



Infineon Technologies AG
Munich

Neubiberg,
January 2007

Annual General Meeting 2007 Items 5-7 on the agenda

Reports of the Management Board

The following reports of the Management Board are available for inspection at the business premises of Infineon Technologies AG at Am Campeon 1-12, 85579 Neubiberg, Germany, and on the internet at www.infineon.com/agm. They will also be available for inspection at the Annual General Meeting.

Report of the Management Board concerning Item 5 on the agenda

The existing Authorized Capital I/2002, which authorizes the Management Board, with the approval of the Supervisory Board, to issue new no par value registered shares against contributions in cash or in kind, expires on January 21, 2007. The Management Board and Supervisory Board therefore propose to the Annual General Meeting the creation of a new, reduced Authorized Capital 2007 totaling EUR 224,000,000.00.

In the interests of flexibility it is intended that like the old Authorized Capital, the new Authorized Capital 2007 will be available for capital increases both against contributions in cash and against contributions in kind.

Shareholders generally have a subscription right if the Authorized Capital 2007 is used for capital increases against contributions in cash. It is intended, however, that it be possible to exclude this subscription right with the approval of the Supervisory Board in three situations:

- The subscription right is to be excluded for fractional amounts. This is intended to simplify the processing of issues in which shareholders have a subscription right in principle. Fractional amounts may result from the issue volume concerned and the need for a manageable subscription ratio. The value of such fractional amounts is usually low for individual shareholders, but the costs of the issue are significantly higher without such an exclusion. The potential dilution effect is also negligible due to the restriction on fractional amounts. The new shares excluded from the subscription right on account of fractional amounts are used to the best advantage of the Company. The

exclusion of the subscription right thus makes issues more viable and easier to complete.

- It shall also be possible to exclude the subscription right insofar as the holders of option rights or the creditors of convertible bonds that have been or will be issued by the Company or its subordinated group companies are granted a subscription right to new shares according to the applicable terms of issue. The terms of bonds with warrants and convertible bonds usually provide for protection against dilution to facilitate placement in the capital market. This protection against dilution ensures that the holders of the option rights and the creditors of the convertible bonds are granted a subscription right for these shares from subsequent issues in the same way as shareholders. The holders of the subscription right are thus treated as though they had already made use of their subscription right and were therefore already shareholders. The subscription right of shareholders to these shares must be excluded in order that the relevant issues (bonds with warrants and convertible bonds) can be provided with such protection against dilution. This makes it easier to place the issues and thus serves the shareholders' interest in seeing their Company maintain an optimized financial structure.
- Finally, it shall also be possible to exclude the subscription right of shareholders in the event of capital increases against contributions in cash if the shares are issued at a value that is not substantially lower than the stock exchange price. This authorization enables the Company to meet a potential need for capital even at very short notice as may be necessary in order to respond quickly and flexibly to market opportunities for its business. Exclusion of the subscription right allows the Company to move rapidly and place shares at close to the stock exchange price (that is to say without the discount usually applied in issues covered by subscription rights).

Capital increases against contributions in cash for which subscription rights are excluded pursuant to Section 186 (3) Sentence 4 German Stock Corporation Act (*Aktiengesetz*) may not exceed 10 % of the existing share capital either at the time of the authorization becoming effective or at the time of its exercise. This respects the shareholders' need for protection against dilution of their holding: the new shares are placed at a price close to the stock exchange price, so shareholders can maintain their proportionate stake by purchasing shares in the market under terms almost identical to those of the issue.

Shares that are issued or are to be issued to service subscription rights under bonds with warrants and/or convertible bonds are to be included in this 10 % figure if such bonds are issued on or after February 15, 2007 with the subscription right of existing shareholders excluded by analogous application of Section 186 (3) Sentence 4 German Stock Corporation Act (*Aktiengesetz*). Shares that are issued, with the subscription right of existing shareholders excluded, on or after February 15, 2007 on the basis of an authorization to sell own shares pursuant to Section 71 (1) Number 8 Sentence 5 and Section 186 (3) Sentence 4 German Stock Corporation Act (*Aktiengesetz*) are also to be included in this amount. These limits also serve to provide protection against dilution for shareholders.

