



Dr. Reinhard Ploss

Annual General Meeting 2017

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www.infineon.com



Chief Executive Officer

Dr. Reinhard Ploss



- The spoken word prevails -

More revenue. A better result. A higher dividend. 2016 was another successful fiscal year for Infineon.

Ladies and gentlemen, dear shareholders, a warm welcome to the Annual General Meeting. I'm delighted to report to you on the past fiscal year. What did we achieve?

First: more revenue. We are very satisfied. Group revenue rose to 6 billion, 473 million euros, all four segments contributed to this growth.

For a long time now, Infineon's goal has been to grow faster than the market. We succeeded in doing that again last year. Infineon's revenue increased by around 12 percent between October 2015 and September 2016. The entire semiconductor market stagnated during the same period.

Second: a better result. The segment result went up by 85 million euros to 982 million euros, which corresponds to a segment result margin of 15.2 percent. Our profitability was therefore within our anticipated range.

The growth in revenue and result is down to the outstanding work done by our more than 36,000 employees. I would like to thank them most sincerely on behalf of the entire Management Board for their commitment.

Third: a higher dividend. Ladies and gentlemen, we want to once again give you an appropriate share in Infineon's success. In view of the positive 2016 fiscal year, the Supervisory Board and Management Board propose raising the dividend again: from 20 to 22 euro cents per share. We are very pleased about that. The continuous increase in the payout to our shareholders over many years shows that Infineon is a successful company with profitable growth.

The good level of new orders also gives us cause for optimism for the current fiscal year 2017. We expect an increase in revenue of around 6 percent, with a possible deviation of up to plus or minus 2 percentage points. All four segments will again contribute to this growth. At the midpoint of this revenue range, we expect a segment result margin of 16 percent. That's an important step toward greater profitability.

This organic growth also leads to higher capacity utilization at our manufacturing facilities. That will have a favorable impact on our profitability. This growth is particularly noticeable in the increasing capacity utilization at our 300-millimeter factory in Dresden. We're beginning to reap the rewards of our investments. Apart from a number of large projects aimed at cutting costs, we are also making progress in productivity in the other manufacturing areas. In addition, the stronger U.S. dollar is giving us tailwind for revenue and earnings.

In view of this, the Management Board has decided to raise the long-term target for the segment result margin from 15 to 17 percent. Ladies and gentlemen, that means we will sustainably increase our profitability – and at the same time the value of your stake in Infineon.

Infineon will also grow profitably beyond the current fiscal year. Demand for our products is rising – even over the long term. That's because, ladies and gentlemen, our semiconductors help solve some of the world's most urgent challenges.

Microelectronics makes more out of less

The world's population is growing at a fast pace. 8.5 billion people will live on Earth in 2030. More and more people are living longer and want to lead a self-determined life even in old age.

There is also a rapidly rising need for energy and food. Traffic in and between expanding conurbations is increasing. The volume of data traffic worldwide is also increasing inexorably.

At the same time, natural resources are in short supply. Just think of fossil fuels, clean air or arable land.

We therefore face huge tasks: We want to supply the world's growing population with energy and food. We want to offer people a higher standard of living. And at the same time we also want to significantly reduce the environmental impact of growth. We need new solutions for these tasks.

Solutions for clean energy. For eco-friendly and safe transport. For a more and more powerful and secure communications infrastructure. We can only find those solutions if we continuously become more productive and more innovative. Or, in other words, if we produce more and more and consume less and less.

We therefore have the task of catering for more and more needs with fewer and fewer resources. Microelectronics makes a crucial contribution to this. That's because microelectronic is now – and moving ahead – the key technology for innovation and progress in productivity.

Two major trends help make more out of less. Put simply, they are: The world is getting more digital. And the world is getting more electrical.

Both trends are mutually dependent. Digitalization is linking of the real and virtual worlds. We record data, process it and thus gain new information. We can thus provide new services and control processes and machines. That's only possible with electrical energy.

Infineon makes life easier, safer and greener

That is where Infineon comes in: Infineon semi-conductors allow renewable sources of energy to be used in the first place. Infineon semiconductors reduce the electricity that devices need. Infineon semiconductors make means of transport safer and more eco-friendly. Infineon semiconductors are the technical foundation for modern communication and data technology.

