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## **Annual Press Conference**

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in Neubiberg, Germany

- The spoken word prevails -

Dear Members of the Press and Guests,

On behalf of myself and my colleagues on the Management Board, welcome to the Annual Press Conference 2011!

Infineon progressed in the past fiscal year. Our profit level makes us a company with sustainable growth prospects. All the targets for 2011 were achieved. The products and applications for energy efficiency, mobility and security are aimed at markets of high economic and social relevance. Infineon is on the right strategic course.

**Revenue of Euro four billion** and a **Segment Result of almost Euro 800 million** are record figures in the present areas of business. Within the space of a year Infineon has drawn close to the level of revenue which the company had before the sale of the Wireless business. All the divisions have contributed to the outcome.

**Our growth significantly outpaces the market:** Following an increase in revenue of over 50 percent, we achieved 21 percent growth in the past fiscal year. For comparison: The semiconductor industry grew only 5 percent in the same period.

**Infineon has built investor confidence:** In the past fiscal year, the share price rose by 10 percent, while the DAX declined by 12 percent in the same period. The SOX semiconductor index fell 3 percent during that time; Dow Jones Semiconductor Index movement was similar.

Infineon is in very good shape. Our corporate portfolio is less volatile today than in the past. The business is influenced by **economic cycles** and not by the volatility inherent in some semiconductor markets.

An important step in setting the new direction was the **sale of the Wireless business** to Intel Mobile Communications in the past fiscal year. Infineon holds leading positions in the global market with the three remaining segments. The growth potential is significantly better than ever before.

Success is driven by **innovative strength**. That is THE competitive differentiator, particularly in the semiconductor industry. Infineon is proving increasingly successful in converting excellent development work into marketable, attractive products. One example of this is the .XT technology. It optimizes all the connections within an IGBT module. IGBT modules are needed for wind power stations. They convert wind power into electricity, losses are minimized. .XT technology can prolong the life of conventional IGBT modules by a factor of ten. Reliability is highly important particularly for off-shore wind farms because maintenance work on the high seas is very expensive.

The product success is built upon an innovation management system that gives our engineers scope for development: errors are allowed. Experiments with an uncertain outcome are important because they are essential for pushing the envelope. All the same, the guiding principle from the outset has to be achieving a marketable product.

We have learnt to achieve a very good balance between creative scope and market requirements. That is why the German weekly business news journal *Wirtschaftswoche* and the management consulting firm A.T. Kearney awarded Infineon the Best Innovator Award as one of Germany's most innovative companies. We are proud of the title because it endorses the course we have taken in innovation management.

**Excellent customer relations** are another important pillar of the success. A difficult year of allocation lies behind us. Therefore I am glad that we nevertheless succeeded in meeting customer requirements in partnership with them.

In recent months we have gained major new business – whether in the automotive drivetrain sector, among train manufacturers or health security cards. Infineon knows its customers' applications and supplies tailored semiconductor solutions. That facilitates the development of competitive systems for our customer. And that creates a good position in the competition.

So how did business go in the last 4th quarter and in the full fiscal year 2011?

Ladies and Gentlemen, as a result of having focused our portfolio, we are no longer subject to the typical, so-called "hog cycles" of some semiconductor markets. Infineon has become more robust, but all the same we are not immune to global economic fluctuations.

Despite macroeconomic turbulence, Infineon performed very well in the last 4th quarter of the past fiscal year:

Revenues were Euro 1.038 billion, only Euro 5 million down compared to the quarter before. As a result, Infineon performed very well compared with most competitors who suffered higher loss in revenue.

The Segment Result stood at Euro 195 million in the 4th quarter, which corresponds to a Segment Result margin of 19 percent. This signifies a quarter-on-quarter decline of 17 million. However this is due to investments in R&D and Sales & Marketing plus effects from the sale of the Mobile Communications business.

We want to continue to strengthen our capacity for growth across economic cycles. Infineon demonstrated once again in the past fiscal year that it pays off to follow this route: The return on capital was above 60 percent and hence exceeded the cost of capital many times over.

