



# Dominik Asam

Annual General Meeting 2016

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Chief Financial Officer

# Dominik Asam



- The spoken word prevails -

Ladies and Gentlemen, a warm welcome to our Annual General Meeting.

In the last fiscal year, Infineon generated revenue of 5 billion 795 million euros. This represents an increase of 34 percent year-on-year. This strong rise is due primarily to positive business development in all the segments. Infineon's strong revenue growth was also helped by currency effects, especially from the stronger U.S. dollar. The rise in revenue is also due to consolidation of International Rectifier. Almost 16 percentage points of the revenue growth of 34 percent were attributable to this acquisition.

The segment result for the 2015 fiscal year was 897 million euros. Our segment result margin has risen from 14.4 percent in the previous year to 15.5 percent, despite our margins being initially diluted due to the acquisition. The segment result margin on International Rectifier's contribution to revenue has increased quarter by quarter since closing of the acquisition and was already at 15 percent in the final quarter of the 2015 fiscal year.

The gross margin fell in the 2015 fiscal year to 35.9 compared to 38.1 percent in the 2014 fiscal year – despite an increase in revenue and positive effects from the strong U.S. dollar. There were two main reasons for the year-on-year decline: First, the non-cash income effects from the purchase price allocation, which were largely included in cost of goods sold, and second, integration costs. These effects reduced gross profit by a total of 143 million euros. Adjusted for these acquisition-related effects, Infineon's gross margin in the fiscal year 2015 would be 38.4 percent. To lay the foundation for long-term growth, we also continued to invest in our production, which contributed to a further increase in depreciation and amortization.

Income from continuing operations rose by 27 percent to 622 million euros in the 2015 fiscal year. Income from discontinued operations fell from 47 million euros in the previous year to 12 million euros in the 2015 fiscal year.

Consolidated net income in the 2015 fiscal year was 634 million euros, a year-on-year increase of 19 percent. Our earnings per share of 48 euro cents in the 2014 fiscal year rose to 56 euro cents in the 2015 fiscal year; when adjusted for special effects it was even higher at 60 euro cents per share.

Let's now move on to our business segments.

We saw significant revenue growth in all four business segments. International Rectifier contributed revenue to the three segments Automotive, Industrial Power Control and Power Management & Multimarket from January 13, 2015. The lion's share of around 70 percent was in the Power Management & Multimarket segment.

Infineon generated revenue of 2 billion 351 million euros in the Automotive segment in the 2015 fiscal year, an increase of 20 percent on the previous year's figure of 1 billion 965 million euros.

Infineon's revenue in the Industrial Power Control segment in the 2015 fiscal year was 971 million euros, 24 percent up on the previous year's figure of 783 million euros.

Infineon generated revenue of 1 billion 794 million euros in the 2015 fiscal year in the Power Management & Multimarket segment, an increase of 69 percent on the 1 billion 61 million euros in the previous year.

In the Chip Card & Security segment, revenue rose to 666 million euros, a purely organic increase of 35 percent on the previous year's figure of 494 million euros.

The three segments, Automotive, Power Management & Multimarket and Chip Card & Security, increased their results. The figure for the Power Management & Multimarket segment was doubled. Chip Card & Security even tripled its result to the highest-ever figure in the company's history. By contrast, after a strong 2014 fiscal year, Industrial Power Control recorded a 15 percent fall in its result.

As in the previous year, the Asia-Pacific region, excluding Japan, made the largest contribution to revenue (46 percent) – far more than the Europe, Middle East and Africa region (35 percent). As a result, the two regions combined generated 81 percent of revenue and thus remained Infineon's two largest sales markets.

In particular, China's importance for Infineon is steadily increasing. China was already the country with the greatest share of revenue in the 2014 fiscal year, with revenue there rising above average again in the 2015 fiscal year. That was not only due to China's still relatively high economic growth, but above all to the contribution made by International Rectifier. China accounted for revenue of one billion 337 million euros, or 23 percent of the total figure compared to 20 percent the year before. Germany trailed well behind China with revenue of 942 million euros or 16 percent of the total figure, compared to 20 percent in the previous year.

