



Report of the Supervisory Board to the Annual General Meeting

Ladies and gentlemen,

Infineon has grown strongly in recent years, and – contrary to many of its competitors and despite the current contraction of the semiconductor market – remains firmly on growth course. Infineon's success story is attributable in particular to its strategic focus on fast-growing, future-oriented technologies such as energy efficiency, electro-mobility, driver assistance systems, renewables, and the Internet of Things. Following the successful integration of International Rectifier, the largest acquisition in Infineon's corporate history, we are now on the verge of securing a decisive long-term technological lead for ourselves in precisely these rapidly growing markets with our planned purchase of the Wolfspeed division of the US company Cree. We greatly look forward to writing the next chapter in Infineon's success story, not least due to the momentum provided by a partially reorganized and strengthened management team.

Main activities of the Supervisory Board

During the 2016 fiscal year, the Supervisory Board diligently performed all the duties incumbent upon it in accordance with the law, the Company's statutes and its own terms of reference. Throughout the year, we consulted extensively with the Management Board and diligently oversaw its activities in both an advisory and a monitoring capacity. Our input was based on the detailed information provided to us by the Management Board at Supervisory Board and committee meetings relating to business developments, significant transactions, the quarterly financial reports and corporate planning. In addition to coordinating its overall strategy with us, the Management Board sought our advice on a range of relevant specific measures. The Supervisory Board was given ample opportunity to thoroughly examine any reports and resolutions proposed by the Management Board at all times. In this context, we undertook various measures to assure ourselves that the governance of Infineon's corporate affairs was lawful, compliant and appropriate.

The Supervisory Board was provided with written quarterly reports on Infineon's business performance, key financial data, risks and opportunities, major areas of litigation and other important topics. Between quarterly reports, the Management Board also kept us informed of current developments in the form of monthly reports.



Wolfgang Mayrhuber
Chairman of the Supervisory Board

In my capacity as Chairman of the Supervisory Board, I maintained regular contact with the Management Board, as did the respective chairpersons of the Investment, Finance and Audit Committee and the Strategy and Technology Committee. I was informed without delay by the Chief Executive Officer of all significant events relevant to the business.

The full Supervisory Board Committee convened for six ordinary and two extraordinary meetings during the 2016 fiscal year. Attendance at the meetings of the full Supervisory Board averaged nearly 94 percent, while attendance at Supervisory Board committee meetings was 100 percent.

Financial and investment planning, acquisitions, business strategy

At its meeting held on November 17, 2015, the Supervisory Board approved the financial and investment budget, including the overall investment budget and the borrowing limit determined for the 2016 fiscal year, as presented by the Management Board.

Acquisitions – whether previously implemented or currently planned – were a key topic of focus for the Supervisory Board during the fiscal year under report. Concerning the acquisition of International Rectifier, the Management Board reported on the highly successful conclusion of the integration process. Moreover, following the issuance of two corporate bonds (“euro bonds”) during the 2015 fiscal year to repay the euro-denominated portion of the initial loan to finance the acquisition, the US dollar-denominated loan was also refinanced in the 2016 fiscal year in the form of a US Private Placement of notes. These new financing arrangements have enabled Infineon to take advantage of the favorable interest environment, put fixed long-term interest rates in place and further improve the company’s debt maturity profile.

Above all, however, at several ordinary and two extraordinary meetings, the Supervisory Board spent a significant amount of time considering the planned acquisition of Wolfspeed, a division of the US semiconductor manufacturer Cree. The Supervisory Board was extensively briefed on possible alternatives to the deal and on the rationale for the acquisition. Following extensive consultations, the Supervisory Board approved the acquisition and the related financing arrangements. The Supervisory Board shares the Management Board’s positive assessment of the excellent fit of Infineon’s and Wolfspeed’s business and know-how as well as the expectation that the acquisition will strengthen Infineon’s leading position in major growth markets.



The Supervisory Board continues to appreciate the importance of devoting one meeting per year exclusively to strategic topics. Accordingly, at the meeting held on August 3, 2016, the key elements of Infineon's strategy, the principal technological trends currently shaping the sector, and the requirements and political framework for doing business in the USA und China, including Infineon's positioning in these regions, were all discussed at considerable length. Furthermore, the Supervisory Board addressed the impact and potential opportunities arising in view of the trend towards consolidation within the semiconductor industry.