Infineon semiconductors ensure secure data exchange and thus create the necessary trust as connectivity increases. Take cyber security: Data security is a key aspect, especially for technologically leading and globally connected German industry.

In a nutshell: Semiconductors from Infineon make life easier, safer and greener.

Answers to the challenges of our times are inconceivable without our semiconductors. Digitalization and electrification: These trends mean there is growing demand for Infineon's products in all key target markets.

Digitalization and electrification – these were two trends at the Consumer Electronics Show in Las Vegas at the beginning of January. Infineon again presented itself there with great success. The keen interest among visitors confirmed to us just how important our products are. Electromobility, autonomous driving, augmented reality on the smartphone, security in the Internet of Things. These applications are made possible in the first place by chips from Infineon. That shows us that we're addressing the right topics.

Digitalization and electrification: You can find an example of this outside in the foyer: the prototype of a smart streetlight. This streetlight of the future is connected to the Internet. And it is equipped with radar sensors, power semiconductors, security chips and microcontrollers from Infineon.

Our chips turn the streetlight into a real all-round talent. They control the light as and when required. In other words, the streetlight adjusts its output dynamically and becomes brighter when there's traffic or people. It is therefore particularly energy-efficient.

The streetlight also detects whether the parking space below it is vacant. It lets car drivers looking for a spot to park know that. As a result, the streetlight helps significantly lower the traffic volume in cities. Experts estimate that the search for parking spaces causes around a third of inner city traffic.

The streetlight also serves as a charging station for electric vehicles. As a result, it creates infrastructure that is critical for the breakthrough of electromobility.

This streetlight illustrates how we solve a whole series of key tasks with our system understanding in an integrated application. Energy efficiency. Traffic flow optimization. Electromobility.

It's a fine example of how Infineon makes life easier, safer and greener in cities. And proof that we're making progress with our strategic "Product to System" approach.

Just take another look in the foyer at how the streetlight works. Ask the staff at the stand for an explanation of what products from Infineon are used in it.

Ladies and gentlemen, continuing on the subject of traffic. Autonomous driving is one of the key topics of the future in the automotive industry. Why is it so important?

Around 90 percent of all road accidents are caused by human error. The buzz phrase "Vision Zero" describes a major objective in the automotive industry: Vehicles are to become so safe that no more serious or even fatal accidents occur.

That's why modern cars have more and more complex systems that help drivers. The term for them is advanced driver assistance systems or ADAS. These new types of driver assistance systems can help prevent driving errors or at least mitigate their consequences. The fact that more cars are being fitted with these systems paves the way to making a big vision gradually become reality: zero accidents thanks to safe, self-driving cars.

Infineon plays a central role. We have been the competent industry partner for automotive electronics for many years. We supply key components for developing driver assistance systems: Sensors.

They detect the environment and functions in the car. Microcontrollers. They process the data from the sensors. Power semiconductors. They control the steering, brakes and engine. Security chips. They protect the connected car against unauthorized access. A safe, self-driving vehicle needs products from Infineon.

One example of our sensor expertise is our successful radar solutions. By cutting costs of the overall system by means of innovation, we've made our technology ready for the mass market. Infineon makes it possible: the reliability of an aircraft that's also affordable in a car.

We translate our leading expertise into commercial success. Infineon is now the leading supplier for the most important manufacturers of radar systems in Europe, North America and Asia. We sold more than 12 million radar chips in fiscal year 2016 – more than in the previous six years combined. We expect to be able to sell more than twice as many in the current fiscal year.

We back up our strong position in the sensor arena with other technologies. Last fall, we acquired the Dutch company Innoluce. Innoluce is a specialist for lidar systems.

What does lidar mean? The five letters stand for "Light Detection and Ranging." And what does lidar do? A lidar system in the car uses invisible, harmless laser beams to measure the position, distance and speed of other objects. Lidar permanently monitors the traffic environment. This technology is another key component for autonomous driving.

