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Chairman of the Management Board
Infineon Technologies AG

Annual Press Conference

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- The spoken word prevails -

Ladies and gentlemen, welcome to Infineon's Annual Press Conference!

As always, when we welcome you to Campeon at this time of year, autumn has arrived in Bavaria with its cool temperatures. Another cooling was far less predictable. In spring, the boom phase in our target markets came to an abrupt end. As a result, Infineon had to adjust the targets that we presented here a year ago. But you still see me satisfied today. Because we quickly adapted to the changed situation. In view of the difficult conditions, we have performed well.

I am pleased to be able to report to you today on the 2019 fiscal year. I would then like to take a look at the current fiscal year and explain Infineon's growth strategy. Together with my colleagues on the Management Board, I will then be happy to answer your questions.

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

[Infineon continued to grow profitably in a challenging 2019 fiscal year and achieved its targets]

Infineon was able to continue its growth course in the past fiscal year, albeit at a much slower pace than initially expected. Despite a challenging macroeconomic environment and against the trend of an overall shrinking semiconductor market, we were able to increase revenue - for the sixth time in a row. Compared to the previous year, revenue grew by 6 percent to 8 billion 29 million euros. This shows that our business model is robust. Infineon grows even in difficult times. In addition, for the first time in Infineon's history, we exceeded the revenue mark of 8 billion euros.

Unlike revenue, the Segment Result declined. It fell by 34 million euros to a total of 1 billion 319 million euros. This corresponds to a Segment Result margin of 16.4 percent after 17.8 percent in the 2018 fiscal year. Two key factors led to the decline in earnings compared with the previous year: on the one hand, higher underutilization charges, which I will discuss later. On the other hand, increased research and development expenses.

Under the given conditions in fiscal 2019, we are satisfied with the result. We achieved the targets we adjusted in the middle of the fiscal year. At the beginning, we had expected a significantly higher increase in sales - 11 percent instead of the 6 percent now achieved. At that time, the market was still in a boom phase. Demand from our customers exceeded our ability to deliver in some product areas.

Against the background of geopolitical tensions and ongoing trade conflicts, the economic outlook deteriorated significantly after the turn of the year. Demand in our end markets declined sharply in some cases. We had to adjust quickly to a situation with lower market growth and, most recently, even without any growth at all, and take countermeasures.

We always knew that the boom phase would end sooner or later. We also knew there probably wouldn't be a soft landing. Nevertheless, we have consciously prepared Infineon for further strong growth and expanded our manufacturing capacities. Such a capacity increase has a long lead time. Now we are managing a temporary underutilization of our capacities. Conversely, it would have much more dramatic consequences if production capacities were to remain too low in the long term. Availability is a success factor for Infineon. It is an essential reason why our customers choose and value Infineon as their supplier.

In view of temporarily lower demand, we were unable to fully utilize our increased production capacities, especially in the second half of the fiscal year. This led to higher underutilization charges. These are partly the result of inventory adjustments. The rapid change in demand from our customers resulted in higher inventories. These are currently being reduced. As a result, utilization in our production facilities will continue to decline temporarily.

The fact that the earnings margin did not fall more sharply in view of the much weaker revenue growth - 6 percent instead of 11 percent - speaks for our teams. They have already shown in the past that they can successfully manage the natural fluctuations of our markets. Infineon has benefited greatly from this experience in recent months. Our teams quickly and successfully switched from "Allocation" mode to "Cost Control" mode. I

would like to take this opportunity to thank all of Infineon's employees for their dedication and determined efforts.

We want Infineon's shareholders to participate appropriately in the good results of the fiscal year under the given conditions. Since fiscal 2010, Infineon has almost tripled its dividend payment in several steps - from initially 10 eurocents per share to 27 eurocents for fiscal 2018. For fiscal 2019, we plan to propose an unchanged dividend of 27 eurocents per share to shareholders at the next Annual General Meeting in February. The new shares issued in June 2019 as part of the capital increase are fully entitled to dividends. Due to the 10 percent increase in the number of shares, the dividend payout will rise from 305 million euros to 336 million euros.

[The divisions have performed well and are successful in their markets]

Ladies and gentlemen,

I would now like to turn to our four divisions.

The Automotive division achieved revenue of 3 billion 503 million euros. This corresponds to an increase of 7 percent compared to the previous year.

Even though we have continued to grow, we are feeling the effects of declining vehicle production in all regions of the world. For 2019, market researchers anticipate a decline of almost 6 percent compared to the previous year. The demand for certain products - such as components for engine control or the electric window lift - depends primarily on the number of new vehicles. Infineon's sales in classic automotive applications declined accordingly.

