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## Annual Press Conference

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- The spoken word prevails -

Dear Ladies and Gentlemen,

I would also like to bid you a hearty welcome to our annual press conference. This morning, we announced our results for the fourth quarter and published the accumulated annual values for fiscal 2006. Following my introduction, my colleague, Mr. Fischl, will provide you, as usual, with all the facts and figures in more detail. I would like to focus on three topics in particular: where we now stand in restructuring our company, what our next goals are and how we plan to attain these goals.

### Results for Fiscal 2006

But first, the main results of the fiscal year just ended were:

We were able to considerably increase overall revenues in the Infineon Group: to be more exact, by 17 percent, from Euro 6.76 billion year-on-year to currently Euro 7.93 billion. In the fourth quarter alone, we recorded an increase of 16 percent compared to the previous quarter.

We owe this sales growth primarily to the very dynamic development at Qimonda and in the Automotive, Industrial & Multimarket segment (AIM). Both business units have increased their year-on-year sales significantly. At Qimonda, sales are up by 35 percent. The Automotive, Industrial & Multimarket segment showed an increase of 13 percent year-on-year and achieved its highest quarterly sales ever in the fourth quarter. One of the principal sales drivers was the ongoing strong demand for power semiconductors for industrial drives. The Communications Solutions (COM) segment

also saw strong sales growth in the fourth quarter. For the year overall, however, this segment recorded a decrease; compared to the previous year, the drastic decline in demand for baseband products and the phase-out of the company's fiber optics business had a negative impact.

As far as results are concerned, we made a good deal of progress in the past fiscal year. Following an EBIT loss of minus Euro 183 million last year, we were able to reduce the group EBIT to minus Euro 15 million in 2006.

It was primarily AIM that played a major role in contributing to the improvement of the EBIT. The segment increased the EBIT margin from a good 5 percent last year to currently close to 9 percent. So, we are 3 percent above the guidance we gave at the beginning of the year. We achieved this despite expenditures of more than Euro 70 million to set up the new plant in Malaysia and for the production ramp-down in Munich-Perlach.

Unfortunately, these operative improvements in the group were overshadowed by a number of charges of Euro 196 million. These charges can be attributed primarily to the Qimonda IPO and the insolvency of the BenQ Mobile's German subsidiary. Without these charges, the EBIT for fiscal year 2006 amounts to plus Euro 184 million, significantly higher than the year-on-year figure. The main part of the charges fell into the fourth quarter. However, we achieved a positive EBIT of Euro 30 million.

### **Major Milestones on the Way to Profitable Growth**

Ladies and Gentlemen, in the past fiscal year, we also reached a number of important milestones that we had set our sights on in the restructuring of our company. We have made a lot of progress:

First: One very important milestone was the carve-out and IPO of the memory business. The basic idea behind this move was to reduce Infineon's focus from three business segments to two business segments, namely to automotive and industrial electronics and communication. All three business segments have good prospects of further positive development. We planned to become stronger in the two business fields of automotive and industry and communication.

We carved out Qimonda to form a legally independent company on May 1 this year, which was two months earlier than originally planned. We consider this just as much a success as the fact that we were able to place Qimonda on the New York Stock Exchange in August during difficult market conditions. Despite this challenging market environment, we deliberately continued to pursue the IPO because the consistent implementation of our strategic restructuring was more important to us than earning as much money as possible with the IPO.

We are confident that Qimonda will continue to maintain its position as the second-largest DRAM supplier worldwide. And Qimonda's technological strength will do the rest. We have seen a number of successes on this front as well: with the introduction of the 75-nanometer technology in the fourth calendar quarter of 2006, Qimonda was successful in catching up to the technological leader in this field.

Second: The second major success to report in the past fiscal year is that we have been able to significantly reduce the number of losing segments in our core business, i.e. in the Automotive, Industrial & Multimarket segment and in the Communication Solutions segment.

At this point last year, I told you that I was convinced that nothing can create more value in a company than restructuring unprofitable business units.

During the past fiscal year, we have brought the business in discretetes, tuners and RF power transistors from years in the red back into a turn-around. We are also particularly proud that the chip-card business, which ran up high losses in the two-digit range in one fiscal year, was able to reach the break-even point in the fourth quarter of the last fiscal year. And that was one quarter earlier than planned.

