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## **Annual Press Conference**

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- The spoken word prevails -

Ladies and Gentlemen,

I also would like to welcome you to our annual press conference here on Campeon. I would like to concentrate on three main topics: an evaluation of the 2007 fiscal year just ended, what we have achieved to date with our strategy of profitable growth and how we want to continue to drive our company ahead.

### **Results for the 2007 fiscal year**

First, let's take a look at our results. We already published the numbers this morning. That's why I will limit my comments to the key figures and developments. Mr. Fischl will then talk about the numbers in more detail a bit later on.

The most important message first: We have achieved our declared goal of break-even for Infineon excluding Qimonda and excluding net charges in the fiscal year just ended.

In the 2007 fiscal year, we increased the **EBIT** to Euro 79 million for Infineon excluding Qimonda and excluding net charges. That same figure year over year was still negative Euro 18 million. We improved from one quarter to the next – from negative Euro 9 million excluding net charges in the first quarter to positive Euro 69 million in the fourth quarter. Including net charges, the EBIT for 2007 amounts to negative Euro 49 million. Compared with negative Euro 217 million year over year,

this is also a very noticeable improvement. The net charges for the 2007 fiscal year amount to Euro 128 million. Of that, Euro 84 million alone can be attributed to the further sale of Qimonda shares in September this year. Without this loss, we would have been able to absorb the net charges incurred in the past year. In addition, the strong increase in value of the Euro compared to the US dollar has had a major impact on our results. The negative effects of this currency exchange rate on the EBIT amount to approximately Euro 80 million.

Infineon excluding Qimonda also saw a positive development in terms of **revenues**. Despite a number of negative effects such as the continuing weakness of the U.S. dollar, the sales losses as a result of BenQ's insolvency and slower market growth, the revenue for the entire year declined only slightly. The revenues for the 2007 fiscal year amounts to Euro 4.07 billion compared to Euro 4.11 billion in 2006. The influence of the currency exchange rate led to a loss of approximately Euro 150 million in revenues. BenQ's insolvency adds up to approximately Euro 250 million. And then there's also the weakened market growth. After all, according to WSTS, the market for non-memory products is expected to grow by only 4 percent in 2007 based on the U.S. dollar. Based on the Euro, the market will even decrease by minus 3 percent. Last year, market growth on the logic semiconductor market was still plus 5 percent based on the Euro. In view of these factors, we are satisfied overall with our revenue development.

The Automotive, Industrial & Multimarket segment and the Communication Solutions segment both contributed equally to this positive development.

AIM continued on its growth curve from last year and increased its revenues year over year by 6 percent. The development in the fourth quarter with record sales and an EBIT margin of 12 percent was particularly encouraging. Overall, the segment reported significant increases in EBIT and continuous improvements in the EBIT margin in each quarter last year.

COM increased its revenues further in the fourth quarter and, with a plus of 23 percent compared to the previous quarter, made a great leap forwards. This was particularly noticeable in the success with our new customers in the wireless business and in the first contribution of the DSL customer premises equipment

business acquired from Texas Instruments. There is also positive news to report on revenues for COM. The segment has continued to make considerable progress in implementing its turnaround. Its EBIT margin improved significantly from quarter to quarter, from negative 40 percent in the fourth quarter of 2006 to negative 5 percent in the fourth quarter of 2007.

Mr. Fischl will provide you with more details on these figures a little later.

### **Infineon share**

I would like to make just a couple of comments on the development of the Infineon share in the fiscal year just ended; all in all, the development was positive. The price rose from Euro 9.35 at the end of fiscal 2006 to Euro 12.09 at the end of fiscal 2007. That translates as an increase of 29 percent, which more or less reflects the development of the DAX, which increased by 31 percent during the same period. This means that we are clearly above the two semiconductor indexes. The SOXX rose by only 10 percent, the Dow Jones US Semiconductor Index by 16 percent.

Unfortunately, the Infineon share began to lose momentum at the end of the fiscal year. The price decline since the beginning of October is primarily due to the massive price slump on the DRAM market and the current developments at Qimonda. Needless to say, this has also had an impact on the evaluation of Infineon. And here again we have the currency exchange rate effect I already mentioned, which is the result of a weak U.S. dollar.

