



Annual General Meeting 2015

Dr. Reinhard Ploss

Munich, February 12, 2015

Chief Executive Officer

Dr. Reinhard Ploss

- The spoken word prevails -

Dear shareholders,

Welcome to the Infineon Annual General Meeting. I would also like to extend that welcome on behalf of my colleagues Dominik Asam and Arunjai Mittal.

Ladies and gentlemen, I am delighted to be reporting to you today on the past fiscal year. In addition, I would like to give you an insight into what the future holds for Infineon.

Looking back and forward

You may have seen the current Annual Report. Its title is “Systematic Growth”.

What do we mean by that?

I would like to explain that to you in a bit more detail, beginning with a brief look back.

The 2014 fiscal year was a success for Infineon. We not only signed the agreement to acquire International Rectifier but, in particular, also sold more, earned better and worked more profitably than one year earlier.

The fiscal year followed the typical pattern for our markets, with a seasonal decline in revenue in the first quarter, followed by three quarters of growth in revenue and earnings.

Compared to the respective quarters of the previous year, we generated significantly more revenue in all four quarters, with growth rates mostly in the double-digit range.

When I have finished, my colleague Dominik Asam will go into the figures for the past fiscal year in more detail, but I would like to highlight the key figures now:

- Revenue rose to 4 billion 320 million euros – a plus of 12 percent.
- The segment result improved from 377 million euros to 620 million euros.
- The segment result margin reached 14.4 percent. By comparison, in the 2013 fiscal year it stood at 9.8 percent.

More revenue, better earnings and a higher margin – we achieved these targets in all four segments in the last year.

In the Automotive segment, three factors were the basis for growth:

- Firstly, there was a steady rise in demand for solutions that make driving safer, more convenient and cleaner. To meet these requirements, cars always need more semiconductors.
- Secondly, demand for vehicles rose worldwide at the same time.

- Thirdly, Audi, BMW and Mercedes managed to sell a particularly large number of vehicles. This is good for Infineon since many semiconductors are built in particular into premium-class cars.

Business in our Industrial Power Control segment has recovered significantly. There was a sharp rise in demand especially in the renewable energy and rail transport sectors. And a slow, but constant upturn in industrial drives also helped our revenue to grow.

The key drivers for success in Power Management & Multimarket were

- the continuing high demand for smartphones and tablet computers,
- the trend toward exchanging more and more data via mobile devices,
- and the expansion of the mobile infrastructure this requires.

Our business performance was also very pleasing in the Chip Card & Security segment, where revenue grew from our chips for mobile communications, authentication, payment applications and solutions for electronic identification documents. We were particularly successful with payment cards. This was primarily due to the introduction of chip-based credit cards in China and the U.S. They are increasingly replacing older magnetic stripe cards there.

Ladies and gentlemen, with growth in revenue and earnings, all four of the company's segments contributed to a successful 2014 fiscal year. They offer competitive products and solutions that deliver progress and open up new opportunities. Energy efficiency, mobility and security are the right growth drivers for Infineon.

Our production plants have also made a major contribution. We have boosted productivity and reduced costs.

Revenue, profit, margin and productivity – Infineon has grown systematically.

The 2014 fiscal year was a success because we already prepared for the sharp rise in customer demand at an early stage. This enabled us to respond quickly and deliver reliably. We have exploited our opportunities and grown by 12 percent.

The past fiscal year also showed us that our long-term strategy has proved itself. That is what we call systematic growth. We are developing and selling the right products for the right markets. We have competitive production plants. We keep an eye on costs but at the same time are investing in Infineon's future. We are extending our expertise and understand our customers' criteria for success increasingly better. We are evolving away from product thinking to system understanding. Infineon is making good progress on its way "from Product to System."

On behalf of the entire Management Board, I would like to thank all employees most sincerely for their commitment. Infineon's success in the 2014 fiscal year is down to their efforts. Without them, Infineon would not have mastered the challenges.

