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**Speech at the press conference on April 29, 2003 in Munich**

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The spoken word prevails !

Good morning ladies and gentlemen:

Welcome to this press conference. Today I will be outlining a number of measures as part of our corporate restructuring. During the last couple of days, there was a lot of news to be found about Infineon. I am sorry to disappoint in saying that I still have a few more for you. Today, I will inform you about a reduction of positions at Infineon, about our activities in transferring and outsourcing, about decentralization and latest updates regarding the relocation of our company's headquarter.

**Semiconductor market**

Let me first say a few words with regard to the semiconductor market. The performance of the semiconductor market in calendar year 2002 was less positive than originally expected. Against forecasts of a 4 billion US dollar increase, the market grew globally by just 1 billion US dollars. In recent weeks, the forecasts for calendar year 2003 have also been revised downward by some 5 billion US dollars. The latest figures indicate that the global semiconductor market has declined by 3 per cent in the first quarter of calendar year 2003. The reasons for this are manifold: uncertainty about the international situation, particularly events in the Near East, as well as continuing reluctance among buyers and investors. All in all, this can only mean that the market will continue to be beset by considerable uncertainties. I will not make any prediction here regarding future market performance. However, the continuing uncertainties in the semiconductor market make it more necessary than ever to position our company in the best way possible to manage the risks that lie ahead and to take part in the next upturn cycle.

**Quarterly and half-yearly results**

I say this against a encouraging background for us. For whereas the semiconductor market has declined by 3 per cent since January, Infineon has grown by 3 per cent. With sales of 1.5 billion euros, we are 3 per cent up on the previous quarter and 13 per cent up on the same quarter last year. First-half sales were even 28 per cent higher than in the first half of the previous fiscal year. Three of our four Groups reported rising sales. Our Automotive and Industrial Electronics Group has again achieved a record result. Apart from exceptional effects our results have been more positive than expected by analysts. However, the continuing toughness and unpredictability of the market is evidenced by the price collapse for one of our most important products, the 256M double-data-rate chip. Over the quarter, its price has fallen by 50 per cent. To counter this, we are increasing productivity and introducing further rationalization. We were successful in cutting our fully loaded costs in DRAM production (256M DDR equivalent) coming from \$ 6.10 in our 1<sup>st</sup> quarter to \$ 5.40 in our second quarter.

**Corporate restructuring**

This brings me to the main part of today's press conference. I will outline for you the progress we are making in restructuring our company. I presented the strategic realignment of the company at the IFX Day in London back in December. Returning to profitability, moving back into the profit zone: that is our foremost goal. I repeatedly emphasized that all actions and planning within the company are subordinate to this objective.

## **Agenda 5-1**

The Agenda 5-to-1 corporate strategy is also geared to returning to profitability. Infineon wants to

- focus over the **NEXT 5 YEARS** on
- becoming one of the **TOP 4** companies in the global semiconductor industry
- by achieving at least a **TOP 3** position in every segment
- and positioning itself financially among the **TOP 2** in all the business areas in comparison to the competition
- and being the **NUMBER 1** semiconductor company, leading the field as a solution provider.

All the measures which I will be unveiling to you today, some of which will also be implemented on a very short timescale, are aimed at returning the company to profitability and are part of our corporate strategy.

## **Impact, Impact<sup>2</sup>**

In summer 2001 we started our "Impact" expenditure reduction program with great success, and we finished it very successfully. We have realized savings of 2.8 billion euros, of which 1.3 billion are lasting savings. Lasting means that if we had not made these savings, we would have to provide 1.3 billion euros for them each year.

In the follow-on program "Impact<sup>2</sup>", we have taken a long, hard look at the company: which processes can be speeded up, which procedures are unnecessary, which activities would be better outsourced.

The analysis is complete. We can now identify further potential savings of at least 500 million euros. Of these, 50 million are already EBIT-effective in this fiscal year.

What action will we be taking, what will this actually achieve?

We will realize further savings through:

- downsizing and process optimization,
- transferring and outsourcing,
- decentralizing the company,
- strengthening the regions.

## **Downsizing**

Having to reduce a workforce is never pleasant, and is one of the bitterest experiences a manager can have. However, we have decided to see our Impact and Impact<sup>2</sup> programs through. For nothing less is at stake than the future viability of the company, now with over 31,000 employees worldwide.

Over the next few months we will be cutting up to 900 jobs in total. This includes 500 positions in various corporate functions such as administration. Cuts will also affect the Secure Mobile Solutions Group, where 150 jobs will go, mainly in Sweden. Transferring and outsourcing will eliminate a total of some 250 jobs worldwide.

## **Transferring and outsourcing**

All in all, we see transferring and outsourcing as providing potential savings of 90 million euros. One example of this is the amalgamation and transfer of the accounting operations of several locations to Portugal. Other areas of activity are investigated, such as Real Estate and Facility Management, IT, Logistics, and Human Resources. But since negotiations with bidders and the workers council are still in progress, so I shall not say anything more about them.

