

Corporate Governance: Report of the Management Board and Supervisory Board

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

Infineon's Management Board and Supervisory Board view Corporate Governance as a comprehensive concept, which includes all corporate values, processes and goals that underlie our corporate mission. Corporate Governance at Infineon encompasses internal controlling standards, the Business Conduct Guidelines, the regulation of the company's organizational and supervisory tasks, and Infineon's Corporate Governance Code. In addition, Infineon has appointed a Corporate Governance Officer who reports directly to the Management and Supervisory Boards.

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 fully compliant with the standards set down in U.S. capital markets law. It is our goal to 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 by instructing Infineon's voting proxies online, 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 securities regulation, to rules of the American Securities and Exchange Commission (SEC) and to the corporate governance regulations of the NYSE. Since July 2002, the U.S. legislator, the SEC and the NYSE have issued various rules for improvement of investor protection and Corporate Governance for U.S. companies. Most of these rules also apply to non-U.S. companies listed on U.S. stock exchanges.

To implement the U.S. regulations, we have set up a Disclosure Committee with the task of examining and releasing financial information and other material information for publication. A procedure has been introduced to enable employees to anonymously disclose information about violations of internal guidelines and statutory accounting rules. We have also put into place

an internal certification procedure that requires senior executives bearing managerial responsibility to confirm certain data. This procedure is used for the CEO and CFO certifications of SEC filings under U.S. law.

The structure of corporate management and supervision

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

Management Board

The Management Board of Infineon Technologies AG – currently four members – is the company's executive body. It is bound to solely serve the company's interests and thereby geared to a sustainable increase of shareholder value. In compliance with the mandatory German Stock Corporation Law, it bears overall responsibility for a value-creating management of the company. In accordance with its rules of procedure, all members are jointly responsible for the management of the company.

Supervisory Board

The Supervisory Board advises and monitors the Management Board in the performance of its executive duties. The Management Board reports to the Supervisory Board regularly, comprehensively and in a timely manner on all material aspects of business development, planning and risk issues, and agrees with the Supervisory Board on corporate strategy and its implementation. The Supervisory Board discusses the quarterly reports, audits and approves the annual financial statements and the consolidated financial statements of Infineon Technologies AG. Basic decisions of the Management Board, such as major acquisitions, divestitures, and financial measures are subject to the Supervisory Board's approval. The Supervisory Board also decides about the appointment and dismissal of the members of the Management Board. The Supervisory Board comprises 16 members who, in accordance with German Codetermination Law, 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. The employee representatives are elected by delegates of the workforce at Infineon's German sites in accordance with the regulations of German Codetermination Law. Six of these employee representatives are employees of the company, two are representatives of German labor unions.

The term of office of the Supervisory Board generally lasts five years. The duties of the Supervisory Board and its committees are laid down in the rules of procedure of the Supervisory Board.

Committees of the Supervisory Board

The rules of procedure of the Supervisory Board make provision for the formation of three committees: The Mediation Committee, the Executive Committee and the Investment, Finance and Audit Committee. In addition, the Supervisory Board has set up a Strategy and Technology Committee. In the last fiscal year an additional Ad Hoc Committee was set up with regard to the initial public offering of Qimonda AG.

The Executive Committee, composed of the Chairman of the Supervisory Board, the Vice-Chairman and a shareholder representative, prepares the appointment and dismissal of members of the Management Board, is responsible for the conclusion, amendment and termination of contracts with members of the Management Board and determines structure and amount of Management Board compensation. It also decides on the amount of the stock-based compensation elements.

The Investment, Finance and Audit Committee ("Audit Committee") consists of the Chairman of the Supervisory Board, one shareholder representative and one employee representative. The Investment, Finance and Audit Committee performs the tasks of an audit committee under U.S. law. All the members of our Audit Committee are independent in terms of the applicable U.S. regulations. The Supervisory Board has appointed Mr. Max Dietrich Kley as the Financial Expert ("Audit Committee Financial Expert").

The Audit Committee monitors the company's financial reporting, discusses and examines the quarterly and the annual financial statements presented by the Management Board. Based on the independent auditor's report about its audit of the financial statements, it makes suggestions with respect to the approval of the annual financial statements by the Supervisory Board. It also deals with the company's system of internal controls and the procedure for risk assessment, risk control and risk management. To this end, it is able to refer directly to all employees and to call in external support. Internal audit reports regularly to the Committee, which can also determine the audit plan and its key areas of auditing. In addition, the Committee commissions the independent auditor with regard to the individual financial statements and the consolidated financial statements, determines specific areas of the audit which are of relevance to the Supervisory Board and is responsible for determining the independent auditor's compensation. In addition, we have determined that the auditor may be entrusted with consulting work only to the extent approved by the Audit Committee.

