

Dr. Reinhard Ploss

Chief Executive Officer
Infineon Technologies AG

Annual Press Conference

Munich, 14 November, 2017

– The spoken word prevails –

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

I am delighted to report to you today on the past fiscal year 2017. I will then provide you with an outlook for the current fiscal year 2018 and explain a few strategic aspects.

[Review of fiscal year 2017]

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

Group revenue rose by 9 percent to 7 billion, 63 million euros. All four segments contributed to this growth – in particular Automotive, Industrial Power Control, and Power Management & Multimarket.

The segment result rose by 226 million euros to a total of 1 billion, 208 million euros, which corresponds to a segment result margin of 17.1 percent

That means we met our forecast, which we raised in March 2017 – despite increasing headwind from the weaker dollar.

Moreover, we immediately achieved our medium-term margin target of 17 percent, which we raised at the start of the fiscal year 2017.

Infineon is continuing to grow. Our growth is based on many different pillars. Electromobility and driver assistance systems will shape the car of the future. Infineon will benefit from that.

Renewable energies and efficient use of electricity, mobile communications and data security are also long-term growth drivers.

Digitalization is becoming increasingly important for us – also indirectly, for example, when our products are used in server farms. Semiconductors are the basis for digitalization and crucial in linking the digital and real world.

Interaction between man and machine is especially exciting. The car, home, factory or end-user device – everything is getting smarter and being connected to the Internet. In three years' time, around 30 billion devices will be part of the Internet of Things. Today, man and machine usually communicate via the keypad and display. Yet voice and gesture control open up new possibilities: They are a much more natural form of interaction.

Infineon strengthened itself in this field in the past fiscal year: for example, through its strategic investment in the company XMOS based in Bristol in the UK.

Today's voice recognition systems can hardly distinguish between different speakers or a TV. Yet that's a vital requirement for voice control to be accepted and used.

A new solution presented by Infineon and XMOS at the beginning of 2017 combines radar sensors and silicon microphones. Infineon's sensors detect the speaker's position in the room and the microphones are directed precisely toward the speaker. Interpretation of the words is improved and misunderstandings are avoided. A good example of our "From Product to System" approach.

Interaction between man and machine also includes interaction with robots. They will play a growing role in industry and everyday life. Industrial robots in particular are highly promising for Infineon. The market for cooperative robotic systems is experiencing above-average growth, and in the medium term that will affect the service sector.

What makes us strong here? We have technological expertise in power semiconductors, sensors, controllers and IT security solutions. We keep on getting better at combining these products and skills and offer ideal system solutions.

Germany has a very active start-up scene, with which we are collaborating successfully. One example: Together with experts from Infineon, a start-up from Munich has managed successfully – in the space of six weeks – to build the prototype for a robot that will make scaffold construction simpler and cheaper.

Infineon learns a lot about new issues and applications in projects like these. Through the collaboration, the start-ups we work with can develop more accurately to suit their target market and shorten the time to market.

Down in the lobby, you can get to know another robot that uses chips from Infineon. It goes by the name “Panda” and has been developed by the company Franka Emika, likewise from Munich.

Panda has highly sensitive sensors. The robot responds with lightning speed to the slightest contact and shows reflexes similar to those of humans. It is versatile and can be used not only in the factory, but also to support nursing staff, for example, in caring for the elderly. What’s special about this robot is that it can be operated and programmed intuitively. We invite you to try that out for yourself.

We are also already doing business with today’s major players. Last quarter, we won orders from a top-3 manufacturer of industrial robots – where we offer products from three of our business segments.

Infineon is focusing on key growth markets. We stand out from the competition with our system understanding. That was also the basis for our success in the past fiscal year.

Ladies and gentlemen, allow me now to take a look at what our four segments have accomplished in the past 12 months.

The Automotive segment generated revenue of 2 billion, 989 million euros in the 2017 fiscal year, an increase of 13 percent over the previous year. Automotive contributed 42 percent of the Group’s revenue. The segment result rose to 474 million euros, which corresponds to a segment result margin of 15.9 percent

We grew in all product categories. The reasons for that are mainly the reduction of emissions in vehicles with a combustion engine, as well as new convenience functions. As in previous years, the megatrends of electromobility and autonomous driving were two major growth factors.

