WE'RE MAKING PROGRESS

Infineon Technologies AG
Annual Report 2011

INFINEON AT A GLANCE

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Infineon Technologies AG, Neubiberg, Germany, offers semiconductor and system solutions addressing three central challenges to modern society: energy efficiency, mobility, and security. In the 2011 fiscal year (ending September 30), the Company reported revenues of 4.0 billion euros with close to 26,000 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).

APPLICATIONS

- Powertrain (engine and transmission control)
- Hybrid and electric cars (drive control for electric motor, battery management, charger)
- Chassis and comfort electronics (steering, suspension, lights, air conditioning, sunroof, power windows, windshield wipers, central body control units, door electronics)
- Safety (ABS, airbags, ESP, distance warning)

KEY CUSTOMERS[1]

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

MAIN COMPETITORS[2]

• Freescale • NXP • Renesas • STMicroelectronics

MARKET POSITION[3]

2

With a market share of 9%

Source: Strategy Analytics, April 2011

REVENUE

+22%

Compared to the previous year

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

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APPLICATIONS

- Renewable energy generation, energy transmission and conversion
- Electric drive control for industrial applications and home appliances
- Light management systems and LED lighting
- Power supplies for computers (servers, PCs, notebooks, netbooks, tablet computers), games consoles and consumer electronics
- Peripheral devices for PCs and games consoles and in industrial and medical engineering applications
- Radio-frequency ICs with protection function for navigation and communication devices (e.g. GPS receivers, smartphones, digital TVs)

KEY CUSTOMERS[1]

• ABB • Alstom • Bombardier • Dell • Delta
• Emerson • Enercon • Ericsson • General Electric
• HP • LG Electronics • Microsoft • Power One
• RIM • Rockwell • Samsung • Schneider Electric
• Semikron • Siemens • SMA Solar Technology

MAIN COMPETITORS[2]

• Mitsubishi • STMicroelectronics • Toshiba • Vishay

MARKET POSITION[3]

1

With a market share of 11%
for discrete power semiconductors and modules
Source: IMS Research, August 2011

REVENUE

+26%

Compared to the previous year

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APPLICATIONS

- SIM card
- Payment systems
- Near Field Communication (NFC)
- Electronic passports, ID cards, healthcare cards and driver's licenses
- Transport, ticketing and access control
- Object identification
- Platform security applications and system solutions
- Authentication, e.g. for pay TV, games consoles, accessories, spare parts and industrial controllers

KEY CUSTOMERS[1]

• Beijing Watch Data • Gemalto
• Giesecke & Devrient • Morpho • Oberthur
• US Government Printing Office

MAIN COMPETITORS[2]

• NXP • Renesas • Samsung • STMicroelectronics

MARKET POSITION[3]

1

With a market share of 27%
Source: IMS Research, August 2011

REVENUE

+5%

Compared to the previous year

2 In alphabetical order.
3 All figures for 2010 calender year.

INFINEON KEY DATA

AS AND FOR THE FISCAL YEARS ENDED SEPTEMBER 30 (UNDER IFRS)[1]

Fiscal year from October 1 to September 30	2011		2010		2011/2010
	€ millions	in % of revenue	€ millions	in % of revenue	Change in %
Revenue by region	**3,997**		**3,295**		**21**
Europe, Middle East, Africa	1,920	48	1,528	46	26
Therein: Germany	1,090	27	862	26	26
Asia-Pacific (w/o Japan)	1,450	36	1,202	36	21
Therein: China	663	17	595	18	11
Japan	202	5	184	6	10
Americas	425	11	381	12	12
Revenue by Segment	**3,997**		**3,295**		**21**
Automotive	1,552	39	1,268	38	22
Industrial & Multimarket	1,800	45	1,429	43	26
Chip Card & Security	428	11	407	12	5
Other Operating Segments	216	5	194	6	11
Corporate and Eliminations	1	0	(3)	0	133
Gross profit/Gross margin	**1,654**	**41**	**1,237**	**38**	**34**
Research and development expenses	(439)	11	(399)	12	10
Selling, general and administrative expenses	(449)	11	(386)	12	16
Operating income	736		348		111
Income from continuing operations	744		312		138
Income from discontinued operations, net of income taxes	375		348		8
Net income	1,119		660		70
Total Segment Result/Total Segment Result Margin	786	20	475	14	65
Property, plant and equipment	1,343		838		60
Total assets	5,873		4,993		18
Total equity	3,355		2,625		28
Net cash provided by operating activities from continuing operations	983		958		3
Net cash used in investing activities from continuing operations	(2,499)		(355)		604
Net cash used in financing activities from continuing operations	(352)		(487)		(28)
Free cash flow[2]	106		573		(82)
Depreciation and amortization	364		336		8
Purchases of property, plant and equipment and intangible assets and other assets	(887)		(325)		173
Gross cash position[3]	2,692		1,727		56
Net cash position[4]	2,387		1,331		79
Basic earnings per share in €	1.03		0.61		69
Diluted earnings per share in €	0.98		0.58		69
Dividend per share in €[5]	0.12		0.10		20
Equity ratio	57%		53%		8
Return on equity[6]	33%		25%		32
Return on assets[7]	19%		13%		46
Inventory intensity[8]	9%		10%		(10)
Debt-to-equity ratio[9]	9%		15%		(40)
Debt-to-total-capital ratio[10]	5%		8%		(38)
Return on Capital Employed (RoCE)[11]	62%		30%		107
Employees at Infineon as of September 30	**25,720**		**26,654**		**(4)**

1 Colums may not add due to rounding.
2 Free cash flow = net cash provided by operating activities from continuing operations and net cash used in investing activities from continuing operations, excluding purchases or proceeds of financial investments.
3 Gross cash position = cash and cash equivalents additional financial investments.
4 Net cash position = Gross cash position less short and long-term debt.
5 A dividend per share of €0.12 for the 2011 fiscal year will be proposed to the Annual General Meeting on March 8, 2012.
6 Return on equity = Net income divided by total equity.
7 Return on assets = Net income divided by total assets.
8 Inventory intensity = Inventories (net) divided by total assets.
9 Debt-to-equity ratio = long-term and short-term debt divided by total equity.
10 Debt-to-total-capital ratio = Long-term and short-term debt divided by total assets.
11 Return on Capital Employed (RoCE) = NOPAT (Net Operating Profit After Tax) divided by capital employed.

Energy Efficiency
Mobility
Security

- Infineon provides excellent and unrivalled products to end markets with a bright future.
- We focus on attractive business areas offering the promise of continued better-than-average growth.
- We occupy a leading position in our markets.

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LETTER TO SHAREHOLDERS

Neubiberg, November 2011

Dear shareholders and business partners,
dear Infineon colleagues,

Being a man of my word is something to which I attach great importance both as a Chief Executive Officer and as a human being. Last year I announced at this time that, for all its strong growth and good results, the 2010 fiscal year would be no more than a stepping stone on the Company's path to long-term, sustainable success. Looking at the highly satisfactory figures for the 2011 reporting year, which for us ended on September 30, I can confirm that we have indeed been as good as our word: we generated revenues of around 4 billion euros, which represents an increase in revenue of more than 20 percent, and more than doubled our profit from continuing operations from 312 million euros to 744 million euros. The value of the Infineon share mirrored the Company's progress, climbing from 5.08 euros on September 30, 2010 to 5.59 euros by the end of September 2011. This 10 percent gain is all the more remarkable for having been achieved against the backdrop of a 12 percent fall across the DAX as a whole. The Management Board and Supervisory Board want to ensure that you, our shareholders, also reap the full benefits of the Company's highly satisfactory year and we will accordingly propose to the Annual General Meeting that the dividend for the 2011 fiscal year be raised by 2 cents from last year's figure to 12 cents per share.

HOW DID INFINEON DO IT?

Our corporate restructuring has been completed and the Company is ideally positioned in the market. Now we want to write a new chapter in our success story. Indeed it was this very thought that inspired the title of this year's Annual Report, "We're Making Progress". This particular choice of words, we believe, not only reflects the aforementioned improvement in our financial indicators over the fiscal year ended, but also underlines the fact that ultimately it is our strength in innovation that makes such progress possible in the face of broad-based global challenges. I will explain these various points in greater detail below.

The closing of the sale of our Wireless mobile phone business to Intel on January 31, 2011 marked the conclusion of a massive corporate restructuring program stretching back over a number of years. Our organization and its three operating segments, Automotive, Industrial & Multimarket and Chip Card & Security, are now tailored to our end markets. Our principal proposition for customers in all three segments – and the root of our decisive edge over the competition – can be summarized in just one word: innovation. Innovation, accordingly, also stands at the heart of our strategy: our innovators concentrate on energy efficiency, mobility and security, three of the great global challenges of our age.

PETER BAUER
Chief Executive Officer

The fruits of their labors enable safe and clean mobility in cars (Automotive) and trains, are indispensable for power generation from renewable energy sources and make electrical systems and devices more energy efficient (Industrial & Multimarket) and ensure electronic security in chip cards and mobile devices (Chip Card & Security). Our semiconductors are already absolutely essential in all of these areas and without them, progress in the fields concerned would effectively stall.

We have established excellent positions in the target markets in all three of our core segments. We were placed second in the global market for automotive semiconductors in the 2010 calendar year, with a market share of 9 percent (Strategy Analytics, April 2011), and ranked as worldwide market leader in power semiconductors with an 11 percent market share (IMS Research, August 2011). Power semiconductors, which switch very high voltages and currents, account for around 60 percent of our revenue. The key product of our Industrial & Multimarket segment, they make a substantial contribution to revenues in the Automotive segment too. We also occupied the number one spot in the global market for chip card applications with a market share of 27 percent (IMS Research, August 2011).

Our success with customers stems essentially from three strengths: the strict alignment of our organization with our end markets, our strategic focus on innovations for energy efficiency, mobility and security and, finally, our leading position in the global market across all of our activities. This combination, unparalleled in the market, brought us year-on-year growth in excess of 20 percent in the reporting year, a period in which the global semiconductor industry as a whole expanded by no more than around 5 percent. At the beginning of the 2011 fiscal year – with the Wireless mobile phone business still on board – we anticipated a percentage operating margin in the mid-teens on the assumption of global economic conditions with normal annual growth rates. As it turned out, we were able to revise this target upward to almost 20 percent over the course of the reporting year.

Our investors also benefited from our success: Infineon returned a total of 308 million euros to shareholders in the 2011 fiscal year in the form of dividends and share and convertible bond repurchases. Our balance sheet shows a net cash position at September 30, 2011 of 2.387 billion euros, meaning that we can invest in organic and inorganic growth and make our organization even more competitive despite the difficult economic environment.

WHAT NEXT?

The title of this year's Annual Report, "We're Making Progress", also alludes to Infineon's attractive long-term prospects for growth. We intend to grow revenue in times of normal economic activity, that is to say when the global economy is not struggling or in recession, by an average of at least 10 percent per year. Having seen revenue grow by 51 percent in 2010 and 21 percent in the 2011 fiscal year, we now find ourselves in the current fiscal year facing the consequences of the European debt crisis and a difficult global economic situation in general. Based on the economic risks evident so far, we have to expect a reduction in revenue in the mid-single-digit percentage range for the 2012 fiscal year. While Infineon certainly cannot escape the economic upheavals currently having such a profound impact on many countries and companies, we have no doubt that it can carry on making progress through this economic cycle. Just why and how we expect to continue growing I will now move on to explain.

HOW IS INFINEON ABLE TO MAINTAIN ITS LONG-TERM GROWTH TRAJECTORY?

Infineon's revenue across the Group in its current form has grown at an average rate of 7.6 percent per annum over the period from the 2000 fiscal year to the 2011 fiscal year. And even at a time of great economic turmoil, the fact remains that the Group's medium- to long-term prospects over economic cycles are excellent. There is in fact plenty of evidence to suggest that growth in demand for our key products, power semiconductors, might actually increase faster in future than it has in the past.

One reason power semiconductors could be in for more rapid growth lies in the essential role they have to play in the shift toward renewable energy sources. The value of the semiconductors installed per megawatt of capacity in renewable generation schemes is an order of magnitude higher than the equivalent figure for conventional technologies. A conventional power station contains around 250,000 euros worth of semiconductors, for example, whereas a wind farm of the same capacity contains semiconductors worth around 7.5 million euros, so the move to renewables looks like a good thing for us from a purely economic viewpoint as well.

Demand for power semiconductors is rising in power distribution and consumption applications as well as in generation. Quite simply, our semiconductors reduce power consumption, in fact our components have the potential to make every step in electricity conversion in every electrically powered device – in private homes, cars and business settings – more efficient.

The advent of electromobility has significantly boosted demand for our products too: electric vehicles rely on insulated gate bipolar transistors (IGBTs) and IGBT modules and we are a global market leader for both.

Finally, the increase in per capita income in emerging economies like Brazil, Russia, India and China (the BRIC countries) also results in growth for Infineon. Higher income levels are fuelling the expansion in these countries of a class of consumer for whom personal mobility and a well equipped home with plentiful electrical devices are achievable goals and this, in turn, is producing strong demand for goods that depend on our power semiconductors.

A comprehensive understanding of the system environment in which customers put our semiconductors to work is vital in taking our business forward, especially in the growth regions, and we accordingly intend to align ourselves even more closely with our target markets from January 1, 2012 by splitting the Industrial & Multimarket segment into two: Industrial Power Control and Power Management & Multimarket. Industrial Power Control will concentrate on high-power industrial applications such as electric drives and generators, Power Management & Multimarket on medium- and low-power applications like power supplies. This revised organizational structure will enable us to meet the needs of our end markets with even greater precision.

WHAT DOES THIS MEAN FOR THE OPERATING MARGIN?

Our operating margin reached 19.7 percent in the 2011 fiscal year, a level unprecedented for our current portfolio, and a margin in this region naturally remains our aim in good economic times with plants operating close to full capacity, even given high levels of investment in growth and associated rising depreciation and amortization. The current economic picture is of course hardly conducive to strong margins, however, and at the moment we consequently expect to follow the record margin set up in the 2011 fiscal year with a reduced percentage operating margin in the low to mid-teens for the 2012 fiscal year. It remains our firm conviction, however, that we will be back up toward 20 percent in a normal cyclical environment.

HOW CAN WE BE SO SURE?

First of all, the barriers to entry in our markets are very high: the lifecycle of many of the products in which our semiconductors are used is extremely long – a car is typically on the road for 15 years or more – and suppliers need to know exactly how their component is integrated into the overall system of the customer product in order to deliver optimal performance. Quality, moreover, is critical: a chip must comply fully with its specification once installed and it must continue to function faultlessly for years.

Secondly, we are an enabler: many of the functionalities we provide would simply not exist in the absence of our products and even in areas in which we are not absolutely essential, our customers would face an enormous struggle to advance their technology and control their costs without us.

Thirdly, despite the enormous benefits they bring, the cost of our components not infrequently accounts for less than 2 percent of the total value of the finished product. We combine a big impact with a small price, in other words.

Fourthly, the production of power semiconductors in particular is an extremely complex and knowledge-intensive process that cannot readily be duplicated. Finally, manufacturing expertise has a huge impact on the performance and efficiency of power semiconductors and in this respect we clearly have more to offer than most of our competitors.

IS THE COMPANY STILL INVESTING IN GROWTH?

We continue to invest strategically and intensively in organic growth in order to leverage the Company's full potential. We remain the only provider in our field to have mastered the production of power semiconductors on 300-millimeter diameter silicon wafers. Almost as large as a typical pizza dish, these wafers offer substantially better capital efficiency and productivity than the standard modern wafer, which has a diameter of just 200 millimeters. We are actively advancing this technology through our center of competence in Villach, Austria, and planned high-volume production in Dresden, Germany, and believe our advantage over the competition in this area can be measured in years rather than months. We will be ready to commence high-volume production of power semiconductors on 300-millimeter wafers in the first half of the 2013 fiscal year.

At the same time as building up our technologically innovative 300-millimeter manufacturing, we have also decided to expand production and build a second cleanroom at our low-cost 200-millimeter site at Kulim in Malaysia, which continues to offer good potential for the high-volume production of power semiconductors.

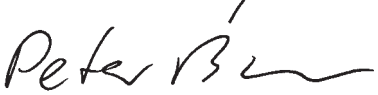
We committed 887 million euros to investments in the 2011 fiscal year and expect the figure for the current fiscal year to end up broadly similar. Due to a long and necessary lead time most of our investments in the 2012 fiscal year will go to facilitate growth in subsequent years. We aim to exploit the strength of our balance sheet to grow the Company as much as possible for shareholders without sacrificing profitability.

GREAT SUCCESS IN THE YEAR ENDED AND YET SO MUCH MORE TO COME – HOW IS ALL THIS POSSIBLE?

Our employees scarcely had time to draw breath in the 2011 fiscal year: no sooner had we emerged from the trials and uncertainties of the recession and concluded our corporate restructuring than a powerful upturn kicked in and we found ourselves hard pressed in all areas, from ramping up production to nurturing our customer relationships. At no time, however, did the energy and commitment of our people show any sign of flagging. Speaking on behalf of the entire Management Board, I would like to extend my heartfelt gratitude for their dedication and outstanding performance to every one of our approximately 26,000 employees – Infineon's achievements of the past fiscal year are first and foremost your achievements. It is you who make the Company what it is and you on whom the Management Board relies to help lead Infineon into a bright and successful future.

I believe Infineon's medium- to long-term prospects for growth and profitability give us every reason to look to the future with great optimism in confident expectation of sustained value creation. We consequently hope that all of you who have chosen to invest in the Company will stay onboard to see your judgment properly rewarded. The excitement is only just beginning.

Sincerely,



Peter Bauer
Chief Executive Officer

MANAGEMENT BOARD

DR. REINHARD PLOSS
Head of Operations and R&D, Labor Director, Doctorate in chemical engineering (Dr.-Ing.), Member of the Management Board since June 2007

PETER BAUER
Chief Executive Officer (CEO), Electrical engineer (Dipl.-Ing.), Member of the Management Board since April 1999

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

REPORT OF THE SUPERVISORY BOARD TO THE ANNUAL GENERAL MEETING

The Supervisory Board hereby presents its report on the performance of its duties in the 2011 fiscal year. The Company made excellent progress over the course of the year, achieving a Total Segment Result Margin of 19.7 percent and announcing a second successive dividend for our shareholders.

The Supervisory Board tracked the position of the Company closely as usual in the 2011 fiscal year, with both the full board and its committees meeting many times. The Supervisory Board monitored the management of the Company regularly. It assisted the Management Board in its advisory capacity and was directly involved in all decisions of fundamental importance to the Company. The Management Board provided prompt and comprehensive reports on the course of business and financial and investment planning and on the financial position of the Company and its individual segments in the ordinary meetings of the Supervisory Board and all matters of concern were discussed thoroughly with the Management Board. The Management Board also provided oral or written reports on events of particular importance in extraordinary meetings and between meetings. The detailed quarterly reports submitted to the Supervisory Board by the Management Board covered topics such as the economic and financial development and profitability of the Company over the respective quarter ended, important business transactions, the risk situation and significant lawsuits.

The Chairman of the Supervisory Board, the Chairman of the Investment, Finance and Audit Committee and the Chairwoman of the Strategy and Technology Committee also held individual discussions with the Management Board between meetings in order to remain abreast of significant developments and decisions within the Company.

The Supervisory Board convened in four ordinary and two extraordinary meetings during the year under review. All members of the Supervisory Board attended at least half of the Supervisory Board meetings held over the period.

MAIN ACTIVITIES OF THE SUPERVISORY BOARD

Strategic matters

The Management Board reported in detail on its strategy for the long-term direction of the Company and its assessment of market developments and also kept the Supervisory Board fully informed about the capacity and capacity utilization situation in production and its manufacturing strategy for the future. The information supplied by the Management Board was supplemented by the reports of the Chair of the Strategy and Technology Committee to the full Supervisory Board concerning the activities of the committee.

WOLFGANG MAYRHUBER
Chairman of the Supervisory Board

At the extraordinary meeting held on October 27, 2011, the Supervisory Board discussed in detail the Management Board's motivations and objective of the planned reorganization of the Company, in particular the splitting of the fast-growing Industrial & Multimarket (IMM) segment on January 1, 2012 to create two independent areas to be known as Industrial Power Control (IPC) and Power Management & Multimarket (PMM). The Supervisory Board approved the planned organizational changes on the basis that given the rapid growth and increasing application complexity characteristic of the areas concerned, the proposed structure will enable the Company to respond faster and more flexibly to customer wishes and market requirements.

Capital return program

The Management Board reported to the Supervisory Board on its capital return plans in two ordinary meetings. Infineon intends to devote a sum of up to 300 million euros to capital return measures in the period through March 2013 on the basis of the authorization to repurchase shares granted by the Annual General Meeting on February 17, 2011. The capital return may be effected by the acquisition of own shares using put options. Another possibility is the direct repurchase of own shares in Xetra trading on the Frankfurt Stock Exchange. The Company may also repurchase additional parts of the Company's outstanding convertible bond. The Supervisory Board supports the Management Board's plans to share Infineon's economic success with investors and approved the proposed capital return program at its meeting on May 9, 2011.

Transactions requiring approval

The Supervisory Board's and the Management Board's rules of procedure stipulate that certain transactions and measures, specifically including financial and investment plans, the investment budget and the setting of borrowing limits, require the consent of the Supervisory Board.

The Supervisory Board discussed the financial and investment plans and investment budget for the 2011 fiscal year in accordance with this requirement at its meeting on November 30, 2010 and also set a borrowing limit. The investment budget was increased with the consent of the Supervisory Board step by step in the 2011 fiscal year in response to a variety of planned investments, most notably in the area of production. The Management Board additionally presented its medium-term investment planning for the 2012 and 2013 fiscal year and the investment framework for the 2012 fiscal year at the Supervisory Board meeting on May 9, 2011.

The Supervisory Board approved the purchase of real estate and production facilities belonging to Qimonda Dresden GmbH & Co. OHG by Infineon Technologies Dresden GmbH for a total of 100.6 million euros at its meeting on May 9, 2011. This transaction secures for Infineon the 300-millimeter production facilities it needs in order to pursue the envisaged establishment of a large-scale production operation for power semiconductors on 300-millimeter wafers.

Management Board compensation

The Supervisory Board deliberated over the provisions of the German Act on the Appropriateness of Management Board Remuneration (Gesetz zur Angemessenheit der Vorstandsvergütung) and the recommendations of the German Corporate Governance Code relating to Management Board compensation in detail. In the 2010 fiscal year, the Supervisory Board had already commissioned external independent compensation experts to assess the compatibility of the existing compensation system with these provisions and recommendations and draw up a modified Management Board compensation system for the Company on the basis of this assessment. The proposals put forward by the external experts were discussed in detail and prepared for approval by the full Supervisory Board over the course of a number of Executive Committee meetings and the system as a whole was approved in the meeting on November 22, 2010. Details of this new compensation system may be found in the Compensation Report, which appears in the Annual Report. The new compensation system was adopted by the Annual General Meeting on February 17, 2011 and is intended to apply to all future members of the Management Board. The existing contracts with Management Board members Peter Bauer and Dr. Reinhard Ploss were amended to bring them in line with the new compensation system with effect from October 1, 2010.

Management Board matters

The Supervisory Board decided at its meeting on November 30, 2010 that Mr. Bauer and Dr. Ploss should have their term of office extended at the same time as having their Management Board contracts amended to reflect the new compensation system. Mr. Bauer had his term of office extended through September 30, 2016 and was reappointed to the position of CEO for the duration of this term. Dr. Ploss had his term of office extended through September 30, 2015 and was reappointed to the position of Labor Director.

The Supervisory Board began its search for a new CFO as soon as Dr. Schröter departed in August 2010, a process in which it was assisted by an international consulting company specializing in the sourcing of management board members. Acting in accordance with the proposal of the Executive Committee, it appointed Mr. Dominik Asam to the post of CFO at its meeting on November 22, 2010. Mr. Asam started in his new position on January 1, 2011.

Supervisory Board activities in the 2011 fiscal year also included consideration of the future demands on the Company's management and the fundamental question of whether the Management Board needs to be expanded. At the Supervisory Board meeting on July 27, 2011, the Chairman of the Executive Committee informed the Supervisory Board of its concept and the progress of the committee's deliberations and the Supervisory Board discussed the planned next steps. The Supervisory Board subsequently appointed Mr. Arunjai Mittal, who was proposed for the post by the Executive Committee, as an additional member of the Management Board at an extraordinary meeting held on October 27, 2011. Mr. Mittal, previously Head of the Industrial & Multimarket (IMM) Segment, takes up his new position on January 1, 2012. This expansion of the Management Board will enable the Company to redouble its efforts to increase market penetration in the key growth regions in particular. The Supervisory Board believes that with his education, experience in the global semiconductor business, international career as well as his background and intercultural expertise Arunjai Mittal is ideally qualified for this new role. Given his global connections with customers and business partners, Arunjai Mittal is best suited for the successful implementation of his new tasks.

Corporate Governance

As in previous years, the Supervisory Board reviewed the corporate governance rules and their implementation within the Company on a regular basis. It discussed the changes to the German Corporate Governance Code adopted by the Government Commission in May 2010 in its meeting on November 22, 2010. In this context, it also addressed the issue

of diversity and specified concrete objectives in accordance with the recommendation in section 5.4.1 of the German Corporate Governance Code. The composition of the Supervisory Board should reflect the diversity to be found in a global company like Infineon as closely as possible. The Supervisory Board specified that at least two of its members should be women and at least a third of its members should be "international" representatives. The Supervisory Board already meets these criteria and it is intended that it continues to do so at all times in future.

The Supervisory Board adopted the 2010 Declaration of Compliance in November 2010 and the 2011 Declaration of Compliance in October 2011. The 2011 Declaration of Compliance was published on the Company's website on November 2, 2011. This and further details of Infineon's corporate governance are described in detail by the Management Board and Supervisory Board in the Infineon Corporate Governance Report.

The Supervisory Board reviews the efficiency of its work, including its interaction with the Management Board, once a year. 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 findings of this external efficiency study were presented and discussed in the Supervisory Board meeting on November 30, 2010. The most recent efficiency study took place in the fall of 2011: the efficiency of Supervisory Board activities, including its interactions with the Management Board, was assessed using a set of questions designed to address the different elements and factors in the Supervisory Board's tasks and the Supervisory Board then discussed the findings at its meeting on November 22, 2011.

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 2011 fiscal year. Material transactions between the Company and members of the Management Board or related parties require the approval of the Supervisory Board. The same applies in respect of consulting agreements and other contracts for goods or services between the Company and a member of the Supervisory Board. Acting on a precautionary basis, the Supervisory Board moved in November 2010 to approve a contract between the Company and Technical University of Munich (TUM) concerning the performance of research and development work in the area of automotive sensing on the grounds that Prof. Dr. Schmitt-Landsiedel is the head of TUM's Institute for Technical Electronics.

Composition of the Supervisory Board

The Supervisory Board of Infineon Technologies AG has twelve members and comprises an equal number of shareholder representatives and employee representatives as stipulated in the German Codetermination Act *(Mitbestimmungsgesetz – MitbestG)*. 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 Codetermination Act. The regular term of office of Supervisory Board members is five years. New elections were held in the 2010 fiscal year for both the shareholder representative and the employee representative positions on the Supervisory Board. The term of office of all members of the Supervisory Board runs through the end of the Annual General Meeting that decides on the approval of the acts of the Supervisory Board during the 2014 fiscal year.

Prof. Dr. Klaus Wucherer resigned from his post with effect from the end of the Annual General Meeting on February 17, 2011. The Supervisory Board decided on November 22, 2010 to accept the proposal submitted by the Nomination Committee on November 20, 2010 and propose to the Annual General Meeting that Mr. Wolfgang Mayrhuber be elected to succeed Prof. Dr. Wucherer on the Supervisory Board. The Annual General Meeting accepted this proposal and elected Mr. Wolfgang Mayrhuber to the Supervisory Board on February 17, 2011. The Supervisory Board elected Mr. Mayrhuber as its new chairman in a meeting held on the same day.

Prof. Dr. Wucherer was a member of the Company's Supervisory Board from its inception and became chairman in February 2010. The Supervisory Board would like to express its deep gratitude to Prof. Dr. Wucherer for his many years of highly constructive, dedicated and successful service.

The Supervisory Board has established the following committees: a Mediation Committee in accordance with section 27, paragraph 3, MitbestG, an Executive Committee, an Investment, Finance and Audit Committee, a Strategy and Technology Committee and the Nomination Committee recommended in the German Corporate Governance Code.

The Supervisory Board decided in the 2010 fiscal year that all of its committees should have an equal number of employee representatives and shareholder representatives apart from the Nomination Committee, which consists exclusively of shareholder representatives.

Following his election to the Supervisory Board by the Annual General Meeting, Mr. Mayrhuber was elected by the Supervisory Board to the position of Chairman of the Mediation Committee and the Nomination Committee. According to the Supervisory Board rules of procedure, his position as Chairman of the Supervisory Board means that he is also Chairman of the Executive Committee. Dr. Sünner continues to serve as Chairman of the Investment, Finance and Audit Committee and Prof. Dr. Schmitt-Landsiedel remains Chairwoman of the Strategy and Technology Committee.

Supervisory Board Committee Reports

The Investment, Finance and Audit Committee convened in four ordinary meetings during the year under review.

Its activities centered on monitoring the financial reporting process, reviewing the quarterly financial statements, conducting the preliminary audit of the separate financial statements, consolidated financial statements and Management Report of Infineon Technologies AG and of the Infineon Group and discussing the audit report with the auditor. It also discussed and reviewed the financial and investment plans and the borrowing limit, including an investment framework for the 2012 fiscal year, as a matter of priority. These issues were addressed at the meetings on May 2 and July 27, 2011. The committee also considered the effectiveness of the internal control system, internal audit system and risk management system and the Company's compliance organization, among other matters, and arranged to receive detailed reports on the most significant lawsuits and the disputes with the insolvency administrator of Qimonda AG.

Other duties performed by the committee included specifying the key areas to be examined in audit activities in the 2011 fiscal year and monitoring the auditor's independence and the additional services performed by the auditor. It prepared the Supervisory Board's proposal to the Annual General Meeting regarding the selection of the auditor, moreover, and engaged the auditor to audit the separate and consolidated financial statements and carry out the auditor's review of interim financial reports.

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

The **Strategy and Technology Committee** convened in four ordinary meetings during the year under review.

It paid particular attention to the Company's manufacturing strategy and, insofar as they relate to the manufacturing strategy, to the investment budget and actual investments planned and to market developments. Other issues considered by the committee included innovation activities at Infineon and various related initiatives plus the subject of HR development, HR management and diversity.

The **Executive Committee** convened in four meetings in the year under review.

As already reported at the last Annual General Meeting, it conducted a thoroughgoing examination of the external consultants' proposals for a new Management Board compensation system and its proposal that the system put forward be adopted was approved by the Supervisory Board on November 22, 2010. The committee also laid the groundwork for the resolutions to be considered by the Supervisory Board in the matters mentioned above, an aspect of its work that included supporting the process to find and select the new CFO (a full report on the search and selection process was also provided at the last Annual General Meeting).

The committee addressed the fundamental question of whether the Management Board needs to be expanded and how this might be done at its meetings on July 1 and September 14. Following unanimous agreement in the Executive Committee and the full Supervisory Board that the Management Board should be expanded to four members, the search for a suitable candidate began. Both international and national, internal and external as well as female and male candidates were considered. The committee received assistance in its search from an external consultant that conducted a development assessment with potential candidates. Drawing on the findings of the development assessments and meetings between individual members of the Supervisory Board and the preferred candidate, the Executive Committee resolved in a further meeting on October 7, 2011 to propose to the Supervisory Board that Mr. Arunjai Mittal be appointed to the Management Board.

The Executive Committee additionally completed the preparatory work for the Supervisory Board resolutions in relation to Management Board compensation, which included in particular defining target values for the variable element of Management Board compensation and granting stock options to the members of the Management Board.

It addressed the low level of Supervisory Board compensation as compared with other DAX 30 companies too and engaged an independent consultant to draw up proposals for the revision of Supervisory Board compensation. Having been agreed by the full Supervisory Board in November 2010, the modified Supervisory Board compensation package was submitted to and approved by the 2011 Annual General Meeting.

At its meeting on November 22, 2010, the full Supervisory Board adopted the committee's recommendation to it that the deductible in the D&O insurance for the Supervisory Board be increased to bring it in line with a recommendation of the German Corporate Governance Code.

The **Nomination Committee** convened in two meetings in the year under review.

It decided in the first of these, which took place in November 2010, to propose to the Supervisory Board that Mr. Wolfgang Mayrhuber be elected to succeed Prof. Dr. Wucherer as Chairman of the Supervisory Board. Following his election to the Supervisory Board by the Annual General Meeting, the Nomination Committee then selected Mr. Mayrhuber as its chairman in a subsequent meeting held in February 2011.

The **Mediation Committee** established in accordance with section 27, paragraph 3, MitbestG was not convened in the year under review.

The committee chairs presented regular and comprehensive reports to the full Supervisory Board in the latter's ordinary meetings.

Separate and Consolidated Financial Statements

KPMG AG Wirtschaftsprüfungsgesellschaft, Berlin, audited the separate financial statements of Infineon Technologies AG and the consolidated financial statements as of September 30, 2011 as well as the Management Report of Infineon Technologies AG and of the Infineon Group and issued unqualified audit opinions. The half-yearly financial report was also subjected to a review by KPMG.

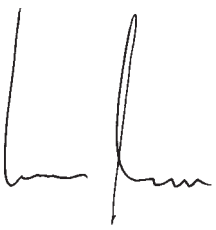
The separate financial statements, the consolidated financial statements prepared in accordance with IFRSs, the Management Report of Infineon Technologies AG and of the Infineon Group and the Management Board's proposal for the appropriation of the unappropriated profit – all prepared by the Management Board – were submitted to all members of the Supervisory Board in the middle of November 2011.

The reports by KPMG on the audit of the separate financial statements, the consolidated financial statements and the Management Report of Infineon Technologies AG and of the Infineon Group were also presented to all members of the Supervisory Board. Initial detailed discussions with KPMG on these reports and the actual financial statements took place in the meeting of the Investment, Finance and Audit Committee on November 15, 2011. The Investment, Finance and Audit Committee resolved to recommend to the Supervisory Board that the financial statements be approved. The Chairman of the Investment, Finance and Audit Committee explained the committee's recommendations in the Supervisory Board meeting on November 22, 2011. The financial statements were examined thoroughly in the presence of the auditor at this meeting and were scrutinized by the Supervisory Board to ensure, in particular, that they were lawful, compliant and adequate.

The Management Board also reported in detail at the aforementioned Supervisory Board meeting on the scope, key areas and costs of the audit and explained the risk management system. The Management Report of Infineon Technologies AG and of the Infineon Group corresponded to the Management Board's reports to the Supervisory Board. The Supervisory Board concurs with the statements on the future development of the Company. The Supervisory Board has examined and endorses the Management Board's proposal for the appropriation of the unappropriated profit, which provides for a dividend of 0.12 euros per qualifying share. Following the final result of the examination by the Supervisory Board, the Supervisory Board has no objections to the financial statements and the audit performed by the auditor. The Supervisory Board concurred with the results of the audit on November 22, 2011 and approved the separate and consolidated financial statements of Infineon Technologies AG and 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 all employees working worldwide for their great commitment and outstanding achievements over the past fiscal year and to the employee representatives for their effective cooperation.

Neubiberg, November 2011
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, comprising Infineon Technologies AG and its consolidated subsidiaries (collectively "Infineon" or "the Company"), and the Management Report of Infineon Technologies AG. It should be read in conjunction with the audited Consolidated Financial Statements, including the information provided in the Notes to the Consolidated Financial Statements, which appear elsewhere in this Annual Report. The Consolidated Financial Statements have been prepared on the basis of a number of accounting policies and assumptions more fully explained in Note 1 (Basis of Presentation) and Note 2 (Summary of Significant Accounting Policies) to the Consolidated Financial Statements.

GROWTH AND PROFITABILITY – REVIEW AND OUTLOOK

We intend to continue growing profitably and sustainably.

≥ 10% p.a.

Expected longer-term growth rate for the Infineon Group.

A SUCCESSFUL 2011 FISCAL YEAR

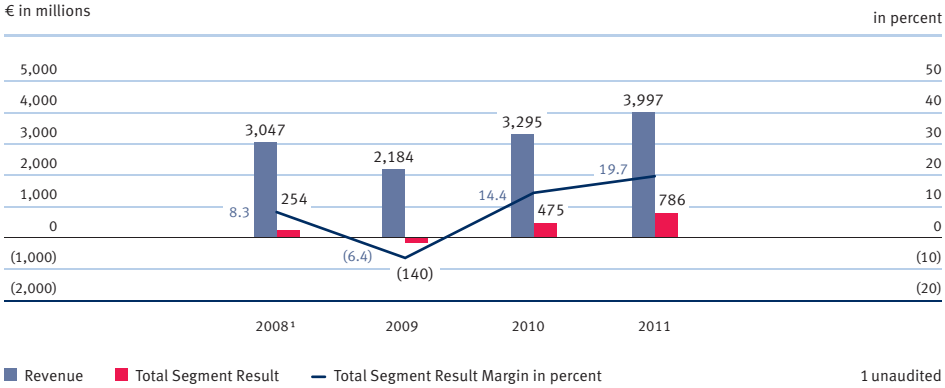
- Corporate restructuring complete.
- Results improve again in the 2011 fiscal year.
- Investors to share in fruits of Company's success.

CORPORATE RESTRUCTURING COMPLETE

We brought the restructuring of the Infineon Group to a successful conclusion in the 2011 fiscal year. The extensive measures undertaken in recent years to reconfigure our portfolio were completed during the year ended September 30, 2011 with the sale of our Wireless mobile phone business to Intel Corporation ("Intel"). The €1,020 million in cash received from this transaction further enhanced the Company's financial resources.

The three remaining operating segments, Automotive (ATV), Industrial & Multimarket (IMM) and Chip Card & Security (CCS), reflect Infineon's business focus on energy efficiency, mobility and security, three of the central challenges facing the world today and hence also three drivers of dynamic growth. We serve our target markets – automotive electronics, industrial electronics and security – from market-leading positions, moreover, and this combination of strength and focus leads us to expect better-than-average growth and sustained high margins. How we intend to deliver on these aspirations in practice and the engines of growth in the segments that will help us do so are explained in detail in the section titled "Growth and Profitability Prospects, Target Operating Model", page 22ff.

Revenue, Total Segment Result, Total Segment Result Margin



1 unaudited

Successful 2011 fiscal year: Revenue and Total Segment Result Margin well above pre-crisis level

RESULTS IMPROVE AGAIN IN THE 2011 FISCAL YEAR

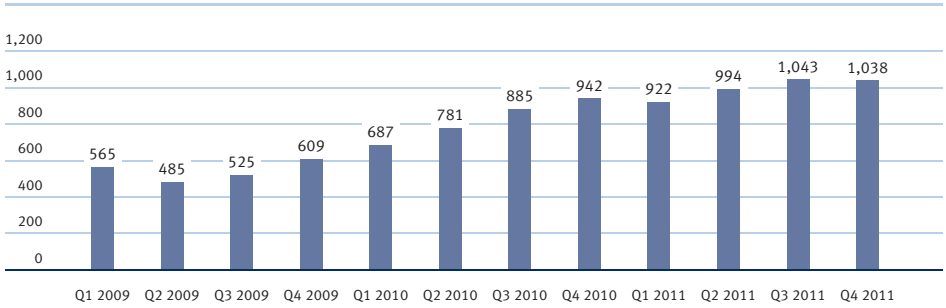
We made further progress on the Company's path to long-term, sustainable success in the 2011 fiscal year, beating the previous year's results by a substantial margin.

Our **revenue** climbed 21 percent from €3,295 million in the 2010 fiscal year to €3,997 million in the fiscal year ended.

Significant increase in revenue after Lehman crisis

Revenue

€ in millions

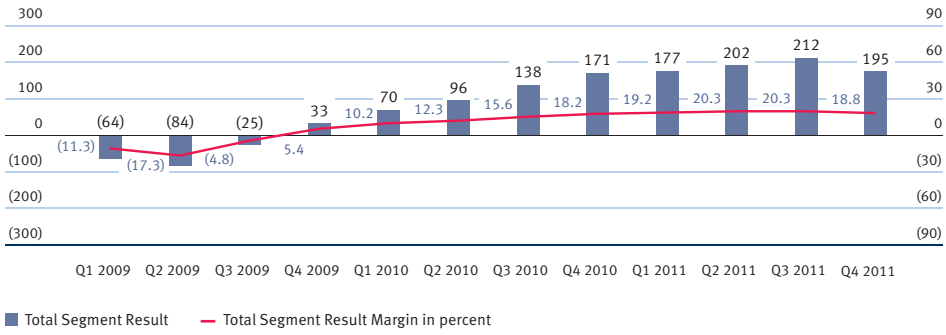


Like revenue, profitability also improved again in the 2011 fiscal year: overall, the **Total Segment Result** jumped by around 65 percent from €475 million in the 2010 fiscal year to €786 million in the fiscal year ended. The Total Segment Result Margin amounted to 19.7 percent, well ahead of the previous year's figure of 14.4 percent.

Significant increase in Total Segment Result Margin after Lehman crisis

Total Segment Result and Total Segment Result Margin

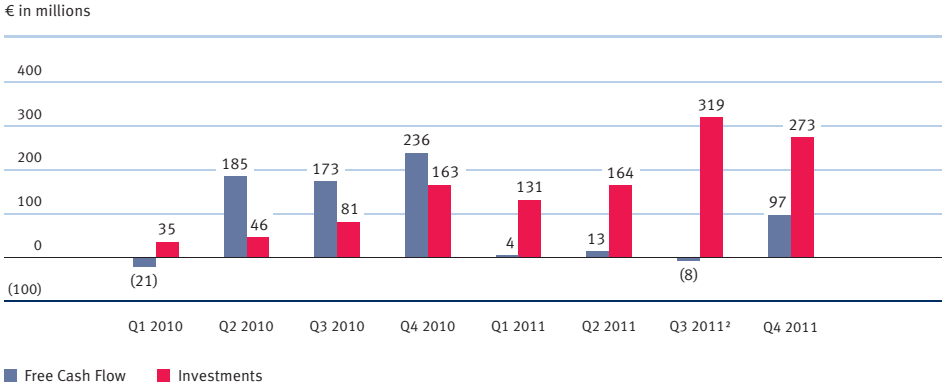
€ in millions in percent



Our **income from continuing operations** more than doubled to €744 million (2010: €312 million).

Free cash flow from continuing operations fell to €106 million in the 2011 fiscal year from €573 million in the previous year as a result of the sharp increase in investment in production capacities to support our future growth. Investments leapt 173 percent year-on-year to €887 million in the 2011 fiscal year (2010: €325 million). An overview of the level of investments over the last eight business quarters and a breakdown of investments as a proportion of quarterly revenue in each quarter may be found in the section titled "Review of Liquidity", page 111.

Free Cash Flow from Continuing Operations and Investments [1]



1 without financial investments

2 Including €91 million of real estate and manufacturing facilities purchased from the insolvency administrator of Qimonda Dresden GmbH & Co. OHG.

Investments in future growth lead to decline in free cash flow from continuing operations in the 2011 fiscal year

Free cash flow from discontinued operations amounted to €1,209 million in the 2011 fiscal year, an increase of €1,073 million over the previous year's figure of €136 million. This total consists predominantly of the €1,020 million in cash received from the sale of our Wireless mobile phone business to Intel.

Overall **free cash flow** (continuing and discontinued operations combined) rose by approximately 85 percent to €1,315 million in the 2011 fiscal year (previous year: €709 million).

Our **gross cash position** at the end of the 2011 fiscal year stood at €2,692 million, which represents a year-on-year increase of around 56 percent (previous year: €1,727 million). The cash received from the sale of our Wireless mobile phone business to Intel is again the principal factor here.

Our **net cash position** at September 30, 2011 amounted to €2,387 million, which equates to a jump of 79 percent over the previous year's figure of €1,331 million.

Our current financial position, we believe, positions us well to continue our organic growth path, take advantage of any attractive acquisition opportunities that come our way and plot a safe course through any potential downturn.

INVESTORS TO SHARE IN FRUITS OF COMPANY'S SUCCESS

We feel it is important to allocate an appropriate share of the Company's success to our investors on an ongoing basis and we accordingly **returned capital to investors** totaling of €308 million in the 2011 fiscal year.

The dividend for the 2010 fiscal year, which we paid on February 18, 2011, the day after the Annual General Meeting, accounted for €109 million of this amount. We also repurchased parts of our subordinated convertible bond due 2014 with a nominal value of €59 million for around €173 million in the 2011 fiscal year and made use of the corresponding authorization granted by the Annual General Meeting of February 17, 2011 to repurchase own shares for a total of €26 million by means of put options. Please refer to the section titled "The Infineon Share" on page 66ff. for details of the Infineon share and its performance in the 2011 fiscal year.

We intend to propose a dividend of €0.12 per share to the Annual General Meeting on March 8, 2012 in line with our policy aiming at sustainable dividend payments. This proposal represents an increase in the dividend per share of €0.02 or 20 percent compared to the 2010 fiscal year.

GROWTH AND PROFITABILITY PROSPECTS, TARGET OPERATING MODEL

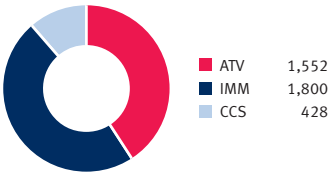
- Long-term global trends drive our growth.
- Sustainably high margins: our know-how adds value for our customers.

POWER SEMICONDUCTORS AS GROUP WIDE GROWTH ENGINE

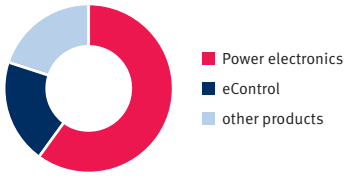
Infineon consists of three operating segments[1]: Automotive, Industrial & Multimarket and Chip Card & Security. They focus mainly on power semiconductors, which generate around 60 percent of the total revenue of the three segments.

Revenue by Segment

€ in millions



Revenue by Product



The revenue generated by the Automotive, Industrial & Multimarket and Chip Card & Security segments grew at an average rate of 7.6 percent per annum from 2000 to 2011. Thanks in particular to our power semiconductors, the average rate over the next few years could well be even higher in spite of apparently strengthening economic headwinds since the middle of 2011. Demand for our products is ultimately driven by a series of long-term global trends, the impact of which is expected to further gain momentum.

1 Retained activities from business areas that have been sold are combined under Other Operating Segments. The product deliveries and services to be performed for Intel Mobile Communications (IMC) beyond the transitional phase have fallen under Other Operating Segments since the sale of the Wireless mobile phone business. Product deliveries to Lantiq following the sale of the Wireline Communications business also come under this category. The Corporate and Eliminations segment encompasses the elimination of intragroup revenue and earnings plus certain corporate functions not allocated to the operating segments.

The changing energy mix

Growing environmental awareness and increasing concerns about conventional energy sources are spurring a shift in the global energy mix towards renewables, with some countries also exiting nuclear power entirely. Harnessing renewable sources of energy demands a substantially larger content of semiconductors per megawatt of installed capacity than conventional systems: while a typical wind turbine might use up to €9,000 worth of power semiconductors per megawatt, for example, the equivalent figure for a nuclear power plant could easily be below €300.

Energy efficiency

Burgeoning demand for electricity all over the world coupled with rising electricity prices and growing environmental awareness mean that using electricity efficiently has never been more important. Consumers and businesses alike are seeking to reduce their costs – and their environmental impact – by increasing the efficiency of their electrical devices and systems. The stakes are considerable: improving the energy efficiency of a large data center by just 1 percent, for example, can slash electricity consumption by a whole megawatt, which is enough to power around 800 homes. Power semiconductor components offering ever more efficient ways to convert electricity on its way to the end user hold the key to further savings.

Electromobility

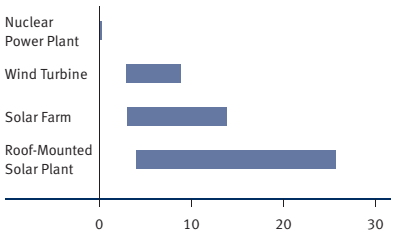
Electromobility could well turn out to be one of the most significant developments in the automotive industry over the next years. Hybrid and electric vehicles typically have double the semiconductor content compared to internal combustion engine equivalents, making them a very important growth driver in the field of chips for automotive applications. Electromobility on two wheels is gaining momentum as well, with electric bicycles (e-bikes) becoming more and more popular, especially in rapidly developing economies like China. Power semiconductors are key components both for hybrid and electric cars as well as for e-bikes, since they enable the energy stored in the battery to power the electric motor that drives the wheels.

Growing middle class in BRIC and emerging countries

The Asian Development Bank estimates that the purchasing power of the Chinese middle class has already reached US$641 billion a year, while a study from McKinsey (June 2006) suggests that in China alone, 200 million more households will move up into the middle income bands over the next ten years. These middle-class consumers demand all kinds of goods, from induction hobs and rice cookers to washing machines and cars. Their growing prosperity translates into accelerating demand for our products directly, in the form of increased sales of consumer goods, but also indirectly in the form of projects expanding power network infrastructure in order to keep pace with the rising electricity consumption.

Semiconductor Content per GW of Generated Electric Power

€ in millions per GW

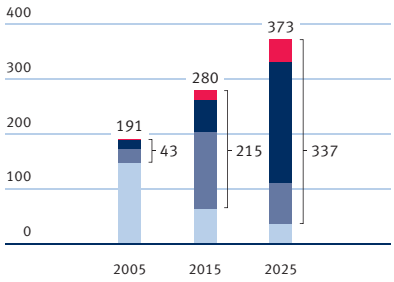


Semiconductor content (minimum to maximum)

Source: Internal assessments

Growing Chinese Middle Class

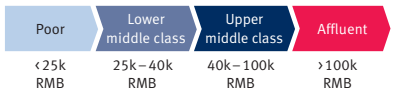
in millions of residents



in millions of residents	2005	2015	2025
Poor	148	65	36
Lower middle class	24	139	74
Upper middle class	18	59	222
Affluent	1	17	41

Annual Disposable Income

in RMB



Source: McKinsey, June 2006

GROWTH OF THE AUTOMOTIVE SEGMENT

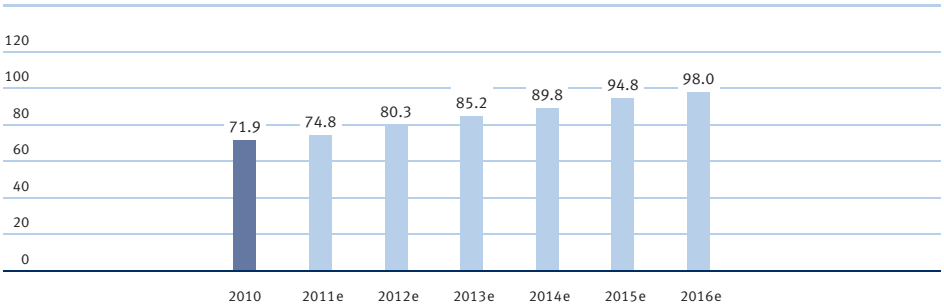
Two factors account for most of the growth being seen in the market for automotive semiconductors: increasing car production and a rise in the semiconductor content per vehicle. The value of the semiconductors installed in automobiles seems likely to continue rising in particular as a result of the greater number of produced hybrid and electric vehicles.

INCREASING CAR PRODUCTION

Market researchers IHS iSuppli expect (October 2011) worldwide car production to increase by 4 percent year on year in the 2011 calendar year. This is less than originally predicted at the beginning of the year as a result of the nuclear accident in Japan and recent economic uncertainties, but IHS iSuppli anticipates worldwide car production will rebound in 2012 with growth of 7 percent. Production is expected to recover in Japan, and China remains a very strong growth driver, with premium cars being particularly popular in the Far East.

Development of Worldwide Car Production

in millions of units



Source: IHS iSuppli, October 2011

GROWTH OF SEMICONDUCTOR CONTENT PER VEHICLE

The automotive industry is constantly developing innovative solutions to help reduce fuel consumption and keep pace with ever tougher emissions regulations. Key to this progress are new, ever more intelligent semiconductor solutions, which play a very substantial role in achieving the efficiency and consumption targets.

Permanently reducing the number of traffic accidents is another area of concern for legislators and this also drives the rise in demand for powerful and reliable semiconductor solutions for safety applications. Cars now contain radar systems for distance measurement, for example, while regulations introduced in the USA in 2007 require all new vehicles to be equipped with a tire pressure monitoring system. Intended to minimize accidents caused by a low tire pressure, such systems will also become a legal requirement in the EU, South Korea and Japan from 2014.

These ever more stringent emissions and safety requirements will keep pushing up the value of semiconductors per vehicle. This figure has risen by just a few percentage points a year on average in the past, but market researchers Strategy Analytics expect an increase of around 5 percent in the value of semiconductors per vehicle for the 2012 calendar year.

HYBRID AND ELECTRIC VEHICLES AS GROWTH DRIVERS

Demand for alternative concepts like electric and hybrid drives is growing as a result of concerns about fossil fuel supplies and efforts to curb global CO_2 emissions. Semiconductor companies will benefit from this development, since the semiconductor content per car generally amounts to between US$250 and US$300 in combustion engine vehicles, but US$600 to US$700 in hybrid and electric vehicles. A large proportion of these additional semiconductors are power semiconductors, as battery-powered vehicles need the most efficient power transistors in order to achieve a good range. Naturally these power transistors have to satisfy tough reliability, quality and service life requirements in addition to delivering excellent efficiency and this plays right into the hands of Infineon, the market leader for power transistors and a top player in the automotive semiconductor market.

Market researchers Strategy Analytics expect hybrid and electric vehicle numbers to increase from over a million in 2011 to four to five million in 2015. The advantages of electrically powered vehicles in terms of reduced CO_2 emissions should be especially pronounced in urban settings, something that has caught the eye of administrations in many countries. In Germany, for example, the federal government has stated that it wants to see a million electric cars on the country's streets by 2020 and has doubled state research and development funding in the field to €1 billion for the next two years. Other countries have adopted similar policies: China and no fewer than 17 European countries provide financial incentives for people buying electric cars.

We estimate that the combined effect of the predicted expansion in automobile production, the increase in the value of the semiconductors installed in every vehicle and the anticipated rise in the number of hybrid and electric vehicles should enable us to grow revenue in the Automotive Segment by around 10 percent a year under global economic conditions with normal annual growth rates.

GROWTH OF THE INDUSTRIAL & MULTIMARKET SEGMENT

Derived from the four global trends – the trend towards renewable energy, energy efficiency, electromobility and the expanding affluent middle class in the BRIC countries and the emerging economies – we see a whole series of growth areas for our business with chips for industrial and multimarket applications:

CHANGING THE ENERGY MIX: RENEWABLES

Wind and solar power have expanded rapidly over the last decade as the move away from fossil and nuclear energy sources gains momentum. According to a June 2011 report published by the International Energy Agency (IEA), total global wind power capacity at the end of 2010 stood at around 195 gigawatts, a huge increase on the mere 18 gigawatts installed by the end of 2000. The year 2010 alone saw 39 gigawatts of new capacity installed. The same source also reports an even more rapid increase in solar power installations – from 1.5 gigawatts of capacity at the end of 2000 to more than 40 gigawatts by the end of 2010.

This growth in renewable generating capacity is expected to continue.

In the wind energy sector, for example, market researchers IHS EER predict that despite a slight fall in new installations in 2011, the amount of installed wind power capacity will grow by an average of 11.6 percent over the period 2010 to 2025. Germany once dominated the photovoltaic market, but a report from the European Photovoltaic Industry Association indicates that the country will account for less than a quarter of the 21 gigawatts of new capacity to be installed around the world in 2011. The EPIA expects the market to grow in excess of 20 percent overall in 2011, with Italy, the USA and China all also gaining significant new capacity. The forecast for 2012 suggests another 23 gigawatts of solar electricity generating capacity will be added, with a further increase in new installations in North America and Asia more than offsetting the temporary reduction in Europe. The average overall growth rate in the photovoltaic market in the period 2011 to 2015 is expected to be well over 10 percent.

ENERGY EFFICIENCY

Electrical energy is converted many times between generation and the end user: alternating current is transformed into direct current and back again and the voltages of both are stepped up and down numerous times in a series of conversion steps spanning the entire value chain from generation to transmission to use. Each of these power management steps can be made more efficient using smarter power semiconductor components, reducing both electricity costs and overall system costs.

High-voltage direct current transmission

Power is often generated far away from the point of use, especially in the BRIC countries Brazil, Russia, China and India. Low losses make high-voltage direct current (HVDC) transmission an attractive alternative for large distances and it is consequently becoming steadily more common around the world. The converter stations used in HVDC transmission systems depend on highly reliable high-power semiconductors. The value of the semiconductors used in such a station can be anywhere from €2 million to €10 million depending on capacity, so the proliferation of HVDC equipment is creating a very interesting growth market for Infineon's power semiconductors.

Variable speed drives

According to figures published by IEA, electric motor drives currently account for more than 40 percent of total global electricity consumption. Variable speed drive (VSD) technology, which actively matches drive speed – and hence motor output – to the actual requirements of the application concerned, can reduce the electricity consumption of an electric motor by up to 30 percent, a potential saving that has led to more and more countries insisting that new electric motor installations include drive speed control (see "The Segments – Industrial & Multimarket", page 48). Variable speed drives typically contain almost €4 worth of power semiconductors per kilowatt of motor power, not to speak of other types of semiconductors, making them a powerful source of growth for our industrial electronics business.

Conversion efficiency

Our semiconductors can help reduce electricity costs in private homes too. It is increasingly common for the energy efficiency of home appliances to be shown on the appliance, enabling consumers to compare the consumption of different models before making a purchase. The efficiency at which alternating current is converted to direct current plays an important role in determining overall consumption: power supplies carrying the platinum label, for example, boast a conversion efficiency in excess of 90 percent and are thus some 2 percentage points superior even to gold label products. Highly efficient power supplies are expected to make significant inroads into the market in information and communication technology applications, especially servers, over the course of the next four years. According to a European Commission report, the use of platinum, gold and other labels awarded by Energy Star is estimated to have cut electricity consumption in the European Union by 11 terawatt hours over the last three years. This is equivalent to 16 percent of the total electricity consumption of all newly purchased office devices in the EU and represents a saving of more than €1.8 billion in terms of electricity costs. Growth in this sector is fuelled by more than just unit numbers too: the value of the semiconductor components used increases by between 5 and 60 percent, depending on the application, for every percentage point gain in efficiency.

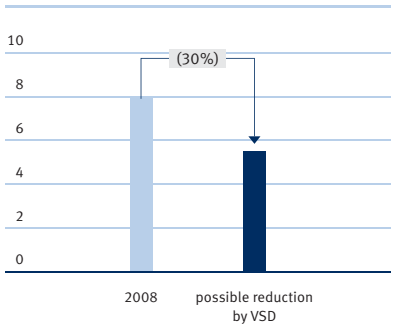
Digital power management

The supply of power to the individual components within a server can be controlled using either analog or digital methods, meaning that the corrections necessary to bring the actual voltage in line with the target voltage can be determined digitally or by analog means. The objective of power management is to reduce electricity consumption without compromising performance, and more and more server manufacturers are making the digital option (digital power management or DPM) their first choice. Figures from market researchers IMS Research suggest growth in this sector will average 30 percent a year between 2010 and 2015.

The aforementioned global trends and the growth areas derived from them should yield average revenue growth in excess of 10 percent a year for the Industrial & Multimarket Segment under global economic conditions with normal annual growth rates.

Energy Consumption of Electric Motors

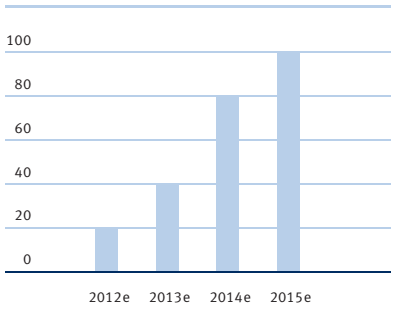
in trillion kWh



Source: International Energy Agency IEA, May 2011

Market Penetration of Highly Efficient Power Supplies (Platinum Label)

in percent



Source: climate savers computing

GROWTH OF THE CHIP CARD & SECURITY SEGMENT

The growth drivers in the Chip Card & Security Segment can be divided into two categories: traditional security chip business and new business areas.

TRADITIONAL SECURITY CHIP BUSINESS

Growth in this category is fuelled principally by electronic government identity documents and chip-based public transport tickets and passes.

ID cards carrying security chips offer the greatest growth potential in the area of electronic government identity documents. Germany began issuing its new electronic ID card at the end of last year and there are already plans to do the same in other large European countries and in parts of Asia. Electronic ID cards not only provide a higher security level to verify identity, for example by storing the bearer's photo on the chip, but also open up the possibility of proving identity online and adding a legally binding signature to digital documents.

Growth in the market for electronic travel tickets and passes has taken off as a consequence of rapidly accelerating urbanization. Traffic problems caused by rocketing urban populations have created a need for a massive expansion of local public transport, with the great metropolitan areas of Asia in particular investing heavily in chip-based ticket systems as part of this process. Electronic ticket systems have also been taken up by long-distance public transport operators, among them the national rail carriers of Russia and China.

These two chip card applications can expect average revenue growth of 10 percent over the period 2011 to 2016 according to market researchers IMS Research. The market for mobile telephone SIM cards, on the other hand, is expected to grow only slightly over the next few years.

NEW BUSINESS AREAS

The importance of data security and integrity continues to grow as electronic devices and systems become ever more integrated and web-based mobile devices ever more ubiquitous. Near field communication (NFC), cloud computing and smart metering are just three examples of the many new applications relying on data security that are helping to keep our Chip Card & Security Segment growing.

Near field communication

Near field communication (NFC) technology makes it possible to use smartphones and other mobile devices for mobile payment, as tickets for local public transport and as admission passes for buildings. Market researchers IMS Research predict that around 40 million NFC-enabled mobile telephones will be sold in the 2011 calendar year alone and that this figure will rise to around 120 million in 2012, by which time one in ten new mobile devices will include NFC functionality. The numerous applications and services made possible by the spread of NFC create a raft of security challenges. Infineon supplies a wide range of security chips capable of providing the protection for sensitive data required for mobile payment transactions and other such applications.

Smart metering

Smart grid, the intelligent power network of the future, integrates all of the elements involved in energy generation, transmission and use and permits end-to-end communication and control. The entire infrastructure needs to satisfy very strict security requirements: the smart grid and the data streams between its components – from access gateways to the smart meters tracking individual consumption – must be protected against attacks and manipulation. Authentication and secure transmission of consumption data are essential. Infineon provides special security modules for this.

We expect revenue at the Chip Card & Security Segment to grow at a rate of 5 to 7 percent on average a year under global economic conditions with normal annual growth rates.

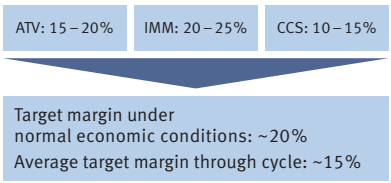
TARGET MARGINS

Under global economic conditions with normal annual growth rates we aim to achieve a Total Segment Result Margin of around 20 percent. Our assumed margins for the segments are 15 to 20 percent at Automotive, 20 to 25 percent at Industrial & Multimarket and 10 to 15 percent at Chip Card & Security.

Across the economic cycle we expect an average Total Segment Result Margin of around 15 percent.

We achieved all of these targets in the 2011 fiscal year and expect to be able to sustainably maintain our margins at this level also in the future. Our confidence in this is founded on the four key factors explained below.

Segment Margins



HIGH BARRIERS TO MARKET ENTRY

The nature of the markets we serve, our expertise and the experience we have built up over many years result in very high barriers to market entry for any potential new competitor.

Power semiconductors need to deliver highest efficiency – and Infineon's do. The SMA Solar company, for example, has achieved a record efficiency of 99 percent in its inverters using our components.

It has long been the case, however, that suppliers need to do much more than just optimize their individual components. We now pursue optimization at a system level, making sure that all components work together well in order to achieve maximum system efficiency. This requires a comprehensive understanding of the entire customer system, another area in which we lead the way. Infineon's deep familiarity with relevant systems stems from its close relationships, some of them extending back decades, with key customers in its target industries.

However, optimizing whole-system performance is just a part of the equation. Our products also have to meet highest quality and lifetime requirements: installed in cars, trains and wind turbines, for example, they need to carry on operating flawlessly for more than a decade.

All of these challenges have to be overcome in order to thrive in our markets, making the barriers to entry daunting for potential competitors.

OUR SEMICONDUCTORS DRIVE PRODUCT FUNCTIONALITY

Another distinctive feature of our components is that many innovations in finished products would not exist without them. From brake energy recuperation in trains and cars to the replacement of hydraulic steering with drive-by-wire systems in automobiles, semiconductors are the centerpiece that makes such functionality possible and they accordingly generate very substantial customer benefit.

THE COST OF SEMICONDUCTORS IS SMALL COMPARED TO THE VALUE OF THE END PRODUCT

Although they provide valuable functionality for the end user, the cost of the semiconductors contained within our customers' products represents only a very small share of the overall value of the product. Just €250 or so is sufficient to keep a middle class car compliant with the most exacting safety and CO_2 standards, for example, meaning that the semiconductors concerned account for no more than around 1 percent of the value of the finished product. Even in high-speed trains, which contain up to €100,000 worth of semiconductor components, the figure is somewhat less than 2 percent.

INFINEON'S CORE COMPETENCIES AS A COMPETITIVE ADVANTAGE

Our core competencies reside in power semiconductors and embedded controls.

Superior expertise in the development and manufacturing of power semiconductors enables us to produce best-in-class products with a constantly improving cost position. Our world-leading 300-millimeter thin wafer technology will enable us to gain an even greater edge over the competition with an advantage in terms of cost per unit of 20 to 30 percent as compared with today's standard 200-millimeter wafers (see also "Research and Development, Production", page 60f.).

Infineon scores with its innovative design too. Some years ago we introduced a completely new type of high-performance switch, the super junction MOSFET, with unprecedented efficiency figures. We have since sold more than a billion of these components, which generate a triple digit million euro amount in revenue every year.

Equally successful are our embedded control systems. Our microcontrollers for automotive applications have been established in the market for generations and our TriCore™ architecture is a leader in the fields of engine management and transmission control (see "The Segments – Automotive", page 38).

Infineon's chip card controllers, meanwhile, define new standards of security. We developed our Integrity Guard security technology especially for applications requiring particularly robust, long-term protection for sensitive data. Examples include credit cards and official documents such as electronic passports and the new German ID card (see "The Segments – Chip Card & Security", page 54).

TARGET OPERATING MODEL

We believe the expansion of our target markets and our excellent position in these markets should enable us to grow our revenue by at least 10 percent a year on average under global economic conditions with normal annual growth rates. Our gross profit margin should amount to at least 40 percent of revenue. We aim at research and development spending as a percentage of revenue somewhere in the low to mid teens and at selling and general and administrative expenses in the low teens of revenue. Achieving all of these targets should yield us a Total Segment Result Margin of around 20 percent under global economic conditions with normal annual growth rates.

Target operating model

	2010	2011	Longer term
Revenue	€3,295 bn	€3,997 bn	≥ 10% growth p.a.
Gross margin	37.5%	41.4%	Low 40% range
R&D expenses as percentage of revenue	12.1%	11.0%	Low to mid-teens range
SG&A expenses as percentage of revenue	11.7%	11.2%	Low teens range
Total Segment Result Margin	14.4%	19.7%	~ 20%

INVESTMENTS

We need to increase production by an average of 15 percent a year in unit terms in our power semiconductor business in order to keep pace with the growth in demand (⇢ see also “Research and Development, Production”, page 62f.). The Company’s plans call for investments in the current fiscal year to reach a level broadly similar to that of the 2011 fiscal year before reducing somewhat in 2013 and then settling in the 10 and 15 percent of revenue range in subsequent years.

OUTLOOK

The prospects for global economic growth in the 2012 fiscal year have clouded compared to conditions prevailing during the past year. The most optimistic forecast at present is a growth rate of 3.2 percent. At the other end of the spectrum, however, there can be no assurance that the global economy will not end up in recession.

Based on the assumption that no dramatic change will occur in the situation on financial markets or with respect to public-sector debt levels that could push the global economy into recession, Infineon forecasts that Group revenue will decrease in the 2012 fiscal year by a mid-single-digit percentage rate compared to the 2011 fiscal year. Given the discrepancy between the Company’s predictions and those of market researchers, it cannot be ruled out that the current worsening of prospects for the various segments of the semiconductor industry has not yet been fully factored into the latest market research forecasts.

Infineon forecasts a Total Segment Result Margin in the low to mid teens for the 2012 fiscal year. This forecast is based on the assumption of a decrease in revenue at a mid-single-digit rate, a gross margin of below 40 percent and a rise in operating expenses of between 5 and 10 percent compared to the 2011 fiscal year.

⇢ A more detailed outlook may be found in the section “Report on expected Developments, together with associated material Risks and Opportunities – Outlook”, page 131ff.

THE SEGMENTS

We work alongside our customers on developing technologies and products to make our everyday lives more efficient, mobile and secure.

80 kW

Electrical power which our HybridPACK™2 IGBT module can control in electric and hybrid cars.

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

ENERGY EFFICIENCY

Energy efficiency plays a key role in modern society. The world's population is growing steadily, pushing up global demand for energy. Electricity is turning into the most important energy carrier of the 21st century. Firstly because the supply of fossil fuels is set to decline in the foreseeable future, and secondly because electricity can be transported very quickly, as well as cost-effectively, and can be converted efficiently.

Semiconductors from Infineon increase energy efficiency at all stages of the value chain in the energy industry: in generation, transmission, and especially the use of electrical energy. They form the basis for the intelligent and optimized use of energy in industrial applications, power supplies for computers and consumer electronics, as well as in cars.

MOBILITY

Human mobility requirements are another major challenge of modern society. This is no less true for individual mobility than for traveling by public transport.

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

SECURITY

With society's increasing mobility and networking come new challenges in terms of data and system security: mobile payments, hardware-based security in networked systems and official documents.

Semiconductors from Infineon help ensure compliance with the world's most stringent security standards. In this way they make e.g. exchanging data, cloud computing, conducting financial transactions, managing logistic systems and maintaining border controls ever more convenient, as well as more secure. Important application areas are electronic passports, ID documents, healthcare cards, and payment cards, and increasingly also other security applications that go beyond chip cards.

AUTOMOTIVE

- Revenue up 22 percent to €1,552 million. Segment result increased by 41 percent to €279 million.
- Trend to electromobility is irreversible.

Hybrid vehicles:

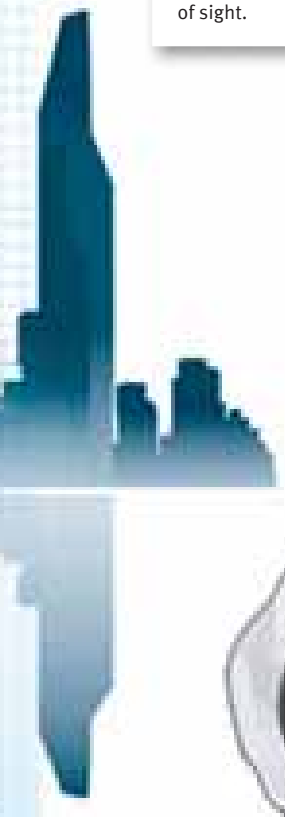
Infineon offers the industry's most extensive range of power modules for motors and drive units (Pages 39 and 47).

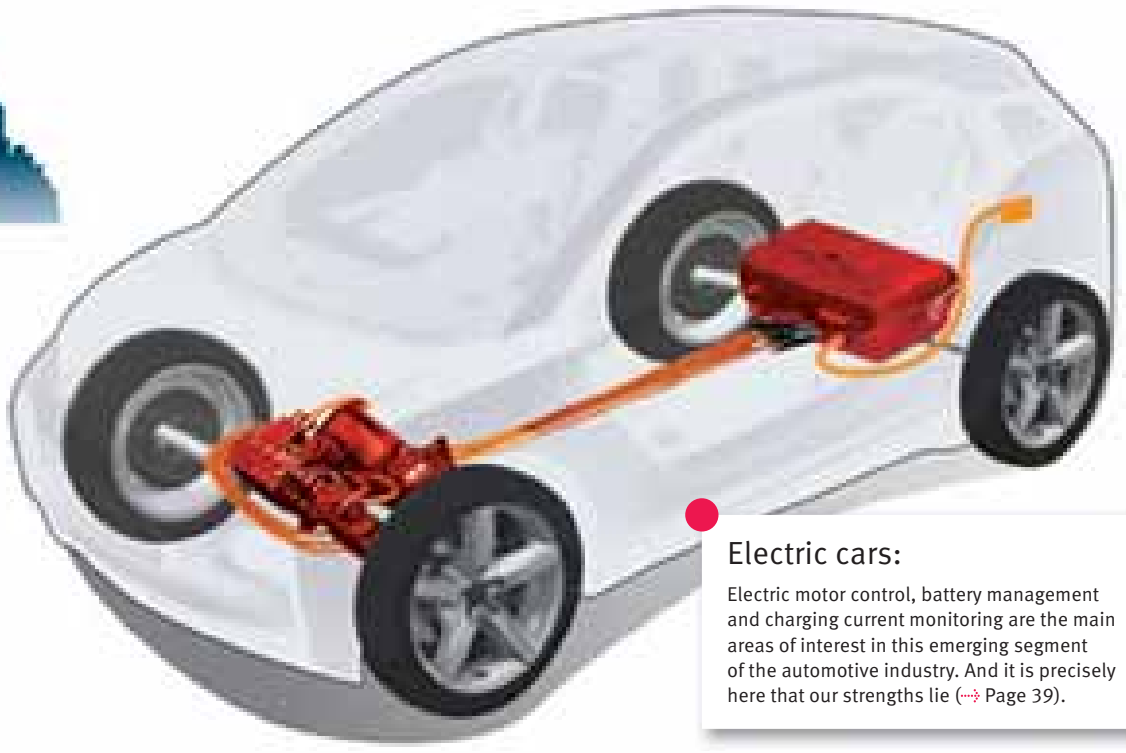
E-bikes:

From bicycles with pedal assistance in Europe to e-scooters in China, Infineon has the all-important components for two-wheel business as well (Page 38).

Internal combustion engine cars:

Most of the electronics is concealed – behind the dash board, in the chassis and in the tires. Our microcontrollers (Page 38), sensors and power semiconductors do their job of ensuring safety (Page 41), comfort and efficient use of fuel out of sight.





