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COMPENSATION REPORT

This compensation report is an integral part of the operating and financial reviews and 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.

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. Compensation should be set 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 structure was reviewed by an external independent compensation expert in the 2010 year. Drawing on the findings of this review, the Executive Committee 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. The existing contracts with the current Management Board members Peter Bauer and Dr. Reinhard Ploss will also be amended to bring them into line with the new compensation system.

COMPONENTS OF THE MANAGEMENT BOARD COMPENSATION SYSTEM IN THE 2010 FISCAL YEAR

Management Board compensation currently consists of the following components:

- **Fixed compensation.** The non-performance-related annual base salary is contractually fixed. It is paid in two parts, the first of which comprises twelve equal monthly installments and the second of which comprises a lump sum paid at the end of each fiscal year and referred to in the table below as the Annual Lump Sum.
- **Compensation based on performance.** The annual bonus is dependent on the return on assets, which we define as earnings before interest and taxes (EBIT) adjusted for exceptional effects in relation to capital employed. This ensures that a bonus is earned only if the business develops positively. The annual bonus is set by the Supervisory Board in a two-phase process. First of all a target bonus amount is determined on the basis of the return on assets using a table reproduced in the Management Board members' contract. The Supervisory Board then evaluates the personal performance of each member of the Management Board over the fiscal year ended and determines the actual bonus amount accordingly. The existing Management Board contracts provide for a possible extra bonus awarded in recognition of special business achievements in addition to the standard bonus dependent on the return on assets.
- **Infineon stock options.** Members of the Management Board were previously able to receive Infineon Technologies AG stock options (subscription rights) from the Infineon Technologies Stock Option Plan 2006 approved by the General Shareholders' Meeting of Infineon Technologies AG on February 16, 2006 as a long-term variable compensation component subject to risk. The General Shareholders' 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 under which shares can again be issued to members of the Management Board. The Supervisory Board decides whether or not to issue subscription rights under the Stock Option Plan 2010 to members of the Management Board. Each subscription right conveys the right to purchase one Infineon Technologies AG

share. 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 subscription rights. 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 subscription rights and lasting until the end of their lifetime. Details of our Stock Option Plan 2010 may be found in note 32 to the consolidated financial statements for the 2010 fiscal year and on the company website at www.infineon.com, which contains the full text of the plan.

MANAGEMENT BOARD COMPENSATION IN THE 2010 FISCAL YEAR

Total cash compensation

The serving members of the Management Board in the 2010 fiscal received total fixed non-performance-related compensation of €4,053,593 (previous year: €3,605,108) for their service. In view of the economic situation, the members of the Management Board decided in February 2009 voluntarily to forego part of their fixed salaries for the 2009 fiscal year (the CEO 20 percent, the other members of the Management Board 10 percent); no performance-related bonus was paid in the 2009 fiscal year. The full salaries were paid as usual in the 2010 fiscal year and each of the members of the Management Board also received a performance-related bonus of €786,000 (€780,000 for Dr. Schröter) for their service in the 2010 fiscal year. The total cash compensation in the 2010 fiscal year therefore amounts to €7,191,593 (previous year: €3,605,108).

The total cash compensation paid in the 2010 fiscal year (gross without statutory deductions) consisted of the following components:

01 TOTAL CASH COMPENSATION

in €		Non-performance-related compensation			Performance-related compensation	Total cash compensation
Management Board member	Fiscal year	Amount paid in monthly installments	Annual Lump Sum	Other[1]		
Peter Bauer (CEO)	2010	700,000	700,000	40,979	786,000	2,226,979
	2009	700,000	420,000	35,087	–	1,155,087
Prof. Dr. Hermann Eul	2010	450,000	450,000	13,432	786,000	1,699,432
	2009	450,000	360,000	13,590	–	823,590
Dr. Reinhard Ploss	2010	350,000	350,000	10,846	786,000	1,496,846
	2009	350,000	280,000	10,616	–	640,616
Dr. Marco Schröter[2] (until August 4, 2010)	2010	458,333	500,000	30,003	780,000	1,768,336
	2009	500,000	400,000	85,815	–	985,815
Total	2010	1,958,333	2,000,000	95,260	3,138,000	7,191,593
	2009	2,000,000	1,460,000	145,108	–	3,605,108

1 The compensation included under "Other" comprises primarily the monetary value of the provision of a company car and insurance contributions.
2 The annual lump sum of €500,000 and the annual bonus of €780,000 for the 2010 fiscal year are part of the final payment to Dr. Schröter of €1,280,000 in accordance with the termination agreement.

