COMPENSATION REPORT

This Compensation Report, which forms an integral part of the Management Report, explains the principles applied in determining compensation for the Management Board and Supervisory Board of Infineon Technologies AG and the level of the remuneration paid to the individual members of the Management Board and Supervisory Board in accordance with the applicable legal requirements and the recommendations of the German Corporate Governance Code (Deutscher Corporate Governance Kodex – “DCGK”) in the version of May 15, 2012. Infineon believes that transparent and understandable reporting of Management Board and Supervisory Board compensation represents a fundamental element of good corporate governance.

MANAGEMENT BOARD COMPENSATION

Compensation system

The Management Board compensation system and the compensation paid to the individual members of the Management Board are defined and regularly reviewed by the full Supervisory Board on the basis of proposals from the Executive Committee. The compensation paid to the members of the Management Board is intended to reflect the typical level and structure of management board compensation at comparable companies in Germany and elsewhere as well as Infineon’s economic position and future prospects. The duties, responsibilities and performance of each Management Board member are also to be considered, as is Infineon’s wider pay structure. The stated objective is that the compensation structure should be designed in such a way that it promotes sustainable business development. Infineon aims to set compensation at a level that is competitive both nationally and internationally so as to inspire and reward dedication and success in a dynamic environment.

During the 2012 fiscal year, the Supervisory Board engaged an external independent compensation expert to conduct the first review of the compensation system introduced effective October 1, 2010. The broad-based report subsequently submitted by the compensation expert concluded that the Company’s compensation system continues to comply in all respects with the applicable legal requirements and the recommendations of the DCGK (for details see section “Review of Management Board compensation; changes to the Management Board compensation system and to individual Management Board member employment contracts with effect from the 2013 fiscal year”).

see page 205 ff.

Components of the Management Board compensation system

The members of the Management Board receive as compensation for their service an annual income which – based on a target achievement of 100 percent – comprises approximately 45 percent fixed compensation and approximately 55 percent variable compensation components:

- **Fixed compensation:** The fixed compensation comprises a contractual basic annual salary that has no link to performance and is paid in twelve equal monthly installments.

- **Variable (performance-related) compensation:** The variable compensation comprises three components: an annual bonus (short-term incentive), a multiple year bonus (mid-term incentive) and a long-term variable compensation component (long-term incentive).

see page 120 ff.

The **short-term incentive (STI)** is intended to reward performance in the preceding fiscal year in line with Infineon's recent progress. Assuming a 100 percent target achievement, the STI constitutes approximately 20 percent of annual income. It is set by the Supervisory Board in a two-phase process: (i) Two equally-weighted target functions for the key performance indicators free cash flow and return on capital employed (RoCE) are defined uniformly at the beginning of each fiscal year for all Management Board members. Underpinning the consistent approach taken to managing the business, the same target functions are also used as the basis for determining the variable compensation components (bonus payments) for Infineon employees and are described in more detail in the section "Internal Management System". (ii) At the end of the fiscal year, the actual STI is determined by the Supervisory board on the basis of the actual level of target achievement for free cash flow and RoCE.

An STI is paid only if the level of target achievement reaches the 50 percent threshold for both performance indicators; no annual bonus is paid for years in which target achievement falls short of this hurdle for either one of the two parameters. Actual target achievement is determined separately for each target if the threshold is surpassed. The arithmetic mean of the level of target achievement for the two targets is then calculated and it is this figure that is used to determine the actual amount to be paid for the STI. A cap of 250 percent applies, meaning that the maximum amount that can be paid is two and a half times the target STI (= 100 percent). The Supervisory Board may, in addition, increase or reduce the amount to be paid in each case by up to 50 percent, as it sees fit, based on the performance of the Management Board as a whole, Infineon's situation and any exceptional factors. A lower limit applies in this case such that the amount to be paid cannot be less than the amount that would be due given 50 percent target achievement. The upper limit for an upwards adjustment is the cap of 250 percent.

If the term of office on the board begins or ends during the fiscal year, the entitlement to STI is determined on a pro-rata monthly basis (one twelfth for each month started). Management Board members are not entitled to receive an STI bonus for the fiscal year in which they resign from office of their own will or if their contract is terminated for good cause.

The **mid-term incentive (MTI)** is intended to reward sustained performance by the Management Board in line with Infineon's medium-term progress. In combination with the long-term incentive, the MTI ensures compliance with the stock corporation law requirement that the structure of compensation is to be "oriented towards sustainable development of the enterprise". The MTI constitutes approximately 20 percent of the target annual income.

A new MTI tranche commences at the beginning of each fiscal year. Each tranche has a term of three years and is paid in cash at the end of the term. The amount of the payment is determined on the basis of actual RoCE and free cash flow figures during each three-year period. For these purposes, the target values for RoCE and free cash flow for each individual year of an MTI tranche correspond to the STI targets set each year in advance. The level of target achievement for both the RoCE target and the free cash flow target must reach a threshold of 50 percent in every year of the relevant three-year period, otherwise the level of target achievement for the purposes of the MTI is set to zero for the year concerned. If the threshold is exceeded, the level of target achievement determined for the STI in the relevant year also applies for the purposes of the MTI. The MTI to be paid at the end of the three-year period is determined by calculating the arithmetic mean of the three annual target achievement levels. Unlike the STI, the MTI is paid as calculated even if the mean level of target achievement for the three-year period is below the 50 percent threshold.

