



Letter to shareholders

Neubiberg, November 2017



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

The 2017 fiscal year was very eventful for Infineon. We grew faster than expected, achieved our increased profitability target of 17 percent Segment Result Margin earlier than expected and minimized the impact of the terminated acquisition of Wolfspeed. The 2017 fiscal year was not only eventful but also successful for Infineon. Your company performed very well during this period. Revenue increased to €7,063 million, Segment Result improved to reach €1,208 million at a margin of 17.1 percent. The earnings per share increased to 70 cents, which means we have solidly delivered on our outlook that was increased in March. We want our shareholders to benefit from this as well: The Management Board and the Supervisory Board will propose a dividend of 25 cents per share to the Annual General Meeting on 22 February 2018.

Dr. Reinhard Ploss
Chief Executive Officer



Such a strong growth dynamic was not necessarily to be expected at the outset of the fiscal year. Therefore we initially guided for revenue growth of 6 percent and a Segment Result Margin of 16 percent in November 2016. However, demand in spring was higher than expected – in particular for semiconductors for automotive and industrial applications as well as for power management – and it remained at a high level throughout the fiscal year. Under these favorable conditions we were not only able to increase our revenue and Segment Result, but we also achieved major milestones in two strategic projects. First, our growth-oriented manufacturing strategy enabled us to serve the growing demand for power semiconductors. Our 300-millimeter thin wafer site in Dresden (Germany) is playing a key role in this regard. By the end of calendar year 2017 we will equip up to 30 percent of the cleanroom space available with tools. We expect the productivity advantage will begin to take effect then, and the costs per chip in 300-millimeter manufacturing will drop below the level of our 200-millimeter sites. We are already benefiting from the lower investments per chip today. You can read more on this topic in the chapter on “Operations”. Second, silicon carbide has finally made a breakthrough as a base technology for power transistors with superior characteristics. In the 2017 fiscal year we earned first revenue with our silicon carbide MOSFET. We have received orders from leading manufacturers of PV inverters, among other customers. You’ll find more details in the chapter on “Industrial Power Control”.

P see page 56 f.

P see page 42

One year ago in the Letter to Shareholders I wrote about the planned acquisition of Wolfspeed. As you know today, the matter took a different turn: The US authority CFIUS (Committee on Foreign Investment in the United States) did not approve the transaction. Of course, this is not what we had expected. The primary objective of the acquisition was to leverage Wolfspeed’s outstanding competencies in gallium nitride-on-silicon carbide (GaN-on-SiC) technology in order to take the lead in the world market for power amplifiers in base stations in the medium-term. Wolfspeed would also have helped us accelerate the market launch of silicon carbide-based power semiconductors. However, we did not wait for the transaction to close but instead went on with the development of our own SiC Trench MOSFET technology. Therefore, in the 2017 fiscal year, we were able to bring to market a product that we have developed ourselves and that is already being well-received. The further development of the technology platform is one of our future-oriented projects that is highly relevant for renewable energy and mobility.

One key success factor – besides technology competence – is our strategic approach “From Product to System”. This concise title represents the central idea we align with in both our daily business activities and our long-term considerations: We want to better understand our customers’ systems and the requirements of their markets so that we can make even more targeted use of our semiconductor expertise. This way we make our customers more successful and increase the potential profits for Infineon. In keeping with this approach we continuously and carefully develop our strategy, since systems change along with technological progress, becoming more complex and in some cases calling for new competencies. We take action wherever this is the case and where we at the same time see a strategic advantage in doing so. This is particularly evident in the area of software. Our business model has always been based on technological expertise, whether in the form of discrete components, integrated solutions or mixed-signal components. Furthermore, in recent years we have established the necessary know-how to supply our chips with corresponding software, whenever desired and viable. The most recent example is our strategic minority investment in the British company XMOS Limited (Bristol), a specialist in voice control technologies. This step has intensified an already existing partnership. Going forward we will work closely together in important customer projects, thus



quickly expanding our technology competence. Furthermore, we will gain an even better understanding of the interaction of sensors, processors and algorithms and strengthen our position in a promising future market which we currently already supply with leading MEMS technology. Our extensive system understanding lets us serve customers with various approaches and lets us address their individual needs in a targeted manner. You'll find out more in the chapter on "Group Strategy".

