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Annual General Meeting 2013

Munich, February 28, 2013

- The spoken word prevails -

Good morning ladies and gentlemen,

I would like to welcome you all to today's annual general meeting. To start with I'd like to comment on the previous fiscal year. Afterwards I'll be assessing the results in a medium- to long-term context.

During the 2012 fiscal year, revenues decreased by 93 million euros, or 2 percent, to around 3.9 billion euros. Virtually the entire drop in revenues – 91 of a total of 93 million euros – is due to the wind-up of contract manufacturing operations for the sold wireline and wireless business.

During the last fiscal year, the stronger US dollar has given us a slight boost. But at the same time, the global economy has slowed down. All in all, we completed the year just as we had forecasted at the beginning of the fiscal year.

The gross margin fell from 41.4 percent the previous year to 36.6 percent. The cause lies in slightly lower revenues, in the expansions in capacity, the correspondingly higher write-offs and underused manufacturing capacities.

The segment result totals 527 million euros. The net income amounted to 427 million euros. Compared with the previous year's figure of 1 billion, 119 million euros, this figure represents a drop of 692 million euros. However, the net income in the fiscal year 2011 includes a result from discontinued operations amounting to 375 million euros. In 2011, from the sale of our wireless solutions business to Intel, we achieved pre-tax capital gains of a good half billion euros. This sum was countered by additions to provisions in connection with the Qimonda insolvency.

In the fiscal year 2012, the income from discontinued operations totalled minus 5 million euros. The income from continuing operations amounted to 432 million euros.

In the fiscal year 2012, basic earnings per share dropped accordingly by 61 percent to 40 cents.

Our goal is to achieve a segment result margin of 15 percent over a cycle. How do we on the management board assess these results with regard to this objective?

I would like to review the last fiscal year in a historical context.

In terms of market and revenue development, 2012 was definitely under par. The revenues in our four divisions stagnated. Only in fiscal years 2002 and 2009 did we have to cope with bigger declines in revenue.

Despite significant groundwork in the development of 300mm wafers, at 13.5 percent segment result margin we were only 1.5 percentage points below the target of 15 percent. This indicates that we're heading in the right direction.

Over the last three fiscal years the cumulative segment result margin totaled 16 percent and therefore one percentage point above our target.

In the current fiscal year and compared with the previous year, Infineon expects a drop in revenues by a medium to high single-digit percentage, assuming a euro/US dollar exchange rate of 1.30. That would be the first time that revenues stagnated or decreased two years in succession.

Compared with the boom during the last upturn at the end of fiscal year 2011, our quarterly revenues in the 2012 December quarter dropped by 18 percent. Therefore, they developed much less positively than on a long-term average.

But on average the divisions lost no market shares at all. The cause of the drop in revenues is primarily due to a cyclical downturn in investment goods and the restraint exercised on infrastructure projects in China during the change of government there. But more about that later.

However, the downturn bottomed out in the last quarter. In the current quarter business is picking up again. And in the second half of the current fiscal year too, we're expecting much higher revenues than in the first half.

If we look at the four fiscal years from 2010 to 2013, the following picture emerges: it starts with a year of transition from a downturn to an upturn, then a boom year, then a transitional year to a downturn and then a year until the downturn had bottomed out. In other words, Infineon has passed through the first full economic cycle since restructuring in the 2009 fiscal year.

If our forecast for the current fiscal year proves correct, the cumulative margin will be around one percentage point below the target of 15 percent. This result already reflects the vast amount of groundwork done, which will not recur in this order of magnitude, to develop power semiconductors on 300mm wafers. And we'll be reaping the benefits in the next upturn. Therefore, we're confident we'll achieve the 15 percent target over the next cycle.

Ladies and gentlemen, we're providing an outline of what margin we want to achieve and when. To do so, we've defined the following four phases and the associated return targets:

We talk about a boom if the semiconductor market relevant to us grows by six percent, or in other words more healthily than the long-term average. In this type of phase of virtually full capacity we should achieve a segment result margin of approximately 20 percent, similarly to the last boom.

