

Letter to shareholders

Dr. Reinhard Ploss
Chief Executive Officer



Neubiberg, November 2021

Dear readers,

Many of you have been following Infineon's progress for a number of years. You know that one really important factor in the success of the Company is our deep conviction that we can use innovative technology to contribute towards solving major challenges. Whether we are talking about the climate crisis, dwindling resources or population growth, the urgent issues of our time require intelligent concepts and solutions that enable us to lead a sustainable and secure life. Infineon, which acts as a link between the real world and the digital world, is more in demand than ever, and we have never been in a better position than we are today.

Strategic focus on electrification and digitalization trends

Our portfolio is firmly focused on the two major trends of the coming decade: electrification and digitalization. Both trends and the interplay between them will accelerate structural semiconductor growth. Tomorrow's energy-efficient, connected world is built on semiconductors. In the Internet of Things (IoT), our products and solutions enable new functions and services. IoT devices capture their surroundings and process the data and, in doing so, they interact with the cloud and perform actions. A good example is the fully automatic vacuum cleaner, which also works in a very energy-efficient way. Key elements in IoT are sensors, microcontrollers and power semiconductors, as well as connectivity and security solutions, supplemented by software. Infineon offers all of these elements and makes leading-edge applications possible – from electric cars that drive autonomously to home solar systems with buffer batteries, and much more. Thus, we are able to live up to our claim that we make life easier, safer and greener. Our contribution to climate protection is not limited to the contribution made by our products: As a company, we want to become carbon-neutral by 2030.

A key aspect of our strategy is P2S: from product thinking to system understanding. We adopted this approach years ago, laying the foundations for our present success. Thanks to P2S, we are able today to provide our customers in many areas with complete system solutions, including the related software. Why is that so important? Many of our target applications are becoming increasingly complex – the best example of this is the car: digitalization and electrification are shaping the vehicles of tomorrow. The number of electronic systems due to driver assistance, infotainment and comfort applications is constantly rising. Battery-powered electric motors are increasingly used in power trains. We understand the car as a system and can offer solutions that contribute towards enabling transformation and mastering ever greater complexity. Understanding the target application also means developing components that solve the problem most effectively. P2S is one of our great strengths and has brought us success in the market.

In the area of digitalization, we are benefiting more and more from the synergies arising from the combined portfolio of Infineon and Cypress. Integration is progressing well, and we can see that the acquisition is delivering on its promises. We provided detailed explanations of the resulting growth opportunities for Infineon at our Investor Day (IFX Day 2021) in October. In particular, we described how we have acquired leading positions in markets of the future by investing early and consistently strengthening our success factors.

The effects of the coronavirus pandemic and the lessons learned

Both trends – electrification and digitalization – have been reinforced still further by the coronavirus pandemic in the past eighteen months. There was a veritable boom in some industry sectors, such as hardware for remote working, home schooling and games consoles, and battery-powered DIY tools.

At the beginning of the pandemic, it still looked as if large sections of the global economy would grind to a halt, whereas manufacturers in the area of IoT and digital interaction and infrastructure saw a strong upturn. The auto industry in particular

slashed its forecasts and cut back its orders, with the overall result being weak revenue for Infineon. Our experience from the last crisis prompted us to scale back our manufacturing to a significant extent, but to make only moderate reductions in our inventory and investment. Some industry observers and investors were skeptical of this approach, but it turned out to be the right one. Already in the second half of the 2020 calendar year, some severely affected economic sectors picked up speed again. In the automotive market, a catch-up effect started to be seen, while at the same time, the trend towards electromobility continued to accelerate. The result was a chip shortage that persists to this day, caused in part by the shifting of production capacity at our contract chip manufacturers towards supplies for use in laptops, tablets and servers. The situation was exacerbated by production stoppages due to pandemic-related lockdowns, especially in Asia, and by environmental disasters and accidents affecting several semiconductor manufacturers' plants.

Without such constraints, we would have generated significantly higher revenue in the previous fiscal year, because demand in almost all our markets has been and remains very high. Even though we are currently still not able to fully satisfy the high levels of demand, our customers have expressed their great appreciation of our efforts. They realize and acknowledge that we do everything in our power to meet their needs. The feedback we have from our customers, especially those in the automotive sector, is that our reliability and commitment set us apart, when compared with other experiences they have had in the market.

Current issues with allocation have only strengthened our view that we also need to champion our own manufacturing. The most critical bottlenecks arose for products that come from foundries – in some product categories, we are dependent on their supplies, as well. However, we are less dependent on foundries than competitors with fabless business models and, if we look across our entire portfolio, we are more resistant to supply problems. We have continued to develop our collaboration with contract manufacturers and have broadened our supplier base, so that in the future we will be even better equipped to deal with fluctuations in the supply situation.

It is important now to draw the correct conclusions from the tense supply situation, and to do so across all industry sectors. More complex technologies, applications and supply chains are becoming part of the new normal. As a company, we need to adapt. Today, even isolated events that are primarily regional can rapidly have an impact on global supply chains. The just-in-time model needs updating. There is the need for an approach that encompasses available capacity, inventories and supply management and that is proactive, changing the focus according to each situation and across individual company boundaries. The first step in such an approach is intelligent inventory management. Moreover, all partners along the value chain need to understand the new dynamic in the market and provide appropriate flexibility.