Personnel matters

It was with the deepest regret that the Supervisory Board accepted the request of Arunjai Mittal, Member of the Management Board, to leave Infineon at the end of the 2016 fiscal year due to family reasons. At a personal level, Mr. Mittal was highly esteemed by staff, the Management Board and members of the Supervisory Board alike. He has received highly deserved recognition for his outstanding work in various key positions at Infineon. Over a period of many years, he helped build up Infineon's power semiconductor business and continued this valuable work with outstanding success after becoming a member of the Management Board at the beginning of 2012. Mr. Mittal played a significant role in developing Infineon's position in major growth markets and, with the takeover of International Rectifier, successfully oversaw the largest acquisition in the company's history. We would like to express our particular thanks to Mr. Mittal and wish him well for the future in both his private and professional life.

During the fiscal year under report, in light of Infineon's growth, the Supervisory Board took the decision to enlarge the Management Board from three to four members. Infineon's revenue has practically doubled since the beginning of the decade. The demanding nature of the duties performed by the Management Board has increased massively. We had deliberated for some time on how to best maintain the level of momentum within an increasingly complex environment and also to relieve our Chief Executive Officer Dr. Reinhard Ploss from certain responsibilities, and thought the time had come to bolster the management team. In the course of filling the newly created Management Board position and finding a suitable successor for Mr. Mittal, the Supervisory Board gave consideration to both internal and external solutions, including focusing on potential female candidates. A human resources consultant was engaged to conduct the external search and also to evaluate potential internal candidates. At the conclusion of this process, the decision to appoint managers from within the organization was seen as the best option for Infineon. The choice fell on two highly experienced people, both of whom have outstanding track records in responsible positions at Infineon over many years: Jochen Hanebeck, previously Division President Automotive, was appointed Member of the Board for the newly created "Operations" function, effective July 1, 2016 and for a period of three years. Dr. Helmut Gassel, previously Division President Industrial Power Control, was appointed Member of the Management Board and Chief Marketing Officer. He is responsible for Sales & Marketing, Regions, Strategy Development, Mergers & Acquisitions and Intellectual Property, also effective July 1, 2016 and for a period of three years. The Supervisory Board wishes these two new members of the Board every success.



Management Board compensation

The German Corporate Governance Code recommends subjecting management board compensation systems to regular review. The most recent review at Infineon took place in 2014. During the fiscal year under report, the Supervisory Board again engaged an external independent compensation expert to review the compensation system and the target annual incomes of the individual members of the board. The compensation expert concluded that the compensation system complies with both the legal requirements and the recommendations set out in the German Corporate Governance Code (DCGK). In particular, the expert concluded that the compensation of Infineon's Management Board is commensurate with market conditions and that the variable compensation component is oriented towards promoting the sustainable growth of the enterprise. Furthermore, the target annual incomes of the individual members of the Management Board were found to be appropriate. The compensation expert did, however, point out the existence of some scope for maneuverability. The results of the compensation expert's review, presented in a final report in the fall, were discussed in detail at the Executive Committee meeting held on October 24, 2016 and by the full Supervisory Board at its meeting held on November 15, 2016. The Supervisory Board concurs with the assessment of the compensation expert.

The Supervisory Board decided to adapt the pension arrangements for Dr. Reinhard Ploss, the Company's Chief Executive Officer, who had previously been contractually entitled to receive a pension based on a defined benefit fixed amount. This entitlement, however, was based on him leaving Infineon at the age of 60 and did not reflect the fact that Dr. Ploss' appointment as Chief Executive Officer runs until 2020. The Supervisory Board's recognition of the need to take action was confirmed in the report drawn up by the external compensation expert. In accordance with the compensation system for the Management Board in place since 2010, Mr. Asam, Mr. Mittal, Dr. Gassel and Mr. Hanebeck – all of whom took up office after approval of the new system – have received a defined contribution pension commitment (rather than a defined benefit pension commitment based on the number of years of service), which is essentially identical to the Infineon pension plan applicable to all employees. Dr. Ploss' service contract was also changed in line with this defined contribution basis.

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Details of Management Board compensation – in particular the amounts paid to individual members in the 2016 fiscal year – can be found in the comprehensive Compensation Report in the Annual Report.