Electric cars:

Electric motor control, battery management and charging current monitoring are the main areas of interest in this emerging segment of the automotive industry. And it is precisely here that our strengths lie (Page 39).

BRIEF DESCRIPTION

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

STRATEGIC DIRECTION

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

LOW-EMISSION VEHICLES: With future drives and compliance with increasingly stringent emission standards in mind, we are collaborating with our lead customers in developing control systems based on microcontrollers, sensors and power electronics. We are contributing to reduce CO_2 emissions by making combustion engines more and more efficient. Infineon is also taking a leading role in the semiconductor industry as regards the increasing electrification of vehicles, both in the drive train as a whole and in the individual sub assemblies.

SAFE VEHICLES: With our products we cater to a wide variety of active and passive safety applications that help reduce the number of road accidents: airbags, side impact protection, electronic power-assisted steering, seatbelt tensioners, tire pressure monitoring, radar-based driver assistance systems, and ABS/ESP (electronic stability program) systems.

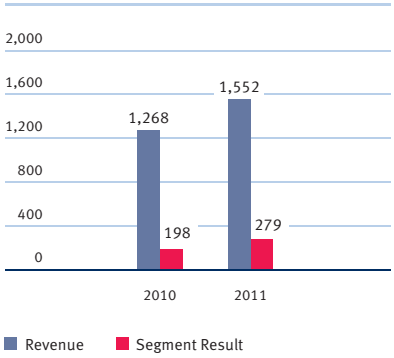
AFFORDABLE CARS: The automobile has come to epitomize individual mobility. Yet in growth regions like India, China, Russia and South America, one requirement is paramount: affordability. In partnership with our customers we are striving to design vehicles that match people's demands, i.e. using high-quality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

THE AUTOMOTIVE SEGMENT IN THE 2011 FISCAL YEAR

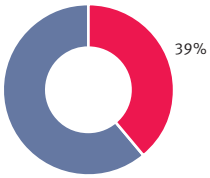
Infineon achieved revenue of €1,552 million in the Automotive segment in the 2011 fiscal year, equivalent to 22 percent growth compared with the previous year. The Segment Result amounted to €279 million, an increase of 41 percent compared with the previous year.
For further information about the development of the fiscal year, please see the section "Segment Performance – Automotive", page 94.

The Automotive segment represents a share of 39 percent of the revenue from continuing operations. 29 percent of the segment's revenue is generated via the distribution channels.

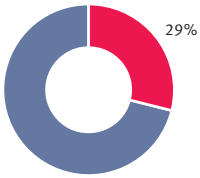
Revenue and Segment Result



Revenue of the Automotive Segment in Percent of Infineon Revenue

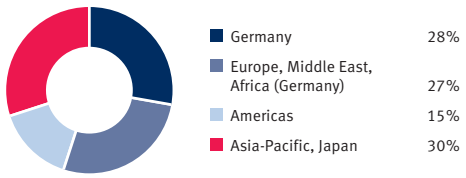


Percentage of Revenue of the Automotive Segment through Distribution



The strong increase in car production in Asia, particularly in China, is evident in our regional revenue split. We already achieve around 30 percent of our global revenue in the Asia/Pacific region.

Regional Revenue Split of the Automotive Segment



HIGHLIGHTS

1

AWARD FROM CONTINENTAL

For the second time following 2009, Infineon has been honored by Continental with a "Supplier Award 2010" in the category "Power semiconductors, power switches, drives". This made Infineon the only semiconductor manufacturer to receive an award in the post-crisis year that was marked by steep rises in production.

2

AURIX™

AURIX™ FAMILY FOR POWERTRAIN AND SAFETY

Two prominent European car part suppliers have already chosen AURIX™, our 32-bit multi-core microcontroller family, for their future powertrain platforms. This will make AURIX™ the key microcontroller architecture for engine management and transmission control far into the next decade.

As well as delivering pure computing power, the AURIX™ family is also the perfect choice for safety-critical applications such as ABS/ESP and power-assisted steering. The latest safety standards demand simultaneous, and therefore redundant, calculation on multiple cores, for which the architecture of the AURIX™ family is ideally suited.

We see future safety regulations for accident prevention and the new driver assistance systems as additional market drivers for AURIX™.

3

IFX21003

E-BIKES OMNIPRESENT ON CHINA'S STREETS

The trend toward electrically powered two-wheelers – be it bicycles, scooters or motorbikes – is growing at a dynamic pace on a global scale. Since the electric motor and battery only have to move a low vehicle weight compared with a car, there are no obstacles in terms of infrastructure to overcome thanks to short charging times and adequate range. That explains why around 100 million e-bikes have already been sold worldwide to date.

We provide complete system solutions for engine management, battery management, lighting, and the dash board for these eco-friendly means of transport. Key components used here include voltage regulators, microcontrollers, sensors, driver ICs and power components.

Being successful globally means having to adapt many components to suit local conditions. The voltage regulator IFX21003, for example, was designed specifically for the Chinese market. Our local Chinese partner is developing the control unit using our components and serves around a third of the Chinese market.

4

INFINEON'S POWER MODULES ARE KEY COMPONENTS IN ELECTRIC CARS

Looking at the electrical components in conventional cars, the air conditioning system is one of the biggest consumers of electricity, drawing around 1,500 watts. By comparison, the motors and power units in electric cars or hybrids (combining a combustion engine and electric motor) play in a different league. The auxiliary units, such as battery heater or battery charger are still in the single-digit kilowatt range, while the electric motors responsible for the drive deliver power in the 10 to 200 kilowatt range. This makes them comparable with industrial motors used in elevators, escalators or conveyor belts.

To control these motors, Infineon draws on its decades-long industry experience with speed and load regulation for electric motors and feeds this know-how into the development of power modules capable of meeting the highest application requirements in the automotive sector. The components developed and qualified for the automotive world have proven their worth in pilot projects run by our American, Asian and European customers. Coinciding with the market launch of this year's first car models, we too are embarking on large scale production. We expect this to make a significant contribution to increased revenue in the coming years.

Infineon won numerous new orders in the 2011 fiscal year, including with the Easy1B and Easy2B for power outputs up to 2 kilowatts, with the HybridPACK™1 for power outputs up to 40 kilowatts, and the HybridPACK™2 for power outputs up to 80 kilowatts. The new, compact HybridPACK™3 is a flexible platform used in the power range up to 60 kilowatts for applications such as the main inverter or generator.

A critical success factor for electric cars is the range that can be covered with a single battery charge. Intelligent battery management, efficient motor control and optimum brake energy recuperation are crucial to achieving the maximum driving range from one battery charge. Our semiconductor devices are key components in this and so create added value for our customers as well as their end customers.

Easy1B

Easy2B

HybridPACK™1

HybridPACK™2

MARKETS, REGIONS, TRENDS

Applications

- Powertrain (engine and transmission control)
- Hybrid and electric cars (drive control for electric motor, battery management, charger)
- Chassis and comfort electronics (steering, suspension, lights, air conditioning, sunroof, power windows, windshield wipers, central body control units, door electronics)
- Safety (ABS, airbags, ESP, distance warning)

Product range

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

CO_2 REDUCTION THROUGH STATUTORY REGULATIONS

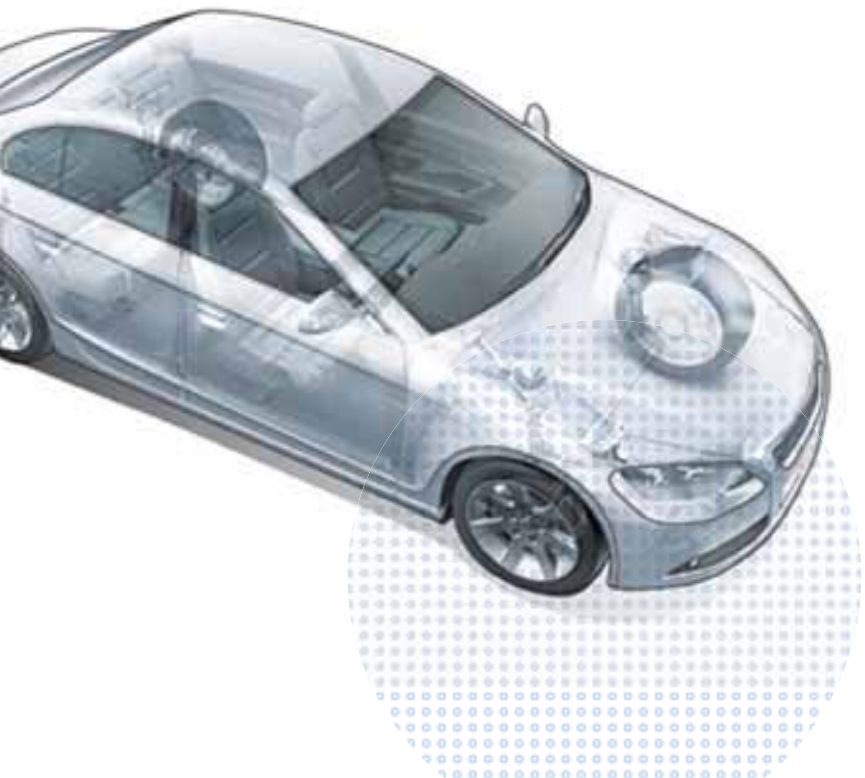
Guidelines on emissions are becoming more stringent worldwide. The EU plans a manufacturer fleet limit value for passenger cars of 95 grams CO_2 per kilometer by 2020 (compared with approximately 160 grams CO_2 per kilometer as the European average today). This is equivalent to an average consumption of less than four liters per 100 kilometers. The US government has also reached an agreement with the automotive industry whereby the fleet fuel consumption of private car manufacturers must be halved by 2025.

The focus is therefore on developing technologies aimed at lowering consumption and emissions: methods for highly efficient distribution and use of electrical energy in the car, fuel-efficient combustion engines, turbochargers, direct injection, automatic stop/start and efficient automatic transmissions. Our microcontrollers, sensors and power semiconductors are key components for this and contribute significantly toward making cars even more fuel efficient.

IRREVERSIBLE TREND TOWARD ELECTROMOBILITY

Crude oil as a fossil energy source is running low and CO_2 emissions are endangering the climate. Therefore, the road to the electric drive is predetermined. Various alternatives in drive architecture such as electric and hybrid drives are currently nearing the production stage. Even if sales of such cars are still small in number, these drives are an important growth market for Infineon because of the high quantities of power semiconductors they feature.

But it is not just in the automotive market; electrification is also on the increase in the two-wheeled vehicle sector: electric bicycles with pedaling assistance (pedelecs) and electric scooters without pedaling assistance (electric mopeds) are increasingly in demand. Around 23 million e-bikes were sold worldwide in 2010, China alone accounting for 21 million of them (source: Peak Research, 2011). These high sales volumes open up a new growth area for us.



DRIVER ASSISTANCE SYSTEMS ACHIEVE HIGHER MARKET PENETRATION

Driver assistance systems, previously reserved for model ranges in the luxury class, are increasingly making inroads on a broad front into the compact and midsize categories. Thus, this year has seen new compact class models unveiled or announced which boast assistance systems such as vehicle-interval radar, blind spot detection, dynamic light assist, lane departure warning, and active camera-based parking aid.

The next step can already be seen: progress in the coming years will lead to “partially autonomous driving”. At first the driver will be able to switch to autopilot in dense, slow-moving or stop-and-go traffic, later also at higher speeds.

Increasing numbers of sensors and microcontrollers are required for these safety and comfort systems for driving, braking, steering and parking. The safety requirements for these accident-avoidance systems are very high and now also include the component level. A multicore microcontroller architecture, as we have implemented with our next-generation 32-bit AURIX™ family, is especially suitable for meeting these safety requirements.

ASIA/PACIFIC REMAINS GROWTH REGION

With a revenue contribution of around 30 percent, Asia has now become the second most important market for us after Europe and ahead of North America. The primary growth drivers are the fast-growing demand for cars in China and the incorporation of electromobility in the Chinese government’s most recent twelve-year plan. South Korea plays a key role for us, alongside China and India. Thanks to the cooperation projects already started some years ago, we have risen to being the number one automotive semiconductor supplier in South Korea.

MARKET POSITION

The merger of the two Japanese competitors Renesas Technology and NEC Electronics gave birth in April 2010 to Renesas Electronics, with a market share of 14 percent (source: Strategy Analytics, April 2011). Infineon is the world’s second biggest automotive semiconductor manufacturer, with a market share of 9 percent. Positions 3 (Freescale, at 8 percent), 4 (STMicroelectronics, also 8 percent) and 5 (NXP, at 7 percent) remain unchanged. The five largest competitors account for 46 percent of the market. Infineon remains the market leader in Europe with a 14 percent market share.

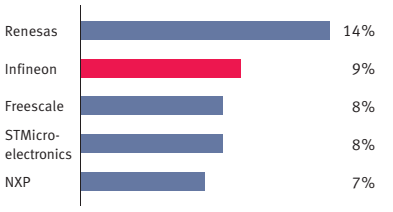
Semiconductors worth approximately US$23.5 billion in total will be installed in vehicles in 2011 (source: Strategy Analytics, September 2011).

Key customers[1]

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

1 Direct customers.
Distribution customers see “Infineon at a Glance” on the inside front cover.

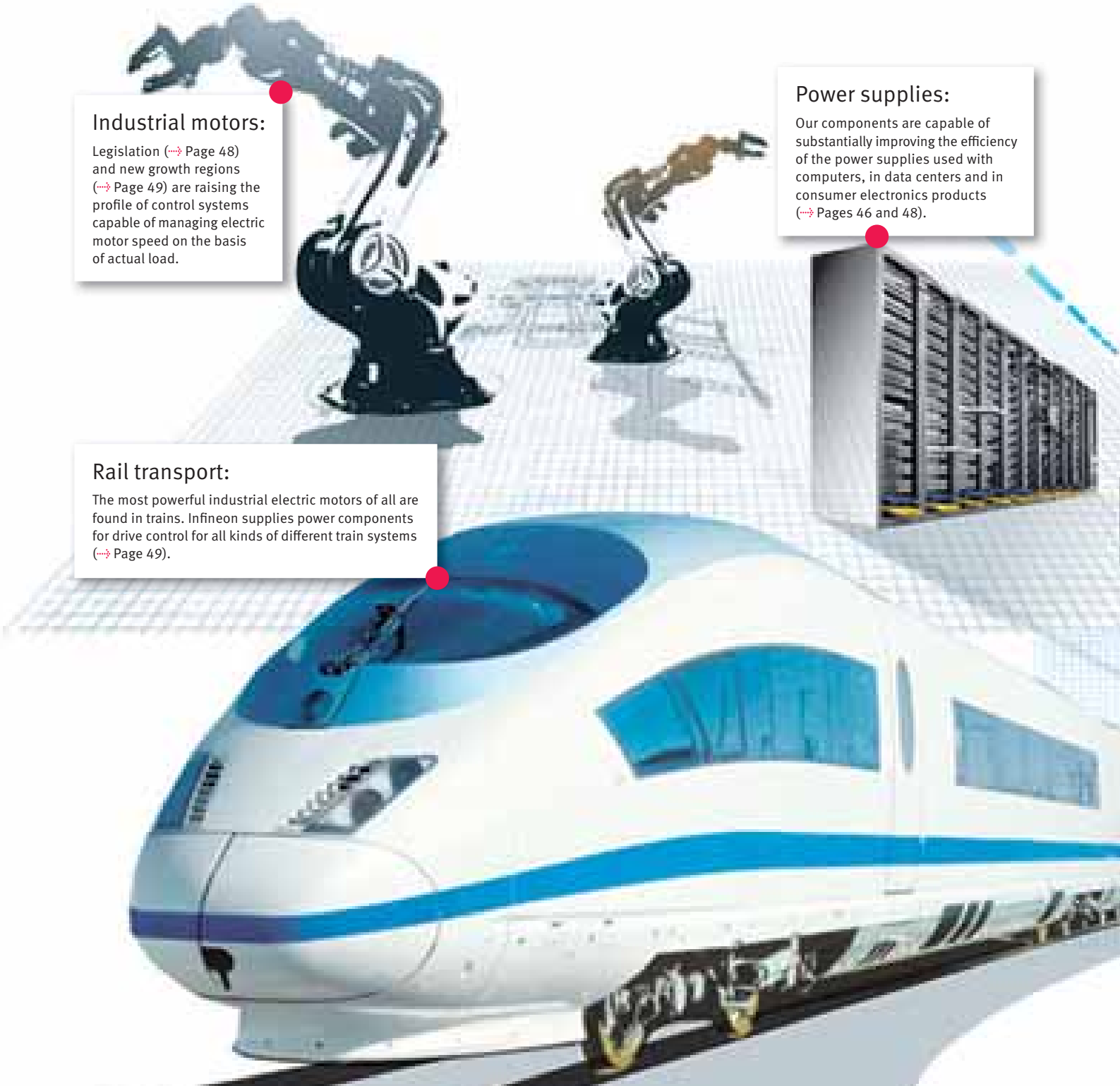
World Market for Automotive Semiconductors



Source: Strategy Analytics, April 2011

INDUSTRIAL & MULTIMARKET

- Revenue up 26 percent to €1,800 million. Segment result increased by 51 percent to €444 million.
- Legally binding guidelines stipulate higher levels of efficiency for electric motors and power supplies.



Industrial motors:

Legislation (Page 48) and new growth regions (Page 49) are raising the profile of control systems capable of managing electric motor speed on the basis of actual load.

Power supplies:

Our components are capable of substantially improving the efficiency of the power supplies used with computers, in data centers and in consumer electronics products (Pages 46 and 48).

Rail transport:

The most powerful industrial electric motors of all are found in trains. Infineon supplies power components for drive control for all kinds of different train systems (Page 49).

Wind turbines:

Infineon IGBT modules in converters installed in wind turbine gondolas ensure the power generated is fed into the grid accurately (Page 48). Our power components manage the current in the submarine cables used to connect offshore wind farms to the power grid on land (Page 47).

Photovoltaics:

The inverters used with photovoltaic arrays achieve outstanding efficiencies with our transistors and SiC diodes (Pages 29 and 48).

BRIEF DESCRIPTION

Supplying power in a sustainable way means generating electrical energy from environmentally friendly sources, transmitting it with low losses, distributing it reliably, and using it efficiently. Infineon is the only company worldwide to provide power semiconductors and power modules for the entire process of generating, transmitting and converting electrical energy. Our products are key to the future supply of energy, both in terms of the use of renewable energy sources and in terms of the efficient use of electrical energy in industry and commerce, as well as in the private domain.

The fast-growing Industrial & Multimarket segment will be split with effect from January 1, 2012 into the two separate units Industrial Power Control (IPC) and Power Management & Multimarket (PMM). With this step, the market potential can be leveraged even more effectively with a more targeted application focus. IPC will concentrate on electric drive technology and renewable energy sources. PMM will prioritize power supply and radio frequency components.

STRATEGIC DIRECTION

Electricity is set to become the most important form of energy in the 21st century. This is our conviction, not only because fossil fuels are harmful to the environment and are likely to become more expensive, but also because electricity is cheaper and can be transported extremely quickly and converted efficiently.

INCREASED EFFICIENCY AND SYSTEM MINIATURIZATION: The desire for more and more space-saving systems means making the control electronics for electrical equipment smaller and smaller and more energy-efficient and enabling ever smaller form factors for energy conversion. Customers benefit in their products from higher levels of efficiency and reliability, as well as reduced dimensions and weight.

TECHNOLOGICAL LEADERSHIP: Many applications permit no compromises in terms of quality, robustness, efficiency, temperature stability or longevity. Such customer requirements can only be satisfied with technologically leading components. Our aspiration is to be able, through a combination of semiconductor material know-how with front-end and back-end process technology, to offer customers the best possible product for their application.

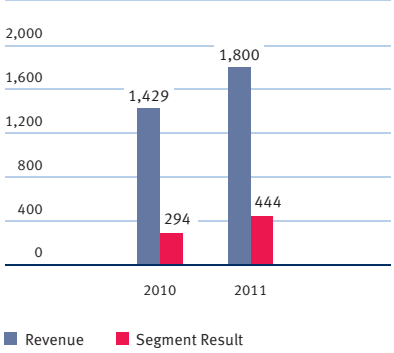
BEST PRICE-PERFORMANCE RATIO AT SYSTEM LEVEL: What determines the success of the customer's product in the marketplace is not the cost of individual components, but the total system cost. Close cooperation with the customer is essential to a thorough understanding of the system. Our customer intimacy enables us to develop optimal semiconductor components which help save on other components or which increase system reliability. This creates added value for the customer.

THE INDUSTRIAL & MULTIMARKET SEGMENT IN THE 2011 FISCAL YEAR

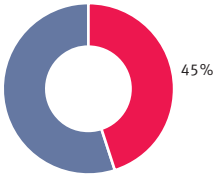
Infineon achieved revenue of €1,800 million in the Industrial & Multimarket segment in the 2011 fiscal year, representing year-on-year revenue growth of 26 percent. The Segment Result amounted to €444 million, an increase of 51 percent compared with the prior year.
For further information about the development of the fiscal year, please see the section "Segment Performance – Industrial & Multimarket", page 95.

The Industrial & Multimarket segment represents a share of 45 percent of the revenue from continuing operations. 40 percent of the segment's revenue is generated via distribution channels.

Revenue and Segment Result



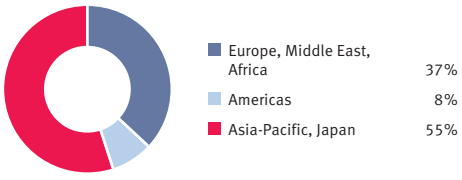
Revenue of the Industrial & Multimarket Segment in Percent of Infineon Revenue



Percentage of Revenue of the Industrial & Multimarket Segment through Distribution

Today, China takes center stage for more or less all semiconductor manufacturers. Although many design decisions continue to be taken in Europe and in the USA, the products themselves are manufactured by contract electronics manufacturers in China. Around 55 percent of IMM revenue is therefore generated in the meantime in Asia/Pacific – the lion's share of which in China.

Regional Revenue Split of the Industrial & Multimarket Segment



HIGHLIGHTS

1

OptiMOS™

INCREASED EFFICIENCY AND SYSTEM MINIATURIZATION: OptiMOS™ FOR MIDRANGE VOLTAGES FROM 60 TO 150 VOLTS

Infineon is expanding its portfolio of low-voltage power transistors, represented by the OptiMOS™ MOSFET family, with transistors for voltages from 60 to 150 volts. This enables system developers to implement exceptionally compact designs characterized by higher power density and efficiency, as well as optimal thermal behavior. This lowers costs and extends operating times, which is particularly relevant for use in data centers, DC/DC converters for telecom applications, engine management systems or installations in the renewable energies field.

Infineon also enjoys an excellent reputation for its small-signal MOSFETs, which are specified for automotive electronics applications. Infineon has now extended the relevant portfolio to include the OptiMOS™ “606” family. Boasting the best $R_{DS(on)}$ value for a given board area, the 60-milliohm devices deliver higher levels of efficiency at low loads. The products are ideally suited for applications requiring a small footprint and low power consumption. Typical applications are battery management systems for electric or hybrid vehicles and the external transistor in DC/DC converters for small loads.

2

Data center

TECHNOLOGICAL LEADERSHIP: 650V CoolMOS™ CFD2 POWER TRANSISTOR SETS NEW STANDARDS

The power transistors of Infineon’s CoolMOS™ family set new standards in terms of energy efficiency. The CoolMOS™ devices, so-called high-voltage (HV) MOSFETs, achieve a significant reduction in the conduction and switching losses in power supplies. The crucial factor in this is that, out of all the HV MOSFETs available on the market, the CoolMOS™ devices feature the lowest on-state resistance package area and at the same time offer the highest switching speed.

The 650V CoolMOS™ CFD2 is the world’s first HV transistor with a breakdown voltage of 650 volts and an integrated fast-body diode. It allows power supplies which are even more compact, lighter and more efficient, and so produce less heat. We address applications such as solar inverters, computers, data centers, lighting systems and telecommunications with this device. With its CoolMOS™ technology Infineon has established itself as the market leader for energy efficiency in high-voltage applications.

3

BEST PRICE-PERFORMANCE RATIO AT SYSTEM LEVEL: 4.5 kV IGBT MODULE FOR DRIVES AND HVDC

With the IGBT modules in the 4.5kV (kilovolt) voltage class unveiled this year, Infineon has filled the gap between the established 3.3kV and 6.5kV IGBT modules. The new 4.5kV modules are very energy-efficient and subject to much lower switching losses than solutions using alternative products. This is an important technological step forward for our customers: Lower losses translate into a reduced cooling requirement, which ultimately cuts system costs. With 1,200 amperes, the IGBT modules can switch 25 percent higher currents than comparable previous products on the market within the same footprint.

Our IGBT solutions are becoming even more robust and longer-lived, most notably for extremely demanding applications such as traction drives, medium-voltage (MV) industrial drives and high-voltage direct-current (HVDC) transmission systems. HVDC technology enables electrical energy to be transported extremely efficiently over long distances. Connecting offshore wind farms to the onshore power grid is one possible application. Thanks to the higher current density, more electric current can be transmitted and a higher power output achieved, with no need to change the existing frequency converter design or provide more intensive cooling of the power transistors.

Infineon is launching the 4.5kV IHV modules onto the market in two packages: Firstly, in the IHV-B package with a non-operating temperature of down to minus 55°C and an operating temperature of up to 150°C. This extended temperature range compared with standard IGBT modules plays a crucial role in countries like Russia. The second package is the highly insulated module package (6.5kV package). With an insulation strength of 10.2 kilovolts, this provides the clearance and creepage distances required for the harsh operating conditions in traction applications.

4.5kV IGBT module in the IHV-B package

4.5kV IGBT module in the 6.5kV package

MARKETS, REGIONS, TRENDS

Applications

- Renewable energy generation, energy transmission and conversion
- Electric drive control for industrial applications and home appliances
- Light management systems and LED lighting
- Power supplies for computers (servers, PCs, notebooks, netbooks, tablet computers), games consoles and consumer electronics
- Peripheral devices for PCs and games consoles and in industrial and medical engineering applications
- Radio-frequency ICs with protection function for navigation and communication devices (e.g. GPS receivers, smartphones, digital TVs)

Product range

- IGBT modules and stacks
- Bipolar components (thyristors, diodes)
- Discrete power semiconductors
- Power ICs
- Small-signal components
- RF power transistors
- Customized chips (ASICs)
- Silicon MEMS microphones

RENEWABLE ENERGIES CONTINUE GAINING IN IMPORTANCE

For most countries, the expansion of renewable energies is already mandated by the Kyoto protocol. Some governments are increasing the proportion of wind and solar power in the energy mix even quicker than originally planned as a result of the accelerated exit from nuclear in the wake of the reactor accident in Fukushima. In Germany, for instance, the contribution of renewable energies to the overall generation of electricity is set to more than double, from around 20 percent today to 50 percent by 2030.

Power components and modules of the highest quality are required for converting the fluctuating current obtained from natural resources like wind and sun efficiently and feeding the generated alternating current into the grid with precision. Compared with conventional power stations (nuclear power, coal-fired, hydroelectric), there is a huge demand for power semiconductors in wind turbines and photovoltaic systems. Recent technical developments are boosting demand even more: gearless wind turbines require considerably more power semiconductors than their gear-based counterparts.

LEGAL REQUIREMENTS FOR HIGHER EFFICIENCY

What has already been the case in the automotive industry for many years is now being extended to industrial motors: statutory provisions to ensure minimum efficiency standards are complied with. This is because the power consumption of electric motors (drives, fans, pumps, compressors) can be reduced significantly by means of load-dependent speed control. Since June 16, 2011, it has therefore been a requirement in the EU for electric motors in the range from 750 watts to 375 kilowatts to have electronic speed control. More stringent stages will follow in 2015 and 2017. A similar regulation came into force last year in the USA and Canada. We serve this market with a broad range of IGBT modules, as well as other components.

Regulations governing the efficiency of power supplies have also been introduced in the meantime. At least 80 percent efficiency is specified by the “80 Plus™” guideline in the USA. Infineon has developed a reference design based on its own chips for the construction of PC and server power supplies which enables up to 92 percent efficiency and so meets the requirements of “80 PLUS™ Platinum”, the industry’s highest global energy efficiency standard.

ASIA REMAINS GROWTH MARKET FOR SEMICONDUCTORS

In the past several years Asia has developed into the key market for worldwide semiconductor sales. We are therefore constantly growing our business in Asia, and in China in particular. In November 2010, Infineon and Goldwind, China's leading company in the development and manufacture of wind turbines, signed a license agreement covering IGBT stack technology for the wind energy market. As part of the cooperation initiative Infineon has set up an assembly facility for IGBT stacks in Beijing, China.

In China, we foresee long-term growth, not only in renewable energies, but also in drives, most notably for building equipment such as elevators and air conditioning systems, as well as for production plants and robots in the manufacturing industry. We also anticipate continuing heavy demand for rail drive technology thanks to the long-term infrastructure programs for high-speed trains between the metropolitan hubs on the one hand and for metropolitan and suburban commuter rail systems in outer conurbation areas and within the metropolitan centers on the other.

MARKET POSITION

Infineon was number one for the eighth time in a row in 2010 in the discrete power semiconductor and modules sector, with a market size of US$15.8 billion (source: IMS Research, August 2011). Compared to 2009, we succeeded in increasing our market share by 0.6 percentage points to 11.2 percent. Our lead over the number 2, Toshiba, increased from 3.5 percentage points to 4.4 percentage points.

In the discrete power semiconductor sub-segment, with an estimated worth of US$12.3 billion, Infineon holds pole position with 8.6 percent, ahead of STMicroelectronics with 8.4 percent. In the power modules sector (market size: US$3.5 billion), Infineon is in second place with 20.4 percent, behind Mitsubishi with 25.8 percent.

Key customers [1]

- ABB
- Alstom
- Bombardier
- Dell
- Delta
- Emerson
- Enercon
- Ericsson
- General Electric
- HP
- LG Electronics
- Microsoft
- Power One
- RIM
- Rockwell
- Samsung
- Schneider Electric
- Semikron
- Siemens
- SMA Solar Technology

1 Direct customers.
Distribution customers see "Infineon at a Glance" on the inside front cover.

World Market for Discrete Power Semiconductors and Modules

Source: IMS Research, August 2011

CHIP CARD & SECURITY

- Revenue up 5 percent to €428 million. Segment result increased by 145 percent to €54 million.
- New business fields addressed: NFC in smartphones and TPM in chromebooks.

Admission control and payment cards:

Fast and secure transfer of the data stored on the card is essential for high levels of acceptance and user-friendliness. Infineon supplies the requisite technology for contact-based and contactless cards (→ Page 54).

Security in connected systems:

The increasing networking of electronic devices and systems, as well as the growing spread of web-based mobile devices require a higher level of data security and integrity. For this we offer leading expertise in hardware-based security, for example our TPM security chip featured in the Google Chromebook (→ page 54).

Official documents:

Electronic identity cards rank as one of the fastest growing application areas for security chips and present very tough security and longevity requirements (Page 54). On average almost one in every two chips used in government ID applications comes from us (Page 56).

Near Field Communication (NFC):

NFC enables smartphones to take on additional functions such as payment, ticketing and access control. We offer security chips for these functions, which provide protection for sensitive data, especially in the case of mobile payment (Page 55).

BRIEF DESCRIPTION

Infineon has a track record of 14 years as global market leader for security microcontrollers. Based on its core competencies in the fields of security, contactless communication and integrated microcontroller solutions (embedded control), Infineon offers an extensive portfolio of semiconductor-based security products for a wide range of chip card and security applications.

Infineon leverages its expertise in order to increase security in solutions for all relevant application fields in an increasingly mobile and connected world, such as near field communication (NFC), payment transactions, mobile and prepaid communications, identification of people and objects, public transport, pay TV, trusted computing and system security.

With its world-leading security expertise, Infineon at the same time provides the most comprehensive product portfolio in the industry for increasingly demanding security requirements, and has been entrusted for more than 25 years with the most challenging and largest-scale chip card projects. Its innovations in hardware-based security and contactless technology are enablers promoting increasing mobility and greater freedom based on the foundation of security and protection of the private sphere of each and every individual.

STRATEGIC DIRECTION

The increasing mobility and networking of society brings with it new challenges in terms of data and system security, for which Infineon offers the most cutting-edge security solutions. In this regard we are focusing primarily on the following applications:

MOBILE PAYMENT: Mobile terminals are developing into mobile purses: in the future it will be possible to transfer more and more card applications in mobile phones. This will not only enhance convenience for the end consumer, but also create increased security requirements. Infineon provides flexible security solutions for this: from a security module embedded in the smartphone to the integrated security chip in the SIM or SD card.

SYSTEM SECURITY: Hardware-based security offers excellent opportunities for guaranteeing the security of decentralized units in connected systems. Thus, Infineon's TPM (Trusted Platform Module) security module secures not just conventional PCs and laptops, but also web-based devices optimized for cloud computing, in order to prevent manipulation and so protect critical data.

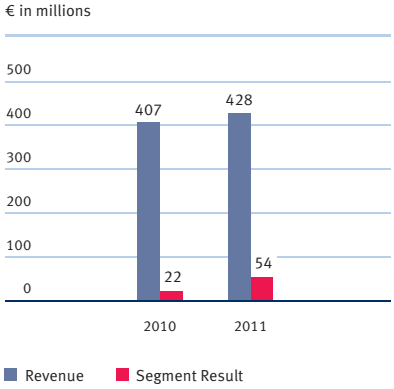
OFFICIAL DOCUMENTS: Infineon's products provide long-lasting digital security and accordingly help address the diverse challenges of official documents in electronic form. Infineon is a globally important and reliable partner for this.

THE CHIP CARD & SECURITY SEGMENT IN THE 2011 FISCAL YEAR

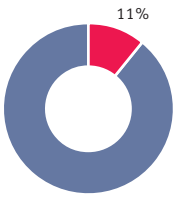
Infineon achieved revenue of €428 million in the Chip Card & Security segment in the 2011 fiscal year, equivalent to year-on-year growth of 5 percent. The Segment Result amounted to €54 million, an increase of 145 percent compared with the previous year.
For further information about the development of the fiscal year, please see the section "Segment Performance – Chip Card & Security", page 96.

The Chip Card & Security segment represents a share of 11 percent of the revenue from continuing operations. The security card business is handled primarily via direct customers. Only 8 percent of the segment's revenue is generated via distribution channels.

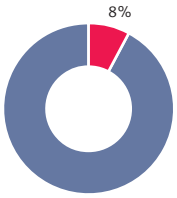
Revenue and Segment Result



Revenue of the Chip Card & Security Segment in Percent of Infineon Revenue

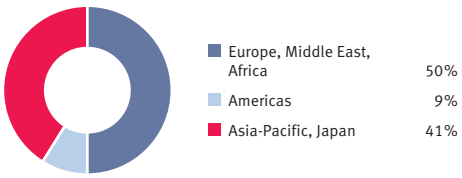


Percentage of Revenue of the Chip Card & Security Segment through Distribution



Our biggest customers are based in France and Germany. They account for around 50 percent of CCS revenue.

Regional Revenue Split of the Chip Card & Security Segment



HIGHLIGHTS

1

German Industry 2010 Innovation Award

INNOVATION AWARD FOR "INTEGRITY GUARD" SECURITY TECHNOLOGY

In February 2011 Infineon was honored with the German Industry 2010 Innovation Award for the best technological innovation. Infineon received the prestigious award in the large-scale enterprise category for its Integrity Guard security technology.

Integrity Guard was developed for applications in which sensitive data needs to be protected with exceptional levels of security over a very long period of time. Examples are credit cards and official documents such as electronic passports or the new German identity card. With Integrity Guard, the data is both processed and stored on the security chips in encrypted form. For this, two computing cores are used, each monitoring the other. If they detect an error which could be due to manipulation, they immediately initiate protective measures and abort ongoing computational operations. With this technology, Infineon heralds a new age for security chips.

2

SOLID FLASH™ FOR PAYMENT CARDS

In the course of the year, Infineon, as the world's leading provider of security products, introduced its SOLID FLASH™ technology for its next generation of security ICs into the market. The flexibility of flash technology creates substantial benefits for the entire value chain: significant time savings together with reduced complexity and lower risk. Card manufacturers benefit in a number of ways from SOLID FLASH™ technology. It not only makes prototyping easier and quicker; the same can also be said for the sampling and programming of SOLID FLASH™-based security controllers.

SOLID FLASH™ is suited to demanding applications in cashless payment transactions, in ID cards, mobile communication products, and in the transportation sector. This makes Infineon the first provider of security products to combine the advantages of highly reliable flash technology with exceptional contactless performance.

3

Trusted Platform Module (TPM)

TPM IS PART OF GOOGLE CHROMEBOOKS

Infineon provides TPM (Trusted Platform Module) security chips for devices running Google's Chrome operating system. The TPM is an integral part of the Google Chromebooks' security architecture, and Infineon is the first provider of TPM chips that are suitable for the new, recently launched operating system for web-based applications.

Chromebooks have been designed for users requiring devices mainly for fast, easy and secure access to the Internet and web-based applications. The use of cloud solutions for personal data and applications is continuing to grow, which means hardware-based security functions will become more and more important with the increasing spread of web-based mobile devices.

4

SECURE AND POWERFUL NEAR FIELD COMMUNICATION (NFC) APPLICATIONS

The use of different NFC applications, such as mobile payment, ticketing and access control, is gaining increasingly in importance. NFC is primarily a communication technology which is also employed in contactless chip cards. It is based on contactless inductive data transmission in the near field – over short distances of up to about 10 centimeters.

For NFC to establish itself quickly and universally, the technology must be convenient for consumers, who must be able to trust that their data is being handled securely. It is therefore crucial, even while NFC-enabled mobile radio devices such as smartphones are still at the design stage, to pay particular attention to the security concept of the system and the applications. In future it must be possible to store credit card and other sensitive information securely. The possibility that credit card information will be read out or intercepted during a payment transaction must be prevented. Sensitive data must therefore be managed and stored in the securest way possible.

As a market and innovation leader, Infineon caters to the requirements of the increasingly developing NFC ecosystem with an extraordinarily wide and innovative product portfolio for all NFC applications and business models. The product portfolio offers the security and performance that is crucial to the success of NFC applications.

Depending on market needs, a certified security module can be installed in the mobile device, either in the form of a SIM card with special NFC interface, the Single Wire Protocol (SWP), as it is called, or as a permanently integrated security chip (Embedded Secure Element) with open DCLB (Digital Contactless Bridge) interface, which ensures an optimized connection between the security chip and the NFC modem. Alternatively, a special NFC SD card can also be inserted into the mobile device. Over and beyond this, Infineon also provides chips for NFC tags, which are optimized for use in so-called Smart Posters, for example, in customer loyalty transactions (for example vouchers) and for exchanging device information (known as NFC device pairing).

The market is just beginning to take off: according to market research institute IMS Research, 120 million smartphones will be equipped with NFC technology by as early as 2012.

NFC Chip “USON-8”

NFC Chip “USON-10”

MARKETS, REGIONS, TRENDS

Applications

- SIM card
- Payment systems
- Near Field Communication (NFC)
- Electronic passports, ID cards, healthcare cards and driver's licenses
- Transport, ticketing and access control
- Object identification
- Platform security applications and system solutions
- Authentication, e.g. for pay TV, games consoles, accessories, spare parts and industrial controllers

Product range

- Contact-based and contactless security controllers
- Memories for chip card applications

OFFICIAL DOCUMENTS: ALMOST ONE CHIP IN TWO WORLDWIDE COMES FROM INFINEON

Electronic ID cards count as one of the fastest growing applications for security chips, setting high requirements in terms of security and longevity. For years, numerous governments and public authorities have been putting their faith in Infineon when it comes to official documents and access credentials for buildings and data networks.

The Company has been one of the leading chip suppliers for government ID applications for many years. Infineon's security chips can be found in electronic identification documents of Germany, in the electronic passports of countries like the USA, China, Brazil, Indonesia, France, Norway and Poland, as well as, for example, in the electronic identity cards of the Philippines, Saudi Arabia, Hong Kong, Italy, Austria, Portugal and Ireland. On average, almost one chip in two in government ID applications worldwide is sourced from Infineon.

MOBILE PAYMENT: USING CONTACTLESS CARDS OR NFC

The world is becoming increasingly mobile and uses contactless applications. This development is also changing payment methods. The secure, quick and convenient way of contactless payment of small amounts is already possible today. This can be done either by means of contactless cards or using mobile devices that possess the relevant payment function – for example via NFC (Near Field Communication) in the case of smartphones.

Mobile payments are growing rapidly in importance most notably in the booming cities of Asia. Many of the mobile payment cards in use there can also be used in addition as tickets for traveling on local public transport.

In Germany, contact-based payment cards will increasingly be replaced by contactless versions from 2011 on. Infineon is the first chip maker worldwide to meet the security criteria for these dual-interface (DIF) payment cards, which support both contact-based and contactless payment.

By the end of 2011, several hundred million Infineon ICs have been shipped worldwide for chip-based payment and travel cards.

SYSTEM SECURITY AND SECURITY IN CONNECTED SYSTEMS

Already today, data storage, processing and exchange between countless connected mobile devices and systems are indispensable components in the economy and in society, and they will continue to increase in importance. Current examples are the newly emerging NFC applications for payment by smartphone, or cloud computing, in which the actual computer application is driven by way of the internet infrastructure.

In a connected digital world, data security, data integrity and data availability are the prerequisite for enduring consumer confidence and successful business models, particularly in view of the increasing number of attacks on IT infrastructures and the growth in complex applications. With our industry-leading expertise in hardware-based security, we have the know-how to make critical infrastructures and mobile devices, but also new technologies, more secure.

Key customers [1]

- Beijing Watch Data
- Gemalto
- Giesecke & Devrient
- Morpho
- Oberthur
- US Government Printing Office

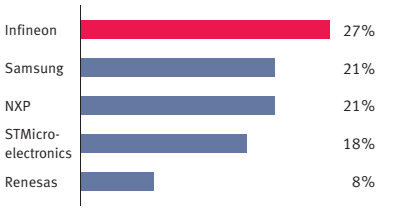
1 Direct customers.
Distribution customers see "Infineon at a Glance" on the inside front cover.

MARKET POSITION

Infineon has been the global market leader for chip card ICs for 14 years. According to the most recent study by the market research institute IMS Research, in 2010 the Company held a share of 26.8 percent in the global market for chip card ICs with a total worth of US$2.1 billion (source: IMS Research, August 2011).

We managed to extend our lead slightly over second placed Samsung by 0.3 percentage points to now 6 percentage points. The five biggest market players secured 95 percent of the market.

World Market for Chip Card ICs



Source: IMS Research, August 2011

RESEARCH AND DEVELOPMENT, PRODUCTION

One-stop-shop for product development and manufacturing.

Cutting-edge technology for our customers.

300 mm

The diameter of the silicon wafers used for thin wafer power semiconductor manufacturing technology.

RESEARCH AND DEVELOPMENT

- Research and development expenses rise to €439 million in the 2011 fiscal year.
- Feasibility of 300-millimeter thin wafer technology proven.
- Increasing demand for wide band gap power semiconductors.

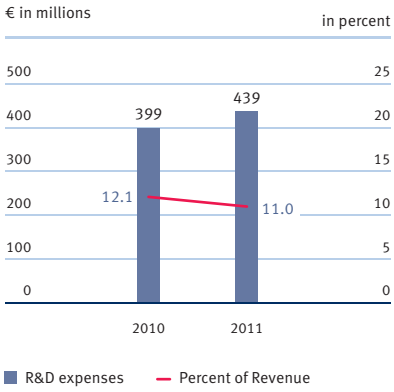
Research and development (R&D) expenses rose by 10 percent to €439 million in the 2011 fiscal year (2010: €399 million). The sharp 21 percent increase in revenue over the same period reduced R&D expenses as a proportion of revenue from 12.1 percent in the 2010 fiscal year to 11.0 percent in the 2011 fiscal year.

Our research and development centers employed 15 percent of the Company's global workforce – some 3,900 staff – as of September 30, 2011. The previous year's figure of 5,771 employees still includes those who were transferred to Intel Mobile Communications in connection with the closing of the sale of our Wireless mobile phone business on January 31, 2011.

Our research and development activities focus on semiconductor-based product and system developments and on process technologies. The 2011 fiscal year yielded the following principal milestones:

- continuing progress in the development of 300-millimeter thin wafer process technology at our pilot plant in Villach, Austria, and verification that we have mastered all of the necessary manufacturing steps (see "Successful production of functional chips using our new 300-millimeter thin wafer technology for power semiconductors", page 60);
- the launch of the first power transistor based on silicon carbide (see "Wide band gap power semiconductors for power supplies", page 61); and
- the development of a prototype production line for gallium nitride power transistors (see "Wide band gap power semiconductors for power supplies", page 61).

R&D Expenses



Research priorities and research alliance partners

Medicine, telemedicine	Bavarian Red Cross
	Charité
	Corscience
	Diakonie
	Philips
	Siemens
	Graz University of Technology
Building energy management, LED lighting systems, solar	Emerson
	Philips
	Siemens
	SMA Solar Technology
Electromobility	Audi
	BMW
	Bosch
	Continental
	CRF
	Daimler
	EADS
	Fiat
	STMicroelectronics
	Graz University of Technology
	Vienna University of Technology
	Bochum University
	Erlangen University
	Valeo
	Volkswagen

We also engage actively in collaborative research activities in various fields. We carry out joint research both with the leading companies in the field concerned and with the most important universities and research institutes in three key research fields as listed below (see table "Research priorities and research alliance partners"). We serve as consortium leader for several of these projects.

- **Medical/telemedicine/ambient assisted living** with one project at European level and one at national level in Germany (MAS and Medical Valley respectively),
- **Energy efficiency/LED lighting systems/solar** with the major "Enlight" project at European level,
- **Electromobility** with numerous projects including "e3Car" and "Motorbrain" at European level and research alliances connected with the National Platform for Electric Mobility and "eNOVA" in Germany.

INFINEON COLLECTS BEST INNOVATOR AWARD 2011 IN THE HIGH TECH INDUSTRY CATEGORY

Few sectors are as innovation-driven as the semiconductor industry. Innovation is the lifeblood of Infineon; our livelihood tomorrow depends on today's innovations.

Infineon invests around 11 percent of revenue in research and development in order to maintain the rapid pace of development required. Moreover, we have plans to enhance the return on our R&D spending – especially the number and quality of the innovations we produce. The improvements we want to see require nothing less than a change in our corporate culture, a new courage, a new openness to experiment in the early stage of product development and greater security and quality in product development and the move into high-volume production.

We have established Innovation Communities as part of the process to bring experts from all areas together to work on new ideas. This, we hope, will stimulate and nurture creativity and give our people space and time to explore and work on inventions, refinements, product and process developments and their implementation and commercial launch.

The Best Innovator Award recognizes not products per se, but rather outstanding innovation management and it was for this that Infineon won the 2011 award in the high tech industry category.

SUCCESSFUL PRODUCTION OF FUNCTIONAL CHIPS USING OUR NEW 300-MILLIMETER THIN WAFER TECHNOLOGY FOR POWER SEMICONDUCTORS

The industry has been producing logic and memory semiconductor components on 300-millimeter diameter wafers for about ten years. But not power semiconductors: not a single semiconductor company currently manufactures power transistors on these large silicon wafers. This is essentially due to the substrate and the thickness of the wafers: because of the architecture of the finished transistors, IGBTs and power MOSFETs require thinner wafers than standard CMOS products.

Infineon produced the first chips (or "first silicon", as the industry terms it) on a 300-millimeter thin wafer for power semiconductors in October 2011 at its Villach site in Austria, making it the first company in the world to achieve this milestone. These chips produced on a 300-millimeter thin wafer show the same electrical characteristics as power semiconductors produced on 200-millimeter wafers according to the results of successful application tests with MOSFET (metal oxide silicon field effect transistors) for high-voltage applications.

Our development of 300-millimeter thin wafer technology is motivated by more than just the 20 to 30 percent unit cost savings expected from using larger diameter wafers. The technical possibilities of the 300-millimeter equipment open up new potential for advancing discrete power semiconductors based on thin wafer technology. Our 300-millimeter thin wafer technology also paves the way for other energy-efficient power semiconductor manufacturing technologies.

Villach, our center of competence for power electronics, has responsibility within the Infineon Group for the development of 300-millimeter power semiconductor technologies and it is there where the initial ramp-up of the technologies will take place.

Infineon announced at the end of July 2011 in the context of investment planning that it intends to develop Dresden as its second site for 300-millimeter power semiconductor high-volume production. High-volume production is planned to begin in the first half of the 2013 fiscal year.

300-millimeter thin wafer

WIDE BAND GAP POWER SEMICONDUCTORS FOR POWER SUPPLIES

Power transistor developers always want to have it both ways: the switch – most power transistors are used as switches – needs to have a very high electrical resistance when off but a very low electrical resistance when on, it needs to be very robust under high temperatures and overvoltage conditions and still fit in the smallest possible standardized package and they also have to satisfy a long list of other, at times conflicting, requirements.

Little scope remains for progress in juggling the many compromises involved using purely silicon-based components and the number of semiconductors based on new materials moving into the mainstream from various niches has accordingly begun to grow. Compound semiconductors with wide band gaps, most of these new alternatives use silicon carbide (SiC, a compound of silicon and carbon) or gallium nitride (GaN, a compound of gallium and nitrogen).

SiC diode

SiC diodes have already become firmly established in the market; indeed Infineon has been selling them for about ten years. This year we unveiled our first SiC switch, a SiC junction field effect transistor. Thanks to our pioneering work in super junction technology, we will be launching a new product family in the coming year offering power densities and switching power per package that simply cannot be matched with existing components. We are already taking this technology a step further by developing high-power modules based on SiC transistors.

SiC JFET

High-volume production of GaN-based components is still somewhat further away. We still have a number of material-specific challenges remain to be overcome with gallium nitride on silicon substrate technology (GaN-on-Si) and the research and development work necessary to deliver the levels of robustness and quality expected by customers today means it will be several years yet before GaN-on-Si products are ready for general market launch. We have already set up a prototype line in Villach, however, as we see enormous potential in this material in terms of both cost and performance.

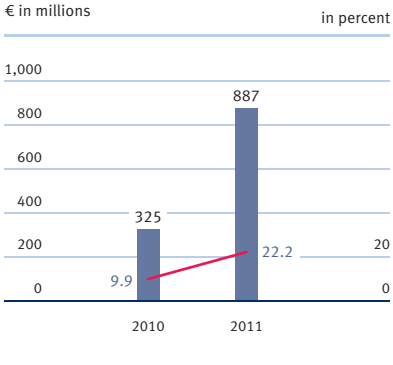
PRODUCTION

- Investments more than doubled to €887 million in the 2011 fiscal year.
- Further expansion of sites required to meet strong customer demand.
- Production at full capacity throughout the fiscal year.

It is our policy to restrict our in-house manufacturing activities to just those components for which in-house manufacturing offers differentiation. Our power semiconductors and all products that combine analog and digital circuit components on the same chip (“analog/mixed-signal”), especially those in which the analog circuit elements have to manage higher voltages and currents, fall into this category. All production of standard CMOS circuits at the 65-nanometer scale and below is outsourced to contract manufactures (foundries).

Investments rose to €887 million in the 2011 fiscal year from €325 million in the previous year. Investments as a proportion of revenue increased from 9.9 percent to 22.2 percent over the same period.

Investments [1]



1 without financial investments

CAPITALIZING ON THE STRENGTHS OF OUR MANUFACTURING SITES IN EUROPE AND ASIA

Infineon operates front-end and back-end sites in Europe, North America and Asia (⋯ see map “R&D and production sites”). We decide how to allocate activities across these regions with reference to criteria including costs, innovative capabilities, the complexity of the technology, the associated potential for differentiation and proximity to customers. Based on these considerations, we develop complex and innovative technologies such as power semiconductors on 300-millimeter wafers at Villach in Austria, for example, and will go on to manufacture them there and at our Dresden site in Germany.

Packages for high-power applications such as trains and power generation from renewable resources meanwhile, are developed and manufactured in Warstein, Germany, and we assemble various innovative products at our Regensburg site, also in Germany. High-volume products, in contrast, are manufactured at our sites in Asia, as the costs achievable there enable us to maintain a competitive blended cost. We have begun work to construct a second 200-millimeter wafer production facility in Kulim, Malaysia, where our original plant opened in 2006, and have expanded the Malacca (Malaysia) and Wuxi (China) back-end sites. Our IGBT module back-end site at Cegléd, Hungary, combines attractive location costs with favorable transport costs on account of its proximity to European customers.

We have to increase production in our power semiconductor business by an average of 15 percent a year in unit terms every year just to meet customer demand. Increasing unit output at this speed demands substantial investment in production.

EXPANSION OF MANUFACTURING CAPACITY AT KULIM AND DRESDEN

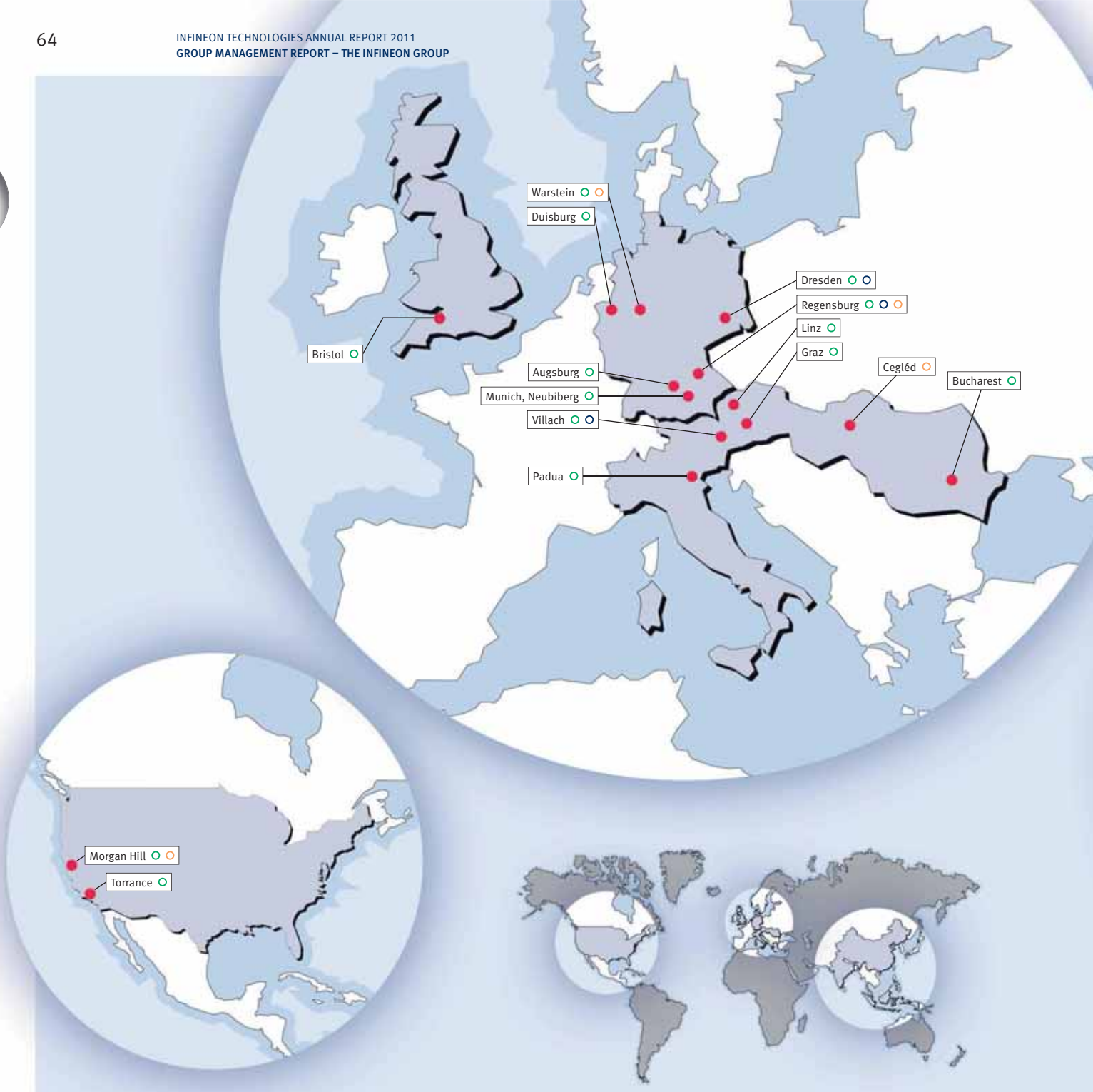
Eager to capitalize on its leading position in the development of 300-millimeter manufacturing technology for power semiconductors, Infineon intends to use most of the buildings and cleanroom facilities acquired in May 2011 from the insolvency administrator of Qimonda Dresden GmbH & Co. OHG for the high-volume production of power semiconductors on 300-millimeter thin wafers in Dresden. Infineon will initially be investing approximately €250 million in this area in the period through 2014, creating around 250 jobs in Dresden in the process. It should be possible to expand production again over the next six or seven years if the market, revenue and general conditions develop in line with the current outlook.

We have also decided to start work on the construction of a second 200-millimeter cleanroom for front-end manufacturing in Kulim in order to secure our future growth. This will enable us to carry on meeting rising demand for 200-millimeter products, such as particularly long-lived automotive chips, for many years.

CMOS PRODUCTION FROM 65 NANOMETERS COMPLETELY OUTSOURCED TO PARTNERS

We dedicate around one third of our internal wafer production capacity to the production of logic chips for applications in the automotive industry, in the field of security and the consumer market. Most of our internal production based on the 90-nanometer manufacturing technology and above takes place at the 200-millimeter facility in Dresden. A small proportion is placed with contract manufacturers. Our strategy for CMOS production technologies at the 65-nanometer manufacturing technology and below favors alliances with various partners and joint development initiatives in order to make sure we continue to have access to leading production technologies at a competitive price in future.

Our principal partners are TSMC and UMC in Taiwan, IBM in the USA and Altis Semiconductor in France. When introducing a new process technology, we take advantage of the high unit numbers of chip card applications to obtain a high production yield quickly. Products for the automotive industry entailing smaller unit numbers but higher quality requirements follow later once the lessons of the initial ramp-up have been learned.



Production sites

Morgan Hill, USA

- Center of competence for radio-frequency power transistors

Dresden, Germany

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

Regensburg, Germany

- Analog/mixed-signal, power semiconductors, center of competence for sensors and metallization
- Chip cards, power semiconductors, discrete semiconductors, sensors, wafer-level packaging, center of competence for package development

Warstein, Germany

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

Cegléd, Hungary

- High-power semiconductor modules

Villach, Austria

- Power semiconductors, center of competence for thin wafer technology

R&D AND PRODUCTION SITES

- Research and Development
- Front-end production
- Back-end production

Research and development sites

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

Batam, Indonesia

- Power semiconductors

Kulim, Malaysia

- Power semiconductors

Malacca, Malaysia

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

Singapore

- Center of competence for chip and wafer testing

Beijing, China

- IGBT stack assembly

Wuxi, China

- Chip cards, discrete semiconductors

THE INFINEON SHARE

Share Information

Share types	Ordinary registered shares in the form of shares or American Depositary Shares (ADS) with a notional value of €2.00 each (ADS:shares = 1:1)
Share capital	€2,173 million (as of September 30, 2011)
Shares outstanding	1,087 million (as of September 30, 2011)
Own shares [1]	4 million (as of September 30, 2011)
Listings	Shares: Frankfurt Stock Exchange (FSE) ADS: over-the-counter (OTC) market (OTCQX)
Options on trading	Shares issued by third parties: inter alia Eurex
Initial Public Offering (IPO)	March 13, 2000 on FSE and New York Stock Exchange (NYSE)
IPO issue price [2]	€31.31 per share US$30.35 per ADS
Ticker symbol	IFX, IFNNY
ISIN Code	DE0006231004
German Security Identification Number (WKN)	623100
CUSIP	45662N103
Bloomberg	IFX GY (Xetra trading system), IFNNY US
Reuters	IFXGn.DE
Index membership (selected)	DAX 30 Dow Jones STOXX Europe 600 Dow Jones Euro STOXX TMI Technology Hardware & Equipment Dow Jones Germany Titans 30 MSCI Germany S&P-Europe-350 Dow Jones Sustainability Europe Index[SM]

1 The Company plans to cancel own shares at a later date. This will result in both a decrease in the number of shares outstanding and in share capital.
2 Historical values adjusted for capital increases. Original issue price was €35.00.

Infineon Technologies AG Share Capital, Shares Outstanding and Market Capitalization

As of	September 30, 2011	September 30, 2010	Change
Share capital € in millions	2,173	2,173	0%
Shares outstanding in millions	1,087	1,087	0%
Weighted number of shares outstanding – diluted in millions	1,159	1,171	(1.02%)
Market capitalization € in millions	6,073	5,521	+10.00%
Market capitalization US$ in millions	8,031	7,514	+6.88%

Infineon Share Statistics

Fiscal year ending September 30	2011	2010	2009
Europe: Xetra close			
Fiscal year close (end September) in €	5.59	5.08	3.86
Year high in €	8.28	5.54	4.00
Year low in €	5.00	3.05	0.35
Daily average shares traded on regulated German stock exchanges	14,965,342	20,699,149	24,100,158
Of which Xetra trading in %	90	95	92
USA: OTCQX close			
Fiscal year close (end September) in US$	7.39	6.93	5.60
Year high in US$	11.87	7.31	5.82
Year low in US$	6.81	4.38	0.43
Daily average ADS traded	82,120	160,308	1,578,963

Shareholder Structure[1]

Dodge & Cox International Stock Fund	9.95% (as per August 5, 2009)
BlackRock Inc.	5.08% (as per April 26, 2011)
Capital Research and Management	5.06% (as per July 28, 2011)
EuroPacific Growth Fund	3.06% (as per September 6, 2011)

1 In accordance with compulsory notifications known to Infineon. The number of shares held by the investors listed in the table above is taken from the latest shareholder notification to Infineon. The stated percentages refer to the existing share capital at the date of the relevant notification (until August 4, 2009: 749,742,085 shares; until August 11, 2009: 1,072,569,049 shares; until February 28, 2011: 1,086,742,085 shares; until May 10, 2011: 1,086,744,585 shares; as of May 10, 2011: 1,086,745,835 shares).

The Infineon share price (Xetra closing price) rose by 10 percent in the 2011 fiscal year to end the year at €5.59 on September 30, 2011 (September 30, 2010: €5.08).

POSITIVE PRICE PERFORMANCE DESPITE PRICE CORRECTIONS

In the first few months of the 2011 fiscal year, the Infineon share rose rapidly, continuing the trend it began in March 2009. The share price peaked in February at €8.27, before a volatile lateral move which lasted until early August. This was triggered by uncertainty on the markets related to with the earthquake in Japan and the nuclear accident in Fukushima. At the beginning of this lateral move, the share price fell to €6.83 by mid-March. Price fluctuations increased until mid-April, when the Company made an ad hoc announcement on April 18, 2011 that revenue and earnings for the second quarter had turned out better than expected. A strong rally ensued and, following the announcement of the final quarterly figures in early May, the share reached its high for the year of €8.28 on May 12, 2011. At this point, the Infineon share had outperformed the relevant benchmark indices by an impressive margin. The share had increased in value around 63 percent since September 30, 2010, while growth in the benchmark indices had been considerably lower. The DAX had risen by 20 percent, while both the Philadelphia Semiconductor Index (SOX) and the Dow Jones US Semiconductor Index (DJUSSC) had gained 29 percent.

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

Phone: +49 89 234 26655
Fax: +49 89 234 955 2987
E-Mail: investor.relations@infineon.com

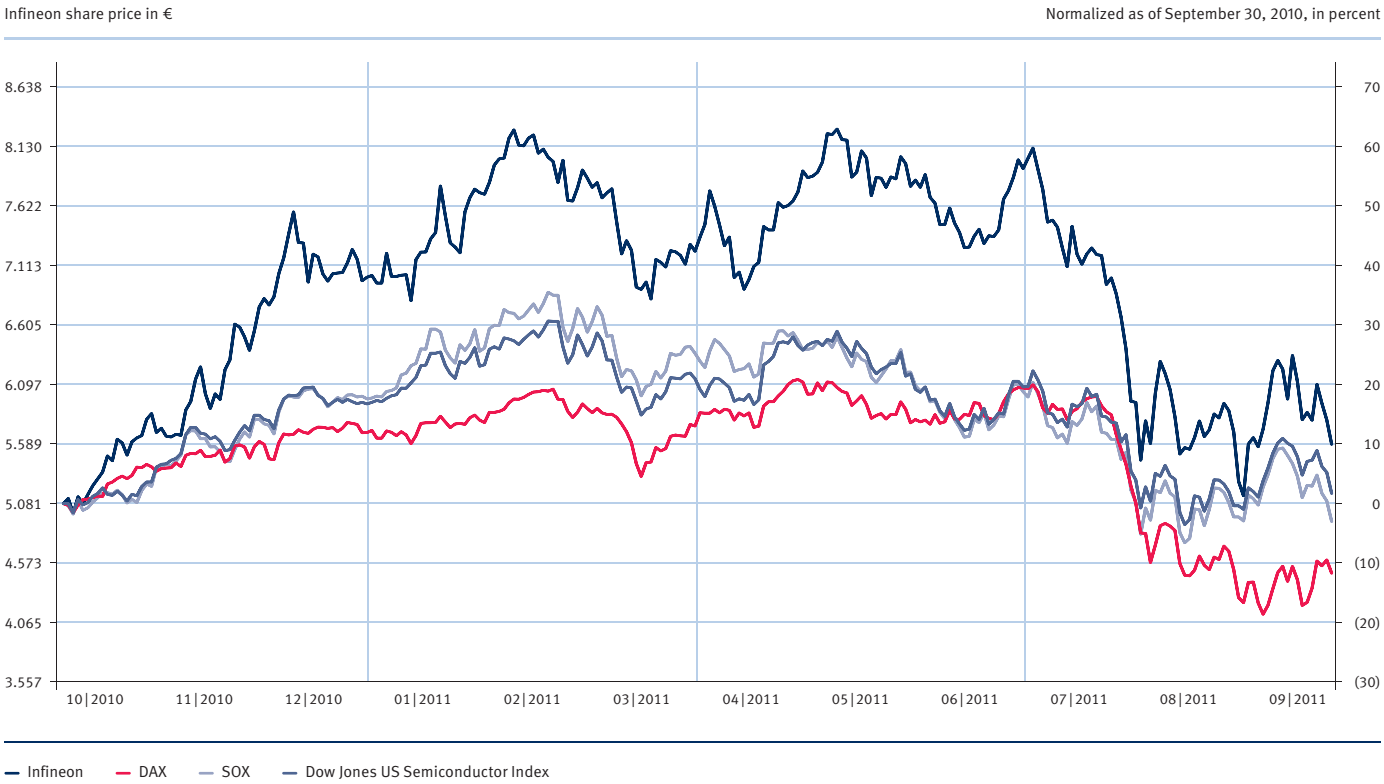
Persistent uncertainty with regard to the refinancing of Greece and fears that the debt crisis would spread to Italy and Spain caused prices to drop sharply on the world markets from July 2011. The Infineon share did not escape these falls. Its price fell and experienced significant volatility. In late July, worries also emerged about future developments in the global economy and profit warnings were issued, mainly by US semiconductor companies. This further reinforced the negative trend in the Infineon share price.

On September 6, 2011 the Infineon share reached a low of €5.15, but was nevertheless listed at around 1 percent higher than at the beginning of the 2011 fiscal year. Despite the fall in price, the share continued to outperform the DAX, SOX and Dow Jones US Semiconductor Index. The drop in the DAX was the most pronounced, at 17 percent. The SOX and Dow Jones US Semiconductor Index fell by 3 percent and 1 percent respectively.

A general recovery then began, from which the Infineon share benefited disproportionately. One reason behind this recovery was the continued support for Greece pledged by major EU politicians, which dispelled fears of the country's imminent insolvency.

The value of the Infineon share grew by 10 percent in the 2011 fiscal year to September 30, 2011. Thus its growth outperformed the rise in the international semiconductor indexes SOX and Dow Jones US Semiconductor Index. The Dow Jones US Semiconductor Index rose by 2 percent and the SOX fell by 3 percent. The DAX fell by as much as 12 percent.

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 2011 Fiscal Year (Daily Closing Prices)



INCLUSION IN INDICES, TRADING VOLUME AND DIVIDENDS

The average daily trading volume for the Infineon share in Xetra on the Frankfurt trading floor and in the German regional exchanges fell markedly in the 2011 fiscal year to 15.0 million shares. In the 2010 fiscal year, the daily trading volume averaged at 20.7 million shares. Considering the liquidity of the share, this fall in volume was more than compensated by the rise in price. The average daily trading volume rose from €88.3 million in the 2010 fiscal year to €101.8 million in the 2011 fiscal year. The volume traded in euros over the previous 12 months on Xetra and in Frankfurt is relevant for a share's inclusion in the DAX. The annual volume to September 30, 2011 rose slightly to €24.2 billion (previous year: €23.9 billion). Accordingly, the share's DAX ranking by trading volume remained almost unchanged, at 15th. Infineon had been ranked 14th the previous year. In terms of market capitalization, the Company ranked 25th at the end of the 2011 fiscal year with a relevant market capitalization of €6.3 billion, climbing two places since September 30, 2010. The previous year's relevant market capitalization was €5.0 billion.

The deregistration of the Infineon ordinary share in the USA, as disclosed in the previous annual report, took place on November 4, 2010. This means that Infineon no longer has to comply with the reporting obligation defined in the Securities Exchange Act, which include the submission of an annual report on Form 20-F and regular financial reports on Form 6-K. The ADS are expected to continue to trade on the over-the-counter OTCQX market under the ticker symbol IFNNY. The average daily trading volume for the 2011 fiscal year was 82 thousand ADS. This represents a clear drop, caused by deregistration, compared with the 2010 fiscal year when the average was 160 thousand shares. The number of ADS outstanding continues to fall, standing at 12.8 million. At the end of the 2010 fiscal year, 14.1 million ADS were still in circulation.

On the strength of a successful 2010 fiscal year, the Management Board and Supervisory Board proposed the payment of a €0.10 dividend at the Annual General Meeting. The Annual General Meeting accepted this proposal and €109 million were distributed to shareholders. The Company intends to increase the dividend payment to €0.12 per share for the 2011 fiscal year. If the forthcoming Annual General Meeting approves this proposal, and taking into account that own shares are not entitled to dividends, this will mean a distribution of some €130 million.

The Infineon share was included in the Dow Jones Sustainability Europe Index^{SM} for the first time in September 2010. Annual checks are performed on the continued fulfillment of the criteria for remaining in the index. The criteria were fulfilled in September 2011.

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

Performance of the Infineon Share and Worldwide Indices through September 30, 2011

in percent	Since end September 2009	Since end September 2010
Infineon (Xetra)	+44.95	+9.98
DAX	(3.05)	(11.67)
Philadelphia Semiconductor Index (SOX)	+4.01	(2.98)
Dow Jones US Semiconductor Index	+5.90	+1.73

SUSTAINABILITY AT INFINEON

SETTING STANDARDS – THROUGH INNOVATION AND VOLUNTARY RESPONSIBILITY

Global society can only meet the challenges of the future by acting according to the principles of sustainability. The term sustainability describes economic, ecological and social action in concert. This definition was embodied in the report of the Brundtland Commission in 1987 and remains valid to this day. As a participant in the UN Global Compact, we at Infineon have voluntarily committed to this fundamental idea.

The creation of a sustainable society requires the collaboration of all key actors – society, the business community and political decision makers. Existing potential for optimization – for example with regard to energy efficiency – must be made use of and new courses of action taken. Innovation plays an important role in creating these new courses of action, as for example in climate protection and energy efficiency, in developing automobiles and transportation and also with regard to security. Without these innovations, a sustainable society cannot develop.

Our corporate strategy, supported by the pillars of energy efficiency, mobility and security, aims at tackling key challenges that need to be overcome on the path towards a sustainable society.

Our renewed inclusion to the Dow Jones Sustainability Europe Index[SM] as well as our listing in the "Sustainability Yearbook 2011" demonstrate that this voluntary responsibility is also being actively practiced. The latter lists the 15 percent most sustainable companies worldwide out of 2,500 invited companies that can be evaluated in terms of sustainability. We are all very proud of this fact. We will not rest on our laurels, however, and will continue our constant search for improvement opportunities.

WE ARE SOCIALLY ENGAGED

During the fiscal year under report, the inconceivable human suffering caused by the famine in East Africa was beyond all imagination. Our Company helps the less fortunate all over the world on a voluntary basis. For this reason we decided to donate money to relief organizations in order to make a contribution to alleviating the suffering of the victims. We also felt a strong willingness to provide immediate help in the aftermath of the earthquake and the tsunami in Japan that was followed by the reactor accident in Fukushima. In addition to immediately setting up a crisis team to protect our locally based employees, we also provided direct support with donations and aid by deliveries of much needed goods in a spirit of worldwide cooperation, commitment and willingness to assume responsibility.

Our employees stand up for other people, be it, for example, by giving personal donations and organizing charity events for Japan or by cooperating with organizations that give Christmas gifts. The aim of this Christmas campaign is to give pleasure to children in difficult situations. The children wrote their wishes on notes, which were then attached to a Christmas tree. Our employees then proceeded to help make the children's wishes come true.

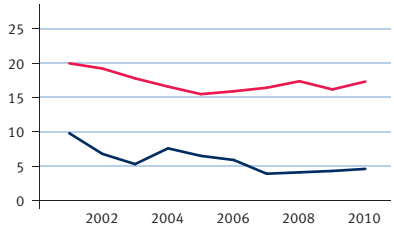
RESPONSIBILITY FOR OUR EMPLOYEES

We incorporate modern concepts for occupational safety in all our operations. Ensuring our employees are protected is a global issue for us. Assuming responsibility for our employees primarily means prevention.

Our annual accident rate is considerably below the average of the Accident Insurance Institution for the Energy, Textile, Electrical and Media Products sectors (BG ETEM). In order to make the reporting of accidents as sensitive as possible, any accidents occurring at our Company are reported starting with a one-day absence from the workplace, whereas the BG ETEM's statistics include only accidents causing absences of at least three days. The chart impressively illustrates the high effectiveness of the Infineon Integrated Management Program for Environment, Safety and Health (IMPRES). Our IMPRES system is implemented worldwide and embraces all processes, strategies and objectives in these fields. IMPRES is highly efficient and our manufacturing facilities are certified according to ISO 14001 and OHSAS 18001 standards. Due to specific national aspects, our manufacturing facilities in Villach, Austria is additionally certified in accordance with EMAS. We ensure that we not only comply with legal and governmental regulations, but also continuously improve even beyond these requirements. In this context, we are also planning to integrate an energy management system in IMPRES.

