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Infineon Technologies AG

Annual Press Conference

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- The spoken word prevails -

Ladies and gentlemen of the business press,
dear viewers,

Welcome to Infineon's Annual Press Conference. Due to the special situation, it is taking place virtually today. I am very pleased that you have taken the time to join us.

Infineon has closed an exceptional and quite difficult fiscal year with a very respectable fourth quarter. Against the backdrop of the pandemic, we have once again proven that we have a robust business model and are constantly developing our company even under challenging conditions.

2020 marks a milestone for Infineon: With the acquisition of Cypress, we have successfully completed a major strategic step.

I am therefore pleased to be able to report to you today on an overall successful fiscal year. I will then explain the main strategic advances of our company and have a look at the current fiscal year with you. Together with my colleagues from the Management Board, I will then be available as usual to answer your questions.

Let's start with the **review**:

The pandemic hit the semiconductor industry suddenly in spring. At Infineon, we had to switch to a crisis mode very quickly. In almost all areas of the company, we had to adjust to different priorities and new ways of working. Today I can say that we have succeeded in doing this.

- › Employees with an office workstation switched to working from home practically overnight. Within a few days, our IT department succeeded in providing the necessary infrastructure. As a result, up to 23,000 colleagues worldwide worked from their homes for several weeks.
- › We were able to maintain operations at all major production sites almost continuously. We were also able to meet the strict regulatory requirements necessary for this in countries that were hit particularly hard by the pandemic, such as China, Malaysia, Mexico and the Philippines. One advantage in this situation was certainly that the filter systems in our clean rooms in frontend production also remove viruses from the air. The teams working in the cleanrooms wear special suits and masks. There is no better protection against an infection!
- › Short-time working was introduced at some production sites in spring. In the meantime, it has been ended at all sites.
- › In addition, we maintained greater cost discipline already before the pandemic began. For example, there was a temporary hiring freeze. In addition, salary increases were postponed and for the Management Board and top management these were suspended completely. The restriction of business travel also had a cost-cutting effect.

Thanks in part to these measures, we quickly found a way to continue to operate as smoothly as possible during the pandemic and to secure Infineon's profitability. At the same time, we have succeeded in continuing our strategic projects to the greatest extent possible, thus creating the basis for the company to emerge even stronger from these difficult times.

This was only possible because our employees showed exemplary commitment during this unusual time. I would like to take this opportunity to thank them warmly for their outstanding work.

In view of the truly extraordinary efforts, the Management Board has decided that 20,500 shift workers at the production sites will receive a one-time special payment for the past fiscal year. The total volume involved is in the lower double-digit million range. It is only thanks to their dedication that it was possible to largely maintain production and secure supplies to our customers. The special COVID-19 bonus is recognition of this special achievement.

I would now like to turn to the results of the fourth quarter and the 2020 fiscal year:

[Infineon has successfully completed an exceptional 2020 fiscal year with a strong fourth quarter]

Since the summer, the picture has brightened considerably in several of our key target markets. The automotive market in particular has recovered better than expected. In addition, the structural transformation towards electro-mobility is accelerating, especially in Europe. Other markets are showing weakness, like traction or government ID, or are still a long way from recovery, as factory automation, for example.

In the fourth quarter of the 2020 fiscal year, revenue rose to 2 billion 490 million euros. This includes for the first time the contribution of Cypress over a full quarter. The Segment Result improved to 379 million euros. The Segment Result margin therefore rose significantly to 15.2 percent, compared to 10.1 percent in the previous quarter.

In total, Infineon has achieved revenues of 8 billion 567 million euros in the 2020 fiscal year. This includes around 850 million euros from the former Cypress business. The Segment Result was 1 billion 170 million euros. This corresponds to a Segment Result margin of 13.7 percent. Organic free cash flow amounted to 911 million euros.

All in all, these figures underline the solidity of our business model. We were able to maintain our profitability despite the special challenges. Infineon is well-positioned in all regions of the world and in many different target markets. This diversification gives us stability. And this is exactly what we want to stand for as a company.

That brings me to our dividend proposal. With our dividend policy, we pursue the goal of letting Infineon shareholders participate adequately in the economic development of the company. In general, we want to pay at least a constant dividend even if earnings stagnate or decline.

