TURNING POTENTIAL INTO VALUE

Infineon Technologies AG
Annual Report 2010

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OUR COMPANY

FINANCIAL REVIEW INFINEON TECHNOLOGIES AG

NOTE

When we use the masculine singular pronoun in this Annual Report to refer to employees, we of course are referring to all employees, both male and female.

FORWARD-LOOKING STATEMENTS

This annual report contains forward-looking statements and assumptions about the future of Infineon’s business and the industry in which we operate. These statements are based on current plans, estimates and projections, and you should not place too much reliance on them. Forward-looking statements speak only as of the date they are made, and we undertake no obligation to update any of them in the light of new information or future events. Forward-looking statements involve inherent risks and uncertainties. We caution you that a number of important factors could cause actual results or outcomes to differ materially from those expressed in any forward-looking statement.

Caption:

see **figure** for further information

see **text** for further information

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

Fiscal year from October 1 to September 30	2010		2009		2010/2009
	€ millions	As % of net sales	€ millions	As % of net sales	Change in %
Revenue from continuing operations by region	3,295		2,184		51
Germany	862	26	530	24	63
Other Europe	656	20	484	22	36
North America	351	11	261	12	34
Asia/Pacific	1,202	36	768	35	57
Japan	184	6	116	6	59
Other	40	1	25	1	60
Revenue by segment	4,585		3,027		51
Automotive	1,268	28	839	28	51
Industrial & Multimarket	1,374	30	905	30	52
Chip Card & Security	407	9	341	11	19
Wireless Solutions	1,372	30	917	30	50
Other Operating Segments	167	3	17	1	882
Corporate and Eliminations	(3)	0	8	0	(138)
adjusted by revenues from discontinued operations of Wireless Solutions	(1,290)		(843)		
Revenue from continuing operations	3,295		2,184		51
Gross profit Gross margin	1,237	38	497	23	149
Research and development expenses	399	12	319	15	25
Selling, general and administrative expenses	386	12	332	15	16
Operating income (loss)	348		(183)		290
Income (Loss) from continuing operations	312		(233)		234
Income (Loss) from discontinued operations, net of income taxes	348		(441)		179
Net income (loss)	660		(674)		198
Segment result margin	635	14	(167)	(6)	480
adjusted by the Segment Result from discontinued operations of Wireless Solutions	(160)		27		
Total Segment Result from continuing operations margin	475	14	(140)	(6)	439
Property, plant and equipment	838		928		(10)
Total assets	4,993		4,366		14
Total shareholders' equity	2,625		2,093		25
Net cash provided by operating activities from continuing operations	958		282		240
Net cash provided by (used in) investing activities from continuing operations	(355)		25		(1,520)
Net cash provided by (used in) financing activities from continuing operations	(487)		391		(225)
Free cash flow[2]	573		274		109
Depreciation and amortization	336		453		(26)
Purchases of property, plant and equipment and purchases of intangible assets	(325)		(115)		183
Gross cash position[3]	1,727		1,507		15
Net cash position[4]	1,331		657		103
Basic earnings (loss) per share in €	0.61		(0.73)		184
Diluted earnings (loss) per share in €	0.58		(0.73)		179
Dividend per share in €[5]	0.10		—		
Equity ratio	53%		48%		10
Return on equity[6]	25%		(32%)		178
Return on assets[7]	13%		(15%)		186
Equity-to-fixed assets ratio[8]	317%		226%		41
Debt-to-equity ratio[9]	15%		41%		(63)
Debt-to-total-capital ratio[10]	8%		19%		(59)
Return on Capital Employed (RoCE)[11]	24%		(11%)		318
Employees Infineon as of September 30	26,654		26,464		1

1 Columns may not add due to rounding.
2 Free cash flow = Cash flow from operating and investing activities from continuing operations excluding purchases or sales of available-for-sale financial assets.
3 Gross cash position = cash and cash equivalents and available-for-sale financial assets.
4 Net cash position = Gross cash position less short and long-term debt.
5 A dividend per share of Euro 0.10 for the 2010 fiscal year will be submitted for approval to the upcoming annual general meeting on February 17, 2011.
6 Return on equity = net income (loss) divided by shareholders' equity.
7 Return on assets = net income (loss) divided by total assets.
8 Equity-to-fixed-assets ratio = Total shareholders' equity divided by property, plant and equipment.
9 Debt-to-equity ratio = Short-term and long-term debt divided by shareholders' equity.
10 Debt-to-total-capital ratio = Long-term and short-term debt divided by total assets.
11 Return on Capital Employed, RoCE = NOPAT (Net Operating Profit After Tax) divided by capital employed.

INFINEON AT A GLANCE

Infineon offers semiconductor and system solutions addressing three central challenges to modern society: energy efficiency, with approximately 26,650 employees worldwide. The Company's shares are listed on the Frankfurt Stock Exchange (ticker

AUTOMOTIVE

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APPLICATIONS

Powertrain (engine and transmission control) ◦ Hybrid and electric cars ◦ Car body and comfort electronics (steering, suspension, lights, air conditioning, sunroof, power windows, windshield wipers, central body control units, door electronics) ◦ Safety (ABS, airbags, ESP)

KEY CUSTOMERS [1]

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

MAIN COMPETITORS [2]

Freescale ◦ Fujitsu ◦ NEC ◦ NXP ◦ ON Semiconductor ◦ Renesas ◦ STMicroelectronics ◦ Texas Instruments ◦ Toshiba

MARKET POSITION [3]

Number 1 with 9%

Source: Strategy Analytics, April 2010

INDUSTRIAL & MULTIMARKET

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APPLICATIONS

Electric drive control for industrial applications and home appliances ◦ Modules for renewable energy generation, energy transmission and conversion ◦ Semiconductor components for light management systems and LED lighting ◦ Power supplies for servers, PCs, notebooks, netbooks, game consoles, consumer electronics ◦ Customized components for PC peripherals (e.g. mouse), game consoles and medical engineering applications ◦ RF and protection devices for communication (e.g. GPS, UMTS, WLAN, digital TV) and tuner systems ◦ Silicon MEMS microphones

KEY CUSTOMERS [1]

ABB ◦ Alstom ◦ Cisco ◦ Converteam ◦ Dell ◦ Delta ◦ Emerson ◦ HP ◦ LG Electronics ◦ Microsoft ◦ Nokia ◦ Panasonic ◦ Philips ◦ RIM ◦ Samsung ◦ Schneider Electric ◦ Siemens ◦ SMA Solar Technology ◦ Sony

MAIN COMPETITORS [2]

Fairchild ◦ Fuji ◦ International Rectifier ◦ Intersil ◦ Mitsubishi ◦ NXP ◦ ON Semiconductor ◦ Renesas ◦ STMicroelectronics ◦ Texas Instruments ◦ Toshiba ◦ Vishay

MARKET POSITION [3]

Number 1 with 11%
for discrete power semiconductors and modules

Source: IMS Research, July 2010

mobility, and security. In the 2010 fiscal year (ending September 30), the Company reported revenue of 3.295 billion euros symbol: IFX) and in the USA on the over-the-counter market OTCQX International Premier (ticker symbol: IFNNY).

CHIP CARD & SECURITY

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APPLICATIONS

SIM cards for mobile phones ◦ Payment systems ◦ Electronic passports, ID cards, healthcare cards and driver‘s licenses ◦ Personal identification ◦ Object identification ◦ Pay TV ◦ Platform security for computers and networks ◦ Authentication and system integrity e.g. in game consoles, printers, industrial control

KEY CUSTOMERS [1]

Beijing Watch Data ◦ Cisco ◦ Gemalto ◦ Giesecke & Devrient ◦ Oberthur ◦ Sagem Orga ◦ US Government Printing Office

MAIN COMPETITORS [2]

Inside Contactless ◦ NXP ◦ Renesas ◦ Samsung ◦ STMicroelectronics

MARKET POSITION [3]

Number 1 with 27%

Source: Frost & Sullivan, October 2010

WIRELESS SOLUTIONS

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APPLICATIONS

Baseband processors, radio-frequency solutions and power management chips, mostly also available as single-chip solutions ◦ Complete platforms including software for mobile phones (GSM, EDGE, HSPA, LTE) ◦ Bluetooth and GPS receivers ◦ Power transistors for amplifiers in cellular base stations

KEY CUSTOMERS [1]

Ericsson ◦ Huawei ◦ LG Electronics ◦ Nokia ◦ RIM ◦ Samsung ◦ ZTE

MAIN COMPETITORS [2]

Broadcom ◦ Mediatek ◦ Qualcomm ◦ ST-Ericsson

MARKET POSITION [3]

Number 3 with 14%
(based on pieces)

Source: Strategy Analytics, February 2010

1 In alphabetical order. Infineon‘s major distribution customers are Arrow, Avnet, Beijing Jingchuan, Rutronik, Tomen, Toyotsu and WPG Holding.
2 In alphabetical order.
3 All figures for 2009 calender year.

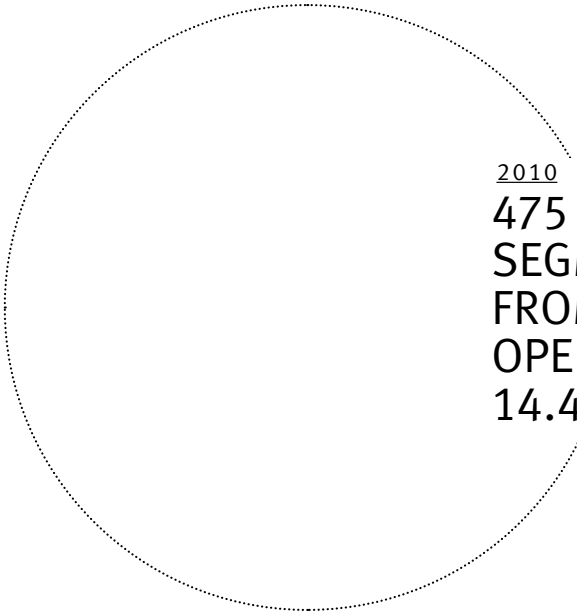
A SUCCESSFUL YEAR

We are on our way to becoming a high-value enterprise.

With innovative products, leading in technology, and in leading market positions.

With the know-how, costumer focus and commitment of our employees.

With a healthy balance sheet and profitable growth.



2010
475 m €
SEGMENT RESULT
FROM CONTINUING
OPERATIONS,
14.4% MARGIN

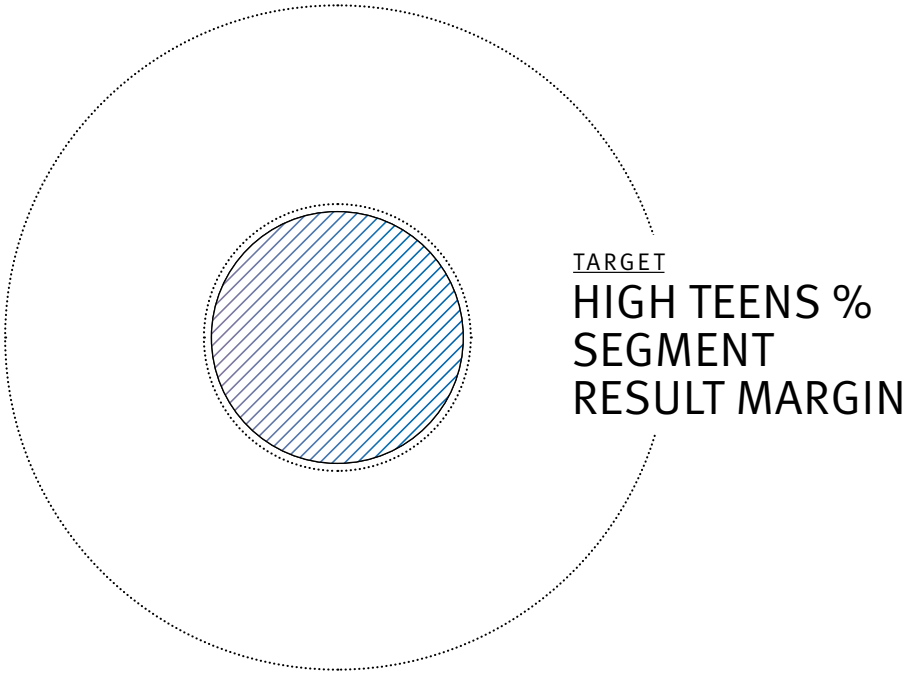
2010
3.295 bn €
REVENUE
FROM CONTINUING
OPERATIONS

EXCELLENT PROSPECTS

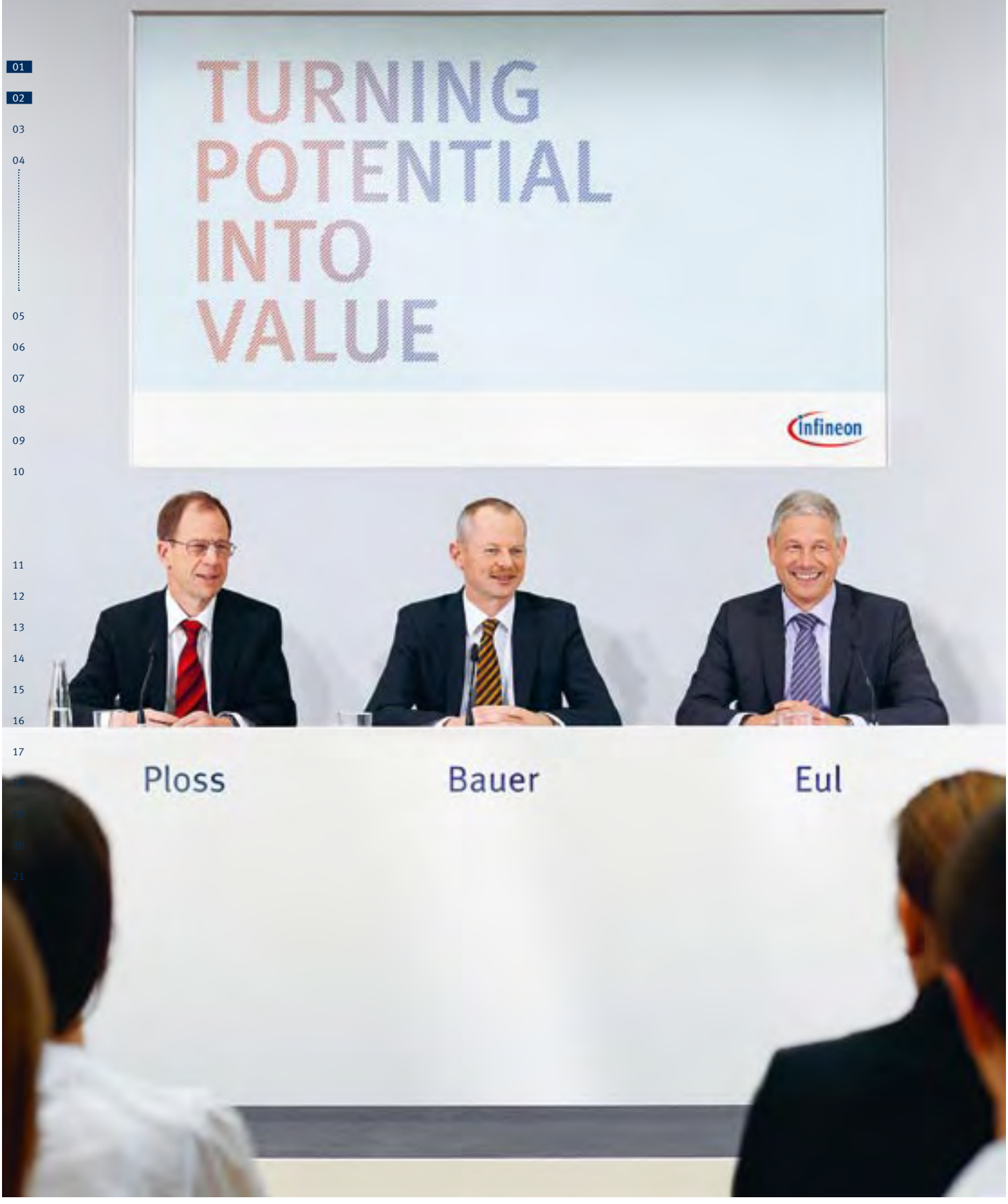
We are geared to solving the global challenges of the future:
energy efficiency, mobility, and security.

We are expanding in our target markets:
automotive, industrial electronics and security.
With ambitious targets for revenue and earnings.

This makes Infineon a valuable long-term player.
As a company. For investors.



THE MANAGEMENT BOARD OF INFINEON TECHNOLOGIES AG



PETER BAUER
CHIEF EXECUTIVE OFFICER

Dear Shareholders,

It gives me great pleasure to report that the positive trend established in the 2009 fiscal year continued in 2010. Indeed the progress made in the 2009 fiscal year, a year in which the Company managed to generate a very robust balance sheet in the face of numerous challenges, provided an excellent foundation for the fiscal year ended: helped along by measures to reduce costs and boost productivity, by further gains in market share and by the general improvement in the economic environment, Infineon grew revenue by 51 percent to 3.3 billion euros and posted a net income of 660 million euros in the 2010 fiscal year. This means that we grew considerably more strongly than the semiconductor market as a whole and that our return on capital employed was well ahead of our capital costs. Our consistency and our successful restructuring and refinancing, as well as successful activities in the market, have enabled us to emerge from the crisis not just intact, but genuinely stronger and more capable. The Supervisory Board and Management Board will propose a dividend of 10 eurocents per share at the Annual General Meeting of Shareholders in February 2011 in order that you, our shareholders, might also share in this success.

We intend to make sure the success of the last two fiscal years does not end here. Our choice of title for this year's Annual Report, "Turning Potential into Value", underlines the importance we attach to building on the improvements already apparent in our financial indicators and reinforces the fact that, for us, the 2010 fiscal year too was just another step on the path to realizing sustained long-term success and further increases in value for our owners – that is to say for you our shareholders.

Our pursuit of these lasting, long-term value gains is organized around a series of company-specific strategic principles adopted by us as the basis for an ever more competitive Infineon. Some of these principles stem from our historical strengths, while some are completely novel (further details maybe found in subsequent sections of this Annual Report):

1. The focus areas – energy efficiency, mobility and security: The Company's activities concentrate on the focus areas of energy efficiency, mobility and security. All three are of enormous importance for society as a whole and hence have the capacity to drive above-average growth over the long term.
2. Focus on target markets: The priority attached to the key issues drives growth in semiconductor solutions in the automotive sector, in industrial applications and in chip cards and security technologies. Our three divisions, Automotive, Industrial & Multimarket and Chip Card & Security, ensure that our organization is perfectly aligned with these very target markets, enabling us to make optimal use of their vigorous growth and bring the Company's innovative prowess to bear where the rewards are greatest.
3. Technological core competencies: We have stolen a march on our competitors in the fields of analog and mixed-signal circuits, embedded control and power semiconductors, and are creating further differentiation through our proprietary manufacturing processes. Now we are working simultaneously to enhance our position as technology leader in these demanding disciplines and to capitalize on this edge in the form of concrete competitive advantages, increased growth and stronger margins.
4. System know-how: Our extensive knowledge of the overall systems in which our semiconductors are used and our wealth of technical experience in advising system producers are helping us to become the preferred partner of the automotive industry. This is true for today's technology and even more so in relation to the conceptual design of future hybrid and electric vehicles. Working in conjunction with customers in industry, we are defining inverters for solar power generation, IGBT modules for highspeed trains and LED drivers for future lighting solutions. Not only that, but we have also created the next security standard for passports, identity cards and the like with our new Integrity Guard concept. The net result of all of these achievements are exceptional customer relationships leading, in turn, to an increased share of the relevant markets.

Targeting the Company's efforts according to these principles enables us to survive and prosper in the face of stiff competition. The foundation for the successful implementation of these principles is a good management team. Our management team has helped us successfully negotiate the difficulties of recent years. Collectively we have resolved to continue developing our leadership skills in order to be ready for the future. Key priorities in the coming years will be: to decentralize entrepreneurial initiatives, set ambitious targets, respond faster by slimming down our processes, and in this way steer our employees and the Company to long-term success.

Thanks to consistent portfolio management, moreover, we have been able over the last 18 months to give Infineon an even tighter focus on relatively stable growth areas and less volatile sectors where we have a leading market position. This realignment led in the 2010 fiscal year to the completion of the sale of the Wireline Communications business and the signing of a contract providing for the sale of the mobile phone business of the Wireless Solutions segment to Intel. Infineon is currently the world market leader in each of the three remaining areas – automotive, industrial electronics and security – and enjoys excellent prospects in these markets in terms of both growth and profitability.

This then is the strategic foundation on which we are now building. Pleased as we are with the results for the fiscal year ended, what we really want with this foundation is to create sustainable value for the long term and to this end we have come up with simple yet ambitious objectives: On the back of annual revenue of around four billion euros, our aim in the medium term is to achieve a gross margin in the low 40 percent range and a Segment Result margin of more than 15 percent. We want to leverage our high earning power in order to maintain a positive cash flow even in economically difficult times and strengthen our ability to make strategically important investments.

Our outlook for the 2011 fiscal year, in which we aim for an increase in revenue of almost 10 percent and a Segment Result margin in the mid to high 10 percent range, represents one of the first steps on the way to making this aspiration a reality.

Inspired by our strategic principles and objectives we want to realize returns on equity and assets capable of delivering long-term and sustainable gains in value for our shareholders. I am convinced that we can and will achieve these targets. There are good reasons for this confidence: Our target markets, which are crucial to the development of Infineon as a company, are likely to see average annual growth in excess of 10 percent over the longer term assuming general economic conditions remain healthy. We face this growth as the market leader in all of our target markets and so start from a platform of proven success in the historical evolution of what are now core business activities. Driven by a high pace of innovation, prudent investment in world-class production facilities, and continuous optimization of our portfolio and cost structures, our growth should make gross margins of more than 40 percent perfectly feasible. We intend to maintain our strict discipline in respect of overhead expenses, which should as a result rise in step with or slower than revenue. Our overriding aim with these measures is to achieve our margin target for the Segment Result.

We would like to emphasize that we have only been able to achieve such significant results with the help of our employees and that our ambitious objectives for the future will only be reached with their continued support. Our employees have remained steadfast and resolute in their commitment and dedication to the future of Infineon through all the trials and hardships thrown up by the uncertainty of the last two years – the entire Management Board wishes to express its sincere gratitude for this outstanding achievement. Now we are beginning to reap the rewards of our labors. Our corporate culture has changed significantly over the last two years and with our employees at all levels we have seized the associated opportunities with both hands to create a company ripe for sustainable long-term success.

Neubiberg, December 2010

Peter Bauer
Chief Executive Officer

THE MANAGEMENT BOARD

DR. REINHARD PLOSS

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

PETER BAUER

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

PROF. DR. HERMANN EUL

Head of Sales, Marketing, Technology and R&D
Doctorate in electrical engineering (Dr.-Ing.), Professor
Member of the Management Board since July 2005

The press conference to present Infineon's financial results for 2010 devoted particular attention to the Group's long-term prospects in the critical target markets of the future as well as reviewing the fiscal year ended. Infineon increased its revenue by more than 50 percent year on year in the 2010 fiscal year and improved overall results significantly at the same time. Infineon is thus well-positioned as a profitable, fast-growing and stable enterprise.

STRATEGY AND FINANCE

2010 was a successful fiscal year for Infineon: On the basis of revenue of 3,295 million euros from continuing operations, we generated a total Segment Result from continuing operations of 475 million euros, equivalent to a Segment Result margin of 14.4 percent.

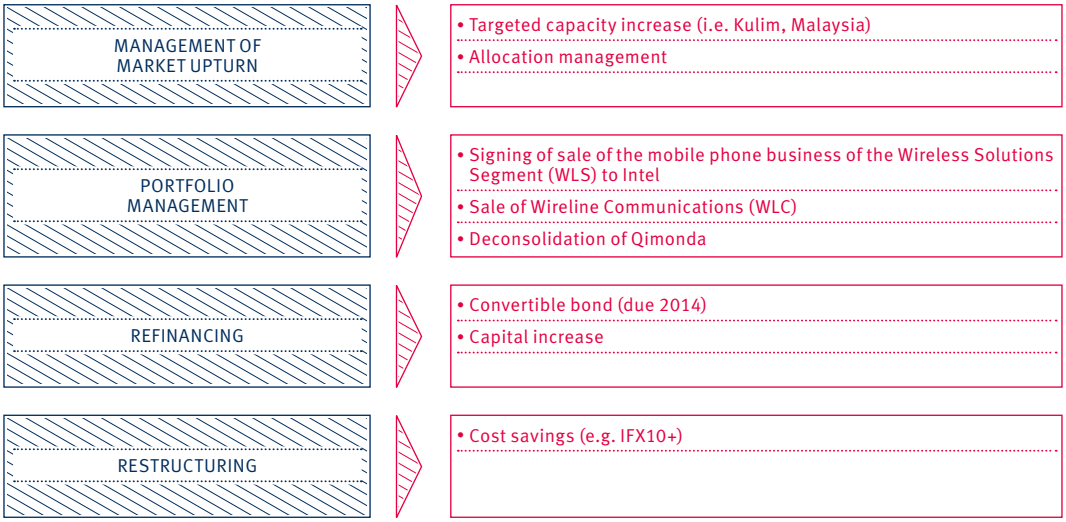
I. SUCCESS STORY CONTINUES

This means that in the 2010 fiscal year we were able to continue a success story that started back in 2008, when Infineon began to restructure the Company from the ground up and to focus on new business areas that promise above-average growth and margins. By taking various measures throughout the Company, we achieved significant improvement in Infineon's financial situation and thus greatly increased the Company's attractiveness for our investors.

The process was kick-started in the summer of 2008 with the launch of the IFX10+ cost cutting program, which brought significant cost savings. These savings helped us not only emerge from the economic crisis unscathed and remain a strong player in the semiconductor market, but also to increase our profitability.

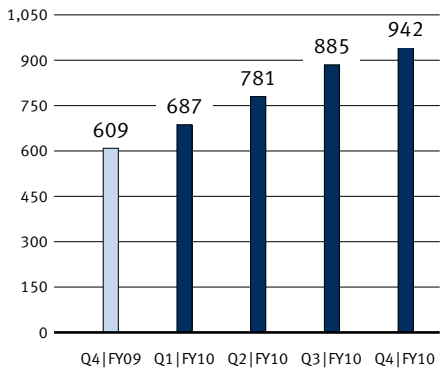
We have also actively pressed ahead with portfolio management in the last two years: In addition to the deconsolidation of Qimonda in the 2009 fiscal year and the sale of our Wireline Communications business in the beginning of the 2010 fiscal year, an agreement was signed in summer 2010 for the sale of the mobile phone business of the Wireless Solutions (WLS) segment to Intel. By taking these measures we focused Infineon on less volatile, rapidly growing target markets in which we occupy leading market positions. We are in the number one position in the global market in all three remaining core businesses, automotive, industrial electronics and security. Successful capital market measures, which generated more than 900 million euros, also helped us significantly strengthen our balance sheet as of the end of the 2009 fiscal year.

03 COMPANY RESTRUCTURING DRIVES FINANCIAL SUCCESS:
CORPORATE-WIDE PACKAGE OF MEASURES INCREASES THE COMPANY'S PROFITABILITY

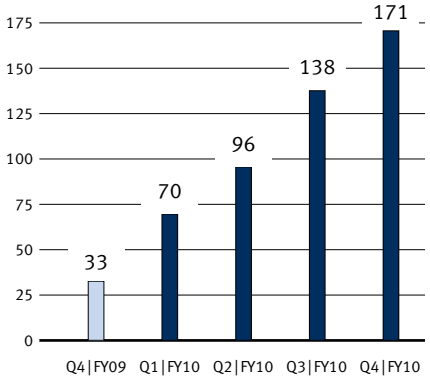


04 05 06 In the 2010 fiscal year we were able to build on the successes of the previous year and, helped along by a sharp recovery in demand, increased our revenue by 51 percent year-on-year to 3,295 million euros. As for our continuning operations, we were able to turn a total Segment Result of negative 140 million euros into a positive total Segment Result of 475 million euros. Moreover, after a net loss of 674 million euros in the 2009 fiscal year, we generated a net income of 660 million euros in the past fiscal year. Free cash flow rose in the 2010 fiscal year to 573 million euros from 274 million euros in the 2009 fiscal year. The net cash position as of the end of the 2010 fiscal year was 1,331 million euros, an increase of 674 million euros compared with the end of the crisis year 2009 (657 million euros).

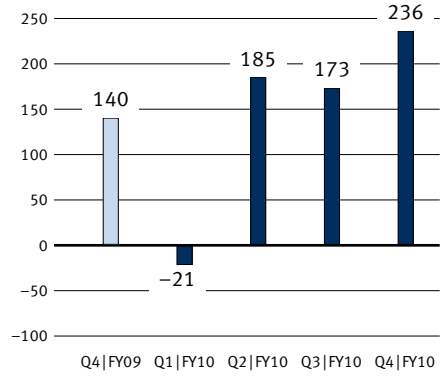
04 DEVELOPMENT OF REVENUE FROM CONTINUING OPERATIONS
€ IN MILLIONS



05 DEVELOPMENT OF SEGMENT RESULT FROM CONTINUING OPERATIONS
€ IN MILLIONS



06 DEVELOPMENT OF FREE CASH FLOW FROM CONTINUING OPERATIONS
€ IN MILLIONS



II. UTILIZE POTENTIAL – ADD LONG-TERM VALUE

We do not, however, see the successful 2010 fiscal year as our final destination, but rather as a milestone on our journey to lasting success for our Company. While in 2010 we achieved a significant increase in Infineon's profitability and further strengthened our balance sheet, we aim not only to generate sustainable profits, but also want our corporate success to become more predictable and less volatile. To achieve this, we tap into potential and skills that are represented by the following four strategic principles. Some have emerged from traditional strengths, while others have been newly defined. Whatever the case, they are intended to help us leverage the potential within the Company and translate it into value added.

1. CONCENTRATION ON THE FOCUS AREAS OF ENERGY EFFICIENCY, MOBILITY AND SECURITY

Our Company's activities are focused on the three major challenges facing society: energy efficiency, mobility and security. All three of them offer above-average growth prospects for the long term.

- **Energy efficiency**: Energy efficiency plays a key role in modern society. The world's population is constantly increasing, pushing up global demand for energy. Electricity is becoming the most important energy carrier of the 21st century. Firstly because the supply of fossil fuels is set to decline in the foreseeable future, and secondly because electricity can be transmitted quickly and cost-effectively and can be converted efficiently.

  Semiconductors from Infineon increase energy efficiency at all stages of the value chain in the energy industry: in the generation, the transmission, and especially the consumption of electrical energy. They form the basis for the intelligent and optimized use of energy in industrial applications, power supplies for computers and consumer electronics, as well as in automobiles. The use of semiconductors helps reduce CO_2 emissions and thus meet the global climate targets. Increasingly, renewable energies are also used as sustainable sources of energy. All these factors drive our business in the areas of industrial applications as well as automotive electronics.

- **Mobility:** People's mobility requirements are another major challenge of modern society. This trend strengthens in particular our business with semiconductor solutions for the automotive industry.

  But increasing urbanization also increases demand for reliable public transport. For a large number of train systems, Infineon supplies the power semiconductors for drive controls, thus facilitating people's mobility within and between urban centers. We seek to develop ever more compact solutions for high-speed trains, trolley buses, metropolitan trains, and electrically powered bicycles so that we can offer our customers greater functionality with higher power density.

- **Security:** The demands on secure data systems are constantly increasing, and this benefits Infineon's business with hardware-based security solutions. Our semiconductors make it possible to uphold the world's most stringent security standards. They ensure that exchanges of data, financial transactions, logistic systems and border controls are easier to use and maintain, as well as being more secure.

  Other areas of application are electronic passports, ID documents and payment cards, and increasingly also other security applications that go beyond chip cards.

2. COMPANY'S FOCUS ON TARGET MARKETS

The dynamics of the focus areas mentioned above are driving the market growth for semiconductor solutions in automotive and industrial applications as well as chip card technologies. Through its three divisions, Automotive, Industrial & Multimarket, and Chip Card & Security, the Company's organization tracks these target markets in order to make optimal use of their growth potential.

- **Automotive:** In its Automotive (ATV) division, Infineon covers the major automotive applications: powertrain, safety and comfort electronics. The semiconductor products required in these applications are microcontrollers, sensors and power semiconductors. With a global market share of 9 percent, Infineon is world number one in the automotive electronics market (source: Strategy Analytics, April 2010). This success is driven by a close working relationship with customers, innovative products and technologies, and system know-how, and one of the best quality assurance programs in the industry.

- **Industrial & Multimarket:** Infineon is the only company worldwide to offer power semiconductors and power modules for the entire electrical energy chain, from generation, through transmission, to consumption. These products – in particular IGBT modules, discrete and integrated power semiconductors – have been combined under the roof of the Industrial & Multimarket (IMM) division. The product portfolio also includes small-signal transistors and diodes as well as radio-frequency (RF) components and modules with a protective function. Infineon is the world's number one in power semiconductors with a market share of 11 percent (source: IMS Research, July 2010).

- **Chip Card & Security:** We supply microcontrollers for the SIM cards in mobile phones, security chips for payment cards, and chip-based solutions for passports, ID documents, driver's licenses, and other official documents. In addition, we develop solutions for applications with strict security requirements, such as pay TV and trusted computing. Our chip solutions, which serve all the above areas of application of our customers, fall under the Chip Card & Security (CCS) division. With a market share of 27 percent, our Company was the global market leader in chips for card applications in 2009 for the 13th year in succession (source: Frost & Sullivan, October 2010).

3. TECHNOLOGICAL CORE COMPETENCIES

We see our technological core competencies in the three disciplines of analog and mixed-signal circuits, embedded control, and power semiconductors. What gives us this confidence is that we have developed special proprietary manufacturing processes for all three disciplines, optimally tailored to the respective circuit requirements. The combination of circuit design know-how and optimized manufacturing processes has made us the preferred semiconductor supplier of many customers.

- **Analog and mixed-signal circuits:** For technical and financial reasons it is often necessary to house not just the digital logic, but, depending on the application, also analog circuit units, such as sensors, interfaces, and power electronics, on one chip. Implementing complex function blocks using leading-edge production technologies enables semiconductor devices to be built that are specifically tailored to the customer's requirements. Since fewer components are required, the vulnerability of such control systems to faults is reduced. These competencies are used in applications such as our new SPT9 manufacturing process (ninth-generation smart power technology), which allows us to accommodate all the control functionality for a power window lifter on a single chip, for example.

- **Embedded Control:** Embedded control is an application-specific microcontroller integrated on a chip, combined with interface components and a nonvolatile memory (embedded flash). These types of chips can be used to control complex applications by means of software. The challenge is to adapt the computing power of the microcontroller, the combination of the interfaces, and the memory to the customer's specific application in the most cost- and energy-efficient manner possible. Such embedded control solutions are used in microcontrollers for industrial and automotive applications, for example. It is likewise very important in hardware-based security for the requirements for the particular area of application to be in perfect balance. In particular in applications using contactless transmission, the trick is to reconcile diverse criteria such as computing power, electricity consumption and security while achieving the lowest cost point each time.

- **Power semiconductors:** Power semiconductors are used to switch and control high currents and high voltages, i.e. high electrical loads. Infineon is the only company in the world to offer power semiconductors and power modules for the entire electrical energy chain, encompassing generation, transmission and conversion. Maximum efficiency and thus minimum heat generation, as well as compact package design are the hallmarks of our products. A high degree of efficiency and system miniaturization is impossible to achieve without excellent manufacturing technology. The global leadership of our thin wafer technology is proof of our top position in manufacturing technologies for power semiconductors.

P. 61 T

4. SYSTEM KNOW-HOW

Infineon's profound understanding of its customers' semiconductor-based systems is virtually unmatched by other semiconductor manufacturers. 25 years of experience in security chips and around 40 years of systems expertise in automotive and industrial applications have made us the preferred partner of our customers. Here are three examples:

Due to the many sensors, control circuits and networked control units, modern passenger cars are already highly complex. For **hybrid cars**, the combination of combustion engine and electric motor significantly adds to their complexity. Only if the interaction of electric motor and combustion engine is optimized and thus works efficiently can the development and use of this new vehicle category be justified. The same applies to **all-electric cars**. The main challenges of these two vehicle types are the electric drive motor control, battery management, and the charging unit. We serve all these areas of application, mainly with our power semiconductors but also with microcontrollers and sensors, thus contributing to their optimization.

Inverters play an important role in the generation of solar power. They convert the direct current generated in the solar modules into alternating current and feed it into the electricity grid. Although the inverters of our customers already achieve an efficiency rate of more than 90 percent, further improvements are being developed. This is because any increase in efficiency reduces power loss, thus lowering system costs for our customers and increasing their competitive advantage. In close consultation with our customers we supply the power components, such as IGBT, MOSFET and silicon carbide (SiC) components, suited to their inverter topologies. Further efficiency gains at this high level can only be achieved if all the components operate in harmony with one another.

S. 59 T

A system-wide view is also essential for security-critical applications. Attackers often target the weakest link in the chain. It is with this in mind that we have created **Integrity Guard**, a new security standard for official documents, payment cards and the like. With Integrity Guard, the security controller offers comprehensive error detection and complete encryption over the whole data path in the chip. The processor core consists of two units that monitor each other all the time and detect immediately whether or not a computing operation has been performed correctly. Another technical innovation of Integrity Guard is that it uses encrypted data for computing in the processor core itself, thus eliminating one of the weaknesses of conventional security controllers, which unencrypt data before processing it, thus briefly making it visible in plain text and exposing it as a worthwhile target for potential hackers.

The strategic principles described earlier are supported by our High Performance Program aimed at turning our Company into an organization of excellence, which delivers outstanding service on a permanent basis and meets or exceeds the expectations of all its stakeholders. Potential for improvement is identified and realized on the basis of selected key projects and with the involvement of employees. In addition to cultural aspects of the consistent excellence claim, it is above all internal structures and processes that are enhanced in key projects. This helps us deal more flexibly with market fluctuations and continue on Infineon's steady growth path in emerging markets by increasing our focus on regional requirements.

01 02 03 04 05 06 07 08 09 10 11 12 13 14 15 16 17 18 19 20 21

07 OUR TARGET OPERATING MODEL

	FY 2009	FY 2010	Target
Revenue	2.2 bn €	3.3 bn €	~4 bn €
Gross margin	22.8%	37.5%	Low 40ies %
Segment Result margin	(6.4%)	14.4%	High teens %

III. OUR TARGET OPERATING MODEL

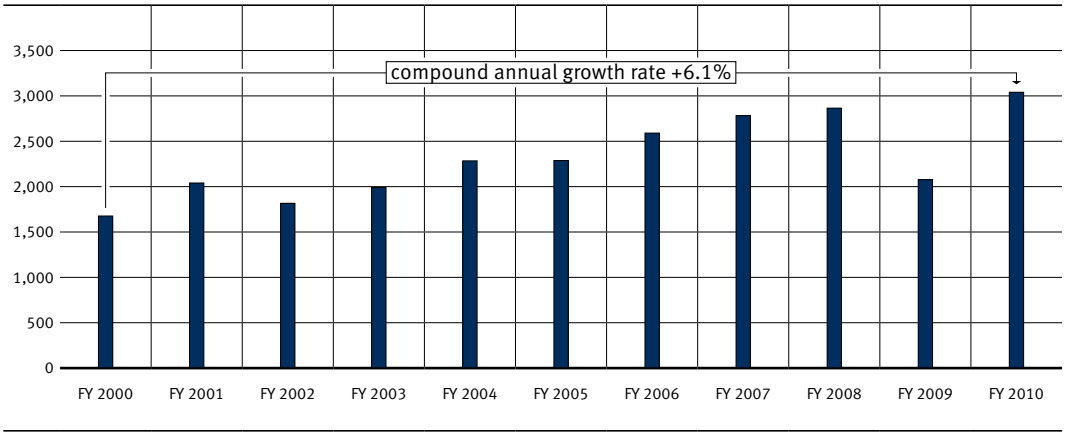
As described, our business actions are based on four strategic principles:

- We focus on the three major challenges faced by society: energy efficiency, mobility and security.
- We align our organizational structure with the target markets in which our customers operate.
- Through our technological core competencies, we strive to set ourselves apart from the competition.
- We generate further competitive advantages through our extensive system know-how in the applications addressed by our customers.

Focusing on our strategic principles is the prerequisite for ensuring sustained profitable operations at a high level. Based on the above, we aim for an operating model that enables us to generate value for our customers on a permanent basis.

In our target operating model, we have set ourselves an annual revenue target of around 4 billion euros, a gross margin in the low 40ies percentage range, and a Segment Result margin in the high teens percentage range. Achieving these financial targets will bring us a return on capital employed that is greater than our average capital costs.

08 **DEVELOPMENT OF COMBINED REVENUE FOR THE AUTOMOTIVE, INDUSTRIAL & MULTIMARKET AND CHIP CARD & SECURITY SEGEMENTS IN THE 2000 TO 2010 FISCAL YEARS**
€ IN MILLIONS



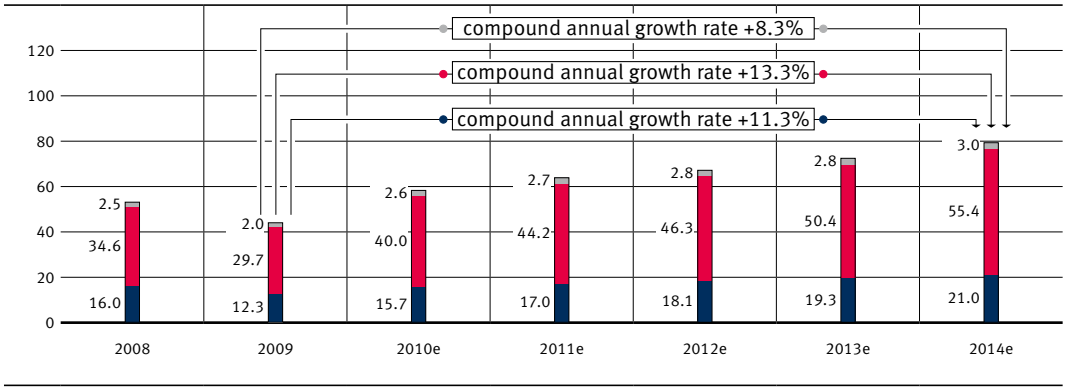
IV. GROWTH AND PROFIT PROSPECTS OF OUR PORTFOLIO

The sale of the Wireless mobile phone business marks a new chapter in our Company's history. To highlight the growth and profit prospects of the remaining core business, the chart above shows the development of revenue and Segment Result for Automotive, Industrial & Multimarket, and Chip Card & Security.

As the figure 08 reveals, the average growth rate of Infineon's three core businesses over the 11-year period between 2000 and 2010 is slightly above 6 percent. Apart from the 2009 fiscal year, these segments showed low volatility and were profitable. The operating result of our Industrial & Multimarket segment, for example, was negative in only one out of 44 quarters; the Automotive segment returned a negative result in only three quarters.

01 02 03 04 05 06 07 08 09 10 11 12 13 14 15 16 17 18 19 20 21

09 GLOBAL AUTOMOTIVE, INDUSTRIAL ELECTRONICS, AND CHIP CARD SEMICONDUCTOR MARKET
$ IN BILLIONS



Source: iSuppli, September 2010

According to the latest market studies, the growth prospects for the three core businesses are also very positive in the years to come.

09 The following compound annual growth rates are expected for our three target markets for the period 2009 through 2014: 11.3 percent for Automotive, 13.3 percent for Industrial & Multimarket, and 8.3 percent for Chip Card & Security.

We are the market leader in all three segments and believe that we can manage Infineon in its new core segments in the future so that it is sustainably profitable and less volatile. In the following we provide a more detailed explanation of our confidence for each segment.

AUTOMOTIVE

The 2009 fiscal year was characterized by a collapse in the global economy, a 12 percent decline in production in the automotive industry in calendar year 2009, and additionally a 23 percent decrease in revenue generated with automotive semiconductors in the same period.

The picture that presents itself for the 2010 fiscal year is, however, completely different: The recovery of the global economy means that car production should even exceed the level reached in the pre-crisis fiscal year 2008. The car manufacturers are currently benefiting from growth in China, India, Russia and Brazil – and not, as in the previous year, from government-financed scrapping premiums in Western Europe. The situation has thus turned around completely within a period of twelve months. Moreover, there was particularly strong demand from China and all over the world for higher-end vehicles, in which the value of semiconductors used is higher than average.

GROWTH POTENTIAL AND GROWTH DRIVERS FOR AUTOMOTIVE

Market research company iSuppli expects an average growth rate of 11.3 percent for the automotive semiconductor market for the period between 2009 and 2014, slightly ahead of the corresponding 9.0 percent growth rate in car production (source: CSM, November 2010) and the 9.2 percent anticipated for the semiconductor market as a whole.

We regard the following trends as the main growth drivers in the automotive segment: electrification of powertrain, greater safety and more stringent CO_2 requirements, as well as cost-efficient cars in emerging economies.

ELECTRIFICATION OF POWERTRAIN

Electromobility will be one of the most significant developments in the automotive industry in the coming years. According to a study by Boston Consulting, vehicle numbers will double to 2 billion in the next 40 years. Without fully electric drives, the world's climate will not be able to cope with this increase in motorized transport. Currently, around 30,000 hybrid and 1,600 electric cars drive on Germany's roads. It is expected that the total number of these types of cars will rise to one million by 2020. A mid-range vehicle contains semiconductors worth a total of 300 U.S. dollars; in a hybrid or electric car, the semiconductor content increases by 600 to 700 U.S. dollars, depending on engine capacity and features.

Infineon will benefit from being the market leader not only in the automotive semiconductor market, but also in power semiconductors – the key components for hybrid and electric drives. Thanks to the comprehensive system know-how of our developers, hardly any of our competitors know the needs of our customers as well as we do. We aim to be the leading chip provider in the future electromobility market. We expect the electromobility segment to generate revenue in the hundreds of millions by the end of the decade.

Electromobility is highly significant for Infineon even outside the car. In this area, Infineon offers microcontrollers, Hall sensors, and special power semiconductors, such as power transistors and voltage regulators. With the 8-bit microcontrollers in the XC800 family for e-bikes, i.e. electrically powered bicycles, Infineon has advanced to a market share of about one third within just three years: Around eight million e-bikes controlled by Infineon semiconductors were sold in 2009 – primarily in China – and the trend is sharply upward. In addition to the Asian market, there is huge potential also in the European market.

GREATER SAFETY AND MORE STRINGENT CO_2 REQUIREMENTS

Greater safety means more sensors that can provide information about a wide variety of safety-relevant events. Our product focus for safety applications is on airbags, side impact protection, electronic power-assisted steering, seatbelt tensioners, ABS/electronic stability program (ESP), electronically controlled chassis systems, radar-based driver assistance, and tire pressure monitoring. Infineon regards itself as the global market leader in tire pressure sensors and pressure sensors for side-impact airbags.

Compliance with more stringent CO_2 requirements (such as the Euro 6 standard already approved in Europe) requires not only more sensor technology, but also more computing power. Turbochargers are used to get higher engine output from engines with smaller cylinder capacities and often also a smaller number of cylinders, while reducing consumption at the same time. Spark ignition and diesel engine downsizing is the name given to this development step. These improvements affect the entire control loop, from the sensors through computing power to the control electronics. This makes processes even more precise: The amount of fuel injected is already measured in milliliters and the control times in microseconds.

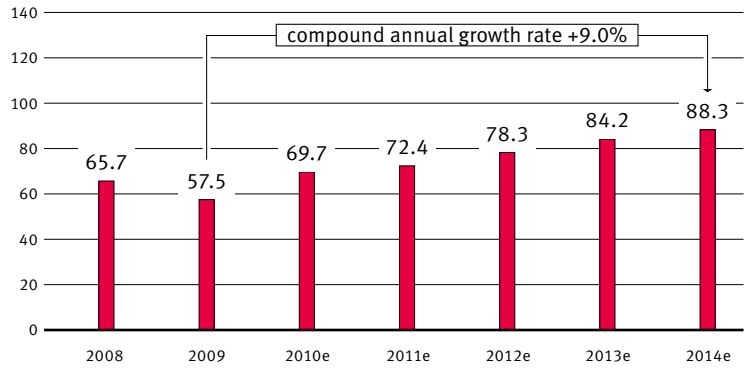
Our 32-bit AUDO Future and AUDO MAX controllers have been specifically developed to meet the requirements in engine and transmission control applications. Our 32-bit automotive controllers ensure a low-emission drive in every third automobile manufactured around the world.

AFFORDABLE CARS IN EMERGING ECONOMIES

In China, each household already has more than one mobile phone. 97 percent of urban households have a washing machine. Over 50 percent of households have a computer. But only 6 percent own a car. An increase in the standard of living has led to significant growth in demand in Asia, above all in China and India. By 2020, there will be more cars on China's roads than in any other country.

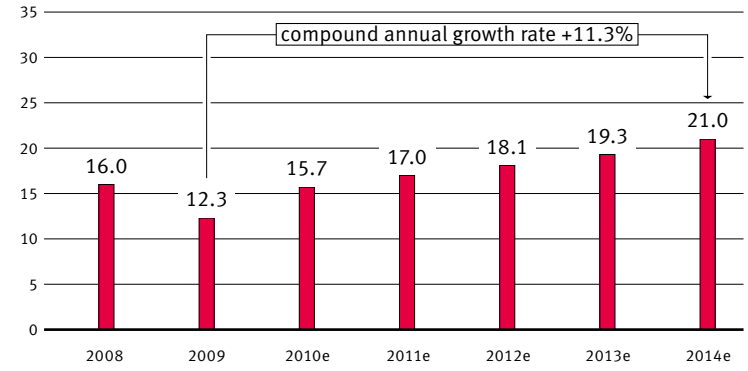
Together with our customers we are striving not just to design vehicles that match people's requirements but also to hit cost targets. For example, we have adapted a variant of our 32-bit TriCore™ family to fit the specific requirements for the emerging markets.

10 **WORLDWIDE CAR PRODUCTION**
MILLIONS OF UNITS



Source: CSM, November 2010

11 **AUTOMOTIVE SEMICONDUCTOR MARKET**
$ IN BILLIONS



Source: iSuppli, September 2010

STRONG CUSTOMER LOYALTY, HIGH ENTRY BARRIERS, IMPROVED PROFITABILITY

High quality requirements lead to strong customer loyalty and high entry barriers. No new competitor has joined the major market players in the past ten years. The market is divided among European, U.S., and Japanese manufacturers. In 2009, Infineon occupied the number one position in the automotive semiconductor market, with a market share of 9 percent.

Our IFX10+ program significantly improved the profitability of this segment. With revenue of 340 million euros in the fourth quarter of the 2010 fiscal year, our Automotive segment generated a Segment Result margin of 17.1 percent. In the fourth quarter of the pre-crisis year 2008, the segment had achieved a margin of 6.7 percent on revenue of 312 million euros.

INDUSTRIAL & MULTIMARKET

According to estimates by market research company iSuppli for the Industrial & Multimarket segment, the pre-crisis level in the market for semiconductors for industrial applications will already be exceeded in the current year. For the period from 2009 to 2014, iSuppli estimates a compound annual growth rate of about 13 percent in the market for industrial semiconductors.

As an example from the area of power electronics, figure 13 shows the market development predicted by market research company IMS Research for modules for the variable speed drive control of electric motors in industrial applications – one of the growth drivers of our industrial portfolio. This market is expected to expand at an average rate of 13.0 percent a year.

In the area of industrial semiconductors, Infineon offers above all power electronics products, i.e. components, mostly power switches, that are used at different points in the power supply chain for converting and managing currents and voltages and for controlling motors.

GROWTH POTENTIAL AND GROWTH DRIVERS FOR INDUSTRIAL & MULTIMARKET

Three macroeconomic trends play a key role for our industrial electronics business: the industrialization of emerging economies, global efforts to reduce CO_2 emissions, and the urbanization of metropolitan areas. Electricity, the most important energy carrier of the 21st century, is the focal point of all three trends. Our components play a role wherever electrical energy is generated, transmitted or consumed. Voltages and currents are converted and managed at all these points of the electrical value creation and consumption chains. Based on the three macroeconomic trends, we regard the following as growth areas for our Industrial & Multimarket segment:

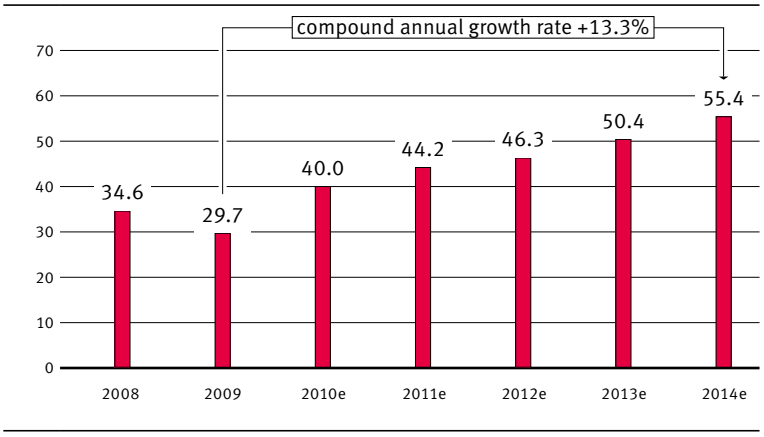
RENEWABLE ENERGIES

Boosted by national subsidies in Germany granted under the “Erneuerbare-Energien-Gesetz” (German Renewable Energy Act) and export opportunities due to rapid expansion rates abroad, wind energy is a dynamically growing business area for plant manufacturers, and thus for Infineon as a supplier. Market researcher IHS EER believes that by the end of the year wind turbines with a total output capacity of 190 gigawatts will be installed around the globe. Of this capacity, 35 gigawatts will have been newly constructed in 2010. Further double-digit growth is expected for 2011. For example, 5,000 wind turbines with a capacity of 25 gigawatts are to be built in the German sectors of the North Sea and the Baltic Sea over the next 20 years. Built for maximum reliability, our robust switches, known as IGBT modules, are found in the nose of wind turbines manufactured by companies such as Enercon, Goldwind, Siemens and Vestas, as well as in inverter platforms.

In addition, Germany is the world’s largest market for photovoltaics (PV). Around half of the world’s installed PV capacity is built in Germany. For 2011, market research company iSuppli expects this capacity to grow by another 44 percent to 9.5 gigawatts of newly installed capacity, following an expansion of more than 70 percent in 2010. In addition to Germany, the markets in Italy, France, and the United States are also expected to expand sharply. iSuppli forecasts that the global PV market will grow by a healthy 43 percent to 20 gigawatts in 2011.

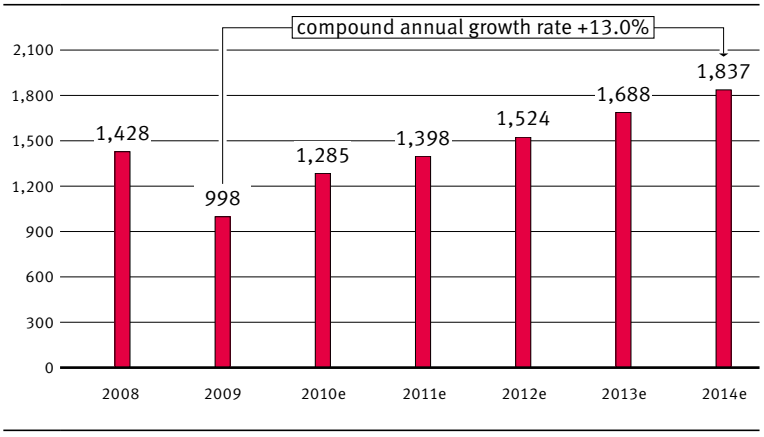
To our customers, which manufacture inverters for feeding solar energy into the grid, we supply IGBT, MOSFET and SiC components. This allows our customers in this sector – such as SMA Solar Technology – to achieve world-record-breaking efficiency levels.

12 INDUSTRIAL ELECTRONICS SEMICONDUCTOR MARKET
$ IN BILLIONS



Source: iSuppli, September 2010

13 POWER MODULES FOR ELECTRIC MOTORS IN INDUSTRIAL APPLICATIONS
$ IN MILLIONS



Source: IMS Research, July 2010

INFRASTRUCTURE FOR ENERGY SUPPLIES

The proportion of renewable energy from sources such as wind or the sun is set to increase. However, since the occurrence of wind and sun is difficult to forecast and power generation from these sources can therefore be unpredictable and volatile, the integration of renewable energies into the power grid poses the greatest challenge to be faced by the energy sector in the coming years. One problem with integrating renewable energies is that it is not possible to store the generated energy. For the grid to be stable, the amount of energy generated has to match the amount consumed at all times. To ensure this balance, the whole supply grid has to be designed in such a way that conventional power plants can increase or decrease their output quickly, in line with the power consumed in the grid and the power generated from renewable energy sources.

The smart grid, as this new power network of the future is called, requires new power supply lines to be built. In addition to simply transporting energy, this grid will also have to facilitate smooth communication between energy utilities and consumers. A basic component of the smart grid is a digital consumption meter, also known as a smart meter. Smart meters and the corresponding communication-capable home appliances are the extensions of the smart grid into consumers' homes. Smart meters send consumption data through the data network and simultaneously inform consumers in real time how much energy they are consuming and what it costs. In all of this, secure, i.e. encrypted, communication that cannot be accessed or manipulated by third parties is an important prerequisite. Infineon offers end-to-end solutions for security as well as for data and energy transmission.

In addition to the smart grid, the expansion of conventional power supply grids is also driving demand. This is particularly relevant in emerging economies such as Brazil, Russia, China or India, which tend to have long distances between where the power is generated and the fast-growing metropolitan areas where it is consumed. Over long distances it makes sense to use the low-loss technology of high-voltage direct current (HVDC) transmission. HVDC transmission is also used to connect offshore wind farms. It requires the most powerful semiconductor components in Infineon's portfolio: IGBT modules and bipolar components such as thyristors. Our customers include Siemens and Alstom Grid.

RAIL TRANSPORT

Rail transport is enjoying a renaissance. Vast new tracks are being built In China, India, Brazil, on the Persian Gulf, in Europe, and even in the United States. 30,000 kilometers of rail track are currently under planning or construction around the world. In Europe, countries such as Spain and Italy are building high-speed tracks. As part of a huge economic stimulus program, China is investing the equivalent of 80 billion euros in the rail system. The United States is also planning to use funds from its economic stimulus program to expand its rail network with a focus on public transport. New railroad lines are being planned throughout the country, including high-speed lines like those in Europe, for example between Los Angeles, San Francisco and Sacramento.

The rail renaissance is driven by two factors: Firstly, rail technology has progressed. Not only Europe, but also and in particular Japan provides excellent examples of how fast and easy modern trains can be, especially for medium distances. Simultaneously, time-consuming security checks have made air travel less attractive than it once was. In addition, airports and roads, especially in the major conurbations, are increasingly reaching the limits of their capacity.

Virtually all new lines are based on electric trains. This benefits us, because we supply the components used in electric drives. Infineon supplies IGBT modules controlling the powerful electric motors to major rail manufacturers like Siemens, Alstom or Bombardier. In Spain, Russia, and – since 2008 – also in China, for example, each Velaro from Siemens, the international equivalent of Germany's ICE train, has power semiconductors worth between 50,000 and 100,000 euros on board.

SPEED CONTROL FOR ELECTRIC MOTORS

Our power electronics components are also used in speed control of electric motors (variable speed drives – VSDs) in drives, pumps and ventilators. The purpose of VSDs is to match the output of electric motors continuously and exactly to the load. Overall, this uses energy more efficiently and typically reduces power consumption by 30 to 40 percent. The market penetration of VSDs is still very low at present. According to estimates published by ZVEI (Zentralverband Elektrotechnik- und Elektronikindustrie e.V., the German Electrical and Electronic Manufacturers' Association), VSDs have a share of 20 percent in Europe and of only 5 percent globally. Although their share in new investments is also still low (in Germany it has edged up to 25 percent), there is a distinct upward trend, because investments have short payback periods due to the rise in energy prices. This sector can look forward to decades of potential growth.

For electronic drive speed control, we offer IGBT modules covering a wide power range, from a few hundred watts to megawatts. Our solution offering is complemented by microcontrollers optimized for motor control as well as IGBT driver components.

POWER SUPPLY

The power consumption of data centers is approaching that of major cities. Data centers and server farms, which store billions of web pages, e-mails, social contacts, blog entries, images, or videos, have a voracious appetite for electricity. Today, the largest data centers consume between 50 and 100 megawatts of power, equivalent to the consumption of 80,000 households. This has turned electricity into the largest single cost factor in data center operation.

Increasing the efficiency of power supplies on the scale that can be achieved with our CoolMOS™ high-voltage power transistors can make a very significant contribution to reducing costs and CO_2 emissions. Power supply efficiency can be further enhanced by introducing digital power management in server power supplies in the 500-watt to 1,000-watt category.

QUALITY AND RELIABILITY HAVE MADE US MARKET LEADER FOR THE SEVENTH TIME IN SUCCESSION

With a market share of 11 percent, Infineon was the leader in the power semiconductor market for modules and discrete components for the seventh time in succession in 2009. This market share and the fact that our power electronics products are designed with quality and reliability in mind have put us in pole position to benefit from the growth potential in our target markets.

Through the IFX10+ program, the Industrial & Multimarket division has also made significant headway toward greater profitability. With revenue of 413 million euros in the fourth quarter of the 2010 fiscal year, the division generated a Segment Result margin of 23.7 percent. By comparison, in the fourth quarter of pre-crisis fiscal year 2008, the division had achieved a margin of 17.2 percent on revenue of 325 million euros.

CHIP CARD & SECURITY

Market research company iSuppli predicts that the semiconductor market for chip cards will only return to pre-crisis levels in 2011. For the period from 2009 to 2014, iSuppli estimates a compound annual growth rate of 8.3 percent. In this segment, Infineon provides security chips for applications such as electronic travel and identity documents, payment cards, contactless electronic tickets for local public transport, SIM cards, as well as for applications such as trademark protection or secure machine-to-machine communication.

GROWTH POTENTIAL AND GROWTH DRIVERS FOR CHIP CARD & SECURITY

Electronic travel and identity documents, payment cards and embedded security are the main growth drivers of our Chip Card & Security segment. Figure 15 shows the market development up to 2014 for electronic government identity documents as estimated by market research company IMS Research. For the period from 2009 through 2014, IMS Research expects unit numbers to grow by an average of 10.6 percent per annum.

ELECTRONIC IDENTITY DOCUMENTS

There is a clear global trend toward the use of security chips in identity documents, which began with the introduction of electronic passports a few years ago. Today, ID documents, healthcare cards and driver's licenses also have integrated security chips. The security and life cycle requirements of these products are much greater than for high-volume products such as SIM cards. This is why they have higher entry barriers, command higher average selling prices, and are less exposed to price erosion. At the same time this market is one of the fastest-growing areas of application for security chips.

PAYMENT CARDS

The trend toward secure cashless payments is another driver in the Chip Card & Security segment. For example, only around 20 percent of all EC and credit cards have a security chip – although the trend is clearly upward.

Among people living in large cities in rapidly expanding economies, quick and easy payment with contactless cards enjoys increasing popularity. In addition to paying small amounts, these cards can also be used as tickets in local public transport systems. We have identified additional growth potential in the use of near field communication (NFC) technology, which is to facilitate payment by mobile phone – initially for public transport tickets.

EMBEDDED SECURITY

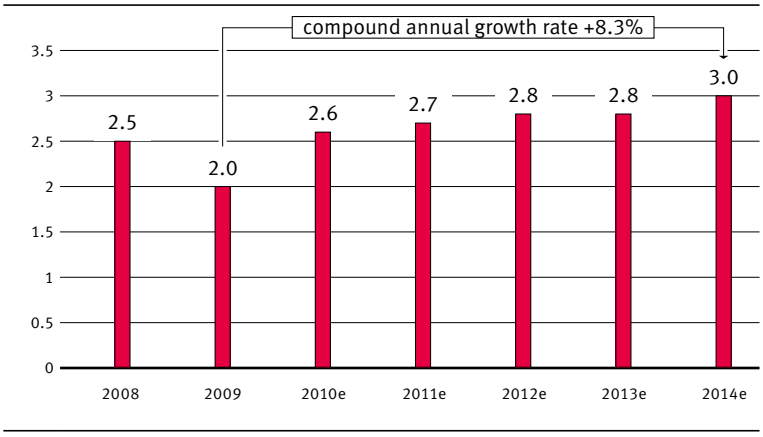
Embedded security enables applications that are intended to prove the authenticity of data or products on the basis of security chips. Large and small firms around the world want to clarify that what they ship to their customers are genuine products, not counterfeits. The products tested for authenticity range from medicines through memories to machine parts.

Data authenticity is also critical for the success of the energy supply grid of the future, the smart grid. As explained, smart meters will allow energy utilities to read their customers' authentic consumption data remotely. Secure data transfer will be a critical factor for their success.

INFINEON GLOBAL MARKET LEADER FOR THE 13TH TIME IN SUCCESSION

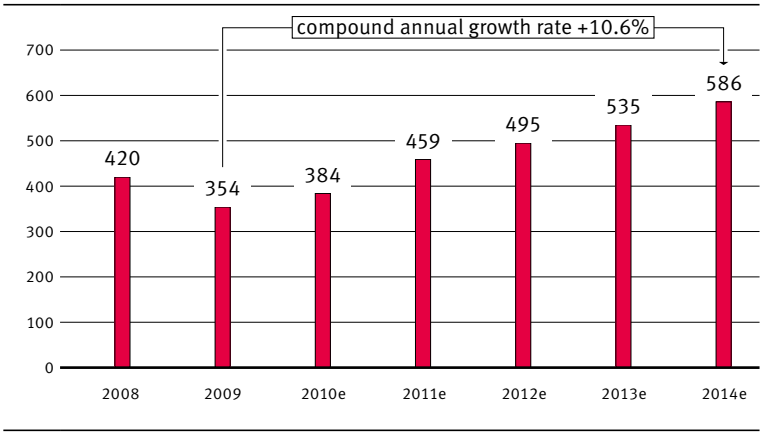
With a market share of 27 percent in 2009, Infineon was number one in the global market for security chips for the 13th time in succession. Our longstanding major customers Gemalto, Giesecke & Devrient,

14 CHIP CARD SEMICONDUCTOR MARKET
$ IN BILLIONS



Quelle: iSuppli, September 2010

15 ELECTRONIC GOVERNMENT IDENTITY DOCUMENTS
$ IN MILLIONS

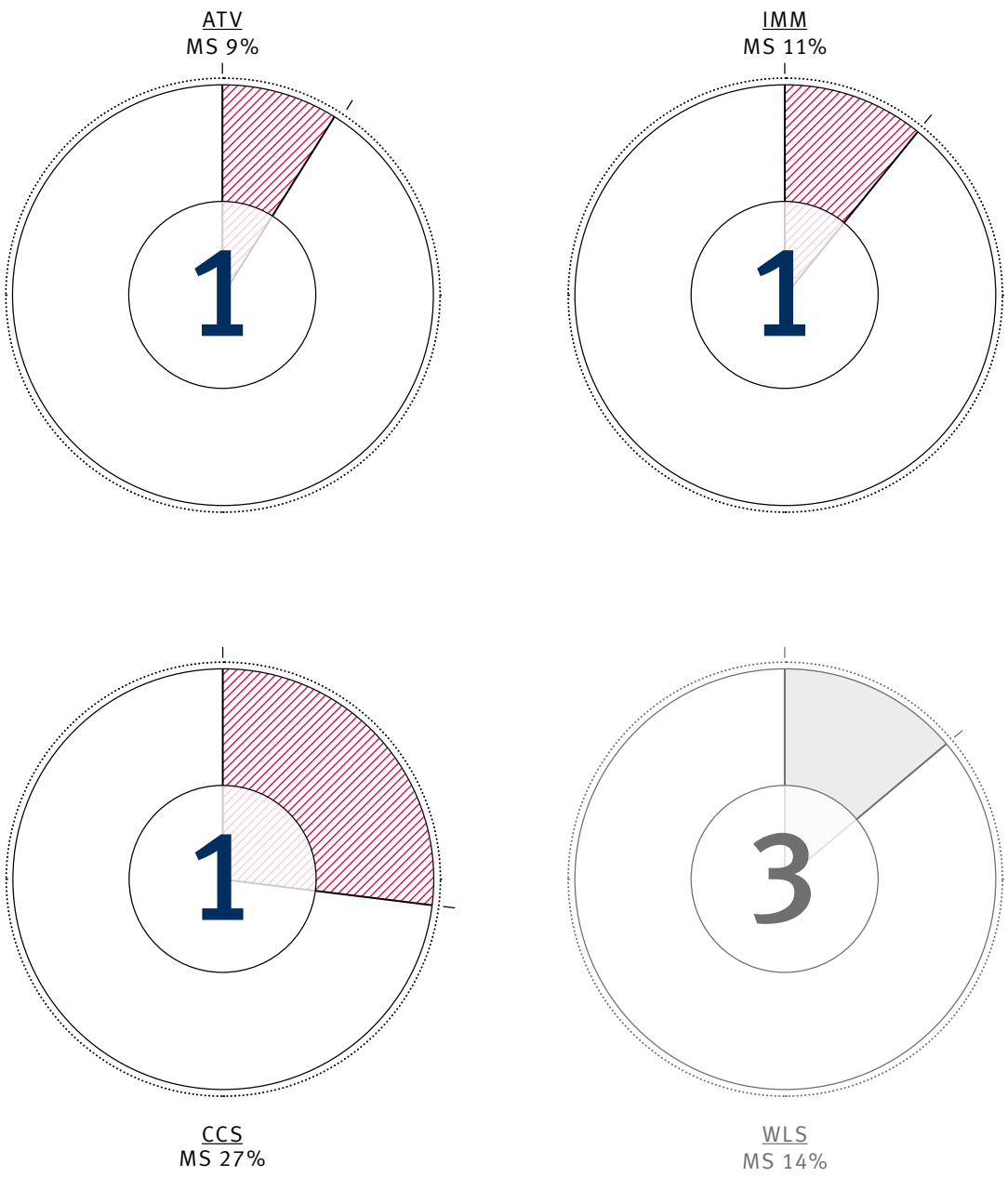


Quelle: IMS Research, July 2010

and Oberthur are themselves market leaders in their respective card segments and put their trust in us in the 2010 fiscal year.

Our IFX10+ program has helped us since summer 2008 to significantly reduce costs in the Chip Card & Security segment. These efforts are complemented by active product portfolio management, as part of which Infineon prioritizes high-growth, more profitable products, while selectively withdrawing from markets that tend to stagnate or generate poorer margins. The focus of the Chip Card & Security division is less on growth and more on improving profitability.

Thus, with revenue of 115 million euros in the fourth quarter of the 2010 fiscal year, the division generated a Segment Result margin of 10.4 percent. This compares with a margin of 5.2 percent achieved by the division on revenue of 115 million euros in the fourth quarter of the 2008 fiscal year.



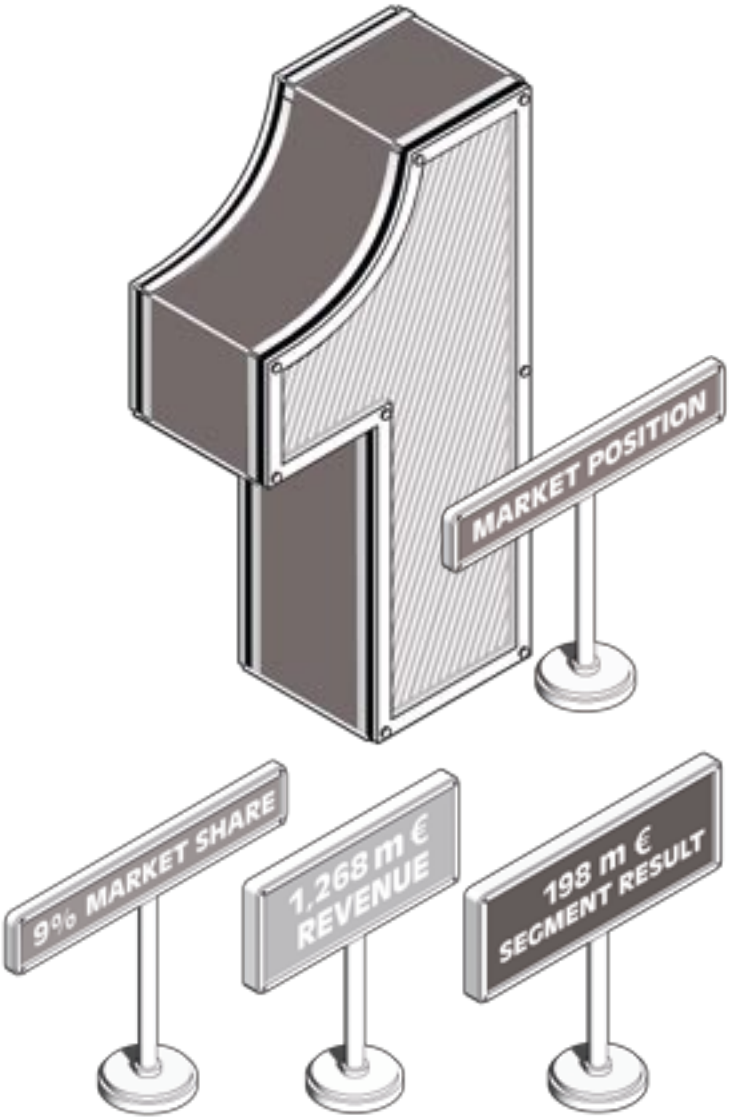
16 GROWTH IN THE MARKET: LEADING POSITION, HIGH MARKET SHARE (MS)

PRODUCTS AND APPLICATIONS

MILLIONS OF PEOPLE TRUST OUR PRODUCTS DAILY – WHETHER THEY‘RE AWARE OF IT OR NOT.

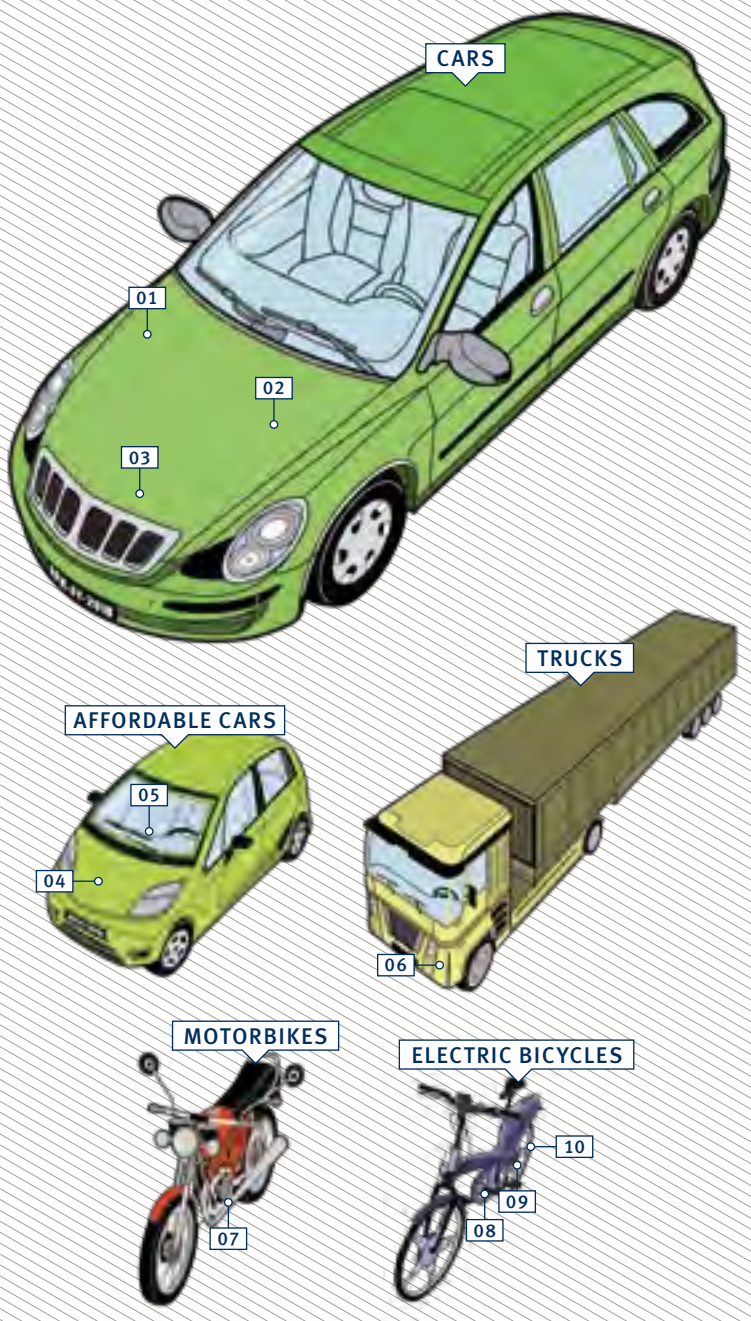
AT HOME, IN THE OFFICE, WHEN TRAVELING.

WHETHER IT‘S IN THE INDUSTRIAL CONTEXT OR FOR RECREATIONAL USE, OUR SEMICONDUCTOR SOLUTIONS ENSURE ENERGY EFFICIENCY, MOBILITY AND SECURITY WITHOUT BEING NOTICED.



