

# REPORT OF THE SUPERVISORY BOARD TO THE GENERAL SHAREHOLDERS' MEETING



PROF. DR. KLAUS WUCHERER  
 CHAIRMAN OF THE SUPERVISORY BOARD

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Ladies and gentlemen,

The Supervisory Board hereby presents its report on the performance of its duties over the course of the 2010 fiscal year. A very different year to the difficult and turbulent 2009 fiscal year, the 2010 fiscal year saw the Company make excellent progress to achieve a Segment Result margin from continuing operations of 14.4 percent and announce a dividend to shareholders.

The Supervisory Board tracked the position of the Company closely as usual in the 2010 fiscal year and both the full board and its committees met many times during the year. The Supervisory Board monitored the Management Board's management of the Company regularly and assisted the Management Board in its advisory capacity. The Supervisory Board 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 verbal or written reports on events of particular importance in extraordinary meetings and between meetings. The Management Board submitted detailed quarterly

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03 reports to the Supervisory Board covering topics such as the economic and financial devel-  
04 opment and profitability of the Company over the respective quarter ended, major business  
transactions, risks and material lawsuits.

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

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07 The Supervisory Board convened in four ordinary meetings and four extraordinary meet-  
08 ings during the year under review. All members of the Supervisory Board attended at least  
09 half of the Supervisory Board meetings held over the period.

## 10 11 **MAIN ACTIVITIES OF THE SUPERVISORY BOARD**

### 12 **Sale of the Wireless Solutions unit to Intel**

13 The Management Board reported in full on the proposed sale of the Wireless Solutions  
14 business unit, which accounted for around 30 percent of Group revenue in the 2009 and  
15 the 2010 fiscal year, in two ordinary meetings and two extraordinary meetings. The Super-  
16 visory Board devoted particular attention in these meetings to the reasons behind the  
17 Management Board's decision to dispose of the mobile phone chip business, the different  
18 transaction structures of relevance, the purchase price to be realized, the implications for  
employees and the strategy and prospects for the Company's remaining business activities.

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20 The Supervisory Board asked the members of the Strategy and Technology Committee to  
21 discuss the plans, developments in the negotiations and the steps necessary for realiza-  
tion with the Management Board in detail in light of the great significance of the transac-  
tion for the whole Company. The Strategy and Technology Committee carried out thorough  
preparatory work for all deliberations on this matter involving the full Supervisory Board.  
Following a final round of intensive discussions with the Management Board in relation to  
the transaction, the Supervisory Board gave its consent to the sale of the Wireless Solu-  
tions business unit to Intel Corporation on August 25, 2010.

The Supervisory Board supports the Management Board's intention to focus Infineon's business on energy efficiency, mobility and security and shares the Management Board's conviction that these already very prominent fields will become even more important over the years ahead.

**Transactions requiring approval**

The Supervisory 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 aforementioned sale of the Wireless Solutions business unit was considered by the Supervisory Board in accordance with this requirement, as were the financial and investment plans and investment budget for the 2010 fiscal year, which were discussed on the basis of different scenarios for future revenue development in the Supervisory Board meetings on November 26, 2009 and August 4, 2010. The Supervisory Board also set a borrowing limit as part of this process.

**Management Board compensation**

The Supervisory Board considered in detail 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 and commissioned external independent compensation experts to assess the compatibility of the existing compensation system with these provisions and recommendations and drew 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. The fundamentals of the new compensation system were then discussed in detail in the Supervisory Board meeting on August 4, 2010 and the system as a whole was approved in the meeting on November 22, 2010. Particulars of the new compensation system may be found in the compensation report, which appears in the Annual Report, starting page 102. The new compensation system will be submitted for approval by the

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2011 General Shareholders' Meeting and is intended to apply to all future Management Board members. The existing contracts with Management Board members Peter Bauer and Dr. Reinhard Ploss will be amended to bring them into line with the new compensation system.

### **Management Board matters**

The Supervisory Board decided in August 2009 to reduce the compensation due to former Chief Executive Officer Dr. Wolfgang Ziebart following the entry into force of the German Act on the Appropriateness of Management Board Remuneration. Constructive negotiations with Dr. Ziebart led to agreement on a settlement reducing Dr. Ziebart's pay and pensions entitlements by an appropriate amount. The Supervisory Board discussed the content of this agreement and approved the conclusion of the settlement.

The Company is also close to concluding an arrangement with former Chief Executive Officer Dr. Ulrich Schumacher to settle various reciprocal claims. The Supervisory Board approves of this arrangement having discussed the terms of the settlement thoroughly at two meetings. The matters covered by the settlement include compensation claims lodged by the Company, so the conclusion of the agreement also requires the approval of the General Shareholders' Meeting.

Dr. Marco Schröter left the Management Board in August 2010 as a result of differences of opinion concerning the Company's future business policy. The Supervisory Board addressed the situation with respect to the Management Board in detail in its August 4 meeting. A mutually acceptable solution covering his pay and pension entitlements and the cancellation of his contract was agreed with Dr. Schröter in September 2010. The Supervisory Board would like to thank Dr. Schröter for his efforts on behalf of Infineon.