I have no intentions of redefining the segment reports, but just let me say this much: thanks to the restructuring of the business activities I have just mentioned, we have made a sales volume of approximately Euro 700 million in total once again profitable.

Wireline communication, a business unit that also drew losses in the past, already achieved the turn-around at the end of fiscal year 2005. In the fiscal year just ended, this business unit not only showed a very positive net result, it had also continued to increase its market share. We are confident that we will have stable, positive net results once again at the end of the current fiscal year.

Third: The last major restructuring task we have is in wireless communication. We have been successful in this field, and - I consider this as our third major success of the last fiscal year - in winning some major new customers with LG Electronics for platform solutions, with Panasonic for UMTS telephony and with Samsung for RF transceivers. Despite this success, the diversification among our customer base will not be able to compensate for the loss of sales due to the insolvency of the German BenQ Mobile. Nevertheless, we are confident that the currently planned projects with our new key customers will have a positive impact on results during this fiscal year. From our standpoint today, we expect to cross the break-even point in the Wireless Communication business unit by the end of calendar year 2007. We already informed you about the impact of the insolvency of one of our largest customers a number of weeks ago.

### **The "New Infineon"**

Ladies and Gentlemen, when we talk about a new Infineon today, in other words "Infineon Logic", then we are talking about a company

- with sales of more than Euro 4 billion,
- with more than 29,000 employees,
- of whom 6,000 are employed in research and development alone.
- We invest approximately Euro 800 million in research and development.
- And more than 22,800 patents are the guarantee of our leadership in technology.

This company is active on a growth market. Even if growth on the semiconductor market has slowed down compared to the boom years at the end of the 1990s, we are still dealing with a dynamic growth market! The "logic" market, which is relevant for our business, will grow over the next few years at an average rate of 10 percent a year. And we want to profit from this growth at an above-average rate.

That's why our "new" company will focus primarily on three main fields. They reflect the central challenges to modern society:

- Energy efficiency

- Mobility and connectivity and
- Safety & Security

We are already making significant contributions to these markets and have established good starting positions. We want to continue to expand on these strengths and take advantage of all our opportunities for growth in the future. After all, we have already gained an ideal position with our products to serve exactly these markets:

For energy efficiency: Our products provide for the enhanced energy efficiency of engines, drives and electronic devices. Our semiconductors are already the basis for efficient energy management in power supplies for PCs or drive controls for electric motors in washing machines, industrial systems and trains. Our components primarily help private households, where most of our energy is consumed, to reduce the power needs in refrigerators, air conditioners and electric stoves and ovens. Wind-energy and solar systems, fossil-fuel plants and transformer stations also work with our semiconductors.

Mobility focuses on location-independent access to information, whether from cell phones, broadband Internet access or wireless applications. Thanks to modern communications, people are now closer together, geographical distance no longer plays a role. Personal accessibility and the simultaneous availability of information should be made possible anywhere at any time. Our wireless and wired access technologies for voice and data communication play a very critical role here.

For safety & security, our semiconductors provide for data security and personal safety, in road traffic, for example. Security requirements in the private sector, as well as in public offices, are increasing in the same way as for the protection of privacy and of material and intellectual property. Key words here include passports, ID cards, health cards. Customer-specific chips are also equipped with security functions, like those used by Microsoft, with our help, in the gaming consoles.

On a majority of these markets we are, as I have already said, in a good position and moving successfully on the current market. For power semiconductors, for example, for chip-card ICs, for access products for broadband communication and for RF solutions for cell phones. This is where we have already been world leaders for years.

On the market for semiconductors in the automotive industry, we saw growth in 2005 that was significantly stronger than the market average and were able to further expand our Number 2 position on the market worldwide. In Europe, we are still the undisputed Number 1.

It is our goal to reach the Number 3 position at the very least in all these activities in these market segments. The revenues from the continuing sale of the Qimonda shares will help us in this endeavor to grow. We plan to use these revenues, among other things, to make acquisitions to win new customers and tap into markets where we are not currently represented with adequate presence. Our acquisition strategy will also reflect our restructuring and focus on existing strengths.