At the same time, however, we benefited from the fact that our solutions are used particularly in luxury and upper mid-range vehicles. Here, vehicle production fell less sharply than in the medium and compact classes. In addition, these cars contain more electronics and thus more semiconductors. In addition, we were able to record continued high demand for the two major future topics: For power semiconductors for electric vehicles and for sensors and microcontrollers for advanced driver assistance systems. Here we were again able to significantly increase revenue by more than 50 percent.

At the same time, the Segment Result in the Automotive division fell by 13 percent to 404 million euros in the past fiscal year. This corresponds to a Segment Result margin of 11.5 percent.

What are the reasons for the sharp decline in earnings? Due to high investments in development and production, the profitability of our electromobility products is not yet at the average margin level of the division. In addition, as explained above, we were unable to fully utilize our increased production capacities, especially in the second half of the fiscal year.

Despite the weaker than expected result in the past fiscal year, we remain very confident about the long-term development of our Automotive business. The demand for semiconductors per vehicle will continue to rise in the coming years, thus ensuring structural growth. The numerous promising design wins in the past fiscal year show that we offer a highly attractive portfolio.

Our AURIX™ microcontrollers meet the needs of our customers. Thanks to coordinated hardware and software, they perform a significant part of the signal processing, for example in radar- and camera-based driver assistance systems. Infineon has intensified its software activities in recent years, both through its own development and through strategic partnerships. Progress is now becoming increasingly visible and is benefiting our customers: With lower development costs and thus a shorter time to market for their systems.

I would like to mention two examples here. A major European automotive supplier will use the AURIX™ microcontroller for its next camera platform. As the host controller, it forms the interface between the camera system and the vehicle actuators. Automotive manufacturers worldwide will use this platform in their vehicles. A Japanese automotive supplier has selected the AURIX™ microcontroller for future engine controls. Both for electric vehicles and for vehicles with combustion engines.

By the way, Infineon is increasingly gaining a foothold in the strategically important Japanese market. Since 2010, we have grown faster than the market for automotive semiconductors every year. With revenue growth of almost 25 percent, Infineon even achieved record growth in Japan in fiscal year 2019. The quality requirements of car manufacturers there are traditionally extremely high, and Infineon meets them particularly well. Toyota, Japan's largest automaker, awarded us in 2019 for the fifth consecutive year for zero defects in our deliveries to its Hirose plant. We expect that our automotive business in Japan will continue to grow disproportionately in the coming years.

In addition to a consistent approach to quality, customer relationships based on partnership are key for our success. Infineon is one of Volkswagen Group's most important partners in its electrical offensive. Since May we belong to the strategic supplier network FAST of Volkswagen. FAST is short for "Future Automotive Supply Tracks". Volkswagen plans to develop 80 different electric models by 2025. Like other manufacturers, Volkswagen relies on a platform system. This is because development and logistics costs can be kept as low as possible.

Volkswagen's modular electrification system is the industry's largest drive platform for all-electric vehicles. Power modules from Infineon control the electric drive. Our HybridPACK™ Drive modules fit perfectly with Volkswagen's platform approach. With them, we provide a scalable product family with which car manufacturers can equip the entire model range with little effort.

Speaking of the mobility of the future, I'm sure you saw the Hyperloop demo in the foyer - the Research Pod.

Hyperloop is a wonderful example of how innovation works in 2019. It begins with a vision that completely rethinks locomotion - in this case as energy-efficient travel at the speed of sound in underground pipes. It is paving its way in the competition of ideas, driven by the enthusiasm of numerous young people all over the world. It is supported by the technological pioneers of the industry.

Infineon supported the TU Munich team that won the Hyperloop Pod Competition near Los Angeles for the fourth time in a row at the end of July. Equipped with more than 420 Infineon components, the Pod reached a speed of 463.5 kilometers per hour. This would shorten the journey from Munich to Hamburg, for example, to a good one and a quarter hours.

With its research pod, the Hyperloop team is now working on the next big innovation step: a hovering pod. We invite you to visit our exhibition afterwards and talk to your colleagues. It's worth it.

Let us now turn to the **Industrial Power Control** division. The segment supplies solutions for the entire energy supply chain - from generation to transmission, storage and use. In the past fiscal year, we generated revenue of 1 billion 418 million euros here, 7 percent more than in the previous year. The Segment Result fell slightly by 2 per cent to 251 million euros. This corresponds to a Segment Result margin of 17.7 percent.