At the same time, we have to take into account the serious economic impact of the coronavirus pandemic, which is reflected in a significant decline in both Segment Result and net income. We also have a responsibility to take account of the continuing risks. This requires appropriate financial headroom. And last but not least, the number of shares entitled to dividends has increased by around 4 percent as a result of the capital increase carried out in May of this year. We will therefore propose to the coming Annual General Meeting a dividend of 22 eurocents per share for the 2020 fiscal year, five eurocents less than in the previous year. The 55 million new shares issued in May 2020 are fully entitled to dividends. The anticipated total dividend payout would therefore amount to 286 million euros, compared with 336 million euros in the previous year. The

percentage decrease in the total dividend payout is therefore lower, compared to the percentage decrease in the dividend per share.

Let us now turn to the developments of the individual segments in the 2020 fiscal year:

In the **Automotive** division, Infineon generated revenues of 3 billion 542 million euros in the 2020 fiscal year. This represents an increase of 1 percent compared to the previous year. In the second half of the past fiscal year, the former Cypress business with automotive microcontrollers and memory solutions already made substantial contributions to revenue and profitability of Automotive.

The Segment Result fell by 62 percent to 155 million euros. This corresponds to a Segment Result margin of 4.4 percent.

In calendar year 2020, we see the most severe slump of the automobile production in its entire history. The industry has been hit hard by the effects of the coronavirus pandemic, in part due to a simultaneous supply and demand shock. The automotive market has recovered better than expected since the summer, and in China we are even seeing a V-shaped upswing beyond the pre-crisis level. Overall, however, market researchers expect unit sales in calendar year 2020 to fall by around 20 percent. For 2021, analysts at IHS Markit currently expect around 83 million vehicles to be built worldwide. That would be around 6 million less than in 2019.

Especially during the crisis in the automotive sector, Infineon benefits from the fact that the number of vehicles produced is not the only decisive factor for us. Of course, we cannot compensate for the slump. Nevertheless, even in the crisis, we are benefiting from the fact that the proportion of semiconductors per vehicle is constantly rising.

With Cypress, we now have an industry-leading portfolio of automotive semiconductor solutions. These include digital display systems and infotainment applications that complement the existing portfolio for powertrain, assistance systems, vehicle safety, comfort electronics and data security. We can serve a wide range of applications with a high level of system expertise. I will explain the strategic importance of the acquisition for Infineon in more detail.

Our industrial business proved to be quite stable in the past fiscal year. The **Industrial Power Control** division achieved revenues of 1 billion 406 million euros - a slight decrease of 1 percent compared to the previous year. IPC is the only one of our business units to which no part of the Cypress business has been assigned.

On the one hand, demand for industrial drives and traction declined. On the other hand, thanks to our good position in fast-growing fields of application such as the generation of renewable energy from solar and wind power, we were almost able to compensate for this decline. IPC's Segment Result increased by 2 percent and reached 256 million euros. This corresponds to a Segment Result margin of 18.2 percent.

Especially for industry applications, we currently see an increasing demand for silicon-carbide-based power semiconductors. This material enables particularly efficient, robust and, at system level, cost-effective power semiconductors. Silicon carbide is already used in a wide variety of applications, particularly in photovoltaic converters, industrial power supplies and the charging infrastructure for electric vehicles. Under the brand name CoolSiC™, we already offer the industry's largest portfolio for industry applications.

In the meantime, demand from the automotive industry is also rapidly picking up. We are therefore pleased to report today that we have expanded our supply base for silicon carbide. As you can see from our separate press release this morning, we have signed a supply contract for silicon carbide boules with the US company GT Advanced Technologies. The contract has an initial term of five years and gives Infineon further access to the base material. It supports our ambitious growth plans with silicon carbide in our industry business and in the area of automotive, for which we are using our technology expertise and core competencies in thin-wafer manufacturing.

Now to the **Power & Sensor Systems** division. In the 2020 fiscal year, this division benefited strongly from the digitalization drive triggered by the pandemic. Work, education, entertainment and shopping shifted more strongly than before into virtual space. This led to increased demand for our solutions for data centers and communication networks.

PSS' revenues increased by 8 percent to 2 billion 650 million euros. The Segment Result rose by 9 percent to 636 million euros. This corresponds to a Segment Result margin of 24.0 percent.