It is intended to exclude subscription rights in respect of capital increases against contributions in kind in addition to these possibilities for excluding subscription rights in respect of capital increases against contributions in cash. Thus far we have effected all of our substantial acquisitions using shares. We intend to continue to acquire companies, parts of companies, participations and assets related to such transactions in order to improve our competitive strength and to enhance our profitability and hence our company value. It has become apparent that the size of the entities involved in such transactions is growing continuously and that in many cases the consideration payable is now extremely high. It is frequently no longer desirable or even possible to meet such considerations in cash alone, especially in view of the importance of maintaining an optimized financial structure. An increasing number of sellers, moreover, also insists on being paid with shares, as this can be more advantageous for them. The option to use own shares as an acquisition currency gives the Company the necessary leeway to make use of acquisition opportunities swiftly and flexibly and also enables the Company to acquire larger entities against the granting of shares. However this is only possible, if the subscription rights of existing shareholders can be excluded. Such acquisitions have to be effected at short notice, so with Annual General Meetings taking place only once a year it is not generally possible to submit them to the shareholders in the form of resolutions. What is needed in such situations is an authorized capital that the Management Board can access, subject to the approval of the Supervisory Board, at very short notice. We wish to be able to use the Authorized Capital 2007 for this purpose just as we have previously been able to use the Authorized Capital I/2002.

The level of the new Authorized Capital – just under 15 % of the current share capital – ensures that it is possible to finance even larger acquisitions against payment in cash or payment by shares. On the other hand, the new Authorized Capital 2007 does still remain well short of the maximum figure of 50 % permitted under the law.

Report of the Management Board concerning Item 6 on the agenda

The authorization to issue bonds with warrants and convertible bonds that was granted by the Annual General Meeting 2002 and extended by the Annual General Meeting 2004 expires on January 21, 2007. We are therefore proposing to the Annual General Meeting a new authorization and a new conditional capital for the issue of bonds with warrants and/or convertible bonds.

Adequate capital resources are an important prerequisite for the development of the Company. Bonds with warrants and convertible bonds are an important financial instrument that enables the Company to obtain low-interest debt capital initially, which in some instances it may later retain in the form of equity. Moreover, the conversion and option premiums realized, accrue to the Company. Our Company has already issued two convertible bonds, the first in 2002 and the second in 2003, on the basis of the existing authorization. One of the two bonds (originally issued in a nominal amount of EUR 1 billion) matures in February 2007. Shortly before then the authorization to issue bonds granted by the Annual General Meeting 2002 will expire. We propose a new authorization for the same amount in order to ensure that the Company continues to benefit from the flexibility it has enjoyed in the past when raising capital for investment activities and the like.

Pursuant to this authorization, it shall be possible to issue bonds in the aggregate amount of up to EUR 4 billion. Shares representing a notional portion of the share capital of up to EUR 248 million – corresponding to up to 124 million shares – shall be available to service these bonds.

Our shareholders generally have a subscription right to the bonds. This enables them to invest their capital with the Company and at the same time maintain their proportionate stake in the Company. It is intended, however, that the Management Board will be authorized, as has been the case in the past, to exclude this subscription right in certain circumstances as provided for under the law subject to the approval of the Supervisory Board:

- The Management Board shall be authorized to exclude the subscription right in analogous application of Section 186 (3) Sentence 4 German Stock Corporation Act (*Aktiengesetz*) with the approval of the Supervisory Board if the issue price of the bonds is not substantially lower than their theoretical market value as determined in accordance with accepted methods of financial mathematics (Section 221 (4) Sentence 2 in conjunction with Section 186 (3) Sentence 4 German Stock Corporation Act [*Aktiengesetz*]). Such exclusion of the subscription rights of existing shareholders is necessary if a bond is to be placed at short notice in order to make use of a favorable market environment. The interests of the shareholders are preserved in that the bonds are issued at a price which is not substantially lower than their market value, as a result of which the value of a subscription right is practically zero. This option is limited to bonds with rights to shares representing a notional portion of not more than 10 % of the share capital. Shares issued from an Authorized Capital on or after February 15, 2007 with subscription rights excluded by application of Section 186 (3) Sentence 4 German Stock Corporation Act (*Aktiengesetz*) are to be included in this 10 % figure. That proportion of the share capital accounted for by the sale of own shares is also to be included in this amount insofar as this is done during the term of the authorization to issue the bonds with subscription rights excluded by application of Section 186 (3) Sentence 4 German Stock Corporation Act (*Aktiengesetz*). It should be noted that the Annual General Meeting has still to approve such a sale. These two sums are included in the 10 % figure in the interests of minimizing any dilution of the stake of the shareholders.
- It shall also be possible to exclude the shareholders' subscription right in order to permit exploitation of fractional amounts in issues for which shareholders have a subscription right in principle. It is reasonable and customary to exclude the subscription right of existing shareholders in relation to fractional amounts because the costs of trading subscription rights relating to fractional amounts are out of proportion to the benefits for shareholders. The potential dilution effect is also negligible due to the restriction on fractional amounts. The bonds excluded from the subscription right on account of fractional amounts are used to the best advantage of the Company.
- It should be possible, furthermore, to exclude the subscription right insofar as the holders of bonds that have been or will be issued by the Company or its subordinated group companies are granted a subscription right to bonds issued subsequently. Bonds with warrants and convertible bonds usually

provide such protection against dilution to facilitate placement in the capital market. The holders of the subscription right are thus treated as though they had already made use of their subscription right and were therefore already shareholders.

