SYSTEMATIC GROWTH

Infineon Technologies AG

Annual Report 2014

INFINEON AT A GLANCE

Page 40

AUTOMOTIVE

Applications
- Chassis and comfort electronics
- Electric and hybrid vehicles
- Powertrain
- Safety
- Security

Product range
- Microcontroller (8-bit, 16-bit, 32-bit) for automotive and industrial applications
- Software development platform DAVE™
- Discrete power semiconductors
- IGBT modules
- Voltage regulators
- Power ICs
- Bus interface devices (CAN, LIN, FlexRay)
- Magnetic and pressure sensors
- Wireless transmit and receive ICs (RF, radar)

Key customers [1]
Autoliv / Bosch / Continental / Delphi / Denso / Hella / Hitachi / Hyundai / Lear / Mando / Mitsubishi / TRW / Valeo

Market position [2]
2

with a market share of 9.6%

Source: Strategy Analytics, April 2014

Page 46

INDUSTRIAL POWER CONTROL

Applications
- Charger station for electric vehicles
- Energy transmission and conversion
- Home appliances
- Industrial drives
- Industrial vehicles
- Renewable energy generation
- Traction
- Uninterruptable power supplies

Product range
- IGBT module solutions including IGBT stacks
- IGBT modules (high-power, medium-power, low-power)
- Discrete IGBTs
- Bare die business
- Driver ICs

Key customers [1]
ABB / Alstom / Bombardier / CSR Times / Delta / Emerson / Goldwind / Rockwell / Schneider Electric / Semikron / Siemens / SMA Solar Technology / Tesla / Vestas

Market position [2]
1

with a market share of 12.3%
for discrete power semiconductors and modules

Source: IHS Inc., September 2014

1 In alphabetical order. Infineon's major distributions customers are Arrow, Avnet, Beijing Jingchuan, Tomen and WPG Holding.
2 All figures for 2013 calendar year. The market share of the five largest competitors is shown in the "Market position" section of the relevant segment. The figures provided in those sections with respect to changes in market share relate to the 2012 and 2013 market share figures as calculated in 2014. Due to changes in the way the market is analyzed, these figures may differ from the 2012 market share figures reported in 2013.

Infineon Technologies AG, Neubiberg (Germany), offers semiconductor and system solutions addressing three central challenges to modern society: energy efficiency, mobility, and security. In the 2014 fiscal year (ending September 30), the Company reported revenues of 4.3 billion euros with approximately 29,800 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).

Page 52

POWER MANAGEMENT & MULTIMARKET

Applications

- Cellular network infrastructure
- Lightmanagement and LED lighting systems
- Micro-inverter for photovoltaic rooftop systems
- Mobile devices
- Power supplies

Product range

- Discrete low-voltage and high-voltage power transistors
- Driver ICs
- Control ICs
- RF power transistors
- Small-signal components:
  - TVS (Transient Voltage Suppressor) diodes
  - LNAs (Low Noise Amplifiers) for satellite navigation
- CMOS RF switches for antenna modules
- Antenna tuning ICs
- MEMS and ASICs for silicon microphones
- Customized chips (ASICs)

Key customers [1]

AAC / Artesyn / Dell / Delta / Emerson / Ericsson / Hewlett-Packard / Huawei / LG Electronics / Lite-On / Osram / Quanta / Samsung / Tridonic / ZTE

Market position [2]

1

with a market share of 13.6%
standard MOSFET power transistors
Source: IHS Inc., September 2014

Page 58

CHIP CARD & SECURITY

Applications

- Authentication
- Government identification
- Health care cards
- Mobile communication
- Near Field Communication (NFC)
- Payment systems
- Ticketing, access control
- Trusted computing

Product range

- contact-based security controllers
- contactless security controllers
- Dual-interface security controllers (contact-based and contactless)

Key customers [1]

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

Market position [2]

2

with a market share of 21.7%
for microcontroller-based chip card ICs
Source: IHS Inc., July 2014

P An overview of our worldwide locations can be found on **pages 112** and **113** in the chapter “Infineon worldwide”.

Infineon key data

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

Fiscal year from October 1 to September 30	2014		2013		2014/2013
	€ in millions	in % of revenue	€ in millions	in % of revenue	Change in %
Revenue by region	**4,320**		**3,843**		**12**
Europe, Middle East, Africa	1,707	39	1,567	41	9
Therein: Germany	859	20	795	21	8
Asia-Pacific (w/o Japan)	1,845	43	1,560	40	18
Therein: China	868	20	710	18	22
Japan	284	7	227	6	25
Americas	484	11	489	13	(1)
Revenue by Segment	**4,320**		**3,843**		**12**
Automotive	1,965	45	1,714	44	15
Industrial Power Control	783	18	651	17	20
Power Management & Multimarket	1,061	25	987	26	7
Chip Card & Security	494	11	463	12	7
Other Operating Segments	22	1	26	1	(15)
Corporate and Eliminations	(5)	0	2	0	(350)
Gross profit/Gross margin	**1,647**	**38.1**	**1,323**	**34.4**	**24**
Research and development expenses	(550)	12.7	(525)	13.7	5
Selling, general and administrative expenses	(496)	11.5	(440)	11.4	13
Operating income	525		325		62
Income from continuing operations	488		283		72
Gain (loss) from discontinued operations, net of income taxes	47		(11)		527
Net income	535		272		97
Segment Result/Segment Result Margin	620	14.4	377	9.8	64
Property, plant and equipment	1,700		1,600		6
Total assets	6,438		5,905		9
Total equity	4,158		3,776		10
Net cash provided by operating activities from continuing operations	988		610		62
Net cash used in investing activities from continuing operations	(272)		(328)		17
Net cash used in financing activities from continuing operations	(179)		(165)		(8)
Free cash flow [2]	317		235		35
Depreciation and amortization	514		466		10
Capital expenditure	668		378		77
Gross cash position [3]	2,418		2,286		6
Net cash position [4]	2,232		1,983		13
Basic earnings per share in €	0.48		0.25		92
Diluted earnings per share in €	0.48		0.25		92
Dividend per share in € [5]	0.18		0.12		50
Equity ratio	64.6%		63.9%		1
Return on equity [6]	12.9%		7.2%		79
Return on assets [7]	8.3%		4.6%		80
Inventory intensity [8]	11.0%		10.3%		7
Debt-to-equity ratio [9]	4.5%		8.0%		(44)
Debt-to-total-capital ratio [10]	2.9%		5.1%		(43)
Return on Capital Employed (RoCE) [11]	20.3%		14.1%		44
Employees Infineon as of September 30	**29,807**		**26,725**		**12**

1 Columns may not add due to rounding.
2 Free cash flow: for definition G see glossary, page 275.
3 Gross cash position: for definition G see glossary, page 276.
4 Net cash position: for definition G see glossary, page 276.
5 A dividend per share of €0.18 for the 2014 fiscal year will be proposed to the Annual General Meeting on February 12, 2015.
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): for definition G see glossary, page 276.

Whatever we do, we do it systematically:

- We are well positioned in markets that promise continued growth: energy efficiency, mobility and security.
- Our strategic approach “Product to System” additionally enhances our ability to leverage our comprehensive technology and product expertise in key markets.
- Increasingly efficient capacity utilization at our 300-millimeter manufacturing sites will lead to cost advantages.
- The planned acquisition of International Rectifier represents an excellent strategic fit.
- In addition to achieving our economic targets, sustainability is key to the way we run the business.
- We propose to raise the dividend from 12 to 18 cents.

These points embody the motto of this report:

SYSTEMATIC GROWTH

The title page shows a 400x enlargement of a micromechanical transducer in a silicon microphone. Microphones of this type are used in applications such as smartphones.

Microscopic holes ten thousandths of a millimeter in diameter are etched in the upper signal electrode to enable the undamped oscillation of the membrane below. Bonding pads located top right are used to connect the signal electrode and the membrane.

You can find out more about our silicon microphones on page 56.

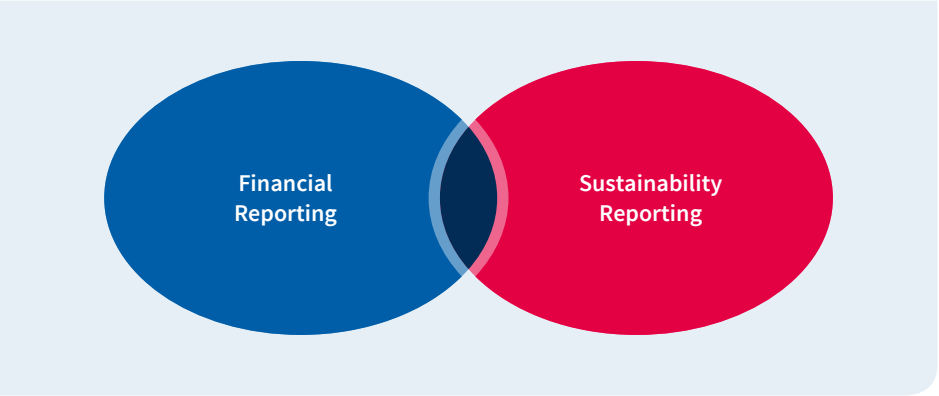
ABOUT THIS REPORT

Combined Reporting

This combined report documents Infineon's economic, ecological and social performance during the 2014 fiscal year. In addition to providing a description of financial developments, we also wish to demonstrate how sustainability contributes to Infineon's success and how our activities in this area create value for all of our stakeholders.

G 01

Combined Reporting



The reporting period covers the 2014 fiscal year – from October 1, 2013 to September 30, 2014. This report is published annually; the previous report was published in November 2013. Unless otherwise stated, the key performance figures and other disclosures contained in this report relate to the 2014 fiscal year.

In order to help readers identify and interpret trends relating to quantitative disclosures, the report includes data for at least the last two years.

Notes to the Consolidated Financial Statements and Group Management Report

The Consolidated Financial Statements have been prepared in accordance with International Financial Reporting Standards ("IFRS").

The Group Management Report has been prepared in accordance with sections 315 and 315a of the German Commercial Code ("HGB") and in accordance with German Accounting Standard ("DRS") 20. Disclosures with respect to the compensation of members of the Management Board are provided in accordance with DRS 17 (which sets out the requirements for reporting on the remuneration of members of governing bodies) and in addition based on the model tables recommended by the German Corporate Governance Code.

KPMG AG Wirtschaftsprüfungsgesellschaft, Munich, has audited the Consolidated Financial Statements prepared in accordance with IFRS and the Group Management Report for the fiscal year ended September 30, 2014 and has issued an unqualified audit opinion thereon.

P see page 271

Sustainability Reporting

The non-financial performance figures and other disclosures contained in this combined report have been prepared on the basis of the G3.1 Guidelines of the Global Reporting Initiative ("GRI") and can be found in the Group Management Report. The GRI has confirmed that this report fulfills the requirements at the Application Level B+.

P see page 288

The information contained in the Infineon Annual Report 2014 also serves as "Communication on Progress" for the United Nations Global Compact.

Infineon engages in continuous dialog with its stakeholders. We assess sustainability topics on the basis of a materiality analysis, the results of which are used to identify and prioritize topics for inclusion in this report. The topics resulting from the analysis can be found in the chapter "Sustainability at Infineon".

P see page 83

In addition to the statutory audit of the Group Management Report, KPMG AG Wirtschafts-prüfungsgesellschaft, Munich, has provided independent assurance ("limited assurance") on the sustainability performance information provided in the chapter "Sustainability at Infineon" in accordance with the International Standard for Assurance Engagements ISAE 3000 and ISAE 3410, the pertinent standards for assuring sustainability information.

P see page 82 ff.

The Independent Assurance Report issued by KPMG AG Wirtschaftsprüfungsgesellschaft, Munich, as well as the explanatory notes to the key performance figures and other disclosures provided in the chapter "Sustainability at Infineon" of the Annual Report 2014 can be found on Infineon's website.

@ www.infineon.com/csr_reporting

CONTENT

GROUP MANAGEMENT REPORT

114 Our 2014 fiscal year

CONSOLIDATED FINANCIAL STATEMENTS

270 Further Information

LETTER TO SHAREHOLDERS

Neubiberg, November 2014

Dear shareholders and business partners,
dear Infineon colleagues,

The 2014 fiscal year was a highly successful one for Infineon. First, this is evidenced by our financial performance indicators. Revenue grew by 12 percent, the Segment Result jumped by 64 percent, the share price rose by 11 percent and the dividend – based on the proposal of the Management Board and the Supervisory Board – is set to increase from 12 cents to 18 cents per share. Perhaps even more important evidence lies in the fact that we are beginning to reap the benefits of the strategic groundwork laid in recent years. With growing capacity utilization levels at our 300-millimeter manufacturing facilities, we will benefit greatly from economies of scale and therefore significantly reduce unit costs. In addition our strategic approach “Product to System” is helping us generate economies of scope from our considerable technological and product expertise and develop the right technologies for the needs of today, tomorrow and beyond. Furthermore, the upcoming acquisition of International Rectifier adds additional impetus to both of these approaches, while at the same time leveraging the financial flexibility made possible by our healthy balance sheet. Thus, at Infineon, we are committed to “Systematic Growth” in a whole host of ways.

Systematic growth

What precisely do we mean by “systematic growth”?

This means being present systematically in the markets that promise us good growth opportunities. We provide solutions to the challenges arising from key global issues – energy efficiency, mobility and security – all of which are generating unabated demand for our products. The main competitive factors are the ability to deliver technologically outstanding products and to achieve the right price/performance ratio for the customers, which suits a company like Infineon with its high degree of innovative strength and technological expertise.

DR. REINHARD PLOSS, Chief Executive Officer

“Systematic growth” also includes our systematic commitment to 300-millimeter technology for manufacturing, despite the continued need for a high level of upfront investment. Once we will have reached full capacity utilization, our product unit costs will be 20 to 30 percent below those of the previously mainstream 200-millimeter wafers. It makes strategic sense for us to push ahead with this manufacturing technology, as so far we are the only manufacturer with the technological expertise to implement it. Even more important, however, is that we alone have the manufacturing volume for power semiconductors needed to ramp a plant such as our 300-millimeter facility in Dresden (Germany) at sufficient speed to make it cost-efficient and earn an attractive Return on Capital Employed. Volume production has now started and the key technologies have received the necessary customer approvals. Even if reaching full capacity utilization will still take several years, we will be able to take full advantage of the cost benefits of this technology. We are just beginning to drive these economies of scale.

“Systematic growth” is also a key factor in Infineon’s research and development activities, where we are applying our strategic approach “Product to System”. Thinking in terms of system helps us understand the factors that fuel the success of our customers and their markets, and enables us to generate added value as well as identify new market trends at an early stage. “Product to System” allows us to apply our extensive product and process technologies more effectively across our markets. We can help our customers solve their problems and suggest solutions that can make them even more successful. The needs of each customer and market differ: greater efficiency, lower costs, shorter development times or completely different approaches to finding solutions. “Product to System” is the strategic radar we employ to improve existing products and engage in markets with entirely new product requirements. With this approach, we develop innovative products with sustainable competitive advantages or connect various components from our technology portfolio to pave the way for new solutions – flexibly and purposefully – with little additional expense. Thus we not only create added value for our customers, but also generate an adequate margin for our business. This is how we achieve economies of scope.

The contract signed on August 20, 2014 to acquire the US semiconductor manufacturer, International Rectifier, perfectly complements our overall strategy. After completion of the planned acquisition, we will transfer production of some of International Rectifier's products to our own plants, in particular to our 300-millimeter facilities in Dresden (Germany) and Villach (Austria). The additional production volume will enable us to reach certain unit-cost milestones earlier than would have been possible otherwise. The products of both entities will become more competitive as a result of achieving these economies of scale. In addition, International Rectifier's strengths lie mainly in the processes, products, regions and distribution channels in which we tend to be less represented. Combining the strengths of International Rectifier systematically with our own, we are set to achieve further economies of scope.

All of these factors give us good reason for continued confidence. On average, we intend to grow at an annual rate of 8 percent over the cycle, thereby generating a Segment Result Margin of 15 percent – quite systematically.

Running the business on a sustainable basis

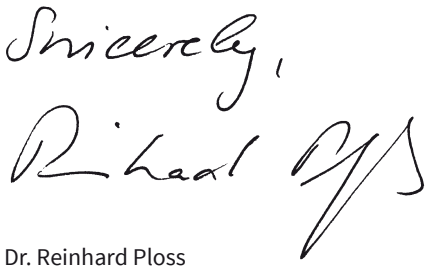
In addition to "systematic growth" in revenue and earnings, we also systematically reflect on how to operate our business on a sustainable basis. We see sustainability as leaving behind a world worth living in – for our children and our grandchildren. Thus, sustainability is as much at the center of our actions as achieving economic targets. For example, our products and innovations give rise to a saving of around 14.4 million metric tons of CO_2 during the life cycle of an application – a considerable net reduction beyond the CO_2 emissions generated during the manufacture of these products. In recognition of our efforts, in the 2014 fiscal year we were listed in the prestigious Dow Jones Sustainability Index for the fifth year in succession.

Our thanks to Infineon's employees

Together we have made remarkable achievements in the past few years. We have increased revenue and earnings, brought 300-millimeter technology to the market and raised Infineon to a new level with our strategic approach "Product to System". All of this was achieved by the employees at Infineon. The Management Board wishes to express its wholehearted thanks to you all. In the coming years we will be reaping the benefits of the groundwork laid for 300-millimeter technology and "Product to System" and we add to our strength by integrating International Rectifier into the Infineon family. In order to do so, we continue to rely on the motivation, dependability and skills of our workforce.

Expectations for the 2015 fiscal year

What awaits us in the 2015 fiscal year? Orders received and order backlog developed well during the 2014 fiscal year. Business will, however, be affected by the usual seasonal slowdown at the beginning of the fiscal year. If the underlying sentiment in the global economy remains positive, we expect – based on an assumed exchange rate of US$1.30 to the euro – year-on-year revenue growth in the current fiscal year of 8 percent, plus or minus 2 percentage points. For the mid-point in this range, we forecast a Segment Result Margin of approximately 14 percent. This does not take into account any additional contributions to revenue and earnings from International Rectifier following the acquisition, probably at the end of the 2014 calendar year or at the beginning of 2015. We hope that all of you will accompany us on this journey.



Dr. Reinhard Ploss
Chief Executive Officer

THE MANAGEMENT BOARD

DR. REINHARD PLOSS
Chief Executive Officer (CEO),
Labor Director

Doctorate in chemical engineering (Dr.-Ing.);
Member of the Management Board
since June 2007

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

DOMINIK ASAM
Chief Financial Officer (CFO)

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

» Our strategic approach “Product to System” is proving its worth. We are making our customers more successful and are developing the right technologies for today, tomorrow and beyond. «

DR. REINHARD PLOSS

» The integration of International Rectifier will bring together the combined forces of two successful companies and enable us to extend our competitive lead. «

ARUNJAI MITTAL

» We are now reaping the benefits of the strategic groundwork performed in recent years and are generating sustainable, profitable, systematic growth. «

DOMINIK ASAM

REPORT OF THE SUPERVISORY BOARD TO THE ANNUAL GENERAL MEETING

The 2014 fiscal year was once again a highly successful one for Infineon. Under the three banners of energy efficiency, mobility and security, Infineon's focus of activities remains very much on the key trends shaping the future. With unwavering innovative strength, Infineon is serving these trends and remains firmly on track for sustainable growth. This strategy benefits not only Infineon's customers and employees, but also you as its shareholders. Indeed, Infineon's inclusion in the Dow Jones Sustainability Index for the fifth year in succession demonstrates that economic success and growth on the one hand and sustainability on the other are eminently compatible aims – a further trend which Infineon is not only following, but also playing a decisive role in shaping.

During the year under report, the Supervisory Board again performed all of the duties incumbent upon it, in a highly conscientious manner and in accordance with the law, the Company's statutes, and its own terms of reference. It assisted the Management Board in an advisory capacity, continually monitoring its governance of the enterprise. At the ordinary meetings of the Supervisory Board and its committees, the Management Board reported in depth on Infineon's financial condition and business performance. The Management Board discussed strategies and any major specific measures with the Supervisory Board. Legal transactions requiring approval were submitted to the Supervisory Board, the most important of these, of course, being the acquisition of International Rectifier. The Supervisory Board was always given ample opportunity to thoroughly examine any reports and resolutions proposed by the Management Board. In this context, it undertook the measures necessary to assure itself that the governance of Infineon's affairs was lawful, compliant and appropriate.

The Supervisory Board was regularly informed by means of written quarterly reports on topics that included business performance in the previous quarter, financial data, risks and opportunities, significant issues and major areas of litigation. Between quarterly reports, the Management Board also informed the Supervisory Board of current developments in the form of reports presented on a monthly basis.

The Chairman of the Supervisory Board, the Chairman of the Investment, Finance and Audit Committee and the Chairwoman of the Strategy and Technology Committee were in continual contact with the Management Board. In addition, the Chairman of the Supervisory Board was informed by the Chief Executive Officer without delay of any events of significance to Infineon.

WOLFGANG MAYRHUBER, Chairman of the Supervisory Board

Main activities of the Supervisory Board

The full Supervisory Board held five ordinary meetings and three extraordinary meetings during the 2014 fiscal year. The ordinary meetings were attended by all members of the Supervisory Board. One shareholder representative was unable to participate in two of the three extrordinary meetings, which were held in the form of telephone conferences, and was excused accordingly. Attendance at the meetings of the full Supervisory Board was therefore at a level of 97.9 percent. The Supervisory Board committee meetings were in each case attended by all their respective members.

Current situation, business performance and strategy

The Management Board reported regularly to the Supervisory Board on Infineon's current situation, particularly the market situation, significant transactions and key financial performance indicators. It also provided in-depth assessments of Infineon's business performance. The Supervisory Board was also kept up to date regarding production capacity utilization issues as well as current and planned investments. Infineon's financial and investment budget (including the overall investment budget) for the 2014 fiscal year, as presented by the Management Board, was approved at the Supervisory Board meeting held on November 19, 2013 and a borrowing limit was set.

Even though the various facets of business strategy are a regular item on the agenda for its meetings, the Supervisory Board sets great store in dealing once a year – exclusively and in-depth – with strategic aspects. At the meeting held on August 4, 2014, detailed discussions were therefore held on Infineon's future – ranging from general trends in its business segments, specific growth potential in new markets through to the implementation of the strategic approach "Product to System".

The strategic discussions conducted by the Management Board and the Supervisory Board included, as usual, the question of the extent to which, alongside organic growth, acquisition and participation in other business entities could constitute an appropriate instrument to implement Infineon's strategy. These discussions were stepped up during the 2014 fiscal year and various acquisition opportunities carefully analyzed by the Management Board. During several Supervisory Board meetings, the Management Board reported on its findings and the progress in discussions. These finally led to the Management Board deciding in favor of a takeover of the US semiconductor manufacturer International Rectifier. During various Supervisory Board meetings, detailed reports were given on this plan and its inherent opportunities and risks, and explanations provided on why the acquisition is a logical step for Infineon and its shareholders. The Supervisory Board shares the opinion of the Management Board that the takeover of International Rectifier will boost Infineon's competitiveness. It therefore approved the acquisition plan at an extraordinary meeting held on August 19, 2014.

Capital repayment and dividend strategy

Both the Supervisory Board and the Management Board are convinced that the shareholders, as owners of Infineon, should participate appropriately in its economic success. Against this background, the Supervisory Board approved the new capital repayment program during the year under report. It also supports the Management Board's dividend strategy, based on a future lower investment intensity and which already envisages payment of a higher dividend for the 2014 fiscal year than in previous years.

Personnel matters

At its meeting on February 13, 2014, the Supervisory Board decided to extend Mr. Mittal's first term of office as member of the Management Board by five years, and, accordingly, to extend his service contract through December 31, 2019.

Moreover, the Supervisory Board reached agreement in spring that Dr. Ploss' term of office as member of the Management Board, Chief Executive Officer and Labor Director – due to expire on September 30, 2015 – should be extended by five years, and hence through September 30, 2020, and that his service contract should be extended accordingly. The formal resolution to this end was passed at the Supervisory Board meeting held on November 17, 2014.

These two personnel decisions were taken by the Supervisory Board in consideration of the outstanding work of Dr. Ploss and Mr. Mittal on Infineon's Management Board and reflect our commitment to continuity.

Management Board compensation

The German Corporate Governance Code (Deutscher Corporate Governance Kodex) recommends that the Management Board compensation system should be subject to regular review. This review was last conducted during the 2012 fiscal year. During the year under report, the Supervisory Board again assigned the task of reviewing Infineon's compensation system to an independent external compensation expert. The review was set in motion at the beginning of the 2014 fiscal year with the identification of a so-called "peer group". Companies comparable to Infineon were selected, thus providing a basis for assessing whether the compensation of the Infineon Management Board is consistent with current market practice. The Executive Committee dealt with this aspect of the review during its meetings held on October 28, 2013 and on April 23, 2014. The actual assessment of appropriateness was then performed on this basis.

The compensation expert came to the conclusion that the compensation system complies with both the legal requirements and the recommendations set out in the Code. In particular, it was concluded that the Management Board compensation is commensurate with market conditions and appropriate and that the variable compensation is oriented toward sustainable growth of the enterprise. The results of the compensation expert's review, presented in a final report in autumn, were then discussed in detail during the Executive Committee meeting held on October 23, 2014 and by the full Supervisory Board on November 17, 2014. The Supervisory Board concurs with the opinion of the compensation expert.

In addition to the Management Board compensation system, the Supervisory Board also regularly reviews the target annual incomes of the individual active members of the Management Board. This review, which was conducted in spring 2014, concluded that – in comparison with other enterprises – there is a need for action. In reaching this conclusion, the Supervisory Board also considered the provisional results of the external compensation expert's review of the Management Board compensation, which was still in progress at that time. At its meeting held on May 6, 2014, the Supervisory Board decided on a moderate increase to the Management Board compensation as of October 1, 2014. The aforementioned final report of the compensation expert, presented in autumn, takes this increase into account and therefore confirmed its appropriateness.

Detailed information concerning the Management Board's compensation is provided in the Compensation Report. P see page 177 ff.

Litigation

The Supervisory Board was kept well informed of the progress of major legal disputes during the 2014 fiscal year, consulting with the Management Board and deliberating internally about subsequent strategy. The principal matters to be dealt with were the antitrust proceedings instigated by the EU Commission against Infineon and other chip card manufacturers and disputes with the insolvency administrator managing the assets of Qimonda AG. During an extraordinary meeting held on September 8, 2014, the Supervisory Board discussed in detail a partial settlement negotiated between Infineon and the insolvency administrator to settle all litigation – with the exception of the pending court proceedings on the activation of a shell company and the liability for impairment of capital – and the acquisition of all patents belonging to Qimonda AG, and gave its approval to this.

Corporate governance

The Supervisory Board continues to follow closely the development of corporate governance standards within Infineon, focusing in particular on the implementation of the recommendations of the German Corporate Governance Code.

Declaration of Compliance 2014

The Supervisory Board and the Management Board decided to issue the 2014 Declaration of Compliance – as in the two previous years – with a deviation from the Code's recommendation with respect to Supervisory Board compensation. The two boards continue to consider that the compensation regulation resolved at the Annual General Meeting adequately takes account of Infineon's long-term success. With the exception of the recommendation with respect to Supervisory Board compensation, Infineon complies with all recommendations contained in the Code. The most recent Declaration of Compliance was published on the Company's website in November 2014.

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

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 latest efficiency review took place in summer 2014. The members of the Supervisory Board were requested to complete a questionnaire, which had proven its worth in the previous reviews, to provide critical feedback on their work and the level of cooperation between the two boards. The results of this survey were subsequently discussed at the meeting of the Supervisory Board on August 5, 2014. No significant shortcomings were identified.

Potential conflicts of interest

No conflicts of interest arose among the members of either the Management Board or the Supervisory Board in the 2014 fiscal year. Nevertheless, brief reference is made to the following facts:

In 2010, a contract was concluded with the Technical University of Munich (in this instance the chair held by Prof. Dr. Schmitt-Landsiedel) on development services for the Automotive segment. Under the German Stock Corporation Act (Aktiengesetz), service and work contracts between the company and a member of the Supervisory Board require the approval of the Supervisory Board. Even though the contract to which reference is made was not concluded with Prof. Dr. Schmitt-Landsiedel personally, the Supervisory Board approved the contract as a precaution. The contract expired at the end of September 2013. At its meeting of May 6, 2014, the Supervisory Board gave its agreement to the continuation of cooperation arrangements.

In 2011, a consultancy contract was concluded with former member of the Supervisory Board Prof. Dr. Wucherer. The advisory mandate ended on December 31, 2013.

The German Corporate Governance Code requires prior approval to be given by the Supervisory Board before members of the Management Board take on mandates on external supervisory boards. In the year under report, the Supervisory Board gave its approval to Mr. Mittal's mandate on the supervisory board of tesa SE. Conflicts with Infineon's interests do not arise from holding this mandate.

P see page 167 ff.

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

Composition of the Supervisory Board

During the year under report, changes were made to the composition of the Supervisory Board. Mr. Eibl, who as employee representative was already a member of the Supervisory Board since the beginning of 2000, retired at the close of March 31, 2014 and therefore also resigned from the Supervisory Board. The Supervisory Board would like to express its thanks to Mr. Eibl for his many years of committed, constructive cooperation and wishes him all the best for this new stage in his life.

As employee-elected alternate member, Mr. Gottinger has automatically succeeded Mr. Eibl on the Supervisory Board. The Supervisory Board elected Mr. Gottinger to the Strategy and Technology Committee and Mr. Scholz to the Mediation Committee to fill the vacant positions on these committees resulting from Mr. Eibl's retirement.

Report on the work of the Supervisory Board's committees

As in the previous fiscal year, the Supervisory Board has five committees. The first two of these are the Nomination Committee and the Mediation Committee pursuant to section 27, paragraph 3 of the German Co-Determination Act. The remaining committees are the Executive Committee, the Investment, Finance and Audit Committee, and the Strategy and Technology Committee. The committees draw up resolutions or prepare topics that are required 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. The chairpersons of each committee routinely 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. Mr. Mayrhuber remains Chairman of the Nomination Committee, the Mediation Committee and the Executive Committee, and Dr. Sünner Chairman of the Investment, Finance and Audit Committee. Prof. Dr. Schmitt-Landsiedel continues to serve as Chairwoman of the Strategy and Technology Committee.

Nomination and Mediation Committee

The Nomination Committee convened once during the year under report in order to discuss the election of the shareholder representatives to be held at the 2015 Annual General Meeting and the nominations necessary for this purpose. It was also necessary to take account of the fact that the Supervisory Board will in future be increased from 12 to 16 members. The underlying reason is the growth in size of the workforce at Infineon's German companies to over 10,000 employees on average: In this case, the German Co-Determination Act requires the Supervisory Board to be composed of 16 members.

The Mediation Committee did not need to convene.

Executive Committee

The Executive Committee convened for one ordinary and two extraordinary meetings during the year under report, with both of the extraordinary meetings taking place in the form of telephone conferences.

The focus of meetings was on preparing the resolutions relating to Management Board compensation, namely the assessment of appropriateness on the one hand and the increase in the compensation of the active members on the other.

The committee also drew up resolutions for the full Supervisory Board with respect to the extension of Mr. Mittal's term of office and the intended extension of Dr. Ploss' term of office on the Management Board and to determining the level of variable compensation to be given to the members of the Management Board. Important aspects of this work were to determine the degree to which targets for the 2013 fiscal year were achieved and to set new target levels for the 2014 fiscal year.

Investment, Finance and Audit Committee

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

Its activities centered on monitoring the financial reporting process, reviewing the half-year and quarterly financial statements, conducting the preliminary audit of the separate financial statements, consolidated financial statements and Management Report of Infineon Technologies AG and of the Infineon Group, and discussing the audit report with the auditor. Another important task was to examine and discuss Infineon's financial and investment plans and to set a borrowing limit for the 2014 fiscal year. The committee also considered the effectiveness of the internal control system, internal audit system and risk management system. The Compliance Officer reported regularly to members of the committee. The committee was also kept informed about significant litigation matters, in particular with regard to the antitrust proceedings instigated by the EU Commission against Infineon and other chip card manufacturers and the disputes with the insolvency administrator managing the assets of Qimonda AG.

Other duties performed by the committee included specifying key areas to be examined by the external auditor, monitoring the auditor's independence and considering the additional services performed by the auditor. The committee prepared the Supervisory Board's proposal to the Annual General Meeting regarding the selection of the auditor to audit the separate and consolidated financial statements and to review the half-year financial statements. It subsequently engaged the auditor to perform these tasks and, in addition, to review the quarterly financial statements. The relevant fee arrangements were also considered.

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

Strategy and Technology Committee

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

The committee received detailed reports with respect to the Automotive and Industrial Power Control segments. It also looked in depth at technological and manufacturing strategies as well as at the corresponding roadmaps. The committee also considered a host of other issues, such as recruitment at Infineon.

Company and Consolidated Financial Statements

KPMG AG Wirtschaftsprüfungsgesellschaft, Munich, audited the separate financial statements of Infineon Technologies AG and the consolidated financial statements as of September 30, 2014 as well as the Management Report of Infineon Technologies AG and that of the Infineon Group and issued unqualified audit opinions. The half-yearly and quarterly 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 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 11, 2014. At the meeting, the aforementioned committee resolved to propose approving 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 meeting of the Supervisory Board held on November 17, 2014. At the meeting of the Supervisory Board held on November 26, 2014, the financial statements were examined thoroughly in the presence of the auditor and scrutinized by the Supervisory Board to ensure, in particular, that they were lawful, compliant and adequate.

At the aforementioned Supervisory Board meeting, the scope, key areas and cost of the audit were also reported on, and the risk management system was explained. The Management Report of Infineon Technologies AG as well as that of the Infineon Group were also examined and found, in the opinion of the Supervisory Board, to be consistent with legal requirements. 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 unappropriated profit, which provides for a dividend of €0.18 per qualifying share.

The result of the audit is that the Supervisory Board has no objections to the financial statements and the audit performed by the auditor. The Supervisory Board therefore concurred with the results of the audit on November 26, 2014 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 would like to express its thanks to the Management Board and to the entire staff for their outstanding commitment and excellent achievements in the 2014 fiscal year and to the employee representatives for their valued cooperation.

Neubiberg, November 2014
On behalf of the Supervisory Board

Wolfgang Mayrhuber
Chairman of the Supervisory Board

GROUP MANAGEMENT REPORT

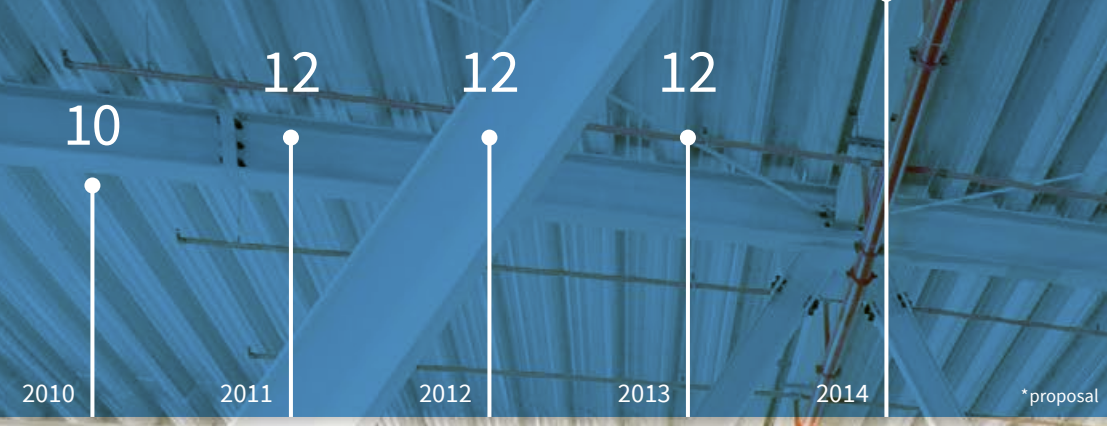
The Infineon Group

This report combines the Group Management Report of the Infineon Group ("Infineon" or "Group"), 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 Preparation) and note 2 (Summary of Significant Accounting Policies) to the Consolidated Financial Statements. The Group Management Report contains forward-looking statements about the business, financial performance 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 developments 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.

FINANCES AND STRATEGY

The expected reduced investments in proportion to revenue allow for a proposal of a dividend of €0.18 per share to the Annual General Meeting for the 2014 fiscal year.

Dividend per share for the fiscal years 2010 to 2014 in €-cent



STRONG 2014 FISCAL YEAR

- Revenue and Segment Result exceed expectations
- Capital returns: €164 million returned or distributed to capital markets in the 2014 fiscal year
- Lower capital intensity enables payment of significantly higher dividend for the 2014 fiscal year

Revenue and earnings better than originally expected

At the beginning of the 2014 fiscal year, based on an assumed exchange rate of US$1.35 to the euro, Infineon forecast a rise in revenue of between 7 and 11 percent compared with the previous year. Despite a slight fall in segment revenue in the first quarter compared to the fourth quarter of the 2013 fiscal year, all segments were able to increase revenue over the course of the 2014 fiscal year. Actual revenue was slightly higher than forecast, thanks in particular to the strong performances of the Automotive and Industrial Power Control segments. Overall, revenue of €4,320 million was recorded for the 2014 fiscal year, a 12 percent increase on the previous year's figure of €3,843 million. (For the revenue by segment in the 2014 fiscal year, see graph 03).

The Segment Result in the 2014 fiscal year amounted to €620 million and was, therefore, 64 percent up on the previous fiscal year's figure of €377 million. The Segment Result Margin came in at 14.4 percent, compared with 9.8 percent one year earlier. Here too, Infineon was slightly ahead of the range of between 11 and 14 percent forecast at the beginning of the 2014 fiscal year.

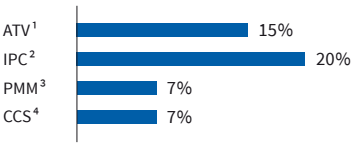
Net income, earnings per share, free cash flow, Return on Capital Employed and cash position increased

The sharp rise in Segment Result also contributed to a significant increase in net income, which, at €535 million for the 2014 fiscal year, was 97 percent higher than one year earlier (€272 million).

Basic and diluted earnings per share amounted to €0.48 in both cases for the 2014 fiscal year and were, therefore, 92 percent higher than the previous year's figure of €0.25 each.

G 02

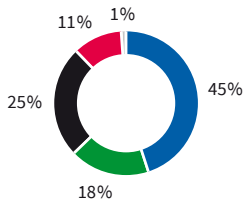
Revenue development of the individual segments in the 2014 fiscal year compared to the previous year



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

G 03

Revenue by segment in the 2014 fiscal year



- Automotive: €1,965 million
- Industrial Power Control: €783 million
- Power Management & Multimarket: €1,061 million
- Chip Card & Security: €494 million
- Other Operating Segments, Corporate and Eliminations: €17 million

P see page 80

Free cash flow from continuing operations (for definition: see the chapter "Internal Management System") totaled €317 million in the 2014 fiscal year, an increase of 35 percent compared to the €235 million generated one year earlier. This significant improvement came about primarily as a result of a sharp rise in net cash provided by operating activities from continuing operations. At €988 million, the amount generated in the 2014 fiscal year was 62 percent up on the previous year (€610 million) and well in excess of the €668 million invested in intangible assets and property, plant and equipment, which itself represented a significant increase compared to the previous year (€378 million).

The Return on Capital Employed (RoCE) in the 2014 fiscal year amounted to 20.3 percent and was thus well up on the previous year's figure of 14.1 percent. The steep rise was attributable to significantly improved operating income from continuing operations after tax, whereas the capital employed increased only moderately. (For a definition of, and details relating to, the calculation of RoCE, see the chapters "Internal Management System" and "Review of financial condition".)

P see page 80
P see page 125

P see page 81

The gross cash position (for definition: see the chapter "Internal Management System") totaled €2,418 million as of September 30, 2014, 6 percent higher than the previous year's reported figure of €2,286 million. The positive free cash flow from continuing operations contributed to an increase in the gross cash position, whereas the payment of the dividend for the 2013 fiscal year and repurchases of the convertible bond due 2014 worked in the opposite direction. The net cash position (for definition: see the chapter "Internal Management System") increased by 13 percent to stand at €2,232 million at the end of the reporting period (September 30, 2013: €1,983 million). The main positive impact came from the decrease in financial liabilities as a consequence of the conversion of the remaining part of the convertible bond due 2014 since there was no corresponding cash outflow.

P see page 81

Significantly higher dividend payment planned for the 2014 fiscal year; new capital returns program started

In line with our dividend policy, which is aimed at enabling shareholders to participate appropriately in growing earnings or, in times of flat or declining earnings and/or with negative free cash flows, to at least keep the dividend at a constant level, once again we maintained the dividend for the 2013 fiscal year at a stable level of €0.12 per share. On February 14, 2014, one day after the Annual General Meeting, a total amount of €129 million was disbursed to the shareholders.

A proposal will be made to the shareholders at the Annual General Meeting on February 12, 2015 for a dividend payment of €0.18 per share, 50 percent higher than one year earlier (see graph on page 22). The increase is possible as a result of the sustained improvement in free cash flow that will result from reducing the target ratio for investments as a percentage of revenue over the economic cycle from previously approximately 15 percent to approximately 13 percent in the future. For further information on the reduction of capital intensity and its drivers, please see the chapter "Group strategy".

P see page 22

P see page 36

On November 19, 2013 the Supervisory Board authorized a new capital returns program for an amount of up to €300 million, which can be used up to September 30, 2015. Infineon started to make use of this program in December 2013 and, during the 2014 fiscal year, repurchased parts of the convertible bond due 2014 with a nominal value of €11 million for €35 million and issued put options on 14 million Infineon shares (of which put options on 8 million shares expired prior to the end of the 2014 fiscal year).

Developments in the semiconductor industry during the 2014 fiscal year

Infineon recorded a revenue growth of 12 percent in the 2014 fiscal year compared to one year earlier. During the same period, semiconductors with a value of US$328 billion were sold worldwide (2013: US$300 billion), corresponding to an increase of 9.3 percent (source: WSTS, November 2014). The worldwide semiconductor sales by region are as follow: the largest market now is China, which accounts for 27.9 percent of sales (US$91 billion). 11.4 percent (US$37 billion) of all semiconductors were sold in Europe. Germany accounts for 4.6 percent of sales (US$15 billion), putting it in seventh place worldwide.

The growing importance of China is also reflected in the regional split of Infineon's revenue. For the first time ever, China was the country with highest revenue accounting with €868 million (20 percent of revenue) just ahead of Germany with €859 million (20 percent of revenue as well).

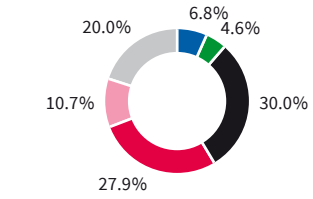
The German semiconductor industry is characterized by strong demand from the automotive and industrial electronics sectors. In the 2013 calendar year, the automotive electronics sector on its own accounted for approximately 40 percent of all semiconductors sold in Germany (source: ZVEI). Two of the world's largest automotive suppliers, Bosch and Continental, are based in Germany. The machinery industry is similarly important in Germany. In the 2013 calendar year, the industrial electronics sector accounts for approximately 25 percent of all semiconductors sold in Germany (source: ZVEI). As a result of its history, its customer base and its product portfolio, Infineon is a major supplier to both of these key industries in Germany.

China has completely different industrial structures. The market there is dominated by contract manufacturers – also known in this sector as EMS (Electronic Manufacturing Services) – which manufacture electronic products predominately for Western customers. This business model plays an important role particularly in the consumer electronics sector, as reflected in the comparatively high proportion of sales revenue generated in the Asia-Pacific region, in particular by our Power Management & Multimarket segment.

The semiconductor market is highly fragmented. According to calculations of the market research firm IHS Inc., the world's largest semiconductor manufacturer, Intel – with annual revenue of US$47 billion – accounted for 14.5 percent of the world market in the 2013 calendar year. Infineon achieved 12th place with revenue of US$5.2 billion, corresponding to a 1.6 percent share of the world market.

G 04

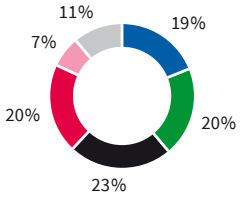
Worldwide Semiconductor revenue by region in the 2014 fiscal year (adjusted to the Infineon fiscal year)



Source: WSTS, November 2014

G 05

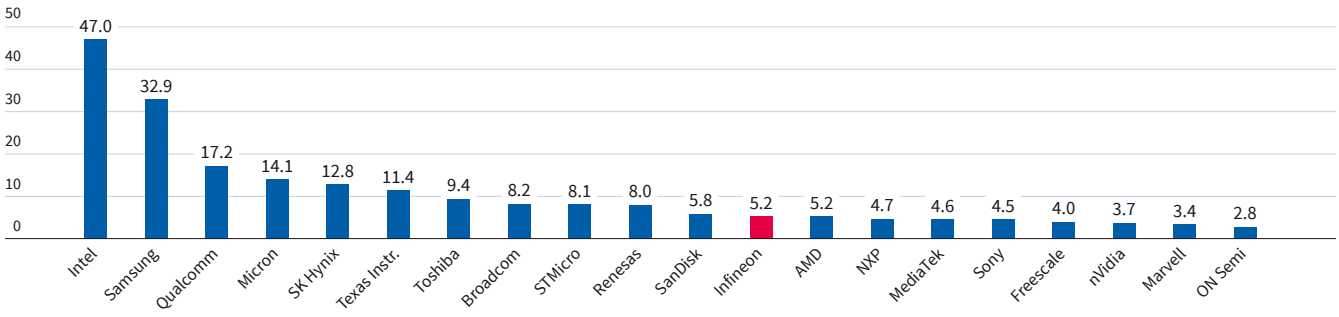
Infineon revenue by region



G 06

Top 20 semiconductor manufacturers for 2013 calendar year

Revenue in billion US$



Source: IHS Inc., "Annual 2001 to 2013 Competitive Landscaping Tool", Q3 2014 updated, August 2014

GROUP STRATEGY

The three global megatrends – energy efficiency, mobility and security – not only remain pertinent, but have also gained in importance in the recent years, and continue to offer enormous growth potential. This is where we see our chance: by embracing innovation and achieving the right combination of costs and benefits, not only by offering the lowest prices possible. This insight opens up a wealth of opportunities to a player with our innovative strength and technological expertise to exploit its areas of differentiation in the market. If we fully capitalize on these opportunities, we will be able to achieve sustainable and profitable growth. We have fought our way into a leading position in many of the markets in which we operate. It is now up to us to hold on to or extend that lead. As in the past, we want our customers to think of Infineon first when it comes to solving problems and implementing ideas for the future. With this in mind, it is our aim to grow at least as fast as our markets. This desire is reflected in our growth target: We intend to continue to achieve an annual average revenue growth rate of 8 percent.

However, growth is only one of the prerequisites for achieving success on a sustainable basis. The other is profitability. In this respect, the margin achieved by our products is a good indicator of the added value these products create for our customers. In order to work at sustainable levels of profitability, we have to direct our development efforts precisely to the areas which generate the greatest benefits for our customers. In addition, we want to be able to maintain our development efforts at a high level also in more challenging market environments. For the ability to do so will help secure sustainable competitive advantages. However, in order to have this ability also in more challenging market phases, requires solid profitability during the good times. An appropriate level of profitability, therefore, reflects the efficient use of our resources on the one hand and is the prerequisite for achieving long-term competitive advantages on the other. With our 300-millimeter technology, we intend to use our size to realize economies of scale. With our strategic approach “Product to System”, we aim to identify and exploit market opportunities to translate our broad technological and product expertise into competitive advantages and ensure that we develop the right technologies and expertise for the future. In this way, we realize economies of scope. We are, therefore, confident that we will be able to generate the right level of profitability in the long term: our goal is to achieve an average Segment Result Margin of 15 percent over the economic cycle.

In order to grow profitably, we have to invest. In order to employ our resources in an optimal way, we only invest in manufacturing facilities, where it makes a significant contribution towards differentiating our products from those of the competition. At the same time, we are keen to achieve as much growth as possible in return for a given investment budget. One good example of this is Infineon’s development of 300-millimeter technology for power semiconductors. Compared to 200-millimeter technology, 300-millimeter technology enables substantial productivity and output improvements for a given level of investment. By contrast, we have been able to generate growth without employing additional capital by outsourcing an increasing portion of our wafer processing (frontend) and component packaging (backend) to manufacturing partners. And last but not least, we are improving productivity across all manufacturing processes by achieving better yields. This is what we focus on with our “Next Level of Productivity” program. Taking all these factors into consideration, these various approaches are bringing us closer to the target of achieving an average ratio of investments to revenue over the economic cycle of 13 percent.

The planned acquisition of International Rectifier, announced on August 20, 2014, fits perfectly with the strategic principles stated above. The technologies and products offered by International Rectifier largely complement Infineon's range of technologies and products. Combining the research and development activities and technologies of the two Groups will enable us to achieve continued high levels of growth. Similarly, the sales and regional strongholds of International Rectifier complement Infineon's – a factor that will also help maintain the pace of growth. In terms of profitability, we will generate, at a minimum, our Segment Result target margin of 15 percent at International Rectifier in the second year after the transaction takes legal effect ("Closing") by achieving synergies in manufacturing as well as in the areas of research and development, sales and administration. In terms of investments, we will be able to bring International Rectifier into the Infineon organization without having to adjust our target level of keeping investments at 13 percent of revenue.

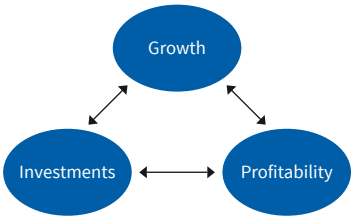
All of the strategic approaches described above are reflected in three financial targets which are key for Infineon's business:

- Our markets are growing and we are growing with them: at an average annual revenue growth rate of 8 percent.
- Having the right products for the customer and being able to continue to invest in difficult times: an average Segment Result Margin of 15 percent.
- "Systematic" investing helps preserve resources and differentiates us from the competition: investments at an average level of 13 percent of revenue.

Infineon's workforce is a crucial factor in implementing this strategy. We therefore pay great attention to appreciating the dedication and performance of our employees and to creating a corporate culture that encourages commitment and personal responsibility, builds trust and takes the interests of individuals into account. Our economic targets are also aligned with the social and ecological requirements in general, as we operate our business on a sustainable basis.

G 07

Growth, profitability and investments are interdependent

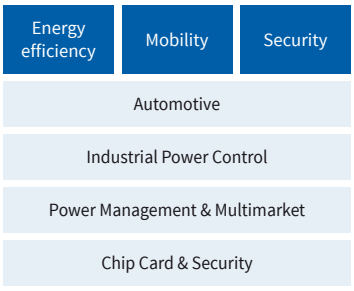


Our markets are growing and we are growing with them: at an average annual revenue growth rate of 8 percent

Infineon achieved a compound annual revenue growth rate of about 9 percent from fiscal year 1999 through 2014 with its current portfolio of products. We continue to operate in the same markets and, with our four segments, continue to focus on the three central challenges to modern society: energy efficiency, mobility and security. These focus areas are the source of the continued increase in demand for our products. We, therefore, expect that we will be able to achieve growth in line with our historic growth track record of about 8 percent per annum.

G 08

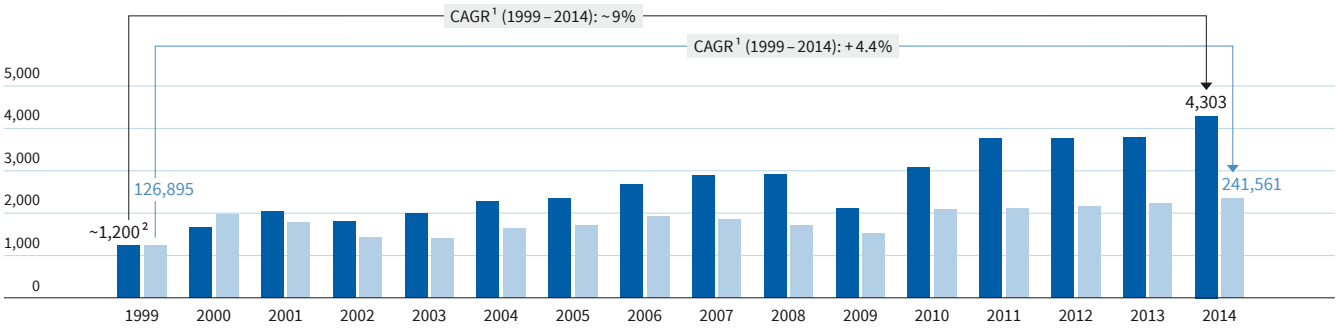
Infineon is focused with its four segments on the three central challenges to modern society



G 09

Revenue in the fiscal years 1999 to 2014 compared to the global semiconductor market

€ in millions



Revenue of Infineon based on today's portfolio (excl. Other Operating Segments and Corporate)
Semiconductor world market (adjusted to the Infineon fiscal year)

1 CAGR = Compound Annual Growth Rate

2 Based on market development assumptions the 1999 fiscal year's revenue figures for some smaller product categories have been derived from the 2000 fiscal year's revenue figures.

Source: Infineon; WSTS, November 2014

Energy efficiency as growth driver

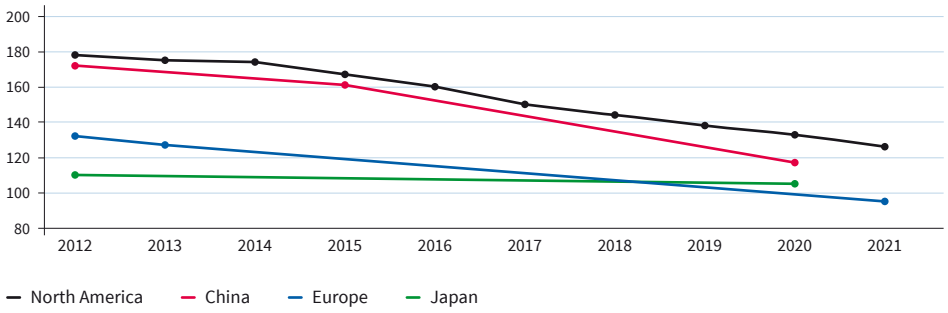
Unless CO_2 emissions are reduced further and unless vehicles, equipment and machinery are designed to become even more efficient in the future, it will not be possible to offset rising energy requirements sustainably, neither in economic nor ecological terms. Given that the best source of energy is to save energy, our focus is on making the generation, transmission and conversion of electrical energy more efficient. At the same time, our products are making a significant contribution to the process of moving away from fossil-based to renewable energy sources.

Regulatory requirements around the globe aimed at reducing CO_2 emissions in individual regions and/or countries have an impact on multiple industries, for example fuel consumption limits permitted for vehicles, the required degree of efficiency of electrical industrial motors, as well as on the targets set for expanding renewable energy sources. One example of this is the regulation approved by the European Commission in October 2013 requiring fleet average CO_2 emissions for passenger cars to be reduced from today's 130 grams of CO_2 per kilometer to 95 grams of CO_2 per kilometer by the year 2021. In order to achieve this target, electricity-consuming applications in cars will become more efficient, and hydraulic, mechanical and/or electromechanical solutions will be displaced by more efficient semiconductor-based solutions. Moreover, the proportion of electric and hybrid vehicles in car manufacturers' fleets will also increase. Both of these trends will result in a higher semiconductor content per vehicle, particularly in terms of power semiconductors, but also microcontrollers and sensors.

G10

Emission targets of different regions

in gram CO_2 per kilometer



Source: The International Council for Clean Transportation. www.theicct.org

Approximately two thirds of worldwide electricity consumption in industry is attributable to electric drives. The scope for leveraging savings through efficiency improvements is, therefore, substantial. The first phase of the EU Electric Motors Regulation (EC 640/2009) came into effect in 2011, stipulating a new efficiency level for the new electric industrial drives. The second phase commences in September 2015, the third in 2017. Similar regulations have already been approved for other regions.

One option to reduce the amount of energy consumed by an electric motor is to control the rotation speed electronically. Market penetration of electronic motor controls for variable speed drives is, therefore, set to increase. We will benefit from this trend: Controlling variable speed drives electronically requires a large number of power semiconductors of the type Infineon offers. The actual number and value depends on the motor's performance class. Infineon provides the right solutions for the full range.

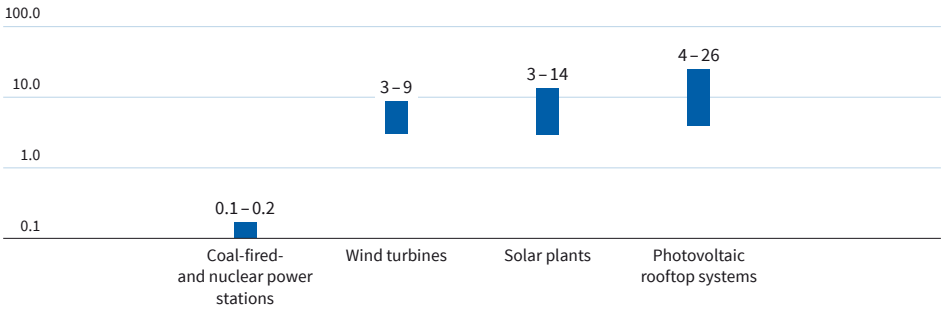
Another factor that will boost demand for our components is the need to raise productivity. This is not only relevant for developed countries, but also for countries with emerging economies. Unit labor costs – measured in labor costs in relation to productivity – play an important role in terms of an economy's international competitiveness. Rising wages do not have a negative impact on competitiveness as long as they can be compensated by corresponding productivity benefits. Advances in productivity are achieved among others by means of increased levels of automation. And for every robot, conveyor belt, lift, fan, pump or compressor built, there is an increasing number of electronically controlled electric motors required.

The world population is growing – and fortunately in most regions, the standard of living, too. All this is contributing to an increase in consumption of electric power. However, generation of electric power from fossil fuels on the same scale as in the past is not feasible either ecologically or economically. Europe, the U.S., China and Japan have, therefore, set targets for expanding renewable energy resources, in order to abate CO_2 emissions to the new target levels in the coming years. Infineon profits from the construction of wind and photovoltaic power stations. For each gigawatt of power generated, depending on the reference size, the need for power semiconductors is up to 50 times higher than for conventional power plants. In contrast to coal, gas or nuclear power plants, solar and wind power plants do not require a turbine, which – with its steady rotation – generates a constant 50-hertz alternating current, which can be fed into the grid directly. In the case of solar cells, the direct current initially generated needs to be converted to the grid's alternating current. The alternating current generated in the case of wind power plants also has to be brought into line with the grid current in terms of frequency, amplitude and phase. These transformations require a number of power semiconductors, in case of both solar as well as wind power plants. Thus, the drive for better energy efficiency and a reduction in CO_2 emissions is boosting demand for our products.

G 11

Value of power semiconductors (minimum to maximum) per gigawatt of electric power generated

€ in millions per gigawatt of electric power generated (logarithmic scale)

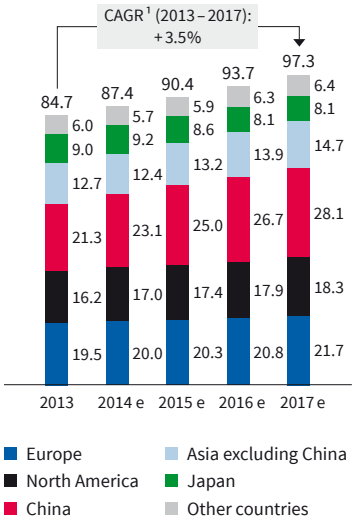


Source: Infineon

G 12

Expected worldwide car production by region

in million vehicles



1 CAGR = Compound Annual Growth Rate

Source: IHS Inc., "Annual Light Vehicle Production 2007 – 2019", October 2014

Growth trends in the field of mobility

Human mobility requirements represent a major challenge for modern society. This is true for both individual mobility and mass transit systems. Infineon supplies semiconductor solutions for the automotive industry as well as for various train systems, thus facilitating low-emission mobility of people within and between urban centers.

As a result of increasing prosperity in the emerging economies, more and more people are able to afford their own car. This trend is particularly evident in Asia's emerging economies and in particular in China. Local car markets and exporting countries all benefit from this trend. Overall, worldwide car production is expected to rise by an annual average rate of 3.5 percent in the period from 2013 to 2017.

In addition to the number of vehicles, the features built into the vehicles play a major role in determining the scale of demand for semiconductors and hence, the average semiconductor content per vehicle. An increase in features in vehicles can be observed across all regions. The migration of safety and comfort features from premium-class vehicles to mid-range vehicles is increasing the average semiconductor content per vehicle, and the emergence of new active safety features and advanced driver assistance systems is also playing its part. These systems are significantly more complex compared to the previous passive safety functions and, therefore, require a higher semiconductor content.

Safety standards for vehicles are constantly becoming more stringent. Car manufacturers are, therefore, adding more and more safety features to their vehicles, in order to, for example, receive the highly-sought-after five-star ranking issued in conjunction with the Euro NCAP (New Car Assessment Program). From 2016, the full number of points will only be attainable for vehicles with an active pedestrian protection system, which in many cases will involve deployment of a radar system.

Improved safety on roads benefits all road users. All countries are interested in bringing down the number of people involved in accidents. Rear-end collision accidents due to lack of concentration during monotonous journeys can be significantly reduced with the help of technical assistance. Automated driving in traffic jams on highways or in stop-and-go conditions in inner city areas during peak traffic hours can, therefore, be found on the wish list of many drivers. The likely outcome is that the market penetration of advanced driver assistance systems will increase.

About 90 percent of all automobile-related innovations during the past 20 years are related to electronics and software. Based on the assessment of market experts, the proportion is likely to stay at this high level in the coming years. Market researchers are predicting that rising safety and comfort requirements on the one hand and stricter CO_2 limits on the other will result in an average growth in semiconductor content per vehicle of approximately 2 percent per annum (source: Strategy Analytics). Combined with the effect of higher production volumes, the automotive semiconductor market is expected to grow at a rate of approximately 5 to 6 percent per year.

One of the consequences of industrialization is that more and more people are moving from rural areas to cities in order to reap the benefits of living and working in this environment. The resulting megacities are the growth engines for a whole region, as well as centers of productivity. All megacities are, therefore, confronted with the problem of ever-growing traffic volumes. Sustainable mobility both within and between the megacities is the driving force for the expansion of public transportation systems. Train systems – including high-speed trains, as well as metro, regional train and tram systems – are one of the fields of application benefitting from this trend.

Growth trends in the field of security

In the past, it was mainly end-user devices such as PCs, notebooks, smartphones and tablets that were linked to the information network. In the meantime, many more devices and functions have become integrated in what has become the "Internet of Things", a catchword for all "things" that are able to exchange data and work via the Internet. This includes machines, robots, vehicles, containers or medical equipment, as well as everything that is called "smart" these days: smart grid, smart factory, smart home, smart meter.

G see glossary, page 280

This means that it is not only people, but also objects that now communicate with each other via the "Internet of Things". According to a market research firm, it is expected that between 50 and 100 billion devices will be networked via the Internet in the coming 10 to 15 years. Most of these devices will be designed to exchange electronic data with other devices in what has come to be known as M2M (machine-to-machine) communication. These developments will open up a whole new world of services which, ultimately, will change people's everyday lives. Secure storage and transfer of data will be absolutely essential for many of these billions of networked "things".

G see glossary, page 280

One interesting aspect of the "Internet of Things" is the role it plays in "Industrial Internet" also referred to as "Industry 4.0". The idea behind Industrial Internet is to develop a brand new approach to organizing and controlling the value chain over the life-cycle of products. At the heart of this future scenario is the ability of devices to communicate with each other via wired or wireless connections. Industrial Internet will see the emergence of new devices capable of sending production data or signals measured by sensors to a business partner or a cloud computer. Connecting the supply and value-added chain in this way requires secure communication between business partners, as well as between the machines, devices and IT systems of the business partners involved. Industrial Internet will only have a chance of succeeding if process know-how can be reliably protected against hacking attacks. Transferring product- and production-related data within an open architecture will, therefore, be at the top of the agenda.

Autonomous driving – including partially autonomous driving systems already developed – is another manifestation of the Internet of Things. The "things" in this case are the vehicles which communicate directly with each other (car-to-car communication), as well as with centralized systems (car-to-infrastructure communication). Vehicles will be able to make contact with control systems, which, in turn, will provide a real-time picture of the current traffic situation. The use of web applications in vehicles will increase sharply. Here, again, it is essential that communication is secure. The origin and correctness of the data must be proven, otherwise vehicles may be given the wrong commands.

Whether we are talking about automation technology in production, logistics, traffic guidance systems, building or home automation, in all cases the same base technologies are required. In this context, we see good potential in hardware-based security similar to the one we offer with our broad range of security controllers. This can take the form of an individual component or the incorporation of the relevant function in our automotive or industrial microcontrollers.

Alongside the Internet of Things with all its different facets, the so-called "classic" applications also offer opportunities for further growth. China and the USA, for instance, are currently going through the process of migrating from a magnet-strip-based credit card system to a chip-based system as chip-based cards increase the security of cashless payment systems. About four billion chip-based credit cards will be shipped to customers in these two countries in the coming years (see also "Introduction of chip-based credit cards in China and the USA" in the "Chip Card & Security" section of "The segments" chapter).

P see page 61

Ensuring the integrity of a computer is another field of application for our security chips. A broad spectrum of solutions is employed to protect products, ranging from the simple secure memory on a plastic card to sophisticated solutions based on security controllers. Moreover, suitable security components can also check the authenticity of original parts and/or components, such as batteries or industrial control equipment.

Summary

The three central challenges to modern society – energy efficiency, mobility and security – are driving growth in each of our segments in a different way. International Rectifier fits seamlessly into our three segments, Automotive, Industrial Power Control and Power Management & Multimarket, and is already benefitting from the same growth trends as Infineon. Based on all of the factors discussed above, we forecast the following average growth rates for our four segments in the coming years:

- Automotive: approximately 8 percent per annum,
- Industrial Power Control: approximately 10 percent per annum,
- Power Management & Multimarket: approximately 10 percent per annum,
- Chip Card & Security: 6 – 9 percent per annum.

Overall, this gives rise to an annual average revenue growth rate of approximately 8 percent for the Group.

Having the right products for the customer and being able to continue to invest in difficult times: an average Segment Result Margin of 15 percent

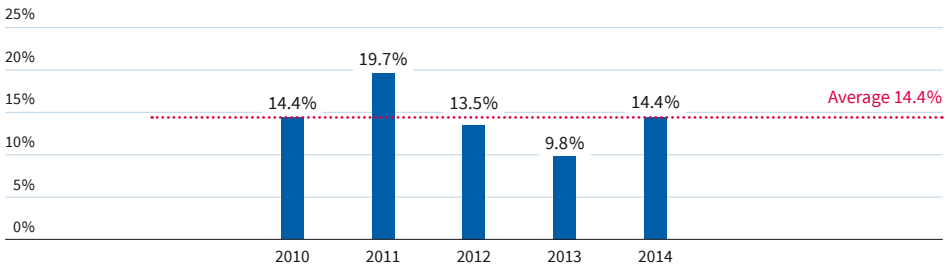
As briefly discussed at the beginning of this chapter, achieving adequate profitability reflects the efficient use of resources and is also the prerequisite for having sufficient reserves available, even in difficult times, so that we do not have to cut back on research and development or selling and marketing activities that will benefit us in the future. For this reason, we are targeting an average Segment Result Margin of 15 percent over the economic cycle.

Over the past five fiscal years, the accumulated average Segment Result Margin of Infineon was 14.4 percent. We have, therefore, almost reached our target. We remain committed to this target, and are convinced that we will be able to achieve it in the future. Our confidence is based on the benefits we expect to derive from two factors:

- the realization of economies of scale, primarily from 300-millimeter manufacturing and
- the realization of economies of scope, particularly as a result of our strategic approach "Product to System".

G 13

Segment Result Margin in the fiscal years 2010 to 2014



Realization of economies of scale

As a global technology leader, Infineon is the only company in the world so far to manufacture power semiconductors on 300-millimeter thin wafers. This manufacturing technology is available at our sites in Villach (Austria) and Dresden (Germany). In our implementation of 300-millimeter thin-wafer production for power semiconductors, we are guided by three strategic targets:

1. Laying the foundation for long-term growth.
   Investment in 300-millimeter thin-wafer manufacturing directly increases manufacturing capacities for power transistors. Indirectly, however, investment in 300-millimeter thin-wafer manufacturing also creates additional capacities for other products. This is because transferring manufacturing of high-volume components from 200-millimeter lines to the 300-millimeter lines frees up capacities for other components at Infineon's existing 200-millimeter power semiconductor frontend sites in Villach (Austria) and Kulim (Malaysia).

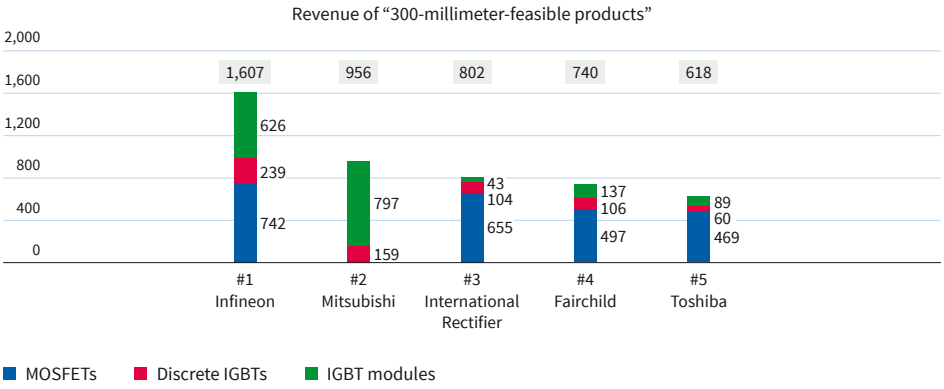
2. Reducing the amount of capital employed per chip.
   Manufacturing capacities can be expanded with lower investment amounts using 300-millimeter technology. Experience shows that it takes 30 percent less investment on average to build up additional manufacturing capacity to a desired level on a 300-millimeter manufacturing line than it does on a 200-millimeter manufacturing line. There is also the advantage that less cleanroom space is necessary due to the smaller number of cleanroom machines required.

3. Increasing productivity.
   We expect to achieve a 20 to 30 percent reduction in frontend unit costs when facilities are running at full capacity, thus ensuring long-term competitiveness.

G14

Infineon is the only supplier operating in the market for power semiconductors that has reached critical size for manufacturing on 300-millimeter wafers

US$ in millions in the 2013 calendar year



Source: IHS Inc., "Power Semiconductor Discretes & Modules Report – 2014", September 2014

Technological change of this magnitude – in this case the move to larger wafers, particularly for power semiconductors – only takes place once every 10 to 15 years in the semiconductor industry. Only the largest providers will be able to achieve the high volumes required to operate such frontend manufacturing facilities at the scale and utilization levels necessary to secure unit cost advantages. As the undisputed market leader in the field of power semiconductors, Infineon is optimally positioned in this respect.

We benefit from the fact that we have a comprehensive portfolio of power semiconductors that can be manufactured on 300-millimeter wafers: This includes low-voltage and high-voltage power MOSFET devices on the one hand, and IGBT products used in discrete IGBT devices and IGBT modules on the other. These power semiconductor components are used in applications in both the industrial and automotive electronics sectors. Our broad range of products can be sold to a variety of markets, thus enabling us to manufacture in high volumes. It is for this very reason that we are confident we will be able to achieve good utilization levels of the enormous capacity of our 300-millimeter plant within a reasonable time frame.

The planned acquisition of International Rectifier fits perfectly with this strategy. After completion of this transaction, we will transfer production of some of International Rectifier's products to our own plants, in particular to our 300-millimeter plants in Dresden (Germany) and Villach (Austria). The most likely candidates are low-voltage MOSFET and IGBT devices. We will increase utilization levels and, therefore, achieve lower unit costs earlier than would have been possible on our own.

At present, at the start of the ramp-up phase of volume production, costs are dominated by high levels of expense for research and development, and by investments in production buildings and machinery. Over the coming years, however, it will be possible to achieve the productivity improvements as discussed above. The gross margin will rise more and more as capacity utilization of our 300-millimeter manufacturing equipment increases.

Realization of economies of scope

With our strategic approach "Product to System", we seek to extract the maximum benefit from our broad portfolio of technologies and products. It enables us to put our comprehensive know-how in product and process technologies to even better use in the market. Thinking in system terms helps us to understand the success factors and markets that are relevant for our customers, giving us the opportunity to create additional value and identify new market trends at an early stage. We can advise our customers during the problem-solving phase and propose solutions that will make them more successful. We can reduce the development

efforts incurred by customers and shorten the time-to-market of their products. “Product to System” is, therefore, a strategic concept that we are employing to maximize the opportunities to improve existing products and to identify and subsequently enter into markets with completely new products. We create additional value for our customers through both of these routes, and, at the same time, achieve a higher margin on our own products, thus benefitting from economies of scope.

Economies of scope in the field of research and development:
We have a multitude of process technologies at our disposal which can be deployed in a broad range of products. However, going forward we will be able to achieve even greater product diversity in the various application fields that we address. We will, then, be able to develop and manufacture new products with low additional unit costs, thus, benefiting our margin.

One good example of this is our product range of discrete IGBT devices for induction cooking hobs. Using a base technology as the starting point, we cater to the different requirements for induction heating systems (e.g. induction or microwave ovens) with a customized range of product variants. Having the right IGBT device for the relevant application makes it easier for our customers to design their products and to reduce system costs (see “Success through application-specific IGBT transistors in induction cooking” in the “Industrial Power Control” section of “The segments” chapter).

P see page 50

A similar development is taking place in the field of power supply units with digital control capability. Power supply units of this kind are increasingly found in tablet chargers, flat screen televisions and LED lighting systems. Developing the base technology requires slightly more resources, but is a one-time investment. Fine-tuning this technology for each specific application can now be achieved with significantly less effort and also flexibly by programming the relevant parameters (see “Meeting the growing requirements for power supply with digital control concepts” in the “Power Management & Multimarket” section of “The segments” chapter).

P see page 55

Economies of scope in sales and marketing:
One example of how we are achieving economies of scope in sales and marketing is Japan, where we are currently using the existing sales infrastructure to boost our sales of Automotive segment products. The sales initiative set in motion a few years ago is now bearing benefits. The fact that we gained market share in Japan during the 2013 calendar year (see the “Market position” in the “Automotive” section of “The segments” chapter) is attributable to a large extent to Infineon’s sales infrastructure there.

P see page 45

Another good example comes from the Chip Card & Security segment. We are now at a stage where we want to strengthen the distribution channel in order to take advantage of the greater sales volume potential for security controllers offered by this channel. Using our existing distribution infrastructure, we are now exploiting this potential. In the future, we will increase sales of existing and new products – aimed specifically at distribution customers – via our distribution channel.

The planned acquisition of International Rectifier also represents an excellent fit with our strategy of realizing economies of scope, given that many of its products and technologies complement our own focus areas. International Rectifier offers IGBT modules and IGBT driver ICs for the low-power range, whereas we focus on high-power modules. International Rectifier has special expertise in the field of gallium nitride as a new material for power semiconductors, whereas we have garnered years of experience with silicon carbide. In terms of digital power management, we focus on servers whereas International Rectifier has a strong footing in games consoles, graphic cards and in the network and cellular infrastructure sector. Our main focus is on selling directly to customers whereas International Rectifier’s strength lies with sales through the distribution channel. In regional terms, we are particularly strong in Europe due to our origins, whereas International Rectifier complements us in its home country, the USA, and in Asia too. We intend to combine these complementary strengths and to generate further economies of scope.