Management Board member Prof. Dr. Hermann Eul is to assume the post of chief executive of the newly founded Intel Mobile Communications company in connection with the sale of Infineon's mobile phone chip business to Intel. The Supervisory Board discussed and approved the terms for cancellation of the contract with Prof. Dr. Eul. The Supervisory Board would like to thank Prof. Dr. Eul for his very considerable service to the Company. Prof. Dr. Eul tackled the Wireless Solutions operation with enormous personal commitment and his methods have proved so effective that a business unit initially beset by financial difficulties has now attracted a purchase price of 1.4 billion U.S. dollars.

The Executive Committee discussed the aforementioned matters and completed the necessary preparatory work in advance of the associated resolutions by the full Supervisory Board.

**CORPORATE GOVERNANCE**

The Supervisory Board reviewed the applicable corporate governance rules and their implementation within the Company on a regular basis in the 2010 fiscal year just as in previous years. 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, during which it also specified concrete objectives regarding its composition in accordance with the recommendation in section 5.4.1 of the German Corporate Governance Code.

The Supervisory Board adopted the 2009 Declaration of Compliance in accordance with section 161 of the German Stock Corporation Act (Aktiengesetz) in November 2009 and the 2010 Declaration of Compliance in November 2010. The 2010 Declaration of Compliance was published on the Company's website on November 23, 2010. 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. An external independent consultant was engaged in the 2010 fiscal year to conduct the first detailed survey of Supervisory Board activities. The Supervisory Board engaged the external consultant in response to a suggestion from shareholders. The consultant held confidential one-on-one interviews with all members of the Supervisory Board and Management Board between July and September 2010. The work of the Supervisory Board to date was analyzed on the basis of these interviews and recommendations for its future operation were generated. The findings of the efficiency study were presented and discussed in the Supervisory Board meeting on November 30, 2010.

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The members of the Management Board and Supervisory Board disclose any conflicts of interest to the Supervisory Board without delay. Material transactions between the Company and members of the Management Board or their close associates require the approval of the Supervisory Board. No conflicts of interest arose among the members of the Management Board and Supervisory Board in the 2010 fiscal year.

#### COMPOSITION OF THE SUPERVISORY BOARD

The Management Board instituted status proceedings in 2009 to reduce the Supervisory Board from 16 members to twelve. The Supervisory Board thus now consists of six shareholder representatives and six employee representatives.

The employee representatives were elected in December 2009. Mr. Wigand Cramer, Mr. Alfred Eibl, Mr. Peter Gruber, Mr. Gerhard Hobbach, Mr. Jürgen Scholz and Mr. Gerd Schmidt were elected. Ms. Kerstin Schulzendorf, Mr. Horst Schuler and Mr. Alexander Trüby no longer sit on the Supervisory Board.

The term of office of the shareholder representatives expired at the end of the 2010 General Shareholders' Meeting, which elected Prof. Dr. Renate Köcher, Prof. Dr. Doris Schmitt-Landsiedel, Mr. Hans-Ulrich Holdenried, Dr. Manfred Puffer, Dr. Eckart Sünner and Prof. Dr. Klaus Wucherer as the new shareholder representatives. Mr. Max-Dietrich Kley, Dr. Siegfried Luther and Mr. Arnaud de Weert have left the Supervisory Board.

The term of office of the new Supervisory Board began at the end of the General Shareholders' Meeting on February 11, 2010 and runs until the end of the General Shareholders' Meeting that decides on the approval of the acts of the Supervisory Board during the 2013/2014 fiscal year.

The Supervisory Board wishes to thank all of its former members for their constructive and trusting contribution and would like to express its particular gratitude to its chairman of many years Max-Dietrich Kley, who always defended the Company's interests through thick and thin with great personal dedication and commercial foresight.

The constitutive meeting of the Supervisory Board on February 11, 2010 chose Prof. Dr. Klaus Wucherer as Supervisory Board Chairman and Gerd Schmidt as Deputy Chairman.

The Supervisory Board has established the following committees: a Mediation Committee in accordance with Section 27 (3) of the German Codetermination Act (Mitbestimmungsgesetz), 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.

It has been decided by the Supervisory Board 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.

The Supervisory Board has elected Prof. Dr. Wucherer as Chairman of the Mediation Committee and the Nomination Committee, Dr. Sünner as Chairman of the Investment, Finance and Audit Committee and Prof. Dr. Schmitt-Landsiedel as Chairwoman of the Strategy and Technology Committee. In accordance with the Supervisory Board rules of procedure, the Chairman of the Executive Committee is the Chairman of the Supervisory Board, Prof. Dr. Wucherer.

