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**Annual Press Conference**

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– The spoken word prevails –

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Ladies and gentlemen, a warm welcome to the Infineon annual press conference.

I am delighted to report to you today on the 2018 fiscal year. I would then like to talk about some of our strategic decisions and provide an outlook for the current 2019 fiscal year. Together with my Management Board colleagues I will then take your questions.

So, let's start with a **review** of the last fiscal year.

**[Excellent 2018 fiscal year for Infineon]**

Infineon continued on its growth path. For the fifth time in a row, we were able to significantly increase revenue and earnings. And it is not only sales that are growing; our workforce is also becoming bigger. Today, around 40,100 people work for Infineon, more than 11,300 of them in Germany. Whether as a customer, partner, supplier or as an employer, Infineon is becoming increasingly important.

Digitalization and electrification of many areas of daily life mean that demand for our products remains high. Group revenue rose by 8 percent to 7 billion, 599 million euros. If the dollar exchange rate had been unchanged, we would even have grown by around 12 percent over 2017.

The Segment Result rose by 145 million euros to a total of 1 billion, 353 million euros, which corresponds to a Segment Result margin of 17.8 percent. Last year, we raised the margin target over the cycle to 17 percent. We have

now achieved it for the second time in a row and even surpassed it. We are very satisfied with these results.

The very good fourth quarter was a strong finish of an excellent fiscal year. Revenue from July to September was 2 billion, 47 million euros, an increase of 5 percent compared to the previous quarter. For the first time, the four business segments that we have today generated revenue in excess of 2 billion euros.

The Segment Result reached 400 million euros. The Segment Result margin rose to 19.5 percent, following 18.3 percent in the previous quarter.

We aim for long-term and sustainable success. That also includes letting our shareholders participate regularly in Infineon's development. At the upcoming Annual General Meeting, we will therefore propose raising the dividend by 2 euro cents to 27 euro cents per share. That would be the fifth successive increase.

What is the basis for this sustained success? Infineon addresses automotive, industrial, IoT and security applications. These target markets are driven by long-term, structural growth trends. They include:

- Electro-mobility,
- more and more assistance systems, extending as far as the autonomous vehicle
- renewable energies
- efficient use of electricity
- a growing number of battery-powered, connected devices
- and, albeit indirectly in some cases, artificial intelligence.

We benefited from these and other trends in the 2018 fiscal year, as well as from the generally good economic situation.

Infineon was better able to serve the high demand for power semiconductors and sensors than many of its competitors. However, we could not meet all our customers' wishes in full or within the usual delivery times. For some time now, we have been ramping up our existing production capacities to cater for growing demand and we are investing in new facilities.

### **[Demand remains high, but increased vigilance is needed]**

Demand continues to be high in the 2019 fiscal year. In particular in our core business with power semiconductors, demand from our customers for some products is still exceeding our ability to deliver. Our order books for the coming months are well-filled. Structural growth in our core segments continues. That is why – unlike some competitors – we see no grounds for any great concern.

Of course, we are keeping a very close eye on what is happening around us. Infineon is not immune to economic developments. However, the positive signals from our customers lead us to assume that our markets will remain stable – even if simmering trade conflicts and geopolitical uncertainties have resulted in greater anxiety on the markets.

No one has an interest in seeing the trade disputes escalate. Infineon advocates open markets. As an international company, we benefit from free trade and are successful all over the world. Infineon's employees come from more than 100 different countries. What unites us at our company across all borders is: respect, trust, a desire to perform and openness.

We believe it is wrong to put trade barriers in place or even seal off entire markets, because everyone would lose out in the end. We can overcome the global challenges facing us only through a global effort. Resources are becoming scarcer. "More out of less" is the maxim to enable a good life for everyone. And we at Infineon are committed to that.

One thing is very clear: Infineon's environment is very challenging at present. There are many uncertainties. We are keeping a very close watch on further developments and will respond if demand weakens. I will return to this subject later.

### **[Infineon's business segments are very successful in very different markets]**

First of all, I wish to present how our four business segments performed in the past year.

The **Automotive** segment generated revenue of 3 billion, 284 million euros. That's a year-on-year increase of 10 percent. The Segment Result declined slightly to 466 million euros, which corresponds to a Segment Result margin of 14.2 percent.