The Supervisory Board may increase or reduce the amount to be paid under the MTI in each case by up to 50 percent, as it sees fit, based on the performance of the Management Board as a whole, Infineon's situation and any exceptional developments. When exercising its judgement in this respect, the Supervisory Board also takes into account the level of achievement of the three-year target for revenue growth and Segment Result that is set each year by the Supervisory Board exclusively for this purpose. Unlike the STI, there is no lower limit for the amount by which the Supervisory Board can adjust the MTI. The upper limit for the MTI (with or without discretionary adjustment by the Supervisory Board) is capped at 200 percent, or in other words, payment cannot be more than double the target MTI per MTI tranche.

If the term of office commences during a fiscal year, the MTI tranche is determined on a pro-rata basis (one thirty-sixth for each month of a full MTI tranche started). Upon leaving Infineon, mechanisms are in place to ensure that a Management Board member can only receive MTI payment for the actual number of MTI tranches during his/her term of office. Similarly, MTI tranches started forfeit if the Management Board member's mandate or employment contract is brought to an end before the due date, for instance in the case of dismissal from office or termination of contract for good cause.

Management Board members Peter Bauer and Dr. Reinhard Ploss, who were already in their position prior to the introduction of the new compensation system as of October 1, 2010, are covered by a transitional arrangement for the 2012 fiscal year (so-called "settlement amount") designed to compensate them for the lack of a maturing MTI tranche. This transitional arrangement was also applied for the 2011 fiscal year. This "quasi" MTI is calculated on the basis of the level of target achievement for RoCE and free cash flow for the 2011 and 2012 fiscal years. For the purposes of calculating the average level of target achievement for these two years (excluding any discretionary adjustment by the Supervisory Board), a minimum level of at least 50 percent is agreed in each case. The settlement amounts due to Mr. Bauer and Mr. Ploss are then determined on the basis of the level of target achievement so calculated.

The **long-term incentive (LTI**) is intended to reward long-term and – like the MTI – sustained performance on the part of members of the Management Board and ensure that their interests are aligned with the interests of the Company's shareholders. Assuming a 100 percent target achievement, the LTI constitutes approximately 15 percent of the target annual income of each individual member of the Management Board. It is intended that the Supervisory Board will continue to award the members of the Management Board an LTI in the form of an annual tranche of stock options corresponding to the portion of the target annual income accounted for by the LTI for as long as the Company maintains a stock option plan which provides adequate scope to create a long-term incentive using this instrument. Any stock options granted are subject as a general rule to the plan conditions also applicable to employees. In line with resolutions taken at the Annual General Meeting, the stock options are subject to a four-year vesting period and a three-year exercise period as well as a relative performance target (outperformance of the relevant semiconductor comparative index SOX over a specified time period) and an absolute performance target (minimum increase in Infineon share price of 20 percent). If the gain from exercised stock options amounts to more than 250 percent of the target annual income attributable to the LTI for the year concerned, a number of options will expire such that the gain is reduced to the 250 percent mark (cap).

The number of options to be awarded is calculated on the basis of their fair market value. The fair market value figure used to determine the number of stock options disregards the cap applicable to these options and is consequently equivalent to the fair market value of the (uncapped) options granted by the Company to employees under the Infineon stock option plan. Using this higher (because the cap, a value-reducing factor, is not considered) fair market value to determine the number of stock options results in the members of the Management Board receiving a lower number of stock options than would otherwise be the case.

The Supervisory Board is required to define suitable alternative LTI instruments of commensurate value if it is impossible under existing stock option plans to create an LTI of adequate scope.

The Supervisory Board has decided upon a new LTI concept for fiscal years commencing after October 1, 2013 and plans to propose to the shareholders to decide on this matter at the 2013 Annual General Meeting in conjunction with a resolution on the new Management Board compensation system (for details see section "Review of Management Board compensation; changes to the Management Board compensation system and to individual Management Board member employment contracts with effect from the 2013 fiscal year").

see page 205 ff.

In addition, the Supervisory Board retains the discretion of granting an **additional bonus** for special achievements.

MANAGEMENT BOARD COMPENSATION IN THE 2012 FISCAL YEAR

Total cash compensation

The active members of the Management Board in the 2012 fiscal year received total fixed non-performance-related compensation (basic annual salary plus benefits-in-kind) of €3,105,029 for their service (the active members in the previous year received €2,800,527).

The members of the Management Board also received variable performance-related cash compensation totaling €2,584,860 for their service during the 2012 fiscal year (2011: €4,012,643), which consists of the short-term incentive (STI) totaling €1,366,560 (2011: €2,382,586) and the settlement amounts paid to Mr. Bauer and Dr. Ploss (as replacement for MTI payments not yet matured) totaling €1,218,300 (2011: €1,630,057).