Statistics for Occupational Accidents

per 1,000 employees



— Infineon (worldwide): accidents as of 1 day of absence
— German Social Accident Insurance Institution for the Energy, Textile, Electrical and Media Products sectors: accidents as of 3 days of absence

OUR SEMICONDUCTOR PRODUCTION – A BENCHMARK FOR SUSTAINABILITY

Industrial production is not possible without the use of resources such as energy, water and raw materials. At the same time, the careful handling of natural resources is the key to the survival of our planet.

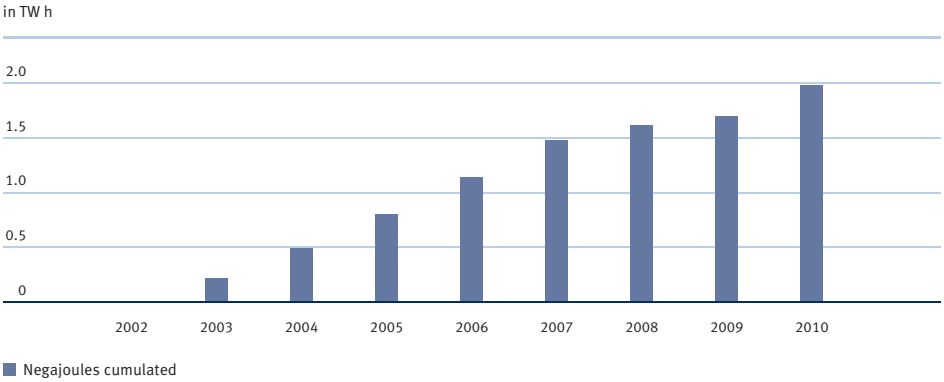
Manufacturing processes are successful when they are sustainable, in other words when they unite economic, ecological and social aspects, both in the design and the constant optimization of a process. We have made that our principle.

In the field of energy efficiency, the global society is faced with major challenges. The use of new technologies in the field of renewable energy and the creation of intelligent networks offer ideal ways of mastering these challenges in the future. Furthermore, existing savings potential must be exploited wherever sensible.

At Infineon we make consistent use of this potential. Our activities range from various types of technical optimization to awareness-raising measures for employees and along our value-added chain. In doing so, it is, of course, of key importance to maintain security of supply. The results we have achieved in this regard are setting new standards.

Most of the energy needed for the manufacturing of semiconductors is consumed in front-end production. For this reason we have concentrated our focus on this area and done so with considerable success. As a result of constant efficiency improvement, we have managed to save the equivalent of almost 2 terawatt-hours of energy at our front-end manufacturing facilities (1 terawatt-hour corresponds to 1 billion kilowatt-hours) from 2002 to 2010.

Cumulated Amount of Energy Saved (so called Negajoules)
at Our Front-end Production Facilities, Excluding Former Subsidiaries



The amount of energy we have saved is equivalent to the annual electricity consumption of 446,000 four-person households [2], or a city of 1.7 million inhabitants respectively.

Even when measured in terms of our specific consumption – measured in kilowatt-hours of energy consumption per square centimeter manufactured silicon wafer – we are amongst the best in the world and we continue to set higher standards. By means of constant optimization, the energy efficiency of our production facilities has been improved such that our energy consumption in front-end production is around 44 per cent lower than the international comparative value which is measured in accordance with the worldwide standardized guidelines of the World Semiconductor Council (WSC).

Despite the fact that our manufacturing facilities are not located in water-stressed areas, we make every effort to use available resources as efficiently as possible. Clean water that has neither been used nor contaminated does not need to be treated using energy and chemicals.

The use of upstream, intermediate and downstream water treatment plants has made it possible to greatly reduce both the volume of fresh water used and the amount of contamination in the wastewater, in the interest of water-friendly production. The specific water consumption of front-end production at Infineon is more than 50 percent below the average international consumption level, according to WSC. We therefore consumed approximately 4.1 million cubic meters of water less than the worldwide average volume in 2010, equivalent to the annual water consumption of a city of more than 82,000 inhabitants. [3]

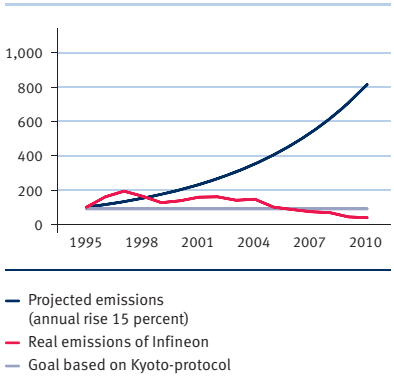
By consistently adhering to the principles of recycling we have been able to reduce our front-end production waste per wafer surface area by almost 50 percent in an international comparison. These significant savings mean that we prevented more than 8,500 tons of waste from being produced in 2010.

2 According to Fachverband für Energie-Marketing und -Anwendung (HEA) e. V. within the VDEW (Trade Association of the Electricity Industry).
3 At an annual water consumption per inhabitant of approximately 50 cubic meters; source: Munich Water Management Office.

For many years we have been making huge efforts to reduce the amount of greenhouse gases emitted in our production processes. In addition, we have voluntarily dedicated ourselves to this objective. Through voluntary agreements, by 2010 the absolute emission of relevant fluorinated gases (Kyoto gases) was to be reduced by 8 percent in Germany and 10 percent in Europe below the emission value of 1995, calculated in carbon dioxide equivalents. These ambitious targets have meanwhile been achieved.

PFC Emissions 1995 to 2010 (EU)

CO_2 equivalents in percent



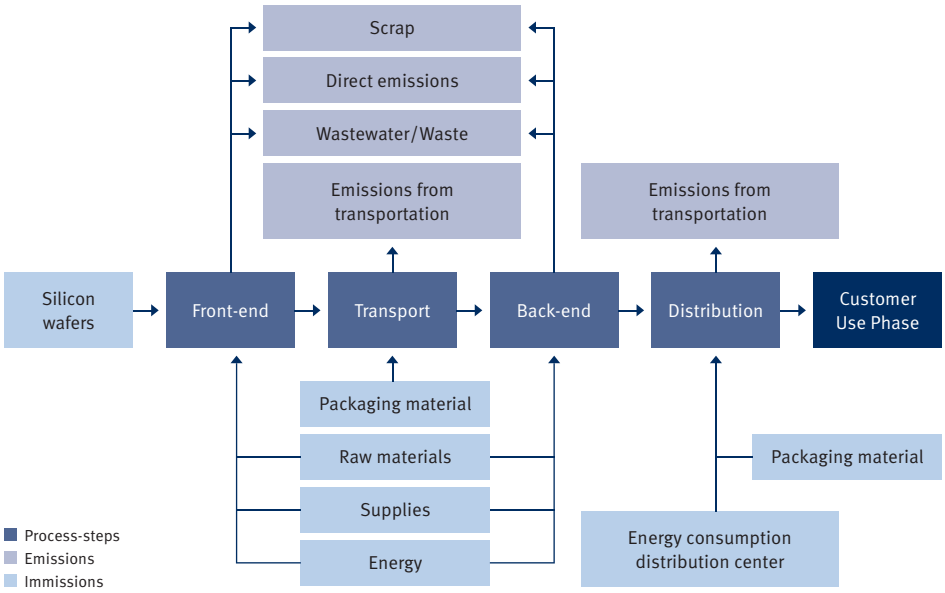
TAKING ECOLOGICAL RESPONSIBILITY WITH OUR PRODUCTS AND SOLUTIONS

At Infineon, innovation and ecological responsibility go hand in hand. The use of our products also makes ecological sense – it "pays off" for the environment. Our products and innovations contribute towards making energy-efficient end products and applications possible. For example, in automobiles alone they contribute to an annual reduction equivalent to 4.0 million tons of carbon dioxide emissions (CO_2 emissions), in LED lamps as a substitute for conventional light bulbs to annual energy savings equivalent to 130,000 tons of CO_2 emissions and in electronic ballasts to annual energy savings equivalent to 385,000 tons of CO_2 emissions.

Our products and innovations are subject to a unique life cycle analysis with the aim of optimizing their ecological carbon footprint. In order to specifically state the carbon footprint made by each of our products, we have developed a tool for calculating the related emissions. The calculation of the CO_2 emissions is based on the ISO 14000 standard, set out in the PAS (Publicly Available Specification) 2050 guideline issued by the BSI (British Standards Institution) for determining the carbon footprint of separate products. The first three of the five steps described in the PAS 2050 guideline are taken into account here. They embrace the provision of the raw, auxiliary and working materials, and their processing through to distribution to the customer. The other steps, such as the utilization phase of the products at the customer's premises and their eventual disposal cannot be calculated automatically, due to the often varying applications and fields of use Infineon products are subjected to.

The following emissions and immissions are taken into account by the calculation tool.

Emissions and Immissions Taken into Account to Measure the CO_2 Footprint



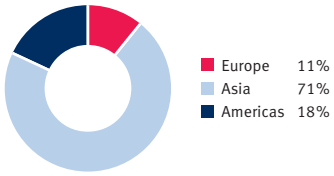
OUR RESPONSIBILITY ALONG THE VALUE-ADDED CHAIN

Our responsibility does not end at the boundaries of our premises and it is our aim to transmit our values throughout the entire value-added chain. Any services provided by our contractors, purchased products and materials or equipment and systems must fulfill our requirements in terms of environmental protection, occupational safety and health protection as well as working and social conditions.

In order to support our suppliers and service providers, we have revised our Principles of Purchasing. These principles define requirements, for example, in the fields of occupational safety and health, environmental protection, human rights and working conditions as well as business practices, and all of these are mandatory for our suppliers.

The so-called "Dodd-Frank Wall Street Reform and Consumer Protection Act" came into effect in the USA in 2010. Section 1502 (the "Conflict Minerals Provision") focuses on the utilization of metals such as gold, tantalum, tin and tungsten, which are mined in the Democratic Republic of Congo and its neighboring states. Additional declaration requirements exist for companies that are required to report to the U.S. Securities and Exchange Commission.

Smelters by Region



At the same time, on a voluntary basis, Infineon began gathering information regarding its suppliers and their smelters in order to proactively examine the non-utilization of the above-mentioned metals and also cobalt within our supply chain. During the 2011 fiscal year we voluntarily gathered additional information to facilitate this assessment. The chart shows the regions in which the smelters relevant for our supply chain are located. Based on current information, none of our suppliers use metals or minerals intended for raw materials or products for our Company that originate from smelters supplied from the Democratic Republic of Congo or its neighboring states.

Taking responsibility for both humans and the environment – that is the fundamental idea of the modern integrative concept that combines the fields of activity described and which we at Infineon act in accordance with. The foundations for this concept are developed in accordance with the principles of the UN Global Compact and are put into practice at our Company by means of defined processes and regulations. However, the key point is that social and ecological principles at Infineon are truly filled with life, both now and in the future: in our production facilities, in our products and in our daily activities – entirely in the spirit of sustainability.

OUR EMPLOYEES

Infineon's continued progress towards high performance remained the major driving force behind the design of our employee programs and activities over the past year. High performance means being a profitable business at all times and creating sustainable value; it means our employees must demonstrate both commitment and an ability to perform.

To ensure we achieve this, our strategic vision for HR work has focused in the 2011 fiscal year on shaping our workplace culture and creating a positive, constructive leadership and feedback culture. In line with the continued development of Infineon in the Asian markets, we implemented a comprehensive pilot project to support talented employees in the Asia region.

In addition to considering the Company's strategic development, we have also adjusted to the upturn in the sector and the increase in Infineon's market share. To cope with allocation a special effort amongst others in recruiting was required. Hiring suitable staff – especially in production – has helped us meet the increased demand.

WORKPLACE, LEADERSHIP AND FEEDBACK CULTURE

Workplace culture

We will only achieve ambitious targets if we have employees who feel good about their workplace and are therefore prepared to display motivation and commitment in the course of their duties. Since 2009, Infineon has participated in the Great Place to Work® study, beginning with Germany and Austria. We also took part in 2011, and asked employees for their view of our workplace culture and attractiveness as an employer. The results in spring 2011 showed that overall we have improved our employer image internally, but there is still room for further improvement. Local initiatives such as the "sports day" at the Campeon HQ, the "employee festival" in Regensburg or health management in Singapore, which was awarded the silver Singapore HEALTH Award in November 2010, underlined the attractiveness of Infineon as an employer in the 2011 fiscal year. However, the results of the study clearly show a discrepancy between the objective assessment of our methods and our employees' perception of our attractiveness as an employer. We therefore plan to introduce local activities in the 2012 fiscal year which will enable employees to better understand what is on offer to them and will facilitate the dialog between them and our technical experts.

Leadership culture

The results of last year's Great Place to Work® showed that leadership and feedback are especially important to our employees. A new set of mission statement, the "Infineon Compass", was introduced in the 2010 fiscal year. At a Company-wide series of workshops, managers and employees were asked to look at improvements and necessary changes within their own areas of the Company. Over the past fiscal year, we have made significant progress in developing leadership and feedback, factors which underpin our corporate culture; the first step was to translate the values "we commit – we innovate – we partner – we perform" from the Infineon Compass into a globally applicable "High Performance Behavior Model". In this model, eight aspects describe in detail the behavior we expect by our employees in order to bring about further tangible and effective change within the Company. This approach was inspired by our conviction that the key to making a lasting change to our success would not be WHAT we did but HOW we did it: the attitude we have to our work. Our understanding of "high performance" places sustainability at the forefront of our work: we have translated our experiences of the latest cyclical developments in our industry into specific descriptions of behavior which can then be used to set the direction for our future actions and behavior, in both good times and bad.

Feedback culture

Inspired by our focus on best performance and our behavioral approach to leadership, we tested our performance management system. In August 2011, a reworked design for the annual employee dialog, STEPS, was introduced worldwide – in Germany initially for top management only. It is our aim to improve the quality of dialog between managers and employees, by providing employees with feedback not only on the results they have achieved, but also in future with structured feedback on their behavior using the new High Performance Behavior Model. The new process also includes a better description of the employee's prospects for development. We thereby want to foster a more open and constructive feedback culture and provide better support for talented individuals.

We will review the future for our workplace, leadership and feedback culture with the next Great Place to Work® study, which begins in fall 2011. In order to paint as full a picture as possible, we will expand participation to the Asia-Pacific and Japan regions, and to the USA. The survey will then cover over 95 percent of Infineon employees.

In order to achieve lasting improvements in the feedback culture between employees and managers, as well as between colleagues, we will increase our use of internal feedback tools over the coming year. 360° feedback and a leadership dialog, both tailored to our High Performance Behavior Model, will help reflect individual performance and identify strengths and areas for improvement.

PROMOTING TALENT

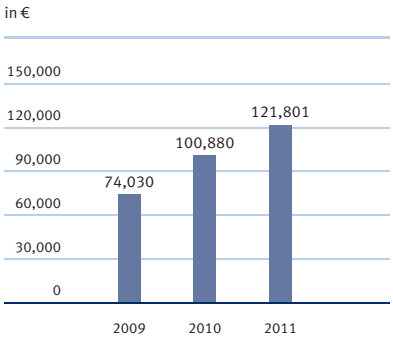
High performance means excellent achievements. This in turn requires motivation, satisfaction and hard work, as well as skill and an early identification and development of talent.

Talent management in Asia

Infineon increased its market share in the Asia region once again last year. This is reflected both in the employee statistics – the proportion of employees located in the Asia region has risen in recent years (2011: 53 percent, 2010: 52 percent, 2009: 45 percent) – and in revenue per employee.

Supporting Infineon's regional growth is a priority for Human Resources. The dynamics in the region, combined with our own growth, mean we need to foster a talent bench of experts and managers here. We therefore introduced a regional talent management program in 2011, to identify suitable employees early and systematically, develop them for key roles and ensure their long-term commitment to the Company. The "ENGINE" talent program will run for two years, combining a variety of development tools and offering both a campus program in conjunction with major universities and institutions in the region and the possibility of learning through concrete projects or job rotation. Talented employees can exchange knowledge at symposia, in learning communities or through peer coaching. The inclusion of a mentoring program and organization of "Talents meet Top Management" events ensure that our high potential employees are visible even at top management level. Seventeen people were selected for the launch of the regional talent program in 2011 – they reflect the diversity of the region: eight nationalities, seven sites and six different organizational units. Talent programs based on the regional program are also being launched at individual sites in Asia, to ensure that local talent is fostered. We will begin a new selection progress for talented employees in the Asia region during the next fiscal year. We will also continue to expand the program worldwide.

Revenue per Employee in Asia (including Japan)



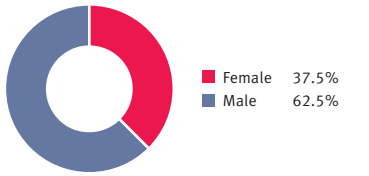
Infineon's continued development into the Asian markets will require a deeper understanding of the region, including at management level. The 2011 fiscal year saw the launch of our "Senior Executive Program", which conveys information about features of the Asia region, its economic conditions and business processes. Thus our managers will learn among other things how to drive our growth in Asia. We are also building a strong global network to link Europe with Asia and involve external stakeholders.

Talented women

In addition to focusing on talent in Asia, we have taken initiatives to strengthen our bench of female employees. We continue to focus on the active promotion of equal opportunities within our corporate culture. Last year, we set ourselves an ambitious target: we aim to increase the proportion of female middle and top-level managers to 15 percent by 2015 and 20 percent by 2020 (2011: 11.4 percent).

Our diversity management team is working to achieve these targets by focusing on improving working conditions for both women and men in terms of combining family and working life. We want to promote employability and flexibility for all employees, and provide equal support to men and women within the Company. To that end, we have taken some important steps in the 2011 fiscal year: Infineon is participating in a project entitled "Women in management roles – a company-focused, industrywide approach" which is being implemented as a pilot by the training arm of bayerische Wirtschaft (bbw GmbH) and the trade association Bayerischer Unternehmensverband Metall und Elektro e.V. (bayme), and focuses on mentoring and seminars for female talents. Infineon is also active in a project organized by the German Federal Ministry of Family Affairs, Senior Citizens, Women and Youth entitled "Changing corporate culture – supporting a continued career", with technical support from the Fraunhofer-Institut. The recently concluded general works agreement supports parents' return from maternity or paternity leave. We have also expanded the day nursery at the Campeon site and extended our provision for employees' children during school holidays. The proportion of women in our global workforce rose from 35.5 percent in 2010 to 37.5 percent in 2011. We have also increased the proportion of female managers by 1.2 percentage points to 11.4 percent (previous year: 10.2 percent). These measures show that we are on the right track.

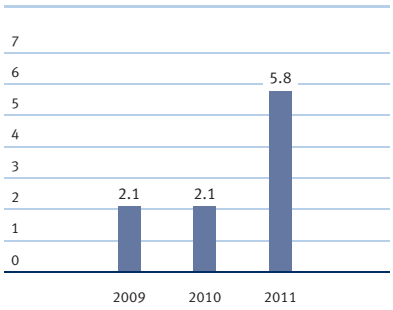
Female/Male Employees
(Infineon Worldwide 2011)



Qualifications and training

In order to ensure succession, we continued over the past year to prioritize the appointment of young apprentices and students under the dual system, as well as introducing new trainee programs. These measures reinforce our commitment to the vocational training of young employees and help us adjust proactively to the effects of demographic change. That is why we continue to recruit apprentices: we hired 62 in Germany in the 2011 fiscal year. On September 30, 2011 Infineon employed a total of 180 apprentices, that is 18 more than the previous year. Over 100 internships or graduand placements and around 250 working students were also underway on September 30, 2011. Thus we have already opened up several attractive routes into the Company. Over the coming year, we will significantly increase the proportion of apprentices in Germany, to ensure competent, qualified future employees.

Training Expenditures



After the consolidation and stabilization of Infineon following the downturn, in the 2011 fiscal year we once again increased investment in our employees' training activities and qualifications. However, our focus remains on training which is either required by law or in the business interest, or which supports our aim of high performance. We have therefore focused on specialist courses, aimed at ensuring that our employees have the requisite know-how and skills for innovation. We also prioritized training on project management and the targeted improvement of our management and feedback culture. Hence the management training event "Leading People in a High Performance Company", held for the first time in the 2011 fiscal year on three occasions, aimed to inform all levels of management about the core elements of leadership with regard to high performance. By the end of the 2011 fiscal year, 240 managers had completed this training. A total of €5.8 million was spent overall on training measures in the 2011 fiscal year. This represents a significant increase in the training budget as compared with the 2010 fiscal year (2010: €2.1 million). As in previous years, internal development options are also available, such as in-house training events and the second "Innovation Week" held at the Campeon site.

OUR EMPLOYEES

Headcount, hiring and personnel costs

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

Employees

	2011	%	2010	%	2009	%
Function:						
Production	18,892	74	17,924	67	17,338	65
Research & Development	3,900	15	5,771	22	5,971	23
Sales & Marketing	1,534	6	1,520	6	1,681	6
Administrative	1,394	5	1,439	5	1,474	6
Total	**25,720**	**100**	**26,654**	**100**	**26,464**	**100**
Region:						
Europe	11,681	46	12,275	46	13,836	53
Therein: Germany	7,926	31	8,826	33	9,160	35
Americas	476	2	640	2	687	2
Asia/Pacific	13,450	52	13,619	51	11,803	45
Therein: China	1,278	5	1,633	6	1,225	5
Japan	113	–	120	1	138	–
Total	**25,720**	**100**	**26,654**	**100**	**26,464**	**100**

On September 30, 2011, Infineon employed 25,720 people worldwide (September 30, 2010: 26,654). The sale of our mobile communications business to Intel Mobile Communications (IMC) included a transfer during the year of over 3,000 internal employees.

This reduction in headcount has been almost offset by the current allocation phase: the ongoing significant increase in demand for products, coupled with the positive situation in terms of new orders, necessitated a second successive year of headcount growth. Thus Infineon hired 4,308 people in the 2011 fiscal year (including new appointments later transferred as part of the sale of the mobile communications business to IMC). Once again, this year the new recruits were mainly in the production area (2,970) and at our Asian sites (including Japan; 2,885).

Our cooperation and joint activities with universities and colleges continue to underpin our recruitment of employees with degrees. Of overall new recruits worldwide, over 55 percent had a college degree, considerably higher than the previous year's figure of 40 percent. As in the previous year, most new employees with a degree were employed in the Asia/Pacific region (over 1,500), followed by Germany (over 500) and other parts of Europe (over 300). As a proportion of new appointments worldwide, women represented almost 40 percent; in Germany this figure was 23 percent. The figure for new female recruits worldwide with a degree was 26 percent.

In addition to permanent appointments, Infineon had 3,511 temporary employees worldwide on September 30, 2011. This enabled us to ensure continued flexibility. Over 50 percent of external employees worked in Asia (including Japan), and over 85 percent in production.

Global personnel costs for current, internal Infineon employees' was €1,304 million in the 2011 fiscal year. These costs include wages and salaries, including overtime and bonuses, and social costs (employee-related costs and social security payments). Overall personnel costs across the Group fell by 5 percent (previous year: €1,379 million).

Age structure, staff turnover and seniority

The average age of permanent employees remained the same in the 2011 fiscal year as it had been the previous year, at 36.4 years. In structural terms, we primarily increased the 17 to 30 age-group, raising as a proportion of the overall workforce from 30.9 percent to 31.9 percent. The same effect was observed for groups above 46 years (2011 fiscal year: 20.5 percent, previous year: 19.5 percent). The proportion of employees in the middle of the age range (31 to 45 years) fell from 49.7 percent to 47.8 percent.

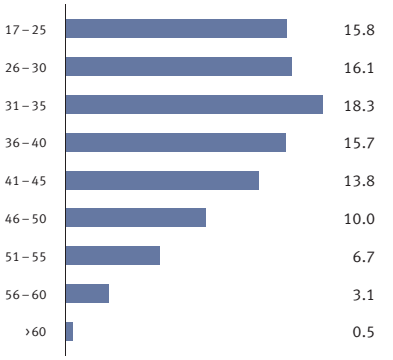
These developments in the age structure left the average period of service in the Company almost unchanged: the worldwide value for employee service period in the 2011 fiscal year stayed at a constant 9.0 years; the figure for Germany rose slightly to 13.7 years (previous year: 13.4 years).

Staff turnover worldwide lay at 9.3 percent in the 2011 fiscal year. This corresponds to a reduction in turnover of 3.4 percentage points (previous year: 12.7 percent). As in 2010, voluntary terminations and other reasons for leaving are included here – but the employees who left the Company as a result of the sale of our Wireless mobile phone business to IMC are not included. Voluntary terminations (not including IMC) fell significantly in the 2011 fiscal year, from 9.9 percent in 2010 to 7.9 percent in 2011. Staff turnover was reduced significantly in Asia in particular during the 2011 fiscal year. Whereas turnover in 2010 was 21 percent, this rate was reduced to 14.4 percent last year. In Germany, we managed to maintain our low rate of turnover, and even reduced it to 2.8 percent (including voluntary terminations and other reasons for leaving; 2010: 3.2 percent). This development shows that we have managed to continue reducing the numbers leaving us, while simultaneously stabilizing our employment conditions – an important lever for profitability in the Company.

Human Resources has made a major contribution, both to Infineon's ability to continue becoming a high-performance company and to employees' ability to contribute outstanding performance. Our efforts have been concentrated on creating a culture of working with employees to make best use of their potential and transform it into added value. We will continue to pursue this development process in future and thus secure a willingness and ability to perform, and ensure the commitment and motivation of our employees.

Age Structure (Infineon Worldwide 2011)

in percent

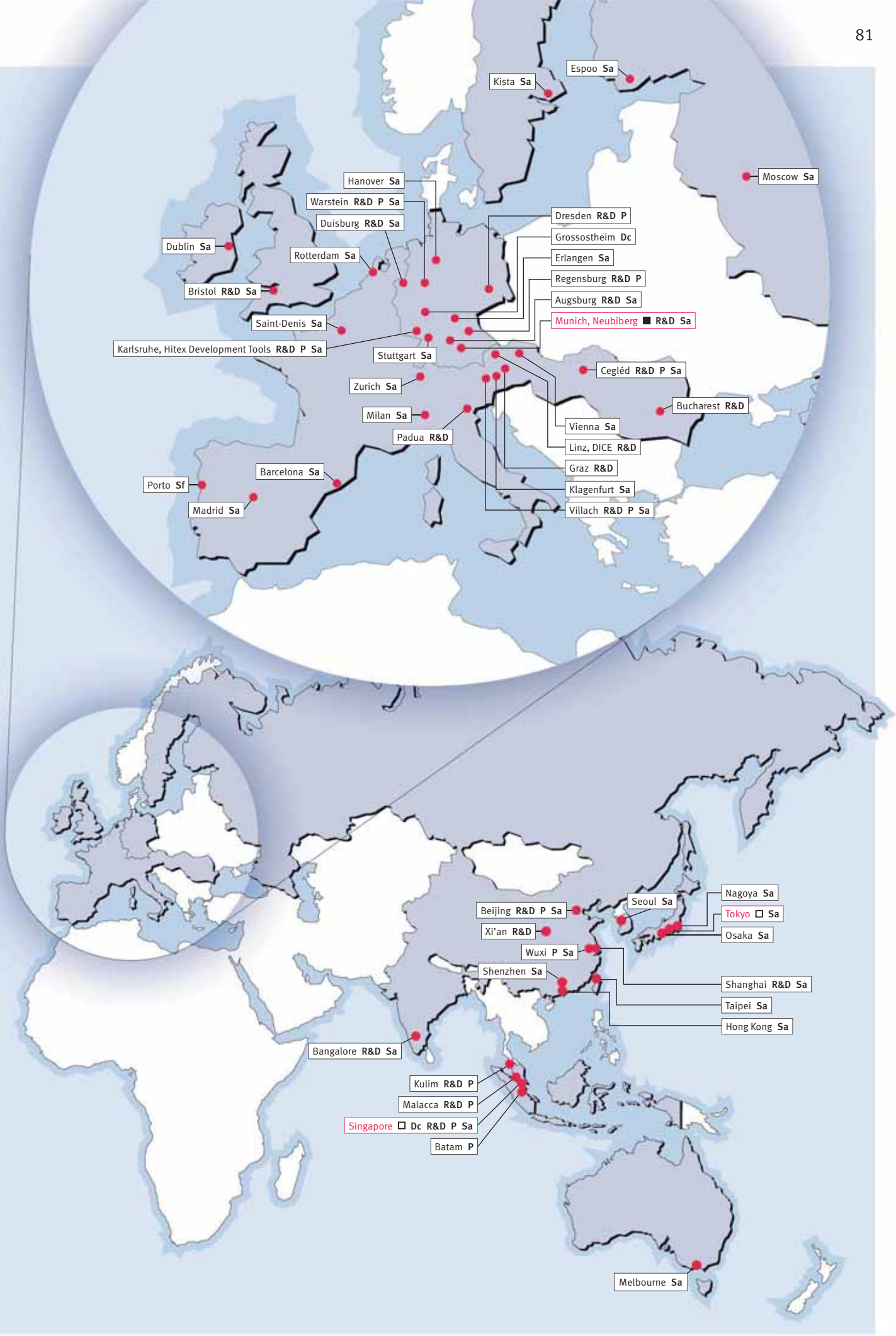


INFINEON WORLDWIDE

Infineon sites

■ Headquarters
□ Local headquarters

Dc	Distribution center
R&D	Research and Development
P	Production
Sf	Service function
Sa	Sales


Espoo Sa
Kista Sa
Moscow Sa
Hanover Sa
Warstein R&D P Sa
Duisburg R&D Sa
Dresden R&D P
Grossostheim Dc
Erlangen Sa
Regensburg R&D P
Augsburg R&D Sa
Munich, Neubiberg ■ R&D Sa
Dublin Sa
Rotterdam Sa
Bristol R&D Sa
Saint-Denis Sa
Karlsruhe, Hitex Development Tools R&D P Sa
Stuttgart Sa
Cegléd R&D P Sa
Zurich Sa
Bucharest R&D
Milan Sa
Padua R&D
Vienna Sa
Linz, DICE R&D
Graz R&D
Barcelona Sa
Porto Sf
Klagenfurt Sa
Madrid Sa
Villach R&D P Sa
Seoul Sa
Nagoya Sa
Beijing R&D P Sa
Tokyo □ Sa
Xi'an R&D
Osaka Sa
Wuxi P Sa
Shenzhen Sa
Shanghai R&D Sa
Taipei Sa
Hong Kong Sa
Bangalore R&D Sa
Kulim R&D P
Malacca R&D P
Singapore □ Dc R&D P Sa
Batam P
Melbourne Sa

INFINEON 2011

FIRST QUARTER	11|2010	Conclusion of an agreement on components for the production of wind turbines with Xinjiang Goldwind Science and Technology Co., Ltd., China. Infineon grants Goldwind a license to produce Insulated Gate Bipolar Transistor (IGBTs) stacks. Infineon will also continue to supply Goldwind with IGBT stacks.
	12|2010	Delivery of a new generation of security controllers for Europe's biggest identity card project, the German ID card. Infineon's "Integrity Guard" digital security technology is employed for this project.
SECOND QUARTER	01|2011	Volkswagen uses Infineon programmable Hall sensors in electric power steering systems. The sensors compensate for temperature fluctuations and mechanical stress over the lifetime of the vehicle and thus contribute to a consistently high and robust signal precision, ensuring the systems are reliable.
	01|2011	New business unit opened in Beijing, China. Infineon Integrated Circuits Co., Ltd. supports all three business segments and includes a manufacturing facility for power semiconductors (IGBT stacks), a center of competence for automotive solutions and sales, marketing, R&D and corporate functions.
	01|2011	Sale of Wireless mobile phone business to Intel closed. Cash proceeds of US$1.4 billion.
	02|2011	Infineon wins the Innovation Award of German Industry for the best technological innovation. The award in the large-scale enterprise category was made for the Company's "Integrity Guard" security technology. This is Infineon's third such award in the past ten years; no other company has won this award as often.
THIRD QUARTER	05|2011	Acquisition of real estate and manufacturing facilities for 300-millimeter thin wafers from the insolvency administrator of Qimonda Dresden GmbH & Co. OHG for approximately €101 million.
	05|2011	Launch of IGBT modules in the 4,500 volt range for use in train drives and in high-voltage direct-current (HVDC) transmission at the PCIM Europe 2011 trade show in Nuremberg, Germany.
	05|2011	Infineon's Embedded Secure Element brings a new security controller for near-field communications applications to the market in addition to the Secure Elements for NFC SIM cards and microSD cards already available. This makes Infineon the only semiconductor manufacturer in the world to offer such flexibility in ensuring NFC applications.
FOURTH QUARTER	07|2011	Infineon is the first company to provide TPM (trusted platform module) chips for devices running Google's Chrome operating system. These security chips support the operating system's integrity check. This is used by Google to verify whether the hardware or operating system have undergone any unauthorized changes.
	09|2011	Supply of Infineon HybridPACK™1 power modules to Hyundai Motor Company and Kia Motor Corporation. The IGBT module is used in hybrid vehicles, bringing fuel savings of around 15 to 35 percent as against vehicles with combustion engines. Compared to other modules with the same power rating, it uses up to 30 percent less semiconductor area and a simpler cooling system.

GROUP MANAGEMENT REPORT

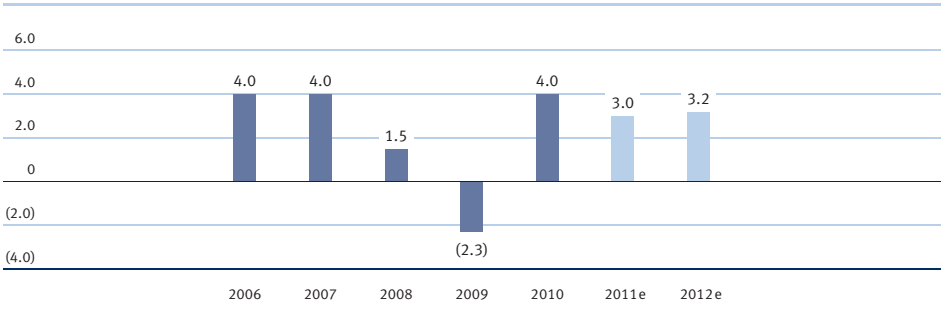
OUR FISCAL YEAR 2011

DEVELOPMENTS IN THE GLOBAL ECONOMY AND WITHIN THE SEMICONDUCTOR INDUSTRY IN THE 2011 FISCAL YEAR

Global economic growth slowed down significantly during the second half of the calendar year 2011. In its current World Economic Outlook issued on September 20, 2011, the International Monetary Fund (IMF) forecasts that economic growth will drop to 3.0 percent, compared to growth of 4.0 percent recorded for the 2010 calendar year (IMF, September 2011). The natural catastrophe and nuclear reactor disaster in Japan, together with political unrest in the Middle East and North Africa, were amongst the reasons for slower growth. Economic prospects were further dampened in the summer of 2011 as a result of protracted political discussions in the USA about raising the debt ceiling and the escalating sovereign debt crisis in the euro-zone. Experts at the IMF predict that the euro-zone will expand by 1.6 percent in 2011 compared to 1.8 percent in 2010. For the USA, they forecast an increase of 1.5 percent (2010: 3.0 percent). Persistently high unemployment levels in the USA and in some Euro nations is an added strain on the various economies. Japan's gross domestic product (GDP) – which rose by 4.0 percent in 2010 – is expected to shrink by 0.5 percent in 2011. The main reasons for this, in addition to the weakened world economy, are the collapse of industrial production following the natural catastrophe in Japan on March 11, 2011 and a strong yen, which had a negative impact on export volumes. The emerging economies in Asia were the growth engine of the world economy in 2011. The IMF estimates that GDP growth in this region for the 2011 calendar year will be 8.2 percent compared to 9.5 percent one year earlier. This slowdown partly reflects the effect of contractive political measures adopted to prevent overheating in the countries concerned, but is also the result of lower demand coming from the developed economies.

World Economic Growth

in percent



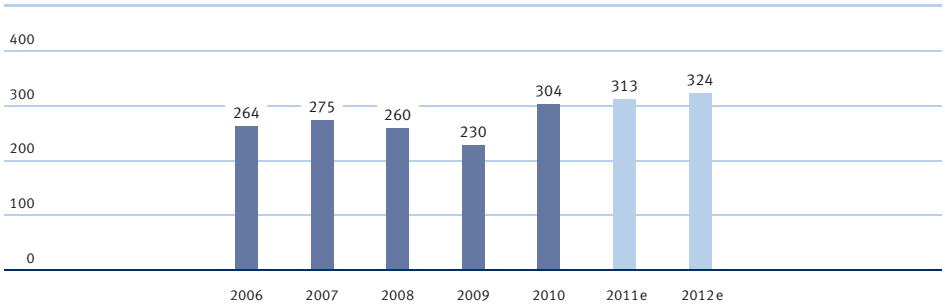
Source: International Monetary Fund, September 2011

The semiconductor industry is also feeling the impact of the slowdown and there is growing uncertainty about how long it will last and how serious it will be. Compared to the previous year, growth in worldwide semiconductor markets lost pace significantly in 2011. The market research company IHS iSuppli forecasts that the growth figure for the 2011 calendar year will be 3 percent (2010 calendar year: 32 percent).

According to the figures published, the Asia-Pacific region (excluding Japan) was once again the main driver of growth in the global semiconductor market in the 2011 calendar year. IHS iSuppli forecasts a rise of 7 percent (2010 calendar year: 33 percent) for the region. Faster-than-average growth rates reflect, amongst other things, the rapid expansion of production of electronic end-user devices in this region, particularly in China. Rising prosperity and the resulting increase in consumer spending in the emerging economies of Asia and Latin America also provided momentum for the sector. IHS iSuppli forecasts a slight decrease of 1 percent in the European semiconductor market (2010 calendar year: increase of 30 percent). The American and the Japanese semiconductor markets are both expected to contract by 4 percent in 2011 (2010 calendar year: rises of 32 percent and 33 percent, respectively).

Development of the Semiconductor Market

US$ in billions



Source: IHS iSuppli, Application Market Forecast Tool, Q3 2011, September 2011

Overall, the semiconductor industry is expected to expand moderately in the 2011 calendar year, albeit at a considerably slower rate than in the previous year. Following the dynamic recovery in 2010, a cyclical deceleration had been anticipated, but to a lesser degree. The pace of growth in the sector was dampened by exogenous shocks, doubts as to whether the recovery would be sustainable, the resurgence of the financial crisis and capacity bottlenecks in some areas.

Our revenue is subject to both cyclical and seasonal influences. Past experience has shown that the fourth quarter accounts for the greatest revenue in the fiscal year. The short-term variations are influenced, however, by longer-term cycles caused by the ongoing process of technological innovation at customer level and the extent to which our products are incorporated in new solutions. The short- and medium-term cyclicality of our revenues reflects fluctuations in the supply and demand of products containing our semiconductors. Expenses and inventories may be disproportionately high in quarters in which revenue and deliveries do not materialize in line with expectations, thus having a negative impact on earnings for that quarter and possibly subsequent quarters.

INTERNAL MANAGEMENT SYSTEM

The focus of Infineon's financial objectives for increasing its enterprise value on a sustainable basis is on maximizing free cash flow and increasing Segment Result. We intend to achieve this goal by steadily growing revenue and earnings and by making the best possible use of capital. The Company's planning and management system comprises a variety of tools that enable us to assess current performance as the basis for strategy and investment decisions. Our aim is always to make the best possible use of our business and entrepreneurial potential.

As a high-tech company, we operate in a growing market and a vibrant business environment. Innovation in products and technologies is essential for maintaining a leading market position. Infineon's manufacturing technologies are an important differentiating factor for our business in many market sectors. In this situation, we have to generate sufficient funds to finance high levels of R&D expenditure and to invest heavily in manufacturing. Additional manufacturing capacity is added to take advantage of growth potential, but always after giving full consideration to using existing capacities as efficiently as possible in order to avoid idle cost.

Profitable growth provides the basis for financing our business on our own. This requires, of course, the efficient use of financial resources.

With this in mind, the Management Board holds regular meetings with the relevant persons responsible for the individual business lines, production units and corporate functions, which focus on the following three success factors:

- Profitability of our business portfolio
- Effective cash management
- Efficient use of capital

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

PERFORMANCE INDICATORS

KEY PERFORMANCE INDICATORS AND FIGURES

In order to measure the effects of these selected levers on the key success factors, we use the following three metrics for corporate management:

- Segment Result to measure the operating profitability of our businesses and of the portfolio as a whole,
- Free cash flow to measure the amount of cash generated without financing activities, and
- Return on Capital Employed (RoCE) to measure capital efficiency.

Segment Result is the key figure for measuring operating performance. It measures the quality of revenue performance and shows how efficiently we are managing our business. The operating performance of our segments is managed on the basis of Segment Result. In order to maximize Segment Result, the management of each operating segment is directly responsible for its own Segment Result.

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

The primary financial target is to create economic value added, or, put another way, we want to earn a premium over our cost of capital on a lasting basis. The RoCE model enables us to compare actual and planned returns on capital employed with the actual cost of capital.

The three performance indicators are also the cornerstones of our system of variable compensation. The Company's variable compensation system was changed during the 2011 fiscal year and most of the variable salary components for employees and management are now directly linked to these performance indicators.

Segment Result

We define Segment Result as operating income (loss) excluding asset impairments (net of reversals), the net impact on earnings of restructuring measures and closures, share-based compensation expense, acquisition-related depreciation/amortization and (gains) losses, gains (losses) on sales of assets, businesses, or interests in subsidiaries, and other income (expense), including litigation settlement costs. This is the measure that Infineon uses to evaluate the operating performance of its segments (a review of Segment Result in the 2011 fiscal year is provided in section "Segment Performance" below).

see also page 94ff.

The following table shows the calculation of the Segment Result for the fiscal years ended September 30, 2011 and 2010:

€ in millions	2011	2010
Total Segment Result	786	475
Plus/minus:		
Asset impairment reversals/asset impairments, net	5	(12)
Impact on earnings of restructuring measures and closures, net	–	4
Share-based compensation expense	(2)	–
Acquisition-related depreciation/amortization and losses	(3)	(4)
Losses in connection with the deconsolidation of ALTIS	–	(69)
Gains on sales of assets, businesses, or interests in subsidiaries	–	4
Other expenses	(50)	(50)
Operating income	**736**	**348**
Financial income	39	29
Financial expense	(65)	(95)
Income from investments accounted for using the equity method, net	4	8
Income from continuing operations before income tax	**714**	**290**

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

The following table shows the Segment Result at Group and segment levels as well as the Segment Result Margin for the Group and the three operating segments for the fiscal years ended September 30, 2011 and 2010:

€ in millions, except percentages	2011		2010	
Automotive	279	18.0%	198	15.6%
Industrial & Multimarket	444	24.7%	294	20.6%
Chip Card & Security	54	12.6%	22	5.4%
Other Operating Segments	14		(4)	
Corporate and Eliminations	(5)		(35)	
Total	**786**	**19.7%**	**475**	**14.4%**

We believe that the markets we serve (Automobile, Industry and Security Applications) will generate greater demand than the remainder of the semiconductor market or compared to average global economic growth. Innovation and investments give us the opportunity to profit from rising demand for semiconductor products. Management endeavors to identify and exploit opportunities which not only promote future growth, but which should also result in improved Segment Result. We undertake a range of measures to raise Group revenue and gross margin. This includes improving the productivity of manufacturing plants, ensuring the quality of our products, optimizing the product mix, ensuring the very highest quality of manufacturing and keeping the cost base flexible.

Strict control of operational expenditure plays a central role in all our endeavors to increase Segment Result and raise the efficiency of our operations. We keep a tight rein on operating expenses and strive at all times to achieve an optimal relation between operational overheads and revenue. We do so by keeping our business processes streamlined, cutting out redundancies and implementing efficiency initiatives. These measures are supplemented when necessary by short-term initiatives and projects aimed at optimizing general and administrative expenses.

Free cash flow

We define free cash flow as cash flow from operating and investing activities from continuing operations excluding purchases or sales of financial investments. Free cash flow measures our ability to generate sufficient cash flows to finance our daily business and fund required investments out of operations. It is our target to sustainably generate positive free cash flow (see section “Review of Liquidity” for an analysis of free cash flow in the 2011 fiscal year).

see also page 110ff.

The following table shows the calculation of free cash flow for the fiscal years ended September 30, 2011 and 2010:

€ in millions	2011	2010
Net cash provided by operating activities from continuing operations	983	958
Net cash used in investing activities from continuing operations	(2,499)	(355)
Purchase of and proceeds from sales of financial investments	1,622	(30)
Free cash flow	**106**	**573**

The main levers for generating free cash flow are our profitability and ability to manage working capital and investments compared to the expense for depreciation and amortization. Further information about the free cash flow performance in the 2011 fiscal year is provided in the section “Review of Liquidity – Free Cash Flow”.

see also page 112f.

We have improved working capital management substantially in recent years by focusing unremittedly on optimizing levels of inventories, trade receivables and trade payables.

Since our business is extremely plant-intensive, effective investment management plays a key role in optimizing free cash flow.

Investments are managed using a combined top-down/bottom-up approach. Focal points for investments are set in conjunction with the Annual Long-Term Plan, at which stage a capital investment budget is formulated for the group. The operating units then agree their investment projects based on the pre-defined focal points and the approved budget. The budget and the projects contained therein are regularly monitored and adjusted, when necessary, on the basis of scenario forecasts. We have a flexible approach to investments that enables us to keep planned investments in line with new requirements and changing market circumstances. Investment projects are continuously monitored for compliance with timetables and budgets.

Free cash flow is considered by Infineon only on a Group level and not on a segment level.

Return on Capital Employed (RoCE)

RoCE is defined as the net operating income/loss after tax from continuing operations divided by capital employed. RoCE shows the linkage between profitability and the capital resources required to run the business. It describes how efficiently a company manages its resources. RoCE is also considered by Infineon only at a Group level and not at a segment level.

Return on Capital Employed is a common financial ratio and also used by Infineon to measure how efficiently it employs capital. A comparison of a company’s RoCE and its weighted cost of capital provides information on the extent to which equity holders’ and debt holders’ expectations regarding returns have been met. Thus, RoCE serves as a tool for value-based management.

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

The following table shows the calculation of RoCE for the fiscal years ended September 30, 2011 and 2010:

€ in millions	2011	2010
Operating income	736	348
Additional:		
Financial income excluding interest income [1]	2	11
Income from investments accounted for using the equity method	4	8
Income tax benefit	30	22
Less:		
Financial expense excluding interest expense [2]	(2)	(4)
Net operating income from continuing operations after tax	**770**	**385**
Assets	5,873	4,993
Less:		
Cash and cash equivalents	(1,007)	(1,667)
Financial investments	(1,685)	(60)
Assets classified as held for sale	(5)	(495)
Current liabilities	(2,005)	(1,808)
Additional:		
Short-term debt and current maturities of long-term debt	68	133
Liabilities classified as held for sale	–	177
Capital employed	**1,239**	**1,273**
RoCE [3]	**62%**	**30%**

1 Financial income in the 2011 fiscal year amounted to €39 million, of which €37 million related to interest income. The corresponding figures in the previous fiscal year were €29 million and €18 million, respectively (see note 9).
2 Financial expense in the 2011 fiscal year amounted to €65 million, of which €63 million related to interest expense. The corresponding figures in the previous fiscal year were €95 million and €91 million, respectively (see note 10).
3 New computation method: unlike in previous years, held for sale assets and liabilities are no longer included in the calculation of capital employed. Based on the new computation method, RoCE for the 2010 fiscal year was 30 percent (previous method: 24 percent).

see also page 200
see also page 200

Apart from profitability, RoCE is also influenced by asset intensity with regard to property, plant and equipment on the one hand and working capital on the other. Asset intensity describes how many assets are necessary to generate a specific amount of revenue. It is our target to generate a RoCE which is above the weighted cost of capital to generate value for our shareholders. A RoCE of 62 percent was achieved in the 2011 fiscal year, compared to 30 percent in the previous year which was above our cost of capital. In addition to the impact of significantly improved earnings and the small decrease in the amount of capital employed, the sharp rise was also attributable to the fact that capital employed was not adjusted for exceptional factors of a non-revolving character, such as some specific provisions and liabilities relating to put options on own shares.

OTHER PERFORMANCE INDICATORS

The principal performance indicators described above are supplemented by other performance indicators that provide information about growth potential, cost effectiveness by type of function, and liquidity.

Growth and profitability performance indicators

Revenue and the rate of revenue growth are used to assess growth potential. As part of the process of analyzing operating profitability in detail, earnings and cost blocks above the Segment Result line are considered. This involves a review of gross profit, research and development expenses, selling, general and administrative expenses and the ratio of these items to revenue. These performance indicators are used to manage the business both at Group and at segment level.

The following table compares how these performance indicators have changed at a Group level in the fiscal years ended September 30, 2011 and 2010:

€ in millions, as a % of revenue, except for growth rate of revenue	2011		2010	
Revenue and revenue growth rate	3,997	21.3%	3,295	50.9%
Gross profit	1,654	41.4%	1,237	37.5%
Research and development expenses	439	11.0%	399	12.1%
Selling, general and administrative expenses	449	11.2%	386	11.7%

Liquidity performance indicators

A rolling cash flow forecast ensures that the Company has appropriate levels of liquidity. The following performance indicators are determined in this context at a Group level, but not at segment level:

- **Gross cash position:** cash and cash equivalents plus financial investments.
- **Net cash position:** gross cash position less short-term and long-term debt.
- **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, current maturities of long-term debt and liabilities classified as held for sale.
- **Investments:** the sum of investments in property, plant and equipment, intangible assets and internally generated assets.

The following table shows the key performance indicators for the fiscal years ended September 30, 2011 and 2010:

€ in millions	2011	2010
Gross cash position	2,692	1,727
Net cash position	2,387	1,331
Working capital	(663)	(130)
Investments	887	325

Moreover, in order to avoid idle cost and capacity bottlenecks, the key operational figures for “Capacity utilization” and “Forecast capacity requirements” are analyzed. The results of this analysis are used to determine 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 from customers during the relevant reporting period.
- **Book-to-Bill ratio:** the ratio of orders booked and revenue recognized during the relevant accounting period.

The Book-to-Bill ratio is a good indicator of demand. If orders received are greater than revenue recognized in a period, it is seen as an indication of future revenue growth. A ratio of more than 1 for a period (i.e. orders received exceeds revenue recognized in a period), is seen as an indication of future revenue growth. If the ratio is below 1, a drop in revenue can be expected. However, due to the specific nature of Infineon's business (e.g. consignment inventory arrangements for major customers), the order backlog indicator is not used to a significant extent to manage the business and evaluate performance. In the case of consignment inventory arrangements, the orders received and related revenue are recorded at the same time (i.e. when the goods are taken from stores). As a result, this type of business is not reflected in the backlog.

The following table shows operational early indicators for the fiscal years ended September 30, 2011 and 2010:

€ in millions, except Book-to-Bill-ratio	2011	2010
Orders received	4,231	3,999
Book-to-Bill-ratio	1.06	1.21

A further key early indicator for evaluating performance is the quarterly change in revenue forecasts for the current and coming fiscal year. If the forecasts of annual revenue are raised over time from one quarter to the next, this is seen as a sign of good growth prospects in the near future. If, on the other hand, forecasts decrease continuously, this is seen as an early warning signal that the market may be beginning to contract.

Actual and target values for performance indicators

A comprehensive system, comprising a variety of tools, is in place to measure the Group's performance. The principal financial performance indicators are monitored continuously at Group level. Our primary focus is on generating free cash flow and on changes in Segment Result.

We publish our financial targets for the Group each year and update them over the course of the fiscal year as necessary. It is important to note, however, that the emphasis is being placed increasingly on qualitative targets in view of the uncertainties relating to economic developments.

The table set forth below shows the key performance indicators used by Infineon in conjunction with actual and forecast values:

€ in millions, except percentages	2010	2011	2011	2012
	Actuals	Original outlook	Actuals	Outlook
Principal performance indicators				
Total Segment Result Margin	14.4%	Mid to high teens range	19.7%	Low to mid teens range
Free cash flow	573	Solid	106	Markedly negative
RoCE	30%	Well above cost of capital	62%	Well above cost of capital
Supplementary performance indicators				
Growth and profitability performance indicators				
Revenue growth compared to previous year	50.9%	Nearly 10%	21.3%	Decrease at mid-single-digit percentage rate compared to FY 2011
Gross margin	37.5%	Low 40% range	41.4%	Below 40% of revenue
Research and development expenses	399	Increase in line with revenue growth	439	Increase of 5 – 10% compared to FY 2011
Selling, general and administrative expenses	386	Total cost increase in line with revenue growth, administrative expenses lower	449	Increase of 5 – 10% compared to FY 2011
Liquidity performance indicators				
Gross cash position	1,727	Higher than target of 30 – 40% of revenue	2,692	Higher than target of 30 – 40% of revenue
Net cash position	1,331	Net cash position (cash holdings higher than debt)	2,387	Net cash position (cash holdings higher than debt)
Working capital	(130)	Not disclosed	(663)	Higher than at September 30, 2011
Investments	325	550	887	Similar level to FY 2011
Operational early indicators				
Orders received in relation to revenue	1.21	Not disclosed	1.06	No forecast

Favorable business conditions during the 2011 fiscal year meant that revenue growth was significantly higher than the predicted 10 percent. As a consequence, the Total Segment Result Margin and the Group RoCE were significantly above expectations. Even though investment volumes were significantly higher than originally planned, we were nevertheless able to keep cash flow roughly at the level of the dividend payment.

SEGMENT PERFORMANCE

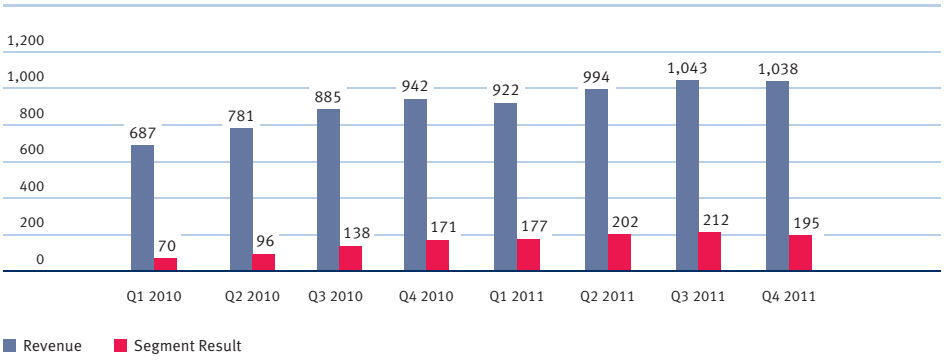
TOTAL SEGMENT RESULT MARGIN OF ALMOST 20 PERCENT ACHIEVED IN THE 2011 FISCAL YEAR

All of our operating segments benefited from unbroken strong demand for semiconductor products. Revenue was up on the previous year in all operating segments and reached its highest level since the segment structure was introduced.

Total Segment Result for the 2011 fiscal year improved to €786 million (2010: €475 million), boosted by the higher gross profit from higher revenue. Increases in operating expenses (research and development expenses and selling, general and administrative expenses) worked in the opposite direction.

The Total Segment Result Margin for the year under review was 19.7 percent, compared to 14.4 percent one year earlier.

Revenue and Segment Result



AUTOMOTIVE

€ in millions, except percentages	2011	2010
Revenue	1,552	1,268
Share of Total Revenue	39%	38%
Segment Result	279	198
Share of Total Segment Result	35%	42%
Segment Result Margin	18.0%	15.6%

The Automotive segment recorded **revenue** of €1,552 million in the 2011 fiscal year (2010: €1,268 million).

The automotive sector continued to perform strongly during the period under report. Most of the world's car manufacturers reported record revenue. The growth was attributable in part to continued strong demand for fleet vehicles, with many public-sector organizations, companies, car hire firms and taxi businesses renewing their fleets. Our business benefited from the general growth of the automobile sector as well as from the rising degree of electronic components installed in cars in general. The sum of these two factors enabled us to record growth of 22 percent in what is now the second year of the upswing. Demand for medium- and upper-range models remained high. Cars in this segment are equipped with a significantly higher number of semiconductors (greater security, comfort, extra features, more powerful engines) than small cars, sales of which had been boosted in the preceding year by scrappage bonus schemes.

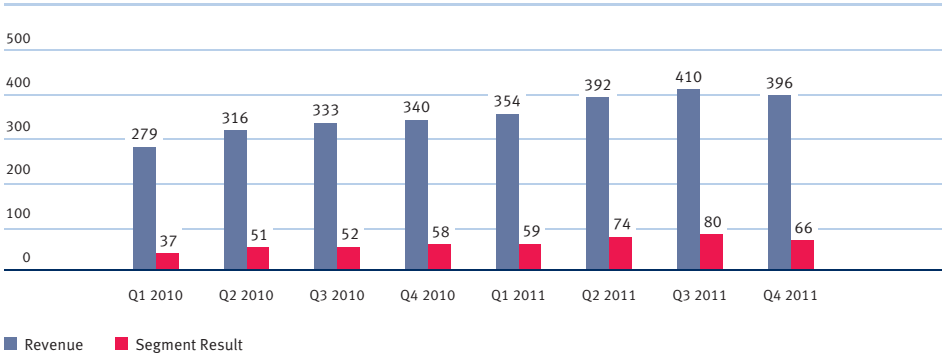
Demand from customers for greater fuel efficiency – partly reflecting higher fuel prices and partly due to growing environmental awareness – also caused the semiconductor content in cars to rise.

Car production volumes rose in general for all market segments – from small through to upper class – in the 2011 fiscal year. In regional terms we saw a particularly sharp rise in the number of cars built in the Asia-Pacific region, especially in China. Production volumes in the USA are also slowly returning to 2008 levels. Since the slump was so extreme there, the recovery is gradually being reflected in high growth rates. Positive developments in Russia, Latin America and India also had a beneficial impact overall, even though none of these regions, taken individually, is making a significant contribution to global car production yet.

Segment Result for the 2011 fiscal year amounted to €279 million, an increase of 41 percent over the previous year's €198 million. Higher revenue and excellent capacity utilization of our manufacturing sites over the whole year were the prime reasons for the sharp improvement in earnings.

The focus of research and development expenditure was on the further development of our strategically important 32-bit multicore-microcontroller architecture as well as on the development of further products based on our 130-nanometer analog/mixed-signal production technology SPT9 in Dresden.

ATV: Revenue and Segment Result for the Last Eight Quarters



INDUSTRIAL & MULTIMARKET

€ in millions, except percentages	2011	2010
Revenue	1,800	1,429
Share of Total Revenue	45%	43%
Segment Result	444	294
Share of Total Segment Result	56%	62%
Segment Result Margin	24.7%	20.6%

The Industrial & Multimarket segment generated **revenue** totalling €1,800 million in the 2011 fiscal year, a rise of 26 percent compared to the previous year's €1,429 million.

The catch-up effect from the crisis year 2009 diminished towards the middle of the 2011 calendar year. Up to that stage we had seen robust order-intake with a Book-to-Bill ratio consistently above 1. The Book-to-Bill ratio gives a good indication of demand. A ratio of over 1 means that our customers are placing more orders than the revenue we are recognizing, causing our order backlog to increase. The signs have been growing since the middle of the fourth quarter of the 2011 fiscal year that the industrial sector – particularly in terms of products used in consumer electronics – could be slowing down as a result of rising economic risks.

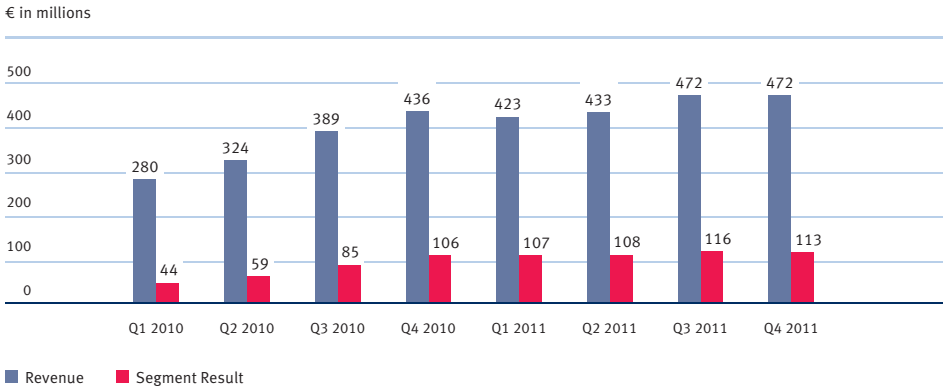
Demand for control systems for electric drives, especially in the engineering sector, was high compared to the previous year. The VDMA forecast for the 2011 calendar year predicts a production growth rate of 14 percent compared to 2010.

The market for renewable energy developed inconsistently during the 2011 fiscal year. The reduction in the feed-in tarif for electricity from photovoltaic (PV) systems had the effect of dampening demand in Germany. The number of new installations in Germany, the world's largest PV market, was well below the volume recorded in 2010. By contrast, new PV installations in China and the USA were up, offsetting the weaker performance in Europe. The growth rate for new PV installations worldwide was significantly lower in 2011 than in 2010. The number of new wind power plants worldwide was approximately 3 percent down compared to 2010.

Segment Result for the 2011 fiscal year amounted to €444 million, an increase of 51 percent on the previous year. The improvement was attributable to higher revenue, the positive effect of economies of scale and continued good capacity utilization at our manufacturing plants. Components capable of influencing electrical energy savings – in particular IGBT modules that control the rotation speed of industrial drives and high-voltage power transistors in power supply units – made an above-average contribution to earnings. Strong demand for smartphones and the build-up of mobile telephone infrastructure around the world also had a positive impact on earnings.

Expenditure for research and development continued to rise year-on-year, primarily in connection with investment in innovative products and pioneering technologies. Selling expenses also rose, reflecting our increased global presence on the one hand and the broader customer base on the other.

IMM: Revenue and Segment Result for the Last Eight Quarters



CHIP CARD & SECURITY

€ in millions, except percentages	2011	2010
Revenue	428	407
Share of Total Revenue	11%	12%
Segment Result	54	22
Share of Total Segment Result	7%	5%
Segment Result Margin	12.6%	5.4%

The Chip Card & Security segment generated **revenue** totalling €428 million in the 2011 fiscal year, 5 percent ahead of the previous year's €407 million.

November 2010 saw the start of the project to introduce the new German electronic identity card, which incorporates security controllers from the SLE 78 family. This is currently the largest European project for government identification documents. Overall, Infineon supplies the security controllers for some 80 percent of all identity cards issued in Europe that are equipped with security controllers.

We benefited from a boom in business with payment cards in the 2011 fiscal year. Many banks replaced magnetic-strip cards with significantly more secure cards equipped with a security chip. This trend is likely to continue for some time yet as only one quarter of all bank cards have so far been equipped with a security chip.

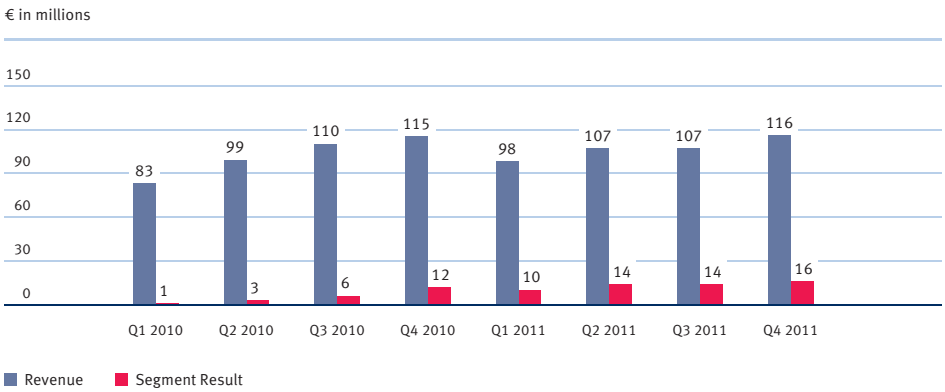
The successful strategy of focusing on new lines of business that cannot be covered by the classical chip card is bearing fruit, for example, with components for integrated Near Field Communications (NFC) solutions. We delivered the first NFC components in March 2011 and by the third quarter they accounted for some 5 percent of the Chip Card & Security segment's revenue for the quarter.

The conversion from 130-nanometer to 90-nanometer production commenced in the 2010 fiscal year was extended to include further production lines. Most of our high-volume products are now manufactured with a feature size of 90 nanometers, enabling us to reduce the cost of goods sold of these products on the one hand and provide the basis for growth on the other. The conversion to production based on a feature size of 65 nanometers has been commenced.

Segment Result for the 2011 fiscal year amounted to €54 million, an increase of €32 million or 145 percent compared to the previous year's €22 million. The Segment Result Margin was in excess of 10 percent right from the first quarter, and hence much earlier than expected. Overall we recorded a margin of 12.6 percent for the 2011 fiscal year, helped by the switch to 90-nanometer production and the strategic push towards security applications. By the fourth quarter of the 2011 fiscal year, some 40 percent of all chips in this segment were being manufactured on the basis of 90-nanometer technology. Back in the 2010 fiscal year, the equivalent proportion was virtually zero. The conversion to 90-nanometer production technology mainly benefited the two product categories with extremely high volumes, namely SIM cards and contact-based and contactless pay cards. Segment Result also benefited from the introduction of NFC chips in the second quarter and the identity documents for Germany in the fourth quarter.

Research and development expense increased slightly compared to the previous year, mainly due to consistent R&D investment for the next production technology (65-nanometer feature size) and in our strategic business fields (mobile payments, security in networked systems and governmental applications). In the areas selling, marketing and administration, operating expenses rose in line with revenue.

CCS: Revenue and Segment Result for the Last Eight Quarters



OTHER OPERATING SEGMENTS

€ in millions, except percentages	2011	2010
Revenue	216	194
Share of Total Revenue	5%	6%
Segment Result	14	(4)
Share of Total Segment Result	2%	(1%)

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

Revenue in the 2011 fiscal year amounted to €216 million compared to €194 million one year earlier. Unlike in the previous year, revenue of Other Operating Segments for the year ended September 30, 2011 includes business with IMC. Segment Result for the 2011 fiscal year improved by €18 million to €14 million as a result of business with IMC and cost structure improvements.

CORPORATE AND ELIMINATIONS

The Segment Result for Corporate and Eliminations was negative €5 million and negative €35 million for the fiscal years ended September 30, 2011 and 2010, respectively.

Expenses for corporate functions incurred for the Wireless mobile phone business after closing of the sale are reported as continuing operations (so-called “remaining costs”). Costs of this nature arising after the sale of the Wireless mobile phone business on January 31, 2011 are reported in the 2011 fiscal year within **Corporate and Eliminations.** The previous year’s figures were restated accordingly.

In the 2010 fiscal year, idle costs relating to production at ALTIS Semiconductor S.N.C., Essonnes, France (“ALTIS”) were allocated to Corporate and Eliminations since they did not relate to operational business. ALTIS, previously a joint venture of Infineon and International Business Machines Corporation, New York, USA (“IBM”), was deconsolidated effective December 31, 2009. All of Infineon’s shares in ALTIS were sold in August 2010.

REVIEW OF RESULTS OF OPERATIONS

REVIEW OF PRINCIPAL ITEMS IN THE CONSOLIDATED STATEMENT OF OPERATIONS

€ in millions, except EPS	2011	2010
Revenue	3,997	3,295
Gross profit	**1,654**	**1,237**
Research and development expenses	(439)	(399)
Selling, general and administrative expenses	(449)	(386)
Other operating income and expense, net	(30)	(104)
Operating income	**736**	**348**
Net financial result (financial income and expense, net)	(26)	(66)
Income from investments accounted for using the equity method	4	8
Income tax benefit	30	22
Income from continuing operations	**744**	**312**
Income from discontinued operations, net of income taxes	375	348
Net income	**1,119**	**660**
Basic earnings per share (in €)	1.03	0.61
Diluted earnings per share (in €)	0.98	0.58

ACHIEVED NET INCOME WELL OVER €1 BILLION

Infineon reports **net income** of €1,119 million for the 2011 fiscal year compared to €660 million one year earlier. The increase over the previous year was almost 70 percent.

Nearly two thirds of net income reported for the 2011 fiscal year amounting to €744 million was generated from continuing operations, an increase of €432 million on the previous year. The improvement was mainly attributable to the €417 million rise in gross profit (revenue less cost of goods sold) achieved on the back of a sharp rise in revenue. The hike in operating expenses (research and development expenses, selling and general administrative expenses) was more than offset by the reduction in the net expense from other operating income and expense and the improvement in net financial result.

Discontinued operations added €375 million to net income for the 2011 fiscal year (2010: €348 million). This figure included €541 million relating to the Wireless mobile phone business, of which €352 million arose from the sale of this business to Intel. Discontinued operations were negatively impacted by an expense of €176 million recognized in conjunction with the insolvency of Qimonda and the reassessment of related risks.

SIGNIFICANT INCREASE IN REVENUE

Revenue rose by 21 percent in the 2011 fiscal year compared to the previous year, easily surpassing the growth rate recorded both for the global economy and for the semiconductor market. We not only reactivated capacities mothballed during the crisis in the 2009 fiscal year, but also created additional capacities that were quickly ramped. The expansion of production capacities enabled us to meet the greater demand and enabled our customers to achieve corresponding growth.

€ in millions, except percentages	2011	2010
Revenue	3,997	3,295
Changes year-on-year	21%	51%
Exchange rate impact compared to previous fiscal year	(60)	21
Percentage of revenue	(2%)	1%

Strength of Euro has negative impact on revenue in the 2011 fiscal year

Almost 50 percent of **revenue** was generated **in foreign currencies** in the 2011 fiscal year, of which the US dollar accounted for the largest proportion by far.

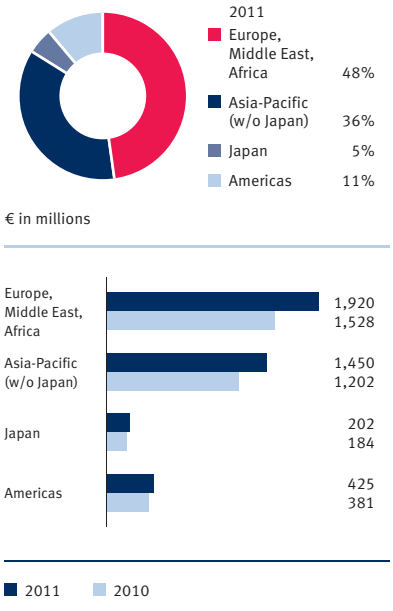
The US dollar to euro exchange rate was volatile during the year under report. Over the full year, however, there was relatively little change compared to the 2010 fiscal year. Starting the year at 1.37, the euro/US dollar exchange rate recorded its low for the year in January 2011 at 1.29. The high for the 2011 fiscal year was a euro/US dollar exchange rate of 1.49 in May 2011. The closing rate at the end of the 2011 fiscal year was 1.36, not far from the exchange rate with which the year had started. This fluctuation compares with a high and low in the 2010 fiscal year of 1.51 and 1.19, respectively.

The strength of the euro against foreign currencies (primarily the US dollar) and the exchange rate volatility during the period impacted on revenue again in the 2011 fiscal year. Over the full year, revenue was reduced by approximately €60 million due to exchange rate effects (measured by applying the previous fiscal year's average exchange rate to the 2011 fiscal year revenue). Exchange rate effects from businesses sold do not have any impact on revenue since these effects are reported within discontinued operations.

Revenue increase attributable to organic growth

Revenue reported for the fiscal years 2011 and 2010 was **not affected by business acquisitions** since none were made during the two-year period ended September 30, 2011. The entire increase in revenue was attributable to organic growth.

Revenue by Region



Revenue up in all regions

€ in millions, except percentages	2011		2010	
Europe, Middle East, Africa	1,920	48%	1,528	46%
Therein: Germany	1,090	27%	862	26%
Asia-Pacific (without Japan)	1,450	36%	1,202	36%
Therein: China	663	17%	595	18%
Japan	202	5%	184	6%
Americas	425	11%	381	12%
Total	**3,997**	**100%**	**3,295**	**100%**

Revenue increased across all regions. Europe remains the largest sales market for Infineon, even though the Asian region continues to grow in importance. The **regional analysis of revenue** was largely unchanged from the previous year.

The natural catastrophe and reactor accident in Japan did not have a significant impact on reported revenue. Infineon did, however, incur a significant amount of additional expenses – which cannot be quantified – for logistics and purchases during the period.

Stable customer structure again in the 2011 fiscal year

As in previous years, we work very closely with a host of major customers. In the 2011 fiscal year, business with our **25 largest customers** accounted for 71 percent (2010: 72 percent) of our revenue. There were no significant changes to report in this respect.

No customer from our continuing operations accounted for more than 10 percent of our revenue in the fiscal years 2011 and 2010.

GROSS PROFIT BENEFITS FROM SALES GROWTH AND ECONOMIES OF SCALE

Gross profit (revenue less cost of goods sold) amounted to €1,654 million in the 2011 fiscal year (2010: €1,237 million). Higher revenue combined with efficiency and product mix improvements as well as the virtually full capacity utilization of our production facilities more than offset any selling price decreases for our products.

Part of our cost of goods sold is incurred in currencies other than the euro. To some extent, the effects of exchange rates on cost of goods sold offset the same impact on revenue. The net impact of exchange rates on gross profit in the 2011 fiscal year was negative €40 million.

€ in millions, except percentages	2011	2010
Cost of goods sold	2,343	2,058
Changes year-on-year	14%	22%
Percentage of revenue	58.6%	62.5%
Gross profit	1,654	1,237
Percentage of revenue (gross margin)	41.4%	37.5%

Rise in cost of goods sold less pronounced than growth in revenue

Cost of goods sold in the 2011 fiscal year amounted to €2,343 million, an increase of €285 million or 14 percent compared to the previous year (2010: €2,085 million).