Summary

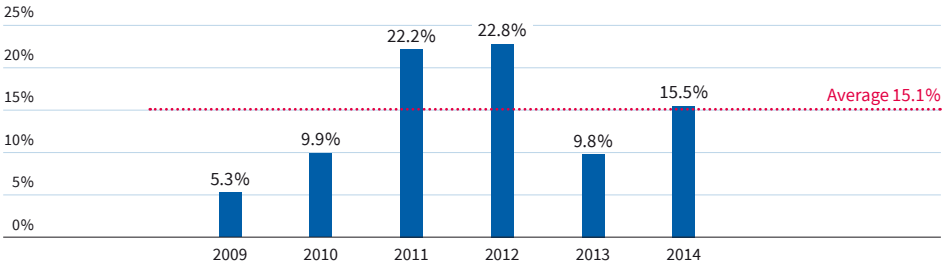
Infineon has invested heavily in recent years in manufacturing processes of technology and capacities for 300-millimeter thin-wafer technology, in research and development for product and process technologies and in sales and marketing structures. These investments provide a solid foundation for us to realize economies of scale and economies of scope in the future, and so improve profitability. The planned acquisition of International Rectifier fits perfectly with this strategy. We are, therefore, confident of achieving our target of a 15 percent Segment Result Margin over the economic cycle.

"Systematic" investing helps preserve resources and differentiates us from the competition: investments at an average level of 13 percent of revenue

Over the period covered by the fiscal years from 2009 to 2014, our investments as a percentage of revenue were 15.1 percent. This figure includes the impact of "catch-up" investments made in the 2011 and 2012 fiscal years, which we had not been able to realize during the two preceding economically more difficult fiscal years 2009 and 2010. It also reflects the fact that we commenced investing in 300-millimeter thin-wafer manufacturing in Dresden (Germany) and Villach (Austria) in 2011.

G15

Investments as a percentage of revenue in the fiscal years 2009 to 2014



Capital intensity at Infineon continued to be driven by the use of 200-millimeter technology. Investments in capacities for this technology are reflected in the historical average of 15.1 percent.

We pursue a strategy of only investing in in-house manufacturing facilities, where we can differentiate significantly in terms of costs and/or performance. If this is not the case, we rather outsource. This principle is applied equally to frontend and backend manufacturing.

Based on this conviction, we have put in place a range of measures that enable us in the future to achieve our targeted annual average revenue growth rate of 8 percent with investments at an average level of only 13 percent of revenue. Our reduction of the target rate is being driven primarily by the following factors:

1. Infineon is beginning to reap the benefits of 300-millimeter thin-wafer technology for power semiconductors. The manufacturing technology enables Infineon to achieve growth with a substantially lower level of capital employed than was previously possible with 200-millimeter wafer technology. Whereas it was previously necessary to invest about one euro in manufacturing capacities for every additional euro of revenue, it will only be about 70 to 80 cents in the future. The level of investments required to boost manufacturing capacities for power semiconductors in order to achieve the targeted growth rate is, therefore, decreasing.

2. Infineon is in the early stages of a growth curve for products manufactured using standard-CMOS-based technologies with 65-nanometer and smaller feature sizes. Since the main differentiating factor for these products lies in the design and less in the process technology, we will no longer use this technology for in-house manufacturing and, instead, will outsource the relevant manufacturing volumes to contract manufacturers (so-called foundries), thus obviating the need in the future to invest in in-house facilities to process these wafers.

3. Infineon will also continue to expand cooperation arrangements with contract manufacturers for backend work (so-called subcontractors) for which there are no major differentiating features from a manufacturing perspective. Therefore, lower investments in the fields of packaging, assembly and test can be expected.

4. Infineon has made great strides over the course of the 2014 fiscal year to improve both current and future productivity by means of a whole raft of measures implemented in conjunction with the dedicated "Next Level of Productivity" program. These improvements enable greater manufacturing volumes at given investments.

A detailed analysis of the medium- to long-term impact of these factors showed that the target ratio for investments to revenue can be reduced sustainably for future fiscal years by 2 percentage points to an average of approximately 13 percent over the economic cycle.

Lower investments result in a higher return in capital

As a result of a lower level of investments in relation to revenue, capital intensity is decreasing. Capital turnover increases alongside with the Return on Capital Employed (RoCE). Lower investment intensity also gives rise to a sustained improvement in free cash flow and, consequently, a higher free cash flow margin as a percentage of revenue.

The resulting higher free cash flow can be used to pay a dividend. Thus, a significant rise in dividend of 6 cents per share to then 18 cents per share will be proposed at the Annual General Meeting already in respect of the 2014 fiscal year. Our stated dividend policy continues to be valid at this higher level: we intend to pay a dividend each fiscal year that is at least at the previous fiscal year's level. Our financial targets and our dividend policy will not change as a result of the planned acquisition of International Rectifier.

Highly-qualified and highly-motivated employees and running the business on a sustainable basis are the prerequisites for our success

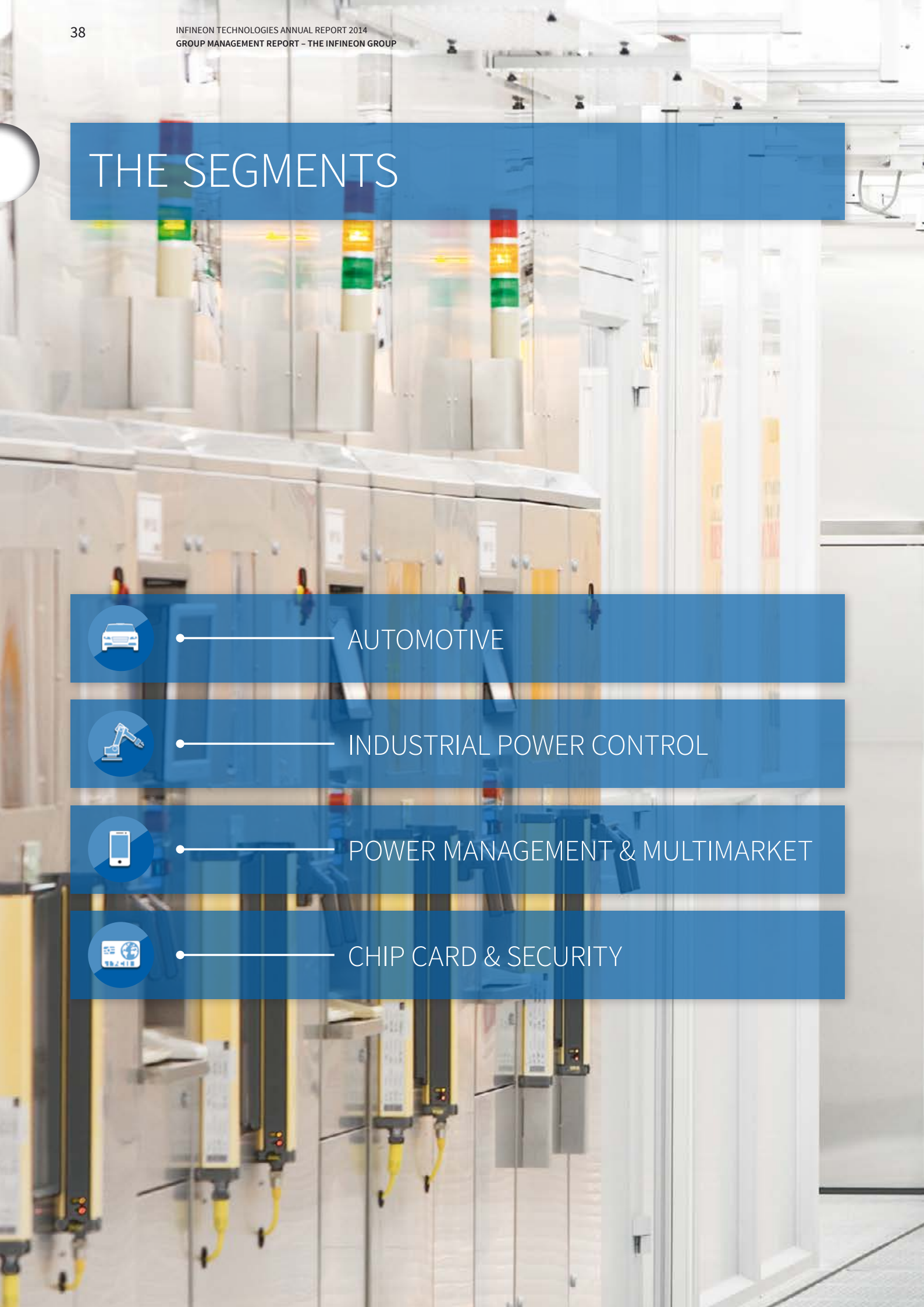
The fast-moving semiconductor industry is characterized by continually rising expectations in technology, quality, speed and efficiency and is, thus, a very challenging sector. The dedication and reliability of our entire staff enable us time and again to successfully master these challenges. We believe that our highly-motivated and highly-qualified employees are a key to our continued success. Along with pay commensurate with performance, other important factors are a strong culture of leadership, the promotion of talent and a continuous engagement to employees. You can read how we do this and about the relevant targets we have set in the chapter "Our Employees".

P see page 96 ff.

In order to achieve lasting growth with adequate profitability, we have to run our business on a sustainable basis and ensure that our economic targets are aligned with social and ecological requirements. We do this by pursuing responsible business practices and taking account of the expectations of relevant stakeholders. In the chapter "Sustainability at Infineon", we have explained in detail as to why and how sustainability – just like the attainment of economic targets – is key to the way we run our business.

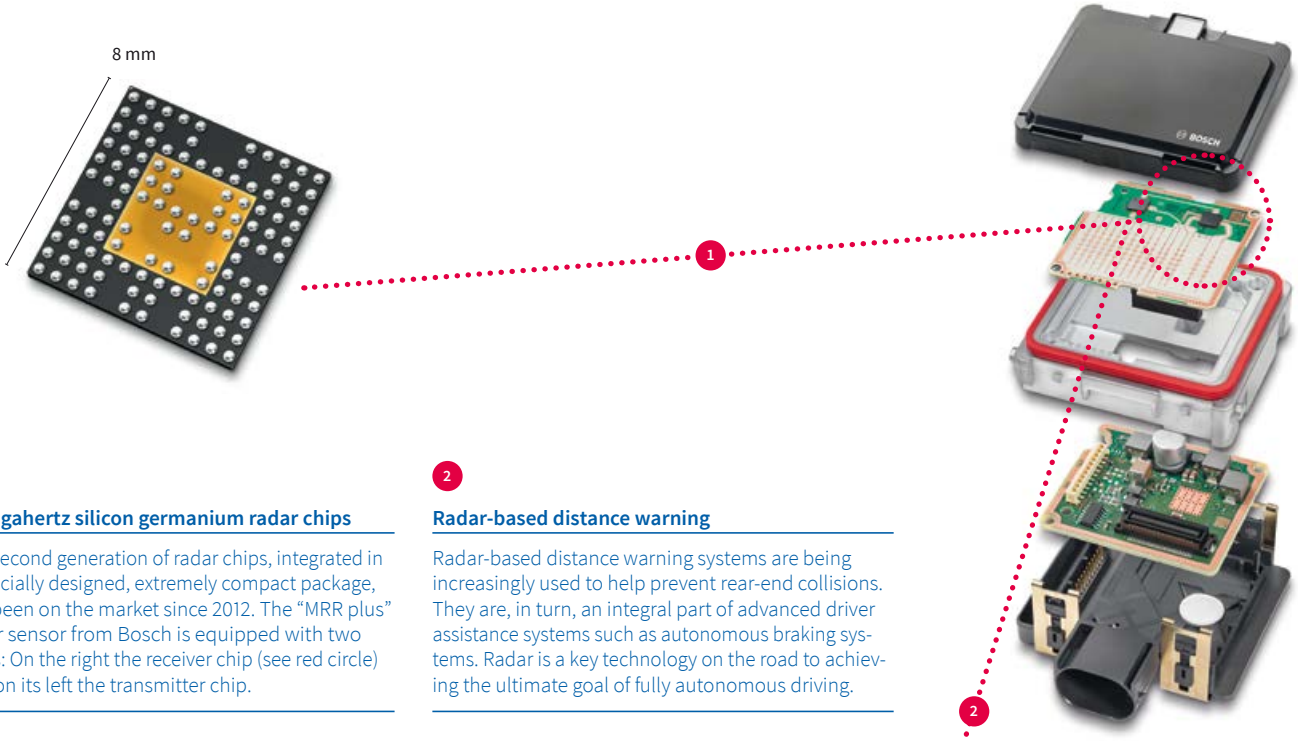
P see page 82 ff.

THE SEGMENTS



- AUTOMOTIVE
- INDUSTRIAL POWER CONTROL
- POWER MANAGEMENT & MULTIMARKET
- CHIP CARD & SECURITY

Revenue	Segment Result	Segment Result Margin	Revenue growth
€ 1,965 million	€ 259 million	13.2%	14.6%
€ 783 million	€ 144 million	18.4%	20.3%
€ 1,061 million	€ 172 million	16.2%	7.5%
€ 494 million	€ 43 million	8.7%	6.7%



1

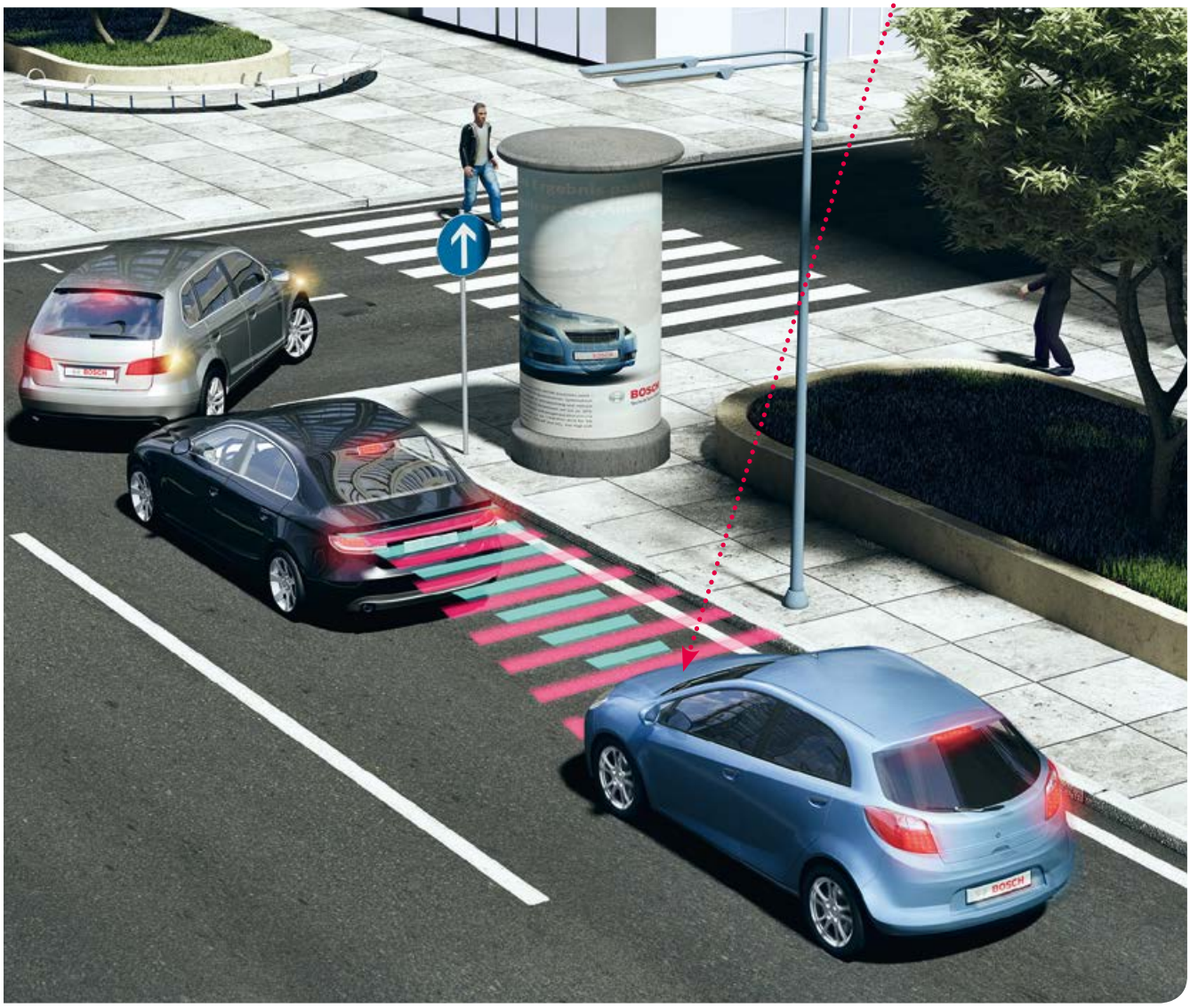
77-gigahertz silicon germanium radar chips

Our second generation of radar chips, integrated in a specially designed, extremely compact package, has been on the market since 2012. The “MRR plus” radar sensor from Bosch is equipped with two chips: On the right the receiver chip (see red circle) and on its left the transmitter chip.

2

Radar-based distance warning

Radar-based distance warning systems are being increasingly used to help prevent rear-end collisions. They are, in turn, an integral part of advanced driver assistance systems such as autonomous braking systems. Radar is a key technology on the road to achieving the ultimate goal of fully autonomous driving.



AUTOMOTIVE

Revenue:	**€1,965 million**
Segment Result:	**€259 million**
Highlights:	**Additional safety and convenience functions as well as CO_2 reduction measures lead to marked growth in demand**
	Market share gains in all main regions; Infineon number 3 in Japan for first time

The Automotive segment in the 2014 fiscal year

Revenue

Infineon recorded revenue of €1,965 million for the Automotive segment in the 2014 fiscal year, an improvement of 15 percent on the previous year's figure of €1,714 million. The segment generated 45 percent of Infineon's revenue.

The upturn in the automotive industry, which began at the end of the 2013 fiscal year, continued throughout the fiscal year under report.

Demand for new vehicles in China again rose sharply compared with the previous year. In addition, the market in North America has gathered momentum since the spring. There were also encouraging indications of recovery on the European market, where vehicle registration figures began to increase for the first time after six years of decline.

Vehicles made in Germany, particularly premium brands, were in very high demand, both in China and North America. Dynamic demand for upper-range medium-sized cars equipped with a broad array of additional safety and convenience features provided a significant boost to our business. Semiconductor content per car in this segment exceeded expectations.

The sharp rise in demand for semiconductor-based solutions designed to reduce CO_2 emissions also contributed towards the excellent revenue performance.

Robust growth in the Chinese automotive industry was also evident in the regional revenue split. The percentage attributable to Asia-Pacific (including Japan) rose to 38 percent (2013 fiscal year: 35 percent). Revenue in Germany fell by 2 percentage points to 23 percent. At 24 percent, the share attributable to Europe (excluding Germany) remained virtually unchanged (2013 fiscal year: 23 percent). The percentage for the Americas fell to 15 percent (2013 fiscal year: 17 percent).

Segment Result

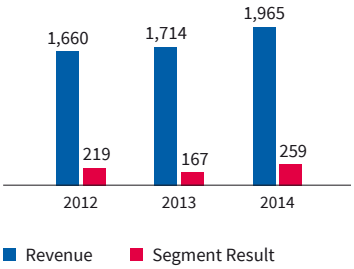
The Segment Result totaled €259 million, 55 percent up on the €167 million recorded one year earlier. The Segment Result Margin amounted to 13 percent of revenue.

The improvement in Segment Result was mainly due to higher revenue. However, expenses for the ramp of volume production for various products had a somewhat dampening effect on the improved figure.

G16

Revenue and Segment Result of the Automotive segment

€ in millions



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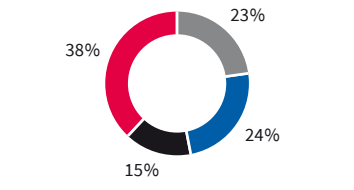
Automotive segment revenue by region



Business strategy and fields of application

Infineon is one of the few semiconductor manufacturers for automotive applications that covers the most important established applications in vehicles, with a broad product portfolio of microcontrollers, sensors, radio-frequency and particularly radar components as well as both discrete and integrated power semiconductors: powertrain, body and convenience electronics as well as safety applications. The field of data and IT security will also gain significantly in importance going forward. In this area, we will benefit from the knowledge and expertise of our Chip Card & Security segment.

Our activities in the Automotive segment focus on the following topics:

Environmental friendliness: Together with our lead customers, we are developing microcontrollers, sensors and power electronics for control systems, in particular for drive systems of the future and with the necessity to comply with increasingly stringent emissions standards in mind. We are contributing to CO_2 emission reductions by designing increasingly efficient control systems for conventional combustion engines. In addition, Infineon is playing a leading role in the increasing electrification of the powertrain (for example automatic transmissions and start-stop systems) as well as of the many auxiliary units (for example pumps).

Safety: We design products for a large number of active and passive safety applications that help reduce both the number and the severity of traffic accidents, the long-term goal being zero traffic accidents and related injuries. We are currently working on new functions that will help to avoid accidents with the aim of protecting passengers, pedestrians and other road users alike. Moreover, we are developing technologies building the base for the autonomous driving of tomorrow.

Security: In order to guarantee the functioning of the above-mentioned safety applications in increasingly connected vehicles, encryption technologies will be needed to an ever greater degree. Our globally leading security expertise provided by the Chip Card & Security segment is helping us to address these trends.

Regions: Apart from our above-mentioned activities in vehicle applications, we are stepping up efforts to enhance our regional presence, particularly in China and Japan. Above all, we see promising opportunities for growth in Japan, as its automotive supply industry strives to procure its components on an increasingly global scale.

Similar to all of the markets we address, in the automotive field too, our aim is to recognize local requirements and swiftly implement the corresponding measures. Particularly in China it is highly important to identify the local champions of the future as the automotive industry in that region is growing rapidly and is also severely fragmented.

Fields of application

Chassis and comfort electronics
- Air conditioning
- Door electronics
- Electronic control units
- Electronic seat adjustment
- Hatchback
- Lighting
- Power windows
- Steering
- Sunroof
- Suspension
- Windshield wipers

Electric and hybrid vehicles
- Battery management
- Battery fast-charging control
- Motor control

Powertrain
- Alternator control
- Engine control
- Start-stop system
- Transmission control

Safety
- ABS
- ADAS (Advanced Driver Assistance Systems)
- Airbags
- Electronically controlled chassis suspension
- Electronic power steering
- ESC (Electronic Stability Control)
- Radar-based distance warning
- Tire pressure monitoring system

Security
- Digital tachograph
- Communication (car-to-car, car-to-infrastructure)
- Manipulation protection (tuning, tachometer)
- Original spare parts authentication

Markets, trends and solutions

For the years or even decades to come, we see three major trends emerging which will determine the development of automotive technology – and which we are strongly supporting with our products. First, low-emission vehicles, second, safe vehicles with particular focus on advanced driver assistance systems and third, to a growing degree, security in increasingly connected vehicles.

Evidently, the main business of our Automotive segment is in automotive electronics. Apart from that, we provide a broad range of industrial electronics components. For microcontrollers in particular, we have launched a 32-bit family of products to meet the requirements of industrial control systems, which is providing us with new opportunities to grow.

Electrification of main and auxiliary power units continues to advance

In the major automotive regions of Europe, North America, Japan and China, legislators have introduced binding CO_2 emission targets that will come into effect from 2020 (see "Group strategy" in the chapter "Finances and Strategy"). The targets require a further reduction in CO_2 fleet averages of at least 25 percent below today's emission levels. These targets are unlikely to be met solely by improving the efficiency of the conventional combustion engine. A number of years ago, an important development was introduced in the electrification of power units (i.e., pumps and small electric motors). The electrical power of these units can be adapted via electronic control to suit the varying load. One example in particular is the transition from electromechanical and hydraulic power steering systems to their electronic equivalents. This changeover in some applications from mechanical and hydraulic to electronic functions not only boosts vehicle efficiency, but also reduces CO_2 emissions.

This trend towards the electronic control of automotive power units continues to gather pace. In addition to the high-power motors needed to drive power steering and automatic start-stop systems, the small, previously uncontrolled electric motors powering auxiliary power units are now also variable speed controlled. Examples are water and gasoline pumps as well as motors controlling air flow and ventilators in blower and air conditioning systems. Most small electric engines in this category are so-called "brushless" DC motors, which are more efficient than conventional brush-type DC motors and exhibit less wear and tear. In addition to power components and microcontrollers, these motors require magnetic field sensors and switches to efficiently control rotation speed and commutation.

For premium carmakers, these improvements alone will still not be sufficient to achieve their emission targets. It will be essential to increase the absolute number of electric and hybrid vehicles, in order to reduce the fleet average to meet the required target levels. Plug-in hybrid electric vehicles (PHEVs) will play a key role in achieving this aim. They differ from purely hybrid vehicles in that they are equipped with larger batteries. Not only do they feature braking energy recuperation to recover additional energy, they can also be charged using mains electricity. PHEVs are capable of covering some 50 kilometers purely on electrical power, giving them very low CO_2 emission values in accordance with regulatory assessment methods. We see a highly promising alternative in this type of hybrid vehicle. The high-power semiconductor components we have developed especially for the field of electromobility will also be used in PHEVs.

Advanced driver assistance systems gaining ground: radar-based distance warning indispensable for semi-autonomous driving

Accident statistics show a very encouraging trend: The number of severe injuries or fatalities caused by road accidents has been steadily decreasing for many years. The improvement began with the introduction of passive safety systems such as seat belts (1971), ABS (1978), airbags (1980), seat belt tensioners (1983) and side airbags (1996). These passive safety systems, designed to minimize the severity of an accident, have meanwhile become highly sophisticated. The next major growth market is that of active safety systems, which are capable of either completely avoiding an accident or at least significantly minimizing its negative consequences through active intervention. Examples of active safety systems are pedestrian recognition, distance warning systems and blind spot detection. Radar is a key technology in many of these systems.

P see page 28

The TLE4961-1M magnetic field switch determines the exact position of the motor axis – essential for the commutation of brushless DC motors

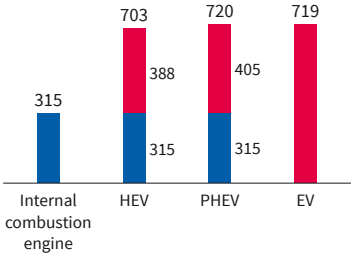
G see glossary, page 278

G see glossary, page 281

G 18

Average semiconductor content of various types of vehicle (2013)

in US$



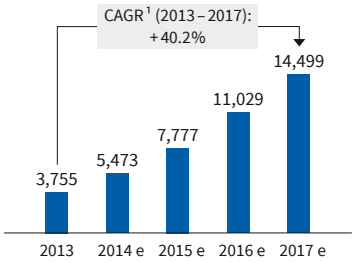
- Semiconductor value per vehicle based on internal combustion engine
- Incremental semiconductor value per vehicle dedicated to electromobility

Source: Strategy Analytics, "Automotive Semiconductor Demand Forecast 2012 – 2021", May 2014

G 19

Expected number of systems for radar-based distance warning

in units



1 CAGR = Compound Annual Growth Rate

Source: Strategy Analytics, "Automotive Semiconductor Demand Forecast 2012 – 2021", May 2014

G see glossary, page 280

Active safety systems are being augmented to form advanced driver assistance systems (ADAS), which are becoming increasingly important in road safety because of the great help they provide to motorists while driving. For example, they help in critical situations or, if necessary, even correct a driving error, thereby reducing the risk of accidents. Good examples of ADAS are autonomous brake systems for pedestrian protection, or overtaking assistants and lane departure warning systems which are a great help when driving on highways. ADAS constitute an elementary part of semi-autonomous driving. They will be continually improved until they finally accomplish the long-term aim of fully autonomous driving. Demand for driver assistance applications is growing fast. For example, demand for radar-based distance warning systems is forecast to rise at a compound annual growth rate of 40 percent. Several radar sensors could even be installed per vehicle – either centrally front and back or one at each corner.

The market for radar-based safety systems is divided into two fields of application:

1. Warning systems that merely provide visual feedback when the vehicle is too close to the one in front or if an object is detected in the blind spot, providing the driver with greater perception of surrounding events.

2. Advanced driver assistance systems that include an active function, i.e., they are capable of independently intervening in the steering, the engine's functions or the braking system. Systems of this type require extremely high distance and angular resolutions. The safety requirements (for example ISO 26262) for systems of this type are also far stricter.

For distance measurement systems, Infineon supplies 77-gigahertz radar components for transmitting and receiving the signal. Manufactured in silicon germanium technology and subsequently embedded in a highly compact radar-capable package, they greatly reduce system costs and, thereby, bringing radar-based distance measurement to the mass market. Today, Infineon has lead customers for this product in all technologically leading automotive markets: in Europe, North America, Japan and Korea.

AURIX™: apart from powertrain, increasing use in safety-critical applications

So far, Infineon's 32-bit automotive microcontrollers have been used mainly in powertrain applications. After their resounding success in the field of engine and transmission control, our customers are now using them increasingly for safety-critical applications. Particularly with our AURIX™ family of 32-bit multicore microcontrollers, we are gaining a growing number of customer projects for applications such as electric power steering, brakes, airbags and distance warning systems. Around half of the new projects in which AURIX™ is planned to be designed-in by our customers are attributable to these types of safety-critical application. Furthermore, the AURIX™ product family is not only being used in passenger cars, but also increasingly in construction and agricultural vehicles.

The cryptographic functions for security provided by our Chip Card & Security segment are among the main reasons for the success of the AURIX™ family. The hardware security modules are integrated in various types of microcontroller, helping to safeguard the intellectual property of our customers, such as the program code for an engine control system.

Several members of the XMC1000 industrial microcontroller family

Moreover, we see further demand for discrete security controllers in the fields of infotainment, emergency call systems and car-to-car communication. One example is Infineon's SIM card, which has been qualified in accordance with the strict requirements of the automotive industry. This SIM card is used in the vehicle cellular network modules. Moreover, suitably certified security controllers are already being installed in digital tachographs.

Fields of application for our XMC industrial microcontrollers significantly enlarged

In the field of industrial microcontrollers, with our XMC family, two years ago we introduced a new strategy with the decision to license an ARM® core, allowing us to offer our customers a combination of a 32-bit quasi-industry standard processor core and application-optimized peripheral elements developed by Infineon. This step has enabled us to increase its acceptance

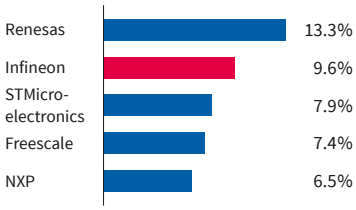
and, therefore, the number of possible applications. With our earlier industrial microcontrollers we were mainly involved in automation, transportation and electricity supply. Now, however, with our ARM®-based XMC family we are also adding the fields of building automation and electric power tools.

Previously, our applications were mainly developed with traditional industrial customers in mind, mainly in Europe. Our new applications, however, provide us with opportunities to grow, particularly in America and Asia-Pacific. Along with the expansion of our fields of application and our customer base, we expect a moderate acceleration in the speed of our growth in the field of industrial microcontrollers.

Time-to-market is a key factor for our XMC customers. We support them with the easy-to-use DAVE™ (Digital Application Virtual Engineer) development environment. The DAVE™ apps provide developers with a whole range of easy-to-combine, application-oriented software components, greatly simplifying software development for microcontrollers and, therefore, helping our customers shorten their time-to-market. We consider the wide variety of application-optimized peripheral functions, combined with the support of our customers in developing software, as an area of differentiation in this product segment.

G 20

World automotive semiconductor market share



Source: Strategy Analytics, "Automotive Semiconductor Vendor Market Shares", April 2014

Market position

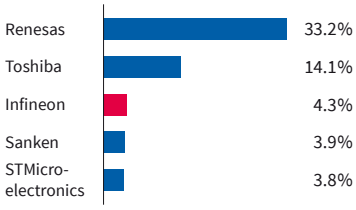
According to analyses performed by the market research experts at Strategy Analytics, the world market for automotive semiconductors grew by 5.1 percent, from US$23.883 billion in the 2012 calendar year to US$25.111 billion in 2013. Infineon recorded the largest gain among the five major competitors with an increase by 0.5 percentage points. Infineon's market share rose from 9.1 percent to 9.6 percent. The five largest competitors held 44.7 percent of the market.

With a market size of US$8.696 billion, Europe is still by far the most important region for automotive semiconductors. Infineon remained market leader in Europe with 13.1 percent market share (2013: 13.0 percent). In North America (market size: US$4.804 billion), Infineon continued to occupy second place with 8.6 percent market share (2013: 8.4 percent). The Japanese market showed the most favorable change (market size: US$4.896 billion). Gaining 0.6 percent market share, at 4.3 percent Infineon achieved its highest percentage of market share in Japan to date, advancing to third place for the first time (2012: 5th place). However, Infineon recorded its largest market share gain in China, the fastest growing region of all (market size: US$3.451 billion). While the market in this region grew by 22 percent, at 40 percent Infineon grew faster than any other competitor, resulting in a 1.2 percentage point improvement in market share. At 8.2 percent market share in China, Infineon remains in fifth place. In Korea, the fifth largest region (market size: US$2.018 billion), Infineon remained market leader by far with a market share of 13.3 percent (2013: 13.7 percent).

Looking at the automotive semiconductor market by product category, the following picture emerges: Infineon is a prominent player with its portfolio of products in the largest and fastest growing product groups. Power semiconductors accounted for 26 percent of the market (size: US$6.675 billion). As market leader, Infineon managed to grow its market share in this category by 0.3 percentage points to 21.3 percent. In the second largest category, microcontrollers (market size: US$6.233 billion), comprising 25 percent of the market, Infineon gained 0.7 percentage points of market share and remained in third place with 8.7 percent. In the third largest category, sensors (market size: US$3.708 billion), comprising 15 percent of the market, Infineon gained 1.0 percentage points of market share, thereby securing second place with 11.4 percent. In the remaining product categories, Infineon is barely present, if at all (other: market size US$8.495 billion). These include memory devices, optical components and non-power analog ICs.

G 21

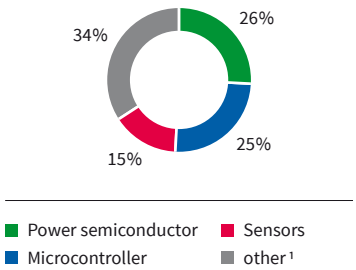
Japan automotive semiconductor market share; Infineon in third place for the first time



Source: Strategy Analytics, "Automotive Semiconductor Vendor Market Shares", April 2014

G 22

World automotive semiconductor market by product category



1 Other include memory devices, optical components and non-power analog ICs.

Source: Strategy Analytics, "Automotive Semiconductor Vendor Market Shares", April 2014

1

6.5-kilovolt IGBT module in industrial applications

Infineon's most powerful IGBT modules switch voltages of 6.5 kilovolts and currents of over 100 amps. Among other uses, they are key components in energy-efficient motor controls for drives, pumps, compressors, fans, mixers and grinders.

2

Frequency inverters for gas compressors

The most powerful electric motors in the world are used, for example, in the chemicals industry for air separation applications. The inverter needed for variable-speed drive control fills entire control cabinets with several hundred of our IGBT modules.

INDUSTRIAL POWER CONTROL

Revenue:	**€783 million**
Segment Result:	**€144 million**
Highlights:	**Number of derivatives based on existing technology increased**
	Growth potential by extending the range of applications

The Industrial Power Control segment in the 2014 fiscal year

Revenue

Infineon recorded revenue of €783 million in the Industrial Power Control segment in the 2014 fiscal year, 20 percent up on the previous year's figure of €651 million. The segment generated 18 percent of Group revenue.

We recorded a positive development in all applications during the 2014 fiscal year. Revenue growth was attributable in particular to a sharp rise in demand in the fields of renewable energy and rail transportation, as well as to a slow, but steady recovery in industrial drives.

We generated about half of segment revenue in the Asia-Pacific region and especially China, where infrastructure program decisions had a quite significant impact on our business. The country's relaunched projects for high-speed rail links and light rail systems (urban railway, tram and metro lines) led to increased revenue in the field of traction. In addition, we benefited from the implementation of national expansion plans for renewable energy. China is also by far our largest market for home appliance components.

Compared to the previous year, there were shifts in the regional revenue split in favor of Asia. The share attributable to the Asia-Pacific region (including Japan) at 50 percent (2013 fiscal year: 44 percent) was for the first time larger than that of Europe at 41 percent (2013 fiscal year: 44 percent). The share for the Americas region declined from 12 percent the previous year to 9 percent in the 2014 fiscal year.

Segment Result

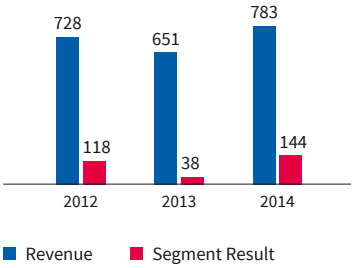
The Segment Result amounted to €144 million, an increase by 279 percent compared to the previous year's €38 million. The Segment Result Margin amounted to 18 percent of revenue.

The previous year's Segment Result was negatively impacted in particular by high costs incurred as a result of under-utilization of manufacturing capacities. The higher revenue generated in the fiscal year under report led to significantly lower under-utilization costs and also to improved earnings. Revenue rose considerably more quickly than the additional costs of capital arising in the form of depreciation and amortization, another reason for the improvement. In addition, various initiatives to boost manufacturing productivity contributed to the improved Segment Result.

G 23

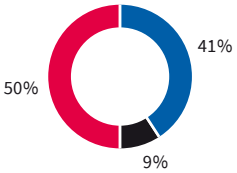
Revenue and Segment Result of the Industrial Power Control segment

€ in millions



G 24

Industrial Power Control segment revenue by region



- Europe, Middle East, Africa
- Americas
- Asia-Pacific, Japan

Business strategy and fields of application

Electric power needs to be generated, transmitted to the consumer and then converted. Each of these steps has to be carried out as efficiently as possible. The Industrial Power Control segment offers semiconductor products for all of these power transmission stages.

Power semiconductors are often not only the determining factor for the functioning of our customers' products and systems, but they also have an impact on their efficiency, size, weight and cost. In particular, the increase in power density – i.e., the electrical power converted within a certain space – is the driving force behind the progress in IGBT power devices. It plays a key role in differentiating us from competitors and can be achieved only with technologically leading products. We aspire and strive to remain innovation leader in the field of power semiconductors.

Our wide array of products we manufacture enables us to cover practically the entire power range from a few hundred watts to several megawatts. Our product portfolio comprises discrete IGBT devices, IGBT modules and IGBT stacks, as well as driver ICs and driver boards for controlling IGBT modules.

Currently, we already operate in a very large number of markets, applications and regions. In the coming years we see scope for growth primarily in the following areas:

New applications: Examples of newly emerging power electronics applications include energy storage devices, agricultural, construction and mining vehicles, electric and hybrid buses and charging infrastructure for electric vehicles.

Driver ICs: We intend to extend our driver IC portfolio firstly, by further development of our existing product families and secondly, through the planned takeover of International Rectifier, which will provide us with access to a complementary IGBT driver portfolio.

IGBT modules: We are developing our IGBT module portfolio selectively with applications in the lower power range from 100 to 2,000 watts, as used, for example, in air conditioners, washing machines and industrial drives. In order to strengthen our position in this market, we increased our share in the Korean joint venture LS Power Semitech Co., Ltd. (LSPS) in June 2014 to a majority interest of 66.4 percent. LSPS currently operates mainly in Korea in the home appliance sector. Our aim is to use our worldwide distribution infrastructure to sell LSPS IGBT products in other countries too. In addition, as a result of the planned acquisition of International Rectifier, we stand to benefit from its compact IGBT modules, which are used mainly in industrial applications.

Fields of application

Charging stations for electric vehicles

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

Home appliances
- Air conditioning
- Induction cooking
- Induction rice cooker
- Microwave ovens
- Washing machines

Industrial drives (motors, pumps, fans, compressors)
- Air conditioning
- Automation technology
- Conveyor technology
- Drives
- Elevators
- Escalators
- Materials handling

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

Renewable energy generation
- Photovoltaic systems
- Wind turbines

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

Uninterruptible power supplies

Markets, trends and solutions

IGBT power components are found in a wide variety of applications. Their power range extends from the largest electric motors in the world, rated at several megawatts, to small motors rated at only a few hundred watts. The number of applications and hence the importance of electricity are still growing. Electric vehicles are being used even more frequently for transportation and mobility. Railways meanwhile run almost exclusively on electrified lines. Renewable energy is gaining in importance due to climate change and the resulting legal requirements to reduce CO_2 emissions.

We are constantly developing new products for this broad range of applications: IGBT modules, discrete IGBT devices and driver ICs, with the latter including an interesting variant that we presented this year.

Most powerful pumps and compressors driven by up to more than one hundred IGBT modules

Electric motors are used in drives, pumps, compressors and fans. The largest examples of such motors are found in locks, cement mills, trains, urban waterworks pumps, air compressors for the manufacture of technical gases, and compressors for gas pipelines. Our 6.5-kilovolt IGBT module is often installed in these applications. Electric motors with power outputs ranging from 100 kilowatts to over 10 megawatts are driven in some cases by over one hundred components of this voltage class. Many motors are in service for 20 years and more. The highest requirements are demanded with regard to reliability and quality of both the motors themselves and their control systems, and, therefore, to our products.

The traditional voltage classes for high-performance IGBT modules are 3.3 kilovolts and 6.5 kilovolts. In the 2014 fiscal year, however, we presented the first IGBT module for the 4.5-kilovolt class. This voltage class is prevalent mainly in Asia, but is increasingly becoming generally accepted globally for high-voltage direct current (HVDC) power transmission lines. The first variant of our 4.5-kilovolt IGBT module was developed for the Asian railway sector. The second variant of this voltage class is due to appear in the 2015 fiscal year and is intended for the HVDC sector to connect for example offshore wind farms to the onshore power grid.

New trains for the Munich metro: Siemens' new C2 model series

Converter platform for wind farm SylWin1, where the alternating current generated by the wind turbines is converted into direct current and transmitted onshore by sea cable with low power loss

Renewable energy: China and the USA are the new growth regions; increasing importance of "repowering" in Europe

We are observing that the renewable energy sector is currently undergoing structural changes. Whereas in the past 20 years the demand for both wind power and photovoltaic energy came mainly from Europe, business has since shifted more towards Asia and the USA. With its very broad international base, Infineon is currently benefiting above all from the growth of Chinese inverter manufacturers, driven by both the expansion of the photovoltaic sector in China itself and the export of inverters to other regions.

In addition to the regional shift, the size of installations is also changing. Whereas in Europe the installation of rooftop systems for low and medium output up to 50 kilowatts is common place, in China and the USA mainly large solar plants rated at several megawatts are in use. As far as our products are concerned, the focus is shifting from discrete IGBT devices to IGBT modules (for example, EconoDUAL™ 3, EconoPACK™ 4 and PrimePACK™).

Structural changes are taking place in the wind turbine sector too. In Europe, the replacement of older, smaller wind turbines by modern, more powerful types is gaining importance. Although this trend, known as "repowering", is now in its infancy, it is likely to continue for many more years. The first wind turbines rated at around 100 kilowatts, installed many years ago in locations with high wind strengths, are now being replaced by models rated at about 3 megawatts. With the rise in turbine output, power semiconductor content per installation rises accordingly. For example, our EconoPACK™ and EconoDUAL™ type IGBT modules as well as to an increasing extent our IGBT stacks (for example, ModSTACK™ HD1) are installed in wind farm inverters.

G see glossary, page 282

The situation is entirely different in China and the USA. In these regions, which are the most dynamic as far as the expansion of wind power is concerned, it is new business that dominates.

EiceDriver™ 1EDS-SRC: new driver component with slew rate control boosts motor control efficiency and reduces system costs

Although IGBT modules are controlled by microcontrollers, they cannot be connected directly to them. The output signals of a microcontroller are far too weak to connect them directly to the input lines of an IGBT module. An intermediate step is, therefore, necessary. Driver ICs perform this adjustment of the different voltages and supply the necessary control currents.

Driver component EiceDRIVER™ 1EDS-SRC with slew rate control

In May 2014, Infineon presented the IGBT driver component “EiceDRIVER™ 1EDS-SRC”. “SRC” stands for slew rate control, which refers to the slope of the signal edges of a switching signal, expressed, for example, in volts per millisecond. This new component, therefore, allows adjustments to be made to the speed at which the connected IGBT device switches from the “off” to the “on” state.

The slew rate control has advantages, given that different applications require different switch-on behavior. Fast switch-on or switch-off of the IGBT power transistors with a high slew rate ensures low switching losses. Conversely, slow switch-on with a low slew rate reduces electromagnetic interference and overvoltage peaks occurring in the motor. This means less strain on the isolation of the electric motor, which in turn has a favorable impact on the life cycle and service costs of the motor.

Generally speaking, the slew rate control of a motor control unit is fixed during the development phase by means of a resistor and cannot be changed during operation. The new component EiceDRIVER™ 1EDS-SRC now breaks this paradigm and permits dynamic adjustments to be made to the slew rate to adapt it to changing operating conditions. This innovation helps reduce power loss from the motor control unit. With the new EiceDRIVER™ 1EDS-SRC, the system costs are reduced by saving on cooling efforts. Its application is in motor control units for industrial drives, such as, for example, inverters and servo drives with output in the 22 to 200 kilowatt range.

Success through application-specific IGBT devices in induction cooking

When designing power transistors, physical constraints render it impossible to optimize all characteristics independently of one another. In the case of IGBT technology in particular, it is not possible to minimize the switching losses independently from the conduction losses. Using the TRENCHSTOP™ 5 IGBT technology, we have nevertheless succeeded in achieving a considerable reduction in both switching and conduction losses.

TRENCHSTOP™ 5 was developed especially for typical 650-volt applications such as photovoltaic inverters, uninterruptible power supplies, electronically controlled welding equipment and induction cooking. TRENCHSTOP™ 5 constitutes the technological basis for many IGBT products, allowing us to achieve wider diversity of IGBT types and enabling us in turn to serve a larger market. We, therefore, ensure manageable complexity in manufacturing technology and benefit from the economies of scale due to the high number of units.

Midea induction cooker

A good example of the successful implementation of this strategy is our outstanding position in the field of induction cooking. In close cooperation with our lead customers, we have spent many years developing IGBT devices to meet the specific needs of the respective application – single-field induction cookers or multiple-field stoves. The most recent product is the IGBT transistor type RC-H5. It is based on TRENCHSTOP™ 5 technology and will be used in the induction cookers of Chinese manufacturer Midea.

New applications: charging infrastructure for electric vehicles and energy storage systems

The field of electromobility with its many facets provides us with a further field of application for power electronics. The largest market for electric and hybrid buses is now China. Some 10,000 such low-emission utility vehicles are manufactured there each year. Our EconoPACK™+ type IGBT modules are used in the electric buses of China's largest manufacturer, Yutong.

The proliferation of electric vehicles, whether private cars or utility vehicles, increases the need for a charging infrastructure. Here we are represented, for example, in the charging station of US electric vehicle manufacturer Tesla.

Charging station at electric vehicle manufacturer Tesla

Battery-based energy storage systems to store surplus renewable energy during times of high wind or intensive sun constitute a further new application. We have received the first orders for IGBT modules for such energy storage systems from Korea.

Market position

World market for discrete power semiconductors and modules

During the early months of 2013, the world market for power semiconductors – including discrete power semiconductors and modules, but excluding power ICs – continued to see the downturn that began in 2012. Although it was followed by a continuous recovery throughout the remainder of 2013, the market nevertheless contracted slightly during the 2013 calendar year by 0.3 percent to US$15.373 billion (2012: US$15.422 billion). Infineon not only managed to buck the trend and increase its revenue, but also achieved the largest gain in market share (0.9 percentage points) of any competitor. Infineon now holds a market share of 12.3 percent and a 5.1 percentage-point lead (2012: 3.7 percentage points) over its nearest competitor. The five largest competitors together held 36.8 percent of the market.

World market for IGBT modules

In the 2013 calendar year, the world market for IGBT modules contracted by 3.3 percent to US$3.053 billion (2012: US$3.155 billion). Among the ten largest competitors, Infineon recorded the highest growth in revenue and improved its market share by 1.1 percentage points to 20.5 percent. Infineon, therefore, remained in second place, but reduced the gap with the market leader to 5.6 percentage points (2012: 8.3 percentage points). The five largest competitors together held 74.0 percent of the market.

Infineon remained market leader in three key markets: in EMEA (Europe, Middle East and Africa) with a market share of 30.4 percent (plus 0.4 percentage points), in Americas with a market share of 36.1 percent (plus 1.3 percentage points) and in China with a market share of 26.9 percent (plus 0.9 percentage points).

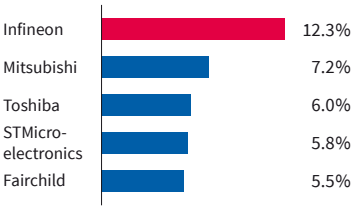
World market for discrete IGBT devices

In the 2013 calendar year, the world market for discrete IGBT devices grew by 0.6 percent to US$968 million (2012: US$962 million). Of all competitors, Infineon achieved by far the largest growth in market share, which rose by 3.7 percentage points to 24.7 percent. The five largest competitors together held 78.4 percent of the market.

Infineon managed to increase its market share in all regions and to retain market leadership in EMEA and China. The greatest progress was made in the Americas, where our market share rose from 5.0 percent in the previous year (6th place) to 15.2 percent now (2nd place).

G 25

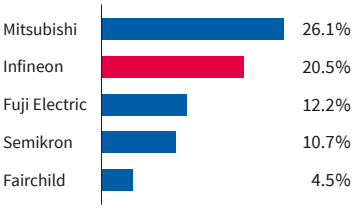
World discrete power semiconductors and modules market share



Source: IHS Inc., "Power Semiconductor Discretes & Modules Report – 2014", September 2014

G 26

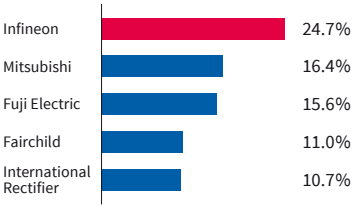
World IGBT modules market share



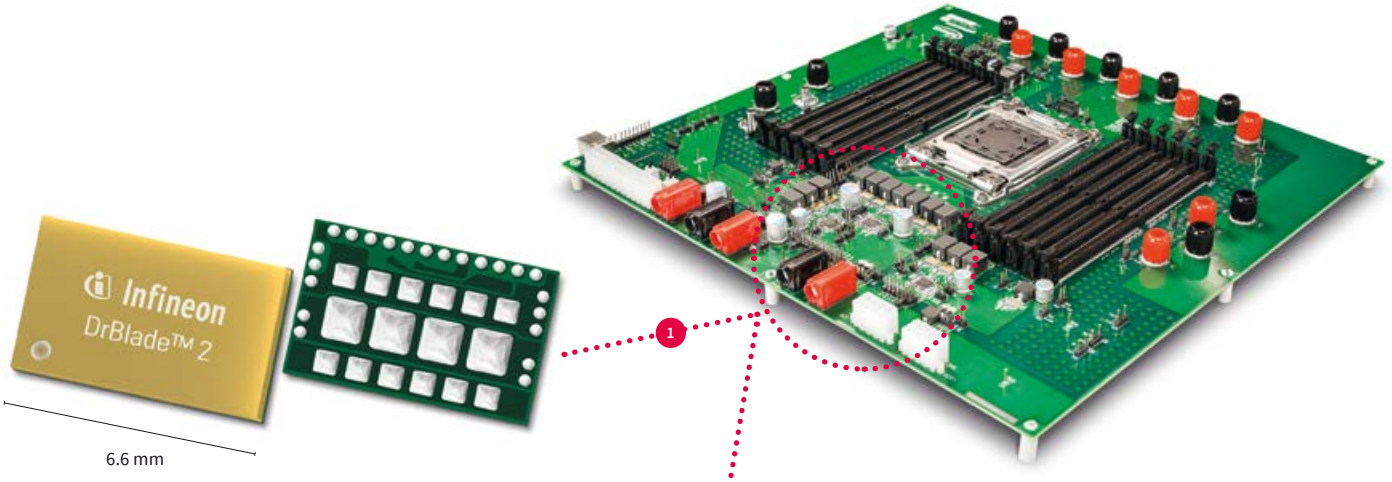
Source: IHS Inc., "Power Semiconductor Discretes & Modules Report – 2014", September 2014

G 27

World discrete IGBT power semiconductors market share



Source: IHS Inc., "Power Semiconductor Discretes & Modules Report – 2014", September 2014



1

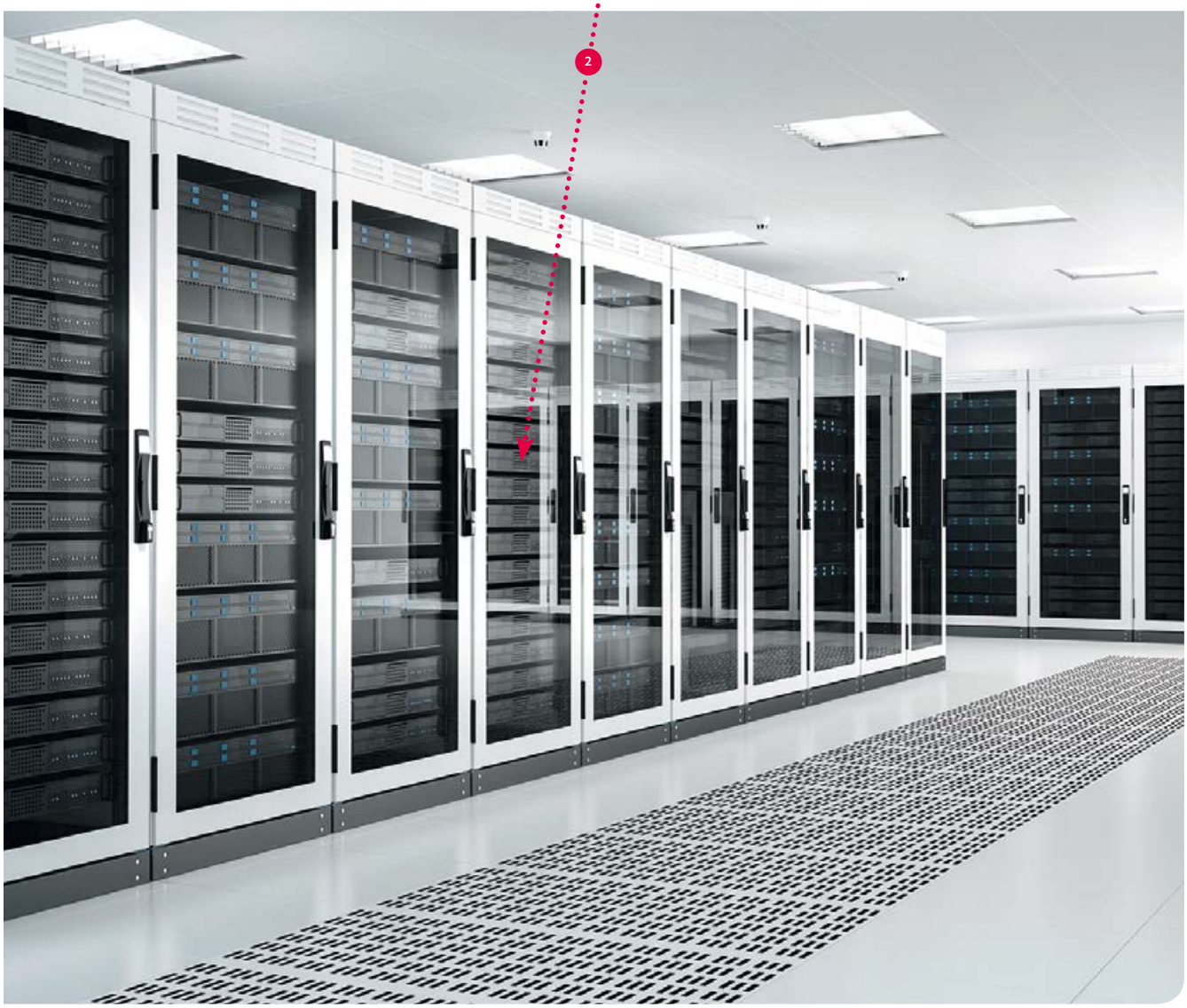
DrBlade™ 2 integrated power stage

DrBlade™ 2 combines two power transistors and a driver IC in a compact package only 0.6 millimeters high. Combined with our digital controller IC, DrBlade™ 2 is our solution for digital power management.

2

Power supply for processors in servers

Our system solution provides outstanding efficiency for the power stage of server CPUs, regardless of load conditions, helping reduce power consumption in data centers with thousands of servers.



POWER MANAGEMENT & MULTIMARKET

Revenue:	**€1,061 million**
Segment Result:	**€172 million**
Highlights:	**Change in strategic direction from "product thinking" to "system understanding" well underway**
	Infineon market leader for standard power MOSFET devices for the first time

The Power Management & Multimarket segment in the 2014 fiscal year

Revenue

The Power Management & Multimarket segment generated revenue totaling €1,061 million in the 2014 fiscal year, 7 percent up on the previous year's figure of €987 million. The segment accounted for 25 percent of Infineon's total revenue.

The growth in revenue is due to three fundamental drivers. First, the growing demand for discrete power semiconductors and power ICs. In particular, the introduction of digital power management concepts for DC/DC power management in servers had a highly positive impact on sales. Demand for controller ICs, driver ICs and low-voltage power MOSFET transistors all rose on the back of this trend. Second, demand for semiconductors in mobile devices increased, due to higher unit sales and a higher semiconductor contribution from Infineon per device, which had a positive effect mainly on radio-frequency (RF) components and silicon microphones. Apart from growth in the actual number of units sold, strategically important customer projects, such as the design-in of our components in the flagship models of an Asian smartphone manufacturer, also helped boost revenue figures. Third, the worldwide introduction of the fourth generation (the so-called LTE standard), led to revenue growth for our RF power transistors, particularly in China.

There were no significant changes in the regional revenue split compared with the previous year. At 72 percent (2013: 74 percent), the high percentage attributable to Asia-Pacific (including Japan) was due to the fact that most subcontractors producing electronic devices are based in this region and consequently manufacture there. The percentage attributable to Europe increased from 19 percent last year to 22 percent in 2014. At 6 percent, the share attributable to the Americas remained virtually unchanged (2013: 7 percent).

Segment Result

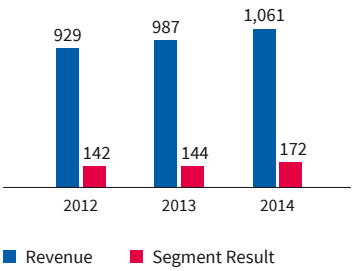
The Segment Result totaled €172 million, 19 percent up on the figure of €144 million recorded one year earlier. The Segment Result Margin corresponded to 16 percent of revenue.

The improvement in Segment Result was mainly driven by the increase in revenue. The strong revenue performance led to increased earnings and better utilization of manufacturing capacities. The considerable cost attributable to manufacturing capacities not being fully utilized in the previous fiscal year was, therefore, sharply reduced. By contrast, increased expenses for platform developments, such as new concepts for digital power management or new materials for power semiconductors, had a negative impact. Both research and development expenses and the cost of selling activities increased.

G 28

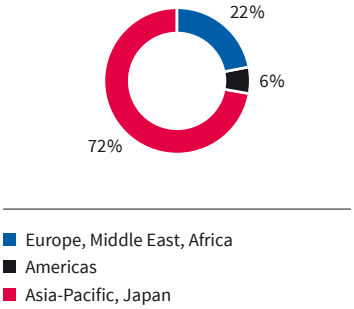
Revenue and Segment Result of the Power Management & Multimarket segment

€ in millions



G 29

Power Management & Multimarket segment revenue by region



Business strategy and fields of application

The Power Management & Multimarket segment has three major fields of application:

1. Discrete and integrated power semiconductors for supplying power to a variety of devices in the field of information and telecommunications infrastructure, consumer electronics and mobile devices (smartphones and tablets);

2. Components for smartphones and tablets: Chips for silicon microphones as well as radio-frequency (RF) and small-signal components;

3. Radio-frequency power transistors for the cellular network infrastructure.

The Power Management & Multimarket segment offers all of the main components for the power supplies mentioned in the first item above: Low-voltage OptiMOS™ power transistors, high-voltage CoolMOS™ power transistors, driver ICs and control ICs. The power range we address spans from 10 watts for a smartphone charger through to 3 kilowatts for the power supply of a server.

Further optimization of individual power semiconductor components is unlikely to result in higher efficiency or compactness. This is where our strategic approach “Product to System” comes in. The combination of highly efficient power transistors and ICs in the most advanced packaging technology on the one hand, together with system understanding on the other, makes it possible to manufacture new semiconductor products with a completely new level of efficiency and compactness.

In view of the planned acquisition of International Rectifier, we will be extending the Power Management & Multimarket segment’s product portfolio in several areas. First, with low-voltage power transistors in largely complementary fields of application; second, with solutions for DC/DC conversion, and third, with highly reliable components used for example in aircraft, satellites and medical devices.

For mobile devices we supply special components such as chips for silicon microphones, RF antenna modules, LNAs (low-noise amplifiers) for satellite navigation and small-signal components such as TVS (transient voltage suppressor) diodes that protect against electrostatic discharges. With our RF knowledge, comprehensive system understanding and our packaging technology oriented towards miniaturization, we help our customers gain a competitive advantage. We are conducting research on new architectures, materials and manufacturing technologies to ensure that – going forward – our components will meet the increasing requirements in terms of functionality, level of integration, ruggedness and signal quality.

RF technology is also an important factor in cellular network infrastructures. We supply RF power transistors for base stations that are used both when transmitting signals to cell phone users and for backhaul network management.

Additional fields of application in the Power Management & Multimarket segment are conventional light management as well as LED lighting systems and micro inverters for photovoltaic rooftop systems.

Fields of application

Light management systems and LED lighting systems

Micro inverters for photovoltaic rooftop systems

Mobile devices
- Navigation devices
- Smartphones
- Tablets

Mobile phone network infrastructure

Power supply for:
- Consumer electronics
- IT and telecommunications
- PCs and notebooks
- Servers
- Smartphones
- Tablets

Markets, trends and solutions

Requirements for supplying power to individual devices are increasing. Firstly, legal regulations require power supplies (including adapters and chargers) to be increasingly efficient. Secondly, power supplies are expected to be made more compact for practical reasons. Thirdly, users want smartphones and tablets to charge at ever faster rates. All of these customer requirements place new demands on the efficiency and size of power supplies. The power density, i.e., the electrical power converted within a certain component size, is becoming a decisive parameter.

Meeting the growing requirements for power supplies with digital power management concepts

Supplying power to electrical devices basically comprises two stages. First, the so-called AC/DC conversion converts the alternating current (AC) to direct current (DC). Second, the direct current is precisely adapted to the requirements of the point of load, for example the processor of a server. This second step is known as DC/DC conversion.

G see glossary, page 277

G see glossary, page 278

Two trends have been identified in the field of power supplies:

1. Their efficiency is expected to increase, despite the simultaneously growing complexity of load profiles. However, there is a transition happening, from maximum efficiency at one single point of load to optimized efficiency across an entire operating range, such as at stand-by with practically 0 percent load, to a low load of 20 percent, an average load of 50 percent and finally maximum load of 100 percent.

2. Over the last few years, apart from an increase in efficiency, the main focus has been on the size and weight of power supplies. Notebook adapters and chargers for mobile devices needed to be made increasingly smaller and lighter. Whereas there is still a demand for smaller notebook adapters, in the meantime most adapters for tablets and smartphones have been fully integrated in the plug, much to the satisfaction of customers. Over the next few years, shortening the charging time of these devices will become the most important factor. Mobile devices are being equipped with ever more powerful batteries in order to extend operating times. However, this leads to adapters taking a comparatively long time to charge. Shorter charging times are an advantage for the customer, and, therefore, an important differentiating factor for the device manufacturer. However, shorter charging times require a higher charging current, which usually involves a larger form factor. As larger chargers are not accepted by customers, the power density of the charger needs to be increased.

Chargers for smartphones and tablets have been fully integrated in the plug

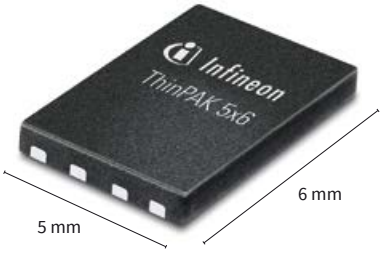
Infineon will play a key role in these two development trends – high efficiency across a broad operating range and higher power density – due to its innovative digital power management concepts. Developers of power supplies appreciate our digital power management concepts, as they make it possible to implement functions that would be technically highly complex to implement using analog design concepts. Using digital power management concepts, the functionality can be adapted by means of software and firmware modifications. The resulting success factors for our customers are shorter development cycles and a high degree of flexibility.

G see glossary, page 279

.dp: Our digital power management solution for AC/DC conversion

Our digital power management solution for AC/DC conversion is known as “digital platform”, or “.dp” for short. It consists out of a digital signal processor, memory for code and drivers for high-voltage power transistors. Trimmed to suit this highly integrated solution, we are also offering high-voltage CoolMOS™ power transistors in increasingly compact packages. In the 2014 fiscal year we presented a CoolMOS™ power transistor in the smallest package ever, thus combining functionality with high electrical power in a minimum of space.

A CoolMOS™ power transistor in the smallest packaging ever presented – the ThinPAK 5x6



A .dp solution for chargers is always a customer-specific solution. As it is implemented by software, it can be quickly realized and the wide range of derivatives is easy to control. In collaboration with our customers in the area of mobile devices, flat screen TV sets and LED lighting systems, we are developing a solution to specifically meet the requirements of the customer application. The properties of the power supply are adjusted optimally via the firmware as well as application-specific system parameters. The products that make up today's ".dp" family cover the power range from 30 to 300 watts.

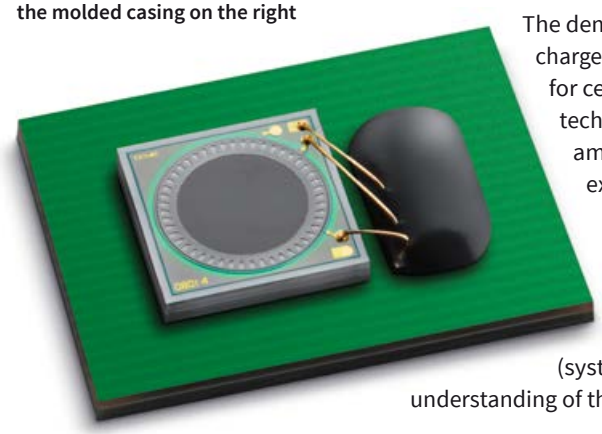
Together with a digital controller IC, the new DrBlade™ 2 power stage enables complete, highly efficient digital DC/DC conversion

For DC/DC conversion, too, the digital power management concept is becoming increasingly the solution of choice. Infineon is now offering the fourth generation of digital control ICs. The DrBlade™ 2 power stage contributes towards a complete, highly efficient solution for DC/DC conversion. DrBlade™ 2 is an integrated power stage that combines two low-voltage OptiMOS™ power transistors and a driver IC integrated in a compact package only 0.6 millimeters high.

During its development, DrBlade™ 2 was adapted to the digital controller IC. Apart from the power stage, DrBlade™ 2 also includes current and temperature sensors. The measured data are evaluated by the digital control IC, which simplifies the system design and enables developers of servers and datacom applications to shorten their development cycles.

Infineon's digital DC/DC system solution can be quickly adapted to the load, which is substantially more difficult and complex, and, therefore, more costly to achieve with an analog system design. Regardless of load conditions, the digital system solution offers the utmost efficiency and achieves an efficiency of more than 95 percent, leading to an improvement in system performance with significantly reduced losses, and, therefore, less cooling efforts. End users, such as data center operators, benefit from reduced energy costs and, thereby, lower total operating cost across the entire life cycle.

Silicon microphone: the round membrane is on the left. The IC for signal conversion is located under the molded casing on the right



Mobile devices: higher sensitivity required for radio-frequency components and for chips for silicon microphones; data volume is driving network expansion

The demand for smartphones and tablets is growing rapidly. In addition to chargers for these devices, we are well positioned in the supply of components for certain functions within the devices themselves. RF switches in CMOS technology for switching between various signal paths and LNAs (low-noise amplifiers) for satellite navigation with high signal sensitivity are two examples of our RF expertise in these applications.

We are continuously adapting our product portfolio to meet the changing market requirements. The next significant step in the field of CMOS RF switches is to integrate all relevant functions in one module (system-in-package) or, as far as possible, monolithically on one chip (system-on-chip). This integration step is only feasible with a profound understanding of the RF system.

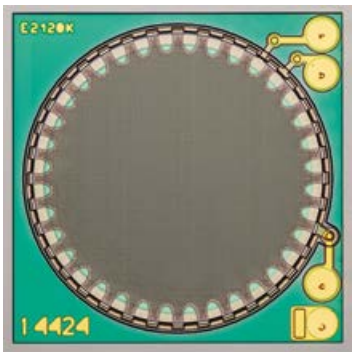
We are also focusing on chips for silicon microphones, for which we provide two core components: the MEMS sensor with the microphone membrane and the application-specific IC for signal conversion (see also the chapter "Research & Development"). The objective behind manufacturing the membranes is to increase sensitivity and at the same time improve resilience to vibrations and shock.

G see glossary, page 281
P see page 69

The latest generation of mobile devices requires several, partly different types of microphone of ever higher sensitivity. These higher-quality microphones are not only a differentiating feature of the smartphone manufacturer, but open up completely new options for application. For instance, voice control is then possible in environments with a high level of background noise. Additional microphones as well as microphones with higher quality have made a noticeable improvement in voice control. The quality of telephone calls made via the Internet (VoIP calls) is also improving and becoming a more important factor.

The growing number of mobile devices entails a need to adapt the mobile communications network infrastructure to cope with the increasing data volumes, which is evident in two aspects. First, the continually more advanced transmission standards (LTE for example) are raising the speed and throughput of data transmission. In this field, our RF power transistors are installed in the base stations to downstream data to the mobile devices. The second aspect is the sheer number of cellular network users within a small space, for example in pedestrian zones or at trade shows, where the cells are being configured ever smaller in order to avoid overloading the network. For this reason, over the next few years cellular network operators will have to invest in infrastructures with so-called micro and pico cells in order to offer cell phone users fast Internet access and full network coverage. In the 2014 fiscal year, Infineon presented its first components for cellular network backhaul systems.

The membrane of a silicon microphone is less than 1 millimeter in diameter



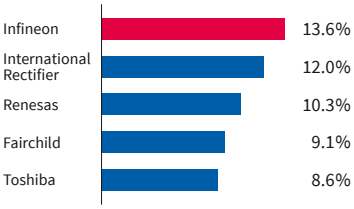
Market position

Standard power MOSFET devices

In the 2013 calendar year, the world market for standard power MOSFET devices (low-voltage and high-voltage MOSFETs) reached a size of US$5.457 billion, an increase of 1.5 percent compared to the previous year's figure of US$5.374 billion (source: IHS Inc.). Infineon gained market share in all of its regions and, at 1.6 percentage points, recorded the largest growth in market share of all competitors. With market share of 13.6 percent, Infineon became market leader for the first time. The five largest competitors held 53.6 percent of the market.

G 30

World standard power MOSFET market share



Source: IHS Inc., "Power Semiconductor Discretes & Modules Report – 2014", September 2014

Chips for silicon microphones

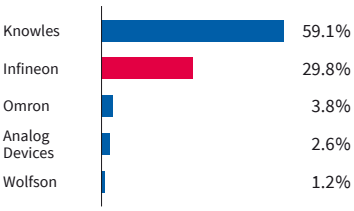
Market research company IHS Inc. estimates that 2.630 billion chips for silicon microphones were sold worldwide in the 2013 calendar year, compared with 1.924 billion in the previous year, a growth rate of 36.7 percent.

Infineon succeeded in increasing its sales volume at faster-than-market-average rate of 53.9 percent from 510 million to 785 million units, thus adding a further 3.3 percentage points to our market share, which increased from 26.5 percent in the 2012 calendar year to 29.8 percent in the 2013 calendar year. Infineon, therefore, gained far more market share than any of its competitors. The five largest competitors held 96.5 percent of the market.

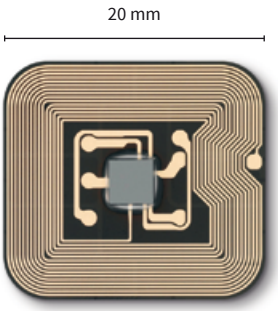
In 2013, some 79 percent of all silicon microphones produced were installed in cell phones and tablets. In the future too, the majority of silicon microphones will be absorbed by these two product categories. Headsets accounted for 9 percent of all silicon microphones sold, notebooks for 6 percent. The remaining 6 percent were installed in set-top boxes, cameras, gaming consoles, medical and automotive applications as well as fitness measurement devices and watches. The last two applications are known as "wearable electronics".

G 31

World silicon microphone ICs market share by units



Source: IHS Inc., "MEMS Microphones Report – 2014", April 2014



1

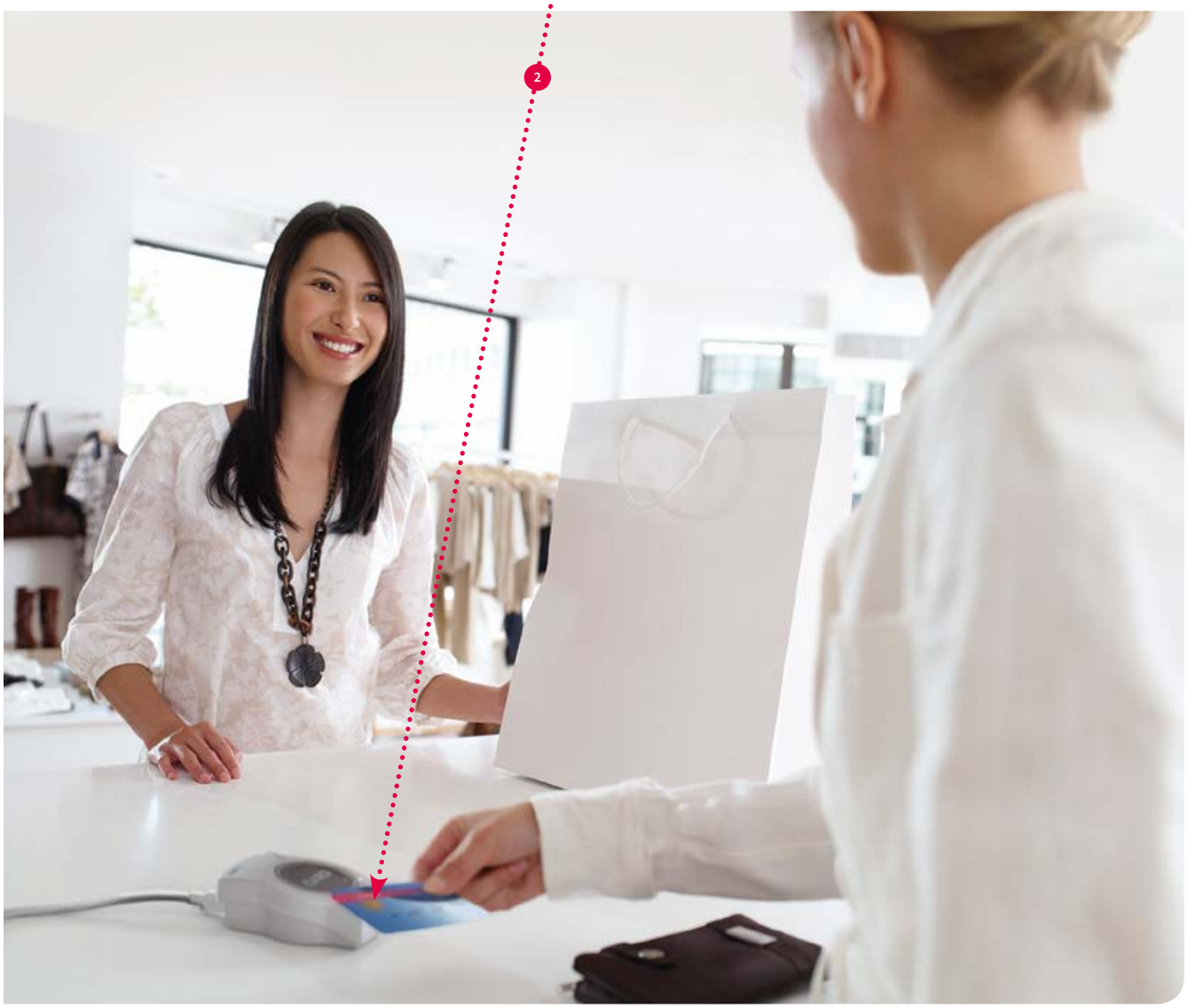
"Coil on Module" (CoM) package technology

CoM package technology is an innovative chip package for dual-interface cards, i.e., for cards with both contact-based and contactless interface. The chip (center of picture) has an RF link to the card's antenna instead of the previously widespread mechanical-electrical connection.