The Mediation Committee, which consists of the Chairman of the Supervisory Board, the Vice-Chairman, one shareholder

representative and one employee representative, makes proposals to the Supervisory Board for the appointment of members of the Management Board if the first round of the election does not result in the required majority of two-thirds of the members of the Supervisory Board.

Shareholders and Annual General Meeting

Shareholders of the company take their decisions at the Annual General Meeting, which is held at least once a year. Every share carries one vote. Every shareholder who is registered in the share register and timely enrolls is entitled to attend the Annual General Meeting. The Annual General Meeting of shareholders decides on all the issues assigned to it, in particular on the discharge of the Management Board and the Supervisory Board, the election of the auditor, 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 reorganization is subject to shareholders' approval. That includes stock option plans served with company stock. Shareholders are entitled to make counter-proposals to the motions introduced by management and, under certain circumstances, are entitled to challenge resolutions of the Annual General Meeting and to demand special judicial reviews when they suspect misconduct or severe deficiencies in the company's management or supervision.

We quarterly report to our shareholders, in accordance with our financial calendar, on business development, and the company's financial situation and financial results. The members of the Management Board regularly inform shareholders, 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. We strive to further intensify the dialog with shareholders and analysts.

Infineon Stock Option Plan 2006

The Annual General Meeting has adopted the Infineon 2006 Stock Option Plan on February 16, 2006. As the performance target was criticized by some shareholders, the Management Board and the Supervisory Board decided to present to the Annual General Meeting a new plan providing 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 a comparative index for at least three consecutive days on at least one occasion during the life of the Option. The comparative index used is the "PHLX Semiconductor Sector" (SOX).

The Infineon Stock Option Plan 2006 has a three-year term (instead of the former six-year term).

Business Conduct Guidelines and Code of Ethics in Financial Matters

We conduct our business responsibly and in compliance with the legal requirements and administrative regulations – and we have established several guidelines for this purpose. Our Business Conduct Guidelines are binding for the Management Board and employees. They particularly include regulations regarding the treatment of complaints and suggestions in case of violations of these guidelines. A Compliance Officer, who reports directly to the Audit Committee, accepts 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 website.

Ongoing evaluation and improvement of the Infineon Corporate Governance Code

Management Board, Supervisory Board and senior executives are responsible for ensuring that our Infineon Corporate Governance Code is actively “lived” in the company. We regularly review, further develop and adapt our Corporate Governance Code to potential changes of any amendments in the “German Corporate Governance Code”. Thus for the 2006 financial year we decided to individually disclose the Management Board members’ compensation (see Compensation Report, page 50). In addition, we have further improved our Corporate Governance Code, in particular by adopting all the new recommendations and suggestions of the “German Corporate Governance Code” issued in June 2006. In November 2006, the Management Board and the Supervisory Board have issued the Declaration of Compliance 2006 pursuant to Section 161 of the German Stock Corporation Act.

Information according to section 6.6 of the “German Corporate Governance Code”

In the past fiscal year the company has received a notification about the following transaction:

Date of the transaction:	2006-14-08
Surname, name:	Dr. Ziebart, Wolfgang
Position held:	President and CEO
Title:	Shares of Infineon Technologies AG
Purchase/Sale:	Purchase
Price (each):	€8.39
No. of units:	20,000
Volume of transaction:	€167,800
Location:	Frankfurt Stock Exchange (Xetra)

Declaration of Compliance 2006 pursuant to Section 161 of the German Stock Corporation Act

In the 2006 fiscal year Infineon Technologies AG has complied with all the recommendations of the Government Commission “German Corporate Governance Code” (in the version of June 2, 2005) pursuant to Section 161 of the German Stock Corporation Act, with the following exceptions:

- > The structure of the Management Board remuneration system was deliberated and agreed by the Executive Committee of the Supervisory Board (section 4.2.2).
- > We individually disclosed the remuneration of our President and CEO, but otherwise waived individual disclosure of the remuneration of the other members of the Management Board (section 4.2.4).

Infineon Technologies AG will comply with all the recommendations of the Government Commission on the “German Corporate Governance Code” (in the version of June 12, 2006), with the following exceptions:

- > The structure of the Management Board remuneration system will be deliberated and agreed by the Executive Committee of the Supervisory Board (section 4.2.2).

Further information on Corporate Governance at Infineon is available on the Internet at www.infineon.com, “Investor-Information”. The latest version of the “German Corporate Governance Code” of the Government Commission is published at www.corporate-governance-code.de. A concrete account of the activities of the Supervisory Board and its committees is given in the report of the Supervisory Board that is included in our annual report. Information on our risk management is given under “Risk Report”. A detailed description of our significant accounting policies is included in the notes to the consolidated financial statements.

... Report of the Supervisory Board, page 41;

... Risk Report, page 75;

... Notes to the Consolidated Financial Statements, page 90