Dr. Sven Schneider

Annual General Meeting 2021

Munich, 25 February 2021

www.infineon.com

Chief Financial Officer

Dr. Sven Schneider

- The spoken word applies -

Dear shareholders, a very warm welcome also from my side!

Infineon has had an extraordinary and quite challenging fiscal year. Against the backdrop of the pandemic and the resulting major economic consequences, we have once again proven that we have a robust business model. We are continuously developing our company, even under challenging conditions. I am, therefore, pleased to be able to report to you today on an overall successful fiscal year.

Infineon achieved revenue of 8 billion 567 million euros in the 2020 fiscal year. This includes around 850 million euros from the former Cypress business, which we have been consolidating since the acquisition in April last year. In the previous fiscal year, revenue had been at 8 billion euros. Revenue from the former Infineon business thus decreased by around 300 million euros. The overall weaker revenue performance was mainly caused by the effects of the coronavirus pandemic, which had a particularly strong negative impact on the automotive industry.

The pandemic also hit the semiconductor industry suddenly in spring. At Infineon, we had to switch to crisis mode very quickly. In almost all areas of the company, we swiftly adjusted to other priorities and new ways of working and intensified our cost optimization measures. Today we can say: We have succeeded in doing so.

Let us turn to operating expenses: Our research and development expenses increased by 168 million euros to 1 billion 113 million euros in the 2020 fiscal year. This was mainly due to the increase in headcount resulting from the acquisition of Cypress. The selling, general and administrative expenses increased by 177 million year-on-year to 1 billion 42 million euros. The increase in operating expenses was partly offset by cost-cutting measures.

The Segment Result was 1 billion 170 million euros. This corresponds to a Segment Result Margin of 13.7 percent, compared with 16.4 percent in the 2019 fiscal year. Revenue and Segment Result were thus slightly above the outlook, which we adjusted first in May and then again in August 2020 to reflect the dynamic overall economic situation.

Against the backdrop of the coronavirus pandemic and the challenging macroeconomic situation, this is a remarkable result. During the year, we quickly adjusted to new developments. In order to minimize underutilization costs, deliveries to customers and inventory management were well balanced. This was achieved, for example, by continuously reassessing demand scenarios and adjusting the manufacturing program across segments and sites. In addition, short-time work was introduced at the four manufacturing sites in Germany and Austria. The productivity and cost optimization measures already initiated in the previous year were further intensified in the course of the 2020 fiscal year.

Our business model is geared to long-term, structural growth, but is also resilient in times of crisis. We demonstrated this in the year under review: Even in difficult times, we were still able to achieve respectable profitability.

Consolidated net income declined to 368 million euros in the 2020 fiscal year. Cypress' results have been included in the consolidated income statement for the reporting period since the acquisition date in April 2020. Cypress' operating contribution had a positive impact on the Segment Result Margin. However, overall net income was negatively affected by amortization related to the purchase price allocation of the acquisition in addition to the impact of the coronavirus pandemic. Our earnings per share amounted to 26 euro cents, which is well below the figure in the prior year. Adjusted earnings per share decreased from 89 to 64 euro cents.

Now to our segments:

The Automotive segment continued to be the strongest in terms of revenue. At 3 billion 542 million euros, it contributed 41 percent to Infineon's total revenue. Despite the slump in automotive production of more than 15 percent in the 2020 calendar year, we still achieved a 1 percent increase in revenue. This was due on the one hand to the consolidation of Cypress and on the other hand to the higher value of semiconductors installed per vehicle compared to the previous year. The Segment Result Margin fell from 11.5 percent in the previous year to 4.4 percent, in particular because of higher underutilization costs.

Revenue in the Industrial Power Control segment amounted to 1 billion 406 million euros in the reporting period, which equals roughly the same level as in the previous year. On the one hand, demand for industrial drives and train systems decreased. On the other hand, due to our good position in fast-growing application areas such as renewable energy generation through solar and wind power, we almost offset this decline. The Segment Result Margin rose slightly from 17.7 percent in the previous year to 18.2 percent. There was no allocation of former Cypress businesses to this segment.

In the Power & Sensor Systems segment, supported by the contribution from Cypress, we achieved revenue of 2 billion 650 million euros. This corresponds to 8 percent growth. Ongoing digitalization together with the expansion of data centers and 5G mobile infrastructure continued in the past fiscal year, partly as an indirect result of the coronavirus pandemic. At 24.0 percent, the Segment Result Margin was on a par with the previous year.

Revenue in the Connected Secure Systems segment increased by almost 50 percent year-on-year to 953 million euros as a result of the acquisition of Cypress. However, declines in revenue were recorded in the original business activities. The Segment Result Margin increased from 12.0 percent to 12.8 percent.