If the market grows along historical trends, in other words by a medium single-digit percentage, while still operating at high capacities we want to post a segment result margin that totals our target of approximately 15 percent.

In a stagnating market, our goal is to earn around 10 percent. In this type of scenario we expect significant idle costs which are difficult to avoid in a stagnating market when the expected growth doesn't materialize. After all, we have to take decisions on investing in extra clean-room facilities more than two years before starting production. In the case of manufacturing machinery, depending on the type of system, this period can be up to 18 months in advance. In our industry it's impossible to predict how the market will develop over such a long period of time.

However, we must be prepared to deliver to our customers at any time. Imagine what losses we'd cause to an automotive manufacturer if production came to a standstill. And all because of a lack of Infineon components that just cost a few cents each.

Therefore, we have to plan expansion of our clean-room facilities on an optimistic basis. Where production facilities are concerned, we can react slightly more quickly to increasing demand. In this case, we believe following the trend to long-term growth is a good compromise between the ability to deliver quickly and tying up capital.

As regards our investments in research, development and design-in activities, we're also driven by the long-term growth perspective. We believe there's no point in revving up and slowing down these activities in tune with the cycle. As a result, expenditure during weak phases in these areas is higher than the long-term targets.

Despite planning ahead however, the global economy can immediately slip into recession. And that's just what happened in the 2009 fiscal year. In this case, the relevant semiconductor market shrank by at least a medium-range single-digit or even low double-digit percentage. Should this happen, our goal is still to remain in the black over the whole fiscal year.

If we achieve our target margin in each phase of the cycle, we believe that our target of 15 percent over the cycle is guaranteed.

Of course this model simplifies reality and is based on the group as a whole. The cycles in each of our divisions differ and the phases are sometimes at different stages.

For example, over the last few quarters the market for IGBTs – or power semiconductors for particularly strong currents and voltages – has slipped into a recession. The demand for IGBTs depends especially heavily on investment goods, renewable energies and infrastructure investments in China. According to WSTS, from the climax of the boom in the fourth quarter of fiscal year 2011 to the 2012 December quarter, the market for IGBTs has slumped drastically by 42 percent in terms of US dollars. In the same period, IPC revenues fell 36 percent in terms of euros. Even when adjusted to allow for the exchange rates, we've coped slightly better with the slump than the market.

At the same time it's important to remember that in the long term this segment has achieved growth rates significantly above the corporate average. Therefore, on a historical comparison this constituted a real crash.

Ladies and gentlemen,

Now that I've completed my overview, taken in a medium- to long-term context, I would like to return to the 2012 fiscal year in each of the segments. But to start with I'd like to comment that on 1 January 2012, the Industrial & Multimarket segment was divided into "Industrial Power Control" and "Power Management & Multimarket". Therefore, this year's report refers to these two segments for the first time.

Revenues in the Industrial Power Control (or IPC for short) segment dropped to 728 million euros, a fall in revenues of 8.7 percent. The segment result decreased by 41.6 percent to 118 million euros.

Although Infineon was global market leader for power semiconductors for the ninth time in succession, the decline in the market for IGBTs led to this weak development. However, the operating margin was still at 16.2 percent. In the 2012 December quarter, due to the slump I've just mentioned, IPC slipped into the red. In the current fiscal year, we still want to go into the black in this segment.

In the second new Power Management & Multimarket segment Infineon posted revenues of 929 million euros, or 7.4 percent lower than the previous year. The segment result fell by 41.3 percent to 142 million euros. As a result, the operating margin was 15.3 percent. This segment felt the negative impact of the declining market for PCs. As Dr Ploss reported already, an increasing number of users are switching to tablet computers. In addition, the generally weak economy led to a drop in revenues and telecommunications suppliers cleared high stock levels of transistors for cellular base stations.

Due to the growing sales of mobile devices and the associated expansion of the mobile infrastructure and data centers, a return to a course of growth is on the horizon in the current fiscal year for Power Management & Multimarket.

