

Letter to shareholders

Neubiberg, November 2022



Jochen Hanebeck
Chief Executive Officer

Dear readers,

Over the next ten years, decarbonization and digitalization will profoundly change the world we live in. Only a major shift from fossil fuels to renewable energy and the corresponding restructuring of our energy system will limit global warming and preserve our planet's resources for future generations. Making that transition to a sustainable society and sustainable industry is only feasible with digital technology, which enables completely new solutions that make life better for us humans. The green transformation and the digital transformation go hand in hand.

Infineon is a key player in overcoming these global challenges. For me, it is a great honor as CEO since April 2022, to lead a company that provides the essential building blocks for a climate-neutral and digitized world, together with my colleagues on the Management Board. With its capacity for innovation, Infineon is an extraordinary company. I believe there is no better team and no better place to be working on a worthwhile future for the generations to come.

Challenging conditions for our business

Our macroeconomic and geopolitical environment is currently severely impacted by a number of factors. The war in Ukraine is causing not only unspeakable human suffering but also shortages and rising prices for energy and key raw materials. High rates of inflation are depressing demand and making central banks adopt more restrictive monetary policies. Climate change is having a noticeable impact, with increasingly extreme weather events. The coronavirus pandemic is not over and is continuing to impose restrictions on global supply chains. All these factors are having an adverse impact on economic growth.

Other important issues include geopolitical tensions and uncertainties, not least as a result of intense technological competition in the world's leading regions. Semiconductors are a base technology for many different industries and are key to opening up technological opportunities and developing new markets. Today, more than ever, they are a prerequisite for growth and prosperity.

This strategic dimension of the semiconductor industry and the simultaneous vulnerability of global supply chains are drivers of regional manufacturing. Infineon welcomes all efforts to strengthen the semiconductor industry and its complex ecosystems, thus increasing the competitiveness and resilience of the sector. The CHIPS and Science Act enacted this year in the United States and the European Chips Act presented by the European Commission are important steps in this process. What now needs to happen is that the plans are translated into action quickly.

A record 2022 fiscal year

Despite the difficult climate, Infineon was very successful in the 2022 fiscal year. We were again able to achieve significant increases in revenue and profitability compared with the already strong previous fiscal year. In our key applications, such as automotive, industrial, renewable energy, data centers and the Internet of Things (IoT), demand for our products and solutions substantially exceeded supply. The much-cited chip shortage continued, an issue we were able to counter to some extent by continuing to expand our in-house manufacturing capacity. However, particularly in the case of semiconductors we purchase from contract manufacturers, supply was not sufficient by the end of the 2022 fiscal year to meet the high level of demand from our customers in our core markets. In contrast, demand began to weaken in the second half of the year in the areas of computing, consumer products and smartphones. The bottom line is that Infineon generated revenue for the full fiscal year of €14.2 billion (a significant increase of around 29 percent compared with the previous fiscal year), a Segment Result Margin of 23.8 percent (more than 5 percentage points above the previous fiscal year's figure), and Free Cash Flow of €1.6 billion.

The fact that we performed so strongly despite the aggravating circumstances is thanks to our employees. On behalf of the entire Management Board, I would like to express my gratitude to all the 56,200 people working for Infineon around the world for their great commitment, their team spirit, and the success achieved by their common effort.

I would also like to thank you, our shareholders, for your continuing confidence in Infineon. At our forthcoming Annual General Meeting, we will propose an increased dividend payment of 32 cents per share. Thus, we want to ensure that you participate appropriately in Infineon's success, while at the same time retaining the financial room for maneuver we need for the future development of your company.

Focusing on consistent implementation of our strategy and enhancing our skills

As Chief Executive Officer, I have decided to continue to develop and update the corporate strategy we designed and implemented together over many years. Our strategy is the right one, and it is bearing fruit. This is because it is resolutely geared towards the two major trends of our time: decarbonization and digitalization.

My predecessor Dr. Reinhard Ploss had the vision to put Infineon in a good strategic position, focusing consistently on structural growth areas. Dr. Helmut Gassel, who resigned from his position as Chief Marketing Officer at his own request on 31 May 2022, also played a crucial role in ensuring that Infineon is very well-positioned today. Together with others, he made a decisive contribution to the successful acquisition and integration of Cypress and accelerated the digitalization of sales and marketing. I am sure I also speak on your behalf, dear shareholders, when I express my heartfelt thanks to both of them for their great service to Infineon.

Our new Management Board team has been in place for around half a year now and includes new members Andreas Urschitz and Dr. Rutger Wijburg. We are working together very constructively and in a spirit of trust. We have already put key foundation stones in place to ensure that Infineon is able to continue its success over the coming years, even in challenging conditions. Thus, we will follow our tried-and-tested "Product to System" strategic guideline: from product thinking to system understanding. This has been the basis of Infineon's success to date and will also be a decisive factor in our future development. We will continue to drive the systems approach forward to reinforce our leadership in power systems and IoT. Semiconductor solutions are becoming increasingly important for our customers – and to some extent for our customers' customers – as they contribute towards differentiating or even defining their products.

Our technological skill is and remains an important success factor. This is increasingly also true in the area of software, because here we can continue to develop our successful “Product to System” approach. In the past few years, we have therefore significantly intensified our software activities and built up additional skills, both as a result of organic development and through strategic partnerships and the acquisition of Cypress. Our team of software developers has grown considerably. Now we can offer our customers a complete software ecosystem, comprising a development environment and a developer community. The interaction of hardware and software ensures that energy efficiency, performance and security are optimized at the systems level. This added value enables us to retain the loyalty of our existing customers, while at the same time being of interest to new partners.