The STI is based on a target achievement level of 105.5 percent for the RoCE target and 102.5 percent for the free cash flow target. The MTI (in the form of a settlement amount) is calculated on the basis of an average target achievement level of 177.8 percent for the RoCE target (250.0 percent for the 2011 fiscal year, 105.5 percent for the 2012 fiscal year) and of 136.6 percent for the free cash flow target (170.7 percent for the 2011 fiscal year, 102.5 percent for the 2012 fiscal year). Weighting both targets equally yields an arithmetic (mean) target achievement level for the 2012 fiscal year of 157.2 percent for the MTI (as basis for the settlement amounts).

No additional bonus was granted by the Supervisory Board.

Total cash compensation in the 2012 fiscal year accordingly amounted to €5,689,889 (2011: €6,813,170).

Share-based compensation

Under the terms of the Infineon Technologies AG Stock Option Plan 2010 ("Stock Option Plan 2010"), the exercise price for a new share amounts to 120 percent of the average share price over the five trading days preceding the day of issue of the option. The options issued may only be exercised if the Infineon share price is equal to or exceeds the exercise price during the term of the option (absolute performance target). In addition, the share price must outperform the Philadelphia Semiconductor Index (SOX) (relative performance target). The initial reference figures (100 percent) for this purpose are the arithmetic mean of the Infineon share price and the daily closing price of the SOX over a three-month period following the issue of the stock options. The Infineon share price must then exceed the SOX (daily closing price), as measured using the respective reference values, at least once on at least ten consecutive trading days in the period beginning one year after the issue of the stock options and lasting until the end of their lifetime.

Further details of the plan may be found in note 32 to the Consolidated Financial Statements (Stock Option Plans).

see page 259 ff.

Based on the Stock Option Plan 2010, Mr. Bauer received 209,714 stock options (in his capacity as Chief Executive Officer), Mr. Asam 220,000 stock options and Dr. Ploss 125,714 stock options in (and for) the 2012 fiscal year. 94,286 of the stock options granted to Mr. Asam in the 2012 fiscal year relate to the pro-rata LTI for the 2011 fiscal year. These stock options are subject to an exercise cap of 250 percent of their fair market value at grant date. The exercise cap is calculated using the fair market value of an option without any value-reducing limit (€1.75; 2011: €2.46). No share options were exercised or forfeited during the 2012 fiscal year; 95,000 (2011: 100,000) of the stock options granted to Mr. Bauer expired. In the previous year 200,000 stock options were granted to Mr. Bauer, 120,000 to Dr. Ploss and 120,000 to Prof. Dr. Eul, who was still an active member of the Management Board at that stage. The stock options granted continue to be valid if the board member concerned leaves office: They expire without replacement if a Management Board member's mandate or employment contract is brought to an end before the due date, for instance in the case of dismissal from office or termination of contract for good cause.

Mr. Mittal was appointed as member of the Management Board effective January 1, 2012 and was not included in the annual allocation of stock options in December 2011. When the next tranche of stock options is allocated (scheduled for December 2012), he will be awarded stock options for his service in the 2012 fiscal year (pro-rata from January 1, 2012) and for the 2013 fiscal year.

The active members of the Management Board in the 2012 fiscal year have received the following stock options 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	
Management Board member	Fiscal year	Number	Average exercise price [1] in €	Number	Average exercise price [1] in €
Peter Bauer (CEO)	**2012**	**475,000**	**9.65**	**209,714**	**7.03**
	2011	375,000	10.93	200,000	8.62
Dominik Asam (since January 1, 2011)	**2012**	**–**	**–**	**220,000**	**7.03**
	2011	–	–	–	–
Prof. Dr. Hermann Eul (until January 31, 2011)	**2012**	**–**	**–**	**–**	**–**
	2011	180,000	11.03	120,000	8.62
Arunjai Mittal (since January 1, 2012)	**2012**	**–**	**–**	**–**	**–**
	2011	–	–	–	–
Dr. Reinhard Ploss	**2012**	**120,000**	**8.62**	**125,714**	**7.03**
	2011	–	–	120,000	8.62
Total	**2012**	**595,000**		**555,428**	
	2011	555,000		440,000	

1 Weighted average

2 Due to the early retirement of Mr. Bauer at September 30, 2012 the total expenses related to this share-based compenstion are recognized in fiscal year 2012.

Other awards and benefits

Infineon Technologies AG entered into a restitution agreement in the 2009 fiscal year with the members of the Management Board active at that time. These agreements provide for the Company to cover, to the extent permitted by law, all costs and expenses incurred by Management Board members in the performance of their duties for the Company in connection with legal, governmental, regulatory and parliamentary proceedings and investigations and with arbitration proceedings, in which the Management Board member is involved in conjunction with activities on behalf of the Company. However, the agreements specifically exclude any restitution of costs insofar as the proceedings concern an action or omission on the part of the Management Board member that constitutes a culpable breach of the Management Board member's duty of care pursuant to section 93, paragraph 2, German Stock Corporation Act ("AktG"). No payments were made by the Company during the 2012 fiscal year under these restitution arrangements.