2

Chip-based credit card in China

Magnetic-strip-based credit cards are currently being replaced by chip-based solutions throughout China and the USA. Several billion cards will be shipped to customers during the next few years. The CoM package technology is now also available for use in government identification documents.



CHIP CARD & SECURITY

Revenue:	**€494 million**
Segment Result:	**€43 million**
Highlights:	**High growth rates for electronic payment cards resulting from introduction of chip-based credit cards in China and the USA**
	Connected devices drive demand for authentication solutions

The Chip Card & Security segment in the 2014 fiscal year

Revenue

The Chip Card & Security segment generated revenue totaling €494 million in the 2014 fiscal year, 7 percent higher than the previous year's figure of €463 million. The segment generated 11 percent of Group revenue.

In the first half of the 2014 fiscal year, the increase in revenue was attributable mainly to business in electronic payment cards, government identification and authentication solutions. The trend continued throughout the second half of the year, reinforced by good sales of security controllers for SIM cards with NFC functionality.

At 54 percent, the most significant revenue increase compared to the previous year was with payment cards, the decisive factor being the introduction of chip-based credit cards in China and the USA.

A particularly striking feature of the regional revenue split is the significant growth in the percentage attributable to the Asia-Pacific region (including Japan), which rose to 48 percent (2013: 41 percent). There are several reasons for this: firstly, the introduction of chip-based credit cards in China, secondly, the positive business trend in both SIM cards with NFC functionality and security chips for authentication solutions, and thirdly, projects in the field of government identification in several Asian countries. Correspondingly, Europe's 50 percent share in revenue recorded one year earlier has now fallen to 44 percent. The Americas region accounted for 8 percent of revenue (2013: 9 percent), with the largest project in this region being the electronic passport in the USA.

Segment Result

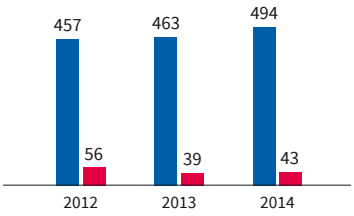
The Segment Result amounted to €43 million, an increase of 10 percent compared to the previous year's €39 million. The Segment Result Margin amounted to 9 percent of revenue.

The improved Segment Result was mostly due to the rise in revenue and a higher gross margin, resulting from a changed product mix. On the other hand, the fact that expenses for selling activities rose even faster than revenue had a negative impact. The increase in research and development and administrative costs was more or less proportional to revenue.

G 32

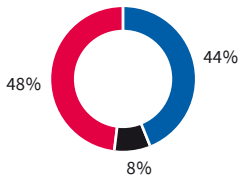
Revenue and Segment Result of the Chip Card & Security segment

€ in millions



G 33

Chip Card & Security segment revenue by region



Business strategy and fields of application

The Chip Card & Security segment sees its core competencies mainly in the fields of security, contactless communication and embedded microcontroller solutions (embedded control). We have created innovations in these fields, some of which are multi-award-winning: Integrity Guard for security, Coil on Module for contactless communication and SOLID FLASH™ for security controller solutions. With these three base technologies and further security solutions, we offer a broad portfolio of semiconductor-based security products for a wide range of chip card and security applications. With its extensive expertise, Infineon is providing greater security in an increasingly connected world, such as for mobile payments, secure cloud computing and secure, electronically readable governmental identification documents.

More than 25 years of experience in the largest and most sophisticated security projects in the world have enabled us to become market leader in technology for security ICs. Alongside major projects in payment and government identification, we see increasing growth potential in smaller and regional security projects. We shall offer our worldwide leading security expertise to a wider clientele going into the future:

- We are diversifying our customer portfolio and enlarging our sales structure, which has hitherto focused more on large-scale customers. We see potential in gaining a growing percentage of smaller regional customers on the one hand and in bolstering our distribution channels on the other. As a result of broadening our product portfolio in recent years, we are now able to service these customer groups appropriately. The expansion of our portfolio includes not only hardware-based products but also design support as well as software solutions.
- We are building up our presence in the various regions in order to improve our service to locally based customers and better cater to their specific requirements. Our aim is to obtain an even greater understanding of the factors that make our customers successful in each of their regions. Often, it is not only a technically superior product which is in demand, but a solution that offers the best value for money, i.e., it fulfills the specific security requirements for the application at the lowest possible system cost.
- We are extending our range to include software and services in order to satisfy the diverging requirements of our customers in a broad range of countries. We offer support for certifying security solutions, provide reference designs and offer software closely related to our security controllers (such as firmware, driver software or hardware-related application software). These services help minimize our customers' time-to-market.

G see glossary, page 279

Fields of application

Authentication
- Accessories
- Games consoles
- Industrial controllers
- Spare parts

Governmental identification documents
- Driver's licenses
- Electronic passports
- ID cards

Healthcare cards

Mobile communications
- High-end SIM cards (NFC-based)
- Machine-to-machine communication
- Standard SIM cards

Near field communication (NFC)

Payment systems
- Credit/debit cards
- NFC-based, contactless payments

Ticketing, access control

Trusted Computing

Markets, trends and solutions

Infineon continues to operate in the conventional chip card application fields. These include, for example, payment cards, SIM cards for mobile communication and security solutions for electronic governmental applications, such as, for example, passports and ID cards. Alongside these activities, we shall also be focusing more and more on new and rapidly growing applications in which the security aspect is of increasing importance. These applications include mobile payments with NFC technology, the protection of electronic devices in connected systems and the diverse field of authentication. Authentication is used in accessories and spare parts, as well as in industrial controllers, among other applications. Overall, we are expecting higher business growth in the total of these applications than in our traditional markets.

G see glossary, page 277

Introduction of chip-based credit cards in China and the USA

Chip-based cards enhance security for cashless payments. Europe had already embarked on the replacement of magnetic strip-based cards by chip-based payment cards years ago. This conversion is now also taking place in China and the USA. Both countries currently offer the biggest market potential in the field of payment: Several billion chip-based credit cards will be deployed to customers over the next few years. For the period from 2014 to 2018, market researchers forecast the delivery of over 2.9 billion cards in China and over one billion in the USA.

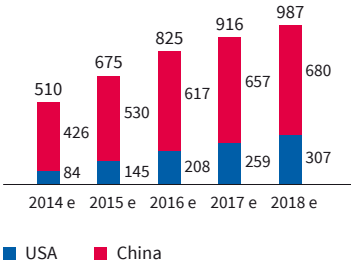
Our technology enjoys a high level of acceptance, attributable not only to our many years of excellent customer support and relations, but also to our extensive, renewed and customized product portfolio. We have secured orders from nearly all main card manufacturers supplying the US market. As a result, the majority of platforms offered by card manufacturers are based on our SLE 7x family of security controllers (source: VISA). We are currently achieving similar market success in China, where we serve the local market via several well-known card manufacturers.

The success of our security technology is reflected in the above-average growth in revenue of 54 percent recorded for our payment business in the 2014 fiscal year compared to the previous year. In the coming years too, our payment business will be among the most rapidly growing fields within the Chip Card & Security segment.

G 34

Expected growth in chip-based payment cards in the USA and China

in millions of cards



Source: IHS Inc., "Payment & Banking Cards Report – 2014", May 2014

Continued worldwide growth in governmental identification documents and ID projects

Governmental identification documents include passports, national ID cards, driver's licenses and, in the wider sense, also healthcare cards. Such documents are increasingly equipped with a security chip. Infineon's products offer digital, durable, hardware-based security and, thereby, comply with the multitude of requirements necessary for electronic governmental identification documents. As they are often valid for ten years or more, it is essential that they are secure enough to withstand hacker attacks over such a long period of time. We developed Integrity Guard, our multi-award-winning security technology, precisely to meet these specifications.

Infineon meanwhile supplies over 70 percent of all government ID projects in Europe. In addition, according to the US Government Printing Office, Infineon is one of the main suppliers of security technology for the USA's electronic passports. It is the largest electronic passport project in the world. Infineon has been supplying the US Government Printing Office since the project began in 2005. Up to the end of the 2014 fiscal year, Infineon had delivered approximately 90 million units to the US Government Printing Office.

Government ID projects in Europe based on Infineon's security controllers

Austria
Belgium
Bulgaria
Croatia
Cyprus
Czech Republic
Denmark
Estonia
Finland
France
Germany
Ireland
Italy
Kosovo
Luxembourg
Netherlands
Norway
Poland
Portugal
Serbia
Slovak Republic
Slovenia
Spain
Sweden
Switzerland
Turkey
United Kingdom

NFC functionality enables contactless payment by smartphone

NFC: Contactless payment with mobile devices

Mobile devices (cell phones, tablets and wearables) are gradually being transformed into wallets. By means of NFC (near field communication) technology, numerous functions and applications can be implemented in mobile devices, such as, for example, vouchers, tickets and, of course, payment services. As a result, demand is growing for the secure storage and protection of confidential information on these devices.

Infineon provides the security chip for this purpose, the so-called embedded Secure Element (eSE). The eSE can either be integrated in the SIM card controller, incorporated in a microSD card, or mounted onto the printed circuit board of the mobile device. In contrast to most competitors, Infineon offers dedicated solutions for all three security concepts. For our eSE solution, for example, we managed to secure orders from leading smartphone and tablet manufacturers during the 2014 fiscal year. We also forecast growing demand for our security solutions in these product groups going into the future.

Standard SIM cards less in demand; new applications requiring high-end SIM cards becoming increasingly popular

The total market for SIM cards is currently stable. The usage of standard SIM card with memory capacity from 64 to 128 kilobytes without additional functionality is declining. In addition, there is a contraction in the use of prepaid SIM cards due to a necessity of registration in order to prevent anonymous use. This change has brought about a sharp decline in the sale of such cards.

Nevertheless, there are further subsectors that still hold out prospects of high growth for many years to come and on which Infineon is focusing to a great extent. These subsectors are:

- SIM cards for mobile payment. These cards are becoming more popular because the smartphone is being used increasingly as an electronic wallet. These cards tend to have a larger memory capacity of 1 to 1.5 megabytes.
- SIM cards with NFC functionality. This SIM card segment is growing, especially in China, fuelled by the roll-out of the 3G and 4G cellular network standard.
- SIM cards for machine-to-machine (M2M) communication. M2M communication will gain greatly in importance by virtue of the Internet of Things. M2M communication enables automatic exchange of data from devices to other devices or service centers. Examples of M2M applications include: infotainment applications in cars, toll systems, smart meters in the energy sector and telematics systems for emergency calls, maintenance and navigation.

Tailor-made end-to-end solutions for authentication with OPTIGA™ product series

In order to safeguard electronic systems, it is essential to connect only authorized devices to one another. In view of the growing number of connected devices being used by both businesses and consumers, this aspect is rapidly growing in importance. It is a matter of protecting the connected devices against piracy, data manipulation, hacking and cyber attacks. Security, therefore, needs to be introduced whenever possible at each end point.

With the OPTIGA™ product family, Infineon supplies various security chips and security solutions for electronic systems: from a complex IT infrastructure with numerous servers and computers to a system consisting of an end device and appropriate accessories, such as, for example, an MP3 player and headphones. The chips are integrated in the electronic devices and authenticate the individual system components.

Security requirements for the chip solution vary according to the application. Infineon, therefore, offers various product families for authentication and brings them together in the OPTIGA™ product family. These include the OPTIGA™ TPM, which ensures the system integrity of IT networks, and the OPTIGA™ Trust authentication chip, which helps to protect electronic accessories and spare parts against product piracy.

Infineon is enlarging the OPTIGA™ Trust product family to include a programmable version: the hardware-based OPTIGA™ Trust P security solution. Since the OPTIGA™ Trust P is programmable, individual security functions can be selectively adjusted to suit the security level of the application.

We see a very large market potential in authentication chips. With each security chip we offer a tailor-made, end-to-end solution with the best security level in its class. For all products in the OPTIGA™ family we provide our customers with system development support, thereby shortening the time-to-market of their products. In addition to the security chip, Infineon also supplies firmware and management software for the end device.

OPTIGA™ Trust: Thanks to the minimal package size of only 2 millimeters by 3 millimeters this security chip will fit into small devices such as in-ear headphones

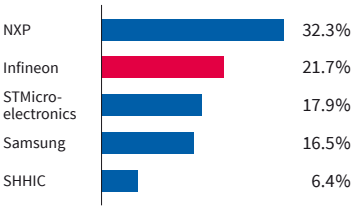
Market position

According to the latest study by market research company IHS Inc., in the 2013 calendar year Infineon held a 21.7 percent share of the world market for microcontroller-based chip card ICs. This market comprises contact-based and contactless microcontroller-based chip card ICs for applications in SIM cards, payment cards, access control, transportation and government ID, which means Infineon holds a leading position in all security applications.

This market grew by 9.7 percent from US$2.26 billion in 2012 to US$2.48 billion in 2013. In the 2013 calendar year, 7.83 billion microcontroller-based chip card ICs were sold worldwide (2012: 7.50 billion). The five largest competitors held 94.8 percent of the market.

G 35

World microcontroller-based chip card ICs market share



Source: IHS Inc., “Smart Cards Semiconductors Report – 2014”, July 2014

RESEARCH & DEVELOPMENT

In order to detect defective components as early as possible, fully processed chips are tested prior to sawing the wafer. For this purpose, the future environment of the application is electrically simulated, i.e., the bonding pads of the chips are contacted with probe heads literally as fine as a hair, in order to feed in the electrical test signals and read out the output signals. Any failed chip is then marked and rejected after the wafer has been sawn.

The electromechanical interface between the chip and the test equipment, which differs for each individual chip design, is known as a probe card (see picture). The probe heads are located on the back of the printed circuit board. The miniscule dimensions of today's chips and the reliability necessary for volume production require solutions that border on the technically feasible, making probe cards highly specialized hardware items that can cost five-digit amounts.

- Investments in research and development increased to €550 million in 2014 fiscal year
- Further technology transfers from 200- to 300-millimeter wafers completed on schedule
- Next step in silicon microphone innovation finalized: dual backplate technology for distortion-free recording of high sound levels

Innovation plays a significant role as a key differentiating factor in our strategic approach "Product to System". Leading technologies are a major contributor to Infineon's success, helping to safeguard and retain our position as a leading semiconductor manufacturer going into the future. We are focusing our research and revelopment activities on the following key points:

- Power semiconductor products,
- Radio-frequency components,
- Analog/mixed-signal designs,
- MEMS (micro-electromechanical systems) and sensors,
- Microcontrollers for automotive, industrial and security applications,
- Frontend and backend manufacturing technologies.

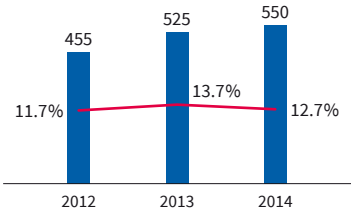
G see glossary, page 281

Research and development expenses amounted to €550 million in the 2014 fiscal year, compared with €525 million in the previous fiscal year; an increase of 5 percent. As a percentage of revenue, we spent 12.7 percent on research and development during the 2014 fiscal year, compared with 13.7 percent one year earlier. We, therefore, remain within our desired target corridor of a low- to mid-teens percentage.

G 36

R&D expenses

€ in millions



At the end of the 2014 fiscal year, 4,822 people, or 16 percent of Infineon's total workforce, were employed in our research and innovation network worldwide. At the end of the 2013 fiscal year, Infineon employed 4,472 people in that field (17 percent of the total workforce). Our research and development sites are situated at 21 locations in 11 different countries (see map in the chapter "R&D and Manufacturing Sites", P page 76/77).

Capitalized development costs totaled €92 million in the 2014 fiscal year, significantly higher than one year earlier (€51 million). Amortization of capitalized development costs for the 2014 fiscal year totaled €25 million (2013: €19 million). Subsidies and grants for research and development increased from €52 million in the 2013 fiscal year to €66 million in the fiscal year ended September 30, 2014.

Research and development expenses are not only being incurred for developing new products, but also increasingly on entire platforms, giving rise to completely new product families. These include, for instance, the "Blade" chip-embedded packaging technology (see "Power Management & Multimarket" in the chapter "The segments"), the digital power management concepts (see "Power Management & Multimarket" in the chapter "The segments"), and power semiconductors based on the new materials silicon carbide and gallium nitride (see section below).

P see page 56

P see page 67

Patents

Infineon's innovative strength and long-term competitiveness are also apparent in both the quantity and the quality of our patents. We applied for some 2,100 patents worldwide in the course of the 2014 fiscal year, compared with around 1,700 patents one year earlier. The Infineon patent portfolio worldwide comprised approximately 21,000 patents and patent applications at the end of the 2014 fiscal year, compared with around 19,000 patents and applications at the end of the previous year.

As a result of the planned acquisition of International Rectifier, our patent portfolio will increase by a further 1,800 patents and patent registrations.

In conjunction with the extra-judicial settlement with the insolvency administrator of Qimonda AG in September 2014, in October 2014 Infineon acquired, among other things, approximately 8,800 patents and patent registrations, most of which relate to DRAM (Dynamic Random Access Memory) memory technology. Under the agreement reached, the disputes relating to the rights of Infineon and its licensees to continue to use the Qimonda patents have been settled. Since Infineon does not have any DRAM memory operations of its own, it plans to resell these patents and patent registrations.

Principal in-house research and development activities

Advances in 300-millimeter thin-wafer technology

In the 2014 fiscal year, Infineon continued to ramp up volume production of the high-voltage CoolMOS™ power transistors on 300-millimeter thin-wafer manufacturing lines in both Dresden (Germany) and Villach (Austria), as scheduled. The planned technology transfers from 200- to 300-millimeter wafer technology were all completed on time: the base technologies SFET4 and SFET5 for low-voltage OptiMOS™ power transistors and also the IGBT3 base technology for 1,200-volt IGBT devices (see the chapter "Operations").

P see page 74

Moreover, further technology transfers are now planned with the aim of enlarging our 300-millimeter product portfolio step by step. First, the IGBT4 base technology is due to be transferred in the course of the 2015 fiscal year, and second, SMART7 is the first development project for a power IC technology for automotive applications that has been started directly based on 300-millimeter thin-wafer technology.

Expansion at the Villach plant: Pilot space planned for Industry 4.0

In June 2014, Infineon announced plans to expand the Villach (Austria) site. Between 2014 and 2017, a state-of-the-art cluster of buildings is to be erected that will accommodate around 200 workplaces in research, manufacturing and measurement technology. In addition, during the same period, the existing logistics and infrastructure areas as well as the plant facilities are to be expanded to keep up with future requirements. These steps are designed to boost productivity and increase automation, which is necessary to stay ahead in an internationally competitive environment.

The main focus of the expansion is on building on our existing expertise to meet the manufacturing needs of the future as well as on research and development. "Pilot Space Industry 4.0" stands for the implementation of an innovative concept of connected, knowledge-driven manufacturing. Infineon is creating the pilot operation of a manufacturing facility based on a cyber-physical system with the latest manufacturing control and automation systems, featuring utmost data security and data integrity in which the interaction of man and machine is destined to enter a new dimension.

The second fundamental factor in the site expansion is a broad research program investigating innovations in material, processes, technology and system expertise. The research program is powering the development of the next generation of energy-efficient products. The main focus is on the utilization of new materials such as silicon carbide and gallium nitride, sensor technologies, the development of new MEMS (micro-electromechanical systems) and the advancement of 300-millimeter thin-wafer technology.

New development center opened in Malacca

In December 2013, a new development center was opened at our site in Malacca (Malaysia). Over time, laboratories and offices will be built to accommodate up to 400 employees on 3,000 square meters of floor space. Research and development activities have been conducted in Malacca since 2005. Previously, the site had been used mainly for backend manufacturing. Today, about 300 research and development staff members are engaged in developing new IC packaging technologies, chip tests, product characterization and test methodologies.

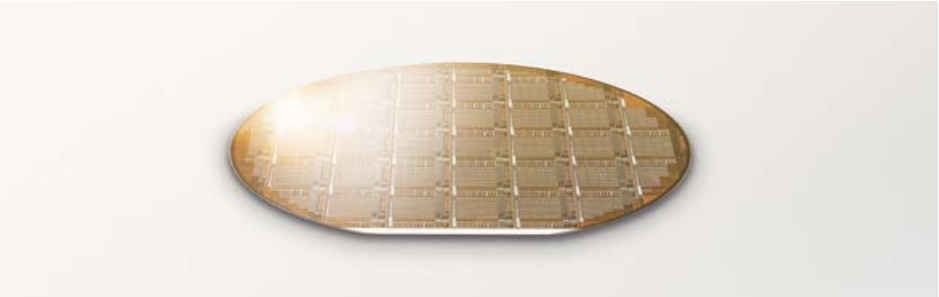
New materials for power semiconductors

The ideal power transistor needs to be small in size, sufficiently robust to withstand high temperatures and transient voltage, and show very little electrical resistance as well as minimal switching losses when switched on. It should also be capable of handling high switching frequencies, as this means the passive components used in the circuit (such as resistors and inductors) can be made even smaller. These factors not only reduce costs for the customer, but also the size and weight of the systems, which in turns means savings on expensive raw materials.

In the continuous search for even more efficient power semiconductors for increasingly compact power supplies and controls, new materials are becoming more and more important. Particularly silicon carbide (SiC, a combination of silicon and carbon) and gallium nitride (GaN, a combination of gallium and nitrogen) are the latest materials of choice. These new semiconductor materials are capable of switching higher voltages than silicon-based components with fewer losses, while offering greater compactness.

150-millimeter silicon carbide wafer

150-millimeter gallium nitride wafer



The fields of application suitable for SiC and GaN components are largely determined by their voltage classes. Whereas there is a distinct trend towards the use of SiC technology in applications over 1,000 volts, GaN technology is better suited for use at 650 volts and lower. When introduced to the market, GaN power transistors in the 650-volt class will be key components in terms of outstanding efficiency and extreme power density, such as in power supplies for servers and telecommunications systems. With increasing technological maturity, however, we also see GaN technology establishing itself in the lower voltage range (down to 100 volts).

Fifth generation of 1,200-volt SiC diodes

SiC Easy module with silicon carbide and traditional silicon components

P see page 111

Silicon carbide: product portfolio expanded – focus on best-value customer solution

As the market participant offering the most comprehensive range of power semiconductors, Infineon's focus is on the analysis of customer applications. Based on this analysis, we endeavor to provide customers with best-value solutions. Nowadays, solutions of this nature often rely on a coordinated combination of silicon and silicon carbide (SiC) components. It is the balance between the cost and performance benefits of the various components that ultimately leads to a sustainable improvement in customers' systems. These can relate to efficiency, costs, size, weight or time-to-market.

In 2001, Infineon was the first semiconductor manufacturer worldwide to market a SiC diode. In May 2014 we presented what is meanwhile the fifth generation of our 1,200-volt SiC diode, which features improved characteristics in terms of both static and switching losses.

Apart from our range of SiC diodes, which has become increasingly broad over the last few years, our SiC Easy modules are also enjoying ever-greater market success. Apart from SiC diodes, we also incorporate traditional silicon diodes and high-voltage CoolMOS™ power transistors as well as IGBTs in our SiC Easy modules. Together with our other power semiconductors in various packaging technologies, we help customers to individually optimize their systems in terms of cost, efficiency and size.

In the meantime, we also offer a SiC transistor, a so-called SiC-JFET (Junction Field Effect Transistor), including driver IC. The transistor enables our customers to retain their familiar circuit design and replace their previous power transistors with our SiC-JFET, including driver IC. The entire know-how required to control a SiC-JFET is integrated in this one driver IC. From the customers' point of view, the SiC-JFET works together with the driver IC like a "normal" transistor, but with greatly improved characteristics. Infineon received the "2014 Compound Semiconductor Industry Innovation Award" for this overall concept of easy-to-handle SiC-JFET and driver IC (see the chapter "Awards").

At present, the main fields of application for SiC components are photovoltaic inverters, switch mode power supplies for servers over 600 watts and uninterruptible power supplies, in which the degree of efficiency plays a decisive role. Going forward, we also see inverters for variable speed drives and, in the long term, traction as potential fields of application for SiC components. The most important factor here is the power density. Last but not least, electrically powered vehicles are also a possible field of application for SiC components, where they are most likely to be used in battery charging equipment, but also, under certain conditions, in the control systems of electric motors in the future.

Gallium nitride: power supplies more efficient and compact

The volume production of gallium nitride (GaN)-based components still lies somewhat further in the future. GaN transistors, however, offer completely new properties that are of interest, for example, to developers of power supplies. We believe that GaN transistors will lead to far greater efficiency in the field of power conversion, as they combine extremely low on-state resistance with minimal switching losses. They are, therefore, ideally suited for use at higher frequencies (compared with standard silicon transistors) and can be exploited to reduce the size of the overall system. However, this does not mean that a standard silicon-based power transistor will be simply replaced by a GaN power transistor. The full benefit will only be achieved when used with new power supply topologies, where they provide maximum efficiency and increased compactness for the overall system.

In Villach (Austria), where our competence center for power electronics responsible for developing the GaN technology is located, we have already implemented the first complete frontend pilot line for processing 150-millimeter GaN wafers. Fully functioning GaN-HEMTs (High Electron Mobility Transistors) are being manufactured on this line. As part of the site expansion in Villach, research on GaN technology is being further intensified (see also the section “Expansion at the Villach plant: Pilot space planned for Industry 4.0” earlier in this chapter).

P see page 66

We expect the planned acquisition of International Rectifier to significantly strengthen our position in the field of GaN power semiconductors as it will accelerate product development and shorten time-to-market. It will also give us access to a valuable portfolio of patents for manufacturing GaN transistors, particularly for the crucial epitaxy processes for the monocrystalline application of the GaN layer on a silicon wafer as a substrate, which has a completely different crystal lattice.

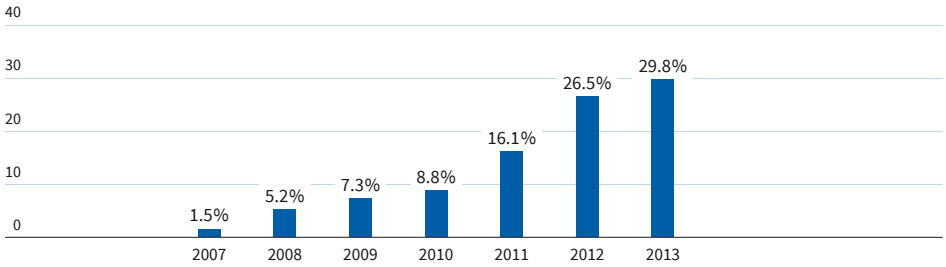
G see glossary, page 278

High-speed innovation in developing chips for silicon microphones: Next stage of innovation – dual backplate technology for distortion-free recording of high sound levels

Our market share for silicon microphone chips grew from 1.5 percent in 2007 to 29.8 percent in 2013. This success story is mainly due to three fundamental factors. The first of these is customer proximity. In very close, in-depth technical collaboration with our customers, we succeeded in gaining an understanding of their problems and challenges at an early stage in order to achieve an ideal product specification. The second factor has been our innovative strength. The standards for microphone signal-to-noise ratios and distortion factors are becoming increasingly stringent from year to year, and it is necessary to be innovative and keep up with the requirements. So far we have always managed to do so and launched a new generation of technology every year. Thirdly, quality and deliverability of our products has also helped us. Manufacturers of mobile devices appreciate our ability to swiftly ramp a new product in large volumes. Flexibility in manufacturing coupled with the quality assurance systems adapted from our Automotive segment has been an additional competitive advantage.

G 37

Development of Infineon’s market share for silicon microphone ICs from 2007 to 2013



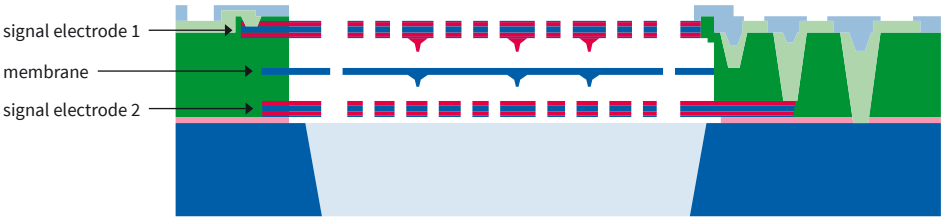
Source: IHS Inc., “MEMS Microphone Report – 2014”, April 2014

G see glossary, page 281

Our latest innovation step is the fully differential microphone, consisting of a differential MEMS sensor and a differential chip that can be calibrated for signal conversion. The sensor, which is manufactured using the so-called dual backplate technology, uses for the first time a membrane mounted between two signal electrodes for recording high sound levels without distortion. We are currently the only manufacturer capable of producing a fully differential microphone in high volumes.

G 38

Schematic illustration of a silicon microphone based on dual backplate technology; the membrane is positioned between two signal electrodes



Cross-segment development of pressure sensors: barometric sensors in automotive and smartphone applications

For many years, Infineon has been highly successful in the field of pressure sensors for automotive applications. Examples include sensors to measure barometric air pressure in order to optimize the fuel-air mixture in the combustion chamber. Another application is the side airbag, where the momentary increase in air pressure in the door is used to detect a side-impact collision and trigger the airbag. This pressure sensor technology, which we have utilized with great success in automotive applications, is now to be transferred to the consumer electronics and communications industry.

In an initial step, the Power Management & Multimarket segment is developing a pressure sensor for smartphones based on this technology. The standards for pressure sensors in smartphones differ from those used in the car industry in terms of size, measuring precision and power consumption, but also in terms of less obvious characteristics, such as signal conversion, type of interface, operating voltage and quality. For this reason, both the membrane and the IC for signal conversion need to be adapted to the new requirements.

A barometric pressure sensor in a smartphone can, for instance, be used to recognize the right floor in a multi-story building, making it possible to navigate within large buildings where no GPS signals can normally be received. This technology is known as indoor navigation. For instance, a customer could utilize this new function to be guided to a certain section within a large department store. It could also be used to direct people to the office they are looking for in a large administrative complex.

The first samples of pressure sensors for smartphones should be available by March 2015. Thus, we consistently use our cross-segment expertise to develop additional innovative uses of our previously tested and proven technologies such as use of security functions developed by the Chip Card & Security segment in automotive and industrial microcontrollers, and use of the pressure sensors in smartphones.

Key project “eRamp” to strengthen the European electronics industry, started under the leadership of Infineon

In April 2014, one of the most significant European research projects on the topic of energy efficiency has been initiated at the Infineon site in Dresden (Germany). The “eRamp” project, which is scheduled to run over a three-year period, has been initiated with the aim of further strengthening and enlarging Germany and Europe as locations of expertise for manufacturing power electronics. The project involves 26 partners from six countries: Germany, the Netherlands, Austria, Romania, the Slovak Republic and the United Kingdom. As world market leader in the field of power semiconductors, Infineon is heading the €55-million project.

The “eRamp” project partners are taking an in-depth look at the entire value-added chain in the power electronics industry, covering the generation, transmission and consumption of electrical energy. The research work is focusing principally on the faster introduction of new manufacturing technologies and on improving packaging technologies for power semiconductors. The project is aimed at gaining new knowledge to be leveraged in products that will be economically and ecologically beneficial for Europe as a whole.

The principal task of Infineon and its German project partners is to research and develop new methods for accelerating the ramp of manufacturing lines. In addition, Infineon, Osram and Siemens will set up testing facilities and demonstrators for evaluating a new chip-embedding technology.

In order to test the research results for their usability precisely where the new manufacturing techniques will be utilized, the research partners are making ideal use of existing pilot lines and their extensive production know-how at various sites, including Dresden (Infineon: power semiconductors based on 300-millimeter wafers), Villach (Infineon: semiconductor and system solutions), Reutlingen (Bosch: power semiconductors, Smart Power and sensors based on 200-millimeter wafers) and Regensburg (Infineon: packaging technology for power semiconductors).

Cooperation with industrial partners, universities and non-university research institutions plays a considerable role in augmenting Infineon’s innovation strength. The objectives of this collaboration are to intensify the communication between Infineon and the world of science, and to broaden our understanding of customer requirements and thereby to establish greater system understanding.

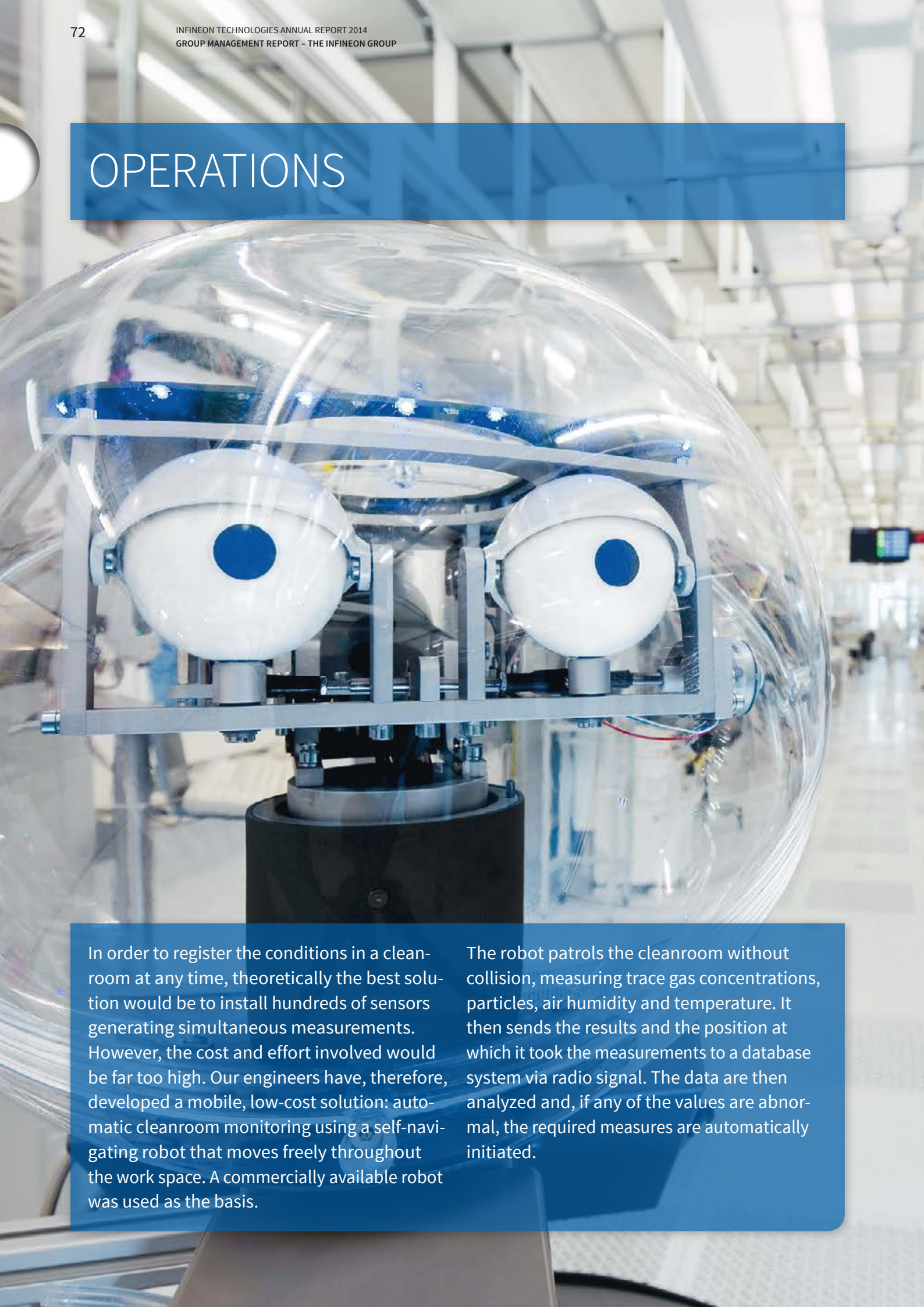
Three Infineon sites contribute their knowhow to the European research project “eRamp”:

Dresden:
300-millimeter thin-wafer technology

Villach:
Semiconductor and system solutions

Regensburg:
Package technology

OPERATIONS



In order to register the conditions in a cleanroom at any time, theoretically the best solution would be to install hundreds of sensors generating simultaneous measurements. However, the cost and effort involved would be far too high. Our engineers have, therefore, developed a mobile, low-cost solution: automatic cleanroom monitoring using a self-navigating robot that moves freely throughout the work space. A commercially available robot was used as the basis.

The robot patrols the cleanroom without collision, measuring trace gas concentrations, particles, air humidity and temperature. It then sends the results and the position at which it took the measurements to a database system via radio signal. The data are then analyzed and, if any of the values are abnormal, the required measures are automatically initiated.

→ Investments in 2014 fiscal year increased to €668 million

→ Strong demand for automotive semiconductors necessitates manufacturing capacity expansion

→ Manufacturing infrastructure prepared for further growth

Our investments during the 2014 fiscal year totaled €668 million. The figure represents an increase of €290 million (equivalent to 77 percent) on the previous year's investment figure of €378 million. The reasons for the higher level of investment are firstly that investments in the 2013 fiscal year were comparatively low, due to the relatively modest revenue performance at that stage, coupled with sufficient available manufacturing capacity. In addition, the economic upturn witnessed in the 2014 fiscal year – as well as our expectations of continued expansion in the coming years – called for new investment in additional manufacturing capacity.

Investments expressed as a percentage of revenue rose from 9.8 percent in the 2013 fiscal year to 15.5 percent in the 2014 fiscal year. The total investments of €668 million in the 2014 fiscal year were made up by €567 million related to property, plant and equipment (2013: €315 million) and €101 million related to intangible assets, including capitalized R&D costs (2013: €63 million).

By far the largest part of the investments in property, plant and equipment were spent in manufacturing sites. Of those, around 60 percent were invested in our frontend sites and the remainder in backend sites. Most of the investments in property, plant and equipment at our frontend and backend sites were attributable to the following:

- expansion of 300-millimeter frontend capacity,
- expansion of 200-millimeter frontend capacity,
- expansion of backend manufacturing capacity,
- expansion of chip-testing capacity,
- adaptation and re-equipping of production lines due to changes in the product portfolio, i.e., the commencement of volume production for new manufacturing technologies and products.

Above all, the high demand for products in the Automotive segment, particularly in the field of power semiconductors, had to be taken into account. Every link in the value chain was involved: frontend manufacturing, particularly in Kulim (Malaysia), backend manufacturing, particularly in Malacca (Malaysia) and chip-testing, predominantly in Singapore.

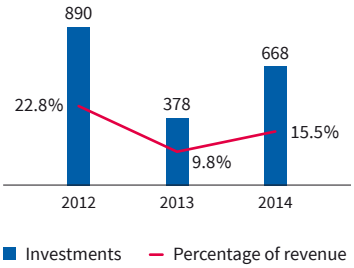
Overall, the level of investment in establishing new manufacturing capacities during the 2014 fiscal year was significantly higher than in the previous year. As a result, revenue grew by 12 percent during the 2014 fiscal year and in addition, we created a potential for further growth.

We operate a total of twelve manufacturing sites in eight countries: Dresden, Regensburg and Warstein (all in Germany), Villach (Austria), Cegléd (Hungary), Morgan Hill (USA), Beijing and Wuxi (both in China), Malacca and Kulim (both in Malaysia), Singapore, and Batam (Indonesia) (see map in the chapter "R&D and Manufacturing Sites"). As of 30 September 2014, our manufacturing sites employed a workforce of 21,959 people (30 September 2013: 19,458 people).

G 39

Investments [1]

€ in millions



1 Property, plant and equipment and intangible assets

P see page 76/77

The main areas of investment in the 2014 fiscal year

200-millimeter frontend site Dresden (Germany): increased automation and expansion of copper-based manufacturing capacity

We have invested in our European sites with a view to maintaining their competitiveness in the long term. In order to secure the future of the 200-millimeter frontend site in Dresden ("Dresden 200") we continued our program of raising the level of automation by implementing the third stage, which we will complete in the course of the 2015 fiscal year.

Furthermore, in "Dresden 200" we have continued to expand manufacturing capacities for copper-based CMOS technologies for microcontrollers and chip card ICs, achieving target capacity in the third and final stage during the 2014 fiscal year.

At the 200-millimeter frontend site in Dresden: the manufacturing line for components with copper-based metal layers

Product portfolio for 300-millimeter thin-wafer manufacturing expanded

In the 2013 fiscal year, Infineon began volume production of the high-voltage CoolMOS™ power transistors on the 300-millimeter thin-wafer manufacturing line. The two sites involved in the 300-millimeter frontend manufacturing network, in Villach (Austria) and Dresden (Germany), successfully obtained the required customer approvals. During the 2014 fiscal year, further technology transfers from 200- to 300-millimeter wafers were completed on schedule, namely the base technologies, SFET4 and SFET5, for low-voltage OptiMOS™ power transistors and the IGBT base technology, IGBT3.

First discrete IGBT device manufactured on 300-millimeter thin wafers

The first volume production lot with power transistors featuring the IGBT base technology IGBT3 on the 300-millimeter thin-wafer manufacturing line was launched on January 27, 2014. These wafers will be used for discrete 1,200-volt IGBT devices, such as those used in induction cookers as well as inverters for photovoltaic systems.

In line with the increased number of technology transfers, during the 2014 fiscal year investments were made at cleanroom manufacturing facilities for the 300-millimeter manufacturing network, in order to further expand capacity for the high-voltage CoolMOS™ power transistors and to commence volume production of the low-voltage OptiMOS™ power transistors.

We have received customer approval for the low-voltage OptiMOS™ power transistors as well as for the IGBT power semiconductors, both of which are manufactured in Dresden (Germany).

Following completion of the planned acquisition of International Rectifier, we will relocate the manufacturing of several of its products to our own sites, particularly to our 300-millimeter sites in Dresden (Germany) and Villach (Austria). Low-voltage and IGBT power semiconductors will be considered for relocation. These additional manufacturing volumes will enable us to reach some cost-per-chip milestones earlier than it would have been possible on our own. Both our own products and those of International Rectifier will become more competitive by capitalizing on these economies of scale.

Majority of innovations expected in the field of packaging technology: long-term expansion of backend sites, therefore, of great strategic significance

As a leading manufacturer of semiconductors with a high percentage of in-house manufacturing, Infineon sees innovations in packaging, assembly and bonding technologies just as important as progress in the field of wafer processing. The same is true for high-voltage power semiconductors (such as IGBT modules), for low-voltage power semiconductors (such as MOSFETs) and also for radio-frequency components (such as low-noise amplifiers for GPS navigation). For this reason, our backend sites play a crucial role in our long-term strategy.

In Regensburg (Germany), with "Chip Embedding" we have developed an extremely flat package technology over the last few years and have prepared it for volume production. In the meantime, "DrBlade™ 2", the second generation of this technology, is available. During the 2014 fiscal year we began volume production of this innovative package (see also "Together with a digital control IC, the new DrBlade™ 2 power stage enables complete, highly efficient digital DC/DC conversion" in the section "Power Management & Multimarket" in the chapter "The segments").

P see page 56

The Warstein (Germany) site is our competence center for package and connection technology for IGBT modules. A new multistory building was completed and inaugurated there in May 2014. The highly automated cleanroom manufacturing facilities take up two of the floors. Among other products, the HybridPACK™ modules for hybrid and electric vehicles and the technologically similar IGBT modules for industrial applications are now being manufactured there. The laboratories and development areas are located on the two additional floors.

New building inaugurated in Warstein: laboratories, development areas and highly automated cleanroom manufacturing on four floors

In Malacca (Malaysia), Infineon's largest site in terms of number of employees, manufacturing capacity was ramped up to keep pace with the high demand for power semiconductors coming from the automotive industry. These types of packages are tested in our competence center for chip and wafer testing in Singapore, where testing capacities were subsequently increased to accommodate the higher production volumes.

Manufacturing cooperation arrangements: volume production of the first automotive microcontrollers on 65-nanometer manufacturing technology started

Our manufacturing strategy follows the principle that in-house manufacturing must generate a differentiation potential in terms of costs and/or performance. If that is not the case, external manufacturing is preferable. The principle applies to both frontend and backend manufacturing.

The application of this principle for wafer processing (frontend manufacturing) has resulted in a preference for manufacturing power semiconductors and sensors at Infineon manufacturing sites. The same is also true for many products that combine analog and digital circuit components on one chip (so-called analog/mixed-signal components), particularly if the analog circuit elements are required to control high voltages and currents. One example for the differentiation through in-house production is our 300-millimeter thin-wafer manufacturing technology with its main application in power semiconductors.

G see glossary, page 279

G see glossary, page 277

When it comes to CMOS-based process technologies, however, we prefer to collaborate with frontend manufacturing partners, so-called foundries. This strategy applies to the majority of our products manufactured using 90-nanometer manufacturing technology and all those made using 65- and 40-nanometer manufacturing technology.

G see glossary, page 278

Volume production on 65-nanometer manufacturing technology started: AURIX™ automotive microcontroller family

We have entered into development and manufacturing cooperation arrangements with the company Taiwan Semiconductor Manufacturing Company, Ltd. ("TSMC"), Taiwan, for the 65-nanometer embedded Flash process technology. The agreement covers the joint development of manufacturing technology based on Infineon's embedded Flash cells and the manufacturing of microcontrollers for automotive, industrial, chip card and security applications. Volume production of the 32-bit multi-core automotive microcontrollers of our AURIX™ family was commenced with TSMC at the end of the 2014 fiscal year.

We have entered into development and production cooperation arrangements for the 40-nanometer embedded Flash process technology with Globalfoundries. The cooperation arrangements with Globalfoundries are similar to those with TSMC.

When it comes to backend manufacturing (including packaging, assembly and chip testing), we collaborate with market-leading partners for certain package types in order to ensure sufficient capacity growth and to better deal with phases of strong fluctuation in demand.

G see glossary, page 277

R&D AND MANUFACTURING SITES

- Research & Development
- Frontend manufacturing
- Backend manufacturing

Warstein

- Product development Power Modules, package assembly technology and package technology for IGBT modules and IGBT stacks
- High-power semiconductor modules, R&D for modules

Dresden

- Technology development
- CMOS, analog/mixed-signal technologies, embedded flash

Regensburg

- Competence centers for technology, preassembly and package development; manufacturing innovation
- Analog/mixed-signal, power semiconductors, center of competence for sensors and metallization
- Chip cards, power semiconductors, discrete semiconductors, sensors, wafer-level packaging, center of competence for package development

Duisburg

- ASIC and technology development

Bristol

- Microprocessor systems for automotive applications

Augsburg

- Software for chip card applications

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

Villach

- Power semiconductors, mixed-signal ICs for automotive and industrial applications; development center for thin-wafer technology
- Power semiconductors, center of competence for thin-wafer technology

Linz

- Radio-frequency ICs and software development for sensor products

Bucharest

- Power semiconductors for mixed-signal applications; chip card ICs

Cegléd

- High-power semiconductor modules

Padua

- Power semiconductors for mixed-signal applications

Graz

- Chip card applications and contactless systems; power semiconductors for automotive; sensor products

Beijing

- Application development
- IGBT stack assembly

Shanghai

- Application development; radio-frequency technology for cellular network infrastructure

Seoul

- Automotive electronic system solutions

Wuxi

- Chip cards, discrete semiconductors

Bangalore

- Software and system development for automotive, industrial and chip card applications; design flow and library development

Kulim

- Technology development
- Power semiconductors

Malacca

- Package technology
- Power semiconductors, discrete semiconductors, sensors, ICs, package development

Batam

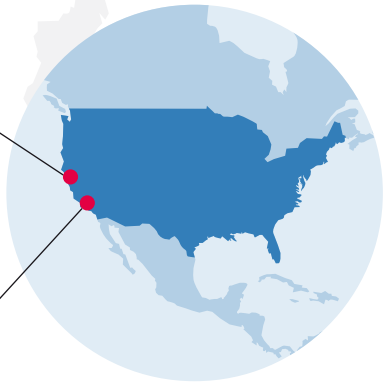
- Power semiconductors

Singapore

- IC, software and system development for automotive and industrial applications; package technology development; development of test concepts
- Center of competence for chip and wafer testing

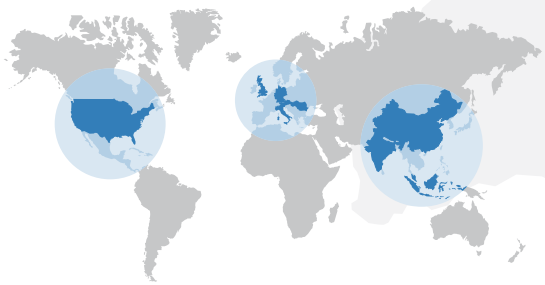
Morgan Hill

- Radio-frequency amplifier components for base stations
- Center of competence for radio-frequency power transistors



Torrance

- Controller ICs for digital power management



INTERNAL MANAGEMENT SYSTEM

P see page 26 ff.

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

- achieving an average revenue growth rate of 8 percent per fiscal year;
- thereby generating an average Segment Result Margin of 15 percent over the cycle;
- and limiting investments to an average level of 13 percent of revenue.

In sum, attaining these financial targets results in a sustained increase in the value of the business, brought about by achieving a premium on the cost of capital in the long term.

In this context, growth, profitability and investments are all interdependent. Profitability is the prerequisite for being able to finance operations internally, which, put another way, means opening up potential opportunities for growth. Growth, in turn, requires continual investment in research and development and manufacturing capacities, which also represent the basis for achieving leading market positions and generating economies of scale. The determining factor in this interplay is the efficient employment of financial resources.

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

P see page 82 ff.
P see page 96 ff.

Performance indicators

Key performance indicators and figures

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

- 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 or 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 measures profitability of revenue and shows how well operations are being managed. The operating performance of Infineon's segments is managed on the basis of Segment Result. Responsibility for optimizing Segment Result rests directly with the management of the relevant segments.

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

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

The three performance indicators described above are also the cornerstones of the system for variable compensation within Infineon. Most of the variable salary components for employees and management are directly linked to these performance indicators. Since revenue growth correlates with all three performance indicators and is heavily dependent on external market circumstances and cyclical developments, it is not used as a key performance indicator in its own right.

Segment Result

Segment Result is defined as operating income (loss) excluding: asset impairments (net of reversals); the impact on earnings of restructuring and closures; share-based compensation expense; acquisition-related depreciation/amortization and other expenses; gains (losses) on sales of assets, businesses, or interests in subsidiaries as well as other income (expense), including litigation costs (see note 35 to the Consolidated Financial Statements for a computation of the relevant figures). Court and legal fees arising in conjunction with the licensing of Infineon's patents are included in Segment Result, as is the related income. Segment Result is the indicator that Infineon uses to evaluate the operating performance of its segments (for an analysis of Group and individual segment performance in the 2014 fiscal year, see the chapter "The segments" and the section "Strong 2014 Fiscal year" in the chapter "Finances and Strategy").

P see page 260
P see page 38 ff.
P see page 23 ff.

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 provided by/used in investing activities, both from continuing operations, after adjusting for cash flows related to the purchase and sale of financial investments. Free cash flow measures the ability to generate sufficient cash flows to finance day-to-day operations and fund required investments out of the ongoing business. It is Infineon's stated target to sustainably generate positive free cash flow (see the chapter "Review of financial condition" for an analysis of free cash flow in the 2014 fiscal year).

P see page 127

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

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

Effective investment management plays a key role in optimizing free cash flow, which is matched by our objective of systematically controlling levels of investment. Free cash flow is considered by Infineon only at Group level and not at segment level.

Return on Capital Employed (RoCE)

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

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

This key performance indicator describes how efficiently a company manages its resources. RoCE is also 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 returns have been generated in excess of shareholders' and debt holders' expectations. Thus RoCE serves as an instrument for value-based management.

Apart from profitability, RoCE is also influenced by asset intensity, of both fixed assets and net working capital. Asset intensity describes the amount of assets necessary to generate a certain level of revenue. For an analysis of the derivation of and change in RoCE in the 2014 fiscal year, see the chapter "Review of financial condition".

P see page 125

Other performance indicators

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

Growth and profitability performance indicators

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

As part of the process of analyzing operating profitability in detail, Infineon considers earnings and costs above the Segment Result line. This involves a review of gross profit, research and development expenses, selling, general 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. For an analysis of changes in the fiscal year under report, see the chapter "Review of results of operations".

P see page 120

Liquidity performance indicators

A rolling cash flow forecast helps to ensure that Infineon has appropriate levels of liquidity and an optimal capital structure. Liquidity is solely managed at Group level, not at segment level and is 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 and excluding liabilities classified as held for sale.
- Investments: the total amount invested in property, plant and equipment and intangible assets, including capitalized research and development costs.

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

P see page 128 f.

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

Operational early indicators

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

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

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

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

P see page 119

Actual and target values for performance indicators

The "Outlook" in the chapter "Report on expected developments, together with associated material risks and opportunities" contains a table showing the actual values achieved in the 2014 fiscal year for the key performance indicators, along with expectations for the 2014 and 2015 fiscal year.

P see page 131

SUSTAINABILITY AT INFINEON

In addition to the statutory audit of the Group Management Report, KPMG AG Wirtschaftsprüfungsgesellschaft, Munich, has provided independent assurance ("limited assurance") regarding the sustainability performance information provided in this chapter in accordance with the International Standard for Assurance Engagements 3000 and the International Standard on Assurance Engagements 3410, the pertinent standards for assuring sustainability information. Further information, including the independent assurance report issued, can be found in the Corporate Social Responsibility section of Infineon website.

@ www.infineon.com/csr_reporting

We understand Corporate Social Responsibility (CSR) as our voluntary responsibility towards society, both internationally and locally. Our commitment is based on compliance with current legal requirements, the ten Principles of the UN Global Compact as well as our understanding of sustainability – the symbiosis between economy, ecology and social engagement. Based on these principles, we have identified six fields of activity:

G 40

Corporate Social Responsibility

In 2014, Infineon again qualified to be listed in key sustainability indices, which assess companies according to environmental, social and governance criteria. Among other indices, Infineon is listed in the "Dow Jones Sustainability™ Europe Index", the "STOXX® Global ESG Leaders Indices" and the "FTSE4Good Indices". Furthermore, in the 2014 fiscal year Infineon qualified for inclusion in the Sustainability Yearbook for the fourth consecutive time.

P see the chapter "Awards", page 110 f.

MEMBER OF Dow Jones Sustainability Indices In Collaboration with RobecoSAM

FTSE4Good

Member 2014/2015 STOXX ESG LEADERS INDICES

Materiality analysis and stakeholder engagement

In our materiality analysis we evaluate the expectations and requirements of our internal and external stakeholders in the field of CSR in various topics contained in the six fields of activity described above. We analyzed 19 topics in accordance with the Sustainability Reporting Guidelines set out by the Global Reporting Initiative GRI 3.1 with regard to their relevance for our business model. In the course of this process, we took into account factors such as the requirements of the capital market, laws and regulations, media and trend analyses, specific studies for the semiconductor industry and also internal evaluations.

As a result of our analysis we have prioritized the following topics as material: “Economic performance”, “Energy”, “Talent attraction and retention”, “Health and occupational safety”, “Emissions, wastewater and waste” and “Corporate Citizenship”. Infineon has been addressing these topics for many years. The result of the materiality analysis is, therefore, a confirmation of our strategy to date.

Based on our continuous improvement approach, we identified and implemented further measures, such as our new framework for corporate citizenship as well as our worldwide reporting of information and performance indicators in the field of sustainability.

With the adaptation of our sustainability reporting in line with the Sustainability Reporting Guidelines set out by the Global Reporting Initiative GRI 4, in future we will perform our materiality analysis on the basis of these guidelines.

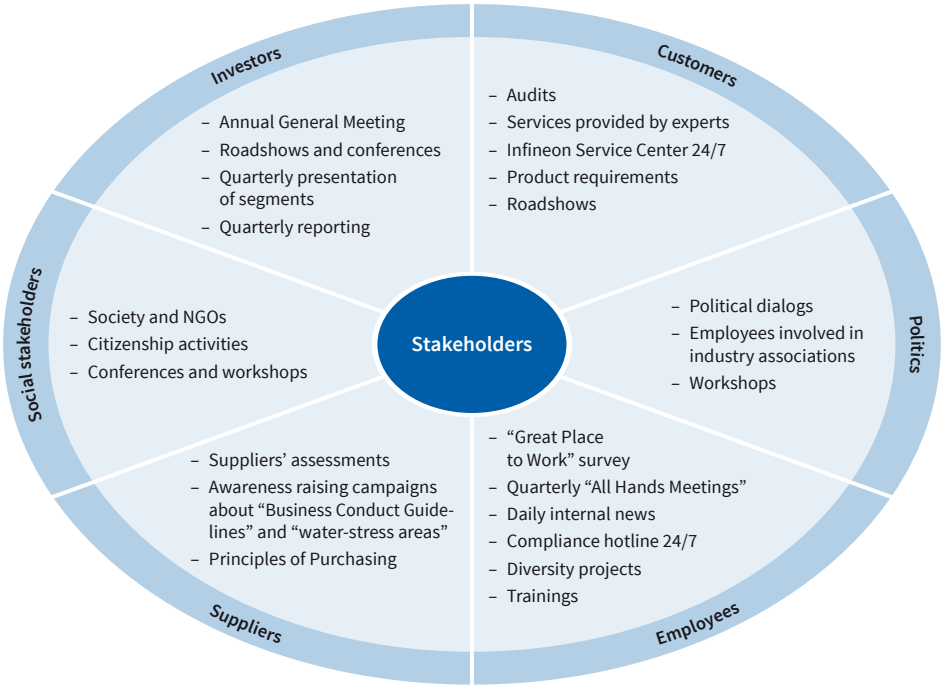
Materiality analysis

Target for the 2015 fiscal year

- Updating and enhancement of our materiality analysis with special consideration of GRI 4.

G 41

Stakeholders



As part of our continuous development, in addition to the materiality analysis, we maintain a sustained dialog with our stakeholders, which is of primary importance in order to understand their expectations. The numerous sectors and departments of Infineon utilize various channels of communication, engaging in conferences, forums, associations and surveys with the aim of fostering targeted communication with the respective stakeholder groups.

We give due consideration to the expectations of our stakeholders in the definition of our strategy and leverage them to identify possible improvement measures and to focus our reporting.

Sustainability reporting

Target achievement and summary of results in the 2014 fiscal year

Targets achieved:
- Independent verification "with limited assurance" conducted by an accounting firm.
- Implementation of a status analysis and evaluation of GRI 4 requirements.

Enhancing sustainability reporting

Transparency is becoming an increasingly important factor in the reporting of sustainability information. With our chapter "Sustainability at Infineon", which is reported under GRI 3.1, as well as our revised sustainability website, we are complying with these increasingly stringent requirements.

Responsibility for our employees

One of our primary objectives is to create a safe working environment. Our approach in the fields of occupational safety and health protection is based on the principle of prevention.

Our occupational safety and health management system has been certified in accordance with OHSAS 18001 standard at all of our main production sites as well as at our corporate headquarters, and is designed to ensure that the required measures are taken to minimize the risks in the working environment that could endanger our employees.

Occupational safety

Target achievement and summary of results in the 2014 fiscal year

Target achieved:
- The reporting of accidents was done in accordance with the GRI definition of the Injury Rate.

Experts worldwide carried out 45,443 hours for training in the areas of occupational safety and fire prevention.

45,443 hours

Our worldwide experts in the areas of occupational safety and health protection as well as fire prevention invested 45,443 hours in training and further education measures during the 2014 fiscal year.

Furthermore, our management and employees were informed and sensitized to the topic of occupational safety through regular training and seminars.

The recording and evaluation of work-related accident figures in the course of our data collection process is performed in accordance with the GRI requirements on the basis of the standardized Injury Rate (IR) and the Lost Day Rate (LDR). All work-related accidents that have led to more than one lost day have been taken into account.

Our low Injury Rate of 0.34 and the low Lost Day Rate of 4.20 in the 2014 fiscal year are presented in graphs 42 and 43:

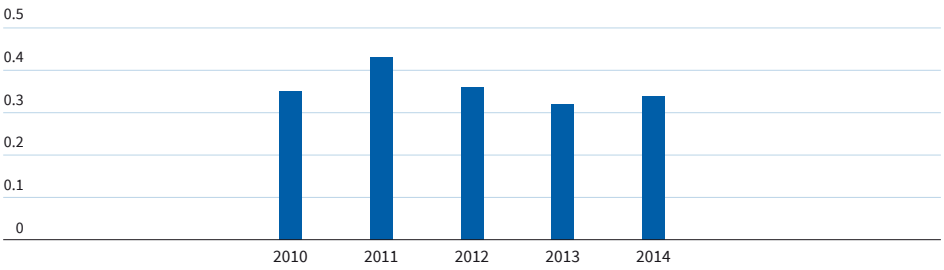
Target for the 2015 fiscal year

- Our target is to maintain an Injury Rate below 0.4 (reported in accordance with the GRI definition).

IR < 0.4

G 42

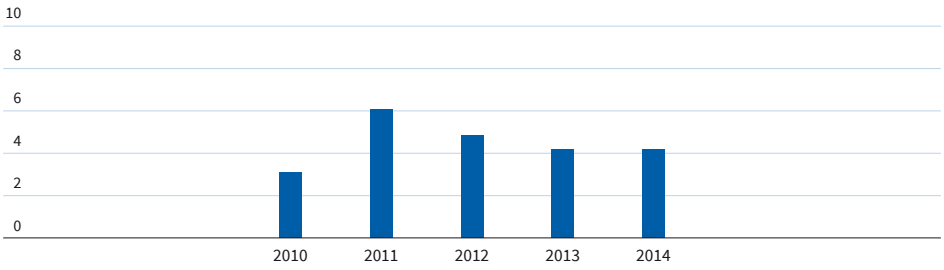
Injury Rate (IR) [1]



1 The Injury Rate is calculated as follows: total number of injuries/total hours worked x 200,000. Holidays and public holidays are included in the working hours.

G 43

Lost Day Rate (LDR) [1]



1 The Lost Day Rate is calculated as follows: total number of lost days/total hours worked x 200,000. Holidays and public holidays are included in the working hours.

Environmental sustainability in our manufacturing

Our global management system IMPRES (Infineon Integrated Management Program for Environment, Energy, Safety and Health) integrates targets and processes relating to ecological sustainability (including energy management) as well as occupational safety and health protection. IMPRES has been certified in accordance with ISO 14001, OHSAS 18001 worldwide. Additionally it has been certified in accordance with ISO 50001 energy management standard at our main European manufacturing sites as well as our Campeon corporate headquarters.

Sustainable use of resources

The growing scarcity of natural resources is one of today's greatest global challenges. Optimizing efficiency in the use of resources offers both ecological and economic benefits and is a key component in our sustainability strategy worldwide.

Water management

Efficient water management is an integral part of our environmental management. We emphasized the high priority of this topic in the 2014 fiscal year by endorsing the UN's "CEO Water Mandate". This is a special initiative of the UN Secretary-General that aims to promote the sustainable use of water on a global scale.

Infineon's Communication on Progress on the UN's "CEO Water Mandate" has been published on our website.

@ www.infineon.com/csr_reporting

Our sustainable water management system in place at our manufacturing sites ensures the efficient use of water resources.

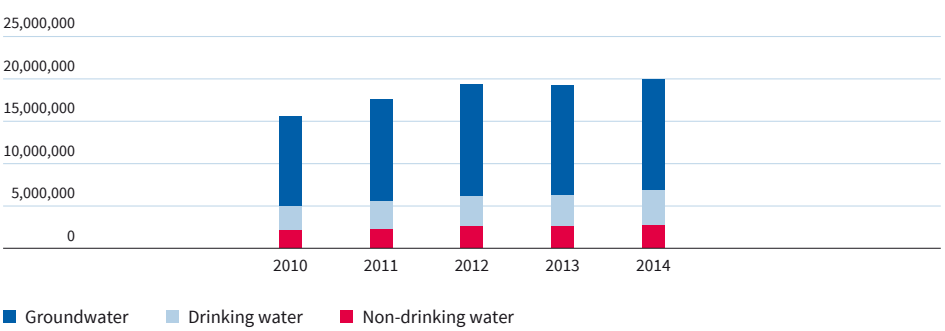
According to the definition of the WBCSD (World Business Council for Sustainable Development), a water shortage exists when the total volume of renewable water resources available in a given area per capita is lower than 1,700 cubic meters per year. Seen in this light, only one of Infineon's manufacturing sites, that is Singapore, is located in an area affected by water shortages. The Singapore site accommodates mainly office and testing areas with low levels of water demand, which means only 0.62 percent of the entire volume of water consumed by Infineon during the 2014 fiscal year. Nevertheless, water efficiency measures have been undertaken at the site, such as the installation of water-saving systems, in order to guarantee the efficient use of water in the long term. As a result of our efforts, one of the buildings at Infineon's Singapore site was awarded the "Water Efficient Building" certificate.

Our entire water consumption for frontend and backend production, including our Campeon corporate headquarters, totaled 19,897,515 cubic meters (m^3) in the 2014 fiscal year. We obtain our water from various sources, as shown in the graph 44.

G 44

Water consumption

in cubic meters



As a global organization of semiconductor manufacturers, the WSC (World Semiconductor Council) has defined water consumption in liters per square centimeter manufactured wafer, as an internationally recognized reference parameter for water management. In calendar year 2013, Infineon's frontend manufacturing sites consumed approximately 20 percent less water than the global average to manufacture one square centimeter of wafer.

G 45

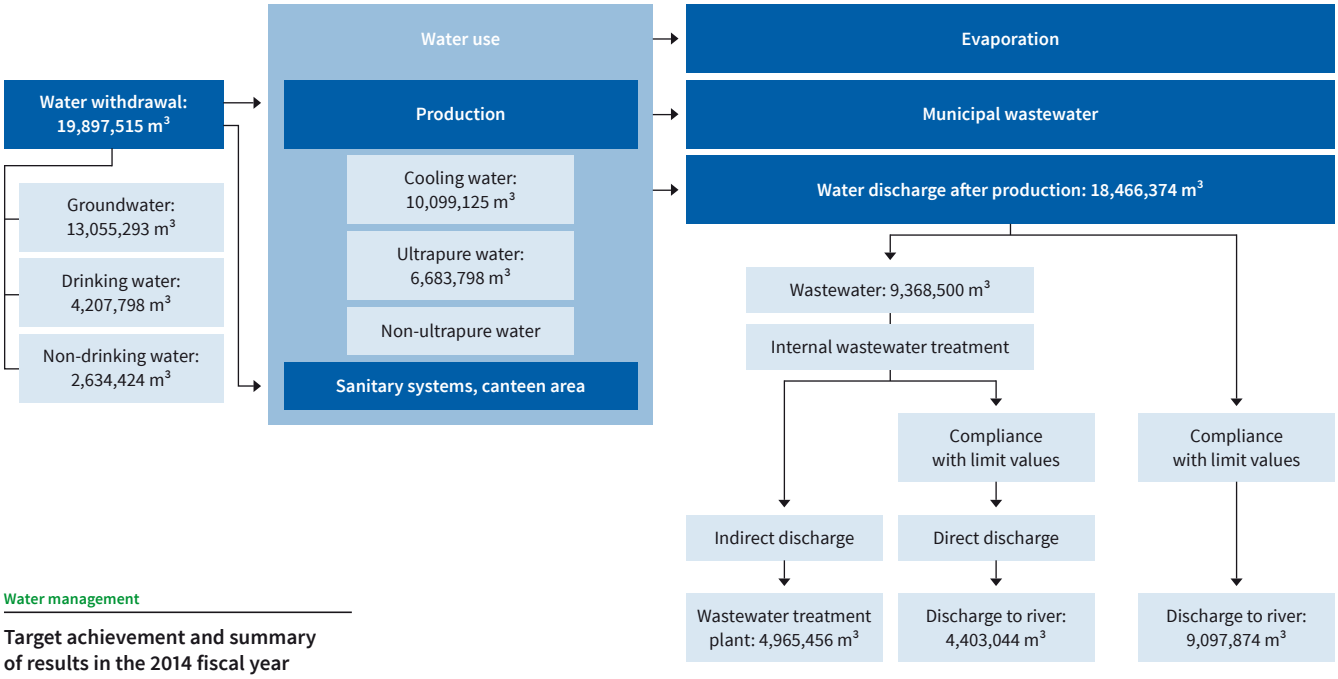
Standardized water consumption

per square centimeter manufactured wafer

1 Frontend sites worldwide

G 46

Water balance



Water management

Target achievement and summary of results in the 2014 fiscal year

Target achieved:
- Infineon consumed approximately 20 percent less water than the WSC global average to manufacture one square centimeter of wafer.

–20%

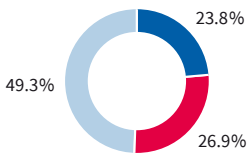
9.12 percent of ultrapure water is either recycled or reused in other processes.

Targets for the 2015 fiscal year

- Regardless of growing product complexity, our aim is to keep our water consumption per square centimeter manufactured wafer below the WSC specific water consumption value.
- To establish and revise the website for publishing the Communication on Progress to the UN's "CEO Water Mandate".

G 47

Water discharges 2014



- Wastewater – direct discharge
- Wastewater – indirect discharge
- Other water discharges (excluding wastewater)

The comparatively low specific water consumption at Infineon is the result of our consistent efforts in the area of water management. The schematic diagram for water management at Infineon in the 2014 fiscal year is shown in the chart 46.

Infineon sources water either from its own supply facilities (such as groundwater wells) or from local suppliers (either drinking or non-drinking water).

If water fails to meet our purity standards, then it is treated and afterwards used in our manufacturing processes, either for cooling purposes, or to produce ultrapure production water. In some cases, water can be re-used several times. For example, cooling water can also be used to produce ultrapure water. Moreover, ultrapure water for manufacturing purposes can be reused in some cases before being discharged.

609,266 cubic meters (9.12 percent) of ultrapure water and 971,866 cubic meters (10.37 percent) of wastewater were reused during the period under report.

If production water is no longer usable, it is either directly or indirectly discharged, depending on its degree of purity, local conditions and official permissions. The percentages of water discharged are shown in chart 47.

Energy, climate protection and carbon footprint

Efficient energy management

Energy is used mainly in the form of electricity in all stages of semiconductor manufacturing. Primary energy sources, such as oil and gas, play only a minor part.

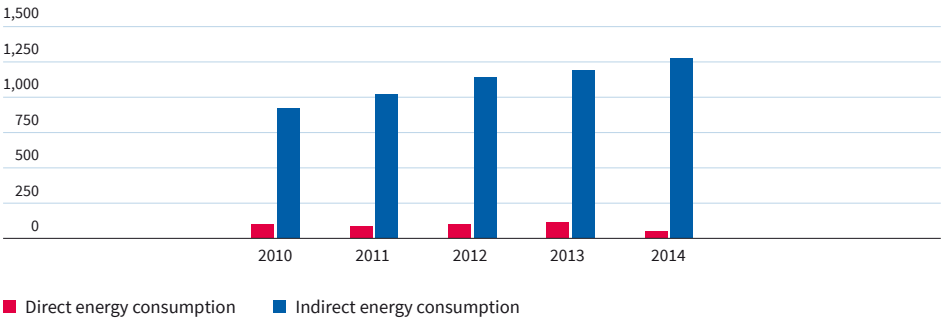
In the 2014 fiscal year, Infineon's indirect energy consumption worldwide totaled around 1,274 gigawatt hours (GWh) and consisted of the indirect energy sources electricity (91.50 percent) and district heating (8.50 percent).

Infineon consumes the majority of its energy in its frontend manufacturing sites. There, energy is needed to operate the production equipment, and also to maintain highly sophisticated physical conditions, such as the particularly demanding stable climatic conditions in Infineon's cleanrooms. Due to their nature, backend processes require far less energy than frontend processes, followed by the development and office sites, which consume the smallest percentage.

G 48

Energy consumption

in gigawatt hours



Direct energy consumption in the 2014 fiscal year is shown in the table "Direct energy sources".

Based on the relevance of the total amount of energy consumed by frontend manufacturing sites and local requirements, we have implemented the systematic of the energy management system standard ISO 50001 at our main manufacturing sites. We are continually analyzing options to further improve energy efficiency. Improving energy efficiency means reducing specific energy consumption, this is the energy consumed per manufactured production unit.

According to WSC definitions, the specific energy consumption used to measure energy efficiency in frontend manufacturing, is defined as energy consumption per square centimeter manufactured wafer. Based on this definition, the WSC provides companies every year with an international value, which serves as a benchmark.

In calendar year 2013, Infineon's frontend manufacturing sites consumed approximately 32 percent less electricity per square centimeter manufactured wafer than the worldwide average of the semiconductor industry in accordance with WSC.

Climate protection – greenhouse gases

The semiconductor industry uses greenhouse gases in the form of so-called "Perfluorinated Compounds" (PFCs), sulfur hexafluoride (SF_6) and nitrogen trifluoride (NF_3).

These gases are primarily used in the etching processes needed to structure wafers as well as for the cleaning of production equipment and cannot be substituted.

G 49

Standardized electricity consumption

per square centimeter manufactured wafer

1 Frontend sites worldwide

Direct Energy Sources	GWh
Natural gas	37
Other	11

Energy efficiency

Target achievement and summary of results in the 2014 fiscal year

- Target partially achieved and the four largest European manufacturing sites as well as our corporate headquarters were successfully certified in accordance with ISO 50001 standard.

Target for the 2015 fiscal year

- Our target is to implement projects and measures at our frontend manufacturing sites worldwide which are capable of saving a total of 35 GWh of energy within the next three years.

35 GWh

As part of its commitment to climate protection, Infineon made an early start in developing particularly efficient processes to reduce the use of these greenhouse gases to the absolute minimum technically required. Infineon mainly achieves this reduction by increasing process efficiency and optimizing abatement concepts. Moreover, in some cases it is possible to use alternate gases with less impact on the climate. The aforementioned measures contribute towards minimizing the emissions caused by greenhouse gases.

PFCs emissions

Target achievement and summary of results in the 2014 fiscal year

Due to technical changes in processes, the target level for the 2014 fiscal year was not met. Corresponding reduction measures have already been implemented.

In the 2014 fiscal year, Infineon's PFCs emissions totaled 184,864 tons of CO_2 equivalents. Due to technical changes in processes the emissions were 27.26 percent higher than the emissions of the previous year. Corresponding reduction measures have already been implemented.

However, the continually growing complexity of semiconductor products entails a growing number of process steps, which in turn, may lead to an increased use of greenhouse gases. Nevertheless, Infineon is adhering to its total PFCs emissions target – to not exceed 200,000 tons of CO_2 equivalents in the 2015 fiscal year.

