

# Report of the Supervisory Board to the Annual General Meeting

*Ladies and Gentlemen,*

The 2015 fiscal year was dominated by the acquisition of International Rectifier. Following approval of the acquisition by the antitrust authorities and in particular by the shareholders of International Rectifier, the transaction first announced in August 2014 was finally closed in January 2015. The acquisition was an important step for Infineon, as the combination of the two enterprises has now given rise to a powerful entity. The Infineon Group benefits from an expanded product portfolio and a broader regional structure, particularly regarding customers in the USA and Asia. The combination also gives Infineon additional system know-how in the management of electrical energy. Infineon's expertise with power semiconductors and how they are controlled has been enriched and its position as world market leader in this field extended. The integration process has gone well and is now more or less completed. The consolidated figures for the 2015 fiscal year show that we are making excellent progress. On behalf of the Supervisory Board, I once again take this opportunity to extend a warm welcome to all staff from International Rectifier and, equally, to thank everyone involved for the work performed to date.

## **Main activities of the Supervisory Board**

During the year under report, the Supervisory Board conscientiously performed all duties incumbent upon it in accordance with the law, the Company's statutes, and its own terms of reference. It both advised and monitored the Management Board based on the detailed information provided by the Management Board at Supervisory Board and committee meetings on business developments, in particular the market situation, significant transactions, key financial performance indicators and performance trends. In the course of the ensuing deliberations, not only general strategies, but also relevant specific measures were agreed upon by the two boards. The Supervisory Board was always given ample opportunity to thoroughly examine any reports and resolutions proposed by the Management Board. In this context, it undertook measures to assure itself 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, significant issues, major areas of litigation and other important topics. Between quarterly reports, the Management Board also informed the Supervisory Board in a timely manner of current developments in the form of monthly reports.



**Wolfgang Mayrhuber**  
Chairman of the Supervisory Board

The Chairman of the Supervisory Board, the Chairman of the Investment, Finance and Audit Committee and the Chairwoman of the Strategy and Technology Committee were in continual contact with the Management Board. The Chairman of the Supervisory Board was also 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 meetings during the 2015 fiscal year. At three of these meetings, one member on each occasion was absent and excused. Attendance at the meetings of the full Supervisory Board therefore averaged over 96 percent, while attendance at Supervisory Board committee meetings averaged over 98 percent.

#### **Financial and investment planning and business strategy**

In the previous fiscal year, the Supervisory Board had already approved the acquisition of International Rectifier prior to signature of the contract in August 2014. In the year under report, alongside the regular updates reported by the Management Board on the progress of integration, the focus of attention with respect to the acquisition turned to financing. Among other things, the Supervisory Board consented to the refinancing of the bridging facility, initially entered into to finance the acquisition, by means of the issuance of two corporate bonds (so-called “eurobonds”).

At its meeting held on November 17, 2014, the Supervisory Board approved the financial and investment budget including the overall investment budget and the borrowing limit determined for the 2015 fiscal year, as presented by the Management Board. At the meeting held on May 12, 2015, the Supervisory Board agreed to an increase in total investments for the 2015 fiscal year, in light of the acquisition of International Rectifier.

The Supervisory Board continues to appreciate the importance of focusing one meeting a year exclusively on strategic topics. Therefore, in the meeting held on August 3, 2015, the Board engaged in a detailed discussion on Infineon’s overall strategy, the principal trends in the semiconductor industry, the main areas of growth, Infineon’s positioning and the competitive environment.

### Personnel matters

At an early stage, the Supervisory Board agreed to extend Dr. Ploss's term of office as member of the Management Board, Chief Executive Officer and Labor Relations Director, which had been due to expire on September 30, 2015. Dr. Ploss's term of office has now been extended for a further five-year term that expires on September 30, 2020 and his service contract continued. The resolution relating to the extension was taken at the Supervisory Board meeting held on November 17, 2014.