17 DIVISION AUTOMOTIVE

POWERTRAIN



01 / 32-bit microcontroller for engine and transmission control

02 / Air pressure sensor for air-fuel mix optimization and CO_2 reduction

03 / Hall sensor for crankshaft and camshaft position detection for automated start/stop

04 / 32-bit microcontroller for engine management

05 / 16-bit microcontroller for display instruments

06 / Power transistors for light and body control

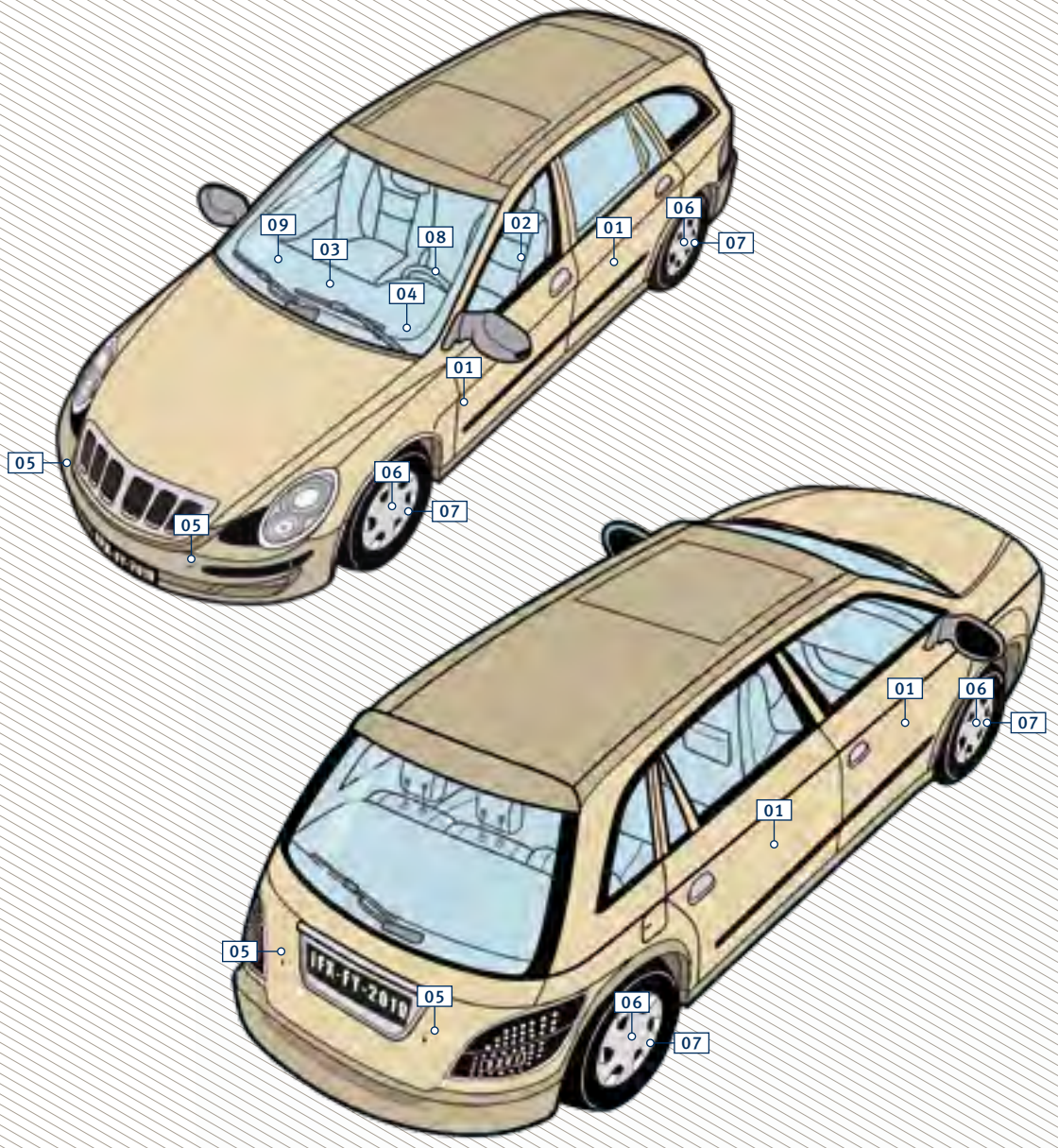
07 / 8-bit microcontroller for engine management

08 / 8-bit microcontroller for motor management

09 / Power transistors for battery charging electronics

10 / Voltage regulator for power supply

SAFETY



01 / Air pressure sensor for side airbag

02 / Power IC for electronic (reversible) seat belt tensioners

03 / Hall sensor for pedal position detection

04 / GMR steering-angle sensor on the steering column

05 / Radar IC for distance monitoring

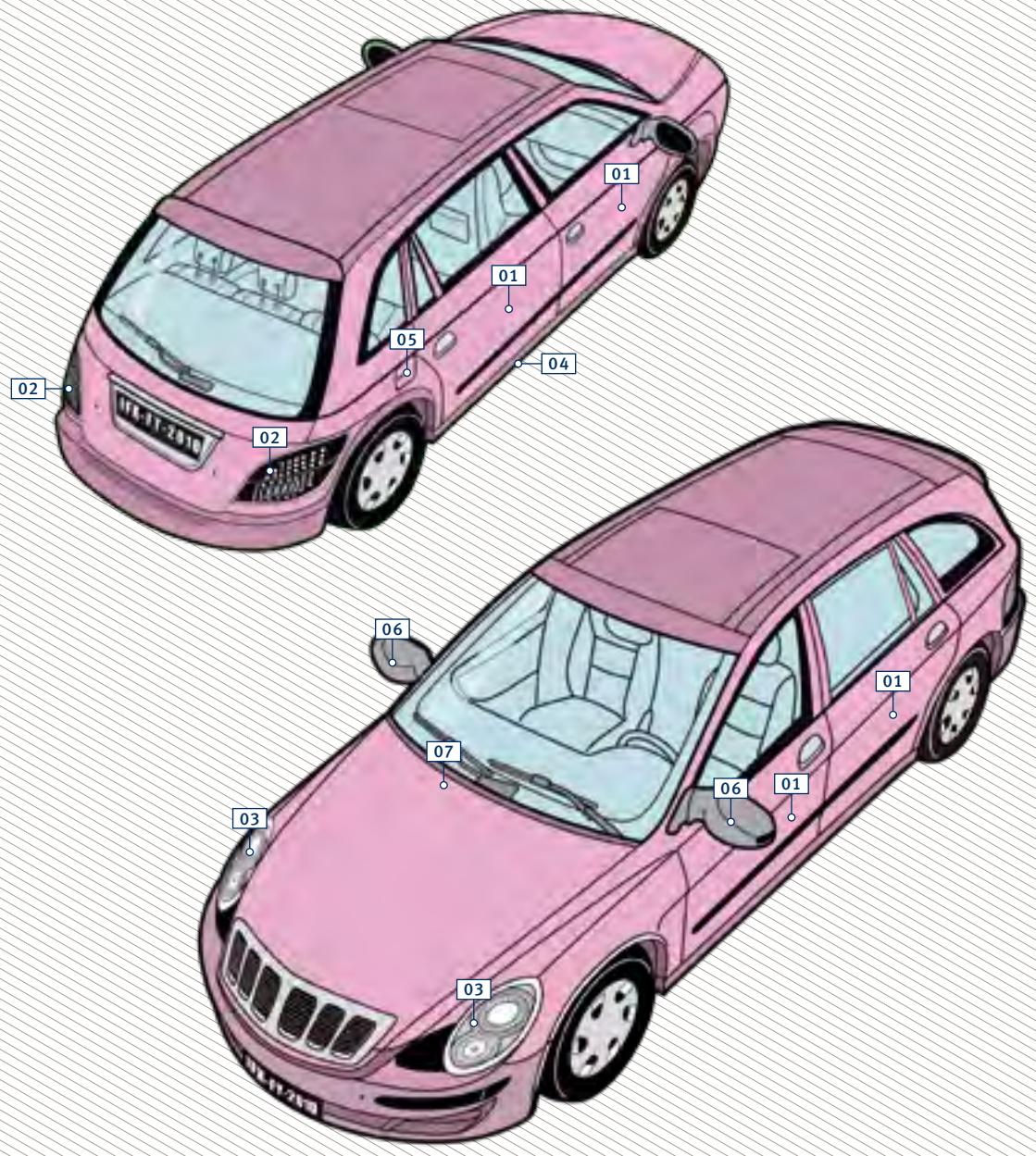
06 / Tire pressure monitoring system comprising microcontroller, pressure sensor and wireless data transfer to cockpit

07 / Hall sensor for ABS system

08 / System IC for airbag

09 / 32-bit microcontroller for electronic stability program (ESP)

BODY & CONVENIENCE



01 / Power window IC with microcontroller, power electronics and pinch protection

02 / LED drivers for rear lights and indicators

03 / Driver ICs for full beam and dipped headlights

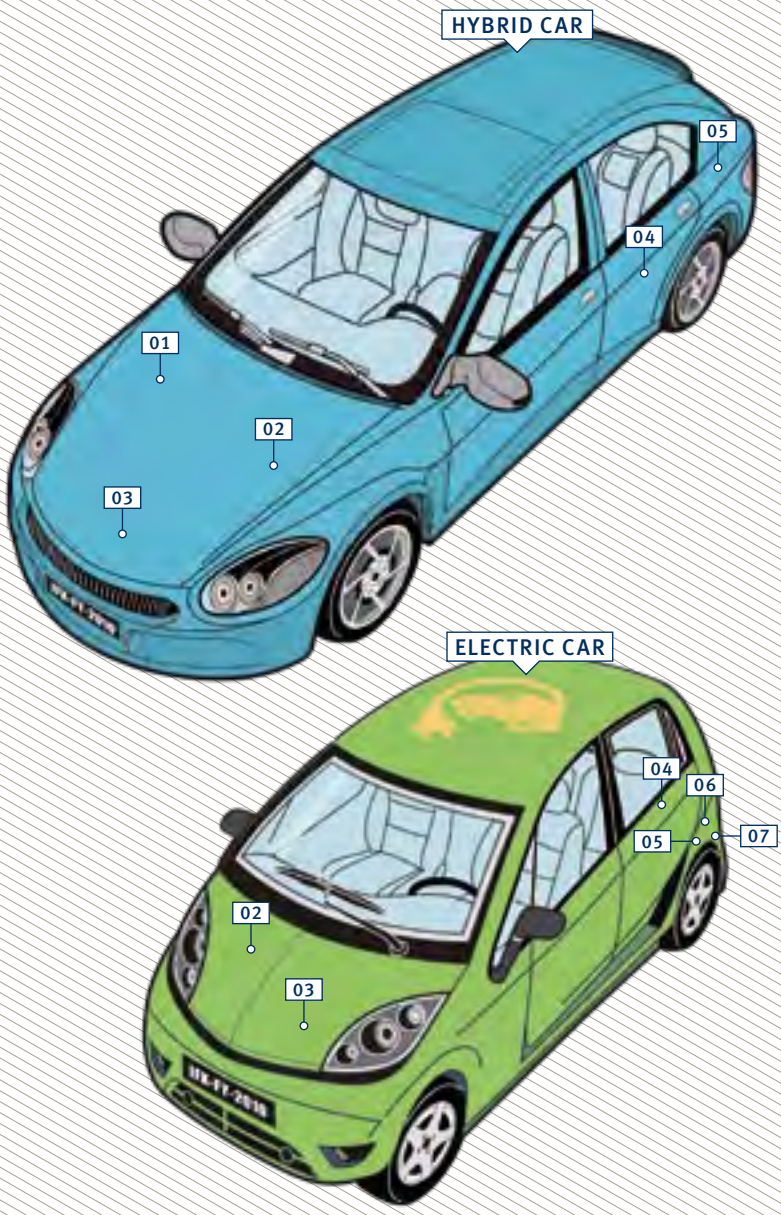
04 / Interface ICs for on-board electrical system

05 / 16-bit microcontroller for fuel pump

06 / Power electronics for side mirror adjustment

07 / Power semiconductors for blower control

ELECTROMOBILITY



01 / HybridPACK™ 1 (up to 30 kW) for electric motor control in mild hybrid vehicles

02 / HybridPACK™ 2 (up to 80 kW) for electric motor control in full hybrid vehicles

03 / 32-bit microcontroller for electric motor control

04 / 16-bit microcontroller for battery management

05 / CoolMOS™ power transistors and IGBT modules for battery charger

06 / Hall sensors to monitor charging current

07 / MOSFET for battery charger and boost converter

AUTOMOTIVE

18

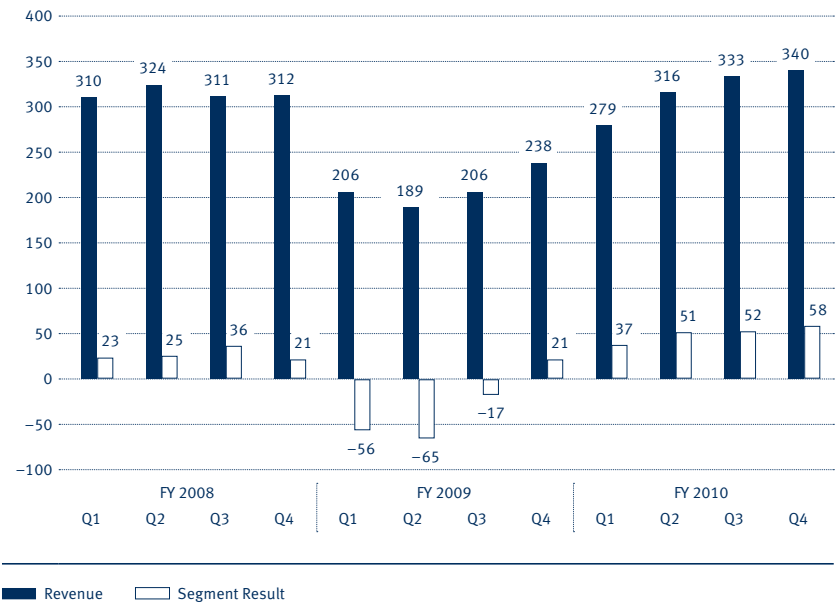
- Infineon achieved revenue of 1,268 million euros in the automotive division in the 2010 fiscal year. This is equivalent to 38 percent of the revenue from continuing operations. The Segment Result amounted to 198 million euros.

- The sharp year-on-year increase in revenue of around 50 percent can be traced back to the unexpectedly rapid recovery in the global automobile market coupled with particularly high levels of demand in China and all over the world for high-end cars, which are worth considerably more than the average vehicle in terms of the semiconductor components installed.

- Better capacity utilization at our manufacturing facitilies and an advantageous product mix helped to improve Segment Result.

- The first three quarters of the 2009 fiscal year were the only loss making period experienced by our automotive business since becoming a public company in 2000.

18 **REVENUE AND SEGMENT RESULT OF THE LAST 12 QUARTERS**
€ IN MILLIONS



CLEAN, SAFE, AFFORDABLE

Infineon is one of the few chip makers to offer such a diversified and scalable product range for automobiles – complementing this with enviable system know-how and high quality levels. These are the competencies that have made us the preferred partner of our customers for more than 40 years. Our innovative focus is on integrating functionality, so we are concentrating our attention on semiconductors that provide an outstanding price/performance ratio. We are committed to the future drivers and growth drivers and hence to improved energy efficiency, increased safety and the emerging affordable car segment. Depending on the requirements for powertrain, safety applications or comfort electronics, the most suitable semiconductor solution can be assembled from our product portfolio of microcontrollers, smart sensors and power semiconductors. That is why it is very satisfying that this year, for the first time, we have been honored with Toyota's coveted award for "exceptional quality maintained over five consecutive years".

CO_2 REDUCTION THROUGH DOWNSIZING

The evolution of conventional internal combustion engines is directed toward a downsizing of spark ignition and diesel engines. Turbochargers enable higher engine performance along with reduced fuel consumption to be achieved from smaller swept volumes and often also from a smaller number of cylinders. These improvements relate to the complete control loop from the sensor system to the computing performance to the drive electronics. As for the engine, further optimization of the combustion process leads to reduced fuel consumption and lower emissions. But it doesn't stop there: engineers also have their sights set on transmission controllers with the aim of improving shifting sequences.

Engineers are also intent on developing "tailor-made" solutions. The objective here is to feed the engine precisely the amount of fuel it needs at a given instant. This happens along the entire delivery chain, from the pump to the fuel injectors and injection pumps – all the processes become even more precise, for the amounts have long been measured in milliliters, the control times in microseconds. This is precision at the highest level, attainable only thanks to the more sophisticated sensor technology and higher computing power of the most cutting-edge automotive semiconductor generations.

With a view to future-generation drives and compliance with the most stringent emission and safety standards, we are working with a lead customer on developing the 32-bit multi-core microcontroller family AURIX™. The individual cores are required for delivering the necessary computing power and for the redundant calculation of safety-critical processes. Shipments are slated to start in 2014; we have already signed agreements running up to 2028. This project also illustrates the trend toward long product lifecycles in the automobile industry. These lead to a comparatively stable and predictable business.

P. 59 T

ELECTRIFICATION OF THE POWERTRAIN – ALSO IN COMMERCIAL VEHICLES

Why electrification? As regards the conventional internal combustion engine, we will see further significant progress being made in CO_2 reduction, particularly in subcompact cars. However, only the electrification of the powertrain will lead us to a sustained breakthrough across all vehicle categories. The leaders of the large car-making

companies are therefore unanimous: Ultimately we will see the all-electric drive. The debate is not about "whether", but simply about "when". The trend toward powertrain electrification is also evident in the bus and commercial vehicle sector, particularly where traffic in cities is concerned. The main drivers of this trend are restrictions on entering city centers, such as those already in place in megacities like London and Shanghai.

Around 80 percent of the additional semiconductors required for hybrid and electric vehicles are power semiconductors. This is where we benefit from the decades-long experience of the industrial business. Discrete IGBTs and IGBT modules do not need to be developed from scratch: with a few minor modifications they can be adapted to fit the requirements of automotive engineering. This saves on research and development costs. As the number 1 in both automotive electronics and power semiconductors, we are ideally positioned to benefit from the growing hybrid and electric car market.

SENSORS ARE VITAL FOR ACTIVE AND PASSIVE SAFETY

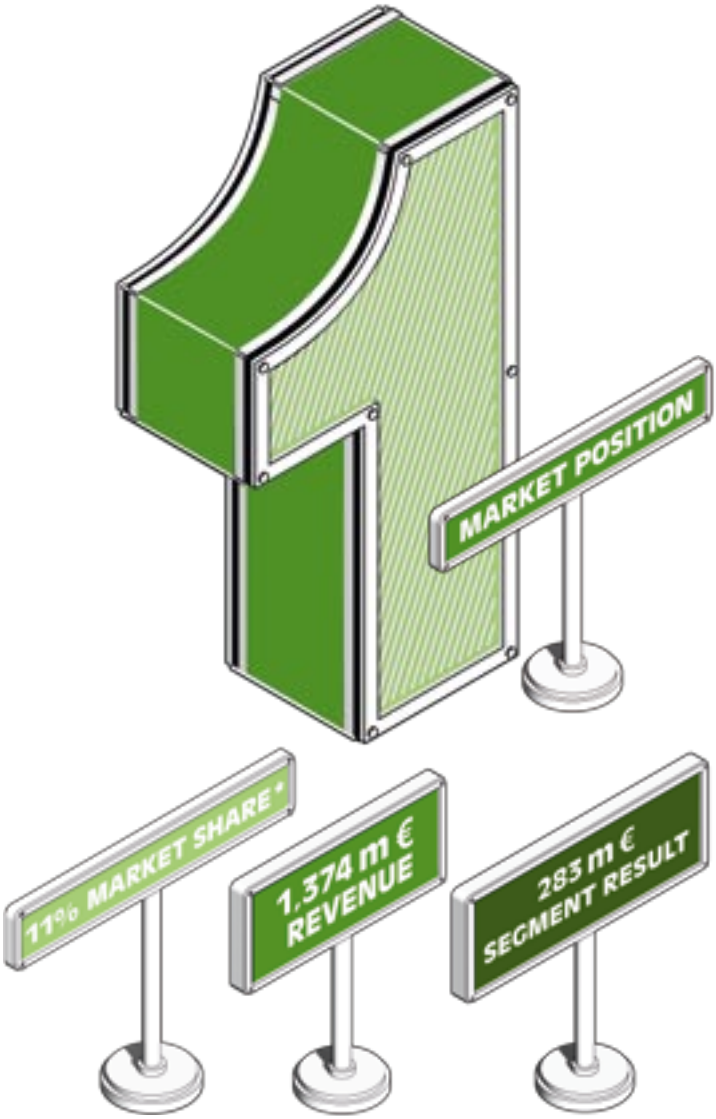
Our product priorities for safety applications are focused on airbags, side impact protection, electronic power steering, belt tensioners, ABS/vehicle stability control system (ESP), electronically controlled chassis systems, radar-based driver assistance, and tire pressure monitoring.

ESP (Electronic Stability Program) has meanwhile become the most important safety system in the automobile in addition to the safety belt and the airbag. Our partner Bosch developed the first system for series production, and since production started in 1995 it has already produced 50 million systems. We furnish ESP systems with steering angle and wheel speed sensors, as well as other components.

AFFORDABLE INDIVIDUAL MOBILITY

In growth regions, too, the automobile has come to epitomize individual mobility. In countries like India and China there is one thing it must be above all else: affordable. But the market for compact and subcompact cars is also becoming increasingly important internationally, in Japan and Europe, for instance. Together with our customers we are striving to design vehicles that both match people's expectations and meet cost targets.

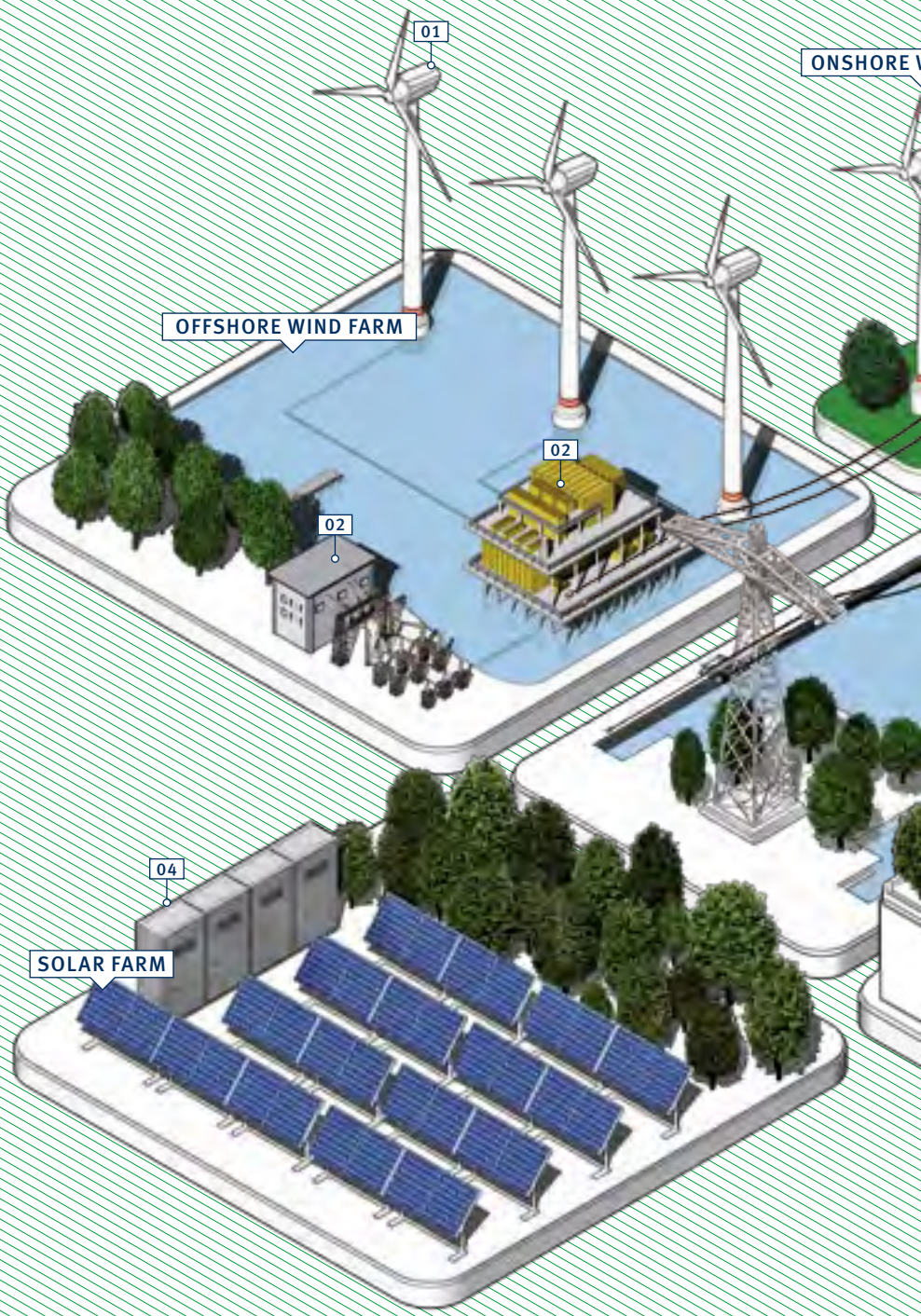
Because of the high volumes involved, we are also turning our attention to two-wheeled vehicles. Two developments are driving the market – particularly in Asia: Firstly, the popular two-strokes must be made more environmentally friendly. Secondly, it has been several years since two-wheelers fitted with internal combustion engines were banned in Beijing. This has given a huge boost to the market for electric bicycles, also known as ebikes, pedelecs or electric scooters. With our industry-leading know-how in the electronics for high-efficiency electric drives, we are also a partner for motorcycle and bicycle manufacturers.



19 DIVISION INDUSTRIAL & MULTIMARKET

* For discrete power semiconductors and modules.

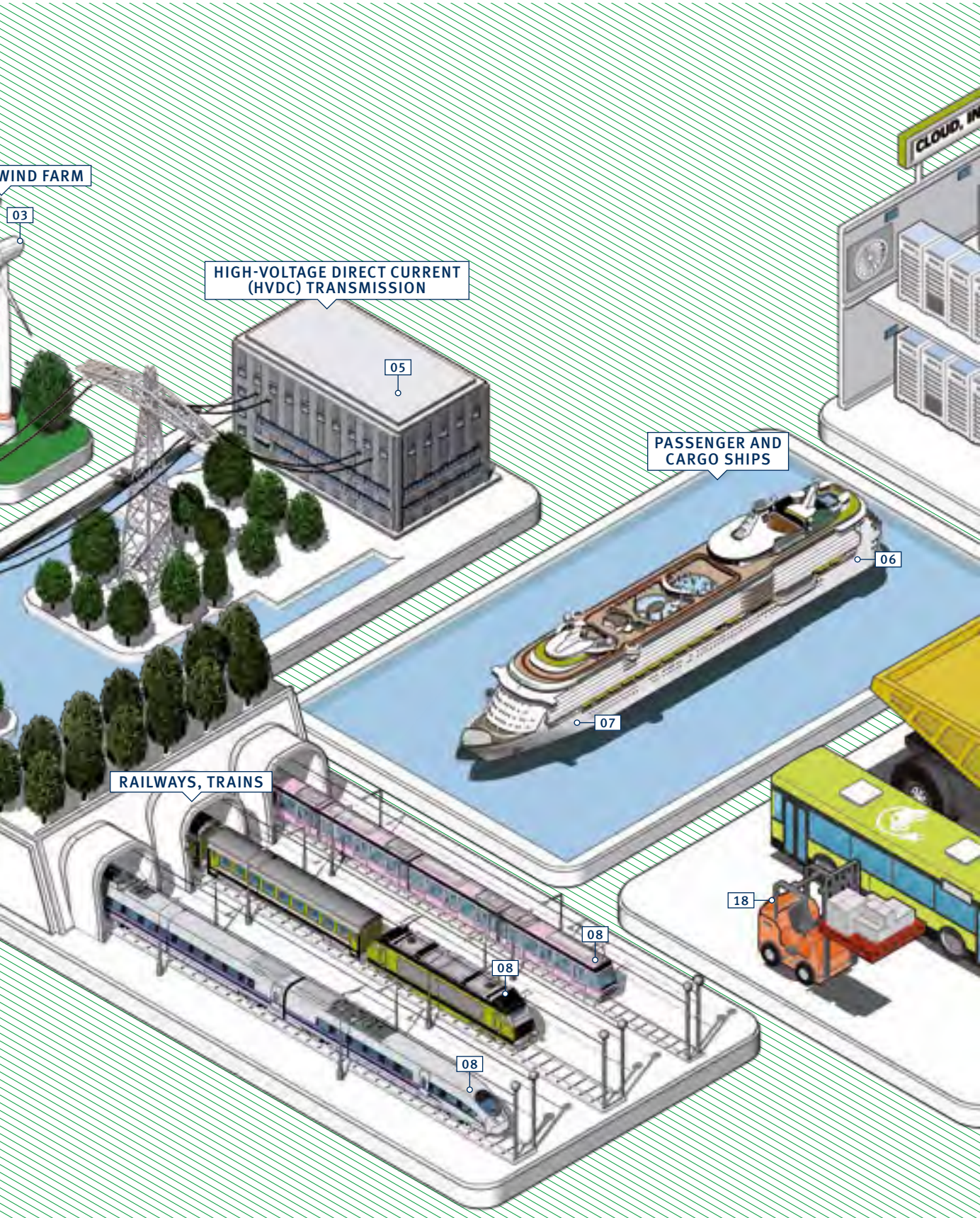
INDUSTRIAL APPLICATIONS



01 / IGBT modules in offshore wind turbine (up to 6 MW)
02 / Thyristors for HVDC undersea cables
03 / IGBT modules in onshore wind turbine (up to 2.5 MW)
04 / IGBT modules in PV inverters
05 / Light- and electrically-triggered thyristors
06 / IGBT modules for diesel-electric drives
07 / IGBT modules for ship electrical system

08 / IGBT modules for drive and recuberation in trams and local and high-speed trains
09 / CoolMOS™ and OptiMOS™ power transistors in server power packs
10 / Digital voltage regulators in server power packs
11 / IGBT modules for fan control in air conditioning system
12 / IGBT modules for escalator motor control
13 / IGBT modules for elevator motor control

14 / LED
15 / Dri
16 / IGB
17 / IGB
18 / IGB
suc



D drivers for LED architectural lighting

vers for energy-saving light bulbs and fluorescent lamps

BT module for diesel-electric drive in commercial vehicles

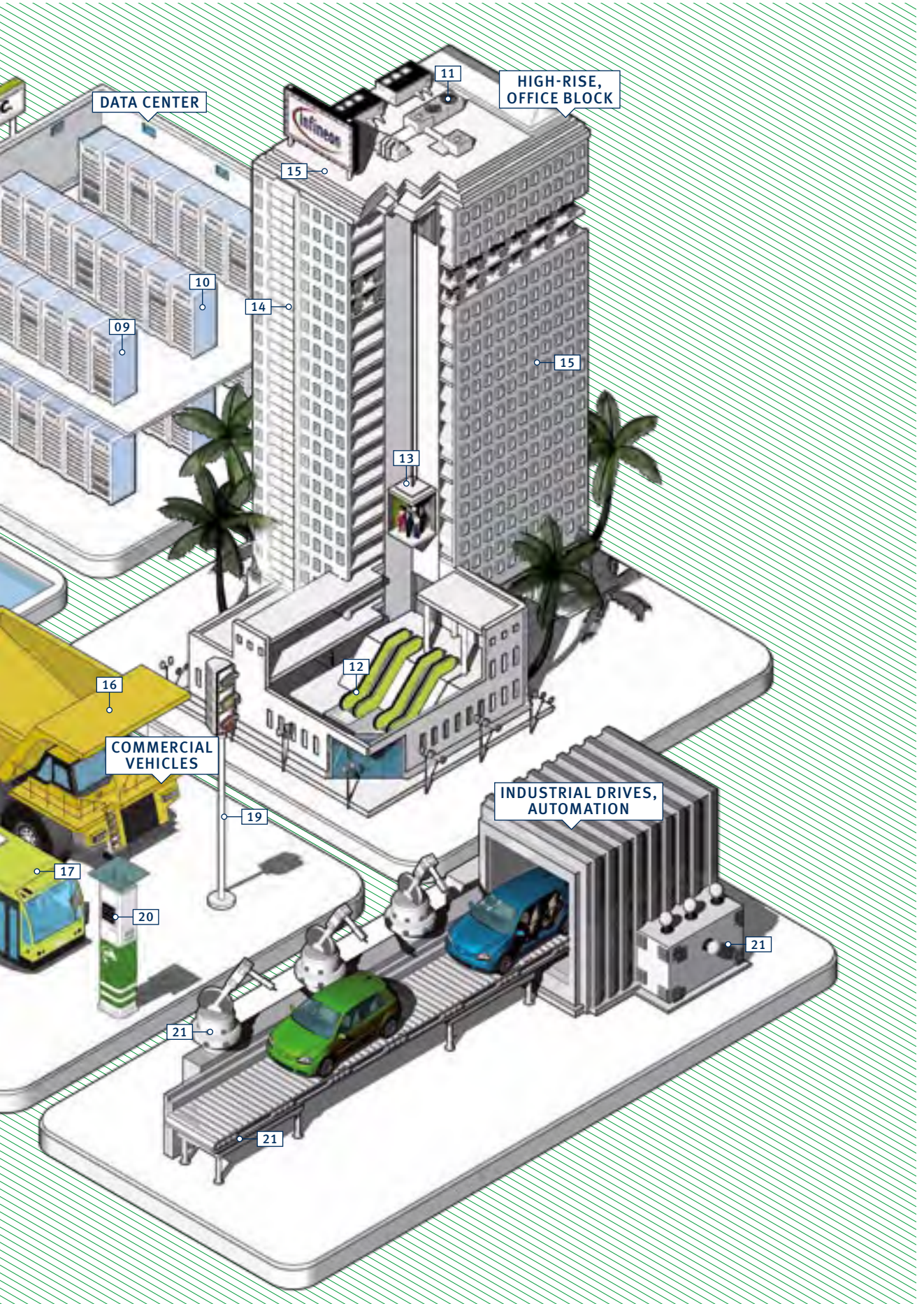
BT module for electric drive in electric and hybrid buses

BT module for electric drive in commercial vehicles
ch as fork trucks

19 / LED drivers for traffic lights, street furniture and street lighting

20 / Discrete IGBTs and IGBT modules for charging electronics at electric charging points

21 / IGBT modules for electric motors in robots, conveyor belts, drives, etc.


DATA CENTER
HIGH-RISE, OFFICE BLOCK
COMMERCIAL VEHICLES
INDUSTRIAL DRIVES, AUTOMATION
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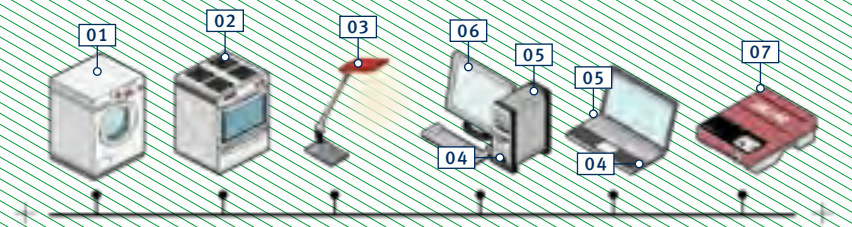
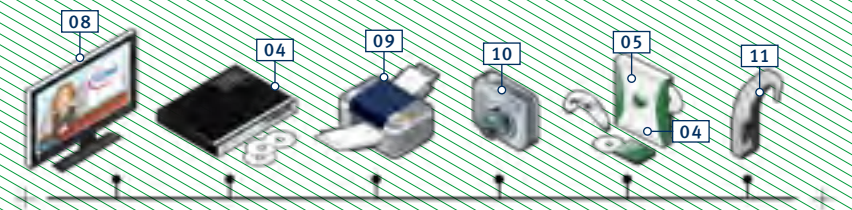
DOMESTIC APPLICATIONS





01 / WASHING MACHINE: IGBT module for motor drive

02 / INDUCTION HOB: Discrete IGBTs to control induction coils

03 / LED OFFICE LAMP: LED drivers for LED lighting elements

04 / PC/NOTEBOOK/GAMES CONSOLE/DVD PLAYER: CoolMOS™, OptiMOS™ power transistors and SiC diodes in power pack

05 / PC/NOTEBOOK/GAMES CONSOLE: OptiMOS™ power transistors and power ICs on motherboard

06 / PC: OptiMOS™ power transistors and power ICs on graphics card

07 / PV INVERTER: CoolMOS™, OptiMOS™ power transistors, SiC diodes and IGBT modules for DC-to-AC conversion

08 / FLAT SCREEN: Discrete IGBTs for background illumination

09 / PRINTER: Tags with ORIGA chip on printer cartridges for brand protection

10 / DIGITAL CAMERA: Tags with ORIGA chip on battery for brand protection

11 / HEARING AID: Special IC for audio signal processing

INDUSTRIAL & MULTIMARKET

20

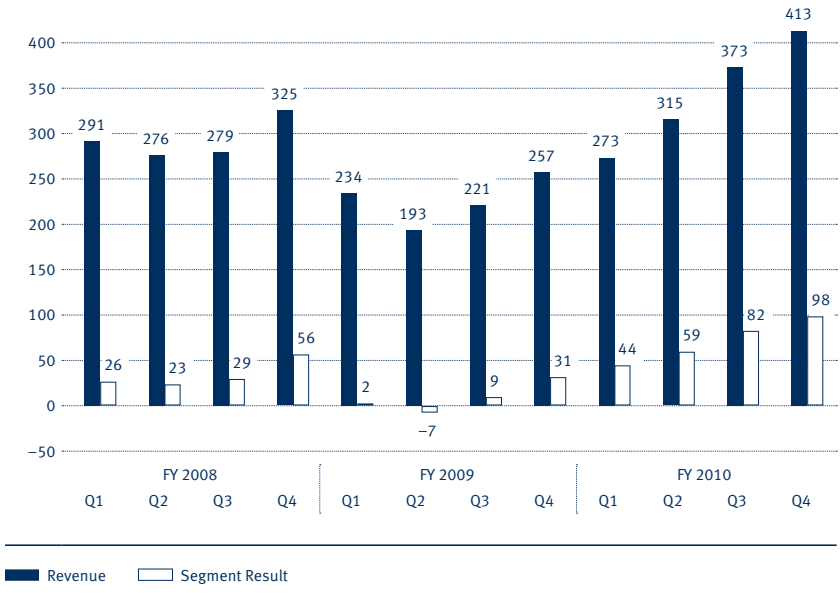
- Infineon achieved revenue of 1,374 million euros in the Industrial & Multimarket division in the 2010 fiscal year. This represents 42 percent of total revenue from continuing operations. The Segment Result amounted to 283 million euros.

- Revenue rose by more than 50 percent year on year as a result of the quick recovery of many national economies after the economic crisis. The value of business with power semiconductors for renewable energy applications doubled in the 2010 fiscal year to more than 100 million euros.

- The improvement in Segment Result was disproportionately strong thanks to better capacity utilization.

- The loss of 7 million recorded in the second quarter of the 2009 fiscal year is the only quarterly loss realized by IMM since we became a public company.

20 **REVENUE AND SEGMENT RESULT OF THE LAST 12 QUARTERS**
€ IN MILLIONS



RENEWABLE ENERGIES, SMART GRID, MOBILITY

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

Electricity is set to become the most important energy carrier in the 21st century. Of that we are convinced, not only because fossil resources will become scarce by the middle of this century, but also because electricity can be transported cost-effectively and extremely quickly and be converted efficiently.

BOOM IN WIND POWER AND SOLAR ENERGY CONTINUES UNABATED

Many governments around the world have declared their intention to develop wind power in order to increase the proportion of regenerative energies in the energy mix and reduce CO_2 emissions. In addition to new systems business in newly designated areas, repowering – the replacement of existing, aging installations by new and more powerful systems – is also gaining momentum. Modern wind turbines generate around 2 megawatts of power, whereas their older-generation counterparts produce less than 0.5 megawatts.

The large-scale expansion of wind energy at sea (“offshore”) will add new impetus. With a capacity of up to 6 megawatts, the systems installed off the coast are even bigger than those on land. Because they are installed in harsh environments, what counts for these energy generators is maximum reliability. Our rugged, seaproof switches, so-called IGBT modules, can be found in the nacelle at a height of more than 100 meters and in the inverter platforms. All in all, P. 60 T further development of the IGBT modules and their adaptation to suit the specific needs of our customers constitute a continuous process.

Along with wind energy, photovoltaics (PV) also remains on course for growth. PV systems, as installed on the roofs of houses or used in freestanding systems, require an inverter for feeding the DC voltage generated in the solar modules into the electricity grid. In addition to the acquisition costs, the efficiency of these inverters is the critical factor for the cost-effectiveness of the system. We supply the inverter manufacturers with IGBT, MOSFET and SiC components. As a result our customers achieve world record levels of efficiency.

SMART GRIDS ARE DESIGNED TO IMPROVE LOAD MANAGEMENT IN THE POWER SUPPLY NETWORKS

The rapidly growing percentage of electricity from renewable energies must be fed into the power supply networks (EU directive: by 2020, 20 percent of electrical energy demand are to come from renewable energies). This type of electricity generation is decentralized and irregular. In spite of this, the performance of the networks must

not be allowed to fluctuate, nor must the stable supply of power at consistently high quality levels be jeopardized. To achieve this, consumption must be brought into line with generation, which is often dependent on the weather, and ways must be found to store surplus electricity. The distances over which power has to be transmitted from the wind farms and PV installations to the consumer centers lead to not inconsiderable energy losses, though such losses can be reduced significantly by intelligent high-voltage direct current (HVDC) systems.

By enabling data exchange between suppliers and consumers, smart grids, the intelligent power networks of the future, are intended to help gear consumption to the supply fluctuations of the energy sources. A fundamental part of the smart grid is the digital consumption meter, also known as a "smart meter". The smart meter and the domestic appliances suitably equipped with communication capability are the extension of the smart grid to the consumer. The smart meter delivers consumption data over a data network, while simultaneously keeping consumers informed in real time about their electricity consumption and costs.

Secure communication, i.e. the encrypted exchange of data that cannot be read or manipulated by third parties, is an important prerequisite for this. Infineon provides total solutions covering security, data communication and energy transmission.

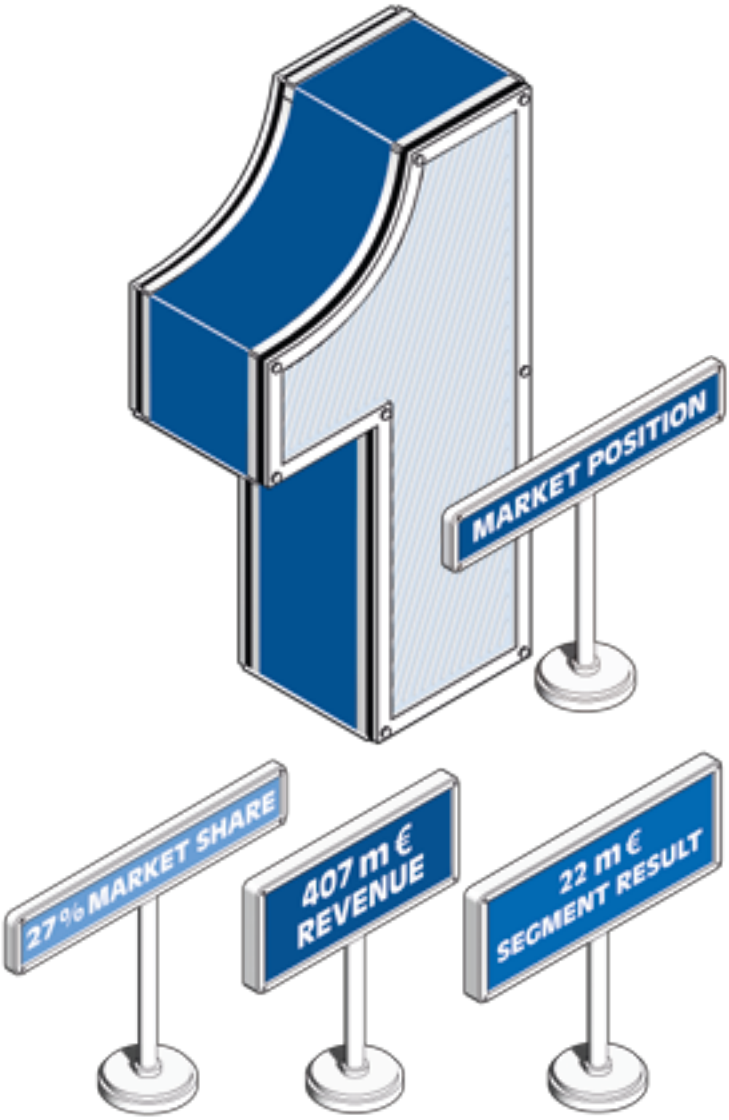
MOBILITY IN METROPOLITAN AREAS

Increasing urbanization also fuels the demand for reliable public transportation systems. Infineon supplies the power components for the drive controls for a wide range of train systems and so plays a part in promoting the mobility of citizens in and between the metropolitan centers. We are engaged in developing more and more compact solutions for high-speed trains, trolleybuses and metropolitan railways so that we can offer our customers greater functionality in smaller and smaller units. For example, we supply IGBT modules for the French TGV and AGV as well as for the Siemens Velaro train family, which is used in Germany, Spain, Russia and China.

LEDs AS AN ENERGY-EFFICIENT LIGHTING ALTERNATIVE

25 percent of energy worldwide is needed for lighting. With incandescent bulbs, 80 percent of that energy is wasted as heat, with only 20 percent being converted into light. LEDs, on the other hand, do not get hot, are far superior in terms of the light yield, and have a much longer lifetime. They are used for a wide range of applications: in street lighting, architectural lighting, for office lighting, car lighting, and in domestic situations. There has been an explosive growth in demand for these light sources, for which Infineon supplies driver ICs. Moreover, Infineon also provides components for energy-saving lamps and for ballast controllers for fluorescent lamps.

The examples described demonstrate how semiconductors can increase levels of efficiency in the generation, transmission and conversion of electrical energy. Power semiconductors will consequently come to play an ever more prominent role in all areas of our daily lives.



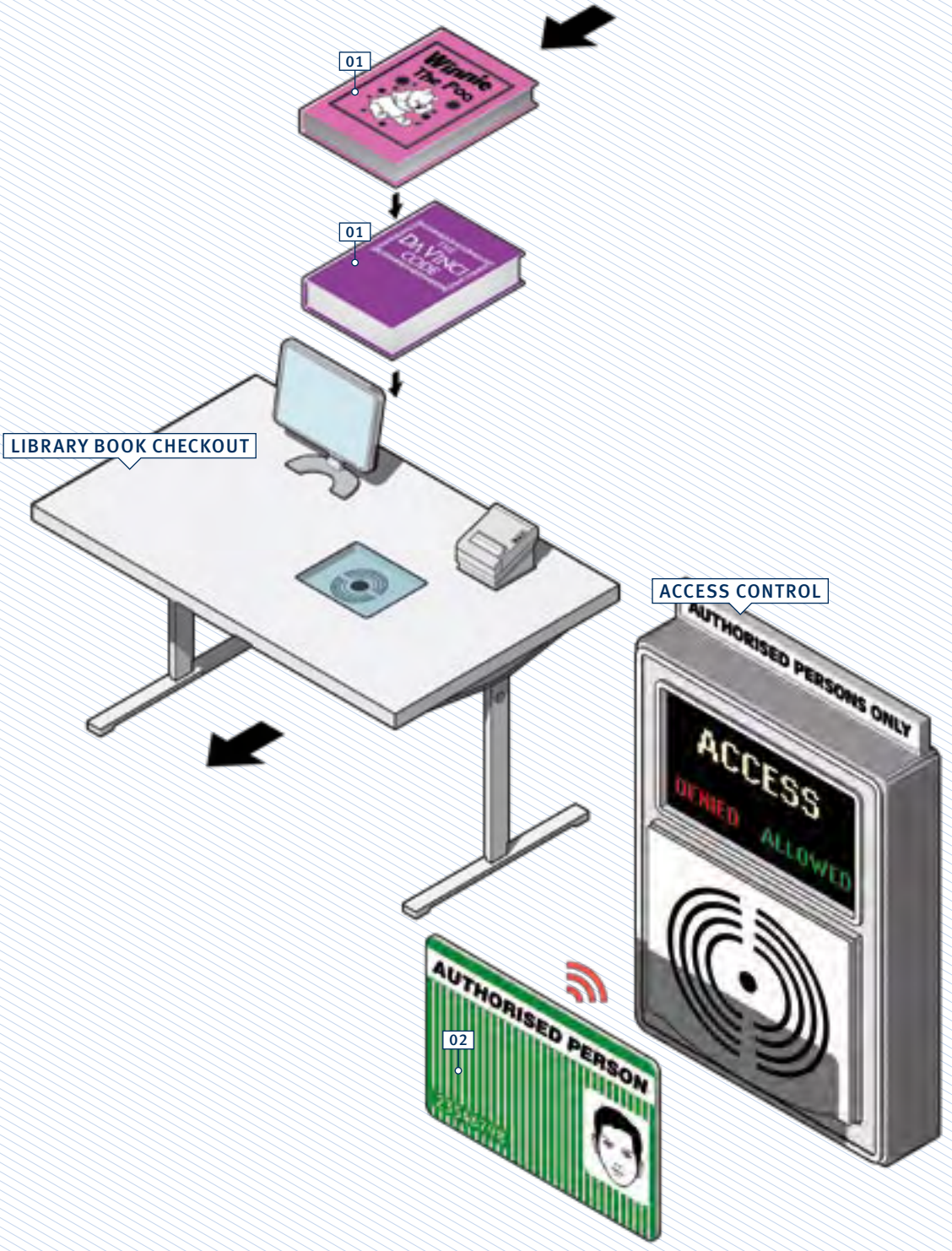
21 DIVISION CHIP CARD & SECURITY

COMMUNICATION

01 / Prepaid phone card
02 / SIM card
03 / SIM card in USB dongle

04 / Trusted Platform Module (TPM) on motherboard
05 / Security chip for wireless machine-machine communication via cellular networks

IDENTIFICATION



01 / RFID chip in cover for contactless checkout and return of library media

02 / Contactless security chip in ID card for access control

PAYMENT CARDS

01 / Contactless security chip for mass public transport

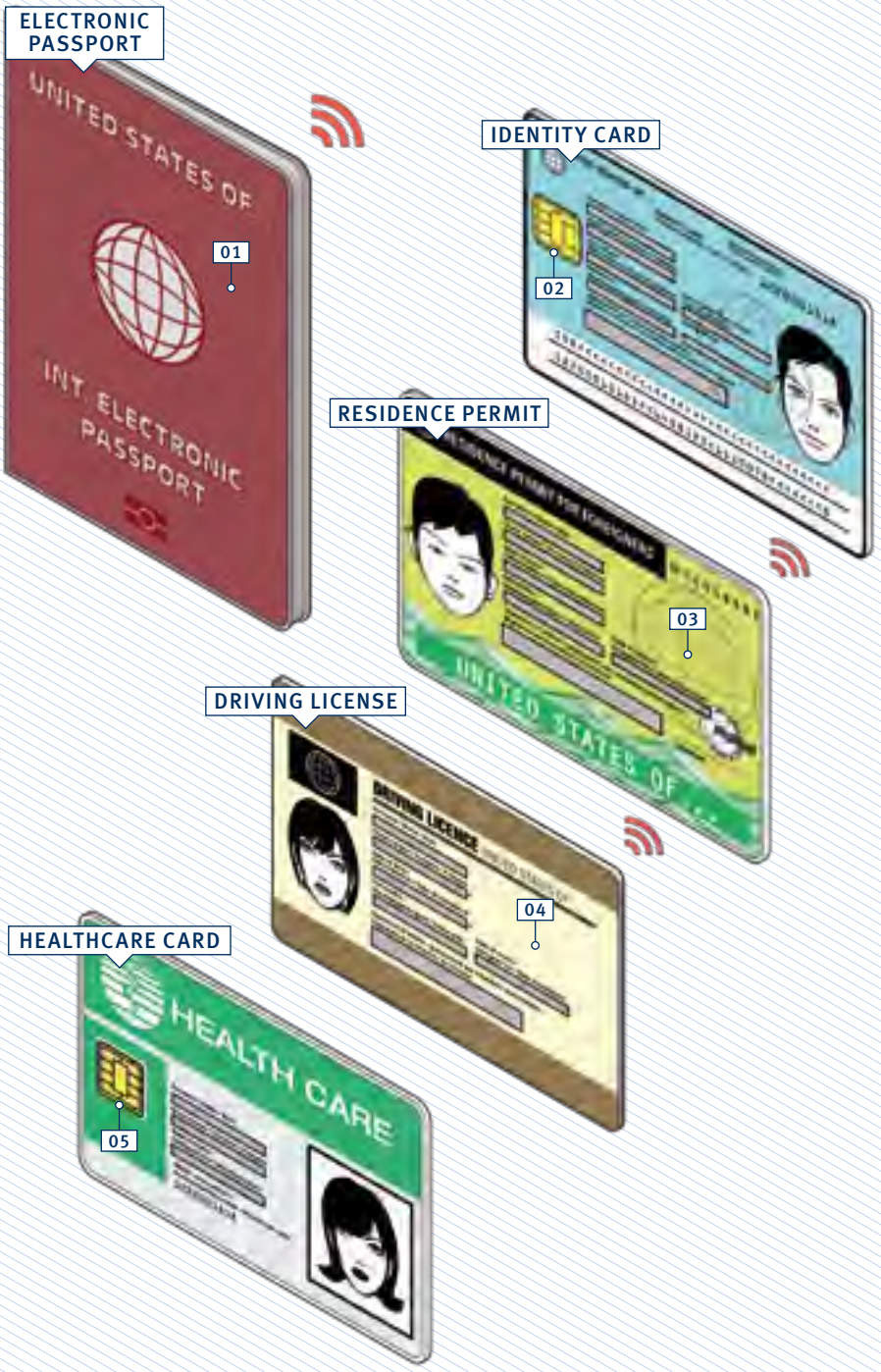
02 / Contactless security chip for mass public transport and small payments

03 / NFC (Near Field Communication) security chip in smartphone to pay for travel tickets

04 / Contactless security chip in credit card

05 / Security chip in bank card for cash withdrawals

GOVERNMENT ID



01 / Contactless security chip in electronic passport

02 / Security chip in electronic identity card

03 / Contactless security chip in electronic residence permit

04 / Contactless security chip in electronic driving license

05 / Security chip in electronic healthcare card

CHIP CARD & SECURITY

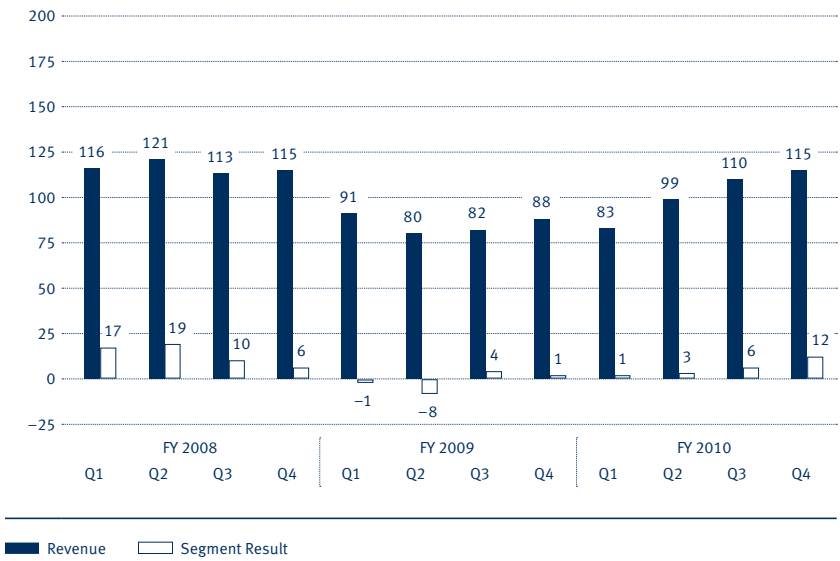
22

- Infineon achieved revenue of 407 million euros in the Chip Card & Security division in the 2010 fiscal year. This represents 12 percent of total revenue from continuing operations. The Segment Result amounted to 22 million euros.

- Revenue rose by around 20 percent year on year owing to increased demand for government identification cards and for payment cards.

- Segment result improved as a result of higher capacity utilization, the realignment of the product portfolio to focus more on products with higher margins and the ramp-up of more cost-effective production technologies.

22 REVENUE AND SEGMENT RESULT OF THE LAST 12 QUARTERS
€ IN MILLIONS



GOVERNMENT ID CARDS, CONTACTLESS APPLICATIONS, TRADEMARK PROTECTION

Infineon is the world's leading provider of security microcontrollers for a broad range of smartcards and security applications. These include electronic passports, identity cards, contactless and contact-based payment cards, access cards and RFID applications, as well as chips for trusted-computing solutions.

When it comes to security, we have 25 years' experience in handling the largest and most demanding chip card projects. With our industry-leading security know-how, we are also benefiting from the growing security requirements of an increasingly mobile world. And our innovations in security and contactless technology in turn contribute toward ever-increasing mobility and greater freedom based on the foundation of security and protection of the private sphere of each and every individual.

Our success is based not least on numerous innovations in three core competencies:

Tailored Security: By this we mean the implementation of made-to-measure security functions which fulfill application-specific security needs. In order to encounter future attack scenarios as well, we have implemented the revolutionary Integrity Guard security concept in the new SLE 78 family.

P. 59 T

Contactless Excellence: Fast, reliable and secure transfer of the data stored on the card or in the identity document is paramount in avoiding delays, especially in mass transit, identification and payment applications. A high data transfer rate is key to achieving a high level of acceptance and user friendliness in such contactless transactions. We are one of the world leaders in this field, and we intend to strengthen this position.

Embedded Control: Our many years' experience in the hardware-based security field is most clearly evidenced by our ability to find an optimal balance between the requirements for the field of application in question. Here the trick is to reconcile diverse criteria such as performance, power consumption and security at best cost-performance-ratio.

Our innovations in these three areas of competence enable our customers to implement cutting-edge hardware-based security solutions. These create the necessary confidence in the new applications of the mobile data society and combine freedom and mobility of the individual with maximum security and protection of privacy.

Seen from a different angle, deploying security solutions leads to more and more pioneering applications in communications, transportation and IT infrastructure. Infineon provides the industry's broadest product portfolio of chips and interfaces to meet the relevant security requirements in these areas. With our R&D activities we believe we will continue to be the leading and most savvy chip supplier for security solutions in the future as well.

GOVERNMENT ID CARDS

Electronic identity cards count as one of the fastest growing applications of security chips with the highest security and quality requirements. Infineon supplies the biggest national projects at the present time with security controllers for passports (including the U.S. passport), identity cards and healthcare cards.

SMALL PAYMENTS AND PUBLIC TRANSPORT

Using contactless cards for secure payments is becoming increasingly popular. This fast and convenient way of making small payments is going from strength to strength, nowhere more so than in the booming cities of the world's most rapidly expanding economies. As well as being useful for retail purchases, many of these cards can also be used as tickets in public transport. By the end of 2010, several hundred million Infineon ICs were exported for cards and tickets in China, Korea, Singapore, Brazil, the U.S.A., Great Britain, Russia, and many other countries.

The Company is expanding its business areas beyond the traditional chip card by developing applications using other package designs, e.g. for measured data acquisition in the machine-to-machine (M2M) communication sector, payment functionality in mobile phones, and trademark protection. Here are three examples:

SECURE DATA TRANSMISSION IN THE SMART GRID

P. 42 T

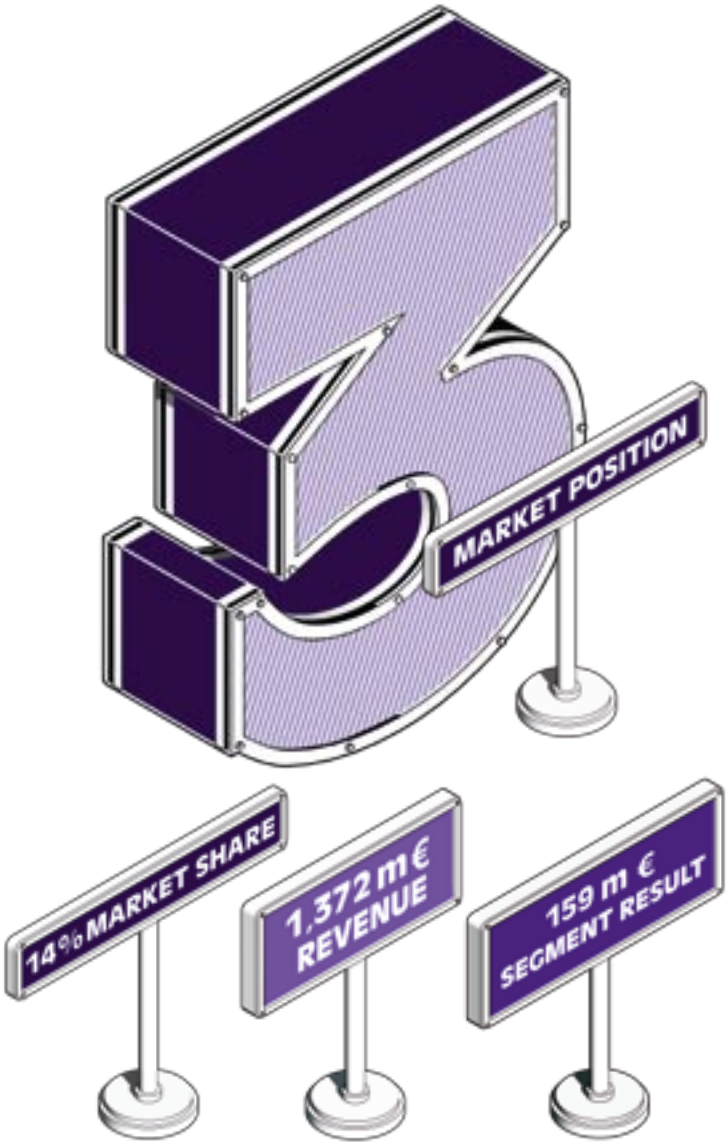
M2M communication is used in many applications, including in the smart grid. In this area, smart meters enable the utility companies to read out consumption data remotely. Smart meters also allow time-variable tariffs to be introduced and provide end customers a transparent view of their consumption. Data privacy and protection against manipulation are basic requirements for these systems if this technology is to become accepted by the general population.

NFC – PURCHASING TICKETS BY MOBILE PHONE

Near-field communication (NFC) technology is intended to allow users to pay for their purchases with their mobile phone in future, simply by holding the phone close to a payment terminal. The first pilot projects are already up-and-running in public transport, with mobile phones featuring NFC technology replacing the usual paper ticket. The security functions essential for this are integrated in a chip made by Infineon.

PRODUCT AND TRADEMARK PROTECTION

It is important to be able to prove the provenance and authenticity of original products – whether they be high-quality, high-value medicines or expensive machine parts. Special chip-based tags (known as RFID labels) enable end-to-end tracking and logging of the value chain from the place of manufacture of the product across customs boundaries and national frontiers to the end consumer. In this way proof can be furnished that the customer has received the original goods, and not a fake.



23 DIVISION WIRELESS SOLUTIONS

WIRELESS SOLUTIONS

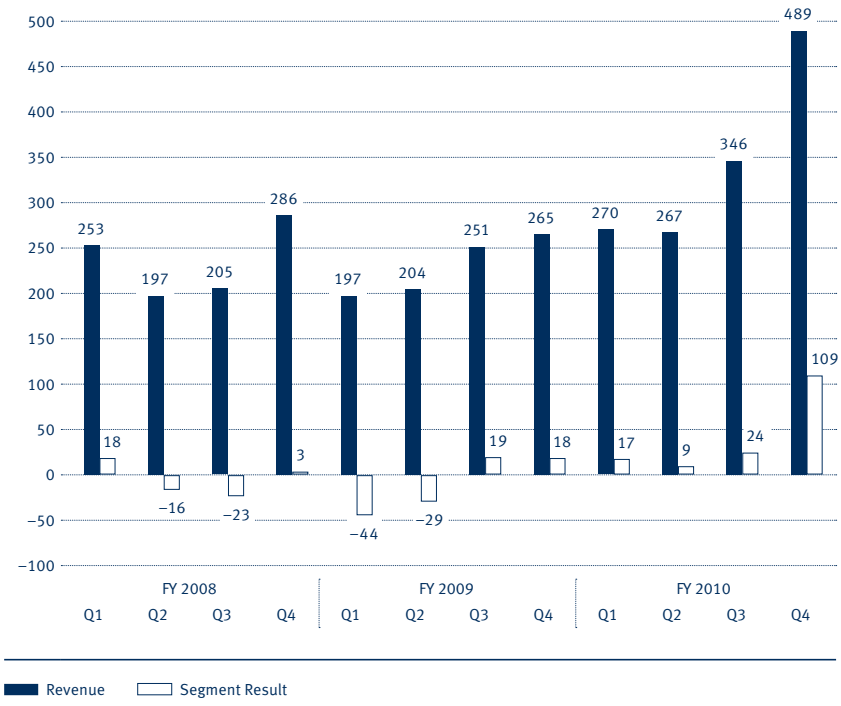
24

- Infineon achieved revenue of 1,372 million euros in the Wireless Solutions division in the 2010 fiscal year. The Segment Result amounted to 159 million euros.

- Revenue increased by around 50 percent year on year in the 2010 fiscal year. This increase was mainly due to the very successful ramp-up of both new smartphone and entry level pone platforms at several major customers.

- During the 2010 fiscal year, several mobile phone OEMs launched a number of popular smartphone models powered by our new HSUPA platform. The other major growth drivers were the roll-out of our new ultra-low-cost platform and our new single-chip EDGE platform.

24 REVENUE AND SEGMENT RESULT OF THE LAST 12 QUARTERS
€ IN MILLIONS



MOBILE INTERNET, SMARTPHONES, TABLET PCs

On August 30 this year, Infineon announced its intention to sell the mobile phone business of the Wireless Solutions (WLS) Division to Intel. The transaction is due to be completed at the latest in the first calendar quarter of 2011 with the transfer of around 3,400 employees to Intel. The Wireless mobile phone business will then be run as a standalone business within Intel.

Infineon's business activities with tuners, satellite receivers and radio-frequency power transistors for base stations are not part of the deal.

Infineon is not just a manufacturer of traditional mobile phone components such as baseband processors, radio frequency (RF) transceivers and battery management chips for the devices; it also provides complete platforms including software solutions, customization and required interoperability tests. The large mobile phone manufacturers are relying more and more on these integrated platform solutions and reducing their inhouse development in equal measure. Infineon sees itself as leading in the fields of RF technology, system-on-chip integration and system software.

According to our assessment, mobile computing, smartphones and low-cost telephones for newly industrializing countries are the fastest growing markets. We serve these with components and platform solutions ideally adapted for this purpose.

MOBILE INTERNET

Mobile use of the internet is regarded as one of the most powerful drivers of growth in the industry. Sixty percent of hits on internet pages in China are already made via mobile devices – mostly smartphones featuring high data rates and comprehensive application options. In fact, mobile phones are the only means of accessing the internet for many users. That is why it is becoming increasingly important to make the advantages of fast 3G connections available not just in the premium segment, but also in the low-end price segment of the market. We supply both segments with our high-performance HSDPA/HSUPA and low-cost 3G platforms.

In 2010 we have been very successful in establishing our XMM™ 6160 HSUPA platform in the market. For example, since summer 2010 we have been supplying Samsung's top-of-the-line Galaxy S model, among others. In the entry segment, our XMM™ 6181 platform provides an affordable solution for Android-based telephones.

But we are already turning our attention to the next transmission technology: HSPA+. For this, Infineon supplies a winning solution for smartphones with its XMM™ 6260 platform manufactured in 40-nanometer technology. Thanks to large-scale integration, all of the modem functionality can be accommodated in just 600 square millimeters of board space. This is made possible essentially by a revolutionary approach in our new SMARTi™ UE2 RF transceiver. The transmitter architecture is defined here such that the different modulation types of the major international wireless standards (GSM, GPRS, EDGE, W-CDMA, HSDPA, HSUPA, HSPA+) are combined in one signal path in the chip. This is a first in the mobile communications industry. Infineon thus

provides the industry's most compact and battery-friendly HSPA+ solution. Customers from Asia and the U.S.A. are already working on the first models.

MOBILE INTERNET ACCESS FROM ANY PORTABLE COMPUTER

In three to five years, virtually every portable computer – whether notebook, netbook or tablet PC – will have mobile access to the internet. All these devices are equipped with a communication module, enabling the user to connect to the internet anytime, anywhere, e.g. in order to interface with friends in social networks or to download new reading material. Infineon is achieving great success with its HSDPA/HSUPA platforms, notably in the booming tablet market.

FURTHER GROWTH POTENTIAL WITH ENTRY-LEVEL PHONES

Growth in the ultra-low-cost (ULC)/entry segment continues to be driven by strong demand for affordable mobile phones in newly industrializing countries. Despite the fact that there are already 4.5 billion mobile phone customers today – equivalent to about three quarters of the world's population – this number is set to increase further in the next few years as more and more people in India, South America and Africa want to make telephone calls from a mobile phone. An additional factor is that more and more mobile phone customers want to buy a new phone offering more functions, such as radio reception, music playback, e-mail and web access, which means further growth for the industry.

We are benefiting from this development with our single-chip solutions, which integrate the main mobile communication elements such as baseband processor, transceiver unit, battery management and RAM monolithically on one chip. More than 300 million single-chip solutions sold to date is an impressive statistic that speaks for itself.

In the 2010 fiscal year we witnessed the very successful market launch of our third-generation ULC mobile phone chip, the X-GOLD™ 110, as well as the new X-GOLD™ 213 EDGE single-chip solution. All the leading mobile phone manufacturers in this segment, such as Nokia, Samsung and LG Electronics, figure among our customers.

MORE THAN 350 MILLION MOBILE PHONE RADIO FREQUENCY TRANSCEIVERS SHIPPED

Infineon continues to occupy a world-leading position in the mobile phone RF transceiver market and shipped more than 350 million units in the 2010 fiscal year. This impressive sales success takes the total number of mobile phone RF transceivers sold to date to around 1.8 billion units.

OUR STRATEGY

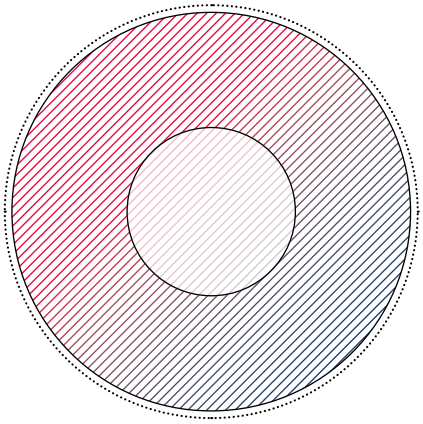
01 /
FOCUS ON THE GROWTH OPPORTUNITIES OFFERED BY ENERGY EFFICIENCY, MOBILITY AND SECURITY.

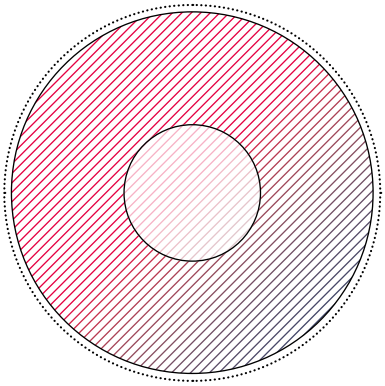
02 /
ORGANIZATIONAL STRUCTURE ALONG THE TARGET MARKETS OF AUTOMOTIVE, INDUSTRIAL ELECTRONICS AND SECURITY.

03 /
TECHNOLOGICAL CORE COMPETENCIES IN ANALOG AND MIXED-SIGNAL CIRCUITS, EMBEDDED CONTROL, POWER ELECTRONICS AND MANUFACTURING KNOW-HOW.

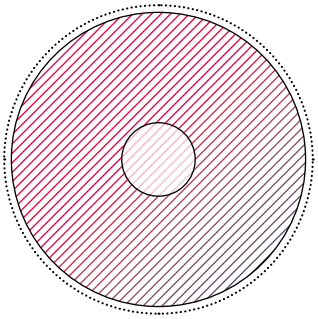
04 /
SYSTEM KNOW-HOW OF OUR CUSTOMERS' PRODUCTS, ASSEMBLIES AND COMPONENTS.

TARGET
REVENUE: ~4 bn €
SEGMENT RESULT MARGIN:
HIGH TEENS %





FY 2010
REVENUE: 3.295 bn €
SEGMENT RESULT FROM CONTINUING
OPERATIONS: 475 m €, 14.4% Margin



FY 2009
REVENUE: 2.184 bn €
SEGMENT RESULT FROM CONTINUING
OPERATIONS: (140 m €)

PRODUCTION PROCESSES AS A KEY DIFFERENTIATING FACTOR FOR OUR PRODUCTS

RESEARCH & DEVELOPMENT

Spending on research & development (R&D), which had to be cut in the 2009 fiscal year as a result of the economic crisis, rose by 80 million euros to 400 million euros in the 2010 fiscal year and was hence equivalent to 12.1 percent of revenue, compared to 14.6 percent in the previous fiscal year.

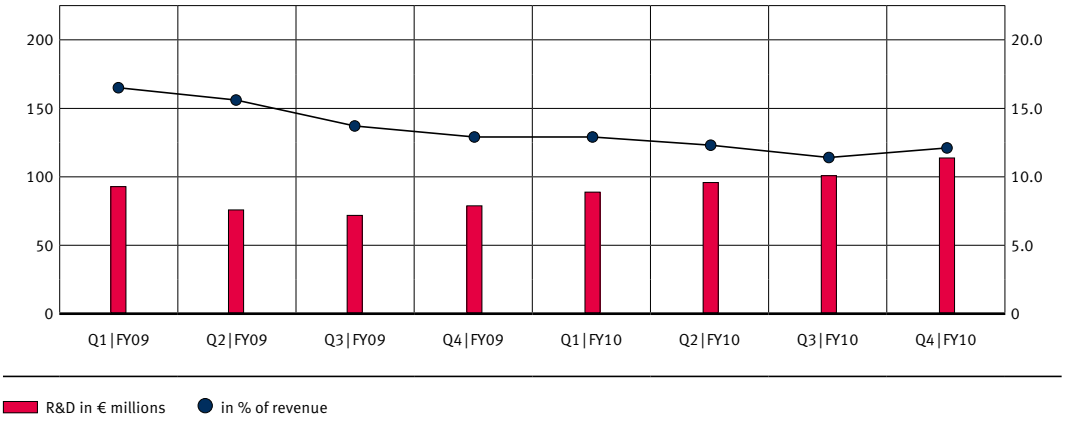
The Company employed 5,771 people in research & development at the end of the fiscal year (including the employees who will be tranferred to Intel in the context of the the sale of the Wireless mobile phone business), thereof 2,939 in Germany.

We have decades of experience in analog and mixed-signal circuit design, microcontroller solutions for engine and motor control systems (embedded control), security applications and, not least, the integration of large numbers of function blocks on a single chip. This expertise and our system know-how in relation to their products, assemblies and components have enabled us to establish ourselves as a strategically important development partner for our customers.

Infineon now generates more than half of its revenue with power semiconductors, which are a vital ingredient for customers wishing to make their systems more energy-efficient. Not surprisingly, our power electronics development team is among the largest in the sector.

Innovations hold the key to the markets of the future, making them a consistently sought-after commodity throughout the business world. The following pages introduce a few of our innovative ideas that will shortly begin to appear in full-fledged Infineon products.

26 **R&D EXPENSES** € IN MILLIONS (left scale)
AND IN % OF REVENUE (right scale)



AURIX™: OUR 32-BIT MULTICORE MICROCONTROLLER SERIES FOR FUTURE VEHICLE PLATFORMS

Our 32-bit automotive microcontrollers (MCUs) are developed especially for CPU-intensive applications including safety-critical functions such as radar-based adaptive cruise control as well as powertrain and chassis control solutions.

A glance into the R&D departments of the leading carmakers shows that even the most powerful of the MCUs currently available will not be able to meet the performance requirements of future standards. The driving forces behind the need for greater computing power are new safety specifications for passenger and pedestrian protection and the electrification of the powertrain – in other words the move from internal combustion engines to electric motors. Real-time capability, the ability of a microcontroller to respond to unexpected external interrupts within a defined space of time, also has a role to play in all of these new developments. All of our 32-bit-MCUs provide this all-important capability.

Thanks to its 32-bit multicore architecture, our new AURIX™ series can provide the computing power needed for future generations of automobiles. Each chip carries up to five integrated processor cores, so time-critical calculations can be shared between multiple cores and safety-critical calculations can be carried out on more than one core at a time for redundancy. AURIX™ is based on the TriCore™ processor architecture.

An extensive range of memory and interface configurations adds to the flexibility of the new AURIX™ series. Customers consequently have access to a consistent scalable processor architecture for everything from the most straightforward application to highly complex systems, which should simplify and speed up their hardware and software development. The first models in the AURIX™ series will be produced in 65-nanometer technology from 2014. We expect the products in this MCU series to have a life of at least 15 years.

INTEGRITY GUARD: A REVOLUTIONARY SECURITY CONCEPT FOR THE MOST DEMANDING SETTINGS

Attacks on chipcard applications have grown more and more effective over recent years. Now Infineon's revolutionary Integrity Guard security technology signals the dawn of a new age in hardware-based security for chipcard and security applications.

Developed especially for demanding and long-lived chipcard and security applications such as payment and electronic ID cards, the Integrity Card concept has enabled Infineon to create the first security controller in smartcard history to provide full error-detection capabilities and comprehensive encryption of all chip functions over the entire data path on chip. This revolutionary technology is also referred to as "digital security" in recognition of this property.

Integrity Guard features in the new SLE 78 series of 16-bit security microcontrollers and has been certified by the German Federal Office for Information Security (BSI) in this application. It is considered to be the most advanced solution in existence for protecting data on security chips.

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.XT TECHNOLOGY: IGBT INTERNAL PACKAGING TECHNOLOGY FOR IMPROVED RELIABILITY

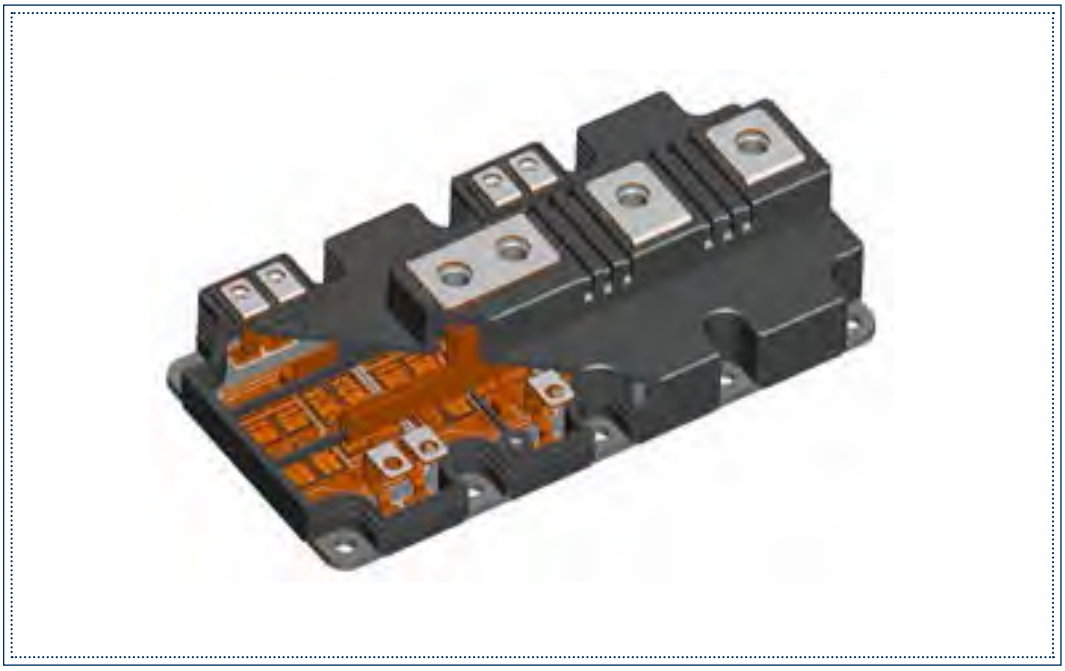
Infineon revealed a new internal packaging technology for IGBT (insulated gate bipolar transistor) modules in May 2010 that can significantly extend the life cycle of these modules. The new .XT technology (XT = extended) optimizes all interconnections within an IGBT module that are vital for long life and reliability, enabling Infineon to satisfy the ever tougher demands of current and future applications in terms of module lifetime in particular.

27

.XT technology underlines Infineon's technical leadership in the design and manufacture of IGBT modules. The technology can extend the life cycle of IGBT modules up to a factor of 10 as compared with conventional interconnect technologies. It can alternatively be employed to increase power density by up to 25 percent and also opens up the possibility of higher junction temperatures for new chip technologies.

Temperature changes caused by power cycling between on- and off-state expose the interconnects within an IGBT module to mechanical stress. The differing coefficients of linear expansion of the various layers create internal strains that can eventually lead to material fatigue and wear. The new .XT technology covers all of the areas in which power cycling resilience is critical: the bond wiring on the chip front side, the soldering on the chip back side and the soldering connecting the DCB (Direct Copper Bond) carrier board to the copper base plate.

27 IGBT MODULE (BASED ON .XT PACKAGING TECHNOLOGY)



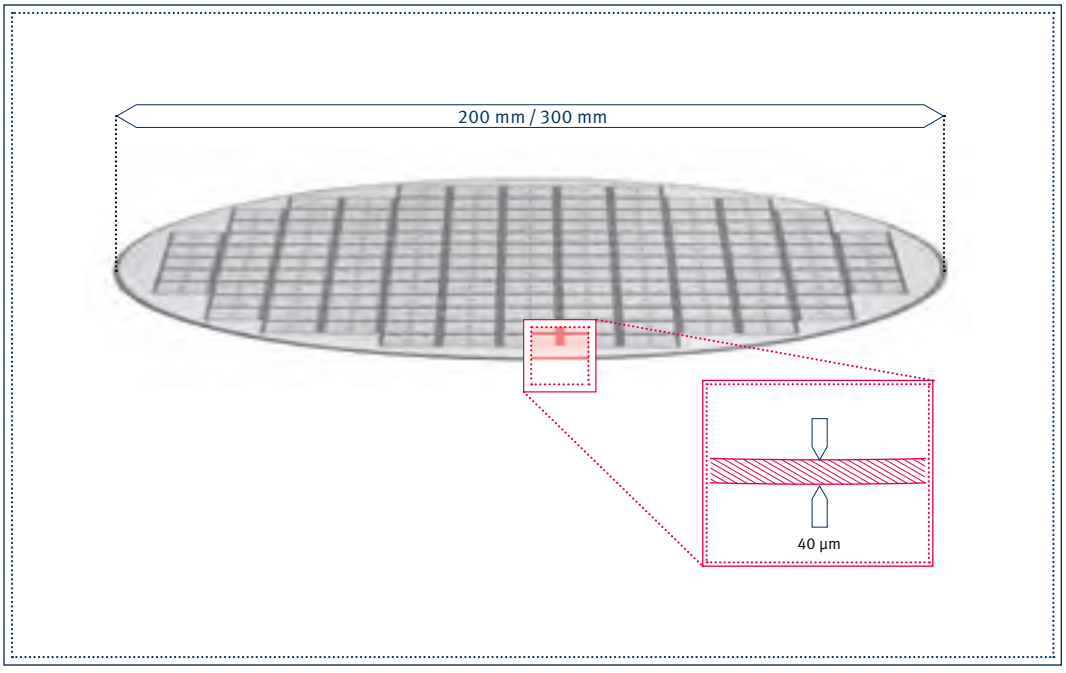
The new technology promises to help optimize all kinds of applications including large transport vehicles, construction machinery (mining vehicles), agricultural vehicles and electric buses with electric-only or hybrid diesel-electric drive. High availability – and thus high reliability – is increasingly important for our customers in these areas. Our .XT technology is also used in offshore wind turbines. Replacing parts on the high seas is complicated and expensive, so here too a long life cycle and high reliability are vital for all components.

EXTENSION OF THIN WAFER TECHNOLOGY FROM 200 mm WAFERS TO 300 mm WAFERS

Wafers for power semiconductor applications typically have a thickness of around 350 micrometers once sawn into individual chips. Wafers that have been polished down to a thickness of less than 170 micrometers are known as thin wafers and those that measure less than 100 micrometers thick are known as "ultrathin". Infineon currently employs thin wafer technologies in the 170 to 40 micrometer range depending on product requirements. Human hair, by comparison, is typically between 50 and 70 micrometers in diameter. Infineon is the only manufacturer in the world with the technological mastery to produce (on 200 millimeter wafers) power semiconductors with a thickness of just 40 micrometers. 28

Handling these thin wafers is particularly challenging. Wafers less than 100 micrometers thick break easily and it is difficult to handle and transport them or subject them to any further processing.

28 40 MICROMETER THIN WAFER WITH A DIAMETER OF 200 millimeters (today) / 300 millimeters (in future)



Thin wafer technology has several major advantages though. Unlike normal ICs, most power semiconductors have the current flowing from the front of the chip to the back. Thin wafers make it possible to process both front and back, which opens up new circuit and design functionalities. The more energy-efficient chips manufactured on thin wafers make it possible both to reduce losses and to remove the heat generated more effectively too and of course thin wafers fit into more compact packages.

Components produced on thin wafers include IGBTs and high-voltage (CoolMOS™) and low-voltage (OptiMOS™) power transistors. IGBTs are used in induction hobs to switch the high-frequency currents in the induction coils that generate the heat for cooking in the pans. OptiMOS™ and CoolMOS™ power transistors convert mains AC voltage into the required DC voltage in power supplies and adaptors. Infineon components and the systems built from them help to improve energy efficiency thanks to our thin wafer technology.

Infineon worked closely with the appropriate equipment manufacturers on every relevant step when developing 200 millimeter thin wafers to help bring the entire process chain to maturity successfully. We now intend to conduct a review within a year to determine the extent to which 300 millimeter wafers might also be used for power components with thin wafer technology and will be setting up a pilot line in Villach, Austria, one of Infineon's development facilities for power components, from the end of 2010, for this purpose.

PRODUCTION

DIFFERENTIATION BY UNIQUE PRODUCTION KNOW-HOW

We have stolen a march on our competitors in the fields of analog and mixed-signal circuits, embedded control and power semiconductor development by devising special proprietary manufacturing processes that are optimally matched to the relevant circuit requirements in all three application areas. Our effectiveness in combining our circuit expertise with optimized production processes has enabled us to become the strategic semiconductor supplier of choice for many customers.

Most of our products are manufactured in our own facilities. Power semiconductors, integrated nonvolatile memories (embedded flash) and analog circuit blocks require special manufacturing methods that are not freely available in the world market. Our production processes for both wafer processing (front-end) and testing and packaging (back-end) thus constitute a significant differentiating feature for our products.

We had to halt capacity increases at our production facilities during the economic crisis. Investment was frozen to save money in most cases and we even mothballed some of our production lines. The situation changed suddenly at the beginning of the 2010 fiscal year, with the unexpectedly strong economic recovery leading to mothballed production lines being reactivated. Encouraged by strong customer demand for power semiconductors for automotive and industrial electronics applications in particular, we began to expand our newest front-end facility in Kulim, Malaysia, rapidly and had installed almost half of the plant's maximum possible production capacity by the end of the 2010

fiscal year. We expect the Kulim site to reach the maximum production capacity beginning of the 2013 calendar year.

The rate of capacity expansion at all of our other production sites was limited by the availability of new production equipment, but by the end of the fiscal year we were still able to supply more goods to our customers than we had initially planned twelve months previously. Significantly this not only made our own extraordinarily high growth in revenue possible, but also helped our customers capture extra revenue.

Our production operations (four front-end sites and eight back-end sites) employed a total of 17,924 people at the end of the fiscal year (production sites: see map of the world on the next two-page spread).

