

Report of the Supervisory Board to the Annual General Meeting



Max Dietrich Kley
Chairman of the Supervisory Board

Dear Shareholders,

The last financial year was a very eventful one for Infineon and one which necessitated intensive work by the Supervisory Board and its close cooperation with the Management Board. In a total of seven meetings held during the financial year, we discussed the situation of the company and took decisions that were crucial for the company's development.

Following three consecutive years of losses, Infineon emerged from the last financial year with positive results. Although the earnings situation has now improved, the company still has to deal with potential overcapacity. Infineon has responded to this by introducing a number of measures; it has for instance, adapted its contractual agreements with major customers and introduced more flexibility into chip manufacturing activities. The goal has to be to remain profitable, even in times of market downturn. To this end we are in full agreement with the Management Board that in years with greater earnings we must make careful provision for the future. The "smart savings" program, introduced by the Management Board, must be seen in this context.

I would like to mention, in particular, the following aspects of the Supervisory Board's activities:

- ::: We followed closely and informed ourselves thoroughly about everything to do with the antitrust cases and associated collective law suits alleging illegal price-fixing activities – among other activities we convened in an extraordinary meeting of the Supervisory Board in January 2004. After having discussed the situation at length with the Management Board and examined possible alternatives, we finally gave our approval and fully support the company's decision to cooperate with the U.S. antitrust authorities and to accept to pay a considerable fine. We welcome the fact that the company managed within a very short time to reach an amicable agreement with its most important customers regarding the consequences of the alleged violation of antitrust laws.
- ::: In March 2004, Dr. Schumacher resigned from his position as Member and President of the Management Board. After intensive discussion, the Supervisory Board accepted his resignation and, with a view to strengthening the company management, provisionally requested its

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own Chairman to assume a position on the Management Board. The main task during this interim period was primarily to strengthen the confidence and motivation of the employees. This was achieved by the participation at staff meetings, conversations with employee representatives, visits to major production sites as well as visits and conversations with our major partners. Under my guidance, the Management Board implemented the necessary organizational and financial changes swiftly and efficiently during this period. We were pleased to be able to find a new President of the Management Board quickly and announced the appointment of Dr. Wolfgang Ziebart in May 2004. As agreed, Dr. Ziebart took up his new task at Infineon on September 1, 2004.

::: Together with the Management Board, we have been working very intensively on the company's corporate strategy. Innovation remains one of the key success factors for the company and, for this reason, the Supervisory Board has formed a Strategy and Technology Committee to support and implement strategic measures.

Furthermore, at the ordinary meetings of the Supervisory Board, the Management Board reported on business developments, the economic situation of the company and the individual business groups as well as on financial and investment planning, and submitted detailed quarterly reports. The Management Board also gave verbal and written reports on incidents of significant importance. In addition, the Chairman of the Supervisory Board was notified continuously about essential matters and decisions in individual discussions with the Management Board.

The Supervisory Board also concentrated on Corporate Governance. In accordance with the provisions of the U.S. "Sarbanes Oxley Act", the Supervisory Board has appointed Mr. Kley "Financial Expert". The Declaration of Compliance 2004 pursuant to § 161 of the German Stock Corporation Law was decided by the Supervisory Board in November 2004; it is printed on page 53 of the Annual Report. Infineon's Corporate Governance System is described in detail on page 52 of the Annual Report.

Meetings of the Supervisory Board and the committees

During the period under review there were seven meetings of the Supervisory Board. Resolutions of the Supervisory Board were passed both during these meetings and using the circulation procedure. One Member of the Supervisory Board was absent for valid reasons at more than half of the Supervisory Board meetings.

The Executive Committee was convened three times this year and passed various resolutions using the circulation procedure.

This financial year, the Investment, Finance and Audit Committee met five times and in addition, took a decision in a written circulation procedure. The main objectives of these meetings were

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the auditing of the interim reports, preliminary auditing of the annual accounts, discussion of the auditor's report with the auditors, examination of finance and investment plans, definition of key audit targets, and the study of major divestitures and investments. These were the sale of our fiber optics business to Finisar Corporation, Sunnyvale, USA, in return for their shares, the exercise of an option to purchase the minority stake in our previous partner companies at our 300-millimeter-manufacturing company in Dresden as well as the expansion of our front-end facility in Richmond, USA.

The new Strategy and Technology Committee first built in this financial year has already been convened twice. Main focus of its activities was the discussion of fundamental strategic issues with the Management Board, particularly with regard to the necessity for adjustments of the "Agenda 5-to-1."

It was not necessary for the Mediation Committee, provided for under § 27 Section 3 of the Mitbestimmungsgesetz (German Codetermination Act) to be convened.

Individual and consolidated financial statements

KPMG Deutsche Treuhand-Gesellschaft AG Wirtschaftsprüfungsgesellschaft, Berlin and Frankfurt/Main, the auditors of Infineon Technologies AG, have checked the financial statements of Infineon Technologies AG for the financial year ending September 30, 2004 drawn up in accordance with the provisions of U.S. GAAP and applying the exemption provision under § 292a of the German Commercial Code (HGB), as well as the combined operating and financial reviews of Infineon Technologies AG and of the Infineon Group. The documents have been endorsed with an unqualified auditor's opinion. We have also checked these documents ourselves.

The reports by KPMG on the audit of the annual accounts and the consolidated financial statements were presented to all Members of the Supervisory Board and dealt with in detail at the meeting of the Investment, Finance and Audit Committee on November 8, 2004 and subsequently during our balance-sheet meeting on November 23, 2004 in the presence of the auditors. At this meeting the Management Board reported in detail on the scope, main points and the costs of the audit. We found no grounds for objection and agreed with the results of the audit. In this regard, the Supervisory Board has approved the financial statements prepared by the Management Board and they are therefore to be regarded as final.

Composition of the Supervisory Board

During the period under review there were a number of changes to the composition of the Supervisory Board: at the end of the Annual General Meeting on January 20, 2004, the new

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employee members of the Supervisory Board took up their representative responsibilities. The appointments of Mr. Eibl, Mr. Luschtinetz, Mr. Ruth and Mr. Schmidt were confirmed. Mrs. Kerstin Schulzendorf and Mr. Jakob Hauser were appointed as representatives of the non-executive employees and Mr. Dieter Scheitor and Mr. Alexander Trüby were appointed as representatives of the unions.

Mrs. Beyhan, Mr. Dechant, Mr. Hawreliuk and Mr. Müller are no longer Members of the Supervisory Board. On February 29, 2004, Mr. Midunsky resigned from the Supervisory Board to be replaced by Mr. Günther Fritsch elected by the Annual General Meeting as substitute member. The Supervisory Board has expressed its thanks to all resigned persons for their dedicated contributions.

At the ordinary Supervisory Board meeting on January 20, 2004, Mr. Klaus Luschtinetz was elected as new Vice-Chairman of the Supervisory Board.

With effect from March 25, 2004, Mr. Kley was appointed as the President of the Management Board for a transitional period by the Supervisory Board under § 105 Section 2 of the German Stock Corporation Law. Mr. Kley performed the corresponding tasks from the date of departure of Dr. Schumacher until September 1, 2004. Mr. Kley's responsibilities within the Supervisory Board were suspended during this period; in his absence, his position as Chairman of the Supervisory Board was assumed by Mr. Luschtinetz.

The Supervisory Board would like to express its thanks to the Management Board and all the Infineon employees for their efforts and their performance in the 2004 financial year. The Supervisory Board would also like to thank the Works Councils for their constructive participation.

Munich, November 2004

On behalf of the Supervisory Board



Max Dietrich Kley
Chairman of the Supervisory Board