The "Law on Equal Participation of Women and Men in Leadership Positions in the Private and Public Sector" came into force during the year under report. The new law stipulates a gender quota of 30 percent for the supervisory boards of parity-based, co-determined listed corporations such as Infineon Technologies AG. Target quotas were also introduced by the new legislation, requiring the Supervisory Board to set a quota for female participation on the Management Board by the end of the year under report at the latest. The Supervisory Board was also required to stipulate a date no later than June 30, 2017 by which this target quota should be achieved. The Supervisory Board is convinced that the decisive criterion for selecting members of the Management Board must be their professional skills and personal suitability. Consideration must be given to ensuring that the members of the Management Board as a whole possess the knowledge, skills and experience required to exercise the board's duties to the fullest possible extent. The Supervisory Board seeks to ensure appropriate female representation on the Management Board within the framework of these specifications. In order to achieve this aim, the Supervisory Board is of the opinion that greater efforts are required to develop women for Management Board positions. In view of the successful work of the current Management Board team, and taking the agreed terms of service contracts into account, the Supervisory Board sees neither a practical need nor a legal opportunity to increase the percentage of women on the Management Board at this current point in time. A target quota of 0 percent was therefore determined and will remain valid until June 30, 2017.

### Management Board compensation

The Supervisory Board engages an external compensation expert to review the Management Board compensation system and the compensation of individual members of the Management Board on a regular basis. The results contained in the compensation expert's report presented during the 2015 fiscal year were discussed in detail during the Executive Committee meeting held on October 23, 2014 and by the full Supervisory Board on November 17, 2014. The compensation expert reached the conclusion that the compensation system complies with both the legal requirements and the recommendations set out in the German Corporate Governance Code. In particular, the review 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 enterprise. The Supervisory Board shares the opinion of the compensation expert. The review report also considered the moderate increase in Management Board compensation effective October 1, 2014, resolved by the Supervisory Board at the meeting held on May 6, 2014, and confirmed the appropriateness of the increase.

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Detailed information concerning Management Board compensation is provided in the Compensation Report.

### Litigation

The Supervisory Board was informed regularly and comprehensively regarding major legal disputes during the 2015 fiscal year and deliberated on them in conjunction with the Management Board. Besides the Company's appeal against the fine imposed by the EU Commission and the consequences of the Commission's decision, matters discussed included the legal disputes with the insolvency administrator of Qimonda AG.

## Corporate governance

### Declaration of Compliance 2015

As in previous years, the Supervisory Board and the Management Board resolved to issue the 2015 Declaration of Compliance with one deviation from the Code's recommendations regarding Supervisory Board compensation. The two boards still consider that the compensation regulation resolved by the Annual General Meeting adequately takes account of Infineon's long-term success. With the exception of the recommendation with respect to Supervisory Board compensation, Infineon has complied with, and continues to comply with, all other recommendations contained in the Code. The most recent Declaration of Compliance was published on the Company's website in November 2015.

@ [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/)

### Changes to the Supervisory Board's target catalog

The German Corporate Governance Code recommends that the Supervisory Board determine specific targets for its composition. The Supervisory Board revised its existing catalog of targets in resolutions taken on November 17, 2014 and August 4, 2015, partly in response to the requirement to enlarge the Supervisory Board from 12 to 16 members due to the increased size of the workforce. It was also necessary for the target catalog to reflect the new statutory gender quota for supervisory boards as well as changes to the German Corporate Governance Code that became applicable in the year under report. The changes to the Code related primarily to the introduction of recommendations concerning the usual length of appointments to a supervisory board. In this respect, the Supervisory Board was guided by its recognition of the importance of continuous personnel renewal, but that this must always be weighed against the benefits of having continuity on the Company's representative bodies. Stability in the composition of the Supervisory Board promotes a spirit of trust, both within the Supervisory Board itself and with the Management Board. Having given consideration to the above aspects, the Supervisory Board decided that its members should not, as a general rule, be appointed for more than three periods of office.

### 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 2015 members of the Supervisory Board were again requested to provide critical feedback regarding their work and the extent of cooperation between the two boards. The results of this survey were discussed at the Supervisory Board meeting held on August 4, 2015. No noteworthy shortcomings were identified.

### Assessment of potential conflicts of interest

During the year under report, the Supervisory Board consented to Dr. Ploss taking on a mandate in the Supervisory Board of "Haus der Zukunft gGmbH" and to Mr. Mittal taking on a mandate in the Board of Directors of Global Semiconductor Alliance (GSA). Both of these entities are non-profit organizations. In the previous fiscal year, Mr. Mittal received the approval of the Supervisory Board to accept a mandate as member of the Board of Directors of the Singapore Economic Development Board. Mr. Mittal took up this position during the year under report. The exercising of these mandates does not conflict with any of Infineon's interests.