INCLUSION IN THE DOW JONES SUSTAINABILITY INDEX

Throughout the entire semiconductor development process, Infineon is focused on efficient and careful resource management. Moreover, our innovations should significantly contribute to sustainability, not only at our customers, but already during our own manufacturing process. And it is not only the economic dimension that we care about, we care also about the use of raw materials and energy as well as its consequences for our employees. As a result of these efforts, we are pleased to report that Infineon was included in the Dow Jones Sustainability Index Europe in September 2010. Already after first application for assessment, Infineon managed to be among the ten most sustainable semiconductor companies in the world.

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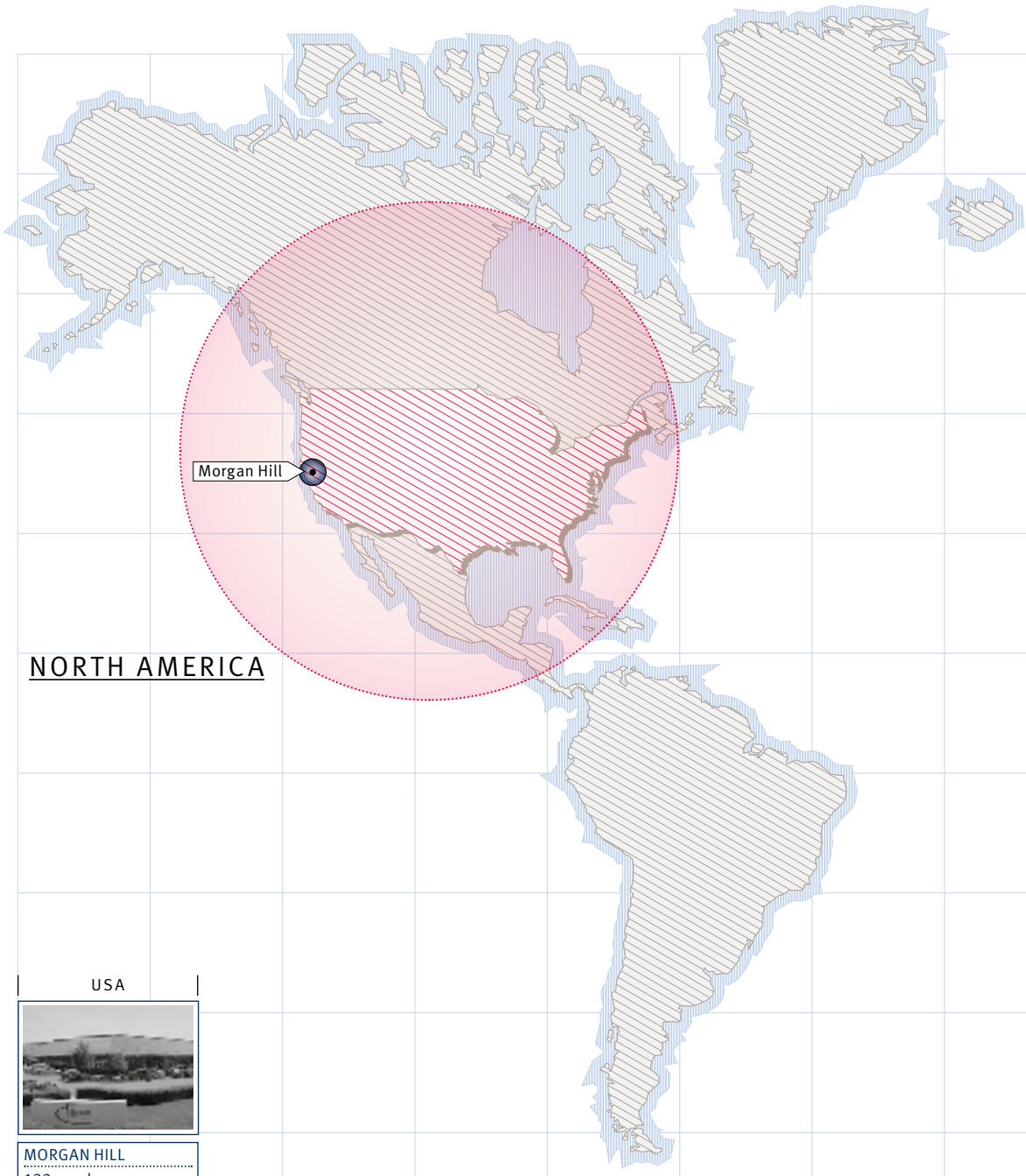
Productions sites

Front-end production

Back-end production

Front-end and back-end production



USA

MORGAN HILL

132 employees

Center of competence for radio-frequency power transistors

29 PRODUCTION SITES

GERMANY

DRESDEN
1,699 employees
CMOS, analog/mixed-signal technologies

REGENSBURG
718 employees
Power semiconductors, sensors, chip cards, eWLB, discrete semiconductors, center of competence for package development

REGENSBURG
939 employees
Special technologies, power semiconductors

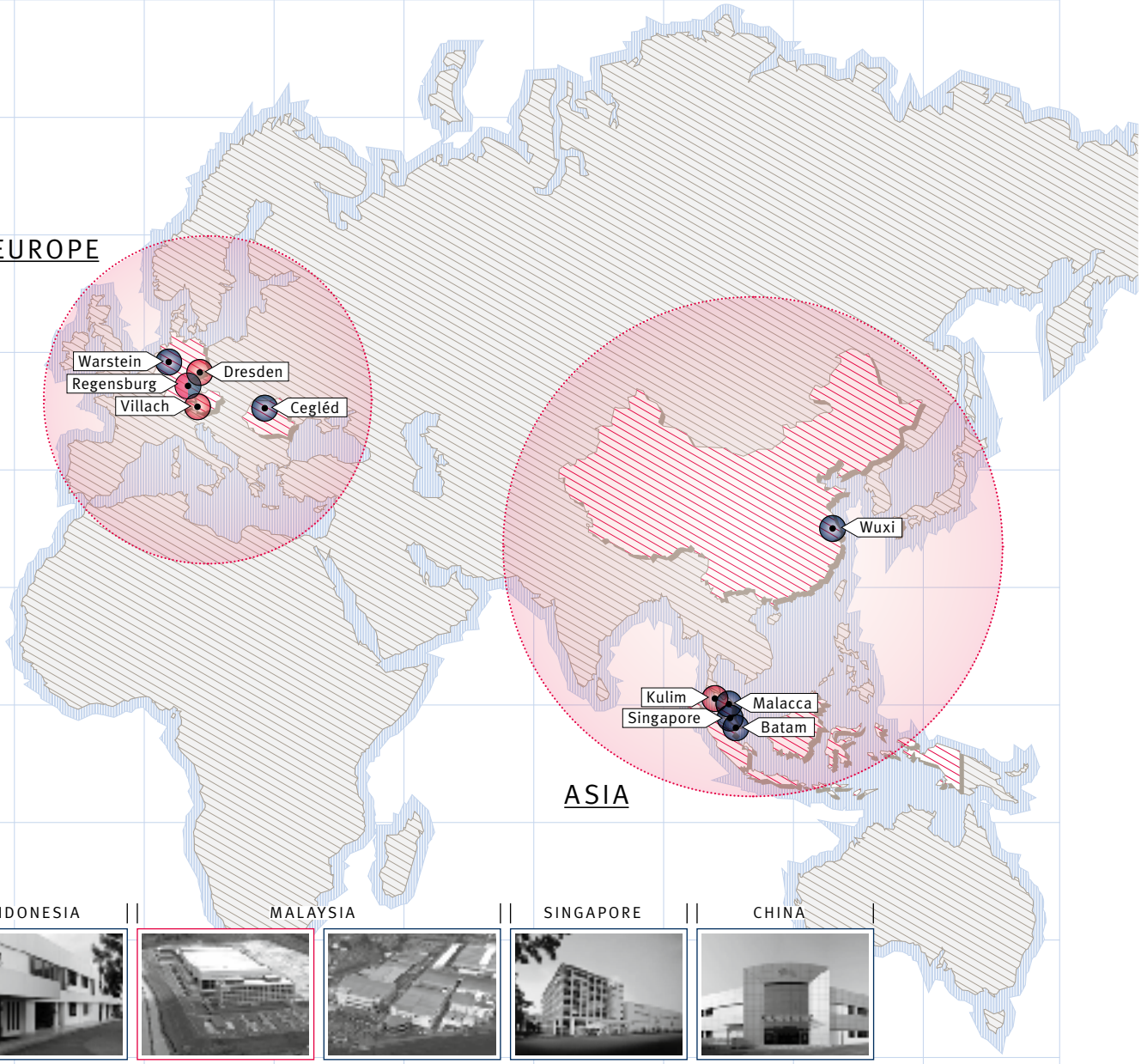
WARSTEIN
504 employees
Modules, R&D for modules

HUNGARY

CEGLÉD
517 employees
Modules

AUSTRIA

VILLACH
1,279 employees
Power transistors, center of competence for thin wafer technology



INDONESIA

BATAM
2,132 employees
Power semiconductors

MALAYSIA

KULIM
942 employees
CMOS, power transistors

MALACCA
5,746 employees
Chip cards, discrete semiconductors, sensors, R&D for packages

SINGAPORE

SINGAPORE
1,351 employees
Testers, R&D for testing concepts

CHINA

WUXI
1,023 employees
Chip cards, discrete semiconductors

SUSTAINABILITY AT INFINEON – TAKING RESPONSIBILITY FOR FUTURE GENERATIONS

As a global company and a participant of the UN Global Compact initiative we voluntarily take responsibility towards the international community. We take social responsibility and environmental protection very seriously and both are part of our overall corporate strategy. This voluntary commitment reflects our fundamental values. We have defined the necessary structures, processes and guidelines internally on the basis of the UN Global Compact principles. Our involvement with the UN's Global Compact initiative, to which we signed up already in 2004, is indicative for Infineon as a conscientious and responsible enterprise.

THE GLOBAL COMPACT
WE SUPPORT

Acting in a sustainable manner requires linking all aspects of our operations, be they economic, ecological or social in nature. We focus on six key areas: human resources management and human rights; corporate citizenship; business ethics; occupational safety and health; environmental protection; and sustainability in our supply chain. We are always looking for potential improvements in these areas and implement them not as a duty but rather as a self-evident element of our everyday business activity.

One consequence of our achievements in the area of sustainability is Infineon's inclusion in the Dow Jones Sustainability Europe Index this year. The progress we have made so far only encourages us to aim higher in future: we expect sustainability to remain a major challenge and will continue to confront the issues involved with vigor.

Dow Jones
Sustainability Indexes
Member 2010/11

OUR SOCIAL ENGAGEMENT

Our Company helps the less fortunate all over the world on a voluntary basis. The scale of the earthquake disaster in Haiti and the terrible conditions in which the country's citizens found themselves living shocked us all. We wanted to play a part in the aid and reconstruction effort and consequently decided to support the aid organizations involved financially in the fiscal year ended.

Our employees give their time to help other people. Examples include our participation in June 2010 in the Munich City Company Championship (MCCC 2010) charity soccer tournament. Our team at the event – Germany's largest company soccer tournament – helped to raise money for the Freudentanz project, an initiative that sticks up for socially disadvantaged children in the Munich area. The tournament also raised money for UNICEF's Schools for Africa project.

OUR VALUE CHAIN

We apply our values throughout the entire value chain. Services provided by our contractors and the products, materials, tools and equipment we purchase have to meet our environmental protection, occupational safety and health protection requirements and must satisfy our expectations in respect of social and labor conditions. Our defined standards and measures can be implemented more effectively by building stable partnerships and fostering open communication. Last fiscal year we proactively took up the subject of conflict metals, addressing it towards our suppliers to ensure that we do not use metals sourced from conflict areas. We are also raising the subject in the various trade associations to which we belong in order to increase awareness and establish the issue as a matter of concern within the sector as a whole.

The requirements and restrictions concerning the use of certain materials in electrical and electronic products have become tougher all over the world in recent years. While it should go without saying that we comply with these restrictions, we also feel it is very important for customers to be able to have complete confidence that our products are indeed compliant. Creating this confidence requires efficient communication in addition to the implementation of corresponding processes. The acknowledgement we receive from customers and again in audits and meetings, demonstrates that we do in fact inspire confidence in practice.

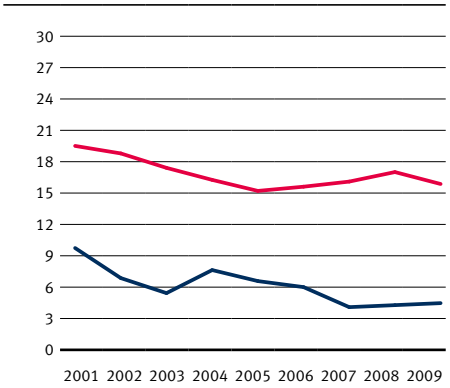
RESPONSIBILITY FOR OUR EMPLOYEES

The first priority in terms of our responsibilities for our employees has to be preventing and avoiding potential risks. We apply the same advanced concepts of occupational health and safety consistently worldwide and we never stop looking for opportunities to improve. Our accident statistics document the success of these safety measures and show that we really do follow our principles in practice.

30

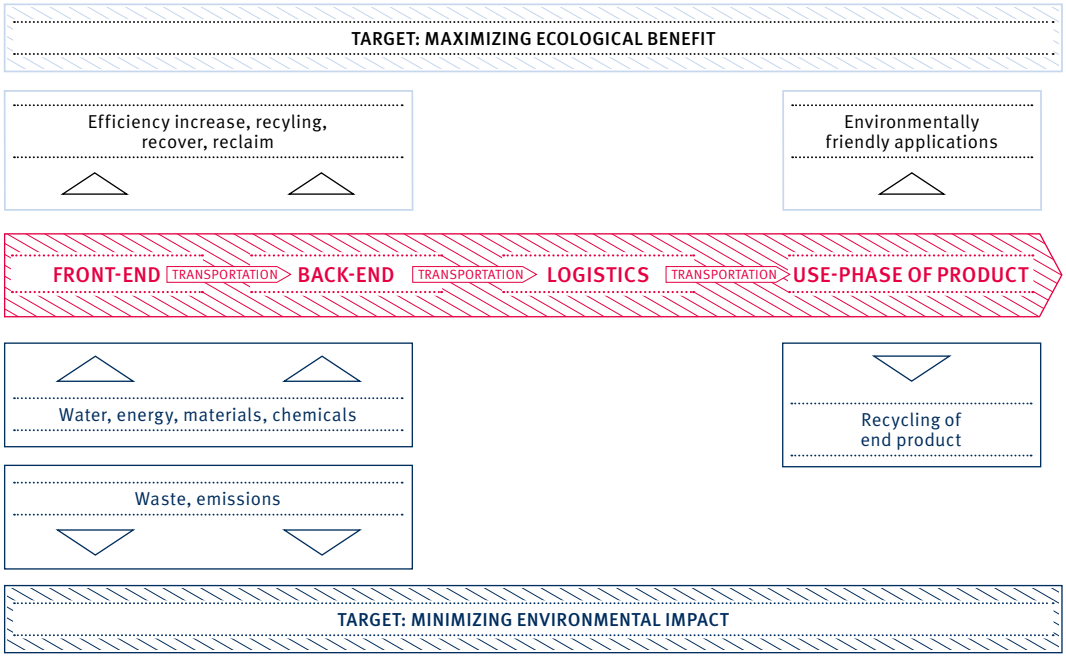
The rate of accidents at Infineon is substantially lower than the average reported by BG ETEM, the German Social Accident Insurance Institution for the Energy, Textile, Electrical and Media Products sectors. Significantly our figures cover the whole of our operation worldwide and include all work-related accidents leading to an absence of at least one day, whereas the BG ETEM reports work-related accidents resulting in at least three days' absence of work.

30 STATISTICS ON OCCUPATIONAL ACCIDENTS
PER 1,000 EMPLOYEES



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

31 SIMPLIFIED SCHEME OF THE PRODUCTION AND USE-PHASE OF A SEMICONDUCTOR INCLUDING THE MAIN ENVIRONMENTAL VARIABLES



ENVIRONMENTAL SUSTAINABILITY OF SEMICONDUCTOR MANUFACTURING

Infineon Technologies complements its endeavors in the commercial and social spheres by making a concerted effort to expand its portfolio of energy-saving solutions and to reduce emissions and minimize consumption of ever-scarcer natural resources in the production of its semiconductors.

Global demand for resources, especially energy and water, will continue to rise over the coming years. Access to these resources is a necessary condition for a thriving national economy, so making sure we always use them in an efficient and responsible way simultaneously helps to protect the global environment – for example through intelligent measures to combat climate change – and to facilitate a more equal distribution of wealth and the attendant social benefits.

A company's environmental footprint is one of the principal measures of its environmental impact and a key tool in identifying potential improvements. Figure 31 presents a simplified environmental footprint scheme for our semiconductors showing the parameters energy, material usage, water consumption, waste generation, recycling, transportation, and environmental impact in the use-phase.

Like just about any industrial production process, semiconductor manufacturing necessarily entails the use of a certain amount of energy, water, chemicals and other materials. For technology reasons, a core area is our front-end production, where the silicon wafers are structured, and it is here that the most energy – principally electrical energy – is consumed.

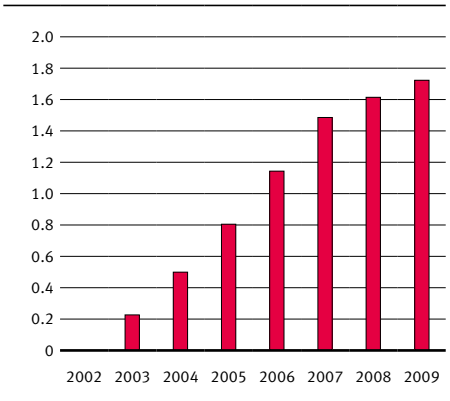
Motivated by our conviction that energy savings are the best energy source, we have been working systematically for many years – and certainly since long before such measures quite rightly became high-profile public and political issues – to reduce our energy consumption per square centimeter manufactured silicon wafer. Following this principle we were able to reduce energy consumption at our front-end production facilities considerably over recent years in spite of the increasing complexity of our products and processes. The improvements realized range from examining consumption figures prior to purchasing infrastructure and manufacturing equipment to refining existing systems to measures designed to raise awareness of our sustainability concept among employees and contractors and encourage them to share it.

A unit known as the "negajoules" has been implemented to measure the impact of such steps. The term describes the energy not consumed because of enhanced energy efficiency. Figure 32 shows
32 the Negajoules of our front-end facilities for the period 2002 to 2009. The amount of energy, or electricity, saved up to 2009 is equal to 716,000 tons of carbon dioxide.

Internal knowledge sharing and international benchmarks make sure that improvements are implemented right across all sites throughout the Company. This means that our back-end production facilities, where our structured silicon wafers are processed to create finished semiconductor products, have been optimized in much the same way as the front-end facilities even though back-end operations are by their very nature considerably less energy-intensive than front-end processes.

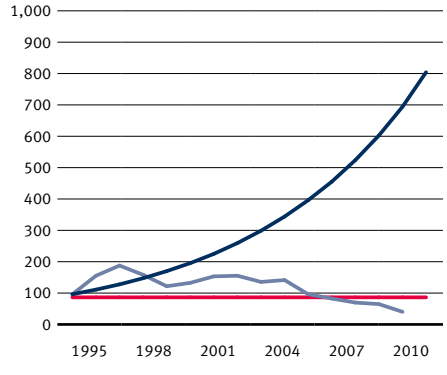
While our manufacturing operations certainly account for the lion's share of our energy consumption, we are by no means content to stop here. We analyze every potential saving, including in our offices. Publicity campaigns at our Campeon corporate headquarters site, for example, have raised employee awareness of relevant issues and given them concrete recommendations to follow. Thanks to these measures, our annual carbon dioxide emissions for this site are 172,000 kg lower than they would otherwise be. We took another interesting step in the fight against climate change in June 2010 with the commissioning of a geothermal heat supply system at Campeon.

32 NEGAJOULES
TWh



Negajoules cumulated
Amount of energy saved (what is known as negajoules) at our front-end production facilities, excluding our former subsidiaries, between 2002 and 2009 (in terawatt-hours).

33 PFC EMISSIONS 1995 TO 2010 (EU)
CO_2 EQUIVALENTS (%)



Estimated emissions
Goal based on the voluntary commitment
Real emissions

Geothermal energy is heat stored in the upper regions of the Earth's crust in forms including naturally heated water. Geothermally heated water at 122 degrees Celsius from a depth of 3.5 kilometers is used for district heating and electricity generation. Geothermal energy is virtually inexhaustible, is categorized as a renewable source and saves carbon dioxide at our corporate headquarters by around 1,000 tons a year.

The semiconductor industry is not a major consumer of chemicals, but limited quantities are essential in chip manufacturing, for example in the creation of the structures on the silicon wafers. We implement recycling and optimize our processes wherever feasible in order to minimize our environmental footprint. Water we use principally in the form of process water and cooling water. We use closed-loop systems wherever possible to avoid unnecessary water consumption. We continuously compare our performance in the areas of water consumption, greenhouse gas emissions, energy efficiency and waste reduction and recycling against international benchmarks. This exercise indicates that our production facilities have been at the leading edge of active environmental protection since many years.

Reducing energy consumption is just one of the ways in which we can help to protect our environment. Another major environmental challenge, especially in the context of the threat posed by climate change, is the need to reduce emissions. We recognized this at an early stage, as evidenced by our voluntary commitment adopted in 1998 to reduce perfluorinated compounds (PFCs). PFCs are greenhouse gases necessary for the production of semiconductors. Our voluntary target was to reduce our absolute PFC emissions to ten percent below 1995 values by 2010, calculated in carbon dioxide equivalents. Thanks to our employees' ingenuity in finding alternative process chemicals and our intelligent approaches of abatement systems, we achieved this ambitious target three years ahead of schedule in 2007, meaning that we actively contribute to climate protection.

33

Our policy in respect of abatement systems aims to realize the ecological optimum. We have identified the theoretical main emitters using internal analyses and implemented abatement systems – But treatment itself requires inputs of energy and in some cases also chemicals, so it is important to establish the point at which diminishing returns make further treatment counterproductive by increasing rather than decreasing the overall environmental impact. Striking the right balance requires rigorous environmental engineering assessments.

As the curve in the figure showing our real emissions illustrates, we have continued to apply the concepts described consistently even after surpassing our voluntary commitment.

FACILITATING SUSTAINABILITY THROUGH OUR PRODUCTS AND SOLUTIONS

A company's environmental footprint does not end when its products leave the factory gate: any analysis must also include proper consideration of the products' use-phase. Ultimately we have to consider whether the consumption of resources involved in manufacturing a product actually "makes sense" from an ecological viewpoint. Mindful of this, Infineon provides products that not only help to improve security and enable mobility, but also facilitate the realization of energy-efficient concepts and end products across an enormous range of fields and applications. Our products and innovations create considerable value added for the environment as compared with conventional technologies.

This value added extends from energy generation and distribution to the use phase of applications and end products. Our products and solutions feature in wind and solar power plants, for example, in lighting systems and in power supplies. As the global market leader in semiconductors for automotive, our products and solutions also underpin improvements in energy consumption in a huge number of automobile applications, an area in which their overall impact on reducing consumption is particularly noticeable. We offer semiconductor solutions for all relevant applications in the electromobility segment too and are hence playing an important role in supporting developments in this innovative field of technology. The products and solutions mentioned underline the importance of innovations in moving toward true sustainability. The following selected examples give an idea of the powerful implications of our accomplishments in this area:

- Our products and solutions in automobile enable annual reductions equal to 3.8 million tons of carbon dioxide.

- Our products and solutions for PC power supplies enable annual reductions equal to 140,000 tons of carbon dioxide.

- Our products and solutions for electronic ballasts enable annual reductions equal to 330,000 tons of carbon dioxide as compared with conventional magnetic ballasts.

The numbers and our calculated indicators show that in our case at least, the consumption of resources involved in manufacturing our products really does makes sense from an ecological viewpoint: the volume of emissions, expressed in each case in carbon dioxide equivalents, saved in end products thanks to the use of our products and solutions is almost seven times as high as the volume of emissions generated in the manufacture of our products.

The notion of taking responsibility for people and the environment stands at the very heart of the modern integrative concept by which our actions at Infineon are guided. What matters more than anything else in this connection is that we put our professed social and environmental principles into practice proactively every day in our production facilities, in our products and in everything we do. Infineon, moreover, applies these selfsame principles worldwide: national boundaries have no part to play when it comes to caring for people and the environment.

As the environmental efficiency of our production facilities and the environmental benefits opened up by our products ably demonstrate, innovation and responsibility for the environment are two sides of the same coin for Infineon. Using our products is thus also a smart move from an ecological point of view – it “makes sense” for the environment.

We believe our product portfolio, which facilitates efficiency improvements throughout the energy value chain including distribution and consumption, is absolutely unparalleled. That we manufacture these products in such an efficient manner is in turn sustainable.

PEOPLE EXCELLENCE IN A HIGH-PERFORMANCE COMPANY

The corporate Human Resources function exists first and foremost to ensure that Infineon is staffed with qualified and committed employees working in lean and efficient structures. This is a crucial factor both in the value creation process and in building Infineon's reputation as a high-performance company. Human Resources pursued numerous projects and initiatives in the 2010 fiscal year in this connection, such as successfully completing its crisis management activities from 2009 and playing an active role in Infineon's reorganization. The launch of our new mission statement intended to give employees orientation after the crisis and create a shared new identity marked a conscious effort to signal the dawn of a new era. Another important step was the introduction of a new compensation system throughout the Company, which ties future variable compensation exclusively to the financial success of Infineon as a whole. We made a priority of cultivating and enhancing our attractiveness as an employer in order to secure the long-term commitment of our employees and play a key role in the implementation of business decisions such as the pending sale of our Wireless mobile phone business. As in all such matters, we emphasize to work constructively with the employee representatives at all times.

ENSURING SUSTAINABLE PROFITABILITY

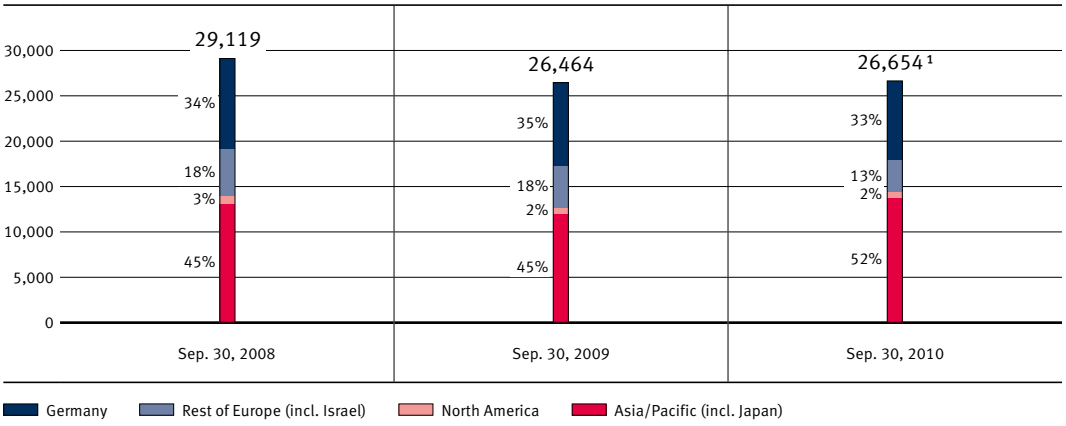
Despite the positive financial results of the first quarter, ensuring sustainable profitability was our first and main concern in the 2010 fiscal year. Like other functions, Human Resources continued to feel the effects of the previous year's crisis management activities for much of the first half of the fiscal year ended: in a few areas the implementation of the measures introduced to reduce staffing levels carried on, we continued to work on realizing organizational changes and the cost control measures (such as restrictions on travel) were largely maintained. The training budget in particular remained tight such that external training could only be provided where required by law or essential to the business. For us and our people development, this implied a renewed focus on internal training options. Working with the departments, we managed to arrange numerous internal training sessions in 2010 as well as facilitating knowledge sharing through our "Innovation Fab" and "Innovation Star" initiatives and the resulting "iCommunities". Human Resources faced its toughest challenges at our production sites. The rapid rise in demand following the crisis required us not only to increase local capacities, but also to arrange quick and flexible availability of labor.

A NEW MISSION STATEMENT: THE INFINEON COMPASS

Infineon coped extraordinarily well with the crisis of the last two years. Maintaining this success in the future will mean ushering in a new phase of profitable growth and devoting all our efforts to developing Infineon from a good company into a true high-performance company. Sustaining our profitability is paramount in this: The revenues we generate must cover our capital costs and permit investment so that we continue to be competitive and attractive in the financial markets. At the same time our ambition is to be the innovation leader in semiconductors in the fields of energy efficiency, mobility and security.

Our new mission statement, the Infineon Compass, will guide us on this journey to becoming an enduringly successful company by helping our employees understand where we are, where we want to be and how we plan to get there and by highlighting the values that guide our actions.

34 **EMPLOYEES BY REGIONS**
BASIS: CONSOLIDATED INFINEON COMPANIES, NOMINAL



1 Approximately 3,400 employees worldwide from our Wireless Solutions segment and from central functions are intended to be transferred to Intel upon closing of the sale of the Wireless mobile phone business.

Our actions are governed by the four values: **"We commit – We innovate – We partner – We perform"** – and these are what drive our day-to-day activities. They are complemented in our mission statement by four cardinal high-performance criteria:

- **Ambitious goals and a clear focus on results:** We set ourselves ambitious targets and focus with what we do on things that lead us to the aspired result.
- **Entrepreneurial decision-making:** We take decisions entrepreneurially – accept responsibility for target attainment and are alive to opportunities and risks.
- **Lean and fast execution:** We swiftly and efficiently implement decisions that have been made, instead of calling them into question time and again.
- **Passionate and talented people:** We work with passion and confidence across organizational boundaries towards joint success.

The Compass and its principles create an intellectual framework for our operations without restricting the freedom of every team and every last employee to add their own individual contribution. For this we have been holding Compass workshops in all areas and at all levels of the Company since the middle of the year.

INTRODUCTION OF A NEW COMPENSATION SYSTEM

The introduction of a new compensation system for employees previously covered by the old Bonus & Incentive Guideline on October 1, 2010 represents another milestone on the path to becoming a high-performance company. The new system removes the link between variable compensation and individual targets, tying future bonus payments solely to the performance of Infineon instead. Every employee receives an attractive basic salary plus a performance-related bonus based on targets and metrics that reflect the commercial success of the Company. This change gives employees an even greater stake in the Company's business achievements.

We believe the new compensation system offers other significant advantages too, not least the fact that the annual employee reviews will now be able to concentrate on specific feedback from manager to employee. This does not mean that discussing past performance and defining individual targets will take a back seat; on the contrary we expect severing the direct link between individual performance and the level of bonus payments to make discussing performance and targets not only easier, but also more productive. The new arrangements fit in well with our drive to make internal processes faster and more efficient as well. They reduce administrative work and help streamline internal human resources processes, giving us greater opportunity for effective dialog between managers and employees.

CORPORATE CULTURE, DIVERSITY AND TALENTS

Developing and maintaining a corporate culture attractive to our work force is a key step for Infineon on the path to becoming a high-performance company. Enhanced employee commitment is just one of the benefits of having an attractive corporate culture and a positive image as an employer: employees who are excellent ambassadors for the company brand can spread the word of Infineon's appeal as an employer outside the organization with unrivalled credibility.

The **Great Place to Work®** employee survey was carried out across the German sites of Infineon Technologies AG and Infineon Dresden for the first time at the beginning of the 2010 fiscal year in order to evaluate Infineon's corporate culture and image as an employer. We have taken the findings as a call to engage even more actively in the cultivation of a positive employer image among our employees: we now know where we stand and what we need to work on in order to secure a place among the leading employers in future even in difficult times. We consider regular feedback from our employees to be vital in our ongoing effort to reshape the Company. The participation in 2009 was no one-off: we intend to conduct the survey every year and will start with the next survey once again at the beginning of the new fiscal year.

One of our main priorities in building and enhancing an attractive employer brand is to ensure that our corporate culture at Infineon values **diversity** and provides **fair working terms and equal opportunities** for all employees. To this end Infineon launched a diversity management initiative some time ago now to address the associated issues in depth at an interregional level. The number of women in management positions has been one of the most frequently discussed topics in recent months and has also been considered by the Company's top management. We have been working hard for many years – and not without success – to generate enthusiasm for careers in the natural sciences among women and men alike and to ensure their progression on a strategic basis in all areas of the Company and at all levels of responsibility. This has enabled us to increase the proportion of women in top management roles significantly over recent years. In this regard we are focusing on activities that help women enjoy the same opportunities as men and make it easier to combine work and family. We want the importance of family life to be recognized and acknowledged across all aspects of Infineon's operations and for this to become a permanent and prominent element of our corporate culture. We took another significant stride toward realizing this objective in the summer of 2010 with the completion of a "berufundfamilie" (career and family) audit. The audit results form the basis of a three-year action plan detailing how we can provide even better support to help our employees combine career and family. Developing women to occupy positions in senior management is one of Infineon's corporate objectives. We have resolved to increase the proportion of women in leading positions from about 11 percent at present to 15 percent by 2015, and to 20 percent by 2020. Equally, Infineon has set itself the overriding task of ensuring plans are in place to secure future talent for the Company, particularly in the technical areas.

Infineon operates in a global context, so individual and cultural diversity are highly significant. We launched a **talent management initiative in Asia** in the 2010 fiscal year in order to make better use of the potential of diversity within the Company. Asia is vitally important for us: home to an enormous range of cultures and harboring immense potential for growth, it offers unparalleled opportunities to recruit talented employees for us. We are accordingly investing in cooperative agreements with respected universities and institutions in the region in order to secure a supply of future talent for the company. We aim to do even more to help our Asian employees acquire the skills necessary for key positions in order to expand our talent pool at both regional and global level. In the medium to long term, we want to create real value from diversity and make the most of all of the different strengths within our organization, for example by bringing employees from different cultures together as part of the talent program. We as a company are also witnessing first-hand the rapid developments taking place within Asia. Keeping pace with these changes – and keep pace with them we must – demands a thorough understanding of the market and close local contacts, an area in which the advancement of talented local employees clearly has a particularly important role to play. Scheduled to commence operations in Asia at the beginning of the new fiscal year, our talent management program is intended to offer selected development and training opportunities for high-potential employees to help them augment their Asia-specific knowledge with international management skills and build up an optimal internal contact network for their subsequent career at Infineon. We are additionally planning to roll out the standardized talent program worldwide.

REALIZATION OF THE SALE OF OUR WIRELESS MOBILE PHONE BUSINESS

Human Resources also plays a key role in implementing the business management decisions made on the path to becoming a high-performance company. Chief among these at the moment from our perspective is the planned sale of our Wireless mobile phone business, which involves the transfer of around 3,400 employees spread across more than 20 locations around the world. Human Resources faces a number of challenges in connection with this project. We assist with the process to devise a legal structure for the new company, negotiated with the Works Council in Germany and concluded the balancing of interests. As well as helping to design the new structures involved, we offer managers special trainings in relevant aspects of labor law and the field of change management in order to prepare them for the necessary dialogs with employees supposed to transfer to the new company. Human Resources also has one further important contribution to make for both Infineon and the new company: it is essential to ensure in both organizations that all functions and processes remain available in efficient structures when the carve-out is effected. For us this means not only ensuring a smooth operational transfer of employees, compensation systems, structures and HR data, but also – and perhaps even more importantly – reinforcing the self-confidence and motivation of the employees of both companies and making sure they are on board for another exciting journey into the future.

Infineon moved ahead with its restructuring activities over the course of the fiscal year ended, consciously embarking on a new phase in the Company's development in the process. The changes being made place particular demands on Human Resources as both a driver and a facilitator of Infineon's evolution into a high-performance company. We have already taken significant steps on the way to becoming a high-performance company, with the launch of the Infineon Compass and the introduction of the initial set of high-performance-inspired measures, and will continue to play an active role in helping the Company scale the heights to which we all aspire.

INFINEON TECHNOLOGIES AG SHARE CAPITAL, SHARES OUTSTANDING AND MARKET CAPITALIZATION

As of	September 30, 2009	**September 30, 2010**	Change
Share capital in € millions	2,173	2,173	0%
Shares outstanding in millions [1]	1,087	1,087	0%
Yearly average in millions [2]	855	1,171	+36.96%
Market capitalization in € millions	4,189	5,521	+31.80%
Market capitalization in U.S. $ millions	6,129	7,514	+22.60%

1 undiluted **2** diluted

SHARE INFORMATION

Share types	Ordinary registered shares in the form of shares or American Depositary Shares (ADS) with a notional value of 2.00 euros each (ADS:shares = 1:1).
Share capital	€2,173 million (as of Sept. 30, 2010)
Shares outstanding	1,087 million (as of Sept. 30, 2010)
Listings	Shares: Frankfurt Stock Exchange (FSE)
	ADS: over the counter market (OTCQX)
Options on trading	Shares: inter alia Eurex
Initial Public Offering (IPO)	March 13, 2000 on FSE and New York Stock Exchange (NYSE)
IPO issue price [1]	€31.31 per share
	U.S. $30.35 per ADS
Ticker symbol	IFX, IFNNY
ISIN Code	DE0006231004
German Security Identification Number (WKN)	623100
CUSIP	45662N103
Bloomberg	IFX.GY (Xetra trading system), IFNNY US
Reuters	IFXGn.DE
Index membership (selected)	DAX-30 Dow-Jones-German-Titans-30 Dow Jones Euro Stoxx Technology MSCI Germany S&P-Europe-350 Dow Jones Sustainability Index Europe

INFINEON SHARE STATISTICS
FISCAL YEAR ENDING SEPTEMBER 30

	2008	2009	**2010**
Europe: Xetra close in €			
Fiscal year close [1] (end September)	3.50	3.86	5.08
Year high [1]	10.69	4.00	5.54
Year low [1]	3.27	0.35	3.05
Daily average shares traded	16,992,529	24,100,158	20,699,149
Of which Xetra trading in %	98	92	95
USA OTCQX close in U.S. $			
Fiscal year close [1] (end September)	5.17	5.60	6.93
Year high [1]	15.84	5.82	7.31
Year low [1]	4.85	0.43	4.38
Daily average ADS traded	2,895,908	1,578,963	160,308

1 The Infineon share price trades ex subscription rights after the capital increase 2009. Historical prices have been adapted.

SHAREHOLDER STRUCTURE[1]

Dodge & Cox (as per Aug. 5, 2009)	9.95%
BlackRock Inc. (as per Jan. 29, 2010)	5.11%

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

Freefloat: 100% according to the definition used by FTSE.

FOR FURTHER INFORMATION PLEASE CONTACT INFINEON'S INVESTOR RELATIONS TEAM:
PHONE: +49 89 234 26655 ◦ FAX: +49 89 234 955 2987 ◦ E-MAIL: INVESTOR.RELATIONS@INFINEON.COM

THE INFINEON SHARE

The Infineon share price (Xetra closing price) rose by 32 percent in the 2010 fiscal year to end the year at 5.08 euros (September 30, 2009: 3.86 euros).

STEADILY IMPROVING RESULTS BOOST PRICE IN THE FIRST SIX MONTHS AFTER A WEAK START

Like all of the relevant benchmark indices, the Infineon share lost value continuously over the first month of the fiscal year. Speculation that Infineon had lost an important customer order only exacerbated the downward trend and our share price hit its low for the year of 3.05 euros on October 28, 2009. Even Infineon's November 6 announcement that the sale of the Wireline Communications business had been completed successfully produced only a negligible 1 percent rise. When Infineon upgraded its outlook for the first quarter of the 2010 fiscal year on December 22, however, the price began to rise sharply and continued on this trajectory well into January. From the middle of February onward the Infineon share also benefited from the accelerating economic recovery. General speculation that the second quarter would also yield very good quarterly results then gave our share price another significant boost toward the end of the first half of the fiscal year.

Relevant benchmark indices also picked up over the first half of the 2010 fiscal year: in the six months to March 31, 2010, the Dow Jones U.S. Semiconductor Index rose by 12 percent, the Philadelphia Semiconductor Index rose by 19 percent and the German DAX stock index rose by 8 percent. The Infineon share price increased by 33 percent over the same period.

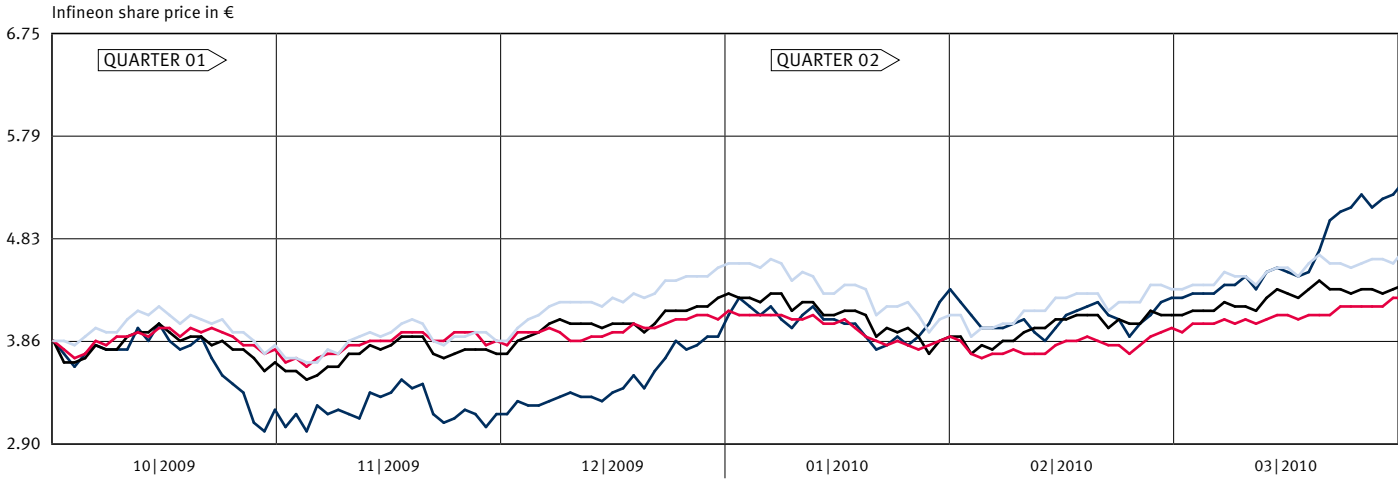
SECOND HALF SHAPED BY RESTRUCTURING AT INFINEON AND CONCERNS ABOUT THE SEMICONDUCTOR MARKET

The positive trend in the development of the Infineon share price over the first half of the fiscal year continued into April 2010 and the share peaked for the year at 5.54 euros on April 26, 2010. Two days later Infineon upgraded its forecast for the second time, but instead of strengthening further, the price actually began to fall as a result of macroeconomic fears rooted in the Greek debt crisis. The Infineon share price then began to rally again from the middle of May 2010 following a general upturn in stock market activity and also, quite possibly, speculation in the media about the sale of the Company's Wireless mobile phone business. Uncertainty about the prospects for the global economy in general and the semiconductor industry in particular and concerns about inventory building in the supply chain and the consequent risk of a sharp drop in demand became the prevailing influences on the Company's share in the months of July and August. August proved a particularly difficult time for the share as a result.

The price of the Infineon share rose continuously from the middle of September as a growing number of investors welcomed the Company's new alignment following the August 30 announcement of the sale of the Wireless mobile phone business. Infineon upgraded its quarterly forecast for the third time in the fiscal year on September 21, 2010, announcing at the same time that it aimed to keep revenue stable in the first quarter of the 2011 fiscal year as well, and this also helped to sustain the upward trend in the share price.

Concerns about the semiconductor market in the second half of the fiscal year also had a negative impact on the relevant semiconductor benchmark indices, with the Dow Jones U.S. Semiconductor Index (-7 percent) and the Philadelphia Semiconductor Index (-5 percent) both falling between March 31 and the end of September 2010.

36 **DEVELOPMENT OF THE INFINEON TECHNOLOGIES AG SHARE COMPARED TO GERMANY'S DAX INDEX AND PHILADELPHIA SEMICONDUCTOR INDEX AND THE DOW JONES U.S. SEMICONDUCTOR INDEX FROM THE BEGINNING OF THE 2010 FISCAL YEAR** (DAILY CLOSING PRICES)

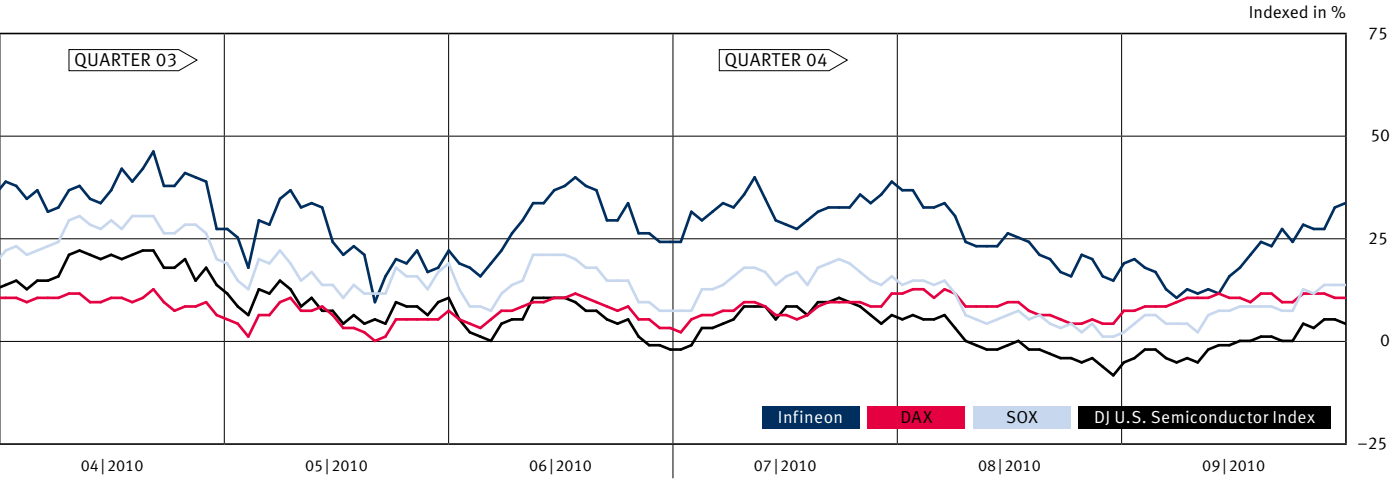


The Infineon share price, however, fell by just 1 percent over the same period (DAX: +1 percent). Our share also outperformed the benchmark indices by a substantial margin over the fiscal year as a whole: while the Dow Jones U.S. Semiconductor Index and the Philadelphia Semiconductor Index posted gains of just four and 13 percent respectively, the Infineon share price rose by 32 percent (DAX: +10 percent).

SEC DEREGISTRATION COMPLETED; SUPERVISORY BOARD AND MANAGEMENT BOARD PROPOSE PAYMENT OF A DIVIDEND

An average of 20.7 million Infineon shares were traded every day in the 2010 fiscal year via Xetra, the Frankfurt Stock Exchange and other German regional exchanges. The previous year's daily average was somewhat higher at 24.1 million shares. Trading volume in euros, in contrast, rose by 120 percent to 23.9 billion euros (previous year: 10.9 billion euros) and helped to stabilize the Company's position in the DAX index following its return in September 2009. Infineon's position in the DAX ranking by trading volume in euros improved from 24th on September 30, 2009 to 14th on September 30, 2010.

35 Average trading volume on the over-the-counter OTCQX market fell from 1.6 million ADSs a day in the previous year to 160,000 per day in the 2010 fiscal year. ADSs continued to decline as a proportion of the total number of Infineon shares outstanding in the period under review. There were 37.6 million ADSs in circulation at the beginning of the fiscal year but just 14.1 million twelve months later.



37 RELATIVE PERFORMANCE OF THE INFINEON SHARE AND WORLDWIDE INDICES

Through end September 2010	Since end September 2008	**Since end September 2009**
Europa		
Infineon (Xetra)	+45.14%	+31.61%
DAX	+6.83%	+9.76%
DJ-Stoxx-50	(5.80%)	+1.15%

Through end September 2010	Since end September 2008	**Since end September 2009**
USA		
Infineon (OTCQX)	+34.04%	+23.75%
DJ U.S. Semiconductor Index	+13.73%	+4.10%
Philadelphia Semiconductor Index (SOX)	+14.63%	+7.99%

Infineon filed an application with the U.S. Securities and Exchange Commission on August 6, 2010 for deregistration of its ordinary shares under the U.S. Securities Exchange Act. Deregistration was effected on November 4, 2010. This means that Infineon no longer has to comply with the reporting duties defined in the Securities Exchange Act, which include the submission of an annual report on Form 20-F and regular financial reports on Form 6-K.

In light of the Company's excellent progress in the 2010 fiscal year, the Management Board and the Supervisory Board decided to propose a dividend of 0.10 euros per share to the Annual General Meeting of Shareholders. The Group's parent company, Infineon Technologies AG, reported accumulated income of 109 million euros for the 2010 fiscal year following accumulated deficit of 5,940 million euros in the previous year.

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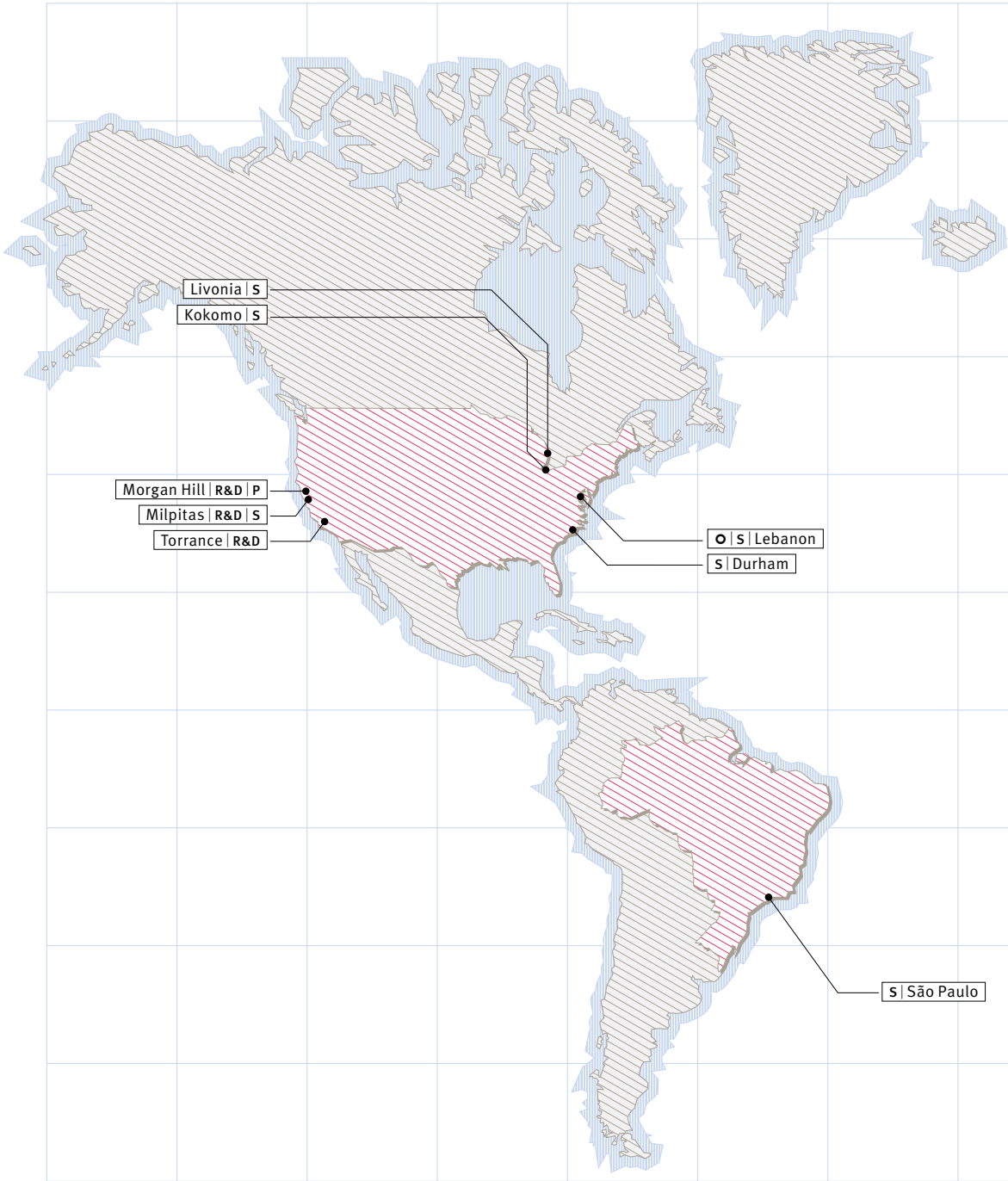
Infineon sites

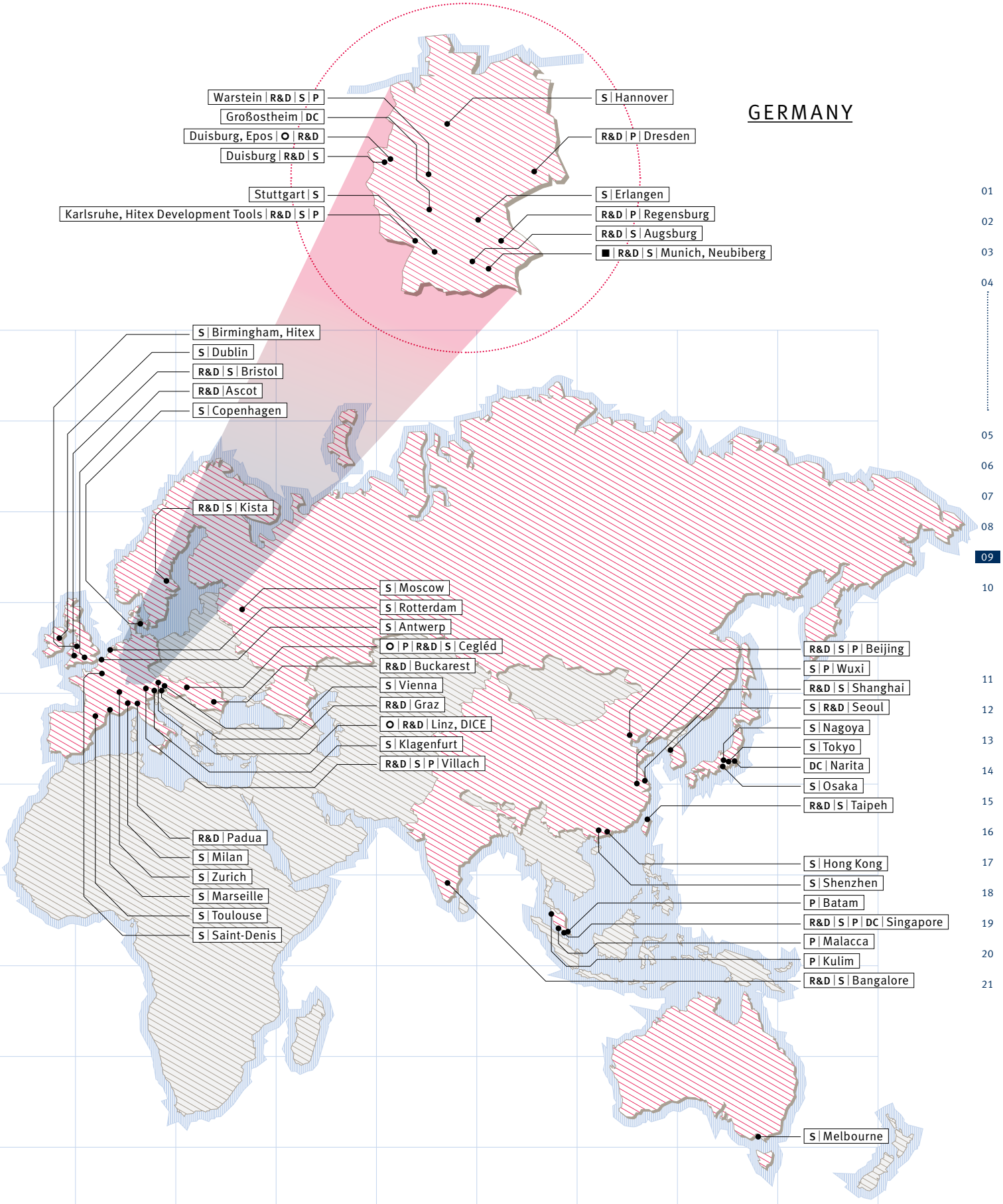
■ Headquarters
○ Majority holding

P Production
R&D Research & Development

S Sales
DC Distribution center



38 SITES


GERMANY
Warstein | R&D | S | P
Großostheim | DC
Duisburg, Epos | O | R&D
Duisburg | R&D | S
Stuttgart | S
Karlsruhe, Hitex Development Tools | R&D | S | P
S | Hannover
R&D | P | Dresden
S | Erlangen
R&D | P | Regensburg
R&D | S | Augsburg
■ | R&D | S | Munich, Neubiberg
S | Birmingham, Hitex
S | Dublin
R&D | S | Bristol
R&D | Ascot
S | Copenhagen
R&D | S | Kista
S | Moscow
S | Rotterdam
S | Antwerp
O | P | R&D | S | Cegléd
R&D | Buckarest
S | Vienna
R&D | Graz
O | R&D | Linz, DICE
S | Klagenfurt
R&D | S | P | Villach
R&D | Padua
S | Milan
S | Zurich
S | Marseille
S | Toulouse
S | Saint-Denis
R&D | S | P | Beijing
S | P | Wuxi
R&D | S | Shanghai
S | R&D | Seoul
S | Nagoya
S | Tokyo
DC | Narita
S | Osaka
R&D | S | Taipeh
S | Hong Kong
S | Shenzhen
P | Batam
R&D | S | P | DC | Singapore
P | Malacca
P | Kulim
R&D | S | Bangalore
S | Melbourne

INFINEON 2010

QUARTER 01	11|2009	Infineon and TSMC extend their development and production partnership agreement to 65 nanometer embedded flash process technology for automotive and chip card applications.
	11|2009	Completion of the sale of Wireline Communications to Golden Gate Capital. The business subsequently operates as a legally independent company under the name Lantiq.
	11|2009	Infineon supplies security chips for electronic passport in China.
	12|2009	Infineon's TPM (Trusted Platform Module) security chip becomes the first in the world to pass the toughest international security tests for PC security and is approved for British government applications.
QUARTER 02	02|2010	Presentation of the BGM781N11 – the world's smallest fully integrated GPS receiver module.
	02|2010	Unveiling of the LED driver offering maximum efficiency and an exceptional power quality for incandescent bulb replacement.
	02|2010	Presentation of the 25V OptiMOS™ power MOSFETs with the industry's lowest on-state resistance for voltage regulation in power supplies for computer servers and telecommunications switches.
	03|2010	Announcement of the XC800 8-bit microcontroller series for high temperature applications at up to 150°C; fields of application include turbo chargers, engine control fans, throttle or valve control, fuel pumps and electric power steering.
QUARTER 03	05|2010	Infineon becomes the first non-Japanese company to receive the top quality award from Toyota's Hirose car factory in recognition of its outstanding product quality.
	05|2010	Announcement of the development of .XT internal packaging technology for IGBT modules, which increases IGBT module lifetime and reliability by a factor of 10.
	06|2010	Launch of the 650V CoolMOS™ C6/E6 series of high-voltage power MOSFETs, the sixth generation of this line, for maximum efficiency and easy control in switched-mode power supplies.
	06|2010	German Federal Office for Information Security (BSI) affirms outstanding security performance for the SLE 78 security controllers with revolutionary Integrity Guard security technology.
QUARTER 04	07|2010	Presentation of the AUDO MAX series of 32-bit microcontrollers for powertrain and chassis control applications in low-consumption cars and electric vehicles.
	08|2010	Application for deregistration of the Infineon ordinary share filed with the U.S. Securities and Exchange Commission (SEC). Deregistration from the SEC was completed after the end of the fiscal year in November 2010. This means that Infineon is absolved from its reporting duties (filing of quarterly and annual reports) under the U.S. Securities Exchange Act.
	08|2010	Sale of the mobile phone business of the Wireless Solutions segment to Intel announced.

TURNING POTENTIAL INTO VALUE

Infineon Technologies AG
Financial Review 2010

CONTENT

REPORT OF THE SUPERVISORY BOARD
TO THE GENERAL SHAREHOLDERS' MEETING

PROF. DR. KLAUS WUCHERER
CHAIRMAN OF THE SUPERVISORY BOARD

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

reports to the Supervisory Board covering topics such as the economic and financial development 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 abreast of significant developments and decisions within the Company.

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

MAIN ACTIVITIES OF THE SUPERVISORY BOARD

Sale of the Wireless Solutions unit to Intel

The Management Board reported in full on the proposed sale of the Wireless Solutions business unit, which accounted for around 30 percent of Group revenue in the 2009 and the 2010 fiscal year, in two ordinary meetings and two extraordinary meetings. The Supervisory Board devoted particular attention in these meetings to the reasons behind the Management Board's decision to dispose of the mobile phone chip business, the different 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.

The Supervisory Board asked the members of the Strategy and Technology Committee to discuss the plans, developments in the negotiations and the steps necessary for realization with the Management Board in detail in light of the great significance of the transaction 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 Solutions 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

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.

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.

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.

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.

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

CORPORATE GOVERNANCE REPORT

DECLARATION CONCERNING THE MANAGEMENT OF THE COMPANY

(PART OF THE OPERATING AND FINANCIAL REVIEWS – UNAUDITED)

DECLARATION OF COMPLIANCE WITH THE GERMAN CORPORATE GOVERNANCE CODE ISSUED FOR THE 2010 FISCAL YEAR BY THE MANAGEMENT BOARD AND SUPERVISORY BOARD OF INFINEON TECHNOLOGIES AG IN ACCORDANCE WITH SECTION 161 OF THE GERMAN STOCK CORPORATION ACT

Infineon Technologies AG has, with the following exceptions, complied with all recommendations of the Government Commission on the German Corporate Governance Code in the version of June 18, 2009 since it submitted its last Declaration of Compliance in accordance with Section 161 of the German Stock Corporation Act in November 2009 and with all recommendations of the Government Commission on the German Corporate Governance Code in the version of May 26, 2010 since their publication in the electronic version of the German Federal Gazette on July 2, 2010:

- Previously no agreement had been concluded on the application of a D&O insurance deductible for Supervisory Board members equivalent to that required by law for Management Board members (divergence from section 3.8).

In derogation from the recommendation of section 3.8 of the German Corporate Governance Code, Infineon Technologies AG has hitherto obtained personal undertakings from the members of the Supervisory Board under which the members of the Supervisory Board undertake to pay for each calendar year a deductible in the amount of 100 percent of the fixed compensation due to them per calendar year for their activity as a member of the Supervisory Board and its Committees. However the Supervisory Board decided in its meeting on November 22, 2010 to agree a deductible amounting to 10 percent of the loss and up to 150 percent of the annual fixed compensation of the Supervisory Board members directly in the D&O insurance for the members of the Supervisory Board in accordance with the recommendation in section 3.8 para. 3 of the German Corporate Governance Code in place of the existing voluntary undertaking. Corresponding amendments to the current D&O insurance policy are to take effect for the 2011 fiscal year.

- Negative developments are taken into account only to a limited extent when determining the variable compensation components under the Management Board contracts currently in force (divergence from section 4.2.3 clause 2 sentence 4).

The recommendation that negative developments should also be taken into account when determining variable compensation components was a new addition in the June 18, 2009 version of the German Corporate Governance Code. All Infineon Technologies AG Management Board contracts were concluded prior to this date and therefore could not take this recommendation into account.

- Payments in the event of premature termination of a Management Board member's contract due to a change of control may in individual cases exceed 150 percent of the severance payment cap (divergence from section 4.2.3 clause 5 of the German Corporate Governance Code).

All Management Board contracts were modified in fiscal 2007 to include change-of-control clauses under which members of the Management Board leaving office in connection with a change of control are entitled to a continuation of their annual target income for the full remaining duration of their service contract. The full remaining duration of the service contract may in certain cases exceed the limit of three years stipulated in the German Corporate Governance Code.

The compensation structure for the Management Board of Infineon Technologies AG was reviewed by an external independent compensation expert in fiscal 2010. The Executive Committee drew on the findings of this review to devise a new Management Board compensation system intended to apply to all future members of the Management Board. Its corresponding proposal was adopted by the Supervisory Board at its meeting of November 22, 2010. The existing contracts with the incumbent members of the Management Board are also to be amended accordingly. It is intended that the variable element of Management Board compensation will also take account of negative developments in future in accordance with the recommendation in section 4.2.3 clause 2 sentence 4 of the German Corporate Governance Code and all Management Board contracts are to include a change-of-control clause in accordance with the recommendation in section 4.2.3 clause 5 of the German Corporate Governance Code.

In future Infineon Technologies AG will comply with all recommendations of the German Corporate Governance Code in the version of May 26, 2010.

Infineon has in addition adopted all of the suggestions presented in the German Corporate Governance Code in the version of May 26, 2010.

RELEVANT DISCLOSURES IN RESPECT OF CORPORATE GOVERNANCE PRACTICES

Corporate governance – standards for effective and responsible corporate management

The Management Board and the Supervisory Board of Infineon Technologies AG view corporate governance as a comprehensive concept for responsible, transparent and value-led corporate management. Good corporate governance fosters trust in our Company among national and international investors, the financial markets, business partners, employees and the public. The Management Board, the Supervisory Board and management ensure that corporate governance is actively implemented and continuously developed in all parts of the Company. Corporate governance at Infineon encompasses not only the German Corporate Governance Code, but also the standards of the internal control system, compliance – especially the Infineon Business Conduct Guidelines – and regulations on organizational and supervisory duties within the Company, which are available to all employees on the Infineon intranet.

Infineon has appointed a Corporate Governance Officer, who reports directly to the Management and Supervisory Boards.

Business Conduct Guidelines

We conduct our business responsibly and in compliance with legal requirements and administrative regulations – and we have established several guidelines for this purpose. The Infineon Business Conduct Guidelines, which are their most important element and are available on the internet at www.infineon.com (“About Infineon/Investor/Corporate Governance”), are binding on the Management Board and all Infineon employees worldwide. The Business Conduct Guidelines are regularly reviewed and updated. They include regulations on compliance with the law, interaction with business partners and third parties, the avoidance of conflicts of interest, interaction with Company institutions, data and information management and environmental protection, health and safety. The guidelines also contain regulations concerning the handling of complaints and reports of breaches of the guidelines.

Corporate Compliance Officer and Compliance Panel

The Corporate Compliance Officer of Infineon Technologies AG reports directly to the Management Board and is responsible for coordinating the Infineon Compliance Program and receiving complaints and suggestions, which may be submitted anonymously. He or she is supported by regional Compliance Officers. We have also introduced a Compliance Panel, composed of experienced managers from the Legal, Human Resources, Internal Audit and Security departments. The members of the Compliance Panel meet regularly and advise the Compliance Officer.

Risk management

The Management Board ensures adequate risk management as part of good corporate governance. Systematic and effective management of risks and opportunities is vital to our success. It forms an integral part of our business operations and ensures that risks are detected early and risk exposures minimized.

Our Company-wide risk and opportunity management system, which is continuously adapted to changes in circumstances, consists of four sub processes: risk identification, risk analysis, risk controlling and risk monitoring. Its effectiveness is reviewed regularly by the Supervisory Board’s Investment, Finance and Audit Committee.

Details of risk management at Infineon are presented in the Risk and Opportunity Report, which provides an in-depth description of both risk and opportunity management and the internal control system at Infineon.

Transparent management

We submit a regular quarterly report covering our business developments and the company’s financial position and performance to our shareholders according to a defined financial calendar. The members of the Management Board regularly inform shareholders, analysts and the general public about the quarterly and annual results. Our comprehensive investor relations service features regular meetings with analysts and institutional investors as well as telephone conferences. All notices and disclosures are usually available on our website in German and English.

Infineon Technologies AG also issues ad hoc announcements in addition to its regular reports to publicize information that is not in the public domain and whose disclosure is likely to affect the value of the Infineon share significantly.

A detailed list of all information relevant to the capital markets published in the 2010 fiscal year can be found in the Annual Document that we publish on the Infineon Technologies AG website in accordance with section 10 of the German Securities Prospectus Act (Wertpapierprospektgesetz).

We have set up a Disclosure Committee comprising members from various specialist departments to review and approve the publication of certain financial and other material information.

German law requires the Management Board to render a responsibility statement. The information required for this purpose is confirmed internally vis-à-vis the Management Board by senior executives bearing management responsibility.

FINANCIAL REPORTING AND AUDITING

Starting with the 2009 fiscal year, Infineon Technologies AG has prepared its consolidated financial statements exclusively in accordance with International Financial Reporting Standards (IFRS). The annual financial statements of Infineon Technologies AG continue to be prepared in accordance with the HGB guidelines. The annual financial statements of Infineon Technologies AG, the consolidated financial statements for the Infineon Group and the combined operating and financial reviews (Lagebericht) are published within 90 days of the end of the fiscal year after approval by the Supervisory Board.

Our Company's financial reporting for the 2010 fiscal year was audited by KPMG AG Wirtschaftsprüfungsgesellschaft, Berlin (KPMG). The half-yearly financial report was also subjected to an audit review by KPMG. The audits also consider risk management and the submission of the Declaration of Compliance in accordance with section 161 of the German Stock Corporation Act. The Investment, Finance and Audit Committee discusses the quarterly reports and the half-yearly financial report with the Management Board prior to publication. We have agreed with KPMG that the Chairman of the Audit Committee should be informed immediately if any possible reasons for exclusion or bias occur during the audit, unless they can be eliminated immediately. The auditors should also report immediately on all findings and occurrences material to the Supervisory Board's work that arise while the audit is being conducted.

DESCRIPTION OF THE MODE OF OPERATION OF THE MANAGEMENT BOARD AND SUPERVISORY BOARD AND OF THE COMPOSITION AND MODE OF OPERATION OF THEIR COMMITTEES

Infineon Technologies AG is subject to German stock corporation law, which stipulates a two-tier administrative system with the Management Board responsible for management and the Supervisory Board responsible for corporate oversight. We are convinced that this separation of the two functions is an important precondition for good corporate governance. However, the Management Board and the Supervisory Board cooperate closely in the interest of the Company.

Management Board

The Infineon Technologies AG Management Board currently has three members. Acting in accordance with the German Corporate Governance Code, the Supervisory Board has set an age limit for Management Board membership under which members of the Management Board in general should be no more than 67 years old. In accordance with its rules of procedure, the Supervisory Board takes account of diversity as well as technical and personal suitability in respect of the composition of the Management Board and will in particular endeavor to ensure appropriate female representation.

The Management Board is the Company's executive body. It is obliged to serve the Company's interests and thereby pursue the goal of sustainably increasing the Company's value. It determines the Company's commercial objectives, strategic direction and corporate policy and defines how the Group is to be organized.

According to German stock corporation law, the Management Board has overall responsibility for the management of the Company. The Infineon Management Board has adopted rules of procedure with the consent of the Supervisory Board. These rules stipulate that the company is managed jointly by all of the Management Board members, who work together in a cooperative manner to this end. Collaboration between the Management Board and the Supervisory Board is coordinated by the Chief Executive Officer. The Chief Executive Officer maintains regular contact with the Chairman of the Supervisory Board, with whom he discusses the Group's strategy, planning, course of business and risk management. The Management Board provides 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 at the ordinary meetings of the Supervisory Board. The Chief Executive Officer notifies the Chairman of the Supervisory Board without delay of any matters that are of material importance for assessing the position and development of the Company or for its management.

Supervisory Board

Work of the Supervisory Board

The Supervisory Board advises and monitors the Management Board as it manages the Company. The Management Board reports to the Supervisory Board regularly, comprehensively and in a timely manner on all matters of relevance to business development, planning and risk exposure and agrees on the corporate strategy and its implementation with the Supervisory Board. The Supervisory Board discusses the quarterly reports and reviews and approves both the annual financial statements and the consolidated financial statements of Infineon Technologies AG and the Infineon Group. Major decisions of the Management Board, such as large acquisitions, divestitures and financial measures, are subject to the approval of the Supervisory Board. Further details are stipulated in the rules of procedure of the Management Board and the Supervisory Board. If a Supervisory Board vote ends in a tie, the vote is repeated and, if it ends in a tie again, the Chairman of the Supervisory Board casts the deciding vote.

The duties of the Supervisory Board and its committees are regulated by law, by the Articles of Association and by the rules of procedure of the Supervisory Board and its committees.

The Supervisory Board reviews the efficiency of its work, including its interaction with the Management Board, once a year. 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 are to be presented and discussed in the Supervisory Board meeting on November 30, 2010.

Composition of the Supervisory Board

The Supervisory Board of Infineon Technologies AG comprises an equal number of shareholder representatives and employee representatives as stipulated in the German Codetermination Act (Mitbestimmungsgesetz). The shareholder representatives are elected by the General Shareholders' Meeting, the employee representatives by employee delegates at Infineon's German facilities in accordance with the German Codetermination Act. The regular term of office of Supervisory Board members is five years. 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. New elections were consequently held in the 2010 fiscal year for both the shareholder representative and the employee representative positions on the Supervisory Board. The term of office of 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 overall composition of the Supervisory Board should comply with the principles of diversity in the opinion of the Supervisory Board. This means firstly that the composition of the Supervisory Board should take into account the diversity to be found in an open and innovative global company like Infineon as far as possible and secondly that nobody should be selected or dropped as a candidate for the Supervisory Board simply because he or she possesses or lacks a certain diversity factor. Diversity as the term is used here denotes international (in the sense of roots, upbringing, education or professional activity rather than citizenship), gender and age diversity.

The Supervisory Board specified concrete objectives regarding its composition at its meeting of November 22, 2010 in accordance with the recommendation in section 5.4.1 of the German Corporate Governance Code.

One half of the members of the Supervisory Board are elected by the General Shareholders' Meeting, the other half by the employees. The Supervisory Board cannot influence the selection of candidates for the Supervisory Board by the employees. Nevertheless it is a stated objective of the Supervisory Board that

i / at least two of its members are women and

ii / at least one third of the members are "international" representatives as defined above.

The Supervisory Board already meets these minimum criteria and it is intended that it continue to do so at all times in future. Furthermore, the Supervisory Board complies with the age limit defined in its rules of procedure, which states that in general nobody older than the age of 69 should be proposed for membership of the Supervisory Board.

The Supervisory Board will take this requirements profile and these objectives into account in its future nominations. The same applies in respect of the Nomination Committee insofar as it carries out the preparatory work for the Supervisory Board decision. The Supervisory Board recommends that its members elected by the employees also do what they can, within the scope of their influence, to have the requirements profile and objectives taken into account in the election nominations made by the relevant bodies on the employees' side. The Supervisory Board also recommends that the objectives be taken into account by any of its members making an application for the appointment of a Supervisory Board member by the courts.

Supervisory Board committees

The Supervisory Board rules of procedure provide for the formation of three committees: the Mediation Committee, the Executive Committee, and the Investment, Finance, and Audit Committee. The Supervisory Board has also established both a Strategy and Technology Committee and the Nomination Committee recommended in the German Corporate Governance Code. All Supervisory Board committees have an equal number of employee representatives and shareholder representatives apart from the Nomination Committee, which consists exclusively of shareholder representatives.

The tasks of the **Executive Committee**, which consists of the Chairman of the Supervisory Board, the Vice-Chairman, one shareholder representative and one employee representative, include preparations for the appointment and dismissal of members of the Management Board and for the resolution, by a full meeting of the Supervisory Board, on Management

Board compensation. It is also responsible for concluding, amending and terminating contracts with Management Board members except in matters involving pay.

The **Investment, Finance, and Audit Committee ("Audit Committee")** consists of the Chairman of the Supervisory Board, the Vice-Chairman and one further representative each of the shareholders and the employees. The Chairman of the Investment, Finance, and Audit Committee, Dr. Eckart Sünner, is an independent financial expert and has particular knowledge and extensive experience of financial reporting on account of his many years of service as chairman of the audit committee of another DAX-listed corporation.

The Audit Committee monitors the Company's financial reporting process and discusses and examines the annual financial statements and consolidated financial statements prepared by the Management Board, the combined operating and financial reviews (Lagebericht) and the quarterly and half-yearly financial reports. It gives recommendations with respect to the approval of the annual financial statements and consolidated financial statements by the Supervisory Board based on the independent auditors' report, engages the independent auditors selected by the General Shareholders' Meeting to audit the annual financial statements and the consolidated financial statements, specifies the key areas to be examined in audit activities and is responsible for setting the independent auditors' compensation.

Other matters addressed by the Audit Committee include the effectiveness of the internal control system, internal audit system and risk management system. It has the authority in this connection both to contact any employee of the Company directly and to seek external assistance. Internal Audit reports annually to the Audit Committee, which can also specify an audit plan and key areas to be considered in audits.

Responsibility for compliance has also been transferred to the Audit Committee. The Management Board and the Corporate Compliance Officer regularly report to the Audit Committee on the compliance organization and on any particular compliance issues. Employees can provide information about violations of internal guidelines and statutory accounting rules to the Audit Committee anonymously.

The **Mediation Committee**, which consists of the Chairman of the Supervisory Board, the Vice-Chairman, one shareholder representative and one employee representative, submits recommendations to the Supervisory Board concerning the appointment of members of the Management Board if the first round of the election on the appointment does not result in the required majority of two thirds of the members of the Supervisory Board.

The **Strategy and Technology Committee**, which consists of three shareholder representatives and three employee representatives, concerns itself with key technology issues and matters of relevance to our business strategy.

The **Nomination Committee**, which consists of the Chairman of the Supervisory Board and two further shareholder representatives, proposes to the Supervisory Board suitable candidates for recommendation to the General Shareholders' Meeting.

All committees regularly submit detailed reports on their work to the Supervisory Board. Further information about the work of the Supervisory Board and its committees may be found, together with details of the people who serve on them, in note 41 ("Management Board and Supervisory Board") and in the report of the Supervisory Board to the General Shareholders' Meeting, which is reproduced in the Annual Report.

Avoidance of conflicts of interest

The members of the Management Board and Supervisory Board disclose any conflicts of interest to the Supervisory Board without delay. Material transactions between the Company and members of the Management Board or related parties 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.

Shareholdings of Management and Supervisory Board members

As of September 30, 2010, the shares in Infineon Technologies AG held by all members of the Management Board and Supervisory Board did not exceed 1 percent of the shares issued by the company.

DIRECTORS' DEALINGS

Section 15a of the German Securities Trading Act (Wertpapierhandelsgesetz) requires members of the Management Board and Supervisory Board, certain other persons in management roles who have regular access to inside information and close associates of the aforementioned persons (related parties) to notify both the Company and the German Federal Financial Supervisory Authority (BaFin) of own transactions involving Company shares. This only applies, however, if the total value of the transactions made by one of the above managers or related parties amounts to €5,000 or more in one calendar year. Statements giving notice of such transactions are published on our website at **www.infineon.com** ("About Infineon/Investor/Corporate Governance/Directors' Dealings") and conveyed to the company register. Such notices are also reported to BaFin. The Company was notified of no such transactions in the fiscal year ended.

COMPENSATION OF THE MANAGEMENT BOARD AND THE SUPERVISORY BOARD

Details of Management Board and Supervisory Board compensation in the 2010 fiscal year are presented in the comprehensive compensation report appearing below, which forms part of the combined operating and financial reviews of Infineon Technologies AG and the Infineon Group.

SHAREHOLDERS AND THE GENERAL SHAREHOLDERS' MEETING

Infineon shareholders take their decisions at the General Shareholders' Meeting, which is held at least once a year. Each share carries one vote. Shareholders can attend the General Shareholders' Meeting as long as they are registered in the share register and have signed up for the meeting in time. The General Shareholders' Meeting decides on all issues assigned to it by law, most notably on the formal approval of the conduct of business by the Management Board and the Supervisory Board, the election of the auditors and amendments to the Articles of Association. Shareholders are entitled to make counterproposals to motions introduced by management and to speak and ask questions at the General Shareholders' Meeting and also have the right, subject to certain conditions, to challenge resolutions of the General Shareholders' Meeting, to request an extraordinary judicial review and to claim compensation from corporate bodies of the Company on behalf of the Company when they suspect misconduct or serious deficiencies in the Company's management and control. We wish to support our shareholders as far as possible in the exercise of their rights. Shareholders can register for our General Shareholders' Meeting electronically, for example, can participate in votes by sending online instructions to their proxies and can follow the general debate via the internet. All documents and information relating to the General Shareholders' Meeting can be found on our website. Our Investor Relations Department, moreover, can be contacted throughout the year both by telephone and electronically to ensure the exchange of information between us and our shareholders.

INFINEON STOCK OPTION PLANS

The Infineon Stock Option Plan 2006 approved by the General Shareholders' Meeting of February 16, 2006 expired on September 30, 2009. The General Shareholders' Meeting on February 11, 2010 accordingly approved a new Infineon Stock Option Plan 2010 (SOP 2010) to replace it. The terms of the SOP 2010 permit the Company to issue up to 12 million options over its three-year term. The exercise price for a new share amounts to 120 percent of the average share price over the five trading days preceding the grant day. The options granted 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.

The SOP 2010 provides for the Supervisory Board to decide on the number of options to be granted to the Management Board annually within 45 days of the publication of the consolidated financial statements or within 45 days of the publication of the consolidated results for the first, second or third quarter and in any case by no later than two weeks before the end of the quarter in which the allocation is made. The Management Board decides on the number of options to be granted to other eligible employees at the same time.

Our other stock option plans are detailed in note 32 to the consolidated financial statements ("Stock option plans"); the full text of the plans may be viewed at www.infineon.com ("About Infineon/Investor/Corporate Governance/Stock Option Plan").

Further information about corporate governance at Infineon may be found on the internet at www.infineon.com ("About Infineon/Investor/Corporate Governance").

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.

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.

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.

OPERATING AND FINANCIAL REVIEW FOR THE 2010 FISCAL YEAR

BASIS FOR THE PRESENTATION OF THIS OPERATING AND FINANCIAL REVIEW

This operating and financial review should be read in conjunction with our audited consolidated financial statements including the notes to the consolidated financial statements ("note") included elsewhere in this report. The audited consolidated financial statements have been prepared on the basis of a number of accounting policies and assumptions more fully explained in note 1 (Description of business and basis of presentation) and note 2 (Summary of significant accounting policies). Our fiscal-year end is September 30.

This operating and financial review presents both the operating and financial review of the Infineon Group, which includes the Infineon Technologies AG and its consolidated subsidiaries (collectively "Infineon" or "the Company") and the operating and financial review of the stand-alone entity Infineon Technologies AG.

This operating and financial review contains forward-looking statements, which are not based on historical facts, but on current plans, estimates, and projections. Forward-looking statements speak only of the date they are made, and Infineon undertakes no obligation to update them in light of new information. Forward-looking statements involve inherent risks and uncertainties. We caution you that a number of factors could cause actual results or outcomes to differ materially from those expressed in any forward-looking statement. These factors include those identified under the heading "Risk report" and elsewhere in this annual report.