Target for the 2015 fiscal year

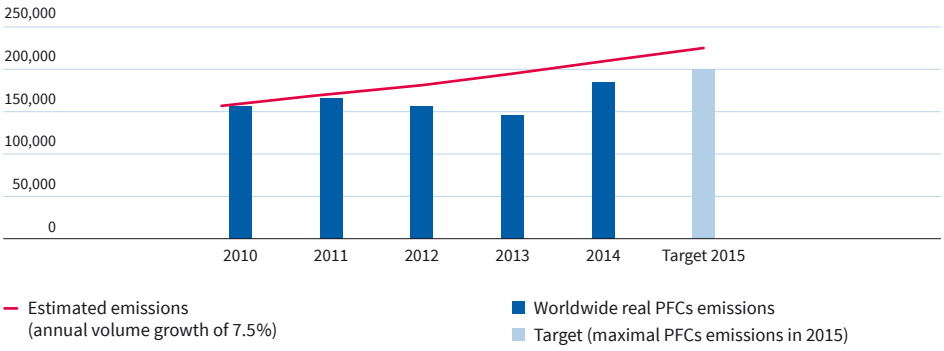
- Our target is to keep total PFCs emissions below 200,000 tons of CO_2 equivalents in the 2015 fiscal year.

< 200,000 tons

G 50

PFCs emissions

in tons CO_2 equivalents



Furthermore, we will continue to report our PFCs emissions at German and European levels within the framework of the semiconductor industry's voluntary agreement.

Carbon footprint

Our products and innovations are the key to energy-efficient end products and applications, and thereby make an important contribution towards minimizing carbon footprint.

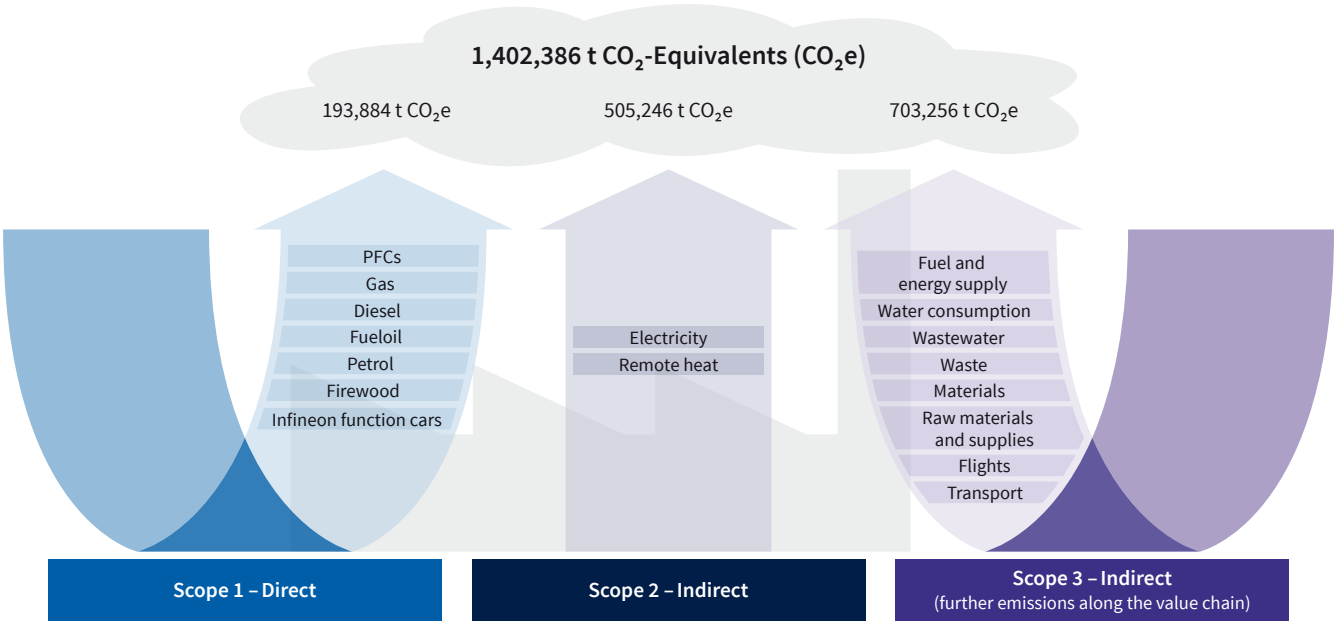
Complex processes and a multitude of influencing factors need to be considered when drawing up an entity's carbon footprint. By nature, carbon footprint calculations are subject to a certain degree of imprecision. However, in order to further minimize the resulting imprecision, Infineon has continued to refine its approach during the 2014 fiscal year.

The calculation of CO_2 emissions is based on the ISO 14000 standard, which is concretized by the PAS (Public Available Specification) 2050 guideline issued by the BSI (British Standards Institution) for determining the ecological impact of various products, as well as by the principles of the Greenhouse Gas Protocol for determining carbon footprints (relevance, completeness, consistency, transparency and accuracy). In calculating Infineon's carbon footprint, we have considered the first three of the five relevant steps in accordance with PAS 2050. These steps embrace the provision of the raw materials and supplies as well as processing and finally distribution to customers. In the 2014 fiscal year we also included in our calculation Infineon function cars as well as business flights.

The following emissions and immission have been included in the calculation:

G 51

Calculation of the CO_2-Burden



We base the calculation of our carbon footprint on the classification of direct and indirect emissions set out in the "Greenhouse Gas Protocol" in Scope 1, 2 and 3. Accordingly, "Scope 1" includes our PFC emissions, direct energy consumption and function cars. "Scope 2" emissions derived from our electricity consumption and heating and "Scope 3" comprises other emissions generated throughout the entire value-added chain.

Including the impact of all significant sources of emission relevant from our perspective, taking materials used and logistics into consideration, Infineon's manufacturing sites accounted for a carbon footprint of approximately 1.4 million tons of CO_2 equivalents in the 2014 fiscal year. This figure comprises "Scope 1 emissions" amounting to 193,884 tons of CO_2 equivalents, "Scope 2 emissions" of 505,246 tons of CO_2 equivalents and "Scope 3 emissions" of 703,256 tons of CO_2 equivalents. These emissions differ only slightly from those recorded in the 2014 fiscal year. The main reason for this difference were changes in production volumes, changes in technical processes and the consideration of additional factors such as test equipment and business flights (6,748 tons of CO_2 equivalents).

P see page 28 f.

Ecological net benefit

Target achievement and summary of results in the 2014 fiscal year

Target achieved:
- The CO_2 saved by Infineon products included in end products over their use-phase was 10 times higher than the CO_2 emissions generated while manufacturing those products.

We refined our methodology for the carbon footprint calculation and included function cars as well as business flights in it.

Target for the 2015 fiscal year

- The CO_2 saved by Infineon products included in end products over their use-phase should be at least 10 times higher than the CO_2 emissions generated while manufacturing those products.

The products manufactured by Infineon are used in a broad range of applications and contribute towards improving the ecological efficiency of end products and applications during their use-phase. For example, our high-performance products make it possible to operate large-scale wind farms and photovoltaic facilities. They are also used in industrial applications, such as drive systems and motor control units and make it possible, for instance, to reduce power losses.

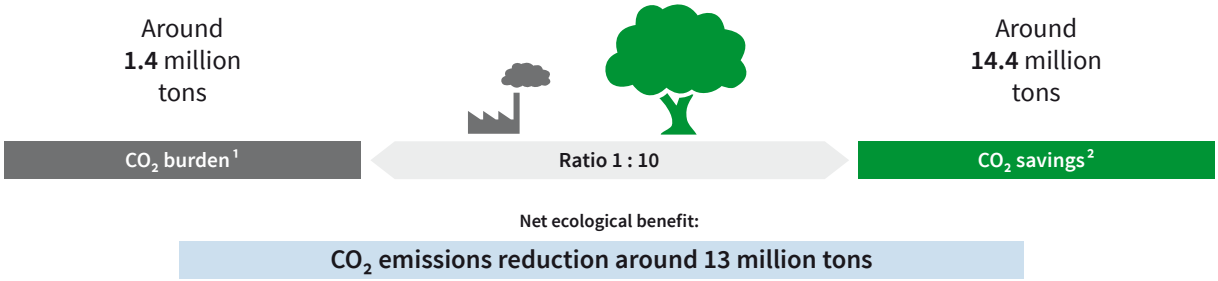
Our products are also widely used in the automotive industry. Infineon's innovative semiconductor solutions contribute towards sustainable mobility by reducing fuel consumption, thereby reducing emissions and by optimizing safety. In addition to their application in conventional combustion engines, they are also key components in the field of control engineering for hybrid and electric vehicles as well as for small electronic vehicles including e-bikes and e-motorcycles.

Products manufactured by Infineon, alone in the fields of automotive electronics, industrial drive systems, servers, lighting and photovoltaics as well as wind power, enabled approximately 14.4 million tons of CO_2 equivalents savings during their use-phase.

Therefore, with its products and innovations and coupled with an efficient production, Infineon achieved a positive net benefit round about 13 million tons of CO_2.

G 52

Carbon footprint



1 This figure considers manufacturing, transportation, function cars, flights, materials, chemicals, waste/waste water, direct emissions, energy consumption, waste, etc. and is based on internally collected data and externally available conversion factors. All data relates to the 2014 fiscal year.

2 This figure is based on internally established criteria, which are explained in the explanatory notes. The figure relates to the calendar year 2013 and considers the following fields of application: automotive, lamp ballast control, PC power supply, renewable energy (wind, photovoltaic) and rives. CO_2 savings are calculated on the basis of potential savings of technologies in which semiconductors are used. The CO_2 savings are allocated on the basis of Infineon's market share, semiconductor content and lifetime of the technologies concerned, based on internal and external experts' estimations. Despite CO_2 footprint calculations are subject to imprecision due to the complex issues involved, the results are nevertheless clear.

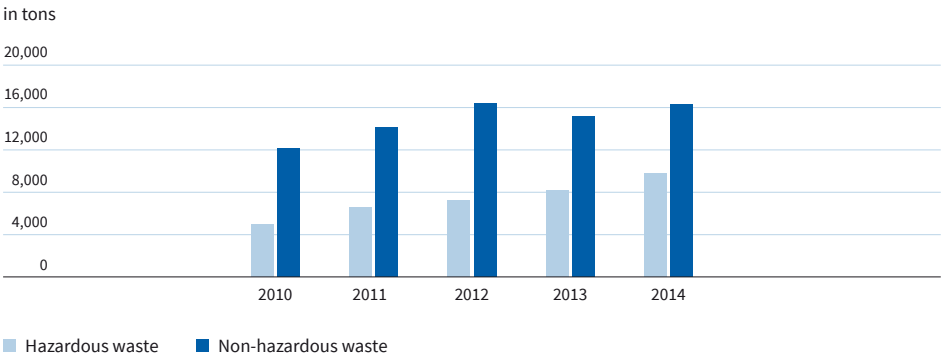
Waste management

The objective of waste management at Infineon is not only to minimize the volume of waste generated, but also to dispose the remaining waste properly.

In the 2014 fiscal year, waste totaled 26,228 tons, comprising 16,445 tons of non-hazardous waste and 9,783 tons of hazardous waste. Increases in production compared to the previous year played a significant role in the increase in waste volumes.

G 53

Waste generation



In waste treatment Infineon prefers recovery methods rather than disposal methods. Among the different recovery methods, recycling is ecologically the most effective. The percentages of the various waste management methods are illustrated in chart 54. In the 2014 fiscal year, 49.82 percent of non-hazardous waste and 53.96 percent of hazardous waste were recycled.

In the 2014 fiscal year our manufacturing site in Regensburg (Germany) began the process of no longer sending mixtures of acetone and water for disposal, but instead, in the future, will use a process which recovers the acetone.

Even waste disposal methods already in use can be improved upon. Cooperation between Infineon's site in Regensburg (Germany) and a local waste disposal company demonstrated that it is possible to considerably reduce transportation costs for the treatment of galvanic sludge containing palladium and gold.

In calendar year 2013, the volume of waste generated to manufacture a square centimeter wafer at Infineon frontend sites was 47 percent lower than the WSC global average.

Chemical safety

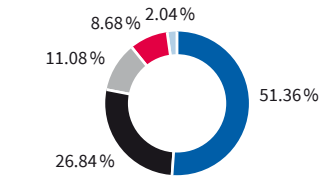
A wide variety of chemicals is required in the manufacturing of semiconductors, some of which are hazardous. At Infineon, we responsibly manage the handling of hazardous materials to safeguard human health and the environment.

Complying with all currently applicable legal regulations is self-evident for us. The European chemicals regulation REACH (Registration, Evaluation, Authorization and Restriction of Chemicals, regulation (EC) No 1907/2006) provides a key regulatory framework for the registration, evaluation, authorization and restriction of chemical substances on the European market and, therefore, exerts considerable influence on the procurement and usage of chemicals. As compliance with REACH requirements is mandatory within our supply chain for ensuring reliable delivery, these requirements have been fully integrated in Infineon's procurement processes.

Furthermore, the CLP regulation (EC) No 1272/2008 (Classification, Labeling and Packaging) has great significance for the handling of chemicals. This regulation sets out the classification, labeling and packaging of materials and mixtures and replaces the previously applicable classification and labeling system contained in the directives 67/548/EEC and 1999/45/EC.

G 54

Waste management methods in the 2014 fiscal year



G 55

Standardized waste generation

per square centimeter manufactured wafer

1 Frontend sites worldwide

Waste management

Target achievement and summary of results in the 2014 fiscal year

Target achieved:

- Compared with the WSC global average, Infineon sites generated approximately 47 percent less waste to manufacture one square centimeter of wafer.

–47%

51.36 percent of waste generated at Infineon sites was recycled.

Target for the 2015 fiscal year

- Regardless of growing product complexity, our aim is to keep the waste generated per centimeter of wafer manufactured below the specific waste level determined by the WSC.

As the changeover involves transition periods (up to the 2015 calendar year in some cases) and our suppliers have adopted individual implementation strategies, Infineon has decided to utilize both classification systems simultaneously worldwide until the end of the transition periods.

Product-related environmental sustainability

P see page 90

We implement our sustainability approach, both at our manufacturing sites and in our products. This approach is demonstrated in the CO_2 savings enabled by our products and solutions as well as in handling the substances and materials used in our products.

All Infineon products fulfill the criteria for articles in accordance with the REACH regulation. For this reason, we are not required to register the substances contained in our products.

If substances are specified on the so-called REACH candidate list (list of substances of very high concern that may be subject to authorization), and are present in an article in a portion of 0.1 percent by weight or more, European customers must be notified accordingly. Infineon complies with this obligation by publishing the REACH statement and by including a corresponding passage in its dispatch notes.

The European directives 2000/53/EC governing end-of-life vehicles (ELV Directive: End-of-Life Vehicles) and 2011/65/EU to restrict the use of certain hazardous substances in electrical and electronic devices (RoHS Directive), regulate the use of certain substances classified by legislators as hazardous in the end products. None of Infineon's products are in the scope of these regulations. However, our customers expect Infineon's products to meet the requirements in their applications.

Infineon's products comply with these requirements and conform to the material restrictions in all applicable legal regulations, including those applicable in countries outside Europe. Furthermore, we work continually on methods of replacing materials such as lead to a greater degree than currently required by legislation.

In addition, if required, we provide our customers with comprehensive information regarding the materials contained in our products in accordance with international standards.

Business Ethics

The Infineon Business Conduct Guidelines reflect our ethical principles and are the fundamental basis for our daily activities. They apply to all employees worldwide – in dealing with each other, or with our customers, shareholders, business partners and the public.

Infineon Technologies AG and selected major subsidiaries commissioned an independent audit firm to confirm the appropriateness, implementation and effectiveness of their Compliance Management System in accordance with the IDW PS 980 standard. This audit, which focused on anti-corruption and anti-trust law, was completed in the course of the 2014 fiscal year.

P see page 167 ff.

You will find more information on this topic in the chapter "Corporate Governance".

As a UN Global Compact participant, Infineon has made a commitment to abide by the stated principles and reports below in an exemplary manner in its Communication on Progress on the measures implemented:

UN Global Compact	Measures implemented
Human Rights	
Principle 1: Support for human rights Principle 2: Non-complicity in human rights abuses	• Training for all employees on Business Conduct Guidelines, which reflect our self-commitment to respect and to uphold international human rights. The training is supplemented with video sequences showing case studies from day-to-day working situations at Infineon that are descriptive and easy to grasp for employees at every level. • Firmly defined rules in our CSR policy as well as the Principles of Purchasing, which require our suppliers and service providers to fulfill the obligations described therein.
Labor	
Principle 3: Uphold freedom of association Principle 4: Elimination of all forms of forced labor Principle 5: Abolition of child labor Principle 6: Elimination of discrimination	• Our Business Conduct Guidelines reflect our self-commitment to comply with international human rights. We do not tolerate discrimination and reject every form of forced labor. • In addition to the usual in-house methods of reporting violations, such as to the Management, to the Human Resources department or to Compliance, employees and business partners can also contact an anonymous whistleblower hotline or an external ombudsman. Access and information are available on the Infineon website. • 79.36 percent of our employees work at sites that have entered into collective agreements and where independent employee representatives are in place. • Persons under 15 years of age are not allowed to work at Infineon. Exceptions apply for certain developing countries covered by International Labor Organization (ILO) convention 138 (minimum age lowered to 14 years), or for job training and vocational training programs that are authorized by the governments of the countries involved and who demonstrably promote those participating.
Environment	
Principle 7: Precautionary approach to environmental protection Principle 8: Support initiatives for greater awareness of environmental responsibility Principle 9: Development and diffusion of environmentally friendly technologies	• Our IMPRES is globally certified in accordance with ISO 14001 and OHSAS 18001 standards and underscores our commitment to efficient resources management, environmental protection and ecological innovation. • Efficient energy management is particularly important for saving energy and reducing greenhouse gas emissions worldwide and is integrated in our IMPRES. • All of our EU frontend sites as well as Campeon, our corporate headquarters, are additionally certified in accordance with ISO 50001 standard. • The development of products that enable energy-efficient applications and solutions is a key part of our business.
Anti-corruption	
Principle 10: Action against corruption	• The introduction of a specific web-based training on anti-corruption. The rollout started mid of the 2014 fiscal year and has already reached a large number of employees. The training is mandatory for a group of selected employees. • Regular “Best Practice Sharing” with other companies and Transparency International on topics concerning the prevention of corruption (for example, purchasing processes, in-house information campaigns). • Formalized risk assessment as part of the Compliance Management System and the definition of measures for those risks not yet addressed.

Business ethics

Target achievement and summary of results in the 2014 fiscal year

Targets achieved:

- With 28,800 participants, the number of employees who took part in compliance training was even slightly higher than in the previous year. During the last two years, all of our employees have received video-based training on our Code of Conduct. Infineon also provided regular training on antitrust law as well as a newly introduced specific training on anti-corruption. The roll-out of the anti-corruption training started mid of the 2014 fiscal year.

28,800
participants

Targets for the 2015 fiscal year

- Revision of the Business Conduct Guidelines.
- Continuation of regular training on compliance at defined intervals.

CSR in the supply chain

Target achievement and summary of results in the 2014 fiscal year

Target achieved:
- Questionnaire and assessment criteria for suppliers in the field of CSR were defined and determined for a new supplier management tool.

Target for the 2015 fiscal year

- Implementation of the new CSR supplier evaluation.

Our responsibility along the supply chain

We expect our suppliers to comply with applicable legal requirements and laws and to respect other cultures. Furthermore, we expect them to support the principles of the UN Global Compact Initiative. We have set out our requirements in the Principles of Purchasing, which are based on our Business Conduct Guidelines and designed to help our suppliers understand and comply with our requirements.

G 56

Principles of Purchasing

Conflict minerals

Target achievement and summary of results in the 2014 fiscal year

Target achieved:
- The publishing of a "Conflict Minerals Policy" in the CSR website.

Performance of a "Due Diligence" in accordance with the OECD Guidelines.

Membership in the "Conflict-Free Sourcing Initiative".

Target for the 2015 fiscal year

- To establish a system in accordance with OECD Guidelines in order to improve and maintain a supply chain free of DRC-conflict minerals.

@ www.infineon.com/csr-supply-chain/

Conflict minerals

In July 2010 the USA's Dodd-Frank Act (Dodd-Frank Wall Street Reform and Consumer Protection Act) was adopted. Section 1502 ("Conflict Minerals Provision") contains disclosure and reporting obligations for companies listed in the USA concerning the utilization of certain raw materials that originate from the Democratic Republic of Congo (DRC) or its adjoining countries, so-called "conflict minerals". The term currently applies to tantalum, tin, gold and tungsten.

Infineon is not listed on US stock exchanges and, therefore, not legally required to comply with the requirements of the U.S. Securities and Exchange Commission (published in August 2012) nor to publish a report on conflict minerals.

Nevertheless, Infineon is aware of the fundamental problem and, as a responsibly acting enterprise, has defined a Group wide approach with the aim of guaranteeing the required transparency within its own supply chain.

The approach adopted at Infineon is based on the process of the "OECD Due Diligence Guidance for Responsible Supply Chains of Minerals from Conflict-Affected and High-Risk Areas".

Moreover, Infineon has joined the so-called "Conflict-Free Sourcing Initiative". We have set out our targets in the Infineon "Conflict Minerals Policy", which we have published on our CSR website.

Corporate Citizenship

We understand Corporate Citizenship as our voluntary social commitment for the communities in which we operate. In the field of Corporate Citizenship, Infineon has defined four areas of activity: “Environmental Sustainability Initiatives”, “Addressing local social needs”, “Education for future generations” and help in case of “natural and humanitarian disasters”. In addition to monetary and material donations, the commitment of our employees can be expressed in voluntary activities.

The above-mentioned areas of activity and engagement possibilities are contained in our Corporate Citizenship Guidelines. These guidelines ensure that our Corporate Citizenship activities are performed transparently and in line with our ethical principles.

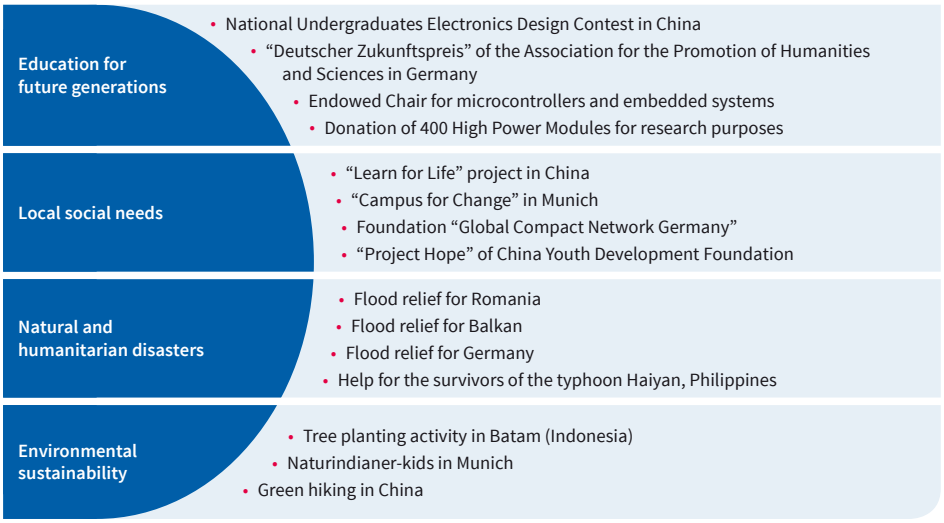
G 57

Corporate Citizenship expenditure

Engagement possibilities	Expenditure in €
• Donations	747,539
• In-kind giving	301,853
• Sponsoring	219,414
• Employee volunteering	4,536
	1,273,342

G 58

Examples of the Corporate Citizenship activities of Infineon in the 2014 fiscal year



Human resource management, human rights

It goes without saying that compliance with the international proclaimed human rights and labor standards is a must. Our employees receive regular training on Business Contact Guidelines, reflecting Infineon’s commitment in this field.

For more information, please see “Business Ethics” in this chapter, as well as the chapters “Corporate Governance” and “Our Employees”.

Corporate Citizenship

Target achievement and summary of results in the 2014 fiscal year

Target achieved:
- Planning of projects that can be supported worldwide in the 2015 fiscal year in order to better coordinate our activities.

Target for the 2015 fiscal year

- To increase in-house awareness of citizenship activities and employee volunteering in this field.

P see page 92 f.
P see page 167 ff. and 96 ff.

OUR EMPLOYEES

Our human resource work focuses on the development of our employees and recruitment of new colleagues. We are convinced that, in order to meet our growth and profitability targets set out at the beginning of this report, successful human resource management is key to business success, since only content and successful employees make long term peak performance possible. The three pillars of “Leadership excellence”, “Promoting talent” and “Our workforce” combine all the activities that we use on a daily basis which promote the performance and potential of our employees in the best possible way.

Leadership excellence

Open and honest feedback

We believe that without honest and open feedback, it is not possible for an organization to develop. This basic premise is reflected in our values, collectively defined and epitomized in the “High Performance Behavior Model”. These values are not purely theoretical. The High Performance Behavior Model converts the corporate strategy and values into concrete behavioral descriptions, which help us each and every day to become a High Performance Company.

These behavioral descriptions play a role in the annual dialogs with employees under the overall STEPS process (abbreviation for “Steps To Employees’ Personal Success”). During the dialog, managers provide feedback not only on the results that employees have already achieved and should achieve in the future, but also on the behavior shown or desired to attain these results. In this way, STEPS enables our managers and employees to carry out a differentiated review of achievements and indicates pathways towards the fulfillment of personal and corporate targets.

The fundamental culture of openness does not stop here. Feedback from teams to their managers is just as important as feedback from managers to staff. We have, therefore, established the format of the “leadership dialog”, which is carried out every two years as a supplement to the STEPS dialogs.

The leadership dialog enables managers to obtain structured feedback from their staff, which helps them to reflect on their individual leadership style, identify strengths and potential areas for improvement, and hence increase cooperation within the team. By the end of the 2013 calendar year, all senior managers worldwide and the entire Management Board had already performed this dialog with their staff. In the coming years, the leadership dialog will be carried out by all managers in charge of five or more staff.

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

Management development

Good leadership by managers helps employees to achieve peak performance and to be successful. Leadership is therefore a key starting point for the development of our organization, which we promote through various training programs.

With the training program “Leading People in a High Performance Company” the Company ensures further development of leadership skills, with which the staff is motivated to achieve Infineon’s challenging targets and their performance is promoted in a targeted way. Communicating a uniform understanding of leadership is the prime goal here. More than 1,900 managers from various levels worldwide had participated in this training program by the end of the 2014 fiscal year.

Leadership also implies looking after your own resources and those of employees. The “Leadership & Health” training program therefore focuses on the responsibility of managers for their own health and for the well-being of employees. The “Leadership & Health” training program is designed for top managers, in their capacity as role models. In one-day courses, they learn to identify stress factors at the workplace more effectively and to mitigate them. By the end of the 2014 fiscal year, some 80 percent of top managers in Germany had participated. “Health & Care” computer-based training was also introduced in February 2014 for new managers.

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

The results of our leadership and feedback culture activities confirm that we are on the right track. A relevant indicator of our progress is the survey “Great Place to Work”, which we carry out every two years. The autumn 2013 results show that improvements have occurred in all categories compared to the prior survey. We are particularly pleased that 75 percent of all employees questioned indicated that “All in all Infineon is a very good employer”.

Promoting talent

Talent marketing and management

At Infineon, development opportunities are available to employees in a variety of careers, depending on their individual knowledge and talents. At present, we offer three different career paths: The professional careers as “Individual Contributor” focus on expertise in a traditional business field, such as finance, purchasing or sales. Technical experts gravitate to our “Technical Ladder”. Junior managers opt for the Management career path. A further career path – that of project leader – is in preparation.

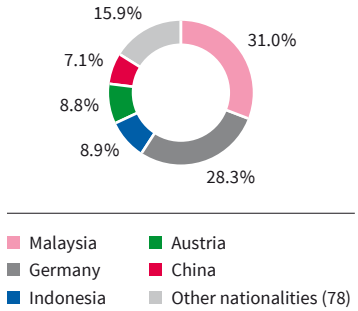
In the Asia-Pacific region, we take specific action to promote our employees through our talent management programs “ENGINE” for management careers and “TechStar” for technical careers. Top management has an essential role to play, firstly in the selection of employees and then in development measures, such as mentoring. Both programs focus on the key areas of training, interaction with management and practical application of what has been learnt in specific projects. The advantages for participants can already be seen from the career developments: in the 2014 fiscal year, 33 percent of participants of the “ENGINE” program and 25 percent of the participants of the “TechStar” program took their next step up the career ladder.

The employment market is in a continuous state of flux. Demographic change and shortage of skilled professionals make it increasingly difficult to find suitable applicants. Our reaction to these changes is to adapt our recruitment measures to the current challenges. For example, since February 2014, applicants from Germany and Austria can submit direct applications quickly and easily via the business networks XING and LinkedIn.

Since, given the competition to attract the best possible people, staff recruitments from the jobseekers' pool are no longer sufficient, "passive" candidates – i.e., those who are not currently seeking work at all – are becoming increasingly important. Through our talent managers, we are always on the lookout for suitable potential candidates and contact them directly. In this way, we extend our circle of good contacts and exchange information with them on an ongoing basis. As a result, we can make suitable offers to applicants and fill job vacancies more rapidly and successfully.

G 59

Nationalities (Infineon worldwide 2014)



Encouraging diversity

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

Infineon employs staff with a total of 83 different nationalities. The five most prevalent nationalities represent a total of 84.1 percent of the workforce, with Malaysian nationals accounting for 31.0 percent and German nationals for 28.3 percent. A further 71 nationalities have a share of the total workforce of less than 1 percent each.

	Employees Total	Under 30 years [1]	30 to 50 years [1]	Over 50 years [1]
Middle and senior level management [2]	4,530	–	74.8	25.2
Entry level management [2]	4,950	3.4	84.5	12.1
Non-management staff	20,327	39.5	51.0	9.5
Total	**29,807**	**27.5**	**60.2**	**12.3**

1 Figures expressed in percentages based on the workforce at September 30, 2014, in the respective comparison group.
2 At Infineon, the management function includes not only the leadership of employees but also leadership through specialist expertise as defined in the internal job evaluation system.

Of 11,058 female employees, 39.6 percent are under 30 years of age, 51.4 percent in the middle age group and 9.0 percent are over 50. Of 18,749 male employees, 20.4 percent are under 30 years of age, 65.4 percent in the middle age group and 14.2 percent are over 50.

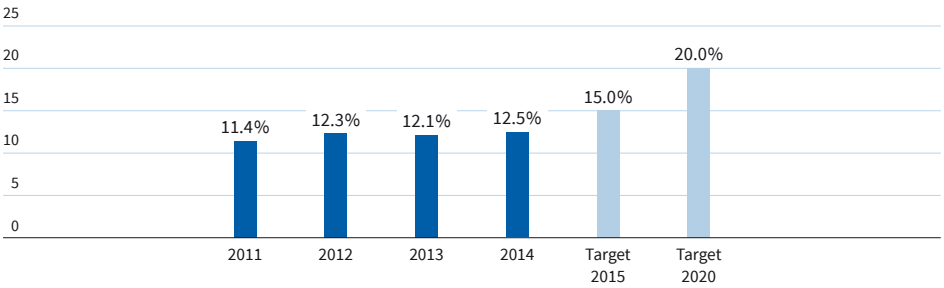
	Employees Total	Female [1]	Male [1]
Middle and senior level management [2]	4,530	12.5	87.5
Entry level management [2]	4,950	24.3	75.7
Non-management staff	20,327	45.7	54.3
Total	**29,807**	**37.1**	**62.9**

1 Figures expressed in percentages based on the workforce at September 30, 2014, in the respective comparison group.
2 At Infineon, the management function includes not only the leadership of employees but also leadership through specialist expertise as defined in the internal job evaluation system.

The promotion of women in management positions is an important aspect of our diversity management. We have succeeded in raising the proportion of women in the middle and senior management level from 9 percent in 2006 to over 12 percent in 2014. Although we have not yet reached our targets, we are adhering to our self-imposed plan in the long term: the proportion should rise to 15 percent by 2015 and to 20 percent by 2020.

G 60

Women in management positions (Infineon worldwide)



A change within the organization supporting the successful career development of female managers is a prerequisite in order to meet our targets. One of the ways in which we wish to facilitate this organizational change is through networks. For instance, the "Gender Diversity Network" consists of managers (both women and men) from Germany and Austria. It has two functions: firstly, it contributes to ensuring that the topic of "Gender Diversity" receives the necessary attention within the organization and, secondly, it receives impetus from the organization. As a result, a large number of concrete proposals have already been made and "satellites" have been installed at specific sites that can address specific local topics more directly.

Fostering and reconciling work and family life, which is of crucial importance for our employees' professional success, has also been on Infineon's agenda for many years now. Since 2010, all sites in Germany have been awarded the "audit berufundfamilie" certificate. In 2013, a further audit of the German sites was successfully completed and a first audit was carried out of the Austrian sites. Since the involvement of staff is a key component of this process, concrete objectives and measures to implement a family-conscious human resources policy are drawn up with a representative group before an audit. The results of the measures are reported each year. Every three years, a further audit is carried out, during which the attainment of the objective is reviewed and new objectives are set. The return from parental leave process was awarded particularly high marks at Infineon. Consultations before and after the leave are a key component of this process. Likewise, it is possible to stay in touch with Infineon through Intranet access and parent-child meetings with the Company during the parental leave. The large sites in Germany and Austria offer their own day care center or contracted kindergarten facilities. At the Neubiberg site near Munich, the child care center with 180 places is currently being extended, which will bring the total number of places available to 220 from September 2015.

The diversity team in the Asia-Pacific region concentrates in particular on ethnic-cultural diversity and the demographic trend. For example, our Indian site has set itself the target of achieving a structural change by ensuring that approximately 30 percent of newly recruited employees are university graduates. A "Silver Workforce" agreement is in place in Singapore, Malaysia and Taiwan, enabling older staff to continue working, if they wish, after the statutory retirement age.

Cooperation and research arrangements with universities

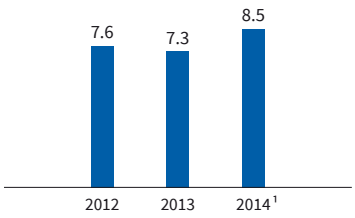
Infineon sets great store by close contacts with students and academics to recruit young professionals. Activities range from excursions to European Infineon sites, training laboratories at Chinese universities to Infineon's doctoral program. There are currently over 100 doctoral students who are not only conducting research on important topics, but are also creating a valuable, cross-departmental network within Infineon and beyond.

Infineon's university marketing team participates in specialist conferences – such as the "European Microwave Week 2014" – to recruit experts for Infineon. Infineon provides a global framework for university cooperation arrangements, but leaves the necessary flexibility for local implementation. For example, internships are offered by the regions directly. During the 2014 fiscal year, in Singapore alone, more than 100 students successfully completed an internship.

G 61

Training expenses

€ in millions



1 Including training expenses of the so-called "Academies" in the different functional areas

Qualifications and training

In the field of qualification and training, the main focus is on a broad range of training programs. Infineon invested €8.5 million (2013: €7.3 million) in staff training during the period under report. Our focus in this area was on professional training aimed at developing the know-how and innovation skills of our workforce, project-management training and programs concentrating on improving the leadership and feedback culture within the organization. In addition, increased importance was given to additional training measures, including web-based training sessions, a range of in-house training opportunities, mentoring programs, innovation events and technical symposia.

Our workforce

Health management

We give high priority to the health of our staff, protecting and promoting it through our health management programs. Preventive programs, such as "Fit4Health" in Germany and Austria or "HAPPY" ("Healthy Active People Program For You") in Singapore promote health awareness in our staff. Additional demand-oriented local initiatives supplement the range of measures on offer.

In November 2013, Infineon received the "Corporate Health Award" for its excellent occupational health management, recognizing it as one of the leading companies in Germany in this field.

Competence development

How do we equip ourselves optimally for the working world of the future? We endeavor to answer this question with our strategic competence management program. This program identifies the skill sets and expertise we shall need in the future and suggest the development paths that will lead to acquiring them. This is intended to bring about the accretion of the necessary competence on a targeted basis.

Our global offering of competence development is made available primarily via the "Academy Connect" platform. Our intention here is to support the corporate strategy through professional, targeted development and to boost our own productivity. Cooperation has been established among a total of eleven global "functional academies" operating in specific segments and fields, with a view to making coordinated learning available to build up professional expertise. The Finance Academy was newly established in midway through the 2014 fiscal year. The webinars developed by our finance experts and other training opportunities draw on examples from daily life at Infineon and refer to Infineon financial guidelines. Further academies exist, for example, in the fields of purchasing, manufacturing, quality management and the supply chain. The learning available from the "PMM Power & RF Academy" has been devised especially for the Power Management & Multimarket segment and covers sales, marketing and application development, among other fields.

In addition to the global offerings, there are also local initiatives, such as the structured competence development program, which was launched at Infineon's largest manufacturing site in Malacca (Malaysia) already in 2011. The success of these initiatives has also inspired other sites and parts of the business to strengthen their own competence management.

Fringe benefits

Fringe benefits are a longstanding tradition at Infineon and are also offered in various forms. All benefits form an integral part of the overall remuneration concept and reflect Infineon's responsibility to its staff. The scale and nature of the benefits are determined in accordance with the relevant regional statutory and standard market requirements. No distinction is made in this respect between full-time and part-time staff.

In Germany and the Asia-Pacific region, for example, in addition to employer and employee-financed pension plans, benefits granted include the items listed below (the exact arrangements are specific to each location).

Industrial accident insurance	Company car for work or as additional benefit
Paid sick leave beyond the statutory minimum	Private car leasing from gross deferred compensation
Continued wage payment to surviving dependants in the event of death	Long-service awards
Sabbatical	Preventive health program
Flexible transition to retirement pension	Family-friendly services, such as for example in-house kindergartens or working together with local organizations offering day-care facilities for children, vacation activities for children

In the Asia-Pacific region, in addition to these benefits, life and hospital group insurance policies, are also offered, which extend beyond the statutory provisions.

Infineon also encourages various work-time models aimed at keeping working hours flexible, depending on individual employees' circumstances, such as in the form of trust-based working hours, part-time work or teleworking arrangements. In the Asia-Pacific region, for example, 90 percent of all sites already offer flexi-time and 60 percent of all sites allow teleworking.

Compensation

Infineon wishes to attract the best possible staff, so we consider attractive, market conform remuneration and appropriate participation in the Company's success to be self-evident. The performance bonus for the employees covered by the Bavarian (Germany) collective agreement was developed according to plan, as provided for in the collective tariff agreement in place with IG Metall Bavaria. We, therefore, increased the variable part of the remuneration for the employees covered by this agreement. This affords greater cost flexibility in economically difficult periods and enables staff to benefit to an even greater extent from Infineon's success in periods of economic prosperity.

We pay our staff on the basis of work-related criteria, such as job requirements and performance. No pay differentials for men and women exist at Infineon. Each employee shall receive appropriate remuneration which is open to scrutiny for his or her work, subject to compliance with all legal standards.

For top management, a new long-term incentive (LTI) plan, the Performance Share Plan, was introduced at the beginning of the 2014 fiscal year. Essentially, the conditions of this plan are identical to those of the LTI plan, which also came into force for the Management Board with effect from the 2014 fiscal year (see section "Components of the Management Board compensation system" within the chapter "Compensation report"). The LTI plan is designed to align the interests of our managers, our investors and our company as a whole.

P see page 177 ff.

Number of employees

Employee reporting was prepared in accordance with the requirements of the global reporting initiative (GRI). Reporting in accordance with GRI covers all active, internal employees.

Employees and personnel expense

As of September 30, 2014 Infineon had a worldwide workforce of 29,807 employees, compared to 26,725 employees one year earlier. The increase in the workforce is the result of the expansion of production especially at the Asian sites, the development of R&D activities and the conversion of temporary employees into permanent in-house staff. In addition, at September 30, 2014, Infineon employed a total of 280 apprentices and dual students, 104 interns and 668 working students in Germany, Austria and Malaysia. 81 new apprentices and dual students were hired in the 2014 fiscal year in Germany, Austria and Malaysia.

Employees by geographical region	2014			2013		
	Total	Female	Male	Total	Female	Male
Europe	13,179	3,136	10,043	12,587	2,971	9,616
Therein: Germany	8,888	2,265	6,623	8,520	2,159	6,361
Asia-Pacific	15,936	7,715	8,221	13,517	6,299	7,218
Therein: China	1,748	813	935	1,615	700	915
Japan	136	24	112	122	20	102
Americas	556	183	373	499	156	343
Total	**29,807**	**11,058**	**18,749**	**26,725**	**9,446**	**17,279**

The regional distribution of employees has remained stable compared to the 2013 fiscal year. More than half of the entire workforce was employed in the Asia-Pacific region (15,936). 44 percent of all employees were employed in Europe (13,179), with the majority working in Germany (8,888).

In the workforce as a whole, at September 30, 2014, 1,541 female employees and 1,340 male employees had fixed-term contracts and 9,517 female employees and 17,409 male employees had permanent contracts. A total of 1,181 employees were working part-time at that date.

		2014			2013		
		Total	Full-Time	Part-Time	Total	Full-Time	Part-Time
Employees on permanent contracts	Male	17,409	17,028	381	16,222	16,056	166
	Female	9,517	8,734	783	8,669	8,006	663
Employees on fixed-term contracts	Male	1,340	1,335	5	1,057	1,054	3
	Female	1,541	1,529	12	777	770	7
Total		**29,807**	**28,626**	**1,181**	**26,725**	**25,886**	**839**

Employees, who were, for example, on parental leave or in the non-working phase of early-retirement part-time working arrangements, are not active employees and, therefore, not included in the tables above. Similarly, temporary employees are not included. At September 30, 2014, 2,838 temporary employees worldwide were working for Infineon, of whom 1,497 were women and 1,341 men. Approximately 81 percent of the external workers were employed in manufacturing. This enables us to ensure the flexibility of manufacturing capacities.

The worldwide personnel cost for current, internal Infineon employees in the 2014 fiscal year was €1,490 million (2013 fiscal year: €1,367 million). This amount includes wages and salaries, including overtime and allowances, as well as social costs (pension and similar costs).

Employee recruitment and turnover

In total 4,991 new employees were hired worldwide during the 2014 fiscal year, of whom 2,529 were women and 2,462 men. 3,676 employees were under 30 years of age, 1,232 belonged to the 30-50 year age group and 83 were over 50 years of age.

	Total	Europe	Therein: Germany	Asia-Pacific	Therein: China	Japan	Americas
Newly hired employees	4,991	838	527	4,047	378	17	89
Rate of newly hired employees[1]	16.7	6.4	5.9	25.4	21.6	12.5	16.0
Staff departures	2,511	464	298	2,009	255	5	33
Rate of staff departures[2]	8.9	11.1	3.4	13.6	15.2	3.9	6.3

1 Figures expressed in percentages based on the workforce at September 30, 2014, in the respective region.
2 Figures in percent, calculated on the basis of the monthly workforce in the 2014 fiscal year.

There were 2,511 staff departures from Infineon in the 2014 fiscal year. Of these, the majority (2,009 employees) were in the Asia-Pacific region, where the majority of new recruitments also occurred (4,047 employees).

Of the departures, 1,205 were women and 1,306 men. 1,472 employees were in the under 30 years age group, 816 in the middle age group (30-50 years) and 223 in the over 50 years age group. The worldwide employee turnover rate during the 2014 fiscal year was 8.9 percent, which represents a slight increase of 0.2 percentage points compared to 8.7 percent in the previous year. In Germany, the employee turnover rate was 3.4 percent (previous year: 2.1 percent). The percentage figure includes voluntary terminations and other reasons for leaving.

Age structure and length of service

The average age of employees worldwide in the 2014 fiscal year is 37.1 years, marginally lower than one year earlier (2013 fiscal year: 37.7 years). The proportion of employees below 30 years of age rose (2014 fiscal year: 27.5 percent, 2013 fiscal year: 24.2 percent). The proportion of the middle age group (2014 fiscal year: 60.2 percent, previous year: 63.6 percent) is lower, whereas the share of the group over 50 years of age rose slightly (2014 fiscal year: 12.3 percent, 2013 fiscal year: 12.2 percent).

The lower average age of employees is reflected in a small decrease in the average length of service of Infineon employees worldwide, which fell from 9.9 years in the previous year to 9.4 years in the 2014 fiscal year. The average length of service of employees in Germany was 14.4 years, marginally higher than the previous year's 14.3 years.

Outlook

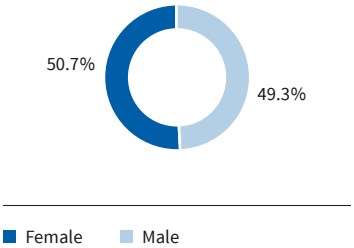
Our human resources-related work is focused on sustaining successful initiatives and programs and developing new measures in response to present requirements. The long-term human resources strategy contributes to Infineon's further development into a high-performance company: our aim is for our staff to be deployed competently and correctly, and to be motivated through personal success to contribute to Infineon's overall success.

To this end, our human resources work focuses on the pillars "Leadership excellence", "Promoting talent" and "Our workforce". The "HR Operational Excellence" initiative also improves our key processes in human resources. With stable processes and efficient instruments, in our role as strategic partners and advisers to management and staff, we accompany Infineon on the path to becoming a high-performance company.

With the planned acquisition of International Rectifier, we have a significant task ahead of us in the coming fiscal year. The US semi-conductor manufacturer has a workforce of over 4,000 employees in 20 countries. Our human resources work will focus on structuring and guiding the transition process, especially with regard to organization, talent and culture, in order to ensure that the integration process is successful and adds value.

G 62

Female/male employees (new entries worldwide 2014)



G 63

Age structure (new entries worldwide 2014)

G 64

Age structure (Infineon worldwide 2014)

NOTABLE EVENTS 2014

January 2014

First lot of IGBTs on 300-millimeter thin-wafer manufacturing technology started in Dresden

In January 2014 the first lot of IGBT devices produced on the 300-millimeter thin-wafer manufacturing line was started in Dresden (Germany). These components will go into discrete 1,200-volt IGBT power transistors, such as those used in induction cookers.

P see also the chapter “Operations”, page 74

April 2014

Graz development center enlarged to include a new building

In April 2014 Metahof IV became the latest new building to be opened in conjunction with the expansion of the development center at Infineon’s site in Graz (Austria). This fourth stage of expansion increases the center’s office and laboratory space by an additional 1,700 square meters to an approximate total of 6,300 square meters. Metahof IV provides space for around 100 additional work places.

Apart from its role as Infineon’s competence center worldwide for contactless chip technologies in security applications, the Graz development center will be a base for performing key research, particularly in the field of automotive electronics.

April 2014

15 years of Infineon

On April 1, 1999, Siemens AG’s semiconductor division became Infineon Technologies AG.

June 2014

Shareholding in LSPS increased

Infineon increased its shareholding in the Korean joint venture LS Power Semitech Co., Ltd. (LSPS) from 46.4 percent to 66.4 percent, thereby giving Infineon control of the entity. LSPS develops, produces and sells compact IGBT power modules for household appliances and small industrial drives.

June 2014

20 years of Infineon Dresden site

It was one of the first major industrial projects to be implemented after the reunification of Germany, as Siemens laid the cornerstone for a semiconductor manufacturing plant in Dresden (Germany) on 6 June 1994. Exactly 20 years later to the day, the Infineon site in Dresden celebrated the anniversary of its founding, together with partners and friends from politics, commerce and science.

Back in 1994, 10 months were needed to build what was the most modern semiconductor plant in Europe at the time, consisting of two large production buildings. In 2000, Infineon laid the foundation for the world's first production center capable of manufacturing on 300-millimeter silicon wafers. Today, Infineon is establishing in Dresden the first manufacturing line worldwide for power semiconductors on 300-millimeter thin wafers.

Infineon Dresden site: Europe's most modern semiconductor plant emerging out of the ground in 1994.

From left to right:
Dr. Reinhard Ploss, CEO of Infineon; Helma Orosz, Mayoress of Dresden; Prof. Johanna Wanka, Federal Minister of Education and Research; Stanislav Tillich, Minister President of Saxony; Pantelis Haidas, Managing Director of the Dresden plant; Helmut Warnecke, Commercial Managing Director of the Dresden plant.

August 2014

Contract to planned acquisition of International Rectifier signed

On August 20, 2014, Infineon and International Rectifier signed a contract for the acquisition of International Rectifier. Infineon offers US$40 in cash per outstanding International Rectifier share and is, thereby, paying approximately US$3 billion for the share capital or approximately US$2.4 billion (net of cash acquired) to acquire International Rectifier's business.

After signature of the contract: Dr. Reinhard Ploss (left), CEO of Infineon, and Oleg Khaykin, President and CEO of International Rectifier.

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	€2,255 million (as of September 30, 2014)
Shares issued	1,128 million (as of September 30, 2014)
Own shares	6 million (as of September 30, 2014)
Listings	Shares: Frankfurt Stock Exchange (FSE) ADS: over-the-counter (OTC) market (OTCQX)
Option trading	Options 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

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

Infineon Technologies AG share capital, shares issued and market capitalization

As of	September 30, 2014	September 30, 2013	Change
Share capital € in millions	2,255	2,162	+4.3%
Shares issued in millions	1,128	1,081	+4.3%
Market capitalization[1] € in millions	9,190	7,950	+15.6%
Market capitalization[1] US$ in millions	11,554	10,729	+7.7%

1 The calculation is based on unrounded figures. Own shares were not taken into consideration for calculation of market capitalization.

Infineon share statistics

Fiscal year ending September 30	2014	2013	2012
Germany: Xetra closing in €			
Fiscal year closing (end September)	8.19	7.40	4.94
Year high	9.42	7.61	7.88
Year low	6.88	4.96	4.94
Daily average shares traded on regulated German stock exchanges	7,294,896	8,134,049	9,925,683
Thereof: Xetra trading in %	94	94	94
USA: OTCQX closing in US$			
Fiscal year closing (end September)	10.30	9.98	6.44
Year high	12.84	10.35	10.49
Year low	9.24	6.47	6.17
Daily average ADS traded	66,501	80,678	101,319

Shareholder structure [1]

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.	5.57% (as per September 25, 2014)
Thereof: BlackRock HoldCo 2, Inc.	5.48% (as per September 25, 2014)
Thereof: BlackRock Financial Management, Inc.	5.47% (as per September 25, 2014)
Allianz Global Investors Europe GmbH	5.03% (as per July 24, 2014)

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.

@ www.infineon.com/cms/en/about-infineon/investor/infineon-share/shareholder-structure/

Performance of the Infineon share and worldwide indices through September 30, 2014 since:

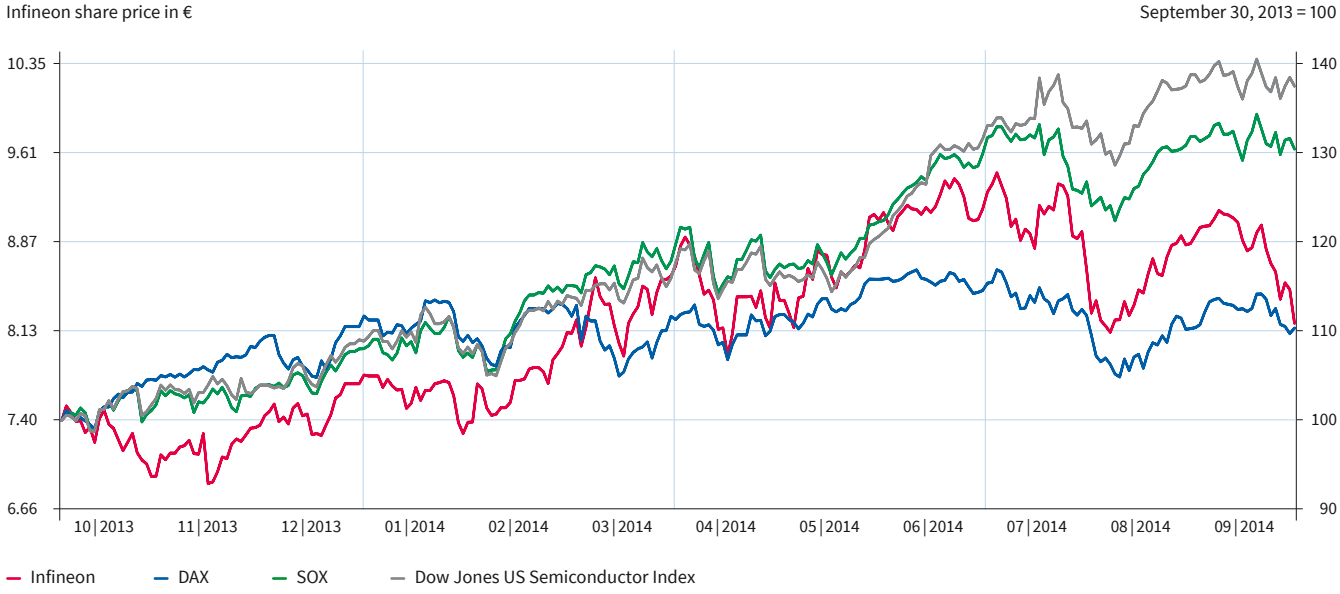
	September 30, 2013	September 30, 2012	September 30, 2011
Infineon (Xetra)	+10.8%	+65.9%	+46.6%
DAX	+10.2%	+31.3%	+72.2%
Philadelphia Semiconductor Index (SOX)	+30.1%	+67.0%	+88.4%
Dow Jones US Semiconductor Index	+37.0%	+65.6%	+74.2%

Positive share price development in 2014 fiscal year

The Infineon share price rose by 11 percent over the course of the 2014 fiscal year and stood at €8.19 at September 30, 2014. Its closing price at the end the 2013 fiscal year was €7.40. The share price initially moved sideways during the first months of the fiscal year, with the low for the year of €6.88 recorded in mid-November 2013. A continuous upwards trend commenced in February 2014 and lasted into July. At the beginning of July, the share price stood at €9.42, its highest level during the 2014 fiscal year. By the end of the fiscal year – and accompanied by significant volatility – the general trend of the share price was downwards.

G 65

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 2014 fiscal year (daily closing prices)



The relevant comparable indices also gained in value during the 2014 fiscal year. The DAX finished 10 percent above its level at September 30, 2013. Over the same period, the Philadelphia Semiconductor Index (SOX) rose by 30 percent and the Dow Jones US Semiconductor Index by 37 percent.

Trading volumes and membership in indices

The average number of Infineon shares traded per day, in the Xetra system, on the Frankfurt trading floor and on German regional stock exchanges, fell from daily 8.1 million shares in the previous fiscal year to 7.3 million shares in the 2014 fiscal year. The average daily trading volume in euros was increasing from €51.3 million in the 2013 fiscal year to €59.3 million per day in the 2014 fiscal year.

G see glossary, page 275
G see glossary, page 276

The Infineon share is traded in the USA in the form of American Depositary Shares ("ADS") on the OTCQX International over-the-counter market under the ticker symbol "IFNNY". With an average trading volume of 67 thousand ADS per day, the number of ADS traded was down on the previous fiscal year's figure of 81 thousand ADS per day. The number of ADS outstanding dropped to a total of 10.2 million at September 30, 2014, compared to the 15.0 million ADS in circulation at the end of the previous fiscal year.

The criteria applied for testing membership in the DAX are the average market capitalization and the trading volume in euro. Essential for the calculation of market capitalization are on the one hand the number of shares outstanding and on the other hand the number of free-float shares. As a result of the conversion of the convertible bond and the exercise of stock options, the number of shares in issue increased during the 2014 fiscal year by 46,656,196 shares to stand at 1,127,739,230 shares at September 30, 2014. The corresponding figure at the end of the previous fiscal year was 1,081,083,034 shares. With the exception of 6 million own shares held by Infineon, all shares are deemed to be free float and hence taken into account in the calculation of the average market capitalization, which rose from €8.0 billion in the 2013 fiscal year to €9.9 billion in the 2014 fiscal year. Despite the higher market capitalization, Infineon remained in 24th place in the DAX ranking.

The second relevant criterion is the euro volume of shares traded during the past 12 months in the Xetra system and on the Frankfurt trading floor. The total trading volume of the Infineon share climbed from €12.3 billion in the previous fiscal year to €14.2 billion in the 2014 fiscal year, resulting in an improvement from 21st to 20th place in the DAX ranking.

The Infineon share was included in the Dow Jones Sustainability™ Europe Index for the first time in September 2010. There is an annual test for each company included to confirm that the criteria for retention in the index have been met. Infineon's compliance with these criteria was confirmed in September 2014 for the fifth year in succession. This index currently comprises the shares of 154 entities, including another 22 German companies in addition to Infineon. Further information on the topic of sustainability can be found in the chapter "Sustainability at Infineon".

P see page 82

Dividend, capital returns and conversion of convertible bond

Dividend for fiscal year	Dividend per share
2010	€0.10
2011	€0.12
2012	€0.12
2013	€0.12
Proposal 2014	€0.18

At the Annual General Meeting held in Munich on February 13, 2014 the Company's shareholders approved the dividend proposal jointly put forward by Infineon's Management Board and Supervisory Board. As a consequence, a dividend of €0.12 per share was distributed, unchanged from the previous year, and an amount of €129 million disbursed to the shareholders on February 14, 2014. On May 6, 2014 Infineon announced a reduction in the expected level of capital intensity and, consequently, of the ratio of investments to revenue from the previous 15 percent to 13 percent. In view of the resulting sustainable improvement in free cash flow, the intention is to pay a significantly increased level of dividend already for the 2014 fiscal year. It will, therefore, be proposed at the Annual General Meeting which will take place in Munich on February 12, 2015 to raise the dividend by 50 percent to €0.18 per share.

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 and/or with negative free cash flows, to keep the dividend at least at a constant level.

Following the expiry on March 31, 2013 of the capital returns program originally initiated in May 2011, the Supervisory Board authorized a new capital returns program for an amount of up to €300 million on November 19, 2013. The new program can again be used up to September 30, 2015 to acquire shares and/or bonds in connection with the subordinated convertible bond due 2014 or to issue put options on own shares. Infineon began in December 2013 to repurchase parts of the convertible bond and to issue put options on Infineon shares. By the end of December 2013, Infineon had repurchased parts of the convertible bond with a nominal value of €11 million for €35 million. In addition, a total of 14 million put options on own shares were issued during the 2014 fiscal year, of which 8 million had expired and 6 million remained outstanding at the end of the reporting period. Details of repurchases of the convertible bond and an overview of changes in the number of outstanding put options can be found on Infineon's website at "About Infineon/Investor/Capital Returns/Program 2013". Subject to the acquisition of International Rectifier proceeding as planned, no other repurchases are planned over and beyond the put options currently outstanding.

@ www.infineon.com/investor

During the first quarter of the 2014 fiscal year, parts of the convertible bond due 2014 with a nominal amount of just under €64 million were converted into just under 29 million new shares. Following these conversions and repurchases described above, less than 20 percent of the nominal amount of the convertible bond remained outstanding in December 2013. On December 23, 2013, Infineon announced its intention to repay all outstanding parts of the convertible bond – prior to its due date – in accordance with the terms of the bond. As a result, all outstanding bonds with a nominal amount of €39 million were converted into about 18 million shares until the expiry of the conversion period on January 31, 2014.

Communication with capital markets

The prime objective of our communications with the capital markets is to provide regular and detailed information to current and future shareholders, investors and analysts about Infineon's economic and technological developments.

@ We use our Financial Calendar to inform interested parties of forthcoming reports and of our attendance at investor conferences: www.infineon.com/investor

The Annual Report, Quarterly Reports and telephone conferences held in conjunction with the release of financial data plus a whole range of detailed information, figures and tables made available on the Infineon website, form the basis for our communication with capital market participants.

A further component of our Investor Relations activities is communication with analysts and investors at conferences and roadshows. During the 2014 fiscal year, the three members of the Management Board as well as the segment Heads, supported by the Investor Relations team, were all involved in capital market communication activities. We participated in eight investor conferences in Europe and the USA and organized six roadshows. Three telephone conferences were held to provide detailed information on the business of the Automotive, Industrial Power Control and Power Management & Multimarket segments. The strategic benefits resulting from the planned acquisition of International Rectifier were discussed by Infineon's CFO in a further telephone conference, held on August 21, 2014. All presentations and webcasts can be viewed and downloaded from the Investor Relations section of the Infineon website via "Reporting/Download Center". In addition to the events described above, a whole host of discussions were held with analysts and investors at group meetings, on a one-to-one basis or in telephone conference calls. More than 30 analysts continuously monitor Infineon's business performance and publish analyses on a regular basis.

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

@ www.infineon.com/investor

I Retail investors can reach us via e-mail or telephone hotline with their questions:
Phone: +49 89 234-26655
Fax: +49 89 234-955 2987
E-mail: investor.relations@infineon.com

AWARDS

Being at the forefront of technology, Infineon is the recipient of numerous awards and prizes – in the fields of research and development, production and quality on the one hand, as well as for its accomplishments in organization and processes on the other. The following overview shows a selection of the awards Infineon received during the course of the 2014 fiscal year.

October 2013

Infineon among the 100 most innovative companies in the world

Every year, the financial news agency Thomson Reuters draws up a list of the world's 100 most innovative companies. Infineon was one of only three German enterprises to be included in the list. Selection depends on the activities of companies regarding patents, which are judged on the strength of four criteria: number, success rate, range and influence.

Prime rating received from oekom

The rating agency oekom research AG assesses the sustainability performance of various companies. It awarded Infineon the prime rating in this ranking, which comprises over 100 individual criteria in the areas of economy, ecology and social responsibility.

November 2013

Corporate Health Award

A committee consisting of Handelsblatt (a German business newspaper), TÜV SÜD (a technical standards organization) and EuPD Research Sustainable Management (a market researcher) acknowledged Infineon's German-wide leading operational health management system with an award.

Innovation prize for ESiP

The ESiP project, (Efficient Silicon Multi-chip System-in-Package Integration), which is headed by Infineon, was awarded the Innovation Prize 2013 by ENIAC JU (European Nanoelectronics Initiative Advisory Council Joint Undertaking), a public-private partnership that focuses on nanoelectronics.

Renewed receipt of Sesames Award

In a repeat of last year's performance, Infineon was again recipient of a Sesames Award, which was presented at Cartes, the international trade fair for smart cards held annually in Paris (France). This time Infineon received the award in the Best Innovation in the Field of ID and Health Cards category for its passport with the highest data transfer rate.

December 2013

Coil on Module acknowledged with award

For its Coil on Module packaging technology, Infineon was presented with the New Product Innovation Leadership Award by management consulting experts Frost & Sullivan. The technology simplifies the production of security cards with combined interfaces (both contact-based and contactless).

Best Quality Supplier Award

Emerson Network Power China (ENPC) honored Infineon with the presentation of its Best Quality Supplier Award.

January 2014

Best Strategic Partnership Supplier

Taiwan-based Actron Technology Corporation is a global leader in the manufacture of diodes for automotive electronics. Actron recognized Infineon as best strategic supplier and partner for its outstanding collaboration in the manufacturing of diodes that feature extremely low power losses.

February 2014

Best Quality Supplier Award

Sungrow Power, China's largest manufacturer of photovoltaic inverters, presented Infineon with the Best Quality Supplier Award for the third consecutive time.

Editor's Choice

In its February issue, the US-based magazine Embedded Computing Design awarded the Editor's Choice prize to the development platform and the accompanying software development tool for the use of the XMC4500 industry microcontroller.

March 2014

Strategic Supplier Award

Longood Intelligent Electric Co., Ltd, Shenzhen (China), a leading manufacturer of control panels for induction cookers, presented an award to Infineon in recognition of its role as particularly important partner for strategic cooperation in the field of IGBTs.

2014 Compound Semiconductor Industry Innovation Award

At the CS International Conference, an annual event organized by the magazine Compound Semiconductor for members of the compound semiconductor industry, Infineon received an award in the category Innovation for its "CoolSiC™ 1,200V SiC JFET & Direct Drive Technology" transistor family, which is based on the new material silicon carbide.

May 2014

Logistics Award 2014

Siemens Motion Control presented Infineon with the Our Stars for MC – Logistics award for its excellent, reliable procurement management.

July 2014

Best Companies for Mums

In Singapore, the National Trades Union Congress (NTUC) and the organization Women's Development Secretariat and Tripartite Alliance for Fair and Progressive Employment Practices (TAFEP) honored Infineon with the Best Companies for Mums award for its flexible working time model and its parent-friendly working environment.

International Business Award

The magazine Singapore Business Review presented Infineon with the International Business Award in the electronics category in recognition of its growth initiative in the Asian region.

September 2014

MEMBER OF
Dow Jones Sustainability Indices
In Collaboration with RobecoSAM

Dow Jones Sustainability Index

Infineon has been listed in the Dow Jones Sustainability™ Europe Index (DJSI Europe) for the fifth consecutive time. In the 2013/2014 listing, the DJSI Europe comprises 154 European companies, only 22 of which are German. Furthermore, in January 2014 Infineon was again included in the Sustainability Yearbook. The international investment company RobecoSAM awards this entry to companies belonging to the 15 percent most sustainable companies in the world.

August 2014

Singapore Sustainability Award

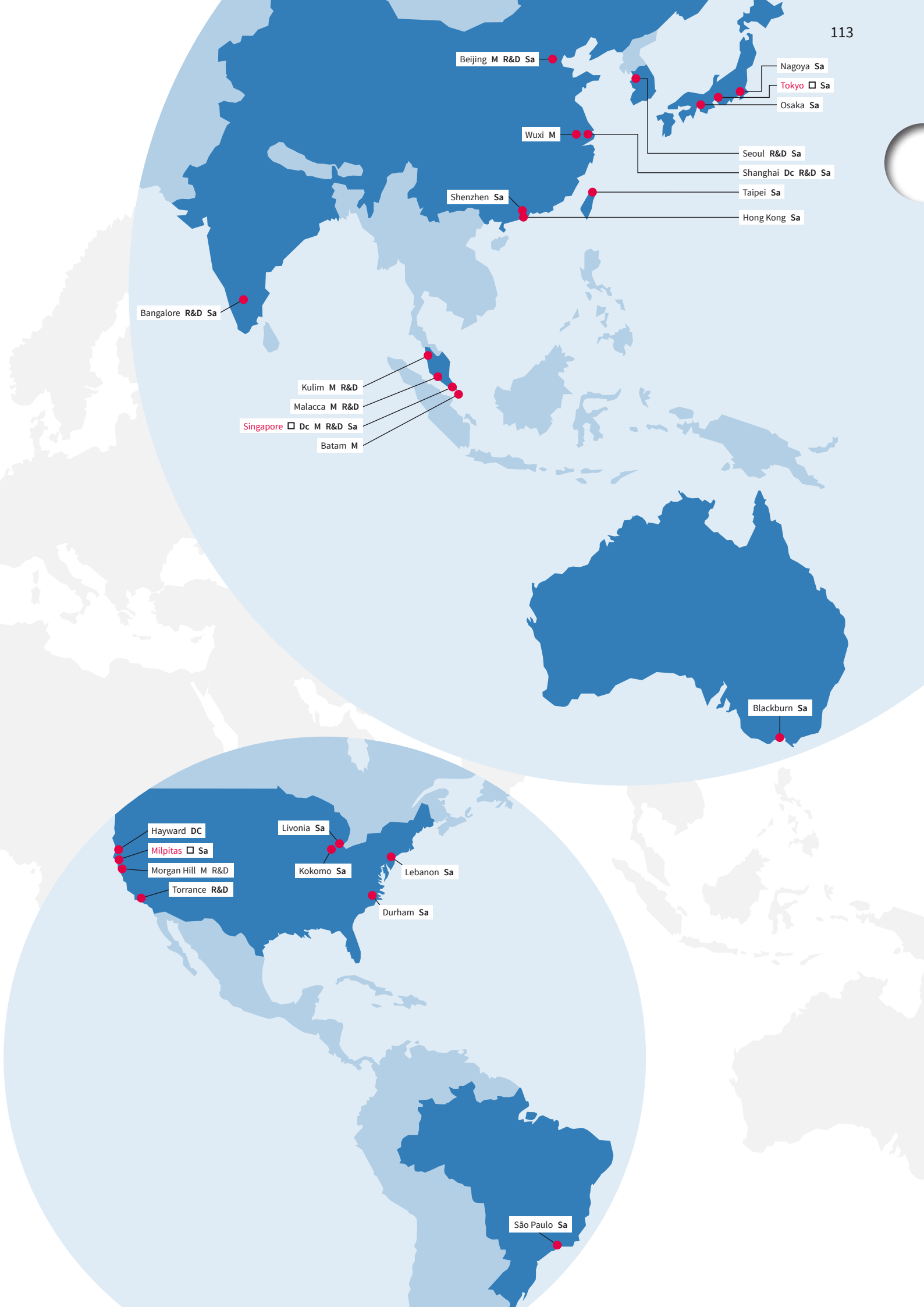
Infineon is among the winners of the Singapore Sustainability Award 2014 in the large organization category. The Singapore chamber of commerce bestows this award on companies or organizations for their innovative and sustainable actions in the fields of economy, social responsibility and environmental protection.

INFINEON WORLDWIDE

Infineon sites

■ Headquarters
□ Regional headquarters

Dc Distribution center
M Manufacturing
R&D Research & Development
Sa Sales
Sf Service function


Beijing M R&D Sa
Nagoya Sa
Tokyo ☐ Sa
Osaka Sa
Wuxi M
Seoul R&D Sa
Shanghai Dc R&D Sa
Taipei Sa
Shenzhen Sa
Hong Kong Sa
Bangalore R&D Sa
Kulim M R&D
Malacca M R&D
Singapore ☐ Dc M R&D Sa
Batam M
Blackburn Sa
Hayward DC
Milpitas ☐ Sa
Morgan Hill M R&D
Torrance R&D
Livonia Sa
Kokomo Sa
Lebanon Sa
Durham Sa
São Paulo Sa

Our 2014 fiscal year

GROUP MANAGEMENT REPORT
The Infineon Group →

GROUP MANAGEMENT REPORT
Our 2014 fiscal year →

CONSOLIDATED
FINANCIAL STATEMENTS →

GROUP PERFORMANCE

REVIEW OF RESULTS OF OPERATIONS

The consolidated statement of operations

€ in millions, except earnings per share	2014	2013
Revenue	4,320	3,843
Gross profit	**1,647**	**1,323**
Research and development expenses	(550)	(525)
Selling, general and administrative expenses	(496)	(440)
Other operating income and expense, net	(76)	(33)
Operating income	**525**	**325**
Net financial result (financial income and expense, net)	(9)	(21)
Income from investments accounted for using the equity method	3	2
Income tax	(31)	(23)
Income from continuing operations	**488**	**283**
Gain (loss) from discontinued operations, net of income taxes	47	(11)
Net income	**535**	**272**
Basic earnings per share (in euro)	0.48	0.25
Diluted earnings per share (in euro)	0.48	0.25

Significant improvement in net income

Net income for the 2014 fiscal year amounted to €535 million. Despite the fine of €83 million imposed on Infineon by the EU Commission in conjunction with antitrust proceedings against semiconductor manufacturers (see note 33 to the Consolidated Financial Statements), the result is almost double the previous year's figure of €272 million. The increase mainly reflects higher revenue and as a result a noticeably increased profitability achieved during the 2014 fiscal year due to significantly improved utilization of manufacturing capacities and the benefits of production efficiency improvements. Segment Result improved to a similar degree (see the chapter "Finances and Strategy" for a detailed analysis). Improved earnings also gave rise to a sharp increase in earnings per share.

P see page 254

P see page 22 ff.

Sharp revenue growth

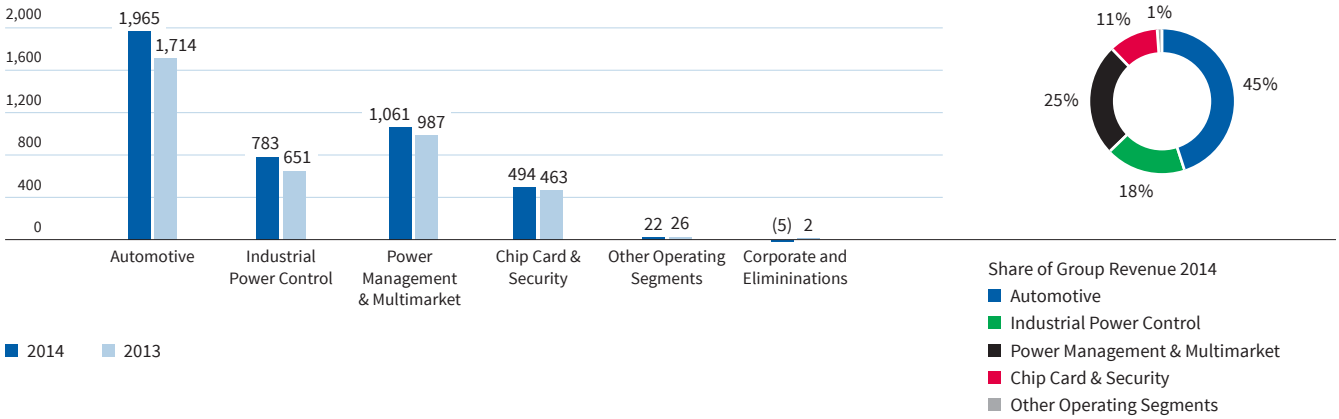
Despite currency-related headwinds, revenue grew year-on-year by 12 percent or €477 million to €4,320 million (2013: €3,843 million). All four operating segments reported higher revenue: Automotive (up by 15 percent or €251 million), Industrial Power Control (up by 20 percent or €132 million), Power Management & Multimarket (up by 7 percent or €74 million) and Chip Card & Security (up by 7 percent or €31 million) (see detailed comments in the respective sections to the individual segments in chapter "The segments".

P see page 38 ff.

G 66

Revenue by segment

€ in millions



Share of Group Revenue 2014
- Automotive
- Industrial Power Control
- Power Management & Multimarket
- Chip Card & Security
- Other Operating Segments

Higher negative currency impact on revenue in the 2014 fiscal year

Almost 50 percent of revenue in the 2014 fiscal year was generated in foreign currencies, of which the US dollar accounted for the largest proportion.

The average euro/US dollar exchange rate for the year changed from 1.31 in the 2013 fiscal year to 1.36 in the 2014 fiscal year. The average exchange rate during the 2012 fiscal year was 1.30.

The impact of the change in the value of the US dollar was correspondingly high, a fact compounded by the high volumes recorded. The weakness of the Japanese yen also had a negative impact on revenue. Across all currencies and over the full year, revenue was negatively impacted by approximately €82 million due to exchange rate factors. This exchange rate impact is measured by applying the previous fiscal year's average exchange rates to 2014 fiscal year revenue.

€ in millions, except percentages	2014	2013
Revenue	4,320	3,843
Changes year-on-year	12%	(2%)
Exchange rate impact compared to previous fiscal year	(82)	(28)
Percentage of revenue	(2%)	(1%)

Revenue increase not significantly influenced by acquisition of control over LSPS

Further shares were acquired in LS Power Semitech Co., Ltd. ("LSPS"), Korea, in June 2014, since which time LSPS has been fully consolidated (further information is provided in note 3 to the Consolidated Financial Statements). Revenue generated by LSPS over the remainder of the fiscal year amounted to €13 million and therefore only contributed marginally to the revenue increase recorded by Infineon. Revenue in the 2014 fiscal year was not influenced by business disposals.

P see page 218

Revenue in the 2013 fiscal year was not impacted by any business acquisitions or disposals.

Importance of Asia-Pacific continues to grow

€ in millions, except percentages	2014		2013	
Europe, Middle East, Africa	1,707	39%	1,567	41%
Therein: Germany	859	20%	795	21%
Asia-Pacific (excluding Japan)	1,845	43%	1,560	40%
Therein: China	868	20%	710	18%
Japan	284	7%	227	6%
Americas	484	11%	489	13%
Total	**4,320**	**100%**	**3,843**	**100%**

All regions except for the Americas contributed to revenue growth in the 2014 fiscal year. More than half of the increase (€285 million) related to the Asia-Pacific region (excluding Japan). The Europe, Middle East and Africa region made a €140 million contribution (29 percent) to the improved figure.

