounts deductible in future years for tax purposes but that have already been recognized for accounting purposes.

Defined benefit obligations (DBO)

A measure of a pension plans' liability at the calculation date assuming that the plan is ongoing and will not terminate in the foreseeable future.

Derivate

A financial instrument that derives its value from the price or expected price of an underlying asset (e.g. a security, currency or bond).

EPS

Earnings Per Share. Basic earnings per share is calculated by dividing net income by the weighted average number of ordinary shares outstanding during the period. Diluted EPS is calculated by dividing net income by the sum of the weighted average number of ordinary shares outstanding plus all additional ordinary shares that would have been outstanding if potentially dilutive instruments had been converted into ordinary shares.

Equity Method

Valuation method for interests in associated companies in which the investor has the ability to exercise significant influence over the investee's operating and financial policies.

Free cash flow

Cash flow from operating and investing activities from continuing operations excluding cash flows related to the purchase or sale of financial investments.

Goodwill

An intangible asset of the Company that results from a business acquisition, representing the excess of the purchase price (cost) paid for the acquired business over the fair value of the separately identifiable assets acquired and liabilities assumed. Under IFRS, goodwill is not reduced through scheduled amortization, but rather written down to its fair value if impaired. An impairment assessment is performed at least once a year.

Gross cash position

Total of cash and cash equivalents plus financial investments.

Gross profit

Revenues less cost of goods sold.

IFRS

International Financial Reporting Standards; Infineon prepares its Consolidated Financial Statements in accordance with IFRS, as adopted by the European Union.

Joint Venture

A contractual arrangement whereby two or more parties undertake an economic activity that is subject to joint control.

Net cash position

Gross cash position less long-term and short-term debt.

Profit or loss and capital-share attributable to non-controlling interests

Proportional share in net income and equity attributable to outside shareholders, and not to shareholders of the Infineon Group's parent company.

Put options

In the case of a put option, the buyer acquires a contractual right to sell a stipulated quantity of an underlying asset (e.g. a share) at a predetermined date (European option) at a specified price (underlying price). In return, the issuer receives an option premium from the buyer of the put option.

Registered shares

Shares registered in the name of a certain person. This person's details and number of shares are registered in the Company's share ledger in accordance with securities regulations. Only individuals registered in the Company's share ledger are considered shareholders of the Company and are, for example, able to exercise their rights at the Company's Annual General Meeting.

RoCE

Return on capital employed is calculated as NOPAT (Net Operating Profits after Tax) divided by capital employed. RoCE shows the linkage between profitability and capital resources required to run the business.

Segment Result

Infineon defines Segment Result as operating income (loss) excluding: asset impairments (net of reversals); the net impact on earnings of restructuring measures and closures; share-based compensation expense; acquisition-related depreciation/amortization and (gains) losses; gains (losses) on sales of assets, businesses, or interests in subsidiaries as well as other income (expense), including litigation settlement costs. This is the measure that Infineon uses to evaluate the operating performance of its segments.

Segment Result Margin

An indicator of operating performance, calculated as the percentage of Segment Result in relation to revenue.

Working capital

Working capital consists of current assets less cash and cash equivalents, financial investments and assets held for sale less short-term liabilities excluding short-term debt and current maturities of long-term debt and liabilities classified as held for sale.

TECHNOLOGY GLOSSARY

300-millimeter technology

Comprehensive term for the manufacture and processing of wafers with a diameter of 300 millimeters.

65-nanometer technology

Manufacturing technology that enables structures measuring 65 nanometers in width to be represented on the chip. The smaller the structures, e.g. lines and pitches, the smaller the chip and the cheaper its manufacturing. The previous technology permitted features of 90 nanometers and the next generation has attained features of about 40 nanometers.

ABS

The anti-lock braking system is an electronic vehicle safety feature that prevents the wheels from locking during heavy braking.

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.

ASSP

Application Specific Standard Product. Standard product designed for a specific use that can be used by many customers; implemented on an integrated circuit.

Back-end manufacturing

The part of the semiconductor manufacturing process that happens after the wafer has left the cleanroom (front-end 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.

BCD process

A special process for manufacturing high-voltage low power ICs. The abbreviation BCD stands for “bipolar CMOS with DMOS”.

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.

Bit

Information unit; can take one of two values “true”/“false” or “0”/“1”.

Byte

Unit of information in data processing components. One byte is equivalent to eight bits (see bit).

Cloud computing

Cloud computing is the provision of processing capacity, data storage, network capacity and ready-to-use software via a network with supply matched dynamically to demand. The IT infrastructure functions accessed appear remote and opaque from the user’s perspective, as if enveloped in a cloud. The remote systems of the cloud are accessed via a network, usually the internet, using a terminal such as a netbook or tablet PC (see netbook, see tablet PC).

