



Dr. Reinhard Ploss

Annual General Meeting 2016

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www.infineon.com



Chief Executive Officer

Dr. Reinhard Ploss



- The spoken word prevails -

Making life easier, safer, and greener.

Dedication and inventive spirit.

Commercial success and responsible behavior.

Growth and value increase for customers,
employees, society and investors.

Dear shareholders, that's what Infineon stands for.

Welcome to the Annual General Meeting.

I'm delighted to report to you today on how Infineon has performed in the past twelve months. I'll also provide you with an outlook of how things will continue at your company.

Successful fiscal year 2015

Ladies and gentlemen, let's first look back together at the past fiscal year. It was a good year for Infineon.

Our revenue, result and margin rose sharply – both in our existing business and also thanks to the acquisition of International Rectifier.

Let me deal briefly with the most important figures.

Revenue jumped by 34 percent to just under 5.8 billion euros. International Rectifier contributed around half of this increase.

The segment result was even more positive, improving by 45 percent to 897 million euros and giving a margin of 15.5 percent. That's 1.1 percentage points higher than in the 2014 fiscal year.

All four segments played their part in that. In the Automotive segment, we benefited from strong demand in North America and China throughout the fiscal year. The European car market grew moderately as a whole and significantly in Western Europe.

Revenue from our products in the Industrial Power Control segment increased across all fields of application. In particular, our solutions for home appliances and renewable energies sold better than average.

Several trends underpinned the growth of Power Management & Multimarket: The growing need for an increasingly efficient power supply in data centers. Expansion of the mobile infrastructure in China. And the growing share of semiconductors in each new smartphone generation requiring, for example, more silicon microphones.

The increase in revenue at Chip Card & Security is especially remarkable. The segment achieved organic growth of 35 percent. We were particularly successful with our solutions for chip-based payment cards and government ID.

In short: We grew our revenue, result and margin in almost all segments – with help from the strong U.S. dollar. But even without this tailwind, the past fiscal year was a resounding success.

The good figures are the result of the outstanding work done by Infineon's more than 35,000 employees. I would like to thank them most sincerely on behalf of the entire Management Board.

Growth and value increase

Our share price reflects this positive development. Dominik Asam will deal with that in more detail later. Its rise means we again created value for you, dear shareholders, in the 2015 fiscal year.

The rising share price is also an expression of the trust you, ladies and gentlemen, place in Infineon as investors. My colleagues on the Management Board and I thank you greatly for that trust.

We let you share in the success of Infineon through the dividend. Our principle is well-known: We want to regularly improve the dividend and, in difficult times, at least keep it constant. In view of the positive 2015 fiscal year, the Management Board and Supervisory Board today propose raising the dividend from 18 to 20 euro cents per share.

Sustainable growth and a continuous value increase – this is the path we will continue to follow in future. Our long-term strategy for profitable growth comprises three key elements:

First: Infineon's revenue is to grow by an average of eight percent a year. Second: We aim to achieve a segment result margin of 15 percent over the cycle. And third: Our investments are to be at most 13 percent of revenue over the cycle.

That sets us clearly apart from the competition, since the semiconductor market overall expects far lower growth rates in the coming years. Infineon has already grown faster than the market in the past. And we are certain: Infineon can do the same in future.

Why are we convinced of that?

The answer is: Because we focus on sustainable growth drivers. Infineon offers solutions for key global challenges of our time.

Contribution to solving global challenges

I would like to go into this idea in more detail. One of the greatest challenges is the increase in the world's population. More than nine billion people will live on Earth in 2050. That trend raises a series of questions:

How can we cater for the growing needs for living space, food, energy and mobility with fewer and fewer resources? How can we reduce carbon dioxide emissions and stop climate change? How can we basically manage to make more out of less?

Semiconductors from Infineon play a key role in this. We have answers to the major questions concerning the world's future.

Microelectronics from Infineon is the key to making more with less. Semiconductors ensure that we consume less energy without having to make any sacrifices. Semiconductors control the rising amount of traffic, increase productivity in industry and agriculture, and help people cope with life on their own, even in old age.

Put in a nutshell, you heard in the film at the beginning:

We make life easier, safer and greener – with technology that achieves more, consumes less and is accessible to everyone.

Let me give you a few examples:

Let's start with our solutions in the field of mobility. Infineon already makes a major contribution to road safety, but there's still a lot to do. An average of 70 people a day die on Europe's roads. There were more than 25,000 road casualties in 2014.

If you attend our Annual General Meeting regularly, you'll already be well acquainted with one product: our radar chips for cars.

Radar sensors assist drivers: They detect pedestrians, even in the dark. They warn if the distance to an object is too small. And they see other road users, even in the blind spot. Radar sensors prevent accidents and save lives. They also make driving far more convenient, for instance in lines of traffic. The flow of traffic is also more efficient, resulting in lower CO₂ emissions.

