

Our Employees – Focusing on Customers and Performance Are Our Success Factors

- > Human resources work centered around Infineon's strategic realignment.
- > Constant principles are needed, particularly in times of change. Our principles are **customer focus, operational excellence, profitable growth** and **collaborative leadership**.
- > We practice various personnel development policies to lay the foundations for our prime objective – sustained profitability.

“New Infineon” – Questioning Identity and Corporate Culture

The 2006 financial year witnessed a sea of change at Infineon, set into motion by the strategic realignment, with the carve-out and IPO of the Memory Products business representing a central milestone in the process. In the course of this realignment we subjected our identity, guidelines and values to close scrutiny and adapted them to the challenges we face as the “New Infineon”: We are more focused now. Not size, but economic success counts for us. At the same time we have to sustain and improve our technological leadership.

...see Letter to the Shareholders, page 4

The four pillars of **customer focus, operational excellence, profitable growth** and **collaborative leadership** continue to be our main principles in all we do. The concentration on our remaining businesses means that added significance is attached particularly to customer focus.

FOUR PILLARS OF INFINEON

Customer focus

We think of our customers first, delivering innovative semiconductor solutions to meet their needs today and in the future.

Operational excellence

We are committed to being best-in-class on cost and quality. We keep our promises and differentiate ourselves through market-oriented product introduction.

Profitable growth

We focus on profitable growth in the interest of our shareholders and employees.

Collaborative leadership

We foster a cooperative culture and work as a global team for the success of our customers.

Over the last year we have further anchored the four pillars in the company by introducing various measures. For instance, we have rigorously adjusted our personnel development policy to these principles. This applies to the assessment and development of managers as well as to our training schemes.

Furthermore, we have adapted the Infineon code of values to our new challenges. “We commit”, “We innovate”, “We partner” and “We create value” are the central values that characterize how we work together – both inside and outside the company. These values orient us in times of change and support the new Infineon business model: creating flexible solutions and products for our customers that make both them and us successful, and in which all of Infineon's “power” is bundled. They help strengthen and orient the entrepreneurial focus, commitment, creativity and ability to cooperate of Infineon's management and employees alike. All personnel processes and programs will thus be harmonized with these new corporate values.

Qimonda's Carve-out in the Spotlight of Human Resources

The carve-out and IPO of the Memory Products business played a prominent part in the work done within human resources in the 2006 financial year. Creating the necessary structures for the new Qimonda AG was only one of the major tasks to be mastered. Another central task was arranging the transfer of some 12,000 employees worldwide to the new company. Real-time, constant communication throughout the carve-out process played a crucial role. In view of the global dimensions of this mission, we consider it to be a great achievement that the transition was effected consistently and concurrently worldwide.

Instruments for Promoting the Corporate Change

The successful implementation of our strategic realignment calls for our staff to adopt a new mindset and attitudes, and in some cases it calls for new competencies. Entrepreneurship, a results-driven approach and customer focus throughout all areas and hierarchy levels are the central preconditions for achieving our prime objective – profitable growth. We have defined a number of instruments with which we systematically support our employees in fulfilling these requirements and with which we actively drive the corporate change ahead.

Entrepreneurial Leadership – Our Global Manager Development Program is one example of how we help our managers acquire the expertise necessary to secure the long-term success of “New Infineon”. At the center of this practice-oriented program is the application of newly gained management knowledge to current projects.

Technical Leadership – We expect more than just excellent technical knowledge from the leading technical experts in the company. The ability to gear innovations to our customers’ requirements and to think in an entrepreneurial way are at least just as important. They also have to be adept at pushing innovations ahead, ensuring the transfer of knowledge and making an active contribution to strategic discussions. We offer our technical experts seminars, forums and communities to support them in fulfilling their changed role.

STEPS – Putting the right employee in the right job is a basic requirement for permanent corporate success. Fostering talented employees and sustainably developing their qualities is vital, particularly in the critical business environment in which Infineon operates. As part of our long-term personnel development scheme, STEPS (Steps to Employees’ Personal Success), our staff and management development program, establishes a uniform framework worldwide to identify potential future executives across the globe, to deploy them in keeping with their skills and to develop them.

It is very important to us that our staff accept responsibility for themselves and their professional development and that they set themselves goals. A sense of responsibility is vital for personal performance and hence for promoting the company’s success. As part of the STEPS program, the development steps and goals are defined together with the employee in an open dialog.

Performance-related Compensation – The great importance we attach to a results-driven approach is also reflected in our compensation system. We seek to foster entrepreneurial thought and action among our staff by compensation that is related to performance and success. That is why our compensation system consists of fixed and variable components. The variable components depend on individual performance, respectively team performance and the achievement of economically and strategically relevant business targets.