During the last fiscal year, revenues for the Automotive segment rose by 7 percent to 1 billion, 660 million euros. This is due to the growth in global automotive production and the increasing number of semiconductors in each car. Weaker demand from southern Europe was more than compensated for by the stronger demand for vehicles from the premium segment. However, due to lower utilization of capacities generally the segment result fell by 21.5 percent to 219 million euros. This figure corresponds to a margin of 13.2 percent.

Thanks to a robust market, Chip Card & Security increased revenues in fiscal year 2012. They rose by 6.8 percent to 457 million euros. The segment result also improved slightly by 2 million euros to 56 million euros. This figure corresponds to an operating margin of 12.3 percent.

Now I'd like to turn to the regions.

Infineon achieved 23 percent of revenues, or 908 million euros in Germany. The rest of Europe contributed 824 million euros in revenue. As a result, Europe provided 44 percent of annual revenues. Asia-Pacific has continued to grow in importance. Its proportion of the revenue increased from 36 to 38 percent and was therefore almost twice as high as the proportion from Europe, excluding Germany. Therefore, in the past fiscal year we should remain the DAX company with the highest share of revenues in Asia.

Revenues in Japan totaled 252 million euros, or 6 percent. There, in the market for automotive applications, we're the biggest foreign supplier and take a fourth-place ranking. We would have needed a market share of a mere 0.1 percentage points to gain a place among the top three.

Our competitor Renesas is the worldwide leader in automotive applications. In Japan it has a market share of over one third. Renesas was able to prevent a liquidity crisis with a large capital increase from the state fund INCJ and several smaller sums from Japanese customers. Since December 2012, being “too big to fail” and the right to increase capital from tax revenues are no longer privileges of the banking sector.

In America, revenues amounted to 450 million euros, or 12 percent of total revenue.

I will be going into the operating expenses below.

In the past fiscal year, research and development expenses rose by almost 4 percent to 455 million euros. Research and development expenditure focused on the innovative fields of electro mobility and energy efficiency. By creating system expertise and new circuit developments for battery management and energy conversion, Infineon enhanced its leadership in these up-and-coming fields.

Another focus was placed on developing highly efficient technologies and components for the generation of renewable energies. Research and development into 300mm thin wafer manufacturing for power semiconductors were also part of these activities.

In the past fiscal year, sales and general administrative costs totaled 475 million euros. In relation to revenue, these costs decreased by one percentage point to 12.2 percent. The rise in sales and administrative costs is primarily a result of mounting personnel budgets. As a result, we’ve created the conditions to fulfill demand with growth on the horizon in the medium term.

For our shareholders, I would now like to turn to free-cash flow from continued operations. At minus 219 million euros, the free-cash flow is way below the previous year’s figure of 106 million euros.

In fiscal year 2012, investments focused on strategic projects. These included the completion of the second production building in Kulim in Malaysia, 300mm production in Dresden and Villach in Austria, as well as the expansion of the production of modules for power semiconductors in Warstein and Cegled in Hungary. Investments in quality were also increased so that we will be able to fulfill our customers' demands in the future too.

At 832 million euros, the purchases of property, plant and equipment fell only slightly by 1.5 percent compared with the previous year. Due to research and development activities, disbursements for intangible assets rose by 16 million euros to 58 million euros.

It is our declared aim to achieve an attractive return on capital employed. This return on capital employed – or RoCE for short – should be above our capital costs. With a RoCE of 22.3 percent, we've clearly surpassed this target.

Due to the current market- and margin-development and the high investments in the previous years, we will probably not manage to meet this target in the current fiscal year. Nevertheless, we're confident that we'll achieve or even surpass it over the upcoming cycle.

We now aim to achieve a segment result margin of 15 percent in the next economic cycle too. In order to create the right conditions to achieve this target despite the current difficult market environment, we're operating a consistent costs and investment policy. At the end of September we put a number of different activities in motion, in particular also to reduce idle costs. At the Warstein site for example, we introduced short-time working because of underutilization.

But at the same time we're keeping a constant focus on quality and stability. In the first quarter of the current fiscal year, the measures are already taking effect. Despite 13 percent lower revenues in comparison with the previous quarter, Infineon still achieved a segment result margin of a good 5 percent. Considering the decline in the market for IGBTs, we believe this is a respectable figure. We trust the cycle has bottomed out.