The number of produced and registered vehicles with a plug-in hybrid or pure electric drive is continuing to rise sharply, especially in China.

The increasing prevalence of driver assistance systems resulted in growing demand for our radar sensors and our microcontrollers from the AURIX™ family. Driver assistance systems are also becoming more popular in upper and lower midrange cars.

In addition, the number of radar sensors per car is rising, because more and more premium vehicles meet the requirements of autonomous driving level 2. Level 2 means partial automation with functions such as automatic parking, lane keeping and braking.

The focus is on our 77-Gigahertz radar solution, of which we sold around twice as many as the year before.

Incidentally, that's also a reason why we are currently expanding our factory in Regensburg, where we make radar chips.

There is also growing demand for our expertise in the field of IT security and the security controllers from the Chip Card & Security segment. We ensure a secure vehicle architecture and secure transfer of data – between the various systems on board and with other vehicles and the infrastructure.

IT security is vital to the connected car of the future and offers growth opportunities for Infineon.

With its more than 40 years of experience and the industry's most extensive portfolio of power semiconductors, sensors and microcontrollers, Infineon is a leading supplier for automotive electronics.

That's also demonstrated in our close cooperation with our customers. We are working on the car of the future together with manufacturers and their suppliers. For example, Volkswagen launched a strategic semiconductor program in 2017 and chose Infineon as its first cooperation partner.

Infineon is benefiting especially strongly from the trends of electromobility and autonomous driving. These trends will account for around half of our growth in the Automotive segment in the next five years.

Let us move on now to the Industrial Power Control segment, where Infineon posted revenue of 1 billion, 206 million euros, 13 percent more than the previous year. The segment result was 183 million euros. It thus rose by 38 percent, giving a segment result margin of 15.2 percent.

IPC's largest business area remains industrial drives, for instance, for factory automation.

The greatest increase in revenue comes from the field of domestic appliances. Reasons for that were:

- First, strong demand for air conditioners in Asia and Eastern Europe,
- Second, the increase in the share of goods we supply to important Asian customers, and
- Third, the increasing use of inverter-controlled motors in washing machines and refrigerators, where we are successful with our compact, highly integrated IGBT modules.

The second largest contribution to the increase in revenue was made by components for renewable energies, in other words, wind and photovoltaics. That was mainly attributable to the installation of new wind and solar farms in China, where the high expansion targets are supported by government measures.

Two figures from the field of photovoltaics are remarkable in this respect: For one thing, 2017 could be a record year for China, as a result of the installation of new solar farms with a total output of more than 40 gigawatts.

For another, a pleasing aspect for Infineon is that our revenue from photovoltaics has risen by around 70 percent in two years.

The other applications – such as train systems, uninterruptible power supplies, power transmission and industrial vehicles – continue to deliver stable revenue.

Let us turn our attention to the Power Management & Multimarket segment. Revenue rose to 2 billion, 148 million euros, an increase of 5 percent. The segment result was 427 million euros, a rise of 21 percent, giving a segment result margin of 19.9 percent.

Infineon is the clear number one in the global MOSFET market, in other words, also modules up to 900 volts. Apart from leading transistor technologies, our broad portfolio also includes the relevant drivers and controllers. Crucial factors here are maximum

energy efficiency and power density, but also the fact that Infineon offers solutions from a single source in which the components work together in harmony. PMM's products set standards here.

Our OptiMOS™ power transistors for voltages from 40 to 200 volts are benefiting from the growing number of applications with DC/DC motors, such as for drills, cordless screwdrivers, robotic vacuum cleaners, hedge trimmers, power saws, lawnmowers, e-bikes and drones.

Another important application area in the low-voltage range are power supplies for servers. Infineon is excellently positioned here with the system solution for digital power management regulation. It enables great efficiency under both low and high loads. Here too, customers appreciate solutions from a single source that work well.

Our very successful CoolMOS™ family for higher and high voltages in the range from 400 to 900 volts is mainly used in power supply units of servers and notebooks. While the market for notebooks is hardly growing any more, we see great potential at data centers as a result of big data and applications in the field of artificial intelligence.

