



Letter to shareholders



Dr. Reinhard Ploss
Chief Executive Officer

Neubiberg, November 2018

*Dear shareholders
and business partners,
dear Infineon colleagues,*

Infineon has added a new chapter to its success story: The 2018 fiscal year was very strong in economic terms and has given us a glimpse of the future. We have set the course for long-term, profitable growth of Infineon.

First, to the figures for the fiscal year under report. Compared to the previous year, revenue increased by 8 percent to €7,599 million. The unfavorable development of the US dollar exchange rate partly masked the underlying dynamic of our business. The annual average exchange rate was 1.19. If it had remained at the previous year's level of 1.11, our revenue growth in the previous fiscal year would have been 12 percent and as such clearly above the original forecast of 9 percent. Not only did we grow strongly, we also became more profitable.

The Segment Result increased to €1,353 million, the Segment Result margin was 17.8 percent. This makes 2018 another one in a long series of successful fiscal years: For the fifth time in a row we were able to significantly increase revenue and Segment Result. Our strategy is paying off, the orientation of the company promises long-term success. We want our shareholders to adequately participate in this success. Therefore, for the fifth consecutive year, the Management Board and Supervisory Board will propose an increase in the dividend to the Annual General Meeting on 21 February 2019, this time to 27 cents per share.

Our world is facing serious challenges: demographic and social change, climate change and scarcity of resources, urbanization and the digital transformation. Our solutions are the key to a better future because they make it possible to achieve more while using less resources. Infineon's current business has organically grown at an average rate of approximately 9 percent per year since the Company was established as an independent corporation in the 1999 fiscal year, faster than the semiconductor market as a whole. This success is due both to the fact that we have grown in scale by gaining market shares in our core business, as well as the fact that we have grown in scope, i.e. we have continuously expanded our range of activities into adjacent markets with new products and solutions. Our strategic approach "Product to System" helps us continue to rigorously develop our core business. Starting with a comprehensive understanding of customer requirements, we develop solutions that take the overall system into consideration, thus providing the customer with important competitive advantages. Software is playing an increasingly important role here. You can read more on this topic in the chapter "Group Strategy".

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Our strategic orientation towards topics with a high relevance for society and our technological strength both point to a future with outstanding growth opportunities. For this reason we updated our target operating model and presented it to investors and analysts at our Capital Markets Day in London on 12 June 2018. For the most part, the structural growth drivers have horizons of several years, in some cases even of a decade or more. The same applies to the lifecycles of many platforms in which our products are used. This allows us to define robust, long-term targets. We are committed to the following targets:

- › **Revenue growth of 9 percent:** In the automotive sector, the increasing trend towards electro-mobility and the development towards the automation of more and more driving functions are the primary drivers of our growth. We thus expect the highest growth rate for the segment Automotive at 10 percent annually. The segments Industrial Power Control (8 percent expected average growth rate) and Power Management & Multimarket (9 percent expected average growth rate) also benefit from a large number of structural growth drivers such as energy storage for renewable energies, dynamically controlled electric motors in large and small devices and battery-powered applications. Information security is an essential success factor in many solutions. Under the leadership of our division Digital Security Solutions (previously Chip Card & Security) we will play a central role in driving market development for hardware-based security solutions. Because of the ongoing transition from card-based to embedded products, we expect a growth rate in the mid single-digit percent range.
- › **Investment-to-sales ratio of 15 percent:** During the previous fiscal year and also currently, our ability to ship is limited in several areas by the amount of available manufacturing capacities. This limits our customers' and our potential. We are therefore investing in order to take advantage of the current market opportunities. Accelerated revenue growth and ambitious investments go hand in hand. In the future, our investment-to-sales ratio will be 15 percent of revenue at the target growth rate of 9 percent. The ratio of 15 percent does not include investments in cleanrooms and large office buildings as well as in measures to increase manufacturing flexibility, which we will use in the coming years to lay the foundation for participating in a possibly even larger demand dynamic in our target markets. By making significant investments in the expansion of our manufacturing capacities, we fulfill the prerequisite for working together with our customers to supply growing demands in existing and new markets. We continue to rely on in-house manufacturing, especially in the area of power semiconductors, since our know-how of the manufacturing processes represents an important competitive advantage. With the 300-millimeter thin-wafer technology, we can manufacture cost-effectively at the highest quality levels and can take advantage of the lower capital intensity. In approximately three years we expect to reach the capacity limit of our 300-millimeter fab in Dresden (Germany), which is why we have begun construction of a similar second factory in Villach (Austria), paving the way for long-term growth. The highly visible investment of about €1.6 billion will create around 400 highly qualified jobs and will allow for an annual revenue volume of approximately €1.8 billion when operating at full capacity.

- › **Segment Result margin of at least 17 percent:** In the 2018 fiscal year, in spite of the effects of the weak US dollar mentioned above, we achieved a Segment Result margin of 17.8 percent. In doing so we were able to compensate for the continued sharp increase in prices for raw wafers and for other materials such as copper. This result is thus proof of our high performance capabilities – and we continue on this path. Currently we are not expecting a reversal of the trend in material costs. Furthermore, increased investments will result in higher depreciation and amortization. These two factors thus represent additional burdens for now, but we are working on compensating them by progress in productivity and higher-quality product and system solutions, and will therefore be able to keep our gross margin stable. We see opportunities to increase the Segment Result margin through the scaling of certain operating expenses more slowly than revenues: Infineon's lifeblood is technological innovation. Research and development activities thus ensure the future viability of the company. Expenses are therefore expected to develop in line with revenue growth. On the other hand, for selling, general and administrative expenses we leverage economies of scale and plan efficiency improvements. This allows us to gradually increase our Segment Result margin in spite of increased burdens in terms of cost of goods sold.

