Dr. Sven Schneider

Annual General Meeting 2022

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www.infineon.com

Chief Financial Officer

Dr. Sven Schneider

-The spoken word applies -

Dear Shareholders,
A very warm welcome from me also!

Infineon has mastered a challenging 2021 fiscal year very successfully and closed with a record figure. For the first time in a single fiscal year, we generated revenue of more than 11 billion euros. This growth is also reflected in our significantly increased profitability. In the context of the rapid economic recovery, high structural as well as cyclical semiconductor demand and limited supply chain capacities, we have once again proven that we have a robust business model and that we are able to adapt quickly to changing conditions. Our corporate strategy is consistently focused on the key trends of electrification and digitalization, and we continue to develop our business even under challenging conditions. I am therefore pleased to be able to report to you today on a successful fiscal year.

Infineon achieved revenue of 11 billion 60 million euros in the 2021 fiscal year. For the first time, this includes the revenue contribution of the Cypress businesses over a full twelve-month period; financials have been consolidated since the acquisition was closed in April 2020. In the previous 2020 fiscal year, revenue was 8 billion 567 million euros. We thus achieved a growth rate of 29 percent.

In the 2021 fiscal year, demand exceeded supply in almost all application areas we serve. Without capacity constraints, even higher growth would have been possible. The strong development of our revenue reflects the economic recovery, but also our leading position in many markets that are determined by long-term growth drivers.

Gross profit amounted to 4 billion 260 million euros. The gross margin thus improved significantly from 32.4 percent in the previous year to 38.5 percent in the reporting year. This was due in part to lower underutilization costs, but also due to positive price effects in the sales area. Pandemic-related restrictions in production and rising procurement prices had the opposite effect.

Our operating costs totaled 2.8 billion euros in the reporting year, remaining constant in relation to revenue. Research and development costs increased by 335 million euros to 1 billion 448 million euros. Selling, general, and administrative expenses increased by 312 million euros year-on-year to 1 billion 354 million euros. The inclusion of Cypress over the full fiscal year has to be considered in connection with both the increase in research and development costs and in selling, general, and administrative expenses.

Segment Result was 2 billion 72 million euros. This corresponds to a Segment Result Margin of 18.7 percent compared to 13.7 percent in the 2020 fiscal year. Revenue and Segment Result were thus in line with the forecast, which we had adjusted and further increased in the third quarter to reflect the dynamic overall economic situation. Given the impacts of the coronavirus pandemic and supply chain constraints, this is a strong result.

Consolidated net income increased to 1 billion 169 million euros in the 2021 fiscal year. Our basic earnings per share were 87 euro cents, significantly higher than the prior-year figure of 26 euro cents. Adjusted earnings per share increased from 64 euro cents to 1 euro 20.

Now to our segments:

The Automotive segment continued to be the strongest in terms of revenue. At 4 billion 841 million euros, it accounted for 44 percent of Infineon’s total revenue. In the automotive market, which was impaired by supply bottlenecks, the expansion of electric vehicles continued to develop dynamically. The trends towards electro-mobility and assisted driving, as well as the associated evolution of vehicle electronics are driving the demand for semiconductors in vehicles. The greater share of high-end vehicles in the overall market is also increasing demand for our products and solutions. Segment Result Margin rose sharply from 4.2 percent in the previous year to 16.4 percent. The positive demand trend, falling underutilization costs, and economies of scale in the area of electro-mobility and our microcontrollers, significantly increased the profitability of Automotive.

Revenue in the Industrial Power Control segment amounted to 1 billion 542 million euros in the reporting period – an increase of 10 percent year-on-year. The segment benefited from the continuing economic recovery. The expansion of renewable energies is being expedited. Strong and lasting drivers for the business include energy storage systems, charging infrastructure for electro-mobility and energy-saving home appliances. All these applications are crucial to the energy transition. At 17.8 percent, Segment Result Margin was roughly on a par with the previous year's level of 18.2 percent.

In the Power & Sensor Systems segment, we achieved revenue of 3 billion 268 million euros. This corresponds to growth of 23 percent. In addition to the pandemic-related surge in demand for PCs, laptops and tablets, long-term growth drivers such as smart devices, edge computing, 5G networks, and cloud data centers are particularly relevant to this segment. At 25.2 percent, the Segment Result Margin was above the already high prior-year level of 24.0 percent.