The PSS division develops sensors that, like the human senses, perceive the environment and translate it into processable data. We also want to use this sensor competence to combat the pandemic. Based on our XENSIV™ PAS CO2 sensor, colleagues have developed a monitoring system that can determine the CO2 concentration - which correlates with the concentration of aerosols - in a room. In case of an increased concentration, the system triggers an alarm. Via a simple user interface, the CO2 concentration is visualized in real time.

The compact, robust and affordable real-time alarm is ideal for closed spaces. In the coming weeks we will install the system in about 200 conference and meeting rooms in our headquarters here at Campeon. It could also ensure simple and comprehensive CO2 monitoring in schools and public institutions, enabling rapid measures of local infection prevention. People would be relieved of a great deal of insecurity and would be able to spend time in closed rooms with much greater peace of mind. In addition to public institutions, many other fields of application for the CO2 sensor are conceivable, for example in intelligent ventilation and air conditioning systems in the smart home.

The **Connected Secure Systems** division achieved revenues of 953 million euros in the past fiscal year - an increase of 48 percent. In relation to the previous business, CSS experienced the largest percentage increase in revenue through the acquisition of Cypress. The segment result is also influenced by the positive contribution to earnings made by Cypress' business activities. It rose by 58 percent to 122 million euros. This corresponds to a Segment Result margin of 12.8 percent.

Due to the crisis, cross-border travel activities worldwide declined in the second half of the fiscal year. The demand for passports declined. Due to the many local lockdowns and the shift to working from home, people used public transportation much less frequently. This resulted in weaker demand for transport and ticketing products.

Contactless payment contributes to the prevention of infections. More and more people want to pay electronically without having to give the card out of their hands. This trend has accelerated with the pandemic and the growing hygiene awareness of many people. Acceptance has also increased as many payment service providers raised the upper limit for payments without a PIN. With its core competence in contactless technology, Infineon benefited particularly strongly from this trend.

Security is a central aspect of digital applications. In order to effectively protect intelligent devices, connected vehicles or automated factories, suitable security solutions must be integrated into their equipment. The field of so-called "embedded security" applications is growing strongly. Our business is changing from classic applications such as payment cards and government ID to solutions with a chip as a highly reliable security anchor.

As a competence center, the Connected Secure Systems division supports the other three areas in integrating security and connectivity as a function into their system solutions. In this way, we create additional potential to differentiate from our competitors.

Dear listeners,

The bottom line can be summed up as follows: Thanks to its diversified business, Infineon successfully defied the severe economic downturn. Even in difficult times, our business is robust because it is consistently focused on long-term growth areas.

[Structural growth drivers partly receive additional impetus]

The coronavirus does not change the validity of the structural drivers that enable Infineon to achieve above-average growth in the long term. In some areas, the pandemic is even acting as an accelerator - for example in the digitalization of the economy and society.

The automotive industry is currently experiencing a profound upheaval. The car of the future will be purely electric and increasingly automated. It is fully connected and always online. The largest contribution in this process is made by automotive electronics and therefore semiconductor solutions. With its systems expertise, Infineon supports car manufacturers on their path of change.

Electro-mobility is gaining pace worldwide. We currently see the strongest momentum in the sale of hybrid and fully electric vehicles in Europe. Car manufacturers have to meet ambitious CO2 fleet targets, and consumer interest is also growing.

More and more Germans are opting for an electric vehicle. This is shown by the rising registration figures. In September, four times as many new battery or plug-in hybrid vehicles were registered in Germany as in the same month last year. Every tenth new car registered so far this year has an electric engine.

That's not bad, but of course a lot still has to happen for electro-mobility to become widespread. As the market leader in power semiconductors, Infineon is making a major contribution to increasing the range of electric vehicles, further reducing charging times, lowering the costs of electro-mobility and thus making it even more attractive for people. And we support the automotive industry in making electro-mobility even more visible in Germany.

Electro-mobility is good for the environment and it is good for Infineon. The value of the chips installed in electric cars is around 80 percent higher than in combustion engines. Power semiconductors account for around three quarters of this additional semiconductor value.