Supervisory Board compensation

The Supervisory Board compensation system was also subjected to a thorough review by an independent compensation expert during the year under report. The system was subsequently amended in line with a proposal put forward by the Management Board and Supervisory Board to the Annual General Meeting on February 18, 2016. The objective of the amendment was to remove the previous variable compensation component and to determine Supervisory Board compensation purely on the basis of fixed amounts in future. Due to the removal of the variable compensation component, the fixed compensation component was simultaneously increased to a commensurate market level. Shareholders approved the proposals put forward by the Management Board and the Supervisory Board to the 2016 Annual General Meeting by a large majority. The corresponding amendment to the Articles of Association was entered in the commercial register in March 2016, at which stage it became valid. The compensation rule took effect retrospectively as from October 1, 2015.

Litigation

The Supervisory Board was provided with regular and comprehensive information regarding major legal disputes during the 2016 fiscal year, which were then thoroughly discussed with the Management Board. The main items addressed were the Company's appeal against the fine imposed by the EU Commission in 2014 relating to antitrust proceedings and the dispute with the insolvency administrator of Qimonda AG pertaining to alleged residual liability claims.

Corporate governance

Updated Declaration of Compliance 2015 and Declaration of Compliance 2016

The Declaration of Compliance issued in November 2015 was updated by the declaration issued in March 2016, to the extent that the previously reported deviation relating to section 5.4.6 of the German Corporate Governance Code (compensation of the Supervisory Board) was eliminated. The deviation had been declared in connection with the performance-related compensation component paid to the members of the Supervisory Board. Due to the fact that this compensation component was not based on a multi-year assessment, it was unclear as to whether it fully complied with the Code's requirements. Following the amendment made to the Supervisory Board compensation system, namely the elimination of performance-related compensation, the Code's recommendation on supervisory board compensation is now being fully complied with.

In the most recent Declaration of Compliance, issued in November 2016, the Board of Management and the Supervisory Board declared that Infineon Technologies AG has complied and continues to comply with all of the Code's recommendations.

The original versions of all Declarations of Compliance can be found on Infineon's website.



Efficiency review for Supervisory Board activities

The Supervisory Board examines the efficiency of its activities annually. Based on the questionnaire tried and tested in past examinations, in summer 2016 Supervisory Board members were again requested to provide comprehensive feedback regarding their work and the extent of cooperation between the two boards. The results of this survey were discussed in detail at the Supervisory Board meeting held on August 4, 2016. No noteworthy shortcomings were identified.

Potential conflicts of interest

The Supervisory Board again addressed the issue of potential conflicts of interest during the year under report, concluding that no such conflict of interest exists for Infineon. In particular, consent was given for Dr. Ploss to take on a mandate in the Board of Trustees of the Technische Universität München.

Further information on corporate governance at Infineon can be found in the joint Corporate Governance Report of the two boards, which has been made publicly available on Infineon's website.

Report on the work of the Supervisory Board's Committees

The committees draw up resolutions or prepare topics that need to be dealt with by the full Supervisory Board. Certain decision-making powers have been delegated to the 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.

Nomination and Mediation Committee

The Nomination Committee convened once during the year under report to deliberate in general terms on succession planning and the future composition of shareholder representatives in the Supervisory Board and the necessary measures. As a result, there have been various discussions between the Nomination Committee's chairperson and the committee members regarding ongoing developments in this process.

The Mediation Committee did not need to convene.

Executive Committee

The Executive Committee held one ordinary and five extraordinary meetings during the year under report.

The ordinary meeting focused on preparing the Supervisory Board's resolutions with respect to the measurement of the Management Board's variable compensation. The main aspects of this work were to determine the degree to which targets for the 2015 fiscal year had been achieved and to set new target levels for the 2016 fiscal year.

In the extraordinary meetings, the Executive Committee prepared the amendment to the Supervisory Board compensation system. It also drew up the full Supervisory Board's resolutions relating to Mr. Mittal's resignation, the enlargement of the Management Board, and the appointments of Dr. Gassel and Mr. Hanebeck.



Investment, Finance and Audit Committee

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

Its activities centered on monitoring the financial reporting process, reviewing the half-year and quarterly financial statements, conducting the preliminary audit of the Separate Financial Statements, Consolidated Financial Statements and Combined Management Report for Infineon Technologies AG and the Infineon Group, and discussing the audit reports with the auditor. The committee also examined and deliberated on the financial and investment budget as well as the borrowing limit for the 2016 fiscal year. Furthermore, the committee considered the effectiveness of the internal control system, internal audit system and risk management system. The committee's members also received reports from the Compliance Officer on a regular basis as well as regular updates on significant legal disputes.