I would also like to thank the members of the Supervisory Board. Over the past twelve months, we have dealt with some demanding issues. Thanks to good support from the Supervisory Board, the Management Board was able to make a number of quick decisions of far-reaching consequence for Infineon.

Dear Mr. Mayrhuber, you and your colleagues stood by our side. Many thanks for your trust. Your experience and advice are valuable for Infineon, and I look forward to continuing to work with you.

Dear shareholders, we also thank you for your support. We want you to have an appropriate share in the positive development in earnings in the 2014 fiscal year. Our dividend strategy is one of continuity and we are adhering to it. In 2010, Infineon decided to pay dividends regularly. In 2011, we increased your participation in the company's success by 20 percent. The Management Board and Supervisory Board are now proposing to raise the dividend again – from 12 to 18 cents per share.

Systematic growth also applies to your stake in Infineon. Not only the dividend but also the share price systematically gained in value last year. Dominik Asam will give you a few figures on this later.

We also expect systematic growth for the current 2015 fiscal year. The revenue drivers in our four segments are intact. In addition, the strong dollar will give us some tailwind.

And we will be able to implement our growth plans while employing less capital. Over the economic cycle, we plan to reduce investments from around 15% of revenue now to around 13%.

Three aspects will enable us to reduce investments without jeopardizing our growth:

- We are reaping the benefits of 300-millimeter thin wafer technology for power semiconductors. This means far more chips but only slightly higher costs per machine. This reduces investments in manufacturing capacities for power semiconductors.

- We are increasingly turning to contract manufacturers. This makes sense with regard to chips and packages for which our own manufacturing technology does not help to set us apart from the competition.

- And last but not least, there are our initiatives to improve productivity. They not only cut costs but increase the output of our machines.

Years ago, we laid the foundations for our manufacturing strategy and have implemented it in a consistent manner. That is now paying off and will make a lasting improvement to our free cash flow. Here, too, we are growing systematically.

Despite investing less, we still firmly have our sights set on our target of growing by an average of around 8 percent per year.

Infineon and International Rectifier – a powerful combination

Ladies and gentlemen, we successfully completed the acquisition of International Rectifier a few weeks ago. With this acquisition, we have opened a new chapter in Infineon's history.

Since Infineon was founded 15 years ago, the company has divested itself of several lines of business. That was not always easy, but they were the right steps to take. We have focused on markets in which we hold a leading position.

Our success justifies these measures. In the last five years, we have shown that we can grow profitably over an entire economic cycle. Infineon has developed impressively over that period. We are now a very healthy business in a sound financial position.

From this position of strength, we have now moved into the “fast lane” and bought a company. Once we had decided to take this step, we acted fast. That gave everyone involved clarity and transparency. And that is the key to making a successful acquisition.

This is a targeted investment in Infineon’s future and fits perfectly into our strategy. With International Rectifier, we will take a significant step forward in terms of revenue, product portfolio, customers and expertise.

In a nutshell, we are reinforcing our strengths.

Why are we sure that acquiring International Rectifier will pay off?

Infineon and International Rectifier are an excellent match. The product portfolios of both companies complement each other perfectly. On the one hand, we are expanding our market position. On the other, this move adds technologies and products which have been on our roadmap for a long time. This will enable us to provide our customers with more comprehensive solutions. That is in line with our Product to System strategy.

On top of that, the acquisition of International Rectifier extends our technology base with regard to compound semiconductors for power electronics. Classic chips are based on a single chemical element: silicon. Compound semiconductors, however, are based on two elements. There are two particularly suitable candidates for power semiconductors: silicon carbide and gallium nitride.

In recent years, Infineon has already become a leading vendor of power conductors made of silicon carbide. International Rectifier is a globally recognized specialist for chips based on gallium nitride.

