

Corporate Governance An integrated concept

Corporate Governance means setting standards for good and responsible corporate leadership.

Infineon's Management Board and Supervisory Board view Corporate Governance as an integrated concept, which includes all corporate values, processes and goals that underlie our corporate mission. It encompasses internal controlling standards, our Business Conduct Guidelines, the regulation of the Company's organizational and supervisory tasks, Infineon's Corporate Governance Code as well as a Corporate Governance Manager, who reports directly to the Management and Supervisory Boards.

We have of course subjected our Corporate Governance to review, prompted by the events and allegations in connection with our earlier motor sport sponsorship. The objective of these internal and external inquiries was to find out whether our rules and internal control systems have any flaws preventing the detection of possible misconduct. The inquiries have showed that this is not the case. Nevertheless we have, independently of these allegations, extended the already initiated improvements to our internal guidelines.

In this way we seek to achieve our goals – and to belong to those companies with the best Corporate Governance.

INFINEON MAINTAINS HIGH GERMAN AND INTERNATIONAL STANDARDS

German regulations

Infineon has adopted almost all of the regulations that have been recommended or suggested by the Government Commission "German Corporate Governance Code", and is also fully compliant with the standards set down in U.S. capital markets law. With regard to the directors' and officers' liability insurance, we have, for example, agreed to a retention amounting to 25 percent of the fixed annual remuneration for members of the Management Board and 100 percent for members of the Supervisory Board.

Above and beyond the "German Corporate Governance Code", Infineon has set itself further goals for good corporate management and control:

- ... We will continue to report fully and comprehensively about the Company to our shareholders and the public.
- ... We intend to support shareholders as far as possible in the exercise of their rights. Via the Internet, shareholders can, for example, register for our Annual General Meeting, participate in voting, or follow the general debate online.

- ... We shall further strengthen cooperation between the Management Board and the Supervisory Board. In order to achieve our goals, we will continue to promote a positive climate of mutual respect and open dialog.

American capital market rules

Infineon Technologies AG is listed on the New York Stock Exchange (NYSE). The Company is therefore subject to American capital market legislation, as well as to rules of the American Securities and Exchange Commission (SEC) and NYSE. Since July 2002, the U.S. legislator, the SEC and the NYSE have issued various rules for improvement of investor protection and the Corporate Governance guidelines for U.S. companies. Most of these rules also apply to non-U.S. companies listed on U.S. stock exchanges.

We have already fulfilled most of these new guidelines. To implement further the U.S. regulations, we have set up a Disclosure Committee with the task of examining and releasing financial information and other important information for publication. We have also put an internal certification procedure into place, requiring senior staff who bear managerial responsibility to confirm certain data. This procedure and these endorsements are used for the CEO and CFO certifications of SEC filings. Further, we have revised or created further rules, including a Code of Procedure for the Audit Committee of the Supervisory Board; moreover, we have established rules for financial statement and accounting-related complaints and for the relationship to the auditor.

THE STRUCTURE OF CORPORATE MANAGEMENT AND CONTROL

Supervisory Board

German Stock Corporation Law, to which Infineon Technologies AG is subject as a German stock corporation, stipulates a two-tier corporate management and oversight system, namely, corporate management by the Management Board and corporate oversight by the Supervisory Board. We feel confident that this separation of the two functions is an essential prerequisite for good Corporate Governance.

The Supervisory Board comprises 16 members who, in accordance with German Codetermination Act, represent in equal numbers the shareholders and the employees. The shareholder representatives are elected by the Annual General Meeting, most recently in the 2005 financial year. Employee representatives are elected in accordance with the requirements of the German Codetermination Act. The employee representatives are elected by delegates of the workforce at Infineon's German sites. Six of these employee representatives are employees of the Company and two are external appointees proposed by certain German unions.