- Finally, it shall be possible to exclude the subscription right of existing shareholders so that bonds can be issued against contributions in kind. However it should only be possible to do this if the value of the contribution in kind corresponds to the issue price of the bond and is not substantially lower than the market value of the bonds as determined in accordance with accepted methods of financial mathematics. The option of making issues against contributions in kind is intended in particular to enable us to use bonds as well as shares for the acquisition of companies, parts of companies, participations in companies and assets. The Company intends, as already discussed under Item 5 on the agenda, to continue improving its competitive strength and enhancing its profitability through such acquisitions. It is frequently no longer desirable or even possible to meet the associated considerations in cash alone, and sellers also now often insist on an alternative form of payment. The ability to offer bonds with a conversion or option right instead of or in addition to guaranteeing shares or payment in cash can provide an attractive alternative in such cases. This possibility creates greater flexibility and increases the Company's competitive strength in acquisitions. The Management Board will examine every situation carefully to determine whether the acquisition and the transfer of bonds against contribution in kind is in the Company's interest and will only exclude the subscription right of the shareholders if these conditions are met.

Report of the Management Board concerning Item 7 on the agenda

The authorization to purchase own shares is intended to enable the Company not only to recall shares and sell shares via the stock exchange, but also to use the shares purchased for specific purposes, namely

- as an acquisition currency in connection with company mergers or the acquisition of companies, parts of companies or participations in companies, and
- to service bonds with warrants or convertible bonds issued or guaranteed by the Company.

In light of the potential uses indicated for the own shares purchased, we consider the following points to be of principal significance:

- Own shares as an acquisition currency

We wish to be able to offer own shares in company acquisitions. We have in the past completed our substantial acquisitions against shares. In comparable situations in the future, it may be advantageous to resort to own shares rather than making the entire purchase price available from an authorized capital. It is sometimes necessary to redeem stock option plans operated by the target company, for example, while in other cases elements of the purchase price

may be tied to specific targets. The technical process of issuing shares from an authorized capital when these targets are achieved can be very complicated in certain circumstances, and we would therefore like to have the option of being able to offer own shares.

- Own shares to service bonds with warrants and convertible bonds

Moreover, we also wish to be able to use own shares to service bonds with warrants and convertible bonds that have been or will be issued or guaranteed by the Company. Although there are conditional capitals – including, should the corresponding resolution be passed, the new Conditional Capital 2007 – available for such bonds issued by the Company, the terms of the bonds usually permit the Company the alternative of meeting conversion obligations from own shares. This option also harbors benefits in terms of enhanced flexibility, which only reinforces the need for this authorization.

The subscription right of shareholders in respect of these shares must be excluded in the cases presented so that the shares can be used for the purposes indicated. In decisions on the exclusion of the subscription right of shareholders, the Management Board will be guided by the interests of the shareholders and the Company and will carefully consider whether the exclusion is needed in the interests of the Company. The necessary measures will be taken and subscription rights of the shareholders excluded only if these conditions are met. The Management Board will report on each decision at the next Annual General Meeting following the decision pursuant to Section 71 (3) German Stock Corporation Act (*Aktiengesetz*).

Purchasing methods:

The resolution proposed provides two recognized methods of purchasing the shares, the first being via the stock exchange and the second via a public tender offer. Section 71 (1) No. 8 German Stock Corporation Act (*Aktiengesetz*) states that the method of purchasing via the stock exchange in itself satisfies the requirements of the principle of equal treatment. Any disadvantage to shareholders is similarly excluded in the case of a public tender offer. The provisions of the German Takeover Act (*Wertpapiererwerbs- und Übernahmegesetz*) must be observed insofar as they apply.

Infineon Technologies AG
Management Board

<u>[signed]</u>	<u>[signed]</u>	<u>[signed]</u>	<u>[signed]</u>
Dr. W. Ziebart	Peter Bauer	Peter J. Fischl	Prof. Dr. Hermann Eul