Let us take a look at the distribution of revenue by region. The Greater China region accounted for the largest share of our revenue with 37 percent. However, this includes a significant proportion of supplies for end products that are re-exported. The Europe, Middle East, Africa region accounted for 27 percent. Asia-Pacific accounted for 15 percent and the Americas for 12 percent of revenue. Although Japan is the region with the smallest share of revenue, year-on-year growth was 29 percent, largely due to the acquisition of Cypress. We are thus continuing our course of regional diversification.

Let us now turn to selected financial figures:

Free cash flow in the reporting year was minus 6 billion 727 million euros. It was mainly affected by the purchase price payment for the acquisition of Cypress. Excluding expenses related to the acquisition, free cash flow reached a positive value of 911 million euros.

The early implementation of cost-cutting measures made an important contribution to this. Furthermore, we flexibly adjusted our production to take account of lower demand and keep inventory development under control. We adjusted our investments to the significantly weaker market environment and therefore reduced them from 1.5 billion euros in the previous year to 1.1 billion euros in the reporting year, despite the acquisition of Cypress.

Return on capital employed (RoCE) was 3.0 percent in the 2020 fiscal year, compared with 12.2 percent in the previous year. In addition to higher underutilization costs, the decline primarily resulted from the acquisition of Cypress. Operating profit was negatively impacted mainly by scheduled amortization on fair value adjustments from the acquisition. Capital employed was impacted by the assets acquired from Cypress and the recognition of goodwill of 5.4 billion euros upon first-time consolidation.

Let us now turn to our financing policy. The core objective we are pursuing here is to maintain what is referred to as an investment grade rating. This ensures that we have access to all relevant capital markets and financing sources at all times, enabling us to finance our organic and inorganic growth at low cost and on good terms and conditions. In the course of the acquisition of Cypress, the rating agency S&P Global Ratings lowered Infineon's rating by one notch to "BBB-", initially with a stable outlook. This continues to correspond to an investment grade rating. We are pleased that S&P Global Ratings recently upgraded our outlook to "positive". Alongside the market recovery, this was mainly due to our conservative financing policy with focus on high liquidity and fast deleveraging.

As you know, we had communicated a clear strategy to refinance the acquisition of Cypress at the time the purchase agreement was signed in mid-2019. We then implemented this strategy consistently and quickly. In 2019, this included an initial capital increase, through which we raised 1.5 billion euros, and the issue of a hybrid bond of around 1.2 billion euros. We successfully implemented further measures in 2020, despite the capital market environment being impacted by pandemic uncertainties.

At the end of May 2020, we raised just over 1 billion euros in a second capital increase. On the basis of Authorized Capital 2020/I pursuant to Article 4 Section 4 a) of the Articles of Association, the Management Board, with the approval of the Supervisory Board, placed 55 million new shares with institutional investors. The exclusion of subscription rights made it possible to raise capital quickly, taking advantage of the favorable market situation and optimizing the proceeds for the company. The shares were allocated at a placement price of 19 euros 30 euro cents per share, representing a discount of 4.2 percent compared to the previous closing price. They are entitled to participate in profits for the 2020 fiscal year.

In addition, a total of 237 thousand new shares entitled to dividends were created in the past fiscal year through the exercise of stock options. The relevant 2010 stock option plan has now expired; no further stock options can be exercised.

Members of the Management Board and executive staff receive part of their variable compensation in the form of shares from the Performance Share Plan, and executive staff additionally from the Restricted Stock Unit Plan. Under these two plans, Infineon transferred a total of approximately 749 thousand own shares in the 2020 fiscal year. These shares originate from the existing stock of own shares that the company had repurchased in previous years. With the transfer of the shares to the Management Board members and executive staff, the shares are now again entitled to dividends.

The number of issued shares thus increased to 1 billion 305 million 921 thousand 137 as of 30 September 2020, of which 4 million 790 thousand 406 are currently in the ownership of the company and thus not entitled to dividends.

The two share programs mentioned continue to exist as part of variable compensation. For this reason, under agenda item 8, the Management Board and the Supervisory Board propose the creation of a new Authorized Capital 2021/I. This is to replace Authorized Capital 2016/I, which expired on 17 February 2021. The total volume of up to 30 million euros would correspond to that of the previous Authorized Capital 2016/I, and the authorization would be valid until February 2026. Since the purpose is to issue shares to employees and executives of Infineon and its Group companies, shareholders' subscription rights are excluded in this case. You will find further detailed explanations in the written Management Board report, which is attached to this agenda item.

Let us return to refinancing:

In June 2020, we successfully placed bonds with maturities of up to twelve years totaling 2.9 billion euros. Together with the proceeds from the aforementioned capital increase, we were thus able to completely redeem the bridge facility of the acquisition financing just a few weeks after the acquisition was closed. Infineon now has a balanced maturity profile until 2032 with low financing costs. The strong interest of investors and banks in our financing activities impressively demonstrates the positive perception of Infineon.

We can thus state that around one year later, we have already succeeded in largely implementing the refinancing strategy announced in mid-2019.

