

Report of the Supervisory Board to the Annual General Meeting

Max Dietrich Kley

Chairman of the Supervisory Board of Infineon Technologies AG



Dear Shareholders,

Over the past financial year, the Supervisory Board has concerned itself intensively with the situation of the Company and its future positioning. The Supervisory Board has regularly monitored the Company's management through the Management Board, and has provided the latter with support and advice.

Main activities of the Supervisory Board. Among the issues which the Supervisory Board has dealt with in the financial year, I would particularly like to refer to the following:

- the new organization and structure of the Company,
- the restructuring of manufacturing cooperation between Regensburg, Munich, and Villach, and
- dealing with events in the area of motor sport sponsorship.

At the beginning of 2005, Infineon's organizational structure was reorganized. The three operating segments Automotive, Industrial and Multimarket (AIM), Communication (COM), and Memory Products (MP) are now each led by a member of the Management Board with direct entrepreneurial responsibility. In addition, all operating segments were provided with the essential functions to operate as companies within a company. The Supervisory Board welcomes this reorganization as it improves Infineon's ability to succeed in an increasingly dynamic and volatile global semiconductor market. To this end, the Supervisory Board approved the Board's plan for the restructuring of segment functions.

The efficiency and costs of production are constantly monitored by the Management and Supervisory Boards. In an extraordinary meeting on this subject, the Supervisory Board examined the reasons presented by the Management Board for the restructuring of manufacturing cooperation between Regensburg, Munich, and Villach, and the intended closure of the Infineon plant in Munich-Perlach at the beginning of 2007. This plant is designed to manufacture semiconductors on 150-millimeter wafers using specialized technologies and can no longer be sensibly used, whether economically or technically, in the future. The cost disadvantages of 150-millimeter in comparison to 200-millimeter manufacturing are considerable and constantly increasing. For this reason, it is intended to relocate a major portion of the production activities from Munich-Perlach to Regensburg and, to a lesser extent, to Villach.

The Supervisory Board was also asked to consider a plan to make the Memory Products segment operationally independent. This concept was extensively discussed and subsequently approved. The Management Board was asked to elaborate the further steps required for the implementation of the concept and to present it to the Supervisory Board for a decision.

The allegations concerning the former Management Board member Dr. von Zitzewitz in connection with the Company's motor sport sponsorship, which was discontinued after the departure of Dr. Schumacher in 2004, were discussed at a meeting of the Investment, Finance, and Audit Committee on July 22, 2005. The Committee came to the conclusion that the Executive Committee had dealt with the case comprehensively and appropriately. Furthermore, the Investment, Finance, and Audit Committee decided to commission an independent, external investigation on the Company's internal information and control systems in order to ascertain whether there were any weaknesses in Infineon's system of controls which might have prevented the alleged misconduct of Dr. von Zitzewitz from being recognized earlier. The audit revealed no such weaknesses. The results of the audit were discussed at the meeting of the Investment, Finance, and Audit Committee on November 16, 2005, and were also presented and discussed at the meeting of the Supervisory Board on November 17, 2005.

At the meeting held on July 28, 2005, the Supervisory Board was comprehensively informed by its Chairman about the internal and external investigations carried out by the Executive Committee since the first allegations were made against Dr. von Zitzewitz in March 2004. At the end of this report there is a chronological list of the measures taken by the Supervisory Board. The Supervisory Board also came to the conclusion that the Executive Committee had dealt with the case thoroughly and correctly, and that no criticism could be leveled at the Committee. The Supervisory Board asked the Management Board to continue its investigation into the facts of the case and also to investigate whether other individuals could be responsible for inappropriate conduct in connection with motor sport sponsorship. The enforcement of any legal claims will be decided upon by the Supervisory Board once all the relevant facts are available.

At the ordinary meetings of the Supervisory Board, the Management Board reported comprehensively on the Company's corporate development, its economic situation as well as that of the individual operating segments; it also informed the Board about financial and investment planning, and presented detailed quarterly reports. In the course of its meetings, the Supervisory Board discussed in depth the information submitted by the Management Board. The Management Board also reported verbally or in writing upon incidents of particular importance. In addition, the Chairman of the Supervisory Board was continually informed about essential matters and decisions within the Company in individual talks with the Management Board.

