Annual General Meeting 2015

Dominik Asam

Munich, February 12, 2015

www.infineon.com

Chief Financial Officer

Dominik Asam

- The spoken word prevails -

Ladies and Gentlemen, a warm welcome to our Annual General Meeting.

I am delighted to present our figures to you for the 2014 fiscal year.

In the last fiscal year, Infineon generated revenue of 4 billion 320 million euros. This represents an increase of 12 percent and means we have grown significantly faster than the market. Our market share has increased in particular in the automotive product categories, discrete power semiconductors and modules, and standard MOSFET power transistors.

The segment result for fiscal 2014 was 620 million euros. Our segment result margin has improved from just under 10 percent in the previous year to 14.4 percent. This means that we have practically reached our target margin of 15 percent over the cycle.

Strong growth enabled us to achieve a gross margin of 38.1 percent, a disproportionately high figure relative to revenue. This 3.7 percent increase was a result of significantly higher capacity utilization, supplemented by efficiency improvements in manufacturing.

Income from continuing operations rose by 72 percent to 488 million euros in fiscal 2014. This figure already takes into account a fine of 83 million euros imposed by the EU commission.

The fine resulted from an antitrust investigation into the activities of Infineon and other manufacturers of smart card chips.

Allow me to comment on this: According to the Commission, between 2003 and 2005, Infineon allegedly sporadically exchanged competitively sensitive information with other manufacturers. Infineon rejects the allegations as unfounded, and, in November of last year, filed an appeal against the decision at the General Court in Luxembourg. Including referral to the second instance at the European Court of Justice, it may take between 3 and 5 years until a judgment is passed down.

But let’s get back to the figures.

Income from discontinued operations improved from minus 11 million euros in the previous year to a figure of 47 million euros in fiscal 2014. Particularly positive here were income effects achieved through a partial settlement with the insolvency administrator of Qimonda AG.

In the last fiscal year, Infineon reached an out-of-court partial settlement with the Qimonda insolvency administrator amounting to a total of 260 million euros. This partial settlement, taking place in the first quarter of this fiscal year, involved Infineon acquiring Qimonda's patent management and patent exploitation business, including all patents, for 125 million euros. At the same time, Infineon paid a settlement amount of 135 million euros to settle all disputes – with the exception of the pending lawsuit on the economic re-establishment of a shell company and liability for impairment of capital.

We achieved a consolidated net income of 535 million euros in fiscal 2014, almost double that of the previous year. Our basic earnings per share rose accordingly – from 25 euro cents in fiscal 2013 to 48 euro cents in fiscal 2014.

Since its carve-out from Siemens in 1999, Infineon's present business has achieved annual growth of around 9 percent, considerably more than the market in general. Accordingly, our 12 percent revenue increase in fiscal 2014 represents above-average growth. Nevertheless, in view of the weak level of the previous two fiscal years, we think that the growth in fiscal 2014 should be seen as a recovery back to a long-term trend rather than as a boom in its own right. Our long-term goal is to increase our revenue by an average of 8 percent per year. In view of historical developments, the graphic shows that this goal is indeed realistic.

Let's now move on to the segments.

The global semiconductor market grew by 9 percent in the last fiscal year. With its 12 percent rise in revenue, Infineon was able to surpass this figure. We saw significant revenue growth in all four business segments.

Our Automotive segment recorded revenue of 1 billion 965 million euros, representing an above-average year-on-year rise of 15 percent.

The revenue of the Industrial Power Control segment did even better, rising by 20 percent to 783 million euros.

The Power Management & Multimarket segment and the Chip Card & Security segment both recorded positive revenue growth of 7 percent.

All the segments were able to make at least a double-digit increase in their contribution to the segment result. Industrial Power Control saw an almost four-fold increase in its segment result.

These positive developments were especially fueled by strong demand from Asia, where we now generate around half our revenue: Japan accounted for 7 percent and the Asia-Pacific region for 43 percent, with China making the largest contribution to this second figure. With sales of 868 million euros, we achieved more revenue in China than in our home market in Germany. In the Asia-Pacific region, Infineon grew its year-on-year revenue by 18 percent in fiscal 2014. In Japan, we even managed to achieve a 25-percent growth in revenue, a higher figure than in any other region.

And now let's look at costs by function:

At 550 million euros, our research and development costs were 12.7 percent of our revenue. This rise of around 5 percent in comparison to the previous year was chiefly due to increases in personnel costs. We have hired more personnel in this area in order to secure our future growth.

Higher personnel costs were also the reason for the increase in selling, general and administrative expenses: These rose to 496 million euros, 13 percent more than in the previous year. We have also significantly reinforced our sales teams in order to optimize our sales activities.

