

Annual Report 2020 Infineon Technologies AG





Content

- 2 Infineon key data
- 3 Infineon at a glance
- 4 The segments
- 5 Our year at a glance
- 6 Management Board and Supervisory Board
- 6 Letter to shareholders
- 11 The Management Board
- 12 Report of the Supervisory Board to the Annual General Meeting

21 Business focus and strategy

- 21 Business focus
- 23 Growth drivers
- 33 Group strategy
- 43 Human Resources strategy

45 Combined Management Report

Our Group

- 46 Business model and finances
- 53 The segments
- 76 Research and development
- 84 Manufacturing
- 89 Internal management system
- 92 Sustainability at Infineon
- 93 The Infineon share

Our 2020 fiscal year

- 96 Group performance
- 107 Report on outlook, risk and opportunity
- 123 Overall statement on Infineon's financial condition
- 124 Infineon Technologies AG
- 126 Corporate Governance

143 Consolidated Financial Statements

- 144 Consolidated Statement of Profit or Loss
- 144 Consolidated Statement of Comprehensive Income
- 145 Consolidated Statement of Financial Position
- 146 Consolidated Statement of Cash Flows
- 147 Consolidated Statement of Changes in Equity
- 148 Notes to the Consolidated Financial Statements

228 Further information

- 228 Responsibility Statement by the Management Board
- 229 Independent Auditor's Report
- 236 Applications and product range
- 240 Chart overview
- 241 List of abbreviations
- 241 Financial calendar
- 242 Imprint

Navigation in the report per mouse click

- ← Last page viewed
- **Q** Search
- Main table of contents
- < Previous page</pre>
- > Next page

Further information

- Page reference
- LL Chart reference
- 🖵 Reference to external documen
- This interactive pdf is optimized for use with Adobe Acrobat.

Infineon key data

As of and for the fiscal years ended 30 September (under IFRS)¹

Fiscal year from 1 October to 30 September	2020		2019		2020/2019
	€ in millions	in % of revenue	€ in millions	in % of revenue	Change in %
Revenue by region	8,567		8,029		7
Europe, Middle East, Africa	2,322	27	2,430	30	(4)
therein: Germany	1,056	12	1,169	15	(10)
Asia-Pacific (excluding Japan, Greater China)	1,291	15	1,187	15	9
Greater China	3,174	37	2,769	35	15
therein: Mainland China, Hong Kong	2,472	29	2,159	27	14
Japan	765	9	593	7	29
Americas	1,015	12	1,050	13	(3)
therein: USA	845	10	862	11	(2)
Revenue by segment	8,567		8,029		7
Automotive	3,542	41	3,503	44	1
Industrial Power Control	1,406	17	1,418	18	(1)
Power & Sensor Systems	2,650	31	2,445	30	8
Connected Secure Systems	953	11	642	8	48
Other Operating Segments	16	0	21	0	(24)
Corporate and Eliminations	-			_	
Gross profit/Gross margin	2,776	32.4	2,994	37.3	(7)
Research and development expenses	(1,113)	13.0	(945)	11.8	18
Selling, general and administrative expenses	(1,042)	12.2	(865)	10.8	20
Operating income	581		1,161		(50)
Income from continuing operations	372		889		(58)
Gain (loss) from discontinued operations, net of income taxes	(4)		(19)		79
Net income	368		870		(58)
Segment Result/Segment Result Margin	1,170	13.7	1,319	16.4	(11)
Property, plant and equipment	4,110		3,510		17
Total assets	21,999		13,581		62
Total equity	10,219		8,633		18