Total compensation

Total compensation paid to the serving members of the Management Board for the 2012 fiscal year amounting to €7,065,167 (2011: €8,248,662) is broken down in the table below (gross excluding statutory deductions). The amount shown for Long-Term Incentive corresponds to the "share-based compensation" described above. Total compensation also includes the expense recorded for provisions in connection with the MTI 2011 – 2013 (portion for the second year) and 2012 – 2014 (portion for the first year) tranches which have not yet matured; the increase compared to the previous year was due to an additional allocation to the MTI provision in line with the target achievement levels attained for RoCE and free cash flow for the 2012 fiscal year:

Options outstanding at the end of the fiscal year				Options available for exercise at the end of the fiscal year		Total expense for share-based compensation[2]
Number	Average exercise price[1] in €	Range of exercise prices in €	Average remaining term[1] in years	Number	Average exercise price[1] in €	in €
589,714	**8.79**	**7.03 – 13.30**	**4.06**	**180,000**	**11.03**	**375,803**
475,000	9.65	8.20 – 13.30	3.14	275,000	10.93	37,030
220,000	**7.03**	**7.03**	**6.21**	**–**	**–**	**27,614**
–	–	–	–	–	–	–
–	**–**	**–**	**–**	**–**	**–**	**–**
300,000	10.07	8.20 – 13.30	3.26	180,000	11.03	144,653
–	**–**	**–**	**–**	**–**	**–**	**–**
–	–	–	–	–	–	–
245,714	**7.81**	**7.03 – 8.62**	**5.72**	**–**	**–**	**43,944**
120,000	8.62	8.62	6.22	–	–	22,218
1,055,428				**180,000**		**447,361**
895,000				455,000		203,901

Total compensation

in €		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[2]	Provision for the 2011 – 2013 tranche	Provision for the 2012 – 2014 tranche		
Peter Bauer (CEO)	**2012**	**1,100,000**	**50,971**	**485,680**	**734,124**	**161,893**	**161,893**	**205,520**	**2,900,081**
	2011	1,100,000	41,288	982,241	982,241	327,414	–	288,000	3,721,184
Dominik Asam (since January 1, 2011)	**2012**	**685,000**	**34,691**	**320,320**	**–**	**106,773**	**106,773**	**123,200**	**1,376,757**
	2011	513,750	143,402	485,862	–	161,954	–	96,585	1,401,553
Prof. Dr. Hermann Eul (until January 31, 2011)	**2012**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
	2011	300,000	6,073	266,667	–	–	–	172,800	745,540
Arunjai Mittal (since January 1, 2012)	**2012**	**513,750**	**14,152**	**240,240**	**–**	**–**	**80,080**	**92,400**	**940,622**
	2011	–	–	–	–	–	–	–	–
Dr. Reinhard Ploss	**2012**	**685,000**	**21,465**	**320,320**	**484,176**	**106,773**	**106,773**	**123,200**	**1,847,707**
	2011	685,000	11,014	647,816	647,816	215,939	–	172,800	2,380,385
Total	**2012**	**2,983,750**	**121,279**	**1,366,560**	**1,218,300**	**375,439**	**455,519**	**544,320**	**7,065,167**
	2011	2,598,750	201,777	2,382,586	1,630,057	705,307	–	730,185	8,248,662

1 The compensation shown under "Other" comprises primarily the monetary value of the provision of a company car, life-insurance and invalidity premiums on behalf of Management Board members and inventor's fees. The figures shown for Mr. Asam for the 2011 fiscal year include money reimbursed to cover relocation expenses and the costs of dual residence.

2 The MTI was introduced as part of the new Management Board compensation system effective October 1, 2010. The figures reported for the 2011 and 2012 fiscal years relate to settlement amounts paid to Mr. Bauer and Dr. Ploss to prevent them losing out as a result of there being no maturing MTI tranche.

3 The figures for the current Management Board members (Bauer, Asam and Dr. Ploss) are based on a fair market value per option of € 0.98 (2011: €1.44), which was calculated on the basis of a Monte-Carlo simulation model taking account of the value-reducing cap. Mr. Mittal is entitled to a pro-rata LTI for the 2012 fiscal year. The stock options are expected to be issued in December 2012. The number of stock options granted depends on their fair market value taking no account of the cap applicable to these options and cannot be determined until the day of issue. In the absence of an actual value, the value of the LTI component has been determined on the basis of the value of the options granted to the other members of the Management Board in December 2011, which was €0.98.

Members of the Management Board did not receive any loans from Infineon in either the 2012 or 2011 fiscal year.

Similarly, they did not receive any benefits from third parties in the 2012 and 2011 fiscal years, whether promised or actually paid, for their board activities at Infineon.

COMMITMENTS TO THE MANAGEMENT BOARD UPON TERMINATION OF EMPLOYMENT

Allowances and pension entitlements in the 2012 fiscal year

The members of the Management Board who were in their position prior to the introduction of the new compensation system in 2010 are contractually entitled to a defined benefit pension payment. Pension entitlements of members of the Management Board serving during the 2012 fiscal year include an annual pension of €450,000 payable to Mr. Bauer and one of €190,000 payable to Dr. Ploss (September 30, 2012 values). Dr. Ploss' pension entitlement increases annually by €5,000 for each full year of service on the board, up to a maximum amount of €210,000. These entitlements are already vested both contractually and under the applicable statutory provisions and are secured in the form of a pension reinsurance policy financed via a Contractual Trust Arrangement (CTA) and pledged to the board members concerned. These pension entitlements are to be reviewed every three years from the start of payment of the pension and increased by a percentage equal to the percentage increase in the consumer price index for Germany as defined by the German Federal Statistical Office. Pension entitlements for former members of the Management Board normally begin from the age of 60. They may be paid earlier if a member leaves for medical reasons, which, at Mr. Bauer's request, will not apply to his departure from office.

