

Annex to the Supervisory Board's Annual Report 2005

SUMMARY OF THE SUPERVISORY BOARD'S ACTIONS IN INVESTIGATING EVENTS IN MOTOR SPORT SPONSORSHIP

- 1... Directly before resigning from office on March 25, 2004, Dr. Schumacher handed a number of documents, which did not originate from him, to the chairman of the Supervisory Board. One of them was a statutory declaration by Ralf-Udo Schneider, the owner of BF Consulting. In this declaration, Mr. Schneider alleged to have given Dr. von Zitzewitz payments from "sponsorship funds". The other documents also contained various allegations against Dr. von Zitzewitz, which later proved to be untenable or were expressly retracted.
- 2... Immediately on receipt, the chairman of the Supervisory Board asked Dr. von Zitzewitz for an explanation and comment upon these documents. Dr. von Zitzewitz repeatedly denied to the chairman of the Supervisory Board the assertions made in the declaration of Mr. Schneider.
- 3... At the same time and shortly before becoming acting president and CEO, Mr. Kley, as chairman of the Executive Committee, instructed the general counsel on the same day to investigate the allegations on behalf of the Supervisory Board. Besides ascertaining the facts, the investigation was to establish what immediate consequences the Supervisory Board must draw from the fact of the existence of the "declaration" and the other documents. In addition, independent lawyers were briefed to examine these questions.
- 4... In the week commencing March 29, 2004, the general counsel held several discussions, including discussions with Mr. Schneider. The latter flatly refused to present any proof whatsoever and was unable to give any conclusive reasons at all for the alleged payments.
- 5... The independent lawyer presented a first expert opinion on the allegations at the beginning of April 2004, a second followed mid-April. Both concluded that there were no indications of, let alone supporting documents for, any misconduct on Dr. von Zitzewitz's part.
- 6... At the same time as the independent examination, the internal examination led to a report of April 21, 2004, for the Supervisory Board. This report also concluded that there were no supporting documents verifying the accusations leveled against Dr. von Zitzewitz.
- 7... The Executive Committee of the Supervisory Board conferred on this report on April 22, 2004. In consideration of all the circumstances (absence of any evidence whatsoever; no responsibility whatsoever on Dr. von Zitzewitz's part for motor sport sponsorship; considerable skepticism as to Mr. Schneider's credibility, for reasons including his refusal to clarify the facts), the Supervisory Board reached the conclusion that there was no reason to dismiss Dr. von Zitzewitz from office due to breach of duty.
- 8... In a separate move, the Supervisory Board gave orders at the end of April 2004 that further light be thrown on the facts and any new findings be communicated to the Board immediately. The Company repeatedly called upon BF Consulting, in writing and verbally, to submit all relevant documents and to present evidence for the allegations. All these requests were ignored and evidence was never presented.
- The investigations (including an audit at BF Consulting) finally showed that BF Consulting had consistently overcharged on contracts involving Infineon. In addition, it seemed that significant sums of money to which Infineon is entitled had been withheld from Infineon, namely from the co-sponsorship of racing cars. Yet the audit did not produce any indication whatsoever of payments having been made to Dr. von Zitzewitz or to other persons at Infineon.
- BF Consulting refused a second, more extensive, audit subsequently scheduled for February 2005.
- 9... Independently of the internal investigations, Infineon terminated the business relations with BF Consulting for cause. BF Consulting brought an action against the termination before the Regional Court (Landgericht) Munich. On the occasion of the hearing in November 2004 the allegations against Dr. von Zitzewitz were again publicized in the press. Infineon immediately called upon Mr. Schneider yet again to present supporting documents. The request was also put to Mr. Schneider directly in the hearing. Mr. Schneider again refused to furnish any evidence supporting his allegations. Further, in a statement to the press BF Consulting expressly retracted these allegations on November 22, 2004.

10... Once Infineon had gained sufficient information showing BF Consulting's conduct in breach of contract, Infineon brought an action against BF Consulting before the Arbitration Court in February 2005. This action directly lays claim on the one hand to €1.6 million and, on the other, demands information on funds due to Infineon amounting to an estimated further €3 million.

11... Independently of this, the District Attorney's Office in Munich investigated Mr. Schneider and other persons. The Supervisory Board and Managing Board had been unaware of these investigations until July 15, 2005. On that date, July 15, 2005, the District Attorney's Office carried out a search at Infineon and questioned Dr. von Zitzewitz. Dr. von Zitzewitz later submitted his resignation in order to focus on his defense in presumably lengthy proceedings and not to burden the Company.

12... Immediately following the search by the District Attorney's Office, the chairman of the Supervisory Board – acting in agreement with the Managing Board – again instructed the Legal Department to evaluate the facts in the light of new findings and to clarify them further.

13... It is self-evident that further investigations are addressing the allegations against Dr. von Zitzewitz and the facts themselves. This investigation is being undertaken without prejudice to its outcome in any way. The Supervisory Board wishes to establish the true facts and will therefore examine with all the other persons involved in motor sport sponsorship whether there is any indication of misconduct. The Company is cooperating fully with the legal authorities.

14... The Supervisory Board will also examine in this process whether the Company has a claim for damages against the persons concerned. If the investigation shows that such a claim exists, the Supervisory Board will make a decision about its enforcement.