Long-term Incentive Program – Our company recognizes outstanding contributions to its long-term success with our stock option plan. In the 2006 financial year we brought the long-term incentive program into line with changed external parameters. The total volume was reduced from 51.5 million options on shares which could be issued over five years, to 13 million options on shares which can be issued over three years. In addition, the hurdle for exercise of the options was increased from 5 to 20 percent. We have not issued options under this plan in the 2006 financial year.

YIP – Infineon’s ideas management program YIP (Your Idea Pays) makes a significant contribution to corporate success. The suggestions implemented in the 2006 financial year generated savings of €125 million, repeating the savings, significantly topping €100 million seen in previous years. Almost 10,000 employees from all the global locations of Infineon and Qimonda took an active part and demonstrated their loyalty to the company.

Apart from its contribution to the corporate goal of profitable growth, the YIP program proves the high commitment of our employees to introduce creative ideas for change that have a positive impact on our corporate culture and performance.

Infineon Awards – In the 2006 financial year the winners of the Infineon Awards again demonstrated what it means to bring their outstanding achievements and pathbreaking ideas to bear in individual improvements, thus strengthening the company as a whole. The precept of customer focus, one of our central guidelines, took center stage at the 2005 Infineon Awards. A number of projects were honored, including one showing how innovative products are born from customer relationships. The NovalithIC

family of high-current half-bridges represents a product tailor-made to meet the customer's requirements. Thanks to its innovative concept, it is currently unique on the market and reinforces our image as a competent partner.

Campeon – Speed, flexibility and communicative structures are of central importance for the realignment of Infineon in our dynamic environment. Campeon, the new corporate location in Neubiberg (near Munich, Germany), and since the beginning of 2006 the workplace for approximately 6,000 employees from formerly nine locations, is a working environment which promotes the exchange of knowledge and thus significantly increases efficiency in our daily operations.

International Training Courses – Our new facility in Kulim, Malaysia, is a fine example of how the thorough training of new staff and the international exchange of experts yields tangible results. Over 400 employees from Kulim spent several months on a training program in Villach, Austria, and Regensburg, Germany, the two other locations of our "power fab cluster", to acquire the respective know-how for our new facility to operate successfully. The first results can already be seen. The first wafer was processed ahead of the original schedule. Production ramp-up already began in August 2006.

Encouraging Diversity

Our corporate culture has a customer and performance focus, as well as being geared to internationality. We are a globally operating company with employees from 107 nations and locations in 26 countries worldwide. As a global company, the diversity of our employees is our lifeblood. We therefore encourage a culture in which everyone can contribute to the success of the company – irrespective of nationality, culture, religion, age, gender or skin color.

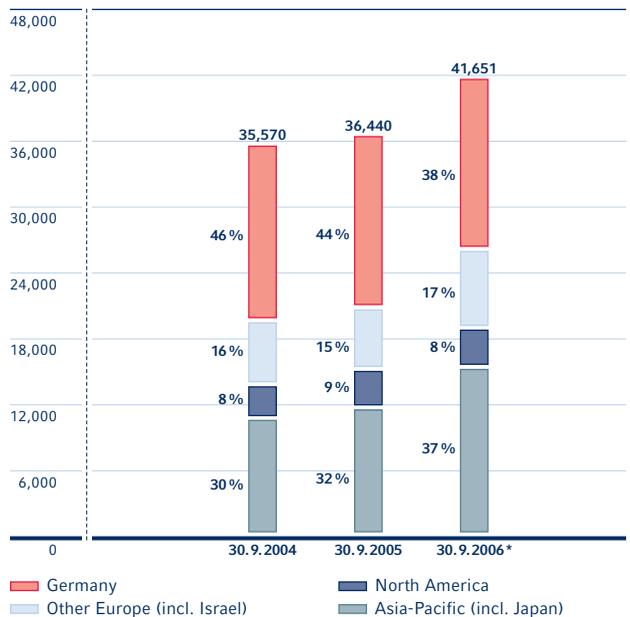
Last year this included implementation of the new General Act on Equal Treatment (Allgemeines Gleichbehandlungsgesetz) in Germany. Infineon emphatically supports this Act. It has been self-evident for us since day one that discrimination in any form whatsoever will not be tolerated. Our Business Conduct Guidelines, which are binding for all our employees, have long since addressed the forms of discrimination now forbidden by law.

...see Financial Review, page 49

It is important to us that our employees are able to develop their potential and deploy it without hindrance. Accommodating employees' personal situations, as our flexible working time models show, or with facilities like the children's day care center at Campeon, to name only two examples, are important facets here.

Diversity at Infineon also means showing our employees different ways of developing their talents, whether it be new projects or challenging new tasks. Besides the classical management career, we also offer staff the opportunity to follow an expert career path. One example of this is the technical ladder, a career path dedicated to all employees with special technical knowledge, which promotes and develops this technical know-how in tune with the requirements of our business.

EMPLOYEES BY REGION



* incl. Qimonda