In accordance with the new compensation system introduced in 2010, Mr. Asam and Mr. Mittal have both received a defined contribution pension commitment essentially resembling the Infineon pension plan applicable to all employees (rather than a defined benefit pension commitment partially based on years of service under the old system): The Company has accordingly set up a personal pension account (basic account) for Mr. Asam and Mr. Mittal and makes annual pension contributions to the basic account. The Company pays interest on the balance in the basic account annually until disbursement of the pension begins and may also award surplus credits. The balance of the basic account when disbursement of the pension begins (due to age, invalidity or death) – increased by the adjusting amount in the event of invalidity or death – constitutes the retirement benefit entitlement and is paid out to the board member or his or her surviving dependents in twelve annual installments, or, if so requested by the board member, in eight annual installments, as a lump sum or life-long pension. Entitlements due to Mr. Asam and Mr. Mittal that have already vested contractually or under the applicable statutory provisions are, with effect from October 1, 2012 secured in the form of a pension reinsurance policy financed via a CTA and pledged to the board member concerned.

The plan rules applicable for Mr. Asam and Mr. Mittal differ in terms of the initial component, the annual transfer to the pension account and the vesting period:

In addition to a one-time, contractually vested initial component of €540,000 paid as compensation for the loss of vested retirement pension entitlements in connection with the termination of his previous employment, Mr. Asam will receive from the Company for each fiscal year of his membership of the Management Board an annual pension contribution amounting to between 25 and 40 percent, as determined by the Supervisory Board, of the relevant agreed basic annual salary i.e. fixed compensation. The pension contribution for Mr. Asam for the 2012 fiscal year has, as in the previous year, been set at 30 percent of his basic annual salary which amounts to €205,500. Those pension entitlements of Mr. Asam resulting from the defined contribution made become vested once a period of three years has elapsed from the date on which he took up his position unless (i) Mr. Asam leaves the Management Board before the three-year period has elapsed or (ii) the Supervisory Board declines to reappoint Mr. Asam beyond the end of the three-year period for good cause pursuant to section 84, paragraph 3, AktG.

Mr. Mittal already has a pension entitlement from his previous employment with Infineon that became vested under the applicable statutory provisions in September 2006. The contract appointing him to the board specifically states that the amounts made available to cover his vested pension entitlements represent a continuation of this vested entitlement (and are therefore not subject to any separate vesting arrangements). The Company makes a fixed annual pension contribution on behalf of Mr. Mittal for each full fiscal year of service on the board, equivalent to 30 percent of the relevant agreed basic annual salary; the Supervisory Board is not required to decide each time on the amount to be contributed. The defined contribution for the 2012 fiscal year (pro-rata due to the fact that he was appointed during the fiscal year) amounts to €154,125.

The amounts credited to the pension entitlements accounts of Mr. Asam and Mr. Mittal – in line with the plan rules applicable to Infineon employees – is paid out on or after reaching the age of 67, provided the employment contract has also ended, or, on request, at an earlier point in time if the employment contract ends on or after reaching the age of 60.

A total of €247,956 (2011 €3,947,714) was expensed and added to the pension provision in the 2012 fiscal year in accordance with IFRS for pension entitlements for the serving members of the Management Board (excluding interest cost). The sharp decrease compared to the previous year was primarily attributable to the new pension plan rules applied in the 2011 fiscal year in relation to Mr. Bauer and the initial creation of a pension account for Mr. Asam. The expenses relating to these items – and for the move of Prof. Eul to Intel – were all recognized in the 2011 fiscal year. By contrast, the pension expense for the 2012 fiscal year does not contain any expense for Mr. Bauer. The expense for the allocation to pension provisions in the 2012 fiscal year therefore only relates to Mr. Asam, Mr. Mittal and Dr. Ploss.

The following overview shows the annual pension entitlements at the beginning of retirement for the Management Board members serving in the 2012 fiscal year on the basis of the entitlements already acquired:

Pension entitlements

in € / Management Board member	Fiscal Year	Pension entitlements (annual) as of beginning of pension period	Agreed pension contributions for the respective fiscal year	Present value of pension entitlement	Expenses in connection with increase in pension provision (excluding interest expense)
Peter Bauer (CEO)	**2012**	**450,000**	**–**	**7,984,810**	**–**
	2011	450,000	–	5,560,565	1,959,991
Dominik Asam[1] (since January 1, 2011)	**2012**	**–**	**205,500**	**979,836**	**111,491**
	2011	–	154,125	358,658	313,335
Prof. Dr. Hermann Eul (until January 31, 2011)	**2012**	**–**	**–**	**–**	**–**
	2011	220,000	–	2,970,416	1,555,097
Arunjai Mittal[1] (since January 1, 2012)	**2012**	**–**	**154,125**	**1,753,419**	**23,905**
	2011	–	–	–	–
Dr. Reinhard Ploss	**2012**	**190,000**	**–**	**3,853,093**	**112,560**
	2011	185,000	–	2,770,032	119,291
Total	**2012**	**640,000**	**359,625**	**14,571,158**	**247,956**
	2011	855,000	154,125	11,659,671	3,947,714

1 Defined contribution pension commitment in accordance with the new compensation system approved in 2010. With the exception of the contractually vested initial component the pension entitlements of Mr. Asam become vested after three years from the date on which he took up his position.