Stock-based compensation

The General Shareholders' 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 Supervisory Board decided to issue stock options to the members of the Management Board under this new plan at its meeting on November 22, 2010, with Mr. Bauer, as Chief Executive Officer, to receive 200,000 stock options and Prof. Dr. Eul and Dr. Ploss each to receive 120,000 stock options. The fair market value of these stock options depends in particular on the exercise price, that is to say on the price of the Infineon share on the last five trading days prior to the award of the stock options. It is intended that the date of award for Management Board members and company employees alike will be December 16, 2010. In addition Mr. Bauer still holds a total of 275,000 stock options and Prof. Dr. Eul a total of 180,000 stock options received in previous years under the Stock Option Plan 2006 and the Long Term Incentive Plan 2001 in their capacity as members of the Management Board. Dr. Ploss has not received any stock options as a member of the Management Board. The exercise prices for these stock options range between €8.20 and €13.30 and the options expire by February 2013 at the latest.

COMMITMENTS TO THE MANAGEMENT BOARD ON TERMINATION OF EMPLOYMENT

Allowances and pension entitlements in the 2010 year

The serving members of the Management Board are contractually entitled to a fixed pension payment that increases by €5,000 (and in the case of Mr. Bauer, by €10,000) annually for each full year of service on the Management Board until a maximum amount is attained. A total of €1,165,159 was expensed and added to pension reserves (previous year: €786,292) in this connection in accordance with IFRS for the active members of the Management Board in the 2010 fiscal year. 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. According to our agreement with Mr. Bauer, which deviates from this model, he is entitled to a pension before age 60 if his contract is not renewed, provided that there is no good cause for a revocation of the appointment in accordance with Section 84 (3) of the German Stock Corporation Act. In any case of pension payment before age 65 (in the case of Mr. Bauer, before age 60), however, the Management Board member concerned must allow income from other employment and self-employed activities to be set off against up to 50 percent of the respective pension entitlements.

The following overview shows the annual pension entitlements at the beginning of retirement for the Management Board members serving in 2010 on the basis of the entitlements already vested:

02 PENSION ENTITLEMENTS

in € Management Board member	Pension entitlements (annual) as of beginning of pension period	Maximum amount	Expenses in connection with increase in pension reserves in 2010 fiscal year (IFRS)
Peter Bauer (CEO)	300,000	400,000	282,926
Prof. Dr. Hermann Eul[1]	210,000	270,000	253,013
Dr. Reinhard Ploss	180,000	210,000	200,892
Dr. Marco Schröter (until August 4, 2010)	100,000	100,000	428,328
Gesamt	790,000	980,000	1,165,159

1 Pension entitlement of €220,000 in accordance with the termination agreement on switching to Intel.

Our contract with Mr. Bauer also provides for a onetime transitional allowance to be paid when he leaves the company due to retirement or for other reasons. This transitional allowance is equivalent to one year's remuneration, composed of the last twelve monthly basic salary installments and a sum amounting to the average of the bonus sums received over the last three fiscal years prior to his leaving the company. The transitional allowance will not be paid if the Management Board member resigns without prompting on the part of the company or if the company has good cause to terminate his employment.

Early termination of contract

The current 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 in cooperation 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 may resign and terminate their contracts within twelve months of the announcement of such a change of control if the exercise of their office and the fulfillment of their contract have become intolerable to them, for example, as a result of a material reduction in the areas under their control. In such an event, members of the Management Board are entitled to a continuation of their annual target income for the full remaining duration of their contracts and in any case for a minimum of two years. The amount due is based on the annual target income in the year of departure from the company with the variable components calculated assuming a return on assets of 6 percent. If Infineon Technologies AG removes a member of the Management Board and terminates the associated contract within twelve months of the announcement of a change of control, the Management Board member concerned is entitled to a continuation of the annual target income for the full remaining duration of the contract and in any case for a minimum of three years. The respective pension entitlements of the Management Board members remain unchanged. However these rights of Management Board members in the event of a change of control do not apply if the company would have been entitled to terminate the member's appointment under Section 84 (3) of the German Stock Corporation Act (Aktiengesetz).

Dr. Schröter and the Supervisory Board of Infineon Technologies AG reached an agreement on the cancellation of Dr. Schröter's contract by mutual consent in August 2010. Dr. Schröter received a final payment of €1,280,000 in settlement of his contractual claims to an annual lump sum of €500,000 and a performance-related annual bonus of €780,000 for the 2010 fiscal year. Severance pay amounting to €3,500,000 and payable in two installments was also agreed with Dr. Schröter to settle all future claims under and in connection with his contract. Dr. Schröter received the first installment at the end of the 2010 fiscal year.