The closing of the acquisition and the financing steps implemented are reflected in our balance sheet: As of 30 September 2020, total assets amounted to 22 billion euros. This is an increase of 62 percent compared to 30 September 2019. Equity increased by 1.6 billion euros to 10.2 billion euros. Our financial debt increased sharply as a result of acquisition financing – from 1.6 billion in the previous year to 7 billion in the reporting year.

In line with our strategic liquidity target, we intend in the coming years to systematically further reduce the debt, which is currently at a higher level due to the acquisition. The repayment of 555 million dollars of the outstanding term loans last September, well ahead of their actual maturity, is evidence of this. This focus on conservative leverage and free cash flow generation secures and strengthens the retention of the investment grade rating.

Now for the development of the Infineon share – your share:

Between the start of the past fiscal year on 1 October 2019 and the close of the stock market last Monday, the Infineon share price rose by 121 percent. After the corona-related share price slump in March, the share value had recovered steadily and grew strongly in the further course. The performance was thus above the development of the Philadelphia Semiconductor Index, or SOX, which is relevant for us, and was even significantly above the performance of the German DAX share index. In the 2020 calendar year, we were the DAX stock with the second-best performance overall. This strong growth demonstrates the market's trust in our long-term success.

And that brings me to our dividend proposal:

With our dividend policy, we pursue the goal of allowing Infineon's shareholders to participate appropriately in the company's economic development. In general, we want to pay out a constant dividend at least, even if segment results stagnate or decline.

However, we need to take into account the serious economic impact and the ongoing risks associated with the coronavirus pandemic and to maintain appropriate financial headroom. Furthermore, the number of shares entitled to dividend has increased by a good 4 percent as a result of the capital increase carried out in May last year.

Related to agenda item 2, the Management Board and the Supervisory Board propose to you a dividend of 22 euro cents per share for the 2020 fiscal year, five eurocents lower than in the previous year. The 55 million new shares issued in May 2020 are fully entitled to dividends. The expected total dividend payout would therefore be 286 million euros, compared with 336 million euros in the previous year. The percentage decrease in the total dividend payout is, therefore, lower than the percentage decrease in the dividend per share.

I now come to the outlook:

Following a good start to the new fiscal year, we have raised our full-year guidance slightly. For the 2021 fiscal year – assuming an exchange rate of the US dollar to the euro of 1.20 – we expect revenue of around 10.8 billion euros, plus or minus 5 percent. This includes for the first time the consolidation of Cypress for a full fiscal year. At the mid-point of the guided revenue range, we expect a Segment Result Margin of around 17.5 percent. Investments in property, plant and equipment and other intangible assets, including capitalized development costs, are planned at around 1.6 billion euros. Free cash flow is expected to exceed 800 million euros.

One year ago, we presented to you the new financial targets we aim to achieve, following the acquisition. We can confirm these today. Our business model is robust because it is consistently focused on long-term growth drivers. The coronavirus does not change the relevance of the structural drivers that enable Infineon to achieve above-average growth in the long term. In some areas, such as digitalization, the pandemic is even having an indirect accelerating effect. In addition, the diversification of our business model means that declines in individual areas can be offset in other areas.

As a result, we came through the crisis comparatively well. We still aim to grow revenue by an average of more than 9 percent per year over the cycle. As integration progresses, the Segment Result Margin should gradually increase to 19 percent over the cycle. As a result of the reduced capital intensity of the combined company, we plan a lower investment-to-sales ratio of 13 percent, also over the cycle. According to our definition, this figure does not include investments in the 300-millimeter production facility in Villach, which is currently under construction, or certain larger office buildings and associated IT infrastructure.

As a result of the higher Segment Result Margin and reduced capital intensity, we also expect a successive improvement in free cash flow.

These targets will be supported by the realization of planned synergies – we do not anticipate a substantial negative impact from the coronavirus pandemic. The complementary portfolios will enable long-term revenue synergies of 1.5 billion euros per year. In addition, we expect annual cost synergies of 180 million euros by the middle of the 2023 fiscal year.

Finally, some remarks on the agenda for today's Annual General Meeting:

I have already explained the proposed allocation of profits under agenda item 2, as well as the proposed resolution on the creation of new Authorized Capital under agenda item 8.

In addition, agenda items 6 and 7 should be mentioned, concerning the compensation of the Management and Supervisory Boards, which have already been presented in detail by Dr. Eder.

The long-term focus of our business, based on sustainable growth drivers and supported by a conservative financial policy, makes us comparatively resilient to crises. Even in challenging times, we are preparing for the expected rapid growth that will follow so that we can benefit accordingly. We are convinced that through our successful management over economic cycles, we not only offer great added value to our customers and an attractive workplace for our employees, but also an attractive return on your investment in our stock to you, our shareholders.

Thank you very much for your trust in Infineon!

Infineon Technologies AG

81726 Munich
Deutschland