Compound semiconductors open up whole new technical opportunities to increase energy efficiency. That is important in many applications. Here are two examples of areas in which we expect clear growth:

- Combined, all the data centers worldwide now consume as much power as Spain. Every tenth of a percent that our products and solutions save counts. And we even see potential savings in the percentage range.
- Mobile devices can now do more and more, and require increasingly powerful batteries. Charging them with more compact power supply units requires new technologies.

Here, you can see how small battery chargers will be in the future. They are compact and weigh just a few grams but deliver the same power. With them, people will stay mobile even with power-hungry devices. After all, what is the use of small and light computers or tablets if people have to carry large and heavy units around with them to recharge them?

We now have a clear competitive edge in compound semiconductors: No other vendor operating in our markets can match Infineon’s broad product portfolio and offer such comprehensive solutions.

The acquisition will also deliver considerable cost benefits. On the one hand, the larger revenue base will improve our cost structure. On the other, we can ramp up our production of 300-millimeter thin wafers faster.

As an innovation driver, Infineon needs to be present where innovation takes place. We are already well positioned in many regions. Now we are strengthening our presence in the U.S. We are getting closer to Silicon Valley, the powerhouse for innovation especially in the connected world. We will also significantly reinforce Infineon's position in Asia, one of our most important growth markets. And finally, we will reach more and different customers thanks to the strength of International Rectifier in the distribution business.

The acquisition is expected to bear the first fruits within the foreseeable future: We expect International Rectifier to already make a positive contribution to Infineon's segment result this fiscal year. In fiscal year 2017 at the latest, International Rectifier's margin will be at least 15 percent, which is exactly in the target corridor we have set for Infineon.

This acquisition is a unique opportunity for Infineon. We are bundling complementary products, excellence in technology and innovation as well as sales strength in a larger and stronger company. That gives us tremendous revenue potential to tap together. That, too, is systematic growth.

Ladies and gentleman, I invite you to visit our exhibition in the foyer, where you will find many interesting applications with products not only from Infineon but also from International Rectifier.

I am delighted about the successful acquisition of International Rectifier. And I am not the only one. Everywhere at Infineon, we have given a warm welcome to our new colleagues. There is a real spirit of optimism throughout the company. With this momentum, we will successfully integrate the two companies and continue on our growth path together.

Strategic approach – from Product to System

Ladies and gentleman, as I already mentioned, the shift from product thinking to system understanding is a key component of our company's strategy. The goal is to keep improving our understanding of customers' systems and applications and their success factors. We want to recognize developments in our very dynamic markets early on and help shape them. We can thus point out new solutions to our customers or work together on developing them. With system understanding, we can give our customers a crucial lead over their competitors. We can make their products more powerful and cost-effective, and shorten their time-to-market.

Infineon has made good progress on its way from Product to System. Let me give you an example.

Infineon has been very successful with silicon microphones for several years. These tiny components are made up of two components: a sound-sensitive silicon sensor (a so-called micromechanical system) and a signal processing chip.

We don't sell our components directly to smart-phone companies but we do cooperate very closely with them. They ask our engineers for advice about improving mobile phones in future models. This is why we know early on what a new mobile phone needs. This means we can provide customers with silicon microphones that are perfect for their needs and give their next smartphone an important competitive edge in highly contested markets.

But what is it that makes our silicon microphones so special? And how do we implement that technically?

We know how to process silicon but that is not enough. We also need to know something about acoustics. On the basis of this expertise, we can build microphones with excellent voice quality. With them, you can make phone calls at, for example, an airport without interference. This is because we can filter out disturbing background noise with the aid of additional microphones in a smartphone. This only works, however, if the microphones are completely identical. On the basis of elaborate design engineering and our outstanding manufacturing technology, we can guarantee precisely that.

Another important advantage of silicon microphones is their small size. If they were not so tiny, manufacturers could not install several of them in a phone. Only such small components allow brand new device categories, such as smartwatches. This conjures up images of James Bond, but what we used to regard with a smile as utopian is now reality with chips from Infineon.

This means that microphones must be made ever smaller without compromising on sound quality. That is only possible with special, innovative manufacturing technology. And that is one of Infineon's strengths.

