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Annual General Meeting 2014

Munich, February 13, 2014

Embargo 10:15 am

- The spoken word prevails -

Ladies and gentlemen,

First of all I would like to start with more detailed information about the financial figures of the last fiscal year

In fiscal 2013, revenue decreased by 61 million euros, or 2 percent, to 3 billion 843 million euros. This drop in revenue is entirely due to the budgeted decline of Other Operating Segments. Expiring supply contracts with Intel and Lantiq reduced the revenue from Other Operating Segments by 99 million euros. This means that we posted slight growth of 41 million euros in our other four segments despite the weakness of the US dollar compared with the euro and the fall in the Japanese yen's exchange rate.

Over the year, revenue performance was clearly positive. Whereas we suffered a 10 percent drop in revenue in the first quarter year-on-year, the situation improved in the course of the fiscal year. Our final quarter closed with growth of 7 percent compared with the same period in 2012 – although we were confronted by exchange rate fluctuations and a further decline in business of Other Operating Segments. This trend has also continued in fiscal 2014, but more about that later.

The gross margin fell by 2.2 percent to 34.4 percent in the past fiscal year. The main reasons for this were

1. higher costs and depreciation expenses in connection with the extension of capacities and the launch of our 300-millimeter thin-wafer manufacturing technology,

2. underutilization of manufacturing capacities and

3. increased personnel expenses.

The segment result decreased by 150 million euros to 377 million euros, or 9.8 percent of revenue. Here, too, we were able to reverse the initially negative trend by the final quarter. With a segment result margin of 14.1 percent, we closed the final quarter of the 2013 fiscal year 2.3 percentage points better than in the same period in 2012.

Net income amounted to 272 million euros. This represents a drop of 155 million euros compared with 2012.

In fiscal 2013, discontinued operations generated a loss of 11 million euros while income from continuing operations amounted to 283 million euros.

Accordingly, basic earnings per share dropped in 2013 by 38 percent to 25 cents.

With a segment result margin of roughly 10 percent in the past fiscal year, we lay clearly below the average target margin of 15 percent through the cycle. At the annual general meeting last year I explained our margin model, which defines different segment result margin levels for the various phases of the cycle. When the cycle phase is a stagnating market, we want to achieve a segment result margin of approximately 10 percent.

That is precisely the phase in which we were operating in fiscal 2013. The European debt crisis, the American fiscal cliff and a decline in growth in Asia caused demand to stagnate. We faced this challenge together with our workforce. Some factory operations were cut back temporarily in order to reduce idle costs. In this period of weakness, we introduced short-time work for a limited period in particularly affected areas.

Investments were slashed from 890 million euros in the 2012 fiscal year to just 378 million euros in 2013. However, we continued to implement our most important projects for the future in a consistent manner.

Although it burdened our segment result with about 1.5 percentage points, we stuck to our biggest groundbreaking project, namely the launch of technology to manufacture power semiconductors on 300-millimeter thin wafers. By doing so, we create the foundation for productivity improvements and higher margins.

We deliberately avoided restructuring programs because we figured that a recovery would arrive soon – and it did. Toward the end of the past fiscal year, a strong increase in demand put us in a position to quickly ramp up our production capacities and supply our customers.

Consequently, we achieved a segment result margin of 9.8 percent and therefore reached our target of roughly 10 percent in a stagnating market.

Ladies and gentlemen, we will now turn to each of the segments.

In the past fiscal year, the Automotive segment's revenue rose by 3 percent to 1 billion 714 million euros. The December quarter was very weak due to inventory adjustments among customers but we were able to make up for that in the three subsequent quarters. The segment result decreased by 24 percent to 167 million euros. This fall was due to increased costs in manufacturing and higher expenses for research and development.

The revenue of the Industrial Power Control segment, dropped 11 percent to 651 million euros. Let me explain why we were satisfied with this nevertheless. The IGBT power semiconductor market, which is relevant for this segment, declined even stronger by 15 percent. Here we were a victim of a cyclical downturn, yet this segment was able to gain market share and finish the fiscal year with a clearly positive result. The segment result amounted to 38 million euros.

In the Power Management & Multimarket segment, Infineon posted revenue of 987 million euros, or 6 percent more than the previous year. The segment result also edged up by 1 percent to 144 million euros. As a result, the operating margin was 14.6 percent. The growth in smartphones and tablets is especially noteworthy. We supply power semiconductors, high-frequency modules and silicon microphones for these products. This enabled us to counteract a weak first half of the fiscal year as well as increased operating costs.

