

# Report of the Supervisory Board to the Annual General Meeting

*Ladies and Gentlemen,*



**Dr. Eckart Sünnner**  
Chairman of the Supervisory Board

Infineon remains firmly on course for profitable growth. Our success story is epitomized in particular by two public announcements made during the previous fiscal year. The first of these gave notice of Infineon's intention to build a new 300-millimeter facility for manufacturing power semiconductors at its site in Villach, Austria, involving a total investment of some €1.6 billion over a period of six years. The second announcement provided information on the Management Board's decision to modify Infineon's target operating model, which reflects targets set for revenue, segment result margin and investment ratio, and is now geared to achieving stronger long-term growth. Following extensive discussions, the Supervisory Board concurred with both of the decisions taken by the Management Board. Our support is based on the fact that global developments such as climate change, demographic structures and the trend towards digitalization will continue to drive Infineon's growth in the coming years. Electric vehicles, interconnected battery-powered devices, data centers, and the generation of electricity from renewable sources all require efficient, reliable power semiconductors. With its leading technologies and intelligent manufacturing strategies, Infineon has carved out an excellent

position in its various core markets. Infineon will continue to exploit opportunities to achieve future sustainable growth. As in previous years, it is particularly important to us that you, as shareholders, participate in Infineon's profitable growth, not least through the payment of a commensurate dividend. Accordingly, the Management Board and the Supervisory Board recommend a further increase in the dividend, this year to €0.27 per share.

## Main activities of the Supervisory Board

During the 2018 fiscal year, the Supervisory Board again performed its duties with great diligence in accordance with the law, the Company's statutes and its own terms of reference. We both advised and supervised the Management Board in a constructive manner. Our input was mainly based on in-depth reports presented by the Management Board at Supervisory Board and committee meetings, dealing with current business developments, significant transactions, the quarterly financial reports and corporate planning. The Management Board discussed and coordinated corporate strategy as well as key operational issues in collaboration with us. 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.

In our capacity as Chairmen of the Supervisory Board, at first Mr. Wolfgang Mayrhuber and – following his resignation from the Supervisory Board on 22 February 2018 – me thereafter maintained regular contact with the Company's Chief Executive Officer (CEO) and Chief Financial Officer (CFO). The same applies to Mr. Peter Bauer and myself in our capacity as Chairmen of the Strategy and Technology Committee respectively the Investment, Finance and Audit Committee. I was promptly informed by the CEO of all events of significance to Infineon, when necessary outside of the regular Supervisory Board meetings.

In the 2018 fiscal year, the full Supervisory Board met seven times (five ordinary and two extraordinary meetings) and passed one written resolution. Attendance measured in relation to these various proceedings averaged nearly 92 percent. Dr. Diess, Ms. Engelfried and Dr. Puffer were each unable to attend two meetings and Mr. Holdenried, Ms. Picaud and Prof. Köcher were each unable to attend one meeting. Attendance at Supervisory Board committee meetings was a good 96 percent. Dr. Eder was excused from attending one meeting of the Strategy and Technology Committee and Mr. Holdenried from one meeting of the Executive Committee. Accordingly, all members of the Supervisory Board attended more than half of the meetings of the Supervisory Board and of the committees to which they belonged during the 2018 fiscal year.

### Financial and investment planning

At its meeting held on 21 November 2017 and at the recommendation of the Investment, Finance and Audit Committee, the Supervisory Board approved the financial and investment budget (including the total investment budget) for the 2018 fiscal year, as presented by the Management Board. At its meeting held on 16 May 2018, again at the recommendation of the Investment, Finance and Audit Committee, the Supervisory Board approved an increase in the previously approved total investment budget.

### Business strategy; growth prospects

As in the previous year, a separate meeting of the full Supervisory Board was again held for the sole purpose of dealing with strategic topics. In the course of the strategy meeting, the Management Board provided information on global mega-trends as well as specific market and product trends, explained the external influences on the semiconductor industry, such as the risks arising from global trade conflicts, described Infineon's positioning in terms of international competition, and explained the corporate strategy it had developed, taking the framework parameters referred to above into account. Against this background, Infineon's strategic direction, including measures to expand expertise in core markets, broaden the product portfolio and optimize manufacturing strategy, was extensively discussed. Furthermore, the meeting dealt with the question of how far Infineon should go down the route of developing software for use in the hardware components it produces.

