



Dominik Asam  
Member of the Managing Board  
CFO  
Infineon Technologies AG

## **Annual General Meeting**

February 17, 2011  
in Munich

- The spoken word prevails -

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Ladies and Gentlemen,

I would also like to take this opportunity to welcome you to today's Annual General Meeting here in Munich. As I rejoined Infineon only at the beginning of this calendar year, I wish to say expressly that I am not taking personal credit for any of the company's gains when I use words such as "we", "us" or "our" during my report on the past fiscal year. This is only meant to simplify the speech.

Picking up where Peter Bauer left on in his discussion on developments during the past fiscal year, I would now like to take a closer look at the figures with you.

Before doing so, however, I would like to point out an important fact:

In August 2010, we announced the planned sale of our Wireless Solutions segment to Intel. As you probably read in the newspapers, we successfully concluded this sale on January 31, 2011. In our Group Reporting, we thus disclose this transaction under "Discontinued Operations". The only parts of the Wireless Solutions segment that Infineon will retain are its business with analog and digital TV tuners, satellite radio receivers and radio frequency power transistors for amplifiers in cellular base stations. In the consolidated financial statements, during the fourth quarter of the past fiscal year we reclassified all financial assets and liabilities that were to be transferred to Intel as "Assets (or Liabilities) classified as held for sale". The results of the Wireless business, that is, revenue, costs and income, are summarized under the position "Income from discontinued operations". This change complies with the rules established by the International Financial Reporting Standards (IFRS), according to which we have prepared our consolidated financial statements.

In the income statement, we only report overall fiscal year results for the remaining segments Automotive, Industrial & Multimarket as well as Chip Card & Security.

I would first like to draw your attention to the income statement of continuing operations for fiscal year 2010:

Group revenue rose by 51 percent, or 1.1 billion euros, to 3.3 billion euros. Our growth thus lies substantially above that of the overall semiconductor market, and we have surpassed many of our competitors.

Our Group's gross margins reached 38 percent in the past fiscal year, which represents an improvement of 15 percentage points over the previous year. In addition to increased productivity, the high utilization of our production capacity was the essential driver behind this. We will continue to persevere on improving cost structures and production processes. Our goal is to achieve a sustainable gross margin of over 40 percent. This is what we have achieved in the past quarters.

The Segment Result from our operating segments improved from minus 140 million euros in the previous year to plus 475 million euros. Our profitability increased distinctly, with an operating margin of 14.4 percent.

The consolidated financial statements show an improvement of 1.3 billion euros to 660 million euros. Basic earnings per share improved by 1.34 euros to 61 euro cents.

Ladies and Gentlemen,

I would now like to present you with a more detailed view of developments in individual segments.

Revenue in our **Automotive** segment rose by 51 percent to 1.3 billion euros, compared to the previous year. This is primarily due to the fact that after the financial crisis, worldwide demand for and production of automobiles began to rise sharply again. At the same time, the trend to using more semiconductors in each automobile persists. The Segment Result improved to 198 million euros, which corresponds to an operating margin of 15.6 percent.

Revenue in our **Industrial & Multimarket** segment also increased noticeably during the past fiscal year: by 52 percent to 1.4 billion euros. All product areas in this segment contributed to this strong growth. The Segment Result grew to 283 million euros. This means that the operating margin was 21 percent.

**Chip Card & Security** grew well, achieving 407 million euros. The Segment Result was 22 million euros; the operating margin around 5.4 percent. Our profitability in this segment developed satisfactorily. We are, however, not yet close enough to achieving a two-digit margin in this segment over the course of the year. But we are working on it, and in the fourth quarter of fiscal year 2010 as well as in the first quarter of fiscal year 2011, Chip Card & Security did achieve margins of over 10 percent.

When we view our business and revenue according to regions and markets, we see that in Europe, these were 50 percent higher than during the previous year, at 1.5 billion euros. This means that the share of revenue earned in Europe amounted to 46 percent of our total revenue. In the Asia-Pacific region including Japan, our revenues climbed from 884 million euros to 1.4 billion euros. Infineon is profiting from the dynamic developments in this economic region, and the share of this region in our total revenues was 42 percent. As Peter Bauer mentioned earlier, this makes Infineon the DAX-company with the highest revenue share in Asia. In North America, we recorded revenue of 351 million euros during the past fiscal year. This corresponds to a revenue share of 11 percent.

Let's now take a look at our operating costs.

In this chart, you see our Research & Development costs, which rose by 25 percent to 399 million euros. This gives us a Research & Development quota of 12 percent in relation to our revenue. Our current focus is primarily on developing advanced manufacturing technologies as well as products with the potential for high growth and results.

During the past fiscal year, the selling, general and administrative expenses made up 386 million euros, which was 16 percent above the previous year's level. This rise is mainly due to increases in costs and investments that correlate directly to our increased revenue, especially for our Asian sales. In this case, it is important to consider – as in other cost positions – that during the previous year, there were some factors that allowed us to save money for limited periods of time, such as short-time work.