However, the influence of Qimonda on the Infineon share price has declined considerably since Qimonda's IPO in August 2006 until today. In August 2006, Qimonda still had a share of 43 percent of the Infineon share price. This figure dropped to 21 percent by the end of October this year. That means that the value of the logic business has continually increased within the Infineon share price since then, i.e. from 57 percent at the time of Qimonda's IPO to 79 percent by the end of October this year.

## Creating a basis for profitable growth

Ladies and gentlemen, at the end of the fiscal year just past we reached an important milestone on our way towards profitable growth: we brought the first phase of restructuring and the new strategic direction of the company we began three years ago to a preliminary end. This means we have created the basis for the second phase, which we are just about to begin. In this second phase, we want to further expand the company and make it profitable for the long term.

What have we achieved in the first phase?

First, let's take a look at our industry. The success factors in the semiconductor industry have changed radically in the past few years. The main drivers of good profitability today are a strong market position in the relevant market segments and the focus on activities with similar success factors. No longer the mere size, but the relative strength in a specific market segment is decisive today for the profitability of a company. A look at the profit margins of different semiconductor manufacturers is convincing proof: those enterprises that are the most successful today are also focused on segments with similar success factors and claim a strong position within these segments. The memory and the logic business in particular do not have a lot in common anymore.

We have kept pace with this change in the success factors and have realigned our company accordingly during the past three years. We did this in three steps.

**First:** We either closed or sold those segments that were unprofitable, didn't have a strong enough position on their markets and didn't have any prospects for being successful for us in the long term. These included such activities as Optical Networks, parts of optical fiber communications and the business with controllers for wireless infrastructures. We closed down these activities. The segments we sold included further parts of optical fiber communications, the Polymer Optical Fiber segment and our subsidiary, SciWorx.

**Second:** We carved-out the memory business into an independent company, Qimonda, which, despite the difficult market environment, went public in August 2006. At that time, there were many voices that criticized the timing of this IPO. Looking

back today, we know that the timing was perfect. Just a few months after the IPO, the memory market reached its peak and began to drop again.

We said that we would treat Qimonda as a financial investment. And we announced that we would reduce our stake in Qimonda step by step. With this return, we are converting fixed capital in a participation financing into invested capital, which we can control in the company directly. Another positive effect is the increased liquidity of the Qimonda shares. Consequently, both companies profit from the reduction of our stake.

During the past fiscal year, we also undertook other steps and reduced our stake to 77.5 percent in September. By the 2009 Shareholders' Meeting at the latest, we aim to reduce our stake to considerably lower than 50 percent. In addition to other capital market measures, we want to create the prerequisites at the next Shareholders' Meeting to distribute Qimonda shares as dividends payable in kind to Infineon shareholders. The cash inflow from the sale of further Qimonda shares will be used for other specific acquisitions and, as already announced, also for share buybacks.

**Third:** As a result, we have focussed Infineon from three to two main areas of business activity – on automotive and industrial electronics and on communications. In these business segments, we have successfully restructured the activities that had not been profitable to date, but were able to claim a strong market position and had good prospects of returning reliably to the profit zone. This included amongst others discrete semiconductors, wireline access solutions and the chip card. We have brought all these segments back into the profit zone, one after the other. All three areas reported positive earnings before interest and taxes in the fiscal year just ended. All in all, we have brought businesses with revenues in the amount of some Euro 700 million back into the black.

We also made considerable progress in restructuring the last loss-making segment – i.e. the wireless business – during the fiscal year just ended. You remember what a challenge we faced last year after our main customer went insolvent. After all, we lost a business volume of approximately Euro 250 million virtually overnight. As a result, we had to expand the business with our existing customers very quickly and build up our customer base extensively. And we were successful in doing so. Among others,



with Panasonic, LG Electronics, Samsung and ZTE. Today, we work together with all the major cell phone manufacturers. And that is something we can be truly proud of.