Sustainable growth is an integral part of Infineon's corporate strategy. The corresponding growth prospects were also discussed at the strategy meeting and, additionally, the subject of further Supervisory Board meetings, at which specific decisions were put forward by the Management Board for approval. As mentioned earlier, the Supervisory Board deliberated in detail on the planned large-scale investment in Villach (Austria) to build a new power semiconductor facility and on the modification of Infineon's target operating model to bring it in line with the expected rate of growth and, in both cases, approved the proposed decisions.

Furthermore, the Supervisory Board discussed potential opportunities for mergers and acquisitions. These discussions also included a disinvestment decision, namely the sale of the RF Power product line to the US semiconductor company Cree, Inc. for a consideration of approximately €345 million. As technology leaders, collaboration between Infineon and Cree goes back a long way. The Supervisory Board agrees with the Management Board that it makes good commercial sense to sell this product line to Cree and that it also offers good professional prospects for the employees concerned. After thoroughly deliberating on these points, the Supervisory Board gave the transaction its approval.

## Personnel matters relating to the Management Board

### Extension of Management Board mandates

In view of the successful work of the Management Board, the Supervisory Board decided to extend Mr. Asam's mandate, which would otherwise run until 31 December 2018, by a further five years to 31 December 2023. Furthermore, the mandates of Dr. Gassel and Mr. Hanebeck, which run until 30 June 2019, were also extended by a further five years to 30 June 2024. By extending these mandates, the Supervisory Board acknowledges the excellent contributions these members of the Management Board have made to Infineon's sustainable and profitable growth and thanks them for their outstanding contributions.

### Diversity concept for the composition of the Management Board

The European Corporate Social Responsibility (CSR) Directive and the German CSR Directive Implementation Act provide for large-sized listed companies such as Infineon to report on the diversity concepts developed in connection with the composition of their management and supervisory boards.

A concept of this nature has been in place for Infineon's Supervisory Board for several years. The competency profile and catalog of objectives adopted by the Supervisory Board for its own composition (last updated in August 2017) deals not only with the general criteria for making appointments but also with diversity aspects.

By contrast, the composition of the Management Board has not yet been subject to any specific diversity concept. The Supervisory Board therefore considered this matter at length and adopted a comprehensive diversity concept during the fiscal year under report. The Supervisory Board considers it important that any decision to appoint a person to a specific role on the Management Board must always be made in Infineon's best interests, taking all the circumstances of each individual case into account. The primary focus must be on the professional and personal suitability of the person concerned. Consideration must be given to ensuring that the members of the Management Board as a whole possess – to the fullest possible extent – the knowledge, skills and experience required to run a technology company. Within the framework of these requirements, the Supervisory Board also considers diversity aspects, particularly age, gender, education and professional background as well as internationality. In addition to ensuring the greatest possible personal suitability of each individual member, it is equally important that different perspectives on managing the corporation's business are encouraged by having a Management Board with a diverse composition. The various aspects of diversity are therefore an integral component of the decision-making process, but not an exclusive criterion. The target quota for women on the Management Board remains unchanged at 20 per cent.

Details of the diversity concepts (for the composition of both the Management Board and the Supervisory Board), their objectives, the way they are implemented, and the results achieved during the year under report are provided in the Corporate Governance Statement, which is available on the Infineon website.