Infineon's Group results in fiscal year 2010 amounted to 660 million euros, after a minus of 674 million in the previous year. We thus improved our results by 1.3 billion euros compared to the previous year.

The consolidated net income from continuing operations amounted to 312 million euros; from discontinued operations, to 348 million euros. In addition to the results from the sale of parts of the Wireless Solutions segment amounting to 158 million euros, this last item also includes one-time gains. These consist of an income tax benefit from deferred tax assets in the amount of 82 million euros, a contingency accrual for tax liabilities totaling 15 million euros as well as capital gains from the sale of Wireline Communications in the amount of 93 million euros.

Basic earnings per share improved in fiscal year 2010 to plus 61 euro cents. The previous year, the earnings per share had amounted to minus 73 euro cents. Basic earnings per share from continuing operations totaled 29 euro cents. This means that there was an improvement of 56 euro cents per share compared to the previous year. Of these 56 euro cents, approximately 50 cents are due to our operative performance.

Dear Shareholders,

Based on these positive business developments, we announced during the annual press conference in November that we would propose to the Annual General Meeting the distribution of a cash dividend of 10 euro cents per each entitled share. With this measure, we wish to embark on a cash flow-oriented dividend policy and let you participate in the success of your company.

We now come to the area of Free Cash Flow from continuing operations, which positively developed, as we see here, with an encouraging 573 million euros. We thus surpassed the previous year's figure of 274 million euros by a clear margin. In addition to our good operative performance, we also achieved good results in the past fiscal year with Working Capital Management.

Our investments amounted to 325 million euros in the past year. Here, we focused on increasing capacity as well as on eliminating capacity bottlenecks.

It is also our goal to generate ROCE that lies above our capital costs, in order to create value for our shareholders. With a ROCE of 24 percent, we clearly achieved

this goal in 2010. In the fourth quarter of the past fiscal year, we were at 51 percent. We started this fiscal year with 36 percent.

In conclusion, ladies and gentlemen, not only have we achieved our financial goals in the past fiscal year, we have surpassed them. This is a great success for all of those who worked for our company during this period, not simply those who joined it on January 1st, as I did! Of course, however, we have no plans to rest on our laurels, but wish to deliver proof that we can keep our company on the right track even during difficult market phases. This requires uncompromising cost and investment policies, even in times of plenty.

I'd now like to say a few words about our employee headcount. At the end of the fiscal year, the Infineon Group had 26,654 employees. This figure also includes the 3,050 employees who have now been transferred to Intel in the course of the sale of the mobile phone business. Including employees from non-consolidated companies, some 3,500 employees worldwide moved to Intel Mobile Communications.

### **Selected Financial Data**

To conclude, I would like to take another look at our consolidated statements.

During the past fiscal year, we reduced our debts primarily by repurchasing or redeeming our convertible bond that matured in 2010. This further improved our liquidity situation. As of September 30, 2010, our liquid funds amounted to 1.7 billion euros. This is an increase of 15 percent compared to the 1.5 billion euros we recorded on September 30, 2009. When we balance our debt against our net cash position, we see an improvement of 674 million euros over the previous year, to 1.3 billion euros.

Provisions and liabilities formed by Infineon at September 30, 2010, in connection with the Qimonda insolvency totaled 118 million euros. Especially due to payments in the first quarter this amount was reduced to 104 million euros at December 31, 2010. This figure includes a sum which we set aside based on the positions taken in the settlement negotiations with the insolvency administrator. As we already announced in conjunction with the results of the first quarter on February 1, 2011, we will continue to increase this sum in forthcoming quarters. From today's perspective, it is estimated to amount to a total future charge against earnings of 80 million euros.

It is also worth mentioning that in the past quarter, we purchased parts of the convertible note, which will mature in 2014, on the open market. By spending 80 million euros we repurchased bonds with a nominal amount of 28 million euros. This allowed us to lower our interest burden and reduce the number of diluted shares by 1 percent. The price per share implicitly paid was clearly below today's share price.

On the balance sheet date, September 30, 2010, the Company's total equity amounted to 2.6 billion euros. At 53 percent, its equity ratio was thus 5 percentage points over the previous year's value.

Because the sale of Wireless Solutions had not yet been completed at that date, the consolidated statements stated all assets and liabilities of the Wireless business as "Assets (or Liabilities) classified as held for sale". In total, 495 million euros in assets and 177 million euros in liabilities were reclassified in connection with this sale.

Ladies and Gentlemen,

I am happy that I could present you with good business figures and a very healthy balance sheet. Despite the difficult financial environment, we have achieved what we wanted:

Infineon has emerged from the crisis stronger than before.

Now, we can and want to put all of our energy into achieving sustainable and profitable growth. Securing and developing our financial strength will continue to be our top priority, so that even in difficult market phases, our financial soundness and capacity to act are guaranteed at all times.

We remain careful and will act with the necessary due diligence.

Our strong start in the current fiscal year, which we reported on in detail when we published our first-quarter figures on February 1st, makes us confident that we are on the right track.

