

Dr. Reinhard Ploss

CEO

Infineon Technologies AG

Annual Press Conference

Munich, November 12, 2013

- The spoken word prevails -

Welcome, Ladies and Gentlemen!

We are pleased that you can attend the Annual Press Conference of Infineon Technologies AG. Together with my fellow Management Board colleagues Arunjai Mittal and Dominik Asam, I will present the figures and most important developments from the past fiscal year. Following this, we want to share our expectations for the current year with you.

Let us begin with a review.

I am glad to be able to tell you today that – particularly in light of the overall economic background – we had a successful year. The year went better than we had expected in November 2012. With our two important future-oriented projects, our new strategic “From Product to System” orientation as well as the development of 300mm thin-wafer manufacturing, we have made good progress this year.

At my first Annual Press Conference as Infineon CEO one year ago, we were facing major challenges. Let us recall: At that time, we had forecast a

revenue decline in the mid- to high-single-digit percentages and a segment result margin in the mid- to high-single-digit percentage range. This was because the development of the global economy was weak and difficult to calculate and demand for our products fell. We responded rapidly and flexibly, however. We temporarily shut down unneeded capacities, canceled or curtailed individual projects and took many other measures to reduce costs. The entire company cooperated remarkably, even though this demanded a great deal from employees. The savings we achieved were above our target of 100 million euros.

Thanks to forward-looking management, Infineon remained profitable even at the low point of demand. When the market began to recover during the second half of the fiscal year – as we had predicted – due to typical seasonal effects as well as to a generally improved market environment, we could quickly ramp up manufacturing and gain market share.

Despite all cost-saving measures, we always had our long-term strategy in view.

Two factors have paid off:

First, through focusing on energy efficiency, mobility and security we have adjusted our product portfolio in recent years and concentrated on high-margin activities. This supports our profitability even in economically difficult periods.

Second, we have successfully used our extensive experience. The semiconductor business – as industry observers like you know – is characterized by cyclical fluctuations. At Infineon, managing these ups and downs has become one of our core competencies.

The result: In the **2013 fiscal year** we earned **Group revenue** of over 3.84 billion euros. In comparison to the previous year, the decline was only two

percent. Beginning in the second quarter, demand recovered more dynamically than expected. Business in Asia, especially China, was especially strong. We could more than offset the additional burdens arising from the weakness of the US dollar against the euro.

We have significantly reduced our investments. This is reflected by the free cash flow, which improved from minus 219 million euros in fiscal year 2012 to plus 235 million euros. Infineon is financially strong. In comparison to the previous year, the gross cash position rose by a good 50 million to 2.286 billion euros; the net cash position was 43 million higher, at 1.983 billion euros.

Our segment result for the entire year was 377 million euros. This represents a decline of 150 million euros compared to the previous year. The segment result margin dropped correspondingly from 13.5 to this year's 9.8 percent. The decline in result is a logical and industry-typical consequence of the relatively high fixed costs and the sharp decline in revenue that we experienced in the first quarter. This makes it all the more demanding and important that we can also ensure our profitability in such a situation as well.

In the second quarter, the market began to recover; this continued over the rest of the year and we were able to consistently exploit it. This was confirmed in the **fourth quarter**. For the third time in a row, our revenue, result and margin grew. From July to September, the Infineon Group turned over 1.053 billion euros – a plus of three percent over the previous quarter. The segment result even rose by a good quarter to 148 million euros. The segment result margin reached 14.1 percent – 2.7 percent points more than in the previous quarter.

Review of the Divisions

If we consider developments at the Division level, the following picture emerges. In the 2013 fiscal year, the three segments Automotive, Chip Card

& Security, as well as Power Management & Multimarket increased their revenue compared to 2012. This more than offset the decline in the Industrial Power Control segment. The fact that overall Group revenue still decreased slightly, can be attributed to the Other Operating Segments, Corporate Functions and eliminations.