@ [www.infineon.com/declaration-on-corporate-governance](http://www.infineon.com/declaration-on-corporate-governance)

### Management Board compensation

In accordance with section 4.2.2 of the German Corporate Governance Code (DCGK), the Supervisory Board regularly engages an external, independent compensation expert to review Infineon's Management Board compensation system and to conclude on its compliance with applicable legislation as well as its overall appropriateness. The most recent system review was conducted in 2016. During the fiscal year under report, the Supervisory Board again engaged an external independent compensation expert to review the system and the target annual incomes of the members of the Management Board. The expert concluded that the compensation system complies with legal requirements and with the recommendations contained in the 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 the sustainable growth of the company. In addition, the target annual incomes of the members of the Management Board were found to be appropriate in all material respects. The expert pointed out, however, that there was scope for raising the level of compensation, particularly for the Chairman of the Management Board. The results of the compensation expert's review were discussed in detail at the Executive Committee meeting held on 25 October 2018 and by the full Supervisory Board on 20 November 2018. The Supervisory Board concurs with the opinion of the compensation expert.

Already during the 2017 fiscal year, the Supervisory Board resolved to change the allocation date for granting performance shares to members of the Management Board for the purposes of the long-term incentive (LTI) from 1 October to 1 March of a fiscal year. The amendment was applied for the first time for the allocation in the 2018 fiscal year.

**P** see page 95 ff.

After extensive discussions held by the full Supervisory Board and prepared by the Executive Committee, a new, simplified rule was adopted for the treatment of current LTI tranches in the event of a member leaving the Management Board. The rule came into force on 1 October 2018. Details on this are outlined in the Compensation Report.

For the second time, a tranche of performance shares fell due for settlement at the end of the 2018 fiscal year. As the stipulated performance hurdle was surpassed, the tranche allocated in 2014 is required to be settled in full following the expiry of the four-year holding period. As in the previous fiscal year, the Supervisory Board resolved to settle the entitlement of members of the Management Board resulting from this tranche in cash rather than in shares. Equality of treatment was therefore achieved with Infineon employees, for whom the Management Board also decided upon cash settlement of the current tranche.

**P** see page 95 ff.

Details of Management Board compensation – in particular the amounts paid to individual members in the 2018 fiscal year – are available in the comprehensive Compensation Report in the Annual Report.

### Litigation

The Supervisory Board was regularly provided with detailed information regarding major legal disputes during the 2018 fiscal year, which were then thoroughly discussed with the Management Board. These included in particular the Company's appeal, brought before European courts, against the antitrust fine imposed by the EU Commission in 2014 and the dispute with the insolvency administrator of Qimonda AG pertaining to alleged residual liability claims.

## Corporate Governance

### Declaration of Compliance 2018

The Declaration of Compliance issued in November 2017 was updated in February 2018 in view of the fact that I was elected Chairman of the Supervisory Board at the meeting of the Supervisory Board on 22 February 2018 in parallel to my function as Chairman of the Investment, Finance and Audit Committee. The Management Board and Supervisory Board declared a deviation from section 5.3.2, paragraph 3, sentence 3, DCGK, according to which the Chairman of the Supervisory Board should not additionally chair the Audit Committee. The reason given for the deviation was that it is in the Company's interest that I continue to contribute my financial expertise and wealth of experience in Audit committee matters in my capacity as Chairman of the Infineon Audit Committee.

In the current Declaration of Compliance dated November 2018, the Management Board and the Supervisory Board declared that, with the exception of a deviation from section 5.3.2, paragraph 3, sentence 3, DCGK, as described above, Infineon complies with all other recommendations contained in the DCGK and will continue to do so in future.

The original versions of the Declarations of Compliance are available on Infineon's website.

@ [www.infineon.com/cms/en/about-infineon/investor/corporate-governance/declaration-of-compliance/](http://www.infineon.com/cms/en/about-infineon/investor/corporate-governance/declaration-of-compliance/)

### Efficiency examination for Supervisory Board activities

The Supervisory Board examines the efficiency of its activities on an annual basis. In the previous fiscal year, the examination was performed with the assistance of an external, independent consultant. The examination for the 2018 fiscal year was based on a structured questionnaire. The examination provided a positive picture of the work of the Supervisory Board and its collaboration with the Management Board. No noteworthy shortcomings were identified.