Chip Card & Security managed to increase its revenue in fiscal 2013 by 1 percent to 463 million euros. The segment result decreased by 30 percent to 39 million euros. This figure corresponds to an operating margin of 8.4 percent. This fall was caused by expenses for the transition to 65-nanometer manufacturing technology and a decline in gross margin.

Now I'd like to turn to the regions.

Germany generated 21 percent of revenue, or about 795 million euros. At 772 million euros, the rest of Europe only contributed 20 percent to revenue in the 2013 fiscal year. In contrast, the Asia-Pacific region – excluding Japan, which I will come to soon – has gained in importance again, with revenue rising by 6 percent. China grew by 11 percent, and its share of total revenue increased to 18 percent. The Asia-Pacific region contributed 40 percent to Group revenue, up 2 percentage points over 2012.

Revenues in Japan totaled 227 million euros, or 6 percent of Group revenue. Strong growth in the Japanese automotive semiconductor market – caused by a catch-up effect after the disaster in Fukushima – contrasted with a fall in the yen's exchange rate.

In the Americas, revenue amounted to 489 million euros, 9 percent more than in 2012. This corresponds to a revenue share of 13 percent.

And now let's look at costs by function.

In the past fiscal year, research and development expenses rose by almost 15 percent to 525 million euros. This corresponds to 13.7 percent of revenue. The expansion of research and development activities mainly took place in the Automotive and Power Management segments. In addition to developing our 300-millimeter manufacturing technology, we also intensified investments in evolving the Product to System strategy, which Dr. Ploss has already explained.

Selling, general and administrative expenses were reduced from 475 million euros in fiscal 2012 to 440 million euros. This corresponds to a fall of 7 percent. This reduction is primarily the outcome of the cost-cutting measures mentioned at the beginning, and mainly concerned general and administrative expenses. In relation to revenue, these expenses came to 11.4 percent.

At the annual general meeting last year, I presented this chart. It shows the performance of revenue and income over the past cycle. Of course the figures shown here for fiscal 2013 are still a forecast. In fact, we did slightly better in the past fiscal year than forecasted at that time.

Looking back on 2010 to 2013, you will see an average margin for the segment result of 14.4 percent. And that is despite the very substantial investments in our 300-millimeter manufacturing technology and surging upfront expenditure in research and development. In the past cycle, we thus practically reached our target margin and laid a good foundation for further profitable growth in the next cycle. That’s why we are sticking to our target of a 15 percent segment result margin through the cycle.

Dear shareholders,

We know that ultimately our ability to generate cash is most important to you, so let’s come to free cash flow from continuing operations. In comparison with 2012, it improved by 454 million euros to reach 235 million euros. This result illustrates the success of our cycle management. A significant, positive free cash flow was achieved despite the fall in revenue and the associated idle costs as well as much higher research and development expenses. Part of cycle management lies in the flexible adjustment of investments. They totaled 22.8 percent of revenue in the 2012 fiscal year whereas they came to just 9.8 percent in 2013 – 378 million euros.

In 2013, we focused our investments on volume production of new technologies and products. We also increased the degree of automation and invested in quality assurance.

At 315 million euros, the amount spent on property, plant and equipment fell considerably – by 62 percent compared with the previous year. Purchases of intangible assets were up by 5 million euros to 63 million euros. That is the consequence of our intensified research and development activities. According to IFRS, we must capitalize part of the expense incurred for this under certain conditions.

As you know, our declared goal is a return on capital employed above our cost of capital. With a return on capital employed of 14.1 percent after taxes, we again achieved this goal in a difficult year.

Now I would like to take a look at our balance sheet:

In the past financial year, total assets came to 5 billion 905 million euros, thus staying roughly on the same level as in 2012. Non-current assets amounted to 2 billion 282 million euros – 4 percent less than in 2012 due to lower investments in property, plant and equipment.

Liquid funds, including financial investments, increased slightly by 2 percent to 2 billion 286 million euros as a result of the positive free cash flow despite the dividend payment and further capital returns.

Non-current liabilities decreased by 110 million euros to 535 million euros. The subordinated convertible bond which was due in 2014 and has now been completely bought back or converted was transferred in the past fiscal year from long-term to short-term debt. This alone reduced non-current liabilities by 100 million euros.