Fiscal year from 1 October to 30 September	2020	2019	2020/2019
	€ in millions	€ in millions	Change in %
Net cash provided by operating activities from continuing operations	1,817	1,603	13
Net cash used in investing activities from continuing operations	(7,172)	(2,488)	188
Net cash provided by financing activities from continuing operations	6,274	1,167	438
Free cash flow ²	(6,727)	39	(17,349)
Depreciation and amortization	1,260	945	33
Investments ²	1,099	1,451	(24)
Gross cash position ²	3,227	3,779	(15)
Net cash position ²	(3,806)	2,223	(271)
Basic earnings per share in €	0.26	0.75	(65)
Diluted earnings per share in €	0.26	0.75	(65)
Adjusted earnings per share in € – diluted ³	0.64	0.89	(28)
Dividend per share in € ⁴	0.22	0.27	(19)
Equity ratio	46.5%	63.6%	
Return on equity ⁵	3.6%	10.1%	
Return on assets ⁵	1.7%	6.4%	
Inventory intensity ⁵	9.3%	12.5%	
Debt-to-equity ratio ⁵	68.8%	18.0%	
Debt-to-total-capital ratio ⁶	32.0%	11.5%	
Return on Capital Employed (RoCE) ²	3.0%	12.2%	
Infineon employees as of 30 September	46,665	41,418	13

1 Columns may not add due to rounding.

2 See the chapter "Internal management system" for definition, D p. 90 f.

3 See the chapter "Review of results of operations" for definition, 🗅 p. 100.

4 A dividend per share of €0.22 for the 2020 fiscal year will be proposed to the Annual General Meeting on 25 February 2021.

5 See the chapter "Review of financial condition" for definition, 🗅 p. 101.

6 Debt-to-total-capital ratio = long-term and short-term debt divided by total assets.

2

Business focus and strategy

Combined Management Report

onsolidated Financial Statements

Infineon at a glance

Infineon Technologies AG is a world leader in semiconductor solutions that make life easier, safer and greener. Microelectronics from Infineon is the key to a better future. In the 2020 fiscal year (ending 30 September), the Company reported sales of approximately €8.6 billion with some 46,700 employees worldwide. Infineon is listed on the Frankfurt Stock Exchange (ticker symbol: IFX) and in the USA on the over-the-counter market OTCQX International Premier (ticker symbol: IFNNY). #8 in the entire semiconductor market source: Omdia, March 2020.

#3 in microcontrollers Source: Omdia, March 2020.

46,700 employees

Part of your life. Part of tomorrow.

The segments

Automotive



🗅 p. 55

Key customers¹

Aptiv / Bosch / BYD / Continental / Delphi / Denso / Hella / Hitachi / Hyundai / Keihin / Lear / Mando / Mitsubishi Electric / Preh / Valeo / Veoneer / Vitesco / ZF

Market position²

#1 with a market share of 13.4% for automotive semiconductors (including contribution from Cypress) Source: Strategy Analytics, April 2020

#3 with a market share of 19.5% for NOR Flash memory ICs Source: Omdia, March 2020

Industrial Power Control



🗅 p. 60

Key customers¹

ABB / Alstom / Bombardier / CRRC / Danfoss / Eaton / Emerson / Goldwind / Inovance / Midea / Nidec / Rockwell / Schneider Electric / Semikron / Siemens / Sungrow / Toshiba / Vestas / Yaskawa

Market position²

#1 with a market share of 35.6% for IGBT modules Source: Omdia: Power Semiconductor Market Share Database 2020. September 2020

#3 with a market share of 11.5% for IPMs Source: Omdia: *Power Semiconductor Market Share Database 2020*. September 2020

Power & Sensor Systems



🗅 p. 65

Key customers¹

Airbus / Alibaba / Amazon / Artesyn / Baidu / Boeing / Cisco / Dell / Delta / Ericsson / Google / Hewlett Packard Enterprise / HP / Lenovo / LG Electronics / Lite-On / Makita / Nokia / Osram / Panasonic / Quanta / Samsung / ZTE

Market position²

#1 with a market share of 24.6% for power MOSFETs

Source: Omdia: Power Semiconductor Market Share Database 2020. September 2020

#1 with a market share of 43.5% for MEMS microphones Source: Omdia, October 2020

Connected Secure Systems



🗅 p. 70

Key customers¹

Bang & Olufsen / Brother / Fitbit / Giesecke & Devrient / Google / HP / Idemia / Lenovo / Microsoft / Nintendo / Raspberry Pi / Thales / US Government Publishing Office / Watchdata

Market position²

#1 with a market share of 26.3% for secure ICs (excluding NFC controller and NFC embedded Secure Element) Source: ABI Research, October 2020

#5 with a market share of 9.8% for Wi-Fi ICs (standalone ICs only) Source: ABI Research, July 2020

Major distributions customers¹

Arrow / Avnet / Intron / Jingchuan / Macnica / Nexty / Rutronik / Weikeng / WPG Holding (SAC)

Please find a detailed presentation of the segments' target applications and product range in the chapter "Applications and product range", 🗋 p. 236 ff.