For the fiscal year just ended, we are able to report a successful production ramp-up with our new customers. At the beginning of the year, we acquired an important new big customer, Nokia, the world leading mobile phone manufacturer. We were also able to expand our supplier share at LG Electronics, No. 5 on the world market. In an analysts' report it was recently noted that no other manufacturer had ever won so many customers and so many market shares in the field of mobile communications in such a short time as Infineon. I think that speaks for itself. In view of the positive developments, we feel that we are in a very good position to break even as planned in wireless communications before net charges by the end of the year.

Ladies and gentlemen, this means that we have virtually completed the first phase, i.e. the restructuring phase and the new strategic direction of the company. This is when phase two will begin, during which we aim to expand our company through profitable growth.

Last year, we defined our strategic goal as aiming for the No. 3 position at least in all the market segments we address and continuing to expand our core business. We were able to drive this expansion last year, through organic growth and selective acquisitions.

As one example, we expanded our market position in several important sectors. In chips for card applications, we were once again the market leaders in 2006, for the tenth time in succession. In automotive electronics, we also grew considerably quicker than the market and were able to reinforce our strong No. 2 position on the world market. And on the market for access solutions for wireline communications, we also once again defended our leading position.

With the takeover of the LSI Logic Mobility Group and the DSL business for customer premises equipment from Texas Instruments, we have taken further steps to continue expanding our strength in specific markets through acquisitions. Following the integration of the LSI Logic mobile communications activities, we can claim a No. 4 position based on our market share on the wireless market, with excellent chances of soon becoming No. 3. With this takeover, we also considerably increased our

supplier share with Samsung, the world's second largest mobile phone manufacturer. Taking over the Texas Instruments activities not only puts us in the position of being able to offer our customers a full-range portfolio in the future – it also makes us No. 1 on the market for DSL-ICs. We will continue to push such selective acquisitions that will help us to reinforce the position of our company in all the relevant market segments.

Ladies and gentlemen, in the past three years, we have created a solid foundation on which we now want to continue to build.

### **Future focuses**

The path that lies before us will be marked by continued growth and the sustainable improvement of our operating results. We set very concrete goals for this last year: in fiscal year 2009, we are aiming for an EBIT margin of 10 percent and plan to move clearly in this direction during the current fiscal year. This is a goal we will not lose sight of.

How do we want to achieve this goal? We see three major steps to take.

**First:** As far as the further growth of the company is concerned, our focus on the topics of energy efficiency, communications and security will make a major contribution. Strong growth is expected in all of these three fields in the future.

Energy efficiency: The rapidly growing energy needs, the limited availability of fossil fuels, increasing energy costs and the increase in legal regulations to protect the environment lead to an increase in the demand for semiconductors that provide for an intelligent, optimum utilization of energy. Our semiconductor products have always delivered greater efficiency in the generation, transfer and consumption of energy, whether it's in industry, in private households or in the vehicle. We have profited from this in the past and have continued to expand our market share in power electronics, for example. We expect this positive development to continue in the future.

Communications: All the signs here point towards growth as well. An ever-increasing number of people want to be able to communicate with one another, regardless of

place and time, and to access broadband data connections on the Internet. On the market for wireless communications, such emerging countries as India and China are currently feeding the boom on the mobile phone market. In the industrial countries, we have registered a growing need for higher-quality cell phones that enable complex multimedia applications in addition to voice transmission. There is also dynamic development in the fixed-line segment. The convergence of the networks and the expansion of the high-speed networks for rapid data transfer require extensive investments on the part of the network operators, from whom we will profit thanks to our broad product portfolio.

Security: This is another growth market. Among others, the bank sector promises to yield a high potential, where there is currently a transition from cards with magnetic stripes to chip-based cards. Another strongly growing application market is the segment of identification, which includes the electronic passport and identity card in chip-card format. A further growth field is mobile communications with high-end SIM cards, which are the prerequisite for such applications as Mobile TV and Near Field Communication. And we want to participate in this growth as well.