Here you see a wafer that we produced. Such a wafer holds up to 30,000 micromechanical sensors for silicon microphones.

Such a sensor is also shown on the front cover of our Annual Report – magnified 400 times. In reality, it has a diameter of just one millimeter.

Infineon's silicon microphones are a remarkable success story. Our market share is continually increasing, even in a steadily growing market. In the 2014 fiscal year, for the first time we generated revenue of more than 100 million euros with these components. That is also an example of systematic growth.

Another example is the car radar system. Radar sensors are now a standard feature of many premium cars. These sensors measure the gap between the driver's own car and those in front of it, next to it and behind it.

We deliver two chips for our customer Bosch's radar system, which automatically measures the distance to the car in front. One transmits the radar signals to measure the gap and the other receives them. Using a special packaging technology, we have managed to accommodate the chips in housings that do not impair the quality of transmission and reception.

The advantage for our customer: Until a few years ago, Bosch had to mount the two chips on a printed circuit board in an elaborate process in a clean room. Thanks to our innovative packages, it is now possible to use inexpensive standard assembly methods. This opens up new sales opportunities for Bosch and Infineon as the lower system costs now also make it economically viable to install radar systems in midrange vehicles.

The picture shows the interior of a radar sensor. The small black rectangles are our chips. The copper points are the antennas. They bring to mind the old television antennas on roofs but they are much smaller due to the high frequencies involved.

Product to System means more value for Bosch and more business for Infineon. We will continue along this path.

Radar systems in cars are an essential technical requirement for a development that will revolutionize road traffic, namely self-driving or autonomous cars. There have already been many successful drives.

This topic is not only of interest for established car manufacturers. Autonomous driving requires, above all, very accurate maps and information about the surroundings. Collecting, cleaning and using data is Google's business model. 150 self-driving Google cars are currently on the road gathering practical experience. They are fitted with radar chips from Infineon – once again via our customer Bosch.

If you want to know more about this topic, you can find an Audi A7 at our exhibition in the foyer. This sedan is equipped with a host of sensors. They continuously observe the vehicle's surroundings at short and long range. A central control unit collects and processes this data and makes decisions about the direction and speed.

There is a long way to go before autonomous driving leaves the trial stage but the stages before then already have great benefits. An increasing number of advanced driver assistance systems are helping drivers make fewer mistakes. Or they help in critical situations. The emergency braking assistant is a big step forward. It brakes, for example, if a child suddenly runs on to the road and the driver cannot respond in time.

The next stage will be so-called piloted driving, in which the car takes over the driver's tasks for a limited time – on freeways initially.

Admittedly, that all sounds a bit like a far-off vision, but I am convinced that this vision will become reality – also on roads in Germany.

Active driver assistance systems are already making driving more convenient and safer. But there is still a lot to do. We need solutions that are absolutely reliable. At the same time, they have to be inexpensive to make sure they are also affordable for compact cars. Infineon will play an important role here because these solutions require a combination of leading-edge technology, high development expertise and extensive quality thinking. Those are our strengths.

Of course, the rules for self-driving cars still need to be clarified, for example, liability. This is where politicians come in. I am therefore pleased that initial test routes for autonomous driving are due to be defined in Germany. The local automotive industry must not fail to keep abreast of such an important development.

Connecting the real and digital world

Autonomous driving is an example of a profound change – the increasing convergence of the real and digital world, also known as the Internet of Things. This change will affect many areas of our life today, such as traffic, industrial production, retail and energy supply. The Internet of Things will make completely new business models viable.

A few days ago, the Handelsblatt newspaper reported on this topic and capriciously announced: “Only food stands will stay offline.” We’ll see how long curried sausages can withstand the Internet.

Not everyone necessarily welcomes this trend in all its excesses, but it is clear that it will be another driver for Infineon’s growth in the long term as the connection of the real and digital world requires semiconductors. In the Internet of Things, chips are the crucial link between hardware and software. Our solutions for energy efficiency, mobility and security will play a key role.