1 In alphabetical order.

2 All figures for 2019 calendar year. The market share of the five largest competitors is shown in the "Market position" section of the relevant segment. The figures provided in those sections with respect to changes in market share relate to the 2019 and 2018 market share figures as calculated in 2020. Due to changes in the way the market is analyzed, these figures may differ from the 2018 market share figures reported in 2019.



TARGET Carbonneutral by 2030¹

SEGMENT RESULT AND MARGIN

€ **1.170** billion ≙ **13.7**

percent

 More information is available in our sustainability report.
 www.infineon.com/csr_reporting

Infineon Technologies | Annual Report 2020

The 2020 fiscal year was shaped by two major events: the outbreak of the coronavirus pandemic in the middle of our fiscal year and the completion of our acquisition of Cypress in April 2020.

With the largest acquisition in our corporate history, we have become the eighth largest semiconductor company in the world and number one in Europe. We are continuing to focus on structurally fast-growing markets. With Cypress, we have significantly increased our expertise in system solutions, especially for the IoT.

At Infineon, we define success not only by the targets we achieve, but by the path we take to get there. Sustainability plays a key role in our thoughts and actions. We have therefore set ourselves the target of becoming carbon-neutral by 2030. Our interim goal is to reduce our carbon emissions by 70 percent by 2025, compared with 2019. Our high sustainability ratings and our inclusion in sustainability indices are both our reward and our motivation.

Letter to shareholders

Neubiberg, November 2020



Dr. Reinhard Ploss Chief Executive Officer

Dear shareholden and turiness partners, dear brafmeon colleagues,

2020 will go down in history as the year of the coronavirus. The pandemic has unleashed an unprecedented crisis. Our company has successfully weathered the storm with the combined forces of all our employees – and so I would like to take the opportunity right here, in the name of the entire Management Board, to express a huge THANK YOU to our team, who have done a great job. Despite considerable hurdles, we have stood together to keep Infineon on track! The year of the coronavirus has been a milestone for us in many ways. Not only did we cope well in operational terms with the downturn, achieving a respectable result in an extremely challenging environment due to our solid starting position. We were also able, with the completion of the acquisition of Cypress and its largely completed refinancing, to set our course for the future; a future, which the coronavirus pandemic has caused to move significantly closer to the present in terms of digitalization. We believe we are wellequipped to shape this future, not only for Infineon, but also for society at large. We want to contribute to a future which has humans and their environment at its heart.

The pandemic struck the semiconductor industry at a time when we were beginning to see signs of improvement in the economic situation after a difficult 2019. There were no pre-formulated action plans to deal with the global threat of the novel SARS-CoV-2 virus. Also at Infineon, we had no such plans, nor do we need them, as everyone in the company has shouldered the responsibility of doing the right thing, taking rapid and independent action, and that is just how we are organizing ourselves, so that the key issues can be managed centrally. The top priority was and is protecting the health of our employees and business partners. We have succeeded in keeping the infection rate in our global workforce very low through numerous health and safety measures, continuous information and communication, an almost complete cessation of business travel since March, and extensive hygiene plans. For office workers, the transition to working from home happened virtually overnight. Our IT specialists managed to set up the necessary infrastructure in a few days. Management Board and Supervisory Board Letter to shareholders Business focus and strategy

