

Report of the Supervisory Board to the Annual General Meeting



> **Max Dietrich Kley**
Chairman of the Supervisory Board of Infineon Technologies AG

Dear Shareholders,

The Supervisory Board hereby reports about the performance of its functions over the past financial year.

At the ordinary meetings of the Supervisory Board, the Management Board reported comprehensively on the company's business development, its economic situation as well as that of the individual operating segments; it also informed the Board about its 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 events of particular importance. Beyond that, the Chairman of the Supervisory Board has continually been informed in individual talks with the Management Board about significant developments and decisions within the company. The Supervisory Board has regularly monitored the company's management through the Management Board, and has supported the Management Board with its advice.

Main activities of the Supervisory Board

- > carve-out of the Memory Products segment and subsequent initial public offering (IPO),
- > strategic orientation of the Infineon Group,
- > dealing with the events in connection with motor sport sponsorship and legal disputes with the former President and CEO Dr. Ulrich Schumacher,
- > Infineon Stock Option Plan 2006.

Carve-out of the Memory Products segment and subsequent IPO. A plan to make the Memory Products segment operationally independent had already been presented to the Supervisory Board by the Management Board in the 2005 financial year. The Supervisory Board had reported on this to the Annual

General Meeting in its last report to the Annual General Meeting. In the meeting of the Supervisory Board on November 17, 2005, the plan was again extensively discussed on the basis of detailed information. The items of discussion between the Supervisory Board and the Management Board included – among others – the reasons for this plan, the impact on the Communication Solutions (COM) and Automotive, Industrial & Multimarket (AIM) segments, questions concerning the capital structure and funding of the new company, its collective bargaining coverage and a potential IPO. In its meeting on November 17, 2005, the Supervisory Board approved the carve-out of the Memory Products segment into a new legal entity and asked the Management Board to elaborate further steps for the implementation of the plan and to inform the Supervisory Board of the specific course established.

The carve-out of the Memory Products segment to form Qimonda AG became effective May 1, 2006. In the meeting on May 10, 2006 the Supervisory Board dealt with the projected IPO of Qimonda AG. The Supervisory Board first discussed the capital structure planned for Qimonda AG and then the question of the most suitable stock exchange. The Supervisory Board deliberated with the Management Board on possible options as to legal, financial and political aspects. The consequences for the employees were also considered. After balancing all the aspects raised, the Supervisory Board decided that Qimonda should be listed on a U.S. stock exchange, if possible within the 2006 calendar year. The Supervisory Board also decided that it was necessary for the IPO to be closely followed by the Supervisory Board and delegated this task to an Ad Hoc Committee formed for this purpose (“Qimonda IPO Committee”). The Supervisory Board made clear that all further decisions to be made by the Supervisory Board with regard to the Qimonda IPO were to be taken by the Qimonda IPO Committee. The following members of the Supervisory Board were appointed as members of the Qimonda IPO Committee: Max Dietrich Kley (Chairman), Dr. Siegfried Luther and Mr. Klaus Luschinetz.

In the meeting on July 20, 2006 the Supervisory Board deliberated on the results of a meeting of the Qimonda IPO Committee and on the decisions made there with regard to the exact time schedule, volume and issue price concerning the Qimonda IPO. They were taken due note of and approved.

Strategic orientation of the Infineon Group. The Supervisory Board dealt with the strategic orientation of the Infineon Group. Subject matter of the deliberations was, in particular, the further business development of the Communication Solutions (COM) and Automotive, Industrial & Mulimarket (AIM) segments after the carve-out of the Memory Products segment into Qimonda AG. In particular, the Supervisory Board turned its attention to the Management Board’s strategy for a profitable growth of the business units pertaining to the COM and AIM segments.

Dealing with the events in the area of motor sport sponsorship and legal disputes with the former chairman of the Management Board Dr. Ulrich Schumacher. In the financial year under review the Supervisory Board again had to deal with the events in the area of the company's motor sport sponsorship and the related allegations leveled against the former members of the Management Board Dr. Ulrich Schumacher and Dr. Andreas von Zitzewitz.