Infineon benefits from new functions and increasing electrification in traditional car systems, as well as from the major trends in the automotive industry: electro-mobility and autonomous driving. In our five-year planning horizon, half of the revenue growth in the ATV segment will come from these two fields.

The question is no longer whether we will drive on electric power in the future, but only when that will be. Statutory regulations on reducing emissions, falling sales of diesel vehicles, and high demand for SUVs are increasing the pressure on manufacturers. They feel compelled to add models with an efficient electric drive to their product range. Government incentives to buy electric cars, such as in China, are accelerating this dynamic trend further.

Vehicles with an electric drive need far more semiconductors. To give you an idea: Semiconductors worth an average of around 375 US dollars are currently installed in a car with an internal combustion engine. That figure in a fully electric car is 750 US dollars, in other words, two times as high.

As a leading provider of system solutions and the clear number 1 in power semiconductors, we particularly benefit from this trend. We can already see initial signs of that in our order books. We again increased our revenue from products and solutions for the electric powertrain by around 50 percent in 2018.

Electro-mobility remains a great opportunity for Infineon in the medium and long term. It also poses challenges for us in the short term, especially in terms of manufacturing capacities.

We are currently rapidly ramping up the production of products for electric drives in order to create additional capacities. That initially means high costs, which is also visible in the Segment Result. We are better able to cater for the increasing demand than many of our competitors. We have taken the right strategic decisions in good time and have created the conditions required. Due to the resulting investments, we are still able to deliver, even if demand grows. We will thus benefit from electrification over the long term.

Our joint venture with SAIC Motor Corporation also helps us in this regard. We established it in the spring specifically for the Chinese market. China is the largest and fastest-growing market for electric vehicles. The joint venture goes by the name "SAIC Infineon Automotive Power Modules". Production started at our site in Wuxi in August. The first IGBT modules for electric vehicles have already been delivered to customers.

The second major trend in the automotive industry is assisted and autonomous driving. We are also making very good headway here. We offer a broad-ranging portfolio of sensors, microcontrollers and power semiconductors.

Our time-of-flight 3D sensor landed its first major design win in cars a few weeks ago. A major European manufacturer chose our product for two application areas: gesture control and three-dimensional in-cabin sensing. Production of the vehicles will start in 2020.

And now to the **Industrial Power Control** segment, where we posted revenue of 1 billion, 323 million euros in the 2018 fiscal year, 10 percent more than the previous year. The Segment Result was 256 million euros, which corresponds to a Segment Result margin of 19.3 percent.

We have also experienced exceptionally high demand for power semiconductors in this business segment for a number of months. That goes for all applications.

We were able to grow revenue especially sharply in the two largest application areas for IPC. Firstly, in the field of industrial drives: We even achieved a new all-time high here, mainly on the back of the continuing trend toward factory automation. Industrial drives account for one-third of the segment's revenue.

The other major growth driver were solutions for home appliances. We have been able to more than double revenue here in the past three years – also because we extended our portfolio, a subject I will deal with in a little more detail in a moment. The products now contribute around 20 percent of IPC's revenue.

We were also able to benefit from the good project situation with regards to train systems. Revenue from products for renewable energies declined slightly at a high level overall.

IPC supplies solutions for the entire energy supply chain – from generation, transmission to storage and use. Electrification of just about all areas of life is therefore an important structural growth driver for our business.

We are the clear number 1 in the world market for IGBTs. However, we are now also very successful with solutions for integrating these switches in a digital control loop. According to the most recent study for calendar year 2017, we grew our revenue from these intelligent power modules twice as fast as the market. As a result, we have moved into

third place worldwide. Thanks to such expansions to our portfolio, we are systematically creating further growth potential in areas adjacent to our core business.

Let us turn our attention to the **Power Management & Multimarket** segment. Revenue rose to 2 billion, 318 million euros, an increase of 8 percent. The Segment Result was 532 million euros, an increase of 25 percent over the previous year, which corresponds to a Segment Result margin of 23 percent.