For weeks, we had up to 23,000 colleagues worldwide working from home, with up to 60,000 telephone and video conferences and up to 36,000 accesses to the network daily. We quickly had to learn new ways of working together. It soon became clear that many things functioned at least as efficiently online and digitally as they did in physical meetings, although some did not. Based on this experience, we are currently devising a new way of working, but we are aware that we still have much to learn. The situation is of course different for our factory workers. We are proud that we have been able to keep operations going at all our major manufacturing sites almost without interruption. Even in countries hit particularly hard by the pandemic, such as China, Malaysia, Mexico and the Philippines, we have been able to comply with the strict official regulations, which were necessary for us to maintain operations. Interdisciplinary optimization and flexibility were the key success factors in keeping tabs on idle costs and achieving our potential revenue: constant reassessment of demand scenarios, adjustments to the manufacturing program across segments and sites, new routes along the logistics chains. Customer satisfaction is crucial for us even in this difficult phase and we are pleased with the feedback we have received that customers value our prudent and proactive actions. In addition to protecting the health of our employees and continuing our business operations, it is important for Infineon to contribute to the society and so to be part of it. We have supported or launched more than 20 projects to alleviate the impact of the pandemic, donating several hundred thousand euros. Supplying power electronics for ventilators is one of the ways in which we have been able to provide support through our products.

Of course, our business is not immune to a profound crisis of historic dimensions. Yet the efforts described above have resulted in us being able to limit the decline in revenue and profit seen in some of our core areas. In the previous fiscal year, we generated revenue of almost €8.6 billion. This includes around €850 million from the consolidation of Cypress from mid-April. If we look at our former Infineon business, we generated a bit above €300 million less revenue than in the 2019 fiscal year. The automotive industry in particular has been hit hard by the impact of the coronavirus pandemic. In the spring, the number of vehicles produced in all regions plummeted, the result of a simultaneous shock to supply and demand. Although there were noticeable signs of recovery only a few months later and in some countries such as China even a V-shaped recovery to levels above pre-crisis became apparent, market researchers are nevertheless predicting that 2020 will see a reduction in global vehicle production of around 20 percent. However, even in the crisis, it is true that the semiconductor content per vehicle is continuing to rise, which implies that the reduction in the number of vehicles produced had less impact on semiconductor manufacturers. This will help the future development of our business, even in case of a weak evolution of the automotive production. Our industrial business proved quite stable. Here, we were able to offset declining demand for industrial drives and traction with our unique product expertise in emerging application areas, such as the generation of renewable energy from solar and wind power. Our products for data centers and communication networks, in turn, even benefitted from some of the effects of the pandemic or, to put it another way, they became part of the arsenal used to combat the crisis. Work, education, entertainment and shopping all moved into the virtual world, stimulating growth. Certain security-related applications, such as contactless payment, also saw an increase in demand.

All in all, we were quite successful at defying the very severe economic downturn, which has led in many countries to the worst recession in post-war history. Infineon's business is very robust thanks to our consistent focus on the structural growth drivers in the areas of energy efficiency, mobility, security, and IoT & big data. This is also clear if we look at our earnings situation. With a Segment Result Margin of 13.7 percent, we were able to safeguard our profitability despite the particular challenges of 2020. In every single quarter, we were able to generate a positive Segment Result. This is also due to the numerous measures we implemented immediately. Of crucial importance was rigorous production management in order to optimize delivery to customers and inventory levels while minimizing underutilization charges. The measures introduced included short-time work, postponing salary increases or suspending them in the case of the Management Board and top management, and adjusting our levels of investment. We were therefore also able to generate a strong cash inflow from our business.

Management Board and

Supervisory Board Letter to shareholders Business focus and strategy

Without taking into account the effects of the acquisition of Cypress, our free cash flow was in excess of €900 million. In addition to concentrating on the here and now. our clear objective was to implement our forward-looking projects successfully despite our comprehensive hiring freeze, which we have managed to do because of the focus and outstanding commitment of our teams.

In the second half of the fiscal year, the former Cypress businesses were already making significant contributions to revenue development, safeguarding profitability and generating cash flow. However, Cypress is more than the expected short-term financial success. Rather, Cypress is an important step in our strategic "Product to System" approach (P2S). As a result, we can offer our customers complete solutions. With our leading products, comprehensive portfolio and application expertise, now enhanced significantly by software, we enable our customers to develop successful products in a short period of time.