How did our financial position develop over the past fiscal year?

In the last fiscal year, at 5 billion, 898 million euros the balance sheet total was virtually at the same level as the previous year's. Similarly to the previous year, non-current assets increased by about a half a billion to 2 billion, 388 million euros which was mainly due to the investments in property, plant and equipment mentioned before.

As per 30 September 2012, cash and cash equivalents amounted to 2 billion, 235 million euros, or a decline of 17 percent, primarily due to the investments.

Non-current liabilities increased by 132 million euros to 645 million euros. This figure is mostly because of a rise in pensions and similar liabilities. Due to lower discount rates, actuarial losses of 112 million euros occurred that reduced the equity capital.

At 1 billion, 940 million euros, the net cash position was 19 percent below the previous year's level.

As a result of the investments made and our current financial position, we feel in a good position to cope with future challenges. Therefore, Infineon is in an ideal position to deliver in high quantities and at high quality. These factors are the keys to regaining market shares when the economy recovers.

The reserves created as a result of the Qimonda insolvency were increased by 26 million euros. As per 30 September 2012 they totalled 326 million euros. I hope you can understand that we cannot go into detail about reserves provided for individual liabilities and risks. After all, we do not want to prejudice current litigation and our negotiating position with the liquidator.

At the end of the reporting period, our equity capital amounted to around 3 billion, 575 million euros. As a result, the equity ratio was 3.5 percentage points above the previous year's and amounted to a very solid 60.6 percent.

Ladies and gentlemen,

In the 2012 fiscal year Infineon proved that its business model is sustainable, even during economic downturns. Despite low economic global growth of 2.5 percent and a stagnating market for semiconductors, Infineon achieved a segment result margin of 13.5 percent in fiscal year 2012. That's a very respectable result.

In the first quarter of the current year, macro-economic conditions continued to worsen. In comparison with the previous quarter, revenues in the December quarter fell by 13 percent. However, we're expecting a recovery in the current quarter already.

For the 2013 fiscal year we expect a decline in revenue in the mid to high single-digit percentage range.

After the high investments and groundwork carried out in research, development and sales, for the segment result we're expecting a medium to high single-digit percentage of revenues. Without measures taken to improve the result, a segment result margin in the low single-digit percentage range would have been expected.

The development of the share price shows that after a relatively volatile second half of the year, the capital market is now more confident about Infineon.

From its high in April 2012 to September, the Infineon share dropped a good 37 percent of its value. The DAX stagnated in the same period. Since it hit its low on 22 February, the share did rally by 29 percent, but in the same period the DAX gained just 5 percent in value. In the same period, at just 13 percent even the Philadelphia Semiconductor Index (or SOX for short) did not perform as well as the Infineon share. Since the beginning of the 2012 fiscal year until 22 February, the Infineon share saw growth of 18 percent, but trailed behind the comparative SOX index and the DAX which rose 30 and 43 percent respectively.

In the 2012 fiscal year and during the first few months of the current fiscal year, we were able to use the extremely high volatility of the share to our benefit. Nervous capital markets, that frequently go hand in hand with weaker share prices, offer attractive conditions for reducing the number of diluted shares. As a result, your shares participate to a greater extent in the success of the company.

To do so, we haven’t just bought back some of our convertible bond. Due to the authorizations given at the 2011 annual general meeting in line with Article 71, paragraph 1, number 8 of the German Public Companies Act, we’ve reduced the number of shares through the buy-back and the subsequent recall of treasury shares. The authorizations allow us to buy back treasury shares directly and permit the buy-back by using derivatives. By selling put options on treasury shares, we used this opportunity and the associated, significant fluctuations in the share price with enormous success.

Since the beginning of the 2012 fiscal year, in combination with buy-backs of our convertible bond we’ve bought back 19.4 million fully diluted shares, or 1.79 percent of the equity capital outstanding. Of this figure, at the end of February 2013, using put options, 9 million shares were purchased with a proportion in the equity capital of 18 million euros, or 0.83 percent of the equity capital. The average purchase price amounted to 6 euros, 46 cents. Premiums received for expired or exercised put-options are not taken into account in this average price. Deducting this pre-tax cash flow produces an average purchase price of 4.74 euros. This figure is way below the lowest share price during the term of the program.