A further growth field is sensors. A clear focus is currently mobile devices, but there are also other devices such as virtual personal assistants. We are well positioned here with our portfolio. For example, we have also offered our silicon microphones in their own package since last summer. That means we can calibrate the package and membrane ideally to each other and thus increase sensitivity.

That offers advantages in smartphones and voice-controlled devices. Our technology doubles the distance at which the microphone can capture a user's voice commands cleanly. These features mean we can participate in the undiminished demand for smartphones on the one hand, but also open up new growth fields for us on the other. Our strategic partnership with XMOS, which I have just spoken about, should be seen against that backdrop.

Finally, we come to the Chip Card & Security segment. Its revenue improved by 1 percent to 708 million euros. The segment result decreased to 124 million euros, resulting in a segment result margin of 17.5 percent.

As in the previous year, business with government documents has continued to grow. More and more countries are introducing chip-based documents, and we also benefit from replacement business as a result.

The market for payment cards performed a little weaker than forecast. Revenue was still virtually at the same level as in the previous year.

The development of our embedded SIM solution, which is mainly used for eCall applications in vehicles, is encouraging. Infineon is benefiting here from the statutory requirement that all new cars in Europe must have an emergency call function as of March 2018.

One especially pleasing piece of news in the past fiscal year: Infineon is again the world's number one for security controllers. That is evidenced by the figures from the market research institute IHS Markit. This was also achieved through growth in distribution business. Smaller customers often need complete solutions from us, including software, because they don't have the expertise – another good example of our “From Product to System” concept.

Ladies and gentlemen, as you can see: Our four segments held their own very successfully in their different markets. The common feature of all these markets is that they promise sustainable profitable growth. Together with our customers, we develop solutions that make life easier, safer and greener.

Infineon has grown again. We even raised our targets during the fiscal year and achieved them, too.

[Dividend recommendation]

Our shareholders should benefit appropriately from this success: In view of the fiscal year 2017, the Management Board and Supervisory Board therefore recommend another increase in the dividend.

At the upcoming Annual General Meeting on February 22, 2018, we will therefore propose a payment of 25 euro cents per share, or an increase of almost 14 percent.

[Outlook for the first quarter and the entire 2018 fiscal year]

This brings me to my outlook for this fiscal year.

In the first quarter of the fiscal year 2018 we expect a typical seasonal decline in revenue by around 2 percent compared to the previous quarter with a possible deviation of plus or

minus 2 percentage points. At the mid-point of the revenue guidance, the segment result margin is expected to be 15 percent.

For the fiscal year 2018, we expect a year-on-year increase in revenue of around 9 percent, with a deviation of plus or minus 2 percentage points. The segment result margin is expected to be 17 percent at the midpoint of our revenue guidance.

This forecast assumes an average exchange rate of the euro to the U.S. dollar of 1.15.

As you know, a weaker dollar is a challenge for us. So let me anticipate one question right away in order to put the figures into the right perspective: How would revenue develop given a stronger dollar?

The answer is: If the exchange rate remained unchanged compared to the average figure for the previous year, we would grow more strongly than in the fiscal year 2017, in other words, even by double digits. But that is masked by the currency effects.

As regards the individual segments, we expect revenue growth at Automotive to be well above the Group average. Growth at the Industrial Power Control and Power Management & Multimarket segments should be slightly below the Group average. In view of the difficult market situation at present, we anticipate that revenue for Chip Card & Security should remain about flat.

We can cope with our strong overall growth because we are well-positioned with our manufacturing strategy and – unlike some competitors – have the required capacities.

Now I would like to turn to investments. Investments in property, plant and equipment, intangible assets and capitalized development costs in the region of 1.1 and 1.2 billion euros are planned for the 2018 fiscal year. Given this high growth, their relation to forecast revenue is therefore around 15 percent.

We are thus exceeding our target of 13 percent of revenue, which, however, applies to growth of 8 percent after adjustment for the dollar. Since we are growing especially fast due to the high level of demand for power semiconductors, such as for electromobility, we need higher investments in manufacturing capacities.

This also includes speeding up expansion of our 300mm thin wafer manufacturing in Dresden.

The global semiconductor market will continue to grow in fiscal year 2018. With our growth forecast of around 9 percent for the current fiscal year, we are above the growth figure forecast for 2018 of around 5 percent for the semiconductor market as a whole.