At the beginning of June 2019, we signed the purchase agreement for Cypress. On 16 April 2020, just under a year later, we were able to close the transaction, having obtained all the regulatory approvals. It is now up to us to make the biggest acquisition in our company's history a success. There is enormous potential in the merging of the portfolios and skills of the Cypress and Infineon teams. From the combination of microcontrollers, sensors, connectivity components, power semiconductors, memories for specific applications, and security solutions together with software and the appropriate development environment for all programmable components emerges an extensive joint portfolio for the IoT and for automated driving, and also to develop products that consume less energy. We are seeing many "things" becoming ever smarter and more connected, while completely new applications with considerable additional benefits are emerging. What we are seeing today is just the beginning.

Enthusiasm for creating something that solves problems and makes life better, connecting the real world and the digital world, is a key factor in the successful integration of the two companies "at a distance". It is impressive to see how, within just a few weeks, roadmaps have been agreed in video conferences and the first synergy projects have been launched.

Our success also comes from good preparation undertaken in the period between signing and closing of the transaction and from our experience in the past with the integration of International Rectifier. The individual steps have been meticulously planned. At the beginning, we slowed down things a little, as business continuity and our customers remain the priority. Nevertheless, Cypress' production sites were included from Day 1 in Infineon's manufacturing cluster, and the other parts of the organization followed or are now following gradually. Certainly, the coronavirus pandemic is not making things any easier, but, in a year's time, it will no longer be possible to identify whose roots are where. In contrast, the full integration of the IT systems will take some time, as is normal and to be expected.

Despite the challenging constraints, we are on track with the targets we set ourselves in relation to the Cypress acquisition. On the cost side, we want to achieve annual cost synergies of €180 million within three years of the business combination. A number of specific potential cost savings have been identified and some have already been implemented. However, the real financial attractiveness of the combination will come from revenue synergies, which we estimate will be more than €1.5 billion per year in the long-term. In the short-term, we are counting on broader customer access and on cross-selling, and we are already seeing the first encouraging results:

- > One of Infineon's longstanding automotive customers is now using NOR Flash memory ICs from Cypress for their electronic steering systems.
- > A customer opted for a system solution for a new generation of home appliances comprising a microcontroller from the PSoC[™] family of Cypress and an intelligent power semiconductor module from Infineon.
- > In an IoT wireless charging device for cell phones, tablets or laptops, which already contains MOSFETs, drivers and security ICs from Infineon, Bluetooth and USB components from Cypress are now also being used.

The opportunities are great, but so are the challenges. Today, Infineon's segments are organized by market. Even before the acquisition of Cypress, the boundaries between the segments were beginning to dissolve. With this major step towards systems orientation, we will need to come to grips with a complex world in the future.

8

Management Board and

Supervisory Board Letter to shareholders Business focus and strategy

In addition to product and market orientation, we will be working together across segments on applications. We are convinced that we will master this and that it will turn into a success factor for us, just as our corporate culture already is today.

The organizational integration of Cypress is taking place based on the market and product focus of the segments: Automotive has expanded to include microcontrollers for automotive applications and memories for specific applications; USB components have been included in the renamed Power & Sensor Systems segment; Wi-Fi and Bluetooth products for wireless communication and microcontrollers for general applications have been combined with our security solutions in the greatly expanded Connected Secure Systems segment, also renamed. As is already the case today, the application areas will be managed across segments.

As the integration progresses and as we generate synergies, we want to reach the target set out in our updated target operating model, which is to achieve average revenue growth over the cycle of more than 9 percent per year with a Segment Result Margin of 19 percent. Capital intensity will decrease as a result of the high share of contract manufacturing at Cypress. Our target for the invest-to-sales ratio is 13 percent.