Turning to the individual segments:

**Automotive** revenue declined sequentially by 3 percent to Euro 396 million. The decline was mainly for seasonal reasons as many automakers' plants shut down in the summer. The premium segment performed very well and Infineon holds a strong position there.

The Automotive Division's Segment Result declined to Euro 66 million. This corresponds to a sequential decline of Euro 14 million. This is due to lower sales proceeds combined with increased R&D expenditure. Added to this are sales and administrative expenses which impact the results now that service agreements in connection with the Wireless sale have expired.

The Segment Result margin was 16.7 percent.

**Industrial & Multimarket** achieved revenue of Euro 472 million, again reaching the all-time high of the previous quarter. Lower sales in renewables and computers were offset by higher demand for drives for industrial motors and non-power products.

The Segment Result was Euro 113 million, signifying a minimal sequential decline of Euro 3 million.

The Segment Result margin is the handsome figure of 23.9 percent.

I would like to make particular mention of a new strategic partnership with Bombardier Transportation, the leading manufacturer of advanced rail transportation technologies. The partnership relates to the field of drives for high-speed and metro trains and involves the supply of our IGBT modules for the efficient control of the electric drives. The partnership agreement covers the next five years.

Allow me to add a couple of very positive sentences on the **Chip Card** Division in the 4th quarter:

Chip Card & Security increased revenue. It stood at Euro 116 million, representing a sequential increase of Euro 9 million or 8 percent. The main drivers were good sales in the government ID sector, particularly Germany's new ID card. Furthermore, Infineon started dispatching the security chips for Germany's new health card in the last quarter. We expect the number of cards supplied to reach the low to mid double-digit million range by 2013.

The Segment Result reached Euro 16 million, up Euro 2 million sequentially.

As a result, the Segment Result margin rose to 13.8 percent and therefore also looks very good.

Turning to the full-year figures:

Infineon achieved revenue of about Euro 4 billion in the past fiscal year, which represents a year-on-year increase of a good Euro 700 million or 21.3 percent. This means we have succeeded in almost doubling revenue within only two years – from around Euro 2.2 billion to now Euro 4 billion! Infineon's products are in demand.

Let us take a look at the individual segments:

**Automotive** revenue rose to around Euro 1.55 billion in the past fiscal year, representing a year-on-year increase of Euro 284 million or 22 percent. We owe this to the continuing strong global demand for cars and to the growing semiconductor content per car. Infineon is also benefiting from the increasing number of hybrid cars in the USA: We supply our HybridPACK™ 1 power module for the Hyundai Sonata and the Kia Optima, the most successful hybrid models after the Toyota Prius. Each of these cars has semiconductor content to the value of Euro 190.

The year-on-year increase in Segment Result even exceeded that of revenue – it grew by over 40 percent. Segment Result was Euro 279 million, which is equivalent to an operating margin of 18 percent.

In the **Industrial & Multimarket (IMM)** Division, revenue increased by 26 percent in the past fiscal year to Euro 1.8 billion. This makes IMM the world market leader in power semiconductors for the eighth consecutive year – with a respectable lead over number two.

Segment Result rose by 51 percent to Euro 444 million – an increase that was disproportionately higher than that in revenue. This means that the operating margin stood at an excellent 24.7 percent.

**Chip Card & Security** achieved revenue of Euro 428 million in the past fiscal year. The revenue in chips for security applications was therefore up 5 percent year-on-year. The Segment Result was Euro 54 million, the operating margin was around 13 percent. Profitability improved significantly here: For the first time we lived up to our aspiration of achieving a double-digit margin in this segment across the year.

Overall, the consolidated net income for the 2011 fiscal year is Euro 1.119 billion, up Euro 459 million compared with the previous year's figure of Euro 660 million. That is almost 70 percent up and impressively increases the company's financial strength. Accordingly, in the 2011 fiscal year the basic earnings per share went up 42 Euro cents year-on-year to Euro 1.03.