Although **Automotive** slowed somewhat due to the continuing weak car market in Europe, sales in the USA and China developed very well. Demand for German premium cars also remained at a high level. In a year-on-year comparison, ATV's revenue thus increased by 3 percent to a good 1.7 billion euros. The segment result, in contrast, dropped by nearly one quarter to 167 million euros. The segment result margin was 9.7 percent.

In the fourth quarter, revenue, at 455 million euros, remained almost at the level of the previous quarter. The usual decline in the summer months was for the most part absent. The segment result climbed by circa 10 percent to 57 million euros. This means a margin of 12.5 percent.

Power Management & Multimarket, or PMM for short, continued to benefit from the increasing global demand for smartphones and tablets. PMM was hardly affected at all by the decline in demand for classic PCs. Sales of high-quality laptops remained fundamentally stable compared to the rest of the PC market. With plus 6 percent to 987 million euros, PMM showed the greatest revenue increase compared to 2012. The segment result increased slightly to 144 million euros, which corresponds to a margin of 14.6 percent.

In the final quarter of the fiscal year, PMM increased its revenue by 2 percent to 271 million euros and its segment result by 7 percent to 49 million. The segment result margin was 18.1 percent.

Of all the Divisions, **Industrial Power Control** had the most difficult year, particularly because global demand for capital goods was initially very weak. After a massive slump in the first quarter, however, the situation rapidly

improved. In short, IPC ended the 2013 fiscal year with a revenue decline of 11 percent, to 651 million euros. The segment result decreased by 68 percent to 38 million euros; the margin was correspondingly 5.8 percent.

The strong recovery of IPC continued in the fourth quarter. In comparison to the third quarter, revenue increased by 14 percent to 197 million euros. Demand improved in all fields where IGBT chips and modules are used. The segment result improved in a quarter-on-quarter comparison by 154 percent to 33 million euros; the margin thus jumped to 16.8 percent.

Finally, **Chip Card & Security** was successful with its solutions for modern identity cards and passports, authentication and payment cards. CCS improved its annual revenue slightly by one percent to 463 million euros. The segment result stood at 39 million euros, 30 percent lower than the year before. The segment result margin was 8.4 percent.

In the fourth quarter, CCS showed a revenue increase of 8 percent to 129 million euros compared to the previous quarter. The segment result climbed by one-fifth to 12 million euros and boosted the margin to 9.3 percent.

Assessment of the 2013 fiscal year

In summary, this means that in the 2013 fiscal year, our revenue and margin were better than initially expected. We played on our strengths and demonstrated outstanding management of market cycles. Even in the downturn, Infineon remained profitable.

This is good, but not good enough. Infineon has not yet achieved its long-term desired margin. During the past four years, our segment result margin through the cycle amounted to 14.4 percent, or slightly below our target of 15 percent. But we are making significant progress.

Dividend recommendation

In view of business developments in the past fiscal year, the Management Board proposes a dividend of 0.12 euros per share, which remains the same as the previous year. In doing this, we orient ourselves to two basic principles that determine Infineon's dividend policies: First, investors should adequately participate in earnings growth. Second, if results stagnate or decline, if there is a negative free cash flow, the dividend should at least remain constant.

Outlook for Q1 and the 2014 fiscal year

Let us now take a look at the future. What will the 2014 fiscal year bring?

I would like to begin with the **first quarter**, the months October to December. As with every year, we anticipate a seasonal decline in all four segments compared to the previous quarter. The decline will probably be significantly greater in Power Management & Multimarket and Chip Card & Security than in the automotive and industrial segments. For the Group as a whole, we expect revenue between 960 million and 1 billion euros. The segment result margin will correspondingly reach circa 8 to 10 percent.

In the **2014 fiscal year**, Infineon expects revenue growth of 7 to 11 percent compared to the previous fiscal year with a segment result margin of between 11 and 14 percent.

At IPC, i.e. our industrial sector, revenue growth should lie above the Group average; PMM and CCS's growth should lie approximately at the average. In the automotive sector, we expect slightly below-average growth.