In July 2009, we entered into an agreement for the sale of our Wireline Communications business to Lantiq, a company affiliated with Golden Gate Private Equity Inc. ("Lantiq"). The sale closed on November 6, 2009. In the consolidated statement of financial position as of September 30, 2009, all assets and liabilities of the Wireline Communications business were reported as "assets classified as held for sale" and "liabilities classified as held for sale." The results of the Wireline Communications business have been recognized in the consolidated statement of operations for all reported periods under "income (loss) from discontinued operations, net of income taxes."

In August 2010, we entered into an agreement with Intel Corporation ("Intel") for the sale of the mobile phone business of our Wireless Solutions segment ("Wireless mobile phone business"). The sale is expected to close in the first quarter of the 2011 calendar year, depending on official approvals and customary closing conditions. As a result of the planned sale, all assets and liabilities to be transferred were reported as "assets classified as held for sale" and "liabilities classified as held for sale" in our consolidated statement of financial position as of September 30, 2010. In the consolidated statement of operations, the results of the Wireless mobile phone business are no longer reported in the individual line items, but under "income (loss) from discontinued operations, net of income taxes". The other individual line items of the consolidated statement of operations therefore report the results of Infineon's continuing operations. Likewise, the consolidated statement of cash flows shows the cash inflows and outflows of the Wireless mobile phone business as "discontinued operations." The prior-year amounts of the consolidated statement of operations and the consolidated statement of cash flows have been adjusted accordingly. In accordance with the internal reporting of the 2010 fiscal year, in the segment reporting the Wireless Solutions segment is reported unchanged. See "Sale of the Wireless mobile phone business" below for further information relating to this sale and note 6.

The Deutsche Prüfstelle für Rechnungswesen DPR e.V. ("DPR"), a German government-appointed private institution, conducted a random sample audit of Infineon's IFRS financial statements for the year ended September 30, 2008. In the course of this review the DPR raised concerns regarding our accounting for certain deferred tax assets arising from tax loss carry-forwards in the amount of €237 million as of September 30, 2008. The basis for the recognition of these deferred tax assets were tax planning strategies of the Company. These tax planning strategies comprise measures to ensure the utilization and safeguarding of tax benefits arising from tax loss carry-forwards in Germany. The DPR is of the opinion that the recognition of deferred tax assets arising from tax loss carry-forwards in the amount of €237 million is based on tax planning strategies that are not appropriate to justify such recognition due to insufficient probability of implementation.

For reasons of process efficiency, the Company decided to comply with the DPR's demand. This decision was also influenced by the fact that the tax planning strategies are no longer pursued by management as of September 30, 2010 due changes in facts and circumstances resulting from the forthcoming disposal of the Wireless mobile phone business. In addition the Company also recognized, besides the actual

utilization of the unrecognized tax benefits in the current fiscal year, deferred tax assets totaling €151 million as of September 30, 2010. On the one hand such recognition is based in part on the expected utilization of tax loss carry-forwards resulting from expected future taxable income from continuing operations as the Company's focus going forward will be on the profitable and less volatile segments Automotive, Industrial & Multimarket and Chip Card & Security. On the other hand the expected gain from the forthcoming disposal of the Wireless mobile phone business will also result in an additional utilization of tax loss carry-forwards in Germany.

The opening balances as of October 1, 2008 have been corrected according to IAS 8. The adjustments affect deferred tax assets and accumulated deficit within equity. The adjustments are reflected in the amounts reported in this annual report for the fiscal years 2008 and 2009. These amounts therefore differ from amounts reported in prior annual reports. These retrospective adjustments do not affect the existing tax loss carry-forwards and resulted in immaterial adjustments to the net income of the reported periods. The adjustments will not result in an outflow of cash and cash equivalents. A detailed overview of the adjustments can be found in note 3.

OVERVIEW OF THE 2010 FISCAL YEAR

FINANCIAL RESULTS

- After the crisis-ridden 2009 fiscal year, we generated a substantial increase in revenues and total Segment Result. Revenue in the 2010 fiscal year was significantly impacted by the effects of the general economic upturn and the resulting growth in the global semiconductor market. Our results improved not only as a result of general productivity factors driven by higher revenue and better utilization of our production capacities, but also due to the structural measures we had implemented under our IFX10+ cost-reduction program, the effects of which were felt for a full fiscal year for the first time in the 2010 fiscal year.
- Our revenues from continuing operations amounted to €3,295 million in the 2010 fiscal year, 51 percent more than the €2,184 million generated in the 2009 fiscal year.
- Total segment revenue (including the revenues of the Wireless mobile phone business to be sold shown as part of "Income (loss) from discontinued operations, net of income taxes") increased from €3,027 million in the 2009 fiscal year to €4,585 million in the 2010 fiscal year.
- The revenues generated in the 2010 fiscal year, both including and excluding the Wireless mobile phone business to be sold, also exceeded the revenues of the pre-crisis 2008 fiscal year.
- The total Segment Result from continuing operations (i.e. excluding the Segment Result of the discontinued operations of Wireless Solutions) amounted to €475 million in the 2010 fiscal year, up €615 million from the previous year's Segment Result of negative €140 million.
- The total Segment Result, including the result of the Wireless Solutions segment, improved to €635 million, €802 million more than the Segment Result of negative €167 million of the previous year.
- The Segment Results of our operating segments, including Wireless Solutions, for the 2010 fiscal year were as follows: Automotive was €198 million (previous year negative €117 million), Industrial & Multimarket was €283 million (previous year €35 million), Chip Card & Security was €22 million (previous year negative €4 million), and Wireless Solutions was €159 million (previous year negative €36 million). Thus, the operating results of all our operating segments improved in the 2010 fiscal year compared with the previous year. The Segment Result for Other Operating Segments amounted to negative €12 million in the 2010 fiscal year (previous year negative €13 million) and for the Corporate and Eliminations Segment negative €15 million (previous year negative €32 million).
- Our income from continuing operations before income taxes amounted to €290 million in the 2010 fiscal year, an improvement of €519 million over the loss of €229 million in the 2009 fiscal year. This improvement is attributable to the increase in the results of our continuing operations described above and was achieved in spite of the negative impact from the deconsolidation of ALTIS Semiconductor S.N.C., Essones, France ("ALTIS") described below and in spite of a reduction in financial income.
- In the 2010 fiscal year, income from discontinued operations, net of income taxes, amounted to €348 million, compared to a loss of €441 million in the previous year. The income from discontinued operations in fiscal 2010 consists primarily of the result of the Wireless mobile phone business to be sold and the gain realized on the disposal of the Wireline Communications business. In the previous year, the loss from discontinued operations, net of income taxes, had primarily resulted from the insolvency of Qimonda AG i. In. ("Qimonda").
- Our net income in the 2010 fiscal year amounted to €660 million, an increase of €1,334 million compared with the net loss of €674 million in the 2009 fiscal year. Therefore, the previous year's basic loss per share of €0.73 improved to basic earnings per share of €0.61. We will propose the distribution of a dividend of €0.10 per share to the General Shareholders' Meeting in February 2011.

- Our cash flow provided by operating activities from continuing operations amounted to €958 million in the 2010 fiscal year, compared with €282 million in the 2009 fiscal year. As a result, the free cash flow from continuing operations – defined as cash flow from operating activities and investing activities from continuing operations, excluding purchases and sales of available-for-sale financial assets – improved to €573 million in the 2010 fiscal year, compared with €274 million in the 2009 fiscal year, even though the free cash flow for the 2010 fiscal year was negatively impacted by the deconsolidation of the cash of €88 million of ALTIS and the significantly increased capital expenditure of continuing operations, which amounted to €325 million in the 2010 fiscal year.
- As of September 30, 2010, our gross cash position – defined as cash and cash equivalents and available-for-sale financial assets – was €1,727 million, up 15 percent compared to €1,507 million as of September 30, 2009. In the 2010 fiscal year we repurchased or redeemed the entire remaining notional amount of €448 million of our subordinated convertible bond, which matured in June 2010, and repaid other financial liabilities in a net amount of €41 million. Overall our net cash position – defined as gross cash position less short-term debt and long-term debt – improved by €674 million, from €657 million as of September 30, 2009 to €1,331 million as of September 30, 2010.

MEASURES RELATING TO THE REORGANISATION OF THE INFINEON GROUP

In addition to the impact of the economic upturn, the 2010 fiscal year was marked by various measures relating to the reorganization of the Group:

Completion of the Sale of our Wireline Communications business

- The sale of our Wireline Communications business to Lantiq closed on November 6, 2009. We received €223 million on completion of the sale, and €20 million when due in August 2010. As a result of the sale we realized a pre-tax gain of €108 million in the 2010 fiscal year.

Sale of the Wireless mobile phone business

- In August 2010 we entered into an agreement with Intel for the sale of the mobile phone business of our Wireless Solutions segment (“Wireless mobile phone business”). Only the business with analog and digital TV tuners and receiver components for satellite radio as well as radio frequency power transistors for amplifiers in cellular basestations (with revenue totaling €82 million in fiscal year 2010), which had formerly been part of the Wireless Solutions segment, will remain with us. The sale is expected to close in the first quarter of the 2011 calendar year, depending on regulatory approvals and other customary closing conditions. The purchase price of US$1,400 million is due on closing of the sale. 3,400 employees worldwide are expected to be transferred from Infineon to Intel as part of the sale. The sale is primarily an asset sale.
- The mobile phone market is currently undergoing significant structural changes, driven by the convergence of the computer and mobile phone industries. While growth in traditional mobile phones is declining, smartphones, netbooks, tablets, e-readers, machine-to-machine devices and similar products are becoming into growth drivers. A successful medium- to long-term presence in this converging and dynamic market requires a leading customer base in the handset and (mobile) computer market, a broad product portfolio (cellular modem, application processor and connectivity solutions) as well as major investments in research and development, for example in future broadband communication standards, and in massively increased processor power for fast processing of the application software. This is easier for major players with large research and development budgets, because the available market for these companies is expanding on the back of demand, while the business risk is reduced. Under the Intel umbrella, Wireless Solutions is expected to find excellent conditions for the development and sale of semiconductor solutions in the converging PC and communications market, as well as access to new markets, including additional opportunities in the converging mobile phone and PC markets, e.g. tablets, netbooks, notebooks, and other devices. Intel has the financial and human resources to continue developing the Wireless Solutions business to be sold.
- The sale of the Wireless mobile phone business makes us less dependent on short-term market and product cycles and allows us to concentrate on further developing the Automotive, Industrial & Multimarket, and Chip Card & Security segments. These segments are all leaders in their respective semiconductor target markets and form a strong alliance built on technological synergies. The sale of the Wireless mobile phone business allows us to focus our activities exclusively on three central challenges to modern society of energy efficiency, mobility and security, which we expect will continue to gain in importance in years to come and were we want to play a significant role. We have strengthened our leadership in the automotive electronics market and have acknowledged the increasing importance of new mobility concepts by adding mobility to our focus areas. Our three target markets offer us excellent growth and earnings potential: The semiconductor market addressed by our three core

segments had a total volume of around US$44 billion in calendar year 2009 and is expected to expand by an average of 12.5 percent per year up to 2014 (iSuppli, September 2010).

- The sale of the Wireless mobile phone business, following the carve-outs of the memory business and Wireline Communications, concludes our strategic plan to focus on profitable, high-growth, and less volatile semiconductor businesses.

OTHER SIGNIFICANT CORPORATE ACTIVITIES IN FISCAL YEAR 2010

- In fiscal year 2010, we disposed of our interest in ALTIS:
  - At the end of December 2009, we deconsolidated ALTIS, our joint venture with IBM Corporation, after waiving our option to acquire additional voting shares in ALTIS from our joint-venture partner. The total operating loss incurred in connection with the deconsolidation amounted to €69 million in fiscal year 2010.
  - In our joint efforts to secure the future of ALTIS and its employees, we and IBM completed and executed the sale of 100 percent of the share capital of ALTIS to the new Altis International Group on August 12, 2010. IBM and we have entered into supply agreements with ALTIS, which provide for the use of the production capacities of the ALTIS plant in France.
- In June 2010, we repaid the outstanding notional amount of €255 million of our subordinated convertible bond. Before final repayment, we had bought back notional amounts of €193 million of this convertible bond for €194 million in the 2010 fiscal year.
- In the 2010 fiscal year, our front-end and back-end manufacturing facilities were operating nearly at full capacity. In response to the significant revenue growth, the almost full utilization of production capacities, and the achievement of specified development milestones, we increased our capital expenditure budget from the €200 million planned originally to €250 million for 2010 fiscal year. Finally, the investments in property, plant, and equipment and intangible assets, including own development work capitalized, for our continuing operations amounted to €325 million in the 2010 fiscal year. In the 2009 fiscal year due to the uncertain macroeconomic situation and our own tight financial situation, we had invested €115 million in our continuing operations.

DEREGISTRATION OF INFINEON SHARES IN THE UNITED STATES OF AMERICA

- In August 2010, we submitted an application to the Securities and Exchange Commission (SEC) in the United States for the deregistration of our ordinary shares, which finally took effect 90 days after submission at the beginning of November 2010. We delisted from the New York Stock Exchange ("NYSE") in April 2009. Since then, the American Depositary Shares ("ADSs") have been traded over the counter on the OTCQX International Premier market. Our ordinary shares continue to be traded on the Frankfurt Stock Exchange and on various regional exchanges in Germany. We will maintain our presence on the U.S. securities market on the basis of a Level 1 ADR program. The ADSs are traded on the OTCQX market with the ticker symbol IFNNY.

PRODUCT AND TECHNOLOGY DEVELOPMENTS

- We invest in research and development. We achieved a number of significant milestones and product developments during the 2010 fiscal year in our focus areas, energy efficiency, mobility and security including the following:

Energy Efficiency

- Improving the energy efficiency of computing and telecommunication applications, we introduced an OptiMOSTM 25V device family that is optimized for voltage regulation in power supplies for computer servers and telecommunications / data communications switches. The new MOSFETs are also integrated into the TDA21220 DrMOS devices that are compliant with the Intel DrMOS specification. Power supply designers can use the 25V OptiMOS devices to reduce electricity use, lower thermal load and even shrink the size of their products. These improvements are highly valued by data center operators for several reasons, including the fact that the cost of electricity to power servers and provide cooling is the largest single operating budget item in their facilities. Reducing the entire system footprint also is highly valued by end-user organizations. According to several market research firms, up to 60 million servers will be in use by 2011.
- We drive innovation in LED lighting with our specific off-line driver IC for high-efficiency LED bulbs with dimming for residential lighting. Based on a flexible architecture that supports very cost-effective 40W/60W/100W incandescent bulb replacement and all typical consumer lighting applications, the ICL8001G sets a new benchmark with respect to integration, performance, features, and total system cost. An increasing number of countries are banning incandescent lamps in favor of energy saving alternatives. LED lamps are expected to emerge as a favored replacement. Advantages

of a well-designed LED bulb include 85 percent greater efficiency compared to an incandescent bulb. This higher efficiency can have a significant impact on carbon footprint, as lighting represents nearly 20 percent of the worldwide energy use (Source: EuroStat).

- We introduced an innovative IGBT internal packaging technology, which significantly increases the lifetime of IGBT modules. The new .XT technology increases the lifetime of IGBT modules by a factor of 10 compared to existing technologies. Alternatively the output power can be increased by 25 percent. The new technology supports junction temperatures up to 200°C. The .XT technology covers all critical areas on power cycling capability within an IGBT module: bond wiring on the chip front side, soldering on the chip back side (die to DCB) and the DCB (Direct Copper Bond) to base plate soldering. Based on this new technology highly demanding applications can be addressed such as commercial, construction and agriculture vehicles or wind power.

Mobility

- Through our strength as an innovator across our portfolio, we were able to secure the number one spot in chips for automotive electronics in spite of tough times in the industry. Our semiconductors are the basis for automotive electronics innovation.
- Drawing on our long-standing experience in the development of leading IGBT power modules and high-efficiency technologies for the industrial market, we have developed dedicated automotive-qualified high-power modules for the highest power densities and efficiency. Our broad product portfolio enables a smooth transition across all power classes from mild hybrid to high-power electric vehicles. Suitable for all electric drivetrain architectures, our offering comprises discrete components, power semiconductors, microcontrollers, sensors and high-power modules. With our system expertise, we are able to provide complete chipsets offering optimized performance and reduced overall system costs. With various platform design wins in all regions we are on track to become the leading supplier of chips in the future hybrid and pure electric vehicle market.
- As another important milestone to become the number one powertrain microcontroller supplier, we launched the new TriCore based AUDO MAX family in 2010. Our 32-bit microcontrollers provide industry leading performance and real-time capabilities that no other available microcontrollers for automotive powertrain and chassis applications are able to match.
- In the fast growing emerging markets we successfully extended our position with design-wins at Chinese and Indian car and motorbike manufacturers. In Korea we achieved the clear #1 market position.

Security

- Government ID applications include electronic documents, such as passports, national ID cards, health cards, drivers licenses and social security cards. Amongst other important ID projects, the Chinese government uses our security microcontrollers for its new electronic passports. The Chinese electronic passport is one of the world's two largest national passport projects. In addition, the special administrative regions of Hong Kong and Macao chose Infineon as the sole supplier for their electronic passport programs.
- The German Federal Office for Information Security (BSI) affirmed the outstanding security performance of our SLE 78 security controllers with the new "Integrity Guard" Technology and issued an internationally recognized certificate, which confirms that the product conforms to the international standard Common Criteria EAL5+ (high) security requirements.
- Integrity Guard represents a huge leap forward compared to conventional security strategies that lack capabilities like end-to-end encryption of the data path, continuous monitoring, and cross-checking between two CPUs. Our new generation of digital security chips offers all of this and is designed specifically to deliver exceptionally long-lasting security. In addition, for the first time in the more than 25-year history of chip cards, data can now be processed on a CPU itself in encrypted form.

OUR BUSINESS

We design, develop, manufacture and market a broad range of semiconductors and complete system solutions used especially in automotive products, industrial automation and control systems, and chip card applications. They are also used in a wide range of other microelectronic applications, including computer systems, telecommunication systems and consumer goods. Our products include standard commodity components, full-custom devices, semi-custom devices, and application-specific components for analog, digital, and mixed-signal applications. We have operations, investments, and customers located primarily in Europe, Asia and North America.

Our continuing business is organized in three operating segments: Automotive, Industrial & Multimarket and Chip Card & Security, which are described in further detail below and which address three central challenges to modern society: energy efficiency, mobility and security.

We have two additional segments for reporting purposes, our Other Operating Segments and Corporate and Eliminations. Other Operating Segments includes remaining activities for certain product lines that have been disposed of, and other business activities including the sale of products to Lantiq under foundry agreements following the close of the sale of our Wireline Communications business. Corporate and Eliminations contains activities and items not allocated to our operating segments, such as certain corporate headquarters' costs, strategic investments, unabsorbed excess capacity and restructuring costs.

In November 2009 we completed the sale of our Wireline Communications business.

In August 2010, we entered into a purchase agreement to sell our Wireless mobile phone business to Intel. The close of the sale is expected in the first quarter of the 2011 calendar year, and depends on official approvals and certain other agreed common closing conditions.

In addition, we currently hold a 77.5 percent interest in Qimonda, which was carved-out in 2006. On January 23, 2009, Qimonda and its wholly owned subsidiary Qimonda Dresden GmbH & Co. oHG ("Qimonda Dresden") filed an application at the Munich local court to commence insolvency proceedings, and formal insolvency proceedings were opened on April 1, 2009. Formal insolvency proceedings have also been commenced by several additional subsidiaries of Qimonda in various jurisdictions. As a result, we deconsolidated Qimonda during the second quarter of the 2009 fiscal year.

The results of the Wireline Communications business until the closing of its sale, of the Wireless Solutions business to be sold and of Qimonda until its deconsolidation are reported as discontinued operations in our consolidated statements of operations. Prior year amounts have been adjusted accordingly.

PRINCIPAL PRODUCT AND APPLICATIONS

The following summary provides an overview of some of our most significant products and applications and our significant direct customers and distributors of each of our core segments (in alphabetical order):

04 OVERVIEW OF SOME OF OUR MOST SIGNIFICANT PRODUCTS AND APPLICATIONS AND OUR SIGNIFICANT DIRECT CUSTOMERS AND DISTRIBUTORS OF EACH OF OUR CORE SEGMENTS (IN ALPHABETICAL ORDER)

Segment	Principal Products	Principal Applications	Significant Customers and Distributors in the 2010 Fiscal Year
Automotive	Power semiconductors (discretes, ICs and modules), sensors and microcontrollers (8-bit, 16-bit, 32-bit) with and without embedded memory, silicon discretes	Powertrain (engine control, transmission control, hybrid), body and convenience, safety and vehicle dynamics (ABS, airbag, stability control), connectivity	Arrow, Avnet, Bosch, Continental
Industrial & Multimarket	Power semiconductors (modules, discretes and ICs), silicon discretes, ASIC solutions including secure ASICs	Industrial drives, traction, renewable energy, power distribution, power management and supply, lighting, industrial control, RF and protection devices for multimarket applications, ASICs (for example, for game consoles, hearing aids, computer peripherals)	Avnet, Bejing Jingchuan Electronic Tech, Delta, Siemens
Chip Card & Security	Chip card and security ICs	Security memory ICs and security microcontroller ICs for identification documents, payment cards, SIM cards, prepaid telecom cards, access and transportation cards, Pay TV and platform security products for computers and networks (for example, Trusted Platform Modules), RFID ICs for object identification	Gemalto, Giesecke & Devrient, Oberthur Card Systems, US Government Printing Office

Automotive

The Automotive segment designs, develops, manufactures and markets semiconductors and complete system solutions for use in automotive applications. Our Automotive segment focuses on microcontrollers and power semiconductors (which handle higher voltage and higher current than standard semiconductors), related power modules, sensors and discrete semiconductors. According to Strategy Analytics (April 2010), we are the number one chip manufacturer for the automotive industry by revenue with a market share of 9.0 percent.

The market for semiconductors for automotive applications is projected to grow substantially (11 percent CAGR for 2009 – 2014 according to iSuppli, September 2010) reflecting increased electronic content in automotive applications in the areas of powertrain, safety, body and convenience systems. The share of electronic contents in the powertrain will increase significantly through the use of more hybrid or pure electric vehicles. Generally mechanical or electrical devices, such as relays, will be replaced by semiconductors, in order to meet more demanding reliability, space, weight, and power reduction requirements.

Our automotive segment offers semiconductors and complete system solutions in the engine management, safety and chassis, body and convenience markets, in some cases including software. Our principal automotive products include:

- semiconductors for powertrain applications, which perform, for example, engine and transmission control and enable hybrid powertrains;
- semiconductors for safety management, which manage tasks such as the operation of airbags, anti-lock braking systems, electronic stability systems, power steering systems and tire pressure monitoring systems;
- semiconductors for body and convenience systems, which include light modules, heating, ventilation and air conditioning systems, door modules (power windows, door locks, mirror control) and electrical power distribution systems.

According to Strategy Analytics (June 2010), the body and security segment comprises the largest portion of the market, followed by safety and chassis applications, then powertrain applications, and finally driver information and in-car entertainment.

To strengthen our position in all areas of automotive electronics, we seek to further develop our strong relationships with world-leading car manufacturers and their suppliers. We believe that our ability to offer complete semiconductor solutions integrating power, analog and mixed-signal ICs and sensor technology is an important differentiating factor among companies in the automotive market.

We strongly emphasize high quality and since 2003 have pursued our Automotive Excellence program, aiming at “zero defect” in our products. The capability to deliver the highest product quality combined with long-term delivery commitments require close customer relations and lead to high market entry barriers for new entrants.

Industrial & Multimarket

The Industrial & Multimarket segment designs, develops, manufactures and markets semiconductors and complete system solutions primarily for use in industrial and multimarket applications, in addition to applications with customer-specific product requirements. We have a broad portfolio addressing consumer, computing and communication applications complementing our product range for the industrial segment.

The market for semiconductors for industrial applications is highly fragmented in terms of both suppliers and customers. It is characterized by large numbers of both standardized and application-specific products employed in a large number of diverse applications in industries such as transportation, factory automation and power supplies.

Within the industrial business, we focus on the major applications: power conversion and power management. We provide differentiated products combining diverse technologies to meet our customers’ specific needs. With global energy demand continuing to rise, supplies generally tightening and concerns over the environmental impact of power generation, power semiconductors can make a major contribution by addressing the increasing needs for power generation from renewable energy sources like wind and photovoltaics and for efficient power consumption.

We have a strong position in power applications. According to IMS Research (July 2010), we have been the global market leader for power semiconductors and power modules for the past seven years, with a 10.7 percent market share in 2009.

Chip Card & Security

Our Chip Card & Security segment designs, develops, manufactures and markets a wide range of security controllers and security memories for chip card and security applications. According to Frost & Sullivan (October 2010), we remained the market leader in ICs for smart card applications in the 2009 calendar year for the thirteenth consecutive year, with a market share of 27 percent.

The markets for our security products are characterized by an increasing emphasis on high-security applications, such as identification and payment, and increasing demand for security applications beyond the traditional Chip Card form factor.

In our Chip Card & Security business, we focus on products making use of our core competencies in security, contactless communication and embedded control. Our products are used in a variety of markets, with special focus on communication, payment, government identification, personal and object identification, and platform security. The main products of this segment include:

- contact-based and contactless security microcontroller ICs for identification documents (for example, passports, national identification cards and health cards), payment cards, SIM cards and Pay-TV applications;
- security memory ICs in prepaid telecom cards, access and transportation cards;
- Trusted Platform Module ("TPM") products (hardware-based security for trusted computing) in computers and networks;
- Security microcontroller, for emerging security markets such as accessory authentication and metering, and
- RFID ICs for object identification (for example, in logistics).

BACKLOG

Industry cyclicality makes it undesirable for many customers to enter into long-term, fixed-price contracts to purchase standard (that is, non-customized) semiconductor products. As a result, the market prices of our standard semiconductor products, and our revenues from sales of these products, may fluctuate significantly from period to period. Most of our standard products are priced, and orders are accepted, with an understanding that the price and other contract terms may be adjusted to reflect market conditions at the delivery date. It is a common industry practice to permit major customers to change the date on which products are delivered or to cancel existing orders. For these reasons, we believe that the backlog at any time of standard products is not a reliable indicator of future sales.

For more customized products, orders are generally made well in advance of delivery. Quantities and prices of such products may nevertheless change between the times they are ordered and when they are delivered, reflecting changes in customer needs and industry conditions. During periods of industry overcapacity and falling sales prices, customer orders are generally not made as far in advance of the scheduled shipment date as during periods of capacity constraints, and more customers request logistics agreements based on rolling forecasts. The resulting lower levels of backlog reduce our management's ability to forecast optimum production levels and future revenues. As a result, we do not rely solely on backlog to manage our business and do not use it to evaluate performance.

CUSTOMERS

We sell our products to customers located mainly in Europe, the United States, the Asia/Pacific region and Japan.

We target our sales and marketing efforts on creating demand at approximately 370 direct customers worldwide (including approximately 40 customers of the Wireless Solutions business to be sold).

No customer from our continuing operations accounted for more than 10 percent of our revenues in the 2010 fiscal year, and our top 25 customers from our continuing operations accounted for approximately 72 percent of our revenues.

About 29 percent of the revenue from continuing operations came from distributors in the 2010 fiscal year.

The significant customers at each of our core segments are mentioned in the table under the section "Principal Product and Applications".

We focus our sales efforts on semiconductors customized to meet our customers' needs. We therefore seek to design our products and solutions in cooperation with our customers so as to become their preferred supplier. We also seek to create relationships with our customers that are leaders in their market segments and have demanding technological requirements in order to obtain the system expertise necessary to compete in the semiconductor markets.

We have sales offices throughout the world. We believe that this global presence enables us not only to respond promptly to our customers' needs, but also to be involved in our customers' product development processes and thereby be in a better position to design customized ICs and solutions for their new products. We believe that cooperation with customers that are leaders in their respective fields provides us with a special insight into these customers' concerns and the future development of the market. Contacts to our customers' customers and market studies about the end consumer also position us to be an effective partner for our customers.

We believe that a key element of our success is our ability to offer a broad portfolio of technological capabilities and competitive services to support our customers in providing innovative and competitive products to their customers and markets. This ability permits us to balance variations in demand in different markets and, in our view, is a significant factor in differentiating us from many of our competitors.

COMPETITION

The markets for many of our products are intensely competitive, and we face significant competition in each of our product lines. We compete with other major international semiconductor companies, some of which have substantially greater financial and other resources with which to pursue research, development, manufacturing, marketing and distribution of their products. Smaller niche companies are also becoming increasingly important players in the semiconductor market, and semiconductor foundry companies have expanded significantly. We also cooperate in some areas with companies that are our competitors in other areas.

The following table shows key competitors for each of our principal operating segments in alphabetical order:

05 **KEY COMPETITORS**

Automotive	Freescale, NXP, ON Semiconductor, Renesas, STMicroelectronics, Texas Instruments
Industrial & Multimarket	Fairchild, Fuji Electric, International Rectifier, Intersil, Mitsubishi, NXP, Renesas, STMicroelectronics, Texas Instruments, Toshiba, Vishay
Chip Card & Security	NXP, Renesas, Samsung, STMicroelectronics

We compete in different product lines to various degrees on the basis of product design, technical performance, price, production capacity, product features, product system compatibility, delivery times, quality and level of support. Innovation and quality are competitive factors for all segments. Production capacities as well as the ability to deliver products reliably and within a very short period of time play particularly important roles.

Our ability to compete successfully depends on elements both within and outside of our control, including:

- successful and timely development of new products, services and manufacturing processes;
- product performance and quality;
- manufacturing costs, yields and product availability;
- pricing;
- our ability to meet changes in our customers' demands by altering production at our facilities;
- our ability to provide solutions that meet our customers' specific needs;
- the competence and agility of our sales, technical support and marketing organizations; and
- the resilience of our supply chain for services that we outsource and the delivery of products, raw materials and services by third-party providers needed for our manufacturing capabilities.

THE SEMICONDUCTOR INDUSTRY AND FACTORS THAT IMPACT OUR BUSINESS

Our business and the semiconductor industry generally are highly cyclical and characterized by constant and rapid technological change, rapid product obsolescence and price erosion, evolving standards, short product life-cycles and wide fluctuations in product supply and demand.

SEMICONDUCTOR MARKET CONDITIONS IN THE 2010 FISCAL YEAR

According to World Semiconductor Trade Statistics ("WSTS") (October 2010), the global semiconductor market expanded (in U.S. dollar terms) by 41 percent through the first nine months of the 2010 calendar year compared to the same period in the prior year, following a market contraction of 12 percent in the 2009 calendar year (iSuppli, September 2010). In September 2010, iSuppli predicted the global semiconductor market would grow by 32 percent in the full 2010 calendar year. Sales in North America and Asia/Pacific (excluding Japan) are both expected to increase by 33 percent in the 2010 calendar year. The Japanese semiconductor-market is expected to increase by 30 percent and the European market is expected to increase by 29 percent.

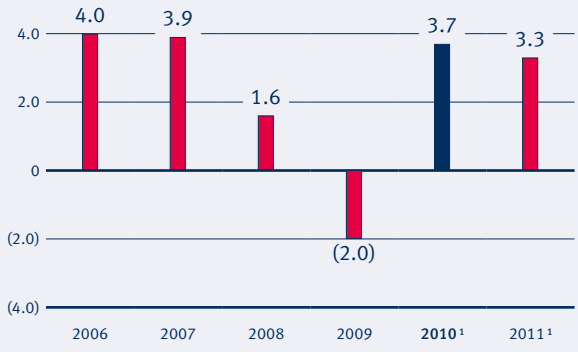
CYCLICALITY

The market for semiconductors has historically been volatile. Supply and demand have fluctuated cyclically and have caused pronounced fluctuations in prices and margins. According to iSuppli (September 2010), the overall market growth (in U.S. dollar terms) compared to the previous year was 10.1 percent in 2006 and 3.8 percent in 2007, before decreasing by 5.3 percent in 2008 and by 11.9 percent in 2009. iSuppli predicts that the overall market will grow by 32 percent in the 2010 calendar year.

We attempt to mitigate the impact of cyclicality by investing in manufacturing capacities throughout the cycle and entering into alliances and foundry manufacturing arrangements that provide flexibility in responding to changes in the cycle.

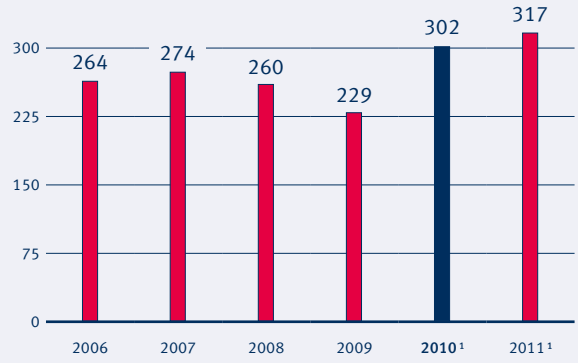
As a result of the disposal of the Wireless mobile phone business, we will be less dependent on short term market and product cycles. This will enable us to concentrate on the further development of the segments Automotive, Industrial & Multimarket and Chip Card & Security, which are all number one in their target markets for semiconductors and form a strong alliance built upon technical synergies. Following the carve-out of the memory business and of the Wireline Communications business, the Wireless sale concludes our strategic efforts to focus on profitable, high-growth, and less volatile semiconductor businesses.

06 WORLD ECONOMIC GROWTH
IN %



Source: International Monetary Fund; status: October 2010.
1 Estimated.

07 DEVELOPMENT OF THE SEMICONDUCTOR MARKET
U.S. $ IN BILLIONS



Quelle: iSuppli, Application Market Forecast Tool (AMFT), Q3 2010, Regional Shipments, 21. September 2010.
1 Estimated.

SUBSTANTIAL CAPITAL AND RESEARCH & DEVELOPMENT EXPENDITURES

Semiconductor manufacturing is very capital-intensive. The manufacturing capacities that are essential to maintain a competitive cost position require large capital investments. The top 10 capital spenders in the industry, according to IC Insights, account for 69 percent of the industry's projected 2010 capital spending budgets. Manufacturing processes and product designs are based on leading-edge technologies that require considerable research and development expenditures. A high percentage of the cost to operate a fab is fixed; therefore, increases or decreases in capacity utilization can have a significant effect on profitability.

While the market for standard products is characterized by market driven pricing which is largely beyond our control, the market for specialized products is characterized by mid to long term price and supply agreements. In any case, lowering our manufacturing costs by continuously increasing our productivity is key to secure our profitability.

About two thirds of our internal wafer capacity is used for production of power semiconductors for automotive and industrial applications. We have manufacturing facilities for power semiconductors in Regensburg, Germany, in Villach, Austria, and in Kulim, Malaysia. Infineon aims both at further development of power semiconductor technology, for example by introducing power copper metallization and special handling processes for ever thinner wafers for optimization of electrical resistance, and at continuous productivity improvements.

Another third of our internal wafer capacity is used for the fabrication of logic chips for automotive, security and consumer applications. We have a manufacturing plant in Dresden, Germany, and cooperate with silicon foundries. These are currently Taiwan Semiconductor Manufacturing Company ("TSMC"), United Microelectronics Corporation ("UMC"), Global Foundries Incorporation ("GF"), IBM and ALTIS. At our silicon foundries products ranging from 130 nanometres down to 65 nanometres for standard logic applications as well as Flash applications are manufactured. In order to reduce manufacturing and development costs we employ long term agreements with foundries and R&D alliances with International Semiconductor Development Alliance ("ISDA"), a technology alliance with, among others, IBM, GF, Freescale Semiconductor, Inc., NEC Corporation, Samsung Electronics Ltd., STMicroelectronics NV and Toshiba Corporation.

We expect to continue to increase unit production output, in particular by producing chips with smaller structure sizes, by migrating towards production on larger wafer diameters, by increases in throughput of production equipment and by extension of manufacturing capacity.

We operate assembly and test sites for power semiconductors in Malacca, Malaysia, and Batam, Indonesia. Further backend sites are Wuxi (People's Republic of China), Regensburg and Warstein (Germany) and Cegled (Hungary) as well as Singapore and Morgan Hill (USA). We complement our internal manufacturing capacity in backends by subcontractors like Amkor Technology, Inc. and Advanced Semiconductor Engineering, Inc..

RESEARCH AND DEVELOPMENT

Our R&D activities are conducted at locations throughout the world. The following table shows our major R&D locations and their respective areas of competence for our continuing operations:

08 **R&D LOCATIONS**

Location	Areas of Competence
Bangalore, India	IC, software and system development for automotive and industrial products, CAD flow and library development
Bucharest, Romania	Power mixed-signal semiconductors, chip card ICs
Dresden, Germany	Advanced technology development
Graz, Austria	Contactless systems, automotive power systems, sensor products
Linz, Austria	RF IC and software development for sensor products
Morgan Hill, California, U.S.A.	Development for RF power transceiver applications
Munich, Germany	Main product development site. Technology integration, CAD flow, library development, IC, software and system development for microcontrollers, ASICs, chip card ICs, automotive power and industrial products, process technology development
Regensburg, Germany	Package development, process technology development
Singapore	IC, software and system development for automotive and industrial products, package development
Torrance, California, U.S.A.	Development of digital power ICs
Villach, Austria	Development for power semiconductor products, mixed signal IC development for automotive, industrial and communication products

As of September 30, 2010, our R&D staff consisted of 5,771 employees working in our R&D units throughout the world (including those employees, who to be transferred to Intel upon the closing of the sale of the Wireless mobile phone business), which is approximately 22 percent of our total workforce. We have given particular emphasis in recent years to the expansion of our R&D resources in cost-attractive locations with good access to lead markets and lead customers. We believe that appropriate utilization of skilled R&D personnel in lower-cost locations will improve our ability to maintain our technical position while controlling expenses.

Our R&D activities are concentrated in the areas of semiconductor based product and system development, as well as process technology. Major R&D activities range from the development of leading edge RF, analog and power circuits, complex digital system-on-chip solutions, high and low power discretes, sensors, software blocks, CAD flows and libraries to packaging technology.

Our ICs generally utilize complex system-on-chip designs and require a wide variety of intellectual property and sophisticated design methodologies to combine high performance with low power consumption. We believe that our range of intellectual property and methodologies for logic ICs, in particular our capability to integrate various ICs and complex software products, will enable us to continue to strengthen our position in the logic IC market. We view expertise in analog/mixed-signal devices and RF design as a particular competitive strength.

Our power ICs and discrete power transistors utilize a sophisticated co-design of circuits and technology procedures to optimize parameters like on-resistance, switching speed and reliability. We believe our expertise in all fields of power applications up to the highest voltage and current levels will enable us to retain a leading development position and help us to remain a leading supplier for power semiconductors.

Process technologies are another important focus of our R&D activities. We continuously develop our power technologies in order to support our number one position in the power market. Requirements for automotive and industrial applications, such as high-temperature, high switching power and reliability, allow for differentiation through in-house R&D. For advanced logic technologies from 65 nanometres and smaller we are following a strategy of alliances with several partners and consortia to maintain a competitive technology roadmap at an affordable cost level. Our process technologies benefit from many modular characteristics, including special low-power variants, analog options and high-voltage capabilities.

MANUFACTURING FACILITIES

About half of our internal fab capacity is used for the manufacture of power semiconductors used in automotive and industrial applications. We have power semiconductor manufacturing sites in Regensburg, Germany, in Villach, Austria and in Kulim, Malaysia. We continue to focus on innovation for power semiconductors, introducing power copper metallization and special processes to fabricate ever thinner wafers to optimize electrical resistance.

09 MANUFACTURING FACILITIES

Location	Principal products or functions
Front-end-facilities – wafer fabrication plants	
Dresden, Germany	ASICs and MCUs with embedded flash memory, logic ICS
Kulim, Malaysia	Power, smart power, ASICs and MCUs with embedded flash memory
Regensburg, Germany	Power, smart power, sensors, mixed signal
Villach, Austria	Power, smart power, discretes
Back-end-facilities – assembly and final testing plants	
Batam, Indonesia	Power and non-power ICs
Cegléd, Hungary	High power
Morgan Hill, California, U.S.A.	RF-power
Regensburg, Germany	Chip card modules, sensors, pilot lines
Singapore	Leadless non-power ICs, wafer test
Warstein, Germany	High power
Wuxi, China	Discretes, chip card modules
Malacca, Malaysia	Discretes, power packages, sensors,

TECHNOLOGICAL DEVELOPMENT AND COMPETITION

Sales prices per unit are volatile and generally decline over time due to technological developments and competitive pressure. Although logic products generally have a certain degree of application specification, unit sales prices for logic products typically decline over time as technology develops.

We aim to offset the effects of declining unit sales prices on total revenue by optimizing product mix, by increasing unit sales volume and by continually reducing per-unit production costs. The growth in volume depends in part on productivity improvements in manufacturing, for example by moving to ever-smaller structure sizes.

SEASONALITY

Our sales are affected by seasonal and cyclical influences, with sales historically strongest in our fourth fiscal quarter. These short cycles are influenced by longer cycles that are a response to innovative technical solutions from our customers that incorporate our products. The short-term and mid-term cyclicality of our sales reflects the supply and demand fluctuations for the products that contain our semiconductors. If anticipated sales or shipments do not occur when expected, expenses and inventory levels in a given quarter can be disproportionately high, and our results of operations for that quarter, and potentially for future quarters, may be adversely affected.

PRODUCT DEVELOPMENT CYCLES

For our products, the cycle for test, evaluation and adoption of our products by customers before the start of volume production can range from several months to more than one year. Due to this lengthy cycle, we may experience significant delays from the time we incur expenses for R&D, marketing efforts, and investments in inventory, to the time we generate corresponding revenue, if any.

ACQUISITION AND DIVESTITURE STRATEGY

A key element of our core business strategy is to seek to reduce the time required to develop new technologies and products and bring them to market, and to optimize our existing product offerings, market coverage, engineering workforce, and technological capabilities. We plan to continue to evaluate strategic opportunities as they arise, including business acquisitions, strategic relationships, capital investments, and the purchase or sale of assets or businesses.

INTELLECTUAL PROPERTY

Due to the high-technology nature of the semiconductor industry intangible assets relating to our proprietary technology are of significant importance. This Intellectual Property ("IP") includes patents, copyrights, trade secrets, trademarks, utility models and designs. The subjects of our patents primarily relate to IC designs and process technologies. We believe that our intellectual property is a valuable asset not only to protect our investment in technology but also a vital prerequisite for cross licensing agreements with third parties. Infineon also derives revenues from licensing of IP, especially as a result of technology as well as patent licensing activities.

As of September 30, 2010, we owned more than 17,700 patent applications and patents (both referred to as "patents" below) in over 40 countries throughout the world. These patents belong to approximately 7,600 "patent families" (each patent family containing all patents originating from the same invention).

Approximately 2,650 of those patent applications and patents (approximately 1,000 patent families) will be transferred to Intel upon closing of the sale of our Wireless mobile phone business.

IFRS requires that costs for development activities of self-developed IP be to capitalized, if development costs can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable, and we intend, and have sufficient resources, to complete development and use or sell the asset. The costs capitalized include the cost of materials, direct labor and directly attributable general overhead expenditures that serve to prepare the asset for use. Costs of research activities undertaken with the prospect of gaining new scientific or technical knowledge and understanding are expensed as incurred. In the 2010 fiscal year, we capitalized €79 million (of which €52 million was attributable to the Wireless mobile phone business). In the previous year, we had recognized development costs of €47 million (of which €31 million was attributable to the Wireless mobile phone business and the Wireline Communications business). As of September 30, 2010, the carrying amount of purchased intellectual property for continuing operations recognized was €53 million.

The determination of the value for acquired IP, in particular if acquired as part of a business combination, is often complex and difficult to estimate. IP licensed from others or acquired through a business combination is also reflected on our statement of financial position, and reduced through amortization over its expected useful life. As of September 30, 2010, the carrying amount of acquired IP (excluding amounts classified as held for sale) was €13 million.

CHALLENGES THAT LIE AHEAD AND CORPORATE MANAGEMENT

Going forward, our success will remain highly dependent on our ability to stay at the leading edge of technology development, and to continue to optimize our product portfolio. We must achieve both objectives to ensure that we have the flexibility to react to fluctuations in the market demand for different types of semiconductor products. We believe that the ability to offer and the flexibility to manufacture a broad portfolio of products will be increasingly important to our long-term success in many markets in the semiconductor industry. Establishing and maintaining advantageous technology, development and manufacturing alliances, including the use

of third-party foundries, and continuing our efforts to broaden our product portfolio will make it easier for us to respond to changes in market conditions and to improve our financial performance.

As a high-tech company we are operate in a growing market and a dynamic business environment. Innovation in products and technologies is necessary to maintain a leading market position. Infineon's manufacturing technologies are an important differentiating factor for our business. Therefore, we have to constantly invest in R&D as well as in our manufacturing capabilities. We invest in additional manufacturing capacity to develop growth potential but also consider the most efficient capacity utilization to avoid idle cost.

Profitable growth puts us in a position to finance our business and investments on our own. But this requires the efficient use of our financial resources.

Consequently, corporate management is focusing on three key success factors:

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

We use a comprehensive controlling system to manage our business along those three success factors. It includes financial parameters as well as operating key performance indicators. The controlling information is derived from our annual long-term planning process, our quarterly financial forecasting and our actual performance. This allows our top management to base its decisions on sound information regarding our current situation and the expected development of our financial and operative performance.

The Management Board performs regular performance reviews together with executives of our business segments, manufacturing cluster and corporate functions. The focus of these reviews is the development of key drivers for profitability, cash flow and capital efficiency. The performance evaluation is based on financial parameters like orders received, revenues, gross margins, operating expenses, working capital and capital expenditures. Additionally, selected key operative performance indicators are considered such as capacity utilization of manufacturing, to be able to promptly address increasing idle costs.

In order to measure the effects of those parameters on the key success factors, we use the following three comprehensive financial metrics for corporate management:

- Segment Result to measure the operating profitability of our businesses
- Free cash flow to measure the amount of cash generated without financing activities
- Return on capital employed (ROCE) to measure capital efficiency.

These three key financial metrics are also the cornerstones for our system of variable compensation. A substantial portion of the variable compensation of employees and managers is directly linked to these metrics.

Segment Result

We define Segment Result as operating income (loss) excluding asset impairments, net, restructuring charges and other related closure costs, net, share-based compensation expense, acquisition-related amortization and gains (losses), gains (losses) on sales of assets, businesses, or interests in subsidiaries, and other income (expense), including litigation settlement costs.

This is the measure that Infineon uses to evaluate the operating performance of its segments. Infineon as well as the individual segments aim to achieve a Segment Result margin clearly above the costs of capital.

The main levers for generating Segment Result are the gross profit of a business and its operating expenses. Gross profit is calculated as revenues less cost of goods sold. Operating expenses include costs for R&D, sales, marketing and administrative overhead.

Free Cash Flow

We define Free Cash Flow as cash flow from operating and investing activities from continuing operations excluding purchases or sales of available-for-sale financial assets. It represents the cash flow generated in a period excluding financing activities.

Free cash flow measures our ability to generate sufficient cash flows from our operations to finance the daily business and to fund required capital expenditures. It is our target to sustainably generate positive free cash flow.

The main levers for generating free cash flow are our profitability and our ability to manage working capital and capital expenditures compared to the level of depreciation.

Return on capital employed ("ROCE")

Return on capital employed is a common financial ratio for evaluating return on capital. Comparing a company's ROCE with its weighted cost of capital shows how much value was generated in excess the return on investment expected by investors and creditors. Therefore, ROCE is used as an instrument for value-based management.

ROCE is calculated as NOPAT (Net Operating Profits after Tax) divided by capital employed. ROCE shows the linkage between profitability and capital resources required to run the business. It describes how efficiently a company manages its resources.

Capital employed is calculated as total assets less cash and cash equivalents less available-for-sale financial assets less current liabilities (excluding short-term debt and current maturities of long-term debt). In other words: Capital employed is the sum of non-current assets and working capital, net of assets and liabilities classified as held for sale.

Apart from profitability, the main levers in influencing ROCE are asset intensity with regard to property, plant and equipment as well as working capital. Asset intensity describes how many assets are necessary to generate certain revenue.

It is our target to generate a ROCE which is above the weighted cost of capital to generate value for our shareholders. With a ROCE of 24 percent we clearly reached this target in 2010.

10 KEY FINANCIAL METRICS FOR CORPORATE MANAGEMENT

€ in millions, except percentages	2010	2009
Segment Result [1]	635	(167)
Segment Result Margin [1]	14%	(6%)
Free cash flow from continuing operations	573	274
ROCE	24%	(11%)

1 Including the Wireless mobile phone business to be sold.

OUR SHARES

Infineon share performance

In the 2010 fiscal year, the price of Infineon shares rose by 32 percent, from €3.86 on September 30, 2009 to €5.08 (Xetra closing price) on September 30, 2010, thus significantly outperforming relevant indices.

Comparable indices also saw an upward trend in the 2010 fiscal year. The Dow Jones US Semiconductor Index advanced by 4 percent in the same period, the Philadelphia Stock Exchange Semiconductor Index by 13 percent, and the German DAX Stock Index by 10 percent.

The share price fell to its annual low of €3.05 on October 28, 2009, thus trading 21 percent below its level on September 30, 2009. At €5.54, the share price reached its high for the year in the second half of fiscal year 2010, on April 26, 2010.

Shareholder structure

In accordance with the German Securities Trading Act (Wertpapierhandelsgesetz), shareholders are obliged to inform us and the German Federal Financial Supervisory Authority (Bundesanstalt für Finanzdienstleistungsaufsicht – BaFin) when their share ownership reaches or exceeds 3 percent, 5 percent, 10 percent, 15 percent, 20 percent, 25 percent, 30 percent, 50 percent or 75 percent, or – after their share ownership has exceeded these thresholds – when it has fallen below these thresholds again. This disclosure must also specify the number of shares held.

According to the notifications available to us as of September 30, 2010, the following shareholders own the number of shares specified in the table below:

11 SHARES OWNED

As of September 30, 2010	Number	Percentage relating to the number of shares at the date of notification
Dodge & Cox	106,771,627	9.82%
Black Rock Inc.	55,553,415	5.11%

Dividend policy

No dividends were paid in recent years. We will propose to the General Shareholders' Meeting the distribution of a cash dividend of €0.10 per share for the 2010 fiscal year. This represents an aggregate distribution of €109 million.

The Company's strategic realignment with a focus on more stable and more profitable market segments is aimed at achieving sustainable profitability and at generating excess liquidity. We intent to let our shareholders participate in

this development on a long-term basis through continuous distributions whose level will be set such that on the one hand sufficient liquidity reserves are retained so that value-adding growth potential can be tapped into, even in times of challenging economic circumstances, while on the other hand regular dividend payments are possible throughout market cycles. In addition to dividends, other instruments, such as share buybacks, can be considered to repay capital to the shareholders.

Under the German Stock Corporation Act (Aktiengesetz), the amount available for distribution as dividends to shareholders is based on the parent company's net retained earnings, determined in accordance with the German Commercial Code (Handelsgesetzbuch – HGB). The main factors for determining the dividend amounts from the Company will be the ratio of cash provided by operating activities to cash used in investing activities, i.e., the free cash flow as this ratio most closely reflects the financial performance of the business.

Based on the average XETRA closing price of €4.37 for Infineon shares in the 2010 fiscal year, the proposed dividend would deliver a dividend yield of 2.3 percent.

RESULTS OF OPERATIONS

REORGANIZATION OF THE INFINEON GROUP AND ITS IMPACT ON THE PRESENTATION OF THE CONSOLIDATED STATEMENT OF INCOME

In July 2009, we entered into an agreement for the sale of our Wireline Communications business to Lantiq. The sale closed on November 6, 2009. In the consolidated statement of financial position as of September 30, 2009, all assets and liabilities of the Wireline Communications business were reported as "assets classified as held for sale" and "liabilities classified as held for sale." The results of the Wireline Communications business have been recognized in the consolidated statement of operations for the 2010 and 2009 fiscal years under "income (loss) from discontinued operations, net of income taxes." Internal reporting and therefore segment reporting has been adjusted accordingly and no longer reflects the former Wireline Communications segment.

In August 2010, we entered into an agreement with Intel for the sale of our Wireless mobile phone business. As a result of the planned sale, all assets and liabilities to be sold and transferred are reported as "assets classified as held for sale" and "liabilities classified as held for sale" in our consolidated statement of financial position as of September 30, 2010. In the consolidated statement of operations results of the Wireless mobile phone business are no longer reported in the individual line items, but under "income (loss) from discontinued operations, net of income taxes". The other individual line items of the consolidated statement of operations therefore include only the results of Infineon's continuing operations. Likewise, the consolidated statement of cash flows shows the cash inflows and outflows of the Wireless mobile phone business as "discontinued operations." The prior-year amounts of the consolidated statement of operations and the consolidated statement of cash flows have been adjusted accordingly.

Our outlook for the 2010 fiscal year was based on the total revenue of all the segments and the Segment Result margin, i.e., both figures included the revenue and Segment Result of the Wireless mobile phone business. Consequently, we explain below the financial performance initially on that basis compared with the outlook for the 2010 fiscal year. This is in line with our internal reports for the 2010 fiscal year and thus our segment reporting. Then we explain the financial performance on the basis of the statement of operations, in which the Wireless mobile phone business to be sold is reported as part of "income (loss) from discontinued operations, net of income taxes" for the 2010 fiscal year and the previous year.

SEGMENT PERFORMANCE

Segment revenue and Segment Result in fiscal year 2010 compared with the outlook for fiscal year 2010

When we first presented our outlook for the 2010 fiscal year in November 2009, it was only to a limited extent possible to predict the economic development of the 2010 fiscal year. The general development of demand seemed positive, but there was considerable uncertainty as to how sustainable this development would be, following the sharp downturn in the 2009 fiscal year. The development of the Euro/U.S. dollar exchange rate was also hard to predict. At the time, we assumed a Euro/U.S. dollar exchange rate of 1.50.

Based on expectations at the time, we forecasted an increase in revenue of at least ten percent for the 2010 fiscal year compared with the 2009 fiscal year. During the course of the fiscal year, in April 2010, in August 2010, and in September 2010, we revised our revenue estimates for the 2010 fiscal year in line with the good business situation and the development of the Euro/U.S. dollar exchange rate. While in April 2010, we anticipated a year-on-year increase in revenue for the 2010 fiscal year by a percentage in the high 30s, we revised

our percentage forecast in August to the high 40s, and in September 2010 we anticipated a year-on-year jump in revenue of over 50 percent in the 2010 fiscal year.

Based on the estimates in November 2009, we forecasted a significant year-on-year rise in our total Segment Result and a Segment Result margin in the mid-single-digit percentage range. We revised our expectation of the development of Segment Result margin in the course of the fiscal year, in April 2010, in August 2010, and in September 2010, in line with the good business environment, the results realized to date, and the development of the Euro/U.S. dollar exchange rate. While in April 2010, we anticipated a Segment Result margin of just over 10 percent in the 2010 fiscal year, we increased our forecast in August to a percentage in the low 10s and finally, in September 2010, we predicted a Segment Result margin of 13 to 14 percent.

Total revenue, including revenues of the Wireless mobile phone business to be sold, increased by 51 percent year-on-year in the 2010 fiscal year. All segments contributed to this growth in revenue, which was significantly higher than originally expected. The economic upturn and the strength of the U.S. dollar against the euro led to revenue growth in all our segments in the 2010 fiscal year. The Automotive segment benefited from higher than expected demand from end customers and the replenishment of inventories in the global automotive supply industry. Likewise, the Industrial & Multimarket segment benefitted from the considerably faster than expected recovery in demand for computers, communications, and industry products as well as of the replenishment of inventories along the value chain. As anticipated, revenue in the Chip Card & Security segment expanded more slowly than in the other segments. However, even this segment's revenue advanced significantly more than expected, due to the significantly higher than expected increase in demand for payment card and communication applications. The Wireless Solutions segment benefited from the considerably higher than expected demand from significant mobile telephony platform customers.

In line with the outlook revised in September 2010, the economic upturn and the resulting revenue growth propelled the overall Segment Result margin to 14 percent in the 2010 fiscal year, from a margin of negative 6 percent in the previous year. All operating segments contributed to this growth in Segment Result margin, which was significantly higher than originally expected. In addition to the higher than anticipated increases in revenue, better than anticipated capacity utilization and the resulting decrease in idle costs also had a positive impact on the Segment Result margin.

Revenue by Segment

Revenue in the 2009 fiscal year was to a significant extent influenced by the global financial and economic crisis, which impacted all operating segments. The rapid and general recovery of the economy in the past 15 months brought about a corresponding improvement in revenue for all of our operating segments.

- **Automotive –** In the 2010 fiscal year, revenues were €1,268 million, an increase of €429 million, or 51 percent, compared to €839 million in the 2009 fiscal year. We achieved equally high year-on-year revenue growth rates in both the first and the second half of the 2010 fiscal year, bringing revenue for the 2010 fiscal year back to the level it was in the 2008 fiscal year before the financial and economic crisis. Semiconductor demand was increased by rising global car production. Demand for vehicles was driven by faster than average growth in Asia, mainly in China and India, and

12 REVENUE BY SEGMENT

€ in millions, except percentages	2010	%	2009	%
Automotive	1,268	28	839	28
Industrial & Multimarket	1,374	30	905	30
Chip Card & Security	407	9	341	11
Wireless Solutions	1,372	30	917	30
Other Operating Segments	167	3	17	1
Corporate & Eliminations	(3)	0	8	0
Total Segment revenue including Wireless Solutions	4,585	100	3,027	100
less discontinued operations of Wireless Solutions	(1,290)		(843)	
Revenue	3,295		2,184	

the market shift from small to high-end vehicles generated additional demand for semiconductors. In 2009, the share of small vehicles in the car sales mix was disproportionately high as a result of government incentive programs, such as the scrapping premium in Germany.

- **Industrial & Multimarket –** In the 2010 fiscal year, revenue amounted to €1,374 million, up €469 million, or 52 percent, from €905 million in the 2009 fiscal year. Revenue increased year-on-year both in the first but in particular in the second half of the 2010 fiscal year. While revenue increased by 38 percent in the first half of the 2010 fiscal year compared with the same period of the previous fiscal year, the year-on-year growth rate accelerated to 64 percent in the second half of fiscal year 2010. Overall, our revenue in this segment also significantly exceeded the level reached in the pre-crisis 2008 fiscal year. Starting in the second quarter of the 2009 fiscal year, our business volume in the Industrial & Multimarket segment increased for six consecutive quarters. In addition to the general recovery of the markets from the economic crisis, this development was facilitated above all by the excellent technological competitive position of our products as well as a high degree of flexibility in the ramp-up of production. The increased business volume covers a broad range of applications, such as consumer goods, industrial drives and tractions, and computing, as well as to a significant extent a variety of applications in the area of renewable energy.
- **Chip Card & Security –** In the 2010 fiscal year, revenue amounted to €407 million, up €66 million, or 19 percent, from €341 million in the 2009 fiscal year. While revenue rose by only 6 percent in the first half of the 2010 fiscal year compared with the same period of the 2009 fiscal year, revenue increased significantly by 32 percent year-on-year in the second half of the 2010 fiscal year. The strong revenue growth in the full fiscal year and in particular in the second half of the fiscal year is attributable to a sharp increase in demand in the business with payment cards, government ID, and mobile communications. In the payment business, additional demand was driven by the migration from magnetic strips to chip-based cards in Spain after a security issue in Spain at the end of 2009. In addition, software problems around the turn of the calendar year led to greater demand. We also recorded increased demand in the area of government IDs (e. g. electronic passports), which drove revenue growth in particular in the second half of the 2010 fiscal year. Finally, the successful introduction of a new product platform for SIM cards led to a significant rise in revenue in the 2010 fiscal year. In comparing of the two fiscal years, exchange rate effects were negligible. The segment's revenue did not entirely reach the level of the pre-crisis fiscal year 2008, which was characterized by an exceptionally high demand for the US electronic passports.
- **Wireless Solutions –** In the 2010 fiscal year, revenue amounted to €1,372 million, up €455 million, or 50 percent, from €917 million in the 2009 fiscal year and also significantly higher than the revenue figure of the pre-crisis 2008 fiscal year. In the first half of the 2010 fiscal year, the segment's revenue increased by 34 percent year-on-year. In the second half of the 2010 fiscal year, year-on-year revenue growth jumped further to 62 percent. This rise in revenue is primarily due to the high acceptance of our new platforms for smartphone and entry-level models at our customers. Our high performance and innovative, ultra-low-cost-, entry-level phone- and HSPA solutions likewise enjoyed a positive market response. In the course of the 2010 fiscal year, established mobile phone manufacturers launched several popular smartphone models, which are equipped with our new 65-nanometer HSUPA platform XMM™-6160. The market success of this platform made a significant contribution to the positive business performance. Other growth drivers of our business were the market launch of our 65-nanometer ultra-low-cost platform XMM™-1100 for very cost-effective mobile phones and our 65-nanomenter EDGE platform XMM™-2130. Both single-chip solutions are used by a large number of mobile phone manufacturers. The successful volume ramp-up of the above solutions allowed us to place large quantities on the market, especially in the second half of the 2010 fiscal year.
- **Other Operating Segments –** In the 2010 fiscal year, revenue amounted to €167 million, a significant increase of €150 million compared to €17 million in the 2009 fiscal year. The increase was primarily due to the revenue generated from Lantiq after the closing of the sale of Wireline Communications in November 2009. Most of the revenue generated by the Other Operating Segments in the 2009 fiscal year was attributable to our hard-disc-drive activities, which we sold to LSI Corporation in April 2008.

Development of Segment Results

The results of our segments were as follows:

13 DEVELOPMENT OF SEGMENT RESULTS

€ in millions	2010	2009
Segment Result:		
Automotive	198	(117)
Industrial & Multimarket	283	35
Chip Card & Security	22	(4)
Wireless Solutions	159	(36)
Other Operating Segments	(12)	(13)
Corporate and Eliminations	(15)	(32)
Total Segment Result including Wireless Solutions	635	(167)
adjusted by the Segment Result from discontinued operations of Wireless Solutions	(160)	27
Total Segment Result from continuing operations	475	(140)

In the 2010 fiscal year, Segment Result improved significantly in all operating segments, benefiting to a significant extent from the growth in revenue, the resulting improvement in production capacity utilization and a reduction in idle costs. This effect on Segment Result was partially offset by our hedging result, since we had hedged a large proportion of the U.S. dollar denominated revenue expected for the 2010 fiscal year at a higher Euro/U.S. dollar exchange rate than in the previous year, while the actual Euro/U.S. dollar exchange rate partially moved in the opposite direction. In addition, segments benefited from the structural measures we had implemented under our IFX10+ cost-reduction program, whose effects were felt for a full fiscal year for the first time in 2010. The largest jump in Segment Result, €315 million, was achieved in our Automotive segment in the 2010 fiscal year, followed by the Industrial & Multimarket segment, whose Segment Result improved by €248 million.

The Segment Results of the 2009 fiscal year had been negatively impacted by the financial and economic crisis. Declines in revenue and the resulting high idle costs in production led to a collapse of the result of all operating segments. This was only partially offset by cost savings achieved under our IFX10+ cost-reduction program and through short-time work and unpaid leave. The total Segment Result from continuing operations is determined by deducting the Segment Result of the Wireless mobile phone business shown under “income (loss) from discontinued operations, net of income taxes” which amounted to €160 million in the 2010 fiscal year and negative €27 million in the previous fiscal year.

The Segment Result of our operating segments changed as follows:

- **Automotive –** In the 2010 fiscal year, Segment Result amounted to €198 million, an increase of €315 million compared with negative €117 million in the 2009 fiscal year. The main drivers of the significant improvement in the result were the increase in revenue and the sharply higher capacity utilization at all manufacturing locations. To maintain our leading market position in the automotive semiconductor market, R&D expenses were increased further, e.g., for microcontrollers in the advanced 65-nanomenter multicore architecture, new sensor products, and in single-chip integration of power and control circuitry using our new and advanced 130-nanometer BCD process. In addition, the segment is also investing in the development of products aimed specifically at the emerging areas of hybrid and electric vehicles. In the Asian markets with above-average growth rates (China, Korea, and India), the local presence was strengthened further by adding resources for application and customer support.
- **Industrial & Multimarket –** In the 2010 fiscal year, Segment Result was €283 million (21 percent of revenue), an increase of €248 million compared with €35 million (or 4 percent of revenue) in the 2009 fiscal year. Besides continuous improvements in our product portfolio and ongoing efforts in improving our cost position, such increased profitability is mainly attributable to economies of scale driven by the strongly increased business volume. A less than proportionate rise in research and development costs, selling expenses, and general and administrative expenses also contributed to this performance.
- **Chip Card & Security –** In the 2010 fiscal year, Segment Result amounted to €22 million, an increase of €26 million from negative €4 million in the 2009 fiscal year. The main contributor to this improvement in Segment Result was gross profit, which was driven by higher volumes and a significantly improved product mix. In addition, it was impacted by portfolio improvements in favor of higher-margin products in applications such as payment cards and government IDs, as well as productivity gains in production and the beginning ramp-up of 90-nanometer technology. Moreover, the reduction in idle costs for underutilized manufacturing capacities compared with the 2009 fiscal year also contributed to the improvement in gross profit. Research and development costs as well as selling and administrative expenses rose year-on-year, mainly because the temporary savings achieved through short-time work in the previous year came to an end.

- **Wireless Solutions –** In the 2010 fiscal year, Segment Result amounted to €159 million, an increase of €195 million from negative €36 million in the 2009 fiscal year. This increase is in particular due to the significant rise in revenue, continued productivity gains, and increased capacity utilization following the global economic crisis, which had affected especially the first half of the previous fiscal year. The good Segment Result of Wireless Solutions in the past fiscal year was achieved in spite of increased R&D expenses in support of a growing number of projects and the cost burden resulting from the production ramp-up of our new platforms.
- **Other Operating Segments –** In the 2010 fiscal year, Segment Result amounted to negative €12 million, almost unchanged compared to negative €13 million in the 2009 fiscal year. The 2010 Segment Result was due to low-margin revenue generated from Lantiq, which did not cover the overhead cost remaining after the sale of the Wireline Communcations business.
- **Corporate and Eliminations –** In the 2010 fiscal year, Segment Result amounted to negative €15 million, an improvement of €17 million compared with negative €32 million generated in the 2009 fiscal year. The improvement was mainly the result of a decline in strategic idle costs.

EXPLANATION OF THE MATERIAL ITEMS OF THE CONSOLIDATED STATEMENT OF OPERATIONS

14 CONSOLIDATED STATEMENT OF OPERATIONS FOR THE YEAR ENDED SEPTEMBER 30, 2010

€ in millions	2010	2009 adjusted[1]
Revenue	3,295	2,184
Cost of goods sold	(2,058)	(1,687)
Gross profit	1,237	497
Research and development expenses	(399)	(319)
Selling, general and administrative expenses	(386)	(332)
Other operating income	18	17
Other operating expense	(122)	(46)
Operating income (loss)	348	(183)
Financial income	29	101
Financial expense	(95)	(154)
Income from investments accounted for using the equity method	8	7
Income (loss) from continuing operations before income taxes	290	(229)
Income tax benefit (expense)	22	(4)
Income (loss) from continuing operations	312	(233)
Income (loss) from discontinued operations, net of income taxes	348	(441)
Net income (loss)	660	(674)
Attributable to:		
Non-controlling interests	1	(48)
Shareholders of Infineon Technologies AG	659	(626)
Basic earnings (loss) per share attributable to shareholders of Infineon Technologies AG (in Euro):		
Basic earnings (loss) per share from continuing operations	0.29	(0.27)
Basic earnings (loss) per share from discontinued operations	0.32	(0.46)
Basic earnings (loss) per share	0.61	(0.73)
Diluted earnings (loss) per share attributable to shareholders of Infineon Technologies AG (in Euro):		
Diluted earnings (loss) per share from continuing operations	0.28	(0.27)
Diluted earnings (loss) per share from discontinued operations	0.30	(0.46)
Diluted earnings (loss) per share	0.58	(0.73)

1 Prior period numbers have been adjusted (see Notes to the Consolidated Financial Statement No. 3).

REVENUE

We generate our revenues primarily from the sale of our semiconductor products and systems solutions. Our semiconductor products include a wide array of chips and components used in electronic devices ranging from automotive electronics to industrial applications and chip cards.

We derive modest license revenue from royalties and license fees earned on technology that we own and license to third parties. This enables us to recover a portion of our research and development expenses, and also often allows us to gain access to manufacturing capacity at foundries through joint licensing and capacity reservation arrangements.

Our revenues fluctuate in response to a combination of factors, including the following:

- the global and regional economic cycles;
- the market prices for our products, including fluctuations in currency exchange rates that affect our prices;
- our overall product mix and sales volumes;
- the stage of our products in their respective life cycles;
- the effects of competition and competitive pricing strategies; and
- governmental regulations influencing our markets (e.g., energy efficiency regulations).

15 REVENUE CHANGES YEAR-ON-YEAR

€ in millions, except percentages	2010	2009
Revenue	3,295	2,184
Changes year-on-year	51%	
Effect of foreign exchange over prior year	21	94
Percentage of revenue	1%	4%

In the 2010 fiscal year, our revenue increased by 51 percent compared with the 2009 fiscal year, primarily due to above-average revenue growth in the Automotive and Industrial & Multimarket segments and the revenue generated from Lantiq in the 2010 fiscal year following the sale of our Wireline Communications business. This development was seen during the entire 2010 fiscal year, although growth in the second half of the 2010 fiscal year was more significant than in the first half. Our growth in revenue generated in the 2010 fiscal year outpaced the growth of the semiconductor market as a whole in the same period. We did not only reactivate capacity mothballed in the crisis-hit 2009 fiscal year, but also added new capacity which we rapidly brought on line. By increasing our production capacity, we allowed our customers to realize corresponding growth, thus participating in the market success of our customers.

Only a small portion of our revenue growth in the fiscal year was due to exchange rate factors. Around 46 percent of the revenue of our continuing operations in the 2010 fiscal year was denominated in foreign currencies, primarily in U.S. dollars. In the 2010 fiscal year, the development of the U.S. dollar against the euro was very volatile, but did not change materially in comparison with the 2009 fiscal year when considered over the total 2010 fiscal year. The euro/U.S. dollar exchange rate was 1.45 at the beginning of the 2010 fiscal year. It rose relatively continuously until December 2009 to reach its high for the year of 1.51. The euro/U.S. dollar exchange rate reached a low of 1.19 for the 2010 fiscal year in June 2010 before closing the fiscal year at 1.36. By comparison, the high for the 2009 fiscal year was 1.48 and the low 1.24. The euro's weakness against foreign currencies (primarily the U.S. dollar) had a positive impact on revenue in both the 2010 and the 2009 fiscal years. For the fiscal year as a whole, however, the €21 million exchange rate impact on revenue was not significant, because the average rate at which revenue was recorded improved by only 1.3 U.S. dollar cents in the 2010 fiscal year compared with the previous year. The effect of foreign exchange over the previous year shown in the table above is calculated by applying the average exchange rate of the previous year as a constant exchange rate compared to the revenue of the current year.

The revenues of fiscal years 2010 and 2009 do not include any effects of business combinations.

REVENUE BY REGION AND CUSTOMER

The regional split of revenues of our continuing operations remained nearly unchanged in the 2010 fiscal year compared with the previous year.

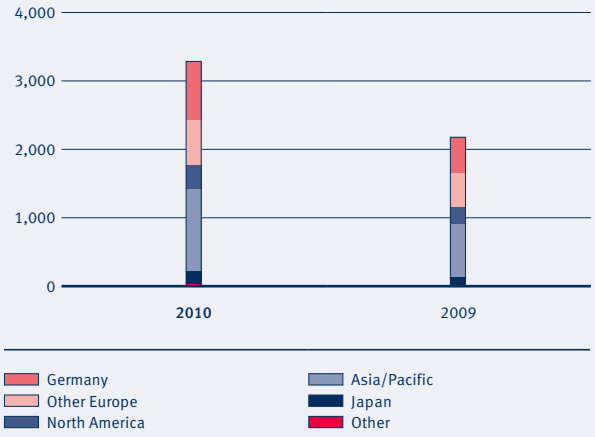
No single customer of our continuing operations contributed more than 10 percent of our revenue in the 2010 fiscal year. In the 2010 fiscal year, our 25 largest customers accounted for 72 percent of our revenue.

16 REVENUE BY REGION

€ in millions, except percentages	2010	%	2009	%
Germany	862	26	530	24
Other Europe	656	20	484	22
North America	351	11	261	12
Asia/Pacific [1]	1,202	36	768	35
Japan	184	6	116	6
Other	40	1	25	1
Total	3,295	100	2,184	100

1 Including revenues of €595 million and €359 million in the 2010 and 2009 fiscal years, respectively, from the People's Republic of China.

17 REVENUE BY REGION
€ IN MILLIONS



COST OF GOODS SOLD AND GROSS MARGIN

Our cost of goods sold consists principally of:

- direct materials, which consist principally of raw wafer costs;
- labor costs;
- overhead, including maintenance of production equipment, indirect materials, utilities and royalties;
- depreciation and amortization, including amortization of capitalized development cost;
- subcontracted expenses for assembly and test services;
- production support, including facilities, utilities, quality control, automated systems and management functions; and
- foundry production costs.

In addition to factors that affect our revenue, our gross margin is impacted by:

- factory utilization rates and related idle capacity costs;
- amortization of purchased intangible assets and capitalized development costs;
- product warranty costs;
- provisions for excess or obsolete inventories; and
- government grants, which are recognized over the remaining useful life of the related manufacturing assets.

Since we manufacture a large proportion of our products in our own production facilities and a large proportion of our costs is therefore fixed, our cost of goods sold does not respond proportionately to rises or falls in revenue. The nature of fixed costs means that they do not decline in times of lower revenue, accompanied by lower production capacity utilization, resulting in idle costs, which reflect continuing fixed costs being incurred even though production capacity utilization is low. In times of declining revenue, this effect drives the gross margin down disproportionately faster than revenue. In times of revenue growth, this effect is reversed in that the gross margin rises faster than revenue until full capacity utilization is reached.

18 COST OF GOODS SOLD AND GROSS MARGIN

€ in millions, except percentages	2010	2009
Cost of goods sold	2,058	1,687
Changes year-on-year	22%	
Percentage of revenue	62%	77%
Gross profit	1,237	497
Percentage of revenue (gross margin)	38%	23%

We include in the cost of goods sold the cost of obtaining materials from our joint ventures and other associated and related companies. Purchases from these associated and related companies amounted to €229 million in the 2010 fiscal year, compared with €138 million in the 2009 fiscal year.

In the 2010 fiscal year, the cost of goods sold amounted to €2,058 million, up €371 million, or 22 percent, on the €1,687 million incurred in the 2009 fiscal year. As a percentage of revenue, the cost of goods sold declined to 62 percent in the 2010 fiscal year compared with 77 percent in the previous year, primarily due to the reduction in the fixed cost proportion in line with the increase in revenue.

In the 2010 fiscal year, our gross margin rose to 38 percent, up from 23 percent in the previous year, primarily due to the increase in revenue. The growth in the sales volume led to higher production capacity utilization. Since December 2009, our manufacturing facilities have been working at virtually full capacity, with utilization rates of between 90 and 100 percent, including capacities expansions in the 2010 fiscal year. This led to a significant year-on-year decline in idle costs in the 2010 fiscal year. The end of temporary cost saving measures such as short-time work and unpaid leave, which we had introduced in the 2009 fiscal year in response to the business development at the time, had a negative effect. In addition, currencies in Asia strengthened against the euro in the 2010 fiscal year. Since part of our production takes place in Asia, this led to a corresponding increase in the cost of goods sold and thus had a negative impact on our gross margin. Our gross margin was significantly lower in the 2009 fiscal year. Especially in the first half of 2009, the lower sales volume had detrimental consequences. In addition, a significant amount of idle costs were incurred, mainly because it was not possible to reduce the fixed production costs in line with the decline in revenue. The increase in revenue in the second half of 2009 over the first half of 2009 led to a partial improvement in our revenue gross margin.

RESEARCH AND DEVELOPMENT EXPENSES

R&D expenses consist primarily of personnel expenses, material costs, depreciation and maintenance of equipment used in our R&D efforts, and contracted technology development costs. R&D expenses also include our joint technology development arrangements with partners. Costs of research activities undertaken with the prospect of gaining new scientific or technical knowledge and understanding are expensed as incurred. Costs for development activities, whereby research findings are applied to a plan or design for the production of new or substantially improved products and processes, are capitalized if development costs can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable, and we intend, and have sufficient resources, to complete development and use or sell the asset. The costs capitalized include the cost of materials, direct labor and directly attributable general overhead expenditure that serve to prepare the asset for use.

We continue to focus our investments on the development of leading-edge manufacturing technologies and products with high potential for growth and profitability.

19 RESEARCH AND DEVELOPMENT EXPENSES

€ in millions, except percentages	2010	2009
Research and development expenses	399	319
Changes year-on-year	25%	
Percentage of revenue	12%	15%
Government subsidies	47	41
Percentage of revenue	1%	2%
Capitalized development costs	27	16
Percentage of research and development expenses	7%	5%

Some of our R&D projects receive grants and subsidies from local and regional authorities. If the criteria to receive such grants are met, the grants reduce the R&D expenses for the duration of the project in which the costs are incurred.

In the 2010 fiscal year, R&D expenses were €80 million, or 25 percent, higher than in the 2009 fiscal year. The increase reflects increased R&D activity in all operating segments, primarily in connection with a higher number of customer projects. In addition, short-time work and unpaid leave had led to temporary cost savings in the previous year. Provisions for variable employee compensation reflecting the improvement in our results also contributed to the year-on-year increase in research and development expenses in the 2010 fiscal year. Research and development expenses increased significantly more slowly than revenue.

In line with the increase of research and development expenses, capitalized development costs also rose to €27 million, from €16 million in 2009.

SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

Selling expenses consist primarily of personnel expenses for employees engaged in sales and marketing activities, costs of customer samples, other marketing incentives, and related marketing expenses. Due to our sales and customer structure, the amount of marketing expenses incurred for advertising and trade fair representation is not material.

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

20 SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

€ in millions, except percentages	2010	2009
Selling, general and administrative expenses	386	332
Changes year-on-year	16%	
Percentage of revenue	12%	15%

In the 2010 fiscal year, selling, general and administrative expenses amounted to €386 million, up €54 million, or 16 percent, from the €332 million incurred in the previous year. The increase is primarily due to the rise in selling expenses corresponding to higher sales revenues. The end of the previous year's temporary cost savings through short-time work and unpaid leave also contributed to the rise in selling, general and administrative expenses. Moreover, provisions for variable employee compensation reflecting the improvement in our results contributed to the year-on-year increase in selling, general, and administrative expenses in the 2010 fiscal year. However, these costs increased more slowly than revenue, so that, as a percentage of revenue, selling, general and administrative expenses declined from a total of 15 percent in the 2009 fiscal year to 12 percent in the 2010 fiscal year.

OTHER OPERATING INCOME AND OTHER OPERATING EXPENSE

21 OTHER OPERATING INCOME AND OTHER OPERATING EXPENSE

€ in millions, except percentages	2010	2009
Other operating income	18	17
Percentage of revenue	1%	1%
Other operating expense	(122)	(46)
Percentage of revenue	(4%)	(2%)

Other operating income amounted to €18 million in the 2010 fiscal year, nearly unchanged from the €17 million in the 2009 fiscal year. In November 2009, we and the Korean company LS Industrial Systems ("LSIS") established the joint venture LS Power Semitech Co., Ltd. ("LS"). LSIS holds a 54 percent and we hold a 46 percent interest in the joint venture, which is headquartered on the premises of LSIS in Cheonan in South Korea. By contributing licenses for intellectual property as well as for technological and process know-how for our CIPOSTM (Control Integrated Power System) family of power modules and existing CIPOSTM back-end production facilities to the joint venture, we realized a pre-tax profit of €3 million. Other operating income for the 2009 fiscal year includes income of €10 million resulting from payments by the insolvency administrator of our former customer BenQ. Otherwise, other operating income includes a variety of immaterial items.

Other operating expenses rose by €76 million, from €46 million in the 2009 fiscal year to €122 million in the 2010 fiscal year. Other operating expenses incurred in the 2010 fiscal year mainly include an amount of €69 million in connection with the deconsolidation of ALTIS described above. In addition, €12 million for impairments on assets and €7 million for onerous lease contracts are included. The previous year's operating expenses included, among other things, €17 million from the sale of our SensoNor business (see note 6) and €8 million for onerous lease contracts.

FINANCIAL INCOME AND EXPENSE

22 FINANCIAL INCOME AND EXPENSE

€ in millions, except percentages	2010	2009
Financial Income	29	101
Percentage of revenue	1%	5%
Financial Expense	(95)	(154)
Percentage of revenue	(3%)	(7%)

Financial income fell by €72 million, from €101 million in the 2009 fiscal year to €29 million in the 2010 fiscal year, primarily due to a €66 million decline in interest income in the 2010 fiscal year. While interest income reported in the 2009 fiscal year had included, among other things, gains of €61 million realized on the repurchase of notional amounts of the subordinated exchangeable notes and convertible notes both maturing in 2010, no such gains were realized in the 2010 fiscal year. In addition, gains from the valuation of interest rate swaps had a positive impact on financial income in the 2009 fiscal year, while in the 2010 fiscal year such gains

were not material. Moreover, the significant decline in money market interest rates in the 2010 fiscal year meant that in spite of higher investment volumes, interest income on cash and cash equivalents declined. On the other hand, changes in valuation enhancements and gains on sales of "available-for-sale financial assets" of €6 million had a positive effect on financial income.

Financial expense amounted to €95 million in the 2010 fiscal year, down €59 million from the €154 million incurred in the previous fiscal year. This reduction in the 2010 fiscal year was driven in particular by a decline in interest expense in connection with interest payments and the accretion of our subordinated convertible bond due in June 2010, and of our subordinated exchangeable notes, which we fully redeemed at the end of the 2009 fiscal year. This reflects the decline in the outstanding notional amount of these notes, which in turn is attributable to the repurchases made since the beginning of the 2009 fiscal year, the final redemption of the subordinated exchangeable notes in September 2009 and the final redemption of the subordinated convertible notes in June 2010. This decline was partially offset by the interest expense on our subordinated convertible notes due 2014. In addition, valuation changes and losses on the sale of "available-for-sale financial assets" of €28 million due to the financial crisis affected financial expense in the 2009 fiscal year, while such losses were immaterial in the 2010 fiscal year.

INCOME FROM INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

In the 2010 fiscal year, income from investments accounted for using the equity method amounted to €8 million, an increase of €1 million over the €7 million in the 2009 fiscal year. It includes in both fiscal years primarily our share in the result of Infineon Technologies Bipolar GmbH & Co. KG ("Bipolar"), our investment together with Siemens AG.