Therefore, since the beginning of the past 2012 fiscal year a total of 231 million euros has been spent on capital return activities to date. This figure considers the present value of the interest savings on bought-back bonds, as well as premiums received for all expired and exercised put-options by the end of February, but does not consider the effects of taxes.

The figure is a combination of dividends of a good 129.6 million euros paid out in March 2012, bond buy-backs to the tune of 58.8 million euros and options exercised and amounting to 42.7 million euros. Due to the bond buy-back, tax-deductible losses of over 6 million euros were incurred. These reduce the effective post-tax share price paid and therefore the liability on our liquidity.
As part of the capital return program, including bond buy-backs during the first two quarters of the 2011 fiscal year, 48.9 million shares were bought back for 319 million euros. After deducting the premiums received and the present value of the interest savings, at the end of last week the average purchase price amounted to 5.94 euros at an average volume-weighted share price of 6.51 euros.

There are still 1 million put options at an exercise price of 4.71 outstanding for which we've received premiums totaling 282,700 euros. These are due next week and should therefore in all likelihood boost the difference shown on the diagram between the effective price paid and the volume-weighted average price. The 9 percent discount effectively generated an extra 28 million euros before taxes.

To you, our shareholders, I would like to add that it's our declared aim to deliver sustainable profits. In other words, this means 15 percent segment result margin over the cycle.

However, sustainability does not just have an economic, but also a social and ecological dimension too. At Infineon, economy and ecology are not a contradiction in terms, in fact they complement one another. We're benefiting from the trend in renewable energies, energy efficiency and eco-friendly transportation.

Semiconductors make an important contribution to cutting CO_2 emissions. Using our products can generate net savings of 3.6 million tons of CO_2. This is the difference between what savings our products enable and what we generate in producing and delivering them. If we look at the entire life cycle of our products, this figure is even several times higher. To give you an idea of the magnitude, 3.6 million tons of CO_2 are roughly the annual emissions produced by the city of Stuttgart.

Our performance has also been independently audited. We've been listed on the Dow Jones Sustainability Index since 2010. Infineon is currently the only European semiconductor manufacturer in this index and number 1 worldwide in terms of product-related responsibility and operational eco-efficiency.

Particularly with regard to ecological manufacturing, I'd like to quote an example. If we compare the specific electricity consumption of our front-end manufacturing facilities with the relevant data from the World Semiconductor Council, on average we use 51 percent less electricity and 70 percent less water per processed silicon surface area than the competition. This is probably a reason why Infineon has been listed in the Sustainability Yearbook and is among the 15 percent of the most sustainable companies worldwide.

I would like to say a few words about the agenda of today's annual general meeting. I've already explained the first two points – our position during the past fiscal year and the proposal for appropriation of the result. Now I'd like to make a few comments about points 7 and 8 that refer to the authorization to buy back treasury shares. The annual general meeting in 2011 had already authorized us to purchase treasury shares, also by using derivatives. As already stated, we made use of this authorization and could continue to do so until the beginning of 2016. However, we're only allowed to use treasury shares purchased in this way for specific purposes. These include for example making use of our share option plans – part of the remuneration of the management board and other managers.

On the other hand, we can't operate our new long term incentive plan (which you'll be voting on today under the remuneration system for the management board in point 6) with the shares bought back. We now want to change that.

We and the supervisory board believe that it would be best not to just add to but replace the previous authorization. Why do we want to do that? In particular to regain the full term of 5 years, as well as to obtain the purchasing volume, permitted by law, of up to 10 percent of the share capital for buy-backs. But also in order to make technical changes. This is not connected with any change in our tangible buy-back strategy.

Ladies and gentlemen,

Infineon has created optimum conditions for sustainable, profitable growth. With areas such as energy efficiency, mobility and security we're addressing three key challenges of modern society. We've achieved encouraging results – both from an economical and an ecological standpoint.

Thank you very much for your attention.