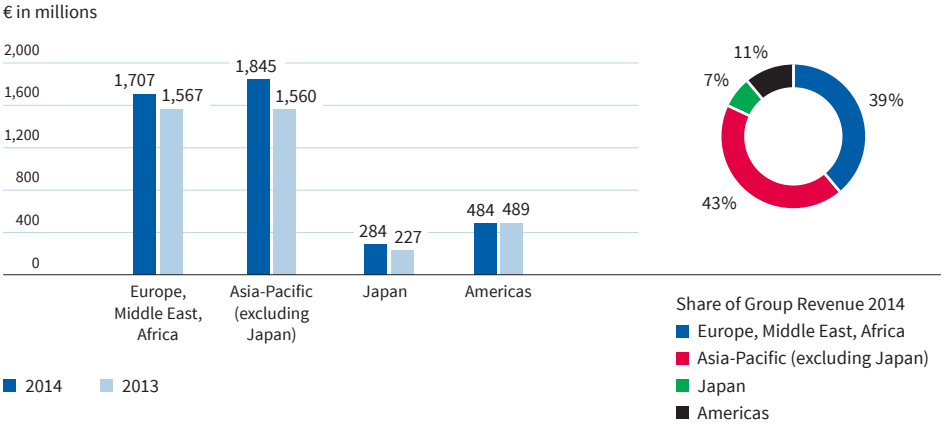
For the first time, revenue generated in the Asia-Pacific region (excluding Japan) amounting to €1,845 million surpassed revenue recorded for the Europe, Middle East and Africa region (€1,707 million) and, with a share of 43 percent (3 percentage points more than one year earlier), accounted for the largest share of Infineon's revenue in the 2014 fiscal year. The growing importance of the Asia-Pacific region for Infineon mainly reflects the fact that it is the base for contract manufacturers specializing in producing electronic components, predominantly for Western customers (see section "Developments in the semiconductor industry during the 2014 fiscal year" in "Strong 2014 fiscal year" in the chapter "Finances and Strategy"). With a combined share of 82 percent of revenue, Europe, Middle East, Africa and the Asia-Pacific region represent Infineon's major markets. Within the Asia-Pacific region (excluding Japan), the highest share was recorded in China, which, with 20 percent of Infineon's worldwide revenue, accounted for a similar proportion to that generated in Germany. For the first time, revenue generated in China (€868 million) was higher than the corresponding figure for Germany (€859 million).

P see page 25

The share attributable to the Americas fell by 2 percentage points to 11 percent, mainly due to exchange rate factors.

G 67

Revenue by region



Stable customer structure again in the 2014 fiscal year

As in previous years, Infineon worked very closely with a host of major customers. In the 2014 fiscal year, business with its 25 largest customers accounted for 73 percent of revenue (2013: 72 percent).

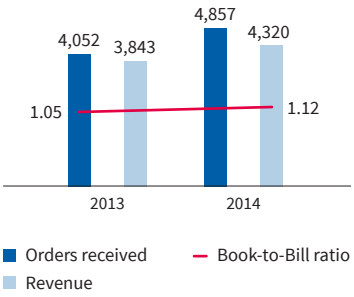
Book-to-bill ratio improved due to higher levels of orders received

The volume of incoming orders increased by 20 percent from €4,052 million to €4,857 million in the 2014 fiscal year. Thanks to the faster growth of orders received compared to revenue, the book-to-bill ratio improved from 1.05 to 1.12.

G 68

Orders received and revenue

€ in millions, except Book-to-Bill ratio



Gross margin improved at higher rate than revenue due to better capacity utilization and efficiency improvements

Cost of goods sold in the 2014 fiscal year amounted to €2,673 million, an increase of €153 million or 6 percent compared to the previous year's figure of €2,520 million.

Cost of goods sold comprises mainly:

- costs of materials – in particular for raw wafers,
- personnel expenses,
- depreciation and amortization,
- overheads, including the maintenance of production facilities, operational supplies and license fees,
- foundry as well as assembly and test costs charged by subcontractors, and
- manufacturing support, including buildings, supply facilities, quality control and management costs.

In addition to volume-related factors, the cost of goods sold is also influenced by the following:

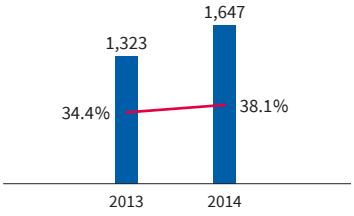
- capacity utilization level of production facilities and related idle costs,
- amortization of purchased and internally generated intangible assets,
- product warranty costs,
- inventory risks and
- government grants received that are spread over the useful lives of production plants.

Gross profit (revenue less cost of goods sold) amounted to €1,647 million, an improvement of 24 percent over the €1,323 million recorded one year earlier. 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 the cost of goods sold do not react in proportion to rises and falls in revenue. Greater business volumes in the 2014 fiscal year resulted in higher capacity utilization at manufacturing facilities. Whereas frontend and backend manufacturing capacities were utilized at a level of 91 percent and 79 percent respectively in the 2013 fiscal year, the corresponding figures for the 2014 fiscal year were 99 percent and 85 percent respectively, as a result of which idle costs decreased accordingly. This fact, combined with benefits derived from manufacturing efficiency improvements, led to gross profit growth exceeding revenue growth. A number of other factors, such as increased personnel costs – partially due to the larger workforce and also to pay rises, including higher variable remuneration based on an improved target achievement level – worked in the opposite direction. The gross margin improved year-on-year from 34.4 percent to 38.1 percent.

G 69

Gross profit and gross margin

€ in millions



A part of the cost of goods sold is incurred in currencies other than the euro. To some extent, the effects of exchange rates on the cost of goods sold offset a similar impact on revenue. Exchange rates had a net negative impact of €32 million on gross profit in the 2014 fiscal year.

€ in millions, except percentages	2014	2013
Cost of goods sold	2,673	2,520
Change year-on-year	6%	2%
Percentage of revenue	61.9%	65.6%
Gross profit	1,647	1,323
Percentage of revenue (gross margin)	38.1%	34.4%

Research and development expenses higher; selling, general and administrative expenses at similar level

Research and development expenses (R&D expenses)

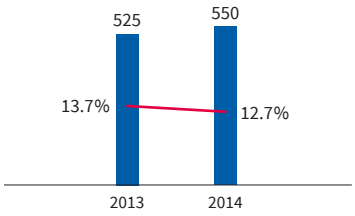
R&D expenses consist primarily of personnel expenses, cost of materials, depreciation and amortization and the cost of maintaining laboratory facilities required for R&D activities. R&D projects include technology and product development projects. R&D expenses also cover third-party costs related to technology and product development, as well as the cost of joint product and technology development arrangements with partners. Grants received in conjunction with R&D projects and capitalized development costs reduce the reported expense.

€ in millions, except percentages	2014	2013
Research and development expenses	550	525
Change year-on-year	5%	15%
Percentage of revenue	12.7%	13.7%
Therein included grants received	66	52
Percentage of revenue	1.5%	1.4%
For information: Capitalized development costs	92	51
Percentage of research and development expenses	16.7%	9.7%

G 70

R&D expenses

€ in millions



R&D expenses in the 2014 fiscal year increased by €25 million or 5 percent compared to the previous year. Expressed as a percentage of revenue, they decreased year-on-year from 13.7 percent to 12.7 percent.

Additional staff were recruited – including for the new development center in Malacca (Malaysia) – with the aim of creating the basis for further growth. A total of 4,822 employees worked in R&D functions at the end of the reporting period (2013: 4,472 employees). Higher personnel expenses (due to higher headcount, pay rises and higher expenses for variable remuneration based on an improved target achievement level) as well as additional non-personnel costs incurred in conjunction with R&D activities, contributed to the increase in R&D expenses.

At €66 million, grants and subsidies received were significantly higher than one year earlier (2013: €52 million). Capitalized development expenses amounted to €92 million in the 2014 fiscal year, compared to €51 million in the previous year, with the increase primarily attributable to development projects in the Automotive segment.

The principal R&D activities undertaken during the 2014 fiscal year are described in more detail in the chapter “Research and development”.

P see page 64 ff.

Selling, general and administrative expenses

Selling expenses primarily comprise personnel and non-personnel expenses related to selling 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, as well as consultancy, legal and other fees for professional services.

€ in millions, except percentages	2014	2013
Selling, general and administrative expenses	496	440
Change year-on-year	13%	(7%)
Percentage of revenue	11.5%	11.4%

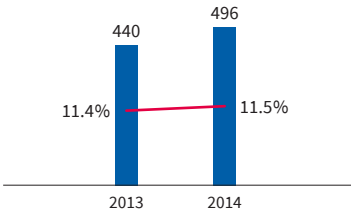
At 11.5 percent of revenue, selling, general and administrative expenses were practically unchanged from the previous fiscal year (11.4 percent). Comparing the absolute figures, there was a year-on-year increase of 13 percent caused by revenue-related factors and higher personnel expenses.

We incur only minor marketing expenses for advertising and trade fairs due to our sales and customer structure. In the 2014 fiscal year they accounted for about than 1 percent of selling, general and administrative expenses.

G 71

Selling, general and administrative expenses

€ in millions



Selling, general and administrative expenses
Percentage of revenue

Fine imposed by the EU Commission in conjunction with antitrust proceedings results in sharp increase in negative net amount of other operating income and expenses

Net other operating income and expenses gave rise to a net expense of €76 million for the 2014 fiscal year, compared to a net expense of €33 million one year earlier. The increase in net expense was mainly due to the fine of €83 million imposed on Infineon by the EU Commission (meanwhile Infineon has brought an action against this decision before the European Court of Justice in Luxembourg). Lower restructuring expenses and impairment losses partially offset this effect.

Further details relating to other operating income and expenses are provided in note 7 to the Consolidated Financial Statements.

P see page 221

Improvement in net financial result

The net financial result (financial income less financial expenses) for the 2014 fiscal year was a net expense of €9 million, an improvement of €12 million compared to the net expense of €21 million recorded one year earlier. The better figure was mainly attributable to the fact that interest expense decreased following the repurchase and conversion of parts of the subordinated convertible bond due 2014.

Effective tax rate of 6 percent in 2014 fiscal year

The income tax expense, comprising current and deferred taxes, totaled €31 million in the 2014 fiscal year.

In Germany, Infineon's current tax expense is based on the applicable "minimum taxation" rules, under which only 40 percent of taxable profits arising in Germany are subject to current tax as a result of utilizing tax loss carry-forwards. The current tax expense outside Germany benefited from lower statutory tax rates and tax credits.

Deferred tax assets, which in Infineon's case relate primarily to tax loss carry-forwards and unused tax credits, have to be assessed at the end of each reporting period in order to determine whether future utilization is probable. As in the previous year, in the 2014 fiscal year the reassessment of the valuation allowance on deferred tax assets gave rise to a deferred tax benefit, which partially offset the current tax expense.

Income from continuing operations before income taxes and the income tax expense/benefit were as follows:

€ in millions, except percentages	2014	2013
Germany	259	101
Foreign	260	205
Income from continuing operations before income taxes	**519**	**306**
Current tax expense:		
Germany	(34)	(9)
Foreign	(42)	(30)
	(76)	**(39)**
Deferred tax benefit (expense):		
Germany	36	21
Foreign	9	(5)
	45	**16**
Income tax	**(31)**	**(23)**
Effective tax rate	6%	8%

P see page 221 ff.

Further details regarding income tax are provided in note 10 to the Consolidated Financial Statements.

Positive result from discontinued operations

The result from discontinued operations, net of income taxes, for the 2014 and 2013 fiscal years comprised the following:

€ in millions	2014	2013
Qimonda	29	(15)
Wireline Communications business	10	–
Wireless mobile phone business	8	4
Result from discontinued operations, net of income taxes	**47**	**(11)**

The result from discontinued operations, net of income taxes, was a positive amount of €47 million in the 2014 fiscal year, compared to a negative amount of €11 million in the previous year. In addition to income arising on the reversal of provisions in connection with the sale (in previous years) of the Wireline Communications and the Wireless mobile phone businesses, the most significant item was the earnings impact of the partial settlement signed on September 11, 2014 with the Qimonda insolvency administrator.

P see page 219

Further details regarding the result from discontinued operations, net of income taxes, can be found in note 4 to the Consolidated Financial Statements.

Sharp rise in earnings per share

As described above, net income of €535 million for the 2014 fiscal year was significantly higher than in the previous fiscal year (€272 million).

This, in turn, resulted in a correspondingly sharp improvement in earnings per share. Basic and diluted earnings per share for the 2014 fiscal year amounted to €0.48, in both cases, compared to basic and diluted earnings per share of €0.25, in both cases, for the 2013 fiscal year.

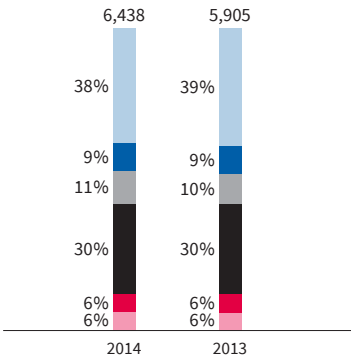
REVIEW OF FINANCIAL CONDITION

€ in millions, except percentages	2014	2013	Change year-on-year
Current assets	3,934	3,623	9%
Non-current assets	2,504	2,282	10%
Total assets	**6,438**	**5,905**	**9%**
Current liabilities	1,603	1,594	1%
Non-current liabilities	677	535	27%
Total liabilities	**2,280**	**2,129**	**7%**
Total equity	**4,158**	**3,776**	**10%**
Statement of Financial Position Ratios:			
Return on assets [1]	8.3%	4.6%	
Equity ratio [2]	64.6%	63.9%	
Return on equity [3]	12.9%	7.2%	
Debt-to-equity ratio [4]	4.5%	8.0%	
Inventory intensity [5]	11.0%	10.3%	
RoCE [6]	20.3%	14.1%	

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 following section about RoCE in this chapter

G 72

Assets



€ in millions	2014	2013
Gross cash position	2,418	2,286
Trade and other receivables	581	518
Inventories	707	609
Property, plant and equipment and intangible assets	1,950	1,770
Deferred tax assets	378	325
Other assets	404	397
	6,438	**5,905**

Total assets increased

Compared to September 30, 2013, total assets increased by €533 million from €5,905 million to €6,438, with current and non-current assets up by €311 million and €222 million respectively. On the equity and liabilities side, liabilities increased by €151 million and equity by €382 million.

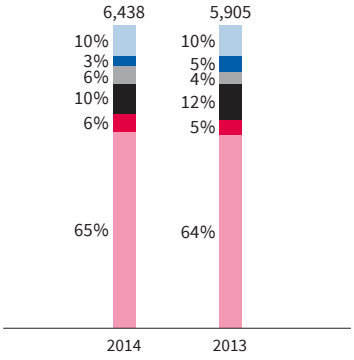
The significantly higher net income reported for the 2014 fiscal year resulted in improved key performance indicators. The return on equity for the 2014 fiscal year was 12.9 percent (2013: 7.2 percent) and the return on assets increased to 8.3 percent (2013: 4.6 percent). RoCE improved from 14.1 percent to 20.3 percent.

Increases in gross cash position, trade receivables and inventories result in higher level of current assets

Current assets went up by 9 percent to €3,934 million as of September 30, 2014 compared to €3,623 million as of September 30, 2013. The main reason for the rise was the €132 million increase in gross cash position (sum total of cash and cash equivalents and financial investments), which resulted primarily from the surplus of free cash flow over disbursements for the dividend, the repurchase of the subordinated convertible bond and the repayment of loans. In addition, trade receivables and inventories were €63 million and €98 million respectively higher than their levels at September 30, 2013, in line with the positive business trend. A transaction-related euro/US dollar forward foreign currency contract (“Deal Contingent Forward”) for a total amount of US$1.5 billion was concluded to hedge part of the exchange rate risks related to the purchase price due for the acquisition of International Rectifier. The positive fair value of the Deal Contingent Forward (€39 million) is included in other current assets at September 30, 2014.

G 73

Liabilities and equity



€ in millions	2014	2013
Trade and other payables	648	569
Debt	186	303
Pension plans and similar commitments	379	246
Provisions	660	721
Other liabilities	407	290
Equity	4,158	3,776
	6,438	**5,905**

Higher investments in property, plant and equipment and intangible assets cause non-current assets to increase

Non-current assets rose by €222 million (10 percent) from €2,282 million as of September 30, 2013 to €2,504 million as of September 30, 2014. The amount invested in property, plant and equipment (€567 million) was higher than the depreciation expense (€481 million). Investments related among others to the production sites in Dresden and Regensburg (both Germany), Villach (Austria), Malacca and Kulim (both Malaysia) as well as Batam (Indonesia). Intangible assets increased overall by €80 million over the course of the 2014 fiscal year, mainly due to the fact that capitalized development costs were higher than the corresponding amortization expense. Deferred tax assets went up by €53 million in the fiscal year ended September 30, 2014.

Increase in liabilities mainly due to higher pension obligations and a fine in conjunction with EU antitrust proceedings

Current liabilities stood at €1,603 million as of September 30, 2014, €9 million (1 percent) higher than at September 30, 2013 (€1,594 million). Within those figures, other current liabilities increased by €107 million, of which €83 million relates to the fine imposed on Infineon by the EU Commission in conjunction with antitrust proceedings against semiconductor manufacturers of chip card applications. In addition, trade payables increased by €79 million due to higher business volumes. At the same time, current financial liabilities went down by €99 million, mainly as a result of the conversion and repurchase of the convertible bond (which was due 2014) and a €85 million decrease in current provisions.

Compared to September 30, 2013 (€535 million), non-current liabilities increased by €142 million or 27 percent to stand at €677 million as of September 30, 2014. Pension plans and similar commitments increased by €133 million, mainly as a result of lower discount rates used.

Current and non-current liabilities consist predominantly of liabilities in euro.

Equity rises due to net income for the year

Equity increased by €382 million (10 percent) to stand at €4,158 million at the end of the reporting period (September 30, 2013: €3,776 million). The rise was mainly attributable to the fact that net income of €535 million for the 2014 fiscal year exceeded the dividend of €129 million paid for the 2013 fiscal year.

Furthermore, the conversion of remaining parts of the convertible bond increased equity by €99 million. The repurchase of parts of the bond reduced equity by €21 million, net of taxes. As a result of such repurchases, conversion rights attached to more than 4.7 million shares were acquired. The issuance of put options reduced equity by €40 million.

The cash flow hedge recognized in conjunction with the Deal Contingent Forward described above had the effect of increasing equity by €39 million. By contrast, actuarial losses arising in conjunction with pension plans and similar commitments, net of taxes, reduced equity by €130 million.

The equity ratio improved to 64.6 percent as of the end of the reporting period (September 30, 2013: 63.9 percent).

Increase in earnings gives rise to higher RoCE

As part of the year-on-year increase in operating profit from €325 million to €525 million, the operating profit from continuing operations in the 2014 fiscal year, net of taxes, rose from €304 million to €497 million, as a result of which the Return on Capital Employed (RoCE) also increased from 14.1 percent to 20.3 percent, despite the fact that capital employed went up from €2,159 million as of September 30, 2013 to €2,452 million as of September 30, 2014. These figures show that Infineon generated a return significantly above its cost of capital in the 2014 fiscal year.

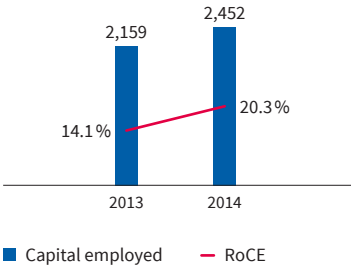
The reported RoCE was calculated using actual capital employed, without adjustment for exceptional factors, such as provisions recorded in connection with the Qimonda insolvency and current liabilities arising from the issue of put options on own shares in conjunction with Infineon's capital returns program, both of which had the effect of reducing capital employed.

RoCE for the 2014 and 2013 fiscal years is calculated as follows:

G 74

RoCE

€ in millions



€ in millions	2014	2013
Operating income	**525**	**325**
Plus:		
Financial income excluding interest income [1]	–	–
Gain from investments accounted for using the equity method	3	2
Less:		
Income tax	(31)	(23)
Financial expense excluding interest expense [2]	–	–
Operating income from continuing operations after tax ①	**497**	**304**
Assets	**6,438**	**5,905**
Less:		
Cash and cash equivalents	(1,058)	(527)
Financial investments	(1,360)	(1,759)
Assets classified as held for sale	–	–
Total current liabilities	(1,603)	(1,594)
Plus:		
Short-term debt and current maturities of long-term debt	35	134
Liabilities classified as held for sale	–	–
Capital employed ②	**2,452**	**2,159**
RoCE ①/②	**20.3%**	**14.1%**

1 Financial income in the 2014 and 2013 fiscal year amounted to €10 million and €30 million, respectively, and consisted exclusively of interest income (see note 8 to the Consolidated Financial Statements).
2 Financial expense in the 2014 and 2013 fiscal year amounted to €19 million and €51 million, respectively, and consisted exclusively of interest expense (see note 9 to the Consolidated Financial Statements).

P see page 221
P see page 221

REVIEW OF LIQUIDITY

Cash flow

€ in millions	2014	2013
Net cash provided by operating activities from continuing operations	988	610
Net cash used in investing activities from continuing operations	(272)	(328)
Net cash used in financing activities from continuing operations	(179)	(165)
Net decrease in cash and cash equivalents from discontinued operations	(8)	(10)
Net increase (decrease) in cash and cash equivalents	**529**	**107**
Effect of foreign exchange rate changes on cash and cash equivalents	2	(5)
Change in cash and cash equivalents	**531**	**102**

Higher income from continuing operations causes increase in net cash provided by continuing operations

Net cash provided by operating activities from continuing operations amounted to €988 million, and was thus €378 million higher than in the previous fiscal year (2013: €610 million). Taking income from continuing operations before the expense for depreciation, amortization and impairment losses, interest and taxes as the starting point (€1,045 million), the principal items reducing net cash provided by operating activities from continuing operations in the 2014 fiscal year were increases in inventories and trade receivables (in aggregate amounting to €147 million) and income taxes paid (€52 million). Increases in trade payables and changes in other assets and liabilities (€173 million in total) worked in the opposite direction. This figure also includes the €83 million fine imposed on Infineon by the EU Commission.

In the 2013 fiscal year, taking income from continuing operations before depreciation, amortization and impairment losses, interest and taxes as the starting point (€812 million), the principal items reducing net cash provided by operating activities from continuing operations were decreases in trade payables and provisions and increases in inventories and trade receivables (in aggregate amounting to €155 million) and income taxes paid (€53 million).

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

Net cash used in investing activities from continuing operations in the 2014 fiscal year totaled €272 million. A total of €567 million was invested in property, plant and equipment, with the primary focus on expanding frontend capacities in Dresden (Germany), Villach (Austria) and Kulim (Malaysia). In addition to frontend capacities, Infineon also continued to expand backend manufacturing capacities in Malacca (Malaysia), Regensburg (Germany) and Batam (Indonesia). A total of €101 million was invested in intangible assets, primarily relating to in-house product and technology developments (€92 million). A further €7 million (net of cash acquired) was used to increase Infineon's investment in LSPS (see note 3 to the Consolidated Financial Statements). The sale of financial investments – comprising mainly money deposits with terms of between three and six months – gave rise to a net inflow of €399 million. Financial investments do not influence Infineon's gross cash position, since they form part of it along with cash and cash equivalents. In order to ensure that the necessary cash is available on completion of the International Rectifier acquisition, the process of converting financial investments into cash has already been started.

P see page 218

In the previous fiscal year, net cash used in investing activities from continuing operations amounted to €328 million, of which €315 million related to investments in property, plant and equipment and €63 million to investments in intangible assets. A net amount of €47 million was provided by the sale of financial investments.

Dividend payment and repurchases of the convertible bond result in net cash used in financing activities from continuing operations

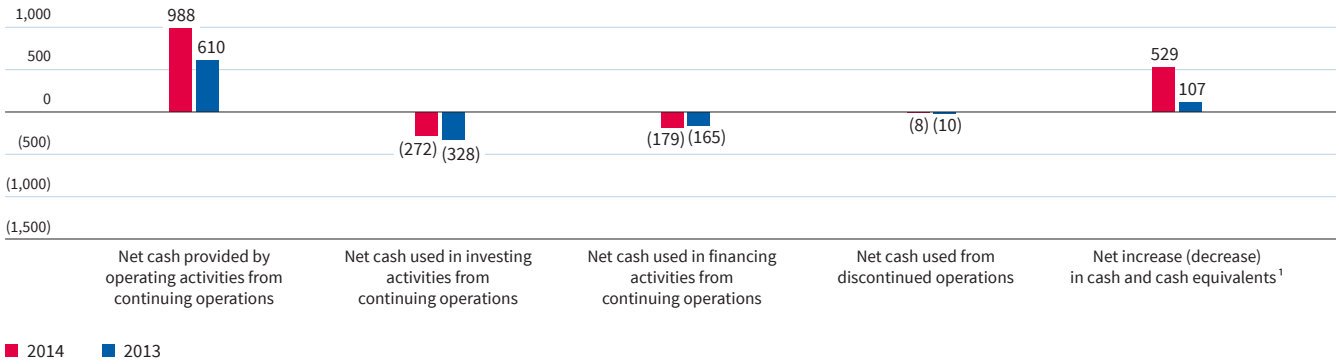
Net cash used in financing activities from continuing operations totaled €179 million in the 2014 fiscal year, of which €129 million was used to pay the dividend for the 2013 fiscal year and €35 million to repurchase parts of the convertible bond which fell due 2014. A net amount of €25 million was used to repay long-term debt.

In the previous fiscal year, net cash used in financing activities from continuing operations amounted to €165 million, which included the dividend payment of €129 million for the 2012 fiscal year and €38 million for the repurchase of 6 million own shares via put options.

G 75

Cash flow

€ in millions



1 Before effect of foreign exchange rate changes on cash and cash equivalents of €2 million and negative €5 million for the 2014 and 2013 fiscal year, respectively.

Free cash flow

Infineon reports the free cash flow figure, defined as net cash provided by/used in operating activities and net cash provided by/used in investing activities, both from continuing operations, after adjusting for cash flows related to the purchase and sale of financial investments. Free cash flow serves as an additional performance indicator, since Infineon holds part of its liquidity in the form of financial investments. This does not mean that free cash flow calculated in this way is available to cover other disbursements since dividend, debt-servicing obligations and other fixed disbursements are not deducted. Free cash flow should not be seen as a replacement or superior performance indicator, but rather as an additional useful 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	2014	2013
Net cash provided by operating activities from continuing operations	988	610
Net cash used in investing activities from continuing operations	(272)	(328)
Purchase of (proceeds from sales of) financial investments, net	(399)	(47)
Free cash flow	**317**	**235**

Increase in net cash provided by operating activities from continuing operations leads to higher free cash flow

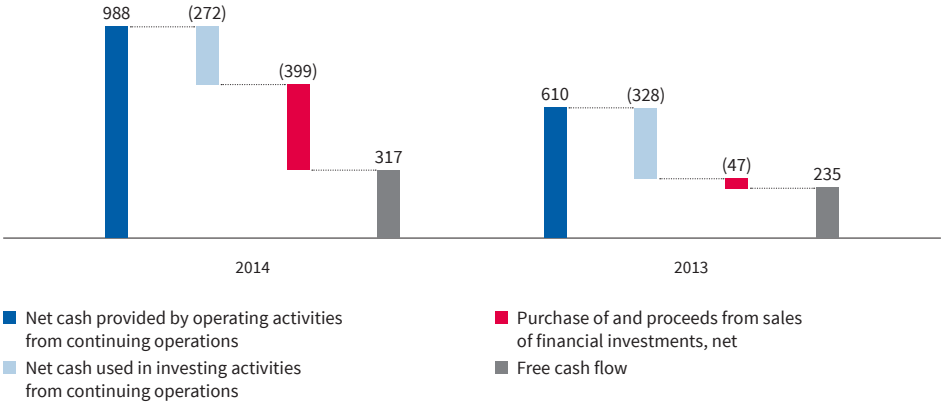
Free cash flow amounted to €317 million in the 2014 fiscal year compared to €235 million one year earlier. Net cash provided by operating activities from continuing operations amounting to €988 million exceeded investments in property, plant and equipment and intangible assets totaling €668 million.

Free cash flow in the previous fiscal year amounted to €235 million, reflecting the fact that disbursements for investments totaling €378 million were lower than net cash provided by operating activities from continuing operations totaling €610 million.

G 76

Free cash flow

€ in millions



Gross cash position and net cash position

The following table shows the gross cash position and net cash position as well as 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 position 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, 2014	September 30, 2013
Cash and cash equivalents	1,058	527
Financial investments	1,360	1,759
Gross cash position	**2,418**	**2,286**
Less:		
Short-term debt and current maturities of long-term debt	35	134
Long-term debt	151	169
Total debt	**186**	**303**
Net cash position	**2,232**	**1,983**

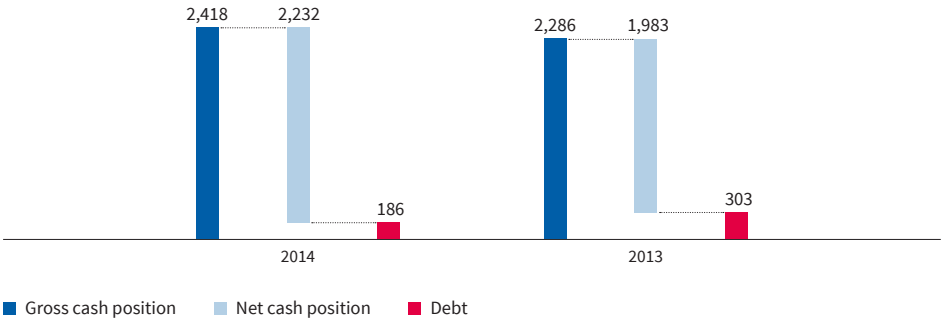
The gross cash position as of September 30, 2014 amounted to €2,418 million, up by €132 million on the €2,286 million reported as of September 30, 2013. The increase in the gross cash position mainly reflects positive free cash flow, reduced by the impact of the dividend payment, disbursements to repurchase the convertible bond in conjunction with the capital returns program and the repayment of loans.

The net cash position, which is defined as the gross cash position less short-term and long-term debt, increased on the other hand by €249 million to €2,232 million at the end of the reporting period (September 30, 2013: €1,983 million), mainly due to the decreases in debt in conjunction with the conversion of parts of the convertible bond, without any corresponding cash outflows.

G 77

Liquidity position as of September 30, 2014 and 2013 by comparison

€ in millions



REPORT ON EXPECTED DEVELOPMENTS, TOGETHER WITH ASSOCIATED MATERIAL RISKS AND OPPORTUNITIES

OUTLOOK

On August 20, 2014 Infineon announced its intention to acquire all of the shares of the US American semiconductor manufacturer International Rectifier for US$40 per share. At the Extraordinary Meeting of the shareholders of that entity on November 4, 2014, the sale was approved with a 99.5 percent shareholder vote. The acquisition still requires the approval of the relevant regulatory authorities. For this reason, the forecasts made in this chapter only relate to the operations of the Infineon Group. Once the acquisition has been closed, forecasts will be adjusted to reflect the new corporate structure.

Infineon's target operating model

Infineon focuses on three major challenges that modern society is facing: energy efficiency, mobility and security. The growing importance of these trends throughout the world is generating a structural increase in demand for the products of our four segments – Automotive, Industrial Power Control, Power Management & Multimarket and Chip Card & Security. Revenue in these four segments has on average been growing at a high single-digit rate over the last 15 years. Infineon has a leading market position in all of the segments in which it operates and the prospects for growth continue to be positive. Therefore, Infineon expects to be able to continue achieving a compound annual revenue growth rate of approximately 8 percent on average over the economic cycle. In terms of profitability, the aim is to achieve a gross margin of 40 percent or more and a Segment Result Margin of approximately 15 percent on average over the economic cycle. Expense ratios at a low- to mid-teen percentage of revenue for research and development and at a low-teen percentage for selling and administrative activities are being targeted. Achieving growth at the projected rate requires on investments which Infineon defines as the sum of purchases of property, plant and equipment, purchases of intangible assets, and capitalized development costs. Based on the average planned growth rate, Infineon expects investments of approximately 13 percent of revenue on average over the economic cycle. Infineon's business model is described in detail in the section "Group strategy" in the chapter "Finances and Strategy".

P see page 26 ff.

Actual and target values for performance indicators

The following table compares the actual values of Infineon's key performance indicators with the original forecasts for the 2014 fiscal year (FY) and shows the outlook for the 2015 fiscal year:

€ in millions, except percentages	Actuals	Original Outlook	Actuals	Outlook
	FY 2013	FY 2014	FY 2014	FY 2015
Principal performance indicators				
Segment Result Margin	9.8%	Between 11% and 14% of revenue	14.4%	About 14% (at the mid-point of the planned range for revenue growth)
Free cash flow from continuing operations	235	Equal to or exceeding the level of FY 2013	317	Between €0 and €100 million
RoCE	14.1%	Increase compared with FY 2013	20.3%	Slight decrease compared to FY 2014
Supplementary performance indicators				
Growth and profitability performance indicators				
Change in revenue compared to previous year	(2%)	Increase between 7% and 11%	12%	Increase by 8% plus/minus 2 percentage points
Gross margin	34.4%	Between 35% and 38% of revenue	38.1%	About the same as in FY 2014
Research and development expenses	525	Increase at a rate below change in revenue	550 5%	Growth in line with or slightly above sales growth
Selling, general and administrative expenses	440	Increase at a rate similar to or slightly above change in revenue	496 13%	Growth in line with or slightly above sales growth
Liquidity performance indicators				
Gross cash position	2,286 59%	Higher than actual target of 30 – 40% of revenue	2,418 56%	In the range of 40 – 50% relative to revenue, therefore above the target of 30 – 40%
Net cash position	1,983	Net cash position (gross cash position higher than debt)	2,232	Net cash position (gross cash position higher than debt)
Working capital	(123)	Slight increase compared to September 30, 2013	(52)	Increase to €350 to €450 million
Investments	378	About €650 million	668	About €700 million

Infineon either achieved or outperformed its forecasts for its principal performance indicators. 2014 fiscal year actuals for each of the three principal performance indicators were well up on the previous year. The Segment Result Margin for the 2014 fiscal year came in at 14.4 percent and was therefore higher than the forecast of a level between 11 and 14 percent. In the previous year, Infineon had posted a Segment Result Margin of 9.8 percent. Free cash flow in the 2014 fiscal year totaled €317 million and was thus higher than the €235 million reported one year earlier. RoCE climbed year-on-year from 14.1 percent to 20.3 percent and therefore exceeds Infineon's calculated cost of capital.

The forecast for Infineon's supplementary performance indicators was also either achieved or outperformed. Revenue was forecast to grow by between 7 and 11 percent. In fact, it rose by 12 percent from €3,843 million in the 2013 fiscal year to €4,320 million in the 2014 fiscal year. This rapid growth in revenue was driven in particular by strong performance in the Automotive and Industrial Power Control segments. At the same time, revenue increased significantly as well in the Power Management & Multimarket and Chip Card & Security segments for the fiscal year under report. Reflecting this increase in revenue, which exceeded our expectations, the actual gross margin of 38.1 percent was slightly above the target corridor of between 35 and 38 percent.

Research and development expenses rose by 5 percent and therefore – as expected – at a significantly lower rate than revenue. At 13 percent, selling, general and administrative expenses went up slightly faster than revenue.

Overall, as predicted, the Infineon Group made good progress in the 2014 fiscal year. Infineon's forecasts for the 2015 fiscal year are summarized in the table above and discussed in detail below.

Assumed euro/US dollar exchange rate

As a globally operating organization, the Infineon Group generates revenue not only in euros, but also in foreign currencies, predominantly in US dollars. It also incurs costs in US dollars and in currencies closely correlated to the US dollar, such as the Singapore dollar, the Malaysian ringgit and the Chinese renminbi. The impact of non-euro denominated revenue and costs does not always balance out. For this reason, fluctuations in exchange rates, particularly between the euro and the US dollar, influence the amounts reported for revenue and earnings. Excluding the effect of currency hedging instruments, a deviation of 1 cent in the actual exchange rate of the US dollar against the euro compared to the forecast rate leads to a change in Segment Result of approximately €1 million per quarter or approximately €4 million per fiscal year compared to the forecast value. These figures assume, however, that the exchange rates of currencies correlated with the US dollar – in which costs arise for Infineon – change in parallel to the euro/US dollar exchange rate. In terms of revenue, the impact of exchange rates is limited almost entirely to the euro/US dollar rate, where a deviation of 1 cent in the actual exchange rate compared to the forecast rate would have an impact on revenue of between €3 million and €4 million per quarter (between €12 million and €16 million per fiscal year). Planning for the 2015 fiscal year is based on an assumed average exchange rate for the US dollar against the euro of US$1.30.

Growth prospects for the global economy and the semiconductor market

The global economy grew by 2.5 percent in the 2013 calendar year. The growth rate for the 2014 calendar year is expected to rise minimally to 2.6 percent. Economic experts from the International Monetary Fund (IMF) forecast a slight acceleration in growth for the 2015 calendar year, with gross domestic product (GDP) expected to expand by 3.2 percent worldwide.

This positive outlook is based on the assumption that the US economy continues to recover and that China maintains its above-average growth rate. The pace of growth of the Chinese economy is likely to slow down successively in the coming years, whilst still remaining at a higher level in relative terms. India represents another sales market of huge importance within the Asian continent. After the election there, the mood improved across all sectors of the economy, bringing with it brighter prospects for the future. The economic outlook for the ASEAN-5 countries – Indonesia, Malaysia, Philippines, Singapore and Thailand – is also positive. By contrast, the Japanese economic recovery is only expected to proceed slowly, although it is possible that a temporary delay in implementing the second step of the value added tax increase – scheduled for October 2015 – could impact the growth rate positively.

Economic growth in the Eurozone in the 2014 calendar year is less dynamic than originally predicted in the fall of 2013. The pace of growth has slowed down in Germany, a fact reflected in the ifo Business Climate Index's downward trend in recent months. Tensions with Russia and sanctions imposed are having a negative impact. The forecasts for the 2015 calendar year were reduced accordingly by the IMF in the fall of 2014 and now point to a growth rate of 1.3 percent.

Potential risks to the global growth rate in the coming year are seen in a possible further escalation of the conflicts in Syria and Iraq on the one hand and the conflict with Russia on the other. An uncontrolled spread of the Ebola virus represents a further risk, in that it could result in travel and trading restrictions. Also the developments on the property market in China are being followed closely by the experts. So far, however, real estate prices have only moved down slightly.

In line with the base scenario of year-on-year global economic expansion, further growth is also predicted for the semiconductor sector in the 2015 calendar year. Numerous innovations in the fields of energy efficiency, mobility and security are set to underpin growth in the sector over the coming years. These factors should exert a positive influence, even if macro-economic conditions turn out less favorable than expected. In its survey published in the fall of 2013, the market research company IHS forecast a dollar-based growth rate of 6 percent for the global semiconductor market in the 2014 calendar year. In the meantime, analysts at IHS are expecting the 2014 calendar year to finish with a growth rate of 9 percent. A 6 percent growth rate is predicted for the global semiconductor market for the 2015 calendar year.

Over the period from 2014 to 2018, the global semiconductor market is expected to grow at an average annual rate of 4 percent. The automotive and industrial sectors are both forecast to record average annual growth of about 7 percent, while the chip card semiconductor market is predicted to expand by an average of 5 percent over this period. Overall, the economic climate for the coming fiscal year is assessed as being positive, but susceptible to uncertainties.

Revenue increase of 8 percent, plus or minus 2 percentage points expected, compared to the previous fiscal year

In view of the economic situation described above, Infineon expects Group revenue to increase by 8 percent, plus or minus 2 percentage points, in the 2015 fiscal year. The Automotive, Power Management & Multimarket and Chip Card & Security segments are expected to grow in line with the average for the Group or slightly faster. Revenue growth in the Industrial Power Control segment is expected to be significantly lower than Group average. In absolute terms, slightly lower revenue is expected to be posted for Other Operating Segments in the 2015 fiscal year, reflecting further decreases in business volumes with Lantiq and IMC.

Gross margin expected to remain stable in the 2015 fiscal year

The gross margin in the 2014 fiscal year was 38.1 percent and – at the mid-point of the planned range for revenue growth – is expected to remain at roughly this level in the 2015 fiscal year. For these purposes, it is assumed that the negative impact of annual price reductions for customers and the higher expense for depreciation and amortization will be compensated by continuous productivity improvements.

Operating expenses expected to increase

With revenue and gross profits set to rise further in the 2015 fiscal year, it will also be possible to allow operating expenses to be increased as part of Infineon's "Product to System" strategy to lay foundation for further revenue and earnings growth. Both research and development expenses and selling, general and administrative expenses are forecast to grow year-on-year in line or slightly above sales growth. By contrast, the quarter-on-quarter increase over the course of the 2015 fiscal year is likely to be fairly moderate. A comparison of the expected increase in operating expenses in the fourth quarter of the 2015 fiscal year with the same quarter one year earlier, for instance, shows that the percentage rate increase should be significantly lower than the revenue growth of 8 percent, plus or minus 2 percentage points, forecast for the 2015 fiscal year.

Alongside product, packaging and technology development innovations, one of the key areas of research and development expenses will be the development of completely new packaging and technology platforms. In terms of selling and administrative expenses, resources for selling activities will be increase again slightly, particularly for China, Japan and the USA.

Segment Result Margin of about 14 percent expected

Based on the forecast changes in revenue and expenses described above, the Segment Result Margin in the 2015 fiscal year is expected to be about 14 percent, at the mid-point of the planned range for revenue growth.

Non-segment result

Infineon expects the non-segment result to total approximately a negative amount of €50 million in the 2015 fiscal year and therefore to be better than the previous fiscal year's non-segment result of negative €95 million. The result includes a fine of €83 million imposed on Infineon by the EU Commission for alleged antitrust violations in the chip card sector during the period from 2003 to 2005.

Financial result

Following the full conversion of the convertible bond in the 2014 fiscal year, Infineon still had long-term debt amounting to €186 million as of September 30, 2014. This figure compares with cash and cash equivalents and financial investments amounting to €2,418 million (gross cash position). Due to the low rate of interest that can be earned on short-term low-risk deposits, the financial result in the 2015 fiscal year is likely to be slightly negative, despite the low level of debt currently carried by Infineon. The financial result for the 2014 fiscal year was a net expense of €9 million. When the acquisition of International Rectifier is completed, Infineon will raise additional debt of about €1.5 billion and use some of its gross cash position to finance the purchase price. As a result of the ensuing higher level of debt and the lower level of interest-bearing liquid funds, the negative financial result would then likely increase significantly.

Income taxes

The cash effective tax rate for the Infineon Group in the 2015 fiscal year is forecast at approximately 15 percent. This rate comprises cash-effective foreign taxes as well as cash-effective taxes of the Company in Germany. In Germany, Infineon's current tax expense is based on the applicable 'minimum taxation' rules, under which only 40 percent of taxable profits arising in Germany are subject to current tax as a result of utilizing tax loss carry-forwards. This leads to a cash-effective tax rate of approximately 12 percent in Germany. Infineon expects the rate to remain at this level until the tax loss carry-forwards are utilized. In Germany the company had tax loss carry-forwards for corporation tax purposes of €2.7 billion and for municipal trade tax purposes of €3.8 billion as of September 30, 2014. Changes in the valuation of deferred tax assets may have an additional impact on the reported rate, but are not relevant for cash flow purposes.

Working capital expected to increase

As of September 30, 2014, the Infineon Group's working capital stood at a negative amount of €52 million. The expected increase in revenue in the 2015 fiscal year is likely to result in higher levels of trade receivables and inventories at the end of the reporting period, while trade payables are expected to fall slightly, based on the assumption that investments will be lower in the fourth quarter of the 2015 fiscal year than in the fourth quarter of the 2014 fiscal year.

Moreover, Infineon paid €260 million to the Qimonda insolvency administrator pursuant to the partial settlement and the €83 million fine to the EU commission in the first quarter of the 2015 fiscal year. These payments result in a significant reduction in current liabilities and hence a corresponding increase in working capital. Overall, therefore, working capital is forecast to rise to €350 to €450 million in the 2015 fiscal year.

Investments and depreciation/amortization

Despite continuous investments in property, plant and equipment over the course of the 2014 fiscal year totaling €567 million, capacity utilization remained at a consistently high level, owing to the growth in business volumes. The planned revenue growth in the 2015 fiscal year requires further investments in manufacturing capacity. Investments in property, plant and equipment at already operating facilities and in intangible assets including capitalized development costs, planned for the 2015 year are forecast at approximately 13 percent of revenue and therefore in line with the target level of the Group. In addition, €60 million to €70 million will be invested to prepare the second manufacturing building in Kulim (Malaysia) for volume production. Budgeted investments totaling €700 million also include payments of approximately €20 million for the purchase of Qimonda patents in conjunction with the settlement reached with the Qimonda insolvency administrator. Not included in this definition of investments is a projected amount of approximately €30 million for the acquisition of strategic minority stakes in certain companies.

The main focus of investments will be on the continued expansion of 300-millimeter thin-wafer manufacturing capacities in Dresden (Germany). Investments to improve the quality and automation level of Infineon's 200-millimeter facilities will also be increased. Investments will also be required in order to replace equipment and introduce new products.

Demand for automotive-related products is expected to keep rising in the long term. For this reason, and in light of the required optimization in manufacturing structures following the acquisition of International Rectifier, as mentioned above, the Management Board has decided to proceed with its plan for Infineon's second manufacturing plant in Kulim (Malaysia) – constructed during the 2012 and 2013 fiscal years – to be prepared for volume production.

Another important project is the creation of a pilot space in Villach (Austria) for a new concept to manufacturing based on Industrie 4.0. "Pilot space Industrie 4.0" heralds the implementation and testing of an innovative concept of connected and knowledge-intensive manufacturing. In this context, Infineon is constructing a state-of-the-art complex of buildings for research, chip production and chip testing. Work will also be continued on logistics, infrastructure and equipment at the site in order to meet future needs. Moreover, Infineon remains committed to achieving greater energy efficiency in manufacturing.

Investments are also planned in the area of backend manufacturing, where the amounts involved are lower than for frontend facilities. The focus of backend-related investments will be replacement investments and structural improvements. Other areas of investment will be aimed at launching product innovations, improving quality and increasing automation levels. A high share of investment is aimed at enlarging the manufacturing capacity of the Automotive segment.

Apart from investments in property, plant and equipment, a substantial amount will also be invested in intangible assets, including capitalized development costs, which totaled €92 million in the 2014 fiscal year. A similar figure is expected for the 2015 fiscal year.

Depreciation and amortization is expected to be in the region of €600 million in the 2015 fiscal year, compared with €514 million in the 2014 fiscal year.

Free cash flow from continuing operations

Free cash flow from continuing operations is forecast to decrease from €317 million in the 2014 fiscal year to an amount between €0 million and €100 million in the 2015 fiscal year. Higher depreciation and amortization, combined with a stable Segment Result Margin, will have a positive impact in principle. On the other hand, free cash flow will be negatively impacted by the higher level of working capital and in particular by the payment of the fine of €83 million in connection with antitrust proceedings against semiconductor manufacturers of chip card applications and the payment of €125 million relating to an extra-judicial settlement with the Qimonda insolvency administrator relating to patent usage rights and the acquisition of the Qimonda patents by Infineon.

The partial settlement with the insolvency administrator also includes a payment of a further €135 million in the 2015 fiscal year, which does not relate to the Qimonda patent usage rights. However, since this amount is part of net cash used for discontinued operations, it will not affect free cash flow from continuing operations.

Cash flows from financing activities

A proposal will be put forward at the Annual General Meeting to take place in Munich on February 12, 2015 that the dividend for the 2014 fiscal year be raised by €0.06 to €0.18. Assuming the Annual General Meeting approves this proposal, the total dividend will amount to just over €200 million. For further details concerning the proposed dividend increase, see "Systematic investing helps preserve resources and differentiates us from the competition", included in the "Group strategy" section of the chapter "Finances and Strategy".

P see page 36 f.

6 million put options with exercise prices of between €5.59 and €8.18 were outstanding as of September 30, 2014 in conjunction with the capital returns program resolved in November 2013. The cash outflow in the 2015 fiscal year that will result from these options is dependent on the level of the Infineon share price on the relevant exercise dates of the put options. If the acquisition of International Rectifier proceeds as planned, there is no intention to write any further put options on own shares over and above those that already existed at the end of the reporting period or to repurchase any further shares. For information regarding Infineon's long-term dividend policy and for further details concerning the capital returns program, please see the section "Dividend, capital returns and conversion of convertible bond" in the chapter "The Infineon share".

P see page 108 f.

Infineon intends to repay bank liabilities of €25 million during the 2015 fiscal year. If the acquisition of International Rectifier proceeds as planned, bank loans of around €1.5 billion will be raised and used to pay a part of the purchase price. In addition, cash funds amounting to approximately €800 million will be used in this context. Cash and cash equivalents carried by International Rectifier as of September 28, 2014 amounted to US$659 million. The acquisition of International Rectifier should therefore increase liquid funds by approximately €500 million.

Infineon is pursuing the long-term target 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 debt to a maximum level of two times EBITDA. After completion of the planned acquisition of International Rectifier in the 2015 fiscal year, there may possibly be a temporary shortfall compared to the targets for gross cash position as a percentage of revenue and the net cash position.

Overall statement on the expected development of the Infineon Group

Based on forecasts of global economic development in the 2015 calendar year, Infineon predicts year-on-year revenue growth of 8 percent, plus or minus 2 percentage points. The gross margin is expected to be at a similar level to the previous fiscal year. At the mid-point of the planned range for revenue growth, the Segment Result Margin is expected to come in at about 14 percent.

Summary of outlook for revenue and earnings

	2013	2014	2015
Change in revenue compared to the previous year	(2%)	12%	8% plus or minus 2 percentage points
Gross margin	34.4% of revenue	38.1% of revenue	About the same as in FY 2014
Segment Result Margin	9.8% of revenue	14.4% of revenue	About 14% (at the mid-point of the planned range for revenue growth)

Investments in the 2015 fiscal year will be in the region of €700 million. This figure includes €60 million to €70 million for the second manufacturing facility in Kulim (Malaysia) and approximately €20 million for Qimonda patents. It does not include an amount of approximately €30 million which has been ear-marked for strategic investments. Depreciation and amortization will rise to approximately €600 million. Free cash flow from continuing operations will decrease to an amount between €0 million and €100 million.

Net income for the 2015 fiscal year is expected to be somewhat lower than in the preceding year. At the same time, capital employed is set to increase. For this reason, the Return on Capital Employed (RoCE) is expected to slightly decrease compared to the past year.

After completion of the planned acquisition of International Rectifier, the forecasts for the 2015 fiscal year will be adjusted to take account of the new corporate structure.

RISK AND OPPORTUNITY REPORT

Risk policy: Underlying principles of our risk and opportunity management

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

P see page 26 ff.

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 Opportunity Management System” and the “Internal Control System with respect to Financial Reporting Processes” described below, it also includes the related forecasting, management and internal reporting processes as well as the Compliance Management System.

Risk and Opportunity Management System

Infineon's centralized risk management system is based on a Group-wide and management-oriented Enterprise Risk Management (ERM) approach, which aims to cover 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 and opportunities that could have a significant influence on Infineon's ability to achieve its strategic, operational, financial and compliance-related targets. We, therefore, define risk/opportunity as the occurrence of future uncertainties that could result in a negative or positive variance from forecast. We incorporate all relevant organizational units within the Group in this analysis, thus covering all segments, significant centralized functions and regions.

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

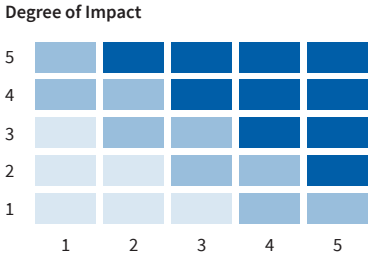
In organizational terms, the Risk and Opportunity Management System is structured in a closed-loop, multiple-stage process, which stipulates the manner and criteria to be applied to identify, measure, manage and report on risks and opportunities and defines how the system is to be monitored as a whole. Major components of the system are a quarterly analysis of risks and opportunities, reporting by all consolidated entities, an analysis of the overall situation at segment, regional and Group level, 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 measured on a net basis, i.e., after factoring in any risk mitigation or hedging measures, but without offsetting any provisions recognized. The time periods and the measurement categories used are closely linked to our short- and medium-term business forecasts and corporate targets.

All relevant risks and opportunities are assessed uniformly across the Group in quantitative and/or qualitative terms based on the variables degree of impact on operations, liquidity, earnings, cash flows and reputation on the one hand and likelihood of occurrence on the other. The scales used to measure these two factors (degree of impact and likelihood of occurrence) and the resulting risk assessment matrix is depicted in the following table.

G 78

Risk assessment matrix



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

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

Low Risk Medium Risk High Risk

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

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

Risk and Opportunity Managers are designated at appropriate hierarchical levels to manage and monitor identified risks and opportunities, and are responsible for formally determining a set of appropriate strategies (avoidance, mitigation, transfer to other parties, acceptance). Working closely with corporate functions and individual managers, the Risk and Opportunity Manager is also responsible for defining and monitoring 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.

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, and, where appropriate, rules relating to Risk and Opportunity management and initiates corrective measures. The Supervisory Board’s Investment, Finance and Audit Committee oversees the effectiveness of the Risk Management System. As part of the year-end audit, the external Group auditor also examines our early warning system pursuant to section 91, paragraph 2, of the German Stock Corporation Act to ascertain its suitability to detect risks that could pose a threat to Infineon’s going-concern status and reports thereon 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. The system monitors compliance with stated principles and stipulated procedures based on preventive and detective controls. Among other things, we regularly check that:

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

- processes and controls exist to explicitly 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.

Assessment of effectiveness

We systematically assess the effectiveness of the ICS with regard to the corporate accounting process. An annual risk analysis is initially performed and the defined controls are revised as and when required. 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.

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 the internal controls.

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

Significant risks

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

Strategic risks

Unsettled political and economic climate (RC: high)

As a globally operating company, our business is highly dependent on global economic developments. A worldwide economic downturn – particularly in the markets we serve – may result in lower revenues than originally expected, with the consequence that we may not achieve our strategic target of average revenue growth of 8 percent per annum. Risks can also arise due to political and social changes in countries in which we manufacture and/or sell our products.

We continue to monitor the European debt crisis, 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 investment expenditure. As a consequence of these developments, the level of trust of consumers and companies is characterized by uncertainty, while unemployment figures remain high. Added to this are the current geopolitical risks arising from the crises in the Ukraine and unrest in the Middle East. The US economic recovery is only proceeding at a slow pace, while industrial companies in China are dealing with weak export demand and the consequences of high credit volumes. Regardless of our assessment of potential scenarios and outcomes within this complex array of risks, these developments could have an adverse impact on Infineon's operations, financial condition, liquidity and earnings.

Cyclical market and sector development (RC: high)

The worldwide semiconductor market is highly cyclical and is subject to rapid market change in our target markets. As a result, our own forecasts of future business developments are subject to a high degree of uncertainty. In the past, the cyclical pattern was fairly regular, 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. The absence of market growth or its decline would make it considerably more difficult to attain our own growth target. In the event that we are unprepared for market fluctuations, or our response strategy to such fluctuations turns out to be inappropriate, this could have a sustained materially adverse impact on Infineon's operations, financial condition, liquidity and earnings.

Market competition and commoditization of products (RC: high)

The rapid pace of technological change in the market also leads to a greater replaceability of our products. Through the resulting aggressive pricing tactics we may possibly not reach our long-term strategic goals of increasing respectively holding market share and product pricing. Consequently this would have a negative impact on Infineon's revenue and earnings, especially on our strategic profitability target of achieving an average Segment Result Margin of 15 percent over the cycle.

Operational risks

Product quality trends (RC: high)

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

Increasingly dynamic markets (RC: medium)

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

Thus, despite the fact that production processes and sites have become increasingly flexible, fluctuations in capacity utilization levels and purchase commitments, coupled with idle costs at production sites pose risks related to our cost position. This may jeopardize our ability to attain our growth and profitability targets, which are based on cycle averages.

This situation is exacerbated by the fact that 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. This would put our aim to limit investment to 13 percent of revenue under pressure and could have an adverse impact on revenues and earnings.

Product development delays (RC: medium)

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

Data and IT systems security (RC: medium)

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

Potential virus attacks, in particular on IT systems used in 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 (RC: medium)

Our medium- and long-term forecasts as well as the strategic profitability target of 15 percent for the Segment Result Margin are based on expected production cost trends. In this context, measures aimed at optimizing 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 our energy requirements expose us to substantial price risks. We are also dependent on supplies of rare earths required for selected production processes within the process integration. At the time of writing, financial instruments are in place to hedge our price risk exposure to gold wire during the 2015 fiscal year, based on planned volume requirements. The prices of raw materials and energy have recently been subject to significant fluctuation, and there is no reason to assume the situation will change in the near future. If we are unable to offset cost rises or pass them on to customers, it could have an adverse impact on earnings.

Determining and adjusting production volumes (RC: medium)

Frontend and backend 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 to become increasingly sophisticated. Failure in continuing to make 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 typically face 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 costs caused by under-utilization on the other.

Dependence on individual production sites (RC: medium)

Our South East Asian manufacturing sites are of critical importance for our production. If, for example, political upheavals or natural disasters in the region were to impede our ability to manufacture at these sites on the planned scale or to export products manufactured at those sites, it would have a negative impact on our financial condition, liquidity and earnings. 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.

Dependence on individual suppliers (RC: medium)

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 an adverse impact on our revenue and earnings performance.

Need for qualified staff (RC: medium)

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 our earnings performance.

Financial risks

Risk of default by banking partners (RC: medium)

The relatively high level of our holdings of liquid funds exposes us to the potential risk of a default by one of our chosen 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 liquidity.

Currency risks (RC: medium)

Our involvement and participation in various regional markets around the world creates cash flows in a number of currencies other than the euro – primarily in US dollars. A significant share of revenue on the one hand and 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.

Further information regarding the management of financial risks is provided in note 32 to the Consolidated Financial Statements.

P see page 251 ff.

Legal and compliance risks

Qimonda insolvency (RC: medium)

Due to the insolvency proceedings relating to Qimonda and claims brought against Infineon, we are exposed – even after the partial settlement reached on September 11, 2014 – to a substantial amount of potential liabilities, which are described in detail in note 33 to the Consolidated Financial Statements.

P see page 255 ff.

Provisions are recognized in connection with these matters as of September 30, 2014. The provisions reflect the amount of those liabilities that management believes are probable and can be estimated with reasonable accuracy at that time. There can be no assurance that such provisions recorded will be sufficient to cover all liabilities that may ultimately be incurred in relation to these matters.

Intellectual property rights and patents (RC: medium)

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

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

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

P see page 254 ff.

Further information is provided in note 33 to the Consolidated Financial Statements.

Impact of our global operations (RC: medium)

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 on 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 to 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 could 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 (RC: medium)

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

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

Based on the offer price, the planned acquisition of International Rectifier represents approximately 25 percent of Infineon's market capitalization as of September 30, 2014 and is, therefore, of great significance for our future success. The risks described above, especially in terms of assimilating the two businesses, will be highly relevant once this specific transaction goes ahead.

If the regulatory authorizations and approvals necessary for transaction completion are not in place by June 22, 2015 and the acquisition does not go ahead, we will be obliged – provided further conditions are also met – to pay US$70 million to International Rectifier. Furthermore, in the event that the acquisition is not completed, the financial costs already incurred would not be recoverable.

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

Measures to implement our risk management strategy

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

Under the "Next Level of Productivity" program, a number of measures to improve manufacturing productivity were introduced during the 2014 fiscal year.

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

A structured project management system is in place to handle development projects, including customer-specific projects. Clear project milestones and verification procedures required to be carried out during a project as well as clearly defined limits of authority help us to 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. After measures are defined, they are implemented successively.

We are subject to legislation in the field of the environment, climate protection and energy. Present or future environmental legislation or other government regulations, or amendments thereto, could require an adjustment to our operating activities and result in higher costs. Infineon keeps up to date with planned legislative changes and engages with this issue in various associations and organizations on an ongoing basis.

Energy prices have in the past been subject to fluctuations and at times to increases as a result of regulations. For this reason too, high energy efficiency has for years been part of our sustainability strategy.

We minimize 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 have established a 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 continuously 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.

In certain cases 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 liquidity.

Overall statement by Group Management on risk situation

The overall risk assessment is based on a consolidated view of all significant individual risks. 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 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. Depending on the potential degree of impact and the estimated probability of occurrence, each of these opportunities is classified to an "opportunities class" in the same way that risks are allocated to a risk class. This classification is shown in parentheses (e.g. "OC: medium").

New technologies and materials (OC: high)

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 research and development 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 limits in some areas of application.

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

Strategic initiative “Product to System” (OC: high)

With our extended “Product to System” strategy, we seek to identify additional benefits for our customers – in system terms – from within our broad portfolio of technologies and products. In this way, we are able to exploit available revenue potential to a greater degree and, thereby, achieve our growth and margin targets. This approach also enables us to reduce the level of development costs incurred by customers and shorten the lead-time required to bring their products to market.

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

Population growth and increasing industrialization in all parts of the world are resulting in ever-greater global demand for energy. Electricity is becoming the most important energy carrier of the 21st century. Fossil fuel sources used to cover energy and electricity requirements are likely to become increasingly scarce and could even run out entirely one day. Alternative energy sources such as renewable energy need to be tapped further. At the same time, CO_2 emissions must be reduced or any increase in them kept to a minimum. If this is to be achieved, it is essential to increase the efficiency of electrical consumers.

Infineon’s semiconductors enable electricity to be generated from renewable energy sources. They also boost energy efficiency and offer efficiency gains at all stages of the energy industry’s value-added chain: in generation, transmission, and especially in the use of electrical power. They form the basis for intelligent and efficient use of energy in industrial applications, in power supply for computers and consumer electronics and in vehicles. These might enable us to gain growth of revenue above our strategic target of 8 percent.

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

Our own in-house frontend and backend capacities, the availability of external production capacities and the options available to expand production capacities at our sites in Dresden (Germany) and Kulim (Malaysia) puts us in a flexible position to cover required production volumes. The availability of additional capacities, combined with the pro-active strategic and operational planning of internal and external resources, enable us to cover rising demand from existing and new customers in the event of a market upturn. This, in turn, could have a positive impact on Infineon’s future market share and earnings performance, with the consequence that the actual Segment Result Margin could be higher than the targeted level of 15 percent.

Market access and activities in China (OC: medium)

Our activities in China – considered by us to be a highly significant market for the future – are currently on a scale that leaves much potential for expansion. This relates to the following markets:

Vehicle production in China is still expanding with the fastest growth rate in the world. China is also pressing ahead with expansion of its high-speed railway infrastructure and is, meanwhile, one of the world’s largest markets for rail vehicles.

New wind turbines are being built with increasingly powerful generators, resulting in greater semiconductor content per turbine.

Our starting position with photovoltaic systems in China is a highly promising one: we collaborate with several leading Chinese inverter manufacturers and this year in particular have expanded the scope of collaboration with the Chinese market leader. We also have a strong presence in China in the solar energy systems market, which has become the most important single market in the world.

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 the growth and profitability of our business.

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

We expect semiconductor content per vehicle to increase further. The primary driving force for this expected trend is the rising demand for active safety features und for driver assistance systems.

We are also convinced that the currently valid CO_2 targets cannot be achieved without further electrification. In this context, electrification not only relates to just hybrid and electric drives, but also to items such as electric power steering and electronic power brakes.

IT security within the vehicle is also gaining in significance. Thanks to its expertise in the field of security controllers, Infineon is extremely well positioned for opportunities in this area.

Growth from mobile applications (OC: medium)

The ongoing trend towards mobility is also reflected in the boom in sales of smartphones and tablets. We are benefitting from this trend in two ways: firstly, through the components we supply for mobile devices (silicon-MEMS microphones, TVS diodes, GPS amplifiers, CMOS-RF switches), and secondly, through power semiconductors, which form the key components for energy-efficient chargers (high-voltage and low-voltage power transistors, driver ICs and control ICs).

Security applications (OC: medium)

The trend towards electronic identity documents is having a positive impact on Chip Card & Security segment revenue. Paper-based documents are increasingly being replaced by chip-based documents thanks to the security offered by the latter. The story is similar with credit cards: chip-based credit cards are replacing magnetic stripe cards. The migration to chip-based passports, electronic identity documents and credit cards will continue over the coming years and will take place in various regions.

Liquidity position (OC: medium)

P see page 126 ff.

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

P see page 26 ff.

The opportunities arising from the planned acquisition of International Rectifier are described in detail in the chapter “Group strategy”.

TREASURY AND CAPITAL REQUIREMENTS

Structure and principles of Infineon's treasury

Our principal objective for Group-wide treasury activities at Infineon is ensuring 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 at 2 x EBITDA at most (earnings from continuing operations before interest and tax plus scheduled depreciation and amortization)

These capital management objectives will also continue to be pursued by Infineon after the acquisition of International Rectifier. As a result of this transaction, as well as of the payments totaling €343 million made by Infineon in October 2014 in connection with the Qimonda partial settlement and the fine imposed by the European Commission (for detailed information see note 33 to the Consolidated Financial Statements), Infineon's gross cash position in the 2015 fiscal year is likely to temporarily lie outside the communicated target ranges, and could even temporarily register a net debt position.

P see page 255 ff.

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 guidelines 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 financial executives 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 at Infineon is based on a highly 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 is the creation of a multi-year business plan with various scenarios for free cash flow. 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 reconciled during a quarterly liquidity management meeting and checked for plausibility and possible deviations.

Cash pooling structures are in place for 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 central Finance & 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 central Finance & 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 foreign currency cash flows not offset within the Group are hedged externally (for further information see note 32 to the Consolidated Financial Statements).

P see page 251 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 treasury responsibilities is the use of capable and financially sound financial institutions. The selection of partner banks worldwide is based on the Finance and Treasury department's banking principles. Infineon maintains business relationships with various international and local commercial and investment banks and avoids becoming dependent on individual banks. Partner banks must demonstrate a high level of creditworthiness. Infineon assesses the creditworthiness of banks using a methodology that establishes daily investment limits for individual banks, 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 reduced. Infineon has spread its excess liquidity investments across more than ten banks. At September 30, 2014 no financial institution was responsible for more than 14 percent of Infineon's liquidity investments.

Capital requirements for the 2015 fiscal year

We require capital for the 2015 fiscal year amongst others to:

- finance the acquisition of International Rectifier,
- finance our operations,
- finance planned investments,
- make scheduled debt and interest payments,
- settle provisions and contingent liabilities, when they become payable or arise, in particular the payments totaling €343 million made in October 2014 in connection with the Qimonda partial settlement and the fine imposed by the European Commission,
- service our capital returns program, to the extent that outstanding put options are in-the-money and
- pay the proposed dividend.

We expect to meet these requirements through:

- cash flows generated from operations,
- available cash and our cash reserves in the form of financial investments and
- available credit lines, including credit lines committed specifically for the acquisition of International Rectifier.

Financing our operations

Based on our forecast for the 2015 fiscal year, we anticipate being able to finance operating activities out of cash flows provided by operating activities. Further information regarding fixed contractual obligations as of September 30, 2014 (such as leasing arrangements, fixed service and supply agreements for commodities, input materials, electricity, gas and other similar items) is provided in note 34 to the Consolidated Financial Statements.

P see page 258 f.

Investments

Semiconductor production is very capital-intensive. Infineon's target ratio for future fiscal years for expected investments as a percentage of revenue over the cycle (for definition see the chapter "Internal Management System") is approximately 13 percent. Depending on the business situation, Infineon is currently planning investments of approximately €700 million for the 2015 fiscal year, a level similar to the previous fiscal year (for details see "Outlook" in the chapter "Report on expected developments, together with associated material risks and opportunities"). Firm investment commitments as of September 30, 2014 totaled €124 million. Not included in this figure are €21 million related to the acquisition of Qimonda's patents as agreed in the Qimonda partial settlement.

P see page 81

P see page 130 ff.

Debt repayment and interest payments

As of September 30, 2014 Infineon's debt totaled €186 million, of which an amount of €35 million is due for repayment in the 2015 fiscal year.

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, 2014, the undiscounted amount of potential future payments arising from guarantees was €110 million, of which a maximum of €13 million could have a cash flow impact in the 2015 fiscal year.

P see page 144 f.

In addition, provisions and contingent liabilities exist for various risks which could result in a further cash outflow if these risks materialize (for detailed information see “legal and compliance risks” in the “risk and opportunity report” and in note 33 to the Consolidated Financial Statements). The settlement reached with Qimonda’s insolvency administrator in September 2014, including the acquisition of Qimonda’s patents and the related payment of €260 million, as well as the fine of €83 million imposed by the European Commission, were paid in October 2014 out of available cash and were recorded as of September 30, 2014 at an amount of €322 million within current provisions and current payables respectively. The amount related to Qimonda’s patents (€21 million) was not recognized on the balance sheet prior to completion of the settlement on October 9, 2014 (see notes 4 and 33 to the Consolidated Financial Statements).

P see page 219 and 255

Capital returns program and proposed dividend

In November 2013 Infineon announced that it intends to use up to €300 million of funds to return capital to shareholders. Details regarding the structure and status of these measures as of September 30, 2014 are disclosed in notes 23 and 25 to the Consolidated Financial Statements. The unused volume of the capital returns program as of September 30, 2014 amounted to €265 million, including €40 million relating to the exercise value of put options on own shares outstanding as of September 30, 2014. Subject to the acquisition of International Rectifier proceeding as planned, no other repurchases are planned over and beyond the put options currently outstanding.

P see page 233 and 237

It is planned to propose a dividend of €0.18 per share to Infineon’s shareholders for the 2014 fiscal year. Subject to shareholder approval, this would result in a distribution of approximately €202 million (for the previous fiscal year: €129 million). For further information, see note 25 to the Consolidated Financial Statements.

P see page 238

Acquisition of International Rectifier

Infineon intends to acquire International Rectifier for US$40 per share in cash, which corresponds to a fully diluted enterprise value for International Rectifier of approximately US$2.4 billion. The acquisition is subject to regulatory approvals in the relevant jurisdictions and customary closing conditions. Infineon will finance the transaction using cash on hand, as well as committed credit facilities comprised of a €800 million bridge facility, with a term of up to two years, and a five-year US$934 million term loan. These credit facilities are available exclusively for financing the acquisition (see note 23 to the Consolidated Financial Statements).

P see page 234

Coverage of capital requirements

Our gross cash position as of September 30, 2014 amounted to €2,418 million. We also have access to various stand-alone short- and long-term credit facilities from various financial institutions totaling €68 million. In addition, Infineon has access to credit facilities from several domestic and international banks, committed specifically for the acquisition of International Rectifier (see above).

P see page 80

Free cash flow from continuing operations (for definition: see the chapter „Internal Management System“) – not considering the purchase price payment for International Rectifier – is expected to be between €0 and €100 million in the 2015 fiscal year despite the payments of €208 million made in October 2014 in connection with the Qimonda partial settlement regarding the Qimonda’s patents and the fine imposed by the European Commission, since cash flow provided by operating activities is expected to cover or exceed planned investments. Adjusted for these exceptional items, we expect a free cash flow from continuing operations at approximately the previous year’s level.

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 5 to the Consolidated Financial Statements.

P see page 220

Taking into account the available financial resources – including internal liquidity on hand, net cash that can be generated and available credit facilities – we assume that we will be able to cover our planned capital requirements for the 2015 fiscal year. Infineon has not undertaken steps for obtaining an official rating from any of the leading rating agencies. The Company expects to continue to have access to sufficient levels of financing on competitive terms without such a rating.

Derivative financial instruments

We do not use derivative financial instruments for trading or speculative purposes.

We employ the following derivative financial instruments for hedging purposes: forward foreign currency contracts to reduce exchange rate exposures and commodity swaps to reduce price risks for expected purchases of gold. A transaction-dependent Deal Contingent Forward was concluded which hedges part of the euro/US dollar currency arising from the purchase price obligation of the acquisition of International Rectifier.

We employ put options on own shares in connection with our capital returns program.

Further information regarding derivative financial instruments and the management of financial risks is provided in notes 31 and 32 to the Consolidated Financial Statements; information regarding the put options on own shares is provided in note 25 to the Consolidated Financial Statements.

P see page 247 f. and 251 ff.
P see page 237

OVERALL STATEMENT OF THE MANAGEMENT BOARD WITH RESPECT TO INFINEON'S FINANCIAL CONDITION AS OF THE DATE OF THIS REPORT

Looking back, the 2014 fiscal year was a successful one for Infineon – a year in which we met or slightly surpassed all targets set. Against the background of a challenging market, we made good use of the opportunities available to us and profited from our investments. We were well prepared to cope with steeply rising demand from our customers and therefore did react fast. Revenue grew by 12 percent to €4,320 million, Segment Result jumped by 64 percent to €620 million and the Segment Result Margin improved by 4.6 percentage points to 14.4 percent. Despite higher investments, free cash flow improved by €82 million to €317 million. With a Return on Capital Employed (RoCE) of 20.3 percent, we earned a solid premium over our cost of capital.

The central challenges to modern society – energy efficiency, mobility and security – on which we are focusing our business, continue to gain in significance and offer considerable growth potential. Our plan is to grow systematically by forging ahead with our 300-millimeter manufacturing technology and applying our strategic approach "Product to System". The upcoming acquisition of International Rectifier will create even more impetus, be it in the form of additional power semiconductor production volumes for our 300-millimeter capacity or by harnessing International Rectifier's complementary strengths in specific processes, technologies, products, regions and sales channels.

For the 2015 fiscal year – excluding any contribution from International Rectifier's business – we forecast a revenue growth of 8 percent, plus or minus 2 percentage points. With regards to investments, our budget stands at approximately 700 million Euros. Our expenses in research and development and selling activities are expected to increase at a rate similar to our revenue or slightly higher. Taking these factors into account, we forecast a Segment Result Margin of 14 percent for the 2015 fiscal year.

We remain fully committed to achieving our targets: We plan to grow at an annual average rate of 8 percent over the cycle, thereby generating a Segment Result Margin of 15 percent. Our intention is to achieve this growth with an average ratio of investments to revenue of 13 percent over the economic cycle.

As a result of the reduced investment intensity compared to previous years we expect a sustainable improvement of the free cash flow going forward and therefore are proposing to raise the dividend already for the 2014 fiscal year significantly by 6 Cent per share to then €0.18 per share in the Annual General Meeting.

Our financial targets will not change after the planned acquisition of International Rectifier. In terms of profitability, we aim to achieve our Segment Result target margin of 15 percent at International Rectifier as well at the latest in the second fiscal year after completion of the acquisition of International Rectifier by generating synergies in manufacturing and in the fields of development, sales and administration. In terms of investments, the combination of Infineon's and International Rectifier's businesses will not result in any change in our target of keeping investments at 13 percent of revenue. So our dividend policy also remains valid: We aim to pay a dividend each fiscal year at least on the same level as in the previous fiscal year.

The structure of Infineon's balance sheet remains solid. As of September 30, 2014 we report an equity ratio of 64.6 percent and a gross cash position of €2.4 billion. Even after the acquisition of International Rectifier – which we will finance partly out of our own cash resources and partly via debt – we remain committed to our capital structure targets in order to finance operating activities on a sound basis and to be able to undertake planned investments throughout all phases of the business cycle.

Application of accounting options and discretionary planning opportunities

The description and assessment of Infineon's performance, financial condition and results of operations as presented in the Group Management Report are dependent on the underlying recognition and measurement methods applied and the assumptions and estimates used. These are described in detail in note 2 to the Consolidated Financial Statements and are, in all material respects, unchanged from the previous year.

P see page 204 ff.

Off-balance-sheet arrangements such as the sale of receivables, sale-and-lease-back transactions or non-consolidated special-purpose entities were not entered into during the 2014 and 2013 fiscal years.

