Dominik Asam

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www.infineon.com

Chief Financial Officer

Dominik Asam

- The spoken word prevails -

Ladies and Gentlemen, good morning!

In the last fiscal year, Infineon generated revenue of 6 billion 473 million euros. That means we have achieved 12 percent growth year-on-year. This increase is due primarily to positive business development in all segments. It also results from International Rectifier being included for the first time for a full fiscal year. Last year, its revenue was included only for the period after closing of the acquisition on January 13, 2015. Adjusted for this effect, Infineon achieved organic growth of 7 percent. We thus virtually reached our average growth target of 8 percent – despite a stagnating semiconductor market in the 2016 fiscal year.

The Segment Result for the 2016 fiscal year amounted to 982 million euros. The Segment Result Margin was virtually unchanged at 15.2 percent and was therefore in line with our expectations at the beginning of the fiscal year. Ladies and gentlemen, as you can see: Infineon generates strong returns even in a weak market environment.

Our gross margin was 36.0 percent, so also around the level of the previous year.

The cost of goods sold and hence gross margin are still impacted by the non-cash income effects from the purchase price allocation and other acquisition-related costs in connection with the integration of International Rectifier. They reduced gross profit by a total of 96 million euros. Adjusted for these special effects, Infineon's gross margin in the past fiscal year would have been 37.5 percent.

We also expanded our manufacturing in order to lay the foundation for further long-term growth. These investments contributed to a further increase in depreciation and amortization.

Income from continuing operations rose by 19 percent to 741 million euros. Income from discontinued operations fell from 12 million euros in the previous year to 2 million euros.

Net income in the 2016 fiscal year was 743 million euros, a year-on-year increase of 17 percent. Our earnings per share rose from 56 to 66 euro cents and were even 76 euro cents after adjustment for special effects.

Let’s now move on to the segments:

We posted significant revenue growth in all four business segments.

In the Automotive segment, Infineon generated revenue of 2 billion 651 million euros, an increase of an impressive 13 percent over the previous year’s figure of 2 billion 350 million euros.

Revenue in the Industrial Power Control segment was 1 billion 73 million euros, 11 percent up on the previous year’s figure of 971 million euros.

Infineon generated revenue of 2 billion 50 million euros in the Power Management & Multimarket segment, an increase of 14 percent over the 1 billion 796 million euros in the previous year. This segment benefited disproportionately from the previously mentioned positive full year consolidation effect resulting from the acquisition of International Rectifier.

In the Chip Card & Security segment, revenue rose to 698 million euros, 5 percent up on the previous year’s figure of 665 million euros.

All of our four segments posted a higher Segment Result Margin.

Automotive’s Segment Result even rose faster than its revenue to 396 million euros, growing by 20 percent. The Segment Result at Industrial Power Control amounted to 126 million euros, which is a 10 percent increase. After a strong 2015 fiscal year, Power Management & Multimarket increased its Segment Result in the 2016 fiscal year by just 2 percent to 328 million euros. Chip Card & Security’s Segment Result rose to 135 million euros, growing by 7 percent.

The Asia-Pacific region – without Japan – now accounts for 48 percent or almost half of the Group’s revenue. That’s 2 percentage points higher than in the previous year. However, the Europe, Middle East and Africa region lost 2 percentage points and only accounted for 33 percent of revenue. As a result, the two regions combined generated 81 percent of revenue. They remained Infineon’s two largest sales markets by far.

In the Asia-Pacific region, China accounted for revenue of 1 billion 574 million euros or 24 percent of the total figure, compared to 23 percent the year before. Germany trailed well behind China with revenue of 1 billion euros or 15 percent of the total figure.

Let’s now move on to operating expenses:

Our research and development expenses were 770 million euros and hence 11.9 percent of our revenue. That’s a year-on-year increase of 7 percent. The rise was thus a little lower than the 12-percent increase in revenue since we were able to benefit from economies of scale as a result of the integration of International Rectifier.