As you can see, ladies and gentlemen, our radar chips are a good example of how products from Infineon make life easier, safer and greener.

Producing such radar systems is technically demanding and used to be very expensive. That's why this safety system was reserved for drivers of premium vehicles. That's now a thing of the past. Our engineers have achieved the feat of slashing the costs of radar systems. They are now affordable for all car drivers. Even in a small car, a radar system now costs less than a metallic finish. And we have managed that without compromising on quality in any way.

In short: With our radar chips, we offer the reliability you need in an aircraft at costs that are affordable in a car.

That's what we mean when we say: Technology that achieves more and is accessible to everyone.

This ground-breaking achievement by our engineers was acknowledged last year at the highest level: Infineon's development team was a finalist in the German Future Award, which the Federal President of Germany confers. A great accolade for our employees and for Infineon!

A few figures show just how successful we are with it in the market: We shipped our ten millionth radar chip last July. The first ten million radar chips from Infineon were installed over a period of six years – mainly in premium and upper-range vehicles.

Demand has soared since then: We currently sell around one million radar chips every month. They're now used in all vehicle classes. Statistically speaking, one in twenty new cars will use a driver assistance system with radar chips from Infineon this year. Infineon is thus making a major contribution to improving road safety.

We're also pursuing this goal with another solution. Many accidents occur because drivers are distracted or tired and can't react fast enough. A new system detects how attentive the driver is. That's done by a camera behind the dashboard. It uses infrared light and even works in changing light conditions or darkness.

The camera contains a 3D image sensor chip from Infineon – another technical masterstroke from our engineers.

Here you can see one of these 3D image sensor chips. It's small, but very powerful. This chip records more than 100,000 pixels. Yet it does a great deal more than a normal camera sensor: The chip not only recognizes the brightness of each of these pixels, but also measures how far away they are. And the chip does that reliably 50 times a second.

As a result, the camera permanently monitors the driver's face. Software determines how attentive drivers are on the basis of the position of their eyes, mouth or tip of their nose.

If the system detects signs of tiredness or that the driver's concentration is flagging, the car responds immediately. It warns the driver with vibrations in the seat or an acoustic signal, for example. Cars with driver assistance systems can even help out by braking in the event of danger. In other words, even if a driver's concentration slips, the car remains alert. Chips from Infineon make sure of that – and with exceptional reliability.

Ladies and gentleman, I invite you to visit our exhibition in the foyer, where you can see a demonstration of this new safety system. Our employees look forward to your visit.

You can find a further example of our extremely reliable chips on the cover of our Annual Report: It's a steering angle sensor. This sensor records the position of the steering wheel and detects how heavily the driver is steering. That's very important information for driver assistance systems. The steering angle sensor must therefore not fail under any circumstances, which is why we have installed two chips in a package just to be on the safe side. Better safe than sorry.

Two chips in one package: This solution is not only more reliable, it's also easier for our customers to install it.

Driver assistance systems that make driving safer are making inroads: There are more and more applications and they are being installed in more and more cars. That's good for us, because Infineon offers solutions to suit every application. We make life safer.

And now to another example. It shows how we make life greener.

Infineon develops solutions that let us use power more efficiently: We see a highly promising growth area in home appliances such as refrigerators, washing machines and air conditioners. That's the result of the trend toward so-called inverterization.

What does that mean? An inverter can regulate the speed of electric motors very finely. That means the motor only needs to deliver the power needed at a given time. That saves electricity.

Let me explain that with reference to a domestic appliance that you very likely have in your own kitchen: the refrigerator. For a long time the compressor in a refrigerator only knew two operating states: Either "full power until the target temperature is reached" or "off." Perhaps you know the noise when your fridge's compressor suddenly starts up.

Infineon semiconductors in the inverter adjust the motor's speed and power to current requirements. The compressor cools the fridge only as much as is necessary at the time. A further advantage:

Types of motor with much greater efficiency can also be used with an inverter. All in all, the inverter ensures that a fridge consumes up to 30 percent less electricity. At the same time, it produces less bothersome noise and has a longer service life. That's good for people and good for the environment.

Power semiconductors from Infineon make life greener.

Finally, an example from the growth area of data security. Cashless payment by mobile device is becoming more and more common. Paying for a cup of coffee with a short move of the hand – that's what the new Gear S2 smart watch from Samsung lets you do. It makes paying particularly quick and easy.

But the process also has to be particularly secure. Samsung, the world market leader in smartphones, therefore relies on our solutions: All variants of the Samsung Gear S2 use security chips from Infineon. They protect confidential data in contactless payment.