INCOME TAX BENEFIT (EXPENSE)

Our effective tax rate is influenced by tax credits in foreign jurisdictions, different tax rates in the jurisdictions in which we conduct our business, expenses that are not deductible for tax purposes, and above all by the change in valuation allowances on deferred tax assets and the utilization of unused tax assets.

Valuation allowances on deferred tax assets had increased by €73 million in the previous fiscal year. Valuation allowances of €73 million were released in the 2010 fiscal year.

23 INCOME TAX BENEFIT (EXPENSE)

€ in millions, except percentages	2010	2009
Income Tax Benefit (Expense)	22	(4)
Percentage of revenue	1%	0%
Effective tax rate	(8%)	(2%)

INCOME (LOSS) FROM DISCONTINUED OPERATIONS, NET OF INCOME TAX

Income (loss) from discontinued operations, net of income tax consists of the following components:

24 INCOME (LOSS) FROM DISCONTINUED OPERATIONS, NET OF INCOME TAXES

€ in millions	2010	2009
Qimonda	15	(420)
Wireline Communications	93	22
Mobile phone business	240	(43)
Income (loss) from discontinued operations, net of income taxes	348	(441)

Qimonda

On January 23, 2009, Qimonda AG and its wholly owned subsidiary Qimonda Dresden GmbH & Co. oHG ("Qimonda Dresden") filed for insolvency in the Munich Local Court. On the basis of Qimonda's insolvency application, Qimonda was deconsolidated in the second quarter of the 2009 fiscal year in accordance with IAS 27, "Consolidated and Separate Financial Statements". The insolvency proceedings commenced on April 1, 2009. Insolvency proceedings also commenced with respect to other subsidiaries of Qimonda in different countries.

In the fiscal years 2010 and 2009, the results of Qimonda are reported as discontinued operations in the consolidated statement of operations. Qimonda's operating losses in the 2009 fiscal year up to the date of deconsolidation were offset by a partial reversal of the valuation allowance recognized on Qimonda's net assets in the 2008 fiscal year, since they had already been measured at zero as of September 30, 2008. The amounts reported for Qimonda under "income (loss) from discontinued operations, net of income taxes" in the 2009 fiscal year relate primarily to the realization of accumulated foreign currency translation losses of €188 million and charges for provisions and valuation allowances of €227 million in connection with the insolvency of Qimonda. The realization of accumulated foreign currency translation losses, which had

previously been recognized in equity, resulted mainly from Qimonda's sale of its interest in Inotera Memories Inc. ("Inotera") to Micron Technology, Inc. ("Micron") and the deconsolidation of Qimonda.

In connection with the commencement of Qimonda's insolvency proceedings, we are exposed to additional potential liabilities relating to the Qimonda business, which are described in detail in note 6 and note 38.

In the 2010 fiscal year, certain adjustments of individual provisions for potential liabilities in line with current developments were necessary. The net effect of these adjustments before tax within discontinued operations in the consolidated statement of operations were negative €5 million. In addition, the completion of a tax audit in relation to the Qimonda business and the formation of Qimonda led to an income tax benefit of €20 million.

Wireline Communications business

In November 2009, we completed the sale of our Wireline Communications business, one of our former segments, to Lantiq for a total purchase price of €243 million. As a result of completing the sale, we realized a pre-tax gain of €108 million. Income tax expense of €15 million was attributable to this gain.

In the 2009 fiscal year, the Wireline Communications business generated a profit before tax of €24 million.

Wireless mobile phone business

As a result of the agreement entered into with Intel in August 2010, we report the result of the Wireless mobile phone business under "Income (loss) from discontinued operations, net of income taxes" in the 2010 fiscal year and in the previous fiscal year. The results of the business of the Wireless Solutions segment which remains with us continues to be reported as part of continuing operations. Likewise, expenses that had previously been allocated to the Wireless mobile phone business, but continue to be incurred after the planned sale, are not reported under "Income (loss) from discontinued operations, net of income taxes", but continue to be reported as part of continuing operations.

The result of the Wireless mobile phone business improved significantly in the 2010 fiscal year, compared with the 2009 fiscal year, in line with the recovery of the global economy and the semiconductor industry. In addition to the Segment Result, expenses of €19 million, mainly acquisition-related amortizations, which according to our definition are not part of Segment Result, are included here.

To hedge the expected sale proceeds of US$1,400 million, we purchased U.S. dollar/euro put options at the end of August 2010 with an exercise price of US$1.32 per euro. Since the U.S. dollar weakened against the euro in the intervening period, the value of these options increased to September 30, 2010, and this led to a gain being realized. This positive effect was partially offset by transaction costs in the 2010 fiscal year directly attributable to the sale, resulting in a combined positive effect of €19 million. As a result of the disposal of the Wireless mobile phone business, tax loss carryforwards will be utilized in near term on completion of the sale. This led to the recognition of deferred tax assets of €82 million in the fourth quarter of the 2010 fiscal year.

NET INCOME/NET LOSS

In the 2010 fiscal year, we generated a consolidated net income of €660 million, a significant improvement over the consolidated net loss of €674 million in the previous year. In the 2009 fiscal year, we had been affected to a significant extent by the economic downturn. The impact of the economic downturn on our continuing operations was particularly significant in the first half of the 2009 fiscal year. The loss from discontinued operations, net of income taxes in the first half of the 2009 fiscal year also had a significant effect on our net loss in the first half of the 2009 fiscal year. It resulted primarily from the deconsolidation of Qimonda as well as from charges for provisions and allowances in connection with the insolvency of Qimonda. Our net loss declined in the second half of the 2009 fiscal year, and we realized net income for the fourth quarter of the 2009 fiscal year. This improvement resulted from a partial recovery of the global economy and the positive impact of cost-saving measures as well as a significant decrease in costs incurred in connection with the insolvency of Qimonda in the second half of the 2009 fiscal year compared with the first half.

In the 2010 fiscal year, our net income improved continuously in line with the improvement in Segment Results of our continuing operations, tracking the upturn in the wider economy. In addition, the after-tax gain of €93 million realized on the disposal of our Wireline Communications business contributed to the increase of net income. The Wireless mobile phone business also benefited to a significant extent from increased demand for wireless communication applications. Moreover, the recognition through profit or loss of deferred tax assets for tax loss carryforwards had a positive effect on our net income for the 2010 fiscal year.

FINANCIAL CONDITION

25 **FINANCIAL CONDITION**

€ in millions, except percentages	2010	2009[1]	Change year-on-year
Current assets	3,590	2,744	31%
Thereof: assets held for sale	495	112	+++
Non-current assets	1,403	1,622	(14%)
Total assets	4,993	4,366	14%
Current liabilities	1,808	1,658	9%
Thereof: liabilities held for sale	177	9	+++
Non-current liabilities	560	615	(9%)
Total liabilities	2,368	2,273	4%
Non-controlling interests	–	60	–––
Total equity attributable to shareholders of Infineon Technologies AG	2,625	2,033	29%
Total equity	2,625	2,093	25%

1 The amounts reported in the opening balance of the statement of financial position as of October 1, 2008 have been adjusted, as we for reasons of process efficiency, decided to follow in one disputed point the opinion of the Deutsche Prüfstelle für Rechnungslegung e.V. ("DPR") in the context of DPRs audit of our consolidated financial statements as of September 30, 2008. The adjustments relate to the recognition of deferred tax assets and the accumulated deficit in the consolidated financial statement of financial position (see note 3). The adjustments are included in the figures relating to the years 2008 and 2009 reported in these consolidated financial statements.

Total assets as of September 30, 2010 amounted to €4,993 million, up 14 percent or €627 million compared with €4,366 million reported as of September 30, 2009. Our cash and cash equivalents increased by €253 million. The high free cash flow from continuing operations and the proceeds from the sale of the Wireline Communications business had a positive impact, which was partially offset by the repurchase and the repayment of the remaining amount of our subordinated convertible notes due 2010 and investments in property, plant and equipment and intangible assets. Trade receivables also increased by €173 million, due to the increase in revenue. Deferred tax assets were €152 million higher. On the equity and liabilities side, the main change was a €532 million or 25 percent increase in shareholders' equity, primarily attributable to the net income for the 2010 fiscal year.

In connection with the disposal the of Wireline mobile phone business, all assets and liabilities intended for sale to Intel are reported as "assets classified as held for sale" and "liabilities classified as held for sale" in the consolidated statement of financial position as of September 30, 2010. A total of €493 million was reclassified as "assets classified as held for sale" and €177 million was reported as "liabilities classified as held for sale".

As of September 30, 2010, current assets were €846 million or 31 percent higher than as of September 30, 2009, partially due to the increase in "assets classified as held for sale" from €112 million as of September 30, 2009 to €495 million as of September 30, 2010. As of September 30, 2009 the assets of the Wireline Communications business sold to Lantiq in the first quarter of the 2010 fiscal year were reported as "assets classified as held for sale". As of September 30, 2010, this line item included the assets to be transferred to Intel in connection with the disposal of the Wireless mobile phone business.

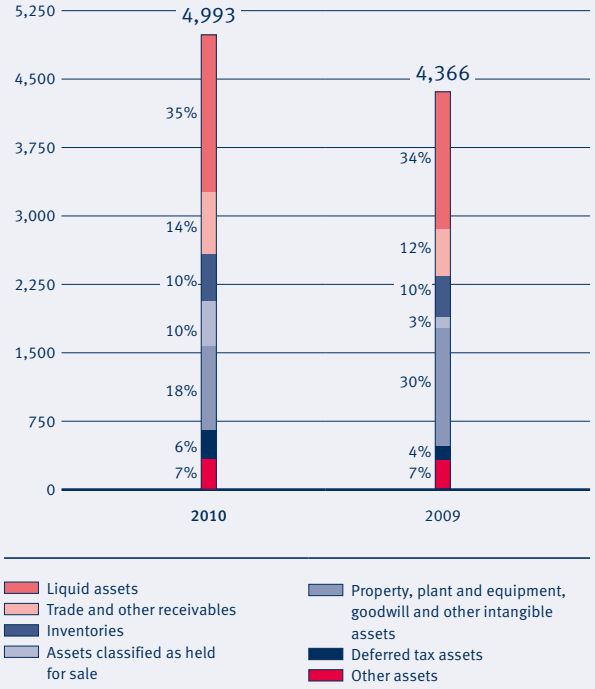
Our gross cash position, which comprises cash and cash equivalents and available-for-sale financial assets, amounted to €1,727 million as of September 30, 2010, an increase of €220 million compared with €1,507 million as of September 30, 2009 (see also "Gross cash position and net cash position" in the following description of our liquidity).

Moreover, the increase in current assets is primarily due to a €173 million increase in trade receivables and a €54 increase in inventories, driven to a large extent by the corresponding growth in revenue and a moderate expansion of inventories. The €46 million increase in other current financial assets is mainly due to the options purchased to hedge the proceeds of US$1,400 million from the sale of the Wireless mobile phone business to Intel. This was offset by a decline in other current assets of €26 million.

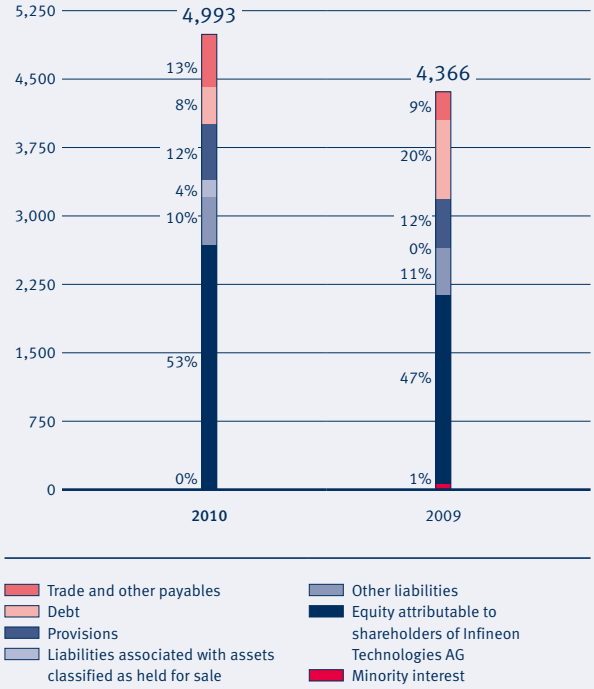
As of September 30, 2010, non-current assets were €219 million or 14 percent lower than as of September 30, 2009. This decline primarily reflects the reclassification as "assets classified as held for sale" of intangible assets of €312 million and property, plant and equipment of €54 million belonging to the Wireless mobile phone business to be sold. In addition, property, plant and equipment declined in the 2010 fiscal year as capital expenditure was lower than depreciation charges, in spite of increased investing activities. The deconsolidation of ALTIS also contributed to the decline in property, plant and equipment. These effects were offset by an increase in deferred tax assets of €152 million.

Total liabilities increased by €95 million or 4 percent to €2,368 million as of September 30, 2010, compared with €2,273 million as of September 30, 2009. Current liabilities increased by €150 million or 9 percent, while noncurrent liabilities fell by €55 million or 9 percent.

26 ASSETS
€ IN MILLIONS



27 LIABILITIES AND EQUITY
€ IN MILLIONS



The changes in current liabilities relate primarily to the €272 million increase in trade and other payables, the €117 million increase in current provisions, and the €168 million increase in "liabilities classified as held for sale". These effects were largely offset by the repayment of the remaining amount outstanding of our subordinated convertible notes due June 2010 of €255 million, and by prior repurchases of notional amounts of to €193 million of these convertible notes. In addition, there was a decrease in provisions and liabilities in connection with the insolvency of Qimonda in the 2010 fiscal year, primarily as a result of payments of €108 million. The increase in trade accounts payable resulted from larger purchases of raw materials and foundry wafers due to a higher production level and from greater investments in production facilities. Among current provisions, there were increases in particular in the area of provisions for warranties and personnel expenses. The principal reason for the increase in provisions for personnel expenses was higher performance-related compensation payable to employees due to our improved financial results. Total "liabilities classified as held for sale" rose from €9 million to €177 million, primarily due to the reclassification of the liabilities of the Wireless mobile phone business, in particular provisions for pensions and personnel expenses for performance-related compensation payable to employees, which will be transferred to Intel in the amount measured at closing of the sale. These obligations were reclassified as "liabilities classified as held for sale" as of September 30, 2010 in accordance with IFRS 5.

The €55 million decline in non-current liabilities compared to September 30, 2009 was due to, among other things, the reclassification of €76 million from non-current to current financial liabilities and the above-mentioned reclassification as "liabilities classified as held for sale". This effect was partially offset by an increase in pension liabilities from €94 million as of September 30, 2009, to €146 million as of September 30, 2010, mainly as a result of lower interest rates (see note 35).

Shareholders' equity increased by €532 million or 25 percent, from €2,093 million as of September 30, 2009 to €2,625 million as of September 30, 2010, reflecting the €660 million net income for the 2010 fiscal year. This was offset by net expenses of €67 million recognized directly in equity, primarily due to changed pension measurement assumptions as well as to various unrealized exchange rate factors. In addition, non-controlling interests declined by €60 million in connection with the deconsolidation of ALTIS. The equity ratio amounted to 53 percent as of September 30, 2010 (September 30, 2009: 48 percent).

FINANCIAL RATIOS

A significant improvement in the business situation in the 2010 fiscal year compared with the 2009 fiscal year and the resulting increase in trade receivables, inventories, and cash and cash equivalents, as well as the effect of reclassifying the non-current assets of the Wireless mobile phone business as "assets classified as held for sale" led to an increase in current asset intensity.

By contrast, non-current asset intensity declined year-on-year for reasons that include a significant decline in intangible assets as a result of allocating the goodwill from the acquisition of the LSI-mobile communications business to "assets classified as held for sale". This effect was partially offset by a year-on-year increase in the tax position.

The year-on-year growth in inventories was relatively slower in the 2010 fiscal year than the increase in business volume (measured in terms of cost of goods sold), and this led to a marginal decline in inventory intensity. Working capital management led to an improvement in both inventory turnover and days sales outstanding.

The significant consolidated net income, which improved around from a net loss in the previous year, drove up the equity ratio and led to a significant improvement in the return on equity. Finally, the consolidated net income, combined with the repayment of the convertible notes due 2010, resulted in a considerable reduction in the debt-to-equity ratio.

28 FINANCIAL RATIOS

	2010	2009
Non-current asset intensity [1]	28%	37%
Current asset intensity [2]	72%	63%
Inventory intensity [3]	10%	11%
Inventory reach in days [4, 9]	90	98
Inventory reach in days (including Wireless mobile phone business) [4, 9]	72	70
Days sales outstanding [5, 9]	68	74
Days sales outstanding (including Wireless mobile phone business) [5, 9]	49	53
Equity ratio [6]	53%	48%
Return on equity [7]	25%	(32%)
Debt-to-equity ratio [8]	15%	41%

The aforementioned financial condition ratios are calculated as follows:
1 Non-current asset intensity = non-current assets / total assets
2 Current asset intensity = current assets / total assets
3 Inventory intensity = net inventories / total assets
4 Inventory reach in days = net inventories x 360 days / annual cost of goods sold
5 Days sales outstanding = trade receivables x 360 days / annual revenues
6 Equity ratio = equity / total assets
7 Return on equity = net income (loss) for the year / equity
8 Debt-to-equity ratio = (short-term debt + long-term debt) / equity
9 The inventory reach in days and the days sales outstanding have been impacted by the reclassification of the assets of the Wireless mobile phone business as „assets classified as held for sale" and the reporting of the effect on profit or loss of the Wireless mobile phone business under „Income (loss) from discontinued operations, net of income taxes". Since firstly not all inventories and trade accounts receivable have been transferred and reported under „assets classified as held for sale" and secondly the ratios are calculated on an annual basis, we have enhanced the comparability of these two ratios by presenting them as if the reclassification as „assets held for sale" and the disclosure of the Wireless mobile phone business under „Income (loss) from discontinued operations, net of income taxes" had not been made (basis: including Wireless mobile phone business).

LIQUIDITY

CASH FLOW

Our consolidated statements of cash flows show the sources and uses of cash and cash equivalents during the reported periods. They are of key importance for the evaluation of our financial position.

Cash flows from investing and financing activities are both directly determined based on payments and receipts. Cash flows from operating activities are determined indirectly from net loss. The changes in the items of the statements of financial position have been adjusted for the effects of foreign currency exchange fluctuations and for changes in the scope of consolidation. Therefore, they do not conform to the corresponding changes in the respective line items of the statements of financial position.

29 CASH FLOW

€ in millions	2010	2009
Net cash provided by operating activities from continuing operations	958	282
Net cash provided by (used in) investing activities from continuing operations	(355)	25
Net cash provided by (used in) financing activities from continuing operations	(487)	391
Net increase (decrease) in cash and cash equivalents from discontinued operations	136	(446)
Net increase in cash and cash equivalents	252	252

Cash Flow from Operating Activities from Continuing Operations

The cash provided by operating activities from continuing operations amounted to €958 million in the 2010 fiscal year, an improvement of €676 million compared with €282 million provided in the 2009 fiscal year. The main reason for this increase was the improved income from continuing operations. The cash provided by operating activities from continuing operations reflects primarily the income from continuing operations of €312 million (previous year: loss of €233 million), plus non-cash depreciation and amortization of €336 million and the non-cash portion of the operating loss from the deconsolidation of ALTIS of €55 million. The cash provided by operating activities from continuing operations was also positively impacted in the 2010 fiscal year by a €385 million decline in working capital reflecting the current business situation and ongoing working capital management. This was offset by payments for income taxes and interest, which led to a combined outflow of €68 million.

Cash Flow from Investing Activities from Continuing Operations

The cash used in investing activities from continuing operations in the 2010 fiscal year primarily reflects investments in property, plant and equipment, which increased to €292 million, above all at our production facilities in Kulim and Malacca in Malaysia as well as our German production facility in Regensburg. Investments in intangible and other assets amounted to €33 million. In addition, cash declined by €88 million as a result of the deconsolidation of ALTIS. This compares with investments in property, plant and equipment, intangible and other assets totaling €115 million in the previous fiscal year. By contrast, net cash inflows (sales less purchases) of €30 million (previous year: €33 million) from the sale of available-for-sale financial assets reduced the cash used in investing activities.

Cash Flow from Financing Activities from Continuing Operations

The cash used in financing activities from continuing operations amounted to €487 million in the 2010 fiscal year, compared with cash provided by financing activities from continuing operations of €391 million in the 2009 fiscal year. The cash used in financing activities from continuing operations in the 2010 fiscal year primarily reflects the repurchase of notional amounts of €193 million and the repayment of the remaining outstanding amount of €255 million of our subordinated convertible notes due June 2010. In addition, other loan repayments of €41 million were made. In the 2009 fiscal year, we increased our ordinary share capital by €674 million, which resulted in cash provided by financing activities from continuing operations of €680 million. Other cash inflows of €182 million in the previous fiscal year resulted from the issuance of subordinated convertible notes due 2014 with a nominal amount of €196 million, net of issuance costs and discount. These cash inflows in the previous fiscal year were partially offset by repayments and repurchases of non-current financial liabilities of €455 million.

Net Increase (Decrease) in Cash and Cash equivalents from Discontinued Operations

The increase in cash and cash equivalents from discontinued operations amounted to €136 million in the 2010 fiscal year, as against a decrease of €446 million in the previous fiscal year. It resulted primarily from cash provided by investing activities from discontinued operations of €147 million, partially offset by cash used in operating activities from discontinued operations of €11 million.

The cash from investing activities provided by discontinued operations of €147 million in the 2010 fiscal year primarily reflects the proceeds of €243 million from the sale of our Wireline Communications business. These payments increased the cash provided by investing activities from discontinued operations. Cash used in investing activities of the Wireless mobile phone business and reclassified as discontinued operations partially offset this increase.

The cash used in operating activities from discontinued operations of €11 million in the 2010 fiscal year reflects payments of €108 million in connection with Qimonda, which were almost fully offset by the cash provided by the operating activities of the Wireless mobile phone business and the cash provided by the Wireline Communications business up to the closing of the sale, less retrospective net outflows for remaining current liabilities. The payments in connection with Qimonda include a payment of €57 million under the settlement agreed with the European Commission, the payment of the final €17 million installment under the plea agreement with the U.S. Department of Justice (DOJ), certain payments in connection with employee-related claims, and the separate settlement reached with a final direct US DRAM buyer, which had opted out of a broader class settlement entered into earlier (see note 38).

The previous year's change in cash and cash equivalents from discontinued operations of €446 million was primarily related to Qimonda's cash used in operating activities of €416 million, which was offset only to a small extent by cash provided by the operating activities of our Wireline Communications business and the Wireless mobile phone business. Qimonda's cash used in operating activities mainly reflects to Qimonda's negative business performance up to its deconsolidation.

FREE CASH FLOW

We define free cash flow as cash flow from operating and investing activities from continuing operations excluding purchases or sales of available-for-sale financial assets. Since we hold a portion of our available monetary resources in the form of readily available-for-sale financial assets, and operate in a capital intensive industry, we report free cash flow to provide investors with a measure that can be used to evaluate changes in liquidity after taking capital expenditures into account. Free cash flow is not intended to represent the residual cash flow available for discretionary expenditures, since debt service requirements or other non-discretionary expenditures are not deducted. Free cash flow includes only amounts from continuing operations, and is determined as follows from the consolidated statements of cash flows:

30 FREE CASH FLOW

€ in millions	2010	2009
Net cash provided by operating activities from continuing operations	958	282
Net cash (used in) provided by investing activities from continuing operations	(355)	25
Sales of available-for-sale financial assets, net	(30)	(33)
Free cash flow	573	274

The free cash flow amounted to €573 million in the 2010 fiscal year, compared with €274 million in the 2009 fiscal year, an improvement of €299 million. The free cash flow in the 2010 fiscal year was primarily driven by the improvement in cash provided by operating activities, which amounted to €958 million, in contrast to a cash inflow of €282 million in the previous fiscal year. The increase in cash provided by operating activities was partially offset by the €88 million decline in cash as part of the deconsolidation of ALTIS and an increase in cash used in investments in property, plant and equipment and intangible assets, which amounted to €325 million, compared to €115 million in the previous fiscal year. The free cash flow calculation does not take into account net sales of €30 million (previous year: €33 million) of available-for-sale financial assets. They are included in the cash used in investing activities and must therefore be deducted from this figure when calculating the free cash flow. The free cash flow in the 2009 fiscal year also included payments of €120 million received from the German banks' deposit protection fund in connection with the Lehman insolvency as well as payments made for our IFX10+ cost reduction program.

GROSS CASH POSITION AND NET CASH POSITION

The following table presents our gross and net cash positions and the maturity of debt. It is not intended to be a forecast of cash available in future periods. Since we hold a portion of our available monetary resources in the form of readily available-for-sale financial assets, which for IFRS purposes are not considered to be "cash and cash equivalents", we report our gross and net cash positions to provide investors with an understanding of our overall liquidity. The gross and net cash position is determined as follows from the consolidated statements of the financial position, without adjustment to the IFRS amounts presented:

31 NET CASH POSITION

€ in millions, payments due by	Total	Less than 1 year	1 – 2 years	2 – 3 years	3 – 4 years	4 – 5 years	After 5 years
Cash and cash equivalents	1,667	1,667	–	–	–	–	–
Available-for-sale financial assets	60	60	–	–	–	–	–
Gross cash position	1,727	1,727	–	–	–	–	–
Less:							
Long-term debt	263	–	66	44	153	–	–
Short-term debt and current maturities of long-term debt	133	133	–	–	–	–	–
Total financial debt	396	133	66	44	153	–	–
Netto-Cash-Position	1,331	1,594	(66)	(44)	(153)	–	–

The Company's financial position is very solid.

Our gross cash position – defined as cash and cash equivalents plus available-for-sale financial assets – was €1,727 million as of September 30, 2010, compared to €1,507 million as of September 30, 2009. Our gross cash position as of September 30, 2010 primarily reflects the cash provided by operating activities from continuing operations of €958 million and the proceeds of €243 million from the sale of our Wireline Communications business. This was offset by repurchases of notional amounts of €193 million of our subordinated convertible notes due June 2010, and the repayment on maturity of the remaining outstanding amount of €255 million of these convertible notes, as well as investments from continuing operations in property, plant and equipment and intangible assets of €325 million and the €88 million decline in cash due to the deconsolidation of ALTIS. Likewise, investments of €93 million made by the Wireless mobile phone business had a negative effect on our gross cash position.

Our net cash position, defined as gross cash position less short and long-term debt, increased from €657 million as of September 30, 2009 to €1,331 million as of September 30, 2010. The improvement was mainly driven by an increase in the free cash flow from continuing operations and the proceeds from the sale of the Wireline Communications business.

The long-term and short-term debt include subordinated convertible notes due 2014 with a nominal value of €196 million, which were issued in 2009 to strengthen our liquidity, as well as working capital and project finance loans. The subordinated convertible notes due 2014 with notional amounts of €196 million were issued at a discount of 7.2 percent on May 26, 2009. The notes were originally convertible, at the option of the holders of the notes, into a maximum of 74.9 million of our ordinary shares at a conversion price of €2.61 per share. Following our share capital increase in August 2009, the conversion price was adjusted to €2.33 and the conversion ratio to a maximum of 84 million shares on the basis of an antidilution provision contained in the terms and conditions of the notes. The convertible notes bear interest at 7.5 percent per year. The convertible notes are unsecured and rank pari passu with all our current and future unsecured subordinated obligations.

To secure our cash position and to ensure flexible liquidity, we have implemented a policy with risk limits for the amounts deposited with respect to the counter-party, credit rating, sector, duration, and type of instrument.

CAPITAL REQUIREMENTS

We require capital in our 2011 fiscal year to:
- finance our operations;
- make scheduled debt payments;
- settle contingencies if they occur;
- make planned capital expenditures; and
- pay our planned dividend.

We expect to meet these requirements through:
- cash flows generated from operations;
- cash on hand and securities we can sell; and
- available credit facilities.

As of September 30, 2010, we require funds for the 2011 fiscal year aggregating €808 million, consisting of €133 million for short-term debt payments and €675 million for commitments. In addition, we may need up to €20 million for currently known and estimable contingencies. We also plan to invest approximately €550 million in capital expenditures, including capitalized R&D expenses. As of September 30, 2010, we had a gross cash position of €1,727 million, and the ability to draw funds from available credit facilities of €227 million. In addition, we expect cash to be provided by operating activities in line with the anticipated earnings development in the 2011 fiscal year. On completion of the sale of the Wireless mobile phone business, we expect a cash inflow of US$1,400 million in the 2011 fiscal year.

CONTRACTUAL OBLIGATIONS, COMMITMENTS AND CONTINGENCIES

The below table should be read together with note 38 to our consolidated financial statements for the year ended September 30, 2010.

32 CONTRACTUAL OBLIGATIONS, COMMITMENTS AND CONTINGENCIES

€ in millions, payments due/expirations by period:	Total [1]	Less than 1 year	1 – 2 years	2 – 3 years	3 – 4 years	4 – 5 years	After 5 years
Contractual obligations and commitments:							
Long-term debt and short-term debt obligations	396	133	66	44	153	–	–
Operating lease payments	656	60	61	52	50	47	386
Unconditional purchase commitments	710	596	81	27	5	1	–
Future interest payments [2]	110	19	17	16	58	–	–
Other long-term liabilities	34	–	34	–	–	–	–
Total commitments	1,906	808	259	139	266	48	386
Other contingencies:							
Guarantees [3]	88	15	1	5	2	4	61
Contingent government grants [4]	22	5	6	6	2	3	–
Total contingencies	110	20	7	11	4	7	61

1 Certain payments of obligations or expiration of commitments that are based on the achievement of milestones or other events that are not date-certain are included for purposes of this table, based on our estimate of the reasonably likely timing of payments or expirations in each particular case. Actual outcomes could differ from those estimates.
2 Includes the effect of the accretion of the subordinated convertible notes due 2014 in the column „3 to 4 years".
3 Guarantees are primarily issued for the payment of import duties, rentals of buildings and contingent obligations related to government grants received.
4 Contingent government grants refer to amounts previously received, related to the construction and financing of certain production facilities, which are not guaranteed otherwise and could be refundable if the total project requirements are not met. They do not include any potentially contingent government grants in relation to Qimonda.

OFF-BALANCE SHEET ARRANGEMENTS

We issue guarantees in the normal course of business, primarily for the payment of import duties, rentals of buildings and contingent obligations related to government grants received. As of September 30, 2010, the undiscounted amount of potential future payments for guarantees was €88 million.

CAPITAL EXPENDITURES

33 CAPITAL EXPENDITURES

€ in millions	2010
Property, plant and equipment	331
Intangible assets – internally developed	79
Intangible assets – purchased	8
Total	418
Transfer to Assets held for sale	(93)
Total after Transfer	325

According to our budget for the 2010 fiscal year, which had been prepared in the prior year, we had expected capital expenditures for property, plant and equipment of around €220 million to €250 million, primarily at our production facilities in Kulim and Malacca, Malaysia. In response to the

economic upturn, we revised our investment decisions upward and spent an actual amount of €331 million on property, plant and equipment in the 2010 fiscal year. We strive to improve productivity and develop the technology used at our locations continuously. The investments in property, plant and equipment include expenditures of the Wireless mobile phone business of €39 million, which we reclassified as held for sale.

Since research and development activities are important for our business and the many growth opportunities of our target markets require further development and expansion of our product base, we also revised our research and development activities upwards. The increase in capitalized development costs to €79 million is likewise in line with this development. This figure includes capitalized development costs of our Wireless mobile phone business of €52 million, which we reclassified as held for sale.

Investments in acquired intangible assets of €8 million primarily relate to licenses acquired in the fiscal year. This figure includes an amount of €2 million attributable to our Wireless mobile phone business, which we reclassified as held for sale.

In the 2009 fiscal year, investments of €5 million were reclassified as held for sale in relation to the planned sale of our Wireline Communications business.

Depending on the market development and our business situation, we currently expect to spend around €550 million on property, plant and equipment and intangible assets, including capitalized development costs, in the 2011 fiscal year. Since we reached our capacity limits in fiscal years 2009 and 2010, we are planning to expand our manufacturing capacity, in particular at the front-end manufacturing facilities in Kulim, Malaysia and at various back-end facilities. As of September 30, 2010, €171 million of the planned investments in plant and equipment had been firmly agreed and were included in the unconditional purchase commitments. Due to the long period between placing the order and delivering equipment, considerable investment amounts are typically determined in advance.

CREDIT FACILITIES

We have established both short- and long-term credit facilities with a number of different financial institutions in order to meet our anticipated funding requirements.

These facilities aggregate €470 million, of which €227 million remained available at September 30, 2010, and comprise the following:

34 CREDIT FACILITIES

€ in millions			At September 30, 2010		
Term	Nature of financial institution commitment	Purpose/intended use	Aggregate facility	Drawn	Available
Short-term	firm commitment	general corporate purposes, working capital, guarantees	136	75	61
Short-term	no firm commitment	working capital, cash management	98	–	98
Long-term [1]	firm commitment	project finance	236	168	68
Total			470	243	227

1 Including current maturities.

According to our plans, working capital and other cash requirements are to be financed primarily from cash provided by operating activities. For certain capital expenditure projects, we have also applied for government grants and subsidies, but cannot guarantee that these funds will be approved in time or at all.

Taking into account the available financial resources, including cash internally available or to be generated in the future and our currently available lines of credit, we expect to be able to meet the capital requirements planned at present for the 2011 fiscal year.

PENSION PLAN FUNDING

Our defined benefit obligations, which take into account future compensation increases, amounted to €539 million as of September 30, 2010, compared with €425 million as of September 30, 2009. The fair value of plan assets as of September 30, 2010 was €347 million, compared with €330 million as of September 30, 2009.

The actual return on plan assets between the last measurement dates amounted to 7.0 percent, or €22 million, for domestic (German) plans and 11.0 percent, or €3 million, for foreign plans, compared to the expected return on plan assets for that period of 6.3 percent for domestic plans and 7.2 percent for foreign plans. We have estimated the return on plan assets for the next fiscal year to be 5.0 percent, or €16 million, for domestic plans and 7.2 percent, or €2 million, for foreign plans.

At September 30, 2010 and 2009, the combined funding status of our pension plans reflected an under-funding of €192 million and €95 million, respectively. Of those, €46 million and €1 million were presented as liabilities held for sale as of September 30, 2010 and 2009, respectively.

Our investment approach with respect to the pension plans involves employing a sufficient level of flexibility to capture investment opportunities as they occur, while maintaining reasonable parameters to ensure that prudence and care are exercised in the execution of the investment program. The pension plans' assets are invested with several investment managers. The plans employ a mix of active and passive investment management programs. Considering the duration of the underlying liabilities, a portfolio of investments of plan assets in equity securities, debt securities and other assets is targeted to maximize the long-term return on plan assets for a given level of risk. Investment risk is monitored on an ongoing basis through periodic portfolio reviews, meetings with investment managers and liability measurements. Investment policies and strategies are periodically reviewed to ensure the objectives of the plans are met considering any changes in benefit plan design, market conditions or other material items.

Our asset allocation targets for pension plan assets are based on our assessment of business and financial conditions, demographic and actuarial data, funding characteristics, related risk factors, market sensitivity analyses and other relevant factors. The overall allocation is expected to help protect the plans' level of funding while generating sufficiently stable real returns (i.e., net of inflation) to meet current and future benefit payment needs. Due to active portfolio management, the asset allocation may differ from the target allocation up to certain limits. As a matter of policy, our pension plans do not invest in our shares.

FINANCIAL INSTRUMENTS

We periodically enter into derivatives, including foreign currency forward and option contracts as well as interest rate swap agreements. The objective of these transactions is to reduce the impact of interest rate and exchange rate fluctuations on our foreign currency denominated net future cash flows. We do not enter into derivatives for trading or speculative purposes. For further details regarding our financial risk management and risks arising in connection with financial instruments, see notes 36 and 37 to our consolidated financial statements.

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

In the 2010 fiscal year, we successfully continued the upturn, which had started in the second half of the 2009 fiscal year, at growth rates that were significantly faster than those in the semiconductor market as a whole. Since the middle of fiscal year 2009, we have recorded significant quarter-on-quarter revenue growth in each quarter, sometimes of double digits. The systematic continuation of the IFX10+ cost reduction program, additional cost-saving and productivity-increasing measures, increased market share, and the general improvement in the economic environment brought us to year-on-year revenue growth of 51 percent in the 2010 fiscal year. As a result, we turned the previous year's net loss of €674 million into net income of €660 million. This means that consistent actions and successful restructuring and refinancing not only helped us to manage the crisis, but made us stronger and more powerful.

Moreover, through rigorous portfolio management over the past 18 months we have increased Infineon's focus on more stable growth areas and less volatile businesses with leading market positions – the completion of the sale of the Wireline Communications business and the signing of an agreement for the sale of the Wireless mobile phone business to Intel were important milestones in the realignment of our business. Today, Infineon is in the number one position in the global market in each of the three remaining segments - automotive, industrial power electronics, and chip card and security - and looks ahead to corresponding growth and earnings prospects in these markets.

Rigorous working capital management and a moderate investment policy not only helped us reduce our debt by €454 million year-on-year to €396 million as of September 30, 2010 – in addition, our gross cash position increased further, from €1,507 million as of September 30, 2009 to €1,727 million as of September 30, 2010, a significant achievement, considering that we had a net debt position of €151 million as recently as June 30, 2009. The fact that our debt-to-equity ratio was reduced from 41 percent as of September 30, 2009 to a mere 15 percent as of September 30, 2010 is convincing evidence of our solid financial position as of September 30, 2010.

We will build on this foundation to achieve long-term and sustainable success for our Company and add value for our shareholders.

NON-FINANCIAL PERFORMANCE INDICATORS

OUR EMPLOYEES

Headcount

The following table shows the composition of our workforce by function and region at the end of the fiscal years indicated.

35 EMPLOYEES [1]

	2010	%	2009	%	2008	%
Function:						
Production	17,924	67	17,338	65	19,358	66
Research & Development	5,771	22	5,971	23	6,273	22
Sales & Marketing	1,520	6	1,681	6	1,905	7
Administrative	1,439	5	1,474	6	1,583	5
Total	26,654	100	26,464	100	29,119	100
Region:						
Germany	8,826	33	9,160	35	10,053	34
Other Europe	3,449	13	4,676	18	5,192	18
North America	640	2	687	2	821	3
Asia/Pacific	13,619	51	11,803	45	12,897	44
Japan	120	1	138	–	156	1
Total	26,654	100	26,464	100	29,119	100

1 Approximately 3,400 employees worldwide from our Wireless Solutions segment and from central functions are intended to be transferred to Intel upon closing of the sale of the Wireless mobile phone business.

The changes in the number of employees in the 2010 fiscal year primarily reflect crisis management and the resulting headcount reduction, which had commenced in the 2009 fiscal year. In addition, the number of employees reflects one-time factors relating to the deconsolidation of ALTIS, which led to the spin-off of 1,315 employees, most of them in the production area, as of December 31, 2009. As part of the sale of our Wireline Communications business, a total of 807 employees from Wireline Communications and corporate functions were transferred to Lantiq in the 2010 fiscal year.

The headcount reduction resulting from the above activities was more than offset by a successful phase of high plant capacity utilization: While the number of employees in the areas of research and development and sales and marketing dropped slightly compared to the previous year, we were able to add more people in the production area due to the increase in the number of new orders. Most of these increases took place at our Asian locations. Overall, the number of employees rose slightly.

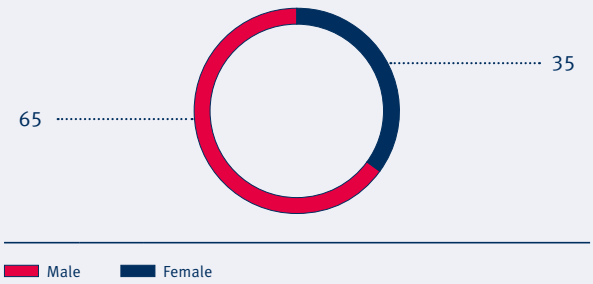
Employee Structure: Age, Gender and Recruiting

The global average age of our employees dropped to 36.4 years in the 2010 fiscal year (previous year: 37.2 years). More than 65 percent of our employees with college degrees are younger than 40.

36 AGE STRUCTURE (INFINEON WORLDWIDE 2010)
in %

The share of women among our total employees underwent a positive development in fiscal 2010, increasing by almost three percentage points from 32.6 percent to 35.5 percent.

37 FEMALE/MALE EMPLOYEES (INFINEON WORLDWIDE 2010)
in %



Given the demographic change and the shortage of expert personnel expected in many places, recruitment policy and the development of new talent are very important for Infineon.

We once again showed our commitment to the professional training of young employees by increasing the number of trainees recruited in Germany to the pre-crisis level of the 2008 fiscal year. In addition, in 2010 we awarded over one hundred internships around the world to students from various disciplines.

We recruited a total of 5,354 employees worldwide in the 2010 fiscal year. Most of the new employees (4,704) joined the Company in Asia, and in terms of area, most of the new recruits (4,385) were absorbed by production. However, since employees left the Company at the same time due to the completion of the IFX10+ cost reduction program, the deconsolidation of ALTIS, and the sale of the Wireline Communications business to Lantiq, there was only a slight net increase in the headcount.

The large number of alliances with universities and other higher education establishments contributed to the fact that globally we won over 2,300 graduates as new employees in the 2010 fiscal year. This means that more than 40 percent of all new employees around the world were graduates. Every fourth graduate we recruited is a woman – a sign that our efforts to promote women in MINT professions (mathematics, IT, natural sciences, and technology) are bearing fruit. Most newly recruited graduates joined locations in the Asia-Pacific region (› 1,800 recruits), followed by Germany (› 300 recruits) and the other European locations (› 100 recruits). The fact that 40 percent of employees with vocational qualifications recruited in 2010 are women is also worth mentioning.

In addition to permanent employees, Infineon engaged 3,282 external employees worldwide as of September 30, 2010 in order to enhance flexibility. Out of this total, more than 50 percent worked at our locations in Asia.

Staff Turnover and Length of Service

In Germany, staff turnover (including voluntary terminations and other reasons for leaving) was 3.2 percent in the 2010 fiscal year. This turnover figure does not include the employees who left the Company as a result of the sale of the Wireline Communications business to Lantiq.

Following the comprehensive headcount reduction under the IFX10+ cost reduction program in 2009, our staff turnover rate returned to a low level (previous year: 12.8 percent). Globally, staff turnover (excluding Lantiq) was 12.7 percent in the 2010 fiscal year. The proportion of staff turnover resulting from voluntary terminations was 9.9 percent worldwide in 2010.

In contrast to the low staff turnover in Germany, the turnover rate in the Asian markets, excluding Lantiq, was 21 percent, reflecting the dynamic nature and competition for expert and management staff in this region.

Globally, the average length of service remained almost constant at 9 years in the 2010 fiscal year (previous year: 9.2 years). In contrast, the length of service increased in Germany. At 13.4 years, this figure is substantially above the average length of service in Germany of 11.8 years recorded in the previous year.

Training and Know-how transfer

The training of our employees of all age groups is an important element in our efforts to counter the effects of demographic change. To safeguard profitability, however, the training budget remained tight in the 2010 fiscal year. As a result, only business-critical or legally required external training was possible. For Infineon, this meant that the focus continued to be on internal options. Together with the technical divisions, we successfully launched a number of new internal training programs in the 2010 fiscal year and promoted the transfer of know-how with initiatives such as “Innovation Fab”, “Innovation Star”, and the resulting “iCommunities”. Through these initiatives, we make an important contribution to encouraging employees to remain with the Company and increasing their knowledge at a high level.

Other HR initiatives

Infineon's development into a top-performance company will only succeed if we continue to be successful in the future and generate strong financial results in the long term. To mark this new phase, we initiated activities and launched initiatives in the past fiscal year to give employees direction, allow them to participate to a greater extent in the Company's performance, and improve cultural elements such as workplace culture and equal opportunities:

The launching of our new corporate principles, "Infineon Compass", has sharpened Infineon's profile following the crisis and given employees a new sense of direction. The "Infineon Compass" explains our goals, the road we have embarked on, and the values that determine our actions. Numerous workshops ensure that these elements are consolidated among the workforce and that each team and each employee defines his or her own individual contribution.

The change, as of October 1, 2010, of the compensation system for employees who were previously covered by the Bonus & Incentive Guideline marked another milestone on the road towards a top-performance company. The new system detaches variable compensation from the achievement of individual targets and instead links bonus payments exclusively to the performance of Infineon: Each employee gets an attractive base salary as well as a performance bonus, based on targets and variables that reflect the Company's financial performance. As a result of this change, employees now participate to an even greater extent in the success the Company achieves.

To strengthen the feedback culture at Infineon, the "Great Place to Work"® study was conducted for the German locations of Infineon Technologies AG and Infineon Dresden for the first time in the 2010 fiscal year. The study paves the way for an annual survey to obtain regular feedback from employees about what they think about corporate culture and workplace quality. There are plans to extend the survey to other locations, in particular in Asia, over the coming years.

A top-performance company is marked by diversity and equal opportunities. For this reason, we continued our efforts in the 2010 fiscal year to improve the work-life balance. Thus Infineon is involved in several company-external networks and initiatives, such as "Erfolgsfaktor Familie" (family as a factor for success) or "Best Practices for Women in ICT". By opting for the "Beruf und Familie" (work-life balance) audit under the patronage of the Federal Ministry for Family, Senior Citizens, Women, and Youth in summer 2010, we took another step in this direction: The result of the audit forms the basis for a catalog of actions, planned over three years, as to how we can better support our employees in finding a comfortable work-life balance. The initiative is aimed at improving the general conditions of employment so that successful careers can be enjoyed by both men and women alike.

SUSTAINABILITY AT INFINEON

As a global company and a member of the UN Global Compact initiative we believe that we have an obligation to the international community. We take social responsibility and environmental protection very seriously, which is why they are an integral part of the strategic direction of our company. We have defined the necessary structures, processes and guidelines in our company; they are based on the principles of the UN Global Compact.

Linking all areas of activity – whether they are of an economic, ecological or social nature – is a prerequisite for sustainability. We focus on six key areas, including the compliance with applicable law: Personnel management and human rights, corporate citizenship, corporate and social ethics, occupational health and safety, environmental protection, and sustainability in our value chain. We continuously strive to make improvements in all of these areas. Evaluating and implementing them is more than a mere obligation – it is part of our everyday business.

Our activities in the area of sustainability are reflected among other things by the addition of Infineon to the Dow Jones Sustainability Europe Index this year. Sustainability will also continue to be a major challenge in the future, and one that we will actively master.

Our company helps the less fortunate all over the world on a voluntary basis. The earthquake in Haiti and the humanitarian catastrophe that followed it were worse than anyone could imagine, which is why we decided to do our share in helping the victims and supporting the reconstruction by making financial donations to the aid organizations involved.

We extend our values throughout the entire value chain. Services provided by our contractors and the products, materials and equipment we purchase must meet our requirements in terms of environmental protection, occupational safety and health protection as well as be in line with our social and labor conditions. The more stable the partnership and the more open the communication, the better we can implement our formulated standards and measures. Last fiscal year we voluntarily took up the subject of conflict metals and addressed it with our suppliers in order to make sure that we do not process any metals from conflict areas.

Accepting responsibility for our employees means predominantly preventing and avoiding potential risks. We consistently implement our modern occupational safety concepts worldwide and continuously look for ways to make further improvements.

Our accident statistics document the success of these safety measures. Even on a global basis, our values exceed the average posted by the German Institution for Statutory Accident Insurance and Prevention in the Energy, Textile, Electric and Media Sectors by a wide margin, despite the fact that we record work accidents with absences of as little as one day, while the Institution's comparable statistics include only accidents causing absences of at least three days.

Ecological Sustainability

Our IMPRES system (Infineon Integrated Management Program for Environment, Safety and Health) is implemented worldwide and integrated in all processes, strategies and objectives in the areas of occupational safety, health and environmental protection. IMPRES is highly efficient, and our plants are certified in accordance with the ISO 14001 and OHSAS 18001 standards. Because of specific national aspects, Villach is additionally certified in accordance with EMAS. We ensure that we not only comply with legal and governmental regulations, but that we continuously improve even beyond these requirements.

A company's ecological footprint is the essential factor for assessing its impact on the environment and determining any improvements that need to be made. For our semiconductors, this footprint can be expressed in a simplified manner in terms of variables such as energy, material usage, water consumption, waste generation, recycling and transportation of the products' ecological impact during their useful life.

The manufacture of semiconductors, like virtually any industrial production process, is not possible without the use of energy, water, chemicals and materials. For technological reasons we focus predominantly on our front-end manufacturing where silicon wafers are structured and where the most energy is consumed, most of it in the form of electrical power.

Despite the rising complexity of the products and processes in our front-end manufacturing plants, we were able to significantly reduce their energy consumption in recent years. A suitable way to describe these efficiency improvements is with the help of so-called "negajoules", which is the amount of energy not consumed and therefore saved as a result of efficiency improvements. The cumulative amount of energy or electricity saved between 2002 and 2009 is the equivalent of 716,000 tons of carbon dioxide. Energy efficiency will remain a challenge in the coming years, which we will face with initiatives such as the company-internal "Energy Efficiency Project". As part of this project, our production locations collaborate closely in exchanging best-in-class solutions. Current focus areas include the optimization of the cleanrooms in which our semiconductors are produced, the use of renewable sources of energy, and the piloting and implementation of new lighting technology. In addition to the ecological aspect of sustainable resource conservation, these activities also have economic benefits and contribute to competitiveness.

In addition to reducing the amount of energy being used, lowering emissions is a major challenge in protecting our climate and maintaining our ecosystem, which is why we voluntarily committed to reduce perfluorinated compounds (PFCs) as early as 1998. PFCs are greenhouse gases which are needed in the production of semiconductors. Our goal was to reduce our absolute PFC emissions by 2010 to the value of 1995 less 10 percent as computed in carbon dioxide equivalents. By implementing smart concepts in the fields of alternative process chemicals and executing intelligent approaches in emissions purification, we were able to achieve this ambitious goal and make an active contribution to protecting our atmosphere as early as 2007, thus exceeding even our own voluntary commitment.

We are prepared to be measured by international benchmarks in everything we do in the areas of water consumption, waste reduction and recycling, greenhouse gas reductions, and energy efficiency. Comparisons have shown that our production facilities have for years had a leading position in active environmental protection.

The requirements and restrictions regarding certain materials in electrical and electronic products have become tougher all over the world in recent years. Complying with these restrictions is a matter of course for us, because we want to give our customers the highest level of confidence regarding

our products' regulatory conformity. Creating this confidence requires efficient communication in addition to the implementation of corresponding processes. That we provide our customers with the highest possible level of security in this regard is also reflected in the many recognitions of our performance in customer meetings and audits.

Analyses of a company's ecological footprint must not end at the factory gate, but include the useful life of its products in an adequate manner. After all, one question that needs to be answered is whether the deployment of resources to manufacture a product is also "worth it" from an ecological viewpoint. In all these matters, however, we do not simply rest on our laurels, but continue to make improvements and encourage our industry partners and suppliers to follow our lead.

In addition to making continuous improvements and enabling modern communication, implementing and supporting energy-efficient concepts and products in a wide range of applications is an essential goal of Infineon. The following selected examples show how impressive our accomplishments are:

- Our products and solutions allow an annual reduction in automobile emissions that is equivalent to 3.8 million tons of carbon dioxide.
- Our products and solutions for PC power supplies allow an annual reduction in emissions that is equivalent to 140,000 tons of carbon dioxide.
- With our products and solutions for electronic ballasts (compared to magnetic ballasts) we achieve annual emission reductions that are equivalent to 330,000 tons of carbon dioxide.

INFINEON TECHNOLOGIES AG

Infineon Technologies AG is the parent company of the Infineon group and carries out the group's management and corporate functions. Infineon Technologies AG takes on major group-wide responsibilities such as Finance and Accounting, Human Resources, strategic and product-oriented Research and Development activities as well as worldwide Corporate and Marketing Communications; furthermore, it manages the logistical processes of the group. Infineon Technologies AG has its own production facilities in Regensburg and Warstein. Since Infineon Technologies AG conducts most of the transactions with derivative financial instruments on behalf of the Infineon group, the same terms and conditions for derivative financial instruments, as well as for covered risks, are valid both for Infineon Technologies AG and for the Infineon Group.

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

Infineon Technologies AG prepares its individual financial statements in accordance with the requirements of the German commercial code ("HGB"). The complete financial statements are published separately.

39 STATEMENT OF OPERATIONS [1] (CONDENSED)

€ in millions	2010	2009
Revenue	5,685	4,115
Cost of goods sold	(4,653)	(3,747)
Gross profit on sales	1,032	368
Operating expenses	(961)	(850)
Equity in earnings (losses) of associated companies, net	212	47
Other operating expense, net	(19)	(230)
Income (loss) before tax	264	(665)
Income tax	(29)	(1)
Net income (loss)	235	(666)
Accumulated loss brought forward	(6,014)	(5,348)
Withdrawal of capital reserves	5,888	–
Accumulated income (loss) at end of year	109	(6,014)

1 Prepared in accordance with German GAAP (HGB).

In the 2010 fiscal year, Infineon Technologies AG generated net income of €235 million. After the appropriation of capital reserves of €5,888 million and deduction of the loss of €6,014 million brought forward from the previous year, a net retained profit of €109 million remains.

The net income of Infineon Technologies AG for the 2010 fiscal year is clearly influenced by the effects of the general economic recovery and the concomitant growth of the global semiconductor market. In the 2010 fiscal year, revenues and Segment Results recovered in all segments, so we were able to achieve in total a significant increase in revenues and gross profit on sales in total.

Infineon Technologies AG's net loss in the 2009 fiscal year resulted primarily from significantly lower demand, reflecting the overall economic downturn. In addition, charges have been incurred due to the insolvency of Qimonda and Qimonda Dresden.

40 BALANCE SHEET [1] (CONDENSED)

€ in millions	2010	2009
Fixed and intangible assets	658	747
Investments	3,040	3,389
Non-current assets	3,698	4,136
Inventories	351	306
Receivables and other assets	751	870
Cash and marketable securities	1,664	1,280
Current assets	2,766	2,456
Total assets	6,464	6,592
Shareholders' equity	3,442	3,207
Provisions	1,062	847
Payables and other liabilities	1,960	2,538
Total liabilities and Shareholders' equity	6,464	6,592

1 Prepared in accordance with German GAAP (HGB).

Infineon Technologies AG's financial position was primarily impacted by an increase in cash and marketable securities (€384 million) on the assets side and on the liabilities side by an increase in provisions (€215 million) and a decrease in payables and other liabilities (€578 million)

Investments were reduced by €349 million net in fiscal year 2010. The decrease was primarily caused by a decline in capital reserves regarding Infineon Technologies Holding B.V., Rotterdam/Netherlands (€280 million).

The provisions have increased primarily due to higher provisions for warranties and personnel provisions. The main reason for the increase in provisions is increased performance-based payments to employees as a result of improved performance and a significant increase in pension provisions (€ 89 million).

Liabilities and deferred income decreased in fiscal year 2010 by €578 million net, primarily reflecting reduced liabilities due to affiliated companies (€730 million).

Infineon Technologies AG's shareholder's equity ratio as of September 30, 2010 is 53 percent compared to 49 percent as of September 30, 2009.

DIVIDENDS

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

No dividends were paid for the 2008 and 2009 fiscal years.

For the 2010 fiscal year, €109 million of earnings are available for distribution as a dividend, since Infineon Technologies AG on a stand-alone basis has incurred a cumulative income (Bilanzgewinn) in a corresponding amount.

A cash dividend of €0.10 per share for the 2010 fiscal year will be proposed to the General Shareholders' Meeting.

The proposed dividend is subject to approval by shareholders.

SUBSEQUENT EVENTS

As of October 19, 2010, Infineon Technologies AG acquired 100 per cent of the shares of Blue Wonder Communications GmbH in Dresden. Blue Wonder Communications GmbH focuses on information technology and telecommunications. This includes designing and development as well as marketing of products and software, engineering and consulting. In particular its technology and system solutions will support the development of the next mobile telecommunications standard generation, LTE (Long Term evolution). In connection with the sale of the Wireless mobile phone business the shares of Blue Wonder Communications GmbH will also be transferred to Intel Corporation.

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

RISK AND OPPORTUNITY REPORT

Introduction

To a greater degree than most other businesses, the semiconductor industry is characterized by periods of rapid growth which are historically followed by periods of significant market contraction. Such periods of market contraction are characterized by surplus capacity, increasing order cancellations and above average price erosion and sales volume reductions.

Our risks and opportunities are complemented by the need for capital investments in order to achieve and sustain market leadership as well as the sector's extraordinarily rapid pace of

technological change. In this environment we try to reduce our business risks and exploit the opportunities we face. Effective risk and opportunity management therefore is one of our important success factors. It is integrated in all of our business activities and supports our goal of sustainable profitable growth.

The internal control system and Risk and Opportunity Management System with regards to the accounting process: Proven process within the forecasting cycle

The internal control system as well as the risk and opportunity management system at Infineon are part of the overall financial oriented planning, management and reporting process in all relevant legal entities, divisions and central functions. Both systems are based on the International Risk Management Standard COSO II (Committee of Sponsoring Organizations of the Treadway Commission).

The group-wide risk and opportunity management system (RMS) is based on a risk policy which defines risk as the negative deviation from the financial forecast and which is not limited to the detection of developments that endanger our company's future. A substantial element of the RMS is the underlying risk management process, which consists of risk identification, risk analysis, risk steering and risk control. The systematic implementation of the risk management process improves our planning forecast accuracy, enhances transparency in decisions under uncertain basic conditions and supports our overall risk awareness.

The risk management organization consists of the central risk management department, which reports to the company's Chief Financial Officer, and so-called risk officers, who are responsible for the implementation of the risk management process in their respective organizational units. One of the most important tasks of a risk officer is to collect, evaluate and document substantial risks and opportunities. They build the interface to the central risk management department, which is primarily in charge of the risk management process itself and methods for its development and implementation as well as the presentation of risks and opportunities at the company group level.

The systematic development of our risk and opportunity management system fosters and supports the continuous improvement of our company's risk management system. This is also supported by our organized risk forums, which are a regular discussion and communication platform for the risk officers and implicitly strengthen their risk awareness.

The all-encompassing risk reporting approach uses a risk and opportunity catalogue, which is checked for completeness and whose content is assessed once a year. The quarterly risk and opportunity identification and assessments are based on estimates of the impact on net income and the corresponding probability of a risk event. Additionally, risk mitigation measures are defined also under accounting aspects and the related implementation status is managed and documented. All risks and opportunities above a defined threshold are rated as important and have to be reported in the quarterly risk report. In addition to the regular risk report, material risks arising unexpectedly have to be reported separately.

The central risk management reports the risks which are material and threaten the existence, to the Management Board as well as the Supervisory Board.

The Risk Management System enables the Management Board and responsible persons to identify material risks and to implement measures at an early stage. Risks from operational business are discussed between the responsible persons and the Management Board on regular basis, while corporate risks are presented to the Board by the Central Risk Management itself.

The effectiveness of the Risk Management System is monitored by the Investment, Finance and Audit Committee of the Supervisory Board.

The internal audit controls the compliance with legal requirements and company rules while initializing appropriate measures if required.

The independent auditor audits as part of its year-end-audit the system for the early identification of risks for its fundamental suitability for identifying risks threatening the existence of the company early and reports to the CFO and the Investment, Finance and Audit Committee of the Supervisory Board. The independent auditor does not audit the effectiveness of our system for the early identification of risks.

In comparison to the Risk Management System (RMS), the Internal Control System (ICS) has the main focus on the accounting process with the objective of ensuring the correctness and effectiveness of accounting and financial reporting. It is based on the SEC ("Security Exchange Commission") requirements under Section 404 of the Sarbanes-Oxley-Act and is an integral part of the accounting process in all relevant legal entities and central functions. The Internal Control System controls the principles and procedures based on preventive and detective controls.

Among other things, we regularly check that:

- the Group's uniform financial reporting, valuation and accounting guidelines are continually updated and adhered to;
- intercompany transactions are fully accounted for and properly eliminated;
- issues relevant for financial reporting and disclosure from agreements entered into are recognized and appropriately presented;
- explicit processes and controls exist to guarantee the completeness and correctness of the year-end financial statements and financial reporting;

- processes exist for the segregation of duties and for the "four-eyes principle" in the context of preparing financial statements, as well as for authorization and access rules for relevant IT accounting systems.

We assess systematically the effectiveness of the Internal Control System with regard to the corporate accounting process. At first, there is an annual risk analysis and the defined controls are revised. Thereby we identify and update significant risks relating to accounting and financial reporting in the relevant legal entities and central functions. The controls defined for the identification of risks are documented in accordance with Group-wide guidelines. Regular random tests are performed to assess the effectiveness of the controls. These tests constitute the basis for the self-assessment of the appropriate extent and the effectiveness of the controls. The results of this self-assessment are documented and reported in a global IT system. Identified deficiencies are remedied with consideration of their potential effects.

In addition all legal entities, segments and relevant central functions confirm with their Representation Letters that all business transactions are accounted for and all assets and liabilities have been reflected in the statement of financial position.

Confirmation of Effectiveness

The material legal entities review and confirm at the end of the annual cycle the effectiveness of the Internal Control System with regard to the accounting and the financial reporting process. The Management Board and the Investment, Finance and Audit Committee of the Supervisory Board are regularly informed about significant control deficiencies and the effectiveness of the internal controls.

However, the Internal Control and the Risk Management System with regard to the accounting and financial reporting process cannot ensure with absolute certainty that material false statements can be avoided. With regards to accounting there is the risk that the consolidated financial statements published contain errors affecting the presentation of financial position, results of operation and cash flows of the Group. In particular, this risk lies especially in the presentation of unusual or complex transactions that have a relatively high inherent risk.

The Internal Control and the Risk Management System is continuously reviewed to comply with internal and external requirements – for example the requirements defined by the German Accounting Law Modernization Act (BilMoG). The improvement of the Internal Control System supports the continuous monitoring of the relevant risk areas within the responsible organizational units.

Areas of Risk

A variety of – in particular financial – Risks, which are described below, can also be seen as Opportunities when developing positively:

Industry and Market Risks: Risk Management within volatile industries and markets

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

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

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

Some of our products are purchased by a limited number of customers. This increases our dependence on the success of our customers in their respective markets. We react to such developments by constantly seeking to widen our customer base, which has proven to be a successful strategy in the past, leading to new customer and design wins.

As a global operating company, our business could suffer from periodic downturns in the global economy. Particularly, downturns – especially in markets that we serve - may result in lower revenues than originally expected. Furthermore, substantial changes in regional business environments around the globe may also have adverse effects on our business and results of operations. However, broad diversification within our product portfolio and the spread of development and manufacturing locations around the world helps to mitigate the overall risk of such regional crises.

Qimonda: Significant risks related to Qimonda's insolvency

As a result of the commencement of insolvency proceedings by Qimonda, we are exposed to potential liabilities arising in connection with the Qimonda business, which are described in detail in the notes 6 and 38 to our consolidated financial statements.

As of September 30, 2010, we recorded liabilities and provisions in connection with these matters. The provisions reflect the amount of those liabilities that management believes are probable and can be estimated with reasonable accuracy at that time. There can be no assurance that such provisions and allowances recorded will be sufficient to cover all liabilities that may ultimately be incurred in relation to these matters.

Management Risks: Risks especially associated with acquisitions, spin-off or cooperation arrangements

To develop or expand our business we may seek to acquire other businesses or to sell business segments or enter into different forms of cooperation arrangements, which could prove to be unsuccessful in case of acquisitions particularly in terms of integration of people and products in existing business structures, and in case of spin-offs remanence costs or hurdles in adapting the company structure could occur.

Operational Risks: Manufacturing is key in terms of economic success

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

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

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

We cooperate with a number of different suppliers who provide us with materials and services, or who take over parts of our supply chain. For some of these suppliers we do not always have alternative sources. Therefore, we face the risk of delays in delivery or quality issues.

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

Financial and Currency Risks: High capital requirements

Because we operate our own manufacturing facilities, we require significant amounts of capital to build, expand, modernize and maintain them. We also require significant amounts of capital to fund R&D. These funding requirements should mainly be financed by existing liquidity and net cash provided by operating activities.

Although we have applied for financial support from public authorities for a number of investment projects, we cannot guarantee that we will receive requested support on a timely basis or at all. We intend to continue to cooperate on R&D projects and production with other semiconductor companies in order to reduce our financing needs.

We are exposed to interest rate risk through our financial assets and debt instruments resulting from the issuance of bonds and credit facilities. Due to the high volatility of our core business and the need to maintain high operational flexibility our liquid financial assets are kept at a high level. These assets are primarily invested in short-term interest rate instruments. The risk of changing interest rates affecting these assets is partially offset by financial liabilities, some of which are based on variable interest rates. Interest rate derivatives are used to reduce the risk caused by any net gap between interest-bearing financial assets and liabilities.

Our involvement and participation in various regional markets around the world creates cash flows in a number of currencies other than the euro – primarily in U.S. dollars. Therefore, a major portion of our sales volumes as well as the costs relating to sales, administration, and R&D are incurred in U.S. dollars. Exchange rate fluctuations against the euro may have substantial effects on our sales, our costs and our overall results of operations.

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

Over the last several quarters, our operating results experienced high volatility. It is possible that this volatility will continue in the future due to circumstances which we can not fully control. If our results of operations do not meet investor and financial analyst expectations, the Infineon stock price could decrease.

Additional descriptions relating financial risks may be found in the notes to the consolidated financial statements included in this report.

Information Technology Risks: Increasing dependence on IT systems in all processes

Like other global technology companies, we rely heavily on information technology and are increasingly dependent on information technology systems to support business processes as well as internal and external communications.

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

All critical IT systems are hosted on high availability servers with redundancies in different data centers to minimize or eliminate the impact of hardware failures. Redundant network connections from different suppliers help reduce or eliminate the risk of losing connectivity between our sites. Constant automated monitoring of the IT infrastructure allows us to react quickly to unforeseen incidents.

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

Human Resource Risks: Requirement of qualified employees

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

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

Legal Risks: We may incur substantial costs in defending against legal claims

Like other companies in the semiconductor industry, we have been exposed to patent claims, claims relating to alleged defective or faulty products, and claims relating to the alleged infringement of statutory duties. Regardless of the outcome of these claims, we may incur substantial costs in defending ourselves against these claims. We intend to exert significant efforts in defending ourselves vigorously against such claims. For more information, please refer to note 38 to our consolidated financial statements.

In the area of intellectual property, we benefit from various cross-license agreements with other companies. We aim to increase the number and scope of such cross-license agreements with leading competitors in order to reduce the risk of claims related to patent infringement.

Tax, fair trade and capital market regulations can all include additional risks. To mitigate these risks, we rely upon the advice of internal and external experts.

Our global business strategy calls for maintaining R&D locations and manufacturing sites in various countries around the world in order to enhance our cost competitiveness, overcome market entry hurdles or enhance opportunities related to technology development. Therefore, risks could develop based upon negative economic and political developments in our regional markets, changes in laws and policies affecting trade and investment aimed at limiting free trade and varying practices of the regulatory, tax, judicial and administrative bodies in the jurisdictions where we operate. These risks could restrict our business activities in those countries.

We use insurance policies to cover specific risks of liability or losses impacting our results of operations, financial condition and cash flow.

Overall Infineon Risk Situation: Review by the Management Board at the date of this report

The overall risk assessment is based on a consolidated view of all significant individual risks.

At the date of this report we are not aware of any substantial risks which threaten the existence of our company.

Additional descriptions relating to risks may be found in the notes to the consolidated financial statements included in this report.

Opportunities

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

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

For Infineon we consider the optimization of our product portfolio, the enhancement of the productivity in our production lines and a positive market environment as an essential opportunity for a sustainable improvement of our operating results.

A variety of – in particular financial – risks, that are described in the previous part, can also be seen as Opportunities when developing positively.

As an example, our power semiconductor business may experience additional growth driven by energy efficiency requirements and government regulations in all market segments. The continued worldwide introduction of electronic ID documents as well as migration towards electronic tickets in transport systems could open growth opportunities in the Chip Card & Security market.

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

OUTLOOK

Important planning premises

Infineon is planning its outlook for the 2011 fiscal year and beyond with an assumed exchange rate for the U.S. dollar against the euro of 1.40. The Company anticipates that its U.S. dollar denominated currency risks will decrease after the closing of the divestiture of the Wireless mobile phone business to Intel. Based on that, the impact of deviations of the actual exchange rate of the U.S. dollar against the euro on Segment Result, before any potential hedging, will be then between €0.5 million and €1 million per quarter or between €2 million and €4 million per year for every cent that the euro/U.S. dollar exchange rate deviates from the assumed 1.40. The impact of deviations of the actual exchange rate of the U.S. dollar against the euro on sales will be then between €2.5 million and €3.5 million per quarter or between €10 million and €14 million per year for every cent that the euro/U.S. dollar exchange rate deviates from the assumed 1.40 rate.

Furthermore, Infineon expects the closing of the divestiture of the Wireless mobile phone business to Intel to have implications for its financial reporting beyond what is contemplated in this outlook. In particular, Infineon will, for a transitional period of several months after closing, effect all purchases of foundry wafers on behalf of the Wireless mobile phone business/Intel. Infineon will be charged for such purchases and pass-on the purchase amounts plus a handling fee to Intel. The current outlook does not take this into account, as the accounting for this depends on a detailed evaluation of agreements not finalized to date.

Outlook Summary

After a spurt of growth in the winter half year 2009/2010, the momentum of the global recovery appears to be slowing in both advanced and emerging economies. Support from the inventory cycle and fiscal stimulus programs has ebbed. Furthermore, there are ongoing uncertainties in financial markets and there is still high unemployment in several countries. Experts expect global economic growth to decelerate in the near term and to reaccelerate over the course of the year 2011. Overall, economists expect a growth rate of 3.3 percent for global real Gross Domestic Product (“GDP”) in 2011. Overall, there is high uncertainty in financial markets, which continues to pose risks to the forecast. In particular, the debt crisis in some euro zone countries increases this uncertainty.

Uncertainties remain with regards to the sustainability and dynamics of the global macro-economic recovery. Specifically with regard to the semiconductor industry, additional risks arise from uncertainties around the amount of inventory that may or may not have accumulated in the supply chain. Assuming that the global economy will continue to expand, albeit at a more moderate pace, and assuming that the semiconductor supply chain will not undergo major inventory corrections, Infineon expects to grow its revenues from continuing operations by close to 10 percent in the 2011 fiscal year. This revenue outlook is additionally based on assumed exchange rate for the U.S. dollar against the euro of 1.40. Group gross margin from continuing operations is expected to be a low 40ies percentage in the 2011 fiscal year. Group Segment Result margin from continuing operations should be a mid- to high-teens percentage for the 2011 fiscal year. Infineon expects net expenses in its non-segment result of about €30 million and net financial expenses of about €25 million. The group effective tax rate should be between 10 and 15 percent.

In addition to the result from continuing operations, Infineon expects to realize a substantial income from discontinued operations net of income taxes, of approximately €500 million, primarily from the sale of the Wireless mobile phone business to Intel.

World Economic Recovery continues, but with Risks

After a spurt of growth in the winter half year 2009/2010, the momentum of the global recovery appears to be slowing in both advanced and emerging economies. Support from the inventory cycle and fiscal stimulus programs ebbed. Furthermore, there are ongoing uncertainties in financial markets and there is still high unemployment in several countries. Experts expect global economic growth to decelerate in the near term and to reaccelerate over the course of the year 2011. Economic prospects are uneven across countries and regions with Asia once more in the driver's seat and sluggish growth by past standards in advanced economies.

Overall, the global recovery is expected to continue but its strength is not yet assured. In its latest World Economic Outlook Update of October 2010, the International Monetary Fund ("IMF") states that it feels the recovery should proceed but should remain vulnerable to shocks. Therefore, a degree of uncertainty remains for economic and semiconductor market growth in the 2011 calendar year.

World Economic Growth lower in the 2011 Calendar Year

In its World Economic Outlook Update of October 2010, the IMF expects annual global growth to moderate from 3.7 percent in the 2010 calendar year to 3.3 percent in calendar year 2011. Overall, there is high uncertainty in financial markets which continues to pose risks to the forecast. In particular, the debt crisis in some euro zone countries increases this uncertainty.

GDP in the euro zone is estimated to grow by 1.5 percent annual rate in the 2011 calendar year, slowing from 1.7 percent in calendar year 2010. Decisive fiscal consolidation measures will reduce public demand and disposable personal income in calendar year 2011. Continuing high unemployment in several countries, in particular in Spain and Ireland, will additionally weigh on private demand. The expected cooling of the global economy and a probably strong euro may additionally put pressure on foreign trade.

The IMF expects Central and Eastern European countries to grow by 3.1 percent annually in the 2011 calendar year, after 3.7 percent in calendar year 2010. The Commonwealth of Independent States (CIS) including Russia is estimated to expand by 4.6 percent in the 2011 calendar year, accelerating from 4.3 percent in calendar year 2010. Energy exporters in the CIS region will benefit from higher commodity prices and tightening supplies. In Russia, gradually rising real wages and lower unemployment should also support personal consumption.

In North America real GDP is expected to grow by 2.5 percent annually in the 2011 calendar year, slowing from 2.9 percent in calendar year 2010. In the United States of America a weak labor market is expected to hit personal incomes and the ability to obtain credit. Additionally, private household net worth has deteriorated sharply due to drastically falling house prices over the past three years. This may imply sluggish personal consumption. On the other hand, private investment is likely to drive domestic demand in calendar year 2011. Additionally, a weak U.S. dollar may positively affect United States' foreign trade.

Latin America and the Caribbean will expand by 4 percent in the 2011 calendar year, down from 5.7 percent annual growth in calendar year 2010, according to IMF's latest prognosis. Robust commodity export revenues are expected and they are likely to boost domestic income and domestic demand.

The Japanese economy is expected to grow by 1.5 percent annually in the 2011 calendar year, slowing from 2.8 percent in the 2010 calendar year. Appreciation of the Japanese Yen and the expected cooling of the U.S. economy may affect exports negatively. Furthermore, deflation and the still weak labor market are expected to put pressure on domestic demand.

Asia is estimated to expand by 6.7 percent in the 2011 calendar year, after 7.9 percent growth in the 2010 calendar year. In particular in China, economic policy will dampen growth in calendar year 2011 to avoid the overheating of property markets. In India robust corporate profits and favorable external financing are expected to encourage investment. Overall, growth is expected to slow in the region but growth rates will remain relatively high. Growth will be driven by both private investment and consumption and by export demand. Overall, the IMF expects Asia to continue to lead global economic growth.

World Economic Growth prospects beyond Calendar Year 2011

The IMF expects the world economy to expand by about 3.7 percent in the years beyond the 2011 calendar year. There will be further strong growth in Asia in the coming years, but with increasing wealth, growth rates are likely to moderate. From today's perspective and despite current high risks, the IMF does not expect a global recession in the coming years. Emerging economies further growing above the global average will accelerate the shift in economic geography and the importance of these countries. New consumers will continuously enter the global marketplace in the coming years as economic growth pushes them beyond the margin when people generally begin to spend on discretionary goods.

The Semiconductor Market Sectors addressed by Infineon are expected to grow more strongly than the total Global Semiconductor Market in the 2011 Calendar Year

In the 2011 calendar year, the global semiconductor market is expected to expand. The market researcher iSuppli projects growth of about 5 percent for 2011 (U.S.-dollar-based and compared growth of 32 percent for 2010) followed by about 2 percent in 2012 (iSuppli, September 2010). The expected slowdown in growth mainly reflects on the expected world economic slowdown and inventory rebuild coming to an end. Semiconductor market growth in the 2010 calendar year was exceptionally strong in all regions; experts expect all regions to expand in the single-digits in calendar year 2011: America by about 2 percent; Europe by about 4 percent; Japan by about 5 percent and Asia-Pacific by about 6 percent (iSuppli, September 2010). Assuming that the semiconductor industry is maturing and becoming less cyclical, iSuppli forecasts single-digit growth also for the coming years. No boom or bust is expected under current conditions.

In the 2011 calendar year all semiconductor market segments are expected to benefit from economic growth albeit at a lower rate than in the 2010 calendar year. The Automotive semiconductor market is expected to grow by 8 percent in calendar year 2011, according to market researcher iSuppli (September 2010). Also in the coming years, the Automotive semiconductor market is expected to grow above market average; the long-term growth rate is estimated to be about 11 percent between 2009 and 2014. Main growth drivers will be the so-called BRIC countries Brazil, Russia, India and China. Safety applications, like blindspot and night vision, as well as energy efficiency and pollution control systems are expected to fuel the market. Furthermore, the increasing share of hybrid and electric vehicles will drive the market via higher semiconductor content in cars.

The second trend-setting semiconductor market segment, the Industrial & Multimarket semiconductor market, is driven by renewable energy and energy-saving electric drives, among other factors. Efficient energy storage will enable the on-demand energy component of a wide variety of systems such as hydrogen-based energy systems, a host of renewable (but intermittent) energy sources such as wind and solar and low-emission transport vehicles. Key drivers are high fossil fuel energy prices, targeted improvement of carbon footprint and the desire to reduce dependency on foreign energy sources. According to iSuppli (September 2010), the Industrial & Multimarket semiconductor market is expected to expand by about 11 percent in the 2011 calendar year; the long-term growth rate between 2009 and 2014 is estimated to be about 13 percent. In the long run, emerging Asia is expected to proceed in growing above average and to gain market share.

The Chip Card semiconductor market is expected to grow by about 3 percent in the 2011 calendar year; the long-term growth rate between 2009 and 2014 is estimated to be about 8 percent (iSuppli, September 2010). The three most important market segments also in the 2011 calendar year will be SIM Cards, followed by Payment & Banking and Health & Government IDs. Asia's market share, including Japan, in worldwide Smart Card unit shipments is expected be about 51 percent in calendar year 2011, followed by a share of about 34 percent in Europe and 15 percent in America (IMS, July 2010).

Infineon Group Revenue to Grow at a Rate close to 10 percent in the 2011 Fiscal Year

Uncertainties remain with regard to the sustainability and dynamics of the global macro-economic recovery. Specifically with regard to the semiconductor industry, additional risks arise from uncertainties around the amount of inventory that may or may not have accumulated in the supply chain. Assuming that the global economy will continue to expand, albeit at a more moderate pace, and assuming that the semiconductor supply chain will not undergo major inventory corrections, Infineon expects its revenues from continuing operations to grow by close to 10 percent in the fiscal year 2011. This revenue outlook is additionally based on an assumed exchange rate for the U.S. dollar against the euro of 1.40.

Within this sales outlook, the Company anticipates growth in its Automotive segment of about 10 percent for the 2011 fiscal year. The Company believes that global car production is the primary driver of sales of automotive semiconductors. Market researcher CSM in October 2010 forecast an increase in global car production of about four percent for calendar year 2011 to 71.8 million units. Such production levels would lead to quarterly turnover slightly above the run rate experienced in the last quarter of the 2010 fiscal year.

In the Industrial & Multimarket segment, sales should grow at a rate clearly exceeding the group average. Given the very broad product range of the segment and in light of multiple end markets, segment turnover is driven primarily by general macro-economic growth and resulting growth trends in the semiconductor industry. In addition, the segment is experiencing secular growth from the trend towards greener energy generation and more efficient energy transmission and energy consumption. Secular growth is seen, for example, in the areas of renewable energy, high-voltage direct current transmission, variable speed drives and digital power management.

Sales in Infineon's Chip Card & Security segment should develop roughly in-line with the chip-card IC market, but will likely grow only very slowly in the 2011 fiscal year. The segment continues to expand in higher-margin areas such as passports, identity cards, payment and embedded security applications.

Infineon Gross Margin from Continuing Operations to be a low 40ies percentage in the 2011 Fiscal Year

Infineon group gross margin from continuing operations is highly dependent on factory loading throughout the year. Should sales develop as forecast, group gross margin should be a low 40ies percentage. This would constitute a significant improvement compared to 38 percent recorded for the 2010 fiscal year. This improvement would be driven mainly by expected high utilization levels within the Company's manufacturing operations throughout the entire fiscal year. In addition, the Company anticipates that its efforts to increase productivity and shift its portfolio towards higher-margin areas will be broadly sufficient to offset the typical ongoing price declines.

Operating Expenses to grow broadly in line with sales

Infineon expects that both its Research & Development expenses and its Selling, General and Administrative expenses will grow broadly in-line with sales in the 2011 fiscal year. General and administrative expenses are expected to be down from the 2010 fiscal year. Aggregate operating expenses should grow at a rate roughly in line with the expected sales growth for the 2011 fiscal year.

Infineon expects growth in Research & Development expenses to be driven in particular by its Automotive and its Industrial & Multimarket businesses. In Automotive, the main points of spending are in advanced 65 nanometer microcontrollers, new sensor products and in single-chip integration of power and control circuitry using the Company's new and advanced 130 nanometer BCD process. In addition, the segment is also investing in the development of products aiming specifically at the emerging areas of hybrid and electric vehicles. Most of the additional semiconductor content in hybrid and electric vehicles is in power semiconductors. Holding leadership positions for such components within the Industrial & Multimarket segment, the Automotive segment is investing into putting such know-how to maximum use in hybrid and electric vehicles. In the Industrial & Multimarket business, R&D spending is driven mainly by focusing on both increased power density as well as an extension of lifetime compared to today's standard packages. New and more advanced generations of IGBTs, "CoolMOS", "OptiMOS" and other power semiconductors for various applications like lighting, display control and audio amplification are also under development. In addition, the Company is investing further in compound semiconductor materials (like silicon carbide) for the next generation of power semiconductors.

Growth in the Company's selling, general and administrative expenses will occur only in the area of selling expenses. Selling expenses will grow mostly in the Automotive and Industrial & Multimarket segments. In Automotive, the focal point of growth in selling expenses will be spending for application support and sales force expansion in the fast growing markets of China, Korea and India. In Industrial & Multimarket, the growth in selling expenses reflects the increasing complexity of products requiring additional support for design-in activity at our customers. Besides this, the Company is investing in growing its presence in Asia, with a particular focus on China.

Segment Result Margin to be a mid to high teens percentage of Sales

Infineon expects its Combined Segment Result margin for the 2011 fiscal year to be a mid to high-teens percentage of sales. This expectation reflects the anticipated sales growth, the planned improvement in gross margins and growth in operating expenses at a rate roughly in line with the revenue growth rate.