Infineon is not only able to carry out a long-term strategy successfully, but also to complete projects in task force mode. Our finance team has demonstrated this, executing two major transactions in quick succession in a capital markets environment strongly impacted by pandemic uncertainty, and thereby swiftly implementing the previously announced refinancing plan for the acquisition of Cypress. At the end of May 2020, we generated proceeds of just over €1.0 billion from an increase in share capital, which taken together with the two equity measures carried out in the 2019 calendar year, a first increase in share capital and the issue of a hybrid bond, form the basis for our investment grade rating. In June 2020, we repaid in full the bridge loan used to finance the acquisition by issuing €2.9 billion of bonds with maturities of up to twelve years. Infineon now has a balanced maturity profile for its financial debt until 2032, with low financing costs. While maintaining our strategic liquidity target, we are determined to reduce our debt over the next few years. In September 2020, we therefore repaid US\$555 million of the long-term bank loans from the acquisition

financing early and in October 2020 we repaid the remaining amount of our Campeon financing of €171 million. We also want to continue our dividend payments. At the same time, we want to take a prudent approach, considering the serious economic impact and ongoing risks of the coronavirus pandemic and maintaining appropriate financial headroom. In addition, the number of shares entitled to receive a dividend has increased by around 4 percent as a result of the capital increase mentioned. Therefore, we will propose to the Annual General Meeting the payment of a dividend of 22 cents per share for the coronavirus year 2020, a reduction of 5 cents. The percentage decline of the total dividend amount, which would go to €286 million after €336 million for the previous year, would therefore be lower than the percentage reduction of the dividend per share.

Let us now venture a glimpse into the future. The virus has made us aware of the vulnerability of the globally networked world, but also of the opportunities of digital technologies. Currently we are at a stage where we have all been deeply affected by the pandemic. It has resulted in sudden and profound upheavals, human tragedies and economic disruptions, but the call for reconstruction, for making a new start, is loud. Linking that new start with greater sustainability makes sense. We must look to the future in the way we invest. Sustainability has long been a guiding principle at Infineon. Our goal is to use our technologies to help make more with less and to shape a more resource-efficient and livable future. We do not know what the future will look like, but some things are clear. The shift towards electric vehicles is accelerating; the proportion of renewables in the energy mix will continue to increase, partly because during the crisis many people have come to appreciate the value of better air quality; digitalization has been given a tremendous boost in all areas of life, because much of what we started in a hurry has proved to be unexpectedly good. Working from home, for example, has triggered one of the biggest changes to the world of work since industrialization. The basis for digital transformation is an accelerated expansion of communications infrastructure and data center capacity, thus enabling, in turn, a far wider range of useful new applications in the Internet of Things. However, demand for the protection of application-critical and personal data is also increasing as a result.

Management Board and Supervisory Board Letter to shareholders Combined Management Report

The acquisition of Cypress will greatly strengthen us on our road to success. We are also working hard on continuing to develop our core competence, power semiconductors. This is one of the main pillars of our economic success and likely to remain so for a long time to come. Compound semiconductors made from SiC and GaN are an important topic for the future. In the previous fiscal year, we expanded our range of MOSFETs based on SiC to include additional voltage classes and launched the new types of the 650 volt and 1,700 volt CoolSiC[™] MOSFET family. We expect to take a major step forward with this technology when we introduce Siltectra splitting technology into volume production. We are making good progress on this front. Our revenue from SiC products has risen rapidly over the past few years to over €80 million and we are expecting this strong momentum to continue. In addition to our technology, we differentiate ourselves from the competition through our manufacturing technology. A significant milestone here is our second 300-millimeter factory for power semiconductors in Villach (Austria). Despite the unfavorable constraints, we have made good progress with construction and are planning to start production at the end of the 2021 calendar year, depending on market developments. In conjunction with our Dresden (Germany) factory and based on our "One Virtual Fab" concept, we will create a unit, which can offer greater flexibility and better economies of scale. A win-win situation for us and for our customers.

In front of us is an exciting "Year 1" following our acquisition of Cypress. We can see recovery trends in some of our target markets, but no broadly-based upturn yet. The market environment remains challenging and associated with great macroeconomic uncertainty. Even if we have found ways to live with the pandemic, there may still be negative repercussions, as exemplified by the recent weeks in Europe. In any case, the essential thing will be to recognize and adapt to very fast-moving market developments. Currently, we expect to generate annual revenue in the 2021 fiscal year of €10.5 billion, plus or minus 5 percent. At that level of revenue, we expect to achieve a Segment Result Margin of around 16.5 percent; a higher utilization of our manufacturing capacities and progress with the integration of various functional areas will help us increase our profitability. We plan to make investments of between €1.4 billion and €1.5 billion and we assume that momentum will continue to be positive in the following year, as our growth drivers are intact. In the long-term, we see risks in an intensification of international trade conflicts, especially the technology dispute between the USA and China, which are already having a negative impact today.