Ladies and gentlemen, if I've aroused your curiosity, our staff at the stand in the foyer will be pleased to explain to you how lidar works.

Innoluce allows us to expand our expertise in car sensor systems. We are thus strengthening Infineon's pioneering role in the field of autonomous driving.

Lidar, radar and cameras have different strengths and complement each other. They are the key technologies in semi- and fully-automated vehicles. Together, these sensors form a safety cocoon around the vehicle. This cocoon supports the driver.

Lidar technology is still complex and expensive. We want to leverage innovative ideas and our know-how to make lidar systems much more compact, less expensive and more robust in future. The goal is for lidar to become an affordable option for every new vehicle worldwide, similar to what we have already achieved with our radar solutions.

Infineon semiconductors enable the automated, connected car. That means we make driving more convenient, greener and – above all – safer.

Successful partnerships

Self-driving cars also need a suitable infrastructure for them. Infineon likewise plays a major role here. Last June, we signed a partnership with the German Federal Ministry of Transport and with Siemens. The objective is to establish a radar sensor system on the “digital motorway test bed.”

Radar sensors are being tested on the Munich-Nuremberg motorway. They record data on the flow of traffic, traffic density, and speed. This data will help improve the flow of traffic and thus allow car owners to drive proactively. Infineon supplies the radar chips and provides support with its necessary system understanding. Siemens is responsible for the sensors and supplies the overall system architecture.

This partnership with the Ministry of Transport is a major step for Infineon in further development of autonomous, connected driving.

Sensors, microcontrollers, power electronics and security chips from Infineon make this development possible. Our semiconductors are the key technology for automated, connected driving. Our claim is clear: Safe autonomous driving is only possible with Infineon.

Another major trend, ladies and gentlemen, is electromobility. Partially and fully electric vehicles make an important contribution: They reduce transport-related carbon dioxide emissions and slow down climate change.

The market for electric vehicles picked up a lot of speed in 2016. Admittedly, not much of this is evident on Germany's roads. Nevertheless, electromobility is now a major revenue driver for Infineon. Our business with solutions for the electric drivetrain grew by more than 60 percent in fiscal year 2016.

That is mainly attributable to trends in China, where around 507,000 cars with a hybrid or electric engine were sold in calendar year 2016 – 50 percent more than in the previous year. By way of comparison: The second-largest market for electric vehicles

is the U.S. Just over 157,000 cars with an electric or plug-in hybrid drive were sold there last year – 38 percent more than in 2015.

Infineon is the one of the leading suppliers of semi-conductors for electromobility. That goes for the car electronics, but also for the chips in charging stations.

Standardization of the infrastructure for charging hybrid and electric vehicles is vital to their market success. That's why we're participating in the Charging Interface Initiative or CharIN. Leading car manufacturers have founded CharIN with other partners in the value chain. Together, we want to develop and establish global standards for the charging infrastructure.

The past has shown: By defining the standards, you can capture a leading position in the market. And our clear mission is for Infineon to set the bar in the market for electromobility.

Ladies and gentlemen, as you can see: No electric car runs without Infineon. No car runs on its own without Infineon. And no car runs safely without Infineon. We are at the heart of the car. That goes for the leading car manufacturers from Germany. Infineon has done very good business with them for many years. And we also have excellent, long-standing contacts with manufacturers from other regions.

Ladies and Gentlemen, you can see that outside at our stand, where two electric cars from a major Korean manufacturer are on display: a Hyundai Ioniq and a Kia Niro. There are more than 120 semiconductors from Infineon in both vehicles, helping to make driving easier, safer and greener.

We haven't chosen these two cars by chance. They are extensively fitted with products from Infineon as a result of our close and fine partnership with Hyundai. Hyundai and Infineon have run a joint innovation center in Seoul for ten years now. Engineers from both companies work closely together there to develop systems for vehicle electronics. We just renewed the partnership with Hyundai a few days ago.

Both partners benefit from this cooperation: Our colleagues from Hyundai expand their knowledge about the possibilities that semiconductors can offer in cars. And we gain a deeper system understanding for the applications in which our products are used. As a result, we jointly develop ideal solutions. Close collaboration with customers like Hyundai is a key component in our strategic "Product to System" approach.