CMOS

Complementary Metal Oxide Substrate. Standard semiconductor manufacturing technology used to manufacture microchips with low power usage and a high level of integration.

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.

CoolMOST™

High-voltage power transistor for voltages from 300 to 1,200 V.

e-bike, e-scooter

The term “e-bike” is used in a general sense to refer to all types of bicycle or bicycle-like machines that have an electric motor fitted. Some jurisdictions impose a narrower legal definition of what constitutes an e-bike, which may include speed limits for travel under motor power only and with a combination of motor power and pedaling. An e-bike has a twist-grip throttle like a scooter and its motor can operate without the rider pedaling. Some jurisdictions require e-bikes to drive on the road. An e-scooter is an electric bike with no pedals (see Pedelec).

Embedded flash

A nonvolatile memory that is integrated on a chip together with a microcontroller processor core. The nonvolatile memory contains the program code.

ESD

Electrostatic discharge. ESD is a spark or disruptive discharge caused by a large potential difference in an electrically isolating material that causes a very short, high electrical current impulse capable of destroying electronic devices such as mobile telephones. The cause of the potential difference is mostly a static electricity charge, which can happen, for example, when walking over a carpet and can charge a person with up to 30,000 volts.

ESC

Electronic Stability Control. A vehicular technology system that uses sensors and computers to brake individual wheels in order to prevent skidding.

Exa

A decimal prefix for usage in the international system of units, Exa stands for $10^{18} = 1$ quintillion, abbreviated "E", for example exabyte (EByte).

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.

Front-end manufacturing

Front-end 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 Front-end process, the wafer may have been through as many as 500 individual process steps.

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 high-frequency power MOSFETs (see MOSFET) on account of the material's special properties (such as good thermal conductivity and high electron mobility).

Giga

A decimal prefix for usage in the international system of units, Giga stands for $10^9 = 1$ billion, abbreviated to "G", for example gigabyte (GByte).

GMR

Giant Magneto-Resistance. The GMR effect is utilized in sensors for the purpose of measuring magnetic fields. GMR sensors are employed in a range of applications, e.g. as steering angle sensors in automobiles.

GPS

Global Positioning System. Satellite-based location identification and positioning system based on the transit time differences of received signals.

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.

Hertz

Hertz (Hz) is the unit for frequency, and is named after the German physicist Heinrich Rudolf Hertz (1857 – 1894). The Hertz determines the number of oscillations per second, or more generally speaking, the number of repetitive processes per second. Frequently used units are kilohertz (one thousand oscillations per second), megahertz (one million oscillations per second) and gigahertz (one billion oscillations per second).

HEV/EV

Hybrid electric vehicle/electric vehicle: collective terms for vehicles powered partly or entirely by an electric motor (see hybrid car).

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.

Hybrid car

A hybrid car is usually understood to be a motor vehicle that is driven by at least one electric motor, as well as a combustion engine. The hybrid drive is used in standard car construction to enhance efficiency, reduce consumption of fossil fuels or increase performance at lower engine speeds. In full hybrid cars the vehicle can be driven solely by the electric motor. In mild hybrid cars, the electric motor is simply used to support the combustion engine, for example when accelerating.

Hybrid technology

The word “hybrid” comes from the Greek for “mixed” or “originating from two different sources”. It has come to be used to denote the heart of a new drive technology in the automotive industry: hybrid vehicles operate with a combination of a diesel or gas engine and an electric motor.

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.

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.

Kilo

A decimal prefix for usage in the international system of units, kilo stands for $10^3 = 1,000$, or abbreviated to “k”. In the world of information technology, Kilo stands for $2^{10} = 1,024$, or “K” for short, e.g. kilobyte (KByte).

LDMOS

Laterally Diffused MOS transistor. The increasingly stringent standards concerning the electrical properties of field-effect transistors (MOSFETs) have led to the development of variations of the planar MOSFET in recent decades. They frequently differ in the design of their doping profile or the selection of material. For instance, there is a difference between lateral (i.e. those aligned parallel to the surface) and vertical designs. Whereas lateral transistors (LDMOS) are primarily used in radio-frequency applications for telecommunications, the vertical design is mainly used in the field of power electronics.