Among other things, the continued increase in demand for wind power and photovoltaic as well as train systems, particularly in China, led to growth. In addition, the level of automation of industrial production plants continued to rise. This was reflected in higher revenue, particularly in the first six months of the fiscal year. By contrast, demand for solutions for major home appliances has recently been significantly weaker than in previous years due to high inventories in the supply chain.

However, the inverterization of home appliances will drive global demand in the coming years. The lower power consumption and higher performance of new devices can only be achieved with motors with higher efficiency. Inverters can fine-tune the speed of an electric motor. So the engine only has to deliver exactly the power it needs. That saves electricity. The trend is reinforced by new efficiency regulations on energy consumption, for example in China.

Infineon not only makes home appliances smarter, more efficient and thus more attractive to end customers. We also help the manufacturers by simplifying the development. With our Intelligent Power Modules - IPM for short - we integrate a large part of the components for an inverter in one package. Together with our specialized microcontrollers, we help our customers to develop new devices in significantly less time.

In recent years, we have steadily consolidated our position as the worldwide number 3 in the IPM market. With discrete power semiconductors and IGBT modules, we have been the undisputed number 1 for many years.

We are consistently developing our portfolio further. The compound semiconductors silicon carbide and gallium nitride play a special role here. One focus of our research and development is manufacturing technologies and architectures for power semiconductor components based on these new materials.

We have been offering silicon carbide modules for some time now. And we have been expanding our portfolio to include more and more designs and voltage classes. In addition to industrial switched-mode power supplies and photovoltaic inverters, we are increasingly able to serve many other applications with high-performance silicon carbide solutions. These include battery charging infrastructure, energy storage devices, auxiliary equipment in train systems and switched-mode power supplies for servers and telecommunications applications. This also includes use in automobiles. The Korean manufacturer Hyundai, for example, is using our silicon carbide technology in the next generation of its electric vehicles.

At the beginning of fiscal 2019, we also began series production of our own gallium nitride solutions. For example, they are already being used in high-performance power supplies for data centers. They also have potential for other applications, such as on-board chargers for electric cars.

Now to **Power Management & Multimarket.** The segment comprises the business with power semiconductors for energy management, components for mobile communications infrastructure and mobile devices, as well as highly reliable components for harsh environments. Revenue in the past fiscal year rose to 2 billion 445 million euros. That's a plus of 5 percent. The Segment Result reached 585 million euros, 10 percent more than in the previous year. The Segment Result margin was thus a strong 23.9 percent.

The demand for efficient and high-performance power supplies for data centers and on-board charging units in electric and hybrid vehicles developed very positively. Equipping charging stations for electric vehicles, particularly in China, also generated good sales at Infineon. The trend towards battery-powered devices such as cordless screwdrivers, vacuum robots or eScooters continues. Sales of power supplies for mobile communications infrastructure were also encouraging.

We also registered a high demand for our solutions in the area of sensing technology. Sales of our silicon microphones reached an all-time high in the final quarter of the fiscal year. Although the smartphone market continued to stagnate, Infineon benefited from additional design wins and the fact that these microphones are being used in more and more areas: For example in headphones, completely wireless earplugs and voice-controlled assistants.

Infineon has also recently launched a new radar chip. This enables a new form of interaction between users and their devices. An integrated antenna system allows it to sense the presence and direction of movement of people and objects. The 60 GHz radar chip is the hardware basis for Google's soli technology. It's built into Google's newest smartphone, Pixel 4.

We achieved further successes in smartphones in the past fiscal year with our leading Time-of-Flight technology for three-dimensional object recognition. Together with LG Electronics, Infineon has equipped a smartphone with this technology. Other 3D technologies use complex algorithms to calculate the distance of an object from the camera lens. In contrast, our image sensor chip measures the distance for each point directly via modulated infrared light. Time-of-Flight is faster, more effective and energy-

saving. It also works under poor lighting conditions. This enables secure authentication, for example via facial recognition.

Infineon develops sensors and chips that recognize the environment like the human senses and process the data obtained. Just as our human brain uses different signals of our senses, we can enable intelligent devices to perceive the environment in its different dimensions through the cooperation of several sensors. The aim is an intuitive interaction between man and machine. We call that intuitive sensing.

Thanks to our microphones, our radar technology and our Time-of-Flight solution, devices become "contextual aware ", for example. This means that they recognize their environment and understand us better. After all, the machine should be oriented towards the human being and not vice versa. Intuitive sensing is a good example of how Infineon connects the real world with the digital world.