P see page 20 ff.

Our core expertise is and will remain semiconductor technology. We want to strengthen our position as technology leader by continuing to strive for innovation. We demonstrated our innovative strength again in the previous fiscal year. I have already mentioned our success with silicon carbide; we also managed equally impressive achievements in the area of Post-Quantum-Cryptography.

Quantum computers are still more of a scientific phenomenon with mass adoption still many years out. The extremely high computing power of these machines will make it possible for them to break encryption algorithms that are in use today. This is a threat to systems and data that are generated today and that will still need to be protected many years from now. Therefore, as a leading provider of security solutions we must now begin preparing for the smooth transition from today's conventional security protocols to Post-Quantum-Cryptography. And this is no easy task, given that equally complicated encryption procedures will have to work properly in small chips with limited storage capacities. In May Infineon specialists were the first ever to implement a system for Post-Quantum key exchange on a commercially available contactless security chip. This makes us a pioneer in the development of encryption methods that are capable of withstanding the power of the quantum computer. You can read more on the topic in the chapter "Research and development".

P see page 55

One thing that nobody has yet been able to decrypt is the formula for guaranteed success. However, as a company we can establish basic prerequisites and formulate strategic guiding principles to foster our success. Whether or not this will come to fruition lies in the hands – and heads – of the over 37,000 people who make Infineon what it is. On behalf of the entire Management Board I would therefore like to express our sincere gratitude to you, the employees of Infineon: for what you do, and also for how you do it. The world seems to have become more complicated in 2017. Global challenges are putting societal solidarity to the test, nationalism and protectionism are becoming more widespread and international conflicts are growing in intensity. Infineon stands for the opposite: for a diverse society and for an economy based on free trade. As engineers we know that there are no easy answers to complicated questions. And as commercial people we understand that isolation hampers growth. At Infineon people from over 100 nations work together at sites in more than 20 countries. And although they may be spread all over the world, they all live in a single culture of cooperation and help make life easier, safer and greener. We can be proud of that.



My special thanks go to the employees at the Newport (Wales) site. In the course of the integration of International Rectifier, approximately two and a half years ago we announced our intention not to operate the plant after the end of calendar year 2017. Nevertheless the local team showed enormous dedication in maintaining the quality and reliability of the site's manufacturing activities. In September we sold the fab to Neptune 6 Limited of Cardiff (Wales), thus finding a viable solution for ensuring the future of the site.

Companies are always a part of the communities they exist in. That entails certain responsibilities. As a result we place high expectations on ourselves – both with regards to the objectives we plan to achieve and in terms of the path which takes us closer to achieving these goals. The demand for energy-efficient power semiconductors is an essential growth driver for our company. This is why we ensure that natural resources are used efficiently in our own business activities as well. We are publishing detailed information on this topic in a separate Sustainability Report, which you will find on our website. @ www.infineon.com/csr_reporting

You already know our growth target: Throughout the cycle we want to increase revenue by an average of 8 percent annually. With a 12 percent increase in the previous year followed now by a 9 percent increase, we have exceeded this goal for two years in a row. And we don't want to rest on our laurels: We are well aware of the fact that the semiconductor market remains cyclical. Eventually, the basic macroeconomic conditions will change and the recent extremely high demand in the automotive and industrial sectors will normalize. Today we expect revenue growth of 9 percent for the 2018 fiscal year, plus or minus 2 percentage points. The depreciation of the US dollar against the euro is a headwind for us and has been taken into account in this forecast. We expect a Segment Result Margin of 17 percent at the mid-point of the forecast revenue range. We are excellently prepared to continue our track record of growth.

We are very pleased to continue down this path with you.

Sincerely


Dr. Reinhard Ploss
Chief Executive Officer