Prof. Dr. Eul will leave the company's Management Board and switch to Intel on completion of the sale of Infineon Technologies AG's Wireless Solutions Business to Intel Corporation, which is currently expected to take place in the first calendar quarter of 2011. The company has accordingly concluded an agreement with Prof. Dr. Eul concerning the termination of his contract. This agreement provides for Prof. Dr. Eul to receive an additional bonus equivalent to his annual target income 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 will also grant Prof. Dr. Eul a further additional bonus of up to €900,000 at its discretion if the sale is completed on terms particularly favorable to the company. It has also been agreed with Prof. Dr. Eul that he will receive an annual pension of €220,000 payable 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 2010 fiscal year

- The members of the Management Board received no fringe benefits in addition to the components listed under "Other" in the compensation table.
- 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 2010 fiscal year.
- We maintain 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 exercise of their duties. The current terms of the Management Board contracts provide for the application of a deductible amounting to 25 percent of the non-performance-related basic annual salary (deductible as described in Section 93 (2) of the German Stock Corporation Act in conjunction with Section 23 (1) of the introductory provisions to the German Stock Corporation Act). Once the current Management Board contracts have been amended to reflect the new compensation system, however, the deductible to be applied will be 10 percent of the loss up to a maximum of one and a half times the annual fixed compensation of the Management Board member in accordance with Section 93 (2) of the German Stock Corporation Act. New Management Board contracts concluded will be subject to the same provision.
- We have entered into a restitution agreement with each member of the Management Board. 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 exercise 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 (2) of the German Stock Corporation Act.

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PAYMENTS TO FORMER MEMBERS OF THE MANAGEMENT BOARD IN THE 2010 FISCAL YEAR

Former members of the Management Board received total severance and pension payments of €3,373,352 (previous year: €1,798,225) in the 2010 fiscal year. This includes the first installment of the severance settlement paid to Dr. Schröter in the amount of €1,750,000. Pension reserves for former members of the Management Board amount in total as of September 30, 2010 to €36,597,097 (previous year: €27,034,008).

COMPONENTS OF THE MANAGEMENT BOARD COMPENSATION SYSTEM FROM 2011 FISCAL YEAR

It is intended that the members of the Management Board will in future receive as compensation for their service target annual income comprising the following components:

- **45 percent fixed compensation.** This comprises a permanently agreed basic annual salary that has no link to performance and is paid in twelve monthly installments.
- **55 percent variable compensation based on performance.** This comprises three components: an annual bonus (short-term incentive – “STI”), a multiple year bonus (medium-term incentive – “MTI”) and a long-term variable compensation component (long-term incentive – “LTI”).

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 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 (FCF) and return on capital employed (ROCE) are defined at the beginning of each fiscal year and the Supervisory Board then establishes an actual figure for the bonus at the end of the fiscal year based on the extent of target attainment. The target functions are identical for all members of the Management Board and the same performance indicators are also used in principle to determine bonus payments for the company’s employees. An STI is paid only if the level of target attainment reaches the 50 percent threshold for both performance indicators. No annual bonus is paid for years in which target attainment falls short of this hurdle for at least one of the target parameters. Actual target attainment is determined separately for each target if the threshold is surpassed 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 and taking account of the position of the company and any exceptional effects. 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 attainment. In addition the Supervisory Board retains the option of granting an additional bonus for special achievements.

A new compensation component in the form of a **medium-term incentive plan (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 FCF 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 attainment for both the ROCE target and the FCF target must reach a threshold of 50 percent in every year of the relevant three-year period, otherwise the level of target attainment 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 attainment 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 attainment levels. The MTI is paid as calculated even if the mean level of target attainment 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 and taking account of the current position of the company and any exceptional effects. 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.

Current Management Board members Peter Bauer and Dr. Reinhard Ploss are covered by a transitional arrangement in respect of the MTI for the 2011 and 2012 fiscal years under which (i) a level of target attainment of at least 50 percent is guaranteed in each case and (ii) the MTI will be calculated using the actual level of target attainment for the year at the end of the first year and the average of the target attainment 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 the members of the Management Board and ensure that it is in line with the interest of the company's shareholders in a rising share price. The LTI constitutes 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. The number of options to be awarded is in principle determined on the basis of their fair market value. 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 lapse such that the profit is reduced to the 250 percent mark (cap). The Supervisory Board will define suitable alternative LTI instruments if the existing stock option plans are not adequate to create a sufficient LTI.

COMMITMENTS TO THE MANAGEMENT BOARD ON TERMINATION OF EMPLOYMENT

The pension commitments in place for the current members of the Management Board will remain unchanged. However it is intended that in future all new members of the Management Board will receive a contributory fund-based pension commitment rather than a fixed pension commitment based on years of service.