Early termination of employment contract

The employment contracts with the members of the Management Board include a change of control clause. A change of control for the purposes of this clause occurs when a third party, individually or together with another party, acquires at least 30 percent of the voting rights in Infineon Technologies AG as defined in section 30 of the German Securities Acquisition and Takeover Act (Wertpapiererwerbs- und Übernahmegesetz – “WpÜG”). Management Board members have the right to resign and terminate their contracts within twelve months of the announcement of such a change of control and any that choose to do so are entitled to continued payment of their annual remuneration for the full remaining duration of their contract up to a maximum of 36 months. If Infineon Technologies AG removes a member of the Management Board or terminates his or her contract within twelve months of the announcement of a change of control, the Management Board member concerned is entitled to continued payment of the annual remuneration for the full remaining duration of the contract subject to a minimum period of 24 months and a maximum period of 36 months.

The Management Board employment contracts otherwise contain no promises of severance pay for situations in which contracts are terminated early.

At Mr. Bauer’s request, the Supervisory Board decided to entitle him to continue to make use of the Company’s security services free of charge and at the previous level for a further year after leaving office as CEO, i.e. until September 30, 2013. The value of this fringe benefit cannot be determined at present since the actual level of the services that will be used is not known. Any income tax expense resulting from the provision of these services will be borne by Mr. Bauer.

PAYMENTS TO FORMER MEMBERS OF THE MANAGEMENT BOARD IN 2012 FISCAL YEAR

Former members of the Management Board received total payments of €1,058,912 (severance and pension payments) in the 2012 fiscal year (2011: €6,199,333). The steep decrease in expense in the year under report is due to compensation amounts paid in the 2011 fiscal year to Management Board members leaving office. As of September 30, 2012, pension liabilities for former members of the Management Board amounted to €42,192,107 (2011: €29,749,461).

REVIEW OF MANAGEMENT BOARD COMPENSATION; CHANGES TO MANAGEMENT BOARD COMPENSATION SYSTEM AND INDIVIDUAL EMPLOYMENT CONTRACTS WITH EFFECT FROM 2013 FISCAL YEAR

Review of Management Board compensation system and individual employment contracts

In accordance with section 4.2.2 DCGK, the Supervisory Board engaged an external independent compensation expert during the 2012 fiscal year to review the appropriateness of the Management Board compensation system in place at Infineon Technologies AG since October 1, 2010. The review report submitted confirmed that the compensation system complies in all respects with applicable stock corporation requirements and with the recommendations of the DCGK in terms of both structure and level of compensation. In the opinion of the independent compensation expert, compensation of the Company’s Management Board is commensurate with market conditions and variable compensation, as required by the German Stock Corporation Act, is oriented toward sustainable growth of the enterprise. The Supervisory Board concurred with the findings of the review.

The target annual incomes set for individual Management Board members were also subjected to detailed scrutiny by the Supervisory Board, which concluded that the contractually agreed target annual incomes remain appropriate and that no action is currently needed with respect to the level of Management Board compensation (for details of the changes required in conjunction with Dr. Ploss’ appointment as CEO, see section “Proposed changes to Dr. Ploss’ employment contract”).

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Introduction of new long-term incentive plan (LTI); changes to Management Board employment contracts

The Stock Option Plan 2010 will expire after grant of the third and final tranche. This grant is expected to take place in December 2012. The Executive Committee and full Supervisory Board have therefore given thought during the 2012 fiscal year to devising a successor plan for the long-term compensation component applied uniformly both for Management Board members and senior executives at Infineon. In this context, the Supervisory Board drew on the assistance of in-house specialists and the external independent compensation expert engaged to review the Management Board compensation system. The starting point of the Supervisory Board was to find a suitable replacement plan that creates genuine long-term participation rather than the somewhat “loose” participation attributable to stock options with long-terms. Any new plan should also serve to create a greater linkage between the actions of the Management Board and the interests of the shareholders. Furthermore, there should not be any change in the current ratio between fixed (45 percent) and variable compensation (55 percent) and in the importance attached to the long-term compensation component (as part of variable compensation).

Based on the preparatory work undertaken by the Executive Committee, the Supervisory Board decided at its meeting on August 7, 2012 on a new Long-Term Incentive (LTI) that is to come into force with effect from the 2014 fiscal year. The independent compensation expert confirmed that the introduction of the new LTI would not change the conclusion reached in the report regarding the appropriateness of the compensation system. According to the expert, the new plan, both its structure and the level of compensation it would result in (assuming a comparable level of annual contributions), would equally comply with applicable legal and DCGK requirements.

The Management Board has expressed its intention for the new LTI also to apply as the long-term, variable compensation component for Infineon senior executives with effect from the 2014 fiscal year, preferably on a worldwide basis. Such a move would synchronize the interests of the Management Board and its management team especially with respect to the long-term compensation component.