INFINEON TECHNOLOGIES AG

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

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

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

Earning position

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

€ in millions	2014	2013
Revenue	4,601	4,070
Cost of goods sold	(3,528)	(3,260)
Gross profit	**1,073**	**810**
Research and development expenses	(547)	(506)
Selling expenses	(138)	(120)
General and administrative expenses	(186)	(171)
Other income (expense), net	39	19
Result from investments, net	1,003	433
Interest result	(22)	(32)
Other financial result	47	1
Income before taxes	**1,269**	**434**
Income tax	(28)	(15)
Net income	**1,241**	**419**
Transfers to retained earnings according to section 58 paragraph 2 AktG	(228)	–
Transfers to retained earnings according to section 58 paragraph 2a AktG	(784)	(289)
Unappropriated profit at the end of year	**229**	**130**

Infineon Technologies AG reports a net income of €1,241 million for the 2014 fiscal year. After transferring a total of €1,012 million to revenue reserves, the unappropriated profit amounted to €229 million.

Infineon Technologies AG's net income for the 2014 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 €774 million (2013: €289 million). Infineon Technologies AG recorded sharp rises in revenue (13 percent) and gross profit (32 percent) for the 2014 fiscal year. Cost of goods sold increased by 8 percent.

Net assets and financial position

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

€ in millions	2014	2013
Intangible assets, property, plant and equipment	474	463
Financial Assets	3,651	3,175
Non-current assets	**4,125**	**3,638**
Inventories	344	294
Receivables and other assets	618	580
Cash and cash equivalents, marketable securities	2,339	2,240
Current assets	**3,301**	**3,114**
Prepaid expenses	**28**	**33**
Active difference resulting from offsetting	**4**	**5**
Total assets	**7,458**	**6,790**
Share Capital	2,243	2,150
Capital Reserves	1,165	1,150
Retained Earnings	2,365	1,352
Distributable profit	229	130
Shareholders' equity	**6,002**	**4,782**
Special reserve with an equity portion	**1**	**1**
Provisions for pensions and similar obligations	62	418
Other provisions	553	606
Provisions	**615**	**1,024**
Liabilities to banks	–	9
Trade payables, liabilities to affiliated companies and other liabilities	819	946
Liabilities	**819**	**955**
Deferred income	**21**	**28**
Total liabilities and shareholders' equity	**7,458**	**6,790**

The principal factors influencing the Company's financial condition are described below. Within assets, increases were recorded for financial investments (€476 million) as well as for cash and cash equivalents and marketable securities (€99 million). The carrying amount of investments increased mainly as a result of the reversal of an impairment loss previously recorded on the investment in Infineon Technologies Holding B.V. (€774 million). By contrast, the offsetting of pension plan obligations against pension plan assets (reported in the previous fiscal year as investments) reduced investments by €316 million. The increase in equity (€1,220 million) was mainly attributable to net income of €1,241 million recorded in the 2014 fiscal year and the issue of new shares in conjunction with the conversion of parts of the convertible bond (€101 million). Payment of the dividend for the 2013 fiscal year (€129 million) reduced equity accordingly.

Provisions for pension plans and similar commitments decreased by €356 million as a result of the first-time offsetting of pension plan obligations (€480 million) against pension plan assets measured at their present value (€418 million). Other provisions also decreased by €53 million.

The balance sheet item "Payables" went down by €136 million during the fiscal year under report, mainly owing to a €215 million decrease in payables to affiliated companies, while other liabilities increased by €87 million.

The equity ratio at the end of the reporting period was 80.5 percent (September 30, 2013: 70.4 percent).

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) recorded by the ultimate parent, as determined in accordance with the German Commercial Code (HGB).

Infineon Technologies AG reports unappropriated profit of €229 million in its financial statements for the fiscal year ended September 30, 2014. A cash dividend of €0.18 per share will be proposed for this period at the Annual General Meeting. The disbursement of the proposed dividend is subject to approval by shareholders.

The Company paid a dividend of €0.12 per share for the 2013 fiscal year, resulting in a total distribution of €129 million.

For information regarding Infineon's long-term dividend policy, see the section "Dividend, capital returns and conversion of convertible bond" in the chapter "The Infineon share".

P see page 108 f.

Expected developments, together with associated material risks and opportunities

To a large extent, the risks and opportunities as well as the future developments of Infineon Technologies AG are identical to those of the Infineon Group. Moreover, it is assumed that the result from investments will play a major role in Infineon Technologies AG's earnings performance. As a general rule, Infineon Technologies AG participates in the risks of its subsidiaries and equity investments on the basis of the relevant shareholding. As parent company, Infineon Technologies AG is integrated in the Group-wide risk management system and internal control system of the Infineon Group. For information in this respect and for a description of the expected developments, risks and opportunities of Infineon Technologies AG, please see the chapter "Report on expected developments, together with associated material risks and opportunities".

P see page 130 ff.

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

P see page 153

For Infineon Technologies AG net income is the core performance indicator. Turnover and investment income for the year have the greatest influence on this performance indicator. Investment income in the 2014 fiscal year was impacted positively by write-ups of investments in the amount of €784 million.

Infineon Technologies AG expects a significant decline in the net income for the year of Infineon Technologies AG in the 2015 fiscal year, compared with the 2014 fiscal year.

SIGNIFICANT EVENTS AFTER THE END OF THE REPORTING PERIOD

Completion of the partial settlement with the Qimonda insolvency administrator

The partial settlement reached on September 11, 2014 by Infineon and the Qimonda insolvency administrator was completed on October 9, 2014. On that date, Infineon paid an amount of €260 million to the insolvency administrator for the partial settlement (see note 33 to the Consolidated Financial Statements).

P see page 255 ff.

Payment of the fine imposed by the EU Commission on Infineon

The fine of €83 million imposed by the EU Commission on Infineon on September 3, 2014 was paid in October 2014. In mid-November 2014, Infineon filed an appeal with the European Court of Justice in Luxembourg against the antitrust fine (see note 33 to the Consolidated Financial Statements).

P see page 254

Acquisition by Infineon approved by shareholders of International Rectifier

At their extraordinary meeting held on November 4, 2014, the shareholders of International Rectifier granted the necessary approval for Infineon's acquisition of International Rectifier. Completion of the acquisition is subject to regulatory approvals in the relevant jurisdictions and customary closing conditions. Finalization and completion of the transaction is expected towards the end of the 2014 calendar year or at the beginning of the 2015 calendar year (see note 3 to the Consolidated Financial Statements).

P see page 218

CORPORATE GOVERNANCE

INFORMATION PURSUANT TO SECTION 289, PARAGRAPH 4, AND SECTION 315, PARAGRAPH 4, OF THE GERMAN COMMERCIAL CODE (HGB)

Structure of the subscribed capital

The share capital of Infineon Technologies AG stood at €2,255,478,460 as of September 30, 2014. This sum is divided into 1,127,739,230 non-par registered shares, each of which represents a notional portion of the share capital of €2. Each share carries one vote and gives an equal right to the profit of the Company based on the profit appropriation resolved by shareholders at the Annual General Meeting.

The Company held 6 million of the above-mentioned issued shares as own shares at the end of the reporting period (September 30, 2013: 6 million). Own shares held by the Company on the date of the Annual General Meeting do not carry a vote and are not entitled to participate in profit.

Restrictions on voting rights or the transfer of shares

Restrictions on the voting rights of shares may, in particular, arise as the result of the regulations of the German Stock Corporation Act (Aktiengesetz – "AktG"). 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, 2014, we have not been notified of any direct or indirect shareholdings reaching or exceeding 10 percent of the voting rights. The shareholdings notified to us as of September 30, 2014, are presented in the Notes to the Financial Statements of Infineon Technologies AG under the information pursuant to section 160, paragraph 1, No. 8 AktG.

Shares with special control rights

No shares conferring special control rights have been issued.

System of control over voting rights when 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. The Management Board currently comprises three members. The Supervisory Board decides on the exact number of members of the Management Board and on their appointment and dismissal in accordance with section 5, paragraph 1, of the Articles of Association and section 84, paragraph 1, AktG. As Infineon Technologies AG falls within the scope of the German Co-Determination Act (Mitbestimmungsgesetz – "MitbestG"), the appointment or dismissal of members of the Management Board requires a two-thirds majority of the votes of the members of the Supervisory Board (section 31, paragraph 2, MitbestG). If such majority is not achieved 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 3, AktG).

Rules governing the amendment of the Articles of Association

Pursuant to section 179, paragraph 1, AktG, responsibility for amending the Articles of Association rests with the Annual General Meeting. However section 10, paragraph 4, of the Articles of Association gives the Supervisory Board the authority to amend the Articles of Association insofar as such amendments relate merely to the wording, such as changes in the share capital amount resulting from a capital increase out of conditional or authorized capital or a capital decrease by means of cancellation of own shares. Unless the Articles of Association provide for another majority, section 179, paragraph 2, AktG stipulates that resolutions of the Annual General Meeting 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

The powers of the Management Board to issue shares derive from section 4 of the Articles of Association, in conjunction with applicable legal provisions. Further information relating to the Company's existing Authorized and Conditional Capital can be found in note 25 to the Consolidated Financial Statements.

P see page 235 f.

Authorization to issue bonds with warrants and/or convertible bonds

The Annual General Meeting on February 13, 2014 authorized the Management Board, in the period through February 12, 2019, 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 regard. 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 shares underlying each convertible bond may not exceed the nominal value of the bond.

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

Purchase of own shares

A resolution passed by the Annual General Meeting on February 28, 2013 authorizes Infineon Technologies AG, in the period through to February 27, 2018, to acquire its own shares, within the statutory boundaries, in an aggregate amount not exceeding 10 percent of the share capital at the time the resolution was passed or – if the latter amount is lower – of the share capital in existence at the time the authorization is exercised. The Company may not use the authorization for the purposes of trading in its own shares. The 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 in which 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 or other entity that meets the requirements of section 186, paragraph 5 sentence 1 AktG (referred to jointly as "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 will adopt 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 bank (excluding incidental costs) must 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 and (iii) 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. Notwithstanding the above stipulations and subject to any further instructions issued by the Company, the bank may implement the repurchase program at its own discretion.

The Company is authorized – on its own, through dependent companies or companies in which 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 – not only to sell Infineon shares acquired on the basis of this or an earlier authorization via the stock exchange or by means of a public offer, but also to utilize those shares for all legally admissible purposes, 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. Cancellation results in a reduction in share capital by the proportion attributable to the cancelled shares. 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 in this case to amend the number of shares listed in the Articles of Association.

(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 and/or other assets that qualify for treatment as contributions in conjunction with acquisition transactions of the above-mentioned nature.

(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". If own shares are to be transferred to members of the Management Board, this authorization applies to the Supervisory Board.

(f) The shares may be offered for sale to, or awarded as compensation to, members of the Company's Management Board, to members of the Management Board/Board of Directors of affiliated companies and to employees of the Company or affiliated companies; shares offered and awarded in this context may also be transferred to the relevant persons after termination of membership on representative bodies and/or employment contracts. The shares may also be transferred to a bank that has agreed to use the shares exclusively for the purposes stipulated in sentence 1. If own shares are to be offered for purchase or awarded and transferred to members of the Management Board, this authorization applies to the Supervisory Board.

The shares acquired on the basis of this or an earlier authorization may also be used to repay securities-backed loans taken out with a bank for one of the purposes stated in clauses b) to f).

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 with the exception of clause a). In addition, the subscription rights of shareholders are excluded in respect of fractional amounts in instances in which the shares are sold through a public offer addressed to all shareholders.

According to a resolution passed by the Annual General Meeting on February 28, 2013, the acquisition of Infineon Technologies AG shares may also be effected using equity derivatives. The 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"). Shares may also be acquired using derivatives via a bank that is engaged – in conjunction with a defined repurchase program and on the conditions determined by the Annual General Meeting – to acquire an agreed number of shares or shares underlying derivatives for a predetermined total acquisition price by no later than the end of a previously agreed period and to transfer them to the Company.

The total number of shares that can be acquired using derivatives may not exceed 5 percent of the Company's share capital, determined either at the time of this authorization becoming effective or at the time of its exercise through the use of the derivatives. The shares acquired through the exercise of this authorization are to be counted toward the acquisition threshold for the shares acquired in accordance with the authorization to acquire own shares described directly above. The term of the individual derivatives may in each case be no longer than 18 months, must expire by no later than February 27, 2018 and must be defined such that the acquisition of own shares either to exercise or to satisfy the derivatives cannot be effected after February 27, 2018.

The derivative contracts 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 price of the share calculated at the opening auction in Xetra trading (or a comparable successor system) on the day the derivative transaction is concluded.

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.

P see page 237

@ www.infineon.com/cms/en/about-infineon/investor/capital-returns/program-2013

The Company resolved a new capital returns program in November 2013 and intends to allocate up to €300 million for this program through September 30, 2015. Further details and the current status of the program are provided in note 25 to the Consolidated Financial Statements and are also published regularly on the Company's website at www.infineon.com/cms/en/about-infineon/investor/capital-returns/program-2013.

Significant agreements in the event of a change of control as a result of a takeover bid

P see page 234

The facilities agreement concluded by Infineon with several local and international financial institutions to finance the acquisition of International Rectifier (for details see note 23 to the Consolidated Financial Statements), contains a change of control clause, which conveys the right to the individual contractual parties – in the event of a defined change in control – to call for an amendment to the facilities agreement or, in specified cases, to give notice of termination of their participation in the financing arrangements and call for repayment of the relevant credit amount. This change of control clause reflects standard market practice for facilities agreements of this nature in the interests of creditor protection.

Furthermore, certain patent cross-licensing agreements, development agreements, subsidy agreements and approvals, supply contracts, 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 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 for 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.

P see page 188

The change of control clauses agreed with the members of the Management Board correspond to the recommendation made in section 4.2.3, paragraph 5, of the German Corporate Governance Code. Such clauses are intended to give members of the Management Board security if a change of control situation occurs, and to preserve their independence in the event of a takeover bid.

There are no comparable arrangements for employees.

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 contributes towards increasing the value of the business on a sustainable basis, while at the same fostering 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" as the most important of these are published on the Internet and are mandatory for the Management Board and all employees worldwide. The Business Conduct Guidelines are regularly reviewed and updated. They include 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.

@ www.infineon.com/cms/en/about-infineon/investor/corporate-governance/compliance/business-conduct-guidelines/

Corporate Compliance Officer and Compliance Panel

An independent Compliance Office has been in place at Infineon since June 1, 2011, during which time it has been allocated increased budget and staffing levels. The additional resources allocated underline 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 Infineon's needs. In addition to meet 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.

Infineon Technologies AG's Corporate Compliance Officer reports directly to the Infineon Chief Financial Officer (CFO). The Corporate Compliance Officer coordinates the compliance management system, develops the Infineon compliance program based on a risk-oriented approach, sets or works on guidelines, advises employees, receives complaints and tip-offs, including those made anonymously, and leads investigations aimed to clarify compliance-related cases. 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 also during the 2014 fiscal year. The Corporate Compliance Officer is supported by regional Compliance Officers. The Company has also established a Compliance Panel, composed of experienced managers from the Legal, Human Resources, Internal Audit and Security 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 key issues and reach decisions aimed at improving the compliance system. A whistleblowing system has been established as an important component of the compliance system. Infineon employees can contact the Corporate Compliance Officer on a confidential basis (anonymously if desired) to report non-compliance with internal guidelines and applicable laws. Since 2011, an external lawyer serving in the capacity of an independent ombudsman has also been available for employees and business partners to pass on confidential information (anonymously if desired) with respect to legal violations at Infineon. The Corporate Compliance Officer follows up every item of information communicated before deciding – in collaboration with the Compliance Panel – whether to initiate an internal investigation.

The audit of the Compliance Management System at Infineon Technologies AG and at two other major Group entities – commissioned at the end of the 2012 fiscal year – was completed in June 2014. Under the terms of this engagement, the Management Board commissioned an independent audit firm to test and report on the appropriateness, implementation and effectiveness of the compliance management system. The audit was conducted in accordance with the "Principles for the Proper Performance of Reasonable Assurance Engagements Relating to Compliance Management Systems (IDW PS 980)" issued by the Institute of Public Auditors in Germany (IDW). The main points of emphasis of the engagement were the prevention of corruption and compliance with anti-trust law.

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 exposure Group-wide also makes a contribution to the systematic and continuous increase in the value of the business.

Our Group-wide Risk and Opportunity Management System, which is continuously adapted to changes in circumstances, consists of four sub-processes: Risk and opportunity identification, analysis, controlling and monitoring. Its effectiveness is reviewed regularly by the Supervisory Board's Investment, Finance and Audit Committee.

P see page 137 ff.

Details of risk management at Infineon are presented in the chapter "Risk and opportunity report", which provides an in-depth description of both risk and opportunity management and the internal control system at Infineon.

Transparent management

We submit a regular quarterly report covering our 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.

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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 a Disclosure Committee comprising experienced managers from the investor relations, communication, financial reporting and accounting, legal and internal audit departments. The Disclosure Committee reviews and approves specified financial and other material information published in conjunction with regular financial reporting or ad hoc announcements.

German law requires the Management Board to render a responsibility statement ("Bilanzeid"). The information required for this purpose is confirmed internally to the Management Board by senior executives bearing management responsibility.

D&O insurance

The Company maintains a directors' and officers' group liability insurance policy ("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 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 member of the Management or Supervisory Board concerned has been agreed in accordance with the statutory regulation in section 93, paragraph 2, of the German Stock Corporation Act (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 for the 2014 fiscal year is audited by KPMG AG Wirtschaftsprüfungsgesellschaft, Munich (KPMG). The Quarterly Reports were also subjected to review by KPMG. The audit also considers the Company's system for the early identification of risks and the submission of the Declaration of Compliance in accordance with section 161 AktG. 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, among other things, 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 or related financial instruments. 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.

The following securities transactions were notified to the Company during the previous fiscal year.

Last name, first name	Dr. Ploss, Reinhard
Function	Chairman of the Management Board
Description	Shares in Infineon Technologies AG
ISIN/WKN	DE0006231004/623 100

Date of transaction	March 12, 2014
Purchase/sale	Purchase
Price (per unit)	€8.21
Number of units	8,500
Total volume	€69,742.50

Date of transaction	March 12, 2014
Purchase/sale	Purchase
Price (per unit)	€8.20
Number of units	2,500
Total volume	€20,495.00

Total volume of transactions	€90,237.50
Transaction location	Frankfurt/Main Stock Exchange (Xetra)

Last name, first name	Asam, Dominik
Function	Member of the Management Board
Description	Shares in Infineon Technologies AG
ISIN/WKN	DE0006231004/623 100

Date of transaction	November 21, 2013
Purchase/sale	Purchase
Price (per unit)	€7.21
Number of units	1,943
Total volume	€14,005.14

Date of transaction	November 21, 2013
Purchase/sale	Purchase
Price (per unit)	€7.21
Number of units	6,365
Total volume	€45,872.56

Total volume of transactions	€59,877.70
Transaction location	Frankfurt/Main Stock Exchange (Xetra)

Last name, first name	Gruber, Peter
Function	Member of the Supervisory Board
Description	Shares in Infineon Technologies AG
ISIN/WKN	DE0006231004/623 100

Date of transaction	November 20, 2013
Purchase/sale	Sale
Price (per unit)	€6.90
Number of units	16,000
Total volume	€110,400.00

Transaction location	Frankfurt/Main Stock Exchange (Xetra)

Compensation of the Management Board and the Supervisory Board

Details of Management Board and Supervisory Board compensation in the 2014 fiscal year are presented in the comprehensive Compensation Report, which also forms part of the Group Management Report of Infineon Technologies AG.

Share based compensation schemes for employees and members of the Management Board

Infineon's share based compensation schemes are detailed in note 27 to the Consolidated Financial Statements; the full text of the plans may be viewed at www.infineon.com ("About Infineon/Investor/Corporate Governance/equity based compensation").

P see page 239 f.
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As part of the long-term remuneration of executives and selected Infineon employees worldwide, a so-called "Performance Share Plan" (PSP) came into force for the first time in the 2014 fiscal year, replacing the previous stock option plan. The same plan also applies to members of the Management Board, whereby the latter – unlike other plan participants – have a contractually secured claim. The principal conditions of the plan for members of the Management Board are described in the Compensation Report, which also forms part of the Group Management Report. Essentially the same conditions apply to other PSP participants, with differing rules only with respect to the requirement of members of the Management Board to invest in Infineon shares and in the event of early termination; moreover, the cap only applies to members of the Management Board.

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 2014 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 issued the following declaration pursuant to section 161 AktG in November 2014:

1. Since the submission of the last Declaration of Compliance in November 2013, Infineon Technologies AG has, with one exception, complied with all recommendations of the German Corporate Governance Code in the version of May 13, 2013 ("Code"). The one exception, stated and explained in the November 2013 declaration, relates to the following:

   Section 5.4.6 of the Code recommends 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 members of the Management Board seems to imply that performance-related compensation should also be based on a "multi-year assessment" for members of the Supervisory Board.

   Members of the Supervisory Board of Infineon Technologies AG receive both fixed and performance-related compensation, the latter only being paid if earnings per share exceed a pre-defined amount.

   Both the Management Board and the Supervisory Board have deliberated on this topic on several occasions. They concluded in each case that the compensation system currently in place for the Supervisory Board is already oriented toward sustainable growth of the enterprise 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. As a consequence, neither of the boards saw any requirement to change the Supervisory Board compensation system approved with a large majority at the Annual General Meeting. The Management Board and the Supervisory Board have not changed their assessment of the situation.

2. The new version of the Code dated June 24, 2014 became effective on September 30, 2014. With the exception – described in point 1 of this declaration – of the unchanged recommendation contained in section 5.4.6 of the Code, Infineon Technologies AG has also complied, and will comply in the future, with the recommendations contained in this version of the Code.

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 German Corporate Governance Code. Furthermore, corporate governance practices 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.

Shareholders and 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 duly registered for the meeting. 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 counterproposals to motions introduced by management and to speak and ask questions at the Annual General Meeting. They 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.

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

Infineon Technologies AG's Management Board currently comprises three members. 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 currently comprises only men (100 percent), of whom two are in the middle age-group of between 30 and 50 years of age (66.7 percent) and one (33.3 percent) is in the 50+ age-group.

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 Infineon's value taking into account the interests of all stakeholders. It determines Infineon's commercial objectives, strategic direction and corporate policy and defines how the Group 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 members of the Management Board, 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 ties, 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 were 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 2014, again on the basis of a questionnaire. No deficits in efficiency were identified.

Composition of the Supervisory Board

The Supervisory Board of Infineon Technologies AG currently has 12 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 members of the Supervisory Board is approximately five years. The most recent regular election of shareholder representatives and employee representatives to the Supervisory Board took place in the 2010 fiscal year for periods of office through to the end of the 2015 Annual General Meeting. 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.

Section 6 (1) of the Articles of Association stipulate that the Supervisory Board shall consist of the minimum number of members required by law. The Company previously had fewer than 10,000 employees in Germany and, therefore, the Supervisory Board currently comprises 12 members in accordance with paragraph 7 section 1, sentence 1, number 1 of the German Co-Determination Act. Due to the fact that the Company and its subsidiaries in Germany in the meantime have more than 10,000 employees, the Management Board initiated so-called "status proceedings" in the 2014 fiscal year, with a view to increasing the size of the Supervisory Board from its current 12 to 16 members. In future, the Supervisory Board will, therefore, comprise eight shareholder representatives and eight employee representatives. The elections for employee representatives will take place in December 2014, the elections for shareholder representatives at the 2015 Annual General Meeting.

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 of November 22, 2010 in accordance with the recommendation in section 5.4.1 DCGK (version: May 2010). With effect from the version dated May 15, 2012, the Code includes the recommendation in section 5.4.1 that the Supervisory Board should also specify concrete objectives regarding the appropriate number of independent members of the Supervisory Board. The objectives of the Supervisory Board were, therefore, expanded in a resolution dated August 7, 2012. With respect to the extension of the Supervisory Board from currently 12 to 16 members, on November 17, 2014, the Supervisory Board resolved to adapt its objectives as follows:

"The Supervisory Board comprises an equal number of representatives of the employee and the shareholder. 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 twelve "independent" representatives […] (including at least four shareholder representatives),

(ii) at least two women and

(iii) at least five "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."

The current composition of the Supervisory Board continues to meet these objectives. The Supervisory Board considers in particular that all of its current 12 members are independent within the meaning of the recommendation in section 5.4.2 DCGK. 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. Exceptions to this rule are possible, however, in justified cases. The Supervisory Board currently comprises two women (16.7 percent) and ten men (83.3 percent), of whom all (100 percent) are in the 50+ age-group.

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 Infineon, 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 required 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 member of the Supervisory Board 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 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 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 members of the Management Board except in matters involving earnings.

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 – among other qualifications –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, of the German Stock Corporation Act.

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, it submits its recommendations for the selection of the independent auditor to the Supervisory Board, 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 independent auditors and is responsible for setting the independent auditors' compensation.

Other matters addressed by the Audit Committee include the monitoring of 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 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 can be found, together with details of the people who serve on them, in note 36 to the Consolidated Financial Statements and in the report of the Supervisory Board to the Annual General Meeting.

P see page 265 f.

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 2014 fiscal year.

The German Corporate Governance Code requires prior approval to be given by the Supervisory Board before members of the Management Board take on mandates on external supervisory boards. In the year under report, the Supervisory Board gave its approval to Mr. Mittal's mandate on the supervisory board of tesa SE.

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 member of the Supervisory Board 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 R&D work on the topic of "Sensing for Automotive Applications"; this contract expired on September 30, 2013. The Company is currently in the process of negotiating a continuation of the contract with Technische Universität München; the Supervisory Board has already approved the continuation of the collaboration with Technische Universität München in principle. Dr. Sünner has been Of Counsel with the law firm Allen & Overy LLP since 2011. The Company has in the past engaged Allen & Overy in individual cases, but has never received advice from Dr. Sünner personally in conjunction with any of these engagements. Allen & Overy and Dr. Sünner have also confirmed that Dr. Sünner does not participate – either directly or indirectly – in the fees from any of these engagements. A potential conflict of interest, therefore, does not arise.

Shareholdings of members of Management and Supervisory Board

As of September 30, 2014, 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.

Information regarding the composition of the Management Board, Supervisory Board and the Supervisory Board's committee can be found in note 36 to the Consolidated Financial Statements.

P see page 264 ff.

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 in the version of June 24, 2014 (Deutscher Corporate Governance Kodex – "DCGK"). Infineon believes that transparent and understandable reporting of Management Board and Supervisory Board compensation represents a fundamental element of good corporate governance.

Management Board compensation

Compensation system

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

The regular periodic review of the Management Board compensation system was performed by an external independent compensation expert during the 2014 fiscal year, who reached the conclusion that the compensation system complies with applicable Stock Corporation Act ("AktG") as well as with the recommendations ("Empfehlungen") of the DCGK. Details of the review of the Management Board compensation system are provided in the following section "Review of Management Board compensation; changes to individual service contracts".

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 12 equal monthly installments.
- Variable (performance-related) compensation: The variable compensation comprises three components: an annual bonus (short-term incentive), a multiple-year bonus (mid-term incentive) and a long-term variable compensation component (long-term incentive).

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

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

P see page 80

(ii) At the end of the fiscal year, the actual levels of target achievement for free cash flow and RoCE and, hence the amount of the STI, are determined by the Supervisory Board.

An STI is paid only if, on the basis of the approved financial statements, the levels of target achievement reach at least the 50 percent threshold for both performance indicators (free cash flow, RoCE). If one of the two target thresholds is not achieved, no annual bonus is paid for the relevant fiscal year. If the thresholds are achieved, the arithmetic mean of the two target achievements is calculated, and is used as the percentage rate to determine the actual STI amount. A cap of 250 percent applies, meaning that the maximum amount that can be paid is two and a half times the target STI (= 100 percent), regardless of the actual achievement level. The Supervisory Board may, in addition, increase or reduce the amount to be paid in each case by up to 50 percent, as it sees fit, based on the performance of the Management Board as a whole, Infineon's position and any exceptional factors. A lower limit applies in this case such that the amount to be paid cannot be less than the amount that would be due given 50 percent target achievement. The upper limit for an upwards adjustment is the cap of 250 percent.

If the term of office on the Board begins or ends during a fiscal year, the entitlement to STI is on a pro-rata monthly basis (one twelfth for each month started). Members of the Management Board are not entitled to receive an STI bonus for the fiscal year in which they resign from office or terminate their contract of their own volition or if their contract is terminated for good cause.

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

A new MTI tranche commences every 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 each year of the relevant three-year period, otherwise the level of target achievement for the purposes of the MTI is set to zero for the year concerned. If the thresholds are exceeded, the level of target achievement determined for the STI in the relevant fiscal 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. A cap of 200 percent applies, meaning that the maximum amount that can be paid is two times the target MTI (= 100 percent), regardless of the actual achievement level.

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

If the term of office commences during a fiscal year, the MTI tranche is determined on a pro-rata basis (1/36 for each month of a full MTI tranche started). Upon leaving Infineon, regulations ensure that the member of the Management Board can only receive an MTI payment for the actual number of MTI tranches during his/her term of office. MTI tranches already started are forfeited if a mandate or service contract of a member of the Management Board comes to an end before the due date, for instance if a member resigns from office or terminates the contractual arrangements of his/her own volition or if the contract is terminated for good cause.

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 interest of the Company's shareholders regarding a positive share price development. 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.

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

The (virtual) performance shares are allocated – initially on a provisional basis – on October 1 of each fiscal year for the fiscal year beginning on that date. In this context, performance shares were issued for the first time on October 1, 2013 for the 2014 fiscal year beginning on that date. The performance shares are allocated on the basis of the contractually agreed "LTI allocation amount" in euro. The number of performance shares is determined by dividing the LTI allocation amount by the average price of the Infineon share (Xetra closing price) during the nine months prior to the allocation date. The prerequisite for the definitive allocation of the – at that stage still virtual – performance shares is that the relevant member of the Management Board invests 25 percent of his/her individual LTI allocation amount in Infineon shares and that the holding period of four years applicable both for the member's own-investment and for the performance shares has come to an end. Moreover, 50 percent of the performance shares are performance-related; they are only allocated definitively if the Infineon share outperforms the Philadelphia Semiconductor Index (SOX) between the date of the performance shares' provisional allocation and the end of the holding period. If the conditions for definitive allocation of performance shares – either of all or of only those that are not performance-related – are met at the end of the holding period, the member of the Management Board acquires a claim against the Company for the transfer of the corresponding number of (real) Infineon shares; performance shares which do not achieve the target are forfeited. The value of the performance shares definitively granted to the member of the Management Board per LTI tranche may not exceed 250 percent of the relevant LTI allocation amount; the performance shares above this amount are forfeited (cap). The value of the performance shares in conjunction with the cap is calculated on the basis of the closing price of the Infineon share in Xetra trading at the end of the holding period; the date on which the Infineon shares are transferred is irrelevant for these purposes.

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

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

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

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

Prior to the introduction of the Performance Share Plan, the Company maintained a stock option plan ("Stock Option Plan 2010") – resolved at the 2010 Annual General Meeting – as an LTI. Based on the terms of this plan, the Supervisory Board has awarded members of the Management Board an annual tranche of stock options – most recently in the 2013 fiscal year – corresponding in value to the portion of the target annual income attributable to the LTI. Any stock options granted are subject as a general rule to the plan conditions applicable to employees. Accordingly, a four-year vesting period and a subsequent three-year exercise period apply as well as an absolute performance target (minimum increase in Infineon share price of 20 percent) and a relative performance target (outperformance of the SOX by the Infineon share over a specified time period). 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).

Additionally, the Supervisory Board has the option to grant a special bonus, among other things for special achievements of the Management Board. This bonus is capped, however, at a maximum of 30 percent of the fixed compensation of the member of the Management Board.

Management Board compensation in the 2014 fiscal year in accordance with German Accounting Standard 17 (DRS 17)

Total compensation

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

in €	**Dr. Reinhard Ploss** Chief Executive Officer		**Dominik Asam** Chief Financial Officer		**Arunjai Mittal** Member of the Management Board		**Total**	
	2014	2013	2014	2013	2014	2013	2014	2013
Fixed compensation								
Basic annual salary	945,000	945,000	685,000	685,000	685,000	685,000	2,315,000	2,315,000
Fringe benefits[1]	35,909	14,192	40,927	22,624	26,260	12,224	103,096	49,040
Total fixed compensation	**980,909**	**959,192**	**725,927**	**707,624**	**711,260**	**697,224**	**2,418,096**	**2,364,040**
Variable compensation								
Single-year variable compensation (STI)	525,000	362,880	385,000	266,112	385,000	266,112	1,295,000	895,104
Multi-year variable compensation								
Mid Term Incentive (MTI)								
Provision for 2011 – 2013 tranche	–	98,632	–	117,505	–	–	–	216,137
Provision for 2012 – 2014 tranche	128,333	98,663	128,333	98,663	128,333	98,663	384,999	295,989
Provision for 2013 – 2015 tranche	175,000	134,540	128,333	98,663	128,333	98,663	431,666	331,866
Provision for 2014 – 2016 tranche	175,000	–	128,333	–	128,333	–	431,666	–
Long Term Incentive (LTI)								
Stock Option Plan 2010[2]	–	178,125	–	124,404	–	125,309	–	427,838
Performance Share Plan[3]	247,426	–	172,806	–	172,806	–	593,038	–
Total variable compensation	**1,250,759**	**872,840**	**942,805**	**705,347**	**942,805**	**588,747**	**3,136,369**	**2,166,934**
Total compensation	**2,231,668**	**1,832,032**	**1,668,732**	**1,412,971**	**1,654,065**	**1,285,971**	**5,554,465**	**4,530,974**

1 The compensation shown under "Fringe benefits" comprises primarily the monetary value of the provision of a company car, life-insurance and and invalidity premiums on behalf of members of the Management Board.

2 The figures for the active members of the Management Board in the 2013 fiscal year are based on a fair market value per option of €0.95, which was calculated using a Monte-Carlo simulation model taking account of the value-reducing cap.

3 The figures for the active members of the Management Board in the 2014 fiscal year are based on a fair market value per performance share amounting to €5.20, which was calculated using a Monte-Carlo simulation model taking account of the value-reducing cap.

Members of the Management Board did not receive any loans from Infineon in the 2014 and 2013 fiscal years.

Similarly, they did not receive any benefits from third parties in the 2014 and 2013 fiscal years, whether promised or actually paid, for their Board activities at Infineon.

Share-based compensation

As described in the section "Management Board compensation", the contractually agreed LTI was granted to members of the Management Board in 2014 for the first time in the form of so-called "performance shares". The average price of the Infineon share relevant for the number of performance shares granted for the 2014 fiscal year was €6.62.

A fair market value of €5.20 per performance share was determined for the 2014 fiscal year, taking account – among other things – of the 250 percent cap of the LTI allocation amount.

Regarding the calculation of the fair market value we refer to note 27 to the Consolidated Financial Statements.

P see page 239 f.

Stock options relating to the Stock Option Plan 2010 were issued to members of the Management Board for the last time in (and for) the 2013 fiscal year. The number of options granted was calculated on the basis of their fair market value. The fair market value figure used to determine the number of stock options took no account of the cap applicable to them and was consequently equivalent to the fair market value of the options granted by the Company to employees under the Infineon Stock Option Plan 2010 (for which no cap applied).

The stock options granted to members of the Management Board were subject to an exercise cap of 250 percent of their fair market value at grant date. The cap was calculated using the fair market value of an option (€1.68) without any value-reducing limit.

The following table shows the number of performance shares awarded to members of the Management Board in the 2014 fiscal year as well as the number of stock options awarded in the previous fiscal year. No stock options were exercised and no stock options expired in the 2013 or 2014 fiscal years.

P see page 239

Further details regarding the Performance Shares granted on October 1, 2014 for the 2015 fiscal year to the Members of the Management Board are provided in note 27 to the Consolidated Financial Statements.

		Performance Share Plan		Stock Option Plan 2010						
		Virtual performance shares newly granted at the beginning of the fiscal year		Stock options outstanding at the beginning of the fiscal year	Stock options granted in the fiscal year		Stock options outstanding at the end of the fiscal year	Stock options expiered in the fiscal year	Exercisable Stock options outstanding at the end of the fiscal year	Total expense for share-based compen-sation
Member of the Management Board	Fiscal year	Number	Fair Value grant date in €	Number	Number	Fair Value grant date in €	Number	Number	Number	in €
Dr. Reinhard Ploss (CEO)	**2014**	**47,582**	**247,426**	**433,214**	**–**	**–**	**433,214**	**–**	**–**	**200,285**
	2013	–	–	245,714	187,500	178,125	433,214	–	–	70,766
Dominik Asam	**2014**	**33,232**	**172,806**	**350,952**	**–**	**–**	**350,952**	**–**	**–**	**141,089**
	2013	–	–	220,000	130,952	124,404	350,952	–	–	50,631
Arunjai Mittal [1]	**2014**	**33,232**	**172,806**	**229,167**	**–**	**–**	**229,167**	**–**	**–**	**121,403**
	2013	–	–	–	229,167	217,709	229,167	–	–	27,904
Total	**2014**	**114,046**	**593,038**	**1,013,333**	**–**	**–**	**1,013,333**	**–**	**–**	**462,777**
	2013	–	–	465,714	547,619	520,238	1,013,333	–	–	149,301

1 As agreed between the Compnay and Mr. Mittal, the stock options to which he was entitled as LTI pro rata for the 2012 fiscal year, were not granted until the 2013 fiscal year. Accordingly, 98,215 of the share options granted to Mr. Mittal in total in the 2013 fiscal year (fair value at grant date of €92,400) relate to the 2012 LTI.

Special bonuses

The Supervisory Board did not award any special bonuses to members of the Management Board during the 2014 fiscal year.

Other awards and benefits

The Company entered into a restitution agreement in the 2009 fiscal year with each of the active members of the Management Board at that time. Dr. Ploss is the only current member of the Management Board affected by such an agreement. These agreements provide for the Company to cover, to the extent permitted by law, all costs and expenses incurred by members of the Management Board in the performance of their duties for the Company in connection with legal, governmental, regulatory and parliamentary proceedings and investigations as well as arbitration proceedings, in which the member of the Management Board is involved in conjunction with his/her activities on behalf of the Company. However, the agreements specifically exclude any restitution of costs if the proceedings concern an action or omission that constitutes a culpable breach of the duty of care of the member of the Management Board pursuant to section 93, paragraph 2, of the German Stock Corporation Act (“AktG”).

No payments were made by the Company during the 2014 fiscal year under these restitution arrangements.

Management Board compensation in the 2014 fiscal year in accordance with the German Corporate Governance Code

The DCGK recommends that the individual compensation components of each member of the Management Board be disclosed in accordance with specified criteria. It also recommends that disclosure is based on the model tables – in part diverging from DRS 17 – provided in the appendix to the Code. In order to comply with DCGK requirements, Infineon is not required to use the model tables until it prepares its Compensation Report for the 2015 fiscal year. Nevertheless, in the interest of better comparability with other companies, the recommended model tables are already used in the Compensation Report for the 2014 fiscal year.

Compensation granted in accordance with DCGK

The following table shows the value of compensation granted for the 2013 and 2014 fiscal years, including fringe benefits, as well as the minimum and maximum values that can be achieved for the 2014 fiscal year.

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

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

in €	Dr. Reinhard Ploss Chief Executive Officer			
	2014	2013	2014 (min.)	2014 (max.)
Fixed compensation				
Basic annual salary	945,000	945,000	945,000	945,000
Fringe benefits	35,909	14,192	35,909	35,909
Total fixed compensation	**980,909**	**959,192**	**980,909**	**980,909**
Variable compensation				
Single-year variable compensation (STI)	420,000	420,000	–	1,050,000
Multi-year variable compensation				
Mid Term Incentive (MTI)				
2013 – 2015 tranche	–	420,000	–	–
2014 – 2016 tranche	420,000	–	–	840,000
Long Term Incentive (LTI)				
Share Option Plan 2010	–	178,125	–	–
Performance Share Plan[1]	247,426	–	123,713	787,500
Total variable compensation	**1,087,426**	**1,018,125**	**123,713**	**2,677,500**
Pension expense	149,601	148,302	149,601	149,601
Total compensation (DCGK)	**2,217,936**	**2,125,619**	**1,254,223**	**3,808,010**

1 The figures of the active members of the Management Board in the 2014 fiscal year are based on a fair market value per performance share amounting to €5.20, which was calculated using a Monte-Carlo simulation model taking account of the value-reducing cap.

Allocation amount in accordance with DCGK

Since compensation granted to members of the Management Board for the fiscal year does not always coincide with amounts disbursed in a particular fiscal year, a separate table is presented – in accordance with the relevant DCGK recommendation – showing the amounts flowing to members of the Management Board for the 2014 fiscal year (the so-called "allocation amount" ("Zufluss")).

In line with the DCGK recommendations, the fixed compensation and the STI are required to be disclosed as the allocation amount for the fiscal year concerned. In the case of the MTI, the DCGK recommends that this is disclosed as flowing to members of the Management Board in the fiscal year, in which the plan term of the relevant MTI tranche ends. In this sense, in addition to the fixed compensation granted for 2014 and the STI, the allocation amount for the 2012 – 2014 MTI tranche also flowed to the members of the Management Board for the 2014 fiscal year.

In accordance with the DCGK, share-based payments are deemed to be allocated on the basis of the relevant time and value for German tax law purposes. Accordingly, the members of the Management Board were not deemed to have been allocated share-based payments in either the 2014 or the 2013 fiscal year.

In line with the DCGK recommendations, the pension expense meaning the service cost pursuant to IAS 19 constitutes the allocation amount (see previous table), even though it is not – strictly speaking – an allocation.

	Dominik Asam Chief Financial Officer				**Arunjai Mittal** Member of the Management Board			
	2014	2013	2014 (min.)	2014 (max.)	2014	2013	2014 (min.)	2014 (max.)
	685,000	685,000	685,000	685,000	685,000	685,000	685,000	685,000
	40,927	22,624	40,927	40,927	26,260	12,224	26,260	26,260
	725,927	**707,624**	**725,927**	**725,927**	**711,260**	**697,224**	**711,260**	**711,260**
	308,000	308,000	–	770,000	308,000	308,000	–	770,000
	–	308,000	–	–	–	308,000	–	–
	308,000	–	–	616,000	308,000	–	–	616,000
	–	124,404	–	–	–	125,309	–	–
	172,806	–	86,403	550,000	172,806	–	86,403	550,000
	788,806	**740,404**	**86,403**	**1,936,000**	**788,806**	**741,309**	**86,403**	**1,936,000**
	192,780	211,352	192,780	192,780	159,627	164,978	159,627	159,627
	1,707,513	**1,659,380**	**1,005,110**	**2,854,707**	**1,659,693**	**1,603,511**	**957,290**	**2,806,887**

The total compensation allocated to the individual members of the Management Board for the 2014 fiscal year in accordance with DCGK – analyzed by component – is shown in the following table:

in €	**Dr. Reinhard Ploss** Chief Executive Officer		**Dominik Asam** Chief Financial Officer		**Arunjai Mittal** Member of the Management Board	
	2014	2013	2014	2013	2014	2013
Fixed compensation						
Basic annual salary	945,000	945,000	685,000	685,000	685,000	685,000
Fringe benefits	35,909	14,192	40,927	22,624	26,260	12,224
Total fixed compensation	**980,909**	**959,192**	**725,927**	**707,624**	**711,260**	**697,224**
Variable compensation						
Single-year variable compensation (STI)	525,000	362,880	385,000	266,112	385,000	266,112
Multi-year variable compensation						
Mid Term Incentive (MTI)						
2011 – 2013 tranche[1]	–	421,344	–	386,232	–	–
2012 – 2014 tranche	333,872	–	333,872	–	306,049	–
Long Term Incentive (LTI)						
Stock Option Plan 2010	–	–	–	–	–	–
Performance Share Plan	–	–	–	–	–	–
Total variable compensation	**858,872**	**784,224**	**718,872**	**652,344**	**691,049**	**266,112**
Pension expense	149,601	148,302	192,780	211,352	159,627	164,978
Total compensation (DCGK)	**1,989,382**	**1,891,718**	**1,637,579**	**1,571,320**	**1,561,936**	**1,128,314**

1 Mr. Mittal did not participate in the 2011 – 2013 MTI tranche, since he was not appointed to the Board until January 1, 2012.

Commitments to the Management Board upon termination of employment

Allowances and pension entitlements in the 2014 fiscal year

The members of the Management Board who were in their positions prior to the introduction of the new compensation system in 2010 are contractually entitled to a defined benefit pension payment. In the 2014 fiscal year, this now only relates to Dr. Ploss, who has an entitlement to an annual retirement benefit, currently standing at €200,000 and which increases by €5,000 for each full year of service on the Board, up to a maximum amount of €210,000. This entitlement is already vested both contractually and under the applicable statutory provisions and is secured and financed by the Company in the form of a pension reinsurance policy pledged to Dr. Ploss. The pension entitlement is required to be reviewed every three years from the start of payment of the pension in accordance with the German Company Pension Act (Betriebsrentengesetz) 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. The Supervisory Board may decide to make an amendment as it sees fit, taking account of the needs of the recipient and the financial condition of the Company. If Dr. Ploss's mandate comes to an end, payment of the pension entitlement begins at the earliest at the age of 60.

In accordance with the recommendations incorporated in the new compensation system, Mr. Asam and Mr. Mittal – both of whom took up office after the new system had been approved – have both received a defined contribution pension commitment essentially identical to the Infineon pension plan applicable to all employees (rather than a defined benefit pension commitment based on years of service under the old system). The Company has accordingly set up a personal pension account (basic account) for each beneficiary and makes annual pension contributions to it. The Company adds annual interest to the balance in the basic account using the highest statutory interest rates valid for the insurance industry (guaranteed interest rates) until disbursement of the pension begins and may also award surplus credits. 95 percent of any income earned over and above the guaranteed interest rate is credited to the pension account, either at the date on which disbursement of the pension begins or, at the latest, however, when the beneficiary reaches the age of 60. The balance of the basic account when disbursement of the pension begins (due to age, invalidity or death) – increased by an adjusting amount in the event of invalidity or death – constitutes the retirement benefit entitlement and is paid out to the member of the Management Board or his or her surviving dependents in twelve annual installments, or, if so requested by the member of the Management Board, in eight annual installments, as a lump sum or as life-long pension. Entitlements due to Mr. Asam and Mr. Mittal that have already vested contractually or under the applicable statutory provisions are also secured and financed by the Company in the form of pension reinsurance policies pledged to the relevant members of the Management Board.

The plan rules applicable for Mr. Asam and Mr. Mittal differ in terms of the initial defined component, the annual transfer to the pension account and the vesting period.

In addition to a one-time, contractually vested initial component of €540,000 paid as compensation for the loss of vested retirement pension entitlements in connection with the termination agreement with his previous employer, Mr. Asam will receive from the Company for each fiscal year of his membership on the Management Board a pension contribution amounting to between 25 and 40 percent, as determined by the Supervisory Board, of the relevant agreed basic annual salary i.e., fixed compensation. As in the previous year, the pension contribution for Mr. Asam for the 2014 fiscal year has been set at 30 percent of his basic annual salary which amounts to €205,500. The pension entitlements arising from the defined contributions made on behalf of Mr. Asam became vested with effect from December 31, 2013.

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 pension contribution for the 2014 fiscal year amounted to €205,500.

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

Alongside the annual retirement entitlements and related benefit amounts, the following table shows the present values of pension entitlements earned to date and the service cost in accordance with IFRS. In accordance with IFRS, the service cost for the current fiscal year is determined at the beginning of the fiscal year concerned.

Pension entitlements

in € Member of the Management Board	Fiscal Year	Pension entitlements (annual) as of beginning of pension period	Benefit amounts determined for the relevant fiscal year	Present value of pension and benefit entitlement	Service cost (earned in the current year)
Dr. Reinhard Ploss (Chief Executive Officer)	**2014**	**200,000**	**–**	**5,287,480**	**149,601**
	2013	195,000	–	4,037,092	148,302
Dominik Asam	**2014**	**–**	**205,500**	**1,836,096**	**192,780**
	2013	–	205,500	1,161,739	211,352
Arunjai Mittal	**2014**	**–**	**205,500**	**3,079,244**	**159,627**
	2013	–	205,500	1,859,479	164,978
Total	**2014**	**200,000**	**411,000**	**10,202,820**	**502,008**
	2013	195,000	411,000	7,058,310	524,632

Early termination of service contract

The service contracts of members of the Management Board include a change of control clause, which stipulates the terms that apply when the activities of a member of the Management Board are terminated in the event of a significant change in Infineon's ownership structure. A change of control for the purposes of this clause occurs when a third party, individually or together with another party, acquires at least 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"). Members of the Management Board have the right to resign and terminate their contracts within 12 months of the announcement of such a change of control and any who choose to do so are entitled to continued payment of their annual remuneration up to the end of the originally agreed duration of their contract, up to a maximum of 36 months. If Infineon Technologies AG removes a member of the Management Board or terminates his or her contract within 12 months of the announcement of a change of control, the members of the Management Board concerned are entitled to continued payment of the annual remuneration to the end of the originally agreed duration of their contract, subject to a minimum period of 24 months and a maximum period of 36 months.

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

Payments to former members of the Management Board in the 2014 fiscal year

Former members of the Management Board received total payments of €1,103,977 (primarily pension benefits) in the 2014 fiscal year (2013: €1,097,095). As of September 30, 2014, accrued pension liabilities for former members of the Management Board amounted to €59,502,832 (2013: €47,929,138). The increase in accrued pension liabilities for former members of the Management Board was due to the reduction in the discount rate from 3.65 percent in the preceding fiscal year to 2.40 percent as of September 30, 2014.

Mr. Bauer did not receive any service fees in the 2014 fiscal year relating to the consultancy agreement concluded on November 26, 2012, by him and the Company after prior approval by the Supervisory Board.

Review of Management Board compensation; changes to individual service contracts

Review of Management Board compensation system and individual contracts

In accordance with section 4.2.2 DCGK, the Supervisory Board engaged an external independent compensation expert in the 2014 fiscal year to review the appropriateness of the Management Board compensation system in place since October 1, 2010. This system had been reviewed for the first time during the 2012 fiscal year. In this context, the target annual incomes of each individual member of the Management Board were subjected to detailed scrutiny. The next review is scheduled to take place in the 2016 fiscal year.

Increase in Management Board compensation

The review of the individual target annual incomes of the members of the Management Board by an independent compensation expert indicated that – in comparison to other entities – action needed to be taken especially in the case of Dr. Ploss, and that there was also some leeway for moderate increases in the compensation of Mr. Asam and Mr. Mittal. In accordance with the recommendation given by the Executive Committee on May 6, 2014, the Supervisory Board accordingly resolved a general increase in the compensation of members of the Management Board. Overall, compensation was raised by approximately 14 percent for Dr. Ploss and by approximately 10 percent each for Mr. Asam and Mr. Mittal. At the same time, it was decided to raise the fixed compensation and the variable compensation components equally (as far as possible), with the consequence that the previous ratio – 45 percent fixed and 55 percent variable – remains in place. The changes to the level of compensation came into force with effect from October 1, 2014.

The increase in compensation had already been considered in the independent compensation expert's report, and did not result in any change in the assessment of the appropriateness of the Management Board's compensation.

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, in line with a proposal put forward by the Management Board and the 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 member of the Supervisory Board 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 minimum amount, therefore, amounts to €0.39 for the 2014 fiscal year. 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 member of the Supervisory Board 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 Supervisory Board function for which an allowance is paid, the relevant compensation components are given 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 (including meeting attendance fees) for the members of the Supervisory Board.

Compensation of the Supervisory Board for the 2014 fiscal year

The total compensation (including meeting attendance fees) paid to the individual members of the Supervisory Board in the 2014 fiscal year comprises the following (these figures do not include value-added tax at 19 percent):

Supervisory Board compensation

In € Member of the Supervisory Board	Fiscal year	Fixed compensation	Variable compensation [1]	Allowance for specific functions	Meeting attendance fees	Total compensation
Wigand Cramer	**2014**	**50,000**	**7,500**	**15,000**	**30,000**	**102,500**
	2013	50,000	–	15,000	24,000	89,000
Alfred Eibl	**2014**	**25,000**	**3,750**	**7,500**	**10,000**	**46,250**
(until March 31, 2014)	2013	50,000	–	15,000	18,000	83,000
Reinhard Gottinger	**2014**	**25,000**	**3,750**	**–**	**14,000**	**42,750**
(since April 1, 2014)	2013	–	–	–	–	–
Peter Gruber	**2014**	**50,000**	**7,500**	**15,000**	**22,000**	**94,500**
	2013	50,000	–	15,000	18,000	83,000
Gerhard Hobbach	**2014**	**50,000**	**7,500**	**15,000**	**20,000**	**92,500**
	2013	50,000	–	15,000	16,000	81,000
Hans-Ulrich Holdenried	**2014**	**50,000**	**7,500**	**15,000**	**26,000**	**98,500**
	2013	50,000	–	15,000	22,000	87,000
Prof. Dr. Renate Köcher	**2014**	**50,000**	**7,500**	**–**	**14,000**	**71,500**
	2013	50,000	–	–	12,000	62,000
Wolfgang Mayrhuber	**2014**	**50,000**	**7,500**	**50,000**	**34,000**	**141,500**
	2013	50,000	–	50,000	28,000	128,000
Manfred Puffer	**2014**	**50,000**	**7,500**	**–**	**22,000**	**79,500**
	2013	50,000	–	–	16,000	66,000
Gerd Schmidt	**2014**	**50,000**	**7,500**	**37,500**	**28,000**	**123,000**
	2013	50,000	–	37,500	24,000	111,500
Prof. Dr. Doris Schmitt-Landsiedel	**2014**	**50,000**	**7,500**	**25,000**	**18,000**	**100,500**
	2013	50,000	–	25,000	18,000	93,000
Jürgen Scholz	**2014**	**50,000**	**7,500**	**15,000**	**22,000**	**94,500**
	2013	50,000	–	15,000	16,000	81,000
Dr. Eckart Sünner	**2014**	**50,000**	**7,500**	**25,000**	**26,000**	**108,500**
	2013	50,000	–	25,000	20,000	95,000
Total	**2014**	**600,000**	**90,000**	**220,000**	**286,000**	**1,196,000**
	2013	600,000	–	227,500	232,000	1,059,500

1 Based on earnings per share from continuing operations of €0.44 in 2014 and €0.26 in 2013.

Members of the Supervisory Board did not receive any loans from Infineon either in the 2014 or 2013 fiscal year.

Other matters (2014 fiscal year)

In May 2011 the Company concluded a contract with Prof. Dr. Wucherer, a former member of the Supervisory Board. The subject of the contract is the rendering of general and project-related advisory services to the Strategy and Technology Committee. The agreement was terminated with effect from December 31, 2013. The contractually agreed (pro-rata) fee of €5,000 was paid in the 2014 fiscal year.

Neubiberg, November 2014

Management Board

Dr. Reinhard Ploss | Dominik Asam | Arunjai Mittal

CONSOLIDATED FINANCIAL STATEMENTS

GROUP MANAGEMENT REPORT
The infineon group →

GROUP MANAGEMENT REPORT
Our 2014 fiscal year →

CONSOLIDATED
FINANCIAL STATEMENTS →

CONSOLIDATED STATEMENT OF OPERATIONS

for the year ended September 30, 2014 and 2013

€ in millions	Notes	2014	2013
Revenue		4,320	3,843
Cost of goods sold		(2,673)	(2,520)
Gross profit		**1,647**	**1,323**
Research and development expenses		(550)	(525)
Selling, general and administrative expenses		(496)	(440)
Other operating income	7	26	19
Other operating expense	7	(102)	(52)
Operating income		**525**	**325**
Financial income	8	10	30
Financial expense	9	(19)	(51)
Gain from investments accounted for using the equity method	17	3	2
Income from continuing operations before income taxes		**519**	**306**
Income tax	10	(31)	(23)
Income from continuing operations		**488**	**283**
Gain (loss) from discontinued operations, net of income taxes	4	47	(11)
Net income		**535**	**272**
Attributable to:			
Non-controlling interests		–	–
Shareholders of Infineon Technologies AG		535	272
Basic earnings per share (in euro) attributable to shareholders of Infineon Technologies AG:			
Basic earnings per share (in euro) from continuing operations	11	0.44	0.26
Basic earnings per share (in euro) from discontinued operations	11	0.04	(0.01)
Basic earnings per share (in euro)	11	**0.48**	**0.25**
Diluted earnings per share (in euro) attributable to shareholders of Infineon Technologies AG:			
Diluted earnings per share (in euro) from continuing operations	11	0.44	0.26
Diluted earnings per share (in euro) from discontinued operations	11	0.04	(0.01)
Diluted earnings per share (in euro)	11	**0.48**	**0.25**

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the year ended September 30, 2014 and 2013

€ in millions	2014	2013
Net income	**535**	**272**
Other comprehensive income		
Items that will not be reclassified to profit or loss:		
Actuarial gains (losses) on pension plans and similar commitments	(130)	20
Total items that will not be reclassified to profit or loss	**(130)**	**20**
Items that may be reclassified subsequently to profit or loss:		
Currency translation effects	12	(12)
Net change in fair value of hedging instruments	43	(7)
Total items that may be reclassified subsequently to profit or loss	**55**	**(19)**
Other comprehensive income (loss) for the year, net of tax	**(75)**	**1**
Total comprehensive income for the year, net of tax	**460**	**273**
Attributable to:		
Non-controlling interests	–	–
Shareholders of Infineon Technologies AG	460	273

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

as of September 30, 2014 and 2013

€ in millions	Notes	2014	2013
ASSETS:			
Cash and cash equivalents		1,058	527
Financial investments	12	1,360	1,759
Trade receivables	13	581	518
Inventories	14	707	609
Income tax receivable		7	12
Other current assets	15	221	198
Total current assets		**3,934**	**3,623**
Property, plant and equipment	16	1,700	1,600
Goodwill and other intangible assets	19	250	170
Investments accounted for using the equity method	17	35	34
Deferred tax assets	10	378	325
Other non-current assets	18	141	153
Total non-current assets		**2,504**	**2,282**
Total assets		**6,438**	**5,905**

€ in millions	Notes	2014	2013
LIABILITIES AND EQUITY:			
Short-term debt and current maturities of long-term debt	23	35	134
Trade payables	20	648	569
Short-term provisions	21	590	675
Income tax payable		69	62
Other current liabilities	22	261	154
Total current liabilities		**1,603**	**1,594**
Long-term debt	23	151	169
Pension plans and similar commitments	30	379	246
Deferred tax liabilities	10	5	4
Long-term provisions	21	70	46
Other non-current liabilities	24	72	70
Total non-current liabilities		**677**	**535**
Total liabilities		**2,280**	**2,129**
Shareholders' equity:	25		
Ordinary share capital		2,255	2,162
Additional paid-in capital		5,414	5,549
Accumulated deficit		(3,502)	(3,907)
Other reserves		64	9
Own shares		(37)	(37)
Put options on own shares		(40)	–
Equity attributable to shareholders of Infineon Technologies AG		**4,154**	**3,776**
Non-controlling interests		4	–
Total equity		**4,158**	**3,776**
Total liabilities and equity		**6,438**	**5,905**

CONSOLIDATED STATEMENT OF CASH FLOWS

for the year ended September 30, 2014 and 2013

€ in millions	Note	2014	2013
	28		
Net income		**535**	**272**
Plus/minus: net loss (income) from discontinued operations, net of income taxes		(47)	11
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization		514	466
Income tax		31	23
Net interest result		9	21
Gains on disposals of property, plant and equipment		(2)	(1)
Dividends received from associated companies		1	–
Impairment charges		3	19
Other non-cash result		(2)	(7)
Change in trade receivables		(58)	(48)
Change in inventories		(89)	(44)
Change in trade payables		74	(44)
Change in provisions		(29)	(19)
Change in other assets and liabilities		99	12
Interest received		10	14
Interest paid		(9)	(12)
Income tax paid		(52)	(53)
Net cash provided by operating activities from continuing operations		**988**	**610**
Net cash used in operating activities from discontinued operations		**(7)**	**(9)**
Net cash provided by operating activities		**981**	**601**

€ in millions	Note	2014	2013
Purchases of financial investments		(1,238)	(1,340)
Proceeds from sales of financial investments		1,637	1,387
Acquisitions of businesses, net of cash acquired		(7)	–
Purchases of intangible assets and other assets		(101)	(63)
Purchases of property, plant and equipment		(567)	(315)
Proceeds from sales of property, plant and equipment and other assets		4	3
Net cash used in investing activities from continuing operations		**(272)**	**(328)**
Net cash used in investing activities from discontinued operations		**(1)**	**(1)**
Net cash used in investing activities		**(273)**	**(329)**
Net change in related party financial receivables and payables		(1)	(1)
Proceeds from issuance of long-term debt		4	52
Repayments of long-term debt		(29)	(51)
Repurchase of convertible subordinated bonds		(35)	–
Change in cash deposited as collateral		7	–
Proceeds from issuance of ordinary shares		1	2
Purchases of own shares		–	(38)
Proceeds from the issuance of put options on own shares		3	–
Dividend payments		(129)	(129)
Net cash used in financing activities from continuing operations		**(179)**	**(165)**
Net cash used in financing activities from discontinued operations		**–**	**–**
Net cash used in financing activities		**(179)**	**(165)**
Net increase in cash and cash equivalents		529	107
Effect of foreign exchange rate changes on cash and cash equivalents		2	(5)
Cash and cash equivalents at beginning of period		527	425
Cash and cash equivalents at end of period		**1,058**	**527**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year ended September 30, 2014 and 2013

€ in millions, except for number of shares	Note	Ordinary shares issued		Additional paid-in capital	Accumulated deficit	
		Shares	Amount			
	25					
Balance as of October 1, 2012		**1,080,306,332**	**2,160**	**5,674**	**(4,199)**	
Net income		–	–	–	272	
Other comprehensive income (loss) for the period, net of tax		–	–	–	20	
Total comprehensive income (loss) for the period, net of tax		–	–	–	292	
Dividends		–	–	(129)	–	
Issuance of ordinary shares:						
Exercise of stock options		776,702	2	1	–	
Share-based compensation		–	–	3	–	
Purchase of own shares		–	–	–	–	
Put options on own shares		–	–	–	–	
Balance as of September 30, 2013		**1,081,083,034**	**2,162**	**5,549**	**(3,907)**	
Balance as of October 1, 2013		**1,081,083,034**	**2,162**	**5,549**	**(3,907)**	
Net income		–	–	–	535	
Other comprehensive income (loss) for the period, net of tax		–	–	–	(130)	
Total comprehensive income (loss) for the period, net of tax		–	–	–	405	
Dividends		–	–	(129)	–	
Issuance of ordinary shares:						
Exercise of stock options		484,260	1	–	–	
Exercise of conversion rights		46,171,936	92	7	–	
Share-based compensation		–	–	6	–	
Put options on own shares		–	–	3	–	
Other changes in equity		–	–	(22)	–	
Balance as of September 30, 2014		**1,127,739,230**	**2,255**	**5,414**	**(3,502)**	

Other reserves			Own shares	Put options on own shares	Total equity attributable to shareholders of Infineon Technologies AG	Non-controlling interests	Total equity
Foreign currency translation adjustment	Unrealized gains (losses) on securities	Unrealized gains (losses) on cash flow hedge					
26	**3**	**(1)**	**–**	**(88)**	**3,575**	**–**	**3,575**
–	–	–	–	–	272	–	272
(12)	–	(7)	–	–	1	–	1
(12)	–	(7)	–	–	273	–	273
–	–	–	–	–	(129)	–	(129)
–	–	–	–	–	3	–	3
–	–	–	–	–	3	–	3
–	–	–	(37)	–	(37)	–	(37)
–	–	–	–	88	88	–	88
14	**3**	**(8)**	**(37)**	**–**	**3,776**	**–**	**3,776**
14	**3**	**(8)**	**(37)**	**–**	**3,776**	**–**	**3,776**
–	–	–	–	–	535	–	535
12	–	43	–	–	(75)	–	(75)
12	–	43	–	–	460	–	460
–	–	–	–	–	(129)	–	(129)
–	–	–	–	–	1	–	1
–	–	–	–	–	99	–	99
–	–	–	–	–	6	–	6
–	–	–	–	(40)	(37)	–	(37)
–	–	–	–	–	(22)	4	(18)
26	**3**	**35**	**(37)**	**(40)**	**4,154**	**4**	**4,158**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

The Infineon Group ("Infineon" or "the Infineon Group") comprising Infineon Technologies AG (hereafter also "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 (Germany). The Company is registered in the Commercial Register of the District Court of Munich under the number HRB 126492.

1 Basis of the Consolidated Financial Statements

The Consolidated Financial Statements prepared by Infineon Technologies AG as ultimate parent company for the year ended September 30, 2014, have been prepared in accordance with International Financial Reporting Standards ("IFRS") and related Interpretations effective as of September 30, 2014 as issued by the International Accounting Standards Board ("IASB") to the extent to which the IFRS and Interpretations have been adopted by the European Union ("EU"). The Consolidated Financial Statements also comply with the supplementary requirements set forth in section 315a paragraph 1 of the German Commercial Code ("Handelsgesetzbuch" or "HGB").

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

The requirements of the Standards applied have been complied with in full and convey a true and fair view of the financial position, cash flows and results of operations of the Infineon Group.

Infineon's accounting policies are described in note 2.

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 and valuation policies used, as well as the explanatory comments and disclosures made in the IFRS Consolidated Financial Statements for the 2014 fiscal year are based, as a general rule, on those used in the Consolidated Financial Statements for the year ended September 30, 2013.

With effect from October 1, 2013 certain items in the Consolidated Statement of Financial Position and the Consolidated Statement of Cash Flows have been reclassified in order to improve clarity and comparability with other companies. The reclassification has also been applied to the comparative periods:

- Other Receivables and Other Payables which were previously disclosed as part of "Trade and other receivables" and "Trade and other payables" are shown as "Other current assets" and "Other current liabilities" respectively.
- The balance sheet items "Financial assets" and "Financial liabilities" previously disclosed separately are included in the line items "Other assets" and "Other liabilities" respectively.

- In the Consolidated Statement of Cash Flows various non-cash components of consolidated net income are summarized in the new line item "Other non cash result". Additionally the line items "Change in other current assets/liabilities" has been combined with the line items "Change in other assets and liabilities".

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.

The Company's Management Board approved the Consolidated Financial Statements for submission to the Company's Supervisory Board on November 20, 2014.

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, 2014 and which have an impact on Infineon's Consolidated Financial Statements:

- "Improvements to IFRS (2011)" (effective date: January 1, 2013). These changes had no significant impact on the Consolidated Financial Statements.
- Amendment to IFRS 7 "Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities" (effective date: January 1, 2013). The amendment required additional disclosures in the Consolidated Financial Statements. See note 31.
- IFRS 13 "Fair Value Measurement" (effective date: January 1, 2013). This Standard required additional disclosures about financial instruments. See note 31.
- Amendment to IAS 19 "Employee Benefits" (effective date: January 1, 2013). The change has no significant impact on the Consolidated Financial Statements. See note 30 for additional disclosures. Comparative prior year periods have not been retrospectively adjusted due to the immaterial effect 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, 2014 since they are not yet mandatory or, alternatively, have not yet been endorsed by the EU. The new or amended Standards are applicable for fiscal years beginning on or after their effective date. As a general rule, they are not adopted before their effective date, even if this is permitted for certain standards:

- Amendment to IAS 32 "Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities" (effective date: January 1, 2014). The application of this revised standard will have no significant impact on the Consolidated Financial Statements.
- IFRS 10 "Consolidated Financial Statements", IFRS 11 "Joint Arrangements" and IFRS 12 "Disclosure of Interests in Other Entities" (effective date: January 1, 2014). The application of these standards will have no significant impact on the Consolidated Financial Statements.
- Changes to the transitional provisions of IFRS 10, IFRS 11 and IFRS 12 (effective date: January 1, 2014). These changes will not have a significant impact on the Consolidated Financial Statements.
- IAS 28 "Investments in associates and joint ventures" (effective date: January 1, 2014). This standard will not have a significant impact on the Consolidated Financial Statements.
- Change to IAS 36 "Disclosure of recoverable amount for non-financial assets" (effective date: January 1, 2014). This change will not have a significant impact on the Consolidated Financial Statements.
- "Improvements to IFRS (2012)" (effective date: July 1, 2014). This update will not have a significant impact on the Consolidated Financial Statements.

- "Improvements to IFRS (2013)" (effective date: July 1, 2014). This update will not have a significant impact on the Consolidated Financial Statements.
- Change to IFRS 11 "Acquisition of interests in joint operations" (effective date: January 1, 2016). This change will not have a significant impact on the Consolidated Financial Statements.
- Changes to IAS 16 and IAS 38 "Clarification of acceptable methods of depreciation and amortization" (effective date: January 1, 2016). This change will not have a significant impact on the Consolidated Financial Statements.
- IFRS 15 "Revenue from contracts with customers" (effective date: January 1, 2017). Infineon is currently analysing the impact on the Consolidated Financial Statements.
- IFRS 9 "Financial Instruments" (effective date: January 1, 2018). Infineon is currently analysing the impact on the Consolidated Financial Statements.

2 Summary of significant accounting policies

The Consolidated Financial Statements have been drawn up using the following consolidation, accounting and valuation principles:

Basis of consolidation

The accompanying 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 possibility to govern the financial and operating policies of an entity so as to obtain benefits from its activities. An indication of this is the control of the majority of voting rights; 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 acquires the right to control the entity concerned (acquisition date). Upon first-time consolidation of an entity, the acquired assets and liabilities are measured on the basis of their fair value at the acquisition date. Any excess of cost of acquisition of the entity over the share of the fair value of acquired assets, liabilities and contingent liabilities is recognized as goodwill. Any excess of Infineon's share of the fair value of items acquired over cost of acquisition is recognized as a gain.

The financial statements of entities included in the Consolidated Financial Statements are prepared using uniform valuation and accounting policies. The effect of intragroup transactions on assets and liabilities as well as 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 the entity and no longer benefits from the entity's activities. Examples of the loss of control are the full or partial sale of shares in a subsidiary, the relinquishing of voting rights or the opening of insolvency proceedings against the subsidiary.

A list of subsidiaries of Infineon Technologies AG is provided in note 36.

Investments accounted for using the equity method

Investments in associated companies and joint ventures (as defined below) are accounted for using the equity method principles (collectively: "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 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

Based on the cost of investment at the date of acquisition of an interest in an associated company or joint venture, the carrying amount of the investment is increased or decreased at each subsequent reporting date for the share of profits or losses, dividends paid and other changes in equity of the associated company or joint venture, to the extent that they relate to Infineon’s share of 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 the carrying amount of the investment in the entity are charged against other assets held 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 is written down to zero, it must be determined whether there are additional losses to be recognized, to the extent that Infineon has an obligation to fund such losses.

Gains and losses on transactions with entities in which Infineon has an investment accounted for using the equity method are eliminated in proportion to Infineon’s interest in the entity.

When an equity method investee’s fiscal year end differs by no more than three months from the Company’s fiscal year end, the Company’s share of the profit or loss of the respective company is recognized with a time lag.

Other equity investments

Other equity investments, where Infineon has an ownership interest of less than 20 percent, are recorded at acquisition 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 have been prepared in euros. As a rule 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 reporting entity are translated at the closing exchange rate prevailing at the end of the relevant reporting period. Exchange rate gains and losses from the currency translation are recognized in the Consolidated Statement of Operations as part of the operating result.

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

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 in units of foreign currency	Closing rate		Annual average exchange rate	
	September 30, 2014	September 30, 2013	2014	2013
Japanese yen	138.9300	133.4100	139.0405	121.0254
Malaysian ringgit	4.1518	4.3391	4.3830	4.1016
Singapore dollar	1.6189	1.6947	1.7025	1.6359
US dollar	1.2732	1.3499	1.3539	1.3119

Recognition and measurement principles

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

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

Cash and cash equivalents

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

Financial instruments

A financial instrument is a contract that gives rise to a financial asset of one entity and a financial liability and/or equity instrument of another entity. Financial instruments containing both equity and liability elements (for example 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 instruments are initially recognized at their fair value. Transaction costs directly attributable to the acquisition or issuance of financial instruments are only included in the carrying amount if the financial instruments are not measured at fair value through profit or loss.

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

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

Infineon classifies financial assets into the following categories: “Loans and receivables”, “Available-for-sale financial assets” and “Financial assets measured at fair value through profit and loss”. No financial assets were classified as “Assets held-to-maturity” in the fiscal years 2014 and 2013. “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 listed 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. At Infineon the balance sheet items “Cash and cash equivalents”, “financial investments”, “trade receivables” and “current and non-current other assets” all contain financial assets which are classified in the category loans and receivables.

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

Available-for-sale financial assets
Available-for-sale financial assets are non-derivative assets that are either designated as available for sale, or not allocated to any of the other categories. They comprise principally marketable securities and are reported as “Financial investments” (see note 12).

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

Infineon assesses declines in fair value to determine whether 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 acquisition cost is considered as an indicator that the assets are impaired. If any such evidence exists, the cumulative loss that had been recognized directly in equity - measured as the difference between the acquisition cost and the current fair value, less any impairment loss previously recognized in profit or loss - is removed from equity 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
At Infineon financial assets or liabilities measured at fair value through profit or loss comprise almost entirely derivatives used to hedge currency risks for which hedge accounting is not 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 and hedge accounting is 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 operating activities are recorded as part of cost of goods sold, while those of undesignated derivative financial instruments relating to financing activities are recorded in financial income or financial expense.

All financial instruments in this category are measured at 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 assets” and those with a negative fair value at the end of the reporting period are reported as “Other current liabilities”. Infineon had no derivative financial instruments with a remaining term of more than 12 months in place as of September 30, 2014 and 2013.

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

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

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

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

Other financial liabilities
All other financial liabilities are measured at amortized cost using the effective interest method. This also applies to obligations in conjunction with the put options issued by the Company on own shares and the debt component of compound financial instruments such as the subordinated convertible bond issued by Infineon which became due in May 2014.

Compound financial instruments
Compound financial instruments issued by Infineon comprise convertible bonds which became due in May 2014, which gave the holder the right to exchange the bonds for shares in Infineon (see note 23), the number of underlying shares is fixed and does not vary in relation to the shares’ fair value.

The liability component of such a compound financial instrument is recognized upon issuance as a liability measured at the fair value of a comparable liability without a conversion option. The conversion right component is classified 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 fair value of the entire instrument and the fair value of the debt component. On initial recognition of the instrument, directly attributable transaction costs are allocated to the equity and debt components in proportion to their book values.

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 the conversion right is recognized as interest expense or income in profit or loss. The difference between the consideration paid and the fair value of a comparable liability without the conversion right results in an increase or reduction in equity (additional paid-in capital).

Put options on own shares
Put options issued by the Company on its own shares are reported as “Obligation to acquire own shares” within other current liabilities provided settlement must occur by the delivery of a fixed number of shares in return for a fixed payment 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 as a reduction of 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 to be consumed in the production process or in the rendering of services (raw materials and supplies), in the production process at the balance sheet date (work in progress), or held for sale in the ordinary course of business (finished and purchased goods).

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

Write-downs are recorded on inventories using a consistent approach throughout Infineon and 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 in accordance with taxation provisions in force at the end of the reporting period in the countries in which Infineon 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 connection with business combinations. Similarly, deferred taxes are not recognized on the initial recognition of an asset or liability in connection with a transaction that is not a business combination and which, at the time of the transaction, affects neither the pre-tax income according to IFRS nor taxable profit. Deferred tax assets and liabilities are measured using applicable tax rates and laws that have been enacted by the end of the reporting period or are about to be enacted, when the related deferred tax asset is realized or the deferred tax liability is settled.

