

# REPORT OF THE SUPERVISORY BOARD TO THE ANNUAL GENERAL MEETING

*Ladies and Gentlemen,*

The 2014 fiscal year was once again a highly successful one for Infineon. Under the three banners of energy efficiency, mobility and security, Infineon's focus of activities remains very much on the key trends shaping the future. With unwavering innovative strength, Infineon is serving these trends and remains firmly on track for sustainable growth. This strategy benefits not only Infineon's customers and employees, but also you as its shareholders. Indeed, Infineon's inclusion in the Dow Jones Sustainability Index for the fifth year in succession demonstrates that economic success and growth on the one hand and sustainability on the other are eminently compatible aims – a further trend which Infineon is not only following, but also playing a decisive role in shaping.

During the year under report, the Supervisory Board again performed all of the duties incumbent upon it, in a highly conscientious manner and in accordance with the law, the Company's statutes, and its own terms of reference. It assisted the Management Board in an advisory capacity, continually monitoring its governance of the enterprise. At the ordinary meetings of the Supervisory Board and its committees, the Management Board reported in depth on Infineon's financial condition and business performance. The Management Board discussed strategies and any major specific measures with the Supervisory Board. Legal transactions requiring approval were submitted to the Supervisory Board, the most important of these, of course, being the acquisition of International Rectifier. The Supervisory Board was always given ample opportunity to thoroughly examine any reports and resolutions proposed by the Management Board. In this context, it undertook the measures necessary to assure itself that the governance of Infineon's affairs was lawful, compliant and appropriate.

The Supervisory Board was regularly informed by means of written quarterly reports on topics that included business performance in the previous quarter, financial data, risks and opportunities, significant issues and major areas of litigation. Between quarterly reports, the Management Board also informed the Supervisory Board of current developments in the form of reports presented on a monthly basis.

The Chairman of the Supervisory Board, the Chairman of the Investment, Finance and Audit Committee and the Chairwoman of the Strategy and Technology Committee were in continual contact with the Management Board. In addition, the Chairman of the Supervisory Board was informed by the Chief Executive Officer without delay of any events of significance to Infineon.



WOLFGANG MAYRHUBER, Chairman of the Supervisory Board

### **Main activities of the Supervisory Board**

The full Supervisory Board held five ordinary meetings and three extraordinary meetings during the 2014 fiscal year. The ordinary meetings were attended by all members of the Supervisory Board. One shareholder representative was unable to participate in two of the three extraordinary meetings, which were held in the form of telephone conferences, and was excused accordingly. Attendance at the meetings of the full Supervisory Board was therefore at a level of 97.9 percent. The Supervisory Board committee meetings were in each case attended by all their respective members.

### **Current situation, business performance and strategy**

The Management Board reported regularly to the Supervisory Board on Infineon's current situation, particularly the market situation, significant transactions and key financial performance indicators. It also provided in-depth assessments of Infineon's business performance. The Supervisory Board was also kept up to date regarding production capacity utilization issues as well as current and planned investments. Infineon's financial and investment budget (including the overall investment budget) for the 2014 fiscal year, as presented by the Management Board, was approved at the Supervisory Board meeting held on November 19, 2013 and a borrowing limit was set.

Even though the various facets of business strategy are a regular item on the agenda for its meetings, the Supervisory Board sets great store in dealing once a year – exclusively and in-depth – with strategic aspects. At the meeting held on August 4, 2014, detailed discussions were therefore held on Infineon's future – ranging from general trends in its business segments, specific growth potential in new markets through to the implementation of the strategic approach "Product to System".

The strategic discussions conducted by the Management Board and the Supervisory Board included, as usual, the question of the extent to which, alongside organic growth, acquisition and participation in other business entities could constitute an appropriate instrument to implement Infineon's strategy. These discussions were stepped up during the 2014 fiscal year and various acquisition opportunities carefully analyzed by the Management Board. During several Supervisory Board meetings, the Management Board reported on its findings and the progress in discussions. These finally led to the Management Board deciding in favor of a takeover of the US semiconductor manufacturer International Rectifier. During various Supervisory Board meetings, detailed reports were given on this plan and its inherent opportunities and risks, and explanations provided on why the acquisition is a logical step for Infineon and its shareholders. The Supervisory Board shares the opinion of the Management Board that the takeover of International Rectifier will boost Infineon's competitiveness. It therefore approved the acquisition plan at an extraordinary meeting held on August 19, 2014.