Our target remains a 15-percent segment result margin over the economic cycle. With an average margin of 14.4 percent for the fiscal years 2010 to 2013, we have practically reached this target. It should be noted that our results in this period were encumbered by significant upfront investments in the development of our 300-mm manufacturing technology. With 14.4 percent, we achieved the same segment result margin in fiscal 2014 as well. The currently high start-up costs for our 300-mm manufacturing are expected to fall over the coming years. This is why we are confident of reaching our target of a 15 percent segment result margin in the current cycle.

Free cash flow is another particularly important corporate performance indicator.

This amounted to 317 million euros in the 2014 fiscal year. This was a year-on-year increase of 82 million euros, despite the fact that the amount spent on property, plant and equipment rose from 315 million euros in fiscal 2013 to 567 million euros in fiscal 2014. This rise was due to the expansion of our manufacturing facilities at our frontend locations in Dresden, Villach and Kulim, and at our backend locations in Malakka, Regensburg and Batam.

It was necessary to make these investments in the last fiscal year in order to secure our continued growth in the current fiscal year. I'll be saying more about our growth prospects later on.

Our investments in intangible assets and equipment amounted to 101 million euros, with the rise mainly due to capitalized development costs.

Infineon's return on capital employed was 20.3 percent in fiscal 2014, a significant improvement over the 14.1 percent of the previous year. This shows that, despite the high investment costs, we were able to increase the RoCE to a level significantly above our costs of capital.

A greater earnings power, a higher free cash flow and rising investments are also reflected in our balance sheet:

Our total assets at the end of the fiscal year were 6 billion 438 million euros, an increase of 533 million euros compared to September 30, 2013.

We managed to reduce our financial liabilities from 303 million euros at the start of the last fiscal year to 186 million euros at year-end.

Our equity increased to 4 billion 158 million euros.

This brings me to my outlook for this fiscal year:

The positive trend seen in the last fiscal year is continuing in the current year. In the first quarter, we were able to grow our revenue by 15 percent compared to the same period in fiscal 2014. For the quarter ending in March 2015, we also expect two-digit year-on-year revenue growth. Compared to the quarter that ended in December 2014, we expect our revenue to increase by between 5 and 9 percent. For the complete 2015 fiscal year, we anticipate growth of 12 percent, with a deviation of plus or minus 2 percentage points. In the middle of this range, the segment result margin is expected to be between 14 and 15 percent.

In the Power Management & Multimarket and Chip Card & Security segments, we expect revenue growth above the average for the Group as a whole in the 2015 fiscal year.

The figure for the Industrial Power Control segment will probably be much lower than that. Automotive, our largest segment, is expected to grow around as quickly as the Group as a whole.

As yet, however, these growth and margin figures do not include the effects of the International Rectifier consolidation. We will be publishing our forecast for our joint business activities on May 5, together with the half-year figures for the 2015 fiscal year.

The positive trend in our operating activities is also reflected in the way our share price has developed. In the period from the start of the last fiscal year to the end of January 2015, the Infineon share price rose by 33 percent. This rise was significantly higher than the figure of 23 percent for the Dax. We have also done well in comparison with the Philadelphia Semiconductor Index, especially considering that this index was additionally fueled by acquisition premiums in connection with various company acquisitions.

In the December quarter of 2010, we started to buy back convertible bonds in order to use the excess liquidity resulting from the sale of our Wireless Solutions business to Intel for capital returns. From May 2011 onwards, we additionally issued put options on our own shares. There are currently no outstanding put options. As we expect to record net debt of almost zero at the end of this fiscal year, there are also no current plans for further capital returns. The net debt is then roughly in line with our capital structure target.

Let’s take a look back at all our capital returns since the beginning of the 2011 fiscal year. The blue bars in the chart behind me show the number of bought-back underlying shares in each quarter. The development of our share price can be seen as a gray curve in the background. As you can clearly see, we intensified our capital returns in those periods when the Infineon share price was weaker.

The average price paid for the 53.6 million bought-back underlying shares is shown in red. Taking into account the premiums received on the put options and the savings on interest on the bought-back convertible bonds, the average price paid per share was 6 euros and 2 cents. By comparison, Infineon's volume-weighted average share price in the same period was 6 euros and 90 cents.

Dear shareholders, we want you to have an appropriate share in Infineon's success. We are therefore proposing under agenda item 2 a dividend of 18 euro cents per qualifying share. This 50-percent increase over the previous year is made possible by a sustainable improvement in our free cash flow, the result of a lowering of investment in relation to revenue. What's more, following the integration of International Rectifier, we expect the acquired company to make a significant and positive contribution to Infineon's free cash flow.

Now a few brief words on the other important items on today's agenda. The Authorized Capital 2010/II for general purposes, approved by the Annual General Meeting in 2010, expires in February 2015, and is to be revoked under agenda item 8. The company will therefore have no remaining Authorized Capital available for utilization.