Prof. Dr. Wucherer intends to resign from the Supervisory Board on the day of the 2011 General Shareholders' Meeting. The shareholder representatives on the Supervisory Board decided on November 22, 2010 to propose to the General Shareholders' Meeting that Mr. Wolfgang Mayrhuber be elected to the Supervisory Board as representative of the shareholders. Mr. Wolfgang Mayrhuber was nominated for the post of future Chairman of the Supervisory Board by the entire Supervisory Board at the same meeting.

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## SUPERVISORY BOARD COMMITTEE REPORTS

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

The committee's activities centered on monitoring the financial reporting process, reviewing the quarterly financial statements, conducting the preliminary audit of the annual financial statements, consolidated financial statements and combined Operating and Financial Reviews, discussing the audit report with the auditor and reviewing and debating the financial and investment plans and the borrowing limit. Other matters addressed by the committee included the effectiveness of the internal control system, internal audit system and risk management system and the Company's compliance organization.

The committee's duties also entailed specifying the key areas to be examined in audit activities in the 2010 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 General Shareholders' Meeting regarding the selection of the auditor and engaged the auditor to audit the annual 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 and four extraordinary meetings during the year under review.

The planned sale of mobile phone chip business dominated the committee's work in the year under review and the project was discussed in detail with the Management Board in two ordinary meetings and four extraordinary meetings. The committee's deliberations in this connection encompassed not only the Management Board's proposal to withdraw from mobile phone chip business, but also the other options for this business area and the future direction and strategy of Infineon's remaining business areas.



The Strategy and Technology Committee also considered the Company's manufacturing strategy.

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

The committee examined the external consultants' proposals for a new Management Board compensation system thoroughly over the course of a number of meetings. It paid particular attention to the appropriateness of the compensation, the extent to which the new system was comparable with compensation in other companies and the structure of employee compensation, the design of variable compensation components, stock-based long-term compensation components and pension provisions for the Management Board in this process and carried out the preparatory work for a decision on these matters by the full Supervisory Board.

The Executive Committee also completed the preparatory work for the Supervisory Board resolutions in relation to the aforementioned Management Board matters and selected an external consultant to evaluate the work of the Supervisory 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. It is intended that the revised Supervisory Board compensation plan will be submitted for approval by the 2011 General Shareholders' Meeting after consultation with the full Supervisory Board and the Management Board.

The committee recommended to the full Supervisory Board that the deductible in the D&O insurance for the Supervisory Board be increased to bring it into line with a recommendation of the German Corporate Governance Code.

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

Its meeting in October 2009 deliberated on the candidates to be put forward to the full Supervisory Board for proposal to the 2010 General Shareholders' Meeting.

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The committee's subsequent meetings dealt with the process to identify and select a suitable successor to Prof. Dr. Wucherer, who had publically announced prior to the General Shareholders' Meeting that he intended to leave the Supervisory Board and surrender his position as its chairman in the occasion of the 2011 General Shareholders' Meeting. Following a meticulous selection process, the committee engaged an international consultant to assist the Supervisory Board in identifying candidates and defined the individual steps in the process leading to the proposal of a candidate by the Supervisory Board at the 2011 General Shareholders' Meeting.

Having completed its detailed deliberations, the committee was able to propose to the Supervisory Board in November 2010 that Mr. Wolfgang Mayrhuber succeed Prof. Dr. Wucherer as its chairman.

The **Mediation Committee** formed in accordance with section 27 (3) of the German Codetermination Act (Mitbestimmungsgesetz) 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.

## ANNUAL AND CONSOLIDATED FINANCIAL STATEMENTS

KPMG AG Wirtschaftsprüfungsgesellschaft, Berlin, audited the annual financial statements of Infineon Technologies AG and the consolidated financial statements as of September 30, 2010 as well as the combined Operating and Financial Reviews of Infineon Technologies AG and of the Infineon Group and awarded them an unqualified audit opinion. The half-yearly financial report was also subjected to an auditor's review by KPMG.

The annual financial statements prepared by the Management Board, the consolidated financial statements prepared in accordance with IFRSs, the combined Operating and Financial Reviews and the Management Board's proposal for the appropriation of the cumulative income were submitted to all members of the Supervisory Board in the middle of November 2010.

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The reports by KPMG on the audit of the annual financial statements, the consolidated financial statements and the combined Operating and Financial Reviews 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 12, 2010. 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, 2010. The financial statements were examined thoroughly in the presence of the auditor 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 on the scope, key areas and costs of the audit and explained the risk management system. The combined Operating and Financial Reviews 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 endorsed the Management Board's proposal for the appropriation of the cumulative income, which provides for a dividend of € 0.10 per qualifying share. Following the final result of the review by the Supervisory Board, the Supervisory Board has no objections to the financial statements and their audit. The Supervisory Board accepted the results of the audit on November 22, 2010 and approved the annual and consolidated financial statements of Infineon Technologies AG and of the Infineon Group. The annual financial statements have thus been adopted.

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

Neubiberg, November 2010  
 on behalf of the Supervisory Board



**Prof. Dr. Klaus Wucherer**  
 Chairman of the Supervisory Board