Infineon invested in this market earlier than its competitors, and this is increasingly paying off. In 15 of the 20 best-selling electric vehicles and plug-in hybrids, Infineon semiconductors are used in the powertrain. We have the industry's broadest product and technology portfolio and a clear roadmap for expanding the necessary manufacturing capacity.

Technologies based on silicon carbide play an important role in the efficiency and range of electric vehicles. We are constantly expanding our offering of silicon carbide components, which are specially optimized for cars. We began delivering our CoolSiC™ modules for the volume production of electric vehicles in the past quarter. In addition, with our HybridPACK™ Drive power modules we generated a design win in the mid three-digit million range with a further manufacturer of electric vehicles.

Infineon is very well-positioned to benefit from the widespread distribution of electric vehicles. We will continue to contribute significantly to the development of clean, safe and smart mobility in the coming years.

Energy efficiency is another central building block for a sustainable future and a growth area for our company. The path to the goals of the Paris Climate Agreement is via cleanly generated and efficiently used energy. Around one third of the world's energy requirements is already being consumed in the form of electricity – and the trend is accelerating.

Power generation from renewable energy sources and efficient transport and use of electricity offer enormous leverage to reduce CO2 emissions. This is exactly what power semiconductors from Infineon enable along the entire energy supply chain. Our products and solutions stand for a net ecological benefit equivalent to the average annual electricity consumption of about 86 million Europeans.

Our approach at Infineon has been for many years: Achieve more with fewer resources. The potential of energy-efficient solutions is huge. One area of application is becoming increasingly important – communication.

Between 2010 and 2019, global Internet traffic has increased twelvefold. Between February and mid-April 2020 alone, it rose by a further almost 40 percent, driven by video streaming, video conferencing, online games and social networks. This was recently reported by the International Energy Agency. Powerful and extremely energy-efficient power supplies are essential to limit the expected increase in power demand of data

centers and transmission networks and to ensure smooth data flow. Infineon makes them possible.

The Internet of Things is the most important technology trend of our time – it changes everything around us. Billions of devices are being equipped and networked with electronic controls, software and sensors. Semiconductor solutions from Infineon are the driving force behind the Internet of Things – or IoT for short. Our sensors capture environmental information and convert it into digital data. Microcontrollers process this data and generate control signals. Actuators convert the control signals into actions. Connectivity solutions connect devices to each other and to the cloud. Security solutions protect data transmission and ensure the integrity of the devices. This is how we connect the real and the digital world.

The manufacturers of IoT devices usually focus on making their product 'smart' by capturing and processing data in the best possible way. To do this, they need easy-to-use semiconductor solutions that they can easily integrate into their products and use quickly.

Here we can score points not only with our semiconductor know-how but also with our system understanding. The motto is "easy to use" and "plug and play". System solutions offer our customers the advantage that the relevant parts come from one source. They are coordinated and are completed by software solutions. For our customers this means shorter product development times and a good cost-performance ratio of their products.

The systems approach is also important because there will be more and more customers in the future who are moving into electronics from other areas and who have little or no hardware know-how. In particular, customers from the IoT products sector are coming from the application software sector. We want to offer these customers turnkey reference designs that are tailored to the specific project.

With the acquisition of Cypress, we are accelerating our development into a leading provider of system solutions for the IoT market. The Cypress portfolio complements Infineon's portfolio of microcontrollers for a wide range of applications, connectivity solutions and highly specialized memory products.

With the additional expertise, we master the essential building blocks to be successful in the Internet of Things sector. We can offer complete IoT systems – and thus open up new markets and applications. Our system solutions make the Internet of Things more intelligent, energy-efficient and secure.

Despite the challenging environment, we are on track to achieve the goals we set ourselves with the acquisition. It is impressive how the roadmaps were coordinated in video conferences within a few weeks. First projects that aim at generating revenue synergies through broader customer access and cross-selling are underway. Here, we are also on track, and we can already report initial successes. Let me give you three examples:

- › A long-standing automotive customer of Infineon now uses NOR flash memory chips from Cypress for its safety-critical electronic steering systems.
- › A customer decided on a system solution for a new generation of major home appliances consisting of a Cypress microcontroller and an intelligent power semiconductor module from Infineon.
- › In an IoT device for wireless charging of cell phones, tablets or laptops, which already has Infineon products built in, Cypress Bluetooth and USB components are now also used.

