Dominik Asam

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Chief Financial Officer

Dominik Asam

- The spoken word prevails -

Thank you, Dr. Sünner, for the kind recognition. And my thanks also go to you, dear Reinhard, for your warm words. My duties at Infineon and work with all of you have always been a pleasure for me – and continue to be. So I don't want to begin my speech with words of farewell, but will first report to the Annual General Meeting on the company's finances.

Ladies and Gentlemen, good morning!

Infineon continued to grow in the 2018 fiscal year. Revenue increased by 8 percent. The actual growth in our business was partly offset by the adverse move of the U.S. dollar against the euro. If the exchange rate had remained constant, our revenue would have risen by 12 percent. This increase is due primarily to strong demand for semiconductors in the automotive sector, industry and in the field of power management.

The Segment Result margin improved by almost 0.7 percentage points to 17.8 percent and was therefore above the figure of 17 percent we had forecast at the beginning of the last fiscal year.

That is a noteworthy result, especially given the headwind from the weaker exchange rate for the U.S. dollar, as I just mentioned.

The exchange rate peaked at 1.25 and its low was 1.13; its average for the year was 1.19. The rate for the previous year was 1.11, so the dollar depreciated by around seven percent. Nevertheless, we delivered what we promised.

As a result of our strong growth, we surpassed the 2 billion euro mark for revenue for the first time in our current setup in the fourth quarter of the 2018 fiscal year.

Ladies and gentlemen, as you can see: Infineon is continuing to grow strongly and profitably. Your company is in good shape.

We increased our net income in the 2018 fiscal year by 36 percent to 1 billion 75 million euros. Our earnings per share rose from 70 to 95 euro cents and adjusted earnings per share increased from 85 to 98 euro cents.

Net income and earnings per share grew at a higher rate than revenue due to the improved result margin, as well as due to the 270 million euro gain from the sale of major parts of our Radio Frequency Power Business to Cree.

Let's now move on to the segments.

Infineon grew its revenue by 10 percent in both Automotive and Industrial Power Control, and by 8 percent in Power Management & Multimarket.

Against the backdrop of a very weak market, the Digital Security Solutions segment, formerly Chip Card & Security, posted a 6 percent decline in revenue. According to the most recently available market data, Infineon was able to gain share and is now the new market leader by a narrow margin. Since we see significant business opportunities at Digital Security Solutions 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 costs and a decline in the Segment Result.

The Segment Result margin for the Automotive segment decreased slightly. That is mainly explained by the strong growth in revenue from products for electromobility. Due to the large investments in development and manufacturing, the profitability of these products is not yet at the average margin level of the Automotive segment.

However, for the other two segments we were able to achieve growth in the Segment Result far in excess of revenue growth. The Segment Result at Industrial Power Control was 256 million euros, a substantial 40 percent increase over the previous year. We were able to improve the Segment Result at Power Management & Multimarket by 25 percent to 532 million euros.

Let's look at the distribution of revenue by regions. First and foremost, we have grown in all regions. We generated a quarter of our revenue – 1 billion 921 million euros – in China alone. Germany contributed 1 billion 171 million euros or 15 percent of the total figure. Japan accounted for 7 percent of our revenue, and was the region in which Infineon achieved its highest revenue growth in percentage terms: namely 15 percent. It is a particularly large and important market for automotive and industrial applications, but so far has been dominated by domestic suppliers. We see the fact that this region is gradually opening up to us as a clear sign of the competitiveness of our technologies.

Let’s now move on to operating expenses.

Our research and development expenses were 836 million euros and hence 11 percent of our r evenue. They are thus still within the target range of a percentage of revenue in the low- to mid-teens.

We had to capitalize 143 million euros of development costs in the 2018 fiscal year and thus report it as investments according to the International Financial Reporting Standards. Taking into account additional government funds and grants of 86 million euros, we invested a gross total of 1 billion 65 million euros in research and development. This corresponds to an impressive 14 percent of revenue.

Selling, general and administrative expenses were 11.2 percent of revenue in the 2018 fiscal year, compared to 11.6 percent in the previous year.

I would like to mention income from discontinued operations at this point. It was minus 143 million euros in the 2018 fiscal year and is mainly attributable to the increase in provisions for Qimonda in connection with pending legal proceedings. In September, the court-appointed independent expert provided an interim report on the preliminary valuation of the memory business that Infineon contributed to Qimonda in 2006. We cannot provide any details from the report at present, but two points are important.

Firstly, as you can see from the provision we have taken, the result of the interim report on the preliminary valuation does largely not support the claim of 3 billion 350 million euros made by the insolvency administrator.

Secondly, in principle we are open to an out-of-court settlement on reasonable terms. We cannot comment on the possible general framework of such an agreement at the current time.

Free cash flow in the past fiscal year was 618 million euros, an increase of 24 million euros or 4 percent over the figure of 594 million euros in the 2017 fiscal year.

This figure includes the cash received in connection with the sale of the major part of our Radio Frequency Power Business to Cree. On the other hand, there were cash outflows in connection with the establishment of a joint venture with SAIC Motor Corporation Limited in China and the acquisition of the start-up company Merus Audio in Denmark, as well as investments that were higher than originally anticipated.