The Company entered into a consultancy agreement with the former CEO, Mr. Bauer, in 2012 when he stood down from the Management Board. In view of his candidacy for the Supervisory Board, the consultancy mandate ended on January 31, 2015.

With the resolution dated May 6, 2014, the Supervisory Board generally approved the continuation of cooperation between the Company and Technische Universität München (Institute for Technical Electronics, headed by Prof. Dr. Schmitt-Landsiedel). At its meeting held on August 4, 2015, the Supervisory Board approved the specific research and development contract subsequently drawn up.

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

### Composition of the Supervisory Board

The Supervisory Board was reconstituted during the year under report, firstly, due to the fact that all mandates for employee and shareholder representatives expired at the end of the 2015 Annual General Meeting, and secondly, to take account of the requirement under co-determination legislation to increase the size of the Supervisory Board from 12 to 16 members.

#### Election of new employee representatives

The following employee representatives were elected at the end of 2014 by delegates elected from the relevant Company locations: Johann Dechant, Annette Engelfried, Peter Gruber, Gerhard Hobbach, Dr. Susanne Lachenmann, Jürgen Scholz, Kerstin Schulzendorf and Diana Vitale. Gerd Schmidt, Wigand Cramer and Reinhard Gottinger are no longer members of the newly constituted Supervisory Board. The Supervisory Board would like to thank the employee representatives who have now left for their constructive and trusted cooperation over the past years and wishes them all the best for the future. Special thanks go to Mr. Schmidt, who had served on the Supervisory Board since the Company's foundation, working for many years with great success in the capacity of Deputy Chairman of the Supervisory Board.

#### Election of new shareholder representatives

The shareholder representatives were elected at the 2015 Annual General Meeting. All members of the Supervisory Board in office at that stage were re-elected as follows: Hans-Ulrich Holdenried, Prof. Dr. Renate Köcher, Wolfgang Mayrhuber, Dr. Manfred Puffer, Prof. Dr. Schmitt-Landsiedel and Dr. Eckart Sünner. Peter Bauer and Dr. Herbert Diess became shareholder representatives for the first time.

The resolution on candidates to be put forward for election at the Annual General Meeting was taken at the meeting held on November 26, 2014. The resolution was prepared by the Nomination Committee, which took a leading role in seeking and selecting potential candidates, a process already commenced during the 2014 fiscal year.

The Supervisory Board explicitly welcomed the fact that all previously serving shareholder representatives wished to stand for re-election, particularly as personnel stability and continuity on the Supervisory Board is seen as an important factor for success in any sector, and all the more so in the rapidly changing semiconductor industry. The Supervisory Board agreed that two excellent candidates for the new mandates had been found in Mr. Bauer and Dr. Diess. In conjunction with the search and selection process, the Nomination Committee focused on opportunities to increase the number of female members on the Supervisory Board. Unfortunately, their intensive efforts failed to bear fruit. Irrespective of this outcome, Infineon exceeds the gender quota stipulated by law (which does not come into force until January 1, 2016 and therefore did not need to be complied with in the elections at the 2015 Annual General Meeting) with a current female quota of 37.5 percent.

### Elections within the Supervisory Board

The constituting meeting of the Supervisory Board took place immediately after the Annual General Meeting on February 12, 2015. At that meeting, Mr. Mayrhuber was re-elected as Chairman of the Supervisory Board and Mr. Dechant elected as Deputy Chairman.

In addition to the statutorily prescribed Mediation Committee, the Supervisory Board once again resolved to form an Executive Committee, an Investment, Finance and Audit Committee, a Strategy and Technology Committee and a Nomination Committee. In keeping with the wishes of the Supervisory Board, all of these committees will be composed on a parity basis, i.e. with equal numbers of shareholder and employee representatives, with the exception of the Nomination Committee. Mr. Mayrhuber remains Chairman of the Supervisory Board, the Mediation Committee and the Executive Committee. He was also elected as Chairman of the Nomination Committee. Dr. Sünnner will again chair the Investment, Finance and Audit Committee. Prof. Dr. Schmitt-Landsiedel continues to chair the Strategy and Technology Committee.