Here, too, one thing is clear: Our products make life easier and safer.

Ladies and gentlemen, you can see from these examples that semiconductors from Infineon are already part of our day-to-day life.

They'll become even more important in future, since digitalization will help us solve world's global challenges.

Mobility: The growing connection of real and virtual systems opens up completely new opportunities, such as autonomous driving. There are still only a handful of cars that drive by themselves and are used for test purposes. But you don't have to be a prophet to realize that autonomous driving will come to our roads. Assistance systems, networking and communication between vehicles will make that possible. That will need sensors, controllers, power electronics and security chips from Infineon.

Climate change: The international community reached a global climate agreement at the UN Climate Change Conference in Paris in December. The consensus of almost all the countries is that we have to reduce energy consumption and reduce CO₂ emissions to stop global warming. We will only achieve that if we generate more and more energy from renewable sources everywhere in the world and use it more and more efficiently. The growing need for such solutions will further stimulate demand for power semiconductors from Infineon.

Electromobility is also a way to reduce the CO₂ burden – especially in conurbations. We are experiencing a gradual evolution: from the combustion, to the hybrid to the purely electric engine. The car's powertrain is becoming electric. Our semiconductors make the e-car run worldwide.

Cars, trains, mobile phones, home appliances, solar power systems and wind turbines: Semiconductors from Infineon are now used everywhere. And they'll be indispensable in future.

That's what we mean by:
Part of your life. Part of tomorrow.

Leading market positions, leading technologies

Ladies and gentlemen, as you can see, we serve important markets. Automotive electronics, power semiconductors and security chips are some of the areas of the semiconductor market experiencing particularly strong growth. Infineon occupies leading positions in these markets: We are the world's largest provider or at least second-largest.

That gives us a significant competitive edge: Our leading market positions mean we can achieve considerable economies of scale – not only in production, but above all in research and development. That is especially true in the market for power semiconductors, where we are the undisputed market leader and are increasing the gap between us and our competitors.

Retaining and growing a leading market position requires quite an effort and entails significant investments. We have the financial clout to stay ahead.

A key pillar in Infineon's success is our strategic "Product to System" approach. In past years, I have regularly presented how we are enhancing our understanding of systems. That enables us to make products that meet customers' needs faster and more precisely. And that also impacts the successes I've just reported on.

However, "Product to System" also means that we need to understand the market better. That way, we can detect changes promptly and respond quickly. We therefore unite a clear understanding of systems with in-depth knowledge of our customers' markets and challenges. We are convinced that we can keep our competitors at a distance with this strategy.

We also led the way among the competition a year ago with the acquisition of International Rectifier. Infineon was the forerunner in the latest wave of consolidation.

Our swift and resolute action is paying off. Ladies and gentlemen, I promised you a year ago:

“In the 2017 fiscal year at the latest, International Rectifier’s margin will be at least 15 percent.”

We already achieved that goal in the fourth quarter of this last fiscal year. That means we’re delivering on our promise more than a year sooner than planned.

We’ve successfully integrated International Rectifier in our company. We’ve achieved our financial targets.

Yet that is only one instance of the success of our acquisition. We have also achieved the strategic goals we set.

The acquisition of International Rectifier means we offer our customers more products and system solutions. One example: The customary 12-volt electrical system in cars is reaching its limit. That’s because vehicles are being equipped with more and more electrical systems. Manufacturers are therefore beginning to fit their cars with a more powerful 48-volt system.

To address that, we’ve combined an Infineon chip with a package from International Rectifier. Eberspächer – a leading automotive supplier – uses our solution as a core element for a battery switch. This switch is used in the new vehicle classes with a 48-volt electrical system.

Thanks to International Rectifier, we have added further applications to the performance range of our products. As a result, we will in future also leverage our know-how in power supply units for especially powerful servers used to supply power to mobile phone base stations.

We’re also making progress in achieving economies of scale through the integration of International Rectifier. We can see initial successes in Purchasing, Sales and Research and Development. With the aid of our 300mm manufacturing, we will be able to produce a series of International Rectifier products at lower costs. That will also increase capacity utilization at our 300mm factories in the medium term. We will thus be able to benefit even sooner from our innovative manufacturing technology.

The acquisition has also helped us strengthen ourselves significantly in gallium nitride technology. This is a compound semiconductor that no longer comprises silicon alone. Semiconductors made of gallium nitride enable power supply units that are far more compact and efficient, yet deliver the same power. That’s important for many applications, such as mobile devices or flat-screen TVs, which are growing thinner and thinner. We have combined International Rectifier’s know-how with Infineon’s portfolio. At the same time, we have entered into a partnership with Panasonic. We are now the technology leader in the field of gallium nitride. As a result, we’re securing our position as the undisputed market leader in power semiconductors.