The future change-of-control clause is essentially equivalent to the existing provision except that, in accordance with the recommendation in section 4.2.3 clause 5 of the German Corporate Governance Code, the entitlements of the members of the Management Board due to any early termination of their contract in the event of a change of control are limited to the continued payment of the target annual income through the end of the term of the respective contract and in any case for no longer than 36 months.

SUPERVISORY BOARD COMPENSATION

Compensation structure

Supervisory Board compensation is defined in the Articles of Association. It 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. Supervisory Board compensation is governed by § 11 of the Articles of Association and comprises two components:

- **Fixed annual compensation** of €25,000 and
- **a variable component** in the form of 1,500 share appreciation rights per annum, which are issued and may be exercised on the same terms as provided for by the Infineon stock option plan for the company approved by the General Shareholders' Meeting for the fiscal year in which the share appreciation rights are issued. These share appreciation rights entitle the holder only to a cash settlement, however, and not to a share purchase. The basic features our Stock Option Plan 2010 may be found in note 32 to the consolidated financial statements for the 2010 fiscal year and on the company website at **www.infineon.com**, which contains the full text of the plan.

Additional compensation is paid for certain functions within the Supervisory Board. The chairman of the Supervisory Board receives an additional 100 percent of the fixed compensation and each vice-chairman and each other member of a Supervisory Board committee, with the exception of the Nomination Committee and the Mediation Committee, receives an additional 50 percent of the fixed compensation.

Members of the Supervisory Board, moreover, are reimbursed for all expenses incurred in connection with their duties, as well as for the value-added tax apportioned to their compensation, to the extent that they can and do invoice for this separately.

Like the Management Board compensation system, however, the Supervisory Board compensation system has been examined and the company accordingly plans to propose corresponding amendments to Supervisory Board compensation at the next General Shareholders' Meeting, which is expected to take place in February 2011.

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Supervisory Board compensation in the 2010 fiscal year

The Supervisory Board was reduced from 16 members to twelve through what are known as status proceedings in 2010 in recognition of the decline in the number of employees. This entailed holding new elections for both the shareholder representative and the employee representative positions on the Supervisory Board.

Supervisory Board compensation remained unchanged from the previous year in the 2010 fiscal year. The General Shareholders' Meeting of February 11, 2010 has 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 Supervisory Board members will receive 1,500 share appreciation rights each on this basis in the usual allocation period in December 2010 as provided for in the Infineon Stock Option Plan 2010 approved for the company by the General Shareholders' Meeting.

The individual members of the Supervisory Board received the following gross cash compensation (excluding value-added tax at 19 percent) in the 2010 fiscal year on pro-rata terms based on their length of service on the Supervisory Board:

03 COMPENSATION FOR MEMBERS OF THE SUPERVISORY BOARD

in € Supervisory Board member	Fixed compensation	Additional compensation for special functions	**Total compensation**
Max Dietrich Kley (pro rata through February 11, 2010)	8,333	8,333	16,666
Wigand Cramer	25,000	12,500	37,500
Alfred Eibl	25,000	12,500	37,500
Peter Gruber	25,000	8,333	33,333
Gerhard Hobbach	25,000	12,500	37,500
Hans-Ulrich Holdenried (pro rata from February 11, 2010)	16,667	8,333	25,000
Prof. Dr. Renate Köcher	25,000	–	25,000
Dr. Siegfried Luther (pro rata through February 11, 2010)	8,333	4,167	12,500
Manfred Puffer	25,000	–	25,000
Gerd Schmidt	25,000	12,500	37,500
Prof. Dr. Doris Schmitt-Landsiedel	25,000	12,500	37,500
Jürgen Scholz (pro rata from February 11, 2010)	16,667	8,333	25,000
Horst Schuler (pro rata through February 11, 2010)	8,333	–	8,333
Kerstin Schulzendorf (pro rata through February 11, 2010)	8,333	–	8,333
Dr. Eckart Sünner	25,000	8,333	33,333
Alexander Trüby (pro rata through February 11, 2010)	8,333	–	8,333
Arnaud de Weert (pro rata through February 11, 2010)	8,333	4,167	12,500
Prof. Dr.-Ing. Klaus Wucherer	25,000	20,833	45,833
Total	333,332	133,332	466,664

Miscellaneous (2010 fiscal year)

- The company does not provide loans to Supervisory Board members.
- We maintain directors' and officers' group liability insurance. The D&O insurance policy covers personal liability in the event of claims made against members of the Supervisory Board for indemnification of losses incurred in the exercise of their duties. Each member of the Supervisory Board has agreed to an appropriate deductible.

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