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# REPORT OF THE SUPERVISORY BOARD TO THE ANNUAL GENERAL MEETING

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*Ladies and Gentlemen,*

The 2013 fiscal year has clearly demonstrated that the Management and Supervisory Board's confidence in Infineon's future has not been a matter of calculated optimism. Infineon continued to report solid profits, even at the lowest point in the semiconductor cycle. We owe this success primarily to the outstanding work of Infineon's staff and management. Also due to an intelligent steering of investment volumes, significant cuts in Research and Development activities and a reduction of the size of the workforce could be avoided. In these circumstances, we can confidently set about exploiting economic momentum and – despite any uncertainties that may remain – look to the future with great optimism.

During the 2013 fiscal year, the Supervisory Board again conscientiously and diligently performed all duties incumbent upon it in accordance with the law, the Company's statutes and the internal rules of procedure. It assisted the Management Board in an advisory capacity and monitored its governance of the business. At the ordinary meetings of the Supervisory Board, the Management Board reported in depth on Infineon's financial condition and business performance. The Management Board discussed Infineon's strategic direction and any major specific measures with the Supervisory Board. The Supervisory Board was always given sufficient time and opportunity to thoroughly examine any reports and proposed resolutions drawn up by the Management Board. In this context, it undertook measures to assure itself that the governance of Infineon's affairs was lawful, compliant and appropriate.

In addition to the information provided at regular meetings, the Supervisory Board was kept informed by means of extensive quarterly reports in writing covering a wide range of matters, including business performance in the previous quarter, financial data, risks and opportunities, significant issues and major areas of litigation. Between quarterly reports, the Management Board also informed the Supervisory Board of current developments by means of monthly reports.

The Chairman of the Supervisory Board, the Chairman of the Investment, Finance and Audit Committee and the Chairwoman of the Strategy and Technology Committee remained in regular contact with the Management Board and deliberated on questions relating to strategy, planning, business performance, risks, risk management and compliance. In addition, the Chairman of the Supervisory Board was informed by the Chief Executive Officer without delay of any important events essential for an accurate assessment of Infineon's situation and performance as well as for the governance of Infineon's affairs.

**Wolfgang Mayrhuber**

Chairman of the Supervisory Board

**Main activities of the Supervisory Board**

The full Supervisory Board held four ordinary meetings and one extraordinary meeting during the 2013 fiscal year. The ordinary meetings were attended by all Supervisory Board members. One shareholder representative was unable to participate in the extraordinary meeting on July 11, 2013, which was held in the form of a telephone conference, and was excused accordingly. Attendance at the meetings of the full Supervisory Board was therefore at a level of 98.6 percent.

**Current situation, business performance and strategy**

The Management Board reported regularly to the Supervisory Board on Infineon's current situation, particularly the market situation, significant transactions and key financial performance indicators. It also provided in-depth assessments of Infineon's business performance and strategy. The Supervisory Board was also kept up to date regarding production capacity utilization issues as well as current and planned investments. In addition, the committee chairpersons reported to the full Supervisory Board on the work of the respective committees.

It remains a matter of great importance for the Supervisory Board to be involved in the strategic aspects of the business. In this context, a one-day strategy meeting was again held in August 2013. Items on the agenda included Infineon's long-term objectives and its positioning in respect to the competition as well as current market trends and their impact on Infineon. In this context, the Supervisory Board also addressed the extent to which organic growth is either possible or meaningful, and whether and in which circumstances it may be appropriate to implement Infineon's strategy through the acquisition of or participation in other business entities.

### Transactions and measures requiring approval

The rules of procedure governing the actions of the Supervisory Board and Management Board stipulate that certain transactions and measures require the approval of the Supervisory Board. In accordance with the stipulated procedures, Infineon's financial and investment budget (including the overall investment budget) for the 2013 fiscal year, as presented by the Management Board, was approved at the Supervisory Board meeting held on November 21, 2012 and a borrowing limit was set.

### Composition of the Management Board

At its meeting on February 28, 2013, the Supervisory Board decided to extend Mr. Asam's first term of office by five years, and hence through to December 31, 2018, and to extend his employment contract on the same terms and conditions. This decision was taken in consideration of Mr. Asam's excellent work to date as member of the Management Board.

### Management Board compensation

The Supervisory Board had already decided in the 2012 fiscal year on the key points of a new share-based Long Term Incentive (LTI), rather than the previously option-based LTI, as a long-term, variable compensation component for the Management Board. During the year under report, the Supervisory Board agreed on the details of this so-called "Performance Share Plan" and its inclusion in the Management Board compensation system. Approval was also granted by the shareholders at the Annual General Meeting on February 28, 2013.