Lumen

A unit of luminous flux, or “lm” for short. The sensitivity of the human eye is taken into account in the definition. The human eye is at its most sensitive at a wavelength of 555 nanometers (yellow-green). 1 lm is defined as the luminous flux of a 1,464-milliwatt, 555-nanometer source of light with 100 percent efficiency. A 1,464-milliwatt source of red light provides only around 0.1 lm, as the eye in the red range (at around 700 nanometers) only possesses around 10 percent of its maximum sensitivity. The value “lumen per watt” is often stated as a measurement of the efficacy of a source of light because it is based on the light perceivable by the human eye.

Mega

Decimal prefix for usage in the international system of units. Mega stands for $10^6 = 1,000,000 = 1$ million, or “M” for short. In the world of information technology, Mega stands for $2^{20} = 1,048,576$, e.g. megabyte (MByte).

Microcontroller

A microprocessor integrated into a single IC combined with memory and interfaces, which functions as an embedded system. Logic circuits of the highest complexity can be designed in a microcontroller and controlled by software.

Micron (Micrometer)

Metric linear measure, corresponding to the millionth part of a meter (10^{-6}). Symbol: μm . As an example, the diameter of a single human hair is 0.1 millimeters, or 100 μm .

MOSFET

Metal Oxide Substrate 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.

Nanometer

Metric unit of length. Corresponds to the billionth part of a meter (10^{-9}); the symbol is nm. The diameter of deoxyribonucleic acid (DNA) is roughly 2 nanometers. Fabrication features in the semiconductor industry are now measured in nanometers (see 65-nanometer technology).

Netbook

A netbook is a type of computer smaller, less expensive and with less processing power than a conventional notebook. Netbooks are used primarily as portable internet access devices and consequently usually have an integral WLAN interface. Models bundled with a mobile network contract sometimes also include an integral UMTS mobile communication modem.

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.

On-state resistance

The term used to describe the minimal resistance of a field-effect transistor. The correct way to write it is $R_{DS(on)}$. The R stands for the electrical resistance. The index DS stands for the connections to the field-effect transistor, which are known as Drain (D) and Source (S). "On" stands for the state of the field-effect transistor.

OptiMOS™

Infineon's brand name for low-voltage power transistors for voltages between 20 and 300V.

Pedelec

Contracted form of "pedal electric cycle", a bike in which the pedal drive system is assisted by an electric motor. Pedelecs are distinct from e-bikes, which similarly have an electric drive system but can also operate like a scooter without the rider having to pedal. The latter are also known as electric scooters. The speed or power of pedelec drives is limited in some jurisdictions and some require riders of more powerful models to have insurance.

Peta

Decimal prefix for usage in the international system of units. Peta stands for $10^{15} = 1$ quadrillion, abbreviated "P", for example petabyte (PByte).

Power semiconductor

Over the last 30 years power semiconductors have mostly replaced electromechanical solutions in the areas of drive technology as well as power management and supply, due to their ability to form high energy flows almost at will. The advantage of these components is their ability to switch extremely rapidly (typically within a fraction of a second) between the "open" and the "closed" state. With the fast sequences of on/off pulses, almost any form of energy flow can be created, e.g. a sinus wave.

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).

Repowering

Repowering in a renewables context generally refers to the replacement of old wind turbines with newer, more powerful and more efficient models. This is done in order to make better use of the available locations and increase the installed capacity while simultaneously reducing the number of turbines.

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. 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) (see silicon carbide).

Semiconductor

Crystalline material. Its electrical conductivity can be changed as desired by the application of doping materials (most often boron or phosphorus). Semiconductors include silicon or germanium. The term is also applied to ICs made of these materials.

Shrink

A shrink in the context of semiconductor manufacturing is the process of scaling manufacturing down from an existing feature size to the next smaller feature size. The move to smaller structures generally involves shrinking all semiconductor circuit elements equally, although there are some exceptions. Chip function is unchanged, but since the chips are smaller, more can be squeezed onto each wafer and manufacturing costs fall.

Silicon

A chemical element with semiconducting characteristics. Silicon is the most important raw material in the semiconductor industry.

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).

SIM cards

Subscriber Identity Module cards. Chip cards that are inserted into mobile phones in order to identify the user within the network. They are used by mobile phone networks to provide connections to their customers.

Smartcard

Plastic card with built-in memory chip and/or microcontroller, which can be combined with a Personal Identification Number (PIN).

Smart Grid

The term Smart Grid is understood to mean the upgrading of the existing power supply networks to include communication and measurement functions, so as to make the flow of energy between increasingly decentralized power generation – for example by means of wind farms or block-type thermal power stations – and consumers more efficient.

Smartphone

A smartphone is an internet-ready mobile telephone that provides more computer functionality and connectivity than a modern conventional mobile telephone. Current smartphones generally allow users to upgrade their device with new functions by installing additional programs known as apps.

