Dominik Asam

Annual General Meeting 2018

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www.infineon.com

Chief Financial Officer

Dominik Asam

- The spoken word prevails -

Ladies and Gentlemen, good morning!

Infineon grew its revenue by 9 percent last fiscal year. That means we once again exceeded our growth target of an average 8 percent through the cycle. This increase is due primarily to strong demand for semiconductors in the automotive sector, industry and the field of power supplies.

The segment result margin improved by almost two percentage points to 17.1 percent. It was therefore above the 16 percent forecast at the beginning of the last fiscal year and almost exactly in line with the raised forecast for the year we announced in March 2017.

The average exchange rate for the U.S. dollar remained unchanged year on year and hence had no significant impact on our growth and results.

Ladies and gentlemen, as you can see: Infineon is continuing to grow strongly and profitably.

We increased our net income in the 2017 fiscal year by 6 percent to 790 million euros. Our earnings per share rose from 66 to 70 euro cents and adjusted earnings per share increased from 76 to 85 euro cents.

Net income and earnings per share grew at a slower rate than revenue solely due to the fact that we posted €36 million euros in income tax benefit in the previous year, while there was a tax expense of 142 million euros in the 2017 fiscal year. Adjusted earnings per share rose by 12 percent and therefore more strongly than revenue.

Let’s now move on to the segments.

Thanks to the positive business environment all four segments increased their revenue year on year.

Infineon grew its revenue by 13 percent in the Automotive and Industrial Power Control segments, and by 5 percent in the Power Management & Multimarket segment.

The Chip Card & Security segment performed less dynamically, posting growth of 1 percent. However, that was against the backdrop of a very tough market environment. We assume that we won market share in this segment again in 2017. Since we see significant business opportunities at Chip Card & Security in the medium to long term due to the growing importance of IT security, we also intensified our research and development and sales efforts in this segment. This led to higher operating expenses and a decline in the segment result.

However, we were able to increase the segment result for the other three segments at a much greater rate relative to the growth in revenue.

Let’s look at the distribution of revenue by regions. First and foremost, we have grown in all regions. However, the trend we have seen for many years is continuing: The Asia-Pacific region – without Japan – now accounts for 49 percent or almost half of the Group’s revenue. Once again, that’s 1 percentage point higher than in the previous year.

In the Asia-Pacific region, China accounted for revenue of 1 billion 735 million euros or 25 percent of the total figure, compared to 24 percent the year before. Germany trailed well behind China with revenue of 1 billion 94 million euros or 15 percent of the total figure. Export revenue rose to 85 percent of the total figure, showing how much our products are in demand all over the world. However, it also shows how important free trade and an open society are for Infineon’s economic success. Although the share of revenue we generate in Germany has declined, we created 469 jobs here in the past fiscal year – or around 30 percent of new jobs worldwide. What is clear is that Infineon and Germany as a business location benefit from globalization. We therefore view nationalistic and protectionist tendencies with great concern.

Let’s now move on to operating expenses:

Our research and development expenses were 776 million euros and hence 11 percent of our revenue. They are thus still within the target range of a percentage of revenue in the low- to mid-teens.

We capitalized 129 million euros in spending on research and development in the 2017 fiscal year and thus reported it as investments. Taking into account additional subsidies and grants of 68 million euros, we invested a gross total of 973 million euros in research and development. This corresponds to 13.8 percent of revenue.

Selling, general and administrative expenses were 11.6 percent of revenue in the 2017 fiscal year, a reduction from the previous year's figure of 12.2 percent.

Free cash flow in the past fiscal year was 594 million euros, an increase of 104 million euros or 21 percent over the figure of 490 million euros in the 2016 fiscal year.

That was despite the fact that in the past fiscal year we acquired a 93 percent stake in the lessor of the Group's Campeon headquarters in Neubiberg for a sum of 112 million euros.

The purchase price for this majority stake is carried separately in our statement of cash flows. It is not included in the investments in property, plant and equipment you can see in the chart behind me, which rose from 716 million euros to 874 million euros.

By far the largest share of investments in property, plant and equipment was spent at our manufacturing sites; around two-thirds of that went to our frontend facilities and the rest mainly to backend facilities.

Investments in intangible assets rose from 110 million euros to 148 million euros. The lion's share of that was attributable to the previously mentioned capitalized development costs of 129 million euros.

And now a look at our balance sheet:

Our total assets as at 30 September 2017, were 9 billion 945 million euros, an increase of 858 million euros compared to 30 September 2016.

Our debt increased from 1 billion 769 million euros to 1 billion 834 million euros.

Our total equity increased to 5 billion 636 million euros.

Our return on capital employed (RoCE) was 14.9 percent in the 2017 fiscal year compared to 15.0 percent the year before. The decline of 0.1 percentage points is mainly due to the higher capital employed: It increased from 5 billion 334 million euros to 5 billion 695 million euros.