Raising our long-term financial targets in a more ambitious target operating model

The development of Infineon will continue to be characterized by strong, sustainable growth. We are also focusing much more strongly on profitability. We want to create more value through accelerated, more profitable growth. We are therefore setting ourselves more ambitious long-term financial targets, against which we will measure ourselves. Our upgraded target operating model, which was devised by the Management Board together with the presidents of the business segments and approved by the Supervisory Board, sets the following targets over a cycle: Average annual revenue growth should be more than 10 percent, replacing the previous target of at least 9 percent, as we are seeing increasing dynamism in our target markets and persistently strong growth factors. Accompanying this higher rate of growth, we anticipate a significant increase in profitability. In the future, the Segment Result Margin is expected to reach an average level of 25 percent, compared with the target to date of 19 percent. Key to this are the following factors. With our “Product to System” approach, we create higher-quality solutions and thus added value for our customers. A fair share of this added value will benefit Infineon. Other important factors are systematic management of our product portfolio, the increasing proportion of our highly-efficient 300-millimeter production, and research and development expenses as well as selling, general and administrative expenses that increase at a lower rate than revenue as a result of the impact of digitalization and economies of scale. We are also convinced that, over the coming years, products with software will make a significant contribution to Infineon’s profitable growth.

For the first time, we have included an explicit Free Cash Flow target in our target operating model, instead of the investment rate included previously. Free Cash Flow adjusted for large investments in frontend buildings should fall within a range of 10 to 15 percent of revenue over the cycle.

In addition to the right strategy, a performance-related corporate culture is the essential basis for us to achieve our targets. We continue to work hard on developing our corporate culture. As part of our “Spirit” project, we have therefore identified three behaviors on which we want to focus more strongly at Infineon. We want to set ambitious targets, define clear responsibilities, and make timely decisions that are implemented consistently.

Investments lay the foundations for growth

Through decisive action and consistent implementation, we will take advantage of the opportunities our markets offer. We see sustainable growth potential for Infineon, particularly in the area of new semiconductor materials. Technologies based on silicon carbide (SiC) and gallium nitride (GaN) will play a crucial role as we move towards climate neutrality. They are increasingly being used in application areas in which high power needs to be managed, such as in solar systems, electric vehicles, charging stations, and data centers. Particularly compact, powerful and efficient chargers and adapters demonstrate clearly the practical advantages of enhanced efficiency and improved thermal properties. Demand for SiC and GaN solutions is growing fast. At Infineon, we are therefore expanding our portfolio for various application areas and scaling up our manufacturing capacity for compound semiconductors. In June 2022, we started work on a new third manufacturing module at our Kulim site (Malaysia). The first products from the new factory are expected to be supplied in autumn 2024. We are installing the production facilities gradually, depending on trends in demand. When it is complete, the new manufacturing module will have the potential to generate additional annual revenue of around €2 billion. With Kulim, we are moving closer to our objective of becoming not only the technological leader in SiC and GaN but also the market leader in the medium term, as has already been the case for silicon-based power semiconductors for many years. This will depend on our ability to deliver.

We are also planning to make a major investment in the expansion of our site in Dresden (Germany). Structural demand for semiconductor solutions will continue to rise, driven by decarbonization and digitalization. With the construction of an additional 300-millimeter module in Dresden, we could achieve growth in the data center, automotive and IoT application areas with analog mixed-signal products and power semiconductors. We are planning to invest €5 billion here, the largest single investment in Infineon's history. Construction work could begin in autumn 2023. A modular, scalable design would reduce the investment risk. Production at the new plant could start in autumn 2026, creating up to 1,000 new high-quality jobs. If the factory is developed to its full extent, we expect it to have the potential to generate additional annual revenue that matches the total investment. Adequate public funding is required for the investment decision.

In our business, entrepreneurial vision is required for sustainable success. With the investment in Kulim and the planned investment in Dresden, we are following our long-term manufacturing strategy. We are expanding our in-house manufacturing in those areas in which they create added value for our customers and differentiation for Infineon. Once again, we are setting the course early on in order to achieve future success by focusing on our existing sites and benefiting from economies of scale. Moreover, we are strengthening our regional semiconductor manufacturing as I mentioned earlier.

On our way to carbon neutrality

As a company, we have set ourselves the target of becoming climate-neutral by 2030. In line with this aspiration, each new investment in additional manufacturing capacity is expected to contribute towards reducing our carbon footprint. This is the case in Kulim, in Dresden and at our 300-millimeter production in Villach (Austria). Thanks to state-of-the-art equipment and processes, we consume fewer resources per square centimeter manufactured wafer than in existing factories. This enables us to not only

conserve resources in production but also to create capacity for precisely those semiconductors that save energy and, thereby, CO₂. Since 2021, our European sites have been running on green electricity. In the 2022 fiscal year, we also switched the power supply for our semiconductor manufacturing in Austin (Texas, USA) fully over to renewable energy. By the end of the 2022 calendar year, all our other US sites will have followed suit.

Outlook for the 2023 fiscal year

Looking forward to the 2023 fiscal year, Infineon is very well-positioned to derive ongoing benefit from the structural growth drivers for our business. At the same time, the challenging conditions will continue to have a significant impact on us. Our key markets are dependent on different drivers and have a variety of business cycles. We therefore keep a constant watchful eye on the early economic indicators for our business and are prepared to act promptly if demand weakens in any of the submarkets. Infineon is capable of maintaining its strategic course even in rougher conditions.

Within the company, we have great plans to exploit the huge market potential for Infineon in the coming years and to create value on a sustained basis for our shareholders and other stakeholders.

Neubiberg, November 2022

Sincerely
Jochen Hanebeck

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Chief Executive Officer