Other Expense Positions

Infineon expects non-segment result of approximately negative €30 million. Net financial expense should total approximately negative €25 million for the 2011 fiscal year, down significantly from net financial expense of negative €66 million in the 2010 fiscal year. The main driver of the improvement should be lower interest expense after the repayment of the Company's 2010 convertible bond in June 2010. Infineon expects an effective group tax rate of 10 to 15 percent, consisting of foreign taxes at comparable rates and taxes in Germany at a tax rate of approximately 11 percent. In Germany, as of September 30, 2010, Infineon's tax-loss carry forwards totaled €3.4 billion for corporate tax and €4.6 billion for trade tax purposes. Through the use of the domestic tax loss carry forwards, only 40 percent of domestic earnings are subject to taxation, leaving the domestic cash tax rate effectively at approximately 11 percent. The Company anticipates that its domestic cash tax rate will remain at that level for a number of years to come, until domestic tax loss carry-forwards have been exhausted.

Income from Discontinued Operations, net of Income Taxes

In addition to the result from Continuing Operations, Infineon expects to realize a substantial income from discontinued operations net of income taxes of about €500 million, primarily from the sale of the Wireless mobile phone business to Intel.

Working Capital Trends

As per September 30, 2010, the Company's working capital stood at negative €130 million. After a sustained period of capacity shortage, the Company believes that it may have to invest in rebuilding inventory to an extent. In addition, the Company's working capital still contained provisions relating to the Qimonda insolvency. The Company may make payments against these provisions over the course of the 2011 fiscal year. Finally, given the strong improvements in Company financials during the 2010 fiscal year, the working capital as of September 30, 2010 also contained reasonably high provisions for employee bonuses for payment at the end of December 2010 or at the end of January 2011. As such, Infineon expects to have some cash usage in its working capital in the 2011 fiscal year.

Investments and Depreciation and Amortization

Infineon anticipates that investments, defined as the sum of capital expenditures for property, plant and equipment plus purchases of intangible assets plus capitalized R&D expenses according to IFRS, will total around €550 million in the 2011 fiscal year. After a period of sustained capacity shortages between late 2009 and the end of the 2010 fiscal year, Infineon will seek to increase manufacturing capacity, in particular at its Kulim front-end facility (Malaysia) as well as in various back end facilities. In addition, the Company has earmarked some of this budget for a 300 millimeter pilot line that is to be installed in its Villach front-end fab (Austria) to render the manufacturing of power discretes on 300 millimeter wafers ready for volume production.

Depreciation and Amortization is expected to be close to €400 million for the 2011 fiscal year.

Free Cash Flow, use of cash and balance sheet structure

Despite some cash usage within working capital and despite investments likely exceeding D&A in the 2011 fiscal year, Infineon expects to generate solid free cash flow thanks to the anticipated high level of profitability.

Infineon intends to use the free cash flow generated within the group amongst others to repay €133 million of debt in the 2011 fiscal year.

In addition, Infineon intends to have its shareholders participate in the success of the enterprise by paying out capital in a manner compatible with expected future cash generation and liquidity needs. To this end, the management and supervisory boards have proposed an ordinary dividend of €0.10 per share for approval at the upcoming annual general meeting on February 17, 2011. If approved, such dividend would lead to a payout of about €109 million.

Furthermore, the management and supervisory boards intend to ask the annual general meeting to approve a share-buy-back of up to 10 percent of shares outstanding. If approval is granted, Infineon would be able to flexibly use some of its free cash flow, or in fact available cash reserves, for the repurchase of its own shares.

With regards to its balance sheet structure, Infineon has a long-term target of holding between 30 percent and 40 percent of its sales as gross cash on its balance sheet. The Company intends to have a net cash position and is aiming to confine its gross debt to 2x its EBITDA. The Company envisages being well within these targets in the 2011 fiscal year and in fact to substantially exceed the target for gross cash as a percentage of sales. The Company intends to strategically maintain a gross cash position above its long term target for some time. Infineon believes that it will be able to use such strategic cash in a value-creating manner on (1) 300 millimeter manufacturing equipment or facilities for the intended ramp of volume production of power discretes and (2) potentially acquisitions. Should the Company find, with the passage of time, that it cannot put all of its strategic cash to productive use within the Company, Infineon would be in a position to increase its efforts to return capital to shareholders.

Finally, Infineon is not anticipating any major financing transactions for the 2011 fiscal year.

Powerful drivers of growth beyond the 2011 fiscal year

Beyond the 2011 fiscal year, Infineon is confident in the growth prospects of the end markets it is serving. Market research firm iSuppli forecast growth rates for the 2009 to 2014 time frame of 11.3 percent for the Automotive semiconductor market, of 13.3 percent for the Industrial & Multimarket semiconductor market and of 8.3 percent for the Chip Card Semiconductor Market.

Growth in the Company's end markets is driven by three powerful overriding trends:

- Energy efficiency: the world's electricity generation will increasingly move towards renewable energy; the world's electricity transportation and consumption will increasingly aim to make all electricity conversion steps more efficient. Any of these trends drive demand for our power semiconductors.
- Mobility: increasing numbers of people worldwide have the economic need and financial means to be mobile. Whether in cars or in trains, the amount of semiconductors required to enable such mobility is increasing. We enable mobility primarily with our Automotive and Industrial & Multimarket products.
- Security: the amount of critical data that is being stored and/or accessed remotely increases every day. The products of our Chip Card & Security segment help to make sure that users are being authenticated prior to use and that data is being stored securely.

Given leading positions in the end markets for automotive, power and chip card products we are serving, we are confident that we will be able to capitalize on the growth potential offered by these markets.

Target Operating Model: low 40's gross margin and high-teens Segment Result margin at €4 billion of turnover

For the period after the closing of the disposal of our Wireless mobile phone business to Intel, we have set a target operating model for ourselves. Given the growth potential of our addressed markets as described above, we believe that a sales run rate of €4 billion per annum is feasible for our business from the fiscal year 2012 onwards. At such sales run rates, we are targeting a gross margin in the low 40's, a percentage for R&D / sales in the low to mid teens and a ratio for SG&A / sales in the low teens. Combined, this should lead to a high-teens Segment Result margin. The Company was already broadly in compliance with this target operating model in the last quarter of the 2010 fiscal year at revenue of €942 million for the quarter.

After a normalization in the Company's working capital as described in the outlook for the 2011 fiscal year, Infineon anticipates that continued growth will require some continued investment in the Company's working capital beyond the 2011 fiscal year.

Longer term, we estimate that we should be able to maintain the ratio of annual investments, defined as purchases of property, plant and equipment plus purchases of intangible assets plus capitalized R&D expenses under IFRS, relative to sales at a low teens percentage, including the investment in 300 millimeter wafer manufacturing capacity for power discretes. We believe that our depreciation and amortization expense should roughly equal our investments.

Given the Company's target operating model, its cash needs in its working capital and the planned level of investments relative to depreciation and amortization, Infineon anticipates generating positive free cash flow in upcoming fiscal years. As such, the Company aims for the dividend that would be payable for the 2010 fiscal year to be at a sustainable level, even though reference will always have to be made to free cash flow, in particular in downturn years.

Long-term, as already discussed further above, the Company intends to comply with the following balance sheet targets, which are comparable to peer companies operating in the semiconductor industry:

- Gross cash between 30 percent and 40 percent of its sales
- Net cash position
- Gross debt at 2x EBITDA at most

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

STRUCTURE OF THE SUBSCRIBED CAPITAL

The subscribed capital of Infineon Technologies AG totaled €2,173,484,170 as of September 30, 2010. It is divided into 1,086,742,085 no par value nominal shares, each of which represents a notional portion of the subscribed capital of €2. All shares carry the same rights and obligations. Each share carries one vote. Shares of Infineon Technologies AG are listed on the Frankfurt Stock Exchange (FSE) under the symbol "IFX" and are also traded in the form of American Depositary Shares ("ADS") on the OTCQX International over-the-counter market under the ticker symbol "IFNNY" whereby each Infineon ADS represents one Infineon ordinary share.

RESTRICTIONS ON VOTING RIGHTS OR THE TRANSFER OF SHARES

Restrictions on the voting rights of shares may, in particular, arise as the result of the regulations of the German Stock Corporation Act (Aktiengesetz - "AktG"). For example, shareholders are prohibited, under certain conditions, from voting according to section 136 AktG and Infineon Technologies AG has no voting rights from its own shares according to section 71b AktG. We are not aware of any contractual restrictions on voting rights or the transfer of shares.

Pursuant to section 67, paragraph 2 AktG, only those persons recorded in the share register of Infineon Technologies AG will be recognized as shareholders of Infineon Technologies AG. For purposes of recording the shares in the share register of Infineon Technologies AG, shareholders are required to submit to Infineon Technologies AG the number of shares held by them and their name or company name, address, registered office, if any, and date of birth. Pursuant to section 67, paragraph 4 AktG, Infineon Technologies AG is entitled to request information from any party registered in the share register of Infineon Technologies AG regarding the extent to which the latter actually owns the shares for which it is registered as holder and, if it does not own the relevant shares, to request the party concerned to submit the information necessary for the maintenance of the share register in relation to the party for whom it holds the shares. Section 67, paragraph 2 AktG stipulates that the shares concerned do not confer voting rights until such time as the information requested has been supplied.

SHAREHOLDINGS EXCEEDING 10 PERCENT OF THE VOTING RIGHTS

The German Securities Trading Act (Wertpapierhandelsgesetz – "WpHG") requires each person whose shareholding reaches, exceeds or, after exceeding, falls below the 3 percent, 5 percent, 10 percent, 15 percent, 20 percent, 25 percent,

30 percent, 50 percent or 75 percent voting rights thresholds of a listed corporation to notify such corporation and the German Federal Financial Supervisory Authority (Bundesanstalt für Finanzdienstleistungsaufsicht - "BaFin") immediately. As of September 30, 2010, we have not been notified of any direct or indirect shareholdings reaching or exceeding 10 percent of the voting rights. The shareholdings notified to us are described as information pursuant to Section 160 Section 1 No. 8 AktG in our consolidated financial statements.

SHARES WITH SPECIAL CONTROL RIGHTS

Shares that confer special control rights have not been issued.

SYSTEM OF CONTROL OF EMPLOYEE SHARE SCHEMES WHEN CONTROL RIGHTS ARE NOT EXERCISED DIRECTLY BY THE EMPLOYEES

Employees who hold shares in Infineon Technologies AG exercise their control rights directly in accordance with applicable laws and the Articles of Association, just as other shareholders do.

RULES GOVERNING THE APPOINTMENT AND REPLACEMENT OF MEMBERS OF THE MANAGEMENT BOARD

Section 5, paragraph 1, of the Articles of Association stipulates that the Management Board of Infineon Technologies AG shall consist of at least two members. Currently, the Management Board of Infineon Technologies AG consists of three members. Pursuant to section 5, paragraph 1, of the Articles of Association and section 84, paragraph 1, AktG, the Supervisory Board shall decide on the exact number of members as well as on the appointment and dismissal of the members of the Management Board. As Infineon Technologies AG falls within the scope of the German Co-Determination Act (Mitbestimmungsgesetz – "MitbestG"), the appointment or dismissal of members of the Management Board requires a two-thirds majority of the votes of the members of the Supervisory Board (section 31, paragraph 2, MitbestG). If such majority is not achieved on the first ballot, the appointment may be approved upon a recommendation of the mediation committee on a second ballot by a simple majority of the votes of the members of the Supervisory Board (section 31, paragraph 3, MitbestG). If the required majority is still not achieved, a third ballot is held, in which the chairman of the Supervisory Board has two votes (section 31, paragraph 4, MitbestG). If the Management Board does not have the required number of members, in urgent cases, the local court (Amtsgericht) of Munich shall make the necessary appointment upon petition of a party concerned pursuant to section 85, paragraph 1, AktG.

Pursuant to section 84, paragraph 1, sentence 1 AktG, members of the Management Board may be appointed for a maximum term of five years. They may be re-appointed or have their terms extended for one or more terms of up to a maximum of five years each. Section 5, paragraph 1, of the Articles of Association, and section 84, paragraph 2, AktG stipulate that the Supervisory Board may appoint a chairman and a deputy chairman of the Management Board. The Supervisory Board may revoke the appointment of a member of the Management Board and the chairman of the Management Board for good cause (section 84, paragraph 1, AktG).

RULES GOVERNING THE AMENDMENT OF THE ARTICLES OF ASSOCIATION

Pursuant to section 179, paragraph 1, AktG, any amendment of the Articles of Association requires a resolution of the General Shareholders' Meeting. However, Section 10, paragraph 4, of the Articles of Association gives the Supervisory Board the authority to amend the Articles of Association insofar as such amendments merely relate to the wording, such as changes of the share capital resulting from a capital increase of authorized or conditional capital. Unless the Articles of Association provide for another majority, section 179, paragraph 2, AktG stipulates that resolutions of the General Shareholders' Meeting on the amendment of the Articles of Association shall require a three-quarters majority of the share capital represented. Section 17, paragraph 1, of the Articles of Association of Infineon Technologies AG provides that, as a principle, resolutions shall be passed with a simple majority of the votes cast and, when a capital majority is necessary, with a simple majority of the represented share capital, unless a higher majority is required by law or by the Articles of Association.

POWERS OF THE MANAGEMENT BOARD

Authorized Capital

Authorized Capital 2010/I

Section 4(8) of the Articles of Association provides that the Management Board is authorized, with the approval of the Supervisory Board, to increase the share capital in the period until February 10, 2015 once or in partial amounts by a total of up to €648,000,000.00 by issuing new no par value registered shares, carrying a dividend right as of the beginning of the fiscal year in which they are issued, against contributions in cash or in kind (Authorized Capital 2010/I). Shareholders have subscription rights in principle in the event of capital increases against contributions in cash. However the Management Board is authorized, with the approval of the Supervisory Board, to exclude the subscription rights of the shareholders

a) in order to exclude fractional amounts from the subscription right,
b) insofar as such action is necessary in order to grant holders of option or conversion rights from bonds with warrants and convertible bonds that have already been or will in future be issued by the Company or its subordinated group companies subscription rights to new shares in the extent to which they would be entitled after exercise of the option or conversion rights or after fulfillment of any conversion obligations,

c) if the issue price of the new shares is not substantially lower than the stock exchange price and the shares issued with the subscription rights of the shareholders excluded pursuant to Section 186 (3) sentence 4 of the German Stock Corporation Act (Aktiengesetz) in aggregate do not exceed 10 percent of the share capital either at the time of this authorization becoming effective or at the time of its exercise.

The Management Board is additionally authorized, with the approval of the Supervisory Board, to exclude the subscription rights of the shareholders in relation to capital increases against contributions in kind. However, in order to protect the shareholders against the dilution of their holdings, the Management Board of Infineon Technologies AG has undertaken to make use of this authorization to exclude the subscription rights of the shareholders in the case of capital increases against contributions in cash or in kind, only up to an amount equivalent to 10 percent of the equity capital at the time the authority comes into force or as the case may be – if this value should be lower – the equity capital existing at the time the authority is exercised. A capital increase with subscription rights excluded through the exercise of the Authorized Capital 2010/I is thus currently limited to a maximum of €217,348,417, equivalent to 108,674,208 no par value shares.

The Management Board is furthermore authorized, with the approval of the Supervisory Board, to determine the further content of the rights attached to the shares and the terms of the share issue.

Authorized Capital 2010/II

Section 4(9) of the Articles of Association provides that the Management Board is authorized, with the approval of the Supervisory Board, to increase the share capital in the period until February 10, 2015 once or in partial amounts by a total of up to €40,000,000.00 by issuing new no par value registered shares against contributions in cash for the purpose of issue to employees of the Company or its group companies (Authorized Capital 2010/II). The subscription rights of the shareholders are excluded in relation to these shares. The Management Board determines the further content of the rights attached to the shares and the terms of the share issue with the approval of the Supervisory Board.

Conditional Capital

Conditional Capital I

Section 4(4) of the Articles of Association provides that the share capital of Infineon Technologies AG is conditionally increased by an amount not to exceed €34,635,548 (Conditional Capital I, registered in the Commercial Register as "Conditional Capital 1999/I"). The conditional capital increase will be effected by issuing up to 17,317,774 new registered no par value shares carrying full dividend rights as of the beginning of the fiscal year in which they are issued, although only to the extent that the holders of subscription rights granted under the "Infineon Technologies AG 2001 International Long Term Incentive Plan" on the basis of the authorization granted on April 6, 2001 choose to exercise their subscription rights.

Conditional Capital III

Section 4(5) of the Articles of Association provides that the share capital is conditionally increased by up to €29,000,000 (Conditional Capital III, registered in the Commercial Register as "Conditional Capital 2001/I"). The conditional capital increase will be effected by issuing of up to 14,500,000 new registered no par value shares carrying full dividend rights as of the beginning of the fiscal year in which they are issued, although only to the extent that the holders of subscription rights granted under the "Infineon Technologies AG 2001 International Long Term Incentive Plan" on the basis of the authorization issued on April 6, 2001, or the holders of subscription rights granted under the "Infineon Technologies AG Share Option Plan 2006" on the basis of the authorization issued on February 16, 2006, choose to exercise their subscription rights.

Conditional Capital 2002

Section 4(6) of the Articles of Association provides that the share capital is conditionally increased by up to €134,000,000 by issuing up to 67,000,000 new no par value registered shares carrying full dividend rights as of the beginning of the fiscal year in which they are issued (Conditional Capital 2002, registered in the Commercial Register as "Conditional Capital 2007/II"). The conditional capital increase serves the purpose of granting shares to the holders of the convertible bond issued in May 2009 by Infineon Technologies Holding B.V., Rotterdam, the Netherlands, which is guaranteed by Infineon Technologies AG. The conditional capital increase is effected only insofar as conversion rights from the convertible bond are exercised or any conversion obligations under these notes are fulfilled. The Management Board is authorized to determine the further details of implementation of the conditional capital increase.

Conditional Capital 2009/I

Section 4(7) of the Articles of Association provides that the share capital is conditionally increased by up to €149,900,000 by issuing up to 74,950,000 new no par value registered shares carrying full dividend rights as of the beginning of the fiscal year in which they are issued (Conditional Capital 2009/I). The conditional capital increase serves the purpose of granting shares to the holders of the convertible bond issued in May 2009 by Infineon Technologies Holding B.V.,

Rotterdam, the Netherlands, which is guaranteed by Infineon Technologies AG. The conditional capital increase is effected only insofar as conversion rights from the convertible bond are exercised or any conversion obligations under these notes are fulfilled.

Conditional Capital 2010/I

Section 4(10) of the Articles of Association provides that the share capital of the Company is conditionally increased by up to a nominal amount of €24,000,000.00 by issuing up to 12,000,000 new no par value registered shares (Conditional Capital 2010/I). The conditional increase in capital is effected only insofar as the holders of subscription rights issued in the period to September 30, 2013 under the "Infineon Technologies AG Stock Option Plan 2010" choose to exercise their subscription rights to Company shares and the Company does not provide a cash settlement or own shares to satisfy these subscription rights. The new shares have dividend rights from the start of the fiscal year of their issue.

Conditional Capital 2010/II

Section 4(11) of the Articles of Association provides that the share capital is conditionally increased by up to €260,000,000.00 by issuing up to 130,000,000 new no par value registered shares carrying a dividend right as of the beginning of the fiscal year in which they are issued (Conditional Capital 2010/II). The conditional capital increase serves the purpose of granting shares to the holders or creditors of bonds with warrants and/or convertible bonds issued by the Company or a subordinated group company against payment in cash on the basis of the authorization of the General Shareholders' Meeting of February 11, 2010. The conditional capital increase is to be effected only insofar as option and/or conversion rights under the bonds are exercised or any conversion obligations under the bonds are fulfilled and insofar as no cash settlement is granted and no own shares are used for servicing. The Management Board is authorized to determine the further details of implementation of the conditional capital increase.

Further details of the various stock option plans are described in the Notes to the Consolidated Financial Statements under No. 32 Share-based Compensation. Further details of the convertible bonds issued or guaranteed by Infineon Technologies AG are described in the Notes to the Consolidated Financial Statements under No. 27 Debt.

AUTHORIZATION TO ISSUE BONDS WITH WARRANTS AND/OR CONVERTIBLE BONDS

By resolution of the General Shareholders' Meeting on February 11, 2010, the Management Board is authorized, in the period until February 10, 2015, once or in partial amounts, to issue bonds with warrants and/or convertible bonds in an aggregate nominal amount of up to €2,000,000,000.00 ("bonds") and to guarantee such bonds issued by subordinated group companies of the Company and to grant the holders of bonds option or conversion rights to in aggregate up to 130,000,000 no par value Company registered shares, representing a notional portion of the share capital of up to €260,000,000.00, in accordance with the relevant terms of the bonds.

The Management Board is authorized, with the approval of the Supervisory Board, to exclude the subscription rights of the shareholders to the bonds,

- if the issue price is not substantially lower than the theoretical market value of the bonds, as determined in accordance with accepted methods of financial mathematics; however this only applies insofar as the shares to be issued to service the option and/or conversion rights established on this basis in aggregate do not exceed 10 percent of the share capital either at the time of this authorization becoming effective or at the time of its exercise.
- in order to exclude fractional amounts resulting from a given subscription ratio from the subscription rights of the shareholders to the bonds or insofar as such action is necessary in order to grant holders of option or conversion rights from bonds with warrants and convertible bonds that have already been or will in future be issued by the Company or its subordinated group companies subscription rights to that extent to which they would be entitled after exercise of their rights or after fulfillment of any conversion obligations.

Even if the dilution protection regulations are applied, the option or conversion price must equal at least 90 percent of the average stock exchange price of the Company's shares in the XETRA closing auction on the Frankfurt Stock Exchange (or a comparable successor system) during the ten stock exchange days prior to the date of adoption of the resolution by the Management Board to issue the bonds, or insofar as shareholders have subscription rights for the bonds, during the days on which subscription rights for the bonds are traded on the Frankfurt Stock Exchange, but excluding the last two stock exchange trading days for such subscription rights. Without prejudice to Section 9 (1) of the German Stock Corporation Act (Aktiengesetz), the option or conversion price may be reduced pursuant to a dilution protection clause in accordance with the terms of the bonds if the Company increases its share capital before the end of the option or conversion period, honoring the subscription rights of the shareholders, or issues or guarantees further bonds and the holders of option rights or the creditors of convertible bonds are not granted subscription rights in this relation. The terms may also provide for a value-preserving adjustment of the

option or conversion price or of the option or conversion rate in the event of other measures potentially leading to a dilution of the commercial value of the option or conversion rights. In any event, the notional portion of the share capital attributable to the shares to be subscribed for each bond may not exceed the nominal value of the bond.

The Management Board is authorized, in accordance with the requirements resolved by the General Shareholders' Meeting, to determine the further details of the issue and features of the bonds and their terms.

PURCHASE OF OWN SHARES

The authorization granted by resolution of the General Shareholders' Meeting on February 12, 2009, to purchase own shares of Infineon Technologies AG expired on August 11, 2010.

SIGNIFICANT AGREEMENTS IN THE EVENT OF A CHANGE OF CONTROL AS A RESULT OF A TAKEOVER BID

The subordinated convertible notes issued by Infineon Technologies AG on May 26, 2009, through its subsidiary Infineon Technologies Holding B.V., Rotterdam, the Netherlands, with a notional amount of €195,600,000 due in 2014 (for further information please refer to the Notes to the Consolidated Financial Statements under No. 27 Debt), contains a so-called change of control clause, which grants the note holders an early redemption option in the event of a change of control as defined.

Furthermore, certain cross-license agreements, development agreements and license agreements contain change of control clauses according to which in the event of a change of control of Infineon the other party shall be entitled to terminate the agreement, or the continuation shall depend on the other party's approval.

AGREEMENTS FOR COMPENSATION IN THE EVENT OF A TAKEOVER BID

If a member of the Management Board resigns or has his contract terminated in the connection with a change of control, the Management Board member currently is entitled to a continuation of his annual target income for the full remaining duration of his service contract and a minimum of two years in the event of resignation/termination of contract by the board member, or a minimum of three years in the event of termination of contract by Infineon Technologies AG. The pension entitlements of the respective Management Board members remain unaffected. In the event of a change of control, however, these rights only persist if there has been no serious breach of duty by the applicable Management Board member. Further details are contained in the compensation report. There are no comparable arrangements for employees.

COMMENTS OF THE MANAGEMENT BOARD ON THE INFORMATION PURSUANT TO SECTION 315, PARAGRAPH 4, OF THE GERMAN COMMERCIAL CODE

The aforementioned authorizations of the Management Board to issue bonds with warrants and/or convertible bonds and to issue new shares from authorized capital are intended to enable the Management Board to raise capital swiftly, flexibly and on economically advantageous terms, taking advantage of attractive financing opportunities whenever they may arise in the market. The issue of stock options backed by conditional capital is a practical option common in German companies in the compensation of employees and board members.

The change of control clause provided for the subordinated convertible bond issued in 2009 reflects the standard market practice for the protection of creditors. The change of control clauses negotiated with the contract partners of Infineon Technologies AG as part of its general business activities are also in line with standard market practice.

The change of control clauses agreed upon with the members of the Management Board are designed to protect the members of the Management Board and maintain their independence in the event of a change of control. These change of control clauses provide that members of the Management Board, if they resign in the event of a change of control, shall be entitled to a continuation of their annual target income for the full remaining duration of their service contract. In particular cases, this may exceed the limit of three years as stipulated in the German Corporate Governance Code. However, the existing contracts with the incumbent members of the Management Board are to be adapted to the new Management Board compensation system adopted by the Supervisory Board at its meeting of November 22, 2010. Thus, in future all Management Board contracts are to include a change-of-control clause in accordance with the recommendation in section 4.2.3 clause 5 of the German Corporate Governance Code.

CORPORATE GOVERNANCE REPORT AND COMPENSATION REPORT

The corporate governance report provided on pages 96 through 101 is an unaudited part of the operating and financial review. The compensation report is provided on pages 102 through 108 and is part of the operating and financial review.

Neubiberg, November 2010

The Management Board
Peter Bauer
Prof. Dr. Hermann Eul
Dr. Reinhard Ploss

CONSOLIDATED FINANCIAL STATEMENTS

41 CONSOLIDATED STATEMENT OF OPERATIONS FOR THE YEAR ENDED SEPTEMBER 30, 2010

€ IN MILLIONS, EXCEPT FOR SHARE DATA

	Notes	2010	2009 adjusted[1]
Revenue		3,295	2,184
Cost of goods sold		(2,058)	(1,687)
Gross profit		1,237	497
Research and development expenses		(399)	(319)
Selling, general and administrative expenses		(386)	(332)
Other operating income	8	18	17
Other operating expense	8	(122)	(46)
Operating income (loss)		348	(183)
Financial income	9	29	101
Financial expense	10	(95)	(154)
Income from investments accounted for using the equity method	19	8	7
Income (loss) from continuing operations before income taxes		290	(229)
Income tax benefit (expense)	11	22	(4)
Income (loss) from continuing operations		312	(233)
Income (loss) from discontinued operations, net of income taxes	6	348	(441)
Net income (loss)		660	(674)
Attributable to:			
Non-controlling interests		1	(48)
Shareholders of Infineon Technologies AG		659	(626)
Basic earnings (loss) per share attributable to shareholders of Infineon Technologies AG in €:			
Basic earnings (loss) per share from continuing operations	12	0.29	(0.27)
Basic earnings (loss) per share from discontinued operations	12	0.32	(0.46)
Basic earnings (loss) per share	12	0.61	(0.73)
Diluted earnings (loss) per share attributable to shareholders of Infineon Technologies AG in €:			
Diluted earnings (loss) per share from continuing operations	12	0.28	(0.27)
Diluted earnings (loss) per share from discontinued operations	12	0.30	(0.46)
Diluted earnings (loss) per share	12	0.58	(0.73)

1 Prior period numbers have been adjusted (see Notes to the Consolidated Financial Statement No. 3).
See accompanying notes to the consolidated financial statements.

42 CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDEND SEPTEMBER 30, 2010

€ IN MILLIONS

	2010	2009 adjusted[1]
Net income (loss)	660	(674)
Currency translation effects	13	185
Actuarial gains (losses) on pension plans and similar commitments	(92)	(66)
Net change in fair value of available-for-sale financial assets	2	4
Net change in fair value of cash flow hedges	10	8
Other comprehensive income (loss) for the year, net of tax	(67)	131
Total comprehensive income (loss) for the year, net of tax	593	(543)
Attributable to:		
Non-controlling interests	1	(8)
Shareholders of Infineon Technologies AG	592	(535)

1 Prior period numbers have been adjusted (see Notes to the Consolidated Financial Statement No. 3).
See accompanying notes to the consolidated financial statements.

43 CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS OF SEPTEMBER 30, 2010
€ IN MILLIONS

	Notes	Sep 30, 2010	Sep 30, 2009 adjusted[1]	Oct 1, 2008 adjusted[1]
ASSETS:				
Current assets:				
Cash and cash equivalents		1,667	1,414	749
Available-for-sale financial assets	13	60	93	134
Trade and other receivables	14	687	514	799
Inventories	15	514	460	665
Income tax receivable		7	11	29
Other current financial assets	16	72	26	19
Other current assets	17	88	114	124
Assets classified as held for sale	6	495	112	2,129
Total current assets		3,590	2,744	4,648
Property, plant and equipment	18	838	928	1,310
Goodwill and other intangible assets	22	87	369	443
Investments accounted for using the equity method	19	35	27	20
Deferred tax assets	11	308	156	163
Other financial assets	20	119	124	144
Other assets	21	16	18	17
Total assets		4,993	4,366	6,745

1 Prior period numbers have been adjusted (see Notes to the Consolidated Financial Statement No. 3).
See accompanying notes to the consolidated financial statements.

44 CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS OF SEPTEMBER 30, 2010
€ IN MILLIONS

	Notes	Sep 30, 2010	Sep 30, 2009 adjusted[1]	Oct 1, 2008 adjusted[1]
LIABILITIES AND EQUITY:				
Current liabilities:				
Short-term debt and current maturities of long-term debt	27	133	521	207
Trade and other payables	23	665	393	506
Current provisions	24	553	436	424
Income tax payable		111	102	87
Other current financial liabilities	25	16	50	63
Other current liabilities	26	153	147	263
Liabilities classified as held for sale	6	177	9	2,123
Total current liabilities		1,808	1,658	3,673
Long-term debt	27	263	329	963
Pension plans and similar commitments	35	146	94	43
Deferred tax liabilities	11	11	13	19
Long-term provisions	24	55	89	27
Other financial liabilities	28	6	5	20
Other liabilities	29	79	85	76
Total liabilities		2,368	2,273	4,821
Shareholders' equity:	30			
Ordinary share capital		2,173	2,173	1,499
Additional paid-in capital		6,048	6,048	6,008
Accumulated deficit		(5,613)	(6,180)	(5,489)
Other reserves		17	(8)	(164)
Total equity attributable to shareholders of Infineon Technologies AG		2,625	2,033	1,854
Non-controlling interests		–	60	70
Total equity		2,625	2,093	1,924
Total liabilities and equity		4,993	4,366	6,745

1 Prior period numbers have been adjusted (see Notes to the Consolidated Financial Statement No. 3).
See accompanying notes to the consolidated financial statements.

45 CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED SEPTEMBER 30, 2010

€ IN MILLIONS

	2010	2009 adjusted[1]
Net income (loss)	660	(674)
Less: net loss (income) from discontinued operations, net of income taxes	(348)	441
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	336	453
Provision for (recovery of) doubtful accounts	3	(7)
Losses (gains) on sales of available-for-sale financial assets	(2)	3
Losses (gains) on sales of businesses and interests in subsidiaries	(3)	16
Losses in connection with the deconsolidation of ALTIS	55	–
Losses (gains) on disposals of property, plant and equipment	(3)	1
Income from investments accounted for using the equity method	(8)	(7)
Dividends received from associated companies	7	–
Impairment charges	12	1
Share-based compensation	–	2
Deferred income taxes	(68)	(3)
Changes in operating assets and liabilities:		
Trade and other receivables	(151)	149
Inventories	(42)	134
Other current assets	16	(10)
Trade and other payables	272	(83)
Provisions	96	(105)
Other current liabilities	134	(24)
Other assets and liabilities	60	7
Interest received	13	21
Interest paid	(44)	(49)
Income tax received (paid)	(37)	16
Net cash provided by operating activities from continuing operations	958	282
Net cash used in operating activities from discontinued operations	(11)	(394)
Net cash provided by (used in) operating activities	947	(112)

1 Prior period numbers have been adjusted (see Notes to the Consolidated Financial Statement No. 3).
See accompanying notes to the consolidated financial statements.

46 CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED SEPTEMBER 30, 2010
€ IN MILLIONS

	2010	2009 adjusted[1]
Cash flows from investing activities:		
Purchases of available-for-sale financial assets	(375)	(31)
Proceeds from sales of available-for-sale financial assets	405	64
Proceeds from sales of businesses and interests in subsidiaries	2	4
Cash decrease from the deconsolidation of ALTIS	(88)	–
Purchases of intangible assets, and other assets	(33)	(18)
Purchases of property, plant and equipment	(292)	(97)
Proceeds from sales of property, plant and equipment, and other assets	26	103
Net cash provided by (used in) investing activities from continuing operations	(355)	25
Net cash provided by (used in) investing activities from discontinued operations	147	(12)
Net cash provided by (used in) investing activities	(208)	13
Cash flows from financing activities:		
Net change in related party financial receivables and payables	1	(1)
Proceeds from issuance of long-term debt	4	182
Repayments of long-term debt	(493)	(455)
Change in restricted cash	1	(7)
Proceeds from issuance of ordinary shares	–	680
Dividend payments to non-controlling interests	–	(3)
Capital contribution	–	(5)
Net cash provided by (used in) financing activities from continuing operations	(487)	391
Net cash provided by (used in) financing activities from discontinued operations	–	(40)
Net cash provided by (used in) financing activities	(487)	351
Net increase (decrease) in cash and cash equivalents	252	252
Effect of foreign exchange rate changes on cash and cash equivalents	1	(8)
Cash and cash equivalents at beginning of period[2]	1,414	1,170
Cash and cash equivalents at end of period	1,667	1,414

1 Prior period numbers have been adjusted (see Notes to the Consolidated Financial Statement No. 3)
2 Of the €1,170 million as of September 30, 2008, €421 million relates to Qimonda and was classified as "held for sale".
See accompanying notes to the consolidated financial statements.

47 CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED SEPTEMBER 30, 2010

€ IN MILLIONS, EXCEPT FOR SHARE DATA

	Ordinary shares issued			
	Shares	Amount	Additional paid-in capital	
Balance as of October 1, 2008 (reported)	749,742,085	1,499	6,008	
Re-presentation in accordance with IAS 8	–	–	–	
Balance as of October 1, 2008 (adjusted)	749,742,085	1,499	6,008	
Net income (loss)	–	–	–	
Other comprehensive income for the year, net of tax	–	–	–	
Total comprehensive income for the year, net of tax	–	–	–	
Issuance of ordinary shares:				
Proceeds from public offering	337,000,000	674	6	
Share based compensation	–	–	3	
Other changes in equity	–	–	31	
Balance as of September 30, 2009 (adjusted)	1,086,742,085	2,173	6,048	
Net income	–	–	–	
Other comprehensive income for the year, net of tax	–	–	–	
Total comprehensive income for the year, net of tax	–	–	–	
Deconsolidation of ALTIS	–	–	–	
Balance as of September 30, 2010	1,086,742,085	2,173	6,048	

See accompanying notes to the consolidated financial statements.

	Other reserves					
Accumulated deficit	Foreign currency translation adjustment	Unrealized gain (loss) on securities	Unrealized gains (losses) on cash flow hedge	Total equity attributable to shareholders of Infineon Technologies AG	Non-controlling interests	**Total equity**
(5,252)	(142)	(3)	(19)	2,091	70	2,161
(237)	–	–	–	(237)	–	(237)
(5,489)	(142)	(3)	(19)	1,854	70	1,924
(626)	–	–	–	(626)	(48)	(674)
(65)	145	4	7	91	40	131
(691)	145	4	7	(535)	(8)	(543)
–	–	–	–	680	–	680
–	–	–	–	3	–	3
–	–	–	–	31	(2)	29
(6,180)	3	1	(12)	2,033	60	2,093
659	–	–	–	659	1	660
(92)	13	2	10	(67)	–	(67)
567	13	2	10	592	1	593
–	–	–	–	–	(61)	(61)
(5,613)	16	3	(2)	2,625	–	2,625

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1 / DESCRIPTION OF THE BUSINESS AND BASIS OF PRESENTATION

DESCRIPTION OF THE BUSINESS

Infineon Technologies AG and its subsidiaries (collectively, "Infineon" or the "Company") design, develop, manufacture and market a broad range of semiconductors and complete systems solutions used in a wide variety of microelectronic applications, including computer systems, telecommunications systems, consumer goods, automotive products, industrial automation and control systems, and chip card applications. The Company's products include standard commodity components, full-custom devices, semi-custom devices and application-specific components for memory, analog, digital and mixed-signal applications. The Company has operations, investments and customers located mainly in Europe, Asia and North America.

The principal office of the Company is Am Campeon 1 – 12, 85579 Neubiberg, Federal Republic of Germany. The Company is registered in the Commercial Register of the District Court of Munich under the number HRB 126492.

BASIS OF PRESENTATION

The accompanying consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") and related interpretations effective as of September 30, 2010 as issued by the International Accounting Standards Board ("IASB") to the extent such IFRS and interpretations have been adopted by the European Union ("EU"). The consolidated financial statements also comply with the requirements set forth in section 315a paragraph 1 of the German Commercial Code ("Handelsgesetzbuch" or "HGB"). The fiscal year-end for the Company is September 30.

The Management Board of the Company approved the consolidated financial statements of the Company on November 22, 2010, for submission to the Company's Supervisory Board.

All amounts herein are shown in Euro (or "€") except where otherwise stated.

Deviations among amounts presented in the consolidated financial statements are possible due to rounding.

2 / SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The following is a summary of significant accounting policies followed in the preparation of the accompanying consolidated financial statements.

BASIS OF CONSOLIDATION

These consolidated financial statements, including Infineon Technologies AG and entities held for sale, include the following numbers of entities during the 2010 and 2009 fiscal years:

	Consolidated entities	Investments accounted for using the equity method	Total
September 30, 2008	73	7	80
Additions	–	–	–
Disposals	(33)	(5)	(38)
September 30, 2009	40	2	42
Additions	2	2	4
Disposals	(2)	(1)	(3)
September 30, 2010	40	3	43

SCOPE OF CONSOLIDATION

The accompanying consolidated financial statements include the financial statements of Infineon Technologies AG and its subsidiaries that are directly or indirectly controlled on a consolidated basis. Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities and is generally conveyed by ownership of the majority of voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Company controls another entity. Additionally, the Company consolidates special purpose entities ("SPEs") pursuant to the Standing Interpretations Committee ("SIC") Interpretation SIC-12 "Consolidation — Special Purpose Entities" where the substance of the relationship indicates that the Company controls the SPE.

The effects of all significant intercompany transactions are eliminated.

The Company deconsolidates a subsidiary when it loses the right to control the financial and operating policies of such entity and no longer benefits from such entity's activities, e.g., through a sale of all or a portion of the shares of a subsidiary. Furthermore, for example, the Company could lose control of an entity that is subject to insolvency proceedings.

EQUITY METHOD INVESTMENTS

The Company uses the equity method to account for its investments in Associates and Joint Ventures (as defined below) (collectively, "Equity Method Investments"; see note 19):

(A) ASSOCIATES

An "Associate" is an entity in which the Company has significant influence, but not a controlling interest, over the operating and financial management policy decisions of the entity. Significant influence is generally presumed when the Company holds between 20 percent and 50 percent of the voting rights.

(B) JOINT VENTURES

A "Joint Venture" is a contractual arrangement whereby two or more parties undertake an economic activity that is subject to joint control. Interests in jointly controlled entities are accounted for using the equity method.

Equity Method

Under the equity method of accounting, the Company's investments in Associates and Joint Ventures are initially recorded at cost, and subsequently increased (or decreased) to reflect both the Company's pro-rata share of the post-acquisition net income (loss) of the Equity Method Investment and other movements included directly in the Equity Method Investment's equity. Goodwill arising from the acquisition of an Equity Method Investment is included in the carrying value of the investment (net of accumulated impairment losses). Pro-rata losses in excess of the Company's carrying value of the investment in the entity are charged against other assets held by the Company related to the investee. If those assets are written down to zero, a determination is made whether to provide for additional losses based on the Company's obligation to fund such losses.

The effects of all significant transactions between the Company and the Equity Method Investment are eliminated to the extent of the Company's interest in the Equity Method Investment.

When Equity Method Investment's fiscal year-ends differ by not more than three months from the Company's fiscal year-end, the Company's share of the profit or loss of the Equity Method Investment is recorded on a lag.

Gains or losses arising from the issuances of shares by Equity Method Investments and the related changes in the Company's proportionate share of the value of the issuer's equity are recognized in profit and loss.

Other equity investments, where the Company has an ownership interest in the entity of less than 20 percent, are recorded at cost if a fair value cannot be reliably determined.

REPORTING CURRENCY AND FOREIGN CURRENCY TRANSLATION

The currency of the primary economic environment in which the Infineon Technologies AG operates, that is its functional currency, is the Euro. The accompanying consolidated financial statements are presented in Euro, which is the Company's reporting currency.

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the consolidated statements of operations.

The assets and liabilities of foreign subsidiaries with functional currencies other than the Euro are translated using period-end exchange rates. The revenues and expenses of such subsidiaries are translated using average exchange rates during the period in cases where exchange rates do not fluctuate significantly. Exchange differences arising from the translation of assets and liabilities in comparison with the translations reported in the previous periods are included in income and expense recognized directly in equity and reported as a component of "other reserves" within equity.

The exchange rates of the primary currencies (€1.00 quoted in currencies specified below) used in the preparation of the accompanying consolidated financial statements are as follows:

€1.00 quoted into currencies	Exchange rate		Annual average exchange rate	
	September 30, 2010	September 30, 2009	**2010**	2009
U.S. dollar	1.3611	1.4549	1.3476	1.3593
Japanese yen	113.8500	130.9100	120.1646	128.8580

SEGMENT REPORTING

IFRS 8, "Operating Segments" requires an entity to report financial and descriptive information about its reportable segments. Reportable segments are operating segments or aggregations of operating segments that meet specified criteria. Operating segments are components of an entity for which separate financial information is available that is evaluated regularly by the entity's Chief Operating Decision Maker ("CODM") in making decisions about how to allocate resources and in assessing performance. Generally, financial information is required to be reported on the same basis as it is used internally for evaluating operating segment performance and deciding how to allocate resources to operating segments. Each of the segments has two segment managers reporting directly to the Company's Management Board, who has been identified as the relevant CODM.

REVENUE RECOGNITION

Revenue is generated from the sale of goods and services in the ordinary course of the Company's activities. Measurement is based on the fair value of the consideration received or receivable.

REVENUE

The Company generates revenues from the sale of its semiconductor products and systems solutions. The Company's semiconductor products include a wide array of chips and components used in electronic applications ranging from automotive electronics and industrial applications, to chip cards. In addition, the Company generates a small portion of its revenues from granting licenses over its intellectual property to third parties. Infineon generates an insignificant amount of its revenue from development or product enhancement arrangements.

Revenues from products sold are recognized in accordance with IAS 18, "Revenue", when the conditions for revenue recognition are met, which in particular require that persuasive evidence of an arrangement exists, delivery has occurred or services have been rendered, the risks and rewards of ownership have been transferred to the customer, the amount of revenue can be measured reliably, and collection of the related receivable is reasonably assured.

The Company recognizes revenue on sales to distributors generally by using the "sell in" method (i.e. when product is sold to the distributor). In accordance with established business practice in the semiconductor industry, under certain circumstances distributors can apply for price protection. Under price protection, a credit may be provided to the distributor if the Company reduces its price on products held in the distributor's inventory. In addition, a distributor can apply for a ship & debit credit when the distributor wishes to reduce the sales price to an end customer on a specific sales transaction. The authorization of the distributor's refund remains fully within the control of the Company. The Company calculates the provision for price protection in the same period the related revenue is recorded based on historical price trends and sales rebates, analysis of credit memo data, specific information contained in the price protection agreement, and other factors known at the time. The historical price trend is determined based on the difference between the invoiced price and the standard list price to the distributor. The inventory turnover, the visibility into the standard inventory pricing for standard products, and the long distributor pricing history enables the Company to reliably estimate price protection provisions. The Company monitors potential price adjustments on an ongoing basis.

In addition, distributors can, in certain cases, also apply for stock rotation and scrap allowances. Allowances for stock rotation returns are accrued based on expected stock rotation as per the contractual agreement. Distributor scrap allowances are accrued based on the contractual agreement and, upon authorization of the claim, reimbursed up to a certain maximum of the average inventory value. Historically, actual returns under such return provisions have been insignificant. The Company monitors such product returns on an ongoing basis.

In some cases, rebate programs are offered to specific customers or distributors whereby the customer or distributor may apply for a rebate upon achievement of a defined sales volume. Distributors are also partially compensated for commonly defined cooperative advertising on a case-by-case basis.

Other returns are permitted only for quality-related reasons in the normal course of business within the applicable warranty period. The Company records a provision for warranty costs as a charge to cost of sales, based on historical experience and any other warranty costs that are known.

LICENSE INCOME

License income is recognized when earned. Lump sum payments received are generally non-refundable and are deferred where applicable and recognized over the period in which the Company is obliged to provide additional services.

In accordance with IAS 18, revenues from contracts with multiple elements are recognized as each element is earned based on the relative fair value of each element and when there are no undelivered elements that are essential to the functionality of the delivered elements and when the amount is not contingent upon delivery of the undelivered elements. Arrangements with multiple elements are infrequent and related revenues are insignificant.

Royalties are recognized as earned.

RESEARCH AND DEVELOPMENT COSTS

Costs of research activities undertaken with the prospect of gaining new scientific or technical knowledge and understanding are expensed as incurred.

Costs for development activities, the results of which are applied to a plan or design for the production of new or substantially improved products and processes, are capitalized if development costs can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable, and the Company intends, and has sufficient resources, to complete development and use or sell the asset. The costs capitalized include the cost of materials, direct labor and directly attributable general overhead expenditure that serves to prepare the asset for use. Such capitalized costs are presented as internally generated intangible assets within "goodwill and other intangible assets" (see note 22). Development costs which do not fulfill the criteria for capitalization are expensed as incurred. Capitalized development costs are stated at cost less accumulated amortization and, if applicable, impairment charges. Internally generated intangible assets are amortized as part of cost of sales over a period of three to five years.

Capitalized development costs are reviewed for impairment annually as long as amortization over the expected useful life has not begun.

GRANTS

Grants for capital expenditures include both tax-free government grants and taxable grants for investments in property, plant and equipment. The recognition of the grant starts when it is reasonably assured that the Company will comply with the conditions attached to the grant and when it is reasonably assured that the grant will be received. Tax-free government grants are deferred and recognized over the remaining useful life of the related asset. Taxable grants are deducted from the acquisition costs of the related asset and thereby reduce depreciation expense in future periods. Grants that are related to expenditures included in profit or loss are presented as a reduction of the related expense in the consolidated statement of operations (see note 7).

SHARE-BASED COMPENSATION

The Company has equity-settled share-based compensation plans.

The fair value of the employee services received in exchange for share option awards is recognized as an expense. The total amount to be expensed over the vesting period is determined by reference to the fair value of the share option awards granted, excluding the impact of any non-market vesting conditions. Non-market vesting conditions are included in assumptions about the number of share option awards that are expected to vest. At each balance sheet date, the Company revises its estimate of the number of share option awards that are expected to vest. The Company recognizes the impact of the revision to original estimates in the consolidated statement of operations, with a corresponding adjustment to equity.

The proceeds received net of any directly attributable transaction costs are credited to ordinary share capital and additional paid-in capital when the share options are exercised.

FINANCIAL INSTRUMENTS

According to IAS 32, "Financial Instruments: Presentation", a financial instrument is defined as any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity. Financial instruments which contain both an equity and a liability component are classified in accordance with IAS 32, and if applicable, bifurcated in an equity and a liability component.

Financial instruments are initially recognized at fair value. Transaction costs directly attributable to the acquisition or issuance of financial instruments are only recognized in determining the carrying amount if the financial instruments are not measured at fair value through profit or loss. Financial assets are derecognized when the rights to receive cash flows from the investments have expired or have been transferred and the Company has transferred substantially all risks and rewards of ownership. Financial liabilities are derecognized when they are extinguished, that is when the obligation specified in the respective contract is discharged, cancelled, or has expired.

FINANCIAL ASSETS

The Company classifies financial assets in the following categories: at fair value through profit or loss, loans and receivables, and available-for-sale. Management determines the classification of its financial instruments at initial recognition.

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, unless maturity is more than 12 months at the balance sheet date. In this case, they are included in non-current assets. Loans and receivables of the Company include the items "cash and cash equivalents" as well as "trade and other receivables". Loans and receivables are measured at carrying amounts under consideration of the effective interest method.

Cash and cash equivalents represent cash, deposits and liquid short-term investments with original maturities of three months or less.

Trade and other receivables are measured at fair value less transaction cost at initial recognition. Trade and other receivables are subject to impairment testing. They are considered impaired when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of the receivables. Objective evidence that indicates an impairment would include, for example known financial difficulties or the insolvency of a customer. The impairment is recognized via an allowance account unless the Company is satisfied that no recovery of amounts is possible. At that point the amounts are considered unrecoverable and are written off against the corresponding financial asset directly.

Available-for-sale financial assets are non-derivative financial instruments that are designated in this category or not classified in any of the other categories.

Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently measured at fair value.

Gains or losses arising from changes in the fair value of available-for-sale financial assets are recognized directly in equity with the exception of impairment losses, which are recognized in profit or loss. When financial assets classified as available-for-sale are sold or impaired, the accumulated fair value adjustments previously recognized in equity are reclassified in profit or loss.

The Company assesses declines in fair value at each balance sheet date to determine whether there is objective evidence that a financial asset or group of financial assets is impaired. In the case of available-for-sale financial assets, a significant or prolonged decline in the fair value of the financial asset below its cost is considered as an indicator that the assets are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss that had been recognized directly in equity — measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in profit or loss — is removed from equity and recognized in profit or loss.

Regular purchases and sales of financial assets are recognized on the settlement date. The settlement date is the date that an asset is delivered to or by the Company.

FINANCIAL LIABILITIES

Generally, the Company classifies its financial liabilities in two categories: at fair value through profit and loss and other financial liabilities.

Financial liabilities at fair value through profit or loss are financial liabilities held for trading or designated in such category upon initial recognition. The Company's only financial liabilities that are measured at fair value through profit or loss are derivative financial instruments with a negative fair value as of the balance sheet date.

All other financial liabilities, including trade and other payables and debt instruments, including the debt component of compound instruments (e.g. the subordinated convertible notes issued by the Company), are measured at amortized cost using the effective interest method.

DERIVATIVE FINANCIAL INSTRUMENTS

The Company operates internationally, giving rise to exposure to changes in foreign currency exchange rates. The Company uses financial instruments, including derivatives such as foreign currency forward and option contracts as well as interest rate swap agreements.

Derivative financial instruments are categorized as held for trading and measured at fair value unless they are designated as hedging instruments. The Company designates certain derivative financial instruments as hedging instruments of a foreign currency risk associated with highly probable forecast transactions (cash flow hedges).

Derivative financial instruments are measured at their fair value and included in other current financial assets or other current financial liabilities. Changes in fair value of undesignated derivative financial instruments that relate to operations are recorded as part of cost of sales, while undesignated derivative financial instruments relating to financing activities are recorded in financial income or financial expense.

The effective portion of changes in the fair value of derivative financial instruments that are designated and qualify as cash flow hedges is recognized in equity. The gain or loss relating to the ineffective portion is recognized immediately in profit or loss. Amounts accumulated in equity are recycled in profit or loss in the periods when the hedged item affects profit or loss (that is when the forecasted transaction that is hedged takes place).

When a hedging instrument expires or is sold, or when a hedging relationship no longer meets the criteria for hedge accounting, any cumulative gain or loss existing at that time remains in equity and is recognized when the forecasted transaction is ultimately recognized in profit or loss. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to profit or loss.

INVENTORIES

In accordance with IAS 2, "Inventories", inventories encompass assets held for sale in the ordinary course of business (finished goods and goods purchased for resale), in the process of production for such sale (work in process) or in the form of materials or supplies to be consumed in the production process or in the rendering of services (raw materials and supplies). Inventories are measured at the lower of acquisition or production cost – calculated by the weighted-average method – and net realizable value, which is determined as realizable sale proceeds under normal business conditions less estimated cost to complete and selling expenses. Production cost consists of purchased component costs and manufacturing costs, which comprise direct material and labor and applicable manufacturing overheads, including depreciation charges.

CURRENT AND DEFERRED INCOME TAXES

The current income tax charge is calculated on the basis of the tax laws enacted at the balance sheet date in the countries in which the Company operates and generates taxable income.

Deferred taxes are determined in accordance with IAS 12, "Income Taxes", according to which future tax benefits and liabilities are recognized for temporary differences between the carrying amounts of assets or liabilities in the consolidated financial statements and their tax bases. However, deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit nor loss. Deferred income tax assets and liabilities are measured using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

Anticipated tax savings from the use of tax loss carry-forwards expected to be recoverable in future periods are capitalized as deferred tax assets. Deferred tax assets in respect of deductible temporary differences and tax loss carry-forwards exceeding the deferred tax liabilities in respect of taxable temporary differences are recognized only to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilized. Deferred tax assets and liabilities are not discounted.

Deferred tax assets and deferred tax liabilities are netted if these income tax assets and liabilities concern the same tax authority and refer to the same tax subject or a group of different tax subjects that are jointly assessed for income tax purposes.

DISCONTINUED OPERATIONS

Discontinued operations are reported when a component of an entity either has been disposed of, or is classified as held for sale, and (a) represents a separate major line of business or geographical area of operations, (b) is part of a single coordinated plan to dispose of a separate major line of business or geographical area of operations or (c) is a subsidiary acquired exclusively with view to resale. Discontinued operations are presented in separate line items in the accompanying consolidated statements of operations and consolidated statements of cash flows. These statements have been recast for the prior period so that the disclosures relate to all operations that have been classified as discontinued operations as of the reporting date.

ASSETS CLASSIFIED AS HELD FOR SALE AND LIABILITIES ASSOCIATED WITH ASSETS CLASSIFIED AS HELD FOR SALE

Assets classified as held for sale comprise noncurrent assets and disposal groups (net of any related liabilities), the carrying amounts of which will be realized primarily by way of a highly probable divestment transaction within the next twelve months or an already executed divestment transaction, and not through continued use. Such assets are measured at the balance sheet date at the lower of the carrying amount and the fair value less costs to sell and reclassified to a separate caption within current assets and current liabilities. Corresponding figures for the previous period are not adjusted.

PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment is measured at the cost of acquisition or construction and depreciated over its estimated useful life. An impairment loss is recognized in addition if an asset's value falls below the depreciated cost of acquisition or construction. Construction in progress includes advance payments for construction of fixed assets.

The cost of acquisition comprises the acquisition price plus ancillary and subsequent acquisition costs, less any reduction received on the acquisition price. The cost of self-constructed property, plant and equipment comprises the direct cost of materials, direct manufacturing expenses, appropriate allocations of material and manufacturing overheads. Where an obligation exists to dismantle or remove an asset or restore a site to its former condition at the end of its useful life, the present value of the related future payments is capitalized along with the cost of acquisition or construction upon completion and a corresponding liability is recognized.

If the construction phase of property, plant or equipment extends over a long period, the interest incurred on borrowed capital up to the date of completion is capitalized as part of the cost of acquisition or construction in accordance with IAS 23, "Borrowing Costs". No interest was capitalized in the fiscal years ended September 30, 2010 and 2009.

Expenses for the repair of property, plant and equipment, such as ongoing maintenance costs, are generally recognized in income. The cost of acquisition or construction is capitalized if a repair (such as a complete overhaul of technical equipment) will result in future economic benefits.

Property, plant and equipment is depreciated using the straight-line method. Land and construction in progress are not depreciated. The following depreciation periods, based on the estimated useful lives of the respective assets, are applied consistently throughout the Group:

	Years
Buildings	10 – 25
Technical equipment and machinery	3 – 10
Other plant and office equipment	1 – 10

Declines in value that go beyond regular depreciation and are expected to be permanent are accounted for by an impairment. Corresponding reversals are made where the reasons for previous impairments no longer exist, provided that the reversal does not cause the carrying amount to exceed the cost of acquisition less accumulated depreciation.

When assets are sold, closed down or scrapped, the difference between the net proceeds and the carrying amount of the assets is recognized as a gain or loss in other operating income or expenses, respectively.

The Company does not apply the revaluation model as described in IAS 16, "Property, plant and equipment".

Property, plant and equipment classified as „held for sale" is measured at the lower of the carrying amount and the fair value less cost to sell. No regular depreciation or amortization is recognized for such property, plant and equipment.

INVESTMENT PROPERTIES

The Company does not own any investment properties, and therefore does not apply IAS 40, "Investment properties".

LEASES

The Company is a lessee of property, plant and equipment. All leases where the Company is lessee that meet certain specified criteria intended to represent situations where the substantive risks and rewards of ownership have been transferred to the lessee are accounted for as finance leases pursuant to IAS 17, "Leases". All other leases are accounted for as operating leases.

RECOVERABILITY OF INTANGIBLE ASSETS AND OTHER LONG-LIVED ASSETS

GOODWILL AND OTHER INTANGIBLE ASSETS

Goodwill is the excess of the cost of a business combination over the net fair value of the identifiable assets, liabilities and contingent liabilities of the acquiree at the date of acquisition. Goodwill arising from acquisitions of subsidiaries is included in goodwill and other intangible assets in the accompanying consolidated statement of financial position. Goodwill arising from acquisitions of Associates is included in investments accounted for using the equity method and is tested for impairment as part of the overall balance. Intangible assets acquired in a business combination are recognized and reported apart from goodwill.

Goodwill is not amortized, but instead tested for impairment annually in the fourth quarter of the fiscal year as well as whenever there are events or changes in circumstances ("triggering events") which suggest that the carrying amount may not be recoverable. Goodwill is carried at cost less any accumulated impairment losses. Goodwill acquired in a business combination is allocated to the cash-generating units ("CGU") that are expected to benefit from the combination. Infineon's CGUs represent the lowest level at which the goodwill is monitored for internal management purposes. This level is beneath the segment level and represents the smallest group of assets that generate cash inflows from continuing use that are largely independent of the cash inflows of other assets or asset groups. The remaining goodwill, after the reclassification of the goodwill attributable to the Wireless Solutions segment into "assets classified as held for sale", is primarily attributable to one CGU of the Industrial & Multimarket segment. If the carrying amount of the CGU including allocated goodwill exceeds its recoverable amount, the allocated goodwill must be reduced accordingly. The recoverable amount of a CGU is the higher of its fair value less costs to sell and its value in use. An impairment loss recognized for goodwill is not reversed in a subsequent period. The determination of the recoverable amount of the CGUs requires considerable judgment by management.

The Company determines the recoverable amount of a CGU based on discounted cash flow calculations. The Company believes that this is the most meaningful method, in order to reflect the cyclicality of the industry and to determine the recoverable amount of the CGUs. The material assumptions underlying the Company's discounted cash flow model used for all of Infineon's CGUs include the weighted average cost of capital ("WACC") as well as the terminal growth rate of the CGUs. The calculation of the discount rate is based on a market participant's view. In accordance with IAS 36, the Company determines the appropriate WACC for the CGUs based on market information, including Infineon's peer group's beta factors and leverage, and other market borrowing rates. The terminal value growth rate is based on publicly available market studies from market research institutes. Goodwill which is reclassified as held for sale as of September 30, 2010, due to the proposed sale of the Wireless mobile phone business was tested for impairment in the 2010 fiscal year based on the fair value less cost to sell. The fair value less cost to sell was determined using the selling price for the Wireless mobile phone business less cost to sell.

The assumptions used in fiscal years 2010 and 2009 reflected market-driven changes but did not differ significantly.

Cash flows for the determination of the recoverable amount of the CGUs were projected based on past experience, actual operating results, and the 5-year business plan. The business plan is calculated bottom up based on certain central assumptions used consistently throughout the Group.

Certain cash flow parameters (depreciation/amortization, tax, capital expenditures, change in working capital) are calculated based on defined parameters. Cash flows for periods beyond the planning horizon are calculated using a terminal value.

In the 2010 fiscal year, an after-tax discount rate of 8.5 percent was applied in determining the recoverable amount of the relevant cash generating unit. The discount rate was calculated based on the Company's WACC. In the 2010 fiscal year, a terminal growth rate of 3 percent was used, which does not exceed the historical long-term average growth rate for the industry.

In addition, the individual impairment tests include sensitivity analyses taking into account the WACC, the terminal growth rate as well as changes in the expected cash flows. These parameters were also subsequently reviewed prior to the approval of the consolidated financial statements by the Management Board.

Other intangible assets consist primarily of purchased intangible assets, such as licenses and purchased technology, which are recorded initially at acquisition cost, as well as capitalized development costs. These intangible assets have finite useful lives ranging from 3 to 10 years and are carried at cost less accumulated amortization using the straight-line method.

OTHER LONG-LIVED ASSETS

The Company reviews all other long-lived assets, including property, plant and equipment, for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of the asset to the recoverable amount, which is the higher of the asset's value in use and its fair value less costs to sell. Estimated value in use is generally based on discounted estimated future cash flows. Considerable management judgment is necessary to estimate discounted future cash flows.

If such assets are considered to be impaired, the impairment recognized is measured as the amount by which the carrying value of the assets exceeds their recoverable amount. An impairment loss recognized in prior periods for an asset other than goodwill will be revised if there has been a change in estimates used to determine the asset's recoverable amounts since the last impairment loss was recognized. The maximum reversal of an impairment loss would lead to the carrying amount that would have been determined (net of amortization or depreciation) if no impairment loss had been recognized for that asset in prior years.

PENSION PLANS AND SIMILAR COMMITMENTS

The Company operates various pension plans. The plans are generally funded through payments to trustee-administered funds, determined by periodic actuarial calculations. The Company has both defined benefit and defined contribution plans.

A defined contribution plan is a pension plan under which the Company pays fixed contributions into a separate entity (a fund). The Company therefore has no legal or constructive obligation to pay further contributions if one of its defined contribution plans does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods.

The Company pays contributions to publicly and privately administered pension insurance plans. The Company has no further payment obligations once the contributions have been paid. The contributions are recognized as employee benefit expense when they are due. The Company records a liability for amounts payable under the provisions of its various defined contribution plans. Prepaid contributions are recognized as an asset to the extent that a cash refund or a reduction in the future payments is available.

A defined benefit plan is a pension plan that is not a defined contribution plan. The liability recognized in the statement of financial position in respect of defined benefit pension plans is the present value of the defined benefit obligation at the balance sheet date less the fair value of the plan assets, together with adjustments for past service costs. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid and that have remaining maturities approximating the terms of the related pension liability.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are recognized outside profit or loss directly in equity as allowed by IAS 19. Such adjustments are presented within the Statement of Comprehensive Income in the period in which they occur. Alternatively, actuarial gains and losses could be recognized in profit or loss based on the so called "corridor-approach" or by any other systematic method that results in a faster recognition of actuarial gains and losses in profit or loss. If the Company were to use one of these alternatives, actuarial gains and losses would have an impact on the Company's statement of operations, resulting in corresponding volatility. The interest component included in the pension-related expenses for additions to the defined benefit provision is recognized as part of financial expenses.

Past-service costs are recognized immediately in profit or loss, unless the changes to the pension plan are conditional on the employees remaining in service for a specified period of time (the vesting period). In this case, the past-service costs are amortized on a straight-line basis over the vesting period.

PROVISIONS

Provisions are recognized for present legal and constructive obligations arising from past events that will likely result in a future outflow of resources, provided that a reliable estimate can be made of the amount of the obligations.

Provisions are measured in accordance with IAS 37, "Provisions, Contingent Liabilities and Contingent Assets", or, where applicable, IAS 19, "Employee Benefits". Where the cash outflow to settle an obligation is expected to occur after more than one year, and if the effect of the time value of money is considered material, the provision is recognized at the present value of the expected cash outflow using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. In estimating the future outflow of economic benefits, the Company also includes inflation assumptions, if applicable. Provisions for onerous contracts are measured at the lower of the expected cost of fulfilling the contract and the expected cost of terminating the contract. Additions to provisions are generally recognized in profit or loss.

Claims for reimbursements from third parties are capitalized separately if their realization is virtually certain.

If the projected obligation decreases as a result of a change in the estimate, the provision is reversed by the corresponding amount and the resulting income recognized in the operating expense item(s) in which the original charge was recognized.

STANDARDS ADOPTED IN THE 2010 FISCAL YEAR

In September 2007, the IASB issued an amendment to IAS 1, "Presentation of Financial Statements". The revision is aimed at improving users' ability to analyze and compare the information given in financial statements. IAS 1 sets overall requirements for the presentation of financial statements, guidelines for their structure and minimum requirements for their content. The Company adopted the amendment as of October 1, 2009. As a consequence the Company renamed the balance sheet to "Statement of Financial Position" and introduced the new "Statement of Comprehensive Income", which presents all changes in comprehensive income including other comprehensive income and replaces the "Statement of Income and Expense recognized in Equity". Changes in equity are shown in a separate "Statement of Changes in Equity".

In January 2008, the IASB published the amended standards IFRS 3, "Business Combinations" ("IFRS 3 (2008)"), and IAS 27, "Consolidated and Separate Financial Statements" ("IAS 27 (2008)"). The standards have been endorsed by the EU. Both standards have been applied since October 1, 2009.

IFRS 3 (2008) reconsiders the application of acquisition accounting for business combinations. Major changes relate to the measurement of non-controlling interests, the accounting for business combinations achieved in stages as well as the treatment of contingent consideration and acquisition-related costs. Based on the new standard, non-controlling interests may be measured at their fair value (full-goodwill methodology) or at the proportional fair value of assets acquired and liabilities assumed. In business combinations achieved in stages, any previously held equity interest in the acquiree is remeasured to its acquisition date fair value. Any changes to contingent consideration classified as a liability at the acquisition date are recognized in profit and loss. Acquisition-related costs are expensed in the period incurred.

Major changes in relation to IAS 27 (2008) relate to the accounting for transactions which do not result in a change of control as well as for those leading to a loss of control. If there is no loss of control, transactions with non-controlling interests are accounted for as equity transactions not affecting profit and loss. At the date control is lost, any retained equity interests are remeasured to fair value. Based on the amended standard, non- controlling interests may show a deficit balance since both profits and losses are allocated to the shareholders based on their equity interests.

In March 2009, the IASB issued "Improving Disclosures about Financial Instruments (Amendments to IFRS 7 Financial Instruments: Disclosures)" which enhances disclosures about fair value measurements of financial instruments and liquidity risk. The standard requires more qualitative disclosures about risks in connection with financial instruments. The amendment is applied by the Company for the first time in its financial statements for the fiscal year ended September 30, 2010.

STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET ADOPTED

In June 2009, the IASB amended IFRS 2, "Share-based Payment", to clarify its scope and the accounting for group cash-settled share-based payment transactions in the separate or individual financial statements of the entity when that entity has no obligation to settle the share-based payment transaction. The amendment will be effective for fiscal years beginning on or after January 1, 2010. Therefore, for the Company, the amendment will be effective for its fiscal year beginning on October 1, 2010. The new guidance is not expected to have a material impact on the Company's financial statements. The EU endorsed the amendment in March 2010.

In November 2009, the IASB issued IFRS 9, "Financial Instruments", which prescribes the classification and measurement of financial assets and completes the first phase of the project to replace IAS 39, "Financial Instruments: Recognition and Measurement". The new standard enhances the ability of investors and other users of financial information to understand the accounting for financial assets and reduces complexity. IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the many different rules in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments (its business model) and the contractual cash flow characteristics of the financial assets. IFRS 9 will be effective for fiscal years beginning on or after January 1, 2013 with earlier application permitted. Therefore, for the Company, the new standard will be effective for its fiscal year beginning on October 1, 2013. The EU has not yet endorsed the new standard. The Company is currently evaluating the impact of IFRS 9 on its financial statements.

In November 2009, the IASB issued the revised standard IAS 24 "Related-Party Disclosures". The amendments primarily comprise a modified definition of the term "related party" and the introduction of a partial exemption from the disclosure requirements for government-related entities. The revised standard applies for annual periods beginning on or after January 1, 2011. Earlier application is permitted. The Company plans to apply the revised standard for fiscal years beginning October 1, 2011 onwards. The EU endorsed the amendment in July 2010. The Company is currently evaluating the impact of IAS 24 on its financial statements.

In October 2010, the IASB issued amendments to IFRS 7 "Financial Instruments: Disclosures". The amendments to IFRS 7 enhance the disclosures regarding transfers of financial assets. The amendments allow users of financial statements to improve their understanding of transfers of financial assets including understanding the possible effects of any risks that may remain with the entity that transferred the assets. The amendments are effective for annual periods beginning on or after July 1, 2011.The Company plans to apply the amendments for fiscal years beginning October 1, 2011 onwards. The Company is evaluating the impact of the amended IFRS 7 on its financial statements.

3 / ADJUSTMENTS ACCORDING TO IAS 8

The Deutsche Prüfstelle für Rechnungswesen DPR e.V. ("DPR"), a German government-appointed private institution, conducted a random sample audit of Infineon's IFRS financial statements for the year ended September 30, 2008. The DPR is of the opinion that the recognition of deferred tax assets arising from tax loss carry-forwards in the amount of €237 million is based on tax strategies that are not appropriate to justify such recognition due to insufficient probability of implementation.

As explained in detail in the Operating and Financial Review, the Company decided to comply with DPR's demand.

The consolidated financial statements for the fiscal years 2008 and 2009 have therefore been corrected in accordance with IAS 8 as follows:

ADJUSTMENT OF THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION IN ACCORDANCE WITH IAS 8

€ in millions	Sep 30, 2009 before adjustment	Adjustment in accordance with IAS 8	Sep 30, 2009 adjusted	Oct 1, 2008 before adjustment	Adjustment in accordance with IAS 8	Oct 1, 2008 adjusted
Assets						
Deferred tax assets	396	(240)	156	400	(237)	163
Total assets	4,606	(240)	4,366	6,982	(237)	6,745
Liabilities and equity						
Accumulated deficit	(5,940)	(240)	(6,180)	(5,252)	(237)	(5,489)
Total equity attributable to shareholders of Infineon Technologies AG	2,273	(240)	2,033	2,091	(237)	1,854
Total equity	2,333	(240)	2,093	2,161	(237)	1,924
Total liabilities and equity	4,606	(240)	4,366	6,982	(237)	6,745

ADJUSTMENT OF THE CONSOLIDATED STATEMENT OF OPERATIONS IN ACCORDANCE WITH IAS 8

€ in millions	Sep 30, 2009 before adjustment	Adjustment in accordance with IAS 8	Sep 30, 2009 adjusted
Income tax expense	(1)	(3)	(4)
Net income (loss) from continuing operations	(230)	(3)	(233)
Net income (loss)	(671)	(3)	(674)

The adjustments are reflected in the amounts reported in this annual report for the fiscal years 2008 and 2009. These amounts could therefore differ from amounts reported in prior annual reports. These retrospective adjustments do not affect the existing tax loss carry-forwards and result in immaterial adjustments to the results of prior periods. The adjustments will not result in an outflow of cash and cash equivalents and do not lead to a breach of any covenant with past and present loan agreements or bonds of the Company.

4 / MANAGEMENT ESTIMATES AND JUDGMENTS

Certain accounting policies require critical accounting estimates that involve complex and subjective judgments and the use of assumptions, some of which may pertain to matters that are inherently uncertain and susceptible to change. Such critical accounting estimates could change from period to period and have a material impact on financial condition or results of operations. Critical accounting estimates could also involve estimates where management reasonably could have used a different estimate in the current accounting period. Management cautions that future events often deviate from forecasts and that estimates routinely require adjustment.

The following section discusses those estimates and judgments, which most likely could result in significant deviations of the actual results compared to the estimates.

REVENUE RECOGNITION

Reductions to revenue for estimated product returns and allowances for discounts, volume rebates and price protection are recorded, based on historical experience, at the time the related revenue is recognized. This process requires the exercise of substantial judgment in evaluating the above-mentioned factors and requires material estimates, including forecasted demand, returns and industry pricing assumptions. In future periods, the Company may be required to accrue additional provisions due to (1) deterioration in the semiconductor pricing environment, (2) reductions in anticipated demand for semiconductor products or (3) lack of market acceptance for new products. If these or other factors result in a significant adjustment to sales discount and price protection allowances, they could significantly impact the Company's future operating results.

The Company has entered into licensing agreements for its technology in the past, and anticipates that it will increase its efforts to monetize the value of its technology in the future. As with certain of the Company's existing licensing agreements, any new licensing arrangements may include capacity reservation agreements with the licensee. Such transactions could represent multiple element arrangements. The process of determining the appropriate revenue recognition in such transactions is highly complex and requires significant judgment, which includes evaluating material estimates in the determination of fair value and the level of the Company's continuing involvement.

RECOVERABILITY OF NON-FINANCIAL ASSETS

The review of long-lived assets, including intangible assets, for impairment requires material estimates and assumptions. These include the weighted average cost of capital ("WACC") and the parameters used to determine the WACC, the future cash flows derived from the Company's planning, including the underlying planning assumptions and parameters, and the terminal growth rate.

VALUATION OF INVENTORY

Inventories are valued at the lower of cost or net realizable value. The Company reviews the recoverability of inventory based on regular monitoring of the size and composition of inventory positions, current economic events and market conditions, projected future product demand, and the pricing environment. This evaluation is inherently judgmental and requires material estimates, including both the forecasted product demand and pricing environment, both of which may be susceptible to significant change.

Adjustments to the valuation and write-downs of inventory could be necessary in future periods due to reduced semiconductor demand in the industries that the Company serves, technological obsolescence due to rapid developments of new products and technological improvements, or changes in economic or other events and conditions that impact the market price for the Company's products, which may have a significant impact on the results of operations.

REALIZATION OF DEFERRED TAX ASSETS

The Company tests deferred tax assets for impairment as of each balance sheet date. The estimate is made on the basis of assumptions made by management about the amount of future taxable profit and other positive and negative variables. The actual use of deferred tax assets depends on the Company's ability to generate the corresponding taxable profits in the future so that tax loss carryforwards or tax credits can be used before they expire.

On the basis of this test, the Company recognized deferred tax assets of €308 million as of September 30, 2010 and €156 million as of September 30, 2009. Valuation allowances recognized on deferred tax assets amounted to €1,241 million as of September 30, 2010 and €1,410 million as of September 30, 2009.

The total recognized amount of deferred tax assets may have to be reduced if future taxable profits and income are lower than expected or if changes in tax law limit the time or amount of tax loss carryforwards or tax credits available for use. Conversely, the recognized total amount may have to be increased if future taxable profits and income are higher than expected.

PURCHASE ACCOUNTING

Accounting for business combinations requires the recognition of identifiable tangible and intangible assets and liabilities based upon their fair value. The determination of fair values is largely based on expected future cash flows as well as on assumptions on the underlying discount rate. The actual realized cash flows could significantly differ from the cash flows expected at initial recognition.

PENSION PLAN ACCOUNTING

The Company's pension benefit costs are determined in accordance with actuarial computations using the projected-unit-credit method, which relies on assumptions including discount rates and expected return on plan assets. Discount rates are established based on prevailing market rates for high-quality fixed-income instruments. The assumptions regarding the expected return on plan assets consider long-term historical returns, asset allocation, and future estimates of long-term investment returns. Other key assumptions for pension costs are based on current market conditions. A significant variation in one or more of these underlying assumptions could have a material effect on the measurement of the long-term obligations. For further information see note 35.

PROVISIONS

The Company is subject to various legal actions and claims, including intellectual property matters that arise in and outside the normal course of business.

The Company regularly assesses the likelihood of any adverse outcome or judgments related to these matters, as well as the range of possible losses and recoveries. Liabilities, including accruals for significant litigation costs, related to legal proceedings are recorded when it is probable that a liability has been incurred and the associated amount of the loss can be reasonably estimated. Accordingly, the Company has recorded a provision and charged operating income in the accompanying consolidated financial statements related to certain asserted and unasserted claims existing as of each balance sheet date. As additional information becomes available, any potential liability related to these actions is assessed and the estimates are revised, if necessary. These provisions would be subject to change in the future based on new developments in each matter, or changes in circumstances, which could have a material impact on Infineon's results of operations, financial position and cash flows.

In addition, considerable estimates and judgment are also required to determine other provisions, in particular for warranty and license obligations. The estimates are primarily derived based on historical experience and the judgment of knowledgeable personnel.

TRADE AND OTHER RECEIVABLES

The allowance for doubtful accounts involves significant management judgment and review of individual receivables based on individual customer creditworthiness, current economic trends and analysis of historical bad debts on a portfolio basis. Regarding the determination of the valuation allowance derived from a portfolio-based analysis of historical bad debts, a decline of receivables results in a corresponding reduction of such provisions and vice versa.

5 / ACQUISITIONS

The Company did not acquire any businesses in the fiscal years ended September 30, 2010 and 2009.

6 / DISPOSALS AND DISCONTINUED OPERATIONS

SENSONOR BUSINESS

During the 2003 fiscal year the Company acquired SensoNor AS ("SensoNor") for total cash consideration of €34 million. SensoNor develops, produces and markets tire pressure and acceleration sensors. On March 4, 2009, the Company sold parts of the business, including property, plant and equipment, inventories, and pension liabilities to a newly formed company called SensoNor Technologies AS for cash consideration of €4 million and one share in the capital of the new company. The employees were taken over by SensoNor Technologies AS. In addition, the Company granted a license for intellectual property and entered into a supply agreement through December 2011. The total consideration received was allocated to the respective elements of the transaction on a relative fair value basis. As a result, the Company realized losses before tax of €17 million, which were recorded in other operating expense, including a provision of €8 million which will be recognized over the term of the supply agreement.

SALE OF MOLDED MODULE ASSETS AND FORMATION OF THE JOINT VENTURE LS POWER SEMITECH CO., LTD.

During the quarter ended June 30, 2009, the Company entered into a joint venture agreement with LS Industrial Systems ("LSIS"), which closed on November 27, 2009, to establish the joint venture LS Power Semitech Co., Ltd. ("LS"). The joint venture operates in Korea and elsewhere in Asia, and focuses on the development, production and marketing of molded power modules for white goods applications. LSIS holds 54 percent and the Company holds 46 percent of LS. The Company contributed licenses of intellectual property as well as technology and process know-how for the Company's power module family CIPOSTM (Control Integrated Power System), and contributed existing CIPOSTM back-end manufacturing equipment to LS. The Company realized a gain of €3 million before tax from the contributions to LS which was recognized in other operating income in the 2010 fiscal year. The investment in the joint venture is accounted for using the equity method.

ALTIS

ALTIS Semiconductor S.N.C., Essonnes, France ("ALTIS") was a joint venture between the Company and International Business Machines Corporation, New York, USA ("IBM"), with each having equal voting representation. ALTIS was fully consolidated by the Company in accordance with IAS 27, "Consolidated and Separate Financial Statements" until December 2009. Infineon had an option to acquire further voting shares in ALTIS from IBM (potential voting rights). Following the waiver of this option, among other factors, the Company deconsolidated ALTIS in late December 2009. The assets and liabilities of ALTIS as well as the non-controlling interests in this previously consolidated subsidiary were derecognized, and the Company recorded its interest in ALTIS as an investment in an associated company at its fair value of zero. The investment in ALTIS was subsequently accounted for using the equity method until it was sold.

Upon deconsolidation in December 2009, cash and cash equivalents decreased by €88 million and non-controlling interests by €61 million. The total operating loss recognized in connection with the deconsolidation amounted to €69 million in the 2010 fiscal year, which is presented within other operating expense. In addition, the Company received a dividend of €3 million from ALTIS in the three months ended June 30, 2010.

Effective August 12, 2010 the Company and IBM sold all of their shares in ALTIS to Altis International, a company owned by a French entrepreneur. In connection with the sale IBM and Infineon entered into supply agreements with Altis Semiconductor and will continue to use the ALTIS production facility for silicon foundry purchases and as a subcontractor for wafer test services.

The sale of its shares in ALTIS had no impact on profit or loss. Upon the termination and settlement of the joint venture, the Company received a compensation payment from IBM of €14 million for prior restructuring costs ALTIS that had originally been borne by the Company.

QIMONDA – DISCONTINUED OPERATIONS

On January 23, 2009, Qimonda AG ("Qimonda") a majority owned company and its wholly owned subsidiary Qimonda Dresden GmbH & Co. oHG ("Qimonda Dresden") filed an application at the Munich Local Court to commence insolvency proceedings. As a result of this application, the Company deconsolidated Qimonda in accordance with IAS 27, "Consolidated and Separate Financial Statements", during the second quarter of the 2009 fiscal year. On April 1, 2009, the insolvency proceedings formally opened. Formal insolvency proceedings have also been commenced by several additional subsidiaries of Qimonda in various jurisdictions. The results of Qimonda are reported as discontinued operations in the Company's consolidated statements of operations for all periods presented.

As a result of the deconsolidation of Qimonda, Qimonda's cash and cash equivalents of €286 million as of the date of deconsolidation are presented as cash outflow within net cash provided by investing activities from discontinuing operations. During the 2009 fiscal year, Qimonda-related amounts included in loss from discontinued operations, net of income taxes consisted principally of the realization of accumulated foreign currency translation losses of €188 million which were previously recorded in equity, and charges for valuation allowances and provisions of €227 million in connection with Qimonda's insolvency. The realization of accumulated currency translation effects, which were previously recorded in equity, resulted mainly from Qimonda's sale of its interest in Inotera Memories Inc. ("Inotera") to Micron Technology, Inc. ("Micron") and the deconsolidation of Qimonda.