The rise of 361 million euros were spent almost in full, namely 353 million euros in total, on the acquisition of the 93 percent stake in the lessor of Campeon and the resulting consolidation of the company. Although this has a dilutive effect on RoCE, the lease would have had to be carried in the consolidated balance sheet in any case due to the introduction of the new standard on lease accounting, IFRS 16, effective 1 October 2019.

The performance of our share price also reflects the positive trend in our key financial figures.

In the period from the start of the last fiscal year to end of last week, the Infineon share price rose by 39 percent. The Philadelphia Semiconductor Index rose by 59 percent over the same period and even surpassed the positive increase in Infineon's share price. In the period under report, this industry index benefited in particular from the boom in the memory business and takeover premiums from vibrant M&A activity in the sector. Moreover, our U.S. competitors and the industry index benefited from the depreciation of the U.S. dollar, which in turn reduced our revenue and earnings, which are denominated in euros, and hence also our share price. By comparison: The DAX rose by just 18 percent over the same period.

By the way, it is not just in the recent past that we've clearly outperformed the DAX 30 index. It has delivered a return of 70 percent over the past five calendar years. By comparison: The value of Infineon's share, taking into account the price increase and dividend, has roughly quadrupled. It has thus delivered by far the highest return of all shares listed in the DAX 30.

And so I come to our dividend proposal:

We are continuing to pursue two goals with our d ividend policy: We want to enable our shareholders to participate appropriately in Infineon's economic development. And we want to keep the dividend at least at a constant level, even in times of stagnating or declining earnings.

In connection with Agenda Item 2, the Supervisory Board and Management Board propose a dividend of 25 euro cents a share, in other words, an increase of 14 percent over the previous year, in view of the results achieved in the period under report and the positive business outlook.

This brings me to my outlook:

As Dr. Ploss already mentioned, negative currency effects mean we now expect revenue growth of 5 percent for the 2018 fiscal year, with a possible deviation of plus or minus 2 percentage points. At the mid-point of this forecast revenue growth range, the segment result margin should be around 16.5 percent. This assumes an exchange rate of the euro to the U.S. dollar of 1.25.

In the 2017 fiscal year, the average rate of the euro to the U.S. dollar was 1.11 and so more favorable to Infineon than the rate of 1.25 that is now assumed. If the exchange rate were unchanged, anticipated growth would be approximately 11 percent. If Infineon were to report in U.S. dollars, as most of our competitors do, its revenue growth would even be 16 percent.

The ratio of planned investments to revenue at the mid-point of the forecast range is around 15.5 percent and hence above the target of 13 percent. The reason for this – in view of the anticipated increase in demand – is large investments in additional manufacturing capacity, in particular for power semiconductors, among other things in products for electromobility.

Just a few explanations on further items on the agenda of today's Annual General Meeting:

Under Agenda Items 7 and 8, we ask you to approve the rescission of existing authorizations and granting of new authorizations to purchase and use our own shares, also using derivatives. The Annual General Meeting in 2013 had already granted us these authorizations. Since both authorizations expire on 27 February 2018, they are to be rescinded and superseded by new ones with essentially the same content.

To allow us to continue to use bonds with warrants and convertible bonds as financing instruments for Infineon in the future, we ask you under Agenda Item 9 to renew the previous authorization and related conditional capital. The authorization granted to the Management Board, but not used by it to date, is due to expire on 12 February 2019, and thus probably before the next Ordinary Annual General Meeting. In order to service the bonds, up to 130 million shares, representing a notional portion of the share capital of up to 260 million euros, will still be available with the new conditional capital. Given the strong increase in the price of Infineon's share in the past years, it seems appropriate to set the possible issuance volume in the authorization at 4 billion euros. Please refer to the invitation for more details about this proposed resolution.

Ladies and Gentlemen, Infineon still fulfills the capital structure objectives we revised at the beginning of the 2017 fiscal year. We are sticking to our goal of an "investment grade" credit rating and achieving it, as evidenced by the recent confirmation of our "BBB" with a stable outlook from the international rating agency S&P Global Ratings. Since we are at the upper end of our target range for our gross cash position and well below it for gross debt, we have some leeway to supplement our organic growth with inorganic growth.

Dear shareholders, Infineon developed very well in the 2017 fiscal year. The bold investment decisions of past years – both as regards organic growth and the acquisition of International Rectifier – have paid off. We are well aware that economic activity will weaken again at some point in time. However, we do not see any signs whatsoever of that at present. In taking investment decisions, we will therefore continue to follow our tried-and-proven strategy of fully leveraging our medium- to long-term growth potential and ensuring delivery reliability, a key criterion for our customers, better than our competitors do. We are convinced that, by investing during all phases of the business cycle, we not only offer our customers the greatest added value, but also provide you with an attractive return on your investment in our share.

Thank you for your participation in Infineon and for your attention!

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