In the year as a whole, we want to increase investments to circa 650 million euros. There are several reasons for this: Our changed product mix as well as the current high utilization in our production require capacity expansion in Frontend and Backend, especially for 200mm and 300mm thin wafers.

Depreciation will rise to circa 500 million euros or slightly more. The free cash flow level will probably reach that of the previous year, at minimum.

Strategic outlook

What will characterize our business in coming years? How do we want to shape it? For the future, Infineon has introduced the right steps.

A year ago, I explained that we wanted to develop our business more strongly from its major focus on products toward an understanding of systems. Or as we say for short: "From Product to System". Why do we want to do this?

Over many years, we have used our great expertise to develop leading technologies, high-quality products and outstanding manufacturing. In the future, in addition to our technological strength, we also want to expand our understanding of our customers' success factors. Our solutions are highly diverse. They range from supporting our customers to design their own products all the way to developing innovative concepts that can help customers reduce the costs and increase the performance of their future systems. An understanding of systems paired with our semiconductor competence will enable us to develop products that are better customized, that provide alternative solutions and that deliver significant functional advantages. We thus want to offer customers clear added value.

"From Product to System" will also result in changes for some parts of our organizational structure. Although Infineon is still organized according to product categories today, concepts for comprehensive and application-oriented solutions are already in place in many parts of the company. In other words, "From Product to System" is already affecting our offers.

I have given you some examples of this in past months. Another example is our contribution to the expansion of the mobile network. Due to new

technologies and applications, data volume is sharply increasing. The keyword is LTE. The needed additional transmission capacity can hardly be increased with conventional base stations. The number of potential sites is limited – just as is acceptance by the general public. The solution is for large base stations to be supplemented by mid-sized and small ones. These constantly exchange data with each other, resulting in the development of a more complex network architecture. The individual stations are linked wirelessly, which reduces installation costs. Thanks to our experience with transmission in the gigahertz range, we understand the requirements of this system in mobile communications. We can offer precise, optimally suited semiconductor solutions. Our transceivers, combined with innovative, cost-effective packaging solutions will allow us to operate successfully in the market.

In addition to the strategic “From Product to System” change, we are also driving efficiency increases in manufacturing. As the first and so far only provider worldwide, we can manufacture power semiconductors on 300mm thin wafers – which are especially thin silicon disks. As the clear global leader for power semiconductors, we earn around two-thirds more revenue than the number two provider. Thus we have the necessary large quantities of units and consequently the best conditions. The transition from today’s conventional thin wafers with 200mm diameter to 300mm will lead to 20 to 30 percent lower unit costs with full utilization. At our sites in Dresden and Villach, the first products are already being manufactured in series production; further ones are in preparation.

This is how we create the basis for long-term growth.

Long-term market trends

Our most important growth drivers of energy efficiency, mobility and security – which are our focus topics – remain intact.

I would like to present two examples.

Infineon semiconductors make a substantial contribution to reducing automobile CO₂ emissions. There is still great potential in this area, both in regard to improvements in conventional engines as well as the use of hybrid models, many more of which have been offered recently. Without the use of hybrid or purely electric vehicles, the EU limits on automobile CO₂ emissions will not be reachable. The future belongs to emission-free, fully electric vehicles. Infineon is cooperating in this area with vehicle manufacturers and partners in the supplier industry and thus contributing to optimized system solutions.

You can see one result in the foyer: the BMW i3. This car is an especially fascinating example. We are pleased that our semiconductors could contribute to this accomplishment. The i3 achieves a peak performance of 125 kilowatts controlled by our HybridPACK™ 2 IGBT power module and our 32-bit TriCore™ microcontroller architecture. In addition, our semiconductors can be found in components such as airbag controls or the LED light module. And all to ensure a low level of energy consumption, thus power is primarily available for one thing: driving.

Electromobility is only possible with the help of semiconductors. In coming years, a market with great growth potential will develop. Infineon will keep a leading position.

The second example of a major market trend is security. Discussions in recent months have shown how important information security is. Infineon products and solutions help protect know-how against access by third parties.