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

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

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

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

Discontinued operations

Discontinued operations are reported when a component of an entity is either classified as held for sale or has already been disposed of. The component of an entity 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 a 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/loss from discontinued operations, net of income taxes” includes the results of operating activities 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 they correspond to those that have been classified as discontinued operations as of the reporting date.

Assets and liabilities held for sale

“Assets held for sale” can be non-current assets or groups of assets (for example 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 in the liabilities and equity section of the Statement of Financial Position, within current liabilities, as “Liabilities held for sale”.

Non-current assets classified as held for sale are no longer depreciated on a scheduled basis. Instead, they are measured at the lower of carrying amount or fair value less costs to sell at the end of the reporting period.

No assets held for sale or liabilities held for sale were reported in the Statement of Financial Position in the 2014 and 2013 fiscal years.

Property, plant and equipment

Property, plant and equipment are measured at amortized acquisition or construction cost, and its value is reduced by scheduled depreciation as well as, where necessary, impairments.

The cost of acquisition comprises the acquisition price plus incidental acquisition costs, and subsequent acquisition costs, less any reduction received on the acquisition price. The cost of self-constructed equipment comprises direct costs as well as appropriate allocations of 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 at the point of purchase or completion, and the entire asset is 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 compounding the interest component.

If the construction phase of property, plant or equipment extends over more than 12 months, the interest incurred on related borrowed capital up to the date of completion is capitalized as part of the cost of acquisition or construction in accordance with the requirements of IAS 23 “Borrowing Costs”. No interest was capitalized in the fiscal years ended September 30, 2014 and 2013.

Ongoing expenses for the maintenance and repair of property, plant and equipment are generally recognized in profit or loss as they occur. Subsequent acquisition or construction costs are capitalized if a measure (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. Depreciation on property, plant and equipment is based on the following useful lives, as applied consistently throughout Infineon:

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

Impairment losses are recognized to take account of declines in value that go beyond the regular use-related decline in value represented by 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 acquisition or construction 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 lease contracts, the costs of leasing an asset are spread on a straight-line basis over the term of the lease arrangement. All leases where Infineon as lessee meets certain requirements which indicate beneficial ownership 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 as lessee.

Recoverability of intangible assets and other long-lived assets

Goodwill

Goodwill is an asset that represents the future economic benefits arising from 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 businesses is reported in the line item “Goodwill and other intangible assets” in the Consolidated Statement of Financial Position. Separately identifiable intangible assets acquired in a business combination are recognized and reported separately from goodwill.

Goodwill acquired in a business combination is allocated to the cash-generating units (CGUs) that will benefit from the synergies 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 activities that are largely independent of the cash inflows of other assets or asset groups (see the following table regarding the allocation of goodwill to CGUs).

Acquired goodwill is not systematically amortized. Instead, it is tested for possible impairment annually in the fourth quarter of the fiscal year and, additionally, whenever there are events or changes in circumstances (triggering events) that 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 amount 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 estimates and assumptions.

Infineon determines the recoverable amount of a particular CGU on the basis of its value in use as long as this is higher than its carrying amount. The value in use is measured 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 expected future cash flows.

Cash flows are projected based on past experience, current operating results and the five-year strategic business plan approved in the fourth quarter of the fiscal year. The plan is calculated bottom-up based on certain central assumptions applied consistently throughout Infineon. Certain additional parameters (for example depreciation/amortization, investments in fixed assets, change in working capital) are calculated based on defined influencing factors. Cash flows for periods beyond the planning horizon are estimated using a terminal value. Terminal growth rates are derived from publicly available market studies from market research institutes and do not exceed the historical long-term average growth rate for the sector in which the relevant CGU operates.

The discount rate is based on the weighted average cost of capital (WACC) after-tax for the CGU in question. The Capital Asset Pricing Model (CAPM) is used to calculate the cost of equity. The relevant pre-tax WACC used to discount future pre-tax cash flows in line with IAS 36, is derived from estimated future after-tax cash flows and the after-tax WACC. The resulting 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 based on market information, the risk-free interest rate is derived from yields on long-term government bonds, and the beta factor is derived from a group of comparable companies that have a comparable risk structure to the CGU, taking into account leverage.

The following table shows the allocation of the carrying amount of goodwill to cash generating units, as well as the valuation parameters used.

	Book value of allocated goodwill € in millions		pre-tax WACC in %		after-tax WACC in %		terminal growth rate in %	
CGU within segment	2014	2013	2014	2013	2014	2013	2014	2013
Industrial Power Control	4	n/a	13.1	n/a	10.3	n/a	1	n/a
Power Management & Multimarket	19	19	12.4	17.7	10.2	12.3	1	1
Other	2	2						
Total	**25**	**21**						

By applying different parameters that Infineon considers to be possible but not probable, sensitivity analyses are performed on the WACC and terminal growth rate. In this way, Infineon takes account of the inherently uncertain nature of estimates and carries out impairment tests on goodwill based on scenarios that are less favorable than those considered most likely. The recoverability of goodwill was confirmed for each of these scenarios. An increase or decrease of 1 percent in either the WACC or the terminal growth rate had no effect on the value of goodwill. Until the approval of the Consolidated Financial Statements, the validity of the results was continually monitored for triggering events that indicate that the recoverable amount had fallen below the book value.

Other intangible assets
Other intangible assets consist primarily of purchased intangible assets, such as licenses and technology, which are measured at acquisition cost, as well as capitalized development costs. These intangible assets have finite useful lives ranging from three to ten years and their acquisition costs or costs to produce are amortized using the straight-line method. For the criteria used to capitalize development costs see “Research and development costs”.

Infineon did not hold any other intangible assets with indefinite useful lives in either the 2014 or 2013 fiscal years.

Other long-lived assets
Infineon reviews 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 used 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 calculated based on discounted future cash flows of the CGU to which the asset is allocated. Considerable management judgment is necessary to estimate future cash flows.

If such assets are considered to be impaired, the impairment recognized is measured as the amount by which the carrying value of the assets exceeds their recoverable amount. An impairment loss recognized in prior periods for an asset other than goodwill is reversed insofar as, since the last impairment, a change in the underlying assumptions has occurred which leads to a lower impairment requirement. The maximum possible reversal of an impairment loss would lead to the carrying amount that would have been determined (net of depreciation and amortization) 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. The occupational pension plans include both defined contribution and defined benefit plans.

In the case of defined contribution plans, Infineon pays pre-determined amounts based on statutory or contractual regulations to a separate entity (a fund) or to public or private pension insurance companies. Once the contributions are paid, Infineon has no further performance obligation. The contributions are recognized as expense in the year in which they fall due and are included in costs by function within the operating result. Liabilities are recorded where payment obligations exist for the various defined contribution plans. Prepaid contributions are recognized as an asset to the extent that a cash refund or a reduction of future payments is available.

All other plans that do not fall under the definition of a defined contribution plan are accounted for as defined benefit plans. These relate to the commitments to pay vested rights and current benefits to eligible present and former employees and their dependants. The 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. For the calculation, actuarial procedures are applied for which it is necessary to make specific assumptions. The most important of these are the discount rate, future expected increases in salaries and pensions, and mortality rates.

Discount rates are determined on the basis of market yields at the end of the reporting period on high-grade, fixed interest corporate bonds from issuers carrying a very high credit rating that are denominated in the currency in which the benefits will be paid and that have remaining maturities approximating the terms of the related pension liability.

All items of income and expense relating to defined benefit plans, with the exception of the net interest result, are recognized on a net basis in the functional areas within the operating result. The net interest result arising from the multiplication of the net pension obligation (pension obligation less plan assets) by the discount rate is reported as financial expense. Actuarial gains and losses resulting from experience adjustments for defined benefit pension obligations and plan assets, and from changes in actuarial assumptions are recognized directly in equity and presented in the Consolidated Statement of Comprehensive Income in the period in which they arise. Past service costs are recognized immediately in profit or loss.

Provisions

Provisions are recognized for present legal and constructive obligations arising from past events that are likely to result in a future outflow of resources, the amount of which can be reliably estimated.

With regard to legal proceedings and litigation, for example the Qimonda insolvency, Infineon regularly assesses the probability of an unfavorable outcome. Infineon records provisions and liabilities, including provisions for significant legal costs, for those obligations and risks relating to legal disputes which it assesses at the relevant reporting date are likely to occur. That is where, from Infineon's perspective at the date of assessment, there is compelling evidence which indicates an obligation or risk, and the obligation or risk can be quantified with reasonable accuracy at the time of assessment. As soon as additional information is available the affected estimates are reviewed and, where necessary, provisions for these proceedings are revised.

Provisions are measured at their expected settlement amount in accordance with IAS 37 "Provisions, Contingent Liabilities and Contingent Assets" or, where applicable, also in accordance with IAS 19 "Employee Benefits". The amount recognized for a provision is the best estimate of the expenditure required to settle the present obligation. Estimates of outcomes and financial effects are dependent upon the judgment of management, supplemented by experience gained from similar transactions and, where appropriate, the assessment of independent experts (such as attorneys). The evidence considered includes any additional evidence provided by events after the reporting period and up to the preparation of the Annual Report. If the circumstances to be assessed encompass a large number of possible outcomes, the obligation is estimated by weighting all possible outcomes by their associated probabilities (expected value method). Where there is a continuous range of possible outcomes and each point in that range is as likely as any other, the mid-point of the range is used.

Where cash flows are not expected to arise within the next twelve months and the interest effect is considered material, provisions are stated at the present value of expected cash outflows. For the purposes of the present value calculation, Infineon uses a pre-tax interest rate that reflects current market 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 and the expected cost of terminating the contract. Additions to provisions are always 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 same functional area of the Consolidated Statement of Operations in which the original charge was recognized.

Contingent liabilities

Contingent liabilities are possible obligations, whose actual existence is dependent on 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 whose outflow of resources cannot be quantified reliably. Contingent liabilities are not recognized in the Statement of Financial Position, instead they are disclosed and described in the Notes to the Consolidated Financial Statements (see notes 33 and 34).

Own shares

Own shares held 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 to 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 management and reporting systems (management approach). Underlying data used in this context are derived from the Consolidated Financial Statements drawn up in accordance with IFRS.

Infineon's business is structured on the basis of four operating segments, namely Automotive, Industrial Power Control, Power Management & Multimarket and Chip Card & Security.

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 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 the individual 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 receivable.

Revenue from products sold is recognized when the significant risks and rewards of ownership of the goods are transferred to the buyer and it is sufficiently probable that the economic benefits associated with the sale will flow to Infineon. The amount of revenue recognized is based on the fair value of the consideration received or receivable taking into account returns, settlement discounts and bonuses.

In principle Infineon recognizes revenue on sales to distributors by using the “sell in” method (i.e., when a product is sold to the distributor). In accordance with established business practice in the semiconductor industry, under certain circumstances distributors can apply for price protection and ship and debit credit notes. Price protection allows a distributor to request a credit note for unsold products held in inventory if Infineon reduced the standard list price of these products. Ship and debit allows a distributor to retrospectively claim a credit note for existing quotes in certain cases. The authorization of these credits remains fully within the control of Infineon. Infineon calculates the provision for price protection and ship and debit in the same period the related revenue is recorded. The ship and debit provision is based on historical price trends determined based on the difference between the contract price and the standard list price to the distributor. The price protection provision is based on actual list prices and distributor inventory on hand. The 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.

In addition, distributors can, subject to certain conditions, exchange inventory for the same or other products, (stock rotation) or request scrap allowances. Stock rotation credit notes are accrued based on expected stock rotation in accordance with the contractual agreement. Distributor scrap allowances are accrued based on the contractual agreement and, upon submission of a valid claim, are granted up to a certain maximum based on turnover in a given period. 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 is granted a rebate upon achievement of a defined sales volume. Customers or distributors are also compensated for pre-agreed joint advertising activities on a case-by-case basis. Such rebates and refunds are taken into account for revenue recognition purposes.

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 as well as information available about other warranty costs.

Research and development costs

Costs of research activities undertaken in order to gain new scientific or technical knowledge are expensed as incurred.

Costs for development activities, the results of which 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 expense that serves to prepare the asset for use. Such capitalized costs are presented as internally generated intangible assets within “Goodwill and other intangible assets” (see note 19). Development costs, which do not fulfill the criteria for capitalization are expensed as incurred. Capitalized development costs are stated at cost less accumulated amortization and impairment charges. After the completion of the development phase and following the ramp-up of production, internally generated intangible assets are amortized as part of cost of goods sold over a period of, as a rule, three to five 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 a potential impairment exists. In particular, a decline in expected revenue or higher costs is evidence for a potential impairment.

Grants

Grants for investments include both tax-free investment 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 it is reasonably assured that the grant will be received. Tax-free investment grants are deferred and recognized over the remaining useful life of the related asset. Taxable grants are deducted from the purchase and production cost of the related asset and thereby reduce depreciation and amortization expense in future periods.

Grants that are related to expenses included in profit or loss are presented as a reduction of the related expense in the Consolidated Statement of Operations (see note 5).

Share-based compensation

Infineon has compensation plans in place in which equity instruments such as stock options or, from the 2014 fiscal year, so-called performance shares, are granted to members of the Management Board senior managers and selected employees. In accordance with IFRS 2 “Share-based Payment”, these compensation plans qualify as equity-settled share-based compensation and are accounted for accordingly. The fair value of the equity instruments granted is determined by an external expert using a recognized financial-mathematical method (Monte Carlo simulation model) and recognized as expense on a straight-line basis over the vesting period during which Infineon receives consideration from the Management Board or employee in the form of work performed, and, with respect to the stock options, the achievement of the respective targets (outperformance of the Philadelphia Semiconductor Index (SOX) over a predetermined period) is expected. 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 either the effective number of equity instruments that can ultimately be exercised by the Management Board and employees, or the actual number allocated to the Management Board and 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. Performance shares do not result in any cash inflows.

Estimates and assumptions

The preparation of financial statements in accordance with IFRS requires management to make estimates and assumptions that have an impact on the reported amounts and the associated disclosures.

Estimates and assumptions undergo regular review and must be adjusted where appropriate. They can vary from period to period and have a material effect on the financial condition, liquidity position and results of operations.

Although these estimates and assumptions are applied by management to the best of its knowledge based on current events and circumstances, actual events may result in deviations from these estimates.

Areas containing estimates and assumptions and that are consequently most likely to be affected when actual results vary from estimates are:

- valuation of inventory (see “Inventories” and note 14),
- recoverability of trade receivables (see note 13),
- recoverability of non-financial assets (see “Recoverability of intangible assets and other long-lived assets”),
- recognition and recoverability of deferred tax assets (see “Current and deferred income taxes” and note 10),
- recognition and valuation of provisions (see “Provisions” and notes 21 and 33) and
- valuation of pension plans (see “Pensions and similar obligations” and note 30).

All assumptions and estimates are based on the circumstances and assessments as of the balance sheet date, and taking into account knowledge gained up to the approval by the Management Board of the Consolidated Financial Statements on November 20, 2014.

3 Acquisitions

LS Power Semitech Co., Ltd.

On June 3, 2014 the Company completed the acquisition of a further 20 percent of the shares of LS Power Semitech Co., Ltd. (LSPS), Korea, from LS Industrial Systems Co., Ltd. (LSIS), Korea, in order to better position itself in the IGBT-based industrial power modules market. The Company now has a controlling interest in LSPS, holding 66.4 percent of the shares. The purchase price amounted to €8 million. LSPS develops, manufactures and markets compact power modules in the 600-volt class for household appliances and small industrial drives.

The assets and liabilities acquired were recorded at their fair value at the date of first consolidation. The difference between the acquisition costs (purchase price plus the fair value of the existing shareholding) and the identified fair value of the assets and liabilities, assessed according to the partial goodwill method, is recorded as goodwill.

The following table presents the effect of the transaction at the date of acquisition:

€ in millions	
Assets acquired	**11**
Goodwill	**4**
Non-controlling interests	(3)
Purchase price	**12**
Therein: fair value of the existing shareholding (46.4%)	4
Therein: paid in cash and cash equivalents	8
Acquired cash and cash equivalents	(1)
Net cash outflow for acquisitions	**7**

The book value of the existing shareholding as at the acquisition date of 46.4 percent was recorded as €0, its fair value was reassessed as being €4 million. The income from this reassessment was recorded in the Statement of Operations under other operating income.

International Rectifier Corporation

The Company and International Rectifier Corporation (“International Rectifier”), USA, signed a contract for the sale of International Rectifier on August 20, 2014. Infineon intends to acquire International Rectifier for US$40 per share in cash, corresponding to an equity value of approximately US$3 billion. With the integration of International Rectifier Infineon extends its offering, and can deliver an even broader portfolio of products and solutions to its customers in future.

The Company’s Supervisory Board and International Rectifier’s Board of Directors have agreed the transaction. At an extraordinary general meeting on November 4, 2014 the shareholders of International Rectifier granted the necessary approval. The approval of the relevant regulatory authorities and the fulfilment of other customary conditions are required before the acquisition can be completed. Completion and execution of the transaction is expected at the end of the 2014 calendar year or at the beginning of the 2015 calendar year.

Infineon will finance the transaction out of existing cash and a binding loan commitment of around €1.5 billion (see note 23).

4 Disposals and Discontinued Operations

Qimonda – discontinued operations

On January 23, 2009, Qimonda AG ("Qimonda"), a majority-owned company filed an application at the Munich Local Court to commence insolvency proceedings. On April 1, 2009, the insolvency proceedings were opened. Insolvency proceedings were also opened for further domestic and foreign subsidiaries of Qimonda. Some of these 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 2014 fiscal year as a result of new developments, in particular following the partial settlement agreed with the administrator on September 11, 2014 which led to a positive contribution to earnings (for this and the remaining risks existing in relation to Qimonda's insolvency see the section "Legal risks – Proceedings in relation to Qimonda" in note 33).

Sale of the Wireline Communications business – discontinued operations

On November 6, 2009 the Wireline Communications business was sold to various companies which are affiliates of Golden Gate Private Equity Inc. (Lantiq). In the 2014 fiscal year €10 million of subsequent income arose as a result of the release of a provision in connection with the sale.

Following the sale, Infineon continues to carry out activities on behalf of Lantiq, which are reported as continuing operations under "Other Operating Segments" for segment reporting purposes.

Sale of the Wireless mobile phone business – discontinued operations

On August 30, 2010, Infineon entered into a contract for the sale of the mobile phone business of the Wireless Solutions segment ("Wireless mobile phone business") for a consideration of US$1.4 billion with Intel Corporation ("Intel"). Businesses with analog and digital TV tuners and satellite radio receivers and with radio frequency power transistors for amplifiers in cellular base stations 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 separately transferred. The Wireless mobile phone business is being continued by the purchaser under the name "Intel Mobile Communications" ("IMC").

In the 2014 and 2013 fiscal years, adjustments to the pre-tax gain on the sale due to the release of provisions along with post-divestment income relating to the Wireless mobile phone business amounted to €8 million and €4 million respectively.

Following the sale, Infineon continues to carry out activities contracted by IMC, which are reported as continuing operations under "Other Operating Segments" for segment reporting purposes.

Loss/Income from discontinued operations, net of income taxes

The results of Qimonda, the Wireline Communications business and the Wireless mobile phone business presented in the Consolidated Statements of Operations as "loss/income from discontinued operations, net of tax" for the years ended September 30, 2014 and 2013, consist of the following:

€ in millions	2014	2013
Qimonda's share of discontinued operations, net of income taxes	29	(15)
Wireline Communication's share of discontinued operations, net of income taxes	10	–
Wireless mobile phone business' share of discontinued operations, net of income taxes	8	4
Gain (loss) from discontinued operations, net of income taxes	**47**	**(11)**

5 Grants and subsidies

Infineon has received economic development funding from various governmental institutions, including grants for the construction of manufacturing facilities, for 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, 2014 and 2013 are as follows:

€ in millions	2014	2013
Included in the Consolidated Statement of Operations in:		
Cost of goods sold	38	27
Research and development expenses	66	52
Selling, general and administrative expenses	1	1
Total	**105**	**80**

In the 2014 and 2013 fiscal years, respectively, taxable investment grants were deducted from the acquisition or construction cost of property, plant and equipment and intangible fixed assets with no material effect.

6 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 2014 and 2013 fiscal years:

€ in millions	2014	2013
Raw materials, supplies and purchased goods	929	829
Cost of purchased services	891	779
Expenses for licenses	63	63
Total (continuing and discontinued operations)	**1,883**	**1,671**

Personnel expenses are as follows for the years ended September 30, 2014 and 2013:

€ in millions	2014	2013
Wages and salaries	1,273	1,154
Social insurance levies, pensions and similar obligations	217	213
Total (continuing and discontinued operations)	**1,490**	**1,367**

The average number of employees by geographic region is as follows for the 2014 and 2013 fiscal years:

	2014	2013
Europe	12,959	12,536
Therein: Germany	8,766	8,493
Asia-Pacific (without Japan)	14,989	13,219
Therein: China	1,708	1,457
Japan	129	121
Americas	533	499
Total	**28,610**	**26,375**

7 Other operating income and expense

Other operating income is as follows for the 2014 and 2013 fiscal years:

€ in millions	2014	2013
Rental income	10	12
Gain from reassessment of the existing shareholding in LSPS (see note 3)	4	–
Gains on disposals of assets	3	2
Income from other equity investments	2	1
Other income from customers	1	2
Other	6	2
Total	**26**	**19**

Other operating expense is as follows for the 2014 and 2013 fiscal years:

€ in millions	2014	2013
Fine from the chip card antitrust proceedings (see note 33)	83	–
Expenses in connection with rental income	10	9
Onerous contracts	9	–
Expenses for restructuring and similar measures	8	18
Acquisition related expenses in connection with International Rectifier	7	–
Impairments and reversal of impairments of intangible assets, property, plant and equipment assets and assets classified as held for sale	3	19
Losses on disposals of assets	1	1
Expense (income) in connection with legal disputes	(24)	5
Other	5	–
Total	**102**	**52**

8 Financial income

Financial income for the 2014 and 2013 fiscal years relates solely to interest income of €10 million and €30 million, respectively.

9 Financial expense

Financial expense for the 2014 and 2013 fiscal years relates solely to interest expense of €19 million and €51 million, respectively.

Interest expense for the 2014 fiscal year includes a pre-tax loss of €1 million arising from the repurchase of part of the convertible bonds that became due 2014 (see note 23).

10 Income tax

Income tax from continuing operations for the years ended September 30, 2014 and 2013, is as follows:

€ in millions	2014	2013
Current tax expense	(76)	(39)
Deferred tax benefit	45	16
Income tax	**(31)**	**(23)**

The German combined statutory tax rate for Infineon Technologies AG is 29 percent for the 2014 and 2013 fiscal years. This comprised a corporate tax rate of 15 percent, plus a solidarity surcharge of 5.5 percent thereon and a municipal trade tax rate of 13 percent.

A reconciliation of income taxes from continuing operations for the fiscal years ended September 30, 2014 and 2013, determined using the German combined statutory tax rate of 29 percent for the 2014 and 2013 fiscal years is as follows:

€ in millions	2014	2013
Expected income tax expense	(151)	(89)
Change in available tax credits	19	10
Tax rate differential	25	20
Non-deductible expenses and tax-exempt income, net	(30)	(1)
Prior year taxes	(2)	–
Change in valuation allowance on deferred tax assets	112	38
Other	(4)	(1)
Actual income taxes	**(31)**	**(23)**

Deferred tax assets and liabilities as of September 30, 2014 and 2013 are composed of the following:

€ in millions	September 30, 2014		September 30, 2013	
	Deferred tax assets	Deferred tax liabilities	Deferred tax assets	Deferred tax liabilities
Intangible assets	9	(50)	12	(29)
Property, plant and equipment	110	(8)	95	(6)
Provisions and pension obligations	151	(111)	122	(104)
Tax loss carry-forwards	939	–	1,004	–
Tax credit carry-forwards	279	–	263	–
Other	143	(11)	150	(10)
Total deferred taxes	**1,631**	**(180)**	**1,646**	**(149)**
Valuation allowance	(1,078)	–	(1,176)	–
Netting	(175)	175	(145)	145
Total	**378**	**(5)**	**325**	**(4)**

In Germany Infineon Technologies AG had corporation tax loss carry-forwards of €2.7 billion and municipal trade tax loss carry-forwards of €3.8 billion as of September 30, 2014. In other jurisdictions tax loss carry-forwards amounted to €37 million and unused tax credit carry-forwards of €279 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. Of the tax loss carry-forwards in other jurisdictions, €6 million expire within four years as a result of the respective legal requirements.

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 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 €378 million and €325 million as of September 30, 2014 and 2013, respectively.

The change of the net amount of deferred tax assets and liabilities can be broken down as follows:

€ in millions	2014	2013
Deferred taxes, net as of the beginning of the fiscal year	**321**	**311**
Deferred tax benefit attributable to continuing operations	45	16
Deferred taxes recognized in equity	3	(2)
Foreign currency translation	4	(4)
Deferred taxes, net as of the end of the fiscal year	**373**	**321**

Infineon did not provide for additional income taxes or foreign withholding taxes on the cumulative retained earnings of foreign subsidiaries as of September 30, 2014 and 2013, 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 recognized directly in equity and the expense/benefit from continuing and discontinued operations, the income tax expense consisted of the following:

€ in millions	2014	2013
Income taxes from continuing operations	(31)	(23)
Income taxes from discontinued operations	10	(1)
Income taxes recognized directly in equity	6	(2)
Income taxes	**(15)**	**(26)**

11 Earnings per share

Basic earnings per share are calculated by dividing earnings by the weighted average number of shares outstanding during the reporting period. The calculation of the diluted earnings per share is based on the assumption that all potentially dilutive instruments are converted into ordinary shares 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 pro rata effect of the acquisition of 6 million own shares in the previous year is disclosed under “Adjustment for own shares”.

Basic and diluted earnings per share are calculated as follows:

€ in millions (unless otherwise stated)	2014	2013
Earnings attributable to shareholders of Infineon Technologies AG – basic	**535**	**272**
Adjustment for interest expense on convertible bond	3	–
Earnings attributable to shareholders of Infineon Technologies AG – diluted	**538**	**272**
Weighted-average number of shares outstanding (in millions):		
– Ordinary share capital	1,116.7	1,080.7
– Adjustment for own shares	(6.0)	(5.4)
Weighted-average number of shares outstanding – basic	**1,110.7**	**1,075.3**
Adjustments for:		
– Effect of potential conversion of convertible bond	11.6	–
– Effect of stock options and performance shares	0.7	0.7
Weighted-average number of shares outstanding – diluted	**1,123.0**	**1,076.0**
Basic and diluted earnings per share[1] (in euro):		
Earnings per share (in euro) from continuing operations	0.44	0.26
Earnings (loss) per share (in euro) from discontinued operations, net of income taxes	0.04	(0.01)
Earnings per share – basic and diluted	**0.48**	**0.25**

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

The average number of potentially dilutive instruments that did not have a dilutive impact and were not taken into account in the calculation of diluted earnings per share included:

- For the 2013 fiscal year 50.6 million shares which could be issued upon conversion of the convertible bond were not taken into account, since they would have increased the earnings per share.
- In the 2014 and 2013 fiscal years 12.1 million and 12.0 million, respectively, of stock options and performance shares issued to members of the Management Board and employees were not taken into account, since their exercise price was higher than the average share price during the reporting period.
- In the 2014 and 2013 fiscal year 9.1 million and 2.2 million, respectively, put options written on own shares were not taken into account since their exercise price was lower than the average share price during the reporting period.

12 Financial investments

Financial investments comprise fixed-term deposits with banks and securities. While fixed-term deposits with banks with an original term of up to six months qualify as “loans and receivables” pursuant to IAS 39 “Financial Instruments: Recognition and Measurement”, securities are categorized as available-for-sale financial assets (for valuation see note 2).

Financial investments at September 30, 2014 and 2013 comprise the following (for further information see also notes 31 and 32):

€ in millions	2014	2013
Fixed-term bank deposits	1,296	1,706
Securities	64	53
Financial investments	**1,360**	**1,759**

13 Trade receivables

Trade receivables due within one year at September 30, 2014 and 2013 consist of the following:

€ in millions	2014	2013
Trade receivables, third parties	584	522
Trade receivables, related parties	4	4
Trade receivables, gross	**588**	**526**
Allowance for doubtful accounts	(7)	(8)
Trade receivables, net	**581**	**518**

Changes in the allowance for doubtful accounts for the 2014 and 2013 fiscal years were as follows:

€ in millions	2014	2013
Allowance for doubtful accounts at beginning of the fiscal year	8	16
Usage of allowance, net	(1)	(2)
Current year’s allowance, net of reversals	–	(6)
Allowance for doubtful accounts at end of the fiscal year	**7**	**8**

Third party trade receivables that are outstanding but not impaired at the reporting date comprise the following:

€ in millions	Carrying amount	Thereof neither impaired nor past due	Of which not impaired but past due	
			Past due 0 – 30 days	Past due > 31 days
Third party – trade, net of allowances as of September 30, 2014	577	554	16	7
Third party – trade, net of allowances as of September 30, 2013	514	496	12	6

With respect to trade receivables that are not overdue and not impaired at the end of the reporting period, there are no indications that customers, based on their past credit history and current creditworthiness assessments, are not able to meet their obligations.

Receivables with a maturity of more than one year are presented as other non-current assets (see note 18).

14 Inventories

Inventories at September 30, 2014 and 2013 consist of the following:

€ in millions	2014	2013
Raw materials and supplies	76	92
Work in progress	414	350
Finished goods and merchandise	217	167
Total	**707**	**609**

The amount of inventories recognized as expense in the 2014 and 2013 fiscal years corresponds approximately to the cost of goods sold for each fiscal year.

Inventories at September 30, 2014 and 2013 are stated net of write-downs of €79 million and €83 million, respectively.

15 Other current assets

Other current assets at September 30, 2014 and 2013 consist of the following:

€ in millions	2014	2013
VAT and other receivables from tax authorities	50	66
Prepaid expenses	45	33
Derivative financial instruments	41	2
Grants receivables	34	39
Third party – financial and other receivables	9	13
Related party – financial and other receivables	1	–
Other	41	45
Total	**221**	**198**

16 Property, plant and equipment

A summary of changes in property, plant and equipment for the years ended September 30, 2014 and 2013 is as follows:

Changes in property, plant and equipment 2014

€ in millions	Cost							
	October 1, 2013	Additions	Acquisitions through business combinations	Disposals	Reclassification	Transfers	Foreign currency effects	September 30, 2014
Land, land rights and buildings	860	7	–	(1)	6	–	3	875
Technical equipment and machinery	6,169	344	13	(102)	91	–	14	6,529
Other plant and office equipment	1,119	56	1	(58)	4	–	1	1,123
Payments on account and construction in progress	212	160	1	–	(101)	–	–	272
Total	**8,360**	**567**	**15**	**(161)**	**–**	**–**	**18**	**8,799**

Changes in property, plant and equipment 2013

€ in millions	Cost							
	October 1, 2012	Additions	Acquisitions through business combinations	Disposals	Reclassification	Transfers [1]	Foreign currency effects	September 30, 2013
Land, land rights and buildings	827	11	–	(2)	26	–	(2)	860
Technical equipment and machinery	5,949	120	–	(80)	177	11	(8)	6,169
Other plant and office equipment	1,131	43	–	(55)	4	–	(4)	1,119
Payments on account and construction in progress	278	142	–	–	(207)	–	(1)	212
Total	**8,185**	**316**	**–**	**(137)**	**–**	**11**	**(15)**	**8,360**

1 For the year ended September 30, 2013, 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 Operations mainly in cost of goods sold.

Impairments are recognized as other operating expense in the Consolidated Statement of Operations. Property, plant and equipment amounting to €8 million was pledged as of September 30, 2014 (prior year: €0 million).

Accumulated depreciation and impairment								Carrying amount	
October 1, 2013	Depreciation	Disposals	Reclassification	Transfers	Impairments	Foreign currency effects	September 30, 2014	September 30, 2014	September 30, 2013
(620)	(28)	1	–	–	(1)	(1)	(649)	226	240
(5,122)	(381)	100	(4)	–	(1)	(13)	(5,421)	1,108	1,047
(1,018)	(72)	58	4	–	–	(1)	(1,029)	94	101
–	–	–	–	–	–	–	–	272	212
(6,760)	**(481)**	**159**	**–**	**–**	**(2)**	**(15)**	**(7,099)**	**1,700**	**1,600**

Accumulated depreciation and impairment								Carrying amount	
October 1, 2012	Depreciation	Disposals	Reclassification	Transfers [1]	Impairments	Foreign currency effects	September 30, 2013	September 30, 2013	September 30, 2012
(596)	(27)	2	–	–	–	1	(620)	240	231
(4,839)	(349)	79	(9)	(11)	–	7	(5,122)	1,047	1,110
(1,019)	(66)	55	9	–	–	3	(1,018)	101	112
–	–	–	–	–	–	–	–	212	278
(6,454)	**(442)**	**136**	**–**	**(11)**	**–**	**11**	**(6,760)**	**1,600**	**1,731**

17 Investments accounted for using the equity method

Infineon Technologies Bipolar GmbH & Co. KG

Effective September 30, 2007, and based on an agreement with Siemens AG ("Siemens") dated September 28, 2007, the Company contributed all assets and liabilities of its high power bipolar business (including licenses, patents, and frontend and backend 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 LSIS, which closed on November 27, 2009, to establish the joint venture LSPS. Up to June 2014, LSIS held 53.6 percent and the Company held 46.4 percent of LSPS. On June 3, 2014, the Company acquired additional 20 percent of the shares of LSPS. The Company now holds 66.4 percent of the shares and with it control over LSPS. Since that date LSPS is included as a consolidated affiliate in the consolidated financial statements. For more information see note 3.

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 consultancy services in the field of digital security. The fiscal year-end for Cryptomathic is December 31. As a consequence of a share buy-back Infineon's share increased to 34 percent. Based on this share, 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, 2014 and 2013 is as follows:

€ in millions	2014							
	Current assets	Non-current assets	Current liabilities	Non-current liabilities	Equity	Revenue	Gross profit	Net income (loss)
Bipolar	67	10	14	10	53	83	14	5
Cryptomathic	7	–	2	–	5	10	6	1
Total	**74**	**10**	**16**	**10**	**58**	**93**	**20**	**6**

€ in millions	2013							
	Current assets	Non-current assets	Current liabilities	Non-current liabilities	Equity	Revenue	Gross profit	Net income (loss)
Bipolar	62	14	14	12	50	83	11	1
LSPS	9	19	13	8	7	22	1	(5)
Cryptomathic	7	1	4	–	4	10	7	4
Total	**78**	**34**	**31**	**20**	**61**	**115**	**19**	**–**

The net book value of LSPS was already written off in full owing to the share of losses already recognized in prior years. The share of additional losses for the 2013 fiscal year of €2 million has not been recognized as the Company has no obligation to absorb such losses. Cumulative losses amounted to €2 million as at September 30, 2013.

18 Other non-current assets

Other non-current assets at September 30, 2014 and 2013 consist of the following:

€ in millions	2014	2013
Restricted cash	75	75
Prepaid expenses	23	28
Securities	16	15
Other equity investments	5	6
Grants receivables	5	5
Long-term receivables	5	5
Other	12	19
Total	**141**	**153**

“Restricted cash” as of September 30, 2014 and September 30, 2013 consists of a rental deposit in connection with the Campeon head office of €75 million (see note 34).

19 Goodwill and other intangible assets

The following table presents the composition of intangible assets for the years ended September 30, 2014 and 2013. 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 2014

€ in millions	Cost							
	October 1, 2013	Additions internally developed	Additions from business combinations	Purchased additions	Disposals	Transfers	Foreign currency effects	September 30, 2014
Goodwill acquired for consideration	21	–	4	–	–	–	–	25
Internally developed intangible assets	245	92	–	–	(10)	–	–	327
Other intangible assets	136	–	8	9	–	1	–	154
Total	**402**	**92**	**12**	**9**	**(10)**	**1**	**–**	**506**

Changes in goodwill and other intangible assets 2013

€ in millions	Cost							
	October 1, 2012	Additions internally developed	Additions from business combinations	Purchased additions	Disposals	Transfers	Foreign currency effects	September 30, 2013
Goodwill acquired for consideration	21	–	–	–	–	–	–	21
Internally developed intangible assets	194	51	–	–	–	–	–	245
Other intangible assets	141	–	–	12	(17)	–	–	136
Total	**356**	**51**	**–**	**12**	**(17)**	**–**	**–**	**402**

Reference is made to note 2, section “Recoverability of intangible assets and other long-lived assets” with respect to the procedures and assumptions used for the annual impairment test for goodwill as well as with respect to carrying amounts of the goodwill of the individual CGUs.

No intangible assets were transferred to a third party as security or pledged as of September 30, 2014 and 2013.

Accumulated amortization and impairment						Carrying amounts	
October 1, 2013	Amortization	Disposals	Impairment	Foreign currency effects	September 30, 2014	September 30, 2014	September 30, 2013
–	–	–	–	–	–	25	21
(109)	(25)	10	(1)	–	(125)	202	136
(123)	(8)	–	–	–	(131)	23	13
(232)	**(33)**	**10**	**(1)**	**–**	**(256)**	**250**	**170**

Accumulated amortization and impairment						Carrying amounts	
October 1, 2012	Amortization	Disposals	Impairment	Foreign currency effects	September 30, 2013	September 30, 2013	September 30, 2012
–	–	–	–	–	–	21	21
(75)	(19)	–	(15)	–	(109)	136	119
(135)	(5)	17	–	–	(123)	13	6
(210)	**(24)**	**17**	**(15)**	**–**	**(232)**	**170**	**146**

20 Trade payables

Trade payables at September 30, 2014 and 2013 consist of the following:

€ in millions	2014	2013
Third party – trade	636	557
Related parties – trade	12	12
Trade payables	**648**	**569**

Trade payables with a maturity of more than one year are reported in other non-current liabilities (see note 24).

21 Provisions

Short-term and long-term provisions at September 30, 2014 consist of the following:

€ in millions	October 1, 2013	Additions	Usage	Reversals	September 30, 2014
Personnel costs	176	183	(121)	(6)	232
Warranties	114	31	(13)	(57)	75
Provisions related to Qimonda	356	33	(15)	(62)	312
Other	75	28	(17)	(45)	41
Total	**721**	**275**	**(166)**	**(170)**	**660**
Thereof short-term	675				590
Thereof long-term	46				70

Obligations to employees include, among others, costs of variable compensation, severance payments, service anniversary awards, other personnel costs and social security costs.

Provisions for warranties mainly represent the estimated future cost of fulfilling contractual requirements associated with products sold.

Provisions relating to Qimonda are described in detail in note 33.

Other provisions comprise provisions for delay on contracts, asset retirement obligations, litigations (other than provisions relating to Qimonda) and miscellaneous other liabilities.

Of the total provisions as of September 30, 2014 and 2013, a cash outflow of €590 million and €675 million, respectively, is expected to occur within one year. With the exception of the service anniversary awards of €17 million and €14 million as of September 30, 2014 and 2013, respectively, the cash outflow for the majority of the remaining €53 million and €32 million as of September 30, 2014 and 2013, respectively, is expected within two to seven years.

22 Other current liabilities

Other current liabilities at September 30, 2014 and 2013 consist of the following:

€ in millions	2014	2013
Fine from the chip card antitrust proceedings (see note 33)	83	–
Payroll obligations to employees	73	66
Obligation to acquire own shares	40	–
Advanced payments	18	24
Deferred income	13	18
Deferred grants and subsidies	11	19
VAT and other taxes payables	9	8
Derivative financial instruments with negative fair values	3	4
Related parties – financial payables	1	1
Other	10	14
Total	**261**	**154**

The obligation to acquire own shares in connection with Infineon's capital returns amounts to €40 million as of September 30, 2014 and corresponds to the discounted exercise value of outstanding put options on Infineon Technologies AG shares as at issue date (see note 25), plus interest up to the end of the reporting period.

23 Debt

Debt at September 30, 2014 and 2013 consists of the following:

€ in millions	2014	2013
Current maturities of long-term debt	35	26
Convertible subordinated bonds, 7.5%, due 2014	–	108
Short-term debt and current maturities of long-term debt	**35**	**134**
Loans payable to banks:		
Unsecured loans, weighted average interest rate 1.18% (2013: 1.25%), due 2016 – 2023	151	169
Long-term debt	**151**	**169**
Total	**186**	**303**

On May 26, 2009, the Company (as guarantor), through its subsidiary Infineon Technologies Holding B.V. (as issuer), issued €196 million new subordinated convertible bonds due May 2014 at a discount of 7.2 percent and a nominal interest rate of 7.5 percent per year. The bonds could be converted at any time during the term into shares of the Company. After adjustments in connection with anti-dilution clauses at the time of the Company's share capital increase in August 2009 as well as for the dividend payments for the 2010 to 2012 fiscal years, the conversion price stood at €2.22. In conjunction with the new capital returns program (see "Put options on own shares and own shares" in note 25), at the beginning of the 2014 fiscal year Infineon repurchased for €35 million and cancelled part of the convertible bonds with a nominal value of €11 million. This was after having already repurchased and cancelled bonds with a nominal value of €83 million in the 2011 and 2012 fiscal years (partly in conjunction with the first capital returns program). In addition, in the first quarter of the 2014 fiscal year bond holders exercised their conversion rights and converted their holdings with a nominal value of €64 million into 28.6 million shares of the Company. Infineon announced the early redemption of all outstanding bonds on December 23, 2013, according to section 4 (4) of their terms and conditions. By the end of the conversion period on January 31, 2014 all remaining bonds with a nominal value of €39 million were converted into 17.6 million shares of the Company. €31 million attributable to the conversion right of the bondholders was recognized in additional paid-in capital in the 2009 fiscal year when the convertible bonds were issued. The debt component of the convertible bonds was recorded at amortized cost using the effective interest method.

Loans payable to banks serve primarily for the financing of operating activities at Infineon Technologies Austria AG.

Infineon has also established several standalone short- and long-term credit facilities mainly for the purpose of financing of operating activities.

Furthermore, in connection with the pending acquisition of International Rectifier, Infineon concluded a financing agreement of €1.5 billion with several domestic and international banks. The acquisition financing consists of two senior unsecured tranches: bridge financing of €800 million with a term of one year and two extension options for Infineon of six months each, and a loan of US$934 million with a term of five years. Both tranches were not drawn as at September 30, 2014.

The total lines of credit as of September 30, 2014 are summarized in the following table:

€ in millions	As of September 30, 2014		
Term	Aggregate facility	Drawn	Available
Short-term	103	35	68
Long-term	1,685	151	1,534
Total	**1,788**	**186**	**1,602**

Interest expense incurred in connection with debt for the years ended September 30, 2014 and 2013, was €6 million and €19 million, respectively.

Aggregate amounts of debt and interest maturing subsequent to September 30, 2014 are as follows:

€ in millions	Debt	Interest
Fiscal year		
2015	35	3
2016	16	2
2017	13	1
2018	4	1
2019 and after	118	1
Total [1]	**186**	**8**

1 Potential payments for debt in connection with the pending acquisition of International Rectifier are not considered.

24 Other non-current liabilities

Other non-current liabilities as of September 30, 2014 and 2013 consist of the following:

€ in millions	2014	2013
Deferred income and liabilities from the linearization of expenses	28	32
Personnel liabilities	19	16
Deferred grants and subsidies (see note 5)	13	12
Other	12	10
Total	**72**	**70**

25 Equity

Ordinary share capital

The ordinary share capital of Infineon Technologies AG increased during the 2014 fiscal year by €93,312,392. 46,656,196 new shares were issued in the 2014 fiscal year, of which 484,260 (2013: 776,702) resulted from the exercise of employee stock options, and 46,171,936 (2013: 0) from conversions of the subordinated convertible bonds due 2014 (see note 23). As of September 30, 2014 the ordinary share capital stood at €2,255,478,460 divided into 1,127,739,230 no par value registered shares, each representing €2 of the Company's ordinary share capital. Each share grants the holder one vote and an equal portion of the profits in the form of a dividend as resolved by the Annual General Meeting. As of September 30, 2014, of the above mentioned total number of issued shares the Company held 6 million own shares (2013: 6 million). Own shares held by the Company as at the date of the Annual General Meeting carry no voting rights and are not entitled to dividend.

Additional paid-in capital

Additional paid-in capital reported in the Consolidated Statement of Financial Position decreased by €135 million in the 2014 fiscal year, of which €129 million related to the dividend paid in February 2014. The Company repurchased for €35 million and cancelled subordinated convertible bonds due 2014 with a nominal value of €11 million during the 2014 fiscal year. €21 million, net of tax, was recorded directly as a reduction of additional paid-in capital, reflecting the repurchase of conversion rights for 4.7 million shares associated with the convertible bond repurchase, measured on the basis of the conversion ratio at the time of repurchase (see note 23). Additional paid-in capital was increased by €3 million in the 2014 fiscal year as a result of option premiums received in connection with put options on own shares (see below). The exercise of employee stock options increased additional paid-in capital by €0.3 million. Expenses amounting to €6 million for share-based compensation were recorded in the 2014 fiscal year, additional paid-in capital increased by the same amount (see note 27).

Additional paid-in capital reported in the Consolidated Statement of Financial Position decreased by €125 million in the 2013 fiscal year, of which €129 million related to the dividend paid in February 2013. The exercise of employee stock options increased additional paid-in capital by €1 million. Expenses amounting to €3 million for share-based compensation were recorded, additional paid-in capital increased by the same amount (see note 27).

Authorized share capital

As of September 30, 2014, the Company's Articles of Association provide for two authorized capitals totaling up to €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 share 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 limited to a maximum of 108,674,208 no par value shares or €217,348,416 as at September 30, 2014.

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 increasing the number of shares issued 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

As of September 30, 2014, the Company's conditional capital recorded in the Commercial Register amounts to €460,225,602. It has been created through four conditional capital increases:

- Conditional Capital III (registered in the Commercial Register as "Conditional Capital 2001/I") pursuant to section 4(5) of the Articles of Association of up to €26,325,602 that may be used to issue up to 13,162,801 new registered shares in connection with the Company's stock option plans "Infineon Technologies AG 2001 International Long Term Incentive Plan" and "Infineon Technologies AG Aktienoptionsplan 2006" ("Stock Option Plan 2006") (see note 27). During the 2014 fiscal year, a total of 484,260 new non-par shares corresponding to a proportionate amount of €2 per share were issued out of the Conditional Capital III as a result of the exercise of share options in conjunction with the Stock Option Plan 2006. Conditional Capital III decreased accordingly by €968,520 to €25,357,082. 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 2009/I pursuant to section 4(7) of the Articles of Association of up to €149,900,000 that could be used to issue up to 74,950,000 new registered shares to satisfy the conversion rights of the holders of the convertible bonds issued in May 2009 by Infineon Technologies Holding B.V. (see note 23). During the 2014 fiscal year, a total of 46,171,936 new non-par shares with a proportionate amount of the share capital of €2 per share were issued out of the Conditional Capital 2009/I as a result of the conversion of the convertible bonds. The Conditional Capital 2009/I decreased accordingly by €92,343,872 to €57,556,128. Further details of the conversion of the convertible bonds are shown in note 23. As a result of the exercise of the conversion rights, the convertible bonds have been fully repaid. The Conditional Capital 2009/I is no longer required and so the Management Board and the Supervisory Board will propose to the Annual General Meeting that the Conditional Capital 2009/I be revoked.

- Conditional Capital 2010/I pursuant to section 4(10) of the Articles of Association 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") (see note 27).

- Conditional Capital 2014 pursuant to section 4 (11) of the Articles of Association of up to €260,000,000 that may be used to issue up to 130,000,000 new registered shares to satisfy the rights of the holders of warrants or convertible bonds, which the Company may issue at any time prior to February 12, 2019.

Other reserves

Other reserves changed as follows during the fiscal years ended September 30, 2014 and 2013:

€ in millions	2014			2013		
	Pretax	Tax effect	Net	Pretax	Tax effect	Net
Unrealized gains (losses) on hedging instruments	43	–	43	(7)	–	(7)
Foreign currency translation adjustment	12	–	12	(12)	–	(12)
Total	**55**	**–**	**55**	**(19)**	**–**	**(19)**

Accumulated deficit

The following table shows a reconciliation of accumulated deficit as of September 30, 2013 and 2014:

€ in millions	
As of October 1, 2012	(4,199)
Net income attributable to shareholders of Infineon Technologies AG	272
Actuarial loss on post employment benefit obligations net of tax of negative €2 million	20
As of September 30, 2013	**(3,907)**
Net income attributable to shareholders of Infineon Technologies AG	535
Actuarial gains on post employment benefit obligations net of tax of €3 million	(130)
As of September 30, 2014	**(3,502)**

Put options on own shares and own shares

On May 9, 2011 Infineon Technologies AG resolved to make use of the authorization to repurchase shares given by shareholders at the Annual General Meeting on February 17, 2011. From the original sum of up to €300 million allocated to measures aimed at returning capital to shareholders, €212 million were spent by the end of the program on March 31, 2013. The capital return has in particular been effected through writing put options on Infineon shares, and additionally through the repurchase of outstanding convertible bonds (see note 23). The share repurchase was carried out in accordance with sections 14 (2) and 20a (3) of the German Securities Trading Act in line with the provisions of Commission Regulation (EC) No. 2273/2003 of December 22, 2003.

During the previous fiscal year up to the end of the program on March 31, 2013, put options for 6 million shares were exercised for which the Company paid €38 million to the holders of the options, leaving a total of 6 million own shares on hand as of September 30, 2013.

In November 2013 the Company resolved upon a new capital returns program of up to €300 million until September 30, 2015. The capital returns program, making use of the authorization to acquire own shares given at the Annual General Meeting on February 28, 2013, may be effected either through the use of put options, or the direct repurchase of shares through Xetra trading on the Frankfurt Stock Exchange. Furthermore the Company could also repurchase further parts of the convertible subordinated bonds due 2014. Any shares repurchased will either be cancelled, thereby reducing the share capital, used to service convertible bonds, or distributed to employees, board members of affiliated companies, or members of the Management Board. The share repurchase will be carried out in accordance with the requirements of sections 14 (2) and 20a (3) of the German Securities Trading Act in line with the provisions of Commission Regulation (EC).

The capital returns program may be suspended and resumed at any time within the time frame defined in the resolution of the Annual General Meeting and taking into consideration other legal requirements. More information and the current status of the program is regularly published in the internet at www.infineon.com/cms/de/about-infineon/investor/capital-returns/program-2013.

Up to September 30, 2014 the Company has issued put options on own shares with an exercise amount of €85 million, of which put options with a value of over €40 million remained outstanding as of September 30, 2014. Put options with a value of €45 million have expired. The outstanding put options with an original maximum term of twelve months correspond to a total of 6 million shares. Premiums received for the issued put options amounted to €3 million and resulted in a corresponding increase of additional paid-in capital.

The following table contains an overview of put options issued, lapsed and exercised during the 2014 and 2013 fiscal year:

In each case stated in millions	Exercise value in €	Underlying number of shares (in units)
Outstanding put options as of October 1, 2012	**89**	**16**
Put options issued in the 2013 fiscal year	–	–
Less: put options lapsed in the 2013 fiscal year	(51)	(10)
Less: put options exercised in the 2013 fiscal year	(38)	(6)
Outstanding put options as of September 30, 2013	**–**	**–**
Put options issued during the 2014 fiscal year	85	14
Less: put options lapsed in the 2014 fiscal year	(45)	(8)
Less: put options exercised in the 2014 fiscal year	–	–
Outstanding put options as of September 30, 2014	**40**	**6**

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 Annual General Meeting.

For the 2013 fiscal year, a cash dividend of €0.12 per share (total amount: €129 million) was paid in accordance with the resolution passed at the Annual General Meeting on February 13, 2014. In the 2013 fiscal year, a cash dividend of €0.12 per share (total amount: €129 million) was paid for the 2012 fiscal year.

In May 2014 Infineon reduced its target ratio of investments to revenue over the cycle with effect from the 2015 fiscal year from about 15 percent to about 13 percent. In view of the reduced capital intensity and the resulting expected sustainable improvement in free cash flow, the dividend should significantly increase from as early as fiscal year 2014.

A dividend of €0.18 for each share entitled to a dividend shall be proposed to be paid from the €228 million of distributable profits of Infineon Technologies AG for the 2014 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 €202 million. Since payment of the dividend depends on approval being given by the Annual General Meeting which is set to take place on February 12, 2015, a liability has not been recognized in the Consolidated Financial Statements.

26 Capital management

Infineon's principal capital management objective is to ensure financial flexibility on the basis of a solid capital structure. As with comparable companies in the semiconductor industry, it is of prime importance that sufficient cash funds are available to finance operating activities and planned investments throughout all phases of the business cycle. On the other hand, debt should only constitute a modest 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 not more than 2x EBITDA (earnings from continuing operations before tax, depreciation and amortization)

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

Capital management as well as the corresponding objectives and definitions are based on ratios which in turn are based on the consolidated IFRS financial statements. Infineon defines its net cash position or net debt position, 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, 2013, Infineon had a net cash position of €1,983 million which increased to €2,232 million over the course of the 2014 fiscal year. The gross cash position increased from €2,286 million as of September 30, 2013, to €2,418 million as of September 30, 2014 (for details see the chapter "Review of liquidity" in the Group management report). Based on revenue of €4,320 million, the ratio of gross cash to revenue was 56.0 percent as of September 30, 2014 (59.5 percent in 2013) and thus above the targeted range.

The gross debt to EBITDA ratio was 0.2 as of September 30, 2014 (0.4 in 2013). Infineon continues to have sufficient financial flexibility to ensure that in addition to financing its planned investments it is also able to pay regular dividends (see note 25) and complete the pending acquisition of International Rectifier.

Infineon will also continue to pursue the capital management targets after the acquisition. Infineon's gross cash position is likely to temporarily lie outside the communicated target range in the 2015 fiscal year, and could even temporarily register a net debt position, as a result of this transaction, as well as due to the payments of €343 million made by Infineon in October 2014 in connection with the Qimonda partial settlement and the fine imposed by the European Commission ("EU-Commission") (for details see note 33). The gross debt to EBITDA ratio will remain below the stated maximum level even after including the higher levels of debt incurred in connection with the acquisition of International Rectifier.

27 Share-based compensation

In order to provide share-based compensation the Company has in place the Stock Option Plan 2006, the Stock Option Plan 2010 and, from the 2014 fiscal year, the Performance Share Plan.

Share-based compensation costs

Share-based compensation costs for the fiscal years ended September 30, 2014 and 2013 amounted to €6 million and €3 million, respectively.

Performance share plan

A new Long Term Incentive Plan (LTI) consisting of a so called "performance share" plan was developed for the Management Board and selected senior executives as a successor to the Stock Option Plan 2010.

Under this plan, (virtual) performance shares are provisionally allocated on October 1 for the fiscal year starting on that date according to a pre-determined LTI allocation amount in euro. With the allotment of a virtual performance share, the participant in the plan acquires the right to receive (real) Infineon shares once a personal investment in Infineon shares has reached a four-year holding period. The level of personal investment is dependent on position and LTI allocation.

50 percent of the performance shares are performance-related, 50 percent are not dependent on performance. The performance-related shares are only finally allocated if the Infineon share outperforms the Philadelphia Semiconductor Index (SOX) during the period between the date of the provisional allocation and the end of the holding period. If at the end of the holding period the requirements for an allocation of performance shares – either all or only those that are not performance related – are fulfilled, then the entitlement to the transfer of the corresponding number of (real) Infineon shares is acquired. Members of the Management Board may not receive more than a 250 percent gain on the respective LTI allocation; above this level performance shares are forfeited.

The fair value of the performance shares at the date of allocation is determined by an external expert using a recognized financial-mathematical method (Monte Carlo simulation model). Variations in the underlying assumptions have no material effect on the fair value.

The following requirements apply:

Tranche	End of the waiting period	Average share price of the nine months before grant in €	Number of performance shares at September 30, 2014	Fair Value per performance share in €
Fiscal year 2014: Employees	September 30, 2017	6.62	1,262,250	5.72
Fiscal year 2014: Management Board	September 30, 2017	6.62	114,046	5.20

As at 1 October, 2014 100,702 (virtual) performance shares were allocated to the Management Board and 1,074,276 (virtual) performance shares were allocated to employees.

Stock Option Plan 2006 and Stock Option Plan 2010

There are no changes with respect to the stock option plans described in the consolidated financial statements as of 30 September, 2013.

The fair value of the stock options of the Stock Option Plans 2006 and 2010 is determined by an external expert using a recognized financial-mathematical method (Monte Carlo simulation model).

The development of the 2006 and 2010 stock option plans during the 2013 and 2014 fiscal years is presented below:

	Number of options (in millions)	Weighted-average exercise price (in €)
Options outstanding as of September 30, 2012	13.1	7.85
Granted	4.4	7.00
Exercised	(0.8)	2.72
Forfeited and expired	(4.9)	9.71
Options outstanding as of September 30, 2013	**11.8**	**7.11**
Exercisable at September 30, 2013	0.9	2.72
Options outstanding as of September 30, 2013	11.8	7.11
Granted	–	–
Exercised	(0.5)	2.72
Forfeited and expired	(0.1)	7.94
Options outstanding as of September 30, 2014	**11.2**	**7.29**
Exercisable at September 30, 2014	0.4	2.72

28 Supplemental cash flow information

There were no significant non-cash transactions from acquisition or financing activities during the 2014 and 2013 fiscal years.

Cash and cash equivalents reported as of September 30, 2014 and 2013 totaling €1,058 million and €527 million, respectively, and include €53 million and €33 million, respectively, which were subject to legal transfer restrictions and so were not available for general use by Infineon. This amount represents cash and cash equivalents of consolidated companies located in countries where the transfer of cash is legally restricted, for example the People's Republic of China.

29 Related parties

Infineon has transactions in the normal course of business with equity method investees and other related companies (collectively, "related companies"). The related parties which are controlled or significantly influenced by Infineon are disclosed in note 36. Related parties also include persons in key management positions (collectively "related persons"), in particular members of the Management and Supervisory Board and their close relatives.

Related companies

Infineon purchases certain raw materials and services from, and sells certain products and services to related companies. These purchases from and sales to related companies are generally effected at manufacturing cost plus a mark-up.

Related companies receivables and payables consist exclusively of trade and other receivables and payables from and to equity method investees and other related companies.

Related companies receivables and payables as of September 30, 2014 and 2013 consist of the following:

€ in millions	September 30, 2014		September 30, 2013	
	at-equity companies	other related companies	at-equity companies	other related companies
Trade and other receivables	3	1	3	1
Financial receivables	–	1	–	–
Trade and other payables	10	2	10	2
Financial payables	–	1	–	1

Sales and service charges to and purchases from related companies in the 2014 and 2013 fiscal years consist of the following:

€ in millions	2014		2013	
	at-equity companies	other related companies	at-equity companies	other related companies
Sales and service charges	15	2	22	2
Purchases	81	29	82	28

Related persons

The active members of the Management Board in the 2014 fiscal year received total fixed non-performance-related compensation for their services of €2.4 million (2013: €2.4 million). In addition, the members of the Management Board received variable performance-related compensation for their services in the 2014 fiscal year totaling €2.5 million (2013: €1.7 million). This comprised a Short Term Incentive of €1.3 million (2013: €0.9 million), and a Mid Term Incentive of €1.2 million (2013: €0.8 million). Furthermore, the Management Board received a Long Term Incentive (LTI) which, in 2014 for the first time, took the form of performance shares. Previously the LTI was granted in the form of stock options based on the Stock Option Plan 2010. The expense resulting from the LTI amounted to €0.6 million (2013: €0.4 million). The total compensation received by active members of the Management Board amounted to €5.5 million in the 2014 fiscal year (2013: €4.5 million).

The total compensation of the members of the Supervisory Board of Infineon Technologies AG in the 2014 fiscal year, including attendance fees, amounted to €1.2 million (2013: €1.1 million). Employee representatives in the Supervisory Board who are employed by Infineon also receive a salary for their activities as employees.

Former members of the Management Board received total payments of €1.1 million (principally pension payments) in the 2014 fiscal year (2013: €1.1 million).

As of September 30, 2014, pension liabilities for former members of the Management Board amounted to €59.5 million (2013: €47.9 million).

Neither Infineon Technologies AG nor any of its subsidiaries have granted loans to any member of the Supervisory or Management Boards.

Disclosure of the individual remuneration of the members of the Management Board and the Supervisory Board as required by section 315a (1) in connection with section 314 (1) no. 6a, sentences 5 to 8 of the German Commercial Code, is provided in the Compensation Report which is part of the Group Management Report.

In the 2014 and 2013 fiscal years there were no transactions between Infineon and related persons which fall outside of the scope of the existing employment, service or appointment terms, or of the contractual arrangements for their remuneration.

30 Pension plans

Defined benefit pension plans

Infineon's employee benefit plans consist of domestic and foreign defined benefit and defined contribution pension plans providing retirement, disability and surviving dependents' benefits. For the Infineon Group, the significant benefit plans in Germany pertain to Infineon Technologies AG, and among the foreign benefit plans to Infineon Technologies Austria AG.

In Germany Infineon primarily offers defined contribution benefits which provide for the employees when they reach retirement age, or in the event of disability or death. With the Infineon pension plan new entrants receive a defined contribution benefit which is funded by Infineon. Payments by the Infineon pension plan are generally made in 12 installments. For active employees who were, before the Infineon Pension Plan came into force, entitled to benefits in the form of an annuity, this commitment is overridden and with it the possibility of an annuity is guaranteed. Together with former employees, this group makes up the largest part of the obligation. The statutory framework is provided by the Company Pension Act (in German: Betriebsrentengesetz or BetrAVG) and by employment law in general. New employees receive a contribution-based pension commitment in accordance with the Infineon Pension Plan. An appropriate provision is recorded for the German defined benefit pension plans, which are partly backed by plan assets. Individual agreements are in place for the members of the Management Board which are backed by pension reinsurance policies (detailed in the "Compensation Report" chapter).

The benefit obligation of some foreign plans is measured according to the income in the last month or year of service, others are dependent on average income over the service period. Furthermore, in certain countries Infineon makes severance payments irrespective of the reason for the termination of employment, these payments are usually defined by laws in the relevant country. The liabilities arising from foreign defined benefit pension plans are partly covered by plan assets.

The valuation date of the German and foreign pension plans is September 30.

The Group defined benefit pension plans are exposed to risks arising from changes to actuarial assumptions such as interest rates, salary and pension trends, investment risks and longevity risks. A low discount rate leads to higher pension liabilities. Equally, a lower than expected growth in plan assets could lead to a deterioration of the funded status, or require the payment of additional contributions.

The development of Infineon's German (domestic) and non-German (foreign) pension plans and the plan assets to September 30, 2014 and 2013 is presented in the following table:

€ in millions	2014			2013		
	Domestic plans	Foreign plans	Total	Domestic plans	Foreign plans	Total
Change in defined benefit obligations taking into account future salary increases:						
Present value at beginning of year	(573)	(108)	(681)	(567)	(109)	(676)
Current service cost	(15)	(3)	(18)	(15)	(3)	(18)
Past service income (cost)	–	–	–	2	(6)	(4)
Interest cost	(20)	(4)	(24)	(19)	(4)	(23)
Actuarial gains (losses) for:						
Experience adjustments	–	(3)	(3)	(1)	1	–
Adjustments to demographic assumptions	–	(2)	(2)	–	–	–
Adjustments to financial assumptions	(134)	(15)	(149)	16	5	21
Acquisitions and divestitures	–	(1)	(1)	–	–	–
Curtailments	–	5	5	–	–	–
Benefits paid by Infineon	12	3	15	11	3	14
Foreign currency effects	–	(3)	(3)	–	5	5
Present value of defined benefit obligation at end of year	**(730)**	**(131)**	**(861)**	**(573)**	**(108)**	**(681)**
Change in fair value of plan assets:						
Fair value at beginning of year	394	43	437	344	39	383
Expected return on plan assets	14	2	16	17	3	20
Actuarial gains (losses)	22	2	24	1	–	1
Contributions from Infineon	12	6	18	43	6	49
Benefits paid	(12)	(3)	(15)	(11)	(3)	(14)
Foreign currency effects	–	2	2	–	(2)	(2)
Fair value of plan assets at end of year	**430**	**52**	**482**	**394**	**43**	**437**
Net pension liability	**(300)**	**(79)**	**(379)**	**(179)**	**(65)**	**(244)**
Thereof: Infineon Technologies AG	(281)	–	(281)	(152)	–	(152)
Thereof: Infineon Technologies Austria AG	–	(37)	(37)	–	(35)	(35)

Reconciliation of the amounts recognized in the Consolidated Statement of Financial Position:

€ in millions	2014			2013		
	Domestic plans	Foreign plans	Total	Domestic plans	Foreign plans	Total
Pension obligations, net	**(300)**	**(79)**	**(379)**	**(179)**	**(65)**	**(244)**
Thereof recognized in: Pension plans and similar commitments	(300)	(79)	(379)	(181)	(65)	(246)
Thereof recognized in: Other non-current assets	–	–	–	2	–	2

Since no asset ceiling applied, the funded status of the Infineon pension plans corresponds to the amounts reported in the Consolidated Statement of Financial Position as at September 30, 2014 and 2013.

Certain pension scheme liabilities with a value of €11 million were, in the previous year, backed by reinsurance policy assets with a fair value of €13 million. The net amount of these liabilities and their related insurance assets of €2 million represents assets arising from employee benefits and was disclosed within other non-current assets (see note 18).

The funding of the present value of the defined benefit obligations is as follows:

€ in millions	2014			2013		
	Domestic plans	Foreign plans	Total	Domestic plans	Foreign plans	Total
Plans that are wholly unfunded	10	63	73	9	54	63
Plans that are wholly or partly funded	720	68	788	564	54	618
Total	**730**	**131**	**861**	**573**	**108**	**681**

Actuarial assumptions

The weighted-average assumptions used in calculating the actuarial values for the pension plans are as follows:

in %	2014		2013	
	Domestic plans	Foreign plans	Domestic plans	Foreign plans
Discount rate at the end of the fiscal year	2.4	3.4	3.7	4.2
Rate of salary increase	2.0	2.3	2.0	2.4
Projected future pension increases	2.0	0.7	2.0	0.8
Expected return on plan assets at the beginning of the fiscal year	n/a	n/a	4.8	6.9

Discount rates are established based on prevailing market rates for high-grade fixed interest corporate bonds from issuers carrying a very high credit rating.

Sensitivity analysis

The following sensitivity analysis table shows how the present value of all defined benefit pension obligations would be affected by changes in the aforementioned actuarial assumptions. In each case they reflect the effect of changes in one actuarial assumption holding all other assumptions constant.

€ in millions	2014		
	Domestic plans	Foreign plans	Total
Present value of defined benefit pension plans with:			
a 50 basis points higher discount rate	669	117	786
a 50 basis points lower discount rate	800	136	936
a 50 basis points higher expected rate of salary increase	736	130	866
a 50 basis points lower expected rate of salary increase	724	122	846
a 50 basis points higher expected rate of pension increase	746	129	875
a 50 basis points lower expected rate of pension increase	715	123	838
Increase in life expectancy by one year	745	129	874

The 2005 G actuarial tables by Dr. Klaus Heubeck were used for Germany, and for Austria the AVÖ 2008-P (Ang.) tables were applied.

Investment strategies

The pension plans' assets are invested with several fund managers. The investment guidelines require a mix of active and passive investment management programs over different asset classes. Having regard to the duration of the underlying liabilities, a portfolio of investments of plan assets in equity, debt and other securities, and reinsurance policies 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, coordination with investment managers and annual liability measurements. Investment policies and strategies are periodically reviewed to ensure the objectives of the plans are met, taking into account any changes in benefit plan design, market conditions or other material items. Furthermore, Infineon periodically commissions detailed asset/liability studies to be performed by third-party professional investment advisors and actuaries, the results of which are incorporated into the investment strategy.

Plan asset allocation

As of September 30, 2014 and 2013 the allocation of invested plan assets to the major asset categories is as follows:

€ in millions	2014		2013	
	Quoted in an active market	Not quoted in an active market	Quoted in an active market	Not quoted in an active market
Government bonds	153	–	47	–
Corporate bonds	109	–	154	–
Equity securities	75	–	76	–
Cash and cash equivalents	53	–	76	–
Reinsurance policies	–	33	–	32
Property	–	26	–	28
Other	25	8	16	8
Total	**415**	**67**	**369**	**68**

The position "Other" in the table above comprises mainly commodity funds.

As a matter of policy Infineon's pension plans do not invest in shares of Infineon.

The actual return on plan assets in the fiscal year ended September 30, 2014 was €40 million (2013: €20 million positive).

Amounts recognized in profit or loss and in total comprehensive income

The expenses and income of defined benefit plans for the years ended September 30, 2014 and 2013 comprise the following:

€ in millions	2014			2013		
	Domestic plans	Foreign plans	Total	Domestic plans	Foreign plans	Total
Current service cost	(15)	(3)	(18)	(15)	(3)	(18)
Interest cost	(20)	(4)	(24)	(19)	(4)	(23)
Expected return on plan assets	14	2	16	17	3	20
Amortization of unrecognized past service (cost) benefit	–	–	–	2	(6)	(4)
Curtailment gain recognized	–	5	5	–	–	–
Pension costs	**(21)**	**–**	**(21)**	**(15)**	**(10)**	**(25)**

Service costs are recorded within cost of goods sold to the extent that they relate to production employees, otherwise they are recorded as research and development or selling, general and administrative expenses. As a result of the first-time adoption of IAS 19 (revised) “Employee Benefits”, in the 2014 fiscal year interest costs and expected return on plan assets were recorded net as part of financial expense. In the 2013 fiscal year interest costs were recorded as part of financial expense, and the expected return on plan assets as part of financial income.

Actuarial losses of €130 million and actuarial gains of €22 million have been recognized outside of the Consolidated Statement of Operations in Other Comprehensive Income for the years ended September 30, 2014 and 2013, respectively.

As of September 30, 2014 and 2013, cumulative actuarial losses amounted to €292 million and €162 million, respectively. In addition, cumulative actuarial losses amounting to €8 million, resulting from deferred compensation and retiree health care plans, are also recognized directly in Other Comprehensive Income.

In the 2015 fiscal year payments of €19 million are expected to be made to plan assets of which €18 million relates to benefits paid directly to pension recipients by the Group companies, and €1 million is contributions to plan assets.

The weighted average duration of defined benefit plans was around 17 years as of September 30, 2014 and 2013, respectively.

The following table shows the expected disbursements for defined benefit plans for the next ten fiscal years:

€ in millions	Total
2015	18
2016	18
2017 – 2019	70
2020 – 2024	175
Total	**281**

Defined contribution plans

In connection with defined contribution plans, fixed contributions are made to external insurance providers or funds. Infineon has no further performance obligations or risks with regard to these pension plans in excess of the fixed contributions paid. Additionally the Group makes contributions to government pension schemes. Expenses for defined contribution plans amounted to €114 million and €109 million in the fiscal years ended September 30, 2014 and 2013, respectively.

31 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				
Financial assets	Carrying amount	At fair value through profit or loss	Available for sale	Loans and receivables	Designated cash flow hedges	Fair value
Balance as of September 30, 2014						
Current assets:						
Cash and cash equivalents	1,058	–	–	1,058	–	1,058
Financial investments	1,360	–	64	1,296	–	1,360
Trade receivables	581	–	–	581	–	581
Other current assets	115	2	–	74	39	115
Non-current assets:						
Other non-current assets	118	–	21	97	–	118
Total	**3,232**	**2**	**85**	**3,106**	**39**	**3,232**
Balance as of September 30, 2013						
Current assets:						
Cash and cash equivalents	527	–	–	527	–	527
Financial investments	1,759	–	53	1,706	–	1,759
Trade receivables	518	–	–	518	–	518
Other current assets	62	2	–	60	–	62
Non-current assets:						
Other non-current assets	116	–	20	96	–	116
Total	**2,982**	**2**	**73**	**2,907**	**–**	**2,982**

€ in millions		Categories of financial liabilities			
Financial liabilities:	Carrying amount	At fair value through profit or loss	Other financial liabilities (amortized cost)	Designated hedging instruments (cash flow hedges)	Fair value
Balance as of September 30, 2014					
Current liabilities:					
Short-term debt and current maturities of long-term debt	35	–	35	–	35
Trade payables	648	–	648	–	648
Other current liabilities	179	1	176	2	179
Non-current liabilities:					
Long-term debt	151	–	151	–	151
Other non-current liabilities	15	–	15	–	15
Total	**1,028**	**1**	**1,025**	**2**	**1,028**
Balance as of September 30, 2013					
Current liabilities:					
Short-term debt and current maturities of long-term debt	134	–	134	–	138
Trade payables	569	–	569	–	569
Other current liabilities	17	1	13	3	17
Non-current liabilities:					
Long-term debt	169	–	169	–	169
Other non-current liabilities	7	–	7	–	7
Total	**896**	**1**	**892**	**3**	**900**

For assets measured at amortized costs categorized as “Loans and receivables”, it is assumed that the fair values correspond to their carrying amounts. The same assumption applies to liabilities resulting from trade payables and other current liabilities categorized as “Other financial liabilities (amortized cost)”.

Financial instruments measured at fair value are allocated to the following measurement levels in accordance with IFRS 13. The allocation to the different levels is based on the market proximity of the valuation parameters used in the determination of the fair value:

- Level 1: quoted prices (unadjusted) in active markets for identical assets and liabilities,
- Level 2: valuation parameters whose prices are not the ones considered in Level 1, but which can be observed either directly or indirectly for the assets or liabilities,
- Level 3: valuation parameters for assets and liabilities which are not based on observable market data.

The fair value hierarchy of financial instruments measured at fair value as of September 30, 2014 and 2013 is as follows:

€ in millions	Fair value	Fair value by category		
		Level 1	Level 2	Level 3
2014 Fiscal year				
Current assets:				
Financial investments	64	–	64	–
Other current assets	41	–	41	–
Non-current assets:				
Other non-current assets	21	16	–	5
Total	**126**	**16**	**105**	**5**
Current Liabilities				
Other current liabilities	3	–	3	–
Total	**3**	**–**	**3**	**–**
2013 Fiscal year				
Current assets:				
Financial investments	53	–	53	–
Other current assets	2	–	2	–
Non-current assets:				
Other non-current assets	20	15	–	5
Total	**75**	**15**	**55**	**5**
Current Liabilities				
Other current liabilities	4	–	4	–
Total	**4**	**–**	**4**	**–**

The fair values of the securities included in financial investments categorized as “Available for sale” for which no active market exists are calculated as the present value of future expected cash flows, taking into account valuation parameters which can be observed in the market (Level 2).

The fair value of derivative financial instruments (including cash flow hedges) included in other current assets or liabilities is determined according to the discounted cash flow method. Where possible, valuation parameters observed on the reporting date in the relevant markets (such as currency rates or commodity prices) and made available by reliable external sources are used (Level 2).

The fair value of the securities included in other non-current assets is based on market prices quoted on an active market (Level 1). Also included in other non-current assets are financial investments which are not quoted on an active market. For these, the fair value as of September 30, 2014 is determined by considering existing contractual arrangements based on externally observable dividend policy (Level 3). The fair value of these investments amounts to €5 million both at September 30, 2014 and at September 30, 2013.

For financial instruments measured at amortized cost whose fair value should be disclosed in the notes to the consolidated financial statements, the fair value in the 2014 fiscal year is mainly determined as the present value of future expected cash flows, where, to the extent possible, observable valuation parameters were taken into account. The recognized fair values can therefore be allocated to Level 2. For the convertible bond which was included in the previous year in current financial liabilities, the fair value was determined based on the market price as of September 30, 2013 which was 236.0 percent premium to par. This was assigned to Level 1 of the fair value hierarchy.

In 2014 and 2013 fiscal years no reclassification within the fair value hierarchy was carried out.