But first and foremost, we want to grow on our own strength, and we are not talking about the absolute size of the overall corporation. What's much more important, and this is something I would like to emphasize once again, is to expand the relative strength of the individual market segments and to take over a leading position.

These strengths form the basis for future growth, for profitable growth. A good example is our new front-end production in Kulim in Malaysia, which was set up in record time and already went into production in August this year. This plant is an important milestone in the further expansion of our already successful business with power semiconductors for industrial applications and for the automotive industry.

### **Goals, Strategies and Priorities**

Ladies and Gentlemen, we have made a lot of progress on our way to profitable growth in the fiscal year just ended. Nevertheless, we are naturally not satisfied with the level that we have reached. We haven't yet got everywhere we want to go. But we do have a clear roadmap with clear destinations, and we will continue to travel down this road, destination by destination.

The past two years have been strongly impacted by the restructuring measures in our company. We expect this phase to be by and large completed during the current fiscal year. The carving out and restructuring processes will provide us with a new basis and this is the basis we can use to launch into a new mode of growth.

We formulated and approved the goals for our medium-term development just last week, during our international top management conference.

We have summarized these goals under the title of "Focus on 10":

- We will strive for at least 10% growth per year
- We want to achieve an EBIT margin of at least 10% per year

From today's standpoint, these are ambitious goals. But we are convinced that we will be able to reach them.

How do we want to reach them?

Certainly not by using spectacular visions and strategies, but rather by using good, solid business work. We will place a major focus on the customers, who we want boost to success on their markets with our products and solutions.

We will do that by placing an even greater focus on the customer than before. We want to align our activities more closely to customer requirements in the future. This means that, contrary to our previous activities, we will orient our roadmaps even more strictly towards our customers' needs and not towards an anonymous end-customer market. At the same time, we plan to expand our applications know-how to accommodate changing customer requirements.

Our other focus will be placed on efficiency and cost-consciousness within our company.

To do so, we plan to reduce the complexity of the company even further. We have launched a cross-enterprise program to simplify processes, which in turn will reduce costs – the Infineon Complexity Reduction Program (ICoRe). This program will be used to systematically analyze the task and process structures in the company. The goal is to create a leaner structure to make the cooperation with our customers as well as internally quicker and more efficient. Corresponding measures will be implemented during the current fiscal year. We expect these measures to result in savings amounting to at least Euro 50 million.

In addition, we will also continue to promote our new manufacturing and development strategy. It is our goal to reduce investments in the medium-term to approximately 10-

12 percent of revenues. Within the scope of this strategy, we will also pursue different approaches for the individual fields in the logics business:

We will no longer invest in our own capacities for components with structures of 65 nanometers and below, most of which are produced in standard CMOS technology. In this field, we will develop and produce with partners.

We will take a different approach with power semiconductors. Since the production technology used and the quality achieved in the production of power semiconductors plays a major role in the competitive arena, we will keep process development as well as production completely under our control. This "fab-light" approach has two major advantages: We can considerably reduce our investment expenditures while ensuring the competitive edge of our production landscape at the same time.

### **Outlook for 2007**

Now let's see how things look for 2007.

The current first quarter of fiscal year 2007 will be negatively impacted by the BenQ effects in COM along with a number of seasonal effects in AIM. This, however, does not change anything in our clear goals for the current fiscal 2007year:

In 2007, we will have completed the major restructuring work in the company and will leave the loss phase behind. Once these measures have been completed, we will have the basis for a sustainable growth strategy and profitability.

As a result, we will concentrate our efforts on moving all our business units, apart from Wireless, into the profit zone by the fourth quarter of this fiscal year at the very latest. For Wireless, we hold to the statement that we will reach the break-even point in the fourth quarter of the calendar year.

### **Closing Remarks**

Ladies and gentlemen, please allow me to summarize the main points once again:

Thanks to our consistent restructuring measures, we have made significant progress on our way towards profitable growth in fiscal year 2006.

In the past fiscal year, the company, except the mobile phone business, has developed very positively and profitably. However, this positive overall development is overshadowed by the Wireless business. In our last press conference call we explained to you that we will consistently work on this topic and that we will have solved this topic until end of 2007 at latest.

We have a clear plan with goals that we want to achieve and measures we can consistently carry out to achieve those goals.

Thank you.