Revenue of the Connected Secure Systems segment amounted to 1 billion 397 million euros. The trend towards contactless payment, demand for home fitness and health devices as well as for game consoles, continue unabated. In addition, the demand for higher-quality semiconductor solutions for smart and connected devices is increasing – in industry, in cars, and in the consumer sector. With the acquisition of Cypress, we have expanded and significantly improved our range in this area. The segment was hit particularly hard by the serious supply bottlenecks at silicon foundries. Segment Result Margin decreased slightly to 13.0 percent compared to 13.3 percent in the previous year.

Let's take a look at the distribution of revenue by region:

We generated 38 percent of our revenue in the Greater China region, which is the largest part of our total revenue. However, this includes a significant proportion of supplies for end products that are re-exported. The Europe, Middle East, Africa region accounted for 25 percent of revenue, while Asia-Pacific accounted for 16 percent, and the Americas for 11 percent. Japan's share of revenue increased slightly to 10 percent. We are successfully implementing our course of regional diversification.

Let us now turn to selected key financial figures:

The positive development of our business in the 2021 fiscal year is also reflected in these figures. Free Cash Flow amounted to 1 billion 574 million euros in the reporting year. In the previous year, Free Cash Flow was 911 million euros, excluding cash outflows in connection with the acquisition of Cypress. We adapted our capital expenditures to accommodate increasing demand in the market and raised them from 1 billion 99 million euros in the previous year to 1 billion 497 million euros in the reporting year. Return on Capital Employed (RoCE) was 8.4 percent in the 2021 fiscal year, compared to 3.0 percent in the previous year. Capital employed was roughly at the level of the previous year.

Total assets amounted to 23.3 billion euros as of 30 September 2021. This is an increase of 6 percent compared to 30 September 2020. Equity increased by 1.2 billion euros to 11.4 billion euros, while our financial debt decreased from 7 billion euros in the previous year to 6.6 billion euros in the reporting year.

Let's move on to our financing concept:

The core objective we are pursuing here is to maintain an investment grade rating. This ensures that we have access to all relevant capital markets and financing sources at all times, enabling us to finance our organic and inorganic growth at low cost and on good terms and conditions. In the course of the acquisition of Cypress, the rating agency S&P Global Ratings had lowered Infineon's rating by one notch to "BBB-". This still corresponded to an investment grade rating. At the beginning of this month, S&P has upgraded our rating again, to "BBB" with a stable outlook. We are very pleased about this. In particular, S&P recognizes our rapid and consistent debt reduction based on our conservative finance policy, as well as our good operating results and successful cash generation in recent quarters. The upgrade means that we are now back at our original rating level, less than two years after the nine-billion-euro acquisition of Cypress.

As you know, we communicated a clear financing strategy for refinancing the Cypress acquisition when we signed the purchase agreement in mid-2019. We subsequently implemented this strategy consistently and quickly. It included various equity and debt measures in 2019 and 2020, which enabled us to completely redeem the bridge facility of the acquisition financing just a few weeks after closing the acquisition. In 2021, we undertook a US private placement of 1.3 billion US dollars, with maturities of up to twelve years. These proceeds, together with our own available liquidity, enabled us to completely repay existing loans of 1.7 billion US dollars with maturities in 2022 and 2023, already in the 2021 fiscal year. Infineon now has a balanced maturity profile until 2033 with low financing costs. To constantly strengthen this profile, we continue to take advantage of favorable market windows for refinancing whenever it makes sense for us. This was the case again last week: We were able to successfully place a bond with a volume of 500 million euros and a maturity of three years, with an annual coupon of only 0.625 percent. We are using these proceeds to refinance existing maturities this year. The placement was multiple times over-subscribed. We are pleased about the great interest shown by many domestic and international investors.

In line with our strategic liquidity target, we are systematically reducing our higher acquisition-related debt. In the second quarter of the 2022 fiscal year, for example, we repaid in full an outstanding convertible bond from Cypress legacy amounting to just under 400 million US dollars. We originally intended to achieve our leverage target of limiting gross financial debt to no more than twice EBITDA again in the medium term. We have now already achieved this at the beginning of the current 2022 fiscal year, more than one year earlier than originally targeted. This focus on conservative leverage and on Free Cash Flow generation secures and strengthens the retention of our investment grade rating and thus our financial freedom to operate.

Now to the Infineon share – your share:

The number of shares issued as of 30 September 2021 was 1 billion 305 million 921 thousand 137 and thus remained unchanged from 30 September 2020. 4 million 545 thousand 602 of them are currently own shares and therefore not entitled to dividends.