#### Capital repayment and dividend strategy

Both the Supervisory Board and the Management Board are convinced that the shareholders, as owners of Infineon, should participate appropriately in its economic success. Against this background, the Supervisory Board approved the new capital repayment program during the year under report. It also supports the Management Board's dividend strategy, based on a future lower investment intensity and which already envisages payment of a higher dividend for the 2014 fiscal year than in previous years.

#### Personnel matters

At its meeting on February 13, 2014, the Supervisory Board decided to extend Mr. Mittal's first term of office as member of the Management Board by five years, and, accordingly, to extend his service contract through December 31, 2019.

Moreover, the Supervisory Board reached agreement in spring that Dr. Ploss' term of office as member of the Management Board, Chief Executive Officer and Labor Director – due to expire on September 30, 2015 – should be extended by five years, and hence through September 30, 2020, and that his service contract should be extended accordingly. The formal resolution to this end was passed at the Supervisory Board meeting held on November 17, 2014.

These two personnel decisions were taken by the Supervisory Board in consideration of the outstanding work of Dr. Ploss and Mr. Mittal on Infineon's Management Board and reflect our commitment to continuity.

#### Management Board compensation

The German Corporate Governance Code (Deutscher Corporate Governance Kodex) recommends that the Management Board compensation system should be subject to regular review. This review was last conducted during the 2012 fiscal year. During the year under report, the Supervisory Board again assigned the task of reviewing Infineon's compensation system to an independent external compensation expert. The review was set in motion at the beginning of the 2014 fiscal year with the identification of a so-called "peer group". Companies comparable to Infineon were selected, thus providing a basis for assessing whether the compensation of the Infineon Management Board is consistent with current market practice. The Executive Committee dealt with this aspect of the review during its meetings held on October 28, 2013 and on April 23, 2014. The actual assessment of appropriateness was then performed on this basis.

The compensation expert came to the conclusion that the compensation system complies with both the legal requirements and the recommendations set out in the Code. In particular, it was concluded that the Management Board compensation is commensurate with market conditions and appropriate and that the variable compensation is oriented toward sustainable growth of the enterprise. The results of the compensation expert's review, presented in a final report in autumn, were then discussed in detail during the Executive Committee meeting held on October 23, 2014 and by the full Supervisory Board on November 17, 2014. The Supervisory Board concurs with the opinion of the compensation expert.

In addition to the Management Board compensation system, the Supervisory Board also regularly reviews the target annual incomes of the individual active members of the Management Board. This review, which was conducted in spring 2014, concluded that – in comparison with other enterprises – there is a need for action. In reaching this conclusion, the Supervisory Board also considered the provisional results of the external compensation expert's review of the Management Board compensation, which was still in progress at that time. At its meeting held on May 6, 2014, the Supervisory Board decided on a moderate increase to the Management Board compensation as of October 1, 2014. The aforementioned final report of the compensation expert, presented in autumn, takes this increase into account and therefore confirmed its appropriateness.

Detailed information concerning the Management Board's compensation is provided in the Compensation Report. P see page 177 ff.

### Litigation

The Supervisory Board was kept well informed of the progress of major legal disputes during the 2014 fiscal year, consulting with the Management Board and deliberating internally about subsequent strategy. The principal matters to be dealt with were the antitrust proceedings instigated by the EU Commission against Infineon and other chip card manufacturers and disputes with the insolvency administrator managing the assets of Qimonda AG. During an extraordinary meeting held on September 8, 2014, the Supervisory Board discussed in detail a partial settlement negotiated between Infineon and the insolvency administrator to settle all litigation – with the exception of the pending court proceedings on the activation of a shell company and the liability for impairment of capital – and the acquisition of all patents belonging to Qimonda AG, and gave its approval to this.

### Corporate governance

The Supervisory Board continues to follow closely the development of corporate governance standards within Infineon, focusing in particular on the implementation of the recommendations of the German Corporate Governance Code.

### Declaration of Compliance 2014

The Supervisory Board and the Management Board decided to issue the 2014 Declaration of Compliance – as in the two previous years – with a deviation from the Code's recommendation with respect to Supervisory Board compensation. The two boards continue to consider that the compensation regulation resolved at the Annual General Meeting adequately takes account of Infineon's long-term success. With the exception of the recommendation with respect to Supervisory Board compensation, Infineon complies with all recommendations contained in the Code. The most recent Declaration of Compliance was published on the Company's website in November 2014.