The Investment, Finance and Audit Committee of the Supervisory Board decided on July 22, 2005 to commission an independent, external investigation into the company's internal information and control system 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 investigation revealed no such weaknesses. The results of the investigation were discussed in the Investment, Finance and Audit Committee on November 16, 2005, and were presented and discussed at the meeting of the Supervisory Board on November 17, 2005. The Supervisory Board already reported on this in its last report to the Annual General Meeting.

When the company learned that the Public Prosecutor's office had also started investigations against Dr. Schumacher in connection with the criminal proceedings against the motor sponsorship agent Udo Schneider, the Executive Committee of the Supervisory Board decided on November 11, 2005 not to pay the second installment of Dr. Schumacher's severance payment in the amount of €2.625 million, until the criminal investigations were completed. Furthermore, the Executive Committee arranged for an internal audit to be carried out, which revealed misconduct of Dr. Schumacher. On the basis of the internal audit report of January 20, 2006, the Executive Committee decided after deliberating at length on January 27, 2006 to withdraw from the severance agreement concluded with Dr. Schumacher and to claim back the first installment paid of the severance payment. Dr. Schumacher thereupon filed a lawsuit against the company. The District Court I (Landgericht I) of Munich adjudicated in favor of Dr. Schumacher. After obtaining a legal opinion, the Executive Committee decided on October 6, 2006 to file an appeal against this judgment and to assert all the company's claims. On the basis of Udo Schneider's testimony in the criminal proceedings with regard to misconduct of former members of the Management Board, the Executive Committee further decided on October 6, 2006 that the company takes measures necessary to protect its rights.

In addition to the Executive Committee, various meetings of the Supervisory Board and the Investment, Finance and Audit Committee dealt with the events in the area of motor sport sponsorship and with the allegations leveled against former members of the Management Board. They were constantly informed by the General Counsel about the findings of the internal audits and – as far as known – about the Public Prosecutor's investigations. Both bodies supported the actions resolved by the Executive Committee.

Stock Option Plan 2006. In its meeting on November 17, 2005, the Supervisory Board dealt in depth with the company's new Stock Option Plan. As the performance target of the former Infineon Stock Option Plan was criticized by the public, the Supervisory Board decided to provide both an absolute and a relative performance target. The absolute performance target was increased from 5 percent in the former Stock Option Plan to 20 percent. The relative performance target requires that the Infineon stock price exceeds the performance of the semiconductor index "Philadelphia Semiconductor Sector" (SOX) of the Philadelphia stock Exchange, USA, for at least three consecutive days on at least one occasion during the life of the Option. The new Infineon Stock Option Plan 2006 has a three-year term.

Corporate Governance. The Supervisory Board firmly believes that good corporate governance is an essential factor in the success of the company, and has therefore regularly studied German and international corporate governance rules and their implementation in the company. In the last financial year the Supervisory Board resolved to amend its rules of procedure to the effect that the transactions included in the catalogue of transactions requiring approval should no longer be subject to the approval of the Investment, Finance and Audit Committee, but to that of the entire Supervisory Board. In the meeting on May 10, 2006 the Supervisory Board discussed the efficiency of its work. The cooperation with the Management Board and within the Supervisory Board was evaluated as good. Some members of the Supervisory Board made suggestions for improvement, which were implemented in the financial year under review. The Declaration of Compliance 2005 pursuant to Section 161 of the German Stock Corporation Act was adopted by the Supervisory Board in November 2005 and the Declaration of Compliance 2006 in November 2006. There were only two notifiable deviations from the recommendations of the code for the 2006 financial year. These and further details of Infineon's Corporate Governance are described separately in the Annual Report.

Meetings of the Supervisory Board and the committees. During the period under review there were four ordinary meetings of the Supervisory Board.