They have the potential to change the competitive landscape significantly. As a company with global operations, we are greatly concerned about the tilt towards isolationism, unilateral protectionism and unilaterally strengthening domestic industries. In light of this, Europe must find an independent way to shape the digital transformation in accordance with its democratic values. To do so, it needs to have the courage to forge ahead, try things out and learn. Our team show us every day that innovation is possible in Europe and in Germany, just as they show us that innovation is of benefit to us and to society.

Our business activity is based on long-term benefit and evolutionary development. This also applies to the sustainability of our own value creation. Our products already make a significant contribution to CO₂ efficiency. Now we have also set ourselves the goal of becoming carbon-neutral by 2030. Our primary aim is to avoid emissions from our manufacturing operations and our energy supply. By 2025, we already want to have implemented 70 percent of the steps required. The targets relate to our own footprint and include not only all direct emissions, but also indirect emissions from electricity and heat. Regarding direct emissions, we will achieve the greatest own savings from PFC exhaust air abatement in our factories, for indirect emissions the biggest reduction will come from purchasing green electricity. To a lesser extent, we will offset emissions by purchasing certificates, which support development projects with an environmental and social benefit. Taking this action is in line with our corporate principles, but its importance will be underlined through the redesigned remuneration system for the Management Board devised by the Supervisory Board, which will be presented at the forthcoming Annual General Meeting. If we want to achieve sustainable success, we must actively shape change in every dimension.

Stay healthy and look to the future with confidence,

Surcenty Reihad 1.

Dr. Reinhard Ploss / Chief Executive Officer

The Management Board





Dr. Reinhard Ploss Chief Executive Officer

Reinhard Ploss has been a member of the Management Board of Infineon Technologies AG since 2007. He has been Chief Executive Officer since 1 October 2012, responsible for Segments, Group Strategy, Communications & Government Relations, Human Resources (Labor Director), Legal, Research and Development.

Reinhard Ploss was born on 8 December 1955 in Bamberg. He studied process engineering at the Technical University of Munich and received his doctorate in 1990. He began his career at Infineon in 1986 (Siemens AG until 1999).

Dr. Helmut Gassel Chief Marketing Officer

Helmut Gassel has been a member of the Management Board and Chief Marketing Officer of Infineon Technologies AG since 2016. He is responsible for Sales & Marketing, Regions, Strategy Development, Mergers & Acquisitions and Intellectual Property.

Helmut Gassel was born on 13 March 1964 in Dortmund. He holds a Diploma in physics from the Ruhr-University in Bochum. He received his PhD in electrical engineering from the University of Duisburg. He joined Infineon (Siemens AG until 1999) in 1995.



Jochen Hanebeck has been a member of the Management Board and Chief Operations Officer of Infineon Technologies AG since 2016. He is responsible for Operations, including Manufacturing, Logistics, Quality, Customs and Purchasing.

Jochen Hanebeck was born on 2 February 1968 in Dortmund. He received a degree in electrical engineering from RWTH Aachen University. He has been with Infineon since 1994 (Siemens AG until 1999).



Dr. Sven Schneider Chief Financial Officer

Sven Schneider has been a member of the Management Board and Chief Financial Officer at Infineon Technologies AG since 2019. He is responsible for Accounting & Reporting, Financial Controlling, Financial Planning, Investor Relations, Tax, Treasury, Audit, Compliance, Export Control, Risk Management, Business Continuity and Information Technology.