@ [www.infineon.com/cms/en/about-infineon/investor/corporate-governance/declaration-of-compliance/](http://www.infineon.com/cms/en/about-infineon/investor/corporate-governance/declaration-of-compliance/)

### Efficiency review for Supervisory Board activities

The Supervisory Board reviews the efficiency of its work once a year, including the efficiency of its interaction with the Management Board. The latest efficiency review took place in summer 2014. The members of the Supervisory Board were requested to complete a questionnaire, which had proven its worth in the previous reviews, to provide critical feedback on their work and the level of cooperation between the two boards. The results of this survey were subsequently discussed at the meeting of the Supervisory Board on August 5, 2014. No significant shortcomings were identified.

### Potential conflicts of interest

No conflicts of interest arose among the members of either the Management Board or the Supervisory Board in the 2014 fiscal year. Nevertheless, brief reference is made to the following facts:

In 2010, a contract was concluded with the Technical University of Munich (in this instance the chair held by Prof. Dr. Schmitt-Landsiedel) on development services for the Automotive segment. Under the German Stock Corporation Act (Aktiengesetz), service and work contracts between the company and a member of the Supervisory Board require the approval of the Supervisory Board. Even though the contract to which reference is made was not concluded with Prof. Dr. Schmitt-Landsiedel personally, the Supervisory Board approved the contract as a precaution. The contract expired at the end of September 2013. At its meeting of May 6, 2014, the Supervisory Board gave its agreement to the continuation of cooperation arrangements.

In 2011, a consultancy contract was concluded with former member of the Supervisory Board Prof. Dr. Wucherer. The advisory mandate ended on December 31, 2013.

The German Corporate Governance Code requires prior approval to be given by the Supervisory Board before members of the Management Board take on mandates on external supervisory boards. In the year under report, the Supervisory Board gave its approval to Mr. Mittal's mandate on the supervisory board of tesa SE. Conflicts with Infineon's interests do not arise from holding this mandate.

**P** see page 167 ff.

Other comments relating to corporate governance at Infineon can be found in the Corporate Governance Report issued jointly by the two boards.

### Composition of the Supervisory Board

During the year under report, changes were made to the composition of the Supervisory Board. Mr. Eibl, who as employee representative was already a member of the Supervisory Board since the beginning of 2000, retired at the close of March 31, 2014 and therefore also resigned from the Supervisory Board. The Supervisory Board would like to express its thanks to Mr. Eibl for his many years of committed, constructive cooperation and wishes him all the best for this new stage in his life.

As employee-elected alternate member, Mr. Gottinger has automatically succeeded Mr. Eibl on the Supervisory Board. The Supervisory Board elected Mr. Gottinger to the Strategy and Technology Committee and Mr. Scholz to the Mediation Committee to fill the vacant positions on these committees resulting from Mr. Eibl's retirement.

### Report on the work of the Supervisory Board's committees

As in the previous fiscal year, the Supervisory Board has five committees. The first two of these are the Nomination Committee and the Mediation Committee pursuant to section 27, paragraph 3 of the German Co-Determination Act. The remaining committees are the Executive Committee, the Investment, Finance and Audit Committee, and the Strategy and Technology Committee. The committees draw up resolutions or prepare topics that are required to be dealt with by the full Supervisory Board. Certain decision-making powers have been delegated to committees to the extent permitted under German law. The chairpersons of each committee routinely report on committee meetings at the next relevant full Supervisory Board meeting.

All Supervisory Board committees have an equal number of employee representatives and shareholder representatives, with the exception of the Nomination Committee, which consists exclusively of shareholder representatives. Mr. Mayrhuber remains Chairman of the Nomination Committee, the Mediation Committee and the Executive Committee, and Dr. Sünner Chairman of the Investment, Finance and Audit Committee. Prof. Dr. Schmitt-Landsiedel continues to serve as Chairwoman of the Strategy and Technology Committee.

#### Nomination and Mediation Committee

The Nomination Committee convened once during the year under report in order to discuss the election of the shareholder representatives to be held at the 2015 Annual General Meeting and the nominations necessary for this purpose. It was also necessary to take account of the fact that the Supervisory Board will in future be increased from 12 to 16 members. The underlying reason is the growth in size of the workforce at Infineon's German companies to over 10,000 employees on average: In this case, the German Co-Determination Act requires the Supervisory Board to be composed of 16 members.

The Mediation Committee did not need to convene.

#### Executive Committee

The Executive Committee convened for one ordinary and two extraordinary meetings during the year under report, with both of the extraordinary meetings taking place in the form of telephone conferences.

The focus of meetings was on preparing the resolutions relating to Management Board compensation, namely the assessment of appropriateness on the one hand and the increase in the compensation of the active members on the other.

The committee also drew up resolutions for the full Supervisory Board with respect to the extension of Mr. Mittal's term of office and the intended extension of Dr. Ploss' term of office on the Management Board and to determining the level of variable compensation to be given to the members of the Management Board. Important aspects of this work were to determine the degree to which targets for the 2013 fiscal year were achieved and to set new target levels for the 2014 fiscal year.