We capitalized a further 98 million euros in spending on research and development in the 2016 fiscal year and thus reported it as investments.

Selling, general and administrative expenses were 12.2 percent of revenue in the 2016 fiscal year, a reduction from the previous year's figure of 13.4 percent.

As already mentioned, the Segment Result for the past fiscal year was 982 million euros, which corresponds to a Segment Result Margin of 15.2 percent. At the beginning of the past fiscal year, we had expected revenue growth of between 11 and 15 percent, and forecast a Segment Result Margin of 16 percent at the mid-point of that revenue range. At the time, we had still expected the semiconductor market to grow. In fact, revenue in the 2016 fiscal year rose by just 12 percent due to the weak development of the semiconductor market and was therefore around one percentage point lower than the mid-point of the originally forecast revenue range. In view of this revenue performance, the Segment Result Margin was 15.2 percent and hence in line with expectations.

Free cash flow was plus 490 million euros in the 2016 fiscal year. The previous year's figure of minus 1 billion 654 million euros was mainly attributable to the purchase price payment for International Rectifier.

Investments in property, plant and equipment rose from 646 million euros to 716 million euros.

By far the largest share of investments in property, plant and equipment was spent on manufacturing facilities. Around two-thirds thereof went to frontend manufacturing facilities and the remainder mainly to backend facilities.

Investments in intangible assets fell from 139 million euros to 110 million euros. The lion's share of that was accounted for by the previously mentioned capitalized development costs of 98 million euros.

And now a look at our balance sheet:

Our total assets as at September 30, 2016, were 9 billion 87 million euros, an increase of 346 million euros compared to September 30, 2015.

Our debt fell slightly from 1 billion 793 million euros in the previous year to 1 billion 769 million euro as at September 30, 2016.

However, our total equity increased sharply to 5 billion 23 million euros.

Our return on capital employed (RoCE) rose to 15.0 percent in the 2016 fiscal year from 12.8 percent the year before. This is mainly due to the higher operating income from continuing operations after tax, which rose from 664 million euros to 799 million euros.

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 through February 9, 2017, the Infineon share price rose by 73 percent. By comparison: The DAX rose by 22 percent in the same period. And the Philadelphia Semiconductor Index, the industry index of relevance to us, improved by 62 percent.

And so I come to our dividend proposal:

We are continuing to pursue two goals by our dividend policy: We want our shareholders to appropriately participate 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 wish to propose a dividend of 22 euro cents a share, in other words, an increase of 2 euro cents over the previous year, in view of the results achieved in the period under report and the positive business outlook.

This brings me to the outlook:

As Dr. Ploss already mentioned, we expect revenue growth of 6 percent for the 2017 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 percent. This assumes an exchange rate of the euro to the U.S. dollar of 1.10.

The ratio of planned investments to revenue at the mid-point of the forecast range is 13.8 percent. The planned investments include around 35 million euros for a new office building at Infineon's headquarters in Neubiberg. Excluding the costs of the new office building, the ratio of investments to forecast revenue is around 13 percent.

On November 17, 2016, Infineon also concluded an agreement to purchase 93.4 percent of the shares in MoTo Objekt Campeon GmbH & Co. KG. This came into effect at the end of the year. MoTo is the owner and lessor of the existing office complex Campeon, Infineon's headquarters, in Neubiberg near Munich. The purchase price, net of cash acquired, was 112 million euros and was funded from Infineon's existing cash resources. Acquisition of the shares yields a return far above Infineon's borrowing costs and will have a positive impact on the Segment Result in the low double-digit million range as of the 2017 fiscal year.

Although the purchase price payment will have a negative effect on free cash flow in the 2017 fiscal year, the transaction will result in an increase in free cash flow of between 20 and 30 million euros per annum in subsequent years. Allowing for the purchase price payment, we expect a free cash flow of between 400 and 500 million euros in the 2017 fiscal year. We expect capital employed to increase as a result of full consolidation of MoTo in Infineon's balance sheet. This will most likely lead to a slight decline in the return on capital employed (RoCE) over the previous year's figure of 15 percent.