Members of the Management Board and executive staff receive part of their variable compensation in the form of shares from the Performance Share Plan, executive staff and other selected employees additionally also through the Restricted Stock Unit Plan. Under these two plans, Infineon transferred a total of approximately 706 thousand own shares in the 2021 fiscal year. These shares originate from the existing stock of own shares that the company had repurchased in prior years. After transfer of the shares to the Management Board members and executives, the shares are now entitled to dividends again.

Between the beginning of the past fiscal year on 1 October 2020 and the close of the stock market last Tuesday, the Infineon share price rose by 29 percent. Semiconductors are essential for the two major structural trends: electrification and digitalization. The current chip shortage in particular shows how relevant semiconductors are for many industries. Due to the continuing high demand, all semiconductor stocks performed strongly in the reporting year. The performance of the Infineon share was below the development of the Philadelphia Semiconductor Index, or SOX, which is relevant for us, but above the performance of the German DAX share index. The positive development of our share price demonstrates the confidence that the market has in our long-term success.

On 22 March 2021, Infineon was admitted to the EURO STOXX 50. This achievement makes us proud, and it reflects the success of the entire Infineon team. We have made it into the Champions League of the stock markets – and we are here to stay.

And that brings me to our dividend proposal:

The objective of our dividend policy is to ensure that Infineon's shareholders participate appropriately in the company's economic development. In principle, we want to pay out at least a constant dividend, even in the event of stagnating or declining earnings. In the previous fiscal year, however, we had to take into account the serious economic impact and the continued existence of the risks associated with the coronavirus pandemic and maintain the necessary financial freedom to operate. The dividend was therefore reduced to 22 euro cents per share.

The company's good economic development in the 2021 fiscal year and the positive outlook for the 2022 fiscal year make an increase in line with the 2019 level appropriate. In connection with agenda item 2, the Management Board and Supervisory Board are therefore proposing to you a dividend of 27 euro cents per share for the 2021 fiscal year, five euro cents higher than the previous year. The expected total dividend payout would thus rise to 351 million euros, compared with 286 million euros in the previous year.

Now let me turn to the outlook:

Following a good start to the new fiscal year, we raised our full-year guidance slightly at the beginning of February. For the 2022 fiscal year, we expect revenue of 13.0 billion euros, plus or minus 500 million euros, at an assumed US dollar to euro exchange rate of 1.15. At the midpoint of the revenue guidance, we expect a Segment Result Margin of around 22 percent. Capital expenditures for property, plant and equipment and other intangible assets, including capitalized development costs, are planned at around 2.4 billion euros. Free Cash Flow is expected to be around 1 billion euros.

Two years ago, we presented to you the financial targets we intended to achieve following the acquisition. At our Capital Markets Day in October 2021, we reaffirmed the corporate strategy geared towards long-term profitable growth as well as the financial targets despite continuing capacity bottlenecks in many areas. The high demand for semiconductors for the energy-efficient and connected world is steadily increasing. Infineon is excellently positioned to shape, and benefit from, the major trends of electrification and digitalization in the coming years. In addition, the diversification of our business model means that potential declines in individual areas can be offset in other areas.

We still intend to grow revenue by more than 9 percent per year on average, which means over the cycle. The Segment Result Margin is expected to be 19 percent over the cycle. This means that in boom phases such as the current one, we also expect significantly higher figures. We plan an investment ratio of 13 percent of revenue with 9 percent growth, also over the cycle. By our definition, this figure does not include high one-time investments in clean rooms and large office buildings. At growth rates above 9 percent, our target operating model provides for higher investment ratios to support growth accordingly – as is the case in the current 2022 fiscal year, for example.

Our financial targets are also sustainably supported by the Cypress acquisition. The integration is progressing well and we see that the acquisition is delivering what we expected. We are well on track to achieve the target of 1.5 billion euros in annual revenue synergies from fiscal 2028. In addition, we expect to realize annual cost synergies of 180 million euros by the middle of the 2023 fiscal year at the latest.

Our business is geared to the long term and is based on the sustainable growth drivers of electrification and digitalization. This clear strategic focus is underpinned by a conservative finance policy. This makes us comparatively resilient to crises. We also have the ability to adapt quickly to new circumstances. We have prepared well for the current strong growth phase, which in some markets has come even faster than expected. Scarce capacities have presented us with major challenges. Nevertheless, we have succeeded very well in continuing along the path of profitable growth in the 2021 fiscal year. We will systematically pursue this growth path also in the current fiscal year.

With our successful management across economic cycles, we not only offer our customers the greatest added value and our employees an attractive workplace, we also offer you, our shareholders, an attractive return on your investment in our shares.

Thank you for your attention and for your trust in Infineon!

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