Corporate governance. The Supervisory Board firmly believes that good corporate governance is an essential factor in the success of a company, and has regularly studied German and international corporate governance rules and their implementation in the Company. The Investment, Finance, and Audit Committee has drawn up

guidelines to address complaints and warnings of incorrect conduct concerning the presentation of accounts and auditing (known as Whistle-blowing Procedures). The 2004 Declaration of Compliance pursuant to § 161 of the German Stock Corporation Law was adopted by the Supervisory Board in November 2004, while the 2005 Declaration of Compliance was adapted in November 2005. There were only two notifiable deviations from the code. These and further details of Infineon's Corporate Governance System are described in this Annual Report.

Meetings of the Supervisory Board and the committees. During the period under review there were four ordinary meetings and one extraordinary meeting of the Supervisory Board. The Investment, Finance, and Audit Committee was convened five times in the period under review.

The Committee focused its activity primarily on the examination of the interim reports, the preliminary auditing of the annual accounts, discussion of the auditor's report with the auditors, and the examination of finance and investment plans. The Committee also discussed and approved the planned construction in Kulim, Malaysia, of a new plant for logic and power chips for automobile and industry applications. The new plant will strengthen the successful business with chips for automotive and industry applications and further develop the Company's presence in the Asian markets of the future.

The dialog between the Supervisory and Management Boards concerning technical developments is of major importance to the Company. Until April 30, 2005, the Strategy and Technology Committee, which met four times in the year in question, served to promote this dialog. The Committee concerned itself intensively with the corporate development and strategy of the Communication (COM) and Automotive, Industrial and Multimarket (AIM) segments. In addition, the Committee examined the Company's patent and cooperation strategy. The Supervisory Board decided that in the future, the exploration of questions concerning technology and strategy should be carried out outside a special body with more timing flexibility and, for this reason, dissolved the Committee on April 30, 2005. This dialog will henceforth continue between individual former members of the Committee and the Management Board in respect of specific issues and projects.

The Executive Committee held one meeting in the period under review. 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. The annual financial statements of Infineon were audited by KPMG Deutsche Treuhand-Gesellschaft AG Wirtschaftsprüfungsgesellschaft, Berlin and Frankfurt/Main. KPMG audited the individual financial statements of Infineon Technologies AG, as well as the consolidated financial statements of the Infineon Group, for the financial year ended September 30, 2005, and provided unqualified auditors' opinions. We have also examined these documents. Further, KPMG confirmed that the annual financial statements were prepared in accordance with the provisions of U.S. GAAP and that the exemption provision under § 292a German Commercial Code in connection with § 58 section 3 of the Introduction Act to the German Commercial Code (EGHGB) was applicable.

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 16, 2005, and subsequently during our financial statements meeting on November 17, 2005, in the presence of the auditors. At this meeting the Management Board reported in detail on the scope, key areas and costs of the audit. The Supervisory Board found no grounds for objections and agreed with the results of the audit, approving the consolidated financial statements and the operating and financial reviews of Infineon Technologies AG and of the Infineon Group. The annual report and accounts are thus completed.

Management Board changes. In November 2004 the Supervisory Board appointed Mr. Loh to become a member of the Management Board. Mr. Loh assumed responsibility for the Communication segment in December 2004 and for the Memory Products segment in July 2005. In July 2005 Dr. von Zitzewitz resigned from his position as a member of the Management Board. The Supervisory Board accepted his resignation. Prof. Dr. Eul was appointed as a deputy member of the Board in July 2005 and took over responsibility for the Communication segment from Mr. Loh.

Composition of the Supervisory Board. At the Annual General Meeting held on January 25, 2005, Prof. Dr. Köcher, Prof. Dr. Schmitt-Landsiedel and Mr. Feldmayer were elected to become members of the Supervisory Board. Dr. Faber, Dr. Jentzsch, Mr. Kley, Prof. Dr. Winterkorn and Prof. Dr. Wucherer were re-elected as members of the Supervisory Board. Mr. Fritsch, Dr. Kohlhaussen and Prof. Dr. Ruge stepped down from their positions as members of the Supervisory Board at the end of the 2005 Annual General Meeting. We would like to express our thanks to the departing members of the Supervisory Board for their dedicated work in this forum.

At the ordinary Supervisory Board meeting on January 25, 2005, Mr. Kley was appointed as its Chairman and Mr. Luschtinetz as its Vice-Chairman.

The Supervisory Board would like to express its thanks to the Management Board and all Infineon employees for their efforts and their performance in the 2005 financial year. The Supervisory Board would also like to thank the members of the Works Council for their constructive participation.

Munich, November 2005

On behalf of the Supervisory Board



Max Dietrich Kley
Chairman of the Supervisory Board