The Supervisory Board also performed a thorough analysis of the changes to the German Corporate Governance Code (Deutscher Corporate Governance Kodex) which came into force in the 2013 fiscal year, and which, once again, pertained to management compensation. Three points were of prime relevance for the activities of the Supervisory Board:

First, the latest version of the Code requires all variable compensation components to be subject to upper limits. Infineon already complied with this requirement prior to the change to the Code, in that the principal variable compensation components – STI (Short Term Incentive), MTI (Mid Term Incentive) and LTI (Long Term Incentive) – all incorporate fixed upper limits. Only the additional bonus, which the Supervisory Board (in a number of narrowly defined exceptional cases) can award, amongst others for special achievements of the Management Board, was not explicitly subject to an upper limit. Due to an amendment made to the employment contracts in the 2013 fiscal year, this bonus is now capped at a maximum value of 30 percent of the fixed compensation of each member of the Management Board.

The current version of the Code also requires that the Supervisory Board in conjunction with its assessment of the appropriateness of Management Board compensation additionally considers the relation between their compensation and that of senior management and staff in general. A vertical comparison of this sort was in fact already part of the procedures applied by the Supervisory Board. However, in light of the new version of the Code, the Supervisory Board decided to take a closer look at the requirements involved, and concluded that Management Board compensation at Infineon is appropriate and commensurate with market conditions in this respect as well. Regardless of the aforementioned, the Supervisory Board will conduct its scheduled thorough examination of Management Board compensation in the 2014 fiscal year.

The new version of the Code stipulates that the Supervisory Board should establish the level of pension provision aimed at for each member of the Management Board – including consideration of each member's length of service on the board – and take into account the resulting annual and long-term expense for the entity. With this in mind, the Supervisory Board looked again at pension benefits for the present members of the Management Board and concluded there is currently no cause for change.

### Litigation

The Supervisory Board was kept well informed of the progress of major legal disputes during the 2013 fiscal year, consulting with the Management Board and deliberating internally about subsequent strategy. The principal matters to be dealt with were disputes with the insolvency administrator managing the assets of Qimonda AG and antitrust proceedings instigated by the EU Commission against Infineon and other chip card manufacturers.

### Corporate governance

The Supervisory Board continues to follow closely the development of corporate governance standards within Infineon, focusing in particular on the implementation of the recommendations of the German Corporate Governance Code. During the year under report, the Supervisory Board looked in depth at the changes made to the Code on May 13, 2013 by the Government Commission of the German Corporate Governance Code. Points relevant for the Infineon Supervisory Board have been discussed above.

### Declaration of Compliance 2013

The Supervisory Board and the Management Board decided to issue the 2013 Declaration of Compliance – as in the previous year – with a deviation from the Code's recommendation with respect to Supervisory Board compensation. The two boards continue to consider that the compensation regulation resolved at the Annual General Meeting in 2011 adequately takes account of Infineon's long-term success. With the exception of the recommendation with respect to Supervisory Board compensation, Infineon complies with all recommendations contained in the Code. The most recent Declaration of Compliance was published on the Company's website in November 2013.

#### Efficiency review for Supervisory Board activities

The Supervisory Board reviews the efficiency of its work once a year, including the efficiency of its interaction with the Management Board. The efficiency review took place in summer 2013. The members of the Supervisory Board were requested to complete a questionnaire about their work and the level of cooperation between the two boards. The results of this survey were subsequently discussed at the meeting of the Supervisory Board on August 6, 2013. No significant shortcomings were identified.

#### Potential conflicts of interest

No conflicts of interest were reported in the 2013 fiscal year by members of either the Management Board or Supervisory Board.

The German Corporate Governance Code requires prior approval to be given by the Supervisory Board before members of the Management Board take on mandates on external supervisory boards. In the year under report, the Supervisory Board gave its approval to Mr. Asam's mandate on the supervisory board of EPCOS AG.

Other comments relating to corporate governance at Infineon can be found in the Corporate Governance Report issued jointly by the two boards.

#### Report on the work of the Supervisory Board's Committees

As in the previous fiscal year, the Supervisory Board has five committees. The first two of these are the Nomination Committee and the Mediation Committee pursuant to section 27, paragraph 3 of the German Co-Determination Act. The remaining committees are the Executive Committee; the Investment, Finance and Audit Committee; and the Strategy and Technology Committee. The committees draw up resolutions or prepare topics that are required to be dealt with by the full Supervisory Board. Certain decision-making powers have been delegated to committees to the extent permitted under German law. The chairpersons of each committee routinely report on committee meetings at the next relevant full Supervisory Board meeting.

All Supervisory Board committees have an equal number of employee representatives and shareholder representatives, with the exception of the Nomination Committee, which consists exclusively of shareholder representatives. Mr. Mayrhuber remains Chairman of the Nomination Committee, the Mediation Committee and the Executive Committee, and Dr. Sünner Chairman of the Investment, Finance and Audit Committee. Prof. Dr. Schmitt-Landsiedel continues to serve as Chairwoman of the Strategy and Technology Committee.

### Executive Committee

The Executive Committee convened for one ordinary and two extraordinary meetings during the year under report, with both of the extraordinary meetings taking place in the form of telephone conferences.