Cost of goods sold comprises mainly:

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

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

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

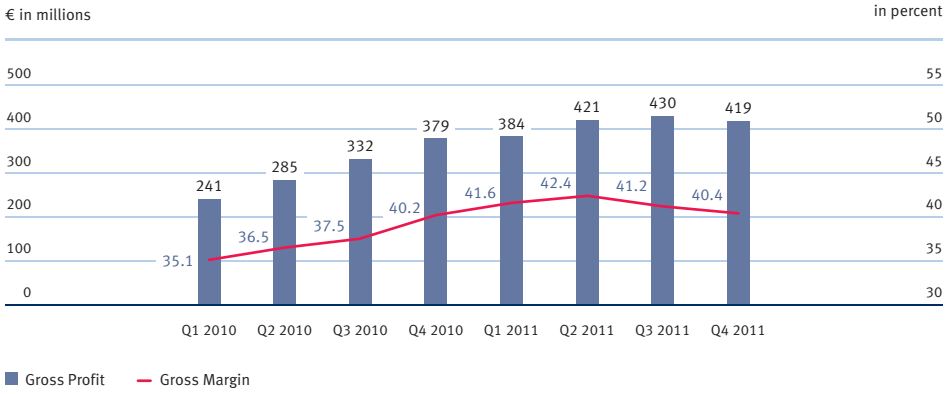
Infineon manufactures a large percentage of its products in-house and therefore has a relatively high level of fixed costs. For this reason, cost of goods sold does not react in proportion to rises and falls in revenue. Unlike variable costs, fixed costs do not automatically decrease when sales are declining, i.e. when capacity utilization is likely to deteriorate. This situation can give rise to idle cost as fixed costs continue to be incurred despite lower capacity utilization. The shrinking gross margin is therefore likely to be more pronounced than the decrease in revenue when sales are falling and capacity utilization is deteriorating. The reverse will be the case when revenue is growing, i.e. the increase in gross margin will be more pronounced than that of revenue until such time as full capacity utilization is reached. This effect is reflected in the 2011 fiscal year by the fact that revenue rose by 21 percent, whereas gross profit improved by 34 percent.

GROSS MARGIN CONTINUES TO IMPROVE

Our **gross margin** improved from 37.5 percent in the 2010 fiscal year to 41.4 percent in the 2011 fiscal year. The sharp rise in revenue recorded in the previous fiscal year and the related improvement in capacity utilization had already resulted in a significantly higher gross margin in the 2010 fiscal year. Due to these various developments, the scale of improvement flattened off over the course of the 2011 fiscal year.

Since December 2009 our production facilities have been operating at capacity utilization levels of between 90 and 100 percent, including the additional capacities added in the fiscal years 2010 and 2011. This resulted in a sharp decrease in idle cost in the 2010 fiscal year compared to 2009. In the 2011 fiscal year there was practically no idle cost.

Development of Gross Profit and Gross Margin



SLIGHT INCREASE IN RESEARCH AND DEVELOPMENT, SELLING AND GENERAL ADMINISTRATIVE EXPENSES

Research and development expenses (R&D)

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

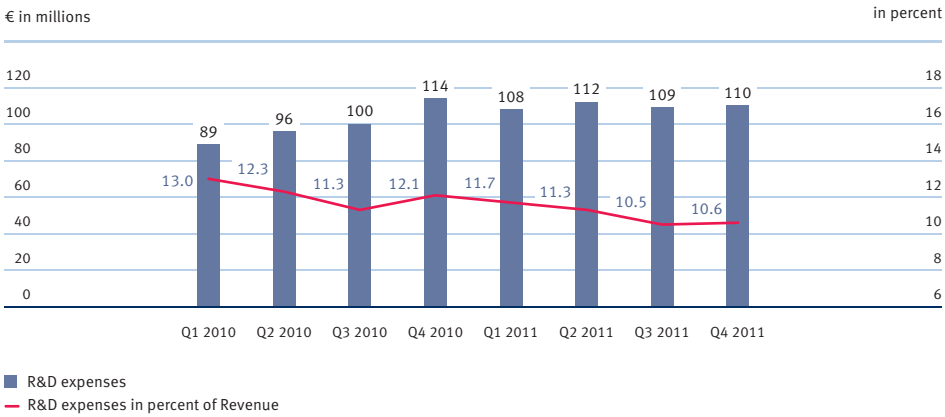
As of September 30, 2011 we possess more than 15,700 patent registrations and patents (hereafter referred to as "patents") in more than 30 countries worldwide. These patents belong to approximately 6,750 patent families (with each patent family covering all the patents that are attributable to the same inventions).

€ in millions, except percentages	2011	2010
Research and development expenses	439	399
Changes year-on-year	10%	25%
Percentage of revenue	11.0%	12.1%
Grants received	60	47
Percentage of revenue	1.5%	1.4%
Capitalized development costs	39	27
Percentage of research and development expenses	9%	7%

R&D expense in the 2011 fiscal year increased by €40 million or 10 percent compared to the previous year, mainly due to a higher headcount and higher non-personnel costs for R&D activities in all operating segments. R&D activities were increased in particular for the Automotive and Industrial & Multimarket segments with a view to satisfying current and future market requirements through further product innovations. Despite the rise in absolute terms, R&D expenses fell as a proportion of revenue from 12.1 percent in the 2010 fiscal year to 11.0 percent in the 2011 the 2011 fiscal year, reflecting the fact that costs increased at a lower rate than revenue.

Capitalized development costs increased from €27 million to €39 million. Grants received in conjunction with R&D activities also increased in the 2011 fiscal year (plus 28 percent).

R&D Expenses: Absolute and in Percent of Revenue



Selling, general and administrative expenses

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

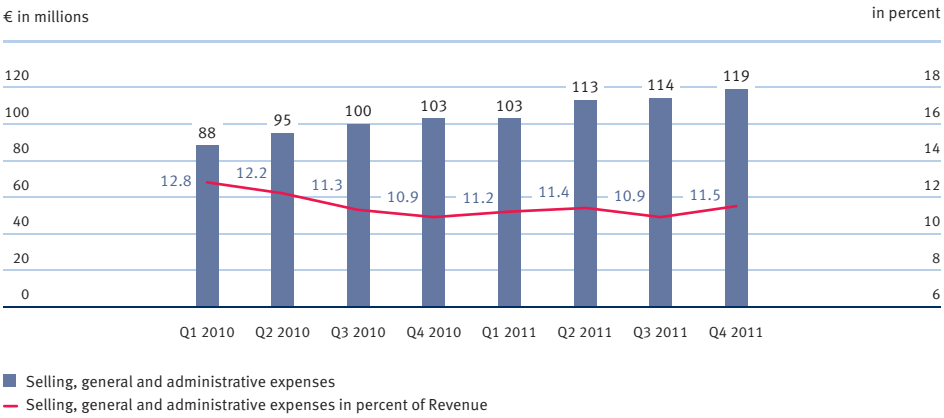
General and administrative expenses consist primarily of personnel costs for administrative personnel, non-manufacturing related overhead costs, consultancy, legal and other fees for professional services.

€ in millions, except percentages	2011	2010
Selling, general and administrative expenses	449	386
Changes year-on-year	16%	16%
Percentage of revenue	11.2%	11.7%

Selling, general and administrative expenses rose from €386 million to €449 million year-on-year, mainly resulting from the higher level of sales-related selling costs and increased personnel expenses. As a percentage of revenue they fell slightly from 11.7 percent to 11.2 percent.

Marketing expenditure for advertising and trade fairs is only on a small scale due to our sales and customer structure and accounted for less than 1 percent of selling, general and administrative expenses in the 2011 fiscal year.

Selling, General and Administrative Expenses: Absolute and in Percent of Revenue



NET OTHER OPERATING INCOME AND EXPENSES IMPROVED TO NEGATIVE €30 MILLION

Net other operating income and expenses gave rise to a net expense of €30 million for the 2011 fiscal year, compared to net expense of €104 million in the previous year (which included a loss of €69 million arising on the deconsolidation of ALTIS).

see also page 200

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

NET FINANCIAL RESULT IMPROVED THANKS TO LOWER INTEREST EXPENSE AND HIGHER INCOME FROM LIQUIDITY INVESTED

€ in millions	2011	2010
Financial income	39	29
Financial expense	(65)	(95)
Net financial result	**(26)**	**(66)**

Net financial result (financial income less financial expense) improved by €40 million to a net expense of €26 million. Included in this figure is a loss of €18 million arising in conjunction with repurchases of subordinated convertible bonds due 2014 during the period under report (see note 27 to the Consolidated Financial Statements). The net financial result in the previous fiscal year was a net expense of €66 million. The significant improvement in the net financial result was due to lower interest expense resulting from lower debt and interest income received on higher gross cash position.

see also page 214

TAX BENEFIT AS RESULT OF REASSESSMENT OF DEFERRED TAX ASSETS

Deferred tax assets, which in Infineon's case relate primarily to tax loss carryforwards and unused tax credits, are required to be reviewed at the end of each reporting period in order to determine whether utilization is probable. The reassessment of the valuation allowance on deferred tax assets and the use of previously unrecognized tax benefits resulted in the 2011 fiscal year in the reversal of a write-down of €44 million (2010: €73 million) on deferred tax assets.

The **effective tax rate** for the 2011 fiscal year was affected by the reversal of provisions following the completion of tax field audits on the one hand and by non-deductible expenses and tax-exempt income on the other.

Unused tax credits relate to foreign jurisdictions. Moreover, tax rates in the foreign jurisdictions in which we do business are on average lower than in Germany.

€ in millions, except percentages	2011	2010
Germany	404	135
Foreign	310	155
Income from continuing operations before income taxes	**714**	**290**
Current tax expense:		
Germany	29	(10)
Foreign	(39)	(36)
	(10)	**(46)**
Deferred tax benefit:		
Germany	40	71
Foreign	–	(3)
	40	**68**
Income tax benefit	**30**	**22**
Effective tax rate	4%	8%

INCOME FROM DISCONTINUED OPERATIONS, NET OF INCOME TAXES

Income from **discontinued operations, net of income taxes,** for the fiscal years 2011 and 2010 comprised the following:

€ in millions	2011	2010
Qimonda	(176)	15
Wireline Communications business	10	93
Wireless mobile phone business	541	240
Income from discontinued operations, net of income taxes	**375**	**348**

Income from discontinued operations, net of income taxes, amounted to €375 million for the 2011 fiscal year. Of this amount, €541 million resulted from the Wireless mobile phone business, including a post-tax gain of €352 million arising from the sale of this business. €189 million result from operations of the Wireless mobile phone business up to the closing of the sale on January 31, 2011 as well as from activities after the sale. The Company gave a commitment to the buyer, Intel/IMC, to sell products and render services to IMC for a limited time period of a few months in order to ensure the transfer of the business.

Income from discontinued operations in the 2011 fiscal year was affected by a post-tax expense of €176 million recorded in conjunction with the insolvency of Qimonda, mainly due to further accruals of provisions for potential risks emanating from Qimonda's insolvency (for further details, see note 38 to the Consolidated Financial Statements).

see also page 234ff.

The Company reported income from discontinued operations in the 2010 fiscal year amounting to €348 million, most of which related to operations of the Wireless mobile phone business, which was reclassified retrospectively to discontinued operations following the announcement of the sale. A post-tax gain of €93 million arising from the sale of the Wireline Communications business to Lantiq was also included.

EARNINGS PER SHARE UP AS RESULT OF IMPROVEMENT IN EARNINGS

As described above, net income for the 2011 fiscal year, at €1,119 million (2010: €660 million), was significantly up on the previous year.

The higher net income resulted in a similarly sharp improvement in **earnings per share.** Compared to basic and diluted earnings per share for the 2010 fiscal year of €0.61 and €0.58, basic and diluted earnings per share for the 2011 fiscal year amounted to €1.03 and €0.98, respectively.

Basic and diluted earnings per share from continuing operations for the 2011 fiscal year amounted to €0.68 and €0.66 respectively, compared to €0.29 and €0.28 one year earlier.

REVIEW OF FINANCIAL CONDITION

€ in millions, except percentages	2011	2010	Change year-on-year
Current assets	3,971	3,590	11%
Thereof: assets classified as held for sale	5	495	– – –
Non-current assets	1,902	1,403	36%
Total assets	**5,873**	**4,993**	**18%**
Current liabilities	2,005	1,808	11%
Thereof: liabilities classified as held for sale	–	177	– – –
Non-current liabilities	513	560	(8%)
Total liabilities	**2,518**	**2,368**	**6%**
Total equity	**3,355**	**2,625**	**28%**
Statement of Financial Position Ratios:			
Return on assets [1]	19%	13%	
Equity ratio [2]	57%	53%	
Return on equity [3]	33%	25%	
Debt-to-equity ratio [4]	9%	15%	
Inventory intensity [5]	9%	10%	
RoCE	62%	30%	

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

TOTAL ASSETS UP BY 18 PERCENT; GROSS CASH POSITION ACCOUNTS FOR 46 PERCENT OF TOTAL ASSETS

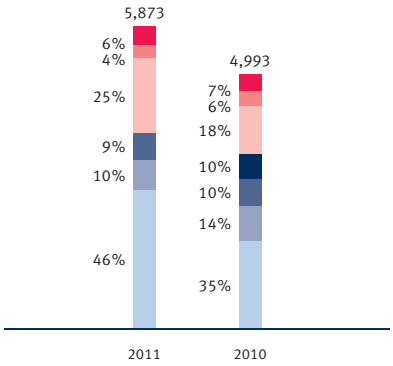
Total assets increased by €880 million or 18 percent from €4,993 million at the end of previous fiscal year to stand at €5,873 million at September 30, 2011. The principal reason for the increase was the €965 million improvement in the gross cash position (sum of cash and cash equivalents and financial investments) at the level of current assets and the investment-driven €505 million increase in property, plant and equipment at the level of non-current assets. At the same time, assets classified as held for sale decreased by €490 million.

Total equity and liabilities increased primarily in the area of current provisions (up by €257 million), mostly reflecting the rise in provisions for Qimonda-related risks. Liabilities classified as held for sale went down by €177 million as a result of the closing of the sale of the Wireless mobile phone business. The dividend, bond repurchases and the issue of put options on own shares all had the effect of reducing equity. Overall, however, equity increased by €730 million during the fiscal year ended September 30, 2011 due to the net income recorded for the period. The reduction in equity caused by the issuance of put options on own shares is matched almost exactly by a corresponding increase in other current financial liabilities.

The improvement in rates of return reflects the fact that net income for the year rose at a more pronounced rate than equity and total assets. Our return on equity rose to 33 percent for the 2011 fiscal year (2010: 25 percent) and the return on assets climbed to 19 percent (2010: 13 percent).

INCREASE IN CURRENT ASSETS DUE TO SALE OF WIRELESS MOBILE PHONE BUSINESS

Assets



€ in millions	2011	2010
Gross cash position	2,692	1,727
Trade and other receivables	593	687
Inventories	507	514
Assets classified as held for sale	5	495
Property, plant and equipment and intangible assets	1,454	925
Deferred tax assets	262	308
Other assets	360	337
	5,873	**4,993**

Overall, **current assets** increased by €381 million from €3,590 million at September 30, 2010 to €3,971 million at September 30, 2011.

The principal reason was the gross cash position, which improved by €965 million, mostly reflecting sales proceeds of €1,020 million in conjunction with the sale of the Wireless mobile phone business. Repurchases of subordinated convertible bonds due 2014, the dividend payments and the exercising of put options on own shares all worked in the opposite direction, reducing the gross cash position by €308 million. Disbursements for property, plant and equipment had a similar effect.

The derecognition of the assets transferred to IMC – reported in the Consolidated Statement of Financial Position at September 30, 2010 as “held for sale” – reduced current assets by €490 million. Other current financial assets also went down by €70 million, primarily due to the exercising of US dollar/euro currency options entered into in order to hedge the sales proceeds from the Wireless mobile phone business on the one hand and to the lower fair values of financial instruments used to hedge currency exposures on operational cash flows on the other. Trade receivables decreased by €94 million despite the increase in revenue, reflecting the fact that at September 30, 2010 this line item still contained receivables relating to the Wireless mobile phone business that were not transferred to IMC as part of the sale. Inventories remained at a similar level in a year-on-year comparison and stood at €507 million and €514 million at September 30, 2011 and 2010, respectively.

HIGH LEVELS OF INVESTMENTS CAUSE NON-CURRENT ASSETS TO RISE

Non-current assets increased overall by €499 million during the year ended September 30, 2011, mainly due to greater investment on property, plant and equipment. Working in the opposite direction, deferred tax assets decreased by €46 million, mainly due to the net effect of deferred tax assets amounting to €82 million being realized in conjunction with the sale of the Wireless mobile phone business on the one hand, and the increase in deferred tax assets following a review of the valuation allowance on deferred tax assets with respect to continuing operations on the other.

QIMONDA-RELATED PROVISIONS INCREASED; LIABILITIES UP BY 6 PERCENT

Current liabilities totalled €2,005 million at September 30, 2011, an increase of €197 million on the €1,808 million reported at September 30, 2010. Provisions went up by €257 million, mainly owing to the €203 million increase in Qimonda-related provisions. Trade and other payables increased by a total of €70 million due to increased business volumes. The issuance of put options on own shares resulted in the requirement to recognize a liability of €143 million (including accrued interest), thus increasing other current financial liabilities to €159 million. The derecognition of liabilities transferred to IMC worked in the opposite direction and reduced liabilities classified as "held for sale" by €177 million.

Non-current liabilities decreased by €47 million to stand at €513 million at September 30, 2011 compared to €560 million one year earlier.

The reduction in short-term and long-term debt and the increase in equity caused the debt-to-equity ratio to drop from 15 percent as of September 30, 2010 to 9 percent as of September 30, 2011.

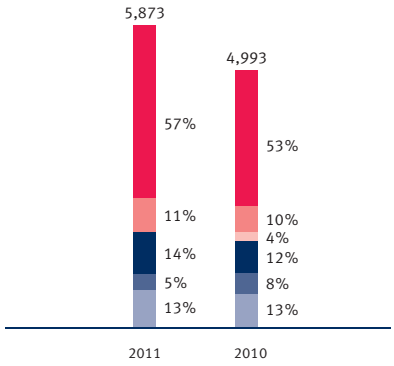
HIGHER EQUITY DESPITE DIVIDEND PAYMENT AND PUT OPTIONS ON OWN SHARES, THANKS TO NET INCOME FOR THE YEAR; EQUITY RATIO UP TO 57 PERCENT

Equity increased by €730 million or 28 percent from €2,625 million at September 30, 2010 to stand at €3,355 million at September 30, 2011. The main reason for the increase was the net income of €1,119 million reported for the year.

The dividend payment reduced equity by €109 million. Additional paid-in capital decreased during the year under report by €95 million in conjunction with repurchases of subordinated convertible bonds due 2014. Conversion rights referring to 25.5 million shares have been re-acquired.

Put options issued during the 2011 fiscal year in conjunction with Infineon's capital return program reduced equity by a total of €160 million, comprising €142 million for the obligation recognized to acquire own shares in connection with outstanding put options and €26 million for put options exercised before September 30, 2011. Option premiums received amounting to €8 million had the effect of increasing equity.

Liabilities and Equity



€ in millions	2011	2010
Trade and other payables	735	665
Debt	305	396
Provisions	836	608
Liabilities classified as held for sale	–	177
Other liabilities	642	522
Equity attributable to shareholders of Infineon Technologies AG	3,355	2,625
	5,873	**4,993**

REVIEW OF LIQUIDITY

CASH FLOW

Cash flows from operating activities are determined using the indirect method, starting from net income for the year. Cash flows from investing and financing activities are both directly determined. Changes in items in the Statement of Financial Position are adjusted for the effects of exchange rate fluctuations and changes in the scope of consolidation. Therefore, they do not conform to the corresponding changes in the respective lines of the Statement of Financial Position.

€ in millions	2011	2010
Net cash provided by operating activities from continuing operations	983	958
Net cash used in investing activities from continuing operations	(2,499)	(355)
Net cash used in financing activities from continuing operations	(352)	(487)
Net increase in cash and cash equivalents from discontinued operations	1,206	136
Net decrease/increase in cash and cash equivalents	**(662)**	**252**

Net cash provided by operating activities from continuing operations at previous year's level

Net cash provided by operating activities from continuing operations amounted to €983 million and was thus €25 million higher than in the previous fiscal year (2010: €958 million). Taking income from continuing operations before depreciation, amortization, interest and income taxes as the starting point (€1,104 million), the principal items reducing net cash provided by operating activities from continuing operations were increases in trade receivables and inventories relating to continuing operations (€122 million in total) and income taxes paid (€60 million). By contrast, the increase in trade payables had a positive effect of €87 million.

Net cash provided by operating activities from continuing operations in the previous year totalling €958 million related primarily to income from continuing operations before depreciation, amortization, interest and income taxes amounting to €699 million. This includes the non-cash portion of the operating loss recorded in conjunction with the deconsolidation of ALTIS (€55 million) and the non-cash-relevant change in provisions (€96 million). Moreover, the figure in the previous fiscal year was positively affected by the lower amount tied up in working capital (in inventories, trade receivables and trade payables) totalling €79 million (net).

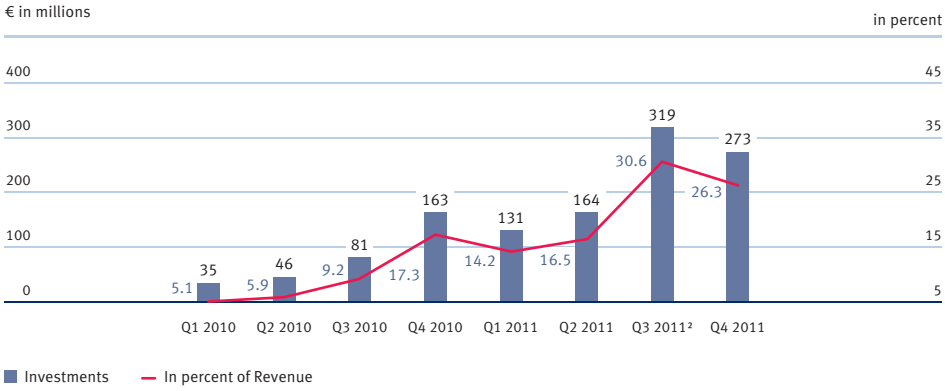
High level of cash used in investing activities from continuing operations driven by substantial investment in property, plant and equipment and financial investments

Net cash used in investing activities from continuing operations totalled €2,499 million in the 2011 fiscal year. Of this amount, €1,622 million (net) related to the purchase of financial investments (primarily money deposits with a maximum term of six months). This did not impact our gross cash position, however, since our definition of gross cash position includes financial investments.

We invested a total of €845 million in property, plant and equipment during the 2011 fiscal year, with the primary focus on expansion of front-end power capacities in Kulim, Malaysia, and in Villach, Austria, for power MOSFETs and IGBTs. In a similar vein, back-end manufacturing capacities were expanded in Malacca, Malaysia, for discrete IGBTs and in Cegléd, Hungary, for IGBT modules. In addition, we purchased real estate and manufacturing facilities from Qimonda in Dresden, Germany, in the third quarter ahead of volume production of semiconductors on 300-millimeter thin wafers.

Net cash used in investing activities from continuing operations totalled €355 million in the 2010 fiscal year, including investments in property, plant and equipment of €292 million. The deconsolidation of ALTIS also involved cash being reduced by €88 million. Net cash inflows from the sale of financial investments amounted to €30 million.

Investments [1]



1 without financial investments

2 Including €91 million of real estate and manufacturing facilities purchased from the insolvency administrator of Qimonda Dresden GmbH & Co. OHG.

Disbursements for repurchases of convertible bonds and shares acquired via put options and dividend payment reflected in net cash used in financing activities from continuing operations

Net cash used in investing activities from continuing operations totalled €352 million in the 2011 fiscal year. Cash was used to repurchase subordinated convertible bonds due 2014 worth €173 million (nominal amount: €59 million) and to pay a dividend to shareholders of €109 million. Other non-current financial liabilities were reduced by €52 million. An amount of €26 million was disbursed for put options exercised on own shares. We received option premiums of €8 million for put options written on own shares.

In the previous fiscal year net cash used in financing activities from continuing operations amounted to €487 million, a large part of which related to repurchases and the full repayment of the subordinated convertible notes due June 2010 and other loan repayments.

Proceeds from sale of Wireless mobile phone business result in sharp rise in cash inflow from discontinued operations

Cash provided by discontinued operations totalled €1,206 million in the year under report and resulted primarily from the cash proceeds received on the sale of the Wireless mobile phone business. The cash inflow from operating activities of discontinued operations amounted to €263 million, most of which related to Wireless mobile phone business operations prior to the sale and post-sale business carried out in agreement with Intel to ensure supplies to customers. Cash outflows in connection with the Qimonda insolvency amounted to €32 million in the 2011 fiscal year. Cash provided by investing activities from discontinued operations totalled €946 million (2010: €147 million), the bulk of which (€1,020 million) resulted from net cash inflows relating to the sale of the Wireless mobile phone business. Investments on the Wireless mobile phone business disbursed prior to the sale amounted to €71 million.

The cash inflow from discontinued operations for the previous fiscal year amounted to €136 million, most of which related to the purchase price (€243 million) received during the first quarter of the 2010 fiscal year for the sale (in November 2009) of the Wireline Communications business. This was partly offset by cash outflows of €108 million, relating to the Qimonda insolvency on the one hand and to the final installment of the settlement agreement with the U.S. Department of Justice (DOJ) on the other.

FREE CASH FLOW

We report the free cash flow figure (defined as net cash provided by operating activities and net cash used in investing activities) after adjusting for cash flows related to the purchase and sale of financial investments. This adjusted figure is a useful additional performance indicator that enables management to assess the Company's liquidity requirements. We believe that the disclosure of free cash flow is also useful for investors since it provides an indication of our ability to generate cash from our operations. Free cash flow serves as an additional performance indicator since we hold part of our liquidity in the form of financial investments and wish to present cash inflow from operations adjusted for the change in financial investments. This does not mean that the free cash flow calculated in this way is available to cover other disbursements since dividend, debt-servicing obligations and other fixed disbursements are not deducted. Free cash flow should not be seen as a replacement or "more valuable" performance indicator, but rather as an additional useful piece of information over and above the disclosure of the cash flow reported in the Consolidated Statement of Cash Flows, over other liquidity performance indicators or over 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	2011	2010
Net cash provided by operating activities from continuing operations	983	958
Net cash used in investing activities from continuing operations	(2,499)	(355)
Purchase of and proceeds from sales of financial investments	1,622	(30)
Free cash flow	**106**	**573**

Investments in property, plant and equipment more than covered by cash flow from operating activities

Free cash flow amounted to €106 million in the 2011 fiscal year, compared to €573 million one year earlier. The reasons for the decrease were higher investments on property, plant and equipment on the one hand and the higher amount tied up in working capital due to increased business volumes on the other.

Free cash flow does not include net outflows of €1,622 million (2010: net inflow of €30 million) for financial investments. These outflows are included in net cash used in investing activities from continuing operations and must therefore be eliminated for the purposes of determining free cash flow.

GROSS CASH POSITION AND NET CASH POSITION

The following table reconciles our gross cash position to our net cash position. Since we hold some of our liquid funds in the form of financial investments, which for IFRS purposes are not considered to be "cash and cash equivalents", we report our gross and net cash positions to provide investors with an understanding of our overall liquidity. The gross and net cash positions are determined as follows from the Consolidated Statement of Financial Position:

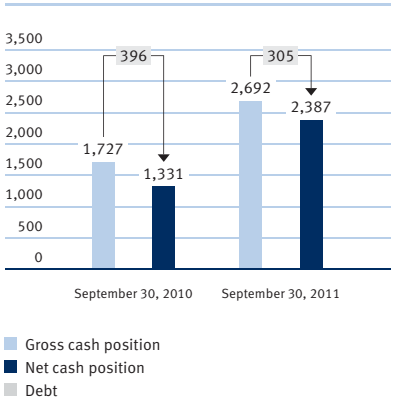
€ in millions	September 30, 2011	September 30, 2010
Cash and cash equivalents	1,007	1,667
Financial investments	1,685	60
Gross cash position	**2,692**	**1,727**
Less:		
Long-term debt	237	263
Short-term debt and current maturities of long-term debt	68	133
Total financial debt	**305**	**396**
Net cash position	**2,387**	**1,331**

Net cash position increased to more than €2 billion due to proceeds from sale of Wireless mobile phone business

Our **gross cash position,** comprising cash and cash equivalents and financial investments, amounted to €2,692 million at September 30, 2011, an increase of €965 million on the position of €1,727 million at September 30, 2010.

Our **net cash position,** which is defined as the gross cash position less short-term and long-term debt, increased accordingly by €1,056 million from €1,331 million at September 30, 2010 to €2,387 million at September 30, 2011. The net cash position does not include the obligation of €143 million (measured at present value and reported as other current financial liabilities) relating to put options to acquire own shares since there is a high degree of uncertainty regarding the amount of options that will actually be exercised.

Debt



TREASURY AND CAPITAL REQUIREMENTS

STRUCTURE AND GUIDELINES OF INFINEON'S TREASURY

Our principal objective for group-wide treasury activities at Infineon is to ensure financial flexibility on the basis of a solid capital structure. It is of prime importance for all companies in the semiconductor industry that sufficient cash funds are available to finance operating activities and planned investments throughout all phases of the business cycle. Furthermore, debt should only constitute a modest proportion of the financing mix. 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 2x EBITDA at most

We are not subject to any statutory or legal capital requirements.

Treasury guidelines and responsibilities

Group-wide treasury guidelines are in place covering all issues relating to liquidity and financing, such as banking policies, execution of financing agreements, liquidity and investment management worldwide, currency and interest rate risk management and handling external and intragroup cash flows. Treasury principles, which apply throughout the Company, are set out in the corresponding "Treasury Policy" and are regularly reviewed and updated. Three levels of responsibility play a key role for treasury activities:

- The Treasury Committee, consisting of the CFO and selected members of senior management, lays down treasury principles for the Group and sets the strategic direction for the management of treasury matters. Any major changes to treasury principles or policy require the approval of the Treasury Committee.

- The Group Finance and Treasury Department is responsible for specific corporate treasury transactions and for ensuring that our treasury principles are implemented worldwide.

- At subsidiary company level, responsibility for treasury matters lies with local managing directors 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 guidelines.

Corporate treasury function

Treasury at Infineon is firmly based on a centralized approach in which the Group Finance and Treasury department is responsible for all significant tasks and processes worldwide relating to financing and treasury matters. Starting point for the treasury function is the creation of a multi-year cash flow and liquidity plan that covers various scenarios. For the purposes of short-term liquidity management at operational level, all consolidated subsidiaries are included in a monthly rolling cash flow forecast. Simultaneously, a cash flow forecast is drawn up on the basis of the operating segments' bottom-up forecasts. Each month, the two forecasts are compared by a "Working Capital Committee" 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 banking accounts set up in accordance with our in-house banking approach, we are also able to reduce the volume of external banking transactions and hence bank fees.

Liquidity accumulated at Group level is managed centrally by the Group Finance and Treasury department and invested in accordance with asset management principles. The Group Finance and Treasury department is also responsible for the efficient management of currency and interest rate risks. These risks are determined on the basis of consolidated cash flow forecasts since only cash flows that are not offset within the Group are hedged externally (for further information see note 37 to the Consolidated Financial Statements).

see also page 230f.

Furthermore, 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 tasks are capable and financially sound financial institutions. The selection of partner banks worldwide is based on the Finance and Treasury department's banking principles. Infineon enjoys good business relationships with various international commercial and investment banks and avoids becoming dependent on individual banks. Partner banks must demonstrate a high level of creditworthiness, in other words their long-term rating must be at least A flat (Standard & Poor's) or its equivalent for other leading rating agencies.

Currency and interest rate hedges and investments in cash equivalents and financial investments are only entered into with financial institutions that have a rating above the minimum level referred to above. Credit Default Swap (CDS) premiums relating to financial institutions with which we do business are monitored on a weekly basis, taking into account various stipulated thresholds. If the financial institution's CDS is below the first threshold, business can be transacted within the defined limit. If the CDS exceeds the first threshold, no new contracts are entered into. If a further threshold is breached, all business arrangements with the financial institution concerned are reviewed and, if necessary, terminated early. The Company has spread its surplus liquidity investments over more than 10 banks. At September 30, 2011 no financial institution was responsible for more than 15 percent of our liquidity investments.

CAPITAL REQUIREMENTS FOR THE 2012 FISCAL YEAR

We require capital for the 2012 fiscal year amongst others to:

- finance our operations,
- finance planned investments,
- make scheduled debt and interest payments,
- make payments for provisions and contingent liabilities as they fall due or arise,
- service our capital return program and
- pay the proposed dividend.

We expect to meet these requirements through:

- cash flows generated from operations,
- available cash funds and our cash reserves in the form of financial investments and
- available credit facilities.

FINANCING OUR OPERATIONS

Based on our forecast for the 2012 fiscal year, we anticipate being able to finance operating activities out of cash flows provided by operating activities. Further information about fixed contractual obligations as of September 30, 2011 (such as leasing arrangements, fixed service and supply agreements for commodities, primary products, electricity, gas and other similar items) is provided in note 39 to the Consolidated Financial Statements.

see also page 238

INVESTMENTS

Semiconductor production is very capital-intensive. After years of investing with restraint, the Company increased investments considerably in the 2011 fiscal year. Depending on market developments and on our own situation we currently plan to keep investments in the 2012 fiscal year on a similar level to the 2011 fiscal year (further details are provided in the "Outlook" section). Firm investment commitments as of on September 30, 2011 totalled €294 million.

see also page 238

DEBT REPAYMENT AND INTEREST PAYMENTS

As of September 30, 2011 the Company's debt totalled €305 million, of which an amount of €68 million falls due for repayment in the 2012 fiscal year. An additional cash requirement of €14 million arises for interest payments in the 2012 fiscal year.

CAPITAL RETURN PROGRAM AND PROPOSED DIVIDEND

In May 2011 we announced that, in addition to repurchasing convertible bonds due 2014 – €107 million up to that stage – Infineon would also use up to €300 million of funds to return capital to shareholders. Capital may be effected through writing put options on Infineon shares, outright repurchases of Infineon shares via the Frankfurt Stock Exchange's Xetra trading system or through repurchases of further portions of Infineons outstanding convertible bonds.

In the period from the beginning of the capital return program up to September 30, 2011, we issued put options with a maximum term of nine months and for a nominal amount of €182 million on own shares. As of September 30, 2011 put options with a nominal value of €144 million remain outstanding. The put options outstanding as of September 30, 2011 correspond to a total of 26 million shares with various fixed exercise prices and require physical delivery of the shares. Options for 4 million shares were exercised during the 2011 fiscal year, leaving a total of 4 million own shares on hand as of September 30, 2011, measured at their repurchase amount of €26 million. Premiums received for the put options issued in the 2011 fiscal year amounted to €8 million. Also since the beginning of the capital return program in May 2011, we have used a further €66 million to reduce the volume of diluted outstanding shares by repurchasing subordinated convertible bonds due 2014. As a result of these various measures, the unused portion of the capital return program as of September 30, 2011 totals €208 million.

We propose to pay a dividend of €0.12 per share for the 2011 fiscal year. Subject to shareholder approval and taking into account the fact that own shares are not entitled to receive a dividend, this would result in a expected distribution of approximately €130 million (2010: €109 million).

PROVISIONS AND CONTINGENT LIABILITIES

We issue guarantees in the normal course of business, primarily for the payment of import duties, rentals of buildings and contingent obligations related to government grants received. As of September 30, 2011, the undiscounted amount of potential future payments for guarantees was €107 million, of which up to a maximum of €13 million could have a cash flow impact in the 2012 fiscal year.

In additions, provisions and contingent liabilities exist for various risks – particularly risks related to Qimonda's insolvency – which are described in detail in note 38 to the Consolidated Financial Statements, and which could result in a further cash outflow.

see also page 232ff.

COVERAGE OF OUR CAPITAL REQUIREMENTS

Our gross cash position as of September 30, 2011 amounted to €2,692 million. We also have access to various stand-alone short- and long-term credit facilities from various financial institutions totalling €241 million.

Free cash flow from continuing operations is likely to be clearly negative in the 2012 fiscal year despite the fact that our business is expected to remain profitable. This development mainly reflects high levels of investments on the one hand and the expected rise in working capital on the other. Discontinued operations are also expected to result in a net cash outflow.

We have also applied for government grants in connection with specified investment projects. There is no assurance, however, that these funds will be approved, either on time or at all. Further information regarding grants received is provided in note 6 to the Consolidated Financial Statements.

see also page 199

Taking into account the financial resources available to the Company – including internal liquidity on hand, net cash that can be generated and available credit facilities – we are confident that we will be able to cover our planned capital requirements for the 2012 fiscal year. The Company is not currently planning any significant financing measures in the coming fiscal year. For this reason, the Company has not taken steps to obtain an official rating from any of the leading ratings agencies.

DERIVATIVE FINANCIAL INSTRUMENTS

Infineon employs derivative financial instruments such as interest swap arrangements, forward currency contracts and option contracts. The objective of these transactions is to reduce the impact of interest rate and exchange rate fluctuations on foreign-currency-denominated net future cash flows. Derivative financial instruments are not used for trading or speculative purposes. Further information about derivative financial instruments and the management of financial risks is provided in notes 36 and 37 to the Consolidated Financial Statements.

see also page 226ff.

OVERALL STATEMENT OF THE MANAGEMENT BOARD WITH RESPECT TO OUR FINANCIAL CONDITION AS OF THE DATE OF THIS REPORT

The 2011 fiscal year was dominated by the following issues:

- Enabling revenue growth
- Rising investments and expansion of capacities
- Sale of the Wireless mobile phone business

In the 2011 fiscal year we successfully continued the upswing that had begun in the 2009 fiscal year, at growth rates that were significantly faster than those seen in the semiconductor market as a whole. During the first three quarters of 2011 fiscal year, we were able to report quarter-on-quarter revenue growth for each of the three periods, in some cases on a double-digit scale. Business volumes levelled off in the fourth quarter, with revenue slightly lower than in the previous three-month period, reflecting the general economic slowdown.

After recording a 51 percent jump in revenue the previous year, we were again able to grow revenue by more than 20 percent in the 2011 fiscal year, partly by gaining market share and certainly helped by the overall improvement in economic conditions.

Innovation and investments give us the opportunity to profit from rising demand for semiconductor products. We believe that the markets we serve (Automobile, Industry and Security Application) will generate greater demand than the remainder of the semiconductor market or compared to average global economic growth. We started an ambitious investment program during the 2011 fiscal year that we are going to continue in the 2012 fiscal year. As well as expanding our production facilities, we also invested in innovative manufacturing technologies such as 300-millimeter thin wafer technology. Such investments and innovations are aimed at meeting rising demand on the one hand and ensuring even greater competitiveness through efficiency and productivity improvements on the other. In this situation, the Company is nevertheless able to match investment volumes to demand to a certain degree, and will do so whenever considered necessary. In any case, investment in 300-millimeter production will be implemented in line with plan.

Moreover, through rigorous portfolio management over the past 18 months we have increased Infineon's focus on more stable growth areas and less volatile business with leading market positions. The closing of the sale of the Wireless mobile phone business to Intel (and the cash proceeds of over €1 billion generated by the deal) completed the process of realigning our business to concentrate on tomorrow's issues of energy efficiency, mobility and security. Infineon enjoys a leading position in the global market in each of the three remaining segments – Automotive, Industrial Power Electronics and Chip Card & Security – and looks forward to corresponding growth and earnings prospects in these markets.

We continue to focus on increasing the value of the business. Through a combination of revenue growth, rigorous cost management and further measures to improve productivity and margins, we achieved a Segment Result Margin of almost 20 percent for the 2011 fiscal year. Rigorous working capital management helped us generate free cash flow of over €100 million, despite the high level of investments.

The 2011 fiscal year was highly successful for Infineon and we exceeded the targets that we had set by a significant margin. Profitability stands at a record level. We have a gross cash position of almost €2.7 billion and an equity ratio of over 50 percent as of September 30, 2011. Our competitive position on the markets relevant for us is excellent. We intend to build on this solid foundation by remaining innovative and continuing to invest in order to achieve long-term and sustainable success for our Company, thereby adding value for our shareholders.

APPLICATION OF ACCOUNTING OPTIONS AND DISCRETIONARY FINANCIAL MEASURES

The description and assessment of the Company's earnings performance and financial condition presented in the Group Management Report is dependent on the underlying recognition and measurement methods applied and the assumptions and estimates used. These are described in detail in notes 2 and 3 to the Consolidated Financial Statements and are, in all material respects, unchanged from the previous year.

see also page 180ff.

Off-balance-sheet arrangements such as the sale of receivables, sale-and-lease-back transactions and non-consolidated special-purpose entities were not undertaken during the fiscal years 2011 and 2010.

INFINEON TECHNOLOGIES AG

Infineon Technologies AG is the parent company of the Infineon Group and performs the Group's management and corporate functions. It takes on major group-wide responsibilities such as Finance and Accounting, Human Resources, strategic and product-oriented Research and Development activities and also worldwide Corporate and Marketing Communication. Furthermore, it manages logistical processes throughout the Group. Infineon Technologies AG has its own production facilities, located in Regensburg and Warstein. Since Infineon Technologies AG conducts most of the transactions with derivative financial instruments on behalf of the Infineon Group, the same terms and conditions for both derivative financial instruments and covered risks are valid not only for Infineon Technologies AG but for the entire Infineon Group.

The risks and opportunities as well as the future developments of Infineon Technologies AG are, to a large extent, the same as those defined for the Infineon Group, as further described in the Risk Report and Outlook sections.

Infineon Technologies AG prepares its separate financial statements in accordance with the requirements of the German Commercial Code ("HGB"). A complete set of financial statements in accordance with HGB are published separately. The requirements of the German Accounting Law Modernization Act (BilMoG) were applied by Infineon Technologies AG for the first time in the 2011 fiscal year. Prior year figures were not restated. First time adoption of the BilMoG requirements as of October 1, 2010 had an impact on extraordinary items in the statement of operations and on retained earnings in the statement of financial position.

Statement of Operations[1] (condensed)

€ in millions	2011	2010
Revenue	6,055	5,685
Cost of goods sold	(4,791)	(4,653)
Gross profit	**1,264**	**1,032**
Operating expenses	(847)	(961)
Result from investments, net	16	212
Other income (expense), net	352	(19)
Income before tax	**785**	**264**
Income tax expense	(29)	(29)
Net income	**756**	**235**
Accumulated deficit brought forward	–	(6,014)
Transfers from capital reserves	–	5,888
Transfer to retained earnings	(378)	–
Unappropriated profit at the end of year	**378**	**109**

1 Prepared in accordance with German GAAP (HGB).

Infineon Technologies AG reports net income of €756 million for the 2011 fiscal year. After transfer of €378 million to retained earnings, the unappropriated profit at the end of the year amounted to €378 million.

Infineon Technologies AG's net income for the 2011 fiscal year was positively influenced by the gain of €649 million recognized on the sale of the Wireless mobile phone business. Expenses recognized in conjunction with the insolvency of Qimonda AG and Qimonda Dresden GmbH & Co. OHG (€195 million) had a negative impact on earnings. Infineon Technologies AG recorded sharp rises in revenue (6.5 percent) and gross profit (22.5 percent) for the 2011 fiscal year.

Earnings in the 2010 fiscal year benefited from the effects of the general economic and the concurrent growth of the global semiconductor market.

Statement of Financial Position[1] (condensed)

€ in millions	2011	2010
Tangible and intangible fixed assets	433	658
Investments	2,902	3,040
Non-current assets	**3,335**	**3,698**
Inventories	227	351
Receivables and other assets	661	751
Cash and securities	2,332	1,664
Current assets	**3,220**	**2,766**
Total assets	**6,555**	**6,464**
Shareholders' equity	4,131	3,442
Provisions	1,066	1,062
Payables and other liabilities	1,358	1,960
Total liabilities and shareholders' equity	**6,555**	**6,464**

1 Prepared in accordance with German GAAP (HGB).

Infineon Technologies AG's financial position was primarily impacted on the assets side by an increase in cash and securities (€668 million) attributable to the sale of the Wireless mobile phone business, and on the equity/liabilities side by a decrease in payables and other liabilities (€602 million).

Investments decreased by €138 million in the 2011 fiscal year, mainly reflecting a capital repayment from Infineon Technologies Holding B.V., Rotterdam, the Netherlands (€260 million).

Provisions were increased on the one hand by further accruals of provisions relating to the insolvency of Qimonda AG and Qimonda Dresden GmbH & Co. OHG (€195 million) and decreased by reductions in tax provisions (€53 million), pension provisions (€59 million), personnel-related provisions (€30 million) and warranty provisions (€30 million). The sharp drop in pension provisions was attributable to an increase in the discount rate used from 4.33 percent in the previous fiscal year to 5.13 percent in the 2011 fiscal year.

Payables and other liabilities went down by €602 million during the 2011 fiscal year, mainly owing to a €517 million decrease in payables to affiliated companies.

The equity ratio at September 30, 2011 was 63 percent (September 30, 2010: 53 percent).

DIVIDEND

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

Infineon Technologies AG reports unappropriated profit of €378 million in its financial statements for the fiscal year ended September 30, 2011. A cash dividend of €0.12 per share for the 2011 fiscal year will be proposed at the Annual General Meeting. The proposed dividend is subject to approval by shareholders.

The Company paid a dividend of €0.10 per share for the 2010 fiscal year, resulting in a total distribution of €109 million.

SIGNIFICANT EVENTS AFTER THE END OF THE REPORTING PERIOD

On October 27, 2011 the Supervisory Board of Infineon Technologies AG appointed Arunjai Mittal with effect from January 1, 2012 as the fourth member of the Management Board. In his role as member of the Management Board he will be responsible for the Regions, Sales, Marketing, Strategy Development and Mergers & Acquisitions (M&A) and, accordingly, for drawing up and agreeing possible strategy options. Peter Bauer, as Chief Executive Officer of Infineon Technologies AG, is and remains responsible for the overall strategy of the Company and its segments.

On October 27, 2011 the Supervisory Board decided, also with effect from January 1, 2012, to split the Industrial & Multimarket segment into two business units, namely Industrial Power Control and Power Management & Multimarket. Industrial Power Control will concentrate on businesses in the field of drive electronics and renewables, whereas Power Management & Multimarket will focus on business with chips used in the field of energy-efficient power supplies and high-frequency applications (mainly used in consumer goods such as television sets, games consoles, PCs and mobile devices as well as in computer servers). This move reflects our aim to make better use of opportunities by taking a more application-oriented approach.

In 2009 the insolvency administrator of Qimonda AG filed an application to the US Bankruptcy Court in Virginia requesting declaration that the rights of use associated with Qimonda's US patents are not covered by the protection provisions 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 have appealed against this application (for further information see note 38 to the Consolidated Financial Statements). On October 28, 2011 the US Bankruptcy Court in Virginia dismissed the application from the insolvency administrator. The court decision does not have any impact on the level of provisions recognized in conjunction with the insolvency of Qimonda. On November 11, 2011, the administrator appealed against the decision of the U.S. Bankruptcy Court.

see also page 235

CIF Licensing LLC ("CIF"), a General Electric group entity, has also filed various suits against Infineon and other parties in the period since October 2007. The complaints relate to allegations with respect to Infineon's Wireline Communications business, which has been sold in the meantime and is now part of the Lantiq group. Infineon and other respondents filed an application to the German Federal Patent Court in Munich for the four patents-in-suit to be annulled. Following the ruling of the German Federal Patent Court to annul two of the patents-in-suit, the parties reached a settlement agreement in October 2011. Under the terms of the settlement, all parties involved in the proceedings are retrospectively permitted to use the patents without having to pay any financial compensation (for further information see note 38 to the Consolidated Financial statements). The court ruling does not have any impact on the Consolidated Financial Statements.

see also page 233

REPORT ON EXPECTED DEVELOPMENTS, TOGETHER WITH ASSOCIATED MATERIAL RISKS AND OPPORTUNITIES

RISK AND OPPORTUNITY REPORT

INTRODUCTION

The semiconductor business is characterized to a very high degree by periods of rapid growth followed by periods of significant market contraction. Such periods of contraction are characterized by surplus capacity, increasing order cancellations and price erosion and as a consequence decreasing revenue.

Our risks and opportunities are complemented by the need for investments in order to achieve and sustain market leadership as well as the sector's extraordinarily rapid pace of technological change. The competition for leading edge innovation also has a legal dimension. In this environment we reduce our business risks and exploit the opportunities that present themselves. The effective management of risks and opportunities is therefore one of our most important success factors. It is integrated in all of our business activities and supports our goal of achieving sustainable, profitable growth.

ANALYSIS OF RISK AND OPPORTUNITIES: MACROECONOMIC SITUATION

The dependence of our own worldwide business success on the global macroeconomic and fiscal policy situation was already clear a long time prior to the economic and financial crisis. Our business risks can be exacerbated by short-term volatile market behavior, an economic downturn, ongoing or even growing instability on the euro financial markets and resulting euro/US dollar exchange rate fluctuations, a delayed transition from state to private consumer demand in the USA (i.e. a continuation of the weak economic recovery seen in the USA) or by social factors, such as the recent unrest in oil-exporting countries, the threat of nationalization, or expropriation of assets.

Since 2010, global economic developments have been accompanied by remarkably high levels of investment in our sector. On the one hand these sector-wide investments provide an opportunity to profit from growing demand for semiconductor products. Simultaneously, however, they raise the spectre of overcapacity in the semiconductor segment and the resulting idle cost. We believe that the markets we serve – the automotive, industry and safety applications markets – will generate greater demand than the rest of the semiconductor market and grow at a faster average rate than the global economy. This assumption is underpinned by numerous long-term customer relationships and a well-balanced customer base.

Our flexible approach to investments enables us to keep planned investment in line with new requirements and changing market circumstances, thus optimizing the returns generated and justifying the risks taken.

ANALYSIS AND EFFECTS ON THE RISK AND OPPORTUNITY MANAGEMENT SYSTEM: RISK MANAGEMENT HAS GAINED IN SIGNIFICANCE

As a result of the uncertainties and interdependencies within global markets depicted above, investors and financial markets have a far greater expectation that risks and opportunities are communicated transparently and comprehensively. With this in mind, our corporate risk management continued to analyze and enhance the Company's risk management system in order to ensure the ongoing effectiveness of our Risk and Opportunity Management System and counteract any possible threat to the existence of the Company.

FINANCIAL REPORTING-RELATED RISK AND OPPORTUNITY MANAGEMENT SYSTEM AND INTERNAL CONTROL SYSTEM: WELL-ESTABLISHED PROCESS WITHIN THE PLANNING CYCLE

Risk and Opportunity Management System

The Risk and Opportunity Management System (RMS) and the Internal Control System (ICS) at Infineon are part of the overall planning, management and reporting process in all relevant legal entities, divisions and corporate functions. Both systems are based on the International Risk Management Standard COSO II (Committee of Sponsoring Organizations of the Treadway Commission).

The Company's RMS system is based on a risk policy that defines risk as the negative deviation from the financial forecast. The system therefore goes well beyond the detection of developments that endanger our Company's future. It also involves identifying risks and opportunities at an early stage and minimizing risk exposures (which are not matched by corresponding opportunities) within the framework of all available options. At the same time, increasing the transparency of risks also enhances the systematic and continual process of raising business value.

A key element of the RMS is the underlying risk management process, which consists of risk identification, risk analysis, risk steering and risk monitoring. The systematic implementation of the risk management process improves our planning forecast accuracy, enhances transparency in decisions under uncertain basic conditions and raises overall risk awareness.

The all-encompassing risk reporting approach uses a risk and opportunity catalog, which is checked for completeness and the content of which is assessed once a year. In addition, both internal and external indicators are updated and taken into consideration in order to detect signs of risk or opportunity and signals of weakness at an early stage.

The quarterly risk and opportunity identification and assessments are based on estimates of the impact on net income and the corresponding probability of a risk event. Additionally, risk mitigation measures are also defined from a financial reporting point of view and the related implementation status is managed and documented.

All risks and opportunities above a defined threshold are rated as important and have to be reported in the quarterly risk report. In addition, individually defined threshold values are set for the various organizational units which, in turn, enable risks to be recognized at an early stage and aggregated comprehensively at corporate level.

The prerequisite for an effective risk and opportunity management system is a standardized method of measurement. In this context, we have taken a selection of necessary and adequate assessment criteria into account. The financial impact of a risk is documented in terms of the potential influence on Group net income (after implementation of risk-minimizing measures) including the probability of the risk occurring and the product of the two – the so-called "expected loss" amount. In order to gain a complete picture of each individual risk for measurement and control purposes, recognized provisions and approved forecast figures are also recorded in the system and presented for quarterly reporting purposes. In order to assess risks for which the expected loss cannot be measured, qualitative risks are also reported to Corporate Risk Management (CRM). In addition to the regular risk reporting procedures, there is also an internal requirement to report on significant unexpected risks.

CRM reports material risks and any which could endanger the Company's existence to the Management Board and to the Supervisory Board.

The Risk Management Organization (RMO) comprises the CRM, which is assigned to the central finance department, and the Chief Financial Officer (CFO), and so-called Risk Officers who are responsible for implementing the risk management process in the Company's various organizational units. One of the prime duties of Risk Officers is to record, measure and document major risks and opportunities. Risk Officers represent the link to CRM, which is responsible primarily for the process itself, for the further development of that process and for the methods used to implement the process as well as for the presentation of risks and opportunities at a Group level.

Important information relevant for CRM is available to all employees via our intranet system, including RMS guidelines, details of the duties of CRM and Risk Officers as well as all necessary data pertaining to reporting.

The Company's risk management system enables the Management Board and other managers to detect risks at an early stage and to initiate countermeasures. Risks from operational business are discussed between the responsible persons and the Management Board on a regular basis, while corporate risks are presented to the Board by CRM itself. The effectiveness of the risk management system is monitored by the Investment, Finance and Audit Committee of the Supervisory Board.

Internal Audit controls in addition the compliance with legal requirements and company rules with selected audits and initiates appropriate measures if required.

As part of the year-end audit, the independent auditor examines the Company's system for the early identification of risks pursuant to section 91 of the German Stock Corporation Act (Aktiengesetz – "AktG") to ascertain its fundamental suitability to detect risks at an early stage that could pose a threat to the Company's existence and reports to the CFO and the Investment, Finance and Audit Committee of the Supervisory Board. It is not the responsibility of the independent auditor to examine the effectiveness of the Company's system for the early identification of risks.

Internal Control System

The principal focus of the Internal Control System (ICS) is on the financial reporting process with the aim of monitoring the proper maintenance and effectiveness of the Company's accounting system and financial reporting. The primary objective of the ICS is to minimize the risk of misstatement in Company'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 Company to ensure such compliance. Clear lines of responsibility are assigned to each of the processes.

The Internal Control System at Infineon continues to be based primarily on the Security Exchange Commission (SEC) requirements under Section 404 of the Sarbanes-Oxley Act. This system of controls, which is an integral part of the accounting process in all relevant legal entities and corporate functions, also ensures the required degree of effectiveness stipulated by German law (BilMoG). The Internal Control System controls the principles and procedures based on preventive and detective controls. Among other things, we regularly check that:

- the Group's uniform financial reporting 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;

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

We systematically assess the effectiveness of the Internal Control System with regard to the corporate accounting process. An annual risk analysis is initially performed and the defined controls are revised. This involves identifying and updating significant risks relating to accounting and financial reporting in the relevant legal entities and corporate functions. The controls defined for the identification of risks are documented in accordance with Group-wide guidelines. Regular random tests are performed to assess the effectiveness of the controls. These tests constitute the basis for the self-assessment of the appropriate extent and the effectiveness of the controls. The results of this self-assessment are documented and reported in a global IT system. Identified deficiencies are remedied with due consideration being given to their potential effects.

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 Position.

Assessment of effectiveness

At the end of the annual cycle, the material legal entities review and confirm the effectiveness of the Internal Control System 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 significant control deficiencies and the effectiveness of the internal controls.

The Risk Management and Internal Control Systems are continuously reviewed to comply with internal and external requirements – for example the requirements defined by BilMoG. The improvement of the Internal Control System supports the continuous monitoring of the relevant risk areas including the responsible organizational units.

AREAS OF RISK

A variety of risks, particular those of a financial nature, which are described below, can also be seen as opportunities if they develop positively:

Industry and market risks: risk management within volatile industries and markets

The worldwide semiconductor market is highly volatile. Therefore, we face risks with respect to rapid market change in our target markets.

In addition to volume risks, price pressure and associated risks affect many of our businesses.

The quick pace of technological change can, for example through delays in the introduction of new products, lead to a significant decline of our business and sometimes lead to loss of customer relationships.

Some of our products are purchased by a limited number of customers. This increases our dependence on the success of our customers in their respective markets. We react to such developments by constantly seeking to widen our customer base and have already achieved measurable success with this strategy in the past.

Conversely, we are exclusive supplier to our customers for many products. The ability of our customers to manufacture at the planned scale therefore also often depends on our ability to deliver. Failure to supply committed volumes may expose us to liability risks. Furthermore, there is a risk of losing future business and design wins if we are unable to deliver volumes above our contractual obligations if called upon by the customer. We therefore face the challenge, in the case of unexpectedly high demand, of having to deliver increased volumes, requiring an appropriate level of upfront investments. On the other hand, when demand weakens there is a risk of incurring significant idle cost.

As a globally operating company, our business is highly dependent on global economic developments. A worldwide economic downturn – particularly in the markets we serve – may result in lower revenues than originally expected. Risks can also arise due to political and social changes in countries where we operate. Our global structure and the broad diversification within our product portfolio help to mitigate the overall risk of such regional crises.

Qimonda: risks related to Qimonda's insolvency

Due to the insolvency proceedings relating to Qimonda, we are exposed to a substantial amount of potential liabilities, which are described in detail in note 38 to the Consolidated Financial Statements.

see also page 234ff.

As of September 30, 2011 we recorded liabilities and provisions in connection with these matters. The provisions reflect the amount of those liabilities that management believes are probable and can be estimated with reasonable accuracy at that time. There can be no assurance that such provisions recorded will be sufficient to cover all liabilities that may ultimately be incurred in relation to these matters.

Management risks: risks especially associated with the sale of businesses, with acquisitions and cooperation agreements

In order to develop or expand our business we may seek to acquire other businesses or to sell business segments or enter into different forms of cooperation arrangements. These ventures could prove to be unsuccessful in the case of acquisitions, particularly in terms of the integration of people and products in existing business structures, and, in the case of sales/spin-offs give rise to residual costs or hurdles through adapting to the company structure.

Operational risks: manufacturing is key in terms of economic success

Substantial business-related risks in the semiconductor industry are those of delay, low yields, or substantial yield fluctuations in connection with the ramp-up of new technologies. We endeavor to mitigate this risk by continuously improving project management and closely monitoring the selected business processes.

We mitigate the risks caused by volume fluctuations, potential production interruptions and corresponding idle capacity costs by using flexible production management in terms of technology development and product shifts between our production sites.

At product level, the time span between testing, evaluation, customer acceptance and ultimate series production can be several months or even in excess of one year. Due to the length of this cycle, significant time delays can occur between the incurrence of expenditure for R&D and marketing activities and the build-up of inventories on the one hand and the recognition of revenue on the other.

We are exposed to commodity price risks with respect to certain materials used in manufacturing, including dependence on rare earth elements required for selected individual processes as part of process integration. We seek to minimize these risks through our sourcing policies and operating procedures, such as constant product and cost analysis, or specific optimization programs ("Best Cost Country Sourcing", "Focus-on-Value"). These programs consist of cross-functional expert teams responsible for the standardization of purchasing processes with respect to material and equipment.

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. We therefore face the risk of delays in delivery or quality issues.

Product quality assurance is a key success factor for the Company. Potential quality risks – for example due to the high production workload – can affect yield fluctuations, our ability to deliver and even lead to product call-backs of our customers, all of which could entail costs in conjunction with liability claims. In addition, quality risks could damage the Company's image and thus have to a great extent a negative impact on future business.

In order to address quality risks in our products, we have established specific quality management strategies such as "Zero Defects" and "Six Sigma" to prevent or solve problems, and to improve our business processes. Our quality management system has been certified on a worldwide basis in accordance with ISO 9001 and ISO/TS 16949 for a number of years and encompasses supplier development as well.

Our South East Asian manufacturing sites are of critical importance for production. If, for example, due to political upheavals or natural catastrophes in the region, we were no longer able to manufacture at these sites on the planned scale or were unable to export products manufactured at those sites, the contribution margins lost would have a material negative impact on the Company's earnings and financial condition. Our current production capacities in this region are not insured against political risks such as expropriation of assets. The transfer of the production from these sites would therefore not only involve a great deal of time and technical effort. Infineon would also be required to bear the necessary cost of investment on its own.

Finance and currency risks: hedging against market fluctuations

Due to the cyclical nature of our business and the need to maintain high operational flexibility, our liquid financial assets are kept at a comparatively high level. These assets are primarily invested in short-term interest rate instruments. The risk of changing interest rates affecting these assets is partially offset by financial liabilities, some of which are based on variable interest rates. Interest rate derivatives are used to reduce the risk caused by any net gap between interest-bearing financial assets and liabilities.

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 major portion of our sales revenue as well as costs for production, selling, administrative and R&D arise in US dollars. Exchange rate fluctuations against the euro may have substantial effects on revenue, costs and earnings.

In general, our policy with respect to limiting short-term foreign currency exposure is to economically hedge at least 75 percent of our estimated net exposure for the initial two-month period, at least 50 percent of our estimated net exposure for the third month and, depending on the nature of the underlying transactions, a portion for the periods thereafter. Part of our foreign currency exposure cannot be mitigated due to differences between actual and forecasted amounts. We calculate this net exposure on a cash flow basis considering actual orders received or made and all other planned income and expenses.

Further information regarding the management of financial risks is provided in note 37 to the Consolidated Financial Statements.

see also page 230ff.

Information technology risks: increasing dependence on IT systems in all processes

Like other global technology companies, we rely heavily on the reliability and security of IT systems and are increasingly dependent on IT systems used to support business processes and handle internal and external communications.

Despite implemented technical precautions, any significant disruption of these systems may result in loss of data and/or impairment of production and business processes.

All critical IT systems are hosted on high-availability servers with redundancies in various data centers in order to minimize or eliminate the impact of hardware failure. Redundant network connections from numerous suppliers help reduce or eliminate the risk of losing connectivity between our sites. Constant automated monitoring of the IT infrastructure allows us to react quickly to any incidents that may arise.

Special precautions have been taken to address the risk of virus attacks, especially to manufacturing supporting IT equipment. The most sensitive data is additionally stored and processed in entirely isolated networks.

Human resource risks: need for qualified staff

One of our key success factors is to obtain and retain the required number of qualified employees. However, we are exposed to the general risks associated with employee turnover. Therefore, it is important to offer attractive working conditions in order to hire the desired employees and to keep them through motivational leadership.

The instruments we use for personal development and qualification help to ensure that we meet our present and future personnel requirements. We continuously use dedicated training programs to foster and broaden technical and personal skills. These programs are supplemented by offering attractive reward and incentive plans as well as long-term career opportunities and planning.

Legal risks: we may incur substantial costs in defending against legal claims

Like other companies in the semiconductor industry, we are exposed to the risk of patent claims, claims relating to alleged defective or faulty products, and those relating to the alleged infringement of statutory duties. Regardless of the outcome of these claims, we may incur substantial cost in the process of defending ourselves and may incur claims for damages. We defend ourselves vigorously in such matters with the support of both in-house and external experts. Further information is provided in note 38 to the Consolidated Financial Statements.

see also page 232ff.

In the area of intellectual property, we benefit from various cross-license agreements with other companies. We aim to increase the number and scope of such cross-license agreements with leading competitors in order to reduce the risk of claims related to patent infringement. However, no such opportunities exist to safeguard against risks of this nature in the case of companies specializing in marketing patent rights.

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

Our global business strategy calls for maintaining R&D locations and manufacturing sites in various countries around the world in order to enhance our cost competitiveness, overcome market entry hurdles or exploit opportunities related to technology development. Risks could therefore develop based upon negative 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 use insurance policies to cover specific risks of liability or losses impacting our results of operations, financial condition and cash flow.

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 threaten the existence of our Company.

OPPORTUNITIES: COMPETITIVE ADVANTAGES BY INVESTING IN SELECTED GROUNDBREAKING INNOVATIONS

The Opportunity Management System – as part of the Risk and Opportunity Management System at Infineon – is part of the overall (financial oriented) planning, management and reporting process.

Direct responsibility for the early and regular identification, analysis and management of opportunities rests with the operational management of the operating segments and the heads of the central functions.

A variety of risks, which we described in the preceding section, can also be seen as opportunities when developing positively and for that reason are not listed again here.

In order to safeguard our competitive advantages we regard new and further development of our product portfolio and continued productivity improvement at product and product-line level through the use of innovative technological solutions as an essential opportunity to improve operational profitability on a sustainable basis.

As a good example, additional growth can be generated in the Industrial & Multimarket segment, in particular in that segment's high-performance semiconductor business. This could arise from increased demand especially in the fields of energy production (trend towards alternative sources of energy), energy transmission (Smart Grid) and the drive for greater energy efficiency, including government regulations in all market segments.

In the Automotive segment, growth could exceed our expectations or historical volumes. This prospect is underpinned by the continuing rise in vehicle production volumes, the growing semiconductor content per vehicle – especially in the premium segment – and the rapidly growing demand for high-performance semiconductors for hybrid and electric cars. The value of semiconductors per vehicle in hybrid and electric cars is double or more than the amount built into vehicles with conventional combustion engines.

In the Chip Card & Security segment, growth opportunities could arise from the worldwide introduction of electronic ID documents and migration towards electronic tickets in transport systems. In the area of "New Businesses", the successful market launches of NFC, TPM, eCall and M2M could lead to further increasing growth rates.

In the case of an acquisition we could realize a significant revenue increase, while a spin-off of one of our businesses would increase our cash position.

For a detailed description of opportunities we also refer to the section "Growth and Profitability – Review and Outlook" and the section "Outlook" below.

see also page 18ff.

OUTLOOK

IMPORTANT PLANNING PREMISES

Planning for the 2012 fiscal year is based on an assumed average exchange rate for the US dollar against the euro of 1.40. Following the sale of the Wireless mobile phone and Wireline Communications businesses, the gap between the shares of revenue and costs denominated in US dollar or in currencies correlated with the US dollar has drawn nearer and, thus the Company's currency risk has been reduced substantially. Excluding the effect of currency hedging instruments, the impact of a deviation of the actual exchange rate of the US dollar against the euro would be a change in Segment Result of approximately €1 million per quarter (approximately €4 million per year) for every cent that the euro/US dollar exchange rate deviates from the assumed rate. The impact on revenue is greater: revenue changes by between €3 million and €4 million per quarter (between €12 million and €16 million per fiscal year) for every cent by which the actual exchange rate deviates from the assumed rate.

PROSPECTS FOR GLOBAL ECONOMIC GROWTH CLOUDED

The prospects for economic growth have clouded significantly since summer 2011 compared to the first half of the year. The International Monetary Fund (IMF) predicts a rise in global gross domestic product (GDP) of 3.2 percent in 2012, compared to one of 3.0 percent in 2011. These predictions are in both cases 0.5 percent lower than those made in the spring. Experts are forecasting a drop in GDP growth in the eurozone from 1.6 percent in 2011 to 1.1 percent in 2012. Economic recovery also continues to be sluggish in the USA. The IMF predicts a GDP growth rate of 1.5 percent for 2011, increasing to 1.8 in 2012. The earthquake in Japan on March 11, 2011 caused industrial production to collapse, mainly as a result of disrupted supply chains. The IMF forecasts that, following a drop of 0.5 percent in GDP in 2011, the Japanese economy will pick up in 2012 and grow by 2.3 percent. After expanding by 8.2 percent in 2011, the emerging economies of Asia should continue to grow at a vigorous rate of 8.0 percent in 2012. The IMF's prediction for Latin America is growth of 4.0 percent in 2012, compared to 4.5 percent in 2011.

The risks for the global economy have increased considerably over the course of 2011. However, in fall 2011 the IMF is still of the opinion that there will not be a return to recession. This forecast is based upon the premise that the unrest on financial markets does not escalate. The USA and Europe are particularly susceptible to adverse shocks, including the escalation of the sovereign debt crisis and a further slowdown of the US economy. Experts agree that if the eurozone and/or the USA were to go into recession, the entire global economy would suffer.

For the years beyond 2012, the IMF expects the global economic growth rate to increase. Economic performance in the USA and Europe should begin to pick up again during the second half of 2012. The fastest growth rates are again likely to be recorded by Asia's emerging economies in 2013, in particular as a result of rapid economic growth in China and India. The economies of Latin America are expected to expand slightly more moderately, but nevertheless at above-average rates.

HIGHER GROWTH POTENTIAL IN 2012 FOR MARKET SEGMENTS ADDRESSED BY INFINEON THAN FOR SEMICONDUCTOR MARKET AS A WHOLE

The semiconductor market as a whole is now forecast to grow only slightly in the calendar 2012 at a low single-digit rate. The market research company IHS iSuppli forecasts growth of only 3 percent on a US dollar basis in the calendar year 2012, following an estimated growth rate for the 2011 calendar year of also only 3 percent. The low growth rate reflects worsening prospects for the global economy. The global semiconductor market includes products that Infineon does not supply, or has not supplied for several years. For this reason the following description of market developments does not include microprocessors or memory chips. Leaving out these products allows the market to be depicted on a basis more relevant for the Company. According to IHS iSuppli, the semiconductor market addressed by Infineon (i.e. the whole market excluding microprocessors and memory chips) will grow at a rate of 5 percent in 2012 and hence slightly faster than the market as a whole. Market volume is likely to be in the region of US$216 billion. From 2012 onwards this growth is expected to accelerate, driven primarily by the anticipated expansion of the global economy.

The Company's target segments are also likely to expand over the coming years. IHS iSuppli predicts growth of 9 percent in the automotive semiconductor market in 2012. The BRIC countries – Brazil, Russia, India and China – will continue to be the main drivers of automobile sales volume growth. A marked recovery is expected in Japan in 2012 following the collapse in the automobile market after the earthquake. In October 2011 IHS iSuppli predicted that automobile production will increase by approximately 7 percent in 2012 in total to 80.3 million vehicles. The growing semiconductor content per vehicle is also conducive to revenue growth. According to IHS iSuppli, the automotive semiconductor market will continue to expand beyond 2012, albeit at a slower rate than that predicted for 2012.

Growth in our second market segment – the industrial and multimarket semiconductor market – is largely influenced by developments relating to renewable energy and efforts to reduce electricity consumption. At the beginning of 2011 almost one hundred countries set national targets for renewable energy sources. Among other things, these targets specify which proportion of electricity should be generated by renewable energy sources. This figure usually lies between 10 and 30 percent, although the full range is between 2 and 100 percent. At least 95 countries have instruments, regulations and measures in place to promote electricity generation from renewable sources in order to achieve these targets. Such "green" incentive programs are likely to push up demand for semiconductors, particularly power semiconductors, for many years. IMS Research estimates that the worldwide market for power semiconductors will grow by approximately 7 percent in 2012. IHS iSuppli forecasts growth of only 3 percent in 2012 for the industrial semiconductor market as a whole. Beyond 2012, IMS Research forecasts further strong growth for power semiconductors at rates slightly higher than those of 2012.

IHS iSuppli predicts growth of approximately 2 percent in the chip card semiconductor market in 2012. Growth drivers in this market include electronic identity documents and health cards. New applications such as Near Field Communication (NFC) are also expected to boost growth. NFC enables payments to be made via mobile telephone. In 2012, the number of NFC-compatible mobile telephones – which can be safeguarded with an embedded secure element – could triple from 38 million to 116 million.

INFINEON GROUP EXPECTS REVENUE TO DECREASE IN THE 2012 FISCAL YEAR BY MID-SINGLE-DIGIT PERCENTAGE RATE COMPARED TO THE 2011 FISCAL YEAR

The prospects for global economic growth in the 2012 fiscal year have clouded compared to conditions prevailing during the past year. The most optimistic forecast at present is a growth rate of 3.2 percent. At the other end of the spectrum, however, there can be no assurance that the global economy will not end up in recession.

Based on the assumption that no dramatic change will occur in the situation on financial markets or with respect to public-sector debt levels that could push the global economy into recession, Infineon forecasts that Group revenue will decrease in the 2012 fiscal year by a mid-single-digit percentage rate compared to the 2011 fiscal year. Given the discrepancy between the Company's predictions and those of market researchers, it cannot be ruled out that the current worsening of prospects for the various segments of the semiconductor industry has not yet been fully factored into the latest market research forecasts.

Automotive segment revenue is expected to perform better than the Group average for the whole of the Infineon Group. By contrast, revenues of the Industrial & Multimarket and Chip Card & Security segments are expected to develop at a pace slightly lower than the group average. Revenue generated by Other Operating Segments will decrease by some 40 percent in the 2012 fiscal year compared to the €216 million recorded in the previous fiscal year, mainly reflecting the planned reduction in volumes to be supplied to Lantiq.

Assuming that economic conditions remain stable, Infineon anticipates that demand will pick up again during the 2013 fiscal year. At that stage, it should be possible to achieve revenue growth of 10 percent or more.

GROSS MARGIN BELOW 40 PERCENT EXPECTED

The level of gross margin achieved by Infineon depends on the utilization of production capacities over the year. Based on the assumption that selling prices decrease on average by some 5 percent per annum, it would be necessary – even for the Company's current outlook for revenue – to keep production volumes at least stable compared to the 2011 fiscal year. A further factor to consider is the Company's plan to increase inventory levels in the coming fiscal year compared to September 30, 2011. Overall, capacity utilization, although still high, is likely to be slightly lower in the 2012 fiscal year. Production ramp-up for 300-millimeter wafers will no doubt give rise to some additional costs. Given the current high level of investments, there will also be a rise in the ratio of depreciation to revenue. Last but not least, falling selling prices typical for the Industry in which we operate are likely to have a negative impact on gross margin. By contrast, productivity improvements and steering the sales mix towards products with higher margins will benefit the gross margin. Taking all these factors into account, Infineon forecasts that the gross margin will drop from 41.4 percent in the 2011 fiscal year to below 40 percent in the 2012 fiscal year.

For the 2013 fiscal year, the Company expects gross margin to at least remain stable or even begin to rise again. Even though investments in 2013 and thereafter should be lower than in previous fiscal years, it is likely that the overall high level of investments will cause the depreciation expense to rise further. Infineon anticipates, however, that benefits of scale will be sufficient to offset the additional depreciation expense if revenue grows by 10 percent or more per annum.

OPERATING EXPENSES EXPECTED TO RISE BY BETWEEN 5 AND 10 PERCENT

At an operating expenses level, research and development expenses on the one hand and selling, general and administrative expenses on the other are forecast to rise by between 5 and 10 percent in the 2012 fiscal year. Infineon intends to push ahead with research and development projects it has started or planned, even in times when growth is not so strong. This applies both to research relating to production technology and to product development as well as customer projects. We also intend to expand selling activities in the various regions in which we operate. In addition, the sale of the Wireless mobile phone business has a negative impact on these two cost categories. Further information regarding expected changes in these cost categories is provided below.

