



**Report of the Management Board concerning Item 7 of the Agenda
(creation of a new Authorized Capital 2016/I for employee shares
(article 4, paragraph 7 of the Articles of Association, new))
of the Annual General Meeting of Infineon Technologies AG
on February 18, 2016**

Direct shareholdings represent a well-established component of managers' compensation at listed companies. At Infineon, such arrangements are enshrined in the Performance Share Plan (PSP), which has been in place since 2013. Under this plan, managers at Infineon Technologies AG and its subsidiaries are given the option of converting the virtual shares initially allocated to them into real Infineon shares, whereby 50% of the shares can only be converted if the Infineon share outperforms the Philadelphia Semiconductor Sector-Index (SOX) during the four-year term of each tranche. The prerequisite for participating in the PSP is that managers acquire a specified number of Infineon shares out of their own funds, depending on the volume of Performance Shares allocated to them, and hold those shares throughout the four-year term of the relevant PSP tranche.

The issuance of shares in conjunction with the PSP arrangements is designed to retain managers at Infineon in the long term and bolster their identification with Infineon. At the same time, the PSP arrangements are intended to allow managers to participate in the Company's long-term success as responsible-minded shareholders, thus encouraging a greater sense of responsibility throughout Infineon. Given that the virtual shares may only be converted into Infineon shares if the manager remains employed by Infineon Technologies AG or one of its Group entities without interruption through to the end of the holding period, the PSP ultimately helps to retain managers at Infineon over longer periods.

In light of the above, the issuance of shares in conjunction with the PSP is in the interest of the Company and its shareholders. Moreover, allowing employees to participate in the share capital of their company is encouraged by German legislation, including various simplifications permitted by the German Stock Corporation Act.

The sole aim of the new Authorized Capital of up to €30 million is to convert employees' Performance Shares into real Infineon shares at the end of the four-year holding period. In order to issue shares in this manner to the beneficiaries, the subscription rights of existing shareholders must be excluded. Although members of Infineon Technologies AG's Management Board and equivalent executive boards of Group entities participate in the PSP arrangements, new shares will not be issued to them from Authorized Capital 2016/I. In this case, the Company's own shares will be used.

The new shares intended for PSP participants will be issued at the lowest issue price in return for a cash capital contribution. In order to reduce the expense for beneficiaries, shares may also be issued in compliance with the conditions specified in section 204, paragraph 3, AktG. According to this legislation, the contribution to be paid on the shares is covered by the portion of the net income for the year that the Management Board and Supervisory Board could transfer to revenue reserves in accordance with section 58, paragraph 2, AktG. Accordingly, in this case, an amount corresponding to the lowest issue price of the new shares is reclassified from the special reserve (as recorded in the Separate Financial Statements) to share capital.



The proposed nominal amount of the Authorized Capital 2016/I of up to €30 million (= up to 15 million shares) corresponds to approximately 1.3% of the current share capital. Assuming a roughly constant participation ratio in the PSP, similar to the rate to date, and a maximum performance success rate at the end of the four-year holding period for each tranche, this amount is sufficient to satisfy the rights of all employees participating in the plan with respect to the conversion of their virtual shares during the five-year term of Authorized Capital 2016/I. However, if the PSP performs less favorably than this assumption (fewer participants, unfavorable share price performance, higher employee turnover, net income too low, etc.), the conversion ratio could well be significantly lower in the final analysis.

In order to service rights accruing in conjunction with the PSP, as a general rule, Infineon is also entitled to use repurchased own shares. Alternatively, Infineon is entitled to make a cash payment to plan participants equivalent to the value of the Performance Shares to be converted. However, the Company should retain the necessary flexibility – either alternatively or in addition to issuing its own shares or to making cash payments – to create and issue new shares. The principal benefits arising from using Authorized Capital 2016/I in conjunction with the PSP arrangements are the ability to use the shares independently of any previous buy-back and the fact that it helps to preserve the Company's liquidity.

The Management Board will continue to examine carefully in each specific case, whether participation of a manager or group of managers in the PSP plan (and hence the potential issue of Infineon shares to beneficiaries at a later date – with subscription rights of existing shareholders excluded) is in the interest of the Company and its shareholders. Equally, the Management Board and the Supervisory Board will ensure that the utilization of Authorized Capital 2016/I to satisfy the rights of PSP participants complies with the aforementioned conditions. Authorized Capital 2016/I will only be used to satisfy any rights arising in conjunction with the PSP if this is deemed to be in the interest of the Company and its shareholders.

The Management Board will keep the Annual General Meeting informed of the extent to which Authorized Capital 2016/I is being used.

The Management Board of Infineon Technologies AG:

Dr. Reinhard Ploss
(CEO)

Dominik Asam

Arunjai Mittal