### **Decentralizing the company**

We had announced that we are aiming at best positioning each of our business groups. Today I can tell you that we have decided to relocate the Automobile and Industrial Electronics Group to Villach in Austria. This is a location which we have been expanding over many years, it is already a Center of Competence for automobile and industrial electronics, and the majority of production for this Group is already concentrated there. This amalgamation will make our Automobile and Industrial Electronics Group even more efficient and flexible and ensure that its hitherto highly successful development continues. Thus we are on track for achieving our objective of moving up from world Number 2 to Number 1 in this area.

You may assume, ladies and gentlemen, that the other Groups are also being evaluated according to the same model. When we have reached further decisions, we will of course inform you accordingly.

### **Strengthening our regional presence**

Ladies and gentlemen, we are also investing wherever we can identify the greatest opportunities for Infineon. For a long time we have been seeing a clear shift of our business activities to non-European countries, mainly in the direction of Asia. One reason for this is that the economic situation in Asia is on the whole much better than in Europe, and Germany in particular. However, it is also because Asia is a market in which we are highly successful. Thus, in both the 2nd quarter and the first half of our fiscal year, our sales in the regions outside Europe have again increased and now account for 56 per cent of total sales. During the next 4 years, Infineon will invest in Asia about 1.5 billion Euro.

The strength of the regional presence of our company, particularly in the USA and in Asia, is a vital cornerstone of our corporate strategy. To this end, we have already taken decisive steps.

In Singapore we are currently constructing a new headquarter for our staff in South-East Asia. Within two years, 400 employees will have new offices in the new Headquarters Asia. We will be offering attractive job packages in order to compete in recruiting the world's best brains in one of the world's most promising growth regions.

In the summer we will be opening a new regional headquarters in Shanghai. This is essential for quickly, flexibly and selectively pursuing and extending our greatly increased activities in China.

In the US, we are setting up a second major location in addition to San Jose. It is on the East Coast in Raleigh, North Carolina, in close proximity to our factory in Richmond, Virginia, and will enable us to provide better support for our major customers on the east coast of the USA.

### **Relocating company headquarters**

You have known for some time that we are thoroughly examining the situation regarding relocation of the company's headquarters. We are evaluating locations in the Asia, the US, and in Europe. The investigation is not yet finished. Switzerland is one possible candidate. However, it is decisive in our investment-intensive industry, to cut costs to be able to invest in research, development and production. Investment which would of course benefit also our German locations and factories.

To clear up any confusion: it is not intended or planned, and I repeat it once more here today, to withdraw research and production from Germany. Once more: this does not mean that we would take thousands of employees out of Germany. Rather, by financially optimizing our company, we want to provide safe jobs on a long term basis for our 16,000-plus workforce in Germany. Through their jobs, through the subsidiaries and our investments, many millions in taxes and charges have to be paid each year. Let me give you a figure: since 1999, Infineon has invested 3 billion euros in all German locations, money which has of

course also benefited the domestic economy. In Dresden alone we have paid more in tax than we have received in subsidies. Calculations of this kind must not of course degenerate into zero-sum games. However, the discussion must always be fair and credible, and I am always prepared to enter into it.

### **Campeon**

At the same time, we are taking all the necessary action to build an attractive, future-oriented location for over 6,000 employees in south-east Munich ("Campeon"). We need this new location in order to focus our energies and offer our employees an attractive and viable future. But because of the economic weak situation mentioned earlier, Campeon will be realized in two steps.

But why, ladies and gentlemen, such a sustained plea for the German research and production site?

The answer is quite simple. Infineon is today an acknowledged technology and cost leader worldwide. We produce the smallest commercially available chips. Our 300-mm technology for wafers and our 110 nanometer technology for DRAM chips continues to give us a head start in terms of productivity in our industry. This means that we are a sought-after cooperation partner worldwide. Our know-how and innovativeness have made us one of the few companies in the world that can successfully combine biotechnology, semiconductor technology and extremely miniaturized production methods. Because of this, we are aggressively exploiting the opportunities offered by the biotechnology market with our biochips. We do not want to, and will not, give up this enormous innovation potential in Germany. But we need the financial resources to make use of it. Consequently, we are making every saving we can.

### **Summary**

Let me once again summarize briefly the most important facts.

Despite the difficult economic climate, Infineon has again succeeded in growing more rapidly than the market. The semiconductor market remains unclear and difficult. The primary objective is and remains a return to profitability. To achieve this, we are selectively restructuring the company. Downsizing, transferring and outsourcing, decentralization, and strengthening of the regions are key elements in this strategy. Relocating the company's headquarters to Switzerland is awaiting a final decision. Infineon is committed to Germany as a location, a commitment powerfully underscored by various investments in the Dresden area.

With these different but interlocking measures, Infineon will succeed in achieving profitability and further consolidating its position as world leader in technology and production.