Infineon remains on a sustainable, profitable growth path.

[Strategic approach]

Our customers decide in favor of Infineon because we stand for top quality, reliability and technology leadership. We solve their problems. In view of the global megatrends, our core competences are in greater demand than ever before.

In conclusion, I would briefly like to look at two strategic aspects: new technologies based on compound semiconductors and the increasing importance of software expertise – in line with our “From Product to System” strategy.

Infineon is one of the world’s leading semiconductor companies. And we aim to make sure things stay that way. To continue to be well equipped for the future, we are building up additional expertise.

One focus of that is on the compound semiconductors silicon carbide and gallium nitride.

Silicon carbide has now achieved the breakthrough as a basic technology for power transistors. In fiscal year 2017, we generated revenue from our silicon carbide MOSFET for the first time. We are continuing on this path and expanding our portfolio step by step.

We are also working on qualifying it for use in electric vehicles. Onboard chargers and main converters will become more compact, lighter and more efficient thanks to silicon carbide. That means a car can run the same distance on a battery that is reduced in size – an extremely important factor for the success of electromobility.

The growing prevalence of e-vehicles also necessitates a recharging infrastructure for them. Infineon supplies power modules based on silicon carbide for ultra-fast recharging and is involved in important projects in China and Europe.

We have also made major progress with gallium nitride. We launched the first products from our CoolGaN™ family and generated revenue from them in the past fiscal year. These chips are used in high-performance power supply units for data centers, for example. The latter can be built more cost-efficient and compactly and use far less

electricity thanks to our products. Those are crucial arguments at data centers with up to 40,000 servers and the power requirements of a small town.

When switching to compound semiconductors, our customers typically have to adapt their system architecture. We help them do that.

Once more, the “From Product to System” strategy pays off here. We understand our customers’ systems and the requirements of their markets. That means we can develop and tailor our semiconductors specifically to their needs.

Technological advances mean that systems are changing – and that calls for new competences. That impacts how we implement our strategy. As digitalization increases, we have to understand the algorithms of our customers’ systems. That requires software expertise.

We have built up the requisite know-how in the past years and also ship our chips – where it makes sense and is necessary – with the relevant software.

One example of that is the second generation of our digital motor controller platform iMOTION™ for small- and medium-power motors in industrial devices and domestic appliances. We also combine it with our power semiconductors and logic chips for controlling to create a highly compact solution. In addition, we supply iMOTION™ as standard with a development kit, including software. Our customers only need to define a few parameters to complete the programming.

That means lower system costs, less development overhead and shorter development times for our customers, in other words, a quicker time to market coupled with a high level of reliability.

We are and will remain a hardware company. As part of digitalization, however, we are expanding our system know-how in the field of software and offer relevant solutions.

[Summary]

To summarize, ladies and gentleman,

- › First: We met our raised forecast for the past fiscal year, despite the increasing headwind from the weaker US dollar. We are very satisfied with the fiscal year 2017.

- › Second: Infineon is continuing to grow. Our growth is based on different, stable pillars. Infineon operates in growth markets that continue to hold out the promise of success. They include electromobility, autonomous driving, renewable energies and efficient use of electricity, mobile communications and data security. Semiconductors are the crucial link between the digital and real world.

We aim to grow faster than the market in the current fiscal year – despite the headwind from the weaker dollar.

- › Third: We are investing in our manufacturing and expanding our capacities in order to cater for rising demand for power semiconductors and sensors.
- › Fourth: We set store by new technologies and are expanding our portfolio in the field of silicon carbide and gallium nitride. We are rigorously developing our “From Product to System” strategy further by also expanding our expertise in the field of software. We already offer our customers relevant solutions.

Ladies and Gentleman, Infineon is growing. Our headquarter is a vivid example. The construction works for the new office building at Campeon are close to completion. In the beginning of 2018, 800 new workplaces will be available. If you leave the Kubus and turn left, you can get an impression of the construction site.

Infineon is growing faster than the marke and Infineon is growing profitably. For the fourth fiscal year in a row. We deliver what we promise. And believe me: We are up to much more.

Thank you for your attention. Together with my Management Board colleagues I will now take your questions.