The increase in research and development expenditure in the 2012 fiscal year will be driven primarily by the Automotive and Industrial & Multimarket segments. In Automotive, the focus lies on 65-nanometer manufacturing technology for new multi-core microcontrollers, in new sensor products and in single-chip integration of power and control circuitry based on the Company's new 130-nanometer BCD process. In addition, the segment is also investing in the development of products for the rapidly growing hybrid and electric vehicle sector. Most of the additional semiconductor content in hybrid and electric vehicles is in power semiconductors. The Company already holds a commanding market lead for such components in the Industrial & Multimarket sector. The Automotive segment is now investing in ways of putting existing know-how to maximum use in hybrid and electric vehicles. In the Industrial & Multimarket segment, research and development spending is driven mainly by focusing on both increased power density and an extension of lifetime compared to today's standard packages. New and more advanced generations of IGBTs, "CoolMOS™" and "OptiMOS™", are currently under development. The Company is also investing in compound semiconductors (such as silicon carbide and gallium nitride) for the next generation of power semiconductors.

A further focus of research and development activities in the 2012 fiscal year will be on 300-millimeter thin wafer manufacturing technology for power semiconductors, a field in which Infineon intends to bolster its lead. Introduction of this new manufacturing process will not only raise production capacities in absolute terms, it will also reduce unit costs of wafer production by between roughly 20 and 30 percent. In view of rising demand for power semiconductors within an overall growing market, the Company is pushing ahead with its development of 300-millimeter technology all the way to volume production. This strategy involves overcoming a number of technological challenges such as special doping of standard wafers, wafer thinning and the safe handling of thin wafers in a high volume-production environment.

As far as process development is concerned, work will continue in the 2012 fiscal year on developing new chip packages and improving the power density and robustness of components. One example of this is the development of a so-called “Blade” package technology, whereby conventional wired connections are replaced by direct contact, thus reducing the overall size of the chip package. This technology also provides for greater flexibility since a single package can contain more than one chip. The use of “multi-chip packages” reduces the space required and optimizes the electrical and thermal properties of each individual component.

In order to manage the increased scope of research and development activities, the Company plans to increase the R&D workforce (3,900 as of September 2011) at a single-digit percentage rate.

Selling expenses will increase due to the increase in sales personnel, especially in the Automotive and Industrial & Multimarket segments. Innovative new products and the increasing sophistication of services to be provided demand considerable time and resources to establish and maintain customer relationships. New hires will mostly be involved in direct customer care and the acquisition of new customers, thereby strengthening the Company’s sales teams worldwide.

After 2012 research and development spending can be expected to rise at a similar rate to or even slightly faster than revenue whereas selling expenses are only likely to increase in line with revenue and administrative expenses at a significantly slower pace than revenue. Overall, the rise in operational expenses should be slightly less pronounced than revenue growth.

TOTAL SEGMENT RESULT MARGIN EXPECTED IN LOW TO MID TEENS

Infineon forecasts a Total Segment Result Margin in the low to mid teens for the 2012 fiscal year. This forecast is based on the assumption of a decrease in revenue at a mid-single-digit rate, a gross margin of below 40 percent and a rise in operating expenses of between 5 and 10 percent compared to the 2011 fiscal year.

Beyond 2012, assuming that global economic conditions remain stable, Infineon anticipates that the Total Segment Result Margin will be better than the margin predicted for the 2012 fiscal year.

OTHER EXPENSE POSITIONS

Infineon expects non-segment loss to be between €30 million and €40 million for the 2012 fiscal year, an improvement of approximately €10 million on 2011. The net financial result is forecast to improve. Compared to the 2011 fiscal year, when a net financial expense of €26 million was recorded, lower interest expenses should result in an improvement in this position. Infineon repurchased convertible bonds due 2014 during the 2011 fiscal year, reducing the outstanding amount by €59 million (nominal) or 30 percent. This, in turn, will result in lower interest expense in the 2012 fiscal year.

A further factor is that bond repurchases in the 2011 fiscal year were executed at prices well above par and therefore resulted in accounting losses that were reported as part of the interest expense. The volume of bond repurchases is expected to be lower in the 2012 fiscal year. If the actual volume of bonds repurchased in 2012 is greater than planned, net financial result will deteriorate compared to forecast.

Infineon expects an effective Group tax rate of 10 to 15 percent, consisting of foreign taxes at comparable rates plus the cash-flow-relevant tax rate that will arise in Germany. The latter, after use of tax loss carryforwards, will be approximately 12 percent. As a result, only 40 percent of domestic earnings will be subject to income tax in the 2012 fiscal year. The Company expects the effective cash-flow relevant tax rate to remain at this level until tax loss carryforwards are utilized. As of September 30, 2011 corporation tax losses and municipal trade tax losses available for carryforward amounted to €3.1 billion and €4.2 billion, respectively. Changes in the measurement of deferred tax assets could also have an additional impact on the effective tax rate.

WORKING CAPITAL EXPECTED TO INCREASE

As of September 30, 2011, the Company's working capital stood at negative €663 million. Based on the assumption of a decrease in revenue at a mid-digit-percentage rate in the 2012 fiscal year, trade and other receivables are not expected to rise significantly. By contrast, trade and other payables should drop sharply as a result of the lower planned volume of investments in the fourth quarter of the 2012 fiscal year compared with the corresponding quarter one year earlier. In view of the planned further expansion of production capacities in the 2012 fiscal year, it should also be feasible to increase inventory levels, allowing the Company to react more flexibly and with shorter lead-times to rising demand or changes in customers' orders. Overall therefore, Infineon expects working capital to increase in the 2012 fiscal year.

INVESTMENTS, PRODUCTION CAPACITIES AND DEPRECIATION/AMORTIZATION

Demand grew at a very rapid pace during the fiscal years 2009 through 2011. Despite the ongoing expansion of production capacities over this period, revenue growth was nevertheless held down by capacity limits. Moreover, it proved difficult to raise inventory levels in line with the increased volume of business, with a resulting negative impact on the dependability and flexibility of deliveries. A number of projects were therefore initiated during the past fiscal year with the aim of expanding production capacities.

In our outlook for the 2010 fiscal year, we announced the construction of a 300-millimeter pilot line for the production of power semiconductors at our Villach plant in Austria. This pilot line has been successfully completed in the meantime and the first wafers have been processed. In addition, the Company acquired real estate, cleanroom, manufacturing equipment and supplies from the insolvency administrator of Qimonda Dresden GmbH & Co. OHG with a view to commencing volume-production in the future. These projects will be continued during the 2012 fiscal year. Infineon is planning to start volume production of semiconductors on the basis of 300-millimeter thin wafers in Dresden during the first half of the 2013 fiscal year.

In order to safeguard medium-term growth with products not yet compatible with 300-millimeter technology, the Management Board decided to commence construction of a second 200-millimeter cleanroom for front-end production in Kulim, Malaysia. This additional cleanroom will allow Infineon to react more flexibly to increasing demand and to gradually raise production capacities in Kulim. The cleanroom infrastructure and the necessary equipment will be installed in line with demand.

The expansion of existing capacities is also a key component of our investment plans. We are currently investing in all four of our front-end manufacturing facilities, whilst at the same time ensuring that back-end capacities are equally expanded.

Investments for the 2012 fiscal year are expected to be at a similar level to the past year. The investment projects described above will be continued or completed in the 2013 fiscal year. The planned volume of investments has been set at a lower level for the 2013 fiscal year than for 2012.

The number of employees working in manufacturing will also increase as production capacities are expanded. If investments in the 2012 fiscal year are realized on the scale described above, the production-related workforce would rise from 18,892 employees as of September 30, 2011 by a single-digit percentage rate.

Depreciation and amortization in the 2012 fiscal year is expected to be about €430 million, as compared to €364 million in the year under report. High levels of investment in the fiscal years 2011 and 2012 will push up the charge recorded for depreciation. This trend is being partially offset by the fact that depreciation on some of the older equipment at the Kulim plant in Malaysia is tailing off. The expense for depreciation and amortization will continue to rise in the 2013 fiscal year, primarily due to higher levels of investment since the beginning of the 2011 fiscal year.

FREE CASH FLOW

Free cash flow from continuing operations is likely to be markedly negative in the 2012 fiscal year despite the fact that business is expected to remain profitable. This development mainly reflects high levels of investment on the one hand and the expected rise in working capital on the other. Discontinued operations are also expected to result in a net cash outflow. The Company anticipates disbursements in the region of a mid-double-digit million euro amount in conjunction with the sale of the Wireless mobile phone business. Cash outflows could also arise in conjunction with the insolvency of Qimonda: provisions recognized as of September 30, 2011 in this matter totalled €300 million.

For the 2013 fiscal year and beyond, Infineon plans to generate clearly positive free cash flows, based on the assumption that investments will decrease, depreciation will rise and that earnings from operations will continue on the planned scale.

FINANCING ACTIVITIES

Infineon has resumed the payment of dividends, starting with the dividend for the 2010 fiscal year. At the Annual General Meeting held on February 17, 2011, the Company's shareholders resolved to pay a dividend of €0.10 per share, resulting in a total distribution amount of €109 million. The Company intends to raise the dividend for the 2011 fiscal year to €0.12 per share. Subject to shareholder approval of the proposed distribution and taking into account the fact that own shares are not entitled to receive a dividend, this would result in a distribution of approximately €130 million.

Further detailed information regarding option exercise prices and maturities is published by Infineon on its website at www.infineon.com/cms/en/corporate/investor/infineon-share/share-buyback.html

During the third quarter of the 2011 fiscal year, the Company initiated the implementation of a share repurchase program including the use of derivatives. In this context, the Company sold put options on Infineon shares. Many of these options mature during the 2012 fiscal year. If the Infineon share price is lower than the stipulated exercise price at the relevant expiry date, the Company will buy own shares. If an option is not exercised, the Company will issue new put options in order to acquire the shares at a later date. Up to September 30, 2011 the Company had repurchased 4 million own shares for a consideration of €26 million. At that date, there were outstanding options for the purchase of a further 26 million shares at exercise prices of between €4.26 and €7.43. The amount of funds required to repurchase shares in the 2012 fiscal year will therefore depend on how the share price develops. The Company could also continue to repurchase convertible bonds during the 2012 fiscal year, as it did in the past year. The total cash outflow for such repurchases in the 2011 fiscal year was €173 million. Whether and to which extent convertible bonds are repurchased in the course of the 2012 fiscal year will also depend on the development of the underlying share price as well as the availability and specific conditions pertaining to the repurchase of such bonds. In addition, Infineon also intends to repay debt of €68 million during the 2012 fiscal year, previously raised to finance a number of projects in Austria.

With regard to its capital structure, Infineon has a long-term target of maintaining a gross cash position of between 30 percent and 40 percent of revenue. The Company plans to retain a positive net cash position and to limit gross debt to 2x its EBITDA. The Company's forecasts indicate that it will be well within these targets in the 2012 fiscal year. Consequently, no significant financing transactions are planned for the 2012 fiscal year. Infineon intends to strategically maintain the gross cash position above its long-term target for some time. Infineon believes that it will be able to use its strategic cash reserves to create added value through organic and/or inorganic growth. Should the Company find, with the passage of time, that it cannot put all of its strategic cash to productive use within the business, Infineon would be in a position to increase its efforts to return capital to shareholders.

LONG-TERM GROWTH DRIVERS

Infineon operates in sectors with high growth rates. IHS iSuppli forecasts an average growth rate of 6 percent for the Automotive semiconductor market for the years 2011 to 2015, and an annual growth rate of 7 percent for the Industrial & Multimarket semiconductor market. An average growth rate of 9 percent is forecast by IMS Research for the power semiconductor segment. According to IHS iSuppli, the chip card semiconductor market will expand by an average of 6 percent per annum over the period referred to.

The high growth rates being generated on the markets in which Infineon operates are being driven by three overriding trends, namely energy efficiency, mobility and security.

Energy efficiency: the world's electricity production is increasingly moving towards renewable energy. This trend has intensified in the wake of the earthquake and reactor accident in Japan. The world's electricity transportation and consumption will increasingly aim to make the conversion process for electricity steps more efficient. All of these factors will boost demand for power semiconductors.

Mobility: increasing numbers of people need to be mobile for business or private purposes. The proportion of people with sufficient financial means to do this is rising permanently worldwide. We enable mobility primarily with our Automotive and Industrial & Multimarket products. It is not only the number of automobiles, trains and local transit systems that is constantly rising around the world, but also the content of power semiconductors and other Infineon products within them.

Security: the amount of critical data being sorted and/or accessed increases every day. The products of the Chip Card & Security segment help ensure that users and devices are authenticated prior to use and that data is being stored securely.

Our high-quality products, comprehensive technological and production know-how as well as profound understanding of systems as a result of longstanding relationships with key customers have enabled Infineon to build up leading market positions in all three segments. This situation, combined with intensive research and development activities, mean we are ideally placed to take full advantage of these continuing trends.

INFINEON'S TARGET OPERATING MODEL

Over the past year, Infineon has both restructured its business and successfully focused its product portfolio. Infineon enjoys leading market positions in all of its three remaining segments – Automotive, Industrial & Multimarket and Chip Card & Security. The plan is to maintain and improve on these market positions through organic growth. Revenue of almost €4 billion was generated by these segments in the 2011 fiscal year. Given the current market position and the growth drivers described above, the Company believes it can achieve revenue growth of 10 percent or more per annum under normal economic conditions.

In terms of profitability, Infineon is aiming to achieve a gross margin in the low 40 percentage region. Assuming normal economic conditions, the Total Segment Result Margin should be almost 20 percent. Over a complete economic cycle, the Total Segment Result Margin should be in the region of 15 percent. As part of these targets, the Company is planning to attain an expense ratio at a low to mid-teens percentage for research and development and a low teen percentage for selling and administrative expenses. Thanks to the Company's high gross cash position and very moderate level of gross debt, net financial result is likely to be only marginally negative. As a result of available tax loss carryforwards, the Company expects a Group tax rate of between 10 percent and 15 percent until such time that the tax loss carryforwards have been utilized.

If the Company wishes to fully realize revenue growth potential, it must be prepared to expand capacities regularly. To this end, numerous projects were initiated over the course of the past fiscal year that should be completed within the coming 12 to 24 months. During this period, investments as a percentage of revenue will be between 15 percent and 25 percent. After this phase of heavy investment, the Company intends to scale down investments to a level of between 10 and 15 percent of revenue.

The Company believes that the operating model described in this report and its current corporate structure puts it in a strong position. For this reason, there are no plans to change business strategies significantly over the coming two-year period. That said, the Industrial & Multimarket segment will be split into Industrial Power Control and Power Management & Multimarket divisions with effect from January 1, 2012. Industrial Power Control will then focus on industrial applications with high power requirements, while Power Management & Multimarket will cover lower power range applications. This will be a further step towards aligning the Company's organizational structure with target markets.

OVERALL STATEMENT ON THE EXPECTED DEVELOPMENT OF THE INFINEON GROUP

Macro-economic risks have taken a definite turn for the worse since the middle of the 2011 calendar year; demand has perceptibly softened. The Management Board is accordingly forecasting a decrease in revenue at a mid-single-digit rate for the 2012 fiscal year, following two fiscal years of extremely high growth. The forecast of the Total Segment Result Margin is a low to mid-teens percentage.

Over the past years, Infineon has restructured its business and successfully focused its product portfolio. Infineon enjoys leading market positions in all of its three remaining segments – Automotive, Industrial & Multimarket and Chip Card & Security. Energy efficiency, mobility and security will be the decisive drivers of growth for the individual segments. Given these positive factors, high-quality products and technology and long-standing customer relationships, the aim now is to consolidate and build on the market positions already attained. There are currently no plans to sell any significant parts of the business. Based on this strategy, the Management Board considers that Infineon is well positioned to achieve further profitable revenue growth beyond the 2012 fiscal year.

Summary of outlook for Revenue and Earnings

	2011	2012	2013
Revenue growth	21%	decrease at mid-single-digit percentage rate compared to FY 2011	10% or more[1]
Gross margin	41.7% of revenue	below 40% of revenue	stable or rising compared to FY 2012[1]
Total Segment Result Margin	19.7% of revenue	low to mid-teen percentage	increase compared to FY 2012[1]

1 Assuming stable macro-economic conditions.

Within operating expenses, research and development expenses on the one hand and selling and administration expenses on the other are expected to rise by between 5 and 10 percent. Infineon also expects expenses of €30 million to €40 million for items not allocated to operating segments and an improvement in net financial result. Thanks to available tax loss carryforwards, the Company forecasts a low effective tax rate of between 10 percent and 15 percent for the fiscal years ending September 30, 2012 and 2013.

Investments in the 2012 fiscal year, focussed primarily on expanding production capacities, are expected to be at a similar level to the 2011 fiscal year. The depreciation and amortization expense will be in the region of €430 million. This high level of investments, combined with the planned increase in working capital will, despite good profitability, nevertheless be expected to result in a markedly negative free cash flow. After the 2012 fiscal year, Infineon intends to generate clearly positive free cash flows.

The Company plans to use the current comfortable cash situation to generate organic and/or inorganic revenue growth and/or return cash to shareholders in the form of dividends and/or share and convertible bond repurchases.

INFORMATION PURSUANT TO SECTION 289, PARAGRAPH 4, AND SECTION 315, PARAGRAPH 4, OF THE GERMAN COMMERCIAL CODE

STRUCTURE OF THE SUBSCRIBED CAPITAL

The share capital of Infineon Technologies AG increased by €7,500 in the 2011 fiscal year as the result of the exercise of 3,750 stock options and accordingly amounted to €2,173,491,670 as of September 30, 2011. This sum is divided into 1,086,745,835 no par value nominal shares, each of which represents a notional portion of the share capital of €2. This includes 4 million own shares held by the Company as of September 30, 2011 with a total calculated notional value of €8 million. All shares carry the same rights and obligations. Each share carries one vote. Shares of Infineon Technologies AG are listed on the Frankfurt Stock Exchange (FSE) under the symbol "IFX" and are also traded in the form of American Depositary Shares ("ADS") on the OTCQX International over-the-counter market under the ticker symbol "IFNNY", with each Infineon ADS representing one Infineon ordinary share.

RESTRICTIONS ON VOTING RIGHTS OR THE TRANSFER OF SHARES

Restrictions on the voting rights of shares may, in particular, arise as the result of the regulations of the German Stock Corporation Act (Aktiengesetz – "AktG"). Shareholders are prohibited from voting under certain circumstances pursuant to section 136 AktG, for example, and Infineon Technologies AG has no voting rights from its own shares according to section 71b AktG. 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 Infineon Technologies AG. In order to be recorded in the share register of Infineon Technologies AG, shareholders are required to submit to Infineon Technologies AG 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 the party concerned actually owns the shares for which it is registered as the holder and, if it does not own the relevant shares, to supply the information necessary for the maintenance of the share register in relation to the party for whom it 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.

SHAREHOLDINGS EXCEEDING 10 PERCENT OF THE VOTING RIGHTS

The German Securities Trading Act (Wertpapierhandelsgesetz – "WpHG") requires each person whose shareholding reaches, exceeds or, after exceeding, falls below 3 percent, 5 percent, 10 percent, 15 percent, 20 percent, 25 percent, 30 percent, 50 percent 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, 2011, 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 are presented in the Notes to the Consolidated Financial Statements under the information pursuant to section 160, paragraph 1, No. 8 AktG.

SHARES WITH SPECIAL CONTROL RIGHTS

No shares conferring special control rights have been issued.

SYSTEM OF CONTROL OF VOTING RIGHTS WHERE EMPLOYEES OWN SHARES AND THEIR CONTROL RIGHTS ARE NOT EXERCISED DIRECTLY

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

RULES GOVERNING THE APPOINTMENT AND DISMISSAL OF MEMBERS OF THE MANAGEMENT BOARD

Section 5, paragraph 1, of the Articles of Association stipulates that the Management Board of Infineon Technologies AG shall consist of at least two members. Currently, the Management Board of Infineon Technologies AG consists of 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 1, AktG).

RULES GOVERNING THE AMENDMENT OF THE ARTICLES OF ASSOCIATION

Pursuant to section 179, paragraph 1, AktG, responsibility for amending the Articles of Association rests with the Annual General Meeting. However, section 10, paragraph 4, of the Articles of Association gives the Supervisory Board the authority to amend the Articles of Association insofar as such amendments relate merely to the wording, such as changes in the share capital resulting from a capital increase from authorized or conditional capital. 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 under the Articles of Association.

POWERS OF THE MANAGEMENT BOARD TO ISSUE SHARES

Authorized Capital

Authorized Capital 2010/I

Section 4, paragraph 8, of the Articles of Association provides that the Management Board is authorized, with the approval of the Supervisory Board, to increase the share capital in the period through February 10, 2015 once or in partial amounts by a total of up to €648,000,000.00 by issuing up to 324,000,000 new no par value registered shares, carrying a dividend right as of the beginning of the fiscal year in which they are issued, against contributions in cash or in kind (Authorized Capital 2010/I). Shareholders have subscription rights in principle in the event of capital increases against contributions in cash. However, the Management Board is authorized, with the approval of the Supervisory Board, to exclude the subscription rights of the shareholders

(a) in order to exclude fractional amounts from the subscription right,

(b) insofar as such action is necessary in order to grant holders of option or conversion rights from bonds with warrants and convertible bonds that have already been or will in future be issued by the Company or its subordinated group companies subscription rights to new shares in the extent to which they would be entitled after exercise of the option or conversion rights or after fulfillment of any conversion obligations,

(c) if the issue price of the new shares is not substantially lower than the stock exchange price and the shares issued with the subscription rights of the shareholders excluded pursuant to section 186, paragraph 3, sentence 4, AktG in aggregate do not exceed 10 percent of the share capital either at the time of this authorization becoming effective or at the time of its exercise.

The Management Board is additionally authorized, with the approval of the Supervisory Board, to exclude the subscription rights of the shareholders in relation to capital increases against contributions in kind. However, in order to protect the shareholders against the dilution of their holdings, the Management Board of Infineon Technologies AG has undertaken to make use of this authorization to exclude the subscription rights of the shareholders in the case of capital increases against contributions in cash or in kind from the Authorized Capital 2010/I only up to an amount equivalent to 10 percent of the share capital at the time the authorization comes into force or – if the latter value should be lower – the share capital existing at the time the authorization is exercised. Any capital increase utilizing the Authorized Capital 2010/I with the subscription rights of the shareholders excluded is thus currently limited to a maximum of 108,674,208 no par value shares or €217,348,417 (that is to say 10 percent of the share capital at the time the authorization came into force).

The Management Board determines the further content of the rights attached to the shares and the terms of the share issue with the approval of the Supervisory Board.

Authorized Capital 2010/II

Section 4, paragraph 9, of the Articles of Association additionally authorizes the Management Board, with the approval of the Supervisory Board, to increase the share capital in the period through February 10, 2015, once or in partial amounts, by a total of up to €40,000,000.00 by issuing up to 20,000,000 new no par value registered shares against contributions in cash for the purpose of issue to employees of the Company or its group companies (Authorized Capital 2010/II). The subscription rights of the shareholders are excluded in relation to these shares. The Management Board determines the further content of the rights attached to the shares and the terms of the share issue with the approval of the Supervisory Board.

Conditional Capital

Conditional Capital I

Section 4, paragraph 4, of the Articles of Association provides for the share capital of Infineon Technologies AG to be conditionally increased by up to a nominal amount of €34,635,548.00 (Conditional Capital I, registered in the Commercial Register as "Conditional Capital 1999/I"). The conditional capital increase is to be effected by issuing up to 17,317,774 new no par value registered shares, carrying a dividend right as of the beginning of the fiscal year in which they are issued, but only to the extent that the holders of subscription rights granted under the "Infineon Technologies AG 2001 International Long Term Incentive Plan" on the basis of the authorization granted on April 6, 2001 choose to exercise their subscription rights. The exercise of stock options in the 2011 fiscal year led to the issue of 3,750 new shares from the Conditional Capital I, which accordingly shrank by €7,500 to up to €34,628,048.

Conditional Capital III

Section 4, paragraph 5, of the Articles of Association provides for the share capital of Infineon Technologies AG to be conditionally increased by up to a nominal amount of €29,000,000.00 (Conditional Capital III, registered in the Commercial Register as "Conditional Capital 2001/I"). The conditional capital increase is to be effected by issuing up to 14,500,000 new no par value registered shares, carrying a dividend right as of the beginning of the fiscal year in which they are issued, but only to the extent that the holders of subscription rights granted under the "Infineon Technologies AG 2001 International Long Term Incentive Plan" on the basis of the authorization issued on April 6, 2001, or the holders of subscription rights granted under the "Infineon Technologies AG Stock Option Plan 2006" on the basis of the authorization issued on February 16, 2006, choose to exercise their subscription rights.

Conditional Capital 2002

Section 4, paragraph 6, of the Articles of Association provides for the share capital of Infineon Technologies AG to be conditionally increased by up to €134,000,000.00 by issuing up to 67,000,000 new no par value registered shares carrying a dividend right as of the beginning of the fiscal year in which they are issued (Conditional Capital 2002, registered in the Commercial Register as "Conditional Capital 2007/II"). The conditional capital increase serves the purpose of granting shares to the holders of the convertible bond issued in May 2009 by Infineon Technologies Holding B.V., Rotterdam, the Netherlands, which is guaranteed by Infineon Technologies AG. The conditional capital increase is effected only insofar as conversion rights from the convertible bond are exercised or any conversion obligations under these notes are fulfilled. The Management Board is authorized to determine the further details of implementation of the conditional capital increase.

Conditional Capital 2009/I

Section 4, paragraph 7, of the Articles of Association provides for the share capital of Infineon Technologies AG to be conditionally increased by up to €149,900,000.00 by issuing up to 74,950,000 new no par value registered shares carrying a dividend right as of the beginning of the fiscal year in which they are issued (Conditional Capital 2009/I). The conditional capital increase serves the purpose of granting shares to the holders of the convertible bond issued in May 2009 by Infineon Technologies Holding B.V., Rotterdam, the Netherlands, which is guaranteed by Infineon Technologies AG. The conditional capital increase is effected only insofar as conversion rights from the convertible bond are exercised or any conversion obligations under these notes are fulfilled.

Conditional Capital 2010/I

Section 4, paragraph 10, of the Articles of Association provides for the share capital of the Company to be conditionally increased by up to a nominal amount of €24,000,000.00 by issuing up to 12,000,000 new no par value registered shares (Conditional Capital 2010/I). The conditional increase in capital is effected only insofar as the holders of subscription rights issued in the period through September 30, 2013 under the "Infineon Technologies AG Stock Option Plan 2010" choose to exercise their subscription rights to Company shares and the Company does not provide a cash settlement or own shares to satisfy these subscription rights. The new shares have dividend rights from the start of the fiscal year of their issue.

Conditional Capital 2010/II

Section 4, paragraph 11, of the Articles of Association provides for the share capital also to be conditionally increased by up to €260,000,000.00 by issuing up to 130,000,000 new no par value registered shares carrying a dividend right as of the beginning of the fiscal year in which they are issued (Conditional Capital 2010/II). The conditional capital increase serves the purpose of granting shares to the holders or creditors of bonds with warrants and/or convertible bonds issued by the Company or a subordinated group company against payment in cash on the basis of the authorization of the Annual General Meeting of February 11, 2010. The conditional capital increase is to be effected only insofar as option and/or conversion rights under the bonds are exercised or any conversion obligations under the bonds are fulfilled and insofar as no cash settlement is granted and no own shares are used for servicing. The Management Board is authorized to determine the further details of implementation of the conditional capital increase.

Further details of the various stock option plans are described in note 32 to the Consolidated Financial Statements. Further details of the convertible bonds issued and guaranteed by Infineon Technologies AG are described in note 27 to the Consolidated Financial Statements.

see also page 219ff. and page 214

AUTHORIZATION TO ISSUE BONDS WITH WARRANTS AND/OR CONVERTIBLE BONDS

The Annual General Meeting on February 11, 2010 authorized the Management Board, in the period through February 10, 2015, once or in partial amounts, to issue bonds with warrants and/or convertible bonds in an aggregate nominal amount of up to €2,000,000,000.00 and to guarantee such bonds issued by subordinated group companies of the Company and to grant the holders of bonds option or conversion rights to in aggregate up to 130,000,000 no par value registered Company shares, representing a notional portion of the share capital of up to €260,000,000.00, 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) and/or
- 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 with warrants and convertible 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 the creditors of convertible bonds are not granted subscription rights in this relation. 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 to be subscribed for each bond may not exceed the nominal value of the bond.

The Management Board is authorized, subject to the requirements resolved by the Annual General Meeting, to determine the further details of the issue and features of the bonds and their terms.

PURCHASE OF OWN SHARES

A resolution passed by the Annual General Meeting on February 17, 2011 authorizes Infineon Technologies AG, in the period through February 16, 2016, to acquire its own shares, within the statutory boundaries, in an aggregate amount not exceeding 10 percent of the share capital in existence 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 and may in each case acquire any number of shares provided that the aforementioned maximum percentage is not exceeded. 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 (a "public purchase offer") or via a bank that is engaged to complete the acquisition as part of a defined repurchase program.

(a) If shares are acquired through the stock exchange, the purchase price per share (excluding incidental costs) paid by the Company may not be more than 10 percent above or below the price established in the Xetra (or comparable successor system) opening auction on the trading day.

(b) If shares are acquired by means of a public purchase offer, a fixed purchase price or purchase price range may be specified. The purchase price per share (excluding incidental costs) paid by the Company in this case may be no more than 10 percent above and no more than 20 percent below the arithmetic mean of the closing prices of the share in Xetra trading (or a comparable successor system) on the last three exchange trading days prior to the day of publication of the public purchase offer ("effective date"). If significant price changes occur after the effective date, the purchase price may be adjusted accordingly; in this case, the relevant time frame is the three exchange trading days prior to the public announcement of any such adjustment.

The volume of the purchase may be limited. If the total subscription for the public purchase offer exceeds this volume, the Company adopts a quota-based purchase approach. Provision may be made for a preferred acceptance of smaller quantities (up to 100 offered shares per shareholder). The public purchase offer may also provide for further terms and conditions.

(c) A bank can be engaged as part of a defined repurchase program to acquire either an agreed number of shares or shares for a previously defined total purchase price, on a previously defined minimum number of trading days in Xetra trading (or a comparable successor system) and in any case by no later than the end of a previously agreed period, and to transfer them to the Company. In such cases, (i) the bank must acquire the shares through the stock exchange and (ii) the purchase price per share to be paid by the Company must include a discount with respect to the arithmetic mean of the volume-weighted average price ("VWAP") of the Infineon share in Xetra trading (or a comparable successor system) over the actual period in which shares are repurchased. In addition, the bank must (iii) purchase the shares to be supplied through the stock exchange at prices falling within the range defined under a) in respect of direct acquisition by the Company.

The Company is authorized not only to sell shares in the Company acquired under this authorization via the stock exchange or by means of a public offer addressed to all shareholders, but also to make use of them for any other legally admissible purpose, specifically including the following:

(a) The shares may be recalled without this recall or its implementation requiring any further resolution of the Annual General Meeting. The Management Board may also decide in this connection that the share capital will not be affected by the recall and that the proportion of non-recalled shares in the share capital will be increased accordingly. The Management Board is authorized to amend the number of shares indicated in the Articles of Association accordingly in this case.

(b) The shares may be offered and transferred to third parties in connection with company mergers or the acquisition of companies, parts of companies or participations in companies.

(c) The shares may, subject to the consent of the Supervisory Board, be sold to third parties for cash payment including by means other than through the stock exchange or through an offer to all shareholders provided that the price at which the shares are sold (excluding incidental acquisition 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" ("Stock Option Plan 2006") or the "Infineon Technologies AG Stock Option Plan 2010" ("Stock Option Plan 2010").

(f) The shares may be offered for acquisition and transferred to people who are employed by the Company or by a company affiliated with the Company.

The Company may use these authorizations to utilize its own shares on its own, through dependent companies or companies in 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. The authorizations may be used once or a number of times, individually or together and in their maximum value or in fractions of their maximum value. Subscription rights of the shareholders with respect to the shares affected by these measures are excluded insofar as the shares concerned are used in accordance with the aforementioned authorizations clauses b) to f) above. In addition, the subscription rights of shareholders are excluded in respect of fractional amounts in instances in which the shares are sold through a public offer addressed to all shareholders.

According to a resolution passed by the Annual General Meeting on February 17, 2011, the acquisition of Infineon Technologies AG shares may also be effected using equity derivatives. The Management Board is authorized (1) to sell options that when exercised require the Company to acquire Company shares (put options) and (2) 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 "equity derivatives" or "derivatives"). The acquisition of shares using equity derivatives may also be effected via a bank that is engaged to complete the acquisition as part of a defined repurchase program.

The total number of shares underlying the equity derivatives employed in accordance with this authorization may not exceed 5 percent of the current share capital. 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 described above. The term of the individual derivatives may in each case be no longer than 18 months, must expire by no later than February 16, 2016 and must be defined such that the acquisition of own shares on exercise of or to satisfy the derivatives cannot be effected after February 16, 2016.

The derivative transactions must be concluded with a bank or via the stock exchange. It must be ensured that obligations under the derivatives are met only using shares that have been acquired previously, in compliance with the principle of equal treatment, via the stock exchange at the current price of the share in Xetra trading (or a comparable successor system) at the time of acquisition via the stock exchange. The price agreed in the derivative (excluding incidental acquisition costs but taking into account the option premium paid or received) for the acquisition of a share when options are exercised may be no more than 10 percent above and no more than 30 percent below the arithmetic mean of the closing prices of the share in Xetra trading (or a comparable successor system) on the last three exchange trading days prior to the conclusion of the derivative transaction.

The acquisition price paid by the Company for derivatives may not be substantially higher than, and the sale price received by the Company for derivatives may not be substantially lower than, the theoretical market value of the options concerned as determined in accordance with accepted methods of financial mathematics, it being the case that the factors to be considered in determining the theoretical market value include the agreed exercise price.

If own shares are acquired using equity 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 apply as appropriate to the use of own shares acquired using equity derivatives.

Infineon Technologies AG decided on May 9, 2011 to make use of the authorization to repurchase shares granted by the Annual General Meeting on February 17, 2011. The Company intends to allocate a sum of up to €300 million to capital return measures in the period through March 2013. The capital return may be effected by writing put options on Infineon shares. Another possibility is the outright repurchase of own shares in Xetra trading on the Frankfurt Stock Exchange. The Company may also repurchase further portions of the outstanding convertible bonds. The share repurchase will be effected exclusively for the purposes of recall to reduce the capital and of servicing employee options. The process will be conducted in accordance with section 14, paragraph 2, and section 20a, paragraph 3, WpHG in connection with the provisions of Regulation (EC) 2273/2003 of December 22, 2003 (the “EC Reg”). The program planned may be suspended and resumed again at any time subject to the time limits set by the Annual General Meeting and in accordance with additional legal provisions. The status of the share repurchase program as of September 30, 2011 is also presented in note 42 to the Consolidated Financial Statements.

The Company will publish details of the share repurchase program and of put options issued and shares acquired regularly on the internet at www.infineon.com/cms/de/corporate/investor/infineon-share/share-buyback.html. The status of the share repurchase program as of September 30, 2011 is also presented in note 42 to the Consolidated Financial Statements.

see also page 243

see also page 214

SIGNIFICANT AGREEMENTS IN THE EVENT OF A CHANGE OF CONTROL AS A RESULT OF A TAKEOVER BID

The convertible bond issued by Infineon Technologies AG on May 26, 2009 through its subsidiary Infineon Technologies Holding B.V., Rotterdam, the Netherlands, that matures in 2014 (for further information please refer to note 27 to the Consolidated Financial Statements) contains a change of control clause granting holders an early redemption option in the event of a change of control as defined.

The terms of the put options issued by Infineon Technologies AG, which entitle the holder to sell Infineon shares at an exercise price previously agreed, also contain change of control clauses that can lead to modification of the option terms under certain circumstances.

Furthermore, certain patent cross-licensing agreements, development agreements and license agreements contain change of control clauses according to which a change in control of Infineon entitles the other party to terminate the agreement or to continue the agreement at its discretion.

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 unless he or she resigns from the Management Board/the Company, in which case payment continues for a maximum of 36 months, or is removed from the Management Board or let go by the Company, in which case payment continues for a minimum of 24 months and a maximum of 36 months. These entitlements of members of the Management Board in the event of a change of control apply only insofar as the Company would not have been authorized to rescind the appointment pursuant to section 84, paragraph 3, AktG. Further details are contained in the Compensation Report. There are no comparable arrangements for employees.

COMMENTS OF THE MANAGEMENT BOARD ON THE INFORMATION PURSUANT TO SECTION 315, PARAGRAPH 4, OF THE GERMAN COMMERCIAL CODE

The aforementioned authorizations of the Management Board to issue bonds with warrants and/or convertible bonds and to issue new shares from authorized capital are intended to enable the Management Board to raise capital swiftly, flexibly and on economically advantageous terms, taking advantage of attractive financing opportunities whenever they may arise in the market. The issue of stock options backed by conditional capital is a practical option commonly used in German companies in the compensation of employees and board members.

The change of control clause included with the convertible bond issued in 2009 reflects standard market practice for the protection of creditors. The same applies in respect of the change of control clauses contained in the terms of the put options issued. 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 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 and are intended to give members of the Management Board security and to preserve their independence in the event of a change of control.

CORPORATE GOVERNANCE REPORT

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 2011 FISCAL YEAR BY THE MANAGEMENT BOARD AND SUPERVISORY BOARD OF INFINEON TECHNOLOGIES AG IN ACCORDANCE WITH SECTION 161 OF THE GERMAN STOCK CORPORATION ACT

Since the submission of the last Declaration of Compliance in November 2010, Infineon Technologies AG has complied, and will comply in the future, with all recommendations of the German Corporate Governance Code in the version of May 26, 2010.

Infineon has in addition adopted all of the suggestions presented in the German Corporate Governance Code in the version of May 26, 2010.

RELEVANT DISCLOSURES IN RESPECT OF CORPORATE GOVERNANCE PRACTICES

Corporate Governance – standards for effective and responsible corporate management

The Management Board and the Supervisory Board of Infineon Technologies AG view corporate governance as a comprehensive concept for responsible, transparent and value-led corporate management. Good corporate governance fosters trust in our Company among national and international investors, the financial markets, business partners, employees and the public. The Management Board, the Supervisory Board and management ensure that corporate governance is actively implemented and continuously developed in all parts of the Company. Corporate governance at Infineon encompasses not only the German Corporate Governance Code, 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 Company, 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. 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.

The Infineon Business Conduct Guidelines, which are their most important element and are available on the internet at www.infineon.com (“About Infineon/Investor/Corporate Governance”), are binding on the Management Board and all Infineon employees worldwide.

Corporate Compliance Officer and Compliance Panel

The existing Compliance Organization at Infineon has been optimized. On June 1, 2011, an independent Compliance Office was set up by Infineon and provided with more comprehensive resources than before. This confirms 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 the Company’s requirements into account. In addition to meeting the traditional compliance objectives, such as risk mitigation and increases in efficiency and effectiveness, compliance is promoted with a view to strengthening on a sustainable basis the reputation of Infineon as a reliable and fair business partner and thus contributing to the overall success of the Company.

The Corporate Compliance Officer of Infineon Technologies AG reports directly to the Management Board. He or she is involved in setting guidelines, develops the Infineon compliance program, initiates or takes part in compliance audits, advises employees, receives complaints and tip-offs, including those made anonymously, and coordinates investigations into compliance-related incidents. In addition, he or she carries out regular compliance training measures for employees on topics such as anti-trust law and anti-corruption. He or she is supported by regional Compliance Officers. We have also introduced a Compliance Panel, composed of experienced managers from the Legal, Human Resources, Internal Audit and Security departments. The members of the Compliance Panel meet regularly and advise the Compliance Officer.

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 risk exposures minimized. This transparency of the risk exposure throughout the Company makes an additional contribution to increasing the Company's value systematically and continuously.

Our Company-wide risk and opportunity management system, which is continuously adapted to changes in circumstances, consists of four sub-processes: risk identification, risk analysis, risk controlling, and risk monitoring. Its effectiveness is reviewed regularly by the Supervisory Board's Investment, Finance and Audit Committee.

Details of risk management at Infineon are presented in the Risk and Opportunity Report, which provides an in-depth description of both risk and opportunity management and the internal control system at Infineon.

Transparent management

We submit a regular quarterly report covering our business developments and the Company's financial position and performance to our shareholders according to a defined financial calendar. The members of the Management Board regularly inform shareholders, analysts and the general public about the quarterly and annual results. Our comprehensive investor relations service features regular meetings with analysts and institutional investors as well as telephone conferences. All notices and disclosures are usually available on our website in German and English.

Infineon Technologies AG also issues ad hoc announcements in addition to its regular reports to publicize information that is not in the public domain and the disclosure of which is likely to affect the value of the Infineon share significantly.

A detailed list of all information relevant to the capital markets published in the 2011 fiscal year can be found in the Annual Document that we publish on the Infineon Technologies AG website in accordance with section 10 of the German Securities Prospectus Act (Wertpapierprospektgesetz).

We have set up a Disclosure Committee comprising members from various specialist departments to review and approve the publication of certain financial and other material information.

German law requires the Management Board to render a responsibility statement. The information required for this purpose is confirmed internally vis-à-vis the Management Board by senior executives bearing management responsibility.

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). The Separate Financial Statements of Infineon Technologies AG continue to be prepared in accordance with the German Commercial Code (HGB). The Separate Financial Statements of Infineon Technologies AG, the Consolidated Financial Statements for the Infineon Group as well as the combined Management Report (Lagebericht) are published within 90 days of the end of the fiscal year after approval by the Supervisory Board.

Our Company's financial reporting for the 2011 fiscal year was audited by KPMG AG Wirtschaftsprüfungsgesellschaft, Berlin (KPMG). The half-yearly financial report was 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 of the German Stock Corporation Act. The Investment, Finance and Audit Committee discusses the quarterly reports and the half-yearly financial report with the Management Board prior to publication. We have agreed with KPMG that the Chairman of the Audit 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.

DESCRIPTION OF THE MODE OF OPERATION OF THE MANAGEMENT BOARD AND SUPERVISORY BOARD AND OF THE COMPOSITION AND MODE OF OPERATION OF THEIR 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. However, the Management Board and the Supervisory Board cooperate closely in the interest of the Company.

Management Board

The Infineon Technologies AG Management Board currently has three members; with effect from January 1, 2012 it will be expanded to four members. In accordance with the German Corporate Governance Code, the Supervisory Board has set an age limit for Management Board membership under which members of the Management Board in general should be no more than 67 years old. In accordance with its rules of procedure, the Supervisory Board takes account of diversity as well as technical and personal suitability in respect of the composition of the Management Board and will in particular endeavor to ensure appropriate female representation.

The Management Board is the Company's executive body. It is obliged to serve the Company's interests and thereby pursue the goal of sustainably increasing the Company's value taking into account the interest of all "stakeholders". It determines the Company's commercial objectives, strategic direction and corporate policy and defines how the Company is to be organized.

According to German stock corporation law, the Management Board has overall responsibility for the management of the Company. The Infineon Management Board has adopted rules of procedure with the consent of the Supervisory Board. These rules stipulate that the Company is managed jointly by all of the Management Board members, who 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. The Chief Executive Officer maintains regular contact with the Chairman of the Supervisory Board, with whom he discusses the key aspects of the Company'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 the Company's business development, the economic situation of the Company and its individual segments, as well as the Company's financial and investment planning. The Chief Executive Officer 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 Company. The Supervisory Board is informed by the Management Board regularly, comprehensively, and in a timely manner on all matters of relevance to business development, planning, and risk exposure, and agrees 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.

The Supervisory Board reviews the efficiency of its work, including its interaction with the Management Board, once a year. 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 findings of this external efficiency study were presented and discussed in the Supervisory Board meeting on November 30, 2010. The last efficiency review took place in fall 2011. The efficiency of the Supervisory Board's work, including its cooperation with the Management Board, was determined on the basis of a questionnaire addressing different areas and criteria of Supervisory Board work, and subsequently discussed at a Supervisory Board meeting.

Composition of the Supervisory Board

The Supervisory Board of Infineon Technologies AG has twelve members and comprises an equal number of shareholder representatives and employee representatives as stipulated in the German Co-Determination Act (Mitbestimmungsgesetz). The shareholder representatives are elected by the Annual General Meeting, the employee representatives by employee delegates at Infineon's German facilities in accordance with the German Co-Determination Act. The regular term of office of Supervisory Board members is five years. New elections were held in the 2010 fiscal year for both the shareholder representative and the employee representative positions on the Supervisory Board. Before his election by the Annual General Meeting on February 11, 2010, Prof. Dr. Klaus Wucherer had announced that, notwithstanding his five-year term of office, he would stay in office for only one year.

He resigned from the Supervisory Board with effect from the end of the Annual General Meeting on February 17, 2011. As successor, the Annual General Meeting held on February 17, 2011 elected Mr. Wolfgang Mayrhuber as a member of the Supervisory Board. At its meeting held on the same day, the Supervisory Board elected Mr. Mayrhuber as its Chairman. The terms of office of all Supervisory Board members will expire at the end of the Annual General Meeting that resolves on the approval of the acts of the members of the Management and Supervisory Boards for the 2014 fiscal year.

The overall composition of the Supervisory Board should comply with the principles of diversity in the opinion of the Supervisory Board. This means firstly that the composition of the Supervisory Board should take into account the diversity to be found in an open and innovative global company like Infineon as far as possible and secondly that nobody should be selected or dropped as a candidate for the Supervisory Board simply because he or she possesses or lacks a certain diversity factor. Diversity as the term is used here denotes international (in the sense of roots, upbringing, education or professional activity rather than citizenship), gender and age diversity.

The Supervisory Board specified concrete objectives regarding its composition at its meeting of November 22, 2010 in accordance with the recommendation in section 5.4.1 of the German Corporate Governance Code:

One half of the members of the Supervisory Board is elected by the Annual General Meeting, the other half by the employees. The Supervisory Board cannot influence the selection of candidates for the Supervisory Board by the employees. Nevertheless it is a stated objective of the Supervisory Board that

(i) at least two of its members are women and

(ii) at least one third of the members are “international” representatives

as defined above.

The Supervisory Board already meets these minimum criteria and it is intended that it continues to do so at all times in future. Furthermore, the Supervisory Board complies with the age limit defined in its rules of procedure, which states that in general nobody older than the age of 69 should be proposed for membership of the Supervisory Board.

The Supervisory Board will take this requirements profile and these objectives into account in its future nominations. The same applies in respect of the Nomination Committee insofar as it carries out the preparatory work for the Supervisory Board decision. The Supervisory Board recommends that its members elected by the employees also do what they can, within the scope of their influence, to have the requirements profile and objectives taken into account in the election nominations made by the relevant bodies on the employees’ side. The Supervisory Board also recommends that the objectives be taken into account by any of its members making an application for the appointment of a Supervisory Board member by the courts.

Supervisory Board committees

The Supervisory Board rules of procedure provide for the formation of three committees: the Mediation Committee, the Executive Committee, and the Investment, Finance, and Audit Committee. The Supervisory Board has also established both a Strategy and Technology Committee and the Nomination Committee recommended in the German Corporate Governance Code. 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 tasks of the **Executive Committee,** which consists of the Chairman of the Supervisory Board, the Vice-Chairman, one shareholder representative and one employee representative, include preparations for the appointment and dismissal of members of the Management Board and for the resolution, by a full meeting of the Supervisory Board, on Management Board compensation. It is also responsible for concluding, amending and terminating contracts with Management Board members except in matters involving pay.

The **Investment, Finance, and Audit Committee** ("Audit Committee") consists of the Chairman of the Supervisory Board, the Vice-Chairman and one further representative each of the shareholders and the employees. The Chairman of the Investment, Finance, and Audit Committee, Dr. Eckart Sünner, has particular expertise in and extensive experience of financial reporting on account of his many years of service as chairman of the audit committee of another DAX-listed corporation.

The Audit Committee monitors the Company's financial reporting process and discusses and examines the Separate Financial Statements and Consolidated Financial Statements prepared by the Management Board, the combined Management Report (Lagebericht) and the quarterly and half-yearly financial reports. It gives recommendations with respect to the approval of the Separate Financial Statements and Consolidated Financial Statements by the Supervisory Board based on the independent auditors' report, engages the independent auditors selected by the Annual General Meeting to audit the Separate Financial Statements and Consolidated Financial Statements, specifies the key areas to be examined in audit activities and is responsible for setting the independent auditors' compensation.

Other matters addressed by the Audit Committee include the effectiveness of the internal control system, internal audit system and risk management system. It has the authority in this connection both to contact any employee of the Company 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 compliance organization and on any particular compliance issues.

The **Mediation Committee,** which consists of the Chairman of the Supervisory Board, the Vice-Chairman, one shareholder representative and one employee representative, submits recommendations to the Supervisory Board concerning the appointment of members of the Management Board if the first round of the election on the appointment does not result in the required majority of two thirds of the members of the Supervisory Board.

The **Strategy and Technology Committee,** which consists of three shareholder representatives and three employee representatives, concerns itself with key technology issues and matters of relevance to our business strategy.

The **Nomination Committee,** which consists of the Chairman of the Supervisory Board and two further shareholder representatives, proposes to the Supervisory Board suitable candidates for recommendation to the Annual General Meeting.

All committees regularly submit detailed reports on their work to the Supervisory Board. Further information about the work of the Supervisory Board and its committees may be found, together with details of the people who serve on them, in note 42 to the Consolidated Financial Statements ("Management Board and Supervisory Board") and in the report of the Supervisory Board to the Annual General Meeting.

see also page 245ff.

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 2011 fiscal year. Material transactions between the Company and members of the Management Board or related parties require the approval of the Supervisory Board. This also applies to consultant and other service or works contracts a Supervisory Board member enters into with the Company. As a precaution, the Supervisory Board also approved in November 2010 a contract between the Company and the Technische Universität München (Institute for Technical Electronics headed by Prof. Schmitt-Landsiedel) for the performance of research and development work on sensing for automotive applications.

Shareholdings of Management and Supervisory Board members

As of September 30, 2011, 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.

DIRECTORS' DEALINGS

Members of the Management Board and the Supervisory Board and other persons bearing management responsibility with regular access to inside information, as well as related parties are required pursuant to Section 15a of the German Securities Trading Act (Wertpapierhandelsgesetz) to notify the Company as well as the Federal Financial Supervisory Authority (Bundesanstalt für Finanzdienstleistungsaufsicht – BaFin) of own transactions involving Company shares. This only applies, however, if the total value of the transactions made by one of the above managers or related parties amounts to €5,000 or more in one calendar year. Such notices are also reported to BaFin. At Infineon, this provision only applies to the Members of the Management Board and the Supervisory Board or related parties to them.

Statements giving notice of such transactions are published on our website at www.infineon.com ("About Infineon/Investor/Corporate Governance/Directors' Dealings") and conveyed to the company register.

In the fiscal year ended, the Company was notified of the following transaction:

Date of transaction	December 6, 2010
Last name, first name	Schmidt, Gerd
Function	Member of the Supervisory Board
Description	Shares in Infineon
ISIN/WKN	DE0006231004/623 100
Purchase/sale	Sale
Price (per unit)	7.536 euros
Number of units	996
Purchase/sale	Sale
Price (per unit)	7.358 euros
Number of units	63
Purchase/sale	Sale
Price (per unit)	7.536 euros
Number of units	491
Total volume	11,680.93 euros
Transaction location	Frankfurt Stock Exchange (Xetra)

COMPENSATION OF THE MANAGEMENT BOARD AND THE SUPERVISORY BOARD

Details of Management Board and Supervisory Board compensation in the 2011 fiscal year are presented in the comprehensive Compensation Report, which also forms part of the Group Management Report of Infineon Technologies AG.

SHAREHOLDERS AND THE ANNUAL GENERAL MEETING

Infineon shareholders take their decisions at the Annual General Meeting, which is held at least once a year. Each share carries one vote. Shareholders can attend the Annual General Meeting as long as they are registered in the share register and have signed up for the meeting in time. The Annual General Meeting decides on all issues assigned to it by law, most notably on the formal approval of the conduct of business by the Management Board and the Supervisory Board, the 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 and also have the right, subject to certain conditions, to challenge resolutions of the Annual General Meeting, to request an extraordinary judicial review and to claim compensation from corporate bodies of the Company on behalf of the Company when they suspect 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. Shareholders can register for our Annual General Meeting electronically, for example, can participate in votes by sending online instructions to their proxies and can follow the general debate via the internet. All documents and information relating to the Annual General Meeting can be found on our website. Our Investor Relations Department, moreover, can be contacted throughout the year both by telephone and electronically to ensure the exchange of information between us and our shareholders.

INFINEON STOCK OPTION PLANS

The Infineon Stock Option Plan 2006 approved by the Annual General Meeting of February 16, 2006 expired on September 30, 2009. The Annual General Meeting on February 11, 2010 accordingly approved a new Infineon Stock Option Plan 2010 (SOP 2010) to replace it. The terms of the SOP 2010 permit the Company to issue up to 12 million options over its three-year term. The exercise price for a new share amounts to 120 percent of the average share price over the five trading days preceding the day of issue of the option. The options issued may only be exercised if the Infineon share price outperforms the Philadelphia Semiconductor Index (SOX). The initial reference figures (100 percent) for this purpose are the arithmetic mean of the Infineon share price and the daily closing price of the SOX over a three-month period following the issue of the stock options. The Infineon share price must then exceed the SOX (daily closing price), as measured using the respective reference values, at least once on at least ten consecutive trading days in the period beginning one year after the issue of the stock options and lasting until the end of their lifetime.

The SOP 2010 provides for stock options to be allocated to eligible employees as well as to the Members of the Management Board within 45 days of the publication of the Consolidated Financial Statements or within 45 days of the publication of the consolidated results for the first, second or third quarter and in any case by no later than two weeks before the end of the quarter in which the allocation is made.

Further information about corporate governance at Infineon may be found on our website at www.infineon.com ("About Infineon/Investor/Corporate Governance").

Our other stock option plans are detailed in the notes to the Consolidated Financial Statements; the full text of the plans may be viewed at www.infineon.com ("About Infineon/Investor/Corporate Governance/Stock Option Plan").

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 May 26, 2010 (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 structure

The Management Board compensation system and the compensation paid to the individual members of the Management Board are defined and regularly reviewed by the full Supervisory Board on the basis of proposals from the Executive Committee. The compensation paid to the members of the Management Board is intended to reflect the Company's size and global presence, its economic position and prospects and the typical level and structure of management board compensation at comparable companies in Germany and elsewhere. The duties, responsibilities and performance of each Management Board member are also to be considered, as is the Company's wider pay structure. The Company 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 compensation system was reviewed by an external independent compensation expert in the 2010 fiscal year. Drawing on the findings of this review, the Supervisory Board commissioned another independent compensation expert to develop a proposal for a new compensation system. Over the course of a number of meetings the Executive Committee defined the fundamentals together with the compensation expert and then discussed the compensation expert's detailed proposal for the new compensation system. The Supervisory Board brought the process to a successful conclusion at its November 22, 2010 meeting by approving the Executive Committee's proposal for a new Management Board compensation system to apply to all future Management Board members. Accordingly the contract with Mr. Asam is already based on the new compensation system and the contracts with existing Management Board members Peter Bauer and Dr. Reinhard Ploss were amended to bring them into line with the new compensation system with effect from October 1, 2010.

Components of the Management Board compensation system from the 2011 fiscal year

The members of the Management Board receive as compensation for their service target annual income comprising the following components (based on 100 percent target achievement):

- **45 percent (approx.) fixed compensation.** This comprises a permanently agreed basic annual salary that has no link to performance and is paid in twelve equal monthly installments.
- **55 percent (approx.) variable – performance-related – compensation.** This comprises three components: an annual bonus (short-term incentive – "STI"), a multiple year bonus (mid-term incentive – "MTI") and a long-term variable compensation component (long-term incentive – "LTI").

see also page 86ff.

The **short-term incentive (STI)** is intended to reward performance over the preceding fiscal year in line with the recent progress of the Company. The STI constitutes approximately 20 percent of the target total compensation. It is set by the Supervisory Board in a two-phase process. Two equally-weighted target functions for the key performance indicators free cash flow and return on capital employed (RoCE) are defined at the beginning of each fiscal year. The target functions are identical for all members of the Management Board. Bonus payments for the Company's employees are determined using the same performance indicators, which are described in more detail in the section titled "Internal Management System". The actual bonus to be paid is determined by the Supervisory Board once the fiscal year has ended based on the target achievement. An STI is paid only if the level of target achievement reaches the 50 percent threshold for both performance indicators; no annual bonus is paid for years in which target achievement falls short of this hurdle for at least one of the target parameters. Actual target achievement is determined separately for each target if the threshold is surpassed. The arithmetic mean of the level of target achievement for the two targets is then calculated from these separate figures and it is this figure that is used to determine the actual amount to be paid. A cap of 250 percent applies, meaning that the maximum amount that can be paid is 250 percent of the target STI. 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, the position of the Company 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.

A new compensation component in the form of a **mid-term incentive (MTI)** has been introduced to reward sustained performance by the Management Board in line with the medium-term progress of the Company. In combination with the long-term incentive, this MTI ensures that the variable compensation components comply with the new requirements under stock corporation law for a multiple-year assessment basis. The MTI constitutes 20 percent of the target total compensation. Each tranche of the MTI has a term of three years and is paid in cash on maturity. The target figures for RoCE and free cash flow are the same as the STI targets defined in advance every year for the next year of the three-year period. The level of target achievement for both the RoCE target and the free cash flow target must reach a threshold of 50 percent in every year of the relevant three-year period, otherwise the level of target achievement for the purposes of the MTI is set to zero for the year concerned. If the threshold is achieved, the actual overall level of target achievement for the STI in the relevant year also applies for the purposes of the MTI. The MTI to be paid at the end of the three-year period is determined by calculating the arithmetic mean of the three annual target achievement levels. The MTI is paid as calculated even if the mean level of target achievement for the three-year period is below the 50 percent threshold. The Supervisory Board may increase or reduce the amount to be paid under the MTI in each case by up to 50 percent as it sees fit based on the performance of the Management Board as a whole, the position of the Company and any exceptional developments. No lower limit applies in this case, meaning that the MTI is different in this respect to the STI. In addition, a cap of 200 percent applies, meaning that the maximum amount that can be paid is 200 percent of the target MTI.

Management Board members Peter Bauer and Dr. Reinhard Ploss, who were already in their position prior to the introduction of the new compensation system, are covered by a transitional arrangement for the 2011 and 2012 fiscal years designed to prevent them losing out as a result of there being no maturing MTI tranche. This arrangement provides for each of them to receive a settlement calculated on the basis of the first and second year, respectively, of the MTI tranche for the fiscal years 2011 to 2013. The arrangement (i) guarantees a level of target achievement of at least 50 percent in each case and (ii) provides for the MTI to be calculated using the actual level of target achievement for the year at the end of the first year and using the average of the target achievement levels over the two years at the end of the second year, but with a minimum level of 50 percent in each case.

The **long-term incentive (LTI)** is intended to reward long-term 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 in a rising share price. The LTI constitutes approximately 15 percent of the target total compensation. It is intended that the Supervisory Board will continue to award the members of the Management Board an LTI in the form of an annual tranche of stock options corresponding to the portion of the target annual income accounted for by the LTI for as long as the Company maintains a stock option plan providing adequate scope to create a long-term incentive using stock options. If the profit from exercised stock options would amount to more than 250 percent of the target annual income accounted for by the LTI in the year concerned, a number of options will expire such that the profit is reduced to the 250 percent mark (cap). The number of options to be awarded under the new Management Board compensation system is calculated in principle on the basis of their fair market value. The fair market value figure used to determine the number of stock options takes no account of the cap applicable to these options and is consequently equivalent to the fair market value of the other options granted by the Company to employees under the Infineon stock option plan. Using this higher (because the cap, a value-reducing factor, is not considered) fair market value to determine the number of stock options results in the members of the Management Board receiving a lower number of stock options than would otherwise be the case. The Supervisory Board will define suitable alternative LTI instruments of commensurate value if it is impossible under the existing stock option plans to create a sufficient LTI.

In addition, the Supervisory Board retains the existing option of granting an additional bonus for special achievements.

MANAGEMENT BOARD COMPENSATION IN THE 2011 FISCAL YEAR

Total cash compensation

The active members of the Management Board in the 2011 fiscal year received total fixed non-performance-related compensation of €2,800,527 for their service (the active members in the previous year received €4,053,593). The members of the Management Board also received variable performance-related cash compensation totaling €4,012,643 for their service in the 2011 fiscal year (previous year: €3,138,000), which consists of a short-term incentive amounting to a total of €2,382,586 and a settlement paid to Mr. Bauer and Dr. Ploss for the mid-term incentive amounting to a total of €1,630,057. Both the short-term incentive and the mid-term incentive are based on target achievement figures of 250 percent for the RoCE target and 170.67 percent for the free cash flow target, which also apply for the bonus payments to the Company's employees. Weighting both targets equally yields an average (mean) target achievement figure for the 2011 fiscal year of 210.33 percent and the total cash compensation paid in the 2011 fiscal year accordingly amounts to €6,813,170 (previous year: €7,191,593). No additional bonus was granted.

Share based compensation

The Annual General Meeting of February 11, 2010 responded to the expiry of the Stock Option Plan 2006 at the end of the 2009 fiscal year by approving a new Stock Option Plan 2010. The exercise price for a new share under this Stock Option Plan 2010 amounts to 120 percent of the average share price over the five trading days preceding the day of issue of the option. The options issued may only be exercised if the Infineon share price outperforms the Philadelphia Semiconductor Index (SOX). The initial reference figures (100 percent) for this purpose are the arithmetic mean of the Infineon share price and the daily closing price of the SOX over a three-month period following the issue of the stock options. The Infineon share price must then exceed the SOX (daily closing price), as measured using the respective reference values, at least once on at least ten consecutive trading days in the period beginning one year after the issue of the stock options and lasting until the end of their lifetime. Further details of our Stock Option Plan 2010 may be found in the notes to the Consolidated Financial Statements under No. 32 Stock Option Plans.

Mr. Bauer received 200,000 stock options under the Stock Option Plan 2010 in the 2011 fiscal year in his capacity as Chief Executive Officer and Prof. Dr. Eul and Dr. Ploss each received 120,000 stock options. These stock options, which were granted under the old compensation system, are subject to an exercise cap of 250 percent of their fair market value at the time of granting. The exercise cap is calculated using the fair market value of an option without any value-reducing limit (€2.46). In the 2011 fiscal year no stock options were exercised or forfeited; of the stock options granted to Mr. Bauer 100,000 expired. No stock options were granted to the members of the Management Board in the previous fiscal year. Mr. Asam's contract entitles him to an annual long-term incentive in the form of stock options in the amount of €220,000 in line with the new compensation system, but since he was only appointed to the Management Board on January 1, 2011, Mr. Asam could not be included in the annual allocation of stock options in December 2010. When the next tranche of stock options is allocated in December 2011, Mr. Asam will accordingly receive stock options for his service in the 2011 fiscal year (on a pro-rata basis from January 1, 2011) in addition to his stock options for the 2012 fiscal year.

The active members of the Management Board in the 2011 fiscal year have received the following stock options during their service on the Management Board:

Share based compensation

	Options outstanding at the beginning of the fiscal year		Options granted in the fiscal year		Options outstanding at the end of the fiscal year				Options available for exercise at the end of the fiscal year		Total expense for share based compensation
Management Board member	Number	Average exercise price[1] in €	Number	Average exercise price[1] in €	Number	Average exercise price[1] in €	Range of exercise prices in €	Average remaining term[1] in years	Number	Average exercise price[1] in €	in €
Peter Bauer (CEO)	375,000	10.93	200,000	8.62	475,000	9.65	8.20 – 13.30	3.14	275,000	10.93	37,030
Dominik Asam (since January 1, 2011)	–	–	–	–	–	–	–	–	–	–	–
Prof. Dr. Hermann Eul (until January 31, 2011)	180,000	11.03	120,000	8.62	300,000	10.07	8.20 – 13.30	3.26	180,000	11.03	144,653
Dr. Reinhard Ploss	–	–	120,000	8.62	120,000	8.62	8.62	6.22	–	–	22,218
Total	**555,000**		**440,000**		**895,000**				**455,000**		**203,901**

1 Weighted average.

Total compensation

The total compensation paid to active members of the Management Board for their service in the 2011 fiscal year amounting in total to €8,248,662 (previous year: €7,191,593) consisted of the following components (gross excluding statutory deductions):

Total compensation

in €		Non-performance-related compensation		Performance-related compensation				Total compensation
Management Board member	Fiscal year	Basic annual salary	Other [1]	Short Term Incentive	Mid Term Incentive		Long Term Incentive [3]	
					Settlement for 2011 [2]	Provision for the 2011 – 2013 tranche		
Peter Bauer (CEO)	**2011**	**1,100,000**	**41,288**	**982,241**	**982,241**	**327,414**	**288,000**	**3,721,184**
	2010	1,400,000	40,979	786,000	–	–	–	2,226,979
Dominik Asam (since January 1, 2011)	**2011**	**513,750**	**143,402**	**485,862**	**–**	**161,954**	**96,585**	**1,401,553**
	2010	–	–	–	–	–	–	–
Prof. Dr. Hermann Eul [4] (until January 31, 2011)	**2011**	**300,000**	**6,073**	**266,667**	**–**	**–**	**172,800**	**745,540**
	2010	900,000	13,432	786,000	–	–	–	1,699,432
Dr. Reinhard Ploss	**2011**	**685,000**	**11,014**	**647,816**	**647,816**	**215,939**	**172,800**	**2,380,385**
	2010	700,000	10,846	786,000	–	–	–	1,496,846
Dr. Marco Schröter [5] (until August 4, 2010)	**2011**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
	2010	958,333	30,003	780,000	–	–	–	1,768,336
Total	**2011**	**2,598,750**	**201,777**	**2,382,586**	**1,630,057**	**705,307**	**730,185**	**8,248,662**
	2010	3,958,333	95,260	3,138,000	–	–	–	7,191,593

1 The compensation shown under "Other" comprises primarily the monetary value of the provision of a company car and insurance contributions and, in the case of Mr. Asam, money reimbursed to cover relocation expenses and the costs of dual residence.

2 The MTI was introduced as part of the new Management Board compensation system. The old Management Board contracts that did not include an MTI were still in force in the 2010 fiscal year. In the 2011 fiscal year, Mr. Bauer and Dr. Ploss received a settlement under the terms of a transitional arrangement to prevent them losing out as a result of there being no maturing MTI tranche.

3 The figures for Mr. Bauer, Prof. Dr. Eul and Dr. Ploss are based on a fair market value per option of €1.44, which was calculated on the basis of a Monte-Carlo simulation model taking account of the value-reducing cap. Mr. Asam is entitled to a pro-rata LTI for the 2011 fiscal year. The stock options will not be allocated until December 2011. The number of stock options granted depends on their fair market value taking no account of the cap applicable to these options and cannot be determined until the day of issue. In the absence of an actual value, the value of the LTI component has been determined on the basis of the value of the options granted to the other members of the Management Board in December 2010, which was €1.44. This puts the value of Mr. Asam's LTI component at €96,585. The exact amount cannot be determined until the time of allocation in December 2011.

4 Prof. Dr. Eul's contract was not brought into line with the new compensation system due to his moving to Intel and in the 2011 fiscal year he accordingly still received an annual bonus under the terms of the old compensation system on a pro-rata basis until his departure from the Management Board on January 31, 2011. This annual bonus is based on a return on assets of 13 percent in the 2011 fiscal year and was determined by the Supervisory Board taking account of Prof. Dr. Eul's personal performance.

5 The total compensation of €1,768,336 paid to Dr. Schröter in the 2010 fiscal year includes his final payment of €1,280,000 as specified in the termination agreement.

COMMITMENTS TO THE MANAGEMENT BOARD UP ON TERMINATION OF EMPLOYMENT

Allowances and pension entitlements in the 2011 fiscal year

The members of the Management Board who were in their position prior to the introduction of the new compensation system are contractually entitled to a defined benefit pension payment. Mr. Bauer's annual pension amounts to €450,000; that of Dr. Ploss amounts to €180,000 and increases by €5,000 every year for each completed year of service on the Management Board up to a maximum of €210,000. These entitlements are already vested both contractually and under the applicable statutory provisions and are secured by a liability insurance policy. These pension entitlements are to be reviewed every three years from the date on which the pension begins to be paid and increased by a percentage equal to the percentage increase in the consumer price index for Germany as defined by the German Federal Statistical Office. Pension entitlements for former members of the Management Board normally begin from age 65 (and in the case of Mr. Bauer, from age 60), but may be paid earlier if a member leaves for medical reasons.

Rather than being granted a defined benefit pension commitment based on years of service, Mr. Asam, in accordance with the new Management Board compensation system, has received a defined contribution pension commitment essentially resembling the Infineon pension plan applicable to all employees. The Company has accordingly set up a personal pension account (basic account) for Mr. Asam and makes annual pension contributions available for crediting to the basic account. The Company pays interest on the balance in the basic account annually until collection of the pension begins and may also award surplus credits. The balance of the basic account when collection of the pension begins (due to age, invalidity or death) – increased by the adjusting payment in the event of invalidity or death – constitutes the retirement benefit entitlement and is paid out to the employee or his or her surviving dependants in twelve annual installments, or, if so requested by the employee, in eight annual installments, as a lump sum or life-long pension. In addition to a one-time, 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 of the Management Board an annual pension contribution amounting to between 25 and 40 percent, as determined by the Supervisory Board, of the basic annual salary agreed at the time. The pension contribution for Mr. Asam for the 2011 fiscal year has been set at 30 percent of his basic annual salary, which amounts to €154,125. Those pension entitlements of Mr. Asam not resulting from the initial component become vested once a period of three years has elapsed from the date on which he took up his position unless (i) Mr. Asam leaves the Management Board before the three-year period has elapsed or (ii) the Supervisory Board declines to reappoint Mr. Asam beyond the end of the three-year period for good cause pursuant to section 84, paragraph 3, AktG. The retirement benefit entitlement is paid out, as is the case for all employees, on or after reaching the age of 67, when the contract of employment ends, or, on request, at an earlier point in time if the contract of employment ends on or after reaching the age of 60.

A total of €3,947,714 (previous year: €815,735) was expensed and added to the pension provision in the 2011 fiscal year in accordance with IFRS for pension entitlements for the serving members of the Management Board (excluding interest paid). The increase in this sum as compared with the previous year stems largely from a rise in the vested pension entitlement already earned by Mr. Bauer to €450,000 in connection with his contract being brought into line with the new compensation system and from the entitlement of Prof. Dr. Eul, which rose to €220,000 and became vested in connection with his move to Intel.

The following overview shows the annual pension entitlements at the beginning of retirement for the Management Board members serving in the 2011 fiscal year on the basis of the entitlements already acquired:

Pension entitlements

in € / Management Board member	Pension entitlements (annual) as of beginning of pension period	Present value of pension entitlement (as of September 30, 2011)	Expenses in connection with increase in pension provision in the 2011 fiscal year (excluding interest paid)
Peter Bauer (CEO)	450,000	5,560,565	1,959,991
Dominik Asam (since January 1, 2011)[1]	–	358,658	313,335
Prof. Dr. Hermann Eul (until January 31, 2011)	220,000	2,970,416	1,555,097
Dr. Reinhard Ploss	185,000	2,770,032	119,291
Total	**855,000**	**11,659,671**	**3,947,714**

1 Defined contribution pension commitment in accordance with the new compensation system; the present value was determined including both the initial component already vested and the pension contribution for the 2011 fiscal year.

Early termination of contract

The contracts with the members of the Management Board include a change of control clause. A change of control for the purposes of this clause occurs when a third party, individually or together with another party, acquires 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). Management Board members have the right to resign and terminate their contracts within twelve months of the announcement of such a change of control and any that choose to do so are entitled to continued payment of their annual remuneration for the full remaining duration of their contract up to a maximum of 36 months. The relevant annual remuneration figure is the annual remuneration payable in the year in which the member leaves. If Infineon Technologies AG removes a member of the Management Board or terminates his or her contract within twelve months of the announcement of a change of control, the Management Board member concerned is entitled to continued payment of the annual remuneration for the full remaining duration of the contract subject to a minimum period of 24 months and a maximum period of 36 months.

Prof. Dr. Eul left the Company's Management Board and transferred to Intel on completion of the sale of Infineon Technologies AG's Wireless mobile phone business to Intel Corporation on January 31, 2011. The Company accordingly concluded an agreement with Prof. Dr. Eul concerning the termination of his contract under which Prof. Dr. Eul received an additional bonus of €2,533,333, which is equivalent to his annual remuneration for the period through the end of the original term of his contract assuming a notional return on assets of 10 percent. The Supervisory Board has also granted Prof. Dr. Eul a further additional bonus of €900,000 in connection with the completion of the transaction on terms particularly favorable to the Company. It has been agreed with Prof. Dr. Eul that he will receive an annual pension of €220,000 from the date of his 65th birthday. Any other payments received will not be offset against this amount. The stock option entitlements awarded to Prof. Dr. Eul prior to his leaving the Company will continue to apply just as if Prof. Dr. Eul had remained with the Company until they matured.

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

Fringe benefits and other awards in the 2011 fiscal year

- The members of the Management Board are the beneficiaries of insurance in an appropriate amount maintained by the Company to cover the death or invalidity of a member of the Management Board.
- The Company does not provide loans to Management Board members.
- The members of the Management Board received no third-party payments or promises of third-party payments in connection with their activities on the Management Board in the 2011 fiscal year.
- The Company maintains directors' and officers' group liability insurance ("D&O insurance"). The D&O insurance policy covers personal liability in the event of claims made against members of the Management 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 one half times the annual fixed compensation of the Management Board member concerned has been agreed in accordance with the statutory regulation in section 93, paragraph 2, AktG.
- The Company entered into a restitution agreement in the 2009 fiscal year with the active members of the Management Board at that time. These agreements provide for the Company to cover, to the extent permitted by law, all costs and expenses incurred by Management Board members in the performance of their duties for the Company in connection with legal, governmental, regulatory and parliamentary proceedings and investigations and with arbitration proceedings. However, the agreements specifically exclude any restitution of costs insofar as the proceedings concern an action or omission on the part of the Management Board member that constitutes a culpable breach of the Management Board member's duty of care pursuant to section 93, paragraph 2, AktG.