Let’s take a look at a not too distant future. Smart grids bring electricity from decentralized energy sources to where we need it. Cars are connected to the Internet and networked with each other. They send and receive information about the current traffic situation and decide on their own which is the best route to take.

But chips are not only needed to connect the data world and reality. The Internet means communication and data exchange. Sensitive data needs to be protected effectively against misuse. Here, too, semiconductors from Infineon offer appropriate solutions.

In other words, our chips are part of the future.

This applies, in particular, to a part of the Internet of Things that is gaining in significance for the competitiveness of Germany as an industrial location: Industry 4.0, the next stage in the evolution of industrial manufacturing.

Through Industry 4.0, machines are becoming more intelligent. They are networked with each other and with the products they make. They can detect on their own when they are showing signs of wear and order the spare parts in good time. They are connected to the materials store and can request replenishment.

Another major step is the direct connection between suppliers and customers. Entire value chains can be linked in real time even when they are spread across the globe.

Networking production from development to delivery to the customer allows the exchange of information to be speeded up tremendously. If we use this data properly, we can respond more quickly to changes in the markets. The ability to respond to changed market conditions will be one of the most important competitive advantages in the future. Just think, for example, how short the lifecycles of mobile phones have become.

As far as Infineon is concerned, the most important aspect of Industry 4.0 is that we will not only get faster in production but, above all, when it comes to learning and building up knowledge on the basis of extensive information and competent analysis. Industry 4.0 fits in well with Infineon because we want to understand the entire system and can gain new knowledge from it.

But Industry 4.0 also entails security risks because it means we are opening the gates to our factories. A company's data and know-how are valuable. We must therefore protect them effectively against theft and sabotage. The integrity of data and production processes, and confidence in data security are key to the success of Industry 4.0.

It is especially this aspect that offers the German economy the opportunity to set up a system in which people and machines can reliably identify each other and communicate confidentially in the digital network.

Why can German industry, in particular, handle this task especially well? Let me state two reasons.

Firstly, our country has the necessary basis. German companies have been leaders in industrial equipment for decades. And we have extensive expertise when it comes to digital security technology.

Secondly, and I regard this reason as even more decisive, we are regarded as trustworthy. Germany enjoys a good reputation worldwide in terms of security and data protection. And that was the case well before the leaks by Edward Snowden.

Competence and trust: If business, politics and administration work together properly, Germany can play a globally relevant role in respect of secure communication in the Internet of Things, and become a safe harbor for the world.

Infineon is making a major contribution with regard to digital security. We have the necessary skills and expertise when it comes to secure interaction between hardware, software, data and processes. We have the chips to store important data in a secure manner. This includes identity data allowing people to identify themselves reliably in the Internet of Things and to encrypt data securely.

With our focus topics of energy efficiency, mobility and security, we are active in the right fields of growth, including in the Internet of Things.

Systematic growth

So, to summarize, ladies and gentlemen, 2014 was a successful fiscal year for Infineon: The company grew in all segments, earned more and was more profitable. Our long-term strategy is proving itself.

Solutions from Infineon provide the answer to important social issues. Energy efficiency, mobility, and security are gaining in significance and promise systematic growth.

And we will grow systematically, also with the aid of our strategic evolution from product thinking to system understanding. Solutions from Infineon give our customers' applications considerable advantages over the competition. In turn, that gives us a lead that we will extend.

The acquisition of International Rectifier is an important part of our strategy as it strengthens us in terms of products, technology, regional presence and customer structure. This will give Infineon additional momentum.

We are sticking to our targets: Infineon wants to grow by an average of 8 percent and achieve a margin of 15 percent over the economic cycle, while employing less capital.

Dear shareholders,

Infineon is growing systematically. Your company is on the right track. I would be delighted if you would accompany us on this path for a long time to come.

Many thanks for your trust.

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