Moreover, the committee took time to address various financing issues (the restructuring of loans originally raised to finance the acquisition of International Rectifier and the financing of the planned acquisition of Wolfspeed) and made recommendations for the corresponding Supervisory Board resolutions.

Other duties performed by the committee included specifying key areas to be examined by the external auditor, monitoring the auditor's independence, and considering the scope of non-audit-related services performed by the auditor. In this context, the committee gave detailed consideration to the new statutory requirements for fiscal year-end audits, particularly the stricter rules that will apply in future to non-audit-related services provided by the auditor.

The committee prepared the Supervisory Board's proposal to the Annual General Meeting regarding the selection of the auditor and issued the contracts for the corresponding audit engagements. The relevant fee arrangements were also considered.

The committee (and the full Supervisory Board) gave lengthy consideration to the report drawn up by KPMG on the statutorily prescribed audit regarding compliance with the so-called EMIR Directive, which, among other things, imposes certain requirements on entities such as Infineon with regard to derivatives management.

The auditor attended 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 year under report.

The committee was provided with information on the current status of patents within the semiconductor industry, including details of Infineon's strategy in this field. It also closely examined International Rectifier's product portfolio and, as part of the integration process, inquired into the progress being made to achieve uniform customer interfaces in the areas of sales, marketing, logistics and finance. It also focused its attention on the Chip Card & Security and Power Management & Multimarket segments and inquired into the quality improvement initiatives as well as measures aimed at raising customer satisfaction.

In May 2016, Prof. Dr. Schmitt-Landsiedel ceased to be a member of the Strategy and Technology Committee and accordingly also gave up the chair. The position has been taken over by Mr. Bauer, who has both the technical expertise and the necessary practical experience in setting strategies for a technology company operating in a fiercely competitive environment. Beginning of November 2016, Prof. Dr. Schmitt-Landsiedel has for personal reasons also ceased to be a member of the full Supervisory Board. Prof. Dr. Schmitt-Landsiedel has been a member of the Supervisory Board since 2005 and, particularly as longtime chairperson of the Strategy and Technology Committee, substantially contributed to the board's successful work. We would like to express our thanks to Prof. Dr. Schmitt-Landsiedel and wish her well for the future.

Separate 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, 2016 as well as the Combined Management Report for Infineon Technologies AG and the Infineon Group, and issued unqualified audit opinions thereon. KPMG also reviewed Infineon's half-year and quarterly financial reports.

At the meeting of the Investment, Finance and Audit Committee held on November 14, 2016, intensive discussions were held with the auditor regarding the Separate Financial statements, the Consolidated Financial Statements prepared in accordance with IFRS, the Combined Management Report, the proposed profit appropriation, and the auditor's findings. Based on these discussions, the Investment, Finance and Audit Committee resolved to propose to the Supervisory Board to approve the financial statements after being drawn up by the Management Board and to consent to the proposed profit appropriation.



At the meeting of the Supervisory Board held on November 15, 2016, the Chairman of the Investment, Finance and Audit Committee reported on the committee's recommendations. In the course of this meeting, all topics relevant for the financial statements and all significant audit issues were discussed in detail with the auditor and examined by the Supervisory Board. The examination also covered the proposal to pay a dividend of €0.22 per entitled share.

The Separate Financial Statements, the Consolidated Financial Statements prepared in accordance with IFRS, the Combined Management Report, the Management Board's proposal for the appropriation of unappropriated profit (all prepared by the Management Board) and KPMG's long-form reports on the audits of the Separate Financial Statements, the Consolidated Financial Statements and the Combined Management Report were all made available to the Supervisory Board at its meeting held on November 29, 2016. Taking into account the insights gained at the meeting held on November 15, 2016, the Supervisory Board concluded that it has no objections to the financial statements and the audits performed by the auditor. In its opinion, the Combined Management Report complies with legal requirements. Likewise, the Supervisory Board concurs with the assertions regarding Infineon's future development made therein. The Supervisory Board therefore concurred with the results of the audit and approved the Separate Financial Statements of Infineon Technologies AG and the Consolidated Financial Statements of the Infineon Group. The Separate Financial Statements were accordingly adopted. The Supervisory Board also approved the Management Board's proposal for the appropriation of unappropriated profit.

The Supervisory Board wishes to thank the Management Board and the entire staff for their unflinching commitment and outstanding achievements during the 2016 fiscal year.

Neubiberg, November 2016
On behalf of the Supervisory Board

Wolfgang Mayrhuber
Chairman of the Supervisory Board