### Examination of potential conflicts of interest

The members of the Management Board and the Supervisory Board are required to disclose any conflicts of interest to the Supervisory Board without delay. No conflicts of interest in connection with the members of the Management Board and the Supervisory Board have been disclosed in the 2018 fiscal year.

Prior to members of the Management Board assuming sideline activities, particularly supervisory board mandates outside the Company, the DCGK requires that permission be given by the Supervisory Board. During the 2018 fiscal year, the Supervisory Board and the Executive Committee gave their permission for Dr. Ploss and Dr. Gassel to assume mandates, given that no conflicts of interest were discernible.

Further information on corporate governance at Infineon can be found in the joint Corporate Governance Report of the Management Board and the Supervisory Board and in the Corporate Governance Statement. Both of these documents as well as all terms of reference of the Company's boards and its committees are publicly available on the Infineon website.

@ [www.infineon.com/corporate-governance-report](http://www.infineon.com/corporate-governance-report)

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## Composition of the Supervisory Board; committee work

### Composition of the Supervisory Board

With effect from the end of the Annual General Meeting held on 22 February 2018, Mr. Mayrhuber resigned his mandate as member and Chairman of the Supervisory Board. On behalf of the Supervisory Board, the Management Board and the entire workforce, I sincerely wish to thank Mr. Mayrhuber for seven extraordinarily commendable and successful years at the helm of our Supervisory Board. Due to his competence and vision, combined with his constructive and engaging manner, Mr. Mayrhuber made a significant contribution to Infineon's success. I am delighted that Mr. Mayrhuber will remain closely linked to Infineon as Honorary Chairman of the Supervisory Board going forward.

For this reason, it was necessary to elect a new member of the Supervisory Board to fill the vacancy. Based on the Nomination Committee's recommendation and the Supervisory Board's proposal, the Annual General Meeting elected Dr. Wolfgang Eder to the Supervisory Board on 22 February 2018.

At the Supervisory Board meeting held immediately after the Annual General Meeting, I was elected to succeed Mr. Mayrhuber as the new Chairman of the Supervisory Board. In this function, I also chair the Mediation Committee and the Executive Committee. Dr. Eder was elected to the Investment, Finance and Audit Committee, the Strategy and Technology Committee as well as the Nomination Committee. Dr. Eder chairs the Nomination Committee.

### Committee work

The committees are responsible for drawing up resolutions and preparing 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 fiscal year under report and made a recommendation to the Supervisory Board that Dr. Wolfgang Eder be proposed for election to the Supervisory Board at the Annual General Meeting. The decision was preceded by several meetings of the Nomination Committee during the 2017 fiscal year, at which succession matters on the shareholder side as a whole were also discussed.

The Mediation Committee did not need to convene.

### Executive Committee

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

The ordinary meeting focused on preparing the Supervisory Board's resolutions with respect to determining the level of the Management Board's variable compensation. The main aspects of this work were to determine the degree to which targets for the 2017 fiscal year were achieved and to set new targets for the 2018 fiscal year. Other matters arising were the adjustment of rules for LTI purposes when a member leaves the Management Board as well as decisions relating to mandate extensions.

At the two extraordinary meetings, the LTI topic was deliberated upon in greater depth and a diversity concept for the composition of the Management Board was discussed. The Executive Committee also approved new business travel rules for the Management Board.

### Investment, Finance and Audit Committee

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

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 Infineon, and discussing the audit reports with the auditor. In addition, the committee examined the financial and investment budget. Furthermore, the committee considered the effectiveness of the internal control, internal audit, risk management and compliance management systems. The committee's members also received reports from the Compliance Officer on a regular basis as well as timely updates on significant legal disputes.

Before the committee recommended to the full Supervisory Board that KPMG AG Wirtschaftsprüfungsgesellschaft Munich (KPMG) be proposed for election as Company and Group auditor at the Annual General Meeting 2018, a Declaration of Independence was obtained from KPMG. In addition, the committee carefully considered the non-audit services provided by KPMG. There were no indications of conflicts of interest, grounds for exclusion, or lack of independence on the part of the auditor. The recommendation was also based on the committee's confirmation that its recommendation was free from undue influence by third parties and that it had not been subject to any restriction regarding the selection of auditors within the meaning of section 16, paragraph 6 of the EU Statutory Audit Regulation. The committee also considered the fee arrangements and issued the contracts for the corresponding audit engagements. In addition, supplementary areas for audit emphasis were defined.