I would now like to explain some essential aspects of selected agenda items, as well as proposals by the Supervisory and Executive Boards, that will be discussed in today's Annual General Meeting, insofar as these are new or if the management feels that they are not self-explanatory. The invitation to the Annual General Meeting that we sent you included extensive explanations on all agenda items.

What is new for Infineon – and we mean "new" in a very gratifying way – is **Agenda Item 2**, our dividend proposal of 10 euro cents per share. Dividend payments are not necessarily the rule for companies in the semiconductor business, due to the high growth dynamics and volatility of this sector. This made the response to our announcement last November all the more positive. We do not understand this year's dividend as a one-time event. However, when calculating its amount, our policy of moderation does us credit – just as does our careful consideration of the nature of our business.

I would now like to make a technical balance-sheet-related remark pertaining to our dividend proposal:

According to Stock Corporation Law, the amount available for payment to shareholders is based on the accumulated income of the parent company, which is determined according to HGB regulations. The net income achieved by Infineon Technologies AG in fiscal year 2010 amounted to 235 million euros. After withdrawing capital reserves in the amount of 3.063 billion euros in accordance with Section 272, Paragraph 2, Number 1 of the HGB and withdrawing capital reserves in the amount of 2.825 billion euros in accordance with Section 272, Paragraph 2, Number 4 of the HGB, and offsetting these with our carry-over loss from the previous year in the amount of 6.014 billion euros, an accumulated income of 109 million euros remained for dividend distribution. This amount corresponds precisely to the 10 euro cents per share that we are proposing to you today as a dividend.

**Agenda Item 8** concerns the authorization to acquire and use our own shares. At the present time, we are not authorized to do this. Buy-back authorization would give us the flexibility to return liquidity to our investors. We see a share buy-back as only one of several options for letting shareholders take a direct part in our business success. Other options are the dividends mentioned above as well as bond buy-backs. As regards time and content, these instruments must be coordinated with the use of our liquidity for accelerated organic growth and purchases that fit us as best possible. The interests of our shareholders are the primary focus of our activities. Organic growth can best be addressed in times of financial upswing. At the present time, we are thus acting accordingly. The time to purchase, however, tends to be during financial downturns. Peter Bauer discussed this earlier.

By authorizing this capital increase one-and-a-half years ago, you made a significant contribution to the fact that Infineon now has the financial strength to utilize such opportunities. In this context, it is not at all disadvantageous to have patience and – colloquially said – to keep your ammunition dry for a while. This is the context in which we will be carefully exploring our leeway for future share buy-backs over a longer period of time.

I would like to point out three items in particular in connection with our proposal:

1. In regard to the duration of the buy-back authorization, we propose the maximum period allowed by law, which is five years. Not only for our company, but for nearly all other large companies and their shareholders, this has come to be well received, primarily due to the fact that Annual General Meetings do not deal with this issue every year. If derivative instruments are used during this five-year period for a buy-back, such an action itself may not exceed 18 months, however.
2. In addition to a purchase via the stock exchange and a public bid, our authorization also foresees the option of purchasing via a bank at previously agreed-upon conditions. We would authorize such a bank to carry out a concrete buy-back program.
3. Finally, we also want to be able to structure the buy-back of our own shares using derivative instruments, that is, the use of options. This is the subject of **Agenda Item 9**. This type of purchase has come to be a generally recognized variant of the share buy-back. A good one-third of all DAX companies has such authorizations. This type of purchase is primarily used to optimize the purchase price for the company's own shares. In our eyes, it is particularly interesting for companies whose shares – as in our case – have above-average volatility.

**Agenda Item 10** deals with the settlement agreement with Dr. Schumacher that was printed verbatim as well as explained in detail in the invitation. As you know, this agreement, which was negotiated between the Supervisory Board and Dr. Schumacher, must be approved at the Annual General Meeting in order to take effect. Professor Wucherer already remarked on the content of the agreement. From the view of the management, it seems desirable to finally close this chapter – which



has taken the time and attention of many of our employees – and thus free up our capacity for activities that create more value for you, our shareholders.

The two proposed amendments to the Articles of Association found in **Agenda Item 11** address two completely different issues.

The first relates to the formalities surrounding invitations to and decision-making processes in Supervisory Board meetings. Here, we would like to adjust our Articles. Some of the provisions in our current Articles only reflect legal rulings. On the other hand, we want to mind that the comprehensibility is still guaranteed. Among other things, we wish to waive the provision which states that concrete resolutions must be announced in the invitation to Supervisory Board meetings. Legally, this is not required and in the case of the concrete resolution is often obsolete. We would thus like to change Section 9 of the Articles of Association to reflect this situation.

The second change concerns remuneration of Supervisory Board members, which according to all experts, is urgently in need of change. These provisions have not been changed for years. The remuneration for Supervisory Board members is disproportionately low for a company of Infineon's stature, making it no longer up-to-date. Professor Wucherer has already described the features of the new remuneration system for the Supervisory Board. I only wish to add that even with our new, higher remuneration system, we remain in the lower third of all DAX companies.

With that, I conclude my remarks on the Agenda Items of today's Annual General Meeting.

Thank you for your attention.

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