We can only allow the networked world of tomorrow to become reality when information security is guaranteed. The Internet of data will merge with the Internet of things and the Internet of energy. Mobility, communication and

production will be linked with each other. Many people see this as a potential threat. I think that we should see this as an opportunity for greater prosperity for all – including those in developing countries – and deliberately create the necessary basis through security. Solutions for protecting communication paths are available. Networked modern vehicles must likewise be protected from hacking attacks. Secure hardware will also transform visions for industry 4.0 into reality. For Germany's advanced manufacturers, industry 4.0 in particular is a great opportunity to secure their existing competitive edge.

Expectations of policy-makers

An essential prerequisite for our future work is a supportive political framework. We are thus watching the coalition negotiations between the CDU/CSU and SPD with great interest. This is where important decisions for Germany as an industrial nation will be made.

Today's success rests on yesterday's deeds – and we want to shape tomorrow's success today. Germany must not become an industrial museum of past technologies. This danger is real. We must find more effective incentives for our country – for the growth of new knowledge, for its networking and its successful implementation in new technologies and applications addressing the global market.

The initiatives that have been taken so far are a good start. We expressly welcome platforms that support knowledge transfer within the economy and with policy-makers. Future technologies are also being intensively debated at the European level, and the EU commission has assigned an important role to semiconductors.

But there's much more to it than this – the issue is the appreciation of knowledge in the truest sense of the word. What do I mean by this?

Most countries in the European Union take into account research spending when calculating the tax burden. This instrument is established outside of Europe as well. Germany, however, has no instrument that allows tax concessions for research. We consider this as a gap that should be filled quickly by the new government – for companies of all sizes.

In addition, the semiconductor and other high-tech industries are heavily affected by the energy turnaround. I want to explicitly stress that the development of renewable energies is the right path to a sustainable future. Infineon's products also contribute to the generation of wind and solar energy, as well as to the transport of this energy to consumers via highly efficient and intelligent networks. There is no alternative to renewable energy if we want to leave our children and grandchildren a world worth living in.

The energy turnaround will only become problematic due to different burden-sharing. In particular, high-tech industries – which should build the backbone of a sustainable, future-oriented economy – must pay levies for renewable energies, for example, while other industries are exempt from these. This is dangerous for German industry

1. because the different burden-sharing generates an irresponsible imbalance between individual industries...
2. and above all, because Germany faces tough international competition!

The energy bill that Infineon must pay in Germany in the coming year, for example, would be nearly 25 million euros lower in Austria and nearly 30 million euros lower in Malaysia. Infineon is no exception; the German economy altogether suffers great cost disadvantages.

Here, too, a solution must be found during the coalition negotiations – a solution that German companies can rely on.

Closing remarks

To close, I would like to make some brief comments. The 2013 fiscal year was eventful. The fact that it was ultimately successful is also due to Infineon's committed employees. I would thus like to take this opportunity and express my thanks: Thank you for the many new ideas and products that secure Infineon's technological edge; thank you for your solidarity with one another – especially during the catastrophic flooding that we experienced this year at our sites in Dresden and Regensburg – which really makes a company strong; thank you as well for driving the necessary change process from product thinking to a systems understanding. Infineon has a very special culture – which is marked by an innovative spirit, by enthusiasm for our products and markets, and by reliability.

Infineon is a company that society, investors and employees can rely on. We have successfully completed a difficult fiscal year. Infineon remained profitable even during the lowest point of demand. Infineon has made cycle management in the semiconductor industry one of its core competencies.

To make Infineon successful in the future as well, we want to increase our profitability while continuing to maintain outstanding quality. We have this goal firmly in view and are improving our manufacturing efficiency. Our forward-looking production of power semiconductors on 300mm thin wafers will make an ever-larger contribution to this. The strategic change from product thinking to systems understanding will ensure that we remain an important partner of our existing customers and can persuade new customers about our products. We are “ready for tomorrow”.

My Management Board colleagues and I are now happy to answer your questions.

#