As required to be disclosed by IFRS 7, the net gain or loss on financial instruments within continuing operations in the Group Statement of Operations in the 2014 and 2013 fiscal years amounted to the following:

€ in millions	2014	2013
Available-for-sale financial assets	3	1
Loan and receivables	36	(3)
Held for trading	–	(1)
Other financial liabilities	(40)	(3)
Designated hedging instruments (cash flow hedges)	(7)	(4)
Total	**(8)**	**(10)**

The net currency effect included within net gains and losses amount to negative €4 million (2013: negative €3 million).

Infineon does not net financial instruments. The Company conducts derivative transactions according to the global netting agreement (Master Agreement) of the International Swaps and Derivatives Association (ISDA) and other comparable national framework agreements. These agreements contain no legally enforceable requirement for netting.

Derivative financial instruments and hedging activities

Infineon uses derivative financial instruments for hedging purposes, not for trading or speculative purposes. Infineon enters into derivative financial instruments such as forward exchange contracts and commodity swaps. The objective of these transactions is to reduce the impact of exchange rate and commodity price fluctuations on future net cash flows. Furthermore, a transaction-dependent Deal Contingent Forward was concluded which hedges part of the euro/US dollar currency risk arising from the purchase price obligation of the acquisition of International Rectifier in August 2014.

The notional amounts and fair values of Infineon's derivative instruments as of September 30, 2014 and 2013 are as follows:

€ in millions	2014		2013	
	Notional amount	Fair value	Notional amount	Fair value
Forward exchange contracts sold	25	–	132	2
Forward exchange contracts purchased	116	1	93	–
Deal Contingent Forward	1,146	39	–	–
Commodity swaps	42	(2)	41	(3)
Total		**38**		**(1)**

Foreign exchange derivatives are entered into by Infineon to offset the exchange risk from anticipated cash receipts from operating activities. Neither in 2014 nor in 2013 were any foreign exchange derivatives used to hedge ongoing business designated as cash flow hedges.

For partial protection against exchange rate risks arising from the purchase price obligation of the acquisition of International Rectifier, the company has, in August 2014, concluded a transaction-dependent euro/US dollar foreign currency forward contract (so-called "Deal Contingent Forward") with a notional amount of US$1.5 billion. This contract has been accounted for as a cash flow hedge. As of September 30, 2014, the fair value of the Deal Contingent Forward is €39 million. The corresponding change in value in the same amount is recorded in other reserves. No ineffectiveness deriving from the Deal Contingent Forward has been recorded in the 2014 fiscal year.

With completion of the acquisition of International Rectifier, which is expected by the end of calendar year 2014 or beginning of the calendar year 2015, the effects of the hedging relationship will be taken into account for determining the goodwill resulting from the transaction.

To offset the price risks of highly probable gold purchases in the coming fiscal years, Infineon entered into swaps which are designated as cash flow hedges in the 2014 and 2013 fiscal years. The fair value of these swaps amounted to negative €2 million as of September 30, 2014 and negative €3 million as of September 30, 2013. The fair value changes of these swaps of positive €1 million in 2014 (2013: negative €9 million) are recorded in other reserves. Infineon did not record any hedge ineffectiveness in the 2014 or 2013 fiscal years for these hedging relationships. In the 2014 and 2013 fiscal years, no gains or losses were transferred from other reserves to profit or loss as a result of cash flow hedges for future raw material purchases being cancelled following the decision that the occurrence of the hedged transaction had become unlikely.

32 Financial risk management

Infineon's activities expose it to a variety of financial risks: market risk (including foreign exchange risk, interest rate risk and price risk), credit risk and liquidity risk. Infineon's financial risk management program seeks to minimize potential adverse effects on its profitability and liquidity. Infineon uses derivative financial instruments to hedge certain risks to which it is exposed. Financial risk management is carried out by the central Finance & Treasury (FT) department in accordance with policies approved by the Chief Financial Officer. The FT department identifies, evaluates and hedges financial risks in close 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, the use of derivative and non-derivative financial instruments, and the investment of excess liquidity.

Market risk

Market risk is defined as the risk of losses related to adverse changes in the market prices of financial instruments, including those related to foreign exchange rates, interest rates and other price risks.

Infineon is exposed to various market risks in the ordinary course of business, primarily resulting from changes in foreign exchange rates and interest rates. Infineon enters into a range of derivative financial transactions with various counterparties to limit such risks. Derivative instruments are used only for hedging purposes and not for trading or speculative purposes.

Foreign exchange risk

Foreign exchange risk is the risk arising from changes to foreign exchange rates. According to IFRS, foreign exchange risks are associated with monetary financial instruments that are denominated in a foreign currency that does not correspond to the functional currency, and the non-functional currency represents the relevant risk variable. Translation risks are not taken into consideration.

Although Infineon prepares the Consolidated Financial Statements in euros, a varying but significant portion of its revenue as well as cost of goods sold, research and development and distribution costs are denominated in currencies other than the euro, primarily the US dollar. Fluctuations in the exchange rates of these currencies compared to the euro had an effect on the results of Infineon in the 2014 and 2013 fiscal years.

The Management Board has established policies that require Infineon's individual legal entities to manage the foreign exchange risk with respect to their functional currency. Group entities prepare a monthly rolling cash flow forecast by currency in order to determine foreign exchange 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 this remaining risk based on net cash flows considering items in the Statement of Financial Position, actual orders received or placed and all other planned income and expenditure.

A transaction-dependent foreign currency forward contract (a so-called Deal Contingent Forward) with a nominal value of US$1.5 billion was concluded which hedges part of the euro/US dollar currency risk arising from the purchase price obligation of the acquisition of International Rectifier in August 2014.

Regarding the net result related to foreign currency derivatives and foreign currency transactions included within net income please refer to note 31.

The following table shows the effects on profit or loss and equity for continuing operations of a 10 percent shift in the currency exchange rates for the major foreign currencies as of September 30, 2014 and 2013:

€ in millions	Profit or Loss		Equity	
	+10%	(10%)	+10%	(10%)
September 30, 2014	(2)	3	(11)	–
September 30, 2013	7	(9)	–	–

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 cyclical nature of its core business and the need to maintain high operational flexibility, Infineon holds a relatively high level of liquid financial assets that are invested in short-term fixed-interest instruments. These investments generally have a contract duration of between one and twelve months in order to achieve short term interest rate returns. The risk to these assets of changing interest rates is partially offset by financial liabilities, some of which are based on variable interest rates.

To reduce the net remaining risks caused by changes in 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 rates on profit or loss and equity. Infineon prepares this using the iteration method. Infineon does not hold any fixed-rate financial assets or liabilities that are measured at fair value through profit or loss. Furthermore, Infineon did not hold any fixed-rate available-for-sale financial assets either in 2014 or 2013.

Changes in market interest rates affect interest income and interest expense on variable rate financial instruments. A change in interest rates as of September 30, 2014 and September 30, 2013 would have no significant impact on the respective net interest result of the 2014 and 2013 fiscal years, therefore further details are not included here.

Other price risk

According to IFRS 7 "Financial Instruments: Disclosures", other price risk is defined as the risk that the fair value or future cash flows of a financial instrument could fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), irrespective of whether those changes are caused by factors specific to the individual financial instrument or its issuer, or by factors affecting all similar financial instruments traded in the market.

Infineon holds financial instruments that are exposed to market price risks. A change in the relevant market prices would have no significant impact on the result of the 2014 and 2013 fiscal years, therefore further details are not included here.

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 concluded additional financial derivative contracts for certain commodity supplies (gold) for the following fiscal year in order to mitigate the remaining risk which arises from the fluctuation of commodity prices. The change in relevant market prices as of September 30, 2014 and September 30, 2013 had no significant impact on equity of the 2014 and 2013 fiscal years, therefore no further details are given here.

Credit risk

Credit risk arises when a customer or other counterparty of a financial instrument fails to discharge its contractual obligations.

Infineon is exposed to this risk as a consequence of its ongoing operations, the investment of cash funds and certain financing activities. Infineon's credit risk arises primarily from trade receivables, cash and cash equivalents, financial investments and derivative financial instruments. Excluding the impact of any collateral received, the carrying amount of financial investments, cash and cash equivalents and trade receivables corresponds to the maximum credit risk.

Credit risk with respect to trade receivables is limited by the large number and geographic diversity of the customer base. Infineon controls credit risk through comprehensive credit evaluations for all major customers, the use of credit limits and monitoring procedures. New customers are evaluated for creditworthiness in accordance with Infineon guidelines. Credit limits are also in place for individual customers. Creditworthiness and credit limits are constantly monitored. A further measure taken to reduce credit risk is the use of reservation of title clauses. However, despite continuous monitoring, Infineon cannot fully exclude the possibility of a loss arising from the default of one of its contract parties.

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 establishes daily investment limits for individual banks, based on current ratings (Standard & Poor's, Moody's or Fitch) and credit default swap premiums. Any possible breaches of stipulated thresholds must be reported and risk exposures reduced.

Infineon has spread its cash investments over more than 10 banks. At September 30, 2014 no financial institution was responsible for more than 14 percent (2013: 12 percent) of Infineon's cash investments. This gives rise to a maximum risk of €190 million (2013: €230 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 €41 million (2013: €2 million), of which €39 relates to the Deal Contingent Forward described above.

Financing and liquidity risk

Financing and liquidity risk is the risk that an entity will encounter difficulties in meeting obligations associated with financial liabilities.

Liquidity risk could arise from a potential inability of Infineon to meet maturing financial obligations. Infineon's liquidity management provides that sufficient levels of cash and other funds are available at short notice as well ensuring the availability of funding through an adequate amount of committed credit facilities.

The following table discloses the 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 that result from the respective financial liability. Cash flows are recognized at the date when Infineon becomes a contractual partner to the financial instrument. Amounts in foreign currencies are translated using the closing rate at the reporting date. The value of financial instruments with variable interest payments is determined using the interest rate from the last interest fixing date before September 30, 2014. 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	2015	2016	2017	2018	2019	Thereafter
Non derivative financial liabilities	1,032	865	21	16	6	107	17
Derivative financial liabilities:							
Cash outflow	60	53	7	–	–	–	–
Cash inflow [1]	(57)	(50)	(7)	–	–	–	–
Total	**1,035**	**868**	**21**	**16**	**6**	**107**	**17**

1 Cash inflows of derivative financial liabilities are included where these are incurred upon settlement of the instrument, in order to show all contractual cash flows.

33 Legal risks

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 violations of U.S. antitrust laws in the DRAM industry. Thereafter civil class action lawsuits were filed in the USA and Canada seeking damages which, in the meantime, have been amicably settled.

In October 2008 the EU Commission initiated an investigation into the Company and other manufacturers of chips for smartcards for alleged violations of antitrust laws. On September 3, 2014 the EU Commission imposed a fine of €83 million on Infineon which was paid in October 2014. Infineon rejects the allegations as unfounded. Moreover Infineon believes its procedural rights to have been violated by the EU Commission and has brought an action against this decision before the European Court of Justice in Luxembourg in mid-November 2014.

Several customers in Canada have filed class actions for damages in connection with these investigative proceedings: The first action was filed in the state of British Columbia in July 2013, and the second in the state of Quebec in September 2014. The actions followed the press reports on the respective investigation and the decision of the EU Commission. No dates have been set for court proceedings.

In June 2010, the Brazilian 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 as parties to the proceedings, and focuses on the period from July 1998 to June 2002. The SDE’s Notice of Investigation is based on the antitrust proceedings carried out in the United States and in Europe. The company remains in contact with the authorities and endeavors to reach an amicable solution. Any statement by the Company as to the possible outcome of these proceedings could seriously damage the Company’s position in these matters. There is no certainty that the provisions recorded will be sufficient to cover all of the liabilities that could ultimately be incurred in relation to these proceedings.

Patent litigation

In November 2008, Volterra Semiconductor Corporation (“Volterra”) filed suit against the Company, IF North America, and Primarion, Inc., a former affiliate of the Company that is now part of 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 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 remained in the lawsuit. In 2011, the court found infringement of two patents, but in 2013 the court rejected almost all of the damages claimed. The parties then agreed on injunctive relief with no impact on Infineon’s current products.
In January 2010, the Company itself filed a patent infringement action against Volterra in the District of Delaware, later transferred to the Northern District of California. In August 2013, Infineon Technologies Austria AG, an affiliate of the Company, also filed suit against Volterra as well as its Asian subsidiary in the Eastern District of Texas for patent infringement. On October 30, 2014, the parties settled in mediation, whereby all lawsuits against the Company and its affiliates will be dismissed. The terms of the settlement are confidential.

Proceedings in relation to Qimonda

All significant assets, liabilities and business activities attributable to the memory business (Memory Products) were carved out from Infineon and transferred to Qimonda in the form of a non-cash contribution with economic effect from May 1, 2006. Various service agreements were concluded with Qimonda in addition to the demerger and contribution agreement of April/May, 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. The insolvency of Qimonda has given rise to various disputes between the administrator and Infineon.

Partial settlement on September 11, 2014

On September 11, 2014 the Company and the administrator reached a partial settlement which was closed on 9 October, 2014. On the closing day the Company paid €260 million to the administrator.

The partial settlement includes the acquisition by Infineon of Qimonda's patent business including the entire patent portfolio. On the closing day, the administrator transferred the patent business including the ownership of the patents to Infineon. With the exception of the proceedings mentioned below, the payment on the closing day amicably ends the actions with respect to the continuing use of the Qimonda patents and Infineon's ownership of the license. The below mentioned decision of the Munich Higher Regional Court thereby became legally binding.

With the partial settlement the below mentioned insolvency law proceedings contesting intercompany payments were also amicably brought to a close.

Additionally, further out-of-court claims of right to contest under insolvency law, as well as any other claims made by the administrator are settled, apart from those relating to the proceedings in connection with the alleged activation of a shell company and liability for impairment of capital.

Alleged activation of a shell company and liability for impairment of capital

The administrator filed a request for declaratory judgment in an unspecified amount against Infineon Technologies AG and, by way of third party notice, Infineon Technologies Holding B.V. and Infineon Technologies Investment B.V., at Regional Court Munich I in November 2010. This requested that Infineon be deemed liable to make good the deficit balance of Qimonda as it stood when the insolvency proceedings in respect of the assets of Qimonda began, i.e., to refund to Qimonda the difference between the latter's actual business assets when the insolvency proceedings began and its share capital (in German: "Unterbilanzhaftung"). The administrator contended that the commencement of operating activities by Qimonda amounted to what is considered in case law to be the activation of a shell company (in German: "Wirtschaftliche Neugründung"), and that this activation of a shell company was not disclosed in the correct manner. On March 6, 2012, with respect to another matter, the German Federal High Court issued a ruling on principle that any liability resulting from the activation of a shell company only depends on the situation at the date of the activation of a shell company and not, as asserted by the 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, as already asserted out of court against Infineon in August 2011 for an unspecified amount, on so-called liability for impairment of capital (in German "Differenzhaftung"). This claim is based on the allegation that, from the very beginning, the carved-out memory products business had a negative billion euro value. The administrator therefore asserts that Infineon is obliged to make good the difference between this negative value and the lowest issue price (in German: "geringster Ausgabebetrag") of the subscribed stock.

The alleged impairment of capital runs contrary to two valuations prepared as part of the preparatory documentation for the capital increase by independent auditing companies, one of which had been engaged by Infineon and the other of which was acting in the capacity of a court-appointed auditor of non-cash contributions and post-formation acquisitions. The auditing company engaged by Infineon concluded in its valuation that the business area contributed had a value of several times the lowest issue price of the shares issued, while the court-appointed auditor of non-cash contributions and post-formation acquisitions confirmed to the court that the lowest issue price of the shares issued was covered – as legally required – by the value of the non-cash contributions. Additionally, in the course of its defense against the claims asserted by the administrator, Infineon has commissioned several expert opinions all of which arrive at the same conclusion, that the objections raised by the administrator against the valuation of the non-cash contribution are not valid.

The parties have exchanged comprehensive written submissions as well as expert reports. On August 29, 2013 the court appointed an independent expert in order to clarify specifically the valuation issues raised by the administrator.

Continuation of the rights of use of Infineon and its licensees in respect of Qimonda patents
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.

The Company had filed an action for declaratory judgment against the administrator 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 intellectual property of the Qimonda Group are still valid. 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. Confirming the Company's legal opinion, in its ruling of July 25, 2013, the Munich Regional Appeal Court upheld the first instance judgment, apart from a small number of restrictions. The administrator had applied to the US Bankruptcy Court for the Eastern District of Virginia in October 2009 for an order stating that rights of use under Qimonda's US patents 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. Infineon and other semiconductor manufacturers had filed objections to this application.

In October 2011, the US Bankruptcy Court decided that the legal protection offered by section 365(n) of the US Bankruptcy Code applies with respect to Qimonda's US patents, thus the patents' rights of use 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 affirmed the decision of the U.S. Bankruptcy Court on December 3, 2013. On October 6, 2014, the administrator applied to the U.S. Supreme Court for a review of the case. The US Supreme Court dismissed the administrator's right of appeal against the decision of the Court of Appeals, as a result of which this decision is legally binding.

The legal disputes described above were settled by the abovementioned partial settlement on September 11, 2014. As a result of this, and as a result of the acquisition of the Qimonda patent business connected with the partial settlement, all rights of use granted under the Qimonda patents to Infineon and Infineon's licensees are legally valid.

Contestation of intercompany payments under insolvency law
On March 22, 2013, the administrator had filed suit against Infineon at Regional Court Munich I. In this suit, the administrator asserted insolvency law related claims amounting to €105.9 million and US$28 million plus interest of 5 percentage points over the base rate of the German Federal Bank for the period since the opening of the insolvency proceedings. On 17 April, 2014, the administrator demanded the repayment of payments made to Infineon Technologies Dresden GmbH of nearly €11 million, as well as to the Company of nearly €1 million, plus interest, on the grounds of insolvency. The legal disputes described were settled by the aforementioned partial settlement made on September 11, 2014.

Residual liability of Infineon as former shareholder of Qimonda Dresden GmbH & Co. OHG
Infineon was a shareholder with personal liability of Qimonda Dresden until the carve-out of the memory business, as a result certain long-standing creditors have residual liability claims against Infineon. These claims, 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. Settlements have subsequently been concluded with some of the residual liability creditors.

Provisions relating to Qimonda
Infineon recognizes provisions and liabilities for such obligations and risks which it assesses at the end of each reporting period are more likely than not to be incurred (that is where, from Infineon's perspective at the end of each reporting period, the probability of having to settle an obligation or risk is greater than the probability of not having to) and the obligation or risk can be estimated with reasonable accuracy at this time.

As described above, Infineon faces certain risks in connection with the insolvency proceedings relating to the assets of Qimonda and that entity's subsidiaries. As a result, Infineon recorded provisions in connection with some of the abovementioned matters totaling €312 million as of September 30, 2014 (2013: €356 million). Of the provisions recorded as of September 30, 2014, €125 million is assigned to the partial settlement concluded with the administrator in September 2014 and closed in October 2014, and, after deducting the fair value of the Qimonda patents planned to be resold, €104 million is assigned to the settlement of the dispute over the continuation of the right of use of the Qimonda patents. €48 million has been provided in connection with the residual liability as former shareholder of Qimonda Dresden. For the defense of the proceedings still pending for the alleged activation of a shell company and liability for impairment of capital, the Company has recorded a provision of €26 million as of September 30, 2014. Remaining provisions in connection with the Qimonda insolvency total €9 million as of September 30, 2014. In addition €3 million (CAD 4.5 million) was recognized as liability as of September 30, 2014 for the settlement of the Canadian DRAM lawsuit.

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 possible that liabilities and risks materialize that are currently considered to be unlikely to do so, and accordingly 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 can relate to products, services, patents, environmental issues and other matters. Based on its current knowledge, Infineon does not believe that the ultimate resolution of these other pending legal disputes and proceedings will have a material adverse effect on Infineon's financial condition, liquidity position and results of operations. However future revisions to this assessment cannot be ruled out and any re-assessment of the miscellaneous legal disputes and proceedings could have a material adverse effect on the financial condition, liquidity position and results of operations, particularly in the period in which re-assessment is made. Furthermore, in connection with its existing or previous business operations, Infineon is also exposed to numerous legal risks which have until now not resulted in legal disputes. These include risks related to product liability, environment, capital market, anti-corruption, competition and antitrust legislation as well as other compliance regulations. Claims could also be made against Infineon in connection with these matters in the event of breaches of law committed by individual employees or third parties.

Provisions for legal proceedings and other uncertain legal issues

Provisions relating to legal proceedings and other uncertain legal issues are recorded when it is probable that a liability has been incurred and the associated amount can be reasonably estimated. If the estimated amount is within a range of amounts and all amounts within the range are 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 decision 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 the defense against or settlement of such allegations and this too could have a material adverse effect on its financial condition, liquidity position and results of operations.

Contingent liabilities arising from legal disputes and other uncertain legal positions

To the extent that liabilities arising from legal disputes and other uncertain legal positions (see section "Litigation and government enquiries") are not probable or cannot be reliably estimated, then they qualify as contingent liabilities. Management is of the opinion that, according to the current assessment, with the exception of possible claims that could arise from the action brought by the Qimonda administrator in connection with the alleged activation of a shell company and liability for impairment of capital, as well as claims that could arise as a consequence of the EU Commission's decision on September 3, 2014 on a fine, the existing contingent liabilities have no material effect on Infineon's financial condition, liquidity position and results of operations.

34 Contingent liabilities and other financial commitments

Contingent liabilities

Contingent liabilities relate to possible future events, the occurrence of which would result in an obligation. The occurrence of such an obligation is considered to be unlikely at the reporting date, but cannot be ruled out entirely.

The following table summarizes Infineon's contingent liabilities with respect to external parties, excluding possible liabilities arising from litigation, as of September 30, 2014:

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	110	13	11	7	47	4	28

In total, Infineon has guarantees outstanding to external parties as of September 30, 2014 amounting to €110 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 provisions, liabilities 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.

Undiscounted future minimum operating lease and rental payments arising from operating lease contracts amounted to €402 million (September 30, 2013: €574 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
Payments arising from lease contracts	567	93	81	55	49	48	241
Payments arising from sub-lease contracts	(165)	(17)	(16)	(15)	(15)	(15)	(87)
Total Commitments	**402**	**76**	**65**	**40**	**34**	**33**	**154**

Total rental expenses under operating leases amounted to €68 million and €66 million for the years ended September 30, 2014 and 2013, respectively.

Contracts already entered into for commenced or planned investments in property, plant and equipment (purchase commitments) at September 30, 2014 amounted to €122 million (September 30, 2013: €150 million).

Purchase commitments for planned investments in intangible assets at September 30, 2014 amounted to €2 million (September 30, 2013: €2 million).

Long-term purchase commitments are in place for the supply of raw materials, in particular for wafers, strategic raw materials, semiconductor intermediate products, electricity and gas. Overall, these minimum purchase commitments give rise to other financial obligations amounting to approximately €519 million as at the reporting date (September 30, 2013: €553 million). These contracts generally have terms of between one and seven years. Purchases under these agreements are recorded as incurred in the normal course of business. Infineon assesses its anticipated purchase requirements on a regular basis in order to meet customer demand for its products. An assessment of potential losses under these purchase contracts is made on a regular basis for example in the event that anticipated purchase quantities fall below the minimum contractual quantities.

In conjunction with its investing activities, Infineon receives government grants and subsidies related to the construction and financing of certain of its production facilities. Grants are also received for selected research and development projects. These amounts are recognized upon the achievement of specified criteria. Certain of these grants have been received contingent upon Infineon complying with certain project-related requirements, such as creating a specified number of jobs over a defined period of time. Infineon is committed to maintaining these requirements, and from today's perspective Infineon expects to be able to do so. Nevertheless, should such requirements not be met, as of September 30, 2014, a maximum of €66 million of these subsidies could be refundable. Such amount does not include any potential liabilities for Qimonda-related subsidies (see note 33).

Infineon, through certain of its sales and other agreements may, in the normal course of business, be obligated to indemnify its counterparties under certain conditions for warranties, patent infringement or other matters. The maximum amount of potential future payments under these types of agreements is not predictable with any degree of certainty, since the potential obligation is contingent on events that may or may not occur in future, and depends on certain facts and circumstances specific to each agreement. Historically, payments made by Infineon under these types of agreements have not had a material adverse effect on Infineon's financial condition, liquidity position and results of operations.

On December 23, 2003, the Company entered into a long-term lease contract with MoTo Objekt Campeon GmbH & Co. KG ("MoTo"). This included an agreement to lease an office complex south of Munich known as Campeon whose construction was completed by MoTo in the second half of 2005. Infineon has no obligations with respect to financing MoTo and has taken over no guarantees related to the construction. The Company took on Campeon under an operating lease arrangement in October 2005 and completed the move of its employees to this new location in the 2006 fiscal year. The complex was leased 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, 2014. Lease payments are subject to limited adjustments 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.

35 Segment reporting

Identification of Segments

Infineon identifies reportable segments on the basis of the differences between the types of products and their applications.

During the 2014 fiscal year, Infineon's business was structured on the basis of four operating segments, namely Automotive, Industrial Power Control, Power Management & Multimarket and Chip Card & Security. Additionally Infineon differentiates between Other Operating Segments and Corporate and Eliminations.

Automotive

The Automotive segment designs, develops, manufactures and markets semiconductors for use in automotive applications.

Industrial Power Control

The Industrial Power Control segment designs, develops, manufactures and markets semiconductors for the 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 card applications and networked systems.

Other Operating Segments

Other Operating Segments comprises the remaining activities of businesses that have been disposed of, and other business activities. Since the closing of the sale of the Wireline Communications business and the Wireless mobile phone business, sales to Lantiq and Intel Mobile Communications under the corresponding production agreements, other than those assigned to discontinued operations, are included in this segment.

Corporate and Eliminations

Corporate and Eliminations reflects the elimination of intragroup revenue and profits/losses to the extent that these arise between the segments.

Similarly, certain items are included in Corporate and Eliminations which are not allocated to the other segments. These include certain corporate headquarter costs and specific strategic technology initiatives, such as the 300-millimeter thin-wafer technology, which are not allocated to the segments since they arise from corporate decisions not within the direct control of segment management.

Furthermore, raw materials and work in progress of the common production frontend facilities, and raw materials of the common backend facilities, are not under the control or responsibility of the operating segment managers and are therefore allocated to corporate functions. Only work in progress of backend facilities and finished goods are allocated to the operating segments.

Chief Operating Decision Maker, definition of Segment Result and allocation of assets and liabilities to the individual segments

The Management Board, as 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.

Segment Result is defined as the operating income (loss) excluding: asset impairments (net of reversals); the impact on earnings of restructuring and closures; share-based compensation expense; acquisition-related depreciation/amortization and other expenses; gains (losses) on sales of assets, businesses, or interests in subsidiaries as well as other income (expense), including litigation costs.

Decisions relating to financing and the investment of cash funds are taken at a Group level and not at a segment level. For this reason, financial income and financial expense (including interest income and expense) are not allocated to the segments.

Neither assets nor liabilities are allocated to the segments, nor is segment performance assessed on this basis. Similarly, cash flows are not determined on a segment basis.

The exception to this approach is inventory information which is regularly analyzed at a segment level. Infineon also allocates depreciation and amortization expense to the operating segments based on production volume and product mix using standard costs.

Segment information

The following tables present selected segment data:

€ in millions	2014	2013
Revenue:		
Automotive	1,965	1,714
Industrial Power Control	783	651
Power Management & Multimarket	1,061	987
Chip Card & Security	494	463
Other Operating Segments	22	26
Corporate and Eliminations	(5)	2
Total	**4,320**	**3,843**

The operating segments do not currently have any trading relationships with one another. Accordingly, there was no intersegment revenue during the 2014 and 2013 fiscal years. Costs are recharged if applicable without impact on profit or loss.

€ in millions	2014	2013
Segment Result:		
Automotive	259	167
Industrial Power Control	144	38
Power Management & Multimarket	172	144
Chip Card & Security	43	39
Other Operating Segments	6	(9)
Corporate and Eliminations	(4)	(2)
Total	**620**	**377**

The following table provides the reconciliation of Segment Result to income from continuing operations before income taxes:

€ in millions	2014	2013
Segment Result	**620**	**377**
Plus/minus:		
Impairment on assets including assets classified as held for sale, net of reversals	(3)	(19)
Impact on earnings of restructuring and closures, net	(8)	(18)
Share-based compensation expense	(6)	(3)
Acquisition-related depreciation/amortization and other expenses	(8)	(2)
Gains (losses) on sales of assets, businesses, or interests in subsidiaries, net	2	1
Other income and expense, net [1]	(72)	(11)
Operating income	**525**	**325**
Financial income	10	30
Financial expense	(19)	(51)
Gain (loss) from investments accounted for using the equity method, net	3	2
Income from continuing operations before income taxes	**519**	**306**

1 Included in the 2014 fiscal year is the €83 million fine imposed on Infineon by the EU-Commission in their chip card antitrust investigations.

€ in millions	2014	2013
Depreciation and amortization:		
Automotive [1]	232	204
Industrial Power Control [1]	103	82
Power Management & Multimarket [1, 2]	112	109
Chip Card & Security [1]	62	66
Other Operating Segments [1]	5	5
Corporate and Eliminations	–	–
Total	**514**	**466**

1 In the 2014 und 2013 fiscal years €7 million and €5 million of depreciation and amortization which are not included in the Segment Result are included here for the segments.

2 Includes in the 2014 and 2013 fiscal years €1 million and €2 million of acquisition-related depreciation and amortization which are not included in the Segment Result.

Income from associated companies and joint ventures accounted for using the equity method totaled €3 million and €2 million in the 2014 and 2013 fiscal years, respectively. This income was recognized in the Industrial Power Control segment in the 2014 fiscal year. The income in the 2013 fiscal year was recognized half in the Industrial Power Control segment and half in the Other Operating Segments. This allocated income is however not included in the Segment Result.

€ in millions	2014	2013
Inventories:		
Automotive	214	176
Industrial Power Control	104	66
Power Management & Multimarket	112	96
Chip Card & Security	40	33
Other Operating Segments	–	1
Corporate and Eliminations	237	237
Total	**707**	**609**

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, 2014 and 2013:

€ in millions	2014	2013
Revenue:		
Europe, Middle East, Africa	1,707	1,567
Therein: Germany	859	795
Asia-Pacific (without Japan)	1,845	1,560
Therein: China	868	710
Japan	284	227
Americas	484	489
Total	**4,320**	**3,843**

€ in millions	2014	2013
Property, plant and equipment, goodwill and other intangible assets:		
Europe	1,271	1,191
Therein: Germany	816	723
Asia-Pacific (w/o Japan)	665	567
Therein: China	20	18
Japan	1	1
Americas	13	11
Total	**1,950**	**1,770**

Revenues from external customers are based on the customers' billing location. Regional employment data is provided in note 6.

For the 2014 fiscal year revenue with one single customer amounted to €441 million. This revenue is allocated to all four operating segments of Infineon. For the 2013 fiscal year revenue with one single customer amounted to €395 million.

36 Additional information in accordance with HGB

Application of exemption regulations

The entities listed below have entered into control and profit and loss transfer agreements with Infineon Technologies AG, and intend to make use of the option contained in section 264 paragraph 3 HGB exempting incorporated companies from certain requirements relating to the preparation, audit and publication of annual financial statements:

- Hitex Development Tools GmbH, Karlsruhe,
- Infineon Technologies Finance GmbH, Neubiberg,
- Infineon Technologies Mantel 19 GmbH, Neubiberg,
- Infineon Technologies Mantel 21 GmbH, Neubiberg and
- Infineon Technologies Mantel 25 GmbH, Neubiberg,

make use of the possibility of exemption from the requirements of section 325 HGB governing the publication of annual financial statements.

Infineon Technologies Dresden GmbH makes use of the possibility of exemption from the obligation to prepare a management report, and the exemption from the requirements of section 325 HGB governing the publication of annual financial statements.

Due to the insolvency of Qimonda, Qimonda and its subsidiaries are not included in the Company's Consolidated Financial Statements. Infineon has no information as to whether Qimonda draws up Consolidated Financial Statements or makes use of the possibility of exemptions with respect to their preparation.

Information pursuant to section 161 Stock Corporation Act (AktG)

The Declaration of Compliance prescribed by section 161 AktG was drawn up by the Management Board and the Supervisory Board and made permanently available to the public in the internet at www.infineon.com ("About Infineon/Investor/Corporate Governance/Declaration of Compliance").

Accounting fees pursuant to section 314 paragraph 1 no. 9 HGB

Year-end audit fees

At the Annual General Meeting held on February 13, 2014, the shareholders elected KPMG AG Wirtschaftsprüfungsgesellschaft ("KPMG"), Munich, as Company and Group auditor for the 2014 fiscal year. The audit fees charged by KPMG in the 2014 fiscal year amounted to €0.9 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 an aggregate of €0.2 million in the 2014 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 thousand in the 2014 fiscal year for professional services relating to tax.

Other fees

Fees of €0.1 million were charged by KPMG in the 2014 fiscal year for other services.

Management Board and Supervisory Board

Management compensation in 2014 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 8 HGB, is disclosed in the Compensation Report which is part of the Group Management Report.

Management Board

The members of the Management Board during the 2014 fiscal year were as follows:

Name	Age	Term expires	Position	Membership of Supervisory Boards and governing bodies of domestic and foreign companies
Dr. Reinhard Ploss	58	September 30, 2020	Chairman of the Management Board, Chief Executive Officer, Labor Director	Member of the Supervisory Board • Infineon Technologies Austria AG, Villach, Austria (Chairman) Member of the Board of Directors • Infineon Technologies (Kulim) Sdn. Bhd., Kulim, Malaysia (Chairman)
Dominik Asam	45	December 31, 2018	Member of the Management Board, Executive Vice President, Chief Financial Officer	Member of the Supervisory Board • EPCOS AG, Munich • Infineon Technologies Austria AG, Villach, Austria Member of the Board of Directors • 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	43	December 31, 2019	Member of the Management Board, Executive Vice President	Member of the Supervisory Board • tesa SE, Hamburg (since April 24, 2014) Member of the Board of Directors • Infineon Technologies Asia Pacific Pte., Ltd., Singapore (Chairman) • Infineon Technologies India, Pvt. Ltd., Bangalore, India • Infineon Technologies North America Corp., Wilmington, Delaware, USA (Chairman) • Infineon Technologies Japan K.K., Tokyo, Japan

The Supervisory Board

The members of the Supervisory Board during the 2014 fiscal year, the Supervisory Board position held by them, their occupation, their membership of other supervisory and governing bodies and their ages are as follows (as at: September 30, 2014):

Name	Age	Term expires	Occupation	Membership of Supervisory Boards and comparable governing bodies of domestic and foreign companies
Wolfgang Mayrhuber Chairman	67	Annual General Meeting 2015	Management Consultant	Member of the Supervisory Board • Deutsche Lufthansa AG, Köln (chairman) • BMW AG, Munich • Münchener Rückversicherungs-Gesellschaft AG, Munich Member of the Board of Directors • Heico Corporation, Hollywood, Florida, USA
Gerd Schmidt [1] Deputy Chairman	60	Annual General Meeting 2015	Chairman of the Infineon Works Council, Regensburg, Infineon Technologies AG	
Wigand Cramer [1]	61	Annual General Meeting 2015	Labor union secretary IG Metall, Berlin	
Reinhard Gottinger [1] (since April 1, 2014)	53	Annual General Meeting 2015	Chairman of the Central Works Council Infineon Technologies AG	
Peter Gruber [1] Representative of Senior Management	53	Annual General Meeting 2015	Senior Vice President Operations Finance Infineon Technologies AG	Member of the Supervisory Board • Infineon Technologies Dresden GmbH, Dresden Member of the Board of Directors • Infineon Technologies (Kulim) Sdn. Bhd., Kulim, Malaysia
Gerhard Hobbach [1]	52	Annual General Meeting 2015	Member of the Infineon Works Council, Campeon, Infineon Technologies AG	
Hans-Ulrich Holdenried	63	Annual General Meeting 2015	Management Consultant	Member of the Supervisory Board • Integrata AG, Stuttgart • Wincor Nixdorf AG, Paderborn
Prof. Dr. Renate Köcher	62	Annual General Meeting 2015	Managing Director Institut für Demoskopie Allensbach GmbH, Allensbach	Member of the Supervisory Board • Allianz SE, Munich • BMW AG, Munich • Robert Bosch GmbH, Gerlingen • Nestlé Deutschland AG, Frankfurt am Main
Dr. Manfred Puffer	51	Annual General Meeting 2015	Management Consultant	Member of the Board of Directors • Athene Holding Ltd., Pembroke, Bermuda • Athene Life Re Ltd., Pembroke, Bermuda
Prof. Dr. Doris Schmitt-Landsiedel	61	Annual General Meeting 2015	Professor, Munich Technical University	
Jürgen Scholz [1]	53	Annual General Meeting 2015	First authorized agent of IG Metall, Regensburg	Member of the Supervisory Board • Krones AG, Neutraubling Member of the Administrative Board • BMW BKK AG, Dingolfing
Dr. Eckart Sünner	70	Annual General Meeting 2015	Of Counsel Allen & Overy, Mannheim	Member of the Supervisory Board • K+S AG, Kassel
Former members of the Supervisory Board				
Alfred Eibl [1]	65	March 31, 2014	Chairman of the Central Works Council Infineon Technologies AG	

1 Employee representative

The Supervisory Board maintains the following principal committees

Mediation Committee
Wolfgang Mayrhuber (Chairman)
Hans-Ulrich Holdenried
Gerd Schmidt
Jürgen Scholz

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

Strategy and Technology Committee
Prof. Dr. Doris Schmitt-Landsiedel (Chairwoman)
Reinhard Gottinger
Peter Gruber
Hans-Ulrich Holdenried
Wolfgang Mayrhuber
Jürgen Scholz

Nomination Committee
Wolfgang Mayrhuber (Chairman)
Prof. Dr. Renate Köcher
Dr. Manfred Puffer

The members of the Company's Supervisory Board, individually or in aggregate, do not own, directly or indirectly, more than 1 percent of Infineon Technologies AG's outstanding share capital as of September 30, 2014.

The business address of each member of the Supervisory Board is: Infineon Technologies AG, Am Campeon 1 – 12, D-85579 Neubiberg (Germany).

Subsidiaries, joint ventures and associated companies as of September 30, 2014

Name of company	Registered office	Share-holdings in %	Equity (€ in millions)	Net result (€ in millions)	Footnote
Fully consolidated subsidiaries:					
Hitex Development Tools GmbH	Karlsruhe, Germany	100	2.16	0.00	3
Infineon Integrated Circuit (Beijing) Co., Ltd.	Beijing, People's Republic of China	100	13.04	1.36	6
Infineon Technologies (Advanced Logic) Sdn. Bhd.	Malacca, Malaysia	100	21.82	3.23	3
Infineon Technologies (Kulim) Sdn. Bhd.	Kulim, Malaysia	100	124.88	(5.83)	3
Infineon Technologies (Malaysia) Sdn. Bhd.	Malacca, Malaysia	100	152.06	27.48	3
Infineon Technologies (Wuxi) Co., Ltd.	Wuxi, People's Republic of China	100	105.65	9.94	6
Infineon Technologies (Xi'an) Co., Ltd.	Xi'an, People's Republic of China	100	5.65	(1.53)	6
Infineon Technologies Asia Pacific Pte. Ltd.	Singapore, Singapore	100	156.73	36.00	3
Infineon Technologies Australia Pty. Ltd.	Bayswater, Australia	100	1.02	0.12	3
Infineon Technologies Austria AG	Villach, Austria	100	476.50	74.57	3
Infineon Technologies Batam PT	Batam, Indonesia	100	12.51	1.23	3
Infineon Technologies Cegléd Kft.	Cegléd, Hungary	100	14.75	(0.76)	3
Infineon Technologies Center of Competence (Shanghai) Co., Ltd.	Shanghai, People's Republic of China	100	2.68	0.15	6
Infineon Technologies China Co., Ltd.	Shanghai, People's Republic of China	100	106.34	11.06	6
Infineon Technologies Dresden GmbH	Dresden, Germany	100	224.27	0.00	3
Infineon Technologies Finance GmbH	Neubiberg, Germany	100	369.89	0.00	3
Infineon Technologies France S.A.S.	St. Denis, France	100	14.16	3.03	3
Infineon Technologies Holding B.V.	Rotterdam, The Netherlands	100	2,037.12	64.41	3
Infineon Technologies Hong Kong, Ltd.	Hong Kong, People's Republic of China	100	1.56	0.17	3
Infineon Technologies India, Pvt. Ltd.	Bangalore, India	100	13.42	1.10	4
Infineon Technologies Industrial Power, Inc.	Wilmington, Delaware, USA	100	8.79	0.68	3
Infineon Technologies Investment B.V.	Rotterdam, The Netherlands	100	1.04	0.00	3
Infineon Technologies Italia s.r.l.	Milan, Italy	100	1.33	0.52	3
Infineon Technologies IT-Services GmbH	Klagenfurt, Austria	100	5.92	3.29	3
Infineon Technologies Japan K.K.	Tokyo, Japan	100	6.12	2.37	3
Infineon Technologies Korea Co., Ltd.	Seoul, Republic of Korea	100	3.75	0.80	3
Infineon Technologies Nordic AB	Kista, Sweden	100	5.67	0.43	3
Infineon Technologies North America Corp.	Wilmington, Delaware, USA	100	99.55	6.18	3
Infineon Technologies Romania & Co. Societate in Comandita	Bucharest, Romania	100	1.17	0.75	3
Infineon Technologies Shared Service Center, Unipessoal Lda.	Maia, Portugal	100	1.11	0.13	3
Infineon Technologies Taiwan Co., Ltd.	Taipei, Taiwan	100	3.02	0.81	3
Infineon Technologies U.K. Ltd.	Bristol, Great Britain	100	3.22	1.48	3
LS Power Semitech Co., Ltd.	Cheonan, Republic of Korea	66	8.51	1.97	6
Molstanda Vermietungsgesellschaft mbH	Neubiberg, Germany	94	12.17	2.32	6
Joint ventures/associated companies:					
Cryptomathic A/S	Arhus, Denmark	34	12.82	0.79	6
Cryptomathic Holding ApS	Arhus, Denmark	34	5.33	1.95	6
Infineon Technologies Bipolar GmbH & Co. KG	Warstein, Germany	60	67.30	(0.91)	3
Infineon Technologies Bipoláris Kft.	Cegléd, Hungary	60	1.42	0.01	3

Name of company	Registered office	Share-holdings in %	Equity (€ in millions)	Net result (€ in millions)	Footnote
Immaterial subsidiaries: [1]					
DICE Danube Integrated Circuit Engineering GmbH	Linz, Austria	72	0.10	0.01	3
DICE Danube Integrated Circuit Engineering GmbH & Co. KG	Linz, Austria	72	1.03	0.98	3
EPOS embedded core & power systems GmbH & Co. KG	Duisburg, Germany	100	0.49	0.22	3
EPOS embedded core & power systems Verwaltungs GmbH	Duisburg, Germany	100	0.05	0.00	3
eupec Thermal Management Inc. in liquidation	Wilmington, Delaware, USA	51	0.01	(0.08)	3
Hitex (UK) Limited	Coventry, Great Britain	88	1.67	0.22	3
Infineon Technologies Austria Pensionskasse AG	Villach, Austria	100	0.83	0.01	6
Infineon Technologies Bipolar Verwaltungs GmbH	Warstein, Germany	60	0.03	0.00	3
Infineon Technologies Canada, Inc.	St.John, New Brunswick, Canada	100	0.00	0.00	3
Infineon Technologies Delta GmbH	Neubiberg, Germany	100	0.02	0.00	3
Infineon Technologies Gamma GmbH	Neubiberg, Germany	100	0.02	0.00	3
Infineon Technologies Iberia S.L.U.	Madrid, Spain	100	0.14	0.04	3
Infineon Technologies Ireland Ltd.	Dublin, Ireland	100	0.52	0.13	3
Infineon Technologies Mantel 19 GmbH	Neubiberg, Germany	100	0.05	0.00	3
Infineon Technologies Mantel 21 GmbH	Neubiberg, Germany	100	0.03	0.00	3
Infineon Technologies Mantel 24 GmbH	Neubiberg, Germany	100	0.02	0.00	3
Infineon Technologies Mantel 25 GmbH	Neubiberg, Germany	100	0.02	0.00	3
Infineon Technologies Mantel 26 AG	Neubiberg, Germany	100	0.05	0.00	3
Infineon Technologies Romania s.r.l.	Bucharest, Romania	100	0.03	0.00	6
Infineon Technologies RUS LLC	Moscow, Russian Federation	100	0.10	0.02	6
Infineon Technologies Schweiz GmbH	Zurich, Switzerland	100	0.20	0.03	3
Infineon Technologies South America Ltda.	São Paulo, Brazil	100	0.02	(0.05)	3
KAI Kompetenzzentrum Automobil- und Industrieelektronik GmbH	Villach, Austria	100	0.10	0.00	6
KFE Kompetenzzentrum Fahrzeug Elektronik GmbH	Lippstadt, Germany	24	1.63	(0.02)	6
Magellan Technology Pty. Ltd. in liquidation	Annandale, Australia	16	0.91	(2.63)	5
MicroLinks Technology Corp.	Kaohsiung, Taiwan	1	0.57	(0.35)	6
OSPT IP Pool GmbH	Neubiberg, Germany	100	0.02	0.00	3
Surf Merger Sub Inc.	Wilmington/Delaware, USA	100	N.A.	N.A.	7
Qimonda AG and its subsidiaries: [2]					
Celis Semiconductor Corp.	Colorado Springs, Colorado, USA	17	–	–	2
Itarion Solar Lda.	Vila do Conde, Portugal	40	–	–	2
Qimonda (Malaysia) Sdn. Bhd. in liquidation	Malacca, Malaysia	77	–	–	2
Qimonda AG in insolvency	Munich, Germany	77	–	–	2
Qimonda Asia Pacific Pte. Ltd.	Singapore, Singapore	77	–	–	2
Qimonda Belgium BVBA in insolvency	Leuven, Belgium	77	–	–	2
Qimonda Beteiligungs GmbH in insolvency	Munich, Germany	77	–	–	2
Qimonda Bratislava s.r.o. in liquidation	Bratislava, Slovakia	77	–	–	2
Qimonda Dresden GmbH & Co. OHG in insolvency	Dresden, Germany	77	–	–	2
Qimonda Dresden Verwaltungsgesellschaft mbH in insolvency	Dresden, Germany	77	–	–	2
Qimonda Europe GmbH in liquidation	Munich, Germany	77	–	–	2
Qimonda Finance LLC in insolvency	Wilmington, Delaware, USA	77	–	–	2
Qimonda Flash Geschäftsführungs GmbH in liquidation	Dresden, Germany	77	–	–	2
Qimonda Flash GmbH in insolvency	Dresden, Germany	77	–	–	2
Qimonda France SAS in liquidation	St. Denis, France	77	–	–	2
Qimonda Holding B.V. in insolvency	Rotterdam, The Netherlands	77	–	–	2

Name of company	Registered office	Share-holdings in %	Equity (€ in millions)	Net result (€ in millions)	Footnote
Qimonda International Trade (Shanghai) Co. Ltd.	Shanghai, People's Republic of China	77	–	–	2
Qimonda Investment B.V.	Rotterdam, The Netherlands	77	–	–	2
Qimonda IT (Suzhou) Co., Ltd. in liquidation	Suzhou, People's Republic of China	77	–	–	2
Qimonda Italy s.r.l. in liquidation	Padua, Italy	77	–	–	2
Qimonda Korea Co. Ltd. in liquidation	Seoul, Republic of Korea	77	–	–	2
Qimonda Licensing LLC	Fort Lauderdale, Florida, USA	77	–	–	2
Qimonda Memory Product Development Center (Suzhou) Co., in liquidation	Suzhou, People's Republic of China	77	–	–	2
Qimonda North America Corp. in insolvency	Wilmington, Delaware, USA	77	–	–	2
Qimonda Richmond LLC in insolvency	Wilmington, Delaware, USA	77	–	–	2
Qimonda Solar GmbH	Dresden, Germany	77	–	–	2
Qimonda Taiwan Co. Ltd. in liquidation	Taipei, Taiwan	77	–	–	2
Qimonda UK Ltd. in liquidation	High Blantyre, Scotland	77	–	–	2

1 Certain immaterial subsidiaries were not consolidated in the 2014 and 2013 fiscal years. Infineon evaluates the significance of these subsidiaries annually at each reporting date. Net income, external revenue and total assets of all subsidiaries deemed to be immaterial were in total less than 1 percent of the respective Group values.

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 and net result as of September 30, 2013.

4 Equity and net result as of March 31, 2013.

5 Equity and net result as of June 30, 2013.

6 Equity and net result as of December 31, 2013.

7 The company was founded on August 14, 2014.

The values in the above table represent financial statements prepared according to local requirements and are, in some cases, provisional.

Neubiberg, November 20, 2014

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 Group, and the Group Management Report includes a fair review of the development and performance of the business and the position of the Group, together with a description of the principal opportunities and risks associated with the expected development of the Group.

Neubiberg, November 26, 2014

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, 2013 to September 30, 2014. 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 20, 2014

KPMG AG
Wirtschaftsprüfungsgesellschaft

Braun
Wirtschaftsprüfer

Wolper
Wirtschaftsprüfer

FINANCIAL DATA 2010 – 2014

€ in millions, except otherwise stated	2014	2013	2012	2011	2010
CONSOLIDATED STATEMENTS OF OPERATIONS DATA					
Revenue by region					
Europe, Middle East, Africa	1,707	1,567	1,732	1,920	1,528
Therein: Germany	859	795	908	1,090	862
Asia-Pacific (w/o Japan)	1,845	1,560	1,470	1,450	1,202
Therein: China	868	710	637	663	595
Japan	284	227	252	202	184
Americas	484	489	450	425	381
Revenue by Segment					
Automotive	1,965	1,714	1,660	1,552	1,268
Industrial & Multimarket[1]	–	–	–	–	1,429
Industrial Power Control	783	651	728	797	–
Power Management & Multimarket	1,061	987	929	1,003	–
Chip Card & Security	494	463	457	428	407
Other Operating Segments	22	26	125	216	194
Corporate and Eliminations	(5)	2	5	1	(3)
Total Revenue	**4,320**	**3,843**	**3,904**	**3,997**	**3,295**
Gross profit	**1,647**	**1,323**	**1,427**	**1,654**	**1,237**
Gross margin	38.1%	34.4%	36.6%	41.4%	37.5%
Research and development expenses	(550)	(525)	(455)	(439)	(399)
Selling, general and administrative expenses	(496)	(440)	(475)	(449)	(386)
Other operating income and expense, net	(76)	(33)	(42)	(30)	(104)
Operating income	**525**	**325**	**455**	**736**	**348**
Net financial result	(9)	(21)	(23)	(26)	(66)
Income (loss) from investments accounted for using the equity method	3	2	(1)	4	8
Income tax	(31)	(23)	1	30	22
Income from continuing operations	**488**	**283**	**432**	**744**	**312**
Income (loss) from discontinued operations, net of income taxes	47	(11)	(5)	375	348
Net income	**535**	**272**	**427**	**1,119**	**660**
Basic earnings (loss) per share attributable to shareholders of Infineon Technologies AG (in €):					
Basic earnings per share from continuing operations	0.44	0.26	0.40	0.68	0.29
Basic earnings (loss) per share from discontinued operations	0.04	(0.01)	–	0.35	0.32
Basic earnings per share	0.48	0.25	0.40	1.03	0.61
Diluted earnings (loss) per share attributable to shareholders of Infineon Technologies AG (in €):					
Diluted earnings per share from continuing operations	0.44	0.26	0.39	0.66	0.28
Diluted earnings (loss) per share from discontinued operations	0.04	(0.01)	–	0.32	0.30
Diluted earnings per share	0.48	0.25	0.39	0.98	0.58
Key Data for the Consolidated Statement of Operations					
Return on sales[2]	12.4%	7.1%	10.9%	28.0%	20.0%
EBIT[3]	528	327	453	740	363
EBIT margin[4]	12.2%	8.5%	11.6%	18.5%	11.0%
EBITDA[5]	1,042	793	881	1,104	699
Segment Result					
Automotive	259	167	219	279	198
Industrial & Multimarket[1]	–	–	–	–	294
Industrial Power Control	144	38	118	202	–
Power Management & Multimarket	172	144	142	242	–
Chip Card & Security	43	39	56	54	22
Other Operating Segments	6	(9)	5	14	(4)
Corporate and Eliminations	(4)	(2)	(13)	(5)	(35)
Segment Result:	**620**	**377**	**527**	**786**	**475**
Segment Result Margin	14.4%	9.8%	13.5%	19.7%	14.4%

€ in millions, except otherwise stated	2014	2013	2012	2011	2010
CONSOLIDATED STATEMENT OF FINANCIAL POSITION DATA					
Total assets	**6,438**	**5,905**	**5,898**	**5,873**	**4,993**
Gross cash position	2,418	2,286	2,235	2,692	1,727
Net cash position	2,232	1,983	1,940	2,387	1,331
Inventories	707	609	567	507	514
Assets classified as held for sale	–	–	5	5	495
Property, plant and equipment	1,700	1,600	1,731	1,343	838
Goodwill and other intangible assets	250	170	146	111	87
Debt	186	303	295	305	396
Provisions	660	721	740	836	608
Liabilities classified as held for sale	–	–	–	–	177
Total liabilities	**2,280**	**2,129**	**2,323**	**2,518**	**2,368**
Total equity	**4,158**	**3,776**	**3,575**	**3,355**	**2,625**
Statement of Financial Position Ratios					
Equity ratio	64.6%	63.9%	60.6%	57.1%	52.6%
Return on equity	12.9%	7.2%	11.9%	33.4%	25.1%
Return on assets	8.3%	4.6%	7.2%	19.1%	13.2%
Return on Capital Employed (RoCE)	20.3%	14.1%	22.3%	62.1%	30.2%
CONSOLIDATED STATEMENTS OF CASH FLOWS DATA					
Net cash provided by operating activities from continuing operations	988	610	667	983	958
Net cash used in investing activities from continuing operations	(272)	(328)	(1,013)	(2,499)	(355)
Net cash used in financing activities from continuing operations	(179)	(165)	(199)	(352)	(487)
Net increase in cash and cash equivalents from discontinued operations	(8)	(10)	(40)	1,206	136
Depreciation and amortization	514	466	428	364	336
Purchases of property, plant and equipment and intangible assets and other assets	(668)	(378)	(890)	(887)	(325)
Cash flow	529	107	(585)	(662)	252
Free cash flow	317	235	(219)	106	573
The IFX Share (as of September 30)					
Dividend per share [7] in €	0.18	0.12	0.12	0.12	0.10
Dividend [7] in € million	202	129	129	130	109
Closing price Xetra Trading System in €	8.19	7.40	4.94	5.59	5.08
Closing price OTCQX in US$	10.30	9.98	6.44	7.39	6.93
Shares outstanding in million	1,128	1,081	1,080	1,087	1,087
Market capitalization € in millions	9,190	7,950	5,335	6,073	5,521
Market capitalization US$ in millions	11,554	10,729	6,957	8,031	7,514
Infineon-Employees (as of September 30 in total figures)	29,807	26,725	26,658	25,720	26,654

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/loss 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 (loss) divided by total assets.

7 A cash dividend of €0.18 per share for the 2014 fiscal year will be proposed at the Annual General Meeting. This would result in a distribution of approximately €202 million.

LIST OF GRAPHICS

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 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, price fluctuations 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 (loss) by the weighted average number of ordinary shares outstanding during the period. For the calculation of diluted earnings per share the weighted average number of ordinary shares outstanding is increased by 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.

Fair Value
The fair value is defined as price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Forward contract
A forward transaction taking place on a set future date with individually negotiated contract terms where the delivery and payment of a security is effected with the rate set on the day the transaction is concluded; in the case of a foreign exchange forward, the exchange of one currency for another at a fixed rate.

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 and contingencies 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 short-term and long-term debt.

OTCQX
One of three marketplaces for trading over-the-counter stocks provided and operated by the OTC Markets Group.

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 defined as the operating result after tax from continuing operations 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 impact on earnings of restructuring and closures; share-based compensation expense; acquisition-related depreciation/amortization and other expenses; gains (losses) on sales of assets, businesses, or interests in subsidiaries as well as other income (expense), including litigation costs. 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 current liabilities excluding short-term debt and current maturities of long-term debt excluding 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.

40-/65-/90-nanometer technology
Manufacturing technology can be described by feature size, such as 90, 65, or 40 nanometers. The smaller the structures, e.g. lines and pitches, the smaller the chip and the cheaper it's manufacturing. The 40 nanometer technology succeeds the 65 nanometer technology, which followed the 90 nanometer technology.

ABS
The anti-lock braking system is an electronic vehicle safety feature that prevents the wheels from locking during heavy braking.

AC/DC conversion
Alternating Current/Direct Current conversion. This is a generic term for power supplies in which alternating current from the mains is converted to direct current, which often then needs to be precisely converted to a lower current (see also 'DC/DC conversion').

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.

AURIX™
Infineon brand name for the 32-bit multicore automotive microcontroller family.

Authentication
Authentication means the ability to prove one's own identity, i.e., proof of the authentic original. However, authentication does not necessarily refer to people only, but also to any tangible or intangible object, such as a device or an electronic document. A user can be authenticated in any one of three different ways: 1.) By providing a certain piece of information, i.e., the user knows something, such as a password; 2.) Through the use of a possession, i.e., the user possesses something, such as a key; 3.) Through the direct presence of the user, i.e., the user is someone or something, such as in the form of a biometric feature.

Backend manufacturing
The part of the semiconductor manufacturing process that happens after the wafer has left the cleanroom (frontend manufacturing). This includes testing the chips at wafer level, repairing the chips if necessary, dicing the wafers and packaging the individual chips. There is a growing trend among semiconductor manufacturers to outsource the assembly, and sometimes even the testing, to independent assembly companies. Much of the assembly capacity is based in the Pacific Rim countries.

Band gap
The term band gap, also known as energy gap, has its origins in the quantum mechanical band model and describes the energy difference between the valence band and the conduction band of a solid. The unit of measurement is the electron volt (eV). Conductors do not have band gaps, whereas insulators have band gaps greater than 4 eV. Semiconductors have band gaps ranging from 0.1 eV to around 4 eV (Si: 1.12 eV; SiC: 2.36 to 3.03 eV; GaN: 3.37 eV).

Bare die
A bare die is a single, unpackaged chip. Bare die business means the sale of fully processed, unpackaged chips. The packaging and subsequent testing of the packaged chips is performed by the customer. Bare die business is mostly conducted with IGBT module manufacturers that produce their own modules but not their own semiconductors.

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”.

Breakthrough voltage
The breakthrough voltage for semiconductor components is the voltage that, when exceeded, the current increases sharply and can ultimately lead to the destruction of the component. The breakthrough voltage can be determined by the doping of the semiconductor layers.

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 (see tablet).

CMOS
Complementary Metal Oxide Semiconductor. Standard semiconductor manufacturing technology used to manufacture microchips with low power usage and a high level of integration.

Common Criteria
Common Criteria for Information Technology Security Evaluation, generally known as Common Criteria for short, constitute an international standard for evaluating and certifying the security of computer systems with regard to data security. The Common Criteria define seven levels of reliability (Evaluation Assurance Level, EAL1 to EAL7, i.e., the highest level), which describe the correctness of the implementation and the depth of inspection of the system being evaluated.

Commutation
Commutation is the reversal of polarity in electric motors, an important type of which are known as brushless DC motors (BLDC motors). Commutation in BLDC motors is performed electronically, depending on the rotor position, the rotor speed and the torque. The rotor position and torque can be measured via sensors, such as magnetic field sensors. Depending on this positional information, the windings, which generate the torque in the rotor, are controlled via appropriate power semiconductors.

The electronic commutation typical in BLDC motors does not cause wear and tear, such as in standard DC motors. Moreover, BLDC motors do not require maintenance. Major advances in the field of power electronics and circuit design in recent years have made it possible to manufacture BLDC motors at a reasonable market price.

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.

CoolMOS™
High-voltage power transistor for voltages from 300 to 1,200 V.

DC/DC conversion
Direct Current/Direct Current conversion. A high DC input voltage is converted to a mostly lower, highly precise DC output voltage. The DC/DC conversion is usually positioned on the motherboard in close proximity to the electrical consumer. These consumers can be, for example, the microprocessors of a PC or server, the graphics controller of a graphics card or the network processor of a telecommunications facility.

Embedded flash
A nonvolatile memory that is integrated on a chip together with a microcontroller processor core. The nonvolatile memory contains the program code.

Epitaxy
From the Greek epi ‘upon’ and taxis ‘arrangement’ or ‘orientation’. Epitaxy is a form of crystalline growth that occurs both in nature (such as in minerals) and in the technical world. In semiconductor technology, epitaxy is the artificial growth of crystalline layers on a substrate, which is usually a wafer. Epitaxy enables various doping profiles for transistors to be created, which are not feasible using other methods such as diffusion or ion implantation.

EPS
Electric Power Steering is an electrically driven power steering system, which is equipped with an electric motor as opposed to hydraulically driven systems. The advantage is that the power steering can be tailored to suit the current requirement. In other words, it is only activated as needed during steering operations, which leads to greater fuel economy compared with hydraulic power steering systems.

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.

Euro NCAP
European New Car Assessment Programme. The Euro NCAP carries out crash tests and provides automobile buyers with a realistic, independent assessment of the safety features of many of the most sold vehicles in Europe. Euro NCAP was founded in 1997 and is meanwhile supported by seven European governments as well as automobile and consumer organizations from all EU states.

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.

Firmware
Firmware is software that is embedded in electronic devices. It is mostly embedded in the memory of a microcontroller and cannot usually be replaced by the user. The terms derives from the fact that firmware is functionally firmly connected with the hardware, which means that neither one can function without the other. It occupies an intermediate position between hardware and the application software.

Frontend manufacturing
Frontend process is the designation for all process steps in cleanrooms that the entire wafer must complete. These are lithography, diffusion, ion implantation and application of circuitry levels. Some stations must be completed a number of times. At the end of the frontend process, the wafer may have been through as many as 500 individual process steps. After the conclusion of the frontend manufacturing, the processed wafers are transferred to backend manufacturing for testing and packaging (see Backend manufacturing).

Gallium nitride
Gallium nitride (abbreviated to GaN) is a compound semiconductor material made from gallium (chemical symbol Ga) and nitrogen (chemical symbol N). GaN is used for components including radio-frequency power MOSFETs (see MOSFET) on account of the material’s special properties (such as good thermal conductivity and high electron mobility).

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.

Industrial Internet, Industry 4.0
Industrial Internet, in Germany commonly referred to as “Industrie 4.0”, describes the gradual evolution towards the smart, efficient and flexible factory of the future. It is characterized by high degrees of automation, deep horizontal and vertical integration of production and logistics processes, and the use of advanced “big data” analytics. Or simply put: Industrial Internet = Industrial Automation + Internet of Things (see Internet of Things).

Internet of Things
The Internet of Things (IoT) is the network of physical objects that contain embedded electronics to compute, sense, actuate and communicate. There is no clearly defined “IoT market”, instead the term IoT describes an ongoing and long-term trend that affects many applications, some of which exist today with different names and many additional applications that might exist sometime in the future. For Infineon we currently see IoT-related opportunities mainly in mobility, industry, energy, consumer and ICT (Information and Communication Technology) infrastructure markets.

Integrity Guard
Integrity Guard (IG) is a revolutionary security technology designed for chip cards and security applications, with which Infineon is ringing in a new era in the field of hardware-based security. IG was specially developed for sophisticated, long-life applications such as payment cards and government identification documents. IG enables a security controller for the first time to provide complete error detection and comprehensive encryption of all chip functions across the entire data path within the chip. For this reason it is known as ‘digital security’. IG is used in the security controllers of the SLE 77 and 78 families and has won numerous international awards.

Inverter
An inverter, also called a DC/AC converter, is an electrical device for converting DC voltage into AC voltage, or direct current into alternating current. Inverters are used in solar power plants, for example, for converting the DC voltage generated in the solar modules into AC voltage, which is then fed into the electricity network.

ISO 26262
ISO 26262 is an ISO standard for safety-related electrical and electronic systems in various types of vehicle. ISO 26262 defines a procedure model together with required activities and methods to be used in development and production. The implementation of the standard is designed to guarantee the functional safety of systems that include electrical and electronic components in vehicles. The standard is used by carmakers, automotive suppliers and testing institutions.

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.

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).

MEMS
Micro-electro-mechanical system. A micro-electro-mechanical system, or simply a microsystem, is a miniaturized device, assembly or part that contains components of minute dimensions (only measurable in micrometers) that work together as a system. Usually a microsystem consists of one or more sensors, actuators and control electronics on one chip. Infineon manufactures microphones as MEMS. Due to their diminutive size, low power consumption, good shielding from interfering signals and low-cost production, these types of microphone are being increasingly installed in mobile devices such as smartphones, tablets, cameras, and accessories such as headsets and hearing aids.

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-Semiconductor Field-Effect Transistor. MOSFET is currently the most widely used transistor architecture. MOSFETs are used both in highly integrated circuits and in power electronics as special power MOSFETs.

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).

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.

Peta
Decimal prefix for usage in the international system of units. Peta stands for 10^{15} = 1 quadrillion, abbreviated “P”, for example petabyte (PByte).

Plug-in hybrid electric vehicle (PHEV)
Plug-in hybrid electric vehicles combine the advantages of battery-powered vehicles with those powered by combustion engines. On short trips and in urban traffic, the vehicle is driving purely electrically, and, therefore, quietly, emission-free and economically. The electric power is supplied by the battery. The combustion engine is used on longer trips or whenever the battery needs recharging, making it possible to drive much further. The battery can be charged either using mains power or via the recuperation of braking energy.

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 (see Silicon Carbide). SiC Schottky diodes offer a number of advantages over conventional diodes in power electronics. When used together with IGBT transistors, it is possible to dramatically reduce switching losses in the diode itself, as well as in the transistor. The name derives from the German physicist Walter Schottky (1886 – 1976).

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).

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.

Smart Power Technology
Apart from the generally improved robustness of power semiconductor components with regard to high current and voltage peaks and the reduction of on-state resistance, an increasing number of functions are being integrated in the component. These components are then commonly known as Smart Power Devices and, apart from protective circuitries (such as thermal and overcurrent protection), they also contain more complex functions such as simple microcontrollers or analog-digital converters. The special technology needed to produce Smart Power Devices is known as Smart Power Technology, such as SPT9 from Infineon.

Switch-mode power supply
A switch-mode power supply is an electronic module that transforms an AC voltage into a DC voltage. Switch-mode power supplies are more efficient than mains transformers and can be more compact and lighter than conventional power supplies containing a heavy transformer with a ferrous core. Switch-mode power supplies are mainly used in PCs, notebooks and servers. However, they also achieve a very high level of efficiency even at low power, so they are increasingly found in plug-in power supply units, for example as chargers for mobile phones.

Tablet
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.

MEMBERSHIPS AND PARTNERSHIPS

Infineon is engaged in numerous industry associations and standardization organizations – some examples:

Industry associations

- World Semiconductor Council (WSC; organization of regional semiconductor associations)
- European Semiconductor Industry Association (ESIA)
- Association representing the Smart Security Industry (EUROSMART)
- China Semiconductor Industry Association (CSIA)
- Semiconductor Industry Association (SIA)
- Federal Association for Information Technology, Telecommunications and New Media (BITKOM)
- German Electrical and Electronic Manufacturers' Association (ZVEI)

Standardization organizations

- International Electrotechnical Commission (IEC)
- International Organization for Standardization (ISO)
- International Technology Roadmap for Semiconductors (ITRS)
- JEDEC Solid State Technology Association
- TCG-Trusted Computing Group (Computer Security Standards)
- European Telecommunications Standards Institute (ETSI)
- Automotive Open System Architecture (AUTOSAR)
- German Institute for Standardization (DIN)
- German Commission for Electrical, Electronic & Information Technologies of DIN and VDE (DKE)

GRI INDEX

GRI Indicator	Issue	Page
1	**STRATEGY AND ANALYSIS**	
1.1	Statement from the Management Board	6 – 9
1.2	Description of key impacts, risks and opportunities	Risks: 140 – 146 Opportunities: 146 – 148
2	**ORGANIZATION PROFILE**	
2.1	Name of the organization	Cover page
2.2	Primary brands, products and/or services	Cover: “Infineon at a glance”
2.3	Structure of the organization	112 – 113, 267 – 269
2.4	Headquarters of the organization	112 – 113
2.5	Countries where the organization operates	112-113, Explanatory Notes (www.infineon.com/CSR_Reporting)
2.6	Nature of ownership and legal form	106 – 107
2.7	Markets served	43 – 45, 49 – 51, 55 – 57, 61 – 63
2.8	Scale of the organization	Cover: “Infineon at a glance”
2.9	Significant changes during the year under report	104 – 105
2.10	Awards received in the year under report	110 – 111
3	**REPORT PARAMETERS**	
3.1 – 3.3	Report’s profile	2 – 3
3.4	Contact point	Back cover
3.5	Process for defining the content of the report	83
3.6 – 3.11	Boundary of the report; limitations on scope	Explanatory Notes (www.infineon.com/CSR_Reporting)
3.12	GRI Content Index	285 – 287
3.13	External verification of this report	271, CSR website (www.infineon.com/CSR_Reporting)
4	**GOVERNANCE, COMMITMENTS, AND ENGAGEMENT**	
4.1 – 4.2	Governance structure	171 – 176
4.3	Independent members of the highest governance body	Not relevant: Infineon has no unitary board structure
4.4	Mechanisms for shareholders and employees to provide recommendations to the highest governance body	83, 167, 172
4.5	Linkage between compensation for members of the highest governance body and the organization’s performance	177 – 191
4.6	Processes in place to ensure that conflicts of interest are avoided	176
4.7	Qualifications of the members of the highest governance body on sustainability topics	171 – 172
4.8	Mission or values, codes of conduct and principles	92 – 93, 167 – 170
4.9	Procedures of the highest governance body for overseeing the sustainability performance	92 – 93, 145 – 146, 167 – 191
4.10	Processes for evaluating the highest governance body’s own performance with respect to sustainability performance	171 – 172, 175 – 176
4.11	Consideration of the precautionary approach	22 – 25, 104 – 105
4.12	Externally developed charters, initiatives and principles subscribed to	2 – 3
4.13	Memberships	284

GRI Indicator	Issue	Page
4	**GOVERNANCE, COMMITMENTS, AND ENGAGEMENT**	
4.14 – 4.17	Engagement of stakeholders	83 For the definition of our stakeholders we evaluated international sustainability guidelines and directives, such as the OECD Guidelines for Multinational Enterprises, and applied the EFQM (European Foundation for Quality Management) Model for Excellence and the UN Global Compact Blueprint. For those activities included in the chart 41, in which the frequency of engagement is not described, Infineon engagement is carried out regularly whenever required. Following topics require a special frequency of engagement: – Great Place to Work Assessment: is carried out every two years. – Suppliers' evaluation: is carried out for new suppliers. For specific supplier groups it is also carried out on an annual basis. – Principles of Purchasing: part of contractual negotiations.
	ECONOMIC PERFORMANCE INDICATORS	
	Management Approach	6 – 19
EC1	Direct economic value generated and distributed	Cover: "Infineon key data", 95, 220
EC2	Financial implications due to climate change	146 – 147
EC3	Coverage of the benefit plans	242 – 246
EC4	Financial assistance received from government	220
EC8	Infrastructure investments and services provided primarily for public benefit	101
EC9	Significant indirect economic impacts	137 – 148
	ENVIRONMENTAL PERFORMANCE INDICATORS	
	Management Approach	85
EN3 – 4	Direct and indirect energy consumption by primary energy source	87 information is reported in gigawatt hours
EN6	Initiatives to provide energy-efficient or renewable energy-based products	42 – 43, 48 – 49, 90
EN8	Total water withdrawal by source	85
EN10	Percentage of water recycled and reused	86
EN16	Total direct and indirect greenhouse gas emissions by weight	88 – 89
EN18	Initiatives to reduce greenhouse gas emissions	88, 90
EN21	Total water discharge	86
EN22	Total weight of waste by type and disposal method	91
EN26	Initiatives to mitigate environmental impacts of products	90 – 92
EN29	Significant environmental impacts of transporting products and other goods and materials, and transporting members of the workforce	89

GRI Indicator	Issue	Page
	LABOR PRACTICES	
	Management Approach	96
LA1	Total workforce by employment type and region	98, 102 – 103
LA2	Employee turnover by age, gender and region	103
LA3	Benefits provided to full-time employees	101
LA4	Percentage of employees covered by collective bargaining agreements	93
LA7	Injuries, occupational diseases, lost days and work-related accidents	84
LA8	Education and training regarding serious diseases	84
LA13	Composition and breakdown of employees by category according to gender, age group, minority group membership	98 – 99
LA14	Wage differences by gender	101
	HUMAN RIGHTS	
	Management Approach	92
HR3	Employee training on human rights	Infineon carried out 18,400 training hours worldwide in the context of the Business Conduct Guidelines training, which includes human rights information. During the last two years all employees received this compulsory training.
	SOCIETY	
	Management Approach	95
SO1	Operations that are related to communities' engagement; assessment of impacts as well as development programs	95
SO3	Percentage of employees trained in anti-corruption	93
SO7	Legal actions for anti-competitive behavior	254
	PRODUCT RESPONSIBILITY	
	Management Approach	92
PR1	Life-cycle stages in which health and safety impacts of products are assessed for improvement	91 – 92

GRI CERTIFICATE

Statement
GRI Application Level Check

GRI hereby states that **Infineon Technologies AG** has presented its report "Annual Report 2014" to GRI's Report Services which have concluded that the report fulfills the requirement of Application Level B+.

GRI Application Levels communicate the extent to which the content of the G3.1 Guidelines has been used in the submitted sustainability reporting. The Check confirms that the required set and number of disclosures for that Application Level have been addressed in the reporting and that the GRI Content Index demonstrates a valid representation of the required disclosures, as described in the GRI G3.1 Guidelines. For methodology, see www.globalreporting.org/SiteCollectionDocuments/ALC-Methodology.pdf

Application Levels do not provide an opinion on the sustainability performance of the reporter nor the quality of the information in the report.

Amsterdam, 10 November 2014

Ásthildur Hjaltadóttir
Director Services
Global Reporting Initiative

The "+" has been added to this Application Level because **Infineon Technologies AG** has submitted (part of) this report for external assurance. GRI accepts the reporter's own criteria for choosing the relevant assurance provider.

The Global Reporting Initiative (GRI) is a network-based organization that has pioneered the development of the world's most widely used sustainability reporting framework and is committed to its continuous improvement and application worldwide. The GRI Guidelines set out the principles and indicators that organizations can use to measure and report their economic, environmental, and social performance. www.globalreporting.org

***Disclaimer:** Where the relevant sustainability reporting includes external links, including to audio visual material, this statement only concerns material submitted to GRI at the time of the Check on 30 October 2014. GRI explicitly excludes the statement being applied to any later changes to such material.*

FINANCIAL CALENDAR

Thursday, January 29, 2015 [1]
Publication of first quarter 2015 results

Thursday, February 12, 2015
Annual General Meeting 2015
(Start 10:00 a.m. CET)
ICM – International Congress Center Munich
(Germany)

Tuesday, May 5, 2015 [1]
Publication of second quarter 2015 results

Thursday, July 30, 2015 [1]
Publication of third quarter 2015 results

Thursday, November 26, 2015 [1]
Publication of fourth quarter and
fiscal year 2015 results

1 preliminary

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Forward-looking statements
This Report contains forward-looking statements about the business, financial condition and earnings performance of the Infineon Group.

These statements are based on assumptions and projections resting upon currently available information and present estimates. They are subject to a multitude of uncertainties and risks. Actual business development may therefore differ materially from what has been expected.

Beyond disclosure requirements stipulated by law, Infineon does not undertake any obligation to update forward-looking statements.

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