Let's now move on to operating expenses:

Our research and development costs were 717 million euros and hence 12.4 percent of our revenue. That's a year-on-year increase of 30 percent; in other words, a little lower than the 34 percent increase in revenue. The rise in absolute terms is mainly due to the integration of International Rectifier. A further 100 million euros in spending on research and development was capitalized in the 2015 fiscal year and thus reported as investments.

Selling, general and administrative expenses increased year on year by 282 million euros to 778 million euros, thus amounting to 13.4 percent of revenue. This rise is mainly due to the first-time inclusion of International Rectifier, income effects from the purchase price allocation as well as integration costs, but also due to pay rises and expenses related to expanding the sales organization. Excluding the income effects from the purchase price allocation and integration costs, selling, general and administrative expenses relative to revenue were at about the same level as in the previous year.

As already mentioned, the segment result for the 2015 fiscal year was 897 million euros and the segment result margin was 15.5 percent. The latter was diluted far less than initially assumed by the integration of International Rectifier: In the year under review, we not only surpassed the margin target of around 14 percent excluding International Rectifier we set at the start of the fiscal year, but also slightly exceeded the target of 15 percent for the entire group over the cycle, despite the initial dilution effect from International Rectifier.

Free cash flow was minus 1 billion 654 million euros in the 2015 fiscal year compared to plus 317 million euros in the previous year, 1 billion 869 million euros of which was accounted for by the acquisition of International Rectifier, net of cash acquired. Two special effects totaling 178 million euros reduced free cash flow from continuing operations: A payment for the partial settlement with the insolvency administrator of Qimonda net of proceeds received from the sale of Qimonda's patents, and the payment of a fine to the European Commission in connection with the chip card antitrust proceedings. Excluding these two special effects, free cash flow from continuing operations in the 2015 fiscal year would have been a positive amount of 393 million euros, up 76 million euros from the prior year's figure.

Investments in property, plant and equipment rose from 567 million euros in the 2014 fiscal year to 646 million euros in the 2015 fiscal year. One major reason for the rise in investments was the expansion of our manufacturing capacities: Around two-thirds of the investments in property, plant and equipment went to our frontend manufacturing facilities and the rest mainly into our backend operations.

Investments in intangible assets were 139 million euros – including 21 million euros for the acquisition of Qimonda's patents, almost all of which were resold for 30 million euros in July 2015. The figure also includes the previously mentioned 100 million euros for capitalized development costs.

And now a look at our balance sheet at September 30, 2015:

Our total assets at the end of the fiscal year were 8 billion 741 million euros, an increase of 2 billion 303 million euros compared to September 30, 2014.

Since debt capital was raised to partly finance the acquisition of International Rectifier, our financial liabilities increased from 186 million euros in the previous year to 1 billion 793 million euros at September 30, 2015.

Our equity increased to 4 billion 665 million euros.

Our return on capital employed (RoCE) fell to 12.8 percent in the 2015 fiscal year from 20.3 percent the year before. It was mainly impacted by the acquisition of International Rectifier. The goodwill from the acquisition alone increased capital employed by 778 million euros at the end of the year, while write-ups of the acquired assets to their fair values increased it by a further 694 million euros. Amortization of the hidden reserves identified as part of the purchase price allocation reduced the income element of our RoCE by 182 million euros before tax. The fact that we were still able to post a RoCE above our estimated cost of capital shows just how solid Infineon's operating profitability is by now.

The performance of our share price also reflects this positive trend. In the period from the start of the last fiscal year to February 15, 2016, the Infineon share price rose by 33 percent. Infineon's share thus clearly outperformed the DAX, which decreased by 3 percent over the same period, as well as the Philadelphia Semiconductor Index, which decreased by 10 percent over this period.

And so I come to our dividend proposal:

The objective of our dividend policy is to enable our shareholders to participate appropriately in Infineon's economic development or, in times of flat or declining earnings, to keep the dividend at least at a constant level. In connection with Agenda Item 2, management would like to propose a dividend of 20 euro cents a share, in other words, an increase of 2 euro cents compared to the previous year, in view of the results achieved in the period under report and the positive business outlook.

This brings me to the outlook for this fiscal year:

As mentioned by Reinhard Ploss, for the 2016 fiscal year we anticipate a growth range of 13 percent plus or minus 2 percentage points, assuming an exchange rate of the euro to the U.S. dollar of 1.10. In the middle of this forecast revenue growth range, the segment result margin is expected to be around 16 percent.