The Board of Management and the Supervisory Board therefore propose in agenda item 9 that a new Authorized Capital 2015/I totaling up to 676 million euros to be created – just under 30 percent of the current share capital. This newly authorized capital will be available for capital increases against contributions in cash or in kind. It corresponds in all key parameters to the previous and now expired Authorized Capital 2010/II.

In principle, shareholders will have a general right to subscribe to shares issued out of the Authorized Capital 2015/I. Under certain circumstances, however, the Board of Management, with the approval of the Supervisory Board, will be empowered to exclude this subscription right, but only up to a maximum of 20 percent of the company's share capital.

As a result, the company is entitled to utilize the Authorized Capital 2015/I – with subscription rights of existing shareholders excluded – over the 5-year term of the authorization particularly for the following purposes:

- Share capital increases against contributions in cash, applying the simplified exclusion of subscription rights, for an amount of up to 10 percent of the company's share capital

- Share capital increases against contributions in kind for an amount of up to 20 percent of the company's share capital, or

- A combination of share capital increase(s) against contributions in cash and kind for an amount of up to 20 percent of the company's share capital, whereby the amount of the contributions in cash, applying the simplified exclusion rules for subscription rights, may not exceed 10 percent of the share capital.

If the company additionally issues bonds with warrants, convertible bonds or own shares, with subscription rights excluded, the upper limits are to be reduced accordingly.

There are currently no concrete plans to utilize the Authorized Capital 2015/I, particularly with the exclusion of subscription rights. However, this kind of anticipatory resolution is common practice in Germany and elsewhere in order to respond flexibly at short notice to exceptional acquisition options or unforeseeable market risks.

On the topic of acquisitions I would like to point out that the wish occasionally expressed to have specific acquisitions approved prior to the Annual General Meeting is, unfortunately, not feasible in practice, since this process takes several months and the associated uncertainties make it practically impossible for the respective seller to agree to the sale.

Looking at the example of the acquisition of International Rectifier, you can see how we basically set about financing acquisitions. First and foremost, debt capital should be used, and only when we have reached our debt targets we would rely on equity. Naturally, we are now concentrating completely on integrating International Rectifier successfully and achieving the promised targets for increasing value.

Notwithstanding this fact, the Management Board will in any event carefully consider whether it is in the interests of the company and its shareholders to utilize the Authorized Capital. The Supervisory Board must also reach its own independent opinion on this. Should we need to utilize our authorization during the fiscal year, the Management Board will report extensively on the matter at the next Annual General Meeting.

Under agenda item 11, we ask you to approve the Domination and Profit Transfer Agreement between Infineon Technologies AG and Infineon Technologies Mantel 27 GmbH, concluded on November 10, 2014.

Mantel 27 GmbH is being held by Infineon as a shell company into which, if required, operations could be contributed or transferred at short notice as part of an acquisition. The agreement puts Mantel 27 GmbH under the control of Infineon. Infineon is accordingly authorized to issue instructions to the senior management of the shell company in relation to the management of the company. This authority to issue instructions notwithstanding, responsibility for managing and representing Mantel 27 GmbH remains with its management body.

By concluding the Domination and Profit Transfer Agreement, we are ensuring that the risks and opportunities stemming from the activities of Mantel 27 GmbH are taken over by Infineon. As a result of the agreement, Mantel 27 GmbH is obliged to transfer all profits to Infineon; profits and losses of Mantel 27 GmbH are also attributable to Infineon, an arrangement that could result in tax savings for Infineon.

The conclusion of a Domination and Profit Transfer Agreement requires the approval of the Annual General Meeting and Mantel 27 GmbH's Shareholders' Meeting.

Apart from the transfer of any losses to Infineon in accordance with section 302 AktG, the agreement has no consequences for Infineon's shareholders. Since no external shareholders are involved, the company is not obliged to make any payments for compensation or consideration.

Dear shareholders, Dr. Ploss has already explained the reasons behind our decision to buy International Rectifier in the last fiscal year.

Let me stress that we are sticking vigorously to our target of a 15-percent segment result margin over the cycle, even after this acquisition. International Rectifier's current operative margin is considerably smaller than that of Infineon. In order to determine the exact margin, International Rectifier's figures need to be converted from US GAAP to the International Financial Reporting Standards (IFRS) used by Infineon. The graphic already gives you a first impression of the relative revenues and return.

Our goal is to bring International Rectifier up to our target margin of 15 percent or above by the 2017 fiscal year at the latest. We aim to achieve this by all pulling together to exploit synergies in the areas of manufacturing, development, sales and administration.

Dear shareholders, we are absolutely convinced that the acquisition of International Rectifier will lead to a sustained and significant improvement in our free cash flow per share. And this will increase the value of your stake in Infineon.

Thank you for your attention!

Infineon Technologies AG

Am Campeon 1–12
85579 Neubiberg
Germany