Finally, we come to the **Digital Security Solutions division**. Revenue in the past fiscal year fell by around 3 percent to 642 million euros.

The trend towards payment cards that can be used both contact-based and contact-less continued. Infineon's core competence in contact-less technology means that it benefits particularly from this development. We were able to increase revenue in the payment segment. We also achieved revenue growth with our embedded security solutions.

Revenue of embedded SIMs - the so-called eSIMs - continued to rise in the past fiscal year. They are used, for example, in the Internet of Things - both in consumer applications and in industrial environments. On the other hand, the number of traditional SIM cards for mobile communications continued to decline as planned. For strategic reasons, Infineon has been participating only selectively in project tenders for several years. Revenue in the area of government IDs also declined as a result of fewer projects.

The Segment Result fell by 27 percent to 77 million euros. The Segment Result margin was thus 12.0 percent. The disproportionately high decline in earnings compared to sales is primarily attributable to higher operating expenses. Strengthening our distribution business and our software expertise are of strategic importance to us. Accordingly, we had higher expenses for personnel as well as research and development.

Infineon offers a wide range of solutions for secure authentication. Our customers use them for applications in industry 4.0, Smart Home, Smart City and networked vehicles. We expanded our product range in the past fiscal year.

Among other things, we were the first semiconductor manufacturer to launch a Trusted Platform Module - TPM for short - specifically for automotive applications. The TPM secures all important communication channels in the car. The car manufacturer can introduce sensitive security keys into the car for the allocation of access rights, authentication and data encryption. Volkswagen Group is one of the first customers for this product.

Ladies and gentlemen, you see:

Looking at our markets, the picture is mixed. We had and still have to deal with one or the other challenge. Nevertheless, Infineon continued to grow profitably in the past fiscal year. We owe this on the one hand to Infineon's focus on structural drivers and on the other hand to our leading product and technology portfolio.

[Infineon does not expect demand to recover before the second half of fiscal 2020]

Let us now take a look together at the current fiscal year:

The general economic environment remains tense due to economic and political uncertainties. In October, the International Monetary Fund lowered its economic forecast for 2019 to 2.5 percent. For 2020, the experts forecast only a slight recovery in global economic growth to 2.7 percent. Moreover, according to the IMF, the expected slight increase is not broadly based and thus remains uncertain. This is partly due to looming geopolitical conflicts and the increase in trade restrictions.

The unresolved trade conflicts are having a negative impact. We continue to monitor developments very closely. We continue to believe that it is wrong to close off markets. Trade conflicts know no winners. Many social challenges are global. They cannot be solved with local thinking. In particular, climate protection and the increasing consumption of resources require global responses.

At Infineon, we do not expect demand to recover before the second half of fiscal year 2020, so we will continue to focus on safeguarding Infineon's profitability and preparing for an upturn in our markets.

[The structural growth drivers are intact. Infineon continues its strategy.]

What is important is that we manage the economic cycle with rigorous cost control, while at the same time strengthening those business areas that promise structural growth.

Even in a phase of weakening markets, we want to gradually move closer to our long-term goals.

The long-term drivers for Infineon's business are intact. We are focusing on the trends that will shape people's lives and the world economy in the coming decade: Energy efficiency, sustainable mobility, security, the Internet of Things and Big Data.

The last few months in particular have shown how dynamic the issue of climate protection can be in the public debate. Not only in Germany, but all over the world, many young people are committed to a more sustainable way of dealing with the foundations of our existence. I think that's good. Because society urgently needs to form an opinion. So the current discussion is a good first step. Of course, in addition to discourse, we also need concrete solutions.

At Infineon, we work to shape change with new technologies. We enable more efficient generation, transmission, storage and use of electrical energy. We supply the building blocks for clean and intelligent mobility in metropolitan areas. We make an essential contribution to reliable communication on the Internet of Things. "More from less" is the approach Infineon uses to help more and more people around the world live a good life sustainably.

Our products and solutions help save around 54 million tons of CO2 equivalents during their service life. This corresponds to the average annual electricity consumption of about 86 million Europeans. The CO2 emissions resulting from production along the entire value chain are already taken into account in this calculation. Infineon creates a considerable ecological net benefit. In this way, we make a significant contribution to higher energy efficiency, better resource management and more effective climate protection.

The prospects in our key target markets such as electromobility, automated driving, renewable energies, data centers and mobile communications are promising. Regardless of the current market situation, we expect our customers' demand for power semiconductors, microcontrollers and sensors to increase in the coming years. We are therefore sticking to our strategic investments. We are thus laying the foundation for Infineon's long-term growth.