Pursuant to the Supervisory Board rules of procedure, the shareholder representatives on the Supervisory Board must be independent. Some of the members of the Supervisory Board hold or held high-ranking positions in other companies with which Infineon usually maintains business relations. These relations are at the same conditions as they would be to any third party. The employee representatives – with one exception – are also considered to be independent in the sense of the rules applicable to this Company. Accordingly, after examining the situation, the Supervisory Board concluded that it had an adequate number of independent members.

The term of office of the Supervisory Board generally lasts five years. Over recent years, the Supervisory Board has assembled for meetings between five and seven times per year and these meetings were regularly held without the presence of the Management Board. The duties and the working methods of the Supervisory Board and its Committees are laid down in procedural rules which also contain stipulations about independence, adequate experience and specialized knowledge as well as the avoidance of conflicts of interest.

The Supervisory Board advises and monitors the Management Board in the performance of its executive duties. It scrutinizes business development and planning, business strategy and its implementation. It examines the quarterly reports and approves the annual financial statements of Infineon Technologies AG and of the Group, drawing on preparatory work by the Audit Committee and the auditors' reports. Key decisions of the Management Board such as major acquisitions, divestitures, and financial measures are subject to the Supervisory Board's consent. The Supervisory Board also decides about the appointment and dismissal of the members of the Management Board.

Committees of the Supervisory Board

The rules of procedure of the Supervisory Board make provision for the formation of three committees; further committees can be formed ad hoc. The tasks, responsibilities and working

methods of these committees fulfill the requirements of the German Corporate Governance Code and the binding regulations of the U.S. American laws and the NYSE; to some extent we even go beyond the rules which are applicable to us.

The Executive Committee, composed of two shareholder representatives and one employee representative, has the role of a "Nominating, Compensation and Corporate Governance Committee", since it is responsible for preparing the appointment of members of the Management Board, for their remuneration and for adherence to the principles of Corporate Governance throughout the Company. The Executive Committee lays down the conditions of employment as well as the level and structure of remuneration for the Management Board. It also decides on the level of the stock-related component of the remuneration.

The Investment, Finance and Audit Committee ("Audit Committee") consists of two shareholder representatives and one employee representative. All the members of the Audit Committee are "independent" in the sense of the relevant U.S. regulations. The Audit Committee monitors the appropriateness and the efficacy of the Company's external and internal reporting, examines the quarterly and the annual reports presented by the Management Board and, on the basis of the report on the annual financial statements issued by the external auditor, makes suggestions for the finalization of the annual statements by the Supervisory Board. It also deals with the Company's system of internal controls and the procedure for risk assessment, control and management. To this end, it is able to refer directly to all employees and to call in external support. The internal auditor reports regularly to the Committee, which can also determine the audit plan and its key areas of interest. In addition, the Committee also oversees adherence to legal provisions and official regulations. It is responsible for the relationship between the Company and the auditor of the annual financial statements, for commissioning the auditor and specifying the audit's key areas, and for the payment of the auditor.

The Supervisory Board has appointed Mr. Max Dietrich Kley as the Audit Committee Financial Expert.

The Mediation Committee, which consists of one shareholder representative and two employee representatives, makes proposals to the Supervisory Board regarding the appointment of members of the Management Board if the first round of the election does not produce the required majority of two-thirds of the members of the Supervisory Board.

Remuneration paid to members of the Supervisory Board

In the past financial year, the members of the Supervisory Board received the following gross remuneration:

Name	Total remuneration in €	of which the variable part is
Kley, Max Dietrich	58,000.00	0
Luschtinetz, Klaus	43,500.00	0
Eibl, Alfred	37,458.00	0
Faber, Dr. Joachim	35,041.00	0
Feldmayer, Johannes	19,333.00	0
Hauser, Jakob	37,458.00	0
Fritsch, Günther	9,666.00	0
Jentzsch, Dr. Stefan	29,000.00	0
Köcher, Prof. Dr. Renate	19,333.00	0
Kohlhaussen, Dr. h. c. Martin	14,500.00	0
Ruth, Michael	29,000.00	0
Ruge, Prof. Dr. Ingolf	14,500.00	0
Scheitor, Dieter	29,000.00	0
Schmidt, Gerd	29,000.00	0
Schmitt-Landsiedel, Prof. Dr. Doris	22,958.00	0
Schulzendorf, Kerstin	29,000.00	0
Trüby, Alexander	37,458.00	0
Winterkorn, Prof. Dr. Martin	39,875.00	0
Wucherer, Prof. Dr. Klaus	37,458.00	0