PAYMENTS TO FORMER MEMBERS OF THE MANAGEMENT BOARD IN THE 2011 FISCAL YEAR

Former members of the Management Board received total severance and pension payments of €6,199,333 (previous year: €3,373,352) in the 2011 fiscal year. This figure includes the second installment of the severance payment due to Dr. Schröter of €1,750,000 and the additional bonus paid to Prof. Dr. Eul totaling €3,433,333. Pension reserves for former members of the Management Board amounted in total as of September 30, 2011 to €29,749,461 (previous year: €36,597,097).

SUPERVISORY BOARD COMPENSATION

Compensation structure

Like the Management Board compensation system, the Supervisory Board compensation system was subject to a thorough review in the 2010 fiscal year. The provisions concerning remuneration for the Supervisory Board had been unchanged for many years and their structure, in particular, had become so dated that it no longer adequately reflected the high technical and personal demands placed on members of the Supervisory Board. Acting on a proposal put forward by the Management Board and Supervisory Board, the Annual General Meeting on February 17, 2011 accordingly adopted a new Supervisory Board compensation system effective from October 1, 2010. This new system is intended to reflect the Company's size, the duties and responsibilities of the members of the Supervisory Board and the Company'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.
- **A variable remuneration** component amounting to €1,500 for every €0.01 by which earnings per share exceed a minimum threshold of €0.30, it being the case that this minimum threshold is increased by €0.03 every year with the first increase taking effect for the fiscal year beginning October 1, 2011. The variable remuneration 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 remuneration component is limited to €50,000 per fiscal year and falls due for payment only once the Annual General Meeting following the fiscal year to which the remuneration relates has ended.

- **An allowance** recognizing the additional work involved in performing certain functions. 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 Company additionally grants each member of the Supervisory Board a meeting attendance fee of €2,000 in respect of each meeting of the Supervisory Board or one of its committees attended in person. The meeting attendance fee is paid only once in cases in which more than one meeting is held on a given day.

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

Supervisory Board compensation in the 2011 fiscal year

The total compensation (including meeting attendance fees) paid to the individual members of the Supervisory Board on a pro-rata basis for their service on the Supervisory Board in the 2011 fiscal year comprises the following (these figures do not include value-added tax at 19 percent):

Compensation of the Supervisory Board

In € Supervisory Board member	Fixed compensation	Allowance for specific functions	Variable remuneration [1]	Total compensation	Meeting attendance fees	Total
Wigand Cramer	50,000	15,000	50,000	115,000	20,000	135,000
Alfred Eibl	50,000	15,000	50,000	115,000	20,000	135,000
Peter Gruber	50,000	15,000	50,000	115,000	20,000	135,000
Gerhard Hobbach	50,000	15,000	50,000	115,000	20,000	135,000
Hans-Ulrich Holdenried	50,000	15,000	50,000	115,000	24,000	139,000
Prof. Dr. Renate Köcher	50,000	–	50,000	100,000	16,000	116,000
Wolfgang Mayrhuber (pro-rata from February 17, 2011)	33,333	33,333	33,333	99,999	18,000	117,999
Manfred Puffer	50,000	–	50,000	100,000	12,000	112,000
Gerd Schmidt	50,000	37,500	50,000	137,500	26,000	163,500
Prof. Dr. Doris Schmitt-Landsiedel	50,000	25,000	50,000	125,000	20,000	145,000
Jürgen Scholz	50,000	15,000	50,000	115,000	20,000	135,000
Dr. Eckart Sünner	50,000	25,000	50,000	125,000	18,000	143,000
Prof. Dr.-Ing. Klaus Wucherer (pro-rata until February 17, 2011)	20,833	20,833	20,833	62,499	20,000	82,499
Total	**604,166**	**231,666**	**604,166**	**1,439,998**	**254,000**	**1,693,998**

1 Based on earnings per share of €0.68.

Miscellaneous (2011 fiscal year)

- The Company does not provide loans to Supervisory Board members.
- The Company maintains directors' and officers' group liability insurance ("D&O insurance"). The D&O insurance policy covers personal liability including in the event of claims made against members of the Supervisory Board for indemnification of losses incurred in the performance of their duties. A deductible of 10 percent of the loss up to the amount of one and one half times the annual fixed compensation has been agreed in accordance with section 3.8 DCGK.

FORWARD-LOOKING STATEMENTS

This Management Report contains forward-looking statements about the business, financial condition and earnings performance of the Infineon Group. Forward-looking statements are not historical facts and are sometimes expressed in terms such as "believe", "expect", "predict", "intend", "forecast", "plan", "estimate", "are likely to be", "anticipate", "assume", "wish to", "are aimed at" and similar expressions. Forward-looking statements are based on current forecasts, estimates, projections and expectations and therefore subject to risks and uncertainties that could cause actual developments or actual results or performance to differ materially from the development, results or performance expressly or implicitly assumed in these forward-looking statements. Readers are expressly cautioned not to place undue reliance on these forward-looking statements, which apply only at the time the report is published. We undertake no obligation to publicly update or revise any of the forward-looking statements above and beyond the disclosure requirements stipulated by law.

Neubiberg, November 2011

Management Board

Peter Bauer Dominik Asam Dr. Reinhard Ploss

CONSOLIDATED FINANCIAL STATEMENTS

GROUP MANAGEMENT REPORT
THE INFINEON GROUP

GROUP MANAGEMENT REPORT
OUR FISCAL YEAR 2011

CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED STATEMENT OF OPERATIONS

for the year ended September 30, 2011

€ in millions	Notes	2011	2010
Revenue		3,997	3,295
Cost of goods sold		(2,343)	(2,058)
Gross profit		**1,654**	**1,237**
Research and development expenses		(439)	(399)
Selling, general and administrative expenses		(449)	(386)
Other operating income	8	23	18
Other operating expense	8	(53)	(122)
Operating income		**736**	**348**
Financial income	9	39	29
Financial expense	10	(65)	(95)
Income from investments accounted for using the equity method	19	4	8
Income from continuing operations before income taxes		**714**	**290**
Income tax benefit	11	30	22
Income from continuing operations		**744**	**312**
Income from discontinued operations, net of income taxes	5	375	348
Net income		**1,119**	**660**
Attributable to:			
Non-controlling interests		–	1
Shareholders of Infineon Technologies AG		1,119	659
Basic earnings per share attributable to shareholders of Infineon Technologies AG (in euro):			
Basic earnings per share from continuing operations	12	0.68	0.29
Basic earnings per share from discontinued operations	12	0.35	0.32
Basic earnings per share	12	**1.03**	**0.61**
Diluted earnings per share attributable to shareholders of Infineon Technologies AG (in euro):			
Diluted earnings per share from continuing operations	12	0.66	0.28
Diluted earnings per share from discontinued operations	12	0.32	0.30
Diluted earnings per share	12	**0.98**	**0.58**

See also accompanying notes to the Consolidated Financial Statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the year ended September 30, 2011

€ in millions	2011	2010
Net income	**1,119**	**660**
Currency translation effects	–	13
Actuarial losses on pension plans and similar commitments	(20)	(92)
Net change in fair value of available-for-sale financial assets	–	2
Net change in fair value of hedging instruments	(7)	10
Other comprehensive income for the year, net of tax	**(27)**	**(67)**
Total comprehensive income for the year, net of tax	**1,092**	**593**
Attributable to:		
Non-controlling interests	–	1
Shareholders of Infineon Technologies AG	1,092	592

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

as of September 30, 2011

€ in millions	Notes	2011	2010
ASSETS:			
Current assets:			
Cash and cash equivalents		1,007	1,667
Financial investments	13	1,685	60
Trade and other receivables	14	593	687
Inventories	15	507	514
Income tax receivable		30	7
Other current financial assets	16	2	72
Other current assets	17	142	88
Assets classified as held for sale	5	5	495
Total current assets		**3,971**	**3,590**
Property, plant and equipment	18	1,343	838
Goodwill and other intangible assets	22	111	87
Investments accounted for using the equity method	19	34	35
Deferred tax assets	11	262	308
Other financial assets	20	124	119
Other assets	21	28	16
Total non-current assets		**1,902**	**1,403**
Total assets		**5,873**	**4,993**

See also accompanying notes to the Consolidated Financial Statements.

€ in millions	Notes	2011	2010
LIABILITIES AND EQUITY:			
Current liabilities:			
Short-term debt and current maturities of long-term debt	27	68	133
Trade and other payables	23	735	665
Current provisions	24	810	553
Income tax payable		59	111
Other current financial liabilities	25	159	16
Other current liabilities	26	174	153
Liabilities classified as held for sale	5	–	177
Total current liabilities		**2,005**	**1,808**
Long-term debt	27	237	263
Pension plans and similar commitments	35	168	146
Deferred tax liabilities	11	7	11
Long-term provisions	24	26	55
Other financial liabilities	28	4	6
Other liabilities	29	71	79
Total non-current liabilities		**513**	**560**
Total liabilities		**2,518**	**2,368**
Shareholders' equity:	30		
Ordinary share capital		2,173	2,173
Additional paid-in capital		5,854	6,048
Accumulated deficit		(4,514)	(5,613)
Other reserves		10	17
Own shares		(26)	–
Put options on own shares		(142)	–
Equity attributable to shareholders of Infineon Technologies AG		**3,355**	**2,625**
Total liabilities and equity		**5,873**	**4,993**

See also accompanying notes to the Consolidated Financial Statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

for the year ended September 30, 2011

€ in millions	2011	2010
Net income	**1,119**	**660**
Less: income from discontinued operations, net of income taxes	(375)	(348)
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	364	336
Income tax benefit	(30)	(22)
Net interest result	26	73
Provision for doubtful accounts	1	3
Losses (gains) on sales of financial investments	2	(2)
Gains on sales of businesses and interests in subsidiaries	(2)	(3)
Losses in connection with the deconsolidation of ALTIS	–	55
Gains on disposals of property, plant and equipment	(1)	(3)
Income from investments accounted for using the equity method	(4)	(8)
Dividends received from associated companies	5	7
Impairment charges	(4)	12
Share-based compensation	2	–
Change in trade and other receivables	(71)	(151)
Change in inventories	(51)	(42)
Change in other current assets	(27)	33
Change in trade and other payables	87	272
Change in provisions	57	96
Change in other current liabilities	(10)	16
Change in other assets and liabilities	(48)	42
Interest received	27	13
Interest paid	(24)	(44)
Income tax paid	(60)	(37)
Net cash provided by operating activities from continuing operations	**983**	**958**
Net cash provided by (used in) operating activities from discontinued operations	**263**	**(11)**
Net cash provided by operating activities	**1,246**	**947**

€ in millions	2011	2010
Purchases of financial investments	(2,905)	(375)
Proceeds from sales of financial investments	1,283	405
Proceeds from sales of businesses and interests in subsidiaries	2	2
Cash decrease from the deconsolidation of ALTIS	–	(88)
Purchases of intangible assets and other assets	(42)	(33)
Purchases of property, plant and equipment	(845)	(292)
Proceeds from sales of property, plant and equipment and other assets	8	26
Net cash used in investing activities from continuing operations	**(2,499)**	**(355)**
Net cash provided by investing activities from discontinued operations	**946**	**147**
Net cash used in investing activities	**(1,553)**	**(208)**
Net change in related party financial receivables and payables	–	1
Proceeds from issuance of long-term debt	29	4
Repayments of long-term debt	(81)	(300)
Repurchase of convertible subordinated bonds	(173)	(193)
Change in cash deposited as collateral	–	1
Purchases of own shares	(26)	–
Proceeds from the issuance of put options on own shares	8	–
Dividend payments	(109)	–
Net cash used in financing activities from continuing operations	**(352)**	**(487)**
Net cash used in financing activities from discontinued operations	**(3)**	**–**
Net cash used in financing activities	**(355)**	**(487)**
Net increase (decrease) in cash and cash equivalents	(662)	252
Effect of foreign exchange rate changes on cash and cash equivalents	2	1
Cash and cash equivalents at beginning of period	1,667	1,414
Cash and cash equivalents at end of period	**1,007**	**1,667**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year ended September 30, 2011

€ in millions, except for number of shares	Ordinary shares issued		Additional paid-in capital	Accumulated deficit	
	Shares	Amount			
Balance as of October 1, 2009	**1,086,742,085**	**2,173**	**6,048**	**(6,180)**	
Net income	–	–	–	659	
Other comprehensive income for the year, net of tax	–	–	–	(92)	
Total comprehensive income for the year, net of tax	–	–	–	567	
Deconsolidation of ALTIS	–	–	–	–	
Balance as of September 30, 2010	**1,086,742,085**	**2,173**	**6,048**	**(5,613)**	
Balance as of October 1, 2010	**1,086,742,085**	**2,173**	**6,048**	**(5,613)**	
Net income	–	–	–	1,119	
Other comprehensive income for the year, net of tax	–	–	–	(20)	
Total comprehensive income for the year, net of tax	–	–	–	1,099	
Dividends paid	–	–	(109)	–	
Share options exercised	3,750	–	–	–	
Share based compensation	–	–	2	–	
Other changes in equity	–	–	(95)	–	
Purchase of own shares	–	–	–	–	
Net additions/disposals put options on own shares	–	–	8	–	
Balance as of September 30, 2011	**1,086,745,835**	**2,173**	**5,854**	**(4,514)**	

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 gain (loss) on securities	Unrealized gains (losses) on hedging instruments					
3	**1**	**(12)**	**–**	**–**	**2,033**	**60**	**2,093**
–	–	–	–	–	659	1	660
13	2	10	–	–	(67)	–	(67)
13	2	10	–	–	592	1	593
–	–	–	–	–	–	(61)	(61)
16	**3**	**(2)**	**–**	**–**	**2,625**	**–**	**2,625**
16	**3**	**(2)**	**–**	**–**	**2,625**	**–**	**2,625**
–	–	–	–	–	1,119	–	1,119
–	–	(7)	–	–	(27)	–	(27)
–	–	(7)	–	–	1,092	–	1,092
–	–	–	–	–	(109)	–	(109)
–	–	–	–	–	–	–	–
–	–	–	–	–	2	–	2
–	–	–	–	–	(95)	–	(95)
–	–	–	(26)	–	(26)	–	(26)
–	–	–	–	(142)	(134)	–	(134)
16	**3**	**(9)**	**(26)**	**(142)**	**3,355**	**–**	**3,355**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Infineon Technologies AG and its subsidiaries (collectively, "Infineon" or the "Company") 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. The Company's products are also used in a wide variety of microelectronic applications, such as in computer systems, telecommunications systems and consumer goods. The Company's product range comprises standard commodity components, full-customized devices, semi-customized devices and system solutions, application-specific components for digital, analog, and mixed-signal applications as well as embedded, non-volatile memories. Most of the Company's revenue is generated with semiconductors, the remainder with embedded control products (microcontroller designs adapted to the specific requirements of the application) and other product categories. The Company has operations, investments and customers located mainly in Europe, Asia and North America.

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

1 BASIS OF PRESENTATION

The accompanying Consolidated Financial Statements drawn up by Infineon Technologies AG as parent company for the year ended September 30, 2011 have been prepared in accordance with International Financial Reporting Standards ("IFRS") and related interpretations effective as of September 30, 2011 as issued by the International Accounting Standards Board ("IASB") to the extent such IFRS and interpretations have been adopted by the European Union ("EU"). The Consolidated Financial Statements also comply with the supplementary requirements set forth in section 315a paragraph 1 of the German Commercial Code ("Handelsgesetzbuch" or "HGB").

The fiscal year-end for the Company is September 30.

The requirements of the Standards applied have been complied with in full and lead to the Consolidated Financial Statements providing a true and fair view on the financial condition, liquidity position and results of operations of the Group.

The Company's accounting policies are described in notes 2 and 3.

The accompanying 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. In order to improve clarity, various items are aggregated in the Statement of Financial Position and Statement of Operations. These items are disclosed and analysed separately in the Notes. The Statement of Operations is presented using the cost of sales method.

The accounting policies used, as well as the explanatory comments and disclosures made, in the IFRS Consolidated Financial Statements for the year ended September 30, 2011 are based, as a general rule, on those used in the Consolidated Financial Statements for the 2010 fiscal year.

To ease comparability, certain prior year figures have been adjusted to bring them into line with the current basis of presentation. This applies in particular to the following matters:

- Following the sale of the Wireless mobile phone business of the former Wireless Solutions segment, the Company changed its internal and external reporting for segments (see notes 5 and 40) with effect from October 1, 2010. Prior period amounts were adjusted accordingly.
- The breakdown of items in the Consolidated Statement of Cash Flows was expanded in the 2011 fiscal year with respect to the presentation of interest and income tax effects on cash flow from operating activities. Prior period amounts were brought into line with the new basis of presentation.
- Changes in IFRS required to be applied by the Company for the first time in the 2011 fiscal year and further described below.

The Management Board of the Company approved the Consolidated Financial Statements of the Company on November 18, 2011, for submission to the Company's Supervisory Board.

All amounts herein are shown in euro (or "€") except where otherwise stated. Deviations among amounts presented in the Consolidated Financial Statements are possible due to rounding. Negative amounts are presented in parantheses.

FINANCIAL REPORTING RULES APPLIED FOR THE FIRST TIME

The IASB and International Financial Reporting Interpretations Committee have issued the following Standard, which is required to be applied in Consolidated Financial Statements for the year ended September 30, 2011 and which has an impact of the Company's Consolidated Financial Statements:

- **"Improvements to IFRS (2009)":** The Standard with the title "Improvements to IFRS (2009)" brings together numerous smaller changes to existing standards in conjunction with an annual program of improvements to IFRS. These changes did not have any significant impact on the accompanying consolidated financial statements.

FINANCIAL REPORTING RULES ISSUED NOT YET ADOPTED

The following new or amended Standards have been issued recently by the IASB. They have not been applied in Consolidated Financial Statements as of September 30, 2011 since they are not yet mandatory or, alternatively, have not yet been endorsed by the European Union:

- **Amendment to IAS 24 "Related Party Disclosures"** (effective date: January 1, 2011, to be applied in the fiscal year beginning October 1, 2011). The amendment clarifies the definition of related parties. The amendment will not have any significant impact on the Consolidated Financial Statements.

- **Amendments to IFRS 7 "Financial Instruments: Disclosures"** (effective date: July 1, 2011, to be applied in the fiscal year beginning October 1, 2011). The amendments require additional disclosures to be made when financial assets are transferred. The changes will not have any significant impact on the Consolidated Financial Statements.

- **IFRS 9 "Financial Instruments"** (effective date: January 1, 2013). The Standard introduces new requirements for the classification and measurement of financial assets and liabilities. The Exposure Drafts "Amortised Cost and Impairment", "Hedge Accounting" and "Offsetting Financial Assets and Financial Liabilities" are currently under discussion. The aim, after completion of these discussions, is to incorporate all three drafts into IFRS 9 and hence replace IAS 39. The endorsement decision by the European Union is currently open and has been put back until the final version of IFRS 9 is issued. An Exposure Draft is also currently under discussion which would push the date of first-time application of IFRS 9 further into the future.

- **IFRS 10 "Consolidated Financial Statements"** (effective date: January 1, 2013). The Standard replaces the rules contained at present in IAS 27 and SIC 12 with respect to control and consolidation and introduces a uniform consolidation model.

- **IFRS 11 "Joint Arrangements"** (effective date: January 1, 2013). The new Standard replaces the existing IAS 31 on joint ventures and introduces revised terminology and classification of entities that are party to joint arrangements.

- **IFRS 12 "Disclosure of Interests in Other Entities"** (effective date: January 1, 2013). The new Standard requires the disclosure of information that enables users of financial statements to evaluate the nature of, the risks associated with, and the financial effects of its interests in subsidiaries, associated companies, joint arrangements and unconsolidated structured entities (special purpose entities).

- **Revised version of IAS 28 "Investments in Associates and Joint Ventures"** (effective date: January 1, 2013). The amendments take into account the consequences of changes of the new IFRS 10, IFRS 11 and IFRS 12 and expand the scope of application of IAS 28 to joint ventures.

- **IFRS 13 "Fair Value Measurement"** (effective date: January 1, 2013). The Standard sets out in a single IFRS a framework for measuring fair value, including a definition of the term and describing the methods that can be used to measure fair value. It also expands the disclosures about fair value measurement.

- **Amendment to IAS 1 "Presentation of Other Comprehensive Income"** (effective date: July 1, 2012). The amendment requires that a distinction be made in Statements of Comprehensive Income between items that will be recognized in future periods in profit or loss and those which will not.

- **Amendment to IAS 19 "Employee Benefits"** (effective date: January 1, 2013). The changes relate to the recognition and measurement of the cost of defined benefit pension plans and termination benefits. The amendment also withdraws the option to recognize actuarial gains and losses over time and requires that they are recognized immediately in other comprehensive income. Infineon already recognizes actuarial gains and losses on defined benefit pension plans immediately in other comprehensive income.
- **"Improvements to IFRS (2010)"** The Standard with the title "Improvements to IFRS (2010)" brings together numerous smaller changes to existing standards in conjunction with an annual program of improvements to IFRS. The amendments have different effective dates.

The new Standards and Amendments to existing Standards are mandatory for annual periods beginning on or after the stipulated effective date.

As a general rule, new Standards and Amendments to existing Standards are not adopted by the Company before their effective date, even if this is permitted for certain Standards.

The Company is currently assessing the impact of the Standards not yet applied on the presentation of the Company's financial condition, liquidity position and results of operations.

A number of other Standards and Interpretations have been issued, which, from today's perspective, are not expected to have any impact on the Consolidated Financial Statements.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying Consolidated Financial Statements have been drawn up using the following consolidation principles and accounting policies:

BASIS OF CONSOLIDATION

The Consolidated Financial Statements include the financial statements of Infineon Technologies AG and its direct and indirect subsidiaries on a consolidated basis. A subsidiary is defined as an entity which, directly or indirectly, is controlled by Infineon Technologies AG. Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. Ownership of the majority of voting rights is an indication of control; in this context, any potential voting rights must also be taken into account for the purposes of assessing control.

An entity is included in the Consolidated Financial Statements from the date on which the Company has the right to control the entity concerned (acquisition date). On the first-time consolidation of an entity, the acquired assets and liabilities are measured on the basis of their fair value. Any excess of cost of acquisition over the Company's share of the fair value of acquired assets, liabilities and contingent liabilities is recognized as goodwill. Any excess of the Company's share of the fair value of items acquired over cost of acquisition is recognized as a gain.

The financial statements of entities included in the Consolidated Financial Statements are prepared using uniform accounting policies. The effect of intragroup transactions on assets and liabilities as well as unrealized gains and losses arising from intragroup relationships are eliminated on consolidation.

The Company deconsolidates a subsidiary when it loses control over the financial and operating policies of such entity and no longer benefits from such entity's activities. Examples of the loss of control are the sale (full or partial) of shares in a subsidiary, the surrender of voting rights and the opening of insolvency proceedings at the level of a subsidiary.

A list of subsidiaries of Infineon Technologies AG is provided in note 42.

INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

Investments in associated companies and joint ventures (as defined below) are accounted for using the equity method (combined: "Investments Accounted for Using the Equity Method" see note 19).

(a) Associated Companies

An "associated company" is 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.

(b) Joint Ventures

A "joint venture" is a contractual arrangement whereby two or more parties undertake an economic activity that is subject to joint control.

Equity method

Under the equity method, the initial investment in an associated company or joint venture is recognized at cost and increased or decreased at each subsequent reporting date for the Company's share of profits or losses, dividends paid and other changes in equity of the associated company or joint venture, to the extent they relate to the Company's 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 Company's carrying amount of the investment in the entity are charged against other assets held by the Company related to the investment. If the carrying amount of the investment and of other assets related to the investment are written down to zero, it must be determined whether additional losses are required to be recognized if the Company has an obligation to fund such losses.

The effects of all significant transactions between the Company and entities accounted for using the equity method are eliminated to the extent of the Company's interest in the equity-method investee.

When an equity method investee's fiscal year-end differs by not more than three months from the Company's fiscal year-end, the Company's share of profit or losses of the respective company is recognized with a time lag.

OTHER EQUITY INVESTMENTS

Other equity investments, where the Company has an ownership interest in the entity of less than 20 percent, are recorded at cost less any necessary write-downs for impairment if a fair value cannot be reliably determined.

REPORTING CURRENCY AND FOREIGN CURRENCY TRANSLATION

The currency of the primary economic environment in which an entity operates and normally generates and expends cash is considered to be the functional currency of that entity. The functional currency of Infineon Technologies AG is the euro. The Consolidated Financial Statements have been drawn up in euros. The functional currency of foreign subsidiaries corresponds either to the local currency or the euro.

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

The assets and liabilities of foreign subsidiaries with functional currencies other than the euro are translated using period-end exchange rates. Income and expenses of these entities are translated using the average exchange rate for the period under report. Exchange differences arising from the translation of assets and liabilities in comparison with the translations reported in the previous periods are recognized directly in equity and reported as a component of "other reserves" within equity.

The exchange rates of the primary currencies (€1.00 quoted in currencies specified below) used in the preparation of the accompanying Consolidated Financial Statements are as follows:

€1.00 quoted into currencies	Closing rate		Annual average exchange rate	
	September 30, 2011	September 30, 2010	2011	2010
US dollar	1.3631	1.3611	1.3946	1.3476
Japanese yen	104.2200	113.8500	112.6511	120.1646

MEASUREMENT BASES

The following table summarizes the principal measurement bases used to draw up the Company's Consolidated Financial Statements:

Statement of Financial Position item	Measurement basis
Assets	
Cash and cash equivalents	Nominal amount
Financial investments	Fair value/amortized cost
Trade and other receivables	Amortized cost
Inventories	Lower of cost and net realizable value
Assets classified as held for sale	Lower of carrying amount and fair value less costs to sell
Property, plant and equipment	Amortized cost
Goodwill	Impairment-only-approach
Intangible assets (except goodwill)	
With finite useful life	Amortized cost
With indefinite useful life	Impairment-only-approach
Other financial assets (current and non-current) (categories in accordance with IAS 39)	
Loans and receivables	Amortized cost
Available-for-sale	Fair value directly through equity
Measured at fair value through profit or loss	Fair value through profit or loss
Designated cash flow hedges	Fair value directly through equity
Other assets (current and non-current)	Amortized cost
Equity and liabilities	
Trade and other payables	Amortized cost
Debt	Amortized cost
Provisions	
Pensions	Projected unit credit method
Other provisions	Expected settlement amount
Other financial liabilities (current and non-current) (categories in accordance with IAS 39)	
Measured at fair value through profit or loss	Fair value through profit or loss
Designated hedging instruments	Fair value directly through equity
Other financial liabilities	Amortized cost
Other liabilities (current and non-current)	Amortized cost
Put options on own shares	Present value of nominal amount at date of issue
Own shares	Cost

CASH AND CASH EQUIVALENTS

Cash and cash equivalents represent cash, deposits and liquid short-term investments with a maturity at acquisition date of three months or less and are measured on the basis of their nominal amount.

FINANCIAL INSTRUMENTS

A financial instrument is a contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity. Financial instruments containing both equity and liability elements (e.g. convertible bonds which give the holder the right to convert the bond into shares of the Company), are required to be evaluated in accordance with IAS 32, "Financial Instruments: Presentation" and, where necessary, divided into their equity and liability components.

Financial assets consist, in particular, of cash and cash equivalents, financial investments, trade and other receivables as well as derivative financial instruments with a positive fair value at the end of the reporting period held for trading purposes.

Financial liabilities comprise primarily trade and other payables, debt and derivative financial instruments with a negative fair value at the end of the reporting period.

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

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

Financial assets are derecognized when the rights to receive cash flows from the investments have expired or have been transferred and the Company has transferred substantially all risks and rewards of ownership. Financial liabilities are derecognized when they are extinguished, that is when the obligation specified in the respective contract is discharged, cancelled or has expired.

Financial assets and financial liabilities

The Company classifies financial assets into the following categories: "Loans and receivables", "Available-for-sale financial assets", "Financial assets measured at fair value through profit and loss" and "Designated hedging instruments (cash flow hedges)". No financial assets were classified to the other IAS 39 category "Assets held-to-maturity" in the fiscal years 2011 and 2010.

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

The classification of a financial asset or financial liability to one of the categories stated above is determined on initial recognition of the relevant item.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, unless maturity is more than 12 months at the end of the relevant reporting period, in which they are reported as non-current. Loans and receivables of the Company include the items "Cash and cash equivalents" as well as "Trade and other receivables". Fixed-term deposits and commercial paper (reported as financial investments) with an original term of between 3 and 12 months are also classified as "loans and receivables".

Loans and receivables are measured on initial recognition at their fair value less incidental acquisition costs. Subsequently, they are measured at amortized cost using the effective interest method. Loans and receivables are tested for impairment. They are considered impaired when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of the receivables. Objective evidence that indicates an impairment would include, for example, known financial difficulties or the insolvency of a creditor and results in the recognition of a corresponding allowance (impairment loss). Allowances are also recognized on the basis of the aging profile of past-due receivables. The corresponding impairment loss is recognized in the Statement of Operations via an allowance account. When a payment default becomes certain (e.g. in the case of insolvency proceedings or a voluntary settlement agreement), loans and receivables are reclassified as uncollectible and derecognized along with the previously recognized allowance.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial instruments that are designated in this category or not allocated to any of the other categories. They comprise principally marketable securities carried as current assets and reported as "Financial investments" (see note 13).

Available-for-sale financial assets are measured at their fair value at the end of the relevant reporting period. Changes in the fair value of available-for-sale financial assets are recognized directly in equity. Upon disposal, the accumulated amount of changes in fair value are recognized through profit or loss. If the fair value is lower than the amortized cost over a prolonged period of time and by a significant amount, an impairment loss is recognized through profit or loss.

The Company assesses declines in fair value at the end of each reporting period to determine whether there is objective evidence that a financial asset or group of financial assets is impaired. In the case of available-for-sale financial assets, a significant or prolonged decline in the fair value of the financial asset below its cost is considered as an indicator that the assets are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss that had been recognized directly in equity - measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in profit or loss - is removed from equity and recognized in profit or loss.

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

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

Financial assets or liabilities measured at fair value through profit or loss comprise almost entirely derivatives used to hedge currency or interest rate risks when hedge-accounting is not being applied.

Derivative financial instruments are categorized as held for trading and measured at fair value through profit or loss unless they are designated as hedging instruments with hedge-accounting being applied. All fair value gains and losses are recognized through profit or loss. Changes in the fair value of undesignated derivative financial instruments that relate to operations are recorded as part of cost of goods sold, while undesignated derivative financial instruments relating to financing activities are recorded in financial income or financial expense.

All financial instruments in this category are measured on the basis of the trading date. Derivative financial instruments with a positive fair value at the end of the reporting period are reported as "Other current financial assets" and those with a with a negative fair value at the end of the reporting period are reported as "Other current financial liabilities". There were no derivative financial instruments with a remaining term of more than 12 months in place as of September 30, 2011 and 2010.

Designated hedging instruments (cash flow hedges)

Certain derivative financial instruments are designated as hedging instruments of a foreign currency risk associated transactions forecasted as highly probable (cash flow hedges).

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

The effective portion of changes in the fair value of derivative financial instruments that are designated and qualify as cash flow hedges is recognized in equity. The gain or loss relating to the ineffective portion is recognized immediately in profit or loss. Amounts accumulated in equity are recycled in profit or loss in the periods when the hedged item affects profit or loss (i.e. when the forecasted transaction being hedged takes place).

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

Other financial liabilities

All other financial liabilities, including trade payables and debt instruments, are measured at amortized cost using the effective interest method. This also applies to the debt component of compound financial instruments such as the subordinated convertible bonds issued by the Company and obligations in conjunction with the put options issued by the Company on own shares.

Compound financial instruments

Compound financial instruments issued by the Company comprise convertible bonds which give the holder the right to exchange the bonds for shares in the Company. The number of underlying shares is fixed and does not vary on the basis of the shares' fair value.

The liability component of such a compound financial instrument is recognized on issue as a liability measured at the fair value of a comparable liability without conversion option. The conversion right component qualifies as equity and is recognized as such on issue of the compound financial instrument measured at an amount corresponding to the difference between the total fair value of the instrument and the fair value of the debt component. On initial recognition of the instrument, directly attributable transaction costs are allocated proportionately to the relevant carrying amounts of the equity and debt components in the Statement of Financial Position.

The liability component is measured at amortized cost using the effective interest method, whereas the equity component remains unchanged during the term of the compound financial instrument.

In the event that the compound financial instrument is redeemed before its due date, and where the original conversion right remains unchanged, the consideration paid is allocated to the equity and debt components. The difference at redemption date between the carrying amount of the liability component and the fair value of a comparable liability without conversion option is recognized as interest expense or income. The difference between the consideration paid and the fair value of a comparable liability without conversion option results in a 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 financial liabilities if the put option is required to be settled by delivery of a fixed number of shares in return for a fixed amount specified in advance. The obligation is recognized at the date of issue of the put option, measured at the present value of the amount expected to settle the option. A corresponding amount is recognized to reduce equity, reported within equity on the line "Put options on own shares". The option premium received on the issue of the put options is recognized on the line "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 stage the corresponding amounts are reclassified within equity from "Put options on own shares" to "Own shares". If the put option lapses, the amounts previously recognized as a reduction of equity and as a liability are derecognized.

INVENTORIES

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

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

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

CURRENT AND DEFERRED INCOME TAXES

The current income tax expense is calculated on the basis of the tax laws enacted at the end of the reporting period in the countries in which the relevant entity operates.

Deferred taxes are calculated on temporary differences between the tax base and accounting carrying amounts of assets and liabilities and on tax losses available for carryforward. By contrast, no deferred tax is recognized on goodwill arising in conjunction with business combinations. Similarly, deferred taxes are not recognized on the initial recognition of an asset or liability in conjunction with a transaction which is not a business combination and which – at the time of the transaction – affects neither IFRS accounting nor taxable profit.

Deferred tax assets in respect of deductible temporary differences and tax loss carryforwards which exceed deferred tax liabilities in respect of taxable temporary differences, are only recognized to the extent that it is probable that the relevant group entity can generate sufficient taxable profit to realize the corresponding benefit. Deferred tax assets and liabilities are measured using tax rates (and laws) that have been enacted or substantially enacted by the end of the reporting period and are expected to apply when the related deferred tax asset is realized or the deferred tax liability is settled.

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

Income taxes are recognized in profit or loss, with the exception of income taxes relating to items recognized directly in equity.

DISCONTINUED OPERATIONS

Discontinued operations are reported when a component of an entity either is classified as held for sale or has been already disposed of. A discontinued operation must be either (a) a separate major line of business or geographical area of operations, (b) part of a single coordinated plan to dispose of a separate major line of business or geographical area of operations or (c) a subsidiary acquired exclusively with view to resale.

Discontinued operations are presented as separate line items in the Consolidated Statement of Operations and Consolidated Statement of Cash Flows. The line item “Income from discontinued operations, net of income taxes” includes results of discontinuing operations as well as gains and losses on the disposal of discontinued operations.

Prior year figures in the Consolidated Statement of Operations and Consolidated Statement of Cash Flows are restated so that the disclosures relate to all operations that have been classified as discontinued operations as of the reporting date.

In the fiscal years 2011 and 2010, the Company reports the Wireline Communications business, Wireless mobile phone business (both already disposed of) and Qimonda as discontinued operations.

ASSETS AND LIABILITIES HELD FOR SALE

Items classified as “Assets held for sale” relate to non-current assets or groups of assets (e.g. assets of a subsidiary held for sale or assets related to discontinued operations), the carrying amounts of which will be realized primarily by way of a highly probable divestment transaction within the next twelve months or an already executed divestment transaction, and not through continued use. Assets held for sale are reported in the Statement of Financial Position as a separate line item within current assets. Liabilities disposed of in a transaction together with assets held for sale are reported separately on the liabilities and equity side of the Statement of Financial Position, within current liabilities, as “Liabilities held for sale”.

Long-lived assets classified as held for sale are no longer depreciated on a scheduled basis. Instead, they are tested for impairment at the end of the reporting period and measured at the lower of cost or fair value less costs to sell.

PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are measured at amortized acquisition or construction cost. Items of property, plant and equipment are depreciated over their estimated useful life. An impairment loss is recognized in addition if an asset's value falls below amortized cost.

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

Where an obligation exists to dismantle or remove an asset or restore a site to its former condition at the end of its useful life, the present value of the related future payments is capitalized along with the cost of acquisition or construction upon completion and the asset depreciated over its estimated useful life. A liability is recognized for the same amount, the carrying amount of which is increased in future periods by unwinding the interest component.

If the construction phase of property, plant or equipment extends over a long period, the interest incurred on borrowed capital up to the date of completion is capitalized as part of the cost of acquisition or construction in accordance with IAS 23, "Borrowing Costs". No interest was capitalized in the fiscal years ended September 30, 2011 and 2010.

Expenses for the maintenance and repair of property, plant and equipment, such as ongoing maintenance costs, are generally recognized in profit or loss. These subsequent costs are capitalized if a repair (such as a complete overhaul of technical equipment) will result in future economic benefits.

Property, plant and equipment is depreciated using the straight-line method. Land, property rights and construction in progress are not depreciated. The following depreciation periods, based on the estimated useful lives of the respective assets, are applied consistently throughout the Company:

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

Impairment losses are recognized to take account of declines in value that go beyond regular depreciation and are expected to be permanent. Corresponding reversals are made where the reasons for previous impairments no longer exist, provided that the reversal does not cause the carrying amount to exceed amortized cost.

When assets are sold, closed down 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.

The Company does not apply the revaluation model as described in IAS 16, "Property, Plant and Equipment".

Investment Properties

The Company does not own any investment properties and therefore does not apply IAS 40, "Investment Properties".

LEASES

The Company is a lessee of property, plant and equipment. In the case of operating leases, the costs of leasing an asset are spread on a straight-line basis over the term of the lease arrangement. All leases where the Company is lessee that meet certain specified criteria intended to represent situations where the substantive risks and rewards of ownership have been transferred to the lessee are accounted for as finance leases pursuant to IAS 17, "Leases". This is the case when substantially all of the risks and rewards of ownership of the asset are transferred to the Company.

RECOVERABILITY OF INTANGIBLE ASSETS AND OTHER LONG-LIVED ASSETS

Goodwill

Goodwill is an asset that represents the future economic benefits arising from other assets acquired in a business combination that are not individually identified and separately recognized. Goodwill is the excess of the cost of a business combination over the net fair value of acquired, separately identifiable assets, liabilities and contingent liabilities at the date of acquisition. Goodwill arising from acquisitions of subsidiaries is reported in the line item "Goodwill and other intangible assets" in the Consolidated Statement of Financial Position. Separately identifiable intangible assets acquired in a business combination are recognized and reported separately from goodwill.

Acquired goodwill is measured at cost and is not amortized systematically. Instead, it is tested for impairment annually in the fourth quarter of the fiscal year and, additionally, whenever there are events or changes in circumstances ("triggering events") which indicate that the carrying amount may not be recoverable.

Goodwill acquired in a business combination is allocated to the cash-generating units ("CGU") that are expected to benefit from the synergies expected to be generated by the business combination. This level is beneath the segment level and represents the smallest group of assets that generate cash inflows from continuing use that are largely independent of the cash inflows of other assets or asset groups. Following the disposal of the Wireless mobile phone business, including the goodwill allocated to it, the remaining goodwill is almost entirely attributable to one CGU of the Industrial & Multimarket segment.

The impairment test for goodwill is performed on the basis of the CGU. The recoverable amount of the CGU within the Industrial & Multimarket segment is determined on the basis of its value in use. The Company measures value in use by estimating the future cash flows that will be generated by the continuing operations of the CGU and using an appropriate interest rate to discount these cash flows to their present value. Cash flows are forecasted on the basis of financial forecasts covering a period of five years. Cash flows are projected based on past experience, current operating results and the strategic business plan approved in the fourth quarter of the fiscal year. The Company's annual forecasts are calculated bottom up based on certain central assumptions applied consistently throughout the Infineon Group. Certain cash flow parameters (depreciation/amortization, tax, investments, change in working capital) are calculated based on defined parameters. Cash flows for periods beyond the planning horizon are calculated using a terminal value. In the 2011 fiscal year, a terminal growth rate of 3 percent was used (2010: 3 percent); this growth rate is derived from publicly available market studies from market research institutes and does not exceed the historical long-term average growth rate for the sector in which the relevant CGU operates.

The discount rate is based on the Company's weighted average cost of capital (WACC), which reflects the current market assessment of interest rates and the specific risks attached to the CGU. In accordance with IAS 36, the Company determines the appropriate WACC for the CGU based on market information collated for a peer group relevant to Infineon. The market information used includes beta factors, leverage rates and other market borrowing rates. A discount factor of 9.6 percent (2010: 8.5 percent) was used in the 2011 fiscal year to measure the recoverable amount of the relevant CGU. This rate is based on the weighted average cost of capital of the CGU within the Industrial & Multimarket segment.

The Company also performs sensitivity analyses, applying different parameters – which Infineon considers to be possible but not probable – to determine the WACC and terminal value. In this way, the Company takes account of the inherent uncertain nature of estimates and carries out impairment tests on goodwill based on scenarios that are less favorable than those considered most likely. The recoverability of goodwill was confirmed for each of these scenarios. The validity of the parameters used was also subsequently reviewed prior to the approval of the Consolidated Financial Statements by the Management Board.

Goodwill reclassified as held for sale as of September 30, 2010 due to the proposed sale of the Wireless mobile phone business, and which was disposed of as at January 31, 2011, was tested for impairment in the 2010 fiscal year based on the fair value less costs to sell. The fair value less cost to sell was determined using the selling price for the Wireless mobile phone business less costs to sell.

If the carrying amount of the CGU including allocated goodwill exceeds its recoverable amount, the allocated goodwill must be reduced accordingly. The recoverable amount of a CGU is the higher of its fair value less costs to sell and its value in use. An impairment loss recognized for goodwill is not reversed in a subsequent period. The determination of the recoverable amount of a CGU requires management to make estimates and assumptions.

Other intangible assets

Other intangible assets consist primarily of purchased intangible assets, such as licenses and purchased technology – measured initially at acquisition cost – as well as capitalized development costs. These intangible assets have finite useful lives ranging from 3 to 10 years and are carried at amortized cost using the straight-line method.

Other long-lived assets

The Company reviews all other long-lived assets, including property, plant and equipment, for possible impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. The recoverability of assets is measured by comparing the carrying amount of the asset with its recoverable amount. The recoverable amount of an asset is defined as the higher of its fair value less costs to sell and its value in use. Estimated value in use is generally based on discounted estimated future cash flows. Considerable management judgment is necessary to estimate discounted future cash flows.

If such assets are considered to be impaired, the impairment recognized is measured as the amount by which the carrying value of the assets exceeds their recoverable amount. An impairment loss recognized in prior periods for an asset other than goodwill is reversed or reduced if there has been a change in estimates used to determine the asset's recoverable amounts since the last impairment loss was recognized. The maximum reversal of an impairment loss would lead to the carrying amount that would have been determined (net of amortization or depreciation) if no impairment loss had been recognized for that asset in prior years.

PENSIONS AND SIMILAR OBLIGATIONS

The Company 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-sector organizations. 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 Company has both defined contribution and defined benefit plans.

In the case of defined contribution plans, the Company pays amounts based on statutory or private rules to a separate entity (a fund) or to public-sector pension agencies or private-sector pension insurance companies. Once the contributions are paid, the Company has no further obligation to pay benefits. The contributions are recognized as expense in the year in which they fall due and are included in costs by function and hence as part of the operating result. The Company records a liability for amounts payable under the provisions of its various defined contribution plans. Prepaid contributions are recognized as an asset to the extent that a cash refund or a reduction in the future payments is available.

All other plans that do not fall under the definition of a defined contribution plan are accounted for as defined benefit plans. The latter relate to commitments of the Company to pay future vested and current benefits to present and former employees and their dependants. These obligations also include retirement pensions. Benefits are normally based on the length of service and the salary of the employee concerned. 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 plan separately by independent, qualified actuaries using the projected-unit-credit method. In this context, actuarial procedures are applied for which it is necessary to make specific assumptions. The most important of these are the discount rate, the expected return on plan assets, future expected increases in salaries and pensions and mortality rates.

Discount rates are determined on the basis of market yields on high-quality corporate bonds at the end of the reporting period that are denominated in the currency in which the benefits will be paid and that have remaining maturities approximating the terms of the related pension liability.

All items of income and expense relating to defined benefit plans – with the exception of the interest component of the allocation to the pension provision and the expected interest income from plan assets – are recognized on a net basis within costs by function and hence as part of the operating result. The interest component of the allocation to the pension provision and the expected interest income from plan assets are reported as financial expense or financial income as part of the financial result. Actuarial gains and losses resulting from experience adjustments for defined benefit pension obligations and plan assets and from changes in actuarial assumptions are recognized directly in equity and presented in the Consolidated Statement of Comprehensive Income in the period in which they arise. The Company applies this accounting option with regard to the recognition of actuarial gains and losses in order to avoid volatilities of reported earnings in the Consolidated Statement of Operations. This accounting treatment complies with the method stipulated in the recently amended IAS 19 "Employee Benefits".

Past-service costs are recognized immediately in profit or loss, unless the changes to the pension plan are conditional on the employees remaining in service for a specified period of time (the vesting period). In this case, the past-service costs are recorded on a straight-line basis over the vesting period.

PROVISIONS

Provisions are recognized for present legal and constructive obligations arising from past events that are likely to result in a future outflow of resources, provided that a reliable estimate can be made of the amount of the obligations.

Provisions are measured at their expected settlement amount in accordance with IAS 37, "Provisions, Contingent Liabilities and Contingent Assets" or, where applicable, in accordance with IAS 19, "Employee Benefits". The amount recognized for a provision is the best estimate of the expenditure required to settle the present obligation. Estimates of outcomes and the financial effect of those outcomes are determined by the judgment of the Company's management, supplemented by experience of similar transactions and, in some cases, reports from independent experts (such as attorneys). The evidence considered includes any additional evidence provided by events after the reporting period. If the measurement of a provision involves assessment of a large number of factors, the obligation is estimated by weighting all possible outcomes by their associated probabilities (expected value method). Where there is a continuous range of possible outcomes and each point in that range is as likely as any other, the mid-point of the range is used.

If the Company does not expect cash flows to arise until one year and the time value of money is considered material, provisions are stated at the present value of expected cash outflows. For the purposes of the present value calculation, the Company 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, the Company also includes inflation assumptions, if applicable. Provisions for onerous contracts are measured at the lower of the expected cost of fulfilling the contract and the expected cost of terminating the contract. Additions to provisions are generally recognized in profit or loss.

Claims for reimbursements from third parties are capitalized separately if their realization is virtually certain.

If the projected obligation decreases as a result of a change in the estimate, the provision is reversed by the corresponding amount and the resulting income recognized in the operating expense item(s) in which the original charge was recognized.

CONTINGENT LIABILITIES

Contingent liabilities are on the one hand possible obligations, whose existence will be confirmed only by the occurrence of one or more uncertain future events not wholly within the control of the Company. They can also be present obligations that will probably not result in the outflow of resources or the amount of which cannot be quantified reliably. Contingent liabilities are not recognized in the Statement of Financial Position.

OWN SHARES

Own shares held by the Company 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 issue of put options on own shares, acquisition cost corresponds to the present value of the nominal amount of the put options discounted back to their present value at issue date. When own shares are cancelled at a subsequent date, the Company'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 against share capital.

SEGMENT REPORTING

The Management Board of Infineon Technologies AG, in its role as Infineon's chief operating decision maker, allocates resources and assesses the performance of the operating segments. Segments and regions are identified and key performance figures selected on the basis of internal reports and the internal reporting system (Management Approach). Underlying data used in this context are derived from the Consolidated Financial Statements drawn up in accordance with IFRS.

The Company's business is structured on the basis of its three operating segments, namely Automotive, Industrial & 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

The Company generates revenue from the sale of its semiconductor products and systems solutions. The Company'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. The Company's products are also used in a wide variety of microelectronic applications, including computer systems, telecommunications systems and consumer goods. Revenue is allocated to segments on the basis of differences in product type and applications.

In addition, the Company generates a small portion of its revenue from licensing its intellectual property to third parties. Infineon also generates a small proportion of its revenue from development or product enhancement arrangements.

Revenue is measured on the basis of the fair value of the consideration received or receivable.

Revenue from products sold

Revenue from products sold is recognized in accordance with IAS 18, "Revenue" when the conditions for revenue recognition are met. Revenue is recognized when the significant risks and rewards of ownership of the goods are transferred to the buyer and it is probable that the economic benefits associated with the sale will flow to the Company. The amount of revenue recognized is based on the fair value of the consideration received or receivable less returns, settlement discount and bonuses.

The Company recognizes revenue on sales to distributors generally by using the "sell in" method (i.e. when product is sold to the distributor). In accordance with established business practice in the semiconductor industry, under certain circumstances distributors can apply for price protection. Under price protection, a credit may be provided to the distributor if the Company reduces its price on products held in the distributor's inventory. In addition, a distributor can apply for a ship & debit credit when the distributor wishes to reduce the sales price to an end customer on a specific sales transaction. The authorization of the distributor's refund remains fully within the control of the Company. The Company calculates the provision for price protection in the same period the related revenue is recorded based on historical price trends and sales rebates, analysis of credit memo data, specific information contained in the price protection agreement, and other factors known at the time. The historical price trend is determined based on the difference between the invoiced price and the standard list price to the distributor. The inventory turnover, the transparency of inventory pricing for standard products and the long distributor pricing history enable the Company to reliably estimate provisions for price protection and ship & debit credit notes at the end of the reporting period. The Company monitors potential price adjustments on an ongoing basis.

In addition, distributors can, in certain cases, also apply for stock rotation and scrap allowances. Allowances for stock rotation returns are accrued based on expected stock rotation as per the contractual agreement. Distributor scrap allowances are accrued based on the contractual agreement and, upon authorization of the claim, reimbursed up to a certain maximum of the average inventory value. Historically, actual returns under such return provisions have been insignificant. The Company monitors such product returns on an ongoing basis.

In some cases, rebate programs are offered to specific customers or distributors whereby the customer or distributor may apply for a rebate upon achievement of a defined sales volume. Customers or distributors are also partially compensated for commonly defined cooperative advertising on a case-by-case basis.

Other returns are permitted only for quality-related reasons in the normal course of business within the applicable warranty period. The Company records provisions for warranty costs as a charge to cost of goods sold, based on historical experience and any other warranty costs that are known.

License income and income from development arrangements

License income is recognized when the related service has been rendered. Payments received are generally non-refundable. They are deferred where applicable and recognized over the period in which the Company is obliged to provide additional services (e.g. when customers make payments to the Company for development activities).

Per-unit license fees are recognized as revenue when realized.

In accordance with IAS 18, revenue from contracts with multiple elements is recognized as each element is earned based on the relative fair value of each element and when there are no undelivered elements that are essential to the functionality of the delivered elements and when the amount is not contingent upon delivery of the undelivered elements. Arrangements with multiple elements are infrequent and related revenues are insignificant.

Research and development costs

Costs of research activities undertaken with the prospect of gaining new scientific or technical knowledge and understanding are expensed as incurred.

Costs for development activities, the results of which are applied to a plan or design for the production of new or substantially improved products and processes, are capitalized if the development costs can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable and the Company intends, and has sufficient resources, to complete development and use or sell the asset. The costs capitalized include the cost of materials, direct labor and directly attributable general overhead expenditure that serves to prepare the asset for use. Such capitalized costs are presented as internally generated intangible assets within “Goodwill and other intangible assets” (see note 22). Development costs which do not fulfill the criteria for capitalization are expensed as incurred. Capitalized development costs are stated at cost less accumulated amortization and, if applicable, impairment charges. Internally generated intangible assets are amortized – after the completion of the development phase and following the ramp-up of production – as part of cost of goods sold over a period of three to five years.

Capitalized development costs are reviewed for impairment annually as long as amortization over the expected useful life has not begun.

GRANTS

Grants for investments include both tax-free government grants and taxable grants for investments in property, plant and equipment. The recognition of the grant starts when it is reasonably assured that the Company will comply with the conditions attached to the grant and when it is reasonably assured that the grant will be received. Tax-free government grants are deferred and recognized over the remaining useful life of the related asset. Taxable grants are deducted from the cost of the related asset and thereby reduce depreciation expense in future periods. Grants that are related to expenditures included in profit or loss are presented as a reduction of the related expense in the Consolidated Statement of Operations (see note 6).

SHARE-BASED COMPENSATION

The Company has share-based compensation plans in place (stock option plans), in conjunction with which stock options are granted to members of the Management Board and to selected senior managers. In accordance with IFRS 2 "Share-based Payment", the Company's stock option plans qualify as equity-settled share-based compensation and are accounted for accordingly. The fair value of the stock options is calculated at grant date using an option pricing valuation model and recognized as expense on a straight-line basis over the vesting period during which Infineon receives consideration from the employee in the form of work performed. The expense is charged to costs by function as part of the operating result and credited directly to equity (additional paid-in capital). The amount recognized as expense is adjusted in order to reflect the actual number of equity instruments that can ultimately be exercised by employees.

The proceeds received net of any directly attributable transaction costs are credited to ordinary share capital and additional paid-in capital when the stock options are exercised.

3 MANAGEMENT ESTIMATES AND ASSUMPTIONS

The preparation of financial statements in accordance with IFRS requires management to make estimates and assumptions which have an impact on amounts presented and on related disclosures.

Estimates and assumptions are subject to regular review and may need to be adjusted in subsequent accounting periods. They can change from one period to the next and have a material impact on the Company's financial condition, liquidity position and results of operations. Critical accounting estimates could include estimates where management reasonably could have used a different estimate in the current accounting period.

Estimates and assumptions are applied by management to the best of its knowledge based on current events and circumstances. Nevertheless, actual events may result in deviations from these estimates.

Estimates and assumptions which could most likely result in deviations between actual events and estimates are discussed below:

- assessment of recoverability of non-financial assets,
- estimates and assumptions used to measure inventories,
- recognition and assessment of recoverability of deferred tax assets,
- estimates and assumptions used to account for pension plans,
- estimates and assumptions used to recognize and measure provisions,
- assessment of the recoverability of trade and other receivables and
- estimates with respect to revenue recognition.

All estimates and assumptions are based on conditions and assessments made at the end of the reporting period and taking account of any new information coming to light prior to the authorization of the Management Board to issue the Consolidated Financial Statements on November 18, 2011.

RECOVERABILITY OF NON-FINANCIAL ASSETS

The review of long-lived assets, including goodwill and other intangible assets, for impairment requires material estimates and assumptions. These include the weighted average cost of capital ("WACC") and the parameters used to determine the WACC, the future cash flows derived from the Company's planning, including the underlying planning assumptions and parameters, and the terminal growth rate.

VALUATION OF INVENTORIES

Inventories are valued at the lower of cost or net realizable value. The Company reviews the recoverability of inventory based on regular monitoring of the size and composition of inventory positions, current economic events and market conditions, projected future product demand, technological developments and the pricing environment. This evaluation is inherently judgmental and requires material estimates, including both the forecasted product demand and pricing environment, both of which may be susceptible to significant change.

Adjustments to the valuation and write-downs of inventory could be necessary in future periods due to reduced semiconductor demand in the industries that the Company serves, technological obsolescence due to rapid developments of new products and technological improvements, or changes in economic events and conditions that impact the market price for the Company's products, which may have a significant impact on the results of operations.

RECOVERABILITY OF DEFERRED TAX ASSETS

The Company tests deferred tax assets for impairment as of the end of each reporting period. The assessment of recoverability requires management to make assumptions about the amount of future taxable profit and other positive and negative variables. The actual utilization of deferred tax assets depends on the Company's ability to generate the corresponding taxable profits in the future so that tax loss carryforwards or tax credits can be used before they expire.

On the basis of this assessment, the carrying amount of deferred tax assets stood at €262 million and €308 as of September 30, 2011 and 2010, respectively. Valuation allowances recognized on deferred tax assets amounted to €1,275 million as of September 30, 2011 and €1,241 million as of September 30, 2010.

The total recognized amount of deferred tax assets may have to be reduced if future taxable profits and income are lower than expected or if changes in tax law limit the time or amount of tax loss carryforwards or tax credits available for use. Conversely, the recognized total amount may have to be increased if future taxable profits and income are higher than expected.

PENSION PLAN ACCOUNTING

The Company's pension benefit costs are determined in accordance with actuarial computations using the projected-unit-credit method, which relies on assumptions including discount rates and expected return on plan assets. Discount rates are established based on prevailing market rates for high-quality fixed-income instruments. The assumptions regarding the expected return on plan assets consider long-term historical returns, asset allocation, and future estimates of long-term investment returns. Other key assumptions for pension costs are based on current market conditions. A significant variation in one or more of these underlying assumptions could have a material effect on the measurement of the long-term obligations. For further information see note 35.

PROVISIONS

As described in note 38, the Company is subject to various legal actions and claims, including intellectual property matters as well as matters in connection with Qimonda's insolvency that arise in and outside the normal course of business.

The Company regularly assesses the likelihood of any adverse outcome or judgments related to these matters, as well as the range of possible payments and recoveries. The Company recognizes provisions and payables for obligations and risks in conjunction with legal disputes, including provisions for significant legal costs which the Company assesses at the end of each reporting period are more likely than not to be incurred (i.e. where, from the Company's perspective at the end of each reporting period, the probability of having to settle an obligation or risk is greater than the probability that it will not have to) and the obligation or risk can be estimated with reasonable accuracy at this time. Accordingly, the Company has recorded a provision and charged operating income in the accompanying Consolidated Financial Statements related to certain asserted and unasserted claims existing as of the end of each reporting period. As additional information becomes available, any potential liability related to these actions is reassessed and the assessments are revised, if necessary. These provisions would be subject to change in the future based on new developments in each matter, or changes in circumstances, which could have a material impact on Infineon's financial condition, liquidity position and results of operations. The fact that a claim has been brought or formally asserted against the Company or the disclosure of a legal dispute in the Notes to the Consolidated Financial Statements does not automatically mean that the provision recognized for the risk is appropriate.

In addition, considerable estimates and judgment are also required to determine other provisions, in particular for warranty and license obligations. The estimates and judgment are primarily derived based on historical experience and the judgment of knowledgeable personnel.

TRADE AND OTHER RECEIVABLES

The allowance for doubtful accounts involves significant management judgment and review of individual receivables based on individual customer creditworthiness, current economic trends and analysis of historical bad debts on a portfolio basis. If the determination of the valuation allowance is derived from a portfolio-based analysis of historical bad debts, a decline of receivables will result in a corresponding reduction of such provisions and vice versa.

REVENUE RECOGNITION

Reductions to revenue for estimated product returns and allowances for discounts, volume rebates and price protection are recorded, based on historical experience, at the time the related revenue is recognized. This process requires the exercise of judgment in evaluating the above-mentioned factors and requires material estimates, including forecasted demand, returns and industry pricing assumptions.

In future periods, the Company may be required to accrue additional provisions due to (1) deterioration in the semiconductor pricing environment, (2) reductions in anticipated demand for semiconductor products or (3) lack of market acceptance for new products. If these or other factors result in an adjustment to sales discount and price protection allowances, they could significantly impact the Company's future operating results.

The Company has entered into licensing agreements for its technology in the past, and anticipates that it will increase its efforts to monetize the value of its technology in the future. As with certain of the Company's existing licensing agreements, any new licensing arrangements may include capacity reservation agreements with the licensee. Such transactions could represent multiple element arrangements. The process of determining the appropriate revenue recognition in such transactions is highly complex and requires significant judgment, which includes evaluating material estimates in the determination of fair value and the level of the Company's continuing involvement.

4 ACQUISITIONS

The Company did not acquire any businesses in the fiscal years ended September 30, 2011 and 2010.

5 DISPOSALS AND DISCONTINUED OPERATIONS

ALTIS

ALTIS Semiconductor S.N.C., Essonnes, France ("ALTIS") was a joint venture between the Company and International Business Machines Corporation, New York, USA ("IBM") until August 2010, with each having equal voting representation.

Effective August 12, 2010 the Company and IBM sold all of their shares in ALTIS to Altis International, a company owned by a French entrepreneur. In connection with the sale, IBM and Infineon entered into supply agreements with ALTIS and will continue to use the ALTIS production facility for silicon foundry purchases, delivery of semiconductor components and as a subcontractor for wafer test services.

ALTIS was fully consolidated in accordance with IAS 27 "Consolidated and Separate Financial Statements" until December 2009. Infineon had an option to acquire further voting shares in ALTIS from IBM (potential voting rights). Following the waiver of this option, among other factors, the Company deconsolidated ALTIS in at the end of December 2009. The investment in ALTIS was subsequently accounted for using the equity method until it was sold.

Upon deconsolidation in December 2009, cash and cash equivalents decreased by €88 million and non-controlling interests by €61 million. The total operating loss recognized in connection with the deconsolidation amounted to €69 million in the 2010 fiscal year, which is presented within other operating expense. In addition, the Company received a dividend of €3 million from ALTIS in the three months ended June 30, 2010.

The sale of its shares in ALTIS had no impact on profit or loss. Upon the termination and settlement of the joint venture, the Company received a compensation payment from IBM of €14 million for prior restructuring costs at ALTIS that had originally been borne by the Company.

QIMONDA — DISCONTINUED OPERATIONS

On January 23, 2009, Qimonda AG ("Qimonda"), a majority-owned company filed an application at the Munich Local Court to commence insolvency proceedings. On April 1, 2009, the insolvency proceedings formally opened. Insolvency proceedings were also opened for further domestic and foreign subsidiaries of Qimonda. Some of these insolvency proceedings have already been completed. The results of Qimonda are reported as discontinued operations in the Consolidated Statement of Operations and Consolidated Statement of Cash flows for all periods presented.

Provisions relating to Qimonda's insolvency were required to be adjusted in the fiscal years 2011 and 2010 as a result of new developments. The net impact before income taxes shown as discontinued operations in the Consolidated Statement of Operations was a negative €187 million in the 2011 and a negative €5 million in the 2010 fiscal year. In addition, the completion of an external tax audit in the 2010 fiscal year gave rise to a tax benefit of €20 million in connection with the memory chip business and the formation of Qimonda.

A number of risks also arise in connection with Qimonda's insolvency, the impact of which is reported under continuing operations.

A detailed description of the Qimonda-related risks is provided in note 38 ("Litigation and Government Inquiries – Qimonda matters").

SALE OF WIRELINE COMMUNICATIONS BUSINESS — DISCONTINUED OPERATIONS

On November 6, 2009, the Wireline Communications business was sold to various Lantiq companies ("Lantiq") which are affiliates of Golden Gate Private Equity Inc. The majority of the purchase price amounting to €223 million was paid upon closing of the deal. An additional €20 million tranche of the purchase price was paid, as agreed in the contract, nine months after the closing date in August 2010.

The results of the Wireline Communications business as well as the gain on the sale are reported as "Income from discontinued operations, net of income taxes", in the Consolidated Statement of Operations for all periods presented.

The Company recognized a gain before tax of €108 million in the 2010 fiscal year. Income tax expense attributable to this gain amounted to €15 million, giving a post-tax gain of €93 million.

SALE OF WIRELESS MOBILE PHONE BUSINESS — DISCONTINUED OPERATIONS

On August 30, 2010, the Company entered into a purchase agreement with Intel Corporation, pursuant to which it agreed to sell the mobile phone business of the Wireless Solutions segment ("Wireless mobile phone business") for a sales consideration of US$1.4 billion. Of the business of the Wireless Solutions segment, only the business with analog and digital TV tuners and satellite radio receivers, as well as radio frequency power transistors for amplifiers in cellular basestations, remains with the Company. The sale, covering the activities of several Infineon subsidiaries, was completed on January 31, 2011 and was executed primarily as an "asset deal". All assets, patents, other intellectual property and selected liabilities allocated to the Wireless mobile phone business were specified and transferred separately. This business is being continued by the purchaser under the name "Intel Mobile Communications" ("IMC").

Trade receivables arising before the deal was closed were not part of the sale. Similarly, trade payables arising before closing are required to be settled by Infineon. The Company's production landscape is largely unaffected by the transaction. Only a few items of dedicated production equipment were transferred and paid for in each case in addition to the purchase price stated above, based on the carrying amounts of the assets. The net cash inflow from the sale in the 2011 fiscal year – net of transaction and separation costs and advance payments made in conjunction with the obligations to be taken over by Intel – amounted to €1,020 million. The cash proceeds from the sale were hedged by a US dollar/euro option exercisable at a euro/US dollar exchange rate of 1.32.

The pre-tax gain recorded in the 2011 fiscal year on the sale of the Wireless mobile phone business amounted to €507 million. In total – taking account of all items with a profit or loss impact that have arisen since the contract was concluded in August 2010, including transaction costs and the US dollar hedge – the pre-tax gain amounted to €526 million.

Assets and liabilities transferred to IMC comprised the following:

€ in millions	January 31, 2011
Inventories	62
Other current assets	2
Property, plant and equipment	65
Goodwill and other intangible assets	350
Other financial assets	21
Other assets	13
Total	**513**
Current provisions	38
Other current liabilities	13
Pensions and similar obligations	42
Non-current provisions	1
Other liabilities	18
Total	**112**

In addition, specified personnel-related liabilities – particularly pension obligations – were taken over by the purchaser. The Company has paid a cash amount of approximately €70 million for the transfer of these liabilities.

The tax expense recorded in the 2011 fiscal year on the sale of Wireless mobile phone business amounted to €155 million. This includes a deferred tax expense arising on the utilization of deferred tax assets. In the fourth quarter of the 2010 fiscal year, a deferred tax asset of €82 million had been recognized with income effect in conjunction with the planned sale of the Wireless mobile phone business.

The results of the Wireless mobile phone business up to completion of the sale were recognized in the Consolidated Statement of Operations on the line "Income from discontinued operations, net of income taxes". In line with the internal reporting, the Wireless Solutions segment is no longer reported as an operating segment (see note 40). Prior period amounts were adjusted accordingly. Expenses that had previously been allocated to the Wireless mobile phone business, but continue to be incurred after the sale are not affected by this classification and continue to be reported under "Income from continuing operations" in the Consolidated Statement of Operations and on the line "Corporate and Eliminations" for segment reporting purposes.

Following the sale, the Company continues to sell products and to render services to IMC. The results from these activities are reported in income from discontinued operations to the extent that these activities are being performed for a limited time period of a few months and serve to ensure the transfer of the Wireless mobile phone business to IMC. These activities include the performance of procurement-related services on behalf of IMC, for which the Company has received upfront payments amounting to €32 million. This amount is required to be repaid to IMC after a transitional phase lasting several months (probably during the first quarter of the 2012 fiscal year). By contrast, sales or products and services to IMC which are not covered by the activities described above are reported as continuing operations in the Consolidated Statement of Operations and within "Other Operating Segments" for segment reporting purposes.

On the basis of the decision to sell the Wireless mobile phone business, in the Consolidated Financial Statements as of September 30, 2010, the Company reported the assets and liabilities to be transferred to Intel as "classified as held for sale" in accordance with IFRS 5, "Non-current Assets Held for Sale and Discontinued Operations". The net amounts of assets and liabilities classified as "held for sale" at the time of the completion of the transaction differed from those reported in the Consolidated Statement of Financial Position as of September 30, 2010, because changes occurred in these accounts in the intervening period, for example as a result of increases or decreases in the amount of raw materials and supplies or the payment of personnel liabilities. In accordance with IFRS 5, no scheduled depreciation or amortization has been recognized for the assets classified as held for sale since the beginning of August 2010.

In addition, a gain of €9 million was recognized in the 2011 fiscal year as a result of a further interim distribution paid by the insolvency administrator of BenQ, a former customer of the Wireless mobile phone business.

ASSETS AND LIABILITIES CLASSIFIED AS HELD FOR SALE

During the 2011 fiscal year, the Company acquired real estate and manufacturing facilities from the insolvency administrator managing the assets of Qimonda Dresden GmbH & Co. OHG ("Qimonda Dresden") for a total sum of €101 million. The real estate acquired is adjacent to the existing Infineon premises in Dresden. The purchase comprises cleanrooms, cleanroom equipment and manufacturing facilities for 300-millimeter production. Assets reported as held for sale at September 30, 2011 amounting to €5 million relate to property, plant and equipment acquired from Qimonda Dresden which the Company intends to sell.

Assets and liabilities classified as held for sale as of September 30, 2010 consisted primarily of the carrying amounts of assets and liabilities disposed of in connection with the sale of the Wireless mobile phone business.

The carrying amounts of the major classes of assets and liabilities classified as held for sale were as follows at September 30, 2010:

€ in millions	September 30, 2010
Inventories	74
Other current assets	14
Property, plant and equipment	56
Goodwill and other intangible assets	312
Other financial assets	1
Other assets	38
Total assets classified as held for sale	**495**
Current provisions	71
Other current liabilities	18
Pensions and similar obligations	46
Other liabilities	42
Total liabilities classified as held for sale	**177**

INCOME FROM DISCONTINUED OPERATIONS, NET OF INCOME TAXES

The results of Qimonda, the Wireline Communication business, and the Wireless mobile phone business presented in the Consolidated Statement of Operations as Income from discontinued operations for the years ended September 30, 2011 and 2010, consist of the following components:

€ in millions	2011	2010
Qimonda		
Expenses resulting from Qimonda's insolvency	(187)	(5)
Loss before tax	**(187)**	**(5)**
Income tax benefits	11	20
Qimonda's share of discontinued operations, net of income taxes	**(176)**	**15**
Wireline Communications business		
Revenue	–	31
Costs and expenses	1	(31)
Profit before tax	**1**	**–**
Income tax benefit	1	–
Profit after tax	**2**	**–**
Pre-tax gain on the sale of the Wireline Communications business	8	108
Income tax expense on gain	–	(15)
Post-tax gain on the sale of the Wireline Communications business	8	93
Wireline Communication's share of discontinued operations, net of income taxes	**10**	**93**
Wireless mobile phone business		
Revenue	698	1,290
Costs and expenses	(481)	(1,139)
Profit before tax	**217**	**151**
Income tax expense	(28)	(12)
Profit after tax	**189**	**139**
Pre-tax gain on the sale of the Wireless mobile phone business	507	19
Income tax expense on gain	(155)	82
Post-tax gain on the sale of the Wireless mobile phone business	352	101
Wireless mobile phone business' share of discontinued operations, net of income taxes	**541**	**240**
Income from discontinued operations, net of income taxes	**375**	**348**

6 GRANTS

The Company has received economic development funding from various governmental institutions, including grants for the construction of manufacturing facilities, as well as grants to subsidize research and development activities and employee training. Grants and subsidies included in the Consolidated Financial Statements during the fiscal years ended September 30, 2011 and 2010 are as follows:

€ in millions	2011	2010
Included in the Consolidated Statement of Operations:		
Research and development expenses	60	47
Cost of goods sold	13	10
Selling, general and administrative expenses	–	1
Total	**73**	**58**

Deferred government grants amounted to €19 million and €21 million as of September 30, 2011 and 2010, respectively. The amounts of grants receivable as of September 30, 2011 and 2010 were €57 million and €39 million, respectively.

7 COST OF PURCHASED SERVICES AND MATERIALS AND PERSONNEL EXPENSE

The Consolidated Statement of Operations (continuing and discontinued operations) includes the following amounts of expense for material and personnel.

Expenses for purchased services and materials comprised the following in the fiscal years 2011 and 2010:

€ in millions	2011	2010
Raw materials, supplies and purchased goods	1,383	1,192
Cost of purchased services	1,131	1.014
Total (continuing and discontinued operations)	**2,514**	**2,206**

Personnel expenses are as follows for the years ended September 30, 2011 and 2010:

€ in millions	2011	2010
Wages and salaries	1,125	1,199
Social insurance levies	175	181
Pension expense	4	(1)
Total (continuing and discontinued operations)	**1,304**	**1,379**

The average number of employees by geographic region is as follows for the years ended September 30, 2011 and 2010:

	2011	2010
Europe	11,597	12,120
Therein: Germany	8,030	8,743
Americas	512	634
Asia-Pacific (without Japan)	13,604	12,837
Therein: China	1,512	1,513
Japan	113	124
Total	**25,826**	**25,715**

8 OTHER OPERATING INCOME AND EXPENSE

Other operating income is as follows for the years ended September 30, 2011 and 2010:

€ in millions	2011	2010
Other income from customers	9	6
Insurance claims	4	–
Gains on disposals of assets	2	1
Other	8	11
Total	**23**	**18**

Other operating expense is as follows for the years ended September 30, 2011 and 2010:

€ in millions	2011	2010
Expenditure in conjunction with legal disputes	61	40
Loss in connection with deconsolidation of ALTIS	–	69
Onerous lease agreements	(15)	7
Other	7	6
Total	**53**	**122**

Impairments are recognized as other operating expense in the Consolidated Statement of Operations.

Total rental expenses under operating leases amounted to €74 million and €69 million for the years ended September 30, 2011 and 2010, respectively.

9 FINANCIAL INCOME

The amount of financial income is as follows for the 2011 and 2010 fiscal years:

€ in millions	2011	2010
Interest income	37	18
Valuation changes and gains on sales of financial investments	1	6
Other financial income	1	5
Total	**39**	**29**

10 FINANCIAL EXPENSE

The amount of financial expense is as follows for the 2011 and 2010 fiscal years:

€ in millions	2011	2010
Interest expense	63	91
Valuation changes and losses on sales of financial investments	2	1
Other financial expense	–	3
Total	**65**	**95**

Interest expense for the 2011 fiscal year includes a loss of €18 million arising on the repurchase of convertible bonds due 2014 (see note 27). Interest expense for the previous year includes a loss of €5 million arising on the repurchase of convertible notes due in June 2010.

11 INCOME TAX BENEFIT

Income tax benefit from continuing operations for the years ended September 30, 2011 and 2010, is as follows:

€ in millions	2011	2010
Current tax expense	(10)	(46)
Deferred tax benefit	40	68
Income tax benefit	**30**	**22**

The Company's statutory corporate tax rate in Germany is 15 percent, plus a solidarity surcharge of 5.5 percent. As a result of a change in the basis for allocating municipal trade taxes, the trade tax rate for Infineon Technologies AG went up from 12 percent for the 2010 fiscal year to 13 percent for the 2011 fiscal year. The combined statutory tax rate is therefore 29 and 28 percent for the 2011 and 2010 fiscal years, respectively.