We now also have an even better regional setup: We've expanded our position in Asia thanks to the acquisition. In the U.S., we're now closer to key customers: The technology firms in Silicon Valley. This provides important boosts for the future fields of mobile communication, the Internet of Things or Industry 4.0.

We have also improved our access to distributors. Distributors sell our products to a large number of smaller customers.

In the past, International Rectifier was especially successful in projects with a medium-sized to largish volume where offers were requested at short notice involving several bidders. That requires great flexibility and different logistics concepts. We've successfully adopted this business model. We can now offer far more products and serve more customers through this distribution channel.

Ladies and gentlemen, as I said, Infineon was the forerunner in the latest wave of consolidation a year ago. Many competitors have followed our lead. The result: Bidding wars and high takeover premiums, in some cases driven by funds from China. Infineon foresaw this development and acted promptly. That's why we had sufficient time to prepare the acquisition very carefully and were able to then decide quickly. We were not under pressure to respond hastily or pay a higher price.

The successful integration now proves that the purchase of International Rectifier was the right decision at the right time. With this decision and our successful work in the past twelve months, we've created sustainable value for you, ladies and gentlemen, the owners of Infineon.

We've been repeatedly asked in the past twelve months whether Infineon is planning further acquisitions. Our answer is: We aim to keep on playing an active role in consolidation in the semiconductor market in future. However, we don't believe in action for action's sake, but are keeping a cool head. Infineon pursues a very clear course: Acquisitions will only be considered if they fit Infineon in every respect – strategically, financially and culturally.

Keeping to our growth path

Ladies and gentlemen, you have seen how successful Infineon was in this last fiscal year. And I have shown you how Infineon will remain successful in the future: With products that solve major social challenges. And with a strategy that secures out leading position in technologies and markets. We are thus laying the foundation for growth and an increase in value.

We also expect growth and an increase in value for the current 2016 fiscal year.

We expect Power Management & Multimarket to grow at a somewhat higher rate than the other segments. As in the past year, the server market will continue to be a growth area. We offer solutions for increasingly efficient power supply in this market. The segment is also growing because International Rectifier's revenue is being included for the first time over all four quarters. This effect can be seen especially in Power Management & Multimarket.

In the Industrial Power Control segment, we will benefit from growth in renewable energies in China and the U.S., as well as expansion of the infrastructure and industry in China.

The Automotive segment also continues to develop positively. The share of semiconductors in cars is growing as demand remains high. Following the sharp increase in its revenue in the last fiscal year, Chip Card & Security will continue to grow moderately from a high level.

All in all, we expect the company to post revenue growth of 13 percent, with a possible deviation of plus or minus 2 percentage points. In the middle of the revenue outlook we expect a segment result of slightly above 1 billion euros. This corresponds to a segment result margin of 16 percent. The current level of new orders and the long-term growth drivers in all our segments give us cause for optimism. Infineon will achieve the result it has set itself.

We therefore look ahead with a great deal of confidence. Infineon is represented in all major growth regions. We have a host of larger and smaller customers. Our broad product portfolio caters for various markets that offer outstanding growth prospects. Infineon is therefore excellently diversified. Or, in plain words, we have increased our opportunities and reduced our risks.

Even though the global economy is being hit at the moment by the slowdown in China – Infineon is well-prepared. We are perfectly aware how greatly dependent German industry in particular is on developments in this region. That also applies to Infineon: China is our largest sales market – even ahead of Germany.

However, a large part of the semiconductors we supply to China is installed in products intended for export. That's why our business is not as strongly dependent on economic activity in China. In addition, China is becoming the world's largest market for electromobility. Around 700,000 cars with a hybrid or pure electric drive are expected to be sold there this year. That's more than twice as many as last year.

Despite the latest economic development, the long-term growth drivers in China in the fields of energy supply, transport infrastructure and electromobility will remain intact. And thanks to our "Product to System" strategy, we understand our customers' markets. That means we identify changes faster and will remain successful, even if the general conditions should change.

We therefore feel certain that Infineon will again grow profitably and maintain its leading market position in this fiscal year.

Our road of success

So, to summarize, ladies and gentleman,

We have a successful fiscal year behind us. We have integrated International Rectifier rapidly and thus shouldered the largest takeover in our company's history. At the same time, we increased our revenue, result and margin.

The 2015 fiscal year was a good year: For our customers, for our employees and for you, Infineon's shareholders.

We are laying the foundation today for success in the future. With our products, we help make the future better and life easier, safer and greener. Semiconductors from Infineon already make a major contribution to society and will become even more important for our future.

Infineon is sticking to the path of sustainable, profitable growth and continuous increase in value.

That is our road of success.

Many thanks, ladies and gentlemen, for accompanying us on this road!



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