Power semiconductors were also the main growth driver at PMM. The good economic environment in all application areas materialized here. Data center business remains good. We are excellently positioned here, among other things with our system solution for digital voltage regulation.

In particular, battery-powered devices are recording high growth rates. They include, for example, cordless screwdrivers, drills and lawnmowers, but also e-scooters and drones. These devices are growing in popularity. That's because, on the one hand, BLDC motors are becoming more and more efficient, and, on the other hand, because today's batteries are becoming increasingly cheaper and have a longer life. There are numerous use cases for battery-powered devices in various markets. That's a strong structural growth driver for PMM – and will remain so in the coming years.

Power semiconductors are one pillar of PMM's business. The second is radio frequency and sensor solutions. Here too, we grew revenue sharply in the 2018 fiscal year.

We were particularly successful in various smartphone projects, for example. In the field of silicon microphones, we have the best technological solution on the market. In particular, manufacturers in the high-end segment choose our microphones due to their better recording quality. The sale of assets of our Radio Frequency Power Business to the U.S. company Cree in March was a slight headwind to our revenue growth.

Finally, we come to the **Digital Security Solutions** segment – formerly Chip Card & Security.

We have been running our security technologies business under the new name Digital Security Solutions since 1 October 2018. Solutions for banking cards or electronic ID cards have always generated very high revenue. However, we have addressed completely new customers with embedded security solutions for a number of years. In addition to hardware, the portfolio also comprises software – an aspect that is especially appreciated by smaller

customers. That's because they usually lack any great security expertise. The number of applications has thus risen sharply. The Name Digital Security Solutions is therefore a far better description of what we already do today, namely offer security solutions for a broad and diverse application portfolio.

Revenue in the 2018 fiscal year went down by around 6 percent to 664 million euros. The Segment Result declined to 105 million euros, resulting in a Segment Result margin of 15.8 percent.

Demand in several areas of business was weaker than in the previous year. They include government ID, payment cards and ticket solutions. The decline in these areas was only partly offset by growth in authentication and embedded security solutions. They are crucial in the Internet of Things. Infineon is already participating in many projects. At present, they mainly relate to technology trials in test fields and prototypes. That is why the volumes are still small. However, we see great revenue potential here in the medium and long term.

As you can see, ladies and gentlemen: Infineon's four business segments are holding their own well in their very different markets. All the markets hold out the promise of sustained profitable growth. Technology from Infineon makes life easier, safer and greener. That is why it is in such high demand.

**[Infineon's target markets are growing over the long term – we are sticking to our growth strategy]**

I mentioned the state of the economy at the outset. Markets have become more nervous. Perhaps you are wondering whether we are still sticking to our investments. To which our response is a clear "Yes!"

One thing remains unchanged: The market for power semiconductors will grow over the long term. Demand is coming from a large number of different application areas. Requirements are changing in many of them – and in some cases very strongly. These structural drivers enable our growth. We therefore remain optimistic.

We are sticking to our targets for revenue growth, the Segment Result margin and the investment-to-sales ratio through the cycle, all of which we raised in June.

To remind you: Our goal is to grow revenue by an average of 9 percent. And at an even higher rate in 2019. The Segment Result margin is to be above 17 percent moving ahead.

Higher investments are required to achieve that. We calculate that we need an investment-to-sales ratio of 15 percent to increase revenue by 9 percent.

Our investments enable us to grow along with structural trends. In this regard, our own manufacturing capacities give us a crucial edge over the competition.

At the weekend, we held the groundbreaking ceremony for our new 300-millimeter factory in Villach. The announcement of the new factory has gone down very well with our customers. It's a clear signal: Infineon is the right partner for profitable growth.

We also room to grow at our existing factories. We increased capacity at our site in Kulim, Malaysia, as planned in the course of the year. We also achieved that successfully in 300-millimeter production in Dresden – Infineon's largest frontend location.

Dresden will probably reach its capacity limit by 2021. The new factory in Villach will then be completed and we will gradually ramp up production capacities there.

We are, of course, remaining vigilant with regard to further political and economic uncertainties. If growth should weaken temporarily, we can respond appropriately. We are keeping an eye on all early indicators. And we have tried-and-proven concepts for steering Infineon successfully through such a situation and investing in our future at the same time.