A reconciliation of income taxes from continuing operations for the fiscal years ended September 30, 2011 and 2010, determined using the German combined statutory tax rate of 29 percent for 2011 and 28 percent for 2010, is as follows:

€ in millions	2011	2010
Expected income tax expense	(207)	(81)
Increase in available tax credits	52	13
Tax rate differential	33	29
Non-deductible expenses and tax-exempt income, net	76	(8)
Prior year taxes	28	(2)
Change in municipal trade tax rate in Germany	2	–
Change in valuation allowance on deferred tax assets	44	73
Other	2	(2)
Actual income tax benefit	**30**	**22**

Deferred tax assets and liabilities as of September 30, 2011 and 2010 relate to the following:

€ in millions	September 30, 2011		September 30, 2010	
	Deferred tax assets	Deferred tax liabilities	Deferred tax assets	Deferred tax liabilities
Intangible assets	23	(13)	28	(33)
Property, plant and equipment	104	(8)	117	(3)
Provisions and pension obligations	114	(108)	117	(107)
Tax loss carryforwards	1,060	–	1,103	–
Tax credit carryforwards	235	–	193	–
Other	133	(10)	154	(31)
Total deferred taxes	**1,669**	**(139)**	**1,712**	**(174)**
Valuation allowance	(1,275)	–	(1,241)	–
Netting	(132)	132	(163)	163
Total	**262**	**(7)**	**308**	**(11)**

In Germany the Company had corporation tax loss carryforwards of €3.1 billion and municipal trade tax loss carry-forwards of €4.2 billion as of September 30, 2011. In other jurisdictions, the Company had tax loss carryforwards of €71 million and unused tax credit carryforwards of €235 million. Such tax loss carryforwards and tax credit carryforwards are generally limited to use by the particular entity that generated the loss or credit, provided that they have not expired under current law.

The Company assessed its deferred tax assets and the need for a valuation allowance. The existence of tax loss carryforwards and a history of losses are generally strong evidence that the utilization of deferred tax assets is not probable.

In the past, however, the Company has accumulated tax loss carryforwards, especially in Germany, which were generated by the Qimonda business and by the divested Wireless mobile phone business. Both businesses were reported as discontinued operations as of September 30, 2010. For the assessment of deferred tax assets in Germany, the Company focused in particular on continuing operations consisting of the historically profitable Automotive, Industrial & Multimarket, and Chip Card & Security segments.

Based on the results of this assessment of deferred tax assets, considering all positive and negative factors and information relating to the foreseeable future, the Company recognized deferred tax assets, after netting, of €262 million and €308 million as of September 30, 2011 and 2010, respectively. The amount reported at September 30, 2010 included €82 million of deferred tax assets related to the utilization of tax loss carryforwards in conjunction with the expected gain on the sale of the Wireless mobile phone business.

The change in net deferred tax assets during the 2011 and 2010 fiscal years can be analyzed as follows:

€ in millions	2011	2010
Deferred tax assets, net as of the beginning of the fiscal year	**297**	**143**
Deferred tax (expense) benefit attributable to discontinued operations	(82)	78
Deferred tax benefit attributable to continuing operations	38	68
Change in German tax rate	2	–
Deferred taxes recognized in equity	–	2
Foreign currency translation	–	6
Deferred tax assets, net as of the end of the fiscal year	**255**	**297**

The Company did not provide for income taxes or foreign withholding taxes on cumulative earnings of foreign subsidiaries as of September 30, 2011 and 2010, 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.

12 EARNINGS (LOSS) PER SHARE

Basic earnings per share (“EPS”) is calculated by dividing group net income by the weighted average number of ordinary shares outstanding during the fiscal year. The number of shares outstanding is increased when stock options are converted and decreased by share repurchases and the acquisition of shares following the exercise of put options on own shares.

Basic earnings per share are calculated as follows:

	2011	2010
Earnings per share – basic (€ in millions):		
Earnings from continuing operations attributable to shareholders of Infineon Technologies AG	744	311
Earnings from discontinued operations, net of income taxes attributable to shareholders of Infineon Technologies AG	375	348
Earnings attributable to shareholders of Infineon Technologies AG	**1,119**	**659**
Weighted-average number of shares outstanding (in millions):		
– Ordinary share capital	1,086.7	1,086.7
– Adjustment for own shares	(0.3)	–
Weighted-average number of shares outstanding – basic	1,086.4	1,086.7
Basic earnings per share (in €):		
Earnings from continuing operations attributable to shareholders of Infineon Technologies AG	0.68	0.29
Earnings from discontinued operations, net of income taxes attributable to shareholders of Infineon Technologies AG	0.35	0.32
Earnings per share attributable to shareholders of Infineon Technologies AG – basic	**1.03**	**0.61**

The calculation of diluted EPS is based on the assumption that all potentially dilutative 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 a charge on earnings for these instruments, such as interest expense, on the other. The convertible bond due 2014 is a potential dilutive instrument. Share options and outstanding put options issued on own shares are also potential dilutive instruments if the exercise price is lower than the average share price for the period (for the stock options) or higher than the average share price for the period (for the put options on own shares).

Diluted earnings per share are calculated as follows:

	2011	2010
Earnings per share – diluted (€ in millions):		
Earnings from continuing operations attributable to shareholders of Infineon Technologies AG	744	311
Adjustment for interest expense on convertible bond	17	21
Earnings from continuing operations attributable to shareholders of Infineon Technologies AG – diluted	761	332
Earnings from discontinued operations, net of income taxes attributable to shareholders of Infineon Technologies AG	375	348
Earnings attributable to shareholders of Infineon Technologies AG – diluted	**1,136**	**680**
Weighted-average number of shares outstanding – basic (in millions):	1,086.4	1,086.7
Adjustments for:		
– Effect of potential conversion of convertible bond	71.0	84.0
– Effect of stock options	1.3	0.6
– Effect of put options on own shares	0.1	–
Weighted-average number of shares outstanding – diluted	1,158.8	1,171.3
Diluted earnings per share (in €):		
Earnings from continuing operations attributable to shareholders of Infineon Technologies AG	0.66	0.28
Earnings from discontinued operations, net of income taxes attributable to shareholders of Infineon Technologies AG	0.32	0.30
Earnings per share attributable to shareholders of Infineon Technologies AG – diluted	**0.98**	**0.58**

The weighted-average number of dilutive shares which did not have a dilutive impact were not included for the purpose of calculating diluted earnings per share. For the 2011 and 2010 fiscal years, this relates to 12.1 million and 15.6 million, respectively, of stock options issued to employees, since their exercise price was higher than the average share price during the reporting period. Similarly 4.7 million of put options on own shares issued since May 2011 were not taken into account in the calculation for the 2011 fiscal year since their exercise price was lower than the average share price during the reporting period.

For details regarding the terms and conditions of the stock option plans see note 32.

13 FINANCIAL INVESTMENTS

Financial investments comprise deposits with banks and investments in securities. As of September 30, 2011, financial investments relate primarily to fixed-term bank deposits on the one hand and to commercial paper issued by banks on the other, each with an original term of up to six months. These items qualify as "loans and receivables" pursuant to IAS 39, "Financial Instruments: Recognition and Measurement" and are measured at amortized cost. Financial investments also include available-for-sale securities which are measured at their fair value at the end of the relevant accounting period, with unrealized gains and losses that are not considered other-than-temporary impairments recognized in equity.

Financial investments at September 30, 2011 and 2010 comprise the following (for further information see also notes 36 and 37):

€ in millions	2011	2010
Fixed-term bank deposits and commercial papers	1,628	–
Securities	57	60
Financial investments	**1,685**	**60**

14 TRADE AND OTHER RECEIVABLES

Trade accounts and other receivables due within one year at September 30, 2011 and 2010 consist of the following:

€ in millions	2011	2010
Third party – trade	527	648
Related parties – trade	5	3
Trade accounts receivable, gross	**532**	**651**
Allowance for doubtful accounts	(22)	(29)
Trade accounts receivable, net	**510**	**622**
Grants receivable (note 6)	57	39
License fees receivable	2	6
Third party – financial and other receivables	20	12
Employee receivables	3	6
Other receivables	1	2
Total	**593**	**687**

Changes in the allowance for doubtful accounts for the years ended September 30, 2011 and 2010 were as follows:

€ in millions	2011	2010
Allowance for doubtful accounts at beginning of year	29	23
Usage of allowance, net	(8)	(1)
Current year's allowance	1	7
Allowance for doubtful accounts at end of year	**22**	**29**

The following table provides separate disclosure on the age of third party trade accounts receivables that are past due but not impaired at the reporting date:

€ in millions			Of which not impaired but past due as of reporting date				
	Carrying amount	Thereof neither impaired nor past due	Past due 0 – 30 days	Past due 31 – 60 days	Past due 61 – 180 days	Past due 181 – 360 days	Past due › 360 days
Third party – trade, net of allowances as of September 30, 2011	505	495	5	1	–	–	4
Third party – trade, net of allowances as of September 30, 2010	619	593	18	3	5	–	–

With respect to trade accounts receivable that are past due, but not impaired at the end of the reporting period, there are no indications that customers – based on their past credit history and current creditworthiness assessments – are not able to meet their obligations.

Receivables with a maturity of more than one year are presented as other financial assets (see note 20).

15 INVENTORIES

Inventories at September 30, 2011 and 2010 consist of the following:

€ in millions	2011	2010
Raw materials and supplies	70	58
Work in progress	262	329
Finished goods	175	127
Total	**507**	**514**

The amount of inventories recognized as expense in the 2011 and 2010 fiscal years corresponds approximately to the cost of goods sold for each fiscal year.

Inventories at September 30, 2011 and 2010 are stated net of write-downs of €68 million and €94 million, respectively.

16 OTHER CURRENT FINANCIAL ASSETS

Other current financial assets at September 30, 2011 and 2010 include derivative financial instruments amounting to €2 million and €72 million, respectively.

17 OTHER CURRENT ASSETS

Other current assets at September 30, 2011 and 2010 consist of the following:

€ in millions	2011	2010
VAT and other tax receivables	83	44
Prepaid expenses	33	30
Other	26	14
Total	**142**	**88**

18 PROPERTY, PLANT AND EQUIPMENT

A summary of changes in property, plant and equipment for the years ended September 30, 2011 and 2010 is as follows:

Changes in property, plant and equipment 2011

€ in millions	Cost						
	October 1, 2010	Additions	Disposals	Reclassification	Transfers	Foreign currency effects	September 30, 2011
Land and buildings	659	29	(4)	1	1	–	686
Technical equipment and machinery	3,852	461	(63)	125	(9)	5	4,371
Other plant and office equipment	1,104	72	(92)	10	5	1	1,100
Payments on account and construction in progress	135	304	(2)	(136)	(5)	–	296
Total	**5,750**	**866**	**(161)**	**–**	**(8)**	**6**	**6,453**

Changes in property, plant and equipment 2010

€ in millions	Cost						
	October 1, 2009	Additions	Disposals	Reclassification	Transfers[1]	Foreign currency effects	September 30, 2010
Land and buildings	763	3	(107)	1	(4)	3	659
Technical equipment and machinery	4,766	162	(1,016)	30	(100)	10	3,852
Other plant and office equipment	1,300	32	(91)	(3)	(140)	6	1,104
Payments on account and construction in progress	22	134	1	(21)	(1)	–	135
Total	**6,851**	**331**	**(1,213)**	**7**	**(245)**	**19**	**5,750**

1 For the year ended September 30, 2010, transfers relate primarily to assets of Wireless Solutions that were classified as held for sale.

Depreciation on property, plant and equipment is presented in the Consolidated Statement of Operation mainly in cost of goods sold.

Impairments are recognized as other operating expense in the Consolidated Statement of Operations. No property, plant and equipment was restricted or pledged as of September 30, 2011 and 2010.

Accumulated depreciation and impairment								Carrying amount	
October 1, 2010	Depreciation	Disposals	Reclassification	Transfers	Impairments	Foreign currency effects	September 30, 2011	September 30, 2011	September 30, 2010
(461)	(24)	3	1	(1)	–	–	(482)	204	198
(3,390)	(282)	63	–	3	(2)	(5)	(3,613)	758	462
(1,061)	(41)	90	(1)	(7)	6	(1)	(1,015)	85	43
–	–	–	–	–	–	–	–	296	135
(4,912)	**(347)**	**156**	**–**	**(5)**	**4**	**(6)**	**(5,110)**	**1,343**	**838**

Accumulated depreciation and impairment								Carrying amount	
October 1, 2009	Depreciation	Disposals	Reclassification	Transfers[1]	Impairments	Foreign currency effects	September 30, 2010	September 30, 2010	September 30, 2009
(523)	(25)	87	–	2	–	(2)	(461)	198	240
(4,167)	(261)	1,011	(12)	57	(9)	(9)	(3,390)	462	599
(1,233)	(48)	90	5	130	–	(5)	(1,061)	43	67
–	–	–	–	–	–	–	–	135	22
(5,923)	**(334)**	**1,188**	**(7)**	**189**	**(9)**	**(16)**	**(4,912)**	**838**	**928**

19 INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

High Power Bipolar Business

On September 28, 2007, the Company entered into an agreement with Siemens AG ("Siemens"). Effective September 30, 2007, the Company contributed all assets and liabilities of its high power bipolar business (including licenses, patents, and front-end and back-end production assets) to a newly formed legal entity called Infineon Technologies Bipolar GmbH & Co. KG ("Bipolar") and Siemens subsequently acquired a 40 percent interest in Bipolar. The transaction received regulatory approval and subsequently closed on November 30, 2007. The joint venture agreement grants Siemens certain contractual participating rights which inhibit the Company from exercising control over Bipolar. Accordingly, the Company accounts for the interest in Bipolar under the equity method. The fiscal year-end of Bipolar is September 30.

LS Power Semitech Co., Ltd.

In the 2009 fiscal year, the Company entered into a joint venture agreement with LS Industrial Systems ("LSIS"), which closed on November 27, 2009, to establish the joint venture LS Power Semitech Co., Ltd. ("LS"). LSIS holds 54 percent and the Company holds 46 percent of LS. The investment in the joint venture is accounted for using the equity method. The fiscal year-end of LS is December 31, which is the fiscal year-end of LSIS. The Company's share in the results of LS is recognized with a three months time lag with no material impact.

Cryptomathic Holding ApS

The Company acquired its 25 percent share in Cryptomathic Holding ApS ("Cryptomathic") in May 2002. Cryptomathic – through its subsidiary Cryptomathic A/S – develops and sells software and services in the field of digital security. The fiscal year-end for Cryptomathic is December 31. Because of the share of 25 percent the Company holds in Cryptomathic, the investment is accounted for using the equity-method. The Company's share in the results of Cryptomathic is recognized with a three months time lag with no material impact.

Aggregate summarized financial information

The aggregate summarized financial information for the Company's investments accounted for using the equity method, not adjusted for the percentage ownership held by the Company, for the years ended September 30, 2011 and 2010 is as follows:

€ in millions	2011							
	Current assets	Non-current assets	Current liabilities	Non-current liabilities	Equity	Revenue	Gross profit	Net income
Bipolar	65	14	19	9	51	99	19	10
LS	11	19	3	10	17	13	(1)	(6)
Cryptomathic	5	–	2	–	3	8	5	2
Total	**81**	**33**	**24**	**19**	**71**	**120**	**23**	**6**

€ in millions	2010							
	Current assets	Non-current assets	Current liabilities	Non-current liabilities	Equity	Revenue	Gross profit	Net income
Bipolar	65	15	18	13	49	100	23	12
LS	7	17	1	–	23	1	(1)	(3)
Cryptomathic	2	–	1	–	1	6	3	–
Total	**74**	**32**	**20**	**13**	**73**	**107**	**25**	**9**

20 OTHER FINANCIAL ASSETS

Other non-current financial assets at September 30, 2011 and 2010 consist of the following:

€ in millions	2011	2010
Restricted cash	83	83
Available-for-sale financial assets	14	14
Investments in other equity investments	13	6
Long-term receivables	4	6
Other	10	10
Total	**124**	**119**

Restricted cash at September 30, 2011 and 2010, primarily consists of a rental deposit in escrow in connection with the office complex Campeon of €75 million (see note 39) and €7 million in connection with interest payments for the Company's subordinated convertible bonds due 2014 (see note 27).

21 OTHER ASSETS

Other non-current assets at September 30, 2011 and 2010 consist of the following:

€ in millions	2011	2010
Advance payments	15	2
Prepaid expenses	13	14
Total	**28**	**16**

22 GOODWILL AND OTHER INTANGIBLE ASSETS

The following table presents a summary of changes in intangible assets for the years ended September 30, 2011 and 2010. Amortization of intangible assets is mainly presented in cost of goods sold. Impairments on intangible assets are presented as other operating expense.

Changes in goodwill and other intangible assets 2011

€ in millions	Cost							
	October 1, 2010	Additions internally developed	Additions from business combinations	Additions other	Disposals	Transfers	Foreign currency effects	September 30, 2011
Goodwill acquired for consideration	21	–	–	–	–	–	–	21
Internally developed intangible assets	98	73	–	–	–	(34)	–	137
Other intangible assets	144	7	–	–	(8)	(2)	–	141
Total	**263**	**80**	**–**	**–**	**(8)**	**(36)**	**–**	**299**

Changes in goodwill and other intangible assets 2010

€ in millions	Cost							
	October 1, 2009	Additions internally developed	Additions from business combinations	Additions other	Disposals	Transfers[1]	Foreign currency effects	September 30, 2010
Goodwill acquired for consideration	181	–	–	–	–	(161)	1	21
Internally developed intangible assets	164	79	–	–	–	(145)	–	98
Other intangible assets	400	–	–	8	(46)	(220)	2	144
Total	**745**	**79**	**–**	**8**	**(46)**	**(526)**	**3**	**263**

1 For the year ended September 30, 2010 transfers relate primarily to assets of Wireless Solutions that were classified as held for sale.

Reference is made to note 2, subsection “Recoverability of intangible assets and other long-lived assets” with respect to the procedures and assumptions used for the annual impairment test for goodwill.

Accumulated depreciation and impairment							Carrying amounts	
October 1, 2010	Amortization	Disposals	Transfers	Impairment	Foreign currency effects	September 30, 2011	September 30, 2011	September 30, 2010
–	–	–	–	–	–	–	21	21
(45)	(13)	–	–	–	–	(58)	79	53
(131)	(6)	8	(1)	–	–	(130)	11	13
(176)	**(19)**	**8**	**(1)**	**–**	**–**	**(188)**	**111**	**87**

Accumulated depreciation and impairment							Carrying amounts	
October 1, 2009	Amortization	Disposals	Transfers[1]	Impairment	Foreign currency effects	September 30, 2010	September 30, 2010	September 30, 2009
–	–	–	–	–	–	–	21	181
(79)	(28)	–	62	–	–	(45)	53	85
(297)	(25)	45	151	(3)	(2)	(131)	13	103
(376)	**(53)**	**45**	**213**	**(3)**	**(2)**	**(176)**	**87**	**369**

23 TRADE AND OTHER PAYABLES

Trade and other payables at September 30, 2011 and 2010 consist of the following:

€ in millions	2011	2010
Third party – trade	705	645
Related parties – trade	15	14
Trade payables	**720**	**659**
Related parties – other payables	11	4
Other	4	2
Total	**735**	**665**

Trade payables have a maturity of less than one year. The reported carrying amount of trade payables corresponds to their fair value.

Long-term trade payables with a maturity of more than one year are reported in other liabilities (see note 29).

24 PROVISIONS

Provisions at September 30, 2011 and 2010 consist of the following:

€ in millions	2011	2010
Personnel costs	278	268
Warranties and licenses	119	122
Provisions related to Qimonda	300	97
Other	139	121
Total	**836**	**608**

Provisions for personnel costs relate to employee-related obligations and include, among others, costs of incentive and bonus payments, holiday entitlements and vacation payments, termination benefits, early retirement, service anniversary awards, other personnel costs and related social security payments.

Provisions for warranties and licenses mainly represent the estimated future cost of fulfilling contractual requirements associated with products sold.

Other provisions comprise provisions for outstanding expenses, penalties for default or delay on contracts, asset retirement obligations and miscellaneous other liabilities.

Provisions related to Qimonda are further described in note 38.

Of the total amounts of €836 million and €608 million of provisions as of September 30, 2011 and 2010, respectively, the cash outflow is expected to occur within one year in respect of €810 million and €553 million, respectively. For the majority of the remaining €26 million and €55 million as of September 30, 2011 and 2010, respectively, the cash outflow is expected within two to five years.

A summary of changes for provisions for the fiscal year ended September 30, 2011 is as follows:

€ in millions	Balance as of September 30, 2010	Additions	Usage	Reversals	Balance as of September 30, 2011
Personnel costs	268	253	(223)	(20)	278
Warranties and licenses	122	59	(7)	(55)	119
Provisions related to Qimonda	97	227	(11)	(13)	300
Other	121	100	(42)	(40)	139
Total	**608**	**639**	**(283)**	**(128)**	**836**

The total amounts of provisions are reflected in the Consolidated Statement of Financial Position as of September 30, 2011 and 2010, respectively, as follows:

€ in millions	2011	2010
Current	810	553
Non-current	26	55
Total	**836**	**608**

25 OTHER CURRENT FINANCIAL LIABILITIES

Other current financial liabilities at September 30, 2011 and 2010 consist of the following:

€ in millions	2011	2010
Obligation to acquire own shares (note 30)	143	–
Interest	9	10
Derivative financial instruments with negative fair values (note 36)	7	6
Total	**159**	**16**

The obligation to acquire own shares reported within other current financial liabilities amounting to €143 million corresponds to the nominal amount of outstanding put options on Infineon Technologies AG shares as of September 30, 2011, discounted to their present value as at issue date, in connection with Infineon's capital return program (see note 30) plus the unwinding of interest up to the end of the reporting period.

26 OTHER CURRENT LIABILITIES

Other current liabilities at September 30, 2011 and 2010 consist of the following:

€ in millions	2011	2010
Advance payments	66	11
Payroll obligations to employees	46	52
Deferred income	26	28
VAT and other taxes payable	18	23
Deferred government grants (note 6)	13	16
Other	5	23
Total	**174**	**153**

27 DEBT

Debt at September 30, 2011 and 2010 consists of the following:

€ in millions	2011	2010
Loans payable to banks (weighted average rate 2010: 1.45%)	–	51
Notes payable to governmental entity, due 2010	–	24
Current portion of long-term debt	68	58
Short-term debt and current maturities of long-term debt	**68**	**133**
Convertible subordinated bonds, 7.5%, due 2014	114	153
Loans payable to banks:		
Unsecured term loans, weighted average rate 2.27% (2010: 2.16%), due 2011 – 2016	123	110
Long-term debt	**237**	**263**
Total	**305**	**396**

On May 26, 2009, the Company (as guarantor), through its subsidiary Infineon Technologies Holding B.V. (as issuer), issued €196 million in new subordinated convertible bonds due 2014 at a discount of 7.2 percent in an offering to institutional investors in Europe. The bonds can be converted at any time at the option of the bondholders into a maximum of originally 74.9 million ordinary shares of the Company. After adjustments in connection with antidilution clauses at the time of the Company's share capital increase in August 2009 as well as for the dividend payment in February 2011, the conversion price currently stands at €2.30. The bonds accrue interest at 7.5 percent per year. The principal of the bonds is unsecured and ranks pari passu with all present and future unsecured subordinated obligations of the issuer. The coupons on the bonds are secured and unsubordinated. The bondholders benefit from a negative pledge relating to future capital market indebtedness and have an early redemption option in the event of a change of control. The Company may redeem outstanding bonds due 2014 after two and a half years at their nominal amount plus interest accrued thereon plus the present value of all remaining coupon payments through the maturity date, if the Company's closing share price exceeds 150 percent of the conversion price on 15 out of the previous 30 consecutive trading days. The bonds are listed on the Open Market (Freiverkehr) of the Frankfurt Stock Exchange. €31 million attributable to the conversion right of the bondholders was recognized in additional paid-in capital in the 2009 fiscal year when the subordinated convertible bonds due 2014 were issued. The debt component of the convertible bonds is recorded at amortized cost using the effective interest method.

In conjunction with its capital return program (see note 30), the Company has repurchased subordinated convertible bonds due 2014 with a nominal amount of €23 million for approximately €66 million since May 2011. Some bonds had already been purchased during the first half of the year, prior to the start of the capital return program. Overall, bonds with a nominal value of €59 million were acquired during the 2011 fiscal year for €173 million. The repurchases resulted in a pre-tax accounting loss of €18 million which is reported as an interest expense within financial expense. Additional paid-in capital was reduced by €95 million (net of tax), reflecting the repurchase of the conversion rights attached to the shares repurchased. The remainder of the bonds outstanding with a nominal value of €137 million can be converted into up to 60 million shares on the basis of the currently applicable conversion ratio.

Loans payable to banks, including the current portion thereof, relate primarily to project financing at Infineon Technologies Austria AG and Infineon Technologies (Kulim) Sdn. Bhd.

In June 2009 and September 2010, local financial institutions granted working capital and project loan facilities to Infineon Technologies (Wuxi) Co. Ltd. amounting to a total of US$176 million (€129 million). These multi-year facilities are available for general corporate purposes and the expansion of manufacturing facilities in Wuxi, China, including intra-group asset transfers. In case of utilization the credit lines are secured by an asset pledge and a corporate guarantee. As of September 30, 2011, they remained unutilized.

Furthermore, the Company has established several stand-alone financing arrangements, in the form of both short- and long-term credit facilities.

€ in millions			As of September 30, 2011		
Term	Nature of financial institution commitment	Purpose/intended use	Aggregate facility	Drawn	Available
Short-term	Firm commitment	General corporate purposes, working capital, guarantees	61	–	61
Short-term	No firm commitment	Working capital, cash management	111	–	111
Long-term [1]	Firm commitment	Project finance	260	191	69
Total			**432**	**191**	**241**

1 Including current maturities.

Interest expense incurred in connection with debt for the years ended September 30, 2011 and 2010, was €25 million and €63 million, respectively.

Aggregate amounts of debt maturing subsequent to September 30, 2011 are as follows:

Fiscal year ending September 30 (€ in millions)	Amount
2012	68
2013	104
2014	121
2015	9
2016	3
Total	**305**

Aggregate amounts of interest on debt subsequent to September 30, 2011 are payable as follows:

Fiscal year ending September 30 (€ in millions)	Amount
2012	14
2013	13
2014 [1]	34
2015	–
2016	–
Total	**61**

1 Includes the interest effect from discounting the subordinated convertible bonds due 2014.

28 OTHER FINANCIAL LIABILITIES

Other non-current financial liabilities amounted to €4 million and €6 million as of September 30, 2011 and 2010, respectively.

29 OTHER LIABILITIES

Other non-current liabilities at September 30, 2011 and 2010 consist of the following:

€ in millions	2011	2010
Deferred income	45	46
Deferred compensation	12	10
Deferred government grants (note 6)	6	5
Other	8	18
Total	**71**	**79**

30 EQUITY

ORDINARY SHARE CAPITAL

As a result of the exercise of 3,750 stock options by employees, the ordinary share capital of Infineon Technologies AG increased during the 2011 fiscal year by €7,500 and stood at €2,173,491,670 as of September 30, 2011. It was sub-divided into 1,086,745,835 no par value registered shares, each representing €2.00 of the Company's ordinary share capital. No new shares were issued during the 2010 fiscal year.

ADDITIONAL PAID-IN CAPITAL

Additional paid-in capital reported in the Consolidated Statement of Financial Position decreased by €194 million in the 2011 fiscal year, of which €109 million related to the dividend paid in February 2011. Infineon repurchased subordinated convertible bonds due 2014 with a nominal amount of €59 million for approximately €173 million during the 2011 fiscal year. €95 million, net of tax, was recorded directly as a reduction of additional paid-in capital, reflecting the repurchase of conversion rights for 25.5 million shares stemming from the repurchase of convertible bonds, measured on the basis of the current conversion ratio (see note 27). Additional paid-in capital was increased by €8 million in the 2011 fiscal year as a result of option premiums received in connection with put options on own shares (see below).

AUTHORIZED SHARE CAPITAL

As of September 30, 2011, the Company's Articles of Association provide for two authorized capitals totaling €688 million.

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 million by issuing 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 equity capital at the time the authority comes into force or, as the case may be – if this value should be lower – the equity capital existing at the time the authority is exercised. A capital increase with subscription rights excluded through the exercise of the Authorized Capital 2010/I is thus currently limited to a maximum of 108,674,208 shares corresponding to an arithmetic share of ordinary share capital of €217,348,417.

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 million by issuing new no par value registered shares against contributions in cash for the purpose of issue to employees of the Company or its group companies (Authorized Capital 2010/II). The subscription rights of the shareholders are excluded in relation to these shares.

CONDITIONAL CAPITAL

The Company's conditional capital recorded in the Commercial Register amounts to €631.5 million. It has been created through six conditional capital increases:

- Conditional Capital I (registered in the Commercial Register as "Conditional Capital 1999/I") pursuant to Section 4(4) of the Articles of Association in an aggregate nominal amount of up to €34.6 million that may be used to issue up to 17.3 million new registered shares in connection with the Company's 2001 Long-Term Incentive Plan;
- Conditional Capital III (registered in the Commercial Register as "Conditional Capital 2001/I") pursuant to Section 4(5) of the Articles of Association in an aggregate nominal amount of up to €29 million that may be used to issue up to 14.5 million new registered shares in connection with the Company's 2001 and 2006 Long-Term Incentive Plans;
- Conditional Capital 2002 (registered in the Commercial Register as "Conditional Capital 2007/II") pursuant to Section 4(6) of the Articles of Association in an aggregate nominal amount of up to €134 million that may be used to issue up to 67 million new registered shares upon conversion of convertible notes issued in May 2009;
- Conditional Capital 2009/I pursuant to Section 4(7) of the Articles of Association in an aggregate nominal amount of €149.9 million that may be used to issue up to 74.95 million new registered shares upon conversion of convertible bonds issued in May 2009;

- Conditional Capital 2010/I pursuant to Section 4(10) of the Articles of Association in an aggregate nominal amount of up to €24 million that may be used to issue up to 12 million new registered shares in connection with the Company's 2010 Long-Term Incentive Plan;
- Conditional Capital 2010/II pursuant to Section 4(11) of the Articles of Association in an aggregate nominal amount of €260 million that may be used to issue up to 130 million new registered shares upon conversion of warrant or convertible bonds, which the Company may issue at any time prior to February 10, 2015.

OTHER RESERVES

The changes in other reserves for the fiscal years ended September 30, 2011 and 2010 are as follows:

€ in millions	2011			2010		
	Pretax	Tax effect	Net	Pretax	Tax effect	Net
Unrealized (losses) gains on securities:						
Accumulated unrealized (losses) gains	–	–	–	(4)	–	(4)
Reclassification adjustment for losses (gains) included in profit or loss	–	–	–	5	–	5
Net unrealized (losses) gains	**–**	**–**	**–**	**1**	**–**	**1**
Unrealized gains (losses) on cash flow hedges	(7)	–	(7)	10	–	10
Foreign currency translation adjustment	–	–	–	13	–	13
Other reserves	**(7)**	**–**	**(7)**	**24**	**–**	**24**

ACCUMULATED DEFICIT

The following table shows a reconciliation of accumulated deficit as of September 30, 2011 and 2010:

€ in millions	
As of October 1, 2009	(6,180)
Net income attributable to shareholders of Infineon Technologies AG	659
Actuarial loss on post employment benefit obligations net of tax of €2 million	(92)
As of September 30, 2010	**(5,613)**
Net income attributable to shareholders of Infineon Technologies AG	1,119
Actuarial loss on post employment benefit obligations net of tax of €0 million	(20)
As of September 30, 2011	**(4,514)**

PUT OPTIONS ON OWN SHARES AND OWN SHARES

On May 9, 2011 Infineon Technologies AG resolved to repurchase shares on the basis of the authorization given by shareholders at the Annual General Meeting on February 17, 2011. In the period through March 2013, the Company intends to use up to €300 million for measures aimed at returning capital to shareholders. The capital return may be effected through writing put options on Infineon shares, outright repurchases of Infineon shares using the Frankfurt Stock Exchange's Xetra trading system or through repurchases of further portions of Infineon's outstanding convertible bonds (see note 27). Any shares bought back will be cancelled to reduce the Company's share capital.

The planned capital return program may be suspended and resumed at any time within the time limits assigned by the Annual General Meeting and in compliance with other statutory provisions.

Up to September 30, 2011, the Company had issued put options with a maximum term of nine months and for a nominal amount of €182 million on Infineon shares (i.e. own shares). As of September 30, 2011 put options with a nominal value of €144 million remain outstanding. The put options outstanding as of September 30, 2011 correspond to a total of 26 million shares with various fixed exercise prices and require physical delivery of the shares. Options for 4 million shares were exercised during the 2011 fiscal year, leaving a total of 4 million own shares on hand as of September 30, 2011, measured at their repurchase cost of €26 million.

The following table contains a reconciliation of the number of put options issued in the 2011 fiscal year and the number of put options outstanding as of September 30, 2011:

In each case stated in millions	Nominal value in €	Underlying number of shares
Put options issued in the 2011 fiscal year	182	32
Less: put options expired in the 2011 fiscal year	(12)	(2)
Less: put options exercised in the 2011 fiscal year	(26)	(4)
Outstanding put options as of September 30, 2011	**144**	**26**

Premiums received for the put options issued in the 2011 fiscal year amounted to €8 million and resulted in a corresponding increase of additional paid-in capital.

The obligation to acquire own shares recognized as of September 30, 2011 measured at the present value of the amount expected to settle the outstanding put options amounting to €142 million results in a corresponding reduction in equity, which is reported within the equity line item "Put options on own shares". The obligation is recognized within "Other current financial liabilities" (see note 25), measured on an accrual basis with interest unwound over the term of the instrument. The relevant liabilities are extinguished when the put options are settled by payment. At that stage, the amount previously recorded is reclassified, within equity, from "Put options on own shares" to "Own shares". If the options are not exercised, the relevant liability is derecognized and equity increases accordingly.

DIVIDENDS

Under the German Stock Corporation Act (Aktiengesetz), the amount of dividends available for distribution to shareholders is based on the level of unappropriated profit (Bilanzgewinn) of the ultimate parent, as determined in accordance with the HGB. All dividend payments must be approved by the Company's shareholders at the Annual General Meeting.

For the 2010 fiscal year, a cash dividend of €0.10 per share (total amount: €109 million) was paid in accordance with the resolution passed at the Annual General Meeting on February 17, 2011.

It will be proposed that a dividend of €0.12 for each share entitled to receive a dividend be paid out of the unappropriated profit reported by Infineon Technologies AG for the 2011 fiscal year. Taking into account the fact that own shares are not entitled to receive a dividend, this would result in an expected distribution of approximately €130 million. Since payment of the dividend depends on approval being given by the shareholders at the Annual General Meeting which is set to take place on March 8, 2012, a liability for the dividend has not been recognized in the Consolidated Financial Statements.

31 CAPITAL MANAGEMENT

The key objective of the Company's capital management is to ensure financial flexibility on the basis of a sound capital structure. In line with peer companies in the semiconductor industry, there is a strong emphasis on liquidity in order to finance operations and make planned investments in all stages of the business cycle. On the other hand, the portion of debt within the financial mix shall be moderate. Following these guiding principles, Infineon has defined three key goals for its financial structure:

- a gross cash position of between 30 percent and 40 percent of revenue
- a positive net cash position
- gross debt at 2x EBITDA at most

The Company is not subject to any statutory capital requirements.

Capital management as well as the Company's objectives and definitions of ratios are based on IFRS figures. Infineon defines its net cash position or net debt position, as the case may be, as gross cash less the total of short-term and long-term debt (gross debt). Gross cash is defined as the total of cash, cash equivalents and financial investments. Infineon defines EBIT as earnings (loss) from continuing operations before interest and taxes and EBITDA as EBIT plus scheduled depreciation/amortization.

As a result of the refinancing measures implemented in 2009, divestiture of business units and the benefits derived from operational improvements, the capital management objectives set by the Company have been achieved. As of September 30, 2010, Infineon had a net cash position of €1,331 million which increased to €2,387 million over the course of the 2011 fiscal year. The main factor driving the increase was the receipt of the cash proceeds for the sale of the Wireless mobile phone business which helped push up the gross cash position from €1,727 million at end of the previous fiscal year to €2,692 million at September 30, 2011. Based on revenue of €3,997 million, the ratio of gross cash to revenue was 67.4 percent as of September 30, 2011 and thus surpassing the targeted range. As a result of these developments, Infineon posesses of financial flexibility and, in addition to financing its planned investment program and paying regular dividends, is able to implement measures to return capital to shareholders (see note 30).

A gross-debt-to-EBITDA ratio of 0.3 as of September 30, 2011 demonstrates Infineon's financing headroom.

32 SHARE-BASED COMPENSATION

The following stock option plans are in place: the International Long-Term Incentive Plan ("LTI 2001 Plan") approved in 2001 as well as the stock option plans 2006 ("SOP 2006") and 2010 ("SOP 2010").

In 2001, the Company's shareholders approved the International Long-Term Incentive Plan ("LTI 2001 Plan"). Under the terms of the LTI 2001 Plan, the Company could grant up to 51.5 million options over a five-year period. The exercise price of each option equals 105 percent of the average closing price of the Company's stock during the five trading days prior to the grant date. Granted options have a vesting period of between two and four years, subject to the Company's stock reaching the exercise price on at least one trading day, and expire seven years from the grant date.

In 2006, the Company's shareholders approved the Stock Option Plan 2006 ("SOP 2006") which replaced the SOP 2001 Plan. Under the terms of SOP 2006, the Company could grant up to 13 million options over a three-year period. The exercise price of each option equals 120 percent of the average closing price of the Company's stock during the five trading days prior to the grant date. Granted options are only exercisable if the price of an Infineon share exceeds the trend of the comparative index Philadelphia Semiconductor Index ("SOX") for at least three consecutive days on at least one occasion during the term of the option. Granted options have a vesting period of three years, subject to the Company's stock reaching the exercise price on at least one trading day, and expire six years from the grant date.

In 2010, the Company's shareholders approved the Stock Option Plan 2010 ("SOP 2010") which replaced the SOP 2006 Plan. Under the terms of SOP 2010, the Company can grant up to 12 million options over a three-year period. The exercise price of each option equals 120 percent of the average closing price of the Company's stock during the five trading days prior to the grant date.

The exercise of granted options is conditional on the Infineon share price having outperformed the benchmark index SOX. Initially the respective reference values (100 percent) for this purpose are determined as the arithmetic means of the Infineon share prices and the end-closing prices of the SOX over the three-month period following the grant of the stock options. The Infineon share price must then exceed the SOX (end-closing price), as measured using the respective reference values, at least once on at least ten consecutive trading days in the period beginning one year after the grant of the stock options and lasting until the end of their term. The aforementioned comparison must be made for each grant of the stock options with the reference values updated accordingly.

Under the SOP 2010, the Supervisory Board decides annually within a period of 45 days after publication of the annual results or the results of the first, second or third quarters of a fiscal year, but no later than two weeks before the end of the quarter, how many options to grant to the Management Board. During that same period the Management Board may grant options to eligible employees.

In compliance with the requirements of Section 87, Paragraph 1 sentence 3 of the German Stock Corporation Act, the Supervisory Board has set the conditions for the variable component of the remuneration of the members of the Management Board resulting from the first allocation of the SOP 2010 such that they are linked to the sustainable business performance and has introduced a cap in the event of exceptional developments.

Several Conditional Capitals further described in the Group Management Report (section "Information Pursuant to Section 289, Paragraph 4, and section 315, Paragraph 4, of the German Commercial Code") and in note 30 ensure that the options that have been or will be issued under the LTI 2001 Plan, the SOP 2006 and the SOP 2010 can be satisfied with new shares. However, at the discretion of the Company, the beneficiary may be offered the choice of purchasing Infineon Technologies AG shares held by the Company or receiving a cash settlement in place of having Infineon Technologies AG shares issued from the Conditional Capitals created for the purpose.

A summary of the status of LTI 2001, SOP 2006 and SOP 2010 as of September 30, 2009 and changes during the fiscal years ended September 30, 2010 and 2011 are presented below (options in millions, exercise price in euro):

	Number of options	Weighted-average exercise price
Options outstanding at September 30, 2009	23.7	9.18
Granted	–	–
Exercised	–	–
Forfeited and expired	(8.0)	9.08
Options outstanding at September 30, 2010	**15.7**	**9.22**
Exercisable at September 30, 2010	13.3	10.39
Options outstanding at September 30, 2010	15.7	9.22
Granted	3.5	8.62
Exercised	–	–
Forfeited and expired	(6.3)	11.18
Options outstanding at September 30, 2011	**12.9**	**8.10**
Exercisable at September 30, 2011	7.2	9.62

The following table summarizes information about stock options outstanding as of September 30, 2011 (options in millions):

Range of exercise prices	Outstanding	
	Number of options	Weighted-average remaining life (in years)
Below €5	2.3	3.68
€5 – €10	9.0	2.79
€10 – €15	1.6	1.36
Total	**12.9**	**2.78**

In total, 3,750 stock options were exercised during the 2011 fiscal year. The average share price at exercise date was €8.04. No stock options were exercised during the fiscal year ended September 30, 2010.

The fair value of each option grant issued pursuant to the 2001 Long-Term Incentive Plan was estimated at grant date using the Black-Scholes option-pricing model. For options granted prior to October 1, 2005, Infineon relied on historical volatility measures when estimating the fair value of stock options granted to employees. For options granted after October 1, 2005, Infineon uses a combination of implied volatilities from traded options on Infineon's ordinary shares and historical volatility when estimating the fair value of stock options granted to employees, as it believes that this methodology better reflects the expected future volatility of its stock. The expected life of options granted was estimated based on historical experience.

The fair value of each option grant issued pursuant to the Stock Option Plans 2006 and 2010 was estimated at grant date using a Monte Carlo simulation model. This model takes into account vesting conditions relating to the performance of the SOX and its impact on stock option fair value. The Company uses a combination of implied volatilities from traded options on Infineon's ordinary shares and historical volatility when estimating the fair value of stock options granted to employees, as it believes that this methodology better reflects the expected future volatility of its stock. The expected life of options granted was estimated using the Monte Carlo simulation model.

The forfeiture of options is estimated based on historical experience and recorded at the date of forfeitures. The risk-free rate is determined at grant date using the yields on German federal treasury notes (Bundesanleihen) with a comparable term.

No stock options were granted during the 2010 fiscal year. On December 16, 2010, 440,000 stock options were issued to members of the Management Board and 3,024,250 to selected employees. The following weighted-average assumptions were used in the fair value calculation of the stock options issued in December 2010:

	Employees	Management board members
Weighted-average assumptions:		
Risk-free interest rate	2.72%	2.72%
Expected volatility, underlying shares	51%	51%
Expected volatility, SOX index	31%	31%
Expected correlation of underlying shares and SOX index	31%	31%
Weighted-average share price at measurement date	€7.04	€7.04
Exercise price	€8.62	€8.62
Forfeiture rate, per year	3.40%	3.40%
Expected dividend yield	1.42%	1.42%
Expected life in years	6.6	6.3
Weighted-average fair value per option at grant date in €	**2.46**	**1.44**

The weighted-average fair value per option for members of the Management Board differs from that for employees in that the maximum gain that can arise from the exercise of stock options by members of the Management Board is capped at 250 percent of the weighted-average fair value of the options at grant date; any options above this cap are expiring. The cap therefore has the effect of reducing the value of the stock options. Further information is provided in the Compensation Report.

SHARE-BASED COMPENSATION EXPENSE

Share-based compensation expense for the fiscal years ended September 30, 2011 and 2010 amounted to €2 million and €0 million, respectively.

33 SUPPLEMENTAL CASH FLOW INFORMATION

There were no significant non-cash transactions from acquisition or financing activities during the 2011 and 2010 fiscal years.

Cash and cash equivalents reported as of September 30, 2011 and 2010 totalling €1,007 million and €1,667 million respectively includes €31 million and €42 million respectively which was not available for general use by the Company. This amount represents cash and cash equivalents of Consolidated companies located in countries where transfer of cash is legally restricted, e.g. consolidated companies located in the People's Republic of China.

34 RELATED PARTIES

The Company has transactions in the normal course of business with equity method investees and other related companies (collectively, "Related Parties"). Related Parties also include members of key management personnel, in particular Management and Supervisory Board members.

The Company purchases certain of its raw materials from, and sells certain of its products to Related Parties. Purchases from and sales to Related Parties are generally based on manufacturing costs plus a mark-up.

Related Party receivables consist primarily of trade, financial, and other receivables from equity method investees and related companies, and totaled €5 million and €3 million as of September 30, 2011 and 2010, respectively.

Related Party payables consist primarily of trade, financial, and other payables to equity method investees and related companies, and totaled €26 million and €18 million as of September 30, 2011 and 2010, respectively.

Sales to Related Parties totaled €23 million and €28 million in the 2011 and 2010 fiscal years, respectively, while purchases from Related Parties totaled €144 million and €229 million in the 2011 and 2010 fiscal years, respectively.

REMUNERATION OF MANAGEMENT

The active members of the Management Board in the 2011 fiscal year received total non-performance-related compensation of €2.8 million (2010: €4.1 million). In addition, the members of the Management Board received variable performance-related cash compensation for the 2011 fiscal year totalling €4.0 million (2010: €3.1 million). This comprised an amount of €2.4 million in conjunction with Short Term Incentive arrangements and a settlement amount of €1.6 million paid to Mr. Bauer and Dr. Ploss as a Mid Term Incentive. The total cash compensation in the 2011 fiscal year therefore amounts to €6.8 million (2010: €7.2 million). No additional bonus was paid. Furthermore, based on the Stock Option Plan 2010, 200,000 stock options were issued to Mr. Bauer as Chairman of the Management Board and 120,000 stock options were issued to Prof. Dr. Eul and Dr. Ploss respectively, all with a fair value of €1.44 each. Since Mr. Asam was appointed to the Management Board with effect from January 1, 2011, he could not be taken into account in the annual allocation of stock options in December 2010. In accordance with his contract, he will receive stock options at the date of the next allocation of stock options (in December 2011) for his activities in the 2011 fiscal year, on a pro rata temporis basis with effect from January 1, 2011. The total amount of compensation paid to the serving members of the Management Board for the 2011 fiscal year therefore amounted to €8.2 million (2010: €7.2 million).

The total aggregate compensation of the members of the Supervisory Board of the Infineon Technologies AG in the 2011 fiscal year – including attendance fees – in accordance with the new compensation system resolved by the Annual General Meeting on February 17, 2011, amounted to €1.7 million (2010: €0.5 million). Employee representatives in the Supervisory Board also receive a salary for their activities as employees.

Former members of the Management Board received total payments of €6.2 million (severance and pension payments) in the 2011 fiscal year (2010: €3.4 million). This includes the second installment of the severance payment paid to Dr. Schröter amounting to €1.8 million and the additional bonus paid to Prof. Dr. Eul totalling €3.4 million.

As of September 30, 2011, pension liabilities for former members of the Management Board amounted to €29.7 million (2010: €36.6 million).

Neither Infineon Technologies AG nor any of its subsidiaries have granted loans to any member of the Supervisory or Management Boards.

For the individualized disclosure of the remuneration of the members of the Management Board and the Supervisory Board as required by section 314 (1) no. 6a, sentences 5 to 9 of the German Commercial Code see the Compensation Report which is part of the Group Management Report.

35 PENSION PLANS AND SIMILAR COMMITMENTS

DEFINED BENEFIT PENSION PLANS

Obligations at end of reporting period

Pension benefits provided by the Company are currently organized primarily through defined benefit pension plans which cover a significant portion of the Company's employees. Plan benefits are principally based upon years of service. Certain pension plans are based on salary earned in the last year or last five years of employment, while others are fixed plans depending on average salary and position. The measurement date for the Company's pension plans is September 30.

Information with respect to the Company's pension plans for the years ended September 30, 2011 and 2010 is presented for German ("Domestic") plans and non-German ("Foreign") plans:

€ in millions	2011		2010	
	Domestic plans	Foreign plans	Domestic plans	Foreign plans
Change in defined benefit obligations:				
Present value of defined benefit obligation at beginning of year	(456)	(83)	(360)	(65)
Current service cost	(12)	(2)	(10)	(2)
Past service cost	(4)	–	(2)	–
Interest cost	(18)	(4)	(19)	(3)
Actuarial gains (losses)	10	–	(85)	(13)
Divestitures	43	1	11	1
Curtailments	5	–	–	–
Benefits paid	10	4	9	3
Foreign currency effects	–	–	–	(4)
Present value of defined benefit obligation at end of year	**(422)**	**(84)**	**(456)**	**(83)**
Change in fair value of plan assets:				
Fair value at beginning of year	317	30	305	25
Expected return on plan assets	16	2	18	2
Actuarial gains (losses)	(26)	(1)	3	1
Divestitures	–	(1)	(10)	–
Company Contributions	10	6	10	4
Benefits paid	(10)	(5)	(9)	(3)
Foreign currency effects	–	–	–	1
Fair value of plan assets at end of year	**307**	**31**	**317**	**30**

The defined benefit obligation ("DBO") at the end of the reporting period includes €94 million (2010: €140 million) relating to plans that are wholly unfunded and €412 million (2010: €399 million) relating to plans that are wholly or partly funded.

The funded status has developed since the 2007 fiscal year as follows:

€ in millions	2011		2010		2009		2008		2007	
	Domestic plans	Foreign plans	Domestic plans	Foreign plans	Domestic plans	Foreign plans	Domestic plans	Foreign plans	Domestic plans	Foreign plans
Present value of defined benefit obligations	(422)	(84)	(456)	(83)	(360)	(65)	(348)	(83)	(398)	(77)
Fair value of plan assets	307	31	317	30	305	25	329	37	368	41
Funded status	**(115)**	**(53)**	**(139)**	**(53)**	**(55)**	**(40)**	**(19)**	**(46)**	**(30)**	**(36)**

A reconciliation of the funded status of the Company's pension plans to the amounts recognized in the Consolidated Statement of Financial Position is as follows:

€ in millions	2011		2010	
	Domestic plans	Foreign plans	Domestic plans	Foreign plans
Funded status	**(115)**	**(53)**	**(139)**	**(53)**
Asset ceiling	–	–	–	–
Pension obligations, net	**(115)**	**(53)**	**(139)**	**(53)**
Thereof recognized in: Pension liabilities	(115)	(53)	(93)	(53)
Thereof recognized in: Liabilities classified as held for sale	–	–	(46)	–

Actuarial Parameters

Differences between expected and actual developments (experience adjustments) are shown in the following table. Experience adjustments arise when the expected change in assets and liabilities – measured on the basis of actuarial assumptions – differ from actual changes in assets and liabilities.

€ in millions	2011		2010		2009		2008		2007	
	Domestic plans	Foreign plans	Domestic plans	Foreign plans	Domestic plans	Foreign plans	Domestic plans	Foreign plans	Domestic plans	Foreign plans
Differences between expected and actual developments:										
Of fair value of obligation	(8)	(3)	(3)	–	(1)	3	8	(2)	13	2
Of fair value of plan assets	(26)	(1)	3	1	(14)	(4)	(68)	(5)	(2)	–

The actual negative return on plan assets in the fiscal year ended September 30, 2011 was €9 million. In the previous year, plan assets had yielded a positive return of €25 million.

The weighted-average assumptions used in calculating the actuarial values for the pension plans are as follows:

in %	2011		2010	
	Domestic plans	Foreign plans	Domestic plans	Foreign plans
Discount rate at the end of the fiscal year	5.0	4.6	4.3	4.5
Rate of salary increase	2.0	1.9	2.0	2.0
Projected future pension increases	2.0	0.8	2.0	0.8
Expected return on plan assets at the beginning of the fiscal year	5.0	7.3	6.3	7.2

Discount rates are established based on prevailing market rates for high-quality fixed-income instruments that, if the pension benefit obligation were settled at the measurement date, would provide the necessary future cash flows to pay the benefit obligation when due. The Company believes short-term changes in interest rates should not affect the measurement of the Company's long-term obligations.

INVESTMENT STRATEGIES

The investment strategy of the Company's pension plans involves a sufficient level of flexibility to capture investment opportunities as they occur, while maintaining reasonable parameters to ensure that prudence and care are exercised in the execution of the investment program. The Company's pension plans' assets are invested with several investment managers. The plans employ a mix of active and passive investment management programs. Considering the duration of the underlying liabilities, a portfolio of investments of plan assets in equity securities, debt securities and other assets is targeted to maximize the long-term return on assets for a given level of risk. Investment risk is monitored on an ongoing basis through periodic portfolio reviews, meetings with investment managers and annual liability measurements. Investment policies and strategies are periodically reviewed to ensure the objectives of the plans are met considering any changes in benefit plan design, market conditions or other material items.

EXPECTED LONG-TERM RATE OF RETURN ON PLAN ASSETS

Establishing the expected rate of return on pension assets requires judgment. The Company's approach in determining the long-term rate of return for plan assets is based upon historical financial market relationships, the types of investment classes in which pension plan assets are invested, long-term investment strategies, as well as the expected compounded return the Company can reasonably expect the portfolio to earn over appropriate time periods.

The Company reviews the expected long-term rate of return annually and revises it as appropriate. Also, the Company periodically commissions detailed asset/liability studies to be performed by third-party professional investment advisors and actuaries.

PLAN ASSET ALLOCATION

As of September 30, 2011 and 2010 the percentage of plan assets invested and the targeted allocation in major asset categories are as follows:

in %	Targeted allocation		2011		2010	
	Domestic plans	Foreign plans	Domestic plans	Foreign plans	Domestic plans	Foreign plans
Equity securities	39	19	21	23	27	38
Debt securities	33	14	39	12	36	13
Other	28	67	40	65	37	49
Total	**100**	**100**	**100**	**100**	**100**	**100**

The position "Other" in the table above includes commodity funds, real-estate funds, liability insurances and cash.

The Company's asset allocation targets for its pension plan assets are based on its assessment of business and financial conditions, demographic and actuarial data, funding characteristics, related business risk factors, market sensitivity analysis and other relevant factors. The overall allocation is expected to help protect the plans' funded status while generating sufficiently stable real returns (i.e. net of inflation) to meet current and future benefit payment needs. Due to active portfolio management, the asset allocation may differ from the target allocation up to certain limits for different classes.

As a matter of policy, the Company's pension plans do not invest in shares of Infineon.

AMOUNTS RECOGNIZED IN PROFIT OR LOSS AND IN TOTAL COMPREHENSIVE INCOME

The net periodic pension cost of defined benefit plans for the years ended September 30, 2011 and 2010 comprise the following:

€ in millions	2011		2010	
	Domestic plans	Foreign plans	Domestic plans	Foreign plans
Current service cost	(12)	(2)	(10)	(2)
Interest cost	(18)	(4)	(19)	(3)
Expected return on plan assets	16	2	18	2
Amortization of unrecognized prior service (cost) benefit	(4)	–	(2)	–
Curtailment gain recognized	5	–	–	–
Net periodic pension cost	**(13)**	**(4)**	**(13)**	**(3)**
Pension expense relating to discontinued operations	(3)	–	(4)	–
Pension expense relating to continuing operations	**(10)**	**(4)**	**(9)**	**(3)**

The past service costs relating to the pension plans are amortized in equal amounts over the average period until the benefits become vested.

Actuarial losses of €17 million and €93 million have been recognized in the Statement of Changes in Equity and the Statement of Comprehensive Income for the years ended September 30, 2011 and 2010, respectively. As of September 30, 2011 and 2010, cumulative actuarial losses amounted to €67 million and €50 million, respectively. In addition, cumulative actuarial gains/losses amounting to €7 million, resulting from deferred compensation plans, are also recognized directly in equity.

Disbursements totalling €15 million are projected to be made in the 2012 fiscal year in conjunction with defined benefit plans.

DEFINED CONTRIBUTION PLANS

The Company recognized €95 million and €103 million as an expense for defined contribution plans in the financial years ended September 30, 2011 and 2010.

36 ADDITIONAL DISCLOSURES ON FINANCIAL INSTRUMENTS

The following table presents the carrying amounts and the fair values by class of financial instruments and a reconciliation from the classes of financial instruments to the IAS 39 categories of financial instruments.

€ in millions	Categories of financial assets					
Financial assets:	Carrying amount	At fair value through profit or loss	Designated cash flow hedges	Available for sale	Loans and receivables	Fair value
Balance at September 30, 2010						
Current assets:						
Cash and cash equivalents	1,667	–	–	–	1,667	1,667
Financial investments	60	–	–	60	–	60
Trade and other receivables	687	–	–	–	687	687
Other current financial assets	72	63	9	–	–	72
Assets classified as held for sale	4	–	–	1	3	4
Non-current assets:						
Other financial assets	119	–	–	20	99	119
Total	**2,609**	**63**	**9**	**81**	**2,456**	**2,609**
Balance at September 30, 2011						
Current assets:						
Cash and cash equivalents	1,007	–	–	–	1,007	1,007
Financial investments	1,685	–	–	57	1,628	1,685
Trade and other receivables	593	–	–	–	593	593
Other current financial assets	2	2	–	–	–	2
Non-current assets:						
Other financial assets	124	–	–	26	98	124
Total	**3,411**	**2**	**–**	**83**	**3,326**	**3,411**

€ in millions	Categories of financial liabilities					
Financial liabilities:	Carrying amount	At fair value through profit or loss	Designated cash flow hedges	Other financial liabilities	Lease liabilities	Fair value
Balance September 30, 2010						
Current liabilities:						
Short-term debt and current maturities of long-term debt	133	–	–	133	–	133
Trade and other payables	665	–	–	665	–	665
Other current financial liabilities	16	6	–	10	–	16
Non-current liabilities:						
Long-term debt	263	–	–	263	–	276
Other financial liabilities	6	–	–	6	–	6
Total	**1,083**	**6**	**–**	**1,077**	**–**	**1,096**
Balance September 30, 2011						
Current liabilities:						
Short-term debt and current maturities of long-term debt	68	–	–	68	–	68
Trade and other payables	735	–	–	735	–	735
Other current financial liabilities	159	7	–	152	–	159
Non-current liabilities:						
Long-term debt	237	–	–	237	–	248
Other financial liabilities	4	–	–	4	–	4
Total	**1,203**	**7**	**–**	**1,196**	**–**	**1,214**

Fair values of derivative financial instruments are determined using quoted market prices or according to the discounted cash flow method. As a result of the short-term nature of cash and cash equivalents, financial investments, trade/other receivables and payables to third parties and related entities and other current financial assets and liabilities, it is assumed that the fair values of such items correspond to their carrying amounts.

Non-current assets classified as “available-for-sale” are measured at their fair values, based on market prices quoted on an active market or calculated as the present value of future expected cash flows.

The fair value of the Company’s unsecured term loans and interest-bearing notes payable approximate their carrying amounts as their interest rates approximate those which could be obtained currently. At September 30, 2011, the subordinated convertible bonds, due 2014, were trading at a 160.216 percent premium to par based on quoted market values. The fair values of forward currency contracts and currency options are determined on the basis of market conditions prevailing at the end of the reporting period. Recognized valuation models are used to determine the fair value of currency options. The fair value of an option is impacted by the length of its remaining term and by other factors such as the current market exchange rate and volatility of the underlying currency. Financial investments are measured at their fair value (see note 13).

Financial instruments measured at fair value are allocated to different measurement levels in accordance with IFRS 7. This includes financial instruments that are

- valued according to quoted prices in an active market for identical financial instruments (Level 1),
- valued according to quoted prices in an active market for comparative financial instruments or using valuation models whose main input factors are based on observable market data (Level 2), or
- valued using input factors that are not based on observable market data (Level 3).

The following table shows the amounts allocated to each measurement level at September 30, 2011:

€ in millions	Fair Value	Fair value aggregated by category		
		Level 1	Level 2	Level 3
Financial assets				
Current assets:				
Financial investments	57	–	57	–
Other current financial assets	2	–	2	–
Assets classified as held for sale	–	–	–	–
Non-current assets:	–	–	–	–
Other financial asset	26	14	–	12
Total	**85**	**14**	**59**	**12**
Financial liabilities				
Current liabilities:				
Other current financial liabilities	7	–	7	–
Total	**7**	**–**	**7**	**–**

The following table contains information about net gains (losses) from continuing operations by category of financial instruments for the 2011 and 2010 fiscal years:

€ in millions			Financial assets and financial liabilities at fair value through profit or loss				
	Available-for-sale financial assets	Loans and receivables	Designated as at fair value through profit or loss	Held for trading	Other financial liabilities	Cash flow hedges	Total
Fiscal year 2010:							
Total removed from equity and recognized in profit or loss	5	–	–	–	–	(16)	(11)
Fair value gain (loss) recognized directly in equity	(4)	–	–	–	–	26	22
Net gains (losses) recognized in equity	**1**	**–**	**–**	**–**	**–**	**10**	**11**
Interest revenue	1	17	–	–	(89)	(2)	(73)
Net foreign exchange gain (loss)	–	1	–	12	(15)	(26)	(28)
Fair value gain (loss)	3	2	4	1	–	–	10
Impairment loss (reversal)	(3)	(2)	–	–	–	–	(5)
Total recognized in profit or loss	**1**	**18**	**4**	**13**	**(104)**	**(28)**	**(96)**
Total net gain (loss)	**2**	**18**	**4**	**13**	**(104)**	**(18)**	**(85)**
Fiscal year 2011:							
Total removed from equity and recognized in profit or loss	–	–	–	–	–	–	–
Fair value gain (loss) recognized directly in equity	–	–	–	–	–	(7)	(7)
Net gains (losses) recognized in equity	**–**	**–**	**–**	**–**	**–**	**(7)**	**(7)**
Interest revenue	4	32	–	–	(60)	(2)	(26)
Net foreign exchange gain (loss)	–	–	–	13	(5)	7	15
Fair value gain (loss)	–	–	–	–	–	–	–
Impairment loss (reversal)	–	(2)	–	–	–	–	(2)
Total recognized in profit or loss	**4**	**30**	**–**	**13**	**(65)**	**5**	**(13)**
Total net gain (loss)	**4**	**30**	**–**	**13**	**(65)**	**(2)**	**(20)**

DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING ACTIVITIES

The Company periodically enters into derivative financial instruments such as interest swap arrangements, foreign exchange forward and option contracts. The objective of these transactions is to reduce the impact of interest rate and exchange rate fluctuations on the Company's future net cash flows. The Company does not enter into derivatives for trading or speculative purposes.

The euro equivalent notional amounts in millions and fair values of the Company's derivative instruments as of September 30, 2011 and 2010 are as follows:

€ in millions	2011		2010	
	Notional amount	Fair value	Notional amount	Fair value
Forward exchange contracts sold				
US dollar	145	(5)	466	20
Japanese yen	6	–	4	–
Singapore dollar	–	–	–	–
Great Britain pound	–	–	1	–
Forward exchange contracts purchased				
US dollar	23	–	60	(2)
Japanese yen	25	–	7	–
Singapore dollar	21	–	17	–
Great Britain pound	5	–	5	–
Malaysian ringgit	56	–	50	1
Currency options sold				
US dollar	–	–	1,061	47
Interest rate swaps	**–**	**–**	**–**	**–**
Other	**–**	**–**	**3**	**–**
Fair value, net		**(5)**		**66**

The Company enters into derivative instruments, primarily foreign exchange forward and option contracts, to hedge significant anticipated US dollar cash inflows from operations. During the 2010 fiscal year, the Company had designated as cash flow hedges certain foreign exchange forward contracts and foreign exchange options related to highly probable forecasted sales denominated in US dollars. The fair value of those foreign exchange forward contracts amounted to positive €9 million as of September 30, 2010. During the 2011 fiscal year fair value losses on derivative financial instruments amounting to €2 million (2010: negative €18 million) were recognized in other reserves and fair value gains of €7 million (2010: negative €26 million) recognized in cost of goods sold. The Company did not record any ineffectiveness for these hedges in the 2011 and 2010 fiscal years. However, it excluded differences between spot and forward rates and the time value from the assessment of hedge effectiveness and included this component of financial instruments' gain or loss as part of cost of goods sold. As of September 30, 2011, no foreign exchange forward contracts were designated as cash flow hedges. All foreign exchange derivatives designated as cash flow hedges at the end of the previous reporting period had maturities of four months or less. Foreign exchange derivatives entered into by the Company to offset exposure to anticipated cash flows that do not meet the requirements for applying hedge accounting are marked to market at each reporting period with unrealized gains and losses recognized in earnings.

For the fiscal years ended September 30, 2011 and 2010, no gains or losses were reclassified from other reserves as a result of the discontinuance of foreign currency cash flow hedges resulting from a determination that it was probable that the original forecasted transaction would not occur.

37 FINANCIAL RISK MANAGEMENT

The Company'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. The Company's overall financial risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on its financial performance. The Company uses derivative financial instruments to hedge certain risk exposures. Risk management is carried out by a central Finance and Treasury ("FT") department under policies approved by the Management Board. The FT department identifies, evaluates and hedges financial risks in close co-operation with the Company's operating units. The FT department's policy contains written principles for overall risk management, as well as written policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk, use of derivative financial instruments and non-derivative financial instruments, and investment of excess liquidity.

MARKET RISK

Market risk is defined as the risk of loss related to adverse changes in market prices of financial instruments, including those related to foreign exchange rates and interest rates.

The Company is exposed to various financial market risks in the ordinary course of business, primarily resulting from changes in foreign exchange rates and interest rates. The Company enters into diverse derivative financial transactions with several counterparties to limit such risks. Derivative instruments are used only for hedging purposes and not for trading or speculative purposes.

Foreign exchange risk

Foreign exchange risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

Although the Company prepares the Consolidated Financial Statements in euro, major portions of its sales volumes as well as costs relating to the design, development, manufacturing and marketing of products are denominated in currencies other than the euro, primarily the US dollar. Fluctuations in the exchange rates of these currencies to the euro had an effect on results in the 2011 and 2010 fiscal years.

The Management has established a policy to require the Company's individual legal entities to manage their foreign exchange risk against their functional currency. Group entities prepare a monthly rolling currency-differentiated cash flow forecast 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 hedging contracts with FT.

The Company's policy with respect to limiting short-term foreign currency exposure generally is to economically hedge at least 75 percent of its estimated net exposure for the initial two-month period, at least 50 percent of its estimated net exposure 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. The Company calculates this net exposure on a cash-flow basis considering items of the Statement of Financial Position, actual orders received or made and all other planned proceeds and disbursements.

For the 2011 and 2010 fiscal years, net gains (losses) related to foreign currency derivatives and foreign currency transactions included in determining net income amounted to positive €15 million and negative €28 million, respectively.

The following table shows the net exposure for continuing operations by major foreign currencies and the potential effects on a 10 percent shift of the currency exchange rates to be applied as of September 30, 2011 and 2010:

€ in millions	Profit or Loss		Equity	
	+10%	(10%)	+10%	(10%)
September 30, 2010				
EUR/USD	(11)	14	11	(14)
EUR/MYR	–	(2)	–	–
EUR/YEN	1	(1)	–	–
EUR/SGD	–	–	–	–
September 30, 2011				
EUR/USD	(10)	13	–	–
EUR/MYR	(2)	3	–	–
EUR/YEN	–	1	–	–
EUR/SGD	(1)	1	–	–

Interest rate risk

In accordance with IFRS 7 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.

The Company is exposed to interest rate risk through its financial assets and debt instruments resulting from bond issuances and debt financing. Due to the high volatility of its core business and the need to maintain high operational flexibility, its liquid financial assets are kept at a high level. These assets are mainly invested in short-term interest rate instruments. The risk of changing interest rates affecting these assets is partially offset by financial liabilities, some of which are based on variable interest rates.

To reduce the risk caused by changes in market interest rates, the Company is able to make use of interest rate derivatives, such as interest swaps, to align the duration of the interest rates of its debts and current assets.

IFRS 7 requires a sensitivity analysis showing the effect of possible changes in market interest on profit or loss and equity. This is done using the iteration method. The Company does not hold any fixed-rate financial assets or liabilities which are measured at fair value through profit or loss. In respect of fixed-rate available-for-sale financial assets, a change of 100 basis points in interest rates at the reporting date would have increased or decreased equity by €0 million and €0.5 million as of September 30, 2011 and 2010, respectively.

Changes in market interest rates affect interest income and interest expense on floating interest financial instruments. A change of 100 basis points in interest rates at the reporting date would have increased or decreased profit or loss by €1 million and by €1.5 million in the 2011 and 2010 fiscal years, respectively.

Other price risk

According to IFRS 7 other price risk is defined as the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

Infineon holds financial instruments which are exposed to market price risks. A change of the relevant market prices of 5 percent would increase or decrease profit or loss by €0.1 million and €0.1 million for the 2011 and 2010 fiscal years, respectively.

Additionally, the Company is exposed to price risks with respect to raw materials used in the manufacture of its products. The Company seeks to minimize these risks through its sourcing policies (including the use of multiple sources, where possible) and its operating procedures. The Company does not use derivative financial instruments to manage any exposure to fluctuations in commodity prices remaining after the operating measures described above.

Credit risk

Credit risk arises when a customer or other counterparty of a financial instrument fails to discharge its contractual obligations.

The Company is exposed to this risk in conjunction with its ongoing operations, the investment of cash funds and certain financing activities. Financial instruments that expose the Company to credit risk consist primarily of trade receivables, cash equivalents, financial investments and foreign currency derivatives. Excluding the impact of any collateral received, the carrying amount of financial investments, cash equivalents and trade receivables corresponds to the maximum credit risk.

Concentrations of credit risks with respect to trade receivables are limited by the large number of geographically diverse customers that make up the Company's customer base. The Company controls credit risk through credit approvals, credit limits and monitoring procedures, as well as comprehensive credit evaluations for all major customers. New customers are evaluated for creditworthiness in accordance with guidelines applicable throughout the Company. Credit limits are also in place for individual customers. Creditworthiness and credit limits are constantly being monitored. A further measure taken to reduce credit risk is the use of reservation of title clauses in sales contracts. However, despite continuous monitoring, the Company cannot fully exclude the possibility of a loss arising from the default of one of the counterparties. The Company's FT department 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 only transacts with financial institutions which have a minimum long-term rating of A Flat (Standard & Poor's) or equivalent rating of one of the other leading rating agencies. Credit default swap (CDS) premiums paid by the relevant financial institutions are monitored on a weekly basis in order to confirm that various predefined thresholds are complied with. If the CDS of a financial institution is lower than the first threshold, business is transacted within the pre-defined limit. If the CDS is above the first threshold, no new business is transacted with the financial institution concerned. If a further threshold is exceeded, transactions in place with the financial institution are reviewed and, where considered necessary, terminated early.

The Company has spread its cash over more than 10 financial institutions. As of September 30, 2011, no financial institution was responsible for more than 15 percent of surplus cash. This gives rise to the maximum risk of €400 million in the event of the default of a single financial institution. The Company also holds derivative financial instruments with a positive fair value of €2 million.

Financing and liquidity risk

Financing and liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities.

Liquidity risk could arise from the Company's potential inability to meet maturing financial obligations. The Company's liquidity risk management basically implies maintaining sufficient levels of cash and other funds that are available at short notice as well ensuring the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions. Due to the dynamic nature of the underlying businesses, the Company's FT department maintains flexibility in funding by maintaining availability under committed credit lines.

The following table discloses a maturity analysis for non-derivative financial liabilities and a cash flow analysis for derivative financial instruments with negative fair values. The table shows the undiscounted contractually agreed cash flows which result from the respective financial liability. Cash flows are recognized at trade date when the Company becomes a party to the contractual provision of the financial instrument. Amounts in foreign currencies are translated using the closing rate at the reporting date. Financial instruments with variable interest payments are determined using the interest rate from the last interest fixing date before September 30, 2011. The cash outflows of financial liabilities that can be paid off at any time are assigned to the time band where the earliest redemption is possible.

€ in millions	Contractual cash flows	2012	2013	2014	2015	2016	Thereafter
Non derivative financial liabilities	1,258	969	118	157	10	4	–
Derivative financial liabilities:							
Cash outflow	(216)	(216)	–	–	–	–	–
Cash inflow[1]	210	210	–	–	–	–	–
Total	**1,252**	**963**	**118**	**157**	**10**	**4**	**–**

1 Cash inflows of derivates financial liabilities are also included when the instrument is gross settled in order to show all contractual cash flows.

38 COMMITMENTS AND CONTINGENCIES

LITIGATION AND GOVERNMENT INQUIRIES

Antitrust litigation

In September 2004, the Company entered into a plea agreement with the Antitrust Division of the U.S. Department of Justice in connection with its investigation into alleged antitrust violations in the Dynamic Random Access Memory (DRAM) industry. A number of putative price-fixing class action lawsuits have been filed in U.S. state and federal courts against the Company, its U.S. subsidiary Infineon Technologies North America Corp. ("IF North America") and other DRAM suppliers by indirect purchasers, state attorneys general of various U.S. states and territories, and California school districts, political subdivisions and public agencies. The lawsuits allege, among other things, violations of federal and state antitrust laws and violations of state unfair competition laws relating to the sale and pricing of DRAM products during specified time periods commencing in or after 1998 through at the latest June 2002. The lawsuits seek actual and treble damages in unspecified amounts, penalties, costs, attorneys' fees, and injunctive and other equitable relief.

The Company has executed a settlement agreement resolving these various lawsuits, subject to certain conditions. As part of the settlement, the Company agreed to pay approximately US$29 million, which the Company has deposited into an escrow fund. After final court approval, the Company will be released from claims by the state attorneys general and by any class members who do not elect to opt out of the settlement. Up to the time of final court approval of the settlement, there is a risk that class members may opt out of the class.

Between December 2004 and February 2005, two putative class proceedings were filed in the Canadian province of Quebec, and one was filed in each of Ontario and British Columbia against the Company, IF North America and other DRAM manufacturers on behalf of all direct and indirect purchasers resident in Canada who purchased DRAM or products containing DRAM between July 1999 and June 2002, seeking damages, investigation and administration costs, as well as interest and legal costs. Plaintiffs primarily allege conspiracy to unduly restrain competition and to illegally fix the price of DRAM.

The provisions recorded in connection with these civil class action litigations encompass provisions for legal expenses and those liabilities and risks that the Company believes are likely to materialize and that can be estimated with reasonable accuracy at this time. Any disclosure of the Company's estimate of potential outcomes could seriously prejudice the position of the Company in these proceedings.

Government inquiries

In October 2008, the Company learned that the European Commission had commenced an investigation involving the Company's Chip Card & Security business for alleged violations of antitrust laws. In September and October 2009, the Company and its French subsidiary received written requests for information from the European Commission. The Company is cooperating with the Commission in answering the requests. No reasonable estimated amount can be attributed at this time to the potential outcome of this investigation.