Parameters for the new (Management Board) LTI: The new compensation element will be a so-called "Performance Share" plan. The (virtual) performance shares will be allocated – initially on a provisional basis – on October 1 of each fiscal year for the fiscal year beginning on that date. The performance shares will be allocated on the basis of the contractually agreed "LTI allocation amount". The prerequisite for the definitive allocation of the (at that stage still virtual) performance shares is (i) that the relevant Management Board member invests 25 percent of his/her individual LTI allocation amount in Infineon shares and (ii) that the holding period of four years applicable for the member's own investment and for the performance shares has come to an end. Moreover, 50 percent of the performance shares are performance-related; they are only allocated definitively if (iii) the Infineon share outperforms the Philadelphia Semiconductor Index (SOX) during the period between the date of the performance shares' provisional allocation and the end of the holding period. If the conditions for definitive allocation of performance shares are met at the end of the holding period (allocation of all or only the performance shares that are not performance-related), the Management Board member has a claim against the Company for the transfer of the corresponding number of (real) Infineon shares. Only at that stage are the shares transferred to a board member's securities account. These shares are freely accessible to the board member concerned: the same also applies at the end of the holding period to Infineon shares acquired in conjunction with the own-investment requirement: there is no performance-related hurdle for these shares.

The Supervisory Board reserves the right to make a cash settlement to the Management Board member rather than actually transfer Infineon shares.

It is envisaged that performance shares will be issued for the first time in accordance with the new LTI at the beginning of the 2014 fiscal year. The Management Board and the Supervisory Board intend to present for approval the Management Board compensation system which is new only with respect to its LTI aspects to the Annual General Meeting in February 2013 in accordance with section 120, paragraph 4, AktG.

The new versions of Mr. Asam's and Mr. Mittal's employment contracts (revised for the new LTI, but otherwise largely unchanged) will be presented to the Supervisory Board for discussion and approval in November 2012.

Proposed changes to Dr. Ploss' employment contract

Dr. Ploss' employment contract will also be brought into line with the new LTI.

The Supervisory Board took the opportunity on the occasion of Mr. Bauer's resignation and Dr. Ploss' appointment as CEO, to align the latter's employment contract with his new role. Based on a target annual income of €2,100,000 (instead of the previous €1,521,000), the various compensation components change with effect from the date of change of office (October 1, 2012), as follows:

- The basic annual salary (fixed) amounts to €945,000 (instead of the previous €685,000).
- Based on 100 percent target achievement, the STI amounts to €420,000 (instead of the previous €308,000).
- Also based on 100 percent target achievement, the MTI is increased to €420,000 (instead of the previous €308,000).
- Each of the LTIs in the form of the current Stock Option Plan (2013 fiscal year) and the new Performance Share Plan (from 2014 fiscal year onwards) amounts to €315,000 (instead of the previous €220,000).

In addition, and as a change to the previous rule, retirement benefits will be paid to Dr. Ploss from the age of 60 (rather than 65). This shall only be the case, however, if Dr. Ploss is no longer with the Company at that stage; if he is still with the Company, payment of the retirement benefits commences at the appropriate later date.

The Supervisory Board agreed to the above changes in Dr. Ploss' employment contract at its meeting on August 7, 2012. The employment contract containing these changes and the rules for the new LTI will be discussed and decided on definitively by the Supervisory Board in November 2012.

SUPERVISORY BOARD COMPENSATION

Compensation structure

The Supervisory Board compensation system was subject to a thorough review in the 2010 fiscal year and came into force, with (retrospective) effect from October 1, 2010, by inclusion into the Company's Articles of Association, in line with a proposal put forward by the Management Board and Supervisory Board to the Annual General Meeting on February 17, 2011. Compensation paid to the Supervisory Board takes into account the responsibilities and scope of tasks of the members of the Supervisory Board as well as Infineon's economic position and performance. The compensation due to the Supervisory Board in each fiscal year (total compensation) is governed by section 11 of the Company's Articles of Association and comprises three components:

- **Fixed compensation (basic remuneration)** of €50,000. This amount applies to each Supervisory Board member and is payable within one month of the close of the fiscal year;

- a **variable compensation** component amounting to €1,500 for every €0.01 by which earnings per share exceed a minimum threshold of €0.30, where this minimum threshold is increased by €0.03 every year with the first increase taking effect for the fiscal year beginning October 1, 2011. The variable compensation component is determined in each case on the basis of the basic (undiluted) earnings per share from continuing operations determined in accordance with the pertinent financial reporting regulations. The variable compensation component is limited to €50,000 per fiscal year. It also applies to each Supervisory Board member and falls due for payment once the Annual General Meeting following the fiscal year to which the compensation relates has ended;

- an **allowance** recognizing the additional work involved in performing certain functions within the Supervisory Board: The Chairman of the Supervisory Board receives an allowance of €50,000, each vice-chairman receives an allowance of €37,500, the Chairman of the Investment, Finance and Audit Committee and the Chairwoman of the Strategy and Technology Committee each receive an allowance of €25,000 and each member of a Supervisory Board committee – with the exception of the Nomination Committee and the Mediation Committee – receives an allowance of €15,000. The additional allowance is payable only if the body to which the Supervisory Board or committee member belongs has convened or passed resolutions in the fiscal year concerned. A member of the Supervisory Board performing more than one of the functions indicated receives only the highest single additional allowance payable to a member performing the functions concerned. The allowance is paid to the relevant holder of office within one month of the close of the fiscal year.