### Investment, Finance and Audit Committee

The Investment, Finance and Audit Committee convened four times during the year under report.

Its activities centered on monitoring the financial reporting process, reviewing the half-year and quarterly financial statements, conducting the preliminary audit of the separate financial statements, consolidated financial statements and Management Report of Infineon Technologies AG and of the Infineon Group, and discussing the audit report with the auditor. Another important task was to examine and discuss Infineon's financial and investment plans and to set a borrowing limit for the 2014 fiscal year. The committee also considered the effectiveness of the internal control system, internal audit system and risk management system. The Compliance Officer reported regularly to members of the committee. The committee was also kept informed about significant litigation matters, in particular with regard to the antitrust proceedings instigated by the EU Commission against Infineon and other chip card manufacturers and the disputes with the insolvency administrator managing the assets of Qimonda AG.

Other duties performed by the committee included specifying key areas to be examined by the external auditor, monitoring the auditor's independence and considering the additional services performed by the auditor. The committee prepared the Supervisory Board's proposal to the Annual General Meeting regarding the selection of the auditor to audit the separate and consolidated financial statements and to review the half-year financial statements. It subsequently engaged the auditor to perform these tasks and, in addition, to review the quarterly financial statements. The relevant fee arrangements were also considered.

The auditor attended all of the meetings of the Investment, Finance and Audit Committee and reported in detail on its audit activities.

### Strategy and Technology Committee

The Strategy and Technology Committee convened three times during the period under report.

The committee received detailed reports with respect to the Automotive and Industrial Power Control segments. It also looked in depth at technological and manufacturing strategies as well as at the corresponding roadmaps. The committee also considered a host of other issues, such as recruitment at Infineon.

### Company and Consolidated Financial Statements

KPMG AG Wirtschaftsprüfungsgesellschaft, Munich, audited the separate financial statements of Infineon Technologies AG and the consolidated financial statements as of September 30, 2014 as well as the Management Report of Infineon Technologies AG and that of the Infineon Group and issued unqualified audit opinions. The half-yearly and quarterly financial reports were subjected to a review by KPMG.

The separate financial statements, the consolidated financial statements prepared in accordance with IFRS, the Management Report and the Management Board's proposal for the appropriation of unappropriated profit – all prepared by the Management Board – and the long-form reports prepared by KPMG pertaining to the audits of the separate financial statements, the consolidated financial statements, and the Management Report, were discussed thoroughly with KPMG at the meeting of the Investment, Finance and Audit Committee held on November 11, 2014. At the meeting, the aforementioned committee resolved to propose approving the two sets of financial statements by the Supervisory Board.

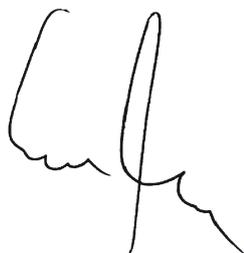
The Chairman of the Investment, Finance and Audit Committee reported on the committee's recommendations at the meeting of the Supervisory Board held on November 17, 2014. At the meeting of the Supervisory Board held on November 26, 2014, the financial statements were examined thoroughly in the presence of the auditor and scrutinized by the Supervisory Board to ensure, in particular, that they were lawful, compliant and adequate.

At the aforementioned Supervisory Board meeting, the scope, key areas and cost of the audit were also reported on, and the risk management system was explained. The Management Report of Infineon Technologies AG as well as that of the Infineon Group were also examined and found, in the opinion of the Supervisory Board, to be consistent with legal requirements. The Supervisory Board concurs with the statements on Infineon's future development. The Supervisory Board has examined and endorses the Management Board's proposal for the appropriation of unappropriated profit, which provides for a dividend of €0.18 per qualifying share.

The result of the audit is that the Supervisory Board has no objections to the financial statements and the audit performed by the auditor. The Supervisory Board therefore concurred with the results of the audit on November 26, 2014 and approved the separate and consolidated financial statements of Infineon Technologies AG as well as those of the Infineon Group. The separate financial statements have thus been adopted.

The Supervisory Board would like to express its thanks to the Management Board and to the entire staff for their outstanding commitment and excellent achievements in the 2014 fiscal year and to the employee representatives for their valued cooperation.

Neubiberg, November 2014  
On behalf of the Supervisory Board

A handwritten signature in black ink, appearing to be 'W. Mayrhober', written over a light blue horizontal line.

Wolfgang Mayrhober  
Chairman of the Supervisory Board