We are making good progress with the stepwise integration of the new parts of the company into the Infineon organization. We are growing together! Enthusiasm about what we can achieve together is what drives us forward and that is particularly important in the current circumstances.

[Infineon is right on track with the construction of the new chip factory in Villach]

We are also on track with the construction of our new chip factory in Villach. Our 300-millimeter production facility for power semiconductors has long been a unique selling point in the competitive arena. We still have a considerable lead thanks to our many years of experience and the production capacity already installed. With the new plant, we are extending our lead through economies of scale. Despite the unfavorable framework conditions, we have made good progress with construction in recent months.

We are implementing this strategically important construction project as planned. This will pay off. The new factory will enable us to meet the long-term growth in demand in our target markets - with reduced capital expenditure in terms of unit costs compared with 200-millimeter production. Depending on market developments, we still plan to start production at the end of calendar year 2021.

Thanks to our "One Virtual Fab" concept, we will be able to use the production facilities of our two 300-millimeter sites in Dresden and Villach as if it were one factory. Recently, we successfully converted the production system in the existing, smaller 300-millimeter line

in Villach to the system from Dresden – we did that while production continued. This is similar to changing your operating system on the PC without shutting down the computer.

We use the same processes, equipment and automation and digitalization concepts at both locations. The cross-location, virtual production brings synergies, but also advantages for the customer, because we can quickly shift production volumes between the locations. The virtual mega-factory sets a new benchmark for speed, quality, process stability and productivity in 300-millimeter manufacturing.

[Outlook: Infineon is cautiously optimistic for the 2021 fiscal year]

Let us now take a look together at the fiscal year that has just begun:

In our outlook for the 2021 fiscal year, we are cautiously optimistic. We see signs of recovery in some of our target markets, but not a broad upswing yet. The market environment remains challenging, and overall economic uncertainty is high.

Despite all our confidence with regard to unbroken and in some cases accelerated growth drivers, we are not overlooking the fact that the pandemic is not over. The road to economic recovery is still long and not without risks. These include a resurgence of infection outbreaks as well as an intensification of international trade conflicts and in particular the technology dispute between the USA and China.

The latter is a challenge for all of Europe. Our continent must find a way to shape the digital transformation independently and according to its own democratic values. We also need regulations in the digital space that are in line with European values. Europe must develop its own strength and sovereignty in order to support its industries, open up new business areas and act on an equal footing in international competition. To achieve this, Europe must do much more than it has done to date. We have seen through the pandemic how relevant digitalization is. Its importance will continue to grow.

[In the 2021 fiscal year, Infineon expects revenues of approximately 10.5 billion euros and a Segment Result margin of about 16.5 percent]

For the 2021 fiscal year, we expect revenues of around 10.5 billion euros, plus or minus 5 percent, assuming a U.S. dollar/euro exchange rate of 1.15. This includes the first-time consolidation of Cypress for a full fiscal year. At the mid-point of the revenue range, we expect a Segment Result margin of around 16 percent.

For the 2021 fiscal year, investments in property, plant and equipment and other intangible assets including capitalized development costs are planned in the range of 1.4 and 1.5 billion euros.

At an assumed exchange rate of 1.15, we expect revenues of between 2.4 billion and 2.7 billion euros in the current first quarter of the fiscal year. In the middle of the revenue range, the Segment Result margin is expected to be around 16 percent.

The increase in profitability will be achieved mainly through improved utilization of production facilities. The current business dynamics indicate a certain upward trend in the profitability level. At the same time, there are still uncertainties regarding rising COVID infection rates, especially in Europe.

Dear viewers, in conclusion I will summarize:

First, Infineon has proven in an exceptional and difficult fiscal year that it has a robust business model and continues to develop even in uncertain times.

Secondly, we are cautiously optimistic for the 2021 fiscal year. Some of our structural growth drivers are receiving an additional boost. However, the development of the pandemic, the geopolitical situation and the macroeconomic framework remain challenging.

Third: With our strengthened team and a broader technology and product portfolio, we can address even more markets and applications. We have started an exciting "Year 1" after the acquisition of Cypress.

Thank you very much for your attention.

Together with my colleagues from the Management Board, I am now available to answer your questions.

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