

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,

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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.,

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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 (Aktengesetz), 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

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