The serious consequences of the chip shortage have demonstrated the relevance of the semiconductor industry to almost all other industry sectors. The industry is increasingly becoming the focus of economic and geopolitical competition in all regions of the world. Turning the clock back on globalization is not a viable solution. However, Europe must decide in which areas and to what extent it is prepared to accept technological dependence on other continents – as well as the areas and extent to which such dependence is not acceptable.

Looking back, we can say that, as a company, we have dealt well with the pandemic to date. This is thanks to the great commitment of our employees. Infineon has performed well due to their exceptional dedication and has at the same time been pressing ahead with the evolution and implementation of its long-term strategy.

Success factors and evolution of our company

A significant element of our strategic evolution is the expansion of our own manufacturing landscape. Without a doubt, the most important milestone was the opening of our new 300-millimeter semiconductor manufacturing facility in Villach (Austria) on 17 September. We will operate the new factory, together with our factory in Dresden (Germany), as one unit based on the One Virtual Fab concept, which gives us more flexibility and greater economies of scale. As a result, we are strengthening

our undisputed leading position in power semiconductors, in light of the trend towards electrification. Our concept for expanding manufacturing capacity involves initially preparing the clean room and then ramping this up over time in response to demand. Production at the new Villach factory will be increased gradually based on this principle.

We differentiate ourselves clearly from our competitors not only because we have our own manufacturing facilities, but also because of our technological expertise, for example, in the area of compound semiconductors based on silicon carbide (SiC) and gallium nitride (GaN). In many applications, silicon-based power semiconductors are the optimal solution in technical and economic terms, especially for low switching frequencies. Power semiconductors based on SiC and GaN, on the other hand, enable faster switching speeds and significantly higher power density. We see rapidly growing demand for SiC-based power semiconductors above all in the automotive market but also in industrial applications and are therefore expanding our CoolSiC™ portfolio in particular, both in the area of discrete components and that of modules. We are also expanding our GaN product range. In addition, we are investing increasingly in the expansion of our manufacturing capacity for SiC and GaN to maintain our leading role across the entire range of power semiconductors, paving the way for further enhancements in energy efficiency. This is significant, as the world of the future is electric.

As I explained at the beginning, digitalization is a key growth driver for our business. It also offers huge opportunities for the evolution of our company. Growth, globalization, the focus on system solutions – we will be able to deal better with all these issues by applying digital solutions. In terms of our offering, this means, for example, that we are working increasingly on delivering our solutions inclusive of software and on expanding our solutions to include services. In our interaction with customers, we can also, in many cases, become faster and more efficient by using digital channels and platforms. The digital transformation also offers great opportunities for enhancing our internal processes and working practices.

The Management Board was expanded in April in order to coordinate these activities across the whole company and a post was created for the transformation of Infineon in the digital context. Innovative strength, our focus on applications and our global presence in growth markets are the basis of our success. We need to strengthen the digital links between the major organizational units such as Technology Development and Manufacturing or Sales and Marketing and to make knowledge available across the whole company in order to continue our dynamic evolution in these areas, despite our increasing size and complexity. The Management Board and the Supervisory Board have together devised a structure that highlights Infineon's current strengths and enables targeted further development of our digital expertise. We are delighted that Constanze Hufenbecher has strengthened our Management Board team and will address these topics on behalf of our company. With her wealth and breadth of experience, she is the ideal manager for this role.

Capital market successes and outlook

As we look back at the 2021 fiscal year, the mentioned challenges we faced and the major milestones we achieved stand out in particular. In addition, there were a number of other important events and developments that I would like to touch on briefly here.

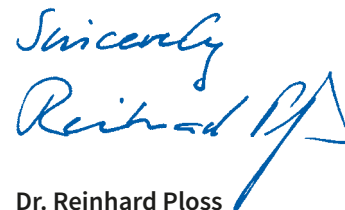
With a US\$1.3 billion private placement of bonds, we successfully pressed ahead with the refinancing of the acquisition of Cypress. In September, thanks to the positive trend in our Free Cash Flow, we were also able to repay early US\$365 million of the term loans raised to acquire Cypress. Here, too, what counts for us is long-term planning security, stability and reliability. In this context, the rating agency S&P Global assigned a positive outlook to our "BBB-" rating this spring.

On 22 March 2021, Infineon moved up into the EURO STOXX 50. We are proud of this achievement, which reflects the success of the whole Infineon team. We have made it into the Champions League of stock markets – and now that we are there, we intend to stay.

Dear readers, the variety and nature of the developments I have outlined above make it clear that the fiscal year just ended was neither normal nor easy. So I would like to thank our employees all around the world most warmly on behalf of the entire Management Board. You have shown great commitment in conditions that were sometimes very difficult, you have supported each other, and you have been tireless in your efforts to help our customers. Thank you so much!

I would also like to thank you, our shareholders, because your continuing confidence has given us the space to concentrate on the important issues relating to the future. At our forthcoming Annual General Meeting, we will propose the payment of a dividend of €0.27 per share. Thus, we want to ensure appropriate participation for you in our success as well as giving us financial room for maneuver to respond to future opportunities, for which Infineon is superbly positioned.

Stay healthy and look to the future with confidence.



Dr. Reinhard Ploss
Chief Executive Officer