Offset against debt, the net cash position improved by 2 percent compared with the previous year to 1 billion 983 million euros.

The provisions created in connection with the Qimonda insolvency were increased by a total of 30 million euros. As of September 30, 2013 they amounted to 356 million euros.

At the end of the reporting period, our equity totaled 3 billion 776 million euros. As a result, the equity ratio was 3.3 percentage points above the previous year’s and amounted to a very sound 63.9 percent.

Ladies and gentlemen, the 2013 fiscal year was characterized by a very weak first half followed by a clear recovery in the second half. This recovery continues in the current fiscal year.

Revenue in the first quarter of fiscal 2014 has fallen sequentially by 6.6 percent due to seasonal effects but, year-on-year that corresponds to a rise of 15.6 percent despite the yen’s steep fall and a weaker US dollar. Adjusted for currency fluctuations, the positive revenue dynamic is even more apparent – with growth of about 19 percent.

For the following quarters this year we also expect decent growth rates in comparison with both the previous quarter and the previous year, and are forecasting a sharp increase in revenue of between 7 and 11 percent for the 2014 fiscal year as a whole. For this reason, a slight improvement of the gross margin can be expected. However, that will be countered by higher operating costs due to recruitment of staff and increased labor costs. We expect a somewhat better segment result of between 11 and 14 percent.

Investments of about 650 million euros are planned this year to supply our customers in the face of continued increasing demand and also to assure our quality, drive innovation and improve the production process.

The performance of the Infineon share shows that we are on the right track. From the beginning of the 2013 fiscal year to February 7, 2014, the Infineon share went up by 47 percent. In the same period, the DAX index rose by about 27 percent and the Philadelphia Semiconductor index, short SOX, by about 41 percent.

Following my report on the past fiscal year, I would now like to provide some explanations for selected items on the agenda for this meeting.

Despite the clear decline in net income, we are proposing under item two an unchanged dividend of 12 euro cents per qualifying ordinary share. This corresponds to our declared goal of keeping the dividend stable at least.

In this respect I would like to mention that, on top of that, the Supervisory Board approved a new capital returns program with a volume of up to 300 million euros on November 19, 2013. In doing so, the Supervisory Board drew upon the authorization that you gave at the annual general meeting on February 28, 2013. The Management Board can make use of this program up to the end of this fiscal year.

Up to the present day, Infineon has written put options with a potential exercise volume of 62.8 million euros and an average exercise price of 5 euros and 98 cents. The first of these options will fall due in June 2014. In addition, buybacks of the outstanding convertible bond have been carried out at a nominal amount of 11 million euros for 35 million euros.

So that option bonds and convertible bonds can continue to be used as financing instruments for Infineon in the future, you are being asked in item eight of the agenda to renew the previous authorization. This is due to expire on February 10, 2015, and thus probably before the next ordinary annual general meeting. Please refer to the invitation for more details about this proposal.

Item six of the agenda is about the amendment of a control and profit transfer agreement between Infineon and a subsidiary. I would like to outline the background and content of the proposed amending agreement.

The necessity to amend the control and profit transfer agreement comes about from a change in German tax law in 2013. When it comes to the regulation of the transfer of losses required in such agreements, this change means that it will no longer be sufficient in the future to refer in general to the legal provision of the German Stock Corporation Act (Aktiengesetz).

Instead, such agreements should include a specific reference to section 302 of the German Stock Corporation Act “in its latest valid version” in the future. Without this amendment, continuation of the income tax affiliation between Infineon and Infineon Technologies Finance GmbH law would no longer be assured.

The other provisions of the amending agreement, with which we are implementing the legal requirements, are merely consequential amendments. They describe the coming into effect of the amendment – which includes, among other things, approval by today’s annual general meeting – and ensure that the agreement can be realized with as much legal certainty as possible.

Apart from assuring the tax advantages, as described, the amendment of the control and profit transfer agreement has no other consequences. In particular, no compensation or severance payments become due.

The amended control and profit transfer agreement has been audited by KPMG AG Wirtschaftsprüfungsgesellschaft, Munich, as a contract auditor appointed by the regional court in Munich (Landgericht München). Its audit report does not contain any objections.

Ladies and gentlemen, that concludes my explanations. Thank you very much for your attention.