Just a few explanations on further items on the agenda of today's Annual General Meeting:

Mr. Mayrhuber has explained the amendment to the Articles of Association under Agenda Item 8 relating to the compensation of the Supervisory Board. Of the remaining items, I believe that only Agenda Item 7 – creation of new authorized capital for issuing shares to employees – deserves further explanation:

Our two existing authorized capitals to date – one for general purposes, one for issuing shares to employees – expired in February 2015. While last year's Annual General Meeting created new authorized capital of up to 676 million euros for

general purposes, the Management Board and Supervisory Board now propose to today's Annual General Meeting to adopt a new authorized capital 2016/I of up to 30 million euros specifically for employee shares. This is required to service the existing Performance Share Plan for executives of the Infineon Group. By issuing shares under the Performance Share Plan, we wish to ensure even closer alignment between the interests of executives and those of shareholders. Since the new authorized capital 2016/I is exclusively reserved for the Performance Share Plan, the subscription rights of the shareholders must be excluded. However, it goes without saying that the Management Board will also examine in each individual case whether utilization of the authorized capital is in the interests of the company and its shareholders and will report thereon to the Annual General Meeting.

Ladies and gentlemen, last year we gathered here directly after the acquisition of International Rectifier had been closed. Our declared objective at the time was to raise the margin for International Rectifier to our target of 15 percent by fiscal 2017 by reaping synergies in the areas of manufacturing, development, sales and administration. As Reinhard Ploss already announced, today we are able to report that we have achieved that goal far earlier. In the last fiscal year, we steadily increased the margin contributed by the acquisition and achieved our target margin as early as in the fourth quarter. That proves we can successfully execute acquisitions of the scale of International Rectifier and thus not only strengthen our competitive position, but also our financial performance.

However, we were not only successful in integrating International Rectifier, but also in refinancing the acquisition. To repay the bridge financing, Infineon issued two senior unsecured bonds (Eurobonds) with a total nominal value of 800 million euros on March 10, 2015. This transaction was the first of its kind in our company's history. Both Eurobonds were several times oversubscribed and achieved very attractive financing terms.

I am pleased to be able to inform you that two days ago, Infineon was awarded a credit rating of BBB, in other words, "investment grade", by the renowned rating agency Standard & Poor's. This is the S&P highest rating amongst all European semi-conductor manufacturers. The rating was awarded on the basis of revised capital structure objectives. My colleagues on the Management Board and I have decided to adjust our capital structure objectives in order to reflect our strong revenue growth, positive operating performance and the goal of achieving as efficient a capital structure as possible. We are sticking to our goal of an "investment grade" credit rating. In future, Infineon plans to keep at least 1 billion euros plus another 10 to 20 percent of revenue in liquid funds. Infineon's gross financial debt shall still not exceed two-and-a-half times our EBITDA, in other words, our operating earnings before interest, taxes on income, depreciation of property, plant and equipment and amortization of intangible assets. The net financial debt is the result of these two capital structure objectives. As you can see from the table behind me, we have not fully used up our debt capacity. Roughly speaking, you can say we would be able to shoulder the acquisition of an enterprise value of just over two billion euros without a capital increase up to the end of this fiscal year and still meet these capital structure

objectives. This assumes that revenue, segment result and free cash flow will develop as forecast in the current fiscal year, but does not include any contributions to revenue and results from a possible acquisition.

Dear shareholders, given a successful 2015 fiscal year and robust balance sheet, Infineon is excellently prepared for future growth. We are convinced that by investing in our organic growth, complemented by acquisitions where they make strategic and financial sense, we can generate the greatest sustainable value added for our shareholders long term. With a target average growth rate of 8 percent a year throughout the cycle, we aim to keep on growing significantly faster than the overall semiconductor market, as we have done for many years. The market research company IHS, for example, forecasts annual average growth of just 2.6 percent up to 2019. In future, we will therefore continue to invest a higher share of our revenues than the average of our competitors. We are confident of being able to earn returns on these investments well above our cost of capital, to the benefit of you, Infineon's shareholders.

Ladies and gentlemen, many thanks for your attention!



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