The successful partnership with Hyundai is one example of Infineon's global success. Asia, Europe, North America: We are close to our customers in all main growth regions. This spread means we can offset local market fluctuations very well.

Ladies and gentlemen: Infineon semiconductors make life easier, safer and greener. That's not only true in cars. Have you already heard of wearables? They are small, smart and connected devices you wear on your body. High tech on your wrist – thanks to miniaturization.

Security solutions that are very small and use as little power as possible are needed in these applications. We offer outstanding solutions in this field. I'd like to show you one: You can pay with ease using this ring on your finger, simply by holding your hand over the reader.

The ring contains a security controller from Infineon. A tiny antenna supplies the chip with power. It communicates with the payment terminal and carries out the payment process in milliseconds. A sophisticated encryption process protects communication between the ring and the terminal and the owner's identity.

Payment using this ring is contactless, as with a chip-based credit card or a smartphone, but the ring is much more handy – literally. And since it's also waterproof, you can wear it, for example, on the beach or in the pool. Participants in the Summer Olympics in Rio de Janeiro have already tested this ring successfully.

A second example of how Infineon makes life easier: Here you can see the new Zenfone AR smartphone from ASUS. The two letters AR stand for augmented reality. What does augmented reality mean? Augmented reality enriches the real environment with information or virtual objects that are projected into it realistically and true to scale. This technology is used, for example, in industrial manufacturing to design or maintain complex facilities.

But it's also interesting for private use. Imagine you're observing your living room on your smartphone. The picture not only shows you the room, but also the planned fittings with virtual furniture. That's how online shopping will work in the near future.

The highlight of the Zenfone AR is the camera. It can capture the surroundings in real time. A 3D image sensor chip plays a key role in this. The smartphone's camera emits infrared light. Every pixel of the image sensor chip measures the time needed for the light to travel from the camera to the object and back. The software calculates a three-dimensional image from this data.

Experts call this technology "time of flight" or ToF. Compared with other methods, ToF technology offers the best spatial resolution and is particularly robust. Our chip is extremely small and can be used independent of daylight.

Autonomous driving, electromobility, data security, augmented reality on the smartphone. Ladies and gentleman, those were a few examples of the technological transformation I described at the outset: The world is getting more digital. And the world is getting more electrical.

These examples also show that Infineon is one of the world's leading technology companies. And we aim to make sure things stay that way. To continue to be well equipped for the future, we want to build up additional expertise.

Developing expertise for cutting-edge technologies

One focus of ours is on the compound semiconductor. We have already been working on this for many years. Compound semiconductors do not consist of pure silicon, but of at least two chemical elements. Examples are chips made of silicon carbide or gallium nitride.

Compound semiconductors will grow in importance in the coming decades. Thanks to their very specific characteristics, the strengths of these chips can be leveraged in a wide range of fields. Two areas are of particular importance for Infineon: power electronics and high-frequency applications. We've many years of experience and leading expertise in both.

Compound semiconductors will allow us to serve key growth markets even better in future: electromobility, renewables and the cellular infrastructure.

In particular, the next-generation mobile standard, 5G for short, is a basic prerequisite for the Internet of Things. That's because 5G offers larger bandwidths and communication practically without any latency, which is important for critical applications such as Industry 4.0 or the Internet of Things. Ladies and gentlemen, 5G also ensures that your smartphone can also play high-resolution videos without any judder.

Special power semiconductors that enable extremely high frequencies of up to 80 Gigahertz are needed to expand the required infrastructure. That's only possible with compound semiconductors. Today's frequencies are at one Gigahertz – and that's already very high.

Growth in hybrid and fully electric vehicles will also generate growing demand for compound semiconductors: both for the drive and charging electronics.

With power electronics based on compound semiconductors, we open up completely new possibilities for our customers: They can develop far more compact solutions that boast greater efficiency. At the same time, there's an increase in

the total value of the installed semiconductors. The bottom line: Our customers improve their system performance, lower their system costs – and Infineon earns more revenue. A classic win-win situation.