A milestone is the new 300-millimeter factory in Villach. We will continue construction, everything's going according to plan. It depends on the development of the global economy and thus on the demand for our products when exactly we start production in

the new factory. Depending on further developments in the macroeconomic situation, we currently expect production to start towards the end of calendar year 2021.

[Infineon and Cypress: We connect the real and the digital world.]

Over the past few years, Infineon has pursued a consistent strategy and continuously developed it further. With the expansion of our product and application portfolio, we are making good progress and opening up new opportunities for Infineon. With Cypress, we are logically continuing our strategy. We continue to follow the chosen path, but with significantly more horsepower.

The portfolios of the two companies complement each other perfectly. Infineon is a leader in power semiconductors, sensors and microcontrollers for automotive and security applications. Cypress, on the other hand, is very well positioned for industrial microcontrollers and Internet of Things applications. In addition, the company offers many wireless connectivity solutions and highly specialized storage products. Together we can create a comprehensive portfolio of intelligent and connected power and sensor solutions. This is how we connect the real and the digital world.

Let me illustrate this with an example: A self-propelled vacuum cleaner or lawnmower in the household needs a processor that functions as kind of a brain. He needs sensors that recognize the environment, and communication chips that communicate with the charging station or house control. And he needs power semiconductors to move. We have the sensors and the power devices. Cypress has the controller and the communication know-how. That's just an example. However, the principle described can be applied to a large number of applications on the Internet of Things.

Complete systems offer our customers considerable added value. They can then implement their desired functions simply, reliably and quickly, so to speak: unpack - stir - ready.

In preparation for the takeover, we have already taken important steps towards refinancing with a capital increase and the issue of a hybrid bond. In addition, the Infineon and Cypress teams have been preparing for the merger for several months - as far as this is possible for two competing companies. We are in exchange with the authorities and remain confident that we can close the transaction by the end of 2019 or early 2020.

[Infineon expects revenue growth of 5 percent and a Segment Result margin of around 16 percent in fiscal year 2020]

That brings me to the outlook.

For the fiscal year 2020, we expect - at an exchange rate of the US dollar to the euro of 1.13 - an increase in revenue of 5 percent plus or minus 2 percentage points compared with the previous year and a Segment Result margin of around 16 percent at the middle of the guided revenue range.

Specifically, we expect the Automotive division to grow slightly above the group average. In the Power Management & Multimarket division, revenue should be approximately at the level of the group average. For Industrial Power Control, we expect somewhat lower growth than the group average. In the Digital Security Solutions division, we expect revenue to stagnate or grow only slightly.

That brings me to the investments.

For fiscal 2020, we plan to invest around 1.3 billion euros in property, plant and equipment and intangible assets, including capitalized development costs. Approximately one third of this amount will be for factory buildings and their respective infrastructure as well as office buildings. We are thus creating the conditions to benefit from the next upturn in the market and to fully exploit the structural growth potential. The largest single project remains the extension of the clean room for the new 300-millimeter production facility in Villach.

In the current first quarter of the fiscal year, we expect a 7 percent decline in revenue compared with the fourth quarter - as always with a possible deviation of plus or minus 2 percentage points. In the middle of the guided revenue range, the Segment Result margin will be around 13 percent. On the one hand, this figure is positively influenced by a one-time special effect from the valuation of inventories. On the other hand, underutilization charges will rise noticeably compared to the last quarter of the past fiscal year. The figure also includes the two-week plant holidays in Dresden, Kulim and Temecula at the turn of the year.

Ladies and gentlemen, let me sum up:

First: Infineon grew again in a challenging 2019 fiscal year and performed well under the given conditions. After the boom in previous years, we had to adjust to a changed situation in spring and put the brakes on. We did this well and, above all, very quickly.

Secondly, we are keeping a close eye on further political and economic developments and can respond to them if necessary. We do not expect demand to recover before the second half of fiscal 2020.

Thirdly, the long-term drivers for Infineon's business are intact. We are keeping a close eye on our growth targets and want to be ready when the markets pick up again. This is why we are sticking to our strategic investments and increasing our spending on research and development. Infineon continues to develop even in difficult times.

Fourthly, with Cypress we are logically continuing our growth strategy. We remain confident that we can close the transaction at the end of 2019 or the beginning of 2020.

Ladies and gentlemen,

Infineon makes life easier, safer and greener. You can also get an overview of our markets, products and applications in the foyer afterwards. Have a look around and talk to us. Our colleagues will be happy to help you.

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

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