In the short term we are even expecting an elevated growth-level. Due to the well-filled order books, we expect revenue growth for the Group of 11 percent plus or minus 2 percentage points for the 2019 fiscal year. At the mid-point of the forecast revenue range, we expect a Segment Result Margin of around 18 percent and investments of €1.6 billion to €1.7 billion.

In all of our business areas we want to take on a leading position or be able to do so within the foreseeable future, which means growing faster than the market. In this way we can see evidence that we are on the right path and can be the preferred partner for our customers. Our increased business targets show that we took the right decisions in the past. In the 2018 fiscal year we took additional steps to make sure we can continue our growth trajectory in the years to come as well. I would like to point out some of them.

Technology leadership and a broad technology portfolio are important factors for our success. We have developed new technologies based on silicon carbide (SiC) and gallium nitride (GaN) in our core power semiconductor business. These materials have properties superior to those of silicon; however, technical hurdles remain before we can manufacture them in high volumes and at a reasonable cost. In the still nascent SiC market we have in the meantime established ourselves with our CoolSiC™ MOSFET and our module manufacturing competence. We have secured our supply of SiC wafers under a long-term supply agreement with Cree, Inc. (USA). This means we are excellently positioned to drive the market penetration of silicon carbide forward: Infineon is the company that can offer the right power semiconductor solution for every application.

Furthermore, we have taken a variety of steps to strengthen our position through portfolio expansion. For example, with the acquisition of the Danish startup company Merus Audio we complemented our portfolio of integrated Class D audio amplifiers. Moreover, we signed Memoranda of Understanding with the Chinese internet conglomerates Alibaba Cloud and JD providing for collaboration on Internet of Things (IoT) applications. Here, expertise from Dresden (Germany) will also come into play: We have built a new development center at our Dresden site that concentrates on solutions for automotive and power electronics as well as for Artificial Intelligence (AI). Algorithms, AI and the IoT today already play a central role in the context of the constantly increasing interconnection of traffic systems. We will use this know-how to provide AI solutions for other target markets as well on a long-term basis under the excellent conditions offered by the eco-system in Dresden.

Another milestone is the joint venture established in February with SAIC Motor Corporation Ltd., China's largest automobile manufacturer. This joint venture gives us even better access to the world's largest and fastest-growing market for electro-mobility. Volume manufacturing of the power semiconductor modules began in August at the Infineon Wuxi (China) site. The objective is to supply customers who produce in China. Customers outside of China will still be supplied directly by Infineon.

After not closing the acquisition of Wolfspeed in 2017, we reassessed our options for radio-frequency power components and sold the largest part of the business to Cree, Inc. for approximately €345 million, a logical consequence. Without the acquisition of Wolfspeed and under the present conditions it appeared impossible to achieve a strong position in this market for radio-frequency power components with reasonable effort. On the other hand Cree, with its excellent reputation, is the ideal owner for this part of our portfolio.

Since 1 October 2018 our security technology business bears the new name Digital Security Solutions. In addition to continuing established solutions for banking cards and electronic identity documents, our embedded security solutions have for years addressed entirely new customers with a significantly larger number of applications. As of the new 2019 fiscal year, we renamed the segment Digital Security Solutions, a name that describes much better what we already do today.

We want to further develop the company with large and small measures like the ones mentioned here and we want to continue our success story. There are, however, things outside our control. We benefit from a good macro-economic environment and the growth of the world economy; we also benefit from open markets and low trade barriers. Accordingly, we observe the present protectionist tendencies with great concern. We are monitoring the situation closely in order to adapt our strategies quickly if and when signs of economic slow-down occur. You can rest assured that we will lead Infineon into the future with a great sense of responsibility and attention to detail.

We sincerely regret that Wolfgang Mayrhuber will no longer be actively accompanying us with his wisdom and support. He left the Supervisory Board on his own wish after the Annual General Meeting in February 2018. As chairman of the Supervisory Board, he has had a decisive and constructive influence on the recent history of Infineon with his personality and his experience. I would like to take this opportunity to thank him once again personally – and in your name – and to wish him all the best. The Annual General Meeting elected Dr. Wolfgang Eder to the Supervisory Board, therewith selecting a highly respected corporate personality. The Chairman of the Supervisory Board is now Dr. Eckart Sünner, who knows Infineon very well after his many years as Chairman of the Investment, Finance and Audit Committee.

We achieved a lot in the 2018 fiscal year. We turned our eyes to tomorrow, without neglecting the world of today. We seeded, we harvested. A company can only master this challenge when it can count on qualified and dedicated employees. I therefore thank you, our employees, most sincerely in the name of the entire Management Board for the passion and commitment with which you make Infineon successful. The future offers many opportunities – we grasp them together.

Sincerely

Dr. Reinhard Ploss
Chief Executive Officer