The focus of meetings was on preparing the resolutions relating to Management Board compensation – in particular the detailed structure of the new Long Term Incentive in the form of the Performance Share Plan – as well as changes to the German Corporate Governance Code with respect to Management Board compensation.

The committee also drew up resolutions for the full Supervisory Board with respect to measuring the variable compensation to be given to the members of the Management Board. Important aspects of this work were to determine the degree to which targets for the 2012 fiscal year were achieved, to set new target levels for the 2013 fiscal year and to grant stock options – for the last time – to members of the Management Board.

### Investment, Finance and Audit Committee

The Investment, Finance and Audit Committee convened four times during the year under review.

Its activities centered on monitoring the financial reporting process, reviewing the quarterly financial statements, conducting the preliminary audit of the separate financial statements, consolidated financial statements and Management Report of Infineon Technologies AG and of the Infineon Group, and discussing the audit report with the auditor. Another important task was to examine and discuss Infineon's financial and investment plans and to set a borrowing limit for the 2013 fiscal year. The committee also considered the effectiveness of the internal control system, internal audit system and risk management system. The Compliance Officer reported regularly to committee members about compliance issues within the Infineon Group. The committee was also kept informed about significant litigation matters, in particular with regard to the disputes with the insolvency administrator managing the assets of Qimonda AG, and antitrust proceedings instigated by the EU Commission against Infineon and other chip card manufacturers.

Other duties performed by the committee included specifying key areas to be examined in audit activities in the 2013 fiscal year and monitoring the auditor's independence as well as the additional services performed by the auditor. It prepared the Supervisory Board's proposal to the Annual General Meeting regarding the selection of the auditor to audit the separate and consolidated financial statements and to review the half-year financial statements, and engaged the auditor in this regard, additionally also to review the quarterly financial statements. The relevant fee arrangements were also considered.

The auditor attended all of the meetings of the Investment, Finance and Audit Committee and reported in detail on its audit activities.

### Strategy and Technology Committee

The Strategy and Technology Committee convened three times during the period under report.

The committee looked in depth at new strategies for business decided on by the Management Board and expressed its categorical support. Another area of focus for the committee was to reflect on how Infineon could strengthen its competitiveness by means of business acquisitions and/or participations and how this might help to achieve sustainable, profitable growth. The committee also considered a host of other issues, such as production automation and knowledge management at Infineon.

### Nomination and Mediation Committee

The Nomination Committee did not convene during the period under report, since no Supervisory Board elections needed to be planned. Similarly, the Mediation Committee did not need to convene during the 2013 fiscal year.

### Company and Consolidated Financial Statements

KPMG AG Wirtschaftsprüfungsgesellschaft, Munich, audited the separate financial statements of Infineon Technologies AG and the consolidated financial statements as of September 30, 2013 as well as the Management Report of Infineon Technologies AG and that of the Infineon Group and issued unqualified audit opinions. The half-yearly and quarterly financial reports were subjected to a review by KPMG.

The separate financial statements, the consolidated financial statements prepared in accordance with IFRS, the Management Report and the Management Board's proposal for the appropriation of unappropriated profit – all prepared by the Management Board – and the long-form reports prepared by KPMG pertaining to the audits of the separate financial statements, the consolidated financial statements and the Management Report, were discussed thoroughly with KPMG at the meeting of the Investment, Finance and Audit Committee held on November 11, 2013. At the meeting, the aforementioned committee resolved to propose approving the two sets of financial statements by the Supervisory Board.

The Chairman of the Investment, Finance and Audit Committee reported on the committee's recommendations at the meeting of the Supervisory Board held on November 19, 2013. At this meeting, the financial statements were also examined thoroughly in the presence of the auditor and scrutinized by the Supervisory Board to ensure, in particular, that they were lawful, compliant and adequate.

At the aforementioned Supervisory Board meeting, the scope, key areas and cost of the audit were also reported on, and the risk management system was explained. The Management Report of Infineon Technologies AG as well as that of the Infineon Group were also examined and found, in the opinion of the Supervisory Board, to be consistent with legal requirements. The Supervisory Board concurs with the statements on Infineon's future development. The Supervisory Board has examined and endorses the Management Board's proposal to the Annual General Meeting for the appropriation of unappropriated profit, which provides for a dividend of 0.12 euros per qualifying share.

Following the final result of the examination by the Supervisory Board, the Supervisory Board has no objections to the financial statements and the audit performed by the auditor. The Supervisory Board concurred with the results of the audit on November 19, 2013 and approved the separate and consolidated financial statements of Infineon Technologies AG as well as those of the Infineon Group. The separate financial statements have thus been adopted.

The Supervisory Board would like to express its thanks to the Management Board, to the entire staff for their great commitment and outstanding achievements in the 2013 fiscal year, and to the employee representatives for their continued cooperation.

Neubiberg, November 2013  
On behalf of the Supervisory Board

A handwritten signature in black ink, consisting of a large, stylized 'W' followed by a vertical line and a horizontal stroke at the bottom.

Wolfgang Mayrhuber  
Chairman of the Supervisory Board