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 Domination and Profit Transfer Agreements concluded on December 14, 2016 between Infineon Technologies AG and, respectively, Infineon Technologies Mantel 28 GmbH and Infineon Technologies Mantel 29 GmbH.

The two are being held by Infineon as shell companies into which, if required, operations could be contributed or transferred at a later date. Under the respective agreements, the shell companies are placed under the management of Infineon. Infineon is accordingly authorized to issue instructions to the senior management of the shell companies in relation to the management of them. This authority to issue instructions notwithstanding, responsibility for managing and representing the shell companies remains with their senior management.

By concluding the Domination and Profit Transfer Agreements, we want to ensure that the risks and opportunities from the activities of the shell companies are taken over by Infineon. Under the agreements, the shell companies are obliged to transfer their profits to Infineon. The profits and losses made by the shell companies are attributed to Infineon under commercial and tax law, an arrangement that could result in tax savings for Infineon.

Apart from the transfer of any losses from the two shell companies to Infineon, 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.

The conclusion of such Domination and Profit Transfer Agreements not only requires the approval of the shareholders' meetings of the respective shell companies, but also of Infineon's Annual General Meeting, which is held just once per year. To ensure that such structures are also available at short notice in the event of a transaction or other changes to the Group's structure, Infineon permanently keeps such shell companies that are affiliated with Infineon Technologies AG under a Domination and Profit Transfer Agreement. There are currently no specific plans to use the two shell constructs 28 and 29.

Ladies and gentlemen, just before last year's Annual General Meeting, Infineon was awarded a long-term credit rating by the renowned agency S&P Global Ratings – formerly Standard & Poor's Ratings Services. S&P gave us an investment grade rating of "BBB" with a stable outlook. A few days ago, S&P confirmed our credit rating as part of its regular review. Infineon thus continues to have the best S&P rating at present for a European semiconductor manufacturer.

Infineon completed a private placement of bonds in the U.S. in April 2016 – a first in the company's history. This transaction was related to the refinancing of the acquisition of International Rectifier. With the issue proceeds of 935 million US dollars, Infineon was able to take advantage of the favorable interest rate environment and put fixed long-term interest rates in place. We have also significantly improved the maturity profile of our liabilities. The long-term financing has given Infineon greater financial flexibility, which will benefit us in funding future acquisitions. The long tenor is a sign of our investors' trust in Infineon's excellent prospects and financial stability.

Infineon is continuing to meet the capital structure targets we revised at the start of 2016. We are sticking to our goal of an "investment grade" credit rating. Our gross cash position of 2 billion 209 million euros as at December 31, 2016, meets our gross liquidity target of 1 billion euros plus 10 to 20 percent of revenue. Our gross financial debt remains well below two times our EBITDA, in other words, earnings from continuing operations before interest and taxes plus scheduled depreciation and amortization. As you can see from the table, we haven't fully used up our debt capacity.

Dear shareholders, Infineon performed very well in the 2016 fiscal year – despite a stagnating semiconductor market. Infineon is in very good shape and is pursuing the right strategy. We are highly confident that by investing in our organic growth, complemented by acquisitions where they make strategic and financial sense, we can generate the greatest sustainable added value for our shareholders long term.

We also aim to grow faster than the market in the future. We will therefore continue to consistently pursue our chosen path and stick to our target of average growth of 8 percent per annum through the cycle. To achieve this, we will continue to invest a higher share of our revenues than the average for our competitors. Backed by a strong balance sheet, we intend to remain a partner our customers can always rely on. We are confident of also being able to earn returns on future investments well above our cost of capital. That's why we increased our target for the Segment Result Margin at the outset of the current fiscal year to an average of 17 percent through the cycle.

Ladies and gentlemen, many thanks for your attention.

Infineon Technologies AG

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