### **[Infineon prepares for further expanding its market leadership in power semiconductors]**

Leading technology and a broad technology portfolio are key elements of our success. In our core business – power semiconductors – we are developing new technologies based on the compound semiconductors silicon carbide and gallium nitride.

These materials have superior technical properties compared to silicon, but are also significantly more expensive and difficult to process. For this reason, products based on compound semiconductors are currently only suitable for applications in which the efficiency advantage outweighs the cost disadvantage. They must therefore become cheaper.

In this regard, we have taken an important strategic step. This morning we announced the acquisition of Siltecta GmbH. The purchase price is around 124 million euros. The Dresden-based company has developed a technology called Cold Split that enables

crystals to be splitted very accurately and efficiently. We intend to use this technology primarily for processing silicon carbide wafers.

Cold Split offers two advantages:

The raw material for wafer production is a cylindrical silicon carbide boule. Already in the first step, when splitting the boule into wafers, the technology would allow extracting significantly more wafers than with the usual sawing technology.

In further processing – and this is what we are targeting at Infineon – Cold Split also makes it possible to separate a very thin layer from the top of the wafer and reuse the remaining wafer. The thin wafer, which is the actual product, is then finished with our special know-how using thin wafer technology.

The "make two out of one" concept is a sustainable competitive advantage for Infineon. The supply of high-quality wafers will continue to be the limiting factor in the marketing of silicon carbide for some time to come – especially if the material is to be used on a larger scale in the field of electro-mobility in the future.

We will work on transferring the Cold Split technology into series production within the next five years. There may also be other applications for cold split in the future, such as boule splitting or using it for materials other than silicon carbide. However, I would like to make it clear at this point: We will not enter into the production of raw wafers.

We secured our wafer supply in spring with a long-term contract with Cree. With Cold Split, we are strengthening our manufacturing competence, after having successfully entered the market with the CoolSiC™ MOSFET. We are systematically expanding our portfolio on the basis of our expertise in module production. We are thus excellently positioned to drive the market penetration of silicon carbide. When it comes to power semiconductors, Infineon is the company that can offer the right solution for every application and customer need. Whether it's silicon or compound semiconductors – we have it all.

**[Digital trends offer great opportunities – Infineon relies on innovation networks and strong partners]**

But we are certainly not resting on our laurels. Our markets are changing. Our customers' systems are changing. Innovation cycles are growing shorter. Traditional value chains are being broken down. New digital business models are emerging.

Big data, artificial intelligence and the Internet of Things offer great opportunities. Companies in Germany and Europe aim to leverage them in global competition. Yet we need to keep one thing in mind: Digitalization must be there to serve people – not the other way around.

That calls for a joint effort from enterprises and policymakers in Germany. We have to give people a sense of security and confidence. That also includes spelling out more strongly what diverse opportunities digitalization offers society. Think of collaborative robots, for example: They can help nursing staff in their demanding care work and thus make a key contribution to alleviating the effect of the shortage of skilled workers in the healthcare sector. Robots can also take over heavy work in factories. That reduces the burden on people, enabling them to stay healthy and physically fit in old age as well.

Infineon has the technologies these robots need: sensors, microcontrollers, power semiconductors and security solutions. We connect the real and digital world. And thus make a contribution to society.

We are adopting various ways of identifying and leveraging the opportunities offered by digitalization for our company at as early a stage as possible.

- First: We are strengthening our own research and development activities at Infineon.
- Second: We are actively engaged in innovation networks with tech companies, science, academia and policymakers and benefit from knowledge sharing in ecosystems.
- Third: We seek strategic partnerships with trend-setting, powerful tech companies and promising startups. We develop new markets together.

All three thrusts have the same objectives: We want to make Infineon even more innovative. We want to understand sooner and better what applications will be successful in our markets. And we want to speed up the time-to-market for our products and solutions even more.

Let me explain that with reference to some of our current activities:

We are now establishing a new Development Center for automotive and power electronics, as well as artificial intelligence, at our Dresden location. Algorithms, artificial intelligence and the Internet of Things already play a key role in the growing connectivity of traffic systems.