In the event that a member, during a fiscal year, joins (or leaves) the Supervisory Board or one of its committees or takes on a function for which an allowance is paid, the relevant compensation components are reduced on a pro-rata basis.

As part of the total compensation, the Company additionally grants each member of the Supervisory Board a meeting attendance fee of €2,000 in respect of each meeting of the Supervisory Board or one of its committees attended in person. The meeting attendance fee is paid only once in cases in which more than one meeting is held on a given day.

Members of the Supervisory Board, moreover, are reimbursed for all expenses incurred in connection with the performance of their Supervisory Board duties and for any value-added tax to be charged to them in this connection. The Company also pays any value-added tax incurred on their total remuneration and meeting attendance fees for the members of the Supervisory Board.

Compensation of the Supervisory Management for the 2012 fiscal year

The total compensation (including meeting attendance fees) paid to the individual members of the Supervisory Board on a pro-rata basis for their service on the Supervisory Board and on a Supervisory Board committee in the 2012 fiscal year comprises the following (these figures do not include value added tax at 19 percent):

Compensation of the Supervisory Board

In € Supervisory Board member	Fiscal year	Fixed compensation	Variable remuneration [1]	Allowance for specific functions	Meeting attendance fees	Total compensation
Wigand Cramer	**2012**	**50,000**	**10,500**	**15,000**	**22,000**	**97,500**
	2011	50,000	50,000	15,000	20,000	135,000
Alfred Eibl	**2012**	**50,000**	**10,500**	**15,000**	**18,000**	**93,500**
	2011	50,000	50,000	15,000	20,000	135,000
Peter Gruber	**2012**	**50,000**	**10,500**	**15,000**	**18,000**	**93,500**
	2011	50,000	50,000	15,000	20,000	135,000
Gerhard Hobbach	**2012**	**50,000**	**10,500**	**15,000**	**24,000**	**99,500**
	2011	50,000	50,000	15,000	20,000	135,000
Hans-Ulrich Holdenried	**2012**	**50,000**	**10,500**	**15,000**	**26,000**	**101,500**
	2011	50,000	50,000	15,000	24,000	139,000
Prof. Dr. Renate Köcher	**2012**	**50,000**	**10,500**	**–**	**8,000**	**68,500**
	2011	50,000	50,000	–	16,000	116,000
Wolfgang Mayrhuber (pro-rata from February 17, 2011)	**2012**	**50,000**	**10,500**	**50,000**	**32,000**	**142,500**
	2011	33,333	33,333	33,333	18,000	117,999
Manfred Puffer	**2012**	**50,000**	**10,500**	**–**	**18,000**	**78,500**
	2011	50,000	50,000	–	12,000	112,000
Gerd Schmidt	**2012**	**50,000**	**10,500**	**37,500**	**26,000**	**124,000**
	2011	50,000	50,000	37,500	26,000	163,500
Prof. Dr. Doris Schmitt-Landsiedel	**2012**	**50,000**	**10,500**	**25,000**	**18,000**	**103,500**
	2011	50,000	50,000	25,000	20,000	145,000
Jürgen Scholz	**2012**	**50,000**	**10,500**	**15,000**	**18,000**	**93,500**
	2011	50,000	50,000	15,000	20,000	135,000
Dr. Eckart Sünner	**2012**	**50,000**	**10,500**	**25,000**	**20,000**	**105,500**
	2011	50,000	50,000	25,000	18,000	143,000
Prof. Dr.-Ing. Klaus Wucherer (pro-rata until February 17, 2011)	**2012**	**–**	**–**	**–**	**–**	**–**
	2011	20,833	20,833	20,833	20,000	82,499
Total	**2012**	**600,000**	**126,000**	**227,500**	**248,000**	**1,201,500**
	2011	604,166	604,166	231,666	254,000	1,693,998

1 Based on earnings per share of €0.40 in 2012 and €0.68 in 2011.

Members of the Supervisory Board did not receive any loans from Infineon either in the 2012 or 2011 fiscal year.

Other matters (2012 fiscal year)

As a precaution and in accordance with section 114 AktG, in November 2010 the Supervisory Board approved a contract between the Company and the Technische Universität (TU) München (Institute for Technical Electronics headed by Prof. Dr. Schmitt-Landsiedel) for the performance of research and development work on sensing for automotive applications. The contract runs until September 30, 2013. In accordance with the terms of the contract, an amount of €45,000 was paid by the Company to the TU München in the 2012 fiscal year.

FORWARD-LOOKING STATEMENTS

The Group Management Report contains forward-looking statements about the business, financial condition and earnings performance of the Infineon Group.

These statements are based on assumptions and projections which reflect currently available information and present estimates. They are subject to a wide range of uncertainties and risks. Actual business development may therefore differ materially from what has been expected.

Beyond disclosure requirements stipulated by law, Infineon does not undertake any obligation to update forward-looking statements.

Neubiberg, November 2012

Management Board

Dr. Reinhard Ploss	Dominik Asam	Arunjai Mittal