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

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.

#### Nomination and Mediation Committee

After convening once in summer 2014, the Nomination Committee met again during the year under report to discuss the election of shareholder representatives at the 2015 Annual General Meeting as well as the necessary proposals for election to be put forward by the Supervisory Board. The recommendations to the full Supervisory Board regarding the proposals for election were then the subject of a written resolution.

The Mediation Committee did not need to convene.

#### Executive Committee

The Executive Committee held one ordinary and one extraordinary meeting during the year under report, the latter taking place in the form of a telephone conference. In addition, one written resolution was taken.

The ordinary meeting focused on preparing the Supervisory Board's resolution with respect to the appropriateness of Management Board compensation. At this meeting, the committee also drew up resolutions for the full Supervisory Board regarding the measurement of the variable compensation of the members of the Management Board. Important aspects of this work were to determine the degree to which targets for the 2014 fiscal year were achieved and to set new target levels for the 2015 fiscal year.

At the extraordinary meeting, the Executive Committee prepared the Supervisory Board's resolutions on the various corporate governance issues referred to above, most notably specifying a target quota for the membership of women on the Management Board and revising the Supervisory Board's target catalog.

### Investment, Finance and Audit Committee

The Investment, Finance and Audit Committee convened four times during the 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 Management Report of Infineon Technologies AG and of the Infineon Group, and discussing the audit report with the auditor. Another important task performed by the committee was to examine and discuss Infineon's financial and investment plans and to determine a borrowing limit for the 2015 fiscal year. The committee also 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. The committee was provided with regular updates on significant legal disputes, including the Company's appeal against the fine imposed by the EU Commission as well as the consequences of the Commission's decision. Matters discussed also included the legal disputes with the insolvency administrator of Qimonda AG, which were deliberated upon at length.

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 additional services performed by the auditor. The committee 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 review the half-year financial statements. It subsequently engaged the auditor to perform these tasks and, furthermore, to review the quarterly financial statements. 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 duties on entities such as Infineon with regard to derivatives management.

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 received detailed reports on the "excellence initiatives" in the area of research and development on the one hand and sales and marketing on the other. It also addressed issues relating to the acquisition and integration of International Rectifier. Topics dealt with at these meetings included future manufacturing and location strategies as well as the product and technology portfolio within the Group. The committee also considered a number of technological topics such as the potential offered, and challenges posed, by new semiconductor materials.

### 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, 2015 as well as the Management Report of Infineon Technologies AG and of the Infineon Group, and issued unqualified audit opinions thereupon. KPMG also reviewed the half-year and quarterly financial reports.

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 of 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, 2015. At the meeting, the aforementioned committee resolved to propose that the Supervisory Board approve the two sets of financial statements.

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 17, 2015. At the Supervisory Board meeting held on November 24, 2015, the financial statements were 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.

The scope, key areas and costs of the audit were also reported on at the aforementioned Supervisory Board meeting and the risk management system explained. The Management Report of Infineon Technologies AG and of the Infineon Group was also examined and found to be consistent with legal requirements in the opinion of the Supervisory Board. The Supervisory Board concurs with the statements made in the Management Report regarding Infineon's future development. The Supervisory Board has examined and endorses the Management Board's proposal for the appropriation of unappropriated profit, which provides for a dividend of €0.20 per qualifying share.

In view of the result of the audit, the Supervisory Board has no objections to the financial statements and the audit performed by the auditor. The Supervisory Board therefore concurred with the results of the audit on November 24, 2015 and approved the Separate Financial Statements of Infineon Technologies AG and the Consolidated Financial Statements of the Infineon Group. The Separate Financial Statements have therefore been adopted.

The Supervisory Board would like to express its thanks to the Management Board and to the entire staff for their outstanding commitment and excellent achievements during the 2015 fiscal year.

Neubiberg, November 2015  
On behalf of the Supervisory Board

A handwritten signature in black ink, appearing to be 'W. Mayrhuber', written in a cursive style.

Wolfgang Mayrhuber  
Chairman of the Supervisory Board