On June 21, 2010, the Brazil Secretariat of Economic Law of the Ministry of Justice ("SDE") announced that it had initiated an investigation related to alleged anticompetitive activities within the DRAM industry. The SDE's Notice of Investigation names the Company, various DRAM manufacturers and certain executives, and focuses on the period from July 1998 to June 2002. The SDE's Notice of Investigation is based on the investigations carried out in the United States and in Europe. The provisions recorded encompass provisions for legal expenses and those liabilities and risks that the Company believes are likely to materialize and that can be estimated with reasonable accuracy at this time. Any disclosure of the Company's estimate of potential outcomes could seriously prejudice the position of the Company in these proceedings.

Securities litigation

Between September and November 2004, seven securities class action complaints were filed against the Company and current or former officers in U.S. federal district courts, later consolidated in the Northern District of California, on behalf of a putative class of investors that purchased the Company's publicly traded securities from March 2000 to July 2004. The consolidated amended complaint alleges violations of the U.S. securities laws and asserts that the defendants made materially false and misleading public statements about the Company's historical and projected financial results and competitive position because they did not disclose the Company's alleged participation in DRAM price fixing activities. The complaint also alleges that, by fixing the price of DRAM, defendants manipulated the price of the Company's securities, thereby injuring its shareholders.

The Company agreed in the 2011 fiscal year to enter into a settlement agreement resolving this lawsuit, subject to certain conditions. As part of the settlement, the Company agreed to pay US$6.2 million to be deposited into an escrow fund in August 2011. After final court approval, the Company will be released from claims by any class members who do not elect to opt out of the settlement. The Company's directors' and officers' insurance carriers have denied coverage in the securities class action described above and the Company filed suit against the carriers in December 2005 and August 2006. The Company's claims against one D&O insurance carrier were finally dismissed in May 2007. The Company has reached an agreement in principle to settle with the other insurance carrier.

Patent litigation

In October 2007, CIF Licensing LLC ("CIF"), a member of the General Electric Group, filed suit in the Civil Court of Duesseldorf, Germany against Deutsche Telekom AG alleging infringement of four European patents in Germany by certain CPE-modems and ADSL-systems (the "CIF Suit"). Deutsche Telekom has notified its suppliers, which include customers of the Company that a declaratory judgment of patent infringement would be legally binding on the suppliers. In January 2008, the Company joined the suit on the side of Deutsche Telekom. CIF then filed suit against the Company alleging indirect infringement of one of the four European patents. The Company is part of a joint defense group consisting of Deutsche Telekom, most of its suppliers and most of their respective suppliers. The Company is contractually obligated to indemnify and/or to pay damages to its customers under certain circumstances pursuant to its customer contracts. In July 2008, Deutsche Telekom, the Company and the other defendants filed actions contesting the validity of the four patents before the Federal Patent Court in Munich. In October 2008, CIF also filed suit in the Civil Court of Duesseldorf against Arcor GmbH &Co KG, Hansenet Telekommunikation GmbH and United Internet AG (all three, the "New Defendants") alleging infringement of the same four European patents. The New Defendants have notified their suppliers of the suit. The Federal Patent Court invalidated one of the patents on December 15, 2010 and another of the patents on January 26, 2011. CIF has filed an appeal against the ruling on both invalidated patents. The hearing for the third of the four patents has been scheduled by the Federal Patent Court in Munich for the end of November 2011. In October 2011, the parties concluded a settlement agreement which stipulates that all parties withdraw its pending suits. Infineon and other parties to the proceedings will receive a license without monetary consideration in respect of the four patents in suit and its foreign counterparts.

In November 2008, Volterra Semiconductor Corporation ("Volterra") filed suit against Primarion, Inc. (an affiliated of the Company), the Company, and IF North America (jointly the "Defendants") in the United States District Court for the Northern District of California, alleging infringement of five U.S. patents by certain products offered by Primarion and claimed relief for damages, enhanced damages for willful infringement and injunctive relief. Volterra later withdrew one patent; four patents remain in the case. In May 2011, the court decided that two of the patents were infringed. This decision was anticipated by the Company, it has been preparing for appealing this outcome, and has recorded provisions for legal expenses and those liabilities and risks that the Company has believed and continues to believe are likely to materialize and that could be estimated with reasonable accuracy at the time. The case has now moved into the damages phase. Trial on the topics of damages and willfulness is currently scheduled for June 2012. The suit may potentially continue on the two remaining patents in December 2011 as well. Any disclosure of the Company's estimate of potential outcomes could seriously prejudice the position of the Company in these suits. There can be no assurance that the provisions recorded will be sufficient to cover all of the liabilities that could ultimately be incurred in relation to this litigation. In January 2010, the Company also filed suit against Volterra in the United States District Court for the District of Delaware for infringement of four U.S. patents. The case is stayed pending outcome of the California action.

In April 2011, non-practicing entity Stragent, LLC has sued 26 parties including the Company in the Eastern District of Texas for infringement of a software patent. To date, the plaintiff has failed to properly serve Infineon Technologies AG. Those defendants who have been served are denying liability, including on the basis of non-infringement, invalidity, unenforceability, and other defenses. Any disclosure of the Company's estimate of potential outcomes, if such amounts could reasonably be estimated at this time, could seriously prejudice the position of the Company in this suit.

In April 2011, the Company sued Atmel Corporation for infringement of 11 of its patents in the District of Delaware. In July 2011, Atmel responded, denying liability and countersuing the Company, alleging infringement of 6 of its patents, as well as breach of a confidentiality agreement allegedly entered into by the parties during previous negotiations involving some of the patents-in-suit. Any disclosure of the Company's estimate of potential outcomes, if such amounts could reasonably be estimated at this time, could seriously prejudice the position of the Company in these suits.

QIMONDA MATTERS

All significant assets, liabilities and business activities attributable to the memory business (Memory Products) were carved out and transferred to Qimonda AG ("Qimonda") in the form of a non-cash contribution with financial effect from May 1, 2006. A number of different service agreements were concluded with Qimonda in addition to the demerger and contribution agreement of April 25, 2006 as part of the establishment of Qimonda as a separate legal entity. Qimonda filed an application at the Munich Local Court to commence insolvency proceedings on January 23, 2009. The insolvency proceedings formally opened on April 1, 2009. Qimonda was joined in declaring insolvency by a number of German and international subsidiaries of Qimonda, notably including Qimonda Dresden GmbH & Co. OHG ("Qimonda Dresden") and Qimonda Flash GmbH ("Qimonda Flash").

The insolvency of Qimonda, Qimonda Dresden and Qimonda Flash has given rise to various disputes between the administrator of these companies and Infineon, some of which are already before the courts. Infineon and the administrator are in talks and are endeavoring to find a mutually acceptable overall solution.

Legal disputes

Alleged activation of a shell company

The administrator filed suit against Infineon at Regional Court Munich I in November 2010 requesting that Infineon be deemed liable to make good the deficit balance of Qimonda as it stood when the insolvency proceedings in respect of the assets of Qimonda began, that is to say to refund to Qimonda the difference between the latter's actual business assets when the insolvency proceedings began and its share capital (in German: "Unterbilanzhaftung"). The administrator contends that the commencement of operating activities by Qimonda amounts to what is considered in case law to be the activation of a shell company (in German: "Wirtschaftliche Neugruendung"), that this activation of a shell company was not disclosed in the correct manner and that as a consequence of this failure to provide correct disclosure, the party activating the company – Infineon – is liable for the deficit balance at the time the insolvency proceedings began. The suit aims to establish a payment obligation in principle on the part of Infineon, as the administrator believes it is not currently in a position to state its claim in precise terms. The first oral hearing is to take place in January 2012.

Continuation of the rights of use of Infineon and its licensees in respect of the patents transferred to Qimonda

Infineon transferred numerous patents to Qimonda in the course of its contribution of the memory business. It retained rights of use in respect of these patents in the contribution agreement, which also contains provisions concerning cross licensing. The administrator has declared non-performance of this agreement. If the administrator's decision were found to be legal, the Company and its subsidiaries would no longer be licensed to use patents transferred by it to Qimonda in the form of contributions or patents applied for by Qimonda itself subsequent to the carve-out. Moreover, this could leave the Company unable to sublicense such patents in full to third parties. This could also affect contract partners of the Company with which the Company has concluded cross patent license agreements, possibly leading to compensation claims against the Company.

The Company filed an action for declaratory judgment against the administrator regarding this matter with Regional Court Munich I in January 2011. This action is intended to produce a decision by the court confirming that the rights of use of Infineon and its licensees with respect to the aforementioned intellectual property of the Qimonda Group still exist. An initial oral hearing took place in November 2011.

The administrator applied to the US Bankruptcy Court for the Eastern District of Virginia in October 2009 for an order stating that rights of use under US patents of Qimonda do not fall under a protective provision of US insolvency law, according to which such rights of use continue to exist despite the insolvency of the licensor. The administrator bases its argument here on the view that the legal protection afforded to licenses in insolvency pursuant to Section 365(n) of the US Bankruptcy Code applies only to US insolvency proceedings and not to insolvency proceedings in other countries (in this case Germany). Infineon and other semiconductor manufacturers have filed objections to this application.

The US Bankruptcy Court upheld the administrator's claim in November 2009, but the US District Court for the Eastern District of Virginia then sent the case back to the US Bankruptcy Court in July 2010 instructing that the legitimate interests of the licensees and the creditors in the insolvency should be carefully weighed up against the background of the purpose of the statutory regulation.

In October 2011, the US Bankruptcy Court decided, after having diligently balanced the interests of the parties, that Section 365(n) of the US Bankruptcy Code applies with respect to Qimonda's US patents, thus the licenses under these patents remain valid. On November 11, 2011, the administrator appealed against the decision of the U.S. Bankruptcy Court.

Extrajudicial claims

Inotera

Qimonda sold a stake in the joint venture Inotera Memories, Inc. ("Inotera") to Micron Technology, Inc. ("Micron") for US$400 million in October 2008. The administrator has subsequently challenged Micron over the sale under insolvency law and filed suit against Micron with Regional Court Munich I. The administrator suggested in short letters sent in April and August 2010 that it may also pursue corporate liability claims against Infineon in connection with the sale of the Inotera stake. The administrator has yet to substantiate the purported claims against Infineon in these letters.

Valuation of the non-cash contribution

In a letter of August 2011, the administrator announced claims of indeterminate value against Infineon stemming from the capital increase agreed at Qimonda in April 2006, which saw Qimonda's share capital increased by a total of €600 million against the contribution of the memory business. The administrator asserts that the non-cash contribution in the context of the capital increase was overvalued and that hence the equivalent value (lowest issue price) of the subscribed stock was not met.

This argument runs contrary to two valuations prepared as part of the preparatory documentation for the capital increase by independent auditing companies, one of which had been engaged by Infineon and the other of which was acting in the capacity of a court-appointed auditor of non-cash contributions and post-formation acquisitions. The auditing company engaged by Infineon concluded in its valuation that the business area contributed had a value of several times the lowest issue price of the shares issued, while the court-appointed auditor of non-cash contributions and post-formation acquisitions confirmed to the court that the lowest issue price of the shares issued was covered by the value of the non-cash contributions.

Other claims made by the administrator

The administrator has also aired further claims against the Company, for the first time in writing in the final quarter of the 2011 fiscal year.

It asserts that certain legal transactions between Qimonda and Infineon would breach provisions under stock corporation law banning the return of contributions on the grounds that the transactions concerned were of an unconventional nature and disadvantageous for Qimonda. It also asserts that Infineon, in its capacity as the controlling company, caused Qimonda to enter into disadvantageous legal transactions without compensating it accordingly and that the provisions of stock corporation law pertaining to post-formation acquisitions were breached in connection with numerous contracts concluded between Qimonda and Infineon at the same time as the memory business was being contributed to Qimonda.

The administrator is furthermore contesting certain payments from Qimonda to Infineon under insolvency law on the basis that the payments were postponed by Infineon, that Infineon was already aware Qimonda was insolvent at the time of the payment or that there was an imbalance between activity and payment.

Finally, the administrator also asserts that it is entitled to claim against Infineon because the latter did not provide Qimonda with a financing structure and liquidity resources adequate to enable its survival.

Assessment of these claims by Infineon
The administrator's purported claims omit in most cases to mention any specific figures and often amount to no more than general assertions without any supporting detail. We have rejected these claims made to date in writing on the basis of our current understanding of the matters involved. Our review of the situation and legal position is highly complex and has yet to be completed, but our findings to date indicate that for the multitude of the purported claims we have good arguments with which to mount a successful defense should these claims come before the court. Risks and uncertainties of a not inconsiderable magnitude remain, however, not least because several of the combinations of factors involved are not covered by case law from the highest instance.

Claims asserted orally by the administrator
Infineon and Qimonda concluded contracts concerning the separation of IT systems as part of the carve-out of the memory business. The administrator asserted in a meeting held in the 2011 fiscal year that the provisions of stock corporation law pertaining to post-formation acquisitions were breached in the conclusion of these contracts and that the contracts were of an unconventional nature. The administrator also maintained that it was entitled to claim against Infineon in relation to the (sub)letting agreements concluded between Qimonda and Infineon in connection with the carve-out of the memory business.

Insolvency of Qimonda Dresden GmbH & Co. oHG
Infineon was a shareholder with personal liability in Qimonda Dresden until the carve-out of the memory business, meaning that certain long-standing creditors have residual liability claims against Infineon. These claims, which include the potential repayment of public subsidies, trade tax demands, receivables of service providers and suppliers and employee-related claims such as salaries and social security contributions, can only be exercised by the administrator acting in the name of the creditors concerned. Infineon and the administrator concluded a framework agreement covering the organized processing of residual liability issues on July 7, 2011. Infineon and the administrator also agreed in this connection that Infineon may recover 70 percent of the residual liability payments from the insolvent assets as an ordinary rather than a secondary creditor. Settlements have subsequently been concluded with some of the residual liability creditors.

Claims of third parties involved in the Qimonda insolvency
The Company is a named defendant in multiple pending antitrust and securities law claims. Qimonda is required to indemnify the Company, in whole or in part, for claims (including any related expenses) associated with these antitrust and securities law claims. Owing to Qimonda's insolvency, however, it is assumed that Qimonda will not be able to indemnify the Company as stipulated. For further information on these claims and their potential impact on the Company see above "Antitrust Litigation".

The Company and its subsidiary Infineon Technologies Dresden GmbH ("Infineon Dresden") are subject to lawsuits by approximately 80 former Infineon employees who were transferred to Qimonda or Qimonda Dresden as part of the carve-out and are now demanding to be re-employed by the Company. All court decisions so far have found in favor of the Company or Infineon Dresden.

Former employees of Qimonda's subsidiary companies in the USA (the "Qimonda Subsidiaries") filed suit with the U.S. Federal District Court in Delaware against the Company, IF North America and Qimonda AG, in their own name and as part of various class actions, in April 2009. The claim relates to the termination of the claimants' employment in connection with the insolvency of the Qimonda Subsidiaries and the payment of severance pay and other payments that are allegedly due from the Qimonda Subsidiaries. The legal dispute has now been brought to an end with the conclusion of a settlement agreement which became effective on October 6, 2011 and the court rejected the claim without contest.

The Company may still be exposed to other claims arising in connection with contracts, offers, uncompleted transactions, continuing obligations, liabilities, risks and other obligations transferred to Qimonda in connection with the carve-out of the memory business. The Company expects that Qimonda will not be able to fulfill its obligation to indemnify Infineon against any such liabilities.

PROVISIONS

The Company recognizes provisions and payables for obligations and risks which the Company assesses at the end of each reporting period are more likely than not to be incurred (i.e. where, from the Company's perspective at the end of each reporting period, the probability of having to settle an obligation or risk is greater than the probability that it will not have to) and the obligation or risk can be estimated with reasonable accuracy at this time.

As described above, the Company faces certain risks in connection with the insolvency proceedings of Qimonda and that entity's subsidiaries. Certain of these matters led the Company to record provisions of €300 million and €97 million as of September 30, 2011 and 2010, respectively. In addition, liabilities of €21 million were recorded as of September 30, 2010. Presenting details of further actual amounts included in provisions for specific liabilities and risks associated with the insolvency of Qimonda could seriously prejudice the Company's legal or negotiating position, so no such disclosures are made.

There can be no certainty that the provisions recorded will be sufficient to cover all of the liabilities that could ultimately be incurred in relation to the insolvency of Qimonda and, in particular, the matters discussed above. In addition, it is not possible at this time to estimate amounts for or present comments on liabilities and risks that could materialize but are currently considered to be unlikely to do so, and accordingly such matters are not included in provisions.

The Company 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 the Company as it deems appropriate. Should the alleged claims prove to be valid, substantial financial obligations could arise for the Company which could have a material adverse effect on its business and its financial condition, liquidity position and results of operations.

OTHER

The Company is also involved in various other legal disputes and proceedings in connection with its business activities. These relate to products, services, patents, environmental protection issues and other matters. Based on its current knowledge, the Company does not believe that the ultimate resolution of these other pending legal disputes and proceedings will have a material adverse effect on its financial condition, liquidity position and results of operations. It remains entirely possible, however, that this assessment may have to be revised in future and that any actual resolutions of the miscellaneous legal disputes and proceedings could have material adverse effect on financial condition, liquidity position and results of operations, particularly in the period of resolution.

PROVISIONS AND THE POTENTIAL EFFECT OF THESE MATTERS

Provisions relating to legal proceedings and other uncertain legal issues are recorded when it is probable that a liability has been incurred and the associated amount can be reasonably estimated. If the estimated amount of the liabilities is within a range of amounts and all amounts within the range are essentially equally probable, the provision recorded is equal to the mid-point of the range.

Any potential liability is reviewed again as soon as additional information becomes available and the estimates are revised if necessary. Provisions with respect to these matters are subject to future developments or changes in circumstances in each of the matters, which could have a material adverse effect on the Company's financial condition, liquidity position and results of operations.

An adverse final resolution of any of the matters described above could result in significant financial liabilities for the Company 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. The Company 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 the Company as it deems appropriate. Irrespective of the validity of the allegations and the success of the aforementioned claims and other matters described above, the Company could incur significant costs in defending against or settling such allegations and this too could have a material adverse effect on its financial condition, liquidity position and results of operations.

39 CONTINGENT LIABILITIES AND OTHER FINANCIAL COMMITMENTS

CONTINGENT LIABILITIES

Contingent liabilities relate to possible future events, the occurrence of which would result in an obligation for the Company. The incurrence of such an obligation is considered to be "not probable" at the reporting date, but cannot be ruled out entirely.

The following table summarizes the Company's contingent liabilities with respect to external parties, other than those related to litigation, as of September 30, 2011:

Payments due in (€ in millions)	Total	Less then 1 year	1 – 2 years	2 – 3 years	3 – 4 years	4 – 5 years	After 5 years
Guarantees	107	13	6	2	4	17	65

In total, the Company has guarantees outstanding to external parties as of September 30, 2011 amounting to €107 million. Guarantees are mainly issued for the payment of import duties, rentals of buildings, and contingent obligations related to government grants received.

OTHER FINANCIAL OBLIGATIONS AND OTHER RISKS

In addition to liabilities, provisions and contingent liabilities, the Company also has other financial obligations, relating in particular to lease and long-term rental arrangements on the one hand and unconditional purchase commitments on the other.

Future minimum operating lease and rental payments (undiscounted) amounted to €532 million (September 30, 2010: €656 million). The corresponding payment obligations fall due as follows:

Payments due in (€ in millions)	Total	Less then 1 year	1 – 2 years	2 – 3 years	3 – 4 years	4 – 5 years	After 5 years
Leases	532	44	42	39	38	41	328

Future cash-in from sub-leases are expected to amount to €90 million.

Investment commitments for property, plant and equipment (purchase commitments) at September 30, 2011 amounted to €379 million (September 30, 2010: €171 million).

Purchase commitments for intangible assets at September 30, 2011 amounted to €39 million (September 30, 2010: €35 million).

In line with the current raw material supply, long-term purchase commitments are in place for various supplies, including wafers, strategic raw materials, semiconductor intermediate products, electricity and gas. Overall, these minimum purchase commitments give rise to other financial obligations amounting to approximately €547 million (September 30, 2010: €504 million). These contracts have terms of between one and five years. Purchases under these agreements are recorded as incurred in the normal course of business. The Company assesses its anticipated purchase requirements on a regular basis to meet customer demand for its products. An assessment of losses under these agreements is made on a regular basis in the event that either budgeted purchase quantities fall below the specified quantities or market prices for these products fall below the specified prices.

In conjunction with its investing activities, the Company 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 the Company complying with certain project-related requirements, such as creating a specified number of jobs over a defined period of time. The Company is committed to maintaining these requirements. Nevertheless, should such requirements not be met, as of September 30, 2011, a maximum of €21 million of these subsidies could be refundable. From today's perspective, the Company expects to be able to comply with the conditions attached to the grants. Such amount does not include any potential liabilities for Qimonda-related subsidies (see note 38).

The Company, through certain of its sales and other agreements may, in the normal course of business, be obligated to indemnify its counterparties under certain conditions for warranties, patent infringement or other matters. The maximum amount of potential future payments under these types of agreements is not predictable with any degree of certainty, since the potential obligation is contingent on conditions that may or may not occur in future, and depends on specific facts and circumstances related to each agreement. Historically, payments made by the Company under these types of agreements have not had a material adverse effect on the Company's financial condition, liquidity position and results of operations.

On December 23, 2003, the Company entered into a long-term operating lease agreement with MoTo Objekt Campeon GmbH & Co. KG ("MoTo") to lease Campeon, an office complex constructed by MoTo south of Munich, Germany. MoTo was responsible for the construction, which was completed in the second half of 2005. The Company has no obligations with respect to financing MoTo and has provided no guarantees related to the construction. The Company occupied Campeon under an operating lease arrangement in October 2005 and completed the move of its employees to this new location in the 2006 fiscal year. The complex was leased for a period of 20 years. After year 15, the Company has a non-bargain purchase option to acquire the complex or otherwise continue the lease for the remaining period of five years. Pursuant to the agreement, the Company placed a rental deposit of €75 million in escrow, which was included in restricted cash as part of other financial assets in the Consolidated Statement of Financial Position as of September 30, 2011. Lease payments are subject to limited adjustment based on specified financial ratios related to the Company. The agreement was accounted for as an operating lease, in accordance with IAS 17, with monthly lease payments expensed on a straight-line basis over the lease term.

40 SEGMENT REPORTING

IDENTIFICATION OF SEGMENTS

The Company identifies reportable segments on the basis of the differences between products sold. During the 2011 fiscal year, the Company's business was structured on the basis of its three operating segments, namely Automotive, Industrial & Multimarket and Chip Card & Security. A differentiation is also made to "Other Operating Segments" on the one hand and "Corporate & Eliminations" on the other.

The sale of the Wireless mobile phone business of the former Wireless Solutions segment was closed on January 31, 2011. The business with radio frequency power transistors for cellular basestations is now part of the Industrial & Multimarket segment, while the business with analog and digital TV tuners and receiver components for satellite radio is now part of Other Operating Segments. Expenses that had previously been allocated to the Wireless mobile phone business, but continue to be incurred after the sale, are allocated to Corporate & Eliminations.

Prior period amounts have been adjusted accordingly.

Automotive

The Automotive segment designs, develops, manufactures and markets semiconductors for use in automotive applications. Together with its product portfolio, it offers corresponding system know-how and support to its customers.

Industrial & Multimarket

The Industrial & Multimarket segment designs, develops, manufactures and markets semiconductors and system solutions primarily for use in industrial electronics applications and in applications with customer-specific product requirements.

Chip Card & Security

The Chip Card & Security segment designs, develops, manufactures and markets a wide range of security controllers and security memories for chip card and security applications.

Other operating segments

Other Operating Segments comprises the remaining activities for certain product lines that have been disposed of and other business activities. Since the closing of the sale of the Wireline Communications business and the Wireless mobile phone business, sales to Lantiq and IMC under the corresponding production agreements are included in this segment.

Corporate and eliminations

Corporate and Eliminations reflects the elimination of intragroup revenue and profits/losses to the extent that arise between the segments.

Similarly, certain items are included in Corporate and Eliminations which are not allocated to the other segments. This includes certain corporate headquarters costs and specific strategic technology initiatives. Additionally, restructuring charges and employee stock-based compensation expense and financial income/expense are included in Corporate and Eliminations and not allocated to the segments, since they arise from corporate directed decisions not within the direct control of segment management.

Furthermore, raw materials and work-in-process of the common production front-end facilities, and raw materials of the common back-end facilities, are not under the control or responsibility of any of the operating segment managers and are therefore allocated to corporate functions. Only work-in-progress of back-end facilities and finished goods are allocated to the operating segments.

Chief operating decision maker, Definition of Segment Result and allocation of assets and liabilities to the individual segments
The Company's 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.

The Company defines Segment Result as operating income (loss) excluding asset impairments net of reversals, the net impact on earnings of restructuring measures and closures, share-based compensation expense, acquisition-related depreciation/amortization and gains (losses), gains (losses) on sales of assets, businesses, or interests in subsidiaries, and other income (expense), including litigation settlement costs.

Decisions relating to financing and the investment of surplus cash funds are taken at a Group level and not at a segment level. For this reason, financial income and financial expense (including interest income and expense) are not allocated to the segments.

Assets and liabilities are not allocated to the segments and segment performance is not assessed on the basis of these figures. Similarly, cash flows are not determined on a segment basis.

The exception to this approach is the collation and regular analysis of data on inventories at a segment level. The Company 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 presents selected segment data:

€ in millions	2011	2010
Revenue:		
Automotive	1,552	1,268
Industrial & Multimarket	1,800	1,429
Chip Card & Security	428	407
Other Operating Segments	216	194
Corporate and Eliminations	1	(3)
Total	**3,997**	**3,295**

The operating segments do not have any trading relationships with each other. Accordingly, there was no intersegment revenue during the 2011 and 2010 fiscal years. Costs are recharged without impact on profit or loss.

€ in millions	2011	2010
Segment Result:		
Automotive	279	198
Industrial & Multimarket	444	294
Chip Card & Security	54	22
Other Operating Segments	14	(4)
Corporate and Eliminations	(5)	(35)
Total	**786**	**475**

The following table provides the reconciliation of Segment Result to the Company's income from continuing operations before income taxes:

€ in millions	2011	2010
Total Segment Result	786	475
Plus/minus:		
Asset impairment reversals/asset impairments, net	5	(12)
Impact on earnings of restructuring measures and closures, net	–	4
Share-based compensation expense	(2)	–
Acquisition-related depreciation/amortization and losses	(3)	(4)
Losses in connection with the deconsolidation of ALTIS	–	(69)
Gains on sales of assets, businesses, or interests in subsidiaries	–	4
Other expenses	(50)	(50)
Operating income	**736**	**348**
Financial income	39	29
Financial expense	(65)	(95)
Income from investments accounted for using the equity method, net	4	8
Income from continuing operations before income tax	**714**	**290**

€ in millions	2011	2010
Depreciation and amortization:		
Automotive	124	87
Industrial & Multimarket[1]	166	106
Chip Card & Security	20	35
Other Operating Segments	13	22
Corporate and Eliminations[2]	41	86
Total	**364**	**336**

1 Includes in the 2011 and 2010 fiscal years €3 million of acquisition-related depreciation and amortization which are not included in Segment Result.
2 Includes depreciation and amortization remaining with Infineon after sale of the Wireless mobile phone business and Wireline Communications.

Income from associated companies and joint ventures accounted for using the equity method totalled €4 million and €8 million in the 2011 and 2010 fiscal years. This income was realized in the Industrial & Multimarket segment but is not included in Segment Result.

€ in millions	2011	2010
Inventories:		
Automotive	120	88
Industrial & Multimarket	164	131
Chip Card & Security	25	34
Other Operating Segments	19	5
Corporate and Eliminations	179	256
Total	**507**	**514**

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, 2011 and 2010:

Revenue by region

€ in millions	2011	2010
Revenue:		
Europe, Middle East, Africa	1,920	1,528
Therein: Germany	1,090	862
Asia-Pacific (without Japan)	1,450	1,202
Therein: China	663	595
Japan	202	184
Americas	425	381
Total	**3,997**	**3,295**

€ in millions	2011	2010
Property, plant and equipment; goodwill and other intangible assets:		
Europe	898	539
Therein: Germany	555	340
Asia-Pacific (w/o Japan)	546	382
Therein: China	15	11
Japan	1	1
Americas	9	3
Total	**1,454**	**925**

Revenues from external customers are based on the customers' billing location. Regional employment data is provided in note 7.

No single customer accounted for more than 10 percent of the Company's sales during the 2011 or 2010 fiscal years.

41 SIGNIFICANT EVENTS AFTER THE END OF THE REPORTING PERIOD

On October 27, 2011 the Supervisory Board of Infineon Technologies AG appointed Arunjai Mittal with effect from January 1, 2012 as the fourth member of the Management Board. In his role as member of the Management Board, he will be responsible for the Regions, Sales, Marketing, Strategy Development and Mergers & Acquisitions (M&A) and, accordingly, for drawing up and agreeing possible strategy options. Peter Bauer, as Chief Executive Officer of Infineon Technologies AG, is and remains responsible for the overall strategy of the Company and its segments.

On October 27, 2011 the Supervisory Board decided, also with effect from January 1, 2012, to split the Industrial & Multimarket segment into two business units, namely Industrial Power Control and Power Management & Multimarket. Industrial Power Control will concentrate on businesses in the field of drive electronics and renewables, whereas Power Management & Multimarket will concentrate on chips used in the field of energy-efficient power supplies and high frequency applications (mainly used in consumer goods such as television sets, games consoles, PCs, mobile devices and in computer servers). This move reflects our aim to make better use of opportunities by taking a more application-oriented approach.

In 2009 the insolvency administrator of Qimonda AG filed an application to the US Bankruptcy Court in Virginia requesting declaration that the rights of use associated with Qimonda's US patents are not covered by the protection provisions of US insolvency law (according to which such rights of use continue to exist despite the insolvency of the licensor). Infineon and other semiconductor manufacturer have appealed against this applications (for further information see note 38). On October 28, 2011 the US Bankruptcy Court in Virginia dismissed the application from the insolvency administrator's application. The court decision does not have any impact on the level of provisions recognized in conjunction with the insolvency of Qimonda. On November 11, 2011, the administrator appealed against the decision of the U.S. Bankruptcy Court.

CIF Licensing LLC ("CIF"), a General Electric group entity, has also filed various complaints against Infineon and other parties in the period since October 2007. The complaints relate to allegations with respect to Infineon's Wireline business, which has in the meantime been sold, and is now part of the Lantiq group. Infineon and other respondents filed an application to the German Federal Patent Court in Munich for the four patents-in-suit to be annulled. Following the ruling of the German Federal Patent Court to annul two of the patents-in-suit, the parties reached a settlement agreement in October 2011. Under the terms of the settlement, all parties involved in the proceedings are retrospectively permitted to use the patents without having to pay any financial compensation (for further information see note 38). The court ruling does not have any impact on the Consolidated Financial Statements.

42 ADDITIONAL INFORMATION IN ACCORDANCE WITH HGB

APPLICATION OF EXEMPTION REGULATIONS

Pursuant to HGB section 264 paragraph 3, the below mentioned companies intend to utilize the exception from certain rules about the preparation, audit and disclosure of their financial statements and their operating and financial review due to profit-or-loss-transfer agreements between these companies and Infineon Technologies AG:

- Hitex Development Tools GmbH, Karlsruhe,
- Infineon Technologies Dresden GmbH, Dresden and
- Infineon Technologies Finance GmbH, Munich.

Following the insolvency of Qimonda AG, Munich, Qimonda AG and its subsidiaries are not included in the Company's consolidated financial statements. The Company has no information if Qimonda AG draws up Consolidated Financial Statements or intends to utilize any exceptions from certain rules about the preparation of consolidated financial statements.

Information pursuant to Section 160 Section 1 No. 2 Stock Corporation Act (AktG)

On May 9, 2011 the Company resolved to repurchase shares on the basis of the authorization given by shareholders at the Annual General Meeting on February 17, 2011. In the period through March 2013, the Company intends to use up to €300 million for measures aimed at returning capital to shareholders. Capital may be returned via put options on Infineon shares, outright repurchases of Infineon shares using the Frankfurt Stock Exchange's Xetra trading system or through further repurchases of Infineon's outstanding convertible bonds. Any shares repurchased will be cancelled to reduce the Company's share capital or used for servicing employee options. The share repurchase will be carried out in accordance with Sec.14 (2) and Sec. 20a (3) of the German Securities Trading Act (Wertpapierhandelsgesetz, "WpHG") in line with the provisions of Commission Regulation (EC) No. 2273/2003 of December 22, 2003.

Under this program, the Company issued put options on own shares with a maximum term of nine months and for a nominal amount of €182 million during the 2011 fiscal year. Options for a total of 4 million shares were exercised prior to September 30, 2011. In August 2011 the Company acquired 2 million own shares with an arithmetic par value of €4 million (0.2 percent of ordinary share capital) for a total cost of €13 million and in September 2011, it acquired a further acquired 2 million own shares with an arithmetic par value of €4 million (0.2 percent of ordinary share capital) for a total cost of €13 million. At September 30, 2011 the Company therefore held 4 million own shares with an arithmetic par value of €8 million, corresponding to 0.4 percent of ordinary share capital. Put options for a nominal value of €144 million were also outstanding as of September 30, 2011 which relate to a total of 26 million shares with various fixed exercise prices and which require physical delivery of the shares. Further information about the share repurchase program, put options issued and shares acquired is published regularly on the Company's website at www.infineon.com/cms/en/corporate/investor/infineon-share/share-buyback.html.

Information pursuant to Section 160 Section 1 No. 8 Stock Corporation Act (AktG)

The German Securities Trading Act requires each shareholder whose voting rights reaches, exceeds or, after exceeding, falls below the 3, 5, 10, 15, 20, 25, 30, 50 or 75 percent thresholds of a listed corporation to notify such corporation and the German Federal Supervisory Authority for Financial Services (Bundesanstalt für Finanzdienstleistungaufsicht, "BaFin") immediately, but no later than four trading days after such shareholder has reached, exceeded or fallen below such a threshold. The Company has been notified of the changes in voting rights set forth below. The stated percentages refer to the share capital held at the date of the respective notification; the number of shares stated below is taken from the most recent shareholder notification and may therefore be outdated:

- On August 7, 2009, Dodge & Cox Investment Managers, San Francisco, USA, informed the Company according to Section 21, paragraph 1 WpHG that, via shares the voting rights of Dodge & Cox International Stock Fund, San Francisco, USA, in Infineon Technologies AG, Neubiberg, Germany, had fallen below the threshold of 10 percent on August 5, 2009 and on that date amount to 9.88 percent (this corresponds to 105,919,119 voting rights).

- On August 7, 2009, Dodge & Cox Investment Managers, San Francisco, USA, informed the Company according to Section 21, paragraph 1 WpHG that, via shares the voting rights of Dodge & Cox, San Francisco, USA, on Infineon Technologies AG, Neubiberg, Germany, had fallen below the threshold of 10 percent on August 5, 2009 and on that date amounted to 9.95 percent (this corresponds to 106,771,627 voting rights). 9.88 percent of the voting rights are attributable to the company pursuant to Section 22, Paragraph 1, Sentence 1, no. 6 WpHG by Dodge & Cox International Stock Fund, a further 0.08 percent of the voting rights are attributable to it pursuant to Section 22, Paragraph 1, Sentence 1, No. 6 WpHG by Dodge & Cox Global Stock Fund, which itself holds less than 3 percent of the voting rights.

- On April 27, 2011, BlackRock, Inc., New York, USA informed the Company according to Section 21, paragraph 1 WpHG that via shares its voting rights in Infineon Technologies AG, Neubiberg, Germany, had exceeded the threshold of 5 percent on April 26, 2011 and on that day amounted to 5.08 percent of the voting rights (this corresponds to 55,152,748 voting rights). 5.08 percent of the voting rights (this corresponds to 55,152,748 voting rights) are to be attributed to the company pursuant to Section 22, paragraph 1, sentence 1, No. 6 sentence 2 WpHG.

- On August 2, 2011, Capital Research and Management Company, Los Angeles, USA informed the Company according to Section 21, paragraph 1 WpHG that via shares its voting rights in Infineon Technologies AG, Neubiberg, Germany, had exceeded the threshold of 5 percent on July 28, 2011 and on that day amounted to 5.06 percent (this corresponds to 55,007,300 voting rights). 5.06 percent of the voting rights (this corresponds to 55,007,300 voting rights) are to be attributed to the company pursuant to Section 22, paragraph 1, sentence 1, No. 6 WpHG.

- On September 9, 2011, EuroPacific Growth Fund, Inc., Los Angeles, USA informed the Company according to Section 21, paragraph 1 WpHG that via shares its voting rights in Infineon Technologies AG, Neubiberg, Germany, had exceeded the threshold of 3 percent on September 6, 2011 and on that day amounted to 3.06 percent of the voting rights (this corresponds to 33,243,409 voting rights).

Information pursuant to Section 161 Stock Corporation Act (AktG)

The compliance declaration prescribed by Section 161 AktG was executed by the Management Board and the Supervisory Board and made available on a continuous basis. It is published via the internet at www.infineon.com ("About Infineon/Investor/Corporate Governance/Declaration of Compliance").

ACCOUNTING FEES PURSUANT SECTION 314 PARAGRAPH 1 NO. 9 HGB

Year-end audit fees

At the Annual General Meeting held on February 11, 2010, the shareholders elected KPMG AG Wirtschaftsprüfungsgesellschaft ("KPMG"), as company and group auditor for the 2011 fiscal year. The audit fees charged by KPMG in the 2011 fiscal year amounted to €1.0 million for the audit of the Consolidated Financial Statements and various separate financial statements.

Fees for other advisory services

In addition to the amounts described above, KPMG charged the Company an aggregate of €0.2 million in the 2011 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 in the 2011 fiscal year for professional services related primarily to tax compliance.

Other Fees

Fees of €0.3 million were charged by KPMG in the 2011 fiscal year for other services.

MANAGEMENT BOARD AND SUPERVISORY BOARD

Management Compensation in the 2011 Fiscal Year

For the individualized disclosure of the remuneration of the members of the Management Board and the Supervisory Board as required by section 314 (1) no. 6a, sentences 5 to 9 of the German Commercial Code see the Compensation Report which is part of the Group Management Report.

Management Board

The members of the Management Board during the 2011 fiscal year were as follows:

Name	Age	Term expires	Position	Membership of Supervisory Boards and comparable governing bodies of domestic and foreign companies during the fiscal year ended September 30, 2011
Peter Bauer	51	September 30, 2016	Chairman of the Management Board, Chief Executive Officer	Member of the Board of Directors of • Infineon Technologies China Co., Ltd., Shanghai, People´s Republic of China • Infineon Technologies Asia Pacific Pte., Ltd., Singapore (Chairman) • Infineon Technologies North America Corp., Wilmington Delaware, USA (Chairman) • Infineon Technologies Japan K.K. Tokyo, Japan
Dominik Asam (since January 1, 2011)	42	December 31, 2013	Member of the Management Board, Executive Vice President, Chief Financial Officer	Member of the Supervisory Board of • Infineon Technologies Austria AG Villach, Austria (since February 25, 2011) Member of the Board of Directors of • Infineon Technologies Asia Pacific Pte., Ltd., Singapore (since April 1, 2011) • Infineon Technologies China Co., Ltd., Shanghai, People's Republic of China (since February 1, 2011) • Infineon Technologies North America Corp., Wilmington, Delaware, USA (since January 1, 2011)
Prof. Dr. Hermann Eul	52	January 31, 2011	Member of the Management Board, Executive Vice President	Member of the Supervisory Board of • Infineon Technologies Austria AG, Villach, Austria (until January 31, 2011)
Dr. Reinhard Ploss	55	September 30, 2015	Member of the Management Board, Executive Vice President, Labor Director	Chairman of the Supervisory Board of • Infineon Technologies Austria AG, Villach, Austria • Infineon Technologies Dresden GmbH, Dresden Member of the Board of Directors • Infineon Technologies (Kulim) Sdn. Bhd., Kulim, Malaysia (Chairman) • Infineon Technologies India, Pvt. Ltd. (since September 22, 2011)

The Supervisory Board

The members of the Supervisory Board during the 2011 fiscal year, the Supervisory Board position held by them, their position, their membership in comparable governing bodies and their ages are as follows:

Name	Age	Term expires	Position	Membership of Supervisory Boards and comparable governing bodies of domestic and foreign companies (Status: September 30, 2011)
Wolfgang Mayrhuber Chairman (since February 17, 2011)	64	February 2015	Chief Executive Officer Deutsche Lufthansa AG (until December 31, 2010) Management Consultant (since January 1, 2011)	Member of the Supervisory Board of • BMW AG, Munich • Münchener Rückversicherungs-Gesellschaft AG, Munich • Lufthansa Technik AG, Hamburg • Austrian Airlines AG, Vienna, Austria Member of the Board of Directors of • SN Airholding SA/NV, Brussels, Belgium (until October 26, 2011) • Heico Corporation, Hollywood, Florida, USA Member of the Administrative Board of • UBS AG, Zurich, Switzerland
Gerd Schmidt[1] Deputy Chairman	57	February 2015	Chairman of the Infineon Works Council, Regensburg	
Wigand Cramer[1]	58	February 2015	Labor union secretary IG Metall, Berlin	
Alfred Eibl[1]	62	February 2015	Chairman of the Infineon Works Council, Munich-Campeon Chairman of the Infineon Central Works Council	
Peter Gruber[1] Representative of Senior Management	50	February 2015	Senior Vice President Operations Finance Infineon Technologies AG	Member of the Supervisory Board of • Infineon Technologies Dresden GmbH, Dresden Member of the Board of Directors of • Infineon Technologies (Kulim) Sdn. Bhd., Kulim, Malaysia
Gerhard Hobbach[1]	49	February 2015	Member of the Infineon Works Council, Munich-Campeon	
Hans-Ulrich Holdenried	60	February 2015	Management Consultant	Member of the Supervisory Board of • Integrata AG, Stuttgart • Wincor Nixdorf AG, Paderborn (since January 24, 2011)
Prof. Dr. Renate Köcher	59	February 2015	Managing Director Institut für Demoskopie Allensbach GmbH, Allensbach	Member of the Supervisory Board of • Allianz SE, Munich • MAN SE, Munich (until June 27, 2011) • BMW AG, Munich
Dr. Manfred Puffer	48	February 2015	Management Consultant	
Prof. Dr. rer. nat. Doris Schmitt-Landsiedel	58	February 2015	Professor Munich Technical University	
Jürgen Scholz[1]	50	February 2015	First authorized agent of IG Metall, Regensburg	Member of the Supervisory Board of • Krones AG, Neutraubling Member of the Administrative Board of • BKK BMW AG, Dingolfing
Dr. Eckart Sünner	67	February 2015	President, Chief Compliance Officer BASF SE, Ludwigshafen (until May 31, 2011) Of Counsel Allen & Overy, Mannheim (since July 1, 2011)	Member of the Supervisory Board of • K+S AG, Kassel
Former members of the Supervisory Board				
Prof. Dr.-Ing. Dr.-Ing. E.h. Klaus Wucherer Chairman	67	February 17, 2011	Management Consultant	Member of the Supervisory Board of • Leoni AG, Nuremberg • SAP AG, Walldorf • Dürr AG, Stuttgart • Heitec AG, Erlangen

1 Employee representative

The Supervisory Board maintains the following principal committees:

Executive Committee
Wolfgang Mayrhuber (Chairman)
Gerhard Hobbach
Hans-Ulrich Holdenried
Gerd Schmidt

Investment, Finance and Audit Committee
Dr. Eckart Sünner (Chairman)
Wigand Cramer
Wolfgang Mayrhuber
Gerd Schmidt

Mediation Committee
Wolfgang Mayrhuber (Chairman)
Alfred Eibl
Hans-Ulrich Holdenried
Gerd Schmidt

Nomination Committee
Wolfgang Mayrhuber (Chairman)
Prof. Dr. Renate Köcher
Dr. Manfred Puffer

Strategy and Technology Committee
Prof. Dr. rer. nat. Doris Schmitt-Landsiedel (Chairwoman)
Alfred Eibl
Peter Gruber
Hans-Ulrich Holdenried
Wolfgang Mayrhuber
Jürgen Scholz

The members of the Company's Supervisory Board, individually or in aggregate, do not own, directly or indirectly, more than 1 percent of Infineon Technologies AG's outstanding share capital at September 30, 2011.

The business address of each Supervisory Board is: Infineon Technologies AG, Am Campeon 1 – 12, D-85579 Neubiberg, Germany.

SUBSIDIARIES AND ASSOCIATED COMPANIES

Name of company	Registered Office	Shareholdings in %
Fully consolidated subsidiaries:		
Hitex Development Tools GmbH	Karlsruhe	100
Infineon Integrated Circuit (Beijing) Co., Ltd.	Beijing, People´s Republic of China	100
Infineon Technologies (Advanced Logic) Sdn. Bhd.	Malacca, Malaysia	100
Infineon Technologies (Kulim) Sdn. Bhd.	Kulim, Malaysia	100
Infineon Technologies (Malaysia) Sdn. Bhd.	Malacca, Malaysia	100
Infineon Technologies (Wuxi) Co., Ltd.	Wuxi, People´s Republic of China	100
Infineon Technologies (Xi'an) Co., Ltd.	Xi'an, People´s Republic of China	100
Infineon Technologies Asia-Pacific Pte. Ltd.	Singapore	100
Infineon Technologies Australia Pty. Ltd.	Bayswater, Australia	100
Infineon Technologies Austria AG	Villach, Austria	100
Infineon Technologies Batam P.T.	Batam, Indonesia	100
Infineon Technologies Cegléd Kft.	Cegléd, Hungary	100
Infineon Technologies Center of Competence (Shanghai) Co., Ltd.	Shanghai, People´s Republic of China	100
Infineon Technologies China Co., Ltd.	Shanghai, People´s Republic of China	100
Infineon Technologies Dresden GmbH	Dresden	100
Infineon Technologies Dresden Verwaltungs GmbH	Dresden	100
Infineon Technologies Finance GmbH	Neubiberg	100
Infineon Technologies France S.A.S.	St. Denis, France	100
Infineon Technologies Holding B.V.	Rotterdam, The Netherlands	100
Infineon Technologies Hong Kong, Ltd.	Hong Kong, Hong Kong	100
Infineon Technologies India, Pvt. Ltd.	Bangalore, India	100
Infineon Technologies Industrial Power, Inc.	Wilmington/Delaware, USA	100
Infineon Technologies Investment B.V.	Rotterdam, The Netherlands	100
Infineon Technologies Italia s.r.l.	Milan, Italy	100
Infineon Technologies IT-Services GmbH	Klagenfurt, Austria	100
Infineon Technologies Japan K.K.	Tokyo, Japan	100
Infineon Technologies Korea Co. Ltd.	Seoul, South Korea	100
Infineon Technologies Nordic AB	Kista, Sweden	100
Infineon Technologies North America Corp.	Wilmington/Delaware, USA	100
Infineon Technologies Romania & Co. Societate in Comandita	Bucharest, Romania	100
Infineon Technologies Shared Service Center, Unipessoal Lda.	Vila do Conde, Portugal	100
Infineon Technologies Taiwan Co. Ltd.	Taipei, Taiwan	100
Infineon Technologies U.K. Ltd.	Bristol, Great Britain	100
Molstanda Vermietungsgesellschaft mbH	Neubiberg	94
Primarion Inc.	Torrance, California, USA	100
Vario Plus SICAV-SIF	Luxembourg	100

Name of company	Registered Office	Shareholdings in %
Joint Ventures/Associated companies:		
Cryptomathic Holding ApS	Arhus, Denmark	25
Infineon Technologies Bipolar GmbH & Co. KG	Warstein	60
LS Power Semitech Co., Ltd.	Cheonan, South Korea	46
Immaterial subsidiaries: [1]		
DICE Danube Integrated Circuit Engineering GmbH	Linz, Austria	72
DICE Danube Integrated Circuit Engineering GmbH & Co. KG	Linz, Austria	72
EPOS embedded core & power systems GmbH & Co. KG	Duisburg	100
EPOS embedded core & power systems Verwaltungs GmbH	Duisburg	100
eupec Thermal Management Inc.	Wilmington/Delaware, USA	51
Hitex (UK) Limited	Coventry, Great Britain	88
Infineon Technologies Alpha AG	Neubiberg	100
Infineon Technologies Austria Pensionskasse AG	Villach, Austria	100
Infineon Technologies Bipolar Verwaltungs GmbH	Warstein	60
Infineon Technologies Canada, Inc.	St.John/New Brunswick, Canada	100
Infineon Technologies Delta GmbH	Neubiberg	100
Infineon Technologies Denmark A/S in liquidation	Aalborg, Denmark	100
Infineon Technologies Iberia S.L.U.	Madrid, Spain	100
Infineon Technologies Ireland Ltd.	Dublin, Ireland	100
Infineon Technologies Mantel 19 GmbH	Neubiberg	100
Infineon Technologies Mantel 21 GmbH	Neubiberg	100
Infineon Technologies Mantel 23 GmbH	Neubiberg	100
Infineon Technologies Mantel 24 GmbH	Neubiberg	100
Infineon Technologies Mantel 25 GmbH	Neubiberg	100
Infineon Technologies Pluto GmbH in liquidation	Neubiberg	100
Infineon Technologies Romania s.r.l.	Bucharest, Romania	100
Infineon Technologies RUS LLC	Moscow, Russia	100
Infineon Technologies Schweiz GmbH	Zurich, Switzerland	100
Infineon Technologies SensoNor AS in liquidation	Horten, Norway	100
Infineon Technologies South America Ltda.	Sao Paulo, Brazil	100
Infineon Ventures Beteiligungs-Treuhand GmbH	Neubiberg	100
Kompetenzzentrum Automobil- und Industrieelektronik GmbH	Villach, Austria	60
Magellan Technology Pty Ltd.	Annandale, Australia	18
MicroLinks Technology Corp.	Kaohsiung, Taiwan	2
OSPT IP Pool GmbH	Neubiberg	100
Qimonda AG in insolvency	Munich	77

1 Certain immaterial subsidiaries were not consolidated in the 2011 and 2010 fiscal years. The Company evaluates the significance of these subsidiaries once a year. Net income, external revenue and total assets of all subsidiaries deemed to be immaterial were less than 1 percent of the Company's net income, external revenue and total assets, respectively.

Neubiberg, November 18, 2011

Infineon Technologies AG
Management Board

Peter Bauer Dominik Asam Dr. Reinhard Ploss

RESPONSIBILITY STATEMENT BY THE MANAGEMENT BOARD

To the best of our knowledge, and in accordance with the applicable reporting principles, the Consolidated Financial Statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the Infineon Group, and the Group Management Report includes a fair review of the development and performance and position of the Group, together with a description of the principal opportunities and risks associated with the expected development of the Group.

Neubiberg, November 22, 2011

Infineon Technologies AG

Peter Bauer Dominik Asam Dr. Reinhard Ploss

AUDITOR'S REPORT

We have audited the consolidated financial statements prepared by the Infineon Technologies AG, comprising the statements of operations, comprehensive income, financial position, cash flows and changes in equity, together with the management report of the Company and the group for the business year from October 1, 2010 to September 30, 2011. 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 [Handelsgesetzbuch „German Commercial Code"] 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 18, 2011

KPMG AG
Wirtschaftsprüfungsgesellschaft

Kozikowski
Wirtschaftsprüfer

Wolper
Wirtschaftsprüfer

FINANCIAL DATA 2009 – 2011

€ in millions, except otherwise stated	2011	2010	2009
CONSOLIDATED STATEMENTS OF OPERATIONS DATA			
Revenue by region			
Europe, Middle East, Africa	1,920	1,528	1,019
Therein: Germany	1,090	862	530
Asia-Pacific (w/o Japan)	1,450	1,202	768
Therein: China	663	595	359
Japan	202	184	116
Americas	425	381	281
Revenue by Segment			
Automotive	1,552	1,268	839
Industrial & Multimarket	1,800	1,429	948
Chip Card & Security	428	407	341
Other Operating Segments	216	194	48
Corporate and Eliminations	1	(3)	8
Total Revenue	**3,997**	**3,295**	**2,184**
Gross profit	**1,654**	**1,237**	**497**
Gross margin	41%	38%	23%
Research and development expenses	(439)	(399)	(319)
Selling, general and administrative expenses	(449)	(386)	(332)
Other operating income and expense, net	(30)	(104)	(29)
Operating income (loss)	**736**	**348**	**(183)**
Net financial result	(26)	(66)	(53)
Income from investments accounted for using the equity method	4	8	7
Income tax benefit (expense)	30	22	(4)
Income (loss) from continuing operations	**744**	**312**	**(233)**
Income (loss) from discontinued operations, net of income taxes	375	348	(441)
Net income (loss)	**1,119**	**660**	**(674)**
Basic earnings (loss) per share attributable to shareholders of Infineon Technologies AG (in €):			
Basic earnings (loss) per share from continuing operations	0.68	0.29	(0.27)
Basic earnings (loss) per share from discontinued operations	0.35	0.32	(0.46)
Basic earnings (loss) per share	1.03	0.61	(0.73)
Diluted earnings (loss) per share attributable to shareholders of Infineon Technologies AG (in €):			
Diluted earnings (loss) per share from continuing operations	0.66	0.28	(0.27)
Diluted earnings (loss) per share from discontinued operations	0.32	0.30	(0.46)
Diluted earnings (loss) per share	0.98	0.58	(0.73)
Segment Result			
Automotive	279	198	(117)
Industrial & Multimarket	444	294	40
Chip Card & Security	54	22	(4)
Other Operating Segments	14	(4)	(9)
Corporate and Eliminations	(5)	(35)	(50)
Total Segment Result:	**786**	**475**	**(140)**
Total Segment Result Margin	20%	14%	(6%)

€ in millions, except otherwise stated	2011	2010	2009
CONSOLIDATED STATEMENT OF FINANCIAL POSITION DATA			
Total assets	**5,873**	**4,993**	**4,366**
Gross cash position	2,692	1,727	1,507
Net cash position	2,387	1,331	802
Inventories	507	514	460
Assets classified as held for sale	5	495	112
Property, plant and equipment	1,343	838	928
Goodwill and other intangible assets	111	87	369
Debt	305	396	850
Provisions	836	608	525
Liabilities classified as held for sale	–	177	9
Total liabilities	**2,518**	**2,368**	**2,273**
Total equity	**3,355**	**2,625**	**2,093**
Statement of Financial Position Ratios			
Equity ratio	57%	53%	48%
Return on equity	33%	25%	(32%)
Return on Capital Employed (RoCE)	62%	30%	(11%)
CONSOLIDATED STATEMENTS OF CASH FLOWS DATA			
Net cash provided by operating activities from continuing operations	983	958	282
Net cash provided by (used in) investing activities from continuing operations	(2,499)	(355)	25
Net cash provided by (used in) financing activities from continuing operations	(352)	(487)	391
Net increase in cash and cash equivalents from discontinued operations	1,206	136	(446)
Depreciation and amortization	364	336	453
Purchases of property, plant and equipment and intangible assets and other assets	(887)	(325)	(115)
Cash flow	(662)	252	252
Free cash flow	106	573	274
The IFX Share (as of September 30)			
Dividend per share[1] in €	0.12	0.10	–
Closing price Xetra Trading System in €	5.59	5.08	3.86
Closing price OTCQX in US dollar	7.39	6.93	5.60
Shares outstanding in million	1,087	1,087	1,087
Market capitalization in € million	6,073	5,521	4,189
Market capitalization in US dollar million	8,031	7,514	6,129
Infineon-Employees (as of September 30 in total figures)	25,720	26,654	26,464

1 A cash dividend of €0.12 per share for the 2011 fiscal year will be proposed at the Annual General Meeting.

FINANCIAL GLOSSARY

ADS
American Depositary Shares – ADSs are U.S.-traded securities represented by an American Depositary Receipt for non-U.S. issuers. These securities simplify the access to U.S. capital markets for non-U.S.-based companies, and in turn provide U.S. investors with investment opportunities in non-U.S. securities. Since the delisting from the New York Stock Exchange ("NYSE"), the Infineon ADSs have been traded over the counter on the OTCQX International Premier market as a sponsored Level 1 program. After the deregistration the ADSs continue being traded on the OTCQX market with the ticker symbol IFNNY.

Associated Companies
An entity in which the Company has significant influence, but not a controlling interest, over the operating and financial management policy decisions of the entity. Significant influence is generally presumed when the Company holds between 20 percent and 50 percent of the voting rights.

Carve-Out
Legal separation of business operations (e.g. business units).

Cash flow
The cash-effective balance arising from inflows and outflows of funds over the fiscal year. The Consolidated Statement of Cash Flows is part of the Consolidated Financial Statements and shows how the Company generated cash during the period and where it spent cash, in terms of operating activities (cash the Company made by purchasing/selling goods and services), investing activities (cash the Company spent for investment, or cash it raised from divestitures), and financing activities (cash the Company raised by selling stocks, bonds and loans or spent for the redemption of stocks or bonds).

Convertible bond
Convertible notes/bonds are interest-bearing securities which normally – in addition to the right to receive interest and repayment of the nominal amount – give the bearer a conversion option. During the term of the option (conversion period), the bearer can exchange the convertible bond/note for a specified number of shares of the issuing entity. The conversion ratio is stipulated and is typically adjusted for transactions affecting the shareholders, such as dividend payments. If the bondholder/noteholder does not convert the bond/note into shares during the conversion period, the issuer redeems the bond/note at the end of the term at its nominal amount.

DAX
Deutscher Aktienindex – The German Stock Index tracking the 30 major German companies traded on the Frankfurt Stock Exchange, in terms of order volume or market capitalization.

Deferred tax
Since tax laws often differ from the recognition and measurement requirements of financial accounting standards, differences can arise between (a) the amount of taxable income and pre-tax financial income for a year and (b) the tax bases of assets or liabilities and their reported amounts in financial statements. A deferred tax liability and corresponding expense results from income that has already been earned for accounting purposes but not for tax purposes. Conversely, a deferred tax asset and corresponding benefit results from amounts deductible in future years for tax purposes but that have already been recognized for accounting purposes.

Defined benefit obligations (DBO)
A measure of a pension plans' liability at the calculation date assuming that the plan is ongoing and will not terminate in the foreseeable future.

Derivate
A financial instrument that derives its value from the price or expected price of an underlying asset (e.g. a security, currency or bond).

EPS
Earnings Per Share. Basic earnings per share is calculated by dividing net income by the weighted average number of ordinary shares outstanding during the period. Diluted EPS is calculated by dividing net income by the sum of the weighted average number of ordinary shares outstanding plus all additional ordinary shares that would have been outstanding if potentially dilutive instruments had been converted into ordinary shares.

Equity Method
Valuation method for interests in associated companies in which the investor has the ability to exercise significant influence over the investee's operating and financial policies.

Free cash flow
Cash flow from operating and investing activities from continuing operations excluding purchases or sales of financial investments.

Goodwill
An intangible asset of the Company that results from a business acquisition, representing the excess of the purchase price (cost) paid for the acquired business over the fair value of the separately identifiable assets acquired and liabilities assumed. Under IFRS, goodwill is not reduced through scheduled amortization, but rather written down to its fair value if impaired. An impairment assessment is performed at least once a year.

Gross cash position
Total of cash and cash equivalents plus financial investments.

Gross profit
Revenue less cost of goods sold.

IFRS
International Financial Reporting Standards. Infineon prepares its Consolidated Financial Statements in accordance with IFRS, as adopted by the European Union.

Joint Venture
A contractual arrangement whereby two or more parties undertake an economic activity that is subject to joint control.

Net cash position
Gross cash position less long-term and short-term debt.

Profit or loss and capital-share attributable to non-controlling interests
Proportional share in net income and equity attributable to outside shareholders, and not to shareholders of the Infineon Group's parent company.

Put options
In the case of a put option, the buyer acquires a contractual right to sell a stipulated quantity of an underlying asset (e.g. a share) at a predetermined date (European option) at a specified price (underlying price). In return, the issuer receives an option premium from the buyer of the put option.

Registered shares
Shares registered in the name of a certain person. This person's details and number of shares are registered in the Company's share ledger in accordance with securities regulations. Only individuals registered in the Company's share ledger are considered shareholders of the Company and are, for example, able to exercise their rights at the Company's Annual General Meeting.

RoCE
Return on capital employed is calculated as NOPAT (Net Operating Profits after Tax) divided by capital employed. RoCE shows the linkage between profitability and capital resources required to run the business.

Segment Result
We define Segment Result as operating income (loss) excluding asset impairments (net), restructuring charges and other related closure costs (net), share-based compensation expense, acquisition-related amortization and gains (losses), gains (losses) on disposal of assets, businesses, or interests in subsidiaries, and other income (expense), including litigation settlement costs. This is the measure that Infineon uses to evaluate the operating performance of its segments.

Segment Result Margin
An indicator of operating performance, calculated as the percentage of Segment Result in relation to revenue.

Working capital
Working capital consists of current assets less cash and cash equivalents, financial investments and assets held for sale less short-term liabilities excluding short-term debt and current maturities of long-term debt and liabilities classified as held for sale.

TECHNOLOGY GLOSSARY

300-Millimeter Technology
Comprehensive term for the manufacture and processing of wafers with a diameter of 300 millimeters.

65-Nanometer Technology
Production technology that enables structures measuring 65 nanometers in width to be represented on the chip. The smaller the structures, e.g. conductors and pitches, the smaller the chip and the cheaper its production. The previous technology permitted features of 90 nanometers and the next generation has attained features of about 40 nanometers.

ABS
The anti-lock braking system is an electronic vehicle safety feature that prevents the wheels from locking during heavy braking.

Analog/mixed-signal
"Mixed-signal" is a generic term for integrated circuits that operate simultaneously with analog and digital signals. Owing to similar requirements in terms of development and manufacturing processes, they are generally grouped together with integrated circuits operating exclusively with analog signals, hence giving rise to the combination "analog/mixed-signal".

ASIC
Application Specific Integrated Circuit. Logic IC specially constructed for a specific application and customer; implemented on an integrated circuit.

ASSP
Application Specific Standard Product. Standard product designed for a specific use that can be used by many customers; implemented on an integrated circuit.

Back-end manufacturing
The part of the semiconductor manufacturing process that happens after the wafer has left the cleanroom (Front-end manufacturing). This includes testing the chips at wafer level, repairing the chips if necessary, dicing the wafers and packaging the individual chips. There is a growing trend among semiconductor manufacturers to outsource the assembly, and sometimes even the testing, to independent assembly companies. Much of the assembly capacity is based in the Pacific Rim countries.

BCD process
A special process for manufacturing high-voltage low power ICs. The abbreviation BCD stands for "bipolar CMOS with DMOS".

Bipolar
A power bipolar transistor is a specialized version of a bipolar transistor that is optimized for conducting and blocking large electric currents (up to several hundred amperes) and very high voltages (up to several 1,000 volts). In industry, the power bipolar transistor – like the power MOSFET (see MOSFET) often used as an alternative – constitutes an important industrial semiconductor component for influencing electric current.

Bit
Information unit; can take one of two values "true"/"false" or "0"/"1".

Byte
Unit of information in data processing components. One byte is equivalent to eight bits.

Chip card
Plastic card with built-in memory chip or microcontroller, which can be combined with a Personal Identification Number (PIN).

Cloud computing
Cloud computing is the provision of processing capacity, data storage, network capacity and ready-to-use software via a network with supply matched dynamically to demand. The IT infrastructure functions accessed appear remote and opaque from the user's perspective, as if enveloped in a cloud. The remote systems of the cloud are accessed via a network, usually the internet, using a terminal such as a netbook or tablet PC (see netbook, see tablet computer).

CMOS
Complementary Metal Oxide Substrate. Standard semiconductor manufacturing technology used to produce microchips with low power usage and a high level of integration.

Converter
Control unit that can convert AC voltages of various rates and frequencies. This is achieved by means of power electronics. Converters are used in wind turbines, for example, in order to feed fluctuating wind energy into the power network with a voltage of constant frequency. In electric drive technology, for example in engine controllers and trains, a converter is used to generate an output voltage of variable, load-dependent frequency from a mains supply of constant frequency.

CoolMOS™
High-voltage power transistor for voltages from 300 to 1,200 V.

E-bike, e-scooter
The term "e-bike" is used in a general sense to refer to all types of bicycle or bicycle-like machines that have an electric motor fitted. Some jurisdictions impose a narrower legal definition of what constitutes an e-bike, which may include speed limits for travel under motor power only and with a combination of motor power and pedaling. An e-bike has a twist-grip throttle like a scooter and its motor can operate without the rider pedaling. Some jurisdictions require e-bikes to drive on the road. An e-scooter is an electric bike with no pedals (see Pedelec).

Embedded flash
A nonvolatile memory that is integrated on a chip together with a microcontroller processor core. The nonvolatile memory contains the program code.

ESP
Electronic Stability Program. A vehicular technology system that uses sensors and computers to brake individual wheels in order to prevent skidding.

Front-end manufacturing
Front-end process is the designation for all process steps in cleanrooms that the entire wafer must complete. These are lithography, diffusion, ion implantation and application of circuitry levels. Some stations must be completed a number of times. At the end of the Front-end process, the wafer may have been through as many as 500 individual process steps.

Gallium nitride
Gallium nitride (abbreviated to GaN) is a compound semiconductor material made from gallium (chemical symbol Ga) and nitrogen (chemical symbol N). GaN is used for components including high-frequency power MOSFETs (see MOSFET) on account of the material's special properties (such as good thermal conductivity and high electron mobility).

Giga
2^{30}, in information technology, e.g. Gigabit (Gbit), Gigabyte (GByte).

GMR
Giant Magneto-Resistance. The GMR effect is utilized in sensors for the purpose of measuring magnetic fields. GMR sensors are employed in a range of applications, e.g. as steering angle sensors in automobiles.

GPS
Global Positioning System. Satellite-based location identification and positioning system based on the transit time differences of received signals.

Hall Sensor
A sensor based on the hall principle, used for measuring magnetic fields, named after the US physicist Edwin Herbert Hall (1855 – 1938). Hall sensors are used in automobiles, for example, for detecting pedal positions or for measuring the speed at which shafts rotate.

Hertz
Hertz (Hz) is the unit for frequency, and is named after the German physicist Heinrich Rudolf Hertz (1857 – 1894). The Hertz determines the number of oscillations per second, or more generally speaking, the number of repetitive processes per second. Frequently used units are kilohertz (one thousand oscillations per second), megahertz (one million oscillations per second) and gigahertz (one billion oscillations per second).

HEV/EV
Hybrid electric vehicle/electric vehicle: collective terms for vehicles powered partly or entirely by an electric motor (see hybrid car).

HVDC
High-voltage direct-current transmission. HVDC transmission is a method of transmitting electrical energy at high direct-current voltages of up to 800,000 volts over distances of more than 1,000 kilometers. HVDC transmission is also used for connecting offshore wind farms to the electricity grid on the mainland.

Hybrid car
A hybrid car is usually understood to be a motor vehicle that is driven by at least one electric motor, as well as a combustion engine. The hybrid drive is used in standard car construction to enhance efficiency, reduce consumption of fossil fuels or increase performance at lower engine speeds. In full hybrid cars the vehicle can be driven solely by the electric motor. In mild hybrid cars, the electric motor is simply used to support the combustion engine, for example when accelerating.

Hybrid technology
The word "hybrid" comes from the Greek for "mixed" or "originating from two different sources". It has come to be used to denote the heart of a new drive technology in the automotive industry: hybrid vehicles operate with a combination of a diesel or gas engine and an electric motor.

IC
Integrated Circuit. Electronic Component parts composed of semiconductor materials such as silicon; numerous components, including transistors, resistors, capacitors and diodes can be integrated into ICs and interconnected.

IGBT Module
Insulated Gate Bipolar Transistor Module. IGBTs are semiconductor components used increasingly in power electronics due to their robustness, high blocking voltage, and their ability to be triggered with negligible power. Modules are formed using several IGBTs in parallel within a single casing. These modules are used to drive electric motors both in automotive and industrial applications. Motor speed and torque can be regulated along a gradual scale. Trains such as Germany's ICE and France's TGV use IGBT modules for an efficient and rapid electrical drive control.

Inverter
An inverter, also called a DC/AC converter, is an electrical device for converting DC voltage into AC voltage, or direct current into alternating current. Inverters are used in solar power plants, for example, for converting the DC voltage generated in the solar modules into AC voltage, which is then fed into the electricity network.

Kilo
2^{10}, in information technology, e.g. Kilobit (Kbit), Kilobyte (Kbyte).

Mega
2^{20}, in information technology, e.g. Megabit (Mbit), Megabyte (Mbyte).

Microcontroller
A microprocessor integrated into a single IC combined with memory and interfaces, which functions as an embedded system. Logic circuits of the highest complexity can be designed in a microcontroller and controlled by software.

Micron (Micrometer)
Metric linear measure, corresponding to the millionth part of a meter (10^{-6}). Symbol: µm. As an example, the diameter of a single human hair is 0.1 millimeters, or 100 µm.

MOSFET
Metal-Oxide Substrate Field-Effect Transistor. MOSFET is currently the most widely used transistor architecture. MOSFETs are used both in highly integrated circuits and in power electronics as special power MOSFETs.

Nanometer
Metric unit of length. Corresponds to the billionth part of a meter (10^{-9}); the symbol is nm. The diameter of deoxyribonucleic acid (DNA) is roughly 2 nanometers. Fabrication features in the semiconductor industry are now measured in nanometers (see 65-nanometer technology).

Netbook
A netbook is a type of computer smaller, less expensive and with less processing power than a conventional notebook. Netbooks are used primarily as portable internet access devices and consequently usually have an integral WLAN interface. Models bundled with a mobile network contract sometimes also include an integral UMTS mobile communication modem.

NFC
Near field communication. An international communication standard for contactless data exchange over short distances. The initial drafts of the communication standard appeared several years ago, but the technology did not break through until 2011 when it was included in the first smartphones. NFC can be used as an access key to content on terminals and for services such as cashless payment and paperless ticketing.

OptiMOS™
Infineon's brand name for low-voltage power transistors for voltages between 20 and 300V.

Pedelec
Contracted form of "pedal electric cycle", a bike in which the pedal drive system is assisted by an electric motor. Pedelecs are distinct from e-bikes, which similarly have an electric drive system but can also operate like a scooter without the rider having to pedal. The latter are also known as electric scooters. The speed or power of Pedelec drives is limited in some jurisdictions and some require riders of more powerful models to have insurance.

Power semiconductor
Over the last 30 years power semiconductors have mostly replaced electromechanical solutions in the areas of drive technology as well as power management and supply, due to their ability to form high energy flows almost at will. The advantage of these components is their ability to switch extremely rapidly (typically within a fraction of a second) between the "open" and the "closed" state. With the fast sequences of on/off pulses, almost any form of energy flow can be created, e.g. a sinus wave.

Power transistor
Power transistor is a term used in electronics to refer to a transistor for switching or controlling large voltages, currents and outputs. There is no standard method of differentiating between transistors for signal processing and power transistors. Power transistors are mainly produced in packages that enable installation on heat sinks, as it is otherwise impossible to handle the dissipation loss of several kilowatts that occurs with some types and applications (see power semiconductor).

Repowering
Repowering in a renewables context generally refers to the replacement of old wind turbines with newer, more powerful and more efficient models. This is done in order to make better use of the available locations and increase the installed capacity while simultaneously reducing the number of turbines.

Schottky diode
A special diode that has a metal-semiconductor junction rather than a semiconductor-semiconductor junction. The most frequently used semiconductor material up to 250 Volts is silicon. Silicon carbide (SiC) is used for voltages in excess of 300 Volts. SiC Schottky diodes offer a number of advantages over conventional diodes in power electronics. When used together with IGBT transistors, it is possible to dramatically reduce switching losses in the diode itself, as well as in the transistor. The name derives from the German physicist Walter Schottky (1886 – 1976) (see silicon carbide).

Semiconductor
Crystalline material. Its electrical conductivity can be changed as desired by the application of doping materials (most often boron or phosphorus). Semiconductors include silicon or germanium. The term is also applied to ICs made of these materials.

Shrink
A shrink in the context of semiconductor manufacturing is the process of scaling production 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.

Smart Grid
The term Smart Grid is understood to mean the upgrading of the existing power supply networks to include communication and measurement functions, so as to make the flow of energy between increasingly decentralized power generation – for example by means of wind farms or block-type thermal power stations – and consumers more efficient.

Smartphone
A smartphone is an internet-ready mobile telephone that provides more computer functionality and connectivity than a modern conventional mobile telephone. Current smartphones generally allow users to upgrade their device with new functions by installing additional programs known as apps.

Switching power supply
A switching power supply is an electronic module that transforms an AC voltage into a DC voltage. Switching power supplies are more efficient than mains transformers and can be more compact and lighter than conventional power supplies containing a heavy transformer with a ferrous core. Switching power supplies are mainly used in PCs, notebooks and servers. However, they also achieve a very high level of efficiency even at low power, so they are increasingly found in plug-in power supply units, for example as chargers for mobile phones.

Tablet computer
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).

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 computers, 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 controller for controlling the speed (revolutions per minute) of electric motors.

Wafer
Thin slice of semiconductor material from which the actual chip is produced. Typical diameters for wafers currently are 200 millimeters and 300 millimeters.

FINANCIAL CALENDAR

WEDNESDAY, FEBRUARY 1, 2012[1]

Publication of first quarter 2012 results

THURSDAY, MARCH 8, 2012

Annual General Meeting 2012
(Start 10.00 a.m. CET)
ICM – International Congress Center Munich, Germany

THURSDAY, MAY 3, 2012[1]

Publication of second quarter 2012 results

TUESDAY, JULY 31, 2012[1]

Publication of third quarter 2012 results

TUESDAY, NOVEMBER 13, 2012[1]

Publication of fourth quarter and fiscal year 2012 results

1 preliminary

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The following were **brand names** of Infineon Technologies AG in the 2011 fiscal year: Infineon, the Infineon logo, AURIX, CoolMOS, HybridPACK, OptiMOS, SOLID FLASH, TriCore.

If you would like to order **additional copies of this Annual Report** either in German or in English, or if you would like to view this report and the latest investor information online, please visit us on the Internet at: www.infineon.com/investor. Shareholders and other interested investors may also obtain free copies by calling or writing to Investor Relations.

Forward-looking statements

This annual report contains forward-looking statements and assumptions about the future of Infineon's business and the industry in which we operate. These statements are based on current plans, estimates and projections, and you should not place too much reliance on them. Forward-looking statements speak only as of the date they are made, and we undertake no obligation to update any of them in the light of new information or future events. Forward-looking statements involve inherent risks and uncertainties. We caution you that a number of important factors could cause actual results or outcomes to differ materially from those expressed in any forward-looking statement.

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