Sven Schneider was born on 21 March 1966 in Berlin. After completing a banking apprenticeship, he studied business administration (Diplom-Kaufmann) at the Universities of Regensburg, Nantes (France) and Trier. Subsequently, he received his doctorate in political science from the University of Trier. In 1995, he began his professional career at Linde AG in the finance department. From 2000 to 2019, he has held leading positions at Linde, most recently as Spokesman of the Executive Board, Chief Financial Officer and Labor Director. Combined Management Report

Consolidated Financial Statements

Report of the Supervisory Board to the Annual General Meeting



Dr. Wolfgang Eder Chairman of the Supervisory Board

denties and Gentleman,

The past fiscal year, and particularly the second half of it, was largely overshadowed by the impact of the coronavirus pandemic. Against this backdrop, above and beyond the prevailing corporate challenges, our foremost concern has always been to protect the health and the lives of everyone working for, and involved with, Infineon to the greatest possible extent. With this principle in mind, the Management Board has therefore attached particular importance to the well-being of the Infineon workforce from the outset and both initiated and promoted numerous projects aimed at mitigating the consequences of the pandemic. Ultimately, the actions of Infineon's management team are determined by the need to guide the company, in all its dimensions, safely through these extremely challenging times. Despite the difficult situation we currently find ourselves in, I am firmly convinced that Infineon is very well positioned. Indeed, there is much to suggest that we will emerge even stronger from this global health and economic crisis. This conviction is not only based on the fact that the Management Board and the entire Infineon workforce have so far been outstanding in their swift and convincing response to the challenges of the pandemic, but also to those arising in connection with geopolitical issues. Our optimism as we move forward is also reinforced by the fact that we successfully managed to get the strategically crucial acquisition of Cypress over the line despite the global health crisis. Although it makes absolute sense to steer a prudent course in the current conditions, it is also essential to continue taking forward-looking strategic decisions that will have a beneficial impact in the medium and long term. In any event, you can rest assured that Infineon's course for the future is being carefully charted.

Main activities of the Supervisory Board

During the 2020 fiscal year, the Supervisory Board once again performed its duties with the utmost diligence in accordance with the law, Infineon's statutes and the Supervisory Board's own terms of reference. It advised and monitored the Management Board in equal measure, soundly based on detailed written and oral reports presented by the Management Board at Supervisory Board and committee meetings regarding all issues relevant to the company, particularly corporate strategy and planning, business performance, financial position, risk profile, risk management and compliance. The Management Board also addressed variances from business planning arising in the course of the twelve-month period under report. In the 2020 fiscal year, these variances were largely attributable to the pandemic and its impact on the economy. In view of the fast-moving dynamics of the situation and to ensure that the Supervisory Board was kept informed on a timely basis, extraordinary meetings were held at frequent intervals between the ordinary meetings, at which the Management Board provided the latest information on the current business situation. The Supervisory Board always had ample opportunity to critically examine the reports presented and resolutions proposed by the Management Board and was thus able to satisfy itself that the governance of Infineon's corporate affairs was lawful, compliant and appropriate.

Business focus and strategy

Combined Management Report

Consolidated Financial Statements

The Supervisory Board was provided with written quarterly reports on Infineon's business performance, key financial data, risks and opportunities and major areas of litigation as well as other individual topics of importance. Between quarterly reports, the Management Board also provided additional information in the form of monthly reports on current business performance and developments.

As Chairman of the Supervisory Board, I was also in regular contact with both the Chairman (CEO) and the other members of the Management Board between meetings in order to discuss issues such as strategy, business performance and liquidity. The CEO kept me informed of events of significance for Infineon whenever the need arose, including outside of the regular Supervisory Board meetings.

In the 2020 fiscal year, the full Supervisory Board convened nine times (five ordinary and four extraordinary meetings). Five of these meetings were held in the form of conference calls. Two resolutions were passed on the basis of written communication. Overall, the attendance rate at Supervisory Board meetings was just under 100 percent; Dr. Eichiner was excused from attending one meeting. The attendance rate at the Supervisory Board's committee meetings was also close to 100 percent; Ms. Engelfried was excused from attending one meeting of the Investment, Finance and Audit Committee. Details of the individual attendance record of Supervisory Board members are provided in the Statement on Corporate Governance.

www.infineon.com/declaration-on-corporate-governance

In preparation for ordinary Supervisory Board meetings, separate preliminary meetings were held for both the shareholder representatives and the employee representatives. The Supervisory Board