**Second**: We want to take advantage of strategic options in the future to continue to expand Infineon. We can see that the individual segments in our industry are currently undergoing a phase of consolidation. We are in an excellent position for this change. And we have established a leading position in most of the markets that we supply. The majority of our customers are world leaders in their field and confirm the high technical quality of our products. Our solid financial position and the option of obtaining an additional cash flow through the sale of Qimonda shares gives us the financial strength and flexibility to take advantage of consolidation options at any time. The takeover of the DSL customer premises equipment business from Texas Instruments was the first step and strengthened our segment for wireline communications. I already mentioned the following takeover of LSI Logic mobile communications activities as the second step. In the future, we also want to use these acquisitions to specifically reinforce our core business and to play an active role in the consolidation of our industry.

**Third**: The reduction of our capital intensity will be another major task in increasing our profitability. Our "Fab-light" strategy, which means that we intend to invest only in

differentiated manufacturing technologies in the future, will play a key role here. At the current time, our investments in plants and equipment still amounts to between 11 and 12 percent. With the consistent implementation of our differentiated manufacturing model, we will be able to reduce our capital intensity by at least one to two percentage points. Based on the absolute amount, our investments in assets will remain about the same, but compared with the expected increase in sales, the capital intensity will decrease. With the planned sale of our stake in Altis, our production joint venture with IBM in France, we will take another big step in the right direction.

## **Outlook**

Ladies and gentlemen, during the past three years, we have restructured and streamlined our company, adapted our orientation to changing market conditions and set the course for a successful future. Some people may think that these three years were too long. And of course, we could have made life easier for ourselves and simply gotten rid of all the non-profitable segments. Needless to say, restructuring an unprofitable segment takes longer than simply closing it or selling it. In the long term, however, restructuring affords more added value than simply introducing portfolio measures. That's why we took up the challenge of restructuring a number of the critical businesses. And I think we've been quite successful.

We are not yet on the home stretch, but we are getting closer. We made considerable progress in the past six months and have reached some important milestones:

- We have achieved positive earnings before interest and taxes for Infineon excluding Qimonda excluding net charges.
- In almost all our major fields of activity, we currently report at least a break-even before interest and taxes. We plan to achieve the break-even in the wireless business by the fourth quarter this year.
- We have strengthened our position in the individual market segments – through organic growth and selective acquisitions.

- We have once again expanded our customer base.
- We have again reduced our share in Qimonda.

In view of this progress, we are confident that we will be able to remain on the course we set last year. In fiscal year 2009, we want to attain an EBIT margin of 10 percent and we want to continue to grow. In 2008, we will be well on the way towards this goal.

In view of the seasonal weaknesses that affect many of our business activities, along with the continuing weakness of the U.S. dollar, we might not be able to improve our results each quarter compared to the previous quarter. Seen on the basis of the entire year, however, we expect a significant increase in revenues overall as well as a considerable improvement in the EBIT.

In the current first quarter, we expect revenues for Infineon excluding Qimonda that are approximately equal to the previous quarter. Sales of the mobile communications activities taken over from LSI Logic are included. For AIM, the influence of the seasonal effects and the weak U.S. dollar will have a negative impact on revenues. And then there is the deconsolidation of our high-power bipolar business, which we will invest in a joint venture with Siemens. The decrease in revenues in AIM will, however, be counterbalanced by continued growth in COM, which is mainly driven by the full consolidation of the sales from the TI and LSI activities and by the continued increase of the delivery volumes for mobile phone platforms.

The EBIT for Infineon excluding Qimonda and excluding net charges will decline compared to the previous quarter. Nevertheless we expect the EBIT to clearly remain in the black and, on a year-over-year basis, to show a considerable improvement. Depending on revenues, the AIM EBIT is expected to decline slightly. If we include the profit that we make on the sale of our share of the business with high-power bipolar business, the EBIT will remain on the same level as in the previous quarter. As far as the COM segment is concerned – and for the wireless segment as well – we expect to break even without taking the write-off for the takeover of the LSI mobile communications activities into consideration.



In the current fiscal year, we will continue to invest the same stamina and strength as in the past three years to achieve the goals we have set for ourselves.

Thank you for your attention.

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