As a result of the insolvency proceedings by Qimonda, Infineon is exposed to potential liabilities including those identified in note 38 as well as the following:

- The Company is a named defendant in certain pending antitrust and securities law claims. Qimonda is required to indemnify Infineon, in whole or in part, for such claims, including any related expenses. Owing to Qimonda's insolvency, however, the Company expects that Qimonda will not be able to indemnify it for these claims. Further information on these pending antitrust and securities law claims and their potential impact on the Company may be found in note 38 ("Commitments and Contingencies – Litigation and Government Inquiries – Antitrust Litigation", "– Other Government Litigation" and, "– Securities Litigation").
- The Company is the named defendant in a lawsuit in Delaware in which the plaintiffs are seeking to hold the Company liable for the payment of severance and other benefits allegedly due from Qimonda North America in connection with the termination of employment related to Qimonda's insolvency. Further information on this suit may be found in note 38 ("Commitments and Contingencies – Litigation and Government Inquiries – Qimonda Employment Litigation").
- The Company faces potential liabilities arising from its former participation in Qimonda Dresden. Before the carve-out of the Qimonda business, the Company was a general partner of Qimonda Dresden, and as such could under certain circumstances, as a matter of law, be held liable for certain liabilities of Qimonda Dresden that originated prior to the carve-out. These include, among others, the potential repayment of public subsidies as well as employee-related claims, including salaries and social security contributions. The Company is in negotiations with the Free State of Saxony and the Qimonda administrator regarding these matters.
- The Company and its subsidiary Infineon Technologies Dresden GmbH ("Infineon Dresden") are subject to lawsuits by approximately 80 former Infineon employees who were transferred to Qimonda or Qimonda Dresden as part of the carve-out and are now demanding to be re-employed by the Company. All court decisions to date have been in favor of the Company or Infineon Dresden.
- The Qimonda administrator has claimed damages from the Company under company law in connection with the sale by Qimonda of its interest in Inotera. It is alleged that Infineon, as a shareholder of Qimonda, influenced Qimonda to conclude a patent cross license agreement with the buyer of the Inotera holding and thus indirectly steered Qimonda into a legal transaction detrimental to Qimonda, namely the sale of its interest in Inotera. The claim has been asserted without any concrete explanation of the details of the matter. The Company has rejected the claims made.
- The administrator also asserts that the carve-out of Qimonda AG effectively constituted the creation of a new company for financial purposes (what is known in German as a "wirtschaftliche Neugründung") and that the Company omitted to disclose this to the registry court. The administrator is seeking to enforce substantial claims against the Company on this basis. The Company has rejected both the administrator's depiction of the facts of the case and the legal consequences claimed.

In addition to the matters described above, the Company could also find itself subject to claims by the administrator for repayment of certain sums, such as payments for intra-group services and supplies, received from Qimonda within defined periods prior to the commencement of insolvency proceedings. The insolvency of Qimonda could also expose the Company to other claims arising in connection with contracts, offers,

uncompleted transactions, continuing obligations, risks, encumbrances and other liabilities transferred in connection with the carve-out of the memory business to Qimonda, as the Company expects that Qimonda will not be able to fulfill its obligation to indemnify it against any such liabilities.

The Company previously had concerns about the risk of possible claims against it in relation to public subsidies received by Qimonda Portugal S.A. (which continues to operate and is now known as Nanium S.A.) prior to the carve-out of Qimonda. However all of the outstanding issues in relation to public subsidies were resolved amicably in contracts concluded in May 2010 between the Company, the Agência para o Investimento e Comércio Externo de Portugal, E.P.E. (AICEP) and Nanium S.A. These contracts also govern supply and purchase obligations between the Company and Nanium in respect of eWLB products.

Certain adjustments for potential liabilities were made in the 2010 fiscal year The net impact before income taxes shown as discontinued operations was negative €5 million. In addition, the completion of an external tax audit yielded a tax revenue of €20 million in relation with the memory chip business and the formation of Qimonda.

The Company made payments totaling €108 million in relation to certain of the matters described above in the 2010 fiscal year. This sum includes a payment of €57 million under the settlement agreed with the European Commission, the payment of the final € 17 million installment under the plea agreement with the U.S. Department of Justice (DOJ), certain payments in connection with employee-related claims, and the separate settlement reached with the a final direct US DRAM buyer, which had opted out of a broader class settlement entered into earlier (see note 38). The discussions concerning employee-related claims are still ongoing. The Company reclassified €21 million from current provisions to current liabilities on September 30, 2010 in connection with the agreement of a settlement with the indirect customers group (see note 38).

Certain of the aforementioned matters led the Company to record liabilities of €21 million and provisions of €163 million as of September 30, 2009 in its 2009 financial statements and liabilities of €21 million and provisions of €60 million as of September 30, 2010 in its 2010 financial statements. Most of the provisions recorded are recorded under current provisions. The corresponding debit items are shown under discontinued operations.

The provisions recorded encompass only those liabilities and risks that the Company believes are likely to materialize and that can be estimated with reasonable accuracy at this time. There can be no certainty that the provisions recorded will be sufficient to cover all of the liabilities that could ultimately be incurred in relation to the insolvency of Qimonda and, in particular, the matters discussed above. Presenting details of further actual amounts included in provisions for specific liabilities and risks associated with the insolvency of Qimonda could seriously prejudice the Company's legal or negotiating position, so no such disclosures are made. In addition, it is not possible at this time to estimate amounts for or present comments on liabilities and risks that could materialize but are currently considered to be unlikely to do so, and accordingly such matters are not included in provisions.

The Company evaluates the merits of the various claims in each of these matters continuously, defends itself vigorously and seeks to find alternative solutions in the best interest of the Company as it deems appropriate. If the claims made are found to have merit, the Company could face substantial financial liabilities that could impact negatively on its business and its operating results, financial position and cash flows.

SALE OF WIRELINE COMMUNICATIONS BUSINESS – DISCONTINUED OPERATIONS

On July 7, 2009, the Company entered into a purchase agreement with several Lantiq companies, affiliates of Golden Gate Private Equity Inc. ("Lantiq"), pursuant to which it agreed to sell one of its segments, the Wireline Communications business. The majority of the purchase price was paid at closing on November 6, 2009, in the amount of €223 million. An additional €20 million of the purchase price was paid, as agreed in the contract, nine months after the closing date in August 2010. Due to technical reasons certain inventories in the manufacturing supply chain could not yet be transferred to Lantiq at the date of closing and were presented as assets classified as held for sale until final transfer in July 2010. Prepayments in relation to those assets were recognized and presented within liabilities classified as held for sale. Upon transfer of the retained inventories at Infineon to Lantiq, they were settled with the prepayments in relation to those inventories in the last quarter of the 2010 fiscal year.

As a result of the decision to dispose of the Wireline Communications business, the Company reclassified those assets and liabilities of the Wireline Communications business to be transferred to Lantiq as assets classified as held for sale in the prior year consolidated balance sheet as of September 30, 2009, pursuant to IFRS 5 "Non-current Assets Held for Sale and Discontinued Operations". The results of the Wireline

Communications business as well as the gain on the sale are reported as "Income from discontinued operations, net of income taxes", in the Company's consolidated statements of operations for all periods presented. The Company recognized a gain of €108 million before tax in the 2010 fiscal year. Income tax expense attributable to this gain amounted to €15 million, which resulted in a gain of €93 million after tax.

SALE OF WIRELESS MOBILE PHONE BUSINESS – DISCONTINUED OPERATIONS

On August 30, 2010, the Company entered into a purchase agreement with Intel Corporation, pursuant to which it agreed to sell the mobile phone business of the Wireless Solutions segment ("Wireless mobile phone business"). Of the business of the Wireless Solutions segment, only the business with analog and digital TV tuners and satellite radio receivers, as well as radio frequency power transistors for amplifiers in cellular basestations (with revenues totaling €82 million in the 2010 fiscal year), remains with the Company. The sale is proposed to close in the beginning of calendar year 2011. The purchase price of US$1,400 million and is due at closing. The sale will be primarily effected as an asset deal. All assets, patents, other intellectual property, and selected liabilities allocated to the Wireless mobile phone business will be specified and sold individually. Trade receivables from customers from revenue before the closing of the sale do not form part of the sale. The Company has entered into product supply agreements with Intel. Only finished goods will be transferred at closing. Infineon will retain work in process, raw materials and supplies, trade receivables, net advance payments, as well as other working capital. Apart from a few exceptions, the Company's production will remain unaffected by the transaction. Only a few individual dedicated production assets will be transferred. Intel will pay a cash amount equal to the carrying amount of these production facilities in addition to the above-mentioned purchase price. The Company is responsible for all personnel costs up to the completion of the transaction. For individual defined personnel liabilities – namely pension liabilities and other personnel liabilities – the Company will pay a cash settlement for the transfer of these liabilities to Intel on closing of the sale. Separation costs incurred in connection with the transaction for the relocation of employees and the adjustment and redesign of existing plant and IT systems will be shared equally by Intel and the Company.

On the basis of the decision to sell the Wireless mobile phone business, in the consolidated financial statements as of September 30, 2010, the Company recognized those assets and liabilities to be transferred to Intel as "classified as held for sale" in accordance with IFRS 5, "Non-current Assets Held for Sale and Discontinued Operations". The net amounts of assets and liabilities classified as "held for sale" at the time of the completion of the transaction will differ from those reported in the consolidated statement of financial position as of September 30, 2010, because of changes in the intervening period, for example as a result of increases or decreases in the amount of raw materials and supplies or settling personnel liabilities. In accordance with IFRS 5, no depreciation or amortization has been recognized for the assets classified as held for sale since the beginning of August 2010.

The results of the Wireless mobile phone business have been recognized in the consolidated statement of operations for the 2010 fiscal year under "Income (loss) from discontinued operations, net of income taxes". The prior period amounts have been adjusted accordingly. Expenses that had previously been allocated to the Wireless mobile phone business, but continue to be incurred after the planned sale are not affected by this classification and continue to be reported under "Income (loss) from continuing operations".

To hedge the expected sale proceeds of US$1,400 million, the Company purchased U.S. dollar/euro put options at the end of August 2010 with an exercise price of US$1.32 per euro. Since the U.S. dollar had weakened against the euro in the intervening period, the value of the options increased to September 30, 2010, and led to a gain being realized. This positive effect was partially offset by transaction costs in the 2010 fiscal year directly attributable to the sale, resulting in a combined positive effect of €19 million, which was reported under "Income (loss) from discontinued operations, net of income taxes". As a result of the disposal of the Wireless mobile phone business, tax loss carryforwards will be used upon the closing of the sale. This led to the recognition of deferred tax assets of €82 million in the fourth quarter of the 2010 fiscal year.

In line with the internal reporting of the 2010 fiscal year, the Wireless Solutions segment is reported unchanged in the segment reporting (see note 39).

ASSETS AND LIABILITIES CLASSIFIED AS HELD FOR SALE

Assets and liabilities classified as held for sale as of September 30, 2010, primarily consist of the book values of assets and liabilities to be disposed of in connection with the sale of the Wireless mobile phone business. The net amounts of assets and liabilities classified as "held for sale" at the time of the completion of the transaction will differ from those reported in the consolidated statement of financial position as of September 30, 2010, because changes will have occurred in these accounts in the intervening period, for example as a result of increases or decreases in the amount of raw materials and supplies or the payment of personnel liabilities.

At September 30, 2010, the carrying amounts of the major classes of assets and liabilities classified as held for sale were as follows:

€ in millions	September 30, 2010
Trade and other receivables	3
Inventories	74
Other current assets	14
Property, plant and equipment	56
Goodwill and other intangible assets	312
Other financial assets	1
Other assets	35
Total assets classified as held for sale	495
Current provisions	71
Other current liabilities	18
Pension plans and similar commitments	46
Other liabilities	42
Total liabilities classified as held for sale	177

Assets and liabilities classified as held for sale as of September 30, 2009 primarily consist of the book values of assets and liabilities to be disposed of in connection with the sale of the Wireline Communications business. At September 30, 2009, the carrying amounts of the major classes of assets and liabilities classified as held for sale were as follows:

€ in millions	September 30, 2009
Inventories	43
Other current assets	2
Property, plant and equipment	9
Goodwill and other intangible assets	58
Total assets classified as held for sale	112
Current provisions	6
Other current liabilities	2
Pension plans and similar commitments	1
Total liabilities associated with assets held for sale	9

INCOME (LOSS) FROM DISCONTINUED OPERATIONS, NET OF INCOME TAXES

The results of Qimonda, the Wireline Communication business, and the Wireless mobile phone business presented in the consolidated statements of operations as discontinued operations for the years ended September 30, 2010 and 2009, consist of the following components:

€ in millions	2010	2009
Qimonda		
Revenue	–	314
Costs and expenses	–	(779)
Reversal of measurement to fair value less costs to sell	–	460
Expenses resulting from Qimonda's application to open insolvency proceedings	(5)	(227)
Losses from the realization of accumulated losses related to unrecognized currency translation effects primarily upon deconsolidation and from Qimonda's sale of Inotera	–	(188)
Loss before tax	(5)	(420)
Income tax benefits	20	–
Qimonda's share of discontinued operations, net of income taxes	15	(420)
Wireline Communications Business		
Revenue	31	333
Costs and expenses	(31)	(309)
Profit before tax	–	24
Income tax expense	–	(2)
Income from operations	–	22
Pre-tax gain recognized on the sale of the Wireline Communications business	108	–
Income tax expense on gain	(15)	–
Gain on the sale of the Wireline Communications business, net of income taxes	93	–
Wireline Communication's share of discontinued operations, net of income taxes	93	22
Wireless mobile phone business		
Revenue	1,290	843
Costs and expenses	(1,120)	(882)
Profit (loss) before tax	170	(39)
Income tax expense	(12)	(4)
Income tax gain from the recognition of deferred tax assets	82	–
Wireless mobile phone business' share of discontinued operations, net of income taxes	240	(43)
Income (loss) from discontinued operations, net of income taxes	348	(441)

7 / GRANTS

The Company has received economic development funding from various governmental institutions, including grants for the construction of manufacturing facilities, as well as grants to subsidize research and development activities and employee training.

Grants and subsidies included in the accompanying consolidated financial statements during the fiscal years ended September 30, 2010 and 2009 are as follows:

€ in millions	2010	2009
Included in the consolidated statements of operations:		
Research and development	47	41
Cost of sales	10	14
Selling, general and administrative	1	1
Total	58	56

Deferred government grants amounted to €21 million and €21 million as of September 30, 2010 and 2009, respectively. The amounts of grants receivable as of September 30, 2010 and 2009 were €39 million and €30 million, respectively.

8 / SUPPLEMENTAL OPERATING COST AND INCOME INFORMATION

Personnel expenses are as follows for the years ended September 30, 2010 and 2009:

€ in millions	2010	2009
Wages and salaries	1,199	1,010
Social levies	181	201
Pension expense	(1)	(13)
Total	1,379	1,198

The average number of employees by geographic region is as follows for the years ended September 30, 2010 and 2009[1]:

	2010	2009
Germany	8,743	9,379
Other Europe	3,377	4,726
North America	634	729
Asia/Pacific	12,837	11,763
Japan	124	143
Total	25,715	26,740

1 Approximately 3,400 employees worldwide from the Wireless Solutions segment and from central functions are intended to be transferred to Intel upon closing of the sale of the mobile phone business.

Other operating income is as follows for the years ended September 30, 2010 and 2009:

€ in millions	2010	2009
Gains from sales of businesses and interests in subsidiaries	3	–
Reversal of impairments and long lived assets	–	2
Other	15	15
Total	18	17

Other operating expense is as follows for the years ended September 30, 2010 and 2009:

€ in millions	2010	2009
Losses from sales of businesses and interests in subsidiaries	–	17
Goodwill, intangible and tangible assets impairment charges	12	2
Loss in connection with deconsolidation of ALTIS	69	–
Onerous lease agreements	7	8
Other	34	19
Total	122	46

Total rental expenses under operating leases amounted to €69 million and €88 million for the years ended September 30, 2010 and 2009, respectively.

9 / FINANCIAL INCOME

The amount of financial income is as follows for the fiscal years 2010 and 2009:

€ in millions	2010	2009
Interest income	18	84
Valuation changes and gains on sales of available for sale financial assets	6	–
Other financial income	5	17
Total	29	101

Interest income for the year ended September 30, 2009 includes a gain before tax of €61 million as a result of the repurchase of subordinated exchangeable notes due 2010 and convertible subordinated notes due 2010 (see note 27). No gain was recorded for repurchases in the 2010 fiscal year.

10 / FINANCIAL EXPENSE

The amount of financial expense is as follows for the fiscal years 2010 and 2009:

€ in millions	2010	2009
Interest expense	91	124
Valuation changes and losses on sales of available-for-sale financial assets	1	28
Other financial expense	3	2
Total	95	154

Interest expense for the years ended September 30, 2010 and 2009 includes a loss before tax of €5 million and €6 million, respectively, as a result of repurchases and redemptions of convertible subordinated notes due 2010 and exchangeable subordinated notes due 2010 (see note 27).

11 / INCOME TAX (BENEFIT) EXPENSE

Income (loss) from continuing operations before income taxes is attributable to the following geographic locations for the years ended September 30, 2010 and 2009, as follows:

€ in millions	2010	2009
Germany	135	(251)
Foreign	155	22
Income (loss) from continuing operations before income taxes	290	(229)

Income tax (benefit) expense from continuing operations for the years ended September 30, 2010 and 2009, are as follows:

€ in millions	2010	2009[1]
Current taxes:		
Germany	10	1
Foreign	36	10
	46	11
Deferred taxes:		
Germany	(71)	(5)
Foreign	3	(2)
	(68)	(7)
Income tax (benefit) expense	(22)	4

Current tax expense attributable to prior years is €2 million and €0 million as of September 30, 2010 and 2009, respectively.

In 2010 and 2009, the Company's statutory corporate tax rate in Germany was 15 percent, plus a solidarity surcharge of 5.5 percent. Additionally, a trade tax of 12 percent is levied, which results in a combined statutory tax rate of 28 percent.

1 Prior period figures have been adjusted according to IAS 8 (see note 3).

A reconciliation of income taxes from continuing operations for the fiscal years ended September 30, 2010 and 2009, determined using the German combined statutory tax rate of 28 percent for 2010 and 2009, is as follows:

€ in millions	2010	2009[1]
Expected expense (benefit) of income taxes	81	(64)
Increase in available tax credits	(13)	(13)
Tax rate differential	(29)	(1)
Permanent differences net	10	9
(Decrease) Increase in valuation allowance	(73)	73
Other	2	–
Actual income tax expense (benefit)	(22)	4

Net deferred tax assets and liabilities presented in the accompanying consolidated statement of financial position as of September 30, 2010 and 2009, are as follows:

€ in millions	2010	2009[1]
Deferred tax assets	308	156
Deferred tax liabilities	(11)	(13)
Deferred tax assets, net	297	143

The movement in deferred tax assets, net is as follows:

	2010
Deferred tax assets, net as of September 30, 2009[1]	143
Deferred tax benefit attributable to discontinued operations	78
Deferred tax benefit attributable to continuing operations	68
Deferred taxes recognized in equity	2
Foreign currency translation	6
Deferred tax assets, net as of September 30, 2010	297

Deferred tax assets and liabilities as of September 30, 2010 and 2009 relate to the following:

€ in millions	2010	2009[1]
Deferred tax assets:		
Intangible assets	28	58
Property, plant and equipment	117	123
Tax loss carry-forwards	1.103	1.130
Tax credit carry-forwards	193	168
Other items	271	221
Gross deferred tax assets	1.712	1.700
Valuation allowance	(1.241)	(1.410)
Deferred tax assets	471	290
Deferred tax liabilities:		
Intangible assets	(33)	(22)
Property, plant and equipment	(3)	(6)
Accounts receivable	(10)	–
Accrued liabilities and pensions	(107)	(112)
Other items	(21)	(7)
Deferred tax liabilities	(174)	(147)
Deferred tax assets, net	297	143

In Germany the Company had corporate tax loss carry-forwards of €3.4 billion and trade tax loss carry-forwards of €4.6 billion as of September 30, 2010. In other jurisdictions, the Company had tax loss carry-forwards of €56 million and tax credit carry-forwards of €193 million. Such tax loss carry-forwards and tax credit carry-forwards are generally limited to use by the particular entity that generated the loss or credit, provided that they have not expired under current law. The benefit from tax credits is accounted for on the flow-through method when the individual legal entity is entitled to the claim.

1 Prior period figures have been adjusted according to IAS 8 (see note 3).

The Company assessed its deferred tax assets and the need for a valuation allowance. The existence of tax loss carry-forwards and a history of losses are generally strong evidence that the utilization of deferred tax assets is not probable. In the past, however, the Company has accumulated tax loss carry-forwards, especially in Germany, which were generated by the Qimonda business and the Wireless mobile phone business. Both businesses were reported as discontinued operations as of September 30, 2010. To the extent these losses were incurred in discontinued operations, they should not be included as a negative factor in the assessment, especially regarding Germany, as to whether it is probable that positive taxable income will be available in order to utilize deferred tax assets.

Therefore the assessment of the deferred taxes of the individual Group companies focused on the continuing operations consisting of the profitable Automotive, Industrial & Multimarket, and Chip Card & Security segments as well as the expected ramifications of the forthcoming disposal of the Wireless mobile phone business. Based on the results of this assessment, considering all positive and negative factors and information relating to the foreseeable future, the Company partly released the valuation allowance on the deferred tax assets as of September 30, 2010.

The change in the valuation allowance on deferred tax assets is as follows:

€ in Millionen	2010
Valuation allowance as of September 30, 2009 [1]	1,410
Reduction in valuation allowance due to actual utilization, Germany	(92)
Of which attributable to discontinued operations	(45)
Reduction in valuation allowance due to re-assessment, Germany	(151)
Of which attributable to discontinued operations (see Note 6)	(82)
Change in valuation allowance in foreign jurisdictions, net	43
Change in valuation allowance on deferred taxes recognized in equity	21
Other	10
Valuation allowance as of September 30, 2010	1,241

The increase in valuation allowances in foreign jurisdictions is primarily the result of the assessment of additionally granted unused tax credits in the current fiscal year. Other changes mainly result from foreign currency translation and adjustments due to final tax assessments for prior years.

The Company did not provide for income taxes or foreign withholding taxes on cumulative earnings of foreign subsidiaries as of September 30, 2009 and 2010, as these earnings are intended to be indefinitely reinvested in those operations. It is not practicable to estimate the amount of unrecognized deferred tax liabilities for these undistributed foreign earnings.

12 / EARNINGS (LOSS) PER SHARE

Basic earnings (loss) per share (“EPS”) is calculated by dividing net income (loss) by the weighted average number of ordinary shares outstanding during the year. Diluted EPS is calculated by dividing net income (loss) by the sum of the weighted average number of ordinary shares outstanding plus all additional ordinary shares that would have been outstanding if potentially dilutive instruments had been converted into ordinary shares.

1 Prior period figures have been adjusted according to IAS 8 (see note 3).

The computation of basic and diluted EPS for the years ended September 30, 2010 and 2009, is as follows:

	2010	2009
Numerator (€ in millions):		
Earnings (loss) from continuing operations	312	(233)
Less: Portion attributable to minority interests	(1)	–
Earnings (loss) from continuing operations attributable to shareholders of Infineon Technologies AG	311	(233)
Earnings (loss) from discontinued operations, net of income taxes	348	(441)
Less: Portion attributable to minority interests	–	48
Earnings (loss) from discontinued operations, net of income taxes attributable to shareholders of Infineon Technologies AG	348	(393)
Net earnings (loss) attributable to shareholders of Infineon Technologies AG	659	(626)
Denominator (shares in millions):		
Weighted-average shares outstanding – basic	1,086.7	854.5
Adjustments for:		
– Assumed conversion of convertible debt	84.0	–
– Share options	0.6	–
Weighted-average shares outstanding – diluted	1,171.3	854.5
Basic earnings (loss) per share (in €):		
Earnings (loss) from continuing operations attributable to shareholders of Infineon Technologies AG	0.29	(0.27)
Earnings (loss) from discontinued operations, net of income taxes attributable to shareholders of Infineon Technologies AG	0.32	(0.46)
Net earnings (loss) per share attributable to shareholders of Infineon Technologies AG	0.61	(0.73)
Diluted earnings (loss) per share (in €):		
Earnings (loss) from continuing operations attributable to shareholders of Infineon Technologies AG	0.28	(0.27)
Earnings (loss) from discontinued operations, net of income taxes attributable to shareholders of Infineon Technologies AG	0.30	(0.46)
Net earnings (loss) per share attributable to shareholders of Infineon Technologies AG	0.58	(0.73)

The calculation of diluted earnings per share is based on earnings from continuing operations attributable to shareholders of Infineon Technologies AG of €332 million (prior year negative €233 million). This reflects an adjustment of €21 million (prior year €0) of interest expense, net of tax, on the subordinated convertible bonds due 2014.

The weighted average of potentially dilutive instruments that were excluded from the diluted earnings (loss) per share computations, because the exercise price was greater than the average market price of the ordinary shares during the period or were otherwise anti-dilutive, includes 15.6 million and 25.2 million shares underlying employee stock options for the years ended September 30, 2010 and 2009, respectively. Additionally, 0 million and 82.5 million ordinary shares issuable upon the conversion of the convertible subordinated notes for the years ended September 30, 2010 and 2009, respectively, were not included in the computation of diluted earnings (loss) per share as their impact would have been anti-dilutive.

For details regarding the terms and conditions of the stock option plans see note 32.

13 / AVAILABLE-FOR-SALE FINANCIAL ASSETS

Available-for-sale financial assets are recorded at fair value at each balance sheet date with unrealized gains and losses that are not considered other-than-temporary impairments recognized in equity. The non-current position is reflected in other financial assets (see note 20).

Marketable securities at September 30, 2010 and 2009 consist of the following:

€ in millions	2010				2009			
	Cost	Fair value	Unrealized gains	Unrealized losses	Cost	Fair value	Unrealized gains	Unrealized losses
Debt securities	70	72	2	–	104	106	2	–
Equity securities	2	2	–	–	1	1	–	–
Total	72	74	2	–	105	107	2	–
Reflected as follows:								
Available-for-sale financial assets	60	60	–	–	93	93	–	–
Other financial assets (note 20)	12	14	2	–	12	14	2	–
Total	72	74	2	–	105	107	2	–

Realized gains and losses are reflected as financial income (expense) and are as follows for the fiscal years ended September 30, 2010 and 2009:

€ in millions	2010	2009
Realized gains	2	–
Realized losses	–	(3)
Realized gains (losses), net	2	(3)

Debt securities as of September 30, 2010 had the following remaining contractual maturities:

€ in millions	Cost	Fair value
Less than 1 year	12	14
Between 1 and 5 years	1	1
More than 5 years	57	57
Total debt securities	70	72

Actual maturities may differ due to call or prepayment rights.

14 / TRADE AND OTHER RECEIVABLES

Trade accounts and other receivables due within one year at September 30, 2010 and 2009 consist of the following:

€ in millions	2010	2009
Third party – trade	648	469
Related parties – trade	3	3
Trade accounts receivable, gross	651	472
Allowance for doubtful accounts	(29)	(23)
Trade accounts receivable, net	622	449
Grants receivable (note 7)	39	30
License fees receivable	6	7
Third party – financial and other receivables	12	18
Employee receivables	6	6
Other receivables	2	4
Total	687	514

Changes in the allowance for doubtful accounts for the years ended September 30, 2010 and 2009 was as follows:

€ in millions	2010	2009
Allowance for doubtful accounts at beginning of year	23	29
Usage of allowance, net	(1)	(13)
Current year's allowance	7	7
Allowance for doubtful accounts at end of year	29	23

The following table provides separate disclosure on the age of third party trade accounts receivables that are past due but not impaired at the reporting date.

€ in millions			Of which not impaired but past due as of reporting date				
	Carrying amount	Thereof neither impaired nor past due	Past due 0 – 30 days	Past due 31 – 60 days	Past due 61 – 180 days	Past due 181 – 360 days	Past due > 360 days
Third party – trade, net of allowances as of September 30, 2010	619	593	18	3	5	–	–
Third party – trade, net of allowances as of September 30, 2009	446	429	12	–	1	4	–

Based on historical default rates, the Company believes that no allowance is necessary in respect of trade receivables that are not past due or past due by up to 60 days.

Receivables with a maturity of more than one year are presented as other financial assets (see note 20).

15 / INVENTORIES

Inventories at September 30, 2010 and 2009 consist of the following:

€ in millions	2010	2009
Raw materials and supplies	58	47
Work-in-process	329	259
Finished goods	127	154
Total	514	460

Inventories for the years ended September 30, 2010 and 2009 include impairment charges in an amount of €94 million and €125 million, respectively.

16 / OTHER CURRENT FINANCIAL ASSETS

Other current financial assets at September 30, 2010 and 2009 consist of derivative financial instruments in an amount of €72 million and €26 million, respectively.

17 / OTHER CURRENT ASSETS

Other current assets at September 30, 2010 and 2009 consist of the following:

€ in millions	2010	2009
VAT and other tax receivables	44	49
Prepaid expenses	30	49
Other	14	16
Total	88	114

18 / PROPERTY, PLANT AND EQUIPMENT

A summary of changes for property, plant and equipment for the years ended September 30, 2010 and 2009 is as follows:

CHANGES IN PROPERTY, PLANT AND EQUIPMENT 2010

€ in millions	Cost						
	October 1, 2009	Additions	Disposals	Reclassification	Transfers[1]	Foreign currency effects	September 30, 2010
Land and buildings	763	3	(107)	1	(4)	3	659
Technical equipment and machinery	4,766	162	(1,016)	30	(100)	10	3,852
Other plant and office equipment	1,300	32	(91)	(3)	(140)	6	1,104
Construction in progress	22	134	1	(21)	(1)	–	135
Total	6,851	331	(1,213)	7	(245)	19	5,750

CHANGES IN PROPERTY, PLANT AND EQUIPMENT 2009

€ in millions	Cost						
	October 1, 2008	Additions	Disposals	Reclassification	Transfers[1]	Foreign currency effects	September 30, 2009
Land and buildings	761	9	(12)	5	1	(1)	763
Technical equipment and machinery	4,826	54	(167)	58	(2)	(3)	4,766
Other plant and office equipment	1,384	23	(74)	(4)	(28)	(1)	1,300
Construction in progress	64	18	–	(59)	–	(1)	22
Total	7,035	104	(253)	–	(29)	(6)	6,851

1 For the year ended September 30, 2010, transfers relate primarily to assets of the Wireless mobile phone business that were classified as held for sale.
For the year ended September 30, 2009, transfers relate primarily to assets of the Wireline Communications business that were classified as held for sale.

Depreciation on property, plant and equipment is mainly presented in cost of goods sold in the consolidated statements of operations.

Impairments are recognized as other operating expense in the consolidated statements of operations for the 2010 and 2009 fiscal years. No property, plant and equipment was restricted or pledged as of September 30, 2010 and 2009.

	Accumulated depreciation and impairment								Book value	
	October 1, 2009	Depreciation	Disposals	Reclassification	Transfers[1]	Impairments	Foreign currency effects	**September 30, 2010**	**September 30, 2010**	September 30, 2009
	(523)	(25)	87	–	2	–	(2)	(461)	198	240
	(4,167)	(261)	1,011	(12)	57	(9)	(9)	(3,390)	462	599
	(1,233)	(48)	90	5	130	–	(5)	(1,061)	43	67
	–	–	–	–	–	–	–	–	135	22
	(5,923)	(334)	1,188	(7)	189	(9)	(16)	(4,912)	838	928

	Accumulated depreciation and impairment								Book value	
	October 1, 2008	Depreciation	Disposals	Reclassification	Transfers[1]	Impairments	Foreign currency effects	**September 30, 2009**	**September 30, 2009**	September 30, 2008
	(500)	(30)	6	1	(1)	–	1	(523)	240	261
	(3,963)	(356)	160	(12)	–	2	2	(4,167)	599	863
	(1,262)	(81)	73	11	25	–	1	(1,233)	67	122
	–	–	–	–	–	–	–	–	22	64
	(5,725)	(467)	239	–	24	2	4	(5,923)	928	1,310

19 / INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

HIGH POWER BIPOLAR BUSINESS

On September 28, 2007, the Company entered into a joint venture agreement with Siemens AG ("Siemens"). Effective September 30, 2007, the Company contributed all assets and liabilities of its high power bipolar business (including licenses, patents, and front-end and back-end production assets) to a newly formed legal entity called Infineon Technologies Bipolar GmbH & Co. KG ("Bipolar") and Siemens subsequently acquired a 40 percent interest in Bipolar. The transaction received regulatory approval and subsequently closed on November 30, 2007. The joint venture agreement grants Siemens certain contractual participating rights which inhibit the Company from exercising control over Bipolar. Accordingly, the Company accounts for the interest in Bipolar under the equity method of accounting. The fiscal year-end of Bipolar is September 30.

LS POWER SEMITECH CO., LTD.

During the quarter ended June 30, 2009, the Company entered into a joint venture agreement with LS Industrial Systems ("LSIS"), which closed on November 27, 2009, to establish the joint venture LS Power Semitech Co., Ltd. ("LS"). LSIS holds 54 percent and the Company holds 46 percent of LS (see note 6). The investment in the joint venture is accounted for using the equity method. The fiscal year-end of LS is December 31, which is the fiscal year-end of LSIS. The Company's share in the results of LS is recognized with a three months time lag with no material impact.

CRYPTOMATHIC HOLDING APS

The Company acquired its 25.4 percent share in Cryptomathic Holding ApS („Cryptomathic") in May 2002. Cryptomathic, through its subsidiary Cryptomathic A/S, develops and sells software and services in the field of digital security. The fiscal year-end of Cryptomathic is December 31. The Company's share in the results of Cryptomathic is recognized with a three months time lag with no material impact. Because of the share of 25.4 percent the Company holds in Cryptomathic, the investment is accounted for using the equity-method.

AGGREGATE SUMMARIZED FINANCIAL INFORMATION

The aggregate summarized financial information for the Company's investments accounted for using the equity method, not adjusted for the percentage ownership held by the Company, for the years ended September 30, 2010 and 2009 is as follows:

2010

€ in millions	Current assets	Non-current assets	Current liabilities	Non-current liabilities	Total equity	Revenue	Gross profit	Net income
Bipolar	65	15	18	13	49	100	23	12
LS	7	17	1	–	23	1	(1)	(3)
Cryptomathic	2	–	1	–	1	6	3	–
Total	74	32	20	13	73	107	25	9

2009

€ in millions	Current assets	Non-current assets	Current liabilities	Non-current liabilities	Total equity	Revenue	Gross profit	Net income
Bipolar	65	16	23	13	45	113	23	12
LS	–	–	–	–	–	–	–	–
Cryptomathic	3	–	2	–	1	5	2	(1)
Total	68	16	25	13	46	118	25	11

20 / OTHER FINANCIAL ASSETS

Other non-current financial assets at September 30, 2010 and 2009 consist of the following:

€ in millions	2010	2009
Available-for-sale financial assets (note 13)	14	14
Long-term receivables	6	5
Investments in other equity investments	6	12
Restricted cash	83	84
Others	10	9
Total	119	124

Restricted cash at September 30, 2010 and 2009, primarily consists of a rental deposit in escrow in connection with the office complex Campeon of €75 million (see note 38) and €7 million in escrow in connection with interest payments for the Company's subordinated convertible notes due 2014 (see note 27).

21 / OTHER ASSETS

Other non-current assets at September 30, 2010 and 2009 consist of the following:

€ in millions	2010	2009
Prepaid expenses	14	17
Other	2	1
Total	16	18

22 / GOODWILL AND OTHER INTANGIBLE ASSETS

The following table presents a summary of changes for intangible assets for the years ended September 30, 2010 and 2009. Amortization of intangible assets is mainly presented in cost of sales. Impairments on intangible assets are presented as other operating expense.

CHANGES IN GOODWILL AND OTHER INTANGIBLE ASSETS 2010

€ in millions	Cost							
	October 1, 2009	Additions internally developed	Additions from business combinations	Additions other	Disposals	Transfers[1]	Foreign currency effects	**September 30, 2010**
Goodwill	181	–	–	–	–	(161)	1	21
Internally developed intangible assets	164	79	–	–	–	(145)	–	98
Other intangible assets	400	–	–	8	(46)	(220)	2	144
Total	745	79	–	8	(46)	(526)	3	263

CHANGES IN GOODWILL AND OTHER INTANGIBLE ASSETS 2009

€ in millions	Cost							
	October 1, 2008	Additions internally developed	Additions from business combinations	Additions other	Disposals	Transfers[1]	Foreign currency effects	**September 30, 2009**
Goodwill	225	–	(6)	–	–	(38)	–	181
Internally developed intangible assets	169	47	–	–	–	(52)	–	164
Other intangible assets	474	–	–	8	(33)	(49)	–	400
Total	868	47	(6)	8	(33)	(139)	–	745

1 In the year ended September 30, 2010, transfers relate primarily to assets of the Wireless mobile phone business that were classified as held for sale.
In the year ended September 30, 2009, transfers relate primarily to assets of the Wireline Communications business that were classified as held for sale.

The estimated aggregate amortization expense relating to internally developed and other intangible assets for each of the five succeeding fiscal years is as follows: 2011: €21 million; 2012: €21 million; 2013: €15 million; 2014: €7 million and 2015: €1 million.

Reference is made to note 2, subsection “Recoverability of intangible assets and other long-lived assets” with respect to the procedures and assumptions of the annual impairment test for goodwill.

	Accumulated depreciation and impairment							Book value	
	October 1, 2009	Amortization	Disposals	Transfers[1]	Impairment changes	Foreign currency effects	**September 30, 2010**	**September 30, 2010**	September 30, 2009
	–	–	–	–	–	–	–	21	181
	(79)	(28)	–	62	–	–	(45)	53	85
	(297)	(25)	45	151	(3)	(2)	(131)	13	103
	(376)	(53)	45	213	(3)	(2)	(176)	87	369

	Accumulated depreciation and impairment							Book value	
	October 1, 2008	Amortization	Disposals	Transfers[1]	Impairment changes	Foreign currency effects	**September 30, 2009**	**September 30, 2009**	September 30, 2008
	–	–	–	–	–	–	–	181	225
	(86)	(32)	–	41	(2)	–	(79)	85	83
	(339)	(32)	33	41	(1)	1	(297)	103	135
	(425)	(64)	33	82	(3)	1	(376)	369	443

23 / TRADE AND OTHER PAYABLES

Trade and other payables at September 30, 2010 and 2009 consist of the following:

€ in millions	2010	2009
Third party – trade	645	373
Related parties – trade	14	11
Trade payables	659	384
Related parties – other payables	4	4
Other	2	5
Total	665	393

Trade payables have a maturity of less than one year. The reported carrying amount of trade payables corresponds to their fair value.

Long-term payables with a maturity of more than one year are presented as other liabilities (see note 29).

24 / PROVISIONS

Provisions at September 30, 2010 and 2009 consist of the following:

€ in millions	2010	2009
Personnel costs	268	187
Warranties and licenses	159	72
Provisions related to Qimonda's discontinued operations	60	163
Other	121	103
Total	608	525

Provisions for personnel costs relate to employee-related obligations and include, among others, costs of incentive and bonus payments, holiday and vacation payments, termination benefits, early retirement, service anniversary awards, other personnel costs and related social security payments.

Provisions for warranties and licenses mainly represent the estimated future cost of fulfilling contractual requirements associated with products sold.

Other provisions comprise provisions for outstanding expenses, penalties for default or delay on contracts, asset retirement obligations and miscellaneous other liabilities.

Provisions related to Qimonda's discontinued operations are further described in notes 6 and 38.

Of the total amounts of €608 million and €525 million of provisions as of September 30, 2010 and 2009, respectively, the cash outflow is expected to occur within one year in respect of €553 million and €436 million, respectively. For the majority of the remaining €55 million and €89 million as of September 30, 2010 and 2009, respectively, the cash outflow is expected within two to five years.

A summary of changes for provisions for the fiscal year ended September 30, 2010 is as follows:

€ in millions	Balance as of September 30, 2009	Additions	Reclassification to held for sale	Usage	Reversals	Currency differences	Balance as of September 30, 2010
Personnel costs	187	268	(50)	(120)	(19)	2	268
Warranties and licenses	72	135	(22)	(4)	(22)	–	159
Related to Qimonda's discontinued operations	163	20	–	(108)	(15)	–	60
Other	103	57	(1)	(20)	(19)	1	121
Total	525	480	(73)	(252)	(75)	3	608

The total amounts of provisions are reflected in the consolidated statement of financial position as of September 30, 2010 and 2009, respectively, as follows:

€ in millions	2010	2009
Current	553	436
Non-current	55	89
Total	608	525

25 / OTHER CURRENT FINANCIAL LIABILITIES

Other current financial liabilities at September 30, 2010 and 2009 consist of the following:

€ in millions	2010	2009
Financial instruments (note 36)	6	15
Interest	10	18
Settlement for anti-trust related matters (note 38)	–	17
Total	16	50

26 / OTHER CURRENT LIABILITIES

Other current liabilities at September 30, 2010 and 2009 consist of the following:

€ in millions	2010	2009
Deferred income	28	24
VAT and other taxes payable	23	19
Payroll obligations to employees	52	79
Deferred government grants (note 7)	16	15
Other	34	10
Total	153	147

27 / DEBT

Debt at September 30, 2010 and 2009 consists of the following:

€ in millions	2010	2009
Short-term debt and current maturities:		
Loans payable to banks, weighted average rate 1.45% (prior year 1.85%)	51	51
Convertible subordinated notes, 5.0%, due 2010	–	425
Notes payable to governmental entity, due 2010	24	–
Current portion of long-term debt	58	45
Total short-term debt and current maturities	133	521
Long-term debt:		
Convertible subordinated notes, 7.5%, due 2014	153	145
Loans payable to banks:		
Unsecured term loans, weighted average rate 2.16% (prior year 2.59%), due 2011 – 2013	110	164
Notes payable to governmental entity, due 2010	–	20
Total long-term debt	263	329

Short-term loans payable to banks consist primarily of borrowings under the terms of short-term borrowing arrangements.

On June 5, 2003, the Company (as guarantor), through its subsidiary Infineon Technologies Holding B.V. (as issuer), issued €700 million in convertible subordinated notes due 2010 at par in an underwritten offering to institutional investors in Europe. The notes were originally convertible, at the option of the holders of the notes, into a maximum of 68.4 million ordinary shares of the Company, at a conversion price of €10.23 per share through maturity. As a result of the Company's share capital increase in August 2009, the conversion price was adjusted to €9.14 in accordance with an antidilution provision contained in the notes. The notes accrued interest at 5.0 percent per year. Following several buybacks in previous years, at September 30, 2009, the outstanding notional amount was €448 million. In the 2010 fiscal year, the Company repurchased €193 million of notional amounts of this subordinated convertible notes and fully repaid the remaining outstanding amount of €255 million in June 2010.

On May 26, 2009, the Company (as guarantor), through its subsidiary Infineon Technologies Holding B.V. (as issuer), issued €196 million in new subordinated convertible notes due 2014 at a discount of 7.2 percent in an offering to institutional investors in Europe. The notes were initially convertible, at the option of the holders of the notes, into a maximum of 74.9 million ordinary shares of the Company, at a conversion price of €2.61 per share at any time through maturity. As a result of the Company's share capital increase in August 2009, the conversion price was adjusted to €2.33 in accordance with an antidilution provision contained in the notes. The notes are now convertible into a maximum of 84 million ordinary shares. The notes accrue interest at 7.5 percent per year. The principal of the notes is unsecured and ranks pari passu with all present and future unsecured subordinated obligations of the issuer. The coupons on the notes are secured and unsubordinated. The noteholders have a negative pledge relating to future capital market indebtedness and an early redemption option in the event of a change of control. The Company may redeem the convertible notes due 2014 after two and a half years at their nominal amount plus interest accrued thereon plus the present value of all remaining coupon payments through the maturity date, if the Company's closing share price exceeds 150 percent of the conversion price on 15 out of the previous 30 consecutive trading days. The notes are listed on the Open Market (Freiverkehr) of the Frankfurt Stock Exchange. €31 million attributable to the conversion right of the noteholders was recognized in additional paid-in capital at the date of issuance of the subordinated convertible notes due 2014. The debt component of these convertible notes is recorded at amortized cost using the effective interest method.

Loans payable to banks mainly include several project financings taken up by Infineon Technologies Austria AG.

In June 2009 and September 2010, local financial institutions granted working capital and project loan facilities to Infineon Technologies (Wuxi) Co. Ltd. amounting to a total of US$176 million (€129 million). These multi-year facilities are available for general corporate purposes and the expansion of manufacturing facilities in Wuxi, China, including intragroup asset transfers. As of September 30, 2010, these facilities remained unused and are partially secured by an asset pledge and a corporate guarantee.

The Company has established independent financing arrangements with several financial institutions, in the form of both short- and long-term credit facilities.

€ in millions			As of September 30, 2010		
Term	Nature of financial institution commitment	Purpose/intended use	Aggregate facility	Drawn	Available
Short-term	firm commitment	general corporate purposes, working capital, guarantees	136	75	61
Short-term	no firm commitment	working capital, cash management	98	–	98
Long-term [1]	firm commitment	project finance	236	168	68
Total			470	243	227

1 Including current maturities.

Interest expense incurred in connection with debt for the years ended September 30, 2010 and 2009, was €63 million and €96 million, respectively.

Aggregate amounts of debt maturing subsequent to September 30, 2010 are as follows:

Fiscal year ending September 30 (€ in millions)	Amount
2011	133
2012	66
2013	44
2014	153
Total	396

Aggregate amounts of interest on debt subsequent to September 30, 2010 are payable as follows:

INTEREST MATURING

Fiscal year ending September 30 (€ in millions)	Amount
2011	19
2012	17
2013	16
2014 [1]	58
Total	110

1 Includes the effect of the accretion of the subordinated convertible notes due 2014.

28 / OTHER FINANCIAL LIABILITIES

Other non-current financial liabilities at September 30, 2010 and 2009 consist of the following:

€ in millions	2010	2009
Third party – trade, maturity more than 1 year	6	4
Other	–	1
Total	6	5

29 / OTHER LIABILITIES

Other non-current liabilities at September 30, 2010 and 2009 consist of the following:

€ in millions	2010	2009
Deferred income	46	53
Deferred government grants (note 7)	5	6
Deferred compensation	10	10
Other	18	16
Total	79	85

30 / EQUITY

ORDINARY SHARE CAPITAL

As of September 30, 2010, the share capital of Infineon Technologies AG amounted to €2,173,484,170, divided into 1,086,742,085 registered ordinary shares, notional value €2.00 per share. On August 5, 2009, the Company increased its share capital in a first step by €645,653,928 by issuing 322,826,964 shares from the Authorized Capital 2007 (registered in the Commercial Register as "Authorized Capital 2007/I") resolved on February 15, 2007 and part of the Authorized Capital 2009/I resolved on February 12, 2009. The new shares were offered to Infineon's shareholders for subscription at a ratio of four new shares for every nine existing shares held. After the execution of the first step of the capital increase, the share capital consisted of €2,145,138,098. In a second step, on August 11, 2009, the Company further increased its share capital by €28,346,072 by issuing 14,173,036 shares resulting from the Authorized Capital 2009/I resolved on February 12, 2009. The new shares were issued to Admiral Participations (Luxembourg) S.a.r.l.

As a result of these capital increases, the Company's share capital increased by €674 million to now €2,173,484,170. During the fiscal year ended September 30, 2010, no new ordinary shares were issued.

ADDITIONAL PAID-IN CAPITAL

The additional paid-in capital increased by €6 million, net of costs incurred of €45 million, in connection with the capital increases in the 2009 fiscal year.

AUTHORIZED SHARE CAPITAL

As of September 30, 2010, the Company's articles of association provide for two authorized capitals totaling €688 million:

Section 4(8) of the Articles of Association provides that the Management Board is authorized, with the approval of the Supervisory Board, to increase the share capital in the period until February 10, 2015 once or in partial amounts by a total of up to €648 million by issuing new no par value registered shares, carrying a dividend right as of the beginning of the fiscal year in which they are issued, against contributions in cash or in kind (Authorized Capital 2010/I). The Management Board is authorized, with the approval of the Supervisory Board, to exclude the subscription rights of the shareholders in certain cases.

However, in order to protect the shareholders against the dilution of their holdings, the Management Board of Infineon Technologies AG has undertaken to make use of this authorization to exclude the subscription rights of the shareholders in the case of capital increases against contributions in cash or in kind out of the Authorized Capital 2010/I, only up to an amount equivalent to 10 percent of the equity capital at the time the authority comes into force or, as the case may be – if this value should be lower – the equity capital existing at the time the authority is exercised. A capital increase with subscription rights excluded through the exercise of the Authorized Capital 2010/I is thus currently limited to a maximum of €217,348,417, equivalent to 108,674,208 no par value registered shares.

Section 4(9) of the Articles of Association further provides that the Management Board is authorized, with the approval of the Supervisory Board, to increase the share capital in the period until February 10, 2015 once or in partial amounts by a total of up to €40 million by issuing new no par value registered shares against contributions in cash for the purpose of issue to employees of the Company or its group companies (Authorized Capital 2010/II). The subscription rights of the shareholders are excluded in relation to these shares.

CONDITIONAL CAPITAL

The Company's conditional capital recorded in the Commercial Register amounts to €631.5 million. It has been created through six conditional capital increases:

- Conditional Capital I (registered in the Commercial Register as "Conditional Capital 1999/I") pursuant to Section 4(4) of the Articles of Association in an aggregate nominal amount of up to €34.6 million that may be used to issue up to 17.3 million new registered shares in connection with the Company's 2001 Long-Term Incentive Plan;

- Conditional Capital III (registered in the Commercial Register as "Conditional Capital 2001/I") pursuant to Section 4(5) of the Articles of Association in an aggregate nominal amount of up to €29 million that may be used to issue up to 14.5 million new registered shares in connection with the Company's 2001 and 2006 Long-Term Incentive Plans;
- Conditional Capital 2002 (registered in the Commercial Register as "Conditional Capital 2007/II") pursuant to Section 4(6) of the Articles of Association in an aggregate nominal amount of up to €134 million that may be used to issue up to 67 million new registered shares upon conversion of convertible notes issued in May 2009;
- Conditional Capital 2009/I pursuant to Section 4(7) of the Articles of Association in an aggregate nominal amount of €149.9 million that may be used to issue up to 74.95 million new registered shares upon conversion of convertible bonds issued in May 2009.
- Conditional Capital 2010/I pursuant to Section 4(10) of the Articles of Association in an aggregate nominal amount of up to €24 million that may be used to issue up to 12 million new registered shares in connection with the Company's 2010 Long-Term Incentive Plan.
- Conditional Capital 2010/II pursuant to Section 4(11) of the Articles of Association in an aggregate nominal amount of €260 million that may be used to issue up to 130 million new registered shares upon conversion of debt securities, which the Company may issue at any time prior to February 10, 2015.

OTHER RESERVES

The changes in other reserves for the fiscal years ended September 30, 2010 and 2009 are as follows:

€ in millions	2010			2009		
	Pretax	Tax effect	Net	Pretax	Tax effect	Net
Unrealized (losses) gains on securities:						
Unrealized holding (losses) gains	(4)	–	(4)	(15)	–	(15)
Reclassification adjustment for losses (gains) included in net income or loss	5	–	5	19	–	19
Net unrealized (losses) gains	1	–	1	4	–	4
Unrealized gains (losses) on cash flow hedges	10	–	10	7	–	7
Foreign currency translation adjustment	13	–	13	145	–	145
Other reserves	24	–	24	156	–	156

DIVIDENDS

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

For the 2010 fiscal year, the Company is proposing the payment of an ordinary dividend of €0.10 per share for approval at the upcoming annual General Shareholders' Meeting. Assuming approval is granted, the total payout amount would be €109 million.

ACCUMULATED LOSS

The following table shows a reconciliation of accumulated loss as of September 30, 2010 and 2009:

€ in millions	
As of October 1, 2008	(5.489)
Net loss attributable to shareholders of Infineon Technologies AG	(626)
Actuarial loss on post employment benefit obligations net of tax of €1 million	(65)
As of September 30, 2009	(6.180)
Net income attributable to shareholders of Infineon Technologies AG	659
Actuarial loss on post employment benefit obligations net of tax of €2 million	(92)
As of September 30, 2010	(5.613)

NON-CONTROLLING INTERESTS

Until the deconsolidation of ALTIS in the first quarter of the 2010 fiscal year (see note 6), IBM's 50 percent ownership interest in ALTIS was reflected as minority interest.

31 / CAPITAL MANAGEMENT

The key objective of the Company's capital management is to ensure financial flexibility on the basis of a sound capital structure. In line with peer companies in the semiconductor industry, there is a strong emphasis on liquidity in order to finance operations and make planned capital expenditures throughout the business cycle. Furthermore the role of debt within the financial mix should be limited to moderate levels. Following these guiding principles, Infineon has defined three key goals for its financial structure:

- Gross cash position between 30 percent and 40 percent of its sales
- Net cash position
- Gross debt at 2x EBITDA at most

The Company is not subject to any statutory capital requirements. Its capital management, its objectives and definitions of ratios are derived from IFRS figures. Infineon defines its net cash position or net debt position, as the case may be, as gross cash less the total of short-term and long-term debt. Gross cash is defined as the total of cash, cash equivalents and available-for-sale financial assets. Infineon defines EBIT as earnings (loss) before income (loss) from discontinued operations, interest, and taxes and EBITDA as EBIT plus depreciation and amortization.

The refinancing measures undertaken in the 2009 fiscal year, most notably the capital increases executed in August 2009, have contributed to a significant improvement in Infineon's liquidity position and capital structure. Additionally the operating business yielded significant free cash flows in the 2010 fiscal year. As of September 30, 2009, Infineon had a net cash position of €657 million which increased to €1,331 million over the course of the 2010 fiscal year. This development was mainly due to positive free cash flow, which means the positive cash flows from operating activities in excess of expenditures for investing purposes. Given projected levels of profitability, working capital needs and anticipated investments, the Company believes that free cash flow will remain an important source of liquidity going forward. At the same time the cyclical nature of the semiconductor industry implies the need for an adequate liquidity buffer. The Company had a gross cash position of €1,727 million as of September 30, 2010, or €220 million more than at the end of the 2009 fiscal year. This increase resulted primarily from the free cash flow which more than offset the repayment of the remaining €448 million outstanding notional amounts of the convertible subordinated notes due 2010. Considering sales of €4,585 million, including those of the Wireless mobile phone business in the 2010 fiscal year, the ratio of gross cash to sales stood at 37.7 percent as of September 30, 2010, in line with the Company's long-term goal. The full repayment of the 2010 convertible notes also contributed to a substantial improvement of the debt-to-EBITDA ratio which stood at 0.4x at the end of the 2010 fiscal year (including EBITDA from the Wireless mobile phone business).

Through a combination of financial measures and operating improvements, Infineon has reached a position of very solid liquidity and low leverage. Given the Company's target operating model, its cash needs in its working capital and the planned level of investments relative to depreciation & amortization, Infineon anticipates being able to generate sustainable solid free cash flow. In this context Infineon is proposing to initiate for the fiscal year 2010 regular dividend payments to its shareholders and aims for this dividend to be at a sustainable level. The degree of fulfillment of the Company's key financial targets as well as the generation of free cash flow, in particular in downturn years, will be the main factors determining the dividend amounts going forward.

The Company envisages being well within the above defined three key goals for its financial structure in the 2011 fiscal year and in fact to substantially exceed the target for gross cash as a percentage of sales. The company intends to maintain a gross cash position above its long term target for the foreseeable future. Infineon believes that it will be able to use such strategic cash in a value-creating manner, for example 300 millimeter manufacturing equipment or facilities for the intended ramp of volume production of power discretes or potentially for acquisitions. Should the Company find, with the passage of time, that it cannot put all of its strategic cash to productive use within the Company, Infineon would be in a position to increase its effort to return capital to shareholders.

Given its current liquidity position and additional available credit lines, together with the projected generation of positive free cash flows based on a more stable and profitable business model, the Company does not foresee the need to tap the financial markets in the near and mid-term future. Should however unexpected needs for liquidity arise, the Company's management is confident about having potential access to a broad array of financial instruments and capital sources, especially in the light of its currently low debt level.

32 / SHARE-BASED COMPENSATION

In 2001, the Company's shareholders approved the International Long-Term Incentive Plan ("LTI 2001 Plan") which replaced the LTI 1999 Plan. Options previously issued under the LTI 1999 Plan remain unaffected as to terms and conditions; however, no additional options may be issued under the LTI 1999 Plan. Under the terms of the LTI 2001 Plan, the Company could grant up to 51.5 million options over a five-year period. The exercise price of each option equals 105 percent of the average closing price of the Company's stock during the five trading days prior to the grant date. Granted options have a vesting period of between two and four years, subject to the Company's stock reaching the exercise price on at least one trading day, and expire seven years from the grant date.

Under the LTI 2001 Plan, the Company's Supervisory Board decided annually within 45 days after publication of the financial results how many options to grant to the Management Board. The Management Board, within the same period, decided how many options to grant to eligible employees.

In 2006, the Company's shareholders approved the Stock Option Plan 2006 ("SOP 2006") which replaced the LTI 2001 Plan. Under the terms of SOP 2006, the Company could grant up to 13 million options over a three-year period. The exercise price of each option equals 120 percent of the average closing price of the Company's stock during the five trading days prior to the grant date. Granted options are only exercisable if the price of an Infineon share exceeds the trend of the comparative index Philadelphia Semiconductor Index ("SOX") for at least three consecutive days on at least one occasion during the term of the option. Granted options have a vesting period of three years, subject to the Company's stock reaching the exercise price on at least one trading day, and expire six years from the grant date.

Under the SOP 2006, the Supervisory Board decides annually within a period of 45 days after publication of the annual results or the results of the first or second quarters of a fiscal year, but no later than two weeks before the end of the quarter, how many options to grant to the Management Board. During that same period the Management Board could grant options to other eligible employees.

In 2010, the Company's shareholders approved the Stock Option Plan 2010 ("SOP 2010") which replaced the SOP 2006 Plan. Under the terms of SOP 2010, the Company can grant up to 12 million options over a three-year period. The exercise price of each option equals 120 percent of the average closing price of the Company's stock during the five trading days prior to the grant date. The exercise of granted options is also conditional on the Infineon share price having progressed better than the comparative SOX.

Initially the respective reference values (100 percent) for this purpose will be determined as the arithmetic means of the Infineon share prices and the end-closing prices of the SOX over the three-month period following the issue of the stock options. The Infineon share price must then exceed the SOX (end-closing price), as measured using the respective reference values, at least once on at least ten consecutive trading days in the period beginning one year after the issue of the stock options and lasting until the end of their term. The aforementioned comparison must be made for each issue of the stock options with the reference values updated accordingly.

Under the SOP 2010, the Supervisory Board will decide annually within a period of 45 days after publication of the annual results or the results of the first, second or third quarters of a fiscal year, but no later than two weeks before the end of the quarter, how many options to grant to the Management Board. During that same period the Management Board may grant options to other eligible employees.

Several Conditional Capitals further described in the operating and financial review paragraph "Information Pursuant to Section 289, Paragraph 4, and section 315, Paragraph 4, of the German Commercial Code" and in note 30 ensure that the options that have been or will be issued under the LTI 2001 Plan, the SOP 2006 and the SOP 2010 can be satisfied with new shares. However, at the discretion of the Company, the beneficiary may be offered the choice of purchasing Infineon Technologies AG shares held by the Company or receiving a cash settlement in place of having Infineon Technologies AG shares issued from the Conditional Capitals created for the purpose.

A summary of the status of the LTI 2001 Plan, and the SOP 2006 as of September 30, 2009 and 2010, respectively, and changes during the fiscal years then ended are presented below (options in millions, exercise price in Euro, intrinsic value in millions of Euro):

	Number of options	Weighted-average exercise price	Weighted-average remaining life (in years)	Aggregated intrinsic value
Outstanding at September 30, 2008	33.2	12.30	2.28	–
Granted	2.6	–	–	–
Exercised	–	–	–	–
Forfeited and expired	(12.1)	16.28	–	–
Outstanding at September 30, 2009	23.7	9.18	2.23	3.0
Vested and expected to vest, net of estimated forfeitures at September 30, 2009	23.1	9.22	2.18	2.7
Exercisable at September 30, 2009	17.6	9.74	1.51	–
Outstanding at September 30, 2009	23.7	9.18	2.23	3.0
Granted	–	–	–	–
Exercised	–	–	–	–
Forfeited and expired	(8.0)	9.08	–	–
Outstanding at September 30, 2010	15.7	9.22	1.88	5.7
Vested and expected to vest, net of estimated forfeitures at September 30, 2010	15.5	9.32	1.83	5.1
Exercisable at September 30, 2010	13.3	10.39	1.37	–

The following table summarizes information about stock options outstanding and exercisable as of September 30, 2010 (options in millions, exercise prices in Euro):

	Outstanding			Exercisable	
Range of exercise prices	Number of options	Weighted-average remaining life (in years)	Weighted-average exercise price	Number of options	Weighted-average exercise price
Under €5	2.4	4.68	2.72	–	–
€5 – €10	7.5	1.74	8.60	7.5	8.60
€10 – €15	5.8	0.89	12.68	5.8	12.68
Total	15.7	1.88	9.22	13.3	10.39

Options with an aggregate fair value of €8 million and €10 million vested during the fiscal years ended September 30, 2010 and 2009, respectively. Options with a total intrinsic value of €0 million and €0 million were exercised during the fiscal years ended September 30, 2010 and 2009, respectively.

Changes in the Company's unvested options for the fiscal years ended September 30, 2009 and 2010 are summarized as follows (options in millions, fair values in Euro, intrinsic value in millions of Euro):

	Number of options	Weighted-average grand date fair value	Weighted-average remaining life (in years)	Aggregated intrinsic value
Unvested at September 30, 2008	6.7	2.96	4.05	–
Granted	2.6	0.71		
Vested	(2.9)	3.54		
Forfeited	(0.4)	2.99		
Unvested at September 30, 2009	6.0	1.70	4.33	3.0
Unvested options expected to vest	5.5	1.69	4.34	2.7
Unvested at September 30, 2009	6.0	1.70	4.33	3.0
Granted	–	–	–	–
Vested	(3.2)	2.46	–	–
Forfeited	(0.4)	2.74	–	0.3
Unvested at September 30, 2010	2.4	0.71	4.68	5.7
Unvested options expected to vest	2.2	0.71	4.68	5.1

The fair value of each option grant issued pursuant to the 2001 Long-Term Incentive Plan was estimated on the grant date using the Black-Scholes option-pricing model. For options granted prior to October 1, 2005, Infineon relied on historical volatility measures when estimating the fair value of stock options granted to employees. For options granted after October 1, 2005, Infineon uses a combination of implied volatilities from traded options on Infineon's ordinary shares and historical volatility when estimating the fair value of stock options granted to employees, as it believes that this methodology better reflects the expected future volatility of its stock. The expected life of options granted was estimated based on historical experience.

The fair value of each option grant issued pursuant to the Stock Option Plan 2006 was estimated on the grant date using a Monte Carlo simulation model. This model takes into account vesting conditions relating to the performance of the SOX and its impact on stock option fair value. The Company uses a combination of implied volatilities from traded options on Infineon's ordinary shares and historical volatility when estimating the fair value of stock options granted to employees, as it believes that this methodology better reflects the expected future volatility of its stock. The expected life of options granted was estimated using the Monte Carlo simulation model.

For options granted after October 1, 2005, forfeitures are estimated based on historical experience; prior to that date, forfeitures were recorded as they occurred. The risk-free rate is based on Treasury note yields at the time of grant for the estimated life of the option. Infineon has not made any dividend payments during the fiscal year ended September 30, 2010.

The following weighted-average assumptions were used in the fair value calculation during the fiscal year ended September 30, 2009 as there was no issuance of options during the 2010 fiscal year:

	2009
Weighted-average assumptions:	
Risk-free interest rate	1.88%
Expected volatility, underlying shares	67%
Expected volatility, SOX index	36%
Forfeiture rate, per year	3.40%
Dividend yield	0%
Expected life in years	3.20
Weighted-average fair value per option at grant date in €	0.71

As of September 30, 2010, there was a total of €1 million in unrecognized compensation expense related to unvested stock options of Infineon, which is expected to be recognized over a weighted-average period of 1.68 years.

SHARE-BASED COMPENSATION EXPENSE

Share-based compensation expense was allocated as follows for the fiscal years ended September 30, 2010 and 2009:

€ in millions	2010	2009
Compensation expense recognized:		
Cost of goods sold	–	–
Selling, general and administrative expenses	–	2
Research and development expenses	–	–
Total share-based compensation expense	–	2
Share-based compensation effect on basic and diluted earnings (loss) per shares in €	–	–

33 / SUPPLEMENTAL CASH FLOW INFORMATION

During fiscal years 2010 and 2009 there were no significant non-cash transactions from investing or financing activities.

Of the cash and cash equivalents of €1,667 million as of September 30, 2010, €42 million is not available for general use by the Company. The amount of €42 million represents cash and cash equivalents of consolidated companies located in countries where transfer of cash is legally restricted, e.g. companies located in the People's Republic of China.

34 / RELATED PARTIES

The Company has transactions in the normal course of business with equity method investees and related companies (collectively, "Related Parties"). The Company also has transactions with members of key management personnel, such as Management and Supervisory Board members, solely related to compensation in connection with their functions.

The Company purchases certain of its raw materials from, and sells certain of its products to, Related Parties. Purchases from and sales to Related Parties are generally based on manufacturing costs plus a mark-up.

Related Party receivables consist primarily of trade, financial, and other receivables from equity method investees and related companies, and totaled €3 million and €3 million as of September 30, 2010 and 2009, respectively.

Related Party payables consist primarily of trade, financial, and other payables to equity method investees and related companies, and totaled €18 million and €15 million as of September 30, 2010 and 2009, respectively.

Related Party receivables and payables as of September 30, 2010 and 2009, have been segregated first between amounts owed by or to companies in which the Company has an ownership interest, and second based on the underlying nature of the transactions. Trade receivables and payables result from amounts for the purchase and sale of products and services. Financial and other receivables and payables include amounts owed relating to loans and advances and accrued interest at interbank rates.

Sales to Related Parties totaled €28 million and €2 million in the 2010 and 2009 fiscal years, respectively, while purchases from Related Parties totaled €229 million and €138 million in the 2010 and 2009 fiscal years, respectively.

REMUNERATION OF MANAGEMENT

The serving members of the Management Board in the 2010 year received total fixed non-performance-related compensation of €4.1 million (previous year: €3.6 million) 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. In the 2010 fiscal year, the full salaries were paid again and each of the members of the Management Board also received a performance-related bonus of €0.79 million (€0.78 million for Dr. Schröter) for their service in the 2010 fiscal year. The total cash compensation in the 2010 fiscal year therefore amounts to €7.2 million (previous year: €3.6 million). In the 2009 fiscal year, no stock options were granted to the members of the Management Board. For the 2010 fiscal year, the Supervisory Board decided on November 22, 2010 to issue a total of 440,000 stock options to the members of the Management Board.

The total aggregate cash compensation of the members of the Supervisory Board of the Infineon Technologies AG in the 2010 fiscal year amounted to €0.5 million (previous year: €0.5 million). In the 2009 fiscal year, no share appreciations rights were granted to the members of the Supervisory Board. The Supervisory Board members will receive 1,500 share appreciation rights each 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.

Former members of the Management Board received total payments of €3.4 million (severance and pension payments) in the 2010 fiscal year (previous year: €1.8 million). This includes the first installment of the severance settlement paid to Dr. Schröter in the amount of €1.8 million.

As of September 30, 2010, pension liabilities for former members of the Management Board amount to €36.6 million (previous year: €27 million).

Neither Infineon Technologies AG nor any of its subsidiaries have granted loans to any member of the Supervisory or Management Boards.

For the individualized disclosure of the remuneration of the members of the Management Board and the Supervisory Board as required by section 314(1) No. 6 letter a, sentence 5 to 9 of the German Commercial Code see the Compensation Report which is part of the Financial Review.

35 / EMPLOYEE BENEFITS

Pension benefits provided by the Company are currently organized primarily through defined benefit pension plans which cover a significant portion of the Company's employees. Plan benefits are principally based upon years of service. Certain pension plans are based on salary earned in the last year or last five years of employment, while others are fixed plans depending on ranking (both salary level and position). The measurement date for the Company's pension plans is September 30.

Information with respect to the Company's pension plans for the years ended September 30, 2010 and 2009 is presented for German ("Domestic") plans and non-German ("Foreign") plans:

€ in millions	2010		2009	
	Domestic plans	Foreign plans	Domestic plans	Foreign plans
Change in defined benefit obligation:				
Present value of defined benefit obligation at beginning of year	(360)	(65)	(297)	(79)
Current service cost	(10)	(2)	(10)	(2)
Past service cost	(2)	–	–	–
Interest cost	(19)	(3)	(19)	(4)
Actuarial gains (losses)	(85)	(13)	(46)	2
Divestitures	11	1	–	10
New plan created and plan amendments	–	–	–	–
Curtailments	–	–	4	3
Benefits paid	9	3	8	3
Foreign currency effects	–	(4)	–	2
Present value of defined benefit obligation at end of year	(456)	(83)	(360)	(65)
Change in fair value of plan assets:				
Fair value at beginning of year	305	25	298	35
Expected return on plan assets	18	2	21	2
Actuarial gains (losses)	3	1	(14)	(4)
Divestitures	(10)	–	–	(6)
Contributions	10	4	8	3
Benefits paid	(9)	(3)	(8)	(3)
Foreign currency effects	–	1	–	(2)
Fair value of plan assets at end of year	317	30	305	25

The funded status has developed since fiscal year 2007 as follows:

RECONCILIATION OF THE FUNDED STATUS OF THE COMPANY'S PENSION PLAN

€ in millions	2010		2009		2008		2007	
	Domestic plans	Foreign plans	Domestic plans	Foreign plans	Domestic plans	Foreign plans	Domestic plans	Foreign plans
Present value of funded obligations	(456)	(83)	(360)	(65)	(348)	(83)	(398)	(77)
Fair value of plan assets	317	30	305	25	329	37	368	41
Funded status	(139)	(53)	(55)	(40)	(19)	(46)	(30)	(36)

A reconciliation of the funded status of the Company's pension plans to the amounts recognized in the consolidated statement of financial position is as follows:

€ in millions	2010		2009	
	Domestic plans	Foreign plans	Domestic plans	Foreign plans
Funded status	(139)	(53)	(55)	(40)
Asset ceiling	–	–	–	–
Asset (liability) recognized	(139)	(53)	(55)	(40)
Thereof recognized in: Pension liabilities	(93)	(53)	(55)	(39)
Thereof recognized in: Liabilities classified as held for sale	(46)	–	–	(1)

The experience adjustments, meaning differences between changes in assets and obligations expected on the basis of actuarial assumptions and actual changes in those assets and obligations, are as follows:

€ in millions	2010		2009		2008		2007	
	Domestic plans	Foreign plans	Domestic plans	Foreign plans	Domestic plans	Foreign plans	Domestic plans	Foreign plans
Differences between expected and actual developments:								
of fair value of the obligation	(3)	–	(1)	3	8	(2)	13	2
of fair value of plan assets	3	1	(14)	(4)	(68)	(5)	(2)	–

The actual return on plan assets was €25 million and €5 million in the years ended September 30, 2010 and 2009, respectively.

The weighted-average assumptions used in calculating the actuarial values for the pension plans are as follows:

in %	2010		2009	
	Domestic plans	Foreign plans	Domestic plans	Foreign plans
Discount rate at the end of the fiscal year	4.3	4.5	5.8	5.3
Rate of salary increase	2.0	2.0	2.0	1.9
Projected future pension increases	2.0	0.8	2.0	1.4
Expected return on plan assets at the beginning of the fiscal year	6.3	7.2	7.1	7.2

Discount rates are established based on prevailing market rates for high-quality fixed-income instruments that, if the pension benefit obligation were settled at the measurement date, would provide the necessary future cash flows to pay the benefit obligation when due. The Company believes short-term changes in interest rates should not affect the measurement of the Company's long-term obligations.

INVESTMENT STRATEGIES

The investment approach of the Company's pension plans involves employing a sufficient level of flexibility to capture investment opportunities as they occur, while maintaining reasonable parameters to ensure that prudence and care are exercised in the execution of the investment program. The Company's pension plans' assets are invested with several investment managers. The plans employ a mix of active and passive investment management programs. Considering the duration of the underlying liabilities, a portfolio of investments of plan assets in equity securities, debt securities and other assets is targeted to maximize the long-term return on assets for a given level of risk. Investment risk is monitored on an ongoing basis through periodic portfolio reviews, meetings with investment managers and annual liability measurements. Investment policies and strategies are periodically reviewed to ensure the objectives of the plans are met considering any changes in benefit plan design, market conditions or other material items.

EXPECTED LONG-TERM RATE OF RETURN ON PLAN ASSETS

Establishing the expected rate of return on pension assets requires judgment. The Company's approach in determining the long-term rate of return for plan assets is based upon historical financial market relationships, the types of investment classes in which pension plan assets are invested, long-term investment strategies, as well as the expected compounded return the Company can reasonably expect the portfolio to earn over appropriate time periods.

The Company reviews the expected long-term rate of return annually and revises it as appropriate. Also, the Company periodically commissions detailed asset/liability studies to be performed by third-party professional investment advisors and actuaries.

PLAN ASSET ALLOCATION

As of September 30, 2010 and 2009 the percentage of plan assets invested and the targeted allocation in major asset categories are as follows:

in %	Targeted allocation		2010		2009	
	Domestic plans	Foreign plans	**Domestic plans**	**Foreign plans**	Domestic plans	Foreign plans
Equity securities	39	39	27	38	31	37
Debt securities	33	15	36	13	28	17
Other	28	46	37	49	41	46
Total	100	100	100	100	100	100

The position others in the table above include hedge funds, commodity funds, real-estade funds, liability insurances and cash.

The Company's asset allocation targets for its pension plan assets are based on its assessment of business and financial conditions, demographic and actuarial data, funding characteristics, related business risk factors, market sensitivity analysis and other relevant factors. The overall allocation is expected to help protect the plans' funded status while generating sufficiently stable real returns (i.e., net of inflation) to meet current and future benefit payment needs. Due to active portfolio management, the asset allocation may differ from the target allocation up to certain limits for different classes. As a matter of policy, the Company's pension plans do not invest in shares of Infineon.

The components of net periodic pension cost for the years ended September 30, 2010 and 2009 are as follows:

€ in millions	2010		2009	
	Domestic plans	Foreign plans	Domestic plans	Foreign plans
Service cost	(10)	(2)	(10)	(2)
Interest cost	(19)	(3)	(19)	(4)
Expected return on plan assets	18	2	21	2
Amortization of unrecognized prior service (cost) benefit	(2)	–	–	–
Curtailment gain recognized	–	–	4	3
Net periodic pension cost	(13)	(3)	(4)	(1)
Pension expense from discontinued operations	(4)	–	(4)	–
Pension expense from continuing operations	(9)	(3)	–	(1)

The past service costs relating to the pension plans are amortized in equal amounts over the average period until the benefits become vested.

Actuarial gains (losses) of negative €93 million and negative €62 million have been recognized in the statement of changes in equity and the statement of comprehensive income for the years ended September 30, 2010 and 2009, respectively. As of September 30, 2010 and 2009, cumulative actuarial gains (losses) amounted to negative €50 million and € 43 million, respectively. It is not planned nor anticipated that any plan assets will be returned to the Company during the next fiscal year.

The effect of employee terminations in connection with the Company's restructuring plans on the Company's pension obligation is reflected as a curtailment in the year ended September 30, 2009 pursuant to the provisions of IAS 19.

The interest cost due to the increase in the present value of the defined benefit obligation during a period and the interest income from the plan assets are shown as interest expense or interest income. The remaining net periodic pension cost is mainly attributed to cost of sales and research and development costs.

The Company recognized €103 million and €101 million as an expense for defined contribution plans in the financial years ended September 30, 2010 and 2009.

36 / ADDITIONAL DISCLOSURES ON FINANCIAL INSTRUMENTS

The following table presents the carrying amounts and the fair values by class of financial instruments and reconciliation from the classes of financial instruments to the IAS 39 categories of financial instruments.

€ in millions		Categories of financial assets				
Financial assets:	Carrying amount	At fair value through profit or loss	Designated cash flow hedges	Available for sale	Loans and receivables	Fair value
Balance September 30, 2009						
Current assets:						
Cash and cash equivalents	1,414	–	–	–	1,414	1,414
Available-for-sale financial assets	93	–	–	93	–	93
Trade and other receivables	514	–	–	–	514	514
Other current financial assets	26	25	1	–	–	26
Non-current assets:						
Other financial assets	124	–	–	26	98	124
Total	2,171	25	1	119	2,026	2,171
Balance September 30, 2010						
Current assets:						
Cash and cash equivalents	1,667	–	–	–	1,667	1,667
Available-for-sale financial assets	60	–	–	60	–	60
Trade and other receivables	687	–	–	–	687	687
Other current financial assets	72	63	9	–	–	72
Assets classified as held for sale	4	–	–	1	3	4
Non-current assets:						
Other financial assets	119	–	–	20	99	119
Total	2,609	63	9	81	2,456	2,609

€ in millions		Categories of financial assets				
Finanzielle Verbindlichkeiten	Carrying amount	At fair value through profit or loss	Designated cash flow hedges at fair value	Other financial liabilities (amortized cost)	Lease liabilities	Fair value
Balance September 30, 2009						
Current liabilities:						
Short-term debt and current maturities of long-term debt	521	–	–	521	–	506
Trade and other payables	393	–	–	393	–	393
Other current financial liabilities	50	15	–	35	–	50
Non-current liabilities:						
Long-term debt	329	–	–	329	–	317
Other financial liabilities	5	–	–	5	–	5
Total	1,298	15	–	1,283	–	1,271
Balance September 30, 2010						
Current liabilities:						
Short-term debt and current maturities of long-term debt	133	–	–	133	–	133
Trade and other payables	665	–	–	665	–	665
Other current financial liabilities	16	6	–	10	–	16
Non-current liabilities:						
Long-term debt	263	–	–	263	–	276
Other financial liabilities	6	–	–	6	–	6
Total	1,083	6	–	1,077	–	1,096

Fair values of derivative financial instruments are determined using quoted market prices or according to the discounted cash flow method. The fair value of the Company's unsecured term loans and interest-bearing notes payable approximate their carrying values as their interest rates approximate those which could be obtained currently. At September 30, 2010, the subordinated convertible notes, due 2014, were trading at a 138.174 percent premium to par based on quoted market values. The fair values of the Company's cash and cash equivalents, receivables and payables, as well as related-party receivables and payables and other financial instruments approximated their carrying values due to their short-term nature. Available for sale financial assets are recorded at fair value (see note 13).

Financial instruments recorded at fair value are classified into various valuation levels in accordance with IFRS 7. This includes financial instruments that are

- valued according to quoted prices in an active market for identical financial instruments (Level 1),
- valued according to quoted prices in an active market for comparative financial instruments or using valuation models whose main input factors are based on observable market data (Level 2), or
- valued using input factors that are not based on observable market data (Level 3).

The classification according to valuation level as of September 30, 2010 is as follows:

€ in millions	Fair Value	Level 1	Level 2	Level 3
Financial assets				
Current assets:				
Available-for-sale financial assets	60	–	60	–
Other current financial assets	72	72	–	–
Assets classified as held for sale	1	–	–	1
Non-current assets:				
Other financial assets	20	14	–	6
Total	153	86	60	7
Financial liabilities				
Current liabilities:				
Other current financial liabilities	6	6	–	–
Total	6	6	–	–

The following table contains information about net gains (losses) from continuing operations by category of financial instruments for the 2010 and 2009 fiscal years:

€ in millions	Financial assets and financial receivables at fair value through profit or loss						
	Available-for-sale financial assets	Loans and receivables	Designated as at fair value through profit or loss	Held for trading	Other liabilities	Cash flow hedges	Total
Fiscal year 2009:							
Total removed from equity and recognized in profit or loss	19	–	–	–	–	7	26
Fair value gain (loss) ecognized directly in equity	(15)	–	–	–	–	–	(15)
Net gains (losses) recognized in equity	4	–	–	–	–	7	11
Interest revenue	61	22	–	–	(124)	(2)	(43)
Net foreign exchange gain (loss)	–	3	–	(16)	2	–	(11)
Fair value gain (loss)	(23)	–	(4)	17	–	–	(10)
Impairment loss (reversal)	–	(18)	–	–	–	–	(18)
Total recognized in profit or loss	38	7	(4)	1	(122)	(2)	(82)
Total net gain (loss)	42	7	(4)	1	(122)	5	(71)
Fiscal year 2010:							
Total removed from equity and recognized in profit or loss	5	–	–	–	–	(16)	(11)
Fair value gain (loss) recognized directly in equity	(4)	–	–	–	–	26	22
Net gains (losses) recognized in equity	1	–	–	–	–	10	11
Interest revenue	1	17	–	–	(89)	(2)	(73)
Net foreign exchange gain (loss)	–	1	–	12	(15)	(26)	(28)
Fair value gain (loss)	3	2	4	1	–	–	10
Impairment loss (reversal)	(3)	(2)	–	–	–	–	(5)
Total recognized in profit or loss	1	18	4	13	(104)	(28)	(96)
Total net gain (loss)	2	18	4	13	(104)	(18)	(85)

DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING ACTIVITIES

The Company periodically enters into derivative financial instruments, including foreign exchange forward and option contracts as well as interest rate swap agreements. The objective of these transactions is to reduce the impact of interest rate and exchange rate fluctuations on the Company's net future cash flows. The Company does not enter into derivatives for trading or speculative purposes.

The Euro equivalent notional amounts in millions and fair values of the Company's derivative instruments as of September 30, 2010 and 2009 are as follows:

€ in millions	2010		2009	
	Notional amount	Fair value	Notional amount	Fair value
Forward contracts sold				
U.S. dollar	466	20	390	8
Japanese yen	4	–	4	–
Singapore dollar	–	–	2	–
Great Britain pound	1	–	–	–
Forward contracts purchased				
U.S. dollar	60	(2)	78	(5)
Japanese yen	7	–	5	–
Singapore dollar	17	–	16	–
Great Britain pound	5	–	4	–
Malaysian ringgit	50	1	41	(2)
Currency options sold				
U.S. dollar	1,061	47	–	–
Interest rate swaps	–	–	500	16
Other	3	–	13	(6)
Fair value, net		66		11

The Company enters into derivative instruments, primarily foreign exchange forward and option contracts, to hedge significant anticipated U.S. dollar cash flows from operations. During the 2010 fiscal year, the Company designated as cash flow hedges certain foreign exchange forward contracts and foreign exchange options related to highly probable forecasted sales denominated in U.S. dollars. The fair value of these derivative instruments amounts to €9 million. During the 2010 fiscal year changes in fair values of derivative financial instruments in an amount of negative €18 million were recognized in other reserves and negative €26 million in cost of goods sold. The Company did not record any ineffectiveness for these hedges for the 2010 fiscal year. However, it excluded differences between spot and forward rates and the time value from the assessment of hedge effectiveness and included this component of financial instruments' gain or loss as part of cost of goods sold. It is estimated that €9 million of the net result recognized directly in other components of equity as of September 30, 2010 will be reclassified into earnings during the 2011 fiscal year. All foreign exchange derivatives designated as cash flow hedges held as of September 30, 2010 have maturities of four months or less. Foreign exchange derivatives entered into by the Company to offset exposure to anticipated cash flows that do not meet the requirements for applying hedge accounting are marked to market at each reporting period with unrealized gains and losses recognized in earnings. For the fiscal years ended September 30, 2009 and 2010, no gains or losses were reclassified from other reserves as a result of the discontinuance of foreign currency cash flow hedges resulting from a determination that it was probable that the original forecasted transaction would not occur.