The Investment, Finance and Audit Committee was convened four 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 auditor, and the examination of finance and investment plans. The carve-out of the Memory Products segment to form Qimonda AG, its subsequent IPO and the events surrounding the company's motor sport sponsorship were also deliberated upon in the Committee and prepared for discussion in the plenary session. The Committee furthermore dealt with the management's assessment of the internal control system, as required under Section 404 of the Sarbanes-Oxley Act. This assessment proved that there are no "material weaknesses".

In its meeting on May 10, 2006, the Supervisory Board resolved on setting up a Strategy and Technology Committee dealing with the company's strategic and technological direction. The members of the Supervisory Board Prof. Dr. Klaus Wucherer (Chairman), Alfred Eibl, Jakob Hauser, Prof. Dr. Doris Schmitt-Landsiedel, Alexander Trüby and Prof. Dr. Martin Winterkorn were appointed as members of this Committee. The Committee held one meeting in the financial year under review, in which it discussed the strategy for the "Automotive" part of the AIM segment.

The Qimonda IPO Committee met for one meeting and also aligned with the Management Board by telephone with regard to individual questions on the Qimonda IPO. Particular items discussed by the Committee were the capital structure of Qimonda, the time schedule, the issuing volume and issuing price for the Qimonda IPO.

The Executive Committee was convened for one meeting. As already set forth above, it dealt in particular with the allegations against the former members of the Management Board Dr. Schumacher, Dr. Mehrgardt and Dr. von Zitzewitz. The Committee also conferred by means of telephone conferences and passed a number of resolutions by way of circulation of written proposals.

The Mediation Committee formed pursuant to Section 27(3) of the German Codetermination Act was not convened.

Individual and consolidated financial statements. In the period under review Infineon's annual financial statements were again audited by KPMG Deutsche Treuhand-Gesellschaft AG Wirtschaftsprüfungsgesellschaft, Berlin and Frankfurt am Main. KPMG audited the individual financial statements of Infineon Technologies AG and the consolidated financial statements of the Infineon Group for the financial year ending September 30, 2006, as well as the combined operating and financial reviews ("Lagebericht") of Infineon Technologies AG and of the Infineon Group. KPMG has rendered an unqualified auditor's opinion ("uneingeschränkter Bestätigungsvermerk") for these documents. We have also examined these documents ourselves. Further, KPMG confirmed that the consolidated financial statements were prepared in accordance with the provisions of U.S. GAAP and that the exemption provision under Section 292a of the German Commercial Code (HGB) in conjunction with Article 58 (5) of the Introductory 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 as well as the combined operating and financial reviews ("Lagebericht") were presented to all members of the Supervisory Board. They were discussed in detail, first at the meeting of the Investment, Finance and Audit Committee on November 15, 2006 and subsequently in the financial statements meeting of the Supervisory Board on November 23, 2006, in the presence of the auditors. At this meeting the Management Board also 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 annual and consolidated financial statements and the combined operating and financial reviews of Infineon Technologies AG and of the Infineon Group. The annual report and accounts are thus completed.

Management Board changes. Mr. Kin Wah Loh retired from office as member of the Management Board with effect from April 15, 2006 and assumed the position of Chairman of the Management Board of Qimonda AG. The Supervisory Board accepted his declaration of resignation.

Composition of the Supervisory Board. Dr. Joachim Faber resigned from office effective February 16, 2006. Dr. Siegfried Luther was elected as a new member of the Supervisory Board by the Annual General Meeting on February 16, 2006. Mr. Dieter Scheitor resigned from office effective February 28, 2006 and Mr. Wiegand Cramer was appointed by the court as his successor effective April 20, 2006. We would like to express our thanks to the departing members of the Supervisory Board for their dedicated work in this forum.

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

Munich, November 2006

On behalf of the Supervisory Board

A handwritten signature in black ink, appearing to read 'M. Kley'.

Max Dietrich Kley

Chairman of the Supervisory Board