By far the largest share of investments in property, plant and equipment were capital expenditures 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 148 million euros to 164 million euros. The lion’s share of that was attributable to the previously mentioned capitalized development costs of 143 million euros.

And now a look at our balance sheet.

Our total assets as of 30 September 2018 were 10 billion 879 million euros, an increase of 934 million euros compared to 30 September 2017.

Our debt fell by a total of 302 million euros. That figure includes the repayment of a bond amounting to 300 million euros.

Our total equity increased to 6 billion 446 million euros.

Our return on capital employed (RoCE) was 20.5 percent in the 2018 fiscal year compared to 14.9 percent the prior year. This is mainly due to the higher operating income from continuing operations after tax, which increased significantly by 49 percent from 847 million euros in the previous year to 1 billion 263 million euros. This furtheremore reflects the sale of major parts of our Radio Frequency Power Business.

Despite the positive trend in our key financial figures, our share price performed negatively. We're obviously not happy about that.

The Infineon share price fell by 9 percent between the start of the past fiscal year on 1 October 2017, and market close last Friday. Please note that in that period, Infineon significantly grew its revenue and Segment Result for the fifth time in a row and set itself more ambitious long-term targets. We also outperformed the DAX again, which declined by 12 percent over the same period due to geo-political and macroeconomic uncertainties, as well as the unresolved trade conflict between China and the U.S. The Philadelphia Semiconductor Index, however, rose by 15 percent over the same period and so clearly outperformed Infineon's share price.

Our business model is geared toward long-term, structural growth. A certain level of future oriented investments is required for that. Those investments may temporarily weigh on our margin in the event of an economic slump as a consequence of the resulting idle costs. In times of economic uncertainty, a larger share of investors prefer companies with a less aggressive growth strategy or turn to industries that are perceived as being more stable. However, we would be ill-advised to call our strategy into question just because of that.

We are continuing our growth trajectory of the past years while reducing our investments in the current fiscal year due to the economic slowdown, only insofar as that does not impair our growth potential.

And so I come to our dividend proposal.

We are continuing to pursue two goals with our dividend policy: We want our shareholders to have their fair share 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. Net income is not the crucial criterion for us, and we have not defined any fixed payout ratio. One of the reasons for that is that there may be special effects, such as last fiscal year's profit from sale of major parts of our Radio Frequency Power Business I've already mentioned several times.

In connection with Agenda Item 2, the Supervisory Board and Management Board propose a dividend of 27 euro cents a share, in other words, an increase of 8 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, we now expect revenue growth of 9 percent for the 2019 fiscal year. Given that forecast revenue growth, the Segment Result margin should be around 17.5 percent. This assumes an exchange rate of the euro to the U.S. dollar of 1.15.

We expect to see rising demand for power semiconductors – driven by electromobility among other things. However, we are adapting our investments to the lower growth in selected areas and, for example, by postponing the procurement of certain manufacturing tools and equipment to a later date. We plan to invest a total of around 1.5 billion euros this year, 100 to 200 million less than we had originally intended.

Ladies and Gentlemen, Infineon still has a solid capital structure and an "investment grade" credit rating, as recently evidenced by the reconfirmation of our "BBB" rating with a stable outlook from the international rating agency S&P Global Rating. 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 acquisitions.

Dear shareholders, Infineon developed very well in the 2018 fiscal year. The bold investment decisions of past years have paid off.

Our measures, which we announced in the context of our quarterly report on 5 February, reflect the current slowdown in the economy. Long term, however, we see unbroken, structural growth potential in a large number of different application areas where Infineon has a particularly strong presence. That's why we're sticking to our targets for revenue growth, the Segment Result margin and the investment-to-sales-ratio over the cycle, all of which we raised last fiscal year.

As a reminder: Our goal was to grow revenue by an average of 9 percent. The Segment Result margin is to be above 17 percent. Higher investments are required to achieve that. We estimate that we need an investment ratio of 15 percent of revenue to grow by 9 percent. On top of that, there will be already announced investments of around 700 million euros in frontend cleanrooms and certain larger office buildings.

In taking investment decisions, we will continue to follow our tried-and-proven strategy of fully leveraging our medium- to long-term growth potential. We will primarily achieve that by ensuring delivery reliability, a key criterion for our customers. We are convinced that, by investing during all phases of the business cycle, we not only offer our customers the greatest value added, but also provide you, dear shareholders, with an attractive return on your investment in our share.

Since this is my ninth and last Annual General Meeting at Infineon, I wish – last but not least – to express my deepest gratitude to the Supervisory Board for their trust and to my Management Board colleagues for our excellent working relationship. Even though I'm very much looking forward to my new challenge, I'm also sad to be leaving a company that is in great shape, has excellent future prospects and can rely on great employees. I'm proud and honored to have contributed to Infineon's success over the past years and hope that you are also satisfied at how your company and its share have performed.

Ladies and gentlemen, my particular thanks go to you for your attention and your trust in Infineon!

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