The free cash flow from continuing operations was Euro 106 million. Cash increased further despite the high investment volume of Euro 887 million: Significantly more than Euro one billion free cash flow from discontinued operations was added – essentially as a result of the sale of the Mobile Communications business. Although we used over Euro 300 million liquidity for capital return to shareholders during the past fiscal year, our cash stood at about Euro 2.7 billion as at September 30, 2011. That is a handsome increase of 56 percent compared with Euro 1.7 billion as at September 30, 2010. Set off against financial liabilities, the net cash rose by over Euro 1 billion compared with the previous year to almost Euro 2.4 billion.

At the end of the 2011 fiscal year, that is to say on September 30, 2011, the Infineon Group had 25,750 employees.

Allow me to go briefly into the functional expenses:

As you see, the research and development expenses increased by Euro 40 million to Euro 439 million. Research and development spending in relation to revenue continues to be 11 percent. Our focus is on the development of application-related products and manufacturing technologies with high growth and earnings potential.

Selling, general and administrative expenses were Euro 449 million in the past fiscal year. Selling, general and administrative spending in relation to revenue dropped from 12 to 11 percent.

Ladies and Gentlemen, to conclude the section on the figures allow me to take a look at our consolidated balance sheet:

The aggregate assets were just under Euro 5.9 billion on the closing date of September 30, 2011. This figure signifies an increase of Euro 880 million compared with the previous year.

Our equity on the same date was about Euro 3.35 billion, up Euro 730 million compared with the previous year. The equity ratio of 57 percent was four percentage points above the previous year's figure and is proof of an extremely sound capital structure.

#### **That brings me to the outlook:**

The excellent results of the 2011 fiscal year in terms of revenue and earnings impressively demonstrate the sustainability and strength of the business model.

Our customers from the automotive, industrial and chip card sectors continue to enjoy market success. The production facilities are, on the whole, running at full capacity. We are not registering any decline whatsoever in our customers' development intensity. On the contrary: Their research and development budgets are increasing at present.

In our fast-paced semiconductor industry the old saying "standstill is regression" applies. As in the last year, we will have to continue to make wise strategic investments to further safeguard our technological edge and innovative leadership:

Infineon spearheads **innovations in the manufacturing arena**. The company has succeeded in making a quantum leap with the 300mm thin-wafer manufacturing technology. Infineon developed and installed a pilot line for power semiconductors on 300mm wafers (Power 300) in Villach, Austria. Power 300 technology helps to make chip manufacture far more cost-effective and to safeguard Infineon's leading position in the market.

In addition, Infineon acquired ultra-modern 300mm manufacturing facilities by **purchasing the Qimonda plant in Dresden** in May this year. The facilities serve the purpose of upgrading the Villach pilot line and of forming the basis for the high-volume production of 300mm power semiconductors. Dresden will be the high-volume production site.

Meanwhile the first chips have been made on a 300mm thin wafer for power semiconductors. This makes Infineon the first company in the world to succeed in taking this step.

Investment totaled Euro 887 million. We expect a comparable sum for the 2012 fiscal year, which already represents a reduction of approximately 20 percent from the original plans for pure growth in capacity. Despite the long lead time our investments have, we have to take macroeconomic framework data adequately into account in our budget.

A major part of the investments in the current fiscal year will not simultaneously lead to capacity expansion in the current year. We are making long-term investments. Just under Euro 400 million are earmarked for such strategic investments. They include the preparation for the high-volume production of 300mm power semiconductors in Dresden and the construction of a second building at the Kulim site in Malaysia. They also include investments in site expansion in Warstein and Cegled for manufacturing power modules for electromobility or inverters for alternative power generation. These areas of business are subject to cyclicity as is currently being seen in the solar industry. But there is no doubt that the momentum will be restored. We want to stay number one in these markets.

By making the strategic investments NOW, Infineon secures significant competitive advantages in the future. We intend to use the remaining part of the investment

budget to expand existing capacity by about 10 percent. This will prepare the ground for high growth by the end of the current fiscal year and from the 2013 fiscal year onwards.

Investments in semiconductor manufacture – from the green field site to up-and-running production – have a lead time of about 9 to 18 months. That means we **have to** act in the 2012 fiscal year in order to be able to meet increasing demand the year after next. The market trends in the fields of energy efficiency, mobility and security are intact. A new upswing will come. It would therefore be inappropriate to now rein in all investments – especially since, compared to the last crisis, we currently have a financial foundation upon which we can build. An anti-cyclical investment policy with a mid-term horizon guarantees Infineon's success – tomorrow and beyond. There is therefore little room for change in the present investment planning for the current fiscal year.