Renewable energies, electromobility and mobile communications are highly promising growth markets. They are in particular the fields in which Infineon aims to capture a leading global position or has already held one for years.

We'll ensure that things stay that way. In the past years, we've already developed and marketed compound semiconductors with great success. We'll continue to pursue this strategy. It holds out the promise of growth. Thanks to compound semiconductors from Infineon, our customers will keep on being able to offer competitive products down the road: greener cars, cleaner energy and even faster mobile communications.

Infineon is a strong company. Thanks to our innovativeness, we'll continue to grow by our own efforts with products for these important markets of the future. Thanks to our expertise, we are able to shape markets successfully. We continue to lead the way among the competition. We know what we need to do to achieve that. And we're doing it.

Our strategy is also to complement our know-how sensibly by means of acquisitions. That's worked very well on several occasions in the past, such as the acquisition of International Rectifier two years ago. The purchase of Innoluce, which I mentioned earlier, is also a fine example.

And we aim to expand our expertise further with the acquisition of Wolfspeed. However, we received a notification from the American authority CFIUS last week. CFIUS is the Committee on Foreign Investment in the United States, an inter-departmental authority of the U.S. government. The content of the notification from CFIUS: The purchase of Wolfspeed by Infineon would pose a risk to the national security. CFIUS did not identify any suitable measures that might adequately mitigate its concerns. Against this background, we are of the opinion that there is a very considerable risk that we cannot close the transaction as agreed or even at all.

Irrespective of the outcome of these proceedings, we are pursuing our long-term strategy and further expanding our leading expertise: Alongside the further development of silicon chips, we are focusing on silicon carbide and gallium nitride compound semiconductors. In this area we are already very successful on the market with various solutions and are developing other products.

A couple of examples are: We have already been selling silicon carbide diodes for the last 16 years. In the middle of this year we will launch a new silicon carbide power transistor and deliver the first products to customers. The silicon carbide transistor will already contribute to revenue growth at Infineon in this fiscal year. Gallium nitride power switches have been part of our portfolio since we took over International Rectifier. We will continue to expand this product range.

As a leading technology company, Infineon will also offer a wide range of products in the future and thus deliver the crucial competitive edge. Our customers can rely on that.

Using the opportunities offered by change

To summarize, ladies and gentleman, Infineon had a successful fiscal year 2016. We again expect growth in revenue, segment result and margin in 2017.

Population growth, climate change and urbanization are global challenges. We must and will tackle these challenges. Infineon delivers a major contribution to making more out of less and improving productivity.

However, we will only find sustainable solutions if the world's regions work together. Countries going it alone or even isolationism are no answer to global problems. Because one thing is very clear: The Internet has connected the world. Digitalization knows no more boundaries. In the digital world, the next continent is just a mouse click away.

Digitalization and electrification – these trends are reliable growth drivers for Infineon. One thing is for sure: Digitalization, in particular, poses new tasks for us all. We must shape this transformation. That way, the changes are above all an opportunity for us – and not a nasty specter.

Digitalization is creating new fields of business and new professions. We have to respond to these changes with suitable offerings for education and qualification. Change demands new skills. In that way, we'll make Germany, as an industrial location, ready to tackle the global competition.

Digitalization will penetrate and advance all areas of life. Education, science and culture, business and politics: We need stimuli from all areas of society to kindle people's enthusiasm for innovation. If politics, business and society work hand in hand to tackle this change, we'll leverage the opportunities it offers.

Infineon is excellently prepared for the future. We have know-how and products for key growth fields: Autonomous driving, electromobility, renewable energies and efficient use of electricity, mobile communications and data security.

Ladies and gentlemen, Infineon is an excellent position today. Our past efforts have been the foundation for that. We have competent employees to tackle the tasks ahead of us. We have a new lineup on the Management Board and have expanded it with Helmut Gassel and Jochen Hanebeck. We are therefore creating today the basis for our future success.

Infineon will continue to grow profitably. As a result, we will sustainably increase the value of your stake. Infineon's share remains an attractive investment.

Dear shareholders, I am delighted that you continue to put your trust in our company, for which we thank you.



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