37 / FINANCIAL RISK MANAGEMENT

The Company's activities expose it to a variety of financial risks: market risk (including foreign exchange risk, interest rate risk and price risk), credit risk and liquidity risk. The Company's overall financial risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on its financial performance. The Company uses derivative financial instruments to hedge certain risk exposures. Risk management is carried out by a central Finance and Treasury ("FT") department under policies approved by the Management Board. The FT department identifies, evaluates and hedges financial risks in close co-operation with the Company's operating units. The FT department's policy contains written principles for overall risk management, as well as written policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk, use of derivative financial instruments and non-derivative financial instruments, and investment of excess liquidity.

MARKET RISK

Market risk is defined as the risk of loss related to adverse changes in market prices of financial instruments, including those related to foreign exchange rates and interest rates.

The Company is exposed to various financial market risks in the ordinary course of business transactions, primarily resulting from changes in foreign exchange rates and interest rates. The Company enters into diverse derivative financial transactions with several counterparties to limit such risks. Derivative instruments are used only for hedging purposes and not for trading or speculative purposes.

FOREIGN EXCHANGE RISK

Foreign exchange risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

Although the Company prepares the consolidated financial statements in Euro, major portions of its sales volumes as well as costs relating to the design, development, manufacturing and marketing of products are denominated in currencies other than the Euro, primarily the U.S. dollar. Fluctuations in the exchange rates of these currencies to the Euro had an effect on results in the 2010 and 2009 fiscal years.

Management has established a policy to require the Company's individual legal entities to manage their foreign exchange risk against their functional currency. The legal entities are required to internally hedge their entire foreign exchange risk exposure with the Company's FT department. To manage their foreign exchange risk arising from future commercial transactions and recognized assets and liabilities, the individual entities use forward contracts, transacted with the Company's FT department.

The Company's policy with respect to limiting short-term foreign currency exposure generally is to economically hedge at least 75 percent of its estimated net exposure for the initial two-month period, at least 50 percent of its estimated net exposure for the third month and, depending on the nature of the underlying transactions, a portion for the periods thereafter. Part of the foreign currency exposure cannot be mitigated due to differences between actual and forecasted amounts. The Company calculates this net exposure on a cash-flow basis considering items of the statement of financial position, actual orders received or made and all other planned revenues and expenses.

For the 2010 and 2009 fiscal years, net gains (losses) related to foreign currency derivatives and foreign currency transactions included in determining net income (loss) amounted to negative €28 million and negative €11 million, respectively.

The following table shows the net exposure for continuing operations by major foreign currencies and the potential effects on a 10 percent shift of the currency exchange rates to be applied as of September 30, 2010 and 2009:

€ in millions	Profit or Loss		Equity	
	+10%	−10%	+10%	−10%
September 30, 2009				
EUR/USD	4	(5)	11	(13)
EUR/MYR	(2)	3	–	–
EUR/YEN	–	–	–	–
EUR/SGD	–	–	–	–
September 30, 2010				
EUR/USD	(11)	14	11	(14)
EUR/MYR	–	(2)	–	–
EUR/YEN	1	(1)	–	–
EUR/SGD	–	–	–	–

INTEREST RATE RISK

In accordance with IFRS 7 interest rate risk is defined as the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Company is exposed to interest rate risk through its financial assets and debt instruments resulting from issuance of bonds and credit facilities. Due to the high volatility of its core business and the need to maintain high operational flexibility, its liquid financial assets are kept at a high level. These assets are mainly invested in short-term interest rate instruments. The risk of changing interest rates affecting these assets is partially offset by financial liabilities, some of which are based on variable interest rates.

To reduce the risk caused by changes in market interest rates, the Company attempts to align the duration of the interest rates of its debts and current assets by the use of interest rate derivatives.

IFRS 7 requires a sensitivity analysis showing the effect of possible changes in market interest on profit or loss and equity. The Company does this by using the iteration method. The Company does not hold any fixed-rate financial assets or liabilities categorized as at fair value through profit or loss and does not apply hedge accounting for interest rate risk. In respect of fixed-rate available-for-sale financial assets, a change of 100 basis points in interest rates at the reporting date would have increased or decreased equity by €0.5 million and €1 million as of September 30, 2010 and 2009, respectively.

Changes in market interest rates affect interest income and interest expense on floating interest financial instruments. A change of 100 basis points in interest rates at the reporting date would have increased or decreased profit or loss by €1.5 million and by €2 million in the 2010 and 2009 fiscal years, respectively.

Changes in interest rates affect the fair value and cash flows of interest rate derivatives. A change of 100 basis points in interest rates at the reporting date would have decreased or increased profit or loss by €0 million and by €3 million in the 2010 and 2009 fiscal years, respectively. At the beginning of June 2010, the Company's interest rate derivatives had expired.

OTHER PRICE RISK

According to IFRS 7 other price risk is defined as the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

Infineon holds financial instruments which are exposed to market price risks. A potential change of in the relevant market prices of 5 percent would increase or decrease profit or loss by €0.1 million and €1 million for the 2010 and 2009 fiscal years.

Additionally, the Company is exposed to price risks with respect to raw materials used in the manufacture of its products. The Company seeks to minimize these risks through its sourcing policies (including the use of multiple sources, where possible) and its operating procedures. The Company does not use derivative financial instruments to manage any exposure to fluctuations in commodity prices remaining after the operating measures described above.

CREDIT RISK

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

Financial instruments that expose the Company to credit risk consist primarily of trade receivables, cash equivalents, available-for-sale financial assets and foreign currency derivatives. Concentrations of credit risks with respect to trade receivables are limited by the large number of geographically diverse customers that make up the Company's customer base. The Company controls credit risk through credit approvals, credit limits and monitoring procedures, as well as comprehensive credit evaluations for all major customers. The credit risk with respect to available-for-sale financial assets and foreign currency derivatives is limited by transactions with a number of large international financial institutions, with preestablished limits. The Company does not believe that there is significant risk of non-performance by these counterparties because the Company monitors their credit risk and limits the financial exposure and the amounts of agreements entered into with any one financial institution. The credit worthiness of the counterparties is checked regularly in order to keep the risk of default as low as possible. However, the Company cannot fully exclude the possibility of any loss arising from the default of one of the counterparties.

The maximum risk positions of financial assets which generally are subject to credit risk are equal to their carrying amounts.

LIQUIDITY RISK

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities.

Liquidity risk could arise from the Company's potential inability to meet matured financial obligations. The Company's liquidity risk management basically implies maintaining sufficient cash and marketable securities, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions. Due to the dynamic nature of the underlying businesses, the Company's FT department maintains flexibility in funding by maintaining availability under committed credit lines.

The following table discloses a maturity analysis for non-derivative financial liabilities and a cash flow analysis for derivative financial instruments with negative fair values. The table shows the undiscounted contractually agreed cash flows which result from the respective financial liability. Cash flows are recognized at trade date when the Company becomes a party to the contractual provision of the financial instrument.

Amounts in foreign currencies are translated using the closing rate at the reporting date. Financial instruments with variable interest payments are determined using the interest rate from the last interest fixing date before September 30, 2010. The cash outflows of financial liabilities that can be paid off at any time are assigned to the time band where the earliest redemption is possible.

€ in millions	Contractual cash flows	2011	2012	2013	2014	2015	Thereafter
Non derivative financial liabilities	1,188	828	87	52	212	–	9
Derivative financial liabilities:							
Cash outflow	(148)	(148)	–	–	–	–	–
Cash inflow[1]	144	144	–	–	–	–	–
Total	1,184	824	87	52	212	–	9

1 Cash inflows of derivates financial liabilities are also included when the instruments is gross settled in order to show all contractual cash flows.

38 / COMMITMENTS AND CONTINGENCIES

LITIGATION AND GOVERNMENT INQUIRIES

U.S. DEPARTMENT OF JUSTICE MATTER

In September 2004, the Company entered into a plea agreement with the Antitrust Division of the U.S. Department of Justice ("DOJ") in connection with its investigation into alleged antitrust violations in the DRAM industry. Pursuant to this plea agreement, the Company agreed to plead guilty to a single count of conspiring with other unspecified DRAM manufacturers to fix the prices of DRAM products during certain periods of time between July 1, 1999 and June 15, 2002, and to pay a fine of $160 million (plus interest) in annual installments through 2009. The final installment of $25 million plus interest (€17 million) was paid in October 2009. The price-fixing charges related to DRAM sales to six Original Equipment Manufacturer ("OEM") customers that manufacture computers and servers. The Company has settled with the OEM customers. In addition to those OEM customers, the Company has settled with eight direct customers and the six "opt out" plaintiffs described below.

ANTITRUST LITIGATION

Subsequent to the commencement of the DOJ investigation, a number of putative class action lawsuits were filed in U.S. federal courts against the Company, its U.S. subsidiary Infineon Technologies North America Corp. ("IF North America") and other DRAM suppliers by direct purchasers, indirect purchasers and various U.S. state attorneys general. The lawsuits allege price-fixing in violation of the Sherman Act and seek treble damages in unspecified amounts, costs, attorneys' fees, and an injunction against the allegedly unlawful conduct. In September 2002, these federal cases were transferred to the U.S. District Court for the Northern District of California for coordinated or consolidated pre-trial proceedings as part of a Multi District Litigation ("MDL").

In September 2005, the Company and IF North America entered into a definitive settlement agreement with counsel for the class of direct U.S. purchasers of DRAM (granting an opportunity for individual class members to opt out of the settlement). In November 2006, the court approved the settlement agreement, entered final judgment and dismissed the claims with prejudice. Six entities chose to opt out of the class action settlement and pursue individual lawsuits against the Company and IF North America. The Company and IF North America have settled with all six plaintiffs.

Approximately sixty additional cases were filed through October 2005 in numerous federal and state courts throughout the U.S. These state and federal cases purport to be on behalf of a class of individuals and entities who indirectly purchased DRAM products in the U.S. during specified time periods commencing in or after 1999. The complaints variously allege violations of the Sherman Act, California's Cartwright Act, various other state laws, unfair competition law, and unjust enrichment and seek treble damages in generally unspecified amounts, restitution, costs, attorneys' fees and injunctions against the allegedly unlawful conduct.

Twenty-three of the state and federal court cases were subsequently ordered transferred to the U.S. District Court for the Northern District of California for coordinated and consolidated pretrial proceedings as part of the MDL proceeding described above. Nineteen of the twenty-three transferred cases are currently pending in the MDL litigation. The pending California state cases were coordinated and transferred to San Francisco County Superior Court for pre-trial proceedings. The plaintiffs in the indirect purchaser cases outside California agreed to stay proceedings in those cases in favor of proceedings on the indirect purchaser cases pending as part of the MDL pre-trial proceedings.

In January 2008, the district court in the MDL indirect purchaser proceedings granted in part and denied in part the defendants' motion for judgment on the pleadings directed at several of the claims. In June 2008, the Ninth Circuit Court of Appeals agreed to hear an appeal by the plaintiffs. Plaintiffs have agreed to a stay of further proceedings in the MDL indirect purchaser cases until the appeal is complete.

Plaintiffs in various state court indirect purchaser actions outside of the MDL have moved to lift the stays that were previously in place. In March 2009, the judge in the Arizona state court action issued an order denying plaintiffs' motion to lift the stay. In December 2009, the judge in the Minnesota state court action issued an order denying plaintiffs' motion to lift the stay. In September 2009, the court in the Arkansas state action issued an order directing the parties to submit to mediation within ninety days, and granting plaintiffs' motion to lift the stay after the ninety day period. The parties subsequently conducted a mediation on December 7, 2009, but the case did not settle. In July 2009, the court in the Wisconsin state court indirect purchaser action issued an order lifting the stay in the Wisconsin state case. In October 2009, the court in the West Virginia state court indirect purchaser action issued an order lifting the stay in the West Virginia state case.

The state attorneys general of forty-one U.S. states and territories have filed various suits against the Company, IF North America and several other DRAM manufacturers on behalf of governmental entities and consumers in each of those states who purchased products containing DRAM beginning in 1998. The plaintiffs allege violations of state and federal antitrust laws arising out of the same allegations of DRAM price-fixing and artificial price inflation practices discussed above, and seek recovery of actual and treble damages in unspecified amounts, penalties, costs (including attorneys' fees) and injunctive and other equitable relief. The various suits filed by these attorneys general have been made part of the MDL proceeding described above. Between June 2007 and December 2008, the state attorneys general of eight states filed requests for dismissal of their claims.

In October 2008, approximately ninety-five California school districts, political subdivisions and public agencies that were previously putative class members of the multistate attorneys general complaint described above filed suit in California Superior Court against the Company, IF North America, and several other DRAM manufacturers alleging DRAM price-fixing and artificial price inflation in violation of California state antitrust and consumer protection laws arising out of the alleged practices described above. The plaintiffs seek recovery of actual and treble damages in unspecified amounts, restitution, costs (including attorneys' fees) and injunctive and other equitable relief. This suit is ongoing.

Infineon and certain other defendants have agreed to settle with the indirect purchaser class plaintiffs and the attorneys general. As part of the settlement, the Company shall pay approximately $29 million. The Company has already recorded a provision for this amount which is included in "current liabilities" as of September 30, 2010.

Between December 2004 and February 2005, two putative class proceedings were filed in the Canadian province of Quebec, and one was filed in each of Ontario and British Columbia against the Company, IF North America and other DRAM manufacturers on behalf of all direct and indirect purchasers resident in Canada who purchased DRAM or products containing DRAM between July 1999 and June 2002, seeking damages, investigation and administration costs, as well as interest and legal costs. Plaintiffs primarily allege conspiracy to unduly restrain competition and to illegally fix the price of DRAM. No reasonable estimated amount can be attributed at this time to the potential outcome of the putative class proceedings.

OTHER GOVERNMENT INQUIRIES

In April 2003, the Company received a request for information from the European Commission (the "Commission") regarding certain competitive practices for DRAM products. The Commission opened formal proceedings in February 2009. In May 2010 the Company entered into a settlement with the EU Commission and has agreed to pay a fine of €57 million which was paid in August, 2010.

In October 2008, the Company learned that the Commission had commenced an investigation involving the Company's Chip Card & Security business for alleged violations of antitrust laws. In September and October 2009, the Company and its French subsidiary received written requests for information from the Commission. The Company is cooperating with the Commission in answering the requests. No reasonable estimated amount can be attributed at this time to the potential outcome of this investigation.

On June 21, 2010, the Brazil Secretariat of Economic Law of the Ministry of Justice ("SDE") announced that it had initiated an investigation related to alleged anticompetitive activities within the DRAM industry. The SDE's Notice of Investigation names the Company, various DRAM manufacturers and certain executives, and focuses on the period from July 1998 to June 2002. The SDE's Notice of Investigation is based on the investigations carried out in the United States and in Europe.

SECURITIES LITIGATION

Between September and November 2004, seven securities class action complaints were filed against the Company and current or former officers in U.S. federal district courts, later consolidated in the Northern District of California, on behalf of a putative class of investors that purchased the Company's publicly-traded securities from March 2000 to July 2004. The consolidated amended complaint alleges violations of the U.S. securities laws and asserts that the defendants made materially false and misleading public statements about the Company's historical and projected financial results and competitive position because they did not disclose the Company's alleged participation in DRAM price-fixing activities. The complaint also alleges that, by fixing the price of DRAM, defendants manipulated the price of the Company's securities, thereby injuring its shareholders. The plaintiffs seek unspecified compensatory damages, interest, costs and attorneys' fees. In January 2008, the court denied a motion to dismiss with respect to plaintiffs' claims under sections 10(b) and 20(a) of the U.S. Securities Exchange Act of 1934 and dismissed the claim under section 20A of the act with prejudice. In March 2009, the court granted plaintiffs' motion to certify a class of persons who acquired the Company's securities between March 2000 and July 2004, including those who purchased on the Frankfurt Stock Exchange who sold their securities after June 2002. In April 2009, the Ninth Circuit Court of Appeals granted the Company's petition to immediately appeal the court's March 2009 order granting class certification. In May 2009, the court issued an order staying the case pending resolution of the Ninth Circuit Appeal. In August 2010 the Ninth Circuit vacated the district court's prior class certification order and remanded for further proceedings in light of the Supreme Court's decision in Morrison v. Nat'l Australia Bank Ltd.,

No specified amount of damages has been asserted by the plaintiffs. These matters are currently subject to mediation.

The Company's directors' and officers' insurance carriers have denied coverage in the securities class action described above and the Company filed suit against the carriers in December 2005 and August 2006. The Company's claims against one D&O insurance carrier were finally dismissed in May 2007. The claim against the other insurance carrier is still pending.

PATENT LITIGATION

In October 2007, CIF Licensing LLC ("CIF"), a member of the General Electric Group, filed suit in the Civil Court of Düsseldorf, Germany against Deutsche Telekom AG alleging infringement of four European patents in Germany by certain CPE-modems and ADSL-systems (the "CIF Suit"). Deutsche Telecom has notified its suppliers, which include customers of the Company, that a declaratory judgment of patent infringement would be legally binding on the suppliers. In January 2008, the Company joined the suit on the side of Deutsche Telecom. CIF then filed suit against the Company alleging indirect infringement of one of the four European patents. The Company is part of a joint defense group consisting of Deutsche Telecom, most of its suppliers and most of their respective suppliers. The Company is contractually obligated to indemnify and/or to pay damages to its customers under certain circumstances pursuant to its customer contracts. In July 2008, Deutsche Telecom, the Company and the other defendants filed actions contesting the validity of the four patents before the Federal Patent Court in Munich. In October 2008, CIF also filed suit in the Civil Court of Düsseldorf against Arcor GmbH &Co KG, Hansenet Telekommunikation GmbH and United Internet AG (all three, the "New Defendants") alleging infringement of the

same four European patents. The New Defendants have notified their suppliers of the suit. Three of the proceedings at the Civil Court in Düsseldorf have been stayed and the Company expects that they will only continue after resolution of the pending Federal Patent Court actions. No specified amount of damages has been asserted by CIF in these suits. The fourth proceeding is scheduled for February 24, 2011. The Federal Patent Court has scheduled court hearings for two of the four validity actions (December 15, 2010 and January 26, 2011). Any disclosure of the Company's estimate of potential outcomes, if such amounts could reasonably be estimated at this time, could seriously prejudice the position of the Company in these suits.

In November 2008, Volterra Semiconductor Corporation ("Volterra") filed suit against Primarion, Inc., the Company and IF North America (the "Defendants") in the U.S District Court for the Northern District of California for alleged infringement of five U.S. patents ("Patents") by certain products offered by Primarion. The Defendants denied any infringement and filed a counterclaim against Volterra alleging certain antitrust violations, fraud on the U.S. Patent and Trademark Office ("U.S. PTO") and that the Patents are invalid. The U.S. PTO granted the requested reexamination of all Patents. In June 2009, the court ordered a stay in the case regarding two of the Patents pending the completion of the reexamination proceedings. In July 2009, Volterra filed motions for a preliminary injunction and for partial summary judgment of infringement. In September 2009, the court initially issued a minute order granting Volterra's motion for a preliminary injunction and denying the motion for partial summary judgment without prejudice. In November 2009, the court finally dismissed Volterra's motion for a preliminary injunction. In May 2010, Volterra stipulated non-infringement regarding one Patent. A trial date has been set for January 2011. No specified amount of damages has been asserted by Volterra and no reasonable estimated amount can be attributed at this time to the potential outcome of the Volterra claim. In January 2010, the Company filed a complaint against Volterra in the District Court for the District of Delaware for infringement of four of its U.S. patents.

In May 2009, Gregory Bender filed suit in the U.S. District Court for the Northern District of California, against four companies, including IF North America, alleging infringement of one U.S. patent by certain electronic products having a buffered amplifier. No specified amount of damages has been asserted by the plaintiff and no reasonable estimated amount can be attributed at this time to the potential outcome of this claim.

In February 2010, Infineon brought actions against Elpida Memory Inc. ("Elpida") and several of its customers before the U.S. International Trade Commission (ITC), arguing that Elpida's DRAM products infringe four of Infineon's U.S. patents relating to general processing technology. On April 2, 2010 Elpida filed two patent infringement suits against the Company and IF North America in the U.S. District Court for the Eastern District of Virginia. Elpida and Infineon reached a settlement agreement on June 2, 2010 and all pending proceedings were withdrawn.

QIMONDA EMPLOYMENT LITIGATION

In April 2009, former employees of Qimonda's subsidiaries in the U.S. filed a complaint in the U.S. Federal District Court in Delaware against the Company, IF North America and Qimonda AG, individually and on behalf of several putative classes of plaintiffs. The suit relates to the termination of the plaintiffs' employment in connection with Qimonda's insolvency and the payment of severance and other benefits allegedly due by Qimonda. The complaint seeks to "pierce the corporate veil" and to impose liability on the Company and IF North America under several theories, although the plaintiffs do not specify a particular amount of damages attributable to the Company, IF North America, or Qimonda AG. In a decision issued June 29, 2010, the District Court denied the Company's motion to dismiss and found that the complaint adequately stated a claim for relief. The Court, however, agreed to stay all proceedings until at least October 2010, pending developments in the Qimonda Subsidiaries' bankruptcy proceedings. The Company and IF North America dispute the substantive allegations asserted in the Complaint, and if the case proceeds they expect to defend the claims vigorously. At this time no discovery has been commenced, and no reasonable estimated amount can be attributed at this time to the potential outcome of the claim.

The Company and its subsidiary Infineon Dresden are subject to lawsuits by approximately 80 former Infineon employees who were transferred to Qimonda or Qimonda Dresden as part of the carve-out of Qimonda and who seek to be re-employed by the Company. No reasonable estimated amount can be attributed at this time to the potential outcome of any such claims.

QIMONDA MATTERS

As described in note 6, the Company faces certain contingent liabilities in connection with the insolvency proceedings of Qimonda. Certain of these matters led the Company to record liabilities of € 21 million and provisions of €163 million as of September 30, 2009 in its 2009 financial statements and liabilities of € 21 million and provisions of €60 million as of September 30, 2010 in its 2010 financial statements. Most of the provisions reported are reported under current provisions. The corresponding debit items are shown in "income (loss) from discontinued operations, net of income taxes". The provisions recorded cover only those that the Company believes are likely to materialize and that can be estimated with reasonable accuracy at this time. There can be no certainty that the provisions recorded will be sufficient to cover all of the liabilities that could ultimately be incurred in relation to the insolvency of Qimonda and especially these particular matters. More detailed information about these matters may be found in note 6.

The Company holds rights of use in respect of Qimonda intellectual property under the contribution agreement between the Company and Qimonda. The insolvency administrator has declared non-performance of this agreement. If the administrator's decision were to be upheld, the Company would no longer be licensed to use patents contributed by it to Qimonda or patents subsequently applied for by Qimonda itself and would potentially be unable to sublicense such patents in full to third parties. This could also affect contract partners of the Company with which the Company has concluded patent cross license agreements, possibly leading to compensation claims against the Company. The Company is endeavoring to settle the dispute with the administrator and to acquire the complete Qimonda patent portfolio, and is currently in negotiations with the administrator concerning a possible agreement in this matter.

The potential consequences of the non-performance decision differ from the effects reported under "discontinued operations" (see note 6) as it affects the Company's continuing operations, because the Company could otherwise use the patents concerned itself and/or license them under patent cross license agreements with third parties. The outcome of these negotiations would therefore be of relevance not just to the historical period, but also to future periods. Provisions have already been made for the historical period. These provisions are not included in the provision amounts indicated in note 6. Any disclosure of an estimate from the Company of the likely outcome of the negotiations could damage the Company's position.

MISCELLANEOUS

The Company is also involved in various other legal disputes and proceedings in connection with its business activities. These relate to products, services, patents, environmental protection issues and other matters. Based on its current knowledge, the Company does not believe that the ultimate resolution of these other pending legal disputes and proceedings will have a material adverse effect on its operating results, financial position and cash flows. It remains entirely possible, however, that this assessment may have to be revised in future and that any actual resolutions of the miscellaneous legal disputes and proceedings could have material adverse effect on operating results, financial position and cash flows, particularly in the period of resolution.

PROVISIONS AND THE POTENTIAL EFFECT OF THESE MATTERS

Provisions relating to legal proceedings and other uncertain legal issues are recorded when it is probable that a liability has been incurred and the associated amount can be reasonably estimated. If the estimated amount of the liabilities is within a range of amounts and all amounts within the range are essentially equally probable, the provision recorded is equal to the mid-point of the range.

Any potential liability is reviewed again as soon as additional information becomes available and the estimates are revised if necessary. Provisions with respect to these matters are subject to future developments or changes in circumstances in each of the matters, which could have a material adverse effect on the Company's operating results, financial position and cash flows.

An adverse final resolution of any of the matters described above could result in significant financial liabilities for the Company and other adverse effects and these in turn could have a material adverse effect on its business and its operating results, financial position and cash flows. The Company evaluates the merits of the various claims in each of these matters continuously, defends itself vigorously and seeks to find alternative solutions in the best interest of the Company as it deems appropriate. Irrespective of the validity of the allegations and the success of the aforementioned claims and other matters described above, the Company could incur significant costs in defending against or settling such allegations and this too could have a material adverse effect on its operating results, financial position and cash flows.

CONTRACTUAL COMMITMENTS

The following table summarizes the Company's commitments with respect to external parties as of September 30, 2010[1]:

Payments Due by Period (€ in millions)	Total	Less then 1 year	1 – 2 years	2 – 3 years	3 – 4 years	4 – 5 years	After 5 years
Operating lease payments	656	60	61	52	50	47	386
Unconditional purchase commitments tangible assets	171	170	1	–	–	–	–
Unconditional purchase commitments intangible assets	35	22	10	3	–	–	–
Unconditional purchase commitments other	504	404	70	24	5	1	–
Future interest payments[2]	110	19	17	16	58	–	–
Total Commitments	1,476	675	159	95	113	48	386

1 Certain payments of obligations or expirations of commitments that are based on the achievement of milestones or other events that are not date-certain are included for purposes of this table based on estimates of the reasonably likely timing of payments or expirations in the particular case. Actual outcomes could differ from those estimates.
2 Includes the effect of the accretion of the subordinated convertible notes due 2014 in the column 3 – 4 years.

The Company has capacity reservation agreements with certain Associated Companies and external foundry suppliers for the manufacturing and testing of semiconductor products. These agreements generally are greater than one year in duration. Under the terms of these agreements, the Company has agreed to purchase a portion of their production output based, in part, on market prices.

Purchases under these agreements are recorded as incurred in the normal course of business. The Company assesses its anticipated purchase requirements on a regular basis to meet customer demand for its products. An assessment of losses under these agreements is made on a regular basis in the event that either budgeted purchase quantities fall below the specified quantities or market prices for these products fall below the specified prices.

On December 23, 2003, the Company entered into a long-term operating lease agreement with MoTo Objekt Campeon GmbH & Co. KG ("MoTo") to lease Campeon, an office complex constructed by MoTo south of Munich, Germany. MoTo was responsible for the construction, which was completed in the second half of 2005. The Company has no obligations with respect to financing MoTo and has provided no guarantees related to the construction. The Company occupied Campeon under an operating lease arrangement in October 2005 and completed the move of its employees to this new location in the 2006 fiscal year. The complex was leased for a period of 20 years. After year 15, the Company has a non-bargain purchase option to acquire the complex or otherwise continue the lease for the remaining period of five years. Pursuant to the agreement, the Company placed a rental deposit of €75 million in escrow, which was included in restricted cash as part of other financial assets in the consolidated statement of financial position as of September 30, 2010. Lease payments are subject to limited adjustment based on specified financial ratios related to the Company. The agreement was accounted for as an operating lease, in accordance with IAS 17, with monthly lease payments expensed on a straight-line basis over the lease term.

OTHER CONTINGENCIES

The following table summarizes the Company's contingencies with respect to external parties, other than those related to litigation, as of September 30, 2010 [1]:

Expirations by Period (€ in millions)	Total	Less then 1 year	1 – 2 years	2 – 3 years	3 – 4 years	4 – 5 years	After 5 years
Guarantees [2]	88	15	1	5	2	4	61
Contingent government grants [3]	22	5	6	6	2	3	–
Total contingencies	110	20	7	11	4	7	61

1 Certain expirations of contingencies that are based on the achievement of milestones or other events that are not date-certain are included for purposes of this table based on estimates of the reasonably likely timing of expirations in the particular case. Actual outcomes could differ from those estimates.
2 Guarantees are mainly issued for the payment of import duties, rentals of buildings, and contingent obligations related to government grants received.
3 Contingent government grants refer to amounts previously received, related to the construction and financing of certain production facilities, which are not otherwise guaranteed and could be refundable if the total project requirements are not met.

On a group-wide basis the Company has guarantees outstanding to external parties of €88 million as of September 30, 2010. In addition, the Company, as parent company, has in certain customary circumstances guaranteed the settlement of certain of its consolidated subsidiaries' obligations to third parties. Such third party obligations are or will be reflected as liabilities in the consolidated financial statements by virtue of consolidation. As of September 30, 2010, such guarantees, principally relating to certain consolidated subsidiaries' third-party debt, aggregated €439 million, of which €196 million relates to the subordinated convertible notes due 2014.

The Company has received government grants and subsidies related to the construction and financing of certain of its production facilities. These amounts are recognized upon the attainment of specified criteria. Certain of these grants have been received contingent upon the Company maintaining compliance with certain project-related requirements for a specified period after receipt. The Company is committed to maintaining these requirements. Nevertheless, should such requirements not be met, as of September 30, 2010, a maximum of €22 million of these subsidies could be refundable. Such amount does not include any potential liabilities for Qimonda related subsidies (see note 6).

The Company through certain of its sales and other agreements may, in the normal course of business, be obligated to indemnify its counterparties under certain conditions for warranties, patent infringement or other matters. The maximum amount of potential future payments under these types of agreements is not predictable with any degree of certainty, since the potential obligation is contingent on conditions that may or may not occur in future, and depends on specific facts and circumstances related to each agreement. Historically, payments made by the Company under these types of agreements have not had a material adverse effect on the Company's business, results of operations or financial condition. A tabular reconciliation of the changes in the aggregate product warranty liability for the year ended September 30, 2010 is presented in note 24.

39 / OPERATING SEGMENT AND GEOGRAPHIC INFORMATION

SEGMENT REPORTING

The Company has reported its operating segment and geographic information in accordance with IFRS 8.

In the 2010 fiscal year, the Company's business was organized in four operating segments: Automotive, Industrial & Multimarket, Chip Card & Security, and Wireless Solutions. In addition, the Company has two additional segments for reporting purposes: Other Operating Segments and Corporate and Eliminations.

AUTOMOTIVE

The Automotive segment designs, develops, manufactures and markets semiconductors for use in automotive applications. Together with its product portfolio, it offers corresponding system know-how and support to its customers.

INDUSTRIAL & MULTIMARKET

The Industrial & Multimarket segment designs, develops, manufactures and markets semiconductors and complete system solutions primarily for use in industrial applications and in applications with customer-specific product requirements.

CHIP CARD & SECURITY

The Chip Card & Security segment designs, develops, manufactures and markets a wide range of security controllers and security memories for chip card and security applications.

WIRELESS SOLUTIONS

The Wireless Solutions segment designs, develops, manufactures and markets a wide range of ICs, other semiconductors and complete system solutions for wireless communication applications.

On August 30, 2010, the Company entered into a purchase agreement with Intel Corporation, pursuant to which it agreed to sell the mobile phone business of the Wireless Solutions segment ("Wireless mobile phone business"). Of the business of the Wireless Solutions segment, only the business with analog and digital TV tuners and satellite radio receivers, as well as radio frequency power transistors for amplifiers in cellular basestations, remains with the Company. On the basis of the decision to sell, the results of the Wireless mobile phone business have been recognized in the consolidated statement of operations for the 2010 fiscal year under "Income (loss) from discontinued operations, net of income taxes" in accordance with IFRS 5, "Non-current Assets Held for Sale and Discontinued Operations". The prior period amounts have been adjusted accordingly. Expenses that had previously been allocated to the Wireless mobile phone business, but continue to be incurred after the planned sale are not affected by classification and continue to be reported under "Income (loss) from continuing operations" (see note 6). In line with the internal reporting of the 2010 fiscal year, the Wireless Solutions segment is reported unchanged in the segment reporting.

OTHER OPERATING SEGMENTS

Other operating segments includes remaining activities for certain product lines that have been disposed of, and other business activities. Since the closing of the sale of the Wireline Communications business, sales to Lantiq under foundry agreements are included in this segment.

CORPORATE AND ELIMINATIONS

The Corporate and Eliminations segment reflects the elimination of intercompany net sales and earnings. Furthermore, raw materials and work-in-process of the common production front-end facilities, and raw materials of the common back-end facilities, are not under the control or responsibility of any of the operating segment managers, but rather of the operations management. The operations management is responsible for the execution of the production schedule, volume and units. Accordingly, this inventory is not attributed to the operating segments, but is included in the Corporate and Eliminations segment. Only work-in-process of back-end facilities and finished goods are attributed to the operating segments. The Company records gains and losses from sales of investments in marketable debt and equity securities in the Corporate and Eliminations segment.

CHIEF OPERATING DECISION MAKER, DEFINITION OF SEGMENT RESULT AND ALLOCATION OF ASSETS AND LIABILITIES TO THE INDIVIDUAL SEGMENTS

The Company's Management Board has been collectively identified as the Chief Operating Decision Maker ("CODM"). The CODM makes decisions about resources to be allocated to the segments and assesses their performance using revenues and Segment Result. The Company defines Segment Result as operating income (loss) excluding asset impairments, net, restructuring charges and other related closure costs, net, share-based compensation expense, acquisition-related amortization and gains (losses), gains (losses) on sales of assets, businesses, or interests in subsidiaries, and other income (expense), including litigation settlement costs. The Company's management uses Segment Result to establish budgets and operational goals, manage the Company's business and evaluate its performance. The Company reports Segment Result because it believes that it provides investors with meaningful information about the operating performance of its segments.

The CODM does not review asset and liability information by segment nor does it evaluate the segments on these criteria on a regular basis, except that the CODM is provided with information regarding certain inventories on an operating segment basis. The Company does, however, allocate depreciation and amortization expense to the operating segments based on production volume and product mix using standard costs.

SEGMENT DATA

In July 2009, the Company entered into an asset purchase agreement to sell its Wireline Communications business, which closed on November 6, 2009 (see note 6). Management reporting was adjusted accordingly. Segment Results for the 2010 and 2009 fiscal years have been recast to be consistent with the current reporting structure and presentation, as well as to facilitate analysis of operating segment information.

The following tables presents selected segment data:

€ in millions	2010	2009
Revenue:		
Automotive	1,268	839
Industrial & Multimarket	1,374	905
Chip Card & Security	407	341
Wireless Solutions	1,372	917
Other Operating Segments	167	17
Corporate and Eliminations	(3)	8
Total Segment revenue including Wireless Solutions	4,585	3,027
adjusted by revenues from discontinued operations of Wireless Solutions	(1,290)	(843)
Revenue from continuing operations	3,295	2,184

The revenues for the 2010 fiscal year do not contain intersegmental revenues.

€ in millions	2010	2009
Segment Result:		
Automotive	198	(117)
Industrial & Multimarket	283	35
Chip Card & Security	22	(4)
Wireless Solutions	159	(36)
Other Operating Segments	(12)	(13)
Corporate and Eliminations	(15)	(32)
Total Segment Result including Wireless Solutions	635	(167)
adjusted by the Segment Result from discontinued operations of Wireless Solutions	(160)	27
Total Segment Result from continuing operations	475	(140)

The following table provides the reconciliation of Segment Result to the Company's income (loss) from continuing operations before income taxes:

€ in millions	2010	2009
Total Segment Result from continuing operations	475	(140)
Adjusted:		
Asset impairments, net	(12)	1
Restructuring charges, and other related closure cost, net	4	20
Share-based compensation expense	–	(2)
Acquisition-related amortization and losses	(4)	(4)
Losses in connection with the deconsolidation of ALTIS	(69)	–
Gains (losses) on sales of assets, businesses, or interests in subsidiaries	4	(18)
Other expense, net	(50)	(40)
Operating income (loss)	348	(183)
Financial income	29	101
Financial expense	(95)	(154)
Income from investment accounted for using the equity method, net	8	7
Income (loss) from continuing operations before income tax	290	(229)

€ in millions	2010	2009
Depreciation and amortization:		
Automotive	87	126
Industrial & Multimarket[1]	104	137
Chip Card & Security	35	53
Wireless Solutions[2]	136	152
Other Operating Segments	27	45
Corporate and Eliminations	–	–
Total	389	513
less depreciation and amortization from discontinued operations of Wireless Solutions	(53)	(60)
Total continuing operations	336	453

1 Includes in the 2010 and 2009 fiscal years €3 million acquisition-related depreciation and amortization which are not included in Segment Result.
2 Includes in the 2010 and 2009 fiscal years €19 million acquisition-related depreciation and amortization which are not included in Segment Result.

Income from investments accounted for using the equity method in the amount of €8 million and €7 million was realized in the Industrial & Multimarket segment during the 2010 and 2009 fiscal years, respectively. However, these amounts are not included in Segment Result. None of the remaining

reportable segments had income from investments accounted for using the equity method during any of the periods presented.

€ in millions	2010	2009
Inventories:		
Automotive	88	71
Industrial & Multimarket	128	109
Chip Card & Security	34	30
Wireless Solutions	168	95
Other Operating Segments	2	–
Corporate and Eliminations	168	155
Subtotal	588	460
less shown as "held for sale"	(74)	–
Total	514	460

As of September 30, 2010 and 2009, all inventories were attributed to the respective operating segment, to the extent they were under the direct control and responsibility of the respective operating segment managers.

€ in millions	2010	2009
Goodwill:		
Industrial & Multimarket	19	19
Wireless Solutions	160	160
Corporate and Eliminations	2	2
Subtotal	181	181
less shown as "held for sale"	(160)	–
Total	21	181

Consistent with the Company's internal management reporting, certain items are included in Corporate and Eliminations and not allocated to the other segments. These include certain corporate headquarters costs, certain incubator and early stage technology investment costs, non-recurring gains and specific strategic technology initiatives. Additionally, restructuring charges and employee stock-based compensation expense are included in Corporate and Eliminations and not allocated to the segments, since they arise from corporate directed decisions not within the direct control of segment management. Furthermore, legal costs associated with intellectual property and product matters are recognized by the segments when paid, which can differ from the period originally recognized by Corporate and Eliminations. The Company allocates excess capacity costs based on a foundry model, whereby such allocations are reduced based upon the lead time of order cancellation or modification. Any unabsorbed excess capacity costs are included in Corporate and Eliminations.

ENTITY-WIDE DISCLOSURES IN ACCORDANCE WITH IFRS 8

The following is a summary of revenue and of non-current assets by geographic area for the years ended September 30, 2010 and 2009:

€ in millions	2010	2009
Revenue:		
Germany	862	530
Other Europe	656	484
North America	351	261
Asia/Pacific [1]	1,202	768
Japan	184	116
Other	40	25
Total	3,295	2,184

1 Including revenues of €595 million and €359 million in the 2010 and 2009 fiscal years, respectively, from the People's Republic of China.

Revenues from external customers are based on the customers' billing location. Regional employment data is provided in note 8.

No single customer accounted for more than 10 percent of the Company's sales during the 2010 or 2009 fiscal years.

€ in millions	2010	2009
Property, plant and equipment; goodwill and other intangible assets:		
Germany	340	641
Other Europe	199	239
North America	3	6
Asia/Pacific	382	409
Japan	1	2
Total	925	1.297

40 / EVENTS AFTER THE BALANCE SHEET DATE

As of October 19, 2010, Infineon Technologies AG acquired 100 per cent of the shares of Blue Wonder Communications GmbH in Dresden. Blue Wonder Communications GmbH focuses on information technology and telecommunications. This includes designing and development as well as marketing of products and software, engineering and consulting. In particular its technology and system solutions shall support the development of the next Mobile Standard Generation LTE (Long Term evolution). In the context of selling the Wireless mobile phone business the shares of Blue Wonder Communications GmbH shall also be transferred to Intel Corporation.

41 / ADDITIONAL INFORMATION IN ACCORDANCE WITH HGB

APPLICATION OF EXCEPTION REGULATIONS

Pursuant to HGB section 264 paragraph 3, the below mentioned companies intend to utilize the exception from certain rules about the preparation, audit and disclosure of their financial statements and their operating and financial review due to profit-or-loss-transfer agreements between these companies and Infineon Technologies AG:

- COMNEON GmbH, Nuremberg,
- Hitex Development Tools GmbH, Karlsruhe,
- Infineon Technologies Dresden GmbH, Dresden,
- Infineon Technologies Finance GmbH, Munich,
- Infineon Technologies Mantel 19 GmbH, Neubiberg,
- Infineon Technologies Mantel 21 GmbH, Neubiberg, and
- Infineon Technologies Wireless Solutions GmbH, Neubiberg.

Following the insolvency of Qimonda AG, Munich, Qimonda AG and its subsidiaries are not included in the Company's consolidated financial statements. The Company has no information if Qimonda AG draws up consolidated financial statements or intends to utilize any exceptions from certain rules about the preparation of separate consolidated financial statements.

INFORMATION PURSUANT TO SECTION 160 SECTION 1 NO. 2 CORPORATE ACT (AKTG)

The Company did not make use of the authorization to repurchase and use its own shares, as granted by the General Shareholders' Meeting on February 12, 2009 and expired on August 11, 2010, and the Company did not repurchase any of its own shares in the 2010 fiscal year. As of September 30, 2010, the Company did not hold any of its own shares.

INFORMATION PURSUANT TO SECTION 160 SECTION 1 NO. 8 CORPORATE ACT (AKTG)

The German Securities Trading Act (Wertpapierhandelsgesetz, "WpHG") requires each shareholder whose voting rights reaches, exceeds or, after exceeding, falls below the 3, 5, 10, 15, 20, 25, 30, 50 or 75 percent thresholds of a listed corporation to notify such corporation and the German Federal Supervisory Authority for Financial Services (Bundesanstalt für Finanzdienstleistungaufsicht) immediately, but no later than four trading days after such shareholder has reached, exceeded or fallen below such a threshold. The Company has been notified of the changes in voting rights set forth below. The stated percentages refer to the share capital held at the date of the respective notification; the number of shares stated below is taken from the most recent shareholder notification and may therefore be outdated.

- On August 7, 2009, Dodge & Cox Investment Managers, San Francisco, USA, informed the Company according to WpHG Section 21, paragraph 1 that, via shares the voting rights of Dodge & Cox International Stock Fund, San Francisco, USA, in Infineon Technologies AG, Neubiberg, Germany, had fallen below the threshold of 10 percent on August 5, 2009 and on that date amount to 9.88 percent (this corresponds to 105,919,119 voting rights).
- On August 7, 2009, Dodge & Cox Investment Managers, San Francisco, USA, informed the Company according to WpHG Section 21, paragraph 1 that via shares the voting rights of Dodge & Cox, San Francisco, USA, on Infineon Technologies AG, Neubiberg, Germany, had fallen below the threshold of 10 percent on August 5, 2009 and on that date amounted to 9.95 percent (this corresponds to 106,771,627 voting rights). According to WpHG Section 22, paragraph 1, sentence 1, No. 6, 9.88 percent of the voting rights is to be attributed to the company from Dodge & Cox International Stock Fund and 0.08 percent of the Voting Rights is to be attributed to the company from Dodge & Cox Global Stock Fund, which holds directly less than 3 percent.
- On February 3, 2010, BlackRock, Inc., New York, USA informed the Company according to WpHG Section 21 paragraph 1 that via shares its voting rights in Infineon Technologies AG, Neubiberg, Germany, exceeded the threshold of 5 percent on January 29, 2010 and on that day amounted to 5.11 percent of the voting rights (this corresponds to 55,553,415 voting rights). 5.11 percent of the voting rights (this corresponds to 55,553,415 voting rights) are to be attributed to the company according to WPHG Section 22 paragraph 1 sentence 1 No. 6, sentence 2.

- On November 10, 2010, Capital Research and Management Company, Los Angeles, USA informed the Company according to WpHG Section 21, paragraph 1 that via shares its voting rights in Infineon Technologies AG, Neubiberg, Germany, had exceeded the threshold of 3 percent on November 5, 2010 and on that day amounted to 3.02 percent (this corresponds to 32,845,000 voting rights). 3.02 percent of the voting rights (this corresponds to 32,845,000 voting rights) are to be attributed to the company according to WpHG Section 22, paragraph 1, sentence 1, No. 6.

INFORMATION PURSUANT TO SECTION 161 GERMAN CORPORATE ACT (AKTG)

The compliance declaration prescribed by Section 161 AktG was executed by the Management Board and the Supervisory Board and made available on a continuous basis. It is published via the internet at www.infineon.com ("About Infineon/Investor/Corporate Governance/Declaration of Compliance").

ACCOUNTING FEES PURSUANT SECTION 314 PARAGRAPH 1 NO. 9 HGB

YEAR-END AUDIT FEES

In the 2010 fiscal year, the audit fees charged by KPMG AG Wirtschaftsprüfungsgesellschaft ("KPMG"), the Company's independent auditors, amounted to €0.8 million for the annual audit of the Company's statutory and consolidated financial statements.

OTHER AUDIT FEES

In addition to the amounts described above, KPMG charged the Company an aggregate of €0.4 million in the 2010 fiscal year for other audit services. These services consisted primarily of services rendered in connection with the audit of the consolidated financial statements as of September 30, 2008, by the Deutsche Prüfstelle für Rechnungslegung e.V. ("DPR") and for the quarterly reviews.

TAX FEES

In addition to the amounts described above, KPMG charged the Company an aggregate of €0 in the 2010 fiscal year for professional services related primarily to tax compliance.

OTHER FEES

Fees of €0 million were charged by KPMG in the 2010 fiscal year for other services.

MANAGEMENT BOARD AND SUPERVISORY BOARD

MANAGEMENT COMPENSATION IN FISCAL YEAR 2010

Regarding the required information on the individual remuneration of the members of the Company's Supervisory or Management Boards pursuant to HGB Section 314 par. 1 No. 6 subsection a, sentence 5 to 9, reference is made to the Compensation Report which is part of the Operating and Financial Review.

MANAGEMENT BOARD

The members of the Management Board during the 2010 fiscal year are as follows:

Name	Age	Term expires	Position	Memberships of Supervisory Boards and comparable governing bodies of domestic and foreign companies during the fiscal year ended September 30, 2010
Peter Bauer	50	September 30, 2011	Chairman of the Management Board, Chief Executive Officer	Member of the Board of Directors • Infineon Technologies China Co., Ltd., Shanghai, People's Republic of China • Infineon Technologies Asia Pacific Pte., Ltd., Singapore (chairman) • Infineon Technologies North America Corp., Wilmington, Delaware, USA (chairman) • Infineon Technologies Japan K.K., Tokyo, Japan
Prof. Dr. Hermann Eul	51	August 31, 2012	Member of the Management Board and Executive Vice President	Member of the Supervisory Board of • 7Layers AG, Ratingen (until October 12, 2009) • Infineon Technologies Austria AG, Villach, Austria
Dr. Reinhard Ploss	54	May 31, 2012	Member of the Management Board and Executive Vice President, since August 4, 2010, Labor Director	Chairman of the Supervisory Board of • Infineon Technologies Austria AG, Villach, Austria • Infineon Technologies Dresden GmbH, Dresden Member of the Board of Directory of • Infineon Technologies (Kulim) Sdn. Bhd., Kulim, Malaysia (chairman)
Dr. Marco Schröter	47	August 4, 2010	Member of the Management Board, Executive Vice President, Chief Financial Officer and Labor Director	Member of the Supervisory Board of • Infineon Technologies Austria AG, Villach, Austria (until August 5, 2010) Member of the Board of Directors • Infineon Technologies Asia Pacific Pte., Ltd., Singapore (until August 5, 2010) • Infineon Technologies China Co., Ltd., Shanghai, People's Republic of China (until August 5, 2010) • Infineon Technologies North America Corp., Wilmington, Delaware, USA (until August 5, 2010)

SUPERVISORY BOARD

The current members of the Supervisory Board, the Supervisory Board position held by them, their occupation, their principal external positions and their ages are as follows:

Name	Age	Term expires	Position	Memberships of Supervisory Boards and comparable governing bodies of domestic and foreign companies during the fiscal year ended September 30, 2010
Prof. Dr.-Ing. Dr.-Ing. E.h. Klaus Wucherer[1] Chairman	66	February 2015	Management Consultant	Member of the Supervisory Board of • Leoni AG, Nuremberg • SAP AG, Walldorf • Dürr AG, Stuttgart (since October 27, 2009) • Heitec AG, Erlangen (since August 1, 2010)
Gerd Schmidt[2] Deputy Chairman	56	February 2015	Chairman of the Infineon Central Works Council (until June 8, 2010) Chairman of the Infineon Works Council, Regensburg	
Wigand Cramer[2]	57	February 2015	Labor union clerk IG Metall, Berlin	
Alfred Eibl[2]	61	February 2015	Chairman of the Infineon Works Council Infineon Munich-Campeon (until March 2014) Chairman of the Infineon Central Works Council (since June 8, 2010)	
Peter Gruber[2] Representative of Senior Management	49	February 2015	Senior Vice President Operations Finance Infineon Technologies AG	Member of the Supervisory Board of • Infineon Technologies Dresden GmbH, Dresden Member of the Partner Delegation of • Comneon GmbH, Nuremberg (until March 18, 2010) • COMNEON Electronic Technology GmbH, Linz, Austria (until July 9, 2010) Member of the Board of Directors of • ALTIS Semiconductor S.N.C., Essonnes, France (until August 12, 2010) • Infineon Technologies Savan Ltd., Netanya, Israel (inactive) (until June 30, 2010) • Infineon Technologies (Kulim) Sdn. Bhd., Kulim, Malaysia
Gerhard Hobbach[2]	48	February 2015	Member of the Works Council • Infineon Munich-Campeon	
Hans-Ulrich Holdenried (since February 11, 2010)	59	February 2015	Management Consultant	Member of the Supervisory Board of • Integrata AG, Stuttgart (since January 25, 2010)
Prof. Dr. Renate Köcher	58	February 2015	Managing Director • Institut für Demoskopie Allensbach GmbH, Allensbach	Member of the Supervisory Board of • Allianz SE, München • MAN AG, München • BMW AG, München
Dr. Manfred Puffer	47	February 2015	Management Consultant	
Prof. Dr. rer. nat. Doris Schmitt-Landsiedel	57	February 2015	Professor • Munich Technical University, Munich	
Jürgen Scholz[2] (since February 11, 2010)	49	February 2015	First authorized agent of IG Metall, Regensburg	Member of the Supervisory Board of • Krones AG, Neutraubling Member of the Board of Directors of • BKK BMW AG, Dingolfing
Dr. Eckart Sünner	66	February 2015	President, Chief Compliance Officer • BASF SE, Ludwigshafen	Member of the Supervisory Board of • K+S AG, Kassel

1 The general shareholder's meeting 2010 has elected Mr. Prof. Wucherer to serve until the general shareholder's meeting 2015. However, he has announced, that in case of his election he will only serve until the general shareholder's meeting 2011.
2 Employee representative.

	Name	Age	Term expires	Position	Memberships of Supervisory Boards and comparable governing bodies of domestic and foreign companies during the fiscal year ended September 30, 2010
	Former members of the Supervisory Board				
01	Max Dietrich Kley Chairman	70	February 11, 2010	Lawyer	Chairman of the Supervisory Board of • SGL Carbon AG, Wiesbaden Member of the Supervisory Board of • BASF SE, Ludwigshafen • HeidelbergCement AG, Heidelberg
04	Dr. Siegfried Luther	66	February 11, 2010	Managing Director • Reinhard Mohn Verwaltungs GmbH, Gütersloh	Member of the Supervisory Board of • WestLB AG, Duesseldorf/Münster • Wintershall Holding AG, Kassel • EVONIK Industries AG, Essen Chairman of the Board of Administration of • RTL Group S.A., Luxemburg Member of the Board of Directors of • Compagnie Nationale à Portefeuille S.A., Loverval, Belgien
06	Horst Schuler[1]	58	February 11, 2010	Deputy Chairman of the Infineon Central Works Council	
07	Kerstin Schulzendorf[1]	48	February 11, 2010	Member of the Works Council • Infineon Dresden	
08	Alexander Trüby[1]	40	February 11, 2010	Member of the Works Council • Infineon Dresden	Member of the Supervisory Board of • Infineon Technologies Dresden GmbH, Dresden (until May 9, 2010)
09	Arnaud de Weert	46	February 11, 2010	Management Consultant	Chairman of the Supervisory Board of • Aluminium Norf GmbH, Neuss

1 Employee representative.

THE SUPERVISORY BOARD MAINTAINS THE FOLLOWING PRINCIPAL COMMITTEES

Executive Committee
Prof. Dr.-Ing. Dr.-Ing. E.h. Klaus Wucherer (Chairman)
Gerhard Hobbach
Hans-Ulrich Holdenried
Gerd Schmidt
Investment, Finance and Audit Committee
Dr. Eckart Sünner (Chairman)
Wigand Cramer
Gerd Schmidt
Prof. Dr.-Ing. Dr.-Ing. E.h. Klaus Wucherer
Mediation Committee
Prof. Dr.-Ing. Dr.-Ing. E.h. Klaus Wucherer (Chairman)
Alfred Eibl
Hans-Ulrich Holdenried
Gerd Schmidt
Nomination Committee
Prof. Dr.-Ing. Dr.-Ing. E.h. Klaus Wucherer (Chairman)
Prof. Dr. Renate Köcher
Dr. Manfred Puffer
Strategy and Technology Committee
Prof. Dr. rer. nat. Doris Schmitt-Landsiedel (Chairwoman)
Alfred Eibl
Peter Gruber
Hans-Ulrich Holdenried
Jürgen Scholz
Prof. Dr.-Ing. Dr.-Ing. E.h. Klaus Wucherer

The members of the Company's Supervisory Board, individually or in the aggregate, do not own, directly or indirectly, more than 1 percent of the Company's outstanding share capital.

The business address of each of the members of the Company's Supervisory Board is Infineon Technologies AG, Am Campeon 1 – 12, 85579 Neubiberg, Germany.

SUBSIDIARIES AND ASSOCIATED COMPANIES

	Name of company	Place of business	Share in capital
	Fully consolidated subsidiaries:		
01	COMNEON GmbH	Nuremberg	100%
	Hitex Development Tools GmbH	Karlsruhe	100%
02	Infineon Integrated Circuit (Beijing) Co., Ltd.	Beijing, People's Republic of China	100%
03	Infineon Technologies (Advanced Logic) Sdn. Bhd.	Malacca, Malaysia	100%
04	Infineon Technologies (Kulim) Sdn.Bhd.	Kulim, Malaysia	100%
	Infineon Technologies (Malaysia) Sdn. Bhd.	Malacca, Malaysia	100%
	Infineon Technologies (Wuxi) Co., Ltd.	Wuxi, People's Republic of China	100%
	Infineon Technologies (Xi'an) Co., Ltd.	Xi'an, People's Republic of China	100%
	Infineon Technologies Asia-Pacific Pte. Ltd.	Singapore	100%
	Infineon Technologies Australia Pty. Ltd	Bayswater, Australia	100%
	Infineon Technologies Austria AG	Villach, Austria	100%
05	Infineon Technologies Batam P.T.	Batam, Indonesia	100%
06	Infineon Technologies Canada, Inc.	St.John/New Brunswick, Canada	100%
	Infineon Technologies Cegled Kft.	Cégled, Hungary	100%
07	Infineon Technologies Center of Competence (Shanghai) Co., Ltd.	Shanghai, People's Republic of China	100%
08	Infineon Technologies China Co., Ltd.	Shanghai, People's Republic of China	100%
09	Infineon Technologies Dresden GmbH	Dresden	100%
	Infineon Technologies Dresden Verwaltungs GmbH	Dresden	100%
10	Infineon Technologies Fiber Optics GmbH	Neubiberg	100%
	Infineon Technologies Finance GmbH	Neubiberg	100%
	Infineon Technologies France S.A.S.	St. Denis, France	100%
	Infineon Technologies Holding B.V.	Rotterdam, The Netherlands	100%
11	Infineon Technologies Hong Kong, Ltd.	Hong Kong, Hong Kong	100%
12	Infineon Technologies India, Pvt. Ltd.	Bangalore, India	100%
	Infineon Technologies Industrial Power, Inc.	Wilmington/Delaware, USA	100%
13	Infineon Technologies Investment B.V.	Rotterdam, The Netherlands	100%
14	Infineon Technologies Italia s.r.l.	Milan, Italy	100%
15	Infineon Technologies IT-Services GmbH	Klagenfurt, Austria	100%
	Infineon Technologies Japan K.K.	Tokyo, Japan	100%
16	Infineon Technologies Korea Co. Ltd.	Seoul, Korea	100%
17	Infineon Technologies Nordic AB	Kista, Sweden	100%
18	Infineon Technologies North America Corp.	Wilmington/Delaware, USA	100%
	Infineon Technologies Romania & Co. Societate in Comandita	Bucharest, Romania	100%
19	Infineon Technologies Shared Service Center, Unipessoal Lda.	Vila do Conde, Portugal	100%
20	Infineon Technologies Taiwan Co. Ltd.	Taipei, Taiwan	100%
21	Infineon Technologies U.K. Ltd.	Bristol, Great Britain	100%
	Infineon Technologies Wireless Solutions GmbH	Neubiberg	100%
	Molstanda Vermietungsgesellschaft mbH	Neubiberg	94%
	Primarion Inc.	Torrance, California, USA	100%
	Associated Companies:		
	Cryptomathic Holding ApS	Arhus, Denmark	25%
	Infineon Technologies Bipolar GmbH & Co. KG	Warstein	60%
	LS Power Semitech Co., Ltd.	Cheonan, Korea	46%

Name of company	Place of business	Share in capital
Immaterial subsidiaries: [1]		
DICE Danube Integrated Circuit Engineering GmbH	Linz, Austria	72%
DICE Danube Integrated Circuit Engineering GmbH & Co. KG	Linz, Austria	72%
EPOS embedded core & power systems GmbH & Co. KG	Duisburg	100%
EPOS embedded core & power systems Verwaltungs GmbH	Duisburg	100%
eupec Thermal Management Inc.	Wilmington/Delaware, USA	51%
Guardeonic Solutions GmbH	Neubiberg	100%
Hitex (UK) Limited	Coventry, Great Britain	88%
Infineon Technologies Alpha AG	Neubiberg	100%
Infineon Technologies Austria Pensionskasse AG	Villach, Austria	100%
Infineon Technologies Belgium BVBA in liquidation	Leuven, Belgium	100%
Infineon Technologies Bipolar Verwaltungs GmbH	Warstein	60%
Infineon Technologies Delta GmbH	Neubiberg	100%
Infineon Technologies Denmark A/S	Aalborg, Denmark	100%
Infineon Technologies Ireland Ltd.	Dublin, Ireland	100%
Infineon Technologies Latvia SIA in liquidation	Riga, Latvia	100%
Infineon Technologies Mantel 19 GmbH	Neubiberg	100%
Infineon Technologies Mantel 21 GmbH	Neubiberg	100%
Infineon Technologies Mantel 22 GmbH	Neubiberg	100%
Infineon Technologies Mantel 23 GmbH	Neubiberg	100%
Infineon Technologies Mantel 24 GmbH	Neubiberg	100%
Infineon Technologies Mantel 25 GmbH	Neubiberg	100%
Infineon Technologies Pluto GmbH in liquidation	Munich	100%
Infineon Technologies Romania s.r.l.	Bucharest, Romania	100%
Infineon Technologies RUS LLC	Moscow, Russia	100%
Infineon Technologies Schweiz GmbH	Zurich, Switzerland	100%
Infineon Technologies SensoNor AS in liquidation	Horten, Norway	100%
Infineon Technologies South America Ltda.	Sao Paulo, Brazil	100%
Infineon Ventures Beteiligungs-Treuhand GmbH	Neubiberg	100%
Kompetenzzentrum Automobil- und Industrieelektonik GmbH	Villach, Austria	60%
Magellan Technology Pty Ltd.	Annandale, Australia	18%
MicroLinks Technology Corp.	Kaohsiung, Taiwan	2%
OneSpin Solutions Holding GmbH	Munich	12%
Qimonda AG in insolvency	Munich	78%
RF-IT Solutions GmbH	Graz, Austria	11%
SensoNor Technologies AS	Horten, Norway	0%
SiCED Electronics Development GmbH & Co. KG	Erlangen	49%
SiCED Electronics Development Verwaltungsgesellschaft mbH	Erlangen	49%

01 02 03 04 05 06 07 08 09 10 11 12 13 14 15 16 17 18 19 20 21

1 Certain insignificant subsidiaries were not consolidated in the 2009 and 2010 fiscal year. The Company evaluates the significance of these subsidiaries once a year. Net income, external revenues and total assets of all insignificant subsidiaries were less than one percent of the Company's net income, external revenues and total assets, respectively. Such investments are included in other financial assets.

Neubiberg, November 22, 2010
Infineon Technologies AG

Management Board
Peter Bauer
Prof. Dr. Hermann Eul
Dr. Reinhard Ploss

RESPONSIBILITY STATEMENT BY THE MANAGEMENT BOARD

To the best of our knowledge, and in accordance with the applicable reporting principles, the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the group, and the operating and financial review includes a fair review of the development and performance of the business and the position of the group, together with a description of the principal opportunities and risks associated with the expected development of the group.

Neubiberg, November 22, 2010

Peter Bauer
Prof. Dr. Hermann Eul
Dr. Reinhard Ploss

AUDITOR'S REPORT

We have audited the consolidated financial statements prepared by the Infineon Technologies AG, comprising the statements of operations, comprehensive income, financial position, cash flows and changes in equity, together with the group management report for the business year from October 1, 2010 to September 30, 2010. The preparation of the consolidated financial statements and the group management report in accordance with IFRSs, as adopted by the EU, and the additional requirements of German commercial law pursuant to § 315a Abs. 1 HGB [Handelsgesetzbuch "German Commercial Code"] are the responsibility of the Managing Board of the Company. Our responsibility is to express an opinion on the consolidated financial statements and on the group management report based on our audit.

We conducted our audit of the consolidated financial statements in accordance with § 317 HGB [Handelsgesetzbuch „German Commercial Code"] and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the consolidated financial statements in accordance with the applicable financial reporting framework and in the group management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Group and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the consolidated financial statements and the group management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the annual financial statements of those entities included in consolidation, the determination of entities to be included in consolidation, the accounting and consolidation principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements and group management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion, based on the findings of our audit, the consolidated financial statements comply with IFRSs, as adopted by the EU, the additional requirements of German commercial law pursuant to § 315a Abs. 1 HGB and give a true and fair view of the net assets, financial position and results of operations of the Group in accordance with these requirements. The group management report is consistent with the consolidated financial statements and as a whole provides a suitable view of the Group's position and suitably presents the opportunities and risks of future development.

Munich, November 22, 2010

KPMG AG
Wirtschaftsprüfungsgesellschaft

Kozikowski
Wirtschaftsprüfer

Kempf
Wirtschaftsprüfer

FINANCIAL GLOSSARY

A

ADS • American Depositary Shares – ADSs are U.S.-traded securities represented by an American Depositary Receipt for non-U.S. issuers. These securities simplify the access to U.S. capital markets for non-U.S.-based companies, and in turn provide U.S. investors with investment opportunities in non-U.S. securities. Since the delisting from the New York Stock Exchange ("NYSE"), the Infineon ADSs have been traded over the counter on the OTCQX International Premier market as a sponsored Level 1 program. After the deregistration the ADSs continue being traded on the OTCQX market with the ticker symbol IFNNY.

ASSOCIATED COMPANIES • An entity in which the Company has significant influence, but not a controlling interest, over the operating and financial management policy decisions of the entity. Significant influence is generally presumed when the Company holds between 20 percent and 50 percent of the voting rights.

C

CARVE-OUT • Legal separation of business operations (e.g. business units).

CASH FLOW • The cash-effective balance arising from inflows and outflows of funds over the fiscal year. The cash flow statement is part of the consolidated financial statements and shows how the company generated cash during the period and where it spent cash, in terms of operating activities (cash the company made by purchasing / selling goods and services), investing activities (cash the company spent for investment, or cash it raised from divestitures), and financing activities (cash the company raised by selling stocks, bonds and loans or spent for the redemption of stocks or bonds).

D

DAX • Deutscher Aktienindex – The German Blue Chip Index tracking the 30 major German companies traded on the Frankfurt Stock Exchange, in terms of order volume or market capitalization.

DEFERRED TAXES • Since tax laws often differ from the recognition and measurement requirements of financial accounting standards, differences can arise between (a) the amount of taxable income and pre-tax financial income for a year and (b) the tax bases of assets or liabilities and their reported amounts in financial statements. A deferred tax liability and corresponding expense results from income that has already been earned for accounting purposes but not for tax purposes. Conversely, a deferred tax asset and corresponding benefit results from amounts deductible in future years for tax

purposes but that have already been recognized for accounting purposes.

DEFINED BENEFIT OBLIGATION (DBO) • A measure of a pension plans' liability at the calculation date assuming that the plan is ongoing and will not terminate in the foreseeable future.

DERIVATIVE • A financial instrument that derives its value from the price or expected price of an underlying asset (e.g. a security, currency or bond).

E

EPS • Earnings (loss) Per Share. Basic earnings (loss) per share is calculated by dividing net income (loss) by the weighted average number of ordinary shares outstanding during the year. Diluted EPS is calculated by dividing net income (loss) by the sum of the weighted average number of ordinary shares outstanding plus all additional ordinary shares that would have been outstanding if potentially dilutive instruments had been converted into ordinary shares.

EQUITY METHOD • Valuation method for interests in associated companies in which the investor has the ability to exercise significant influence over the investee's operating and financial policies.

F

FREE CASH FLOW • Cash flow from operating and investing activities from continuing operations excluding purchases or sales of available-for-sale financial assets.

G

GOODWILL • An intangible asset of the company that results from a business acquisition, representing the excess of the acquired entity's purchase price (cost) over the fair value of the net assets acquired and liabilities assumed. Under IFRS, goodwill is not reduced through regularly scheduled amortization, but rather written down to its fair value if impaired. An impairment assessment is done at least once a year.

GROSS CASH POSITION • Total of cash and cash equivalents plus available-for-sale financial assets.

GROSS PROFIT OR MARGIN • Revenues less cost of goods sold.

I

IFRS • International Financial Reporting Standards; Infineon prepares its consolidated financial statements according to IFRS, as adopted by the European Union.

J

JOINT VENTURE • A contractual arrangement whereby two or more parties undertake an economic activity that is subject to joint control.

N

NET CASH POSITION • Gross cash position less long-term and short-term debt.

P

PROFIT OR LOSS AND CAPITAL-SHARE ATTRIBUTABLE TO NON-CONTROLLING INTERESTS • Proportional share in net income and equity not ascribed to the consolidated group but to outside shareholders.

R

REGISTERED SHARES • Shares registered in the name of a certain person. This person's details and number of shares are registered in the company's share ledger in accordance with securities regulations. Only individuals registered in the company's share ledger are considered shareholders of the company and are, for example, able to exercise their rights at the annual general meeting of shareholders.

ROCE • Return on capital employed is calculated as NOPAT (Net Operating Profits after Tax) divided by capital employed. ROCE shows the linkage between profitability and capital resources required to run the business.

S

SEGMENT RESULT • We define Segment Result as operating income (loss) excluding asset impairments, net, restructuring charges and other related closure costs, net, share-based compensation expense, acquisition-related amortization and gains (losses), gains (losses) on disposal of assets, businesses, or interests in subsidiaries, and other income (expense), including litigation settlement costs. This is the measure that Infineon uses to evaluate the operating performance of its segments.

SEGMENT RESULT MARGIN • An indicator of operating performance, calculated as the percentage of Segment Result in relation to revenues.

W

WORKING CAPITAL • Working capital consists of current assets less cash and cash equivalents, available-for-sale financial assets and assets held for sale less short-term liabilities excluding short-term debt and current maturities of long-term debt and liabilities classified as held for sale.

TECHNOLOGY GLOSSARY

1, 2, 3

2G • Second generation, i.e. digital mobile telephony. Subsequent to the first generation (analog), 2G digital signals offer good overall sound quality and numerous data services. Second generation mobile communications standard in Europe: GSM.

3G • Third generation of mobile communications. Provides broadband transmission of voice and data with considerably higher capacity compared to second generation. Third generation mobile communications standard in Europe: UMTS.

300-MILLIMETER TECHNOLOGY • Comprehensive term for the manufacture and processing of wafers with a diameter of 300 millimeters. At Infineon, the term is used as a synonym for the manufacture of memory chips on a 300-millimeter wafer.

65-NANOMETER TECHNOLOGY • Production technology that enables structures measuring 65 nanometers in width to be represented on the chip. The smaller the structures, e.g. conductors and pitches, the smaller the chip and the cheaper its production. The previous technology permitted features of 90 nanometers and the next generation has attained features of about 40 nanometers.

A

ABS • The anti-lock braking system is an electronic vehicle safety feature that prevents the wheels from locking during heavy braking.

ANALOG/MIXED SIGNAL • “Mixed signal” is a generic term for integrated circuits that operate simultaneously with analog and digital signals. Owing to similar requirements in terms of development and manufacturing processes, they are generally grouped together with integrated circuits operating exclusively with analog signals, hence giving rise to the combination “analog/mixed signal”.

ASIC • Application-Specific Integrated Circuit. Logic IC specially constructed for a specific application and customer; implemented on an integrated circuit.

ASSP • Application-Specific Standard Product. Standard product designed for a specific use that can be used by many customers; implemented on an integrated circuit.

B

BACK-END MANUFACTURING • The part of the semiconductor manufacturing process that happens after the wafer has left the cleanroom (front-end manufacturing). This includes testing the chips at wafer level, repairing the chips if necessary, dicing the wafers and packaging the individual chips. There is a growing trend among semiconductor manufacturers to outsource the assembly, and sometimes even the testing, to independent assembly companies. Much of the assembly capacity is based in the Pacific Rim countries.

BASEBAND IC • A baseband IC processes the digital signals received and those to be sent. This complex component usually contains a digital signal processor, microcontroller, memory and analog circuits. Essentially, it is the core of a wireless communications system.

BIPOLAR • A power bipolar transistor is a specialized version of a bipolar transistor that is optimized for conducting and blocking large electric currents (up to several hundred amperes) and very high voltages (up to several 1,000 volts). In industry, the power bipolar transistor – like the power MOSFET (see MOSFET) often used as an alternative – constitutes an important industrial semiconductor component for influencing electric current.

BIT • Information unit; can take one of two values“true” / “false” or “0” / “1”.

BYTE • Unit of information in data processing components. One byte is equivalent to 8 bits.

C

CHIP CARD • Plastic card with built-in memory chip or microprocessor, which can be combined with a Personal Identification Number (PIN).

CMOS • Complementary Metal Oxide Substrate. Standard semiconductor manufacturing technology used to produce microchips with low power usage and a high level of integration.

CONVERTER • Control unit that can convert AC voltages of various rates and frequencies. This is achieved by means of power electronics. Converters are used in wind turbines, for example, in order to feed fluctuating wind energy into the power network with a voltage of constant frequency. In electric drive technology, for example in engine controllers and trains, a converter is used to generate an output voltage of variable, load-dependent frequency from a mains supply of constant frequency.

CoolMOS • High-voltage power transistor for voltages from 300 to 1,200 V.

E

EDGE • Enhanced Data Rates for GSM Evolution. Describes a technology for an increased data rate in GSM mobile communications networks which, to date, is only very rarely applied. Like GPRS, EDGE is a further evolutionary development of the GSM technology, and can be introduced in mobile communications networks with moderate effort.

EMBEDDED FLASH • A nonvolatile memory that is integrated on a chip together with a microcontroller processor core. The nonvolatile memory contains the program code.

ESP • Electronic Stability Program. A vehicular technology system that uses sensors and computers to brake individual wheels in order to prevent skidding.

F

FRONT-END MANUFACTURING • Front-end process is the designation for all process steps that the entire wafer must complete. These are lithography, diffusion, ion implantation and application of circuitry levels. Some stations must be completed a number of times. At the end of the front-end process, the wafer may have been through as many as 500 individual process steps.

G

GIGA • 2^{30}, in information technology, e.g. Gigabit (Gbit), Gigabyte (GByte).

GMR • Giant Magneto-Resistance. The GMR effect is utilized in sensors for the purpose of measuring magnetic fields. GMR sensors are employed in a range of applications, e.g. as steering angle sensors in automobiles.

GPRS • General Packet Radio Service. New generation of mobile communications (2.5 generation) for higher data transmission rates (up to 115 kilobits per second) in GSM networks.

GPS • Global Positioning System. Satellite-based location identification and positioning system based on the transit-time differences of received signals.

GSM • Global System for Mobile Communications. Currently the most widely used digital mobile communications standard in the world (see 2G and GPRS).

H

HALL SENSOR • A sensor based on the Hall principle, used for measuring magnetic fields. Named for U.S. physicist Edwin Herbert Hall (1855 – 1938). Hall sensors are used in automobiles, for example, for detecting pedal positions or for measuring the speed at which shafts rotate.

HERTZ • Hertz (Hz) is the unit for frequency, and is named after the German physicist Heinrich Rudolf Hertz (1857 – 1894). The Hertz determines the number of oscillations per second, or more generally speaking, the number of repetitive processes per second. Frequently used units are kilohertz (one thousand oscillations per second), megahertz (one million oscillations per second) and gigahertz (one billion oscillations per second).

HVDC • High-voltage direct-current transmission. HVDC transmission is a method of transmitting electrical energy at high direct-current voltages of up to 800,000 volts over distances of more than 1,000 kilometers. HVDC transmission is also used for connecting offshore wind farms to the electricity grid on the mainland.

HSPDA, HSUPA, HSPA, HSPA+ • High-Speed Downlink Packet Access, High Speed Uplink Packet Access. A third-generation (UMTS) mobile phone communications protocol. HSDPA allows for the rapid transmission of data from the base station to the mobile phone unit at up to 7.2 megabits per second. This makes it possible for large amounts of data such as films, pictures, Internet pages, and e-mail to be downloaded to a mobile phone at high speeds. HSPDA is not only used in mobile phones, laptop users also work via data cards with the fast mobile data link. Like HSDPA, HSUPA is a third generation mobile telephony transmission process. HSUPA enables a fast data connection from the mobile phone to the base station with a current rate of up to 5.8 megabits per second. HSPA is the collective term for HSDPA and HSUPA. HSPA+ is the next generation and permits data transmission of 28 to 84 megabits per second from the base station to the mobile phone.

HYBRID CAR • A hybrid car is usually understood to be a motor vehicle that is driven by at least one electric motor, as well as a combustion engine. The hybrid drive is used in standard car construction to enhance efficiency, reduce consumption of fossil fuels or increase performance at lower engine speeds. In full hybrid cars the vehicle can be driven solely by the electric motor. In mild hybrid cars, the electric motor is simply used to support the combustion engine, for example when accelerating.

I

IC • Integrated Circuit. Electronic component parts composed of semiconductor materials such as silicon; numerous components, including transistors, resistors, capacitors and diodes can be integrated into ICs and interconnected.

IGBT MODULE • Insulated Gate Bipolar Transistor Module. IGBTs are semiconductor components used increasingly in power electronics due to their robustness, high blocking voltage, and their ability to be triggered with negligible power. Modules are formed using several IGBTs in parallel within a single casing. These modules are used to drive electric motors both in automotive and industrial applications. Motor speed and torque can be regulated along a gradual scale. Trains such as Germany's ICE and France's TGV use IGBT modules for an efficient and rapid electrical drive control.

INVERTER • An inverter, also called a DC/AC converter, is an electrical device for converting DC voltage into AC voltage, or direct current into alternating current. Inverters are used in solar power plants, for example, for converting the DC voltage generated in the solar modules into AC voltage, which is then fed into the electricity network.

K

KILO • 2^{10}, in information technology, e.g. Kilobit (Kbit), Kilobyte (Kbyte).

L

LTE • Long-Term Evolution. LTE is regarded as currently the most promising alternative to succeed the UMTS standard. First lab tests promise a data transfer rate of 100 megabits per second. This is intended to enable mobile telecommunications providers to offer interactive services, including high-speed data transfer and television (IPTV), as well as voice.

M

MEGA • 2^{20}, in information technology, e.g. Megabit (Mbit), Megabyte (Mbyte).

MICROCONTROLLER • A microprocessor integrated into a single IC combined with memory and interfaces, which functions as an embedded system. Logic circuits of the highest complexity can be designed in a microcontroller and controlled by software.

MICRON (MICROMETER) • Metric linear measure, corresponding to the millionth part of a meter (10^{-6}). -Symbol: µm. As an example, the diameter of a single -human hair is 0.1 millimeters, or 100 µm.

MOBILE PHONE PLATFORM • This platform is a working mobile phone, to which the customer only needs to add peripheral items such as the casing, keyboard, battery, and display. Customers can therefore design, produce and distribute a mobile phone without the need for great technical expertise.

MOSFET • Metal-Oxide Substrate Field-Effect Transistor. MOSFET is currently the most widely used transistor architecture. MOSFETs are used both in highly integrated circuits and in power electronics as special power MOSFETs.

N

NANOMETER • Metric unit of length. Corresponds to the billionth part of a meter (10^{-9}); the symbol is nm. The diameter of deoxyribonucleic acid (DNA) is roughly 2 nanometers. Fabrication features in the semiconductor industry are now measured in nanometers (see 65-nanometer technology).

P

POWER SEMICONDUCTOR • Over the last 30 years power semiconductors have mostly replaced electromechanical solutions in the areas of drive technology as well as power management and supply, due to their ability to form high energy flows almost at will. The advantage of these components is their ability to switch extremely rapidly (typically within a fraction of a second) between the “open” and the “closed” state. With the fast sequences of on / off pulses, almost any form of energy flow can be created, e.g. a sinus wave.

POWER TRANSISTOR • Power transistor is a term used in electronics to refer to a transistor for switching or controlling large voltages, currents and outputs. There is no standard method of differentiating between transistors for signal processing and power transistors. Power transistors are mainly produced in packages that enable installation on heat sinks, as it is otherwise impossible to handle the dissipation loss of several kilowatts that occurs with some types and applications (see power semiconductor).

R

RADIO-FREQUENCY (RF) TRANSCEIVER • The term “transceiver”, created from the words “transmitter” and “receiver”, is used to describe a combination of transmitter and receiver in a single component that is used in wireline and wireless communications. Radio-frequency transceivers are used in wireless communications, for example in mobile phones and cordless telephones.

S

SCHOTTKY DIODE • A special diode that has a metal-semiconductor junction rather than a semiconductor-semiconductor junction. The most frequently used semiconductor material up to 250 Volts is silicon. Silicon carbide (SIC) is used for voltages in excess of 300 Volts. SiC Schottky diodes offer a number of advantages over conventional diodes in power electronics. When used together with IGBT transistors, it is possible to dramatically reduce switching losses in the diode itself, as well as in the transistor. The name derives from German physicist Walter Schottky (1886 – 1976) (see silicon carbide).

SEMICONDUCTOR • Crystalline material; its electrical conductivity can be changed as desired by the application of doping materials (most often boron or phosphorus). Semiconductors include silicon or germanium. The term is also applied to ICs made of these materials.

SILICON • A chemical element with semiconducting characteristics. Silicon is the most important raw material in the semiconductor industry.

SILICON CARBIDE • Compound semiconductor made from silicon (chemical symbol Si) and carbon (chemical symbol C). The abbreviation is SiC. Because of its special material properties (e.g. good thermal conductivity), SiC is used for Schottky diodes, as well as elsewhere (see Schottky diode).

SINGLE-CHIP SOLUTION • This type of chip, used in mobile phones, combines the functions of several other chips. Single-chip solutions combine the three most important mobile-phone chips into one: baseband chips, radio-frequency transceiver chips, and power-supply chips. Memory is also included into more recent single-chip generations. Single-chip solutions reduce the number of required components, thereby lowering costs for telephone testing and mounting.

SIM CARDS • Subscriber Identity Module cards. Chip cards that are inserted into mobile phones in order to identify the user within the network. They are used by mobile phone networks to provide connections to their customers.

SMART GRID • The term Smart Grid is understood to mean the upgrading of the existing power supply networks to include communication and measurement functions, so as to make the flow of energy between increasingly decentralized power generation - for example by means of wind farms or block-type thermal power stations – and consumers more efficient.

SMART PHONE • A smart phone combines the performance of a PDA with a mobile phone. Depending on the manufacturer, the device will be more PDA or more mobile phone. This means that smart phones can log on to a mobile phone network or, as small computers, also run applications called apps.

SWITCHING POWER SUPPLY • A switching power supply is an electronic module that transforms an AC voltage into a DC voltage. Switching power supplies are more efficient than mains transformers and can be more compact and lighter than conventional power supplies containing a heavy transformer with a ferrous core. Switching power supplies are mainly used in PCs, notebooks and servers. However, they also achieve a very high level of efficiency even at low power, so they are increasingly found in plug-in power supply units, for example as chargers for mobile phones.

T

THIN WAFER • A wafer (see Wafer) is typically around 350 microns (µm; see Micron) thick when sawn into individual chips. A thin wafer is one that has been polished down to less than 200 microns thick (a human hair or a sheet of paper, by comparison, is about 60 microns thick). Thin wafer technology offers benefits: Thinner chips mean losses can be reduced and the heat generated can be dissipated more effectively. Another advantage is that electrically active patterns can be produced on the backside as well, enabling the chip to provide completely new functions. Thin wafer chips also allow more compact packages.

TRANSCEIVER • See radio-frequency (RF) transceiver.

TRUSTED COMPUTING • Trusted Computing means that the hardware and software used in PCs, as well as other computer-controlled systems, such as mobile phones, can be controlled. This is achieved by means of an additional chip, the Trusted Platform Module (TPM), which can use cryptography to measure the integrity of the hardware and of the software data structures, while also saving these values in a verifiable way.

U

ULC • Ultra Low Cost. Mostly used in the context of mobile telephones. The most important element in a ULC telephone is a single-chip solution that integrates the elementary mobile phone components, such as baseband processor, transmission and reception unit, power supply and memory on a single chip (see single-chip solution).

UMTS • Universal Mobile Telecommunications System. Designed to be the global digital standard for mobile communications. UMTS enables data transmission of up to two megabits per second.

V

VSD • Variable Speed Drive. Electronic controller for controlling the speed (rounds per minute) of electric motors.

W

WAFER • Thin slice of semiconductor material (mostly silicon, but germanium or gallium arsenide also common) from which the actual chip is produced. Typical diameters for wafers currently are 200 millimeters and 300 millimeters.

WCDMA • Wideband CDMA. A data transmission process used in UMTS networks.

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PUBLICATION OF FIRST QUARTER 2011 RESULTS

THURSDAY, FEBRUARY 17th, 2011
ANNUAL GENERAL MEETING 2011 (START 10.00 A.M. CET)
ICM – INTERNATIONAL CONGRESS CENTER MUNICH, GERMANY

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