Even the slowdown of our business in the current quarter does not change this position. Revenue is expected to decline by about ten percent between October and December. We anticipate a Segment Result margin of between 13 and 14 percent.

An exact forecast for the 2012 fiscal year is difficult at present. The macroeconomic constellation is a playing field for statisticians and forecasters. Development in the European Economic Area remains uncertain. The economy in the USA is recovering only slowly. The global economic unrest is impacting even China, through its exports and self-imposed restraint, although not to such a great extent,

Our forecast assumes that there will be an acceptable solution to the debt problem in Europe and that – following a correction phase until the middle of next year – the overall economy will display greater momentum. Given this backdrop, we forecast that revenue will decline in a mid single-digit percentage range and the Segment Result margin will also decline to a low to mid teens percentage range. This downturn scenario does not take shocks on the financial markets into account.

Both estimates are based on an exchange rate of USD1.40/ EUR 1 assumed for planning purposes.

With these figures, we see Infineon as not only being successful by historical standards but also remaining very well positioned in the competition. The magnitude of the fluctuations in revenue and order intake is smaller than that of competitors. Most of them accumulated a decline in the high teens percentage range in the last two quarters. We are confident: Infineon's business model will hold good across the entire economic cycle.

Therefore we maintain Infineon's goal of a 10-percent revenue growth on average across a complete cycle. The Segment Result margin should be about 15 percent on average. That is what we want to be judged by.

Setting short-term economic fluctuations aside, Infineon wants to tap deeper into the company's growth potential in the fields of energy efficiency, mobility and security. Energy efficiency in particular is moving ever-closer to the hub of business activities. The company generates around 60 percent of revenue with products in this area. Given the increasing scarcity of resources, the efficient use of energy is the key to increased prosperity. Infineon will play an important role here with its innovative semiconductor products.

In addition, the **markets in Asia, and in China in particular**, are growing in importance for Infineon and this increases the demands placed on support for Infineon's customers around the world.

Stronger support for our presence in the growth markets and close dialog with our customers are central, strategic tasks. As we already announced on October 28, our company has therefore decided to anchor these responsibilities right in the Management Board. To this end, **Arunjai Mittal** is appointed to the **Management Board effective January 1, 2012**. His international experience, his understanding of customers' needs and his intercultural expertise make him the ideal person for this position.

**Dividing IMM** is another step to secure growth. IMM will be divided into two independently operating business units, again effective January 1, 2012. In taking this step, Infineon is addressing the growing complexity and increased managerial input. Effectiveness, internationality and customer focus are to be stepped up. Jobs will be made future-proof.

The new **Industrial Power Control (IPC)** Division will concentrate on business in the field of drive electronics and renewables. This covers semiconductor components for electrical drives in industrial applications and energy generation applications like solar and wind power plants.

The new **Power Management & Multimarket (PMM)** division will concentrate on business with chips for energy-efficient power supplies and high-frequency applications. These are used mainly in consumer goods such as television sets, games consoles, PCs and mobile devices.

Ladies and Gentlemen, allow me to briefly sum up:

I wanted to show you how remarkably Infineon has performed in the 2011 fiscal year. We are in very good shape with technologically excellent products and applications, and stable key data. Infineon is addressing central challenges of modern society by focusing on the three strategic areas of energy efficiency, mobility and security – with energy efficiency playing an increasingly important role. They hold opportunities for our growth as well as profitability, now and in the future.

As a result, Infineon is ideally equipped for the future.



Our company's overall success is down to all Infineon's **employees**. They are our most important asset. The record figures in the past fiscal year are the outcome of many individual decisions and the performance of all the employees. Their motivation, their willingness to perform and, above all, their good ideas keep Infineon on the road of success. Therefore my Management Board colleagues and I attach great importance to taking this opportunity to express our sincere thanks for their achievement! I am confident that with this commitment and team spirit we will continue to reach our ambitious goals.

Thank you for having given me your attention.

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