The committee also dealt in detail with the CSR Directive and the CSR Directive Implementation Act as well as the implications for non-financial reporting. It prepared the resolution of the full Supervisory Board to engage KPMG to perform the non-mandatory, limited assurance review of the separate report on non-financial information.

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 Supervisory Board's Strategy and Technology Committee convened three times during the fiscal year under report. It was provided with in-depth reports on growth prospects, electro-mobility scenarios and Infineon's positioning compared to that of its major competitors. Manufacturing strategies were also discussed and individual fields of business presented in greater detail. The committee also deliberated at great length on the topic of digitalization at Infineon.

## Separate and Consolidated Financial Statements

KPMG audited the Separate Financial Statements of Infineon Technologies AG and the Consolidated Financial Statements as of 30 September 2018 as well as the Combined Management Report for Infineon Technologies AG and the Group, and issued unqualified audit opinions thereon.

The Half-Year Financial Report was also subject to a review. No issues were identified that might indicate that the abridged Interim Group Financial Statements and Interim Group Management Report had not been prepared, in all material respects, in accordance with the applicable provisions.

KPMG has audited the Separate Financial Statements of Infineon Technologies AG and the Consolidated Financial Statements of the Group and reviewed the Interim Financial Statements of the Group since the 1999 fiscal year (short fiscal year from 1 April 1999 to 30 September 1999). Mr. Karl Braun signed the auditors' report for the first time for the 2012 fiscal year (1 October 2011 to 30 September 2012) and Mr. Michael Pritzer for the first time for the 2017 fiscal year (1 October 2016 to 30 September 2017).

At the meeting of the Investment, Finance and Audit Committee on 9 November 2018, continued in a telephone conference on 19 November 2018, intensive discussions were held with the auditor regarding the Separate Financial Statements, the Consolidated Financial Statements, the Combined Management Report, the proposed profit appropriation, and the auditor's findings. The committee deliberated at length on the key audit matters and on the related audit procedures performed by the auditor. The Investment, Finance and Audit Committee resolved to propose to the Supervisory Board that the financial statements drawn up by the Management Board be approved and the proposed profit appropriation agreed to.

The Separate Financial Statements, the Consolidated Financial Statements, 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 audit reports were all made available to the Supervisory Board at the meeting held on 20 November 2018. At this meeting, the Chairman of the Investment, Finance and Audit Committee reported in depth on the corresponding recommendations of the Committee. In addition, all material issues relevant to the financial statements and the audit, including key audit matters, were discussed in detail with the auditor and examined by the Supervisory Board. The examination also covered the proposal to pay a dividend of €0.27 per entitled share.

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 Infineon. The Separate Financial Statements were accordingly adopted. The Supervisory Board also approved the Management Board's proposal for the appropriation of unappropriated profit.

In conjunction with the presentation of the sustainability report, the Investment, Finance and Audit Committee and the full Supervisory Board also deliberated on the separate non-financial report of Infineon Technologies AG (Company and Group) from 30 September 2018, which was drawn up for the first time by the Management Board. KPMG performed a "limited assurance" review and issued an unqualified statement thereon. The documents were carefully examined by the Investment, Finance and Audit Committee at its meeting held on 9 November 2018, continued in a telephone conference on 19 November 2018, and by the Supervisory Board at its meeting on 20 November 2018. The Supervisory Board acknowledged and approved the separate non-financial report (Company and Group) drawn up by the Management Board.

The Supervisory Board wishes to thank the Management Board and the entire staff of Infineon once again for their great commitment and outstanding achievements during the 2018 fiscal year.

Neubiberg, November 2018  
On behalf of the Supervisory Board

Dr. Eckart Sünnner  
Chairman of the Supervisory Board