Switching power supply

A switching power supply is an electronic module that transforms an AC voltage into a DC voltage. Switching 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. Switching 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.

Tablet PC

A portable computer that can be used in a number of ways including as a note pad. The tablet is operated by applying a stylus or, increasingly, finger contact directly onto a touch-sensitive screen. Recently tablets have come to be used primarily for internet access and hence as a terminal for cloud computing (see cloud computing).

Tera

Decimal prefix for usage in the international system of units. Tera stands for $10^{12} = 1$ trillion, abbreviated “T”, for example terabyte (TByte).

Thin wafer

A wafer (see wafer) is typically around 350 microns (μm ; see Micron) 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.

Transistor

A transistor is an electronic component for switching and amplifying electrical signals. Transistors are used in fields including telecommunications, computer systems and power electronics both as discrete components and by the million in integrated circuits.

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.

VSD

Variable Speed Drive. Electronic control units for controlling the speed (revolutions per minute) of electric motors.

Wafer

Thin slice of semiconductor material from which the actual chip is produced. Typical diameters for wafers currently are 200 millimeters and 300 millimeters.

FINANCIAL CALENDAR

THURSDAY, JANUARY 31, 2013¹

Publication of first quarter 2013 results

THURSDAY, MAY 2, 2013¹

Publication of second quarter 2013 results

THURSDAY, FEBRUARY 28, 2013

Annual General Meeting 2013
(Start 10.00 a.m. CET)
ICM – International Congress Center Munich
(Germany)

TUESDAY, JULY 30, 2013¹

Publication of third quarter 2013 results

TUESDAY, NOVEMBER 12, 2013¹

Publication of fourth quarter and
fiscal year 2013 results

¹ preliminary

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NOTE

The following were **brand names** of Infineon Technologies AG in the 2012 fiscal year: Infineon, the Infineon logo, AURIX, CoolMOS, EconoDUAL, EconoPACK, HybridPACK, ModSTACK, OptiMOS, ORIGA, PrimePACK, PrimeSTACK, PROFET, SOLID FLASH, TriCore.

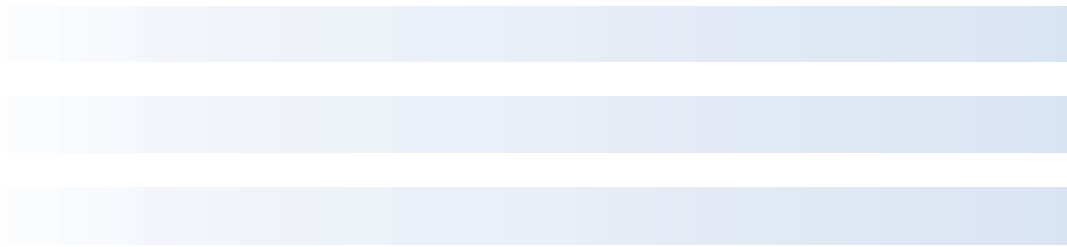
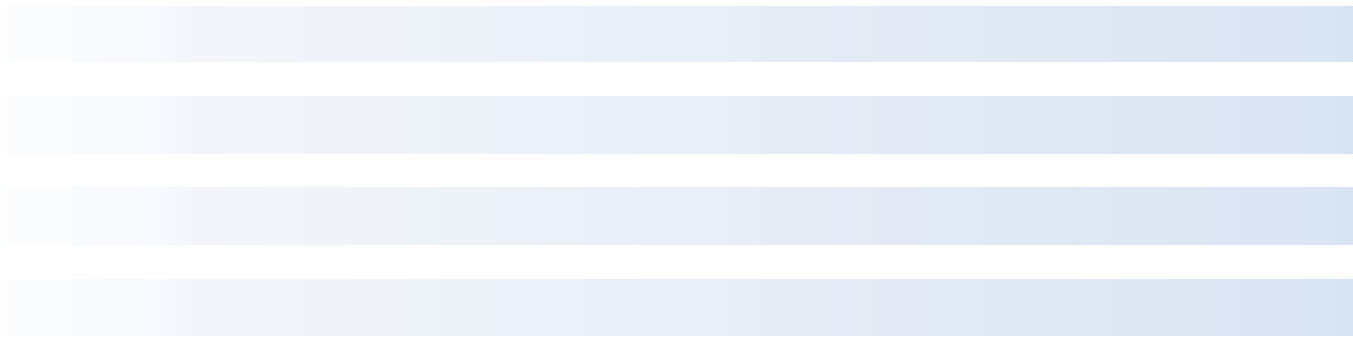
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FORWARD-LOOKING STATEMENTS

This Annual 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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