We will also leverage this know-how to offer AI solutions for other target markets in the long term. We have excellent conditions to do that thanks to the skills we can tap into in Dresden – including in 5G communications technology, an important field for these applications.

Apart from our own research and development activities, we are also strengthening cooperation with startups and customers in innovative ecosystems.

At our Innovation Center in Silicon Valley, our colleagues are working with customers and technology partners to develop new markets. The focus is on autonomous driving and cutting-edge sensor technologies. We inaugurated our first “Co-Innovation Space” worldwide with interesting startups in Singapore a few weeks ago. Infineon benefits from their ideas for new digital applications, while the startups benefit from our technological expertise, products and market experience – a win-win situation.

We aim to actively shape the development of applications based on artificial intelligence technologies. So far, the U.S. and China lead the way here, while Europe has some catching up to do.

Infineon supports “Applied AI,” Europe’s largest initiative in this field. We work together in the initiative with prestigious partners from politics and science, as well as leading industrial and tech companies, including SAP, Siemens and Nvidia. Together, we are committed to advancing AI technologies by sharing knowledge and prototyping, and by speeding up their application in practice.

In China, we are likewise cooperating with a raft of companies and research institutes. In August, we concluded partnerships with the two Internet companies Alibaba Cloud and JD, for example. Their goal is to jointly develop new applications in the fields of “smart life” and “smart industry.”

Ladies and gentlemen, as you can see, we are continuously expanding our scope, pursuing the “Product to System” approach. We want to precisely understand the systems in the context of the end application. We want to know the resulting requirements of our customers exactly. That’s because we can then develop precisely tailored solutions or help shape the markets with completely new approaches. That’s the foundation of our success.

**[11 percent revenue growth and an 18 percent Segment Result margin expected in the 2019 fiscal year]**

This brings me to the **outlook** for this fiscal year.

As you recall: We aim to grow at an average of 9 percent per year in the long term. However, we are currently in a phase of higher growth and assume that it is not yet over.

In the current first quarter, we expect a seasonal decline in revenue of 4 percent over the fourth quarter – as always with a possible deviation of plus or minus 2 percentage points. At the mid-point of the revenue guidance, the Segment Result margin will be around 17.5 percent.

For 2019, we are fully on track. We deliver on the promises that we made at our Capital Markets Day in June: Based on an assumed exchange rate of US\$1.15 to the euro, we anticipate revenue will grow by 11 percent over 2018. This would be the sixth consecutive year with significant revenue growth. The Segment Result margin will be 18 percent.

Specifically, we expect revenue growth in the ATV segment to be significantly above the Group average. PMM will be in line with group average and IPC slightly below. In view of the difficult market situation, we expect revenue for DSS to decline in the mid-single digit percentage range.

This brings me to the investments. At our Capital Markets Day, we announced a number of measures aimed at securing our long-term growth. These include, for example, the new building in Villach. We are implementing this plan consistently and with discipline. For the 2019 fiscal year, we are therefore forecasting investments of around 1.6 to 1.7 billion euros.

The global semiconductor market will continue to grow in the 2019 fiscal year, namely by around 4 percent. Our growth forecast is well above that.

To **summarize**, ladies and gentleman:

First: The 2018 fiscal year was very successful for Infineon in economic terms.

Second: We are vigilantly monitoring further political and economic developments. As things stand at present, we anticipate a stable macroeconomic environment in the coming months. We will respond if, contrary to expectations, demand weakens.

Third: We are still very optimistic about our long-term growth and have set ourselves higher targets. Our growth is based on many stable pillars with above-average potential. Infineon addresses markets that continue to promise success.

Ladies and gentlemen, Infineon, is growing. Infineon is innovative. Infineon is progressing steadily as a company. That positive development is also a result of the great performance of our employees in all parts of the world. I would like to thank them for their enthusiasm and commitment to Infineon on behalf of the entire Management Board. The future offers us many opportunities – and we will seize them together.

I would just like to point out one thing in conclusion: You are welcome to get an overview of our markets, products and applications afterwards in the lobby. We have revised the exhibition in the past months. Feel free to have a look around and talk to us. Our colleagues will be happy to help you.

Together with my Management Board colleagues I will now take your questions.

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