Management Board

The Management Board of Infineon Technologies AG – currently five members – is the Company's executive body. It is held to serve solely the Company's interests and thereby aims to pursue a sustained increase in shareholder value. In compliance with the mandatory provisions of the German Stock Corporation Law, it bears overall responsibility for the value-creating, operative management of the Company. In accordance with its own rules of procedure, all the members are jointly responsible for the management of the Company. On December 1, 2004, the Management Board was reorganized: as of this date three members of the Board each hold direct responsibility for one operating segment. Nevertheless, all essential decisions will continue to be discussed and taken by the entire Management Board.

Shareholders and Annual General Meeting

Shareholders of the Company take their decisions at the Annual General Meeting of the Company which is held at least once a year. Every share has one vote. Every shareholder who is entered in the register of shareholders and enrolls in time is entitled to attend this meeting. The Annual General Meeting of shareholders decides on all the issues assigned to it, especially discharging the Management Board and the Supervisory Board as well as the election of the auditor, and it decides upon amendments to the articles of incorporation and any capital reorganization. In the interest of best Corporate Governance, the German legislator has always prescribed that any form of capital reor-

ganization must be subject to the approval of the shareholders of the Company. Such measures include stock-option plans which are realised with shares in the Company. Shareholders are entitled to make counter-proposals to the motions introduced by management and, under certain circumstances, have the right to contest resolutions of the Annual General Meeting and to demand a judicial review when they suspect misconduct or severe deficiencies in the Company's management or supervision.

We report to our shareholders four times a year, strictly in accordance with the financial calendar, on the Company's performance, its financial situation and profitability. Moreover, members of the Management Board regularly inform investors, analysts and the public about the quarterly and annual results. Our extensive investor relations activity includes regular meetings with analysts and institutional investors as well as annual analysts' conferences and telephone conferences and generally seeks to maintain a continuous dialog with shareholders and analysts.

ONGOING EVALUATION OF GUIDELINES

The Management Board, Supervisory Board and top management are responsible for ensuring that our Corporate Governance rules and regulations are actively observed in the Company. At regular intervals these guidelines are evaluated and further developed. Thus in 2005 we reexamined whether the remuneration of members of the Management Board should be revealed individually. The reappraisal came to the following conclusion:

In compliance with the mandatory provisions of the German Stock Corporation Law and with its own rules of procedure, all the members of the Management Board are jointly responsible for the value-creating operative management of the Company. Naturally, we keep our shareholders informed of the structure of the Management Board's remuneration and specify the total remuneration paid to the Management Board, broken down into fixed salaries, performance-related components and stock options, so that every shareholder can clearly see how the performance of the Management Board impacts upon its income. Accordingly, we do not see any necessity for the individual publication of the remuneration paid to each member of the Management Board.

However, Dr. Ziebart, the Chairman of the Management Board, has decided to disclose his remuneration (see page 131).

The total income of the members of the Management Board is composed of the annual salary (payable in cash), of stock options and of additional non-cash benefits. The annual salary consists of:

- a fixed annual salary payable in monthly installments, partly after the end of the financial year, net of statutory deductions, and
- a variable, performance-related component which takes the form of an annual bonus.

In the 2005 financial year, the annual bonus depended primarily on the return on assets, which we define as net operating profit after taxes, minus exceptional effects, in proportion to capital employed. A bonus can also be awarded for special business achievement. The annual bonus is paid after the end of the financial year.

As a variable component of their remuneration, which combines both long-term incentive and risk, members of the Management Board are granted options on Infineon Technologies AG shares deriving from the 2001 stock option plan. They also receive ancillary benefits such as, for example, retirement pensions and provisions for surviving dependants, continued remuneration in the event of sickness and a company car including a driver, which may also be used for private purposes.

The full text of our 2001 stock options plan is available on the Internet at www.infineon.com/stockoptionsplan2001. This plan expires in 2006. A new stock options plan will therefore be proposed to the 2006 Annual General Meeting. The essential features of this plan are the introduction of an additional relative success target (outperforming a relevant index) and the raising of the minimum share price increase to 20%. Senior managers and employees of the Infineon Group should only benefit from an increase in the share price when the owners have achieved a certain minimum return on their investment.

Further improvements to the rules of Corporate Governance

We conduct our business in a responsible way in accordance with legal requirements and official regulations – and we have set up a number of guidelines which help to ensure that this objective is fulfilled. Our Business Conduct Guidelines are binding for the Management Board and employees. We reviewed these guidelines in 2005, and revised particularly the regulations regarding the filing and treatment of complaints and suggestions of breaches of these guidelines and of the rules governing accounting and the preparation of financial statements. A Compliance Officer and the Corporate Governance Manager, who both report to the Audit Committee, receive complaints and suggestions, also those filed anonymously. The Business Conduct Guidelines also contain our Code of Ethics in Financial Matters, and are published on our Internet website.

Improvements to Infineon's Corporate Governance Code

We have made further improvements to the provisions of our own Corporate Governance Code. Here we have adopted the new rules and recommendations of the German Corporate Governance Code issued in the summer of 2005. Accordingly, in November 2005, the Management Board and the Supervisory Board decided to issue the 2005 Declaration of Compliance pursuant to § 161 of the German Stock Corporation Law. We are pleased to have been able to improve our Corporate Governance Standard.

Formal notification under paragraph 6.6 of the "German Corporate Governance Code"

In the past financial year the following transaction was registered with the Company:

Date of the transaction: 2005-01-27
Surname, name: Kley, Max Dietrich
Position held: chairman of the Supervisory Board
Title: shares of Infineon Technologies AG
Purchase/Sale: purchase
Price (each): Euro 7.15
No. of units: 7,000
Volume of transaction: Euro 50,050.00
Location: Stock Exchange Frankfurt (Xetra)

2005 Declaration of Compliance pursuant to § 161 of the German Stock Corporation Law

"Since the submission of the 2005 Declaration of Compliance pursuant to § 161 of the German Stock Corporation Law, Infineon Technologies AG has complied with all the recommendations of the Government Commission "German Corporate Governance Code" (in the version of May 21, 2003) with the following exceptions:

- We do not publish an individualized statement of all Management Board Members' remuneration (Section 4.2.4).
- The structure of the Management Board remuneration system (Section 4.2.2) was deliberated and agreed by the Executive Committee of the Supervisory Board.

Infineon Technologies AG will comply with all the recommendations of the Government Commission "German Corporate Governance Code" (in the version of June 2, 2005) with the following exceptions:

- We publish an individual statement of the remuneration of the Chairman of the Management Board, but otherwise relinquish individual disclosure of the remuneration of all the other members of the Management Board (Section 4.2.4).
- The structure of the Management Board remuneration system (Section 4.2.2) will be deliberated and agreed by the Executive Committee of the Supervisory Board."

Further information on Corporate Governance in general is available on the Internet at www.infineon.com, "Investor Information". Further information about the activities of the Supervisory Board and its Committees is contained in the Report of the Supervisory Board. Information on our risk management is given under "Risks and Opportunities". A detailed description of our rules of consolidated accounting is contained in the Notes annexed to the Consolidated Financial Statements.

--- Report of the Supervisory Board, p. 40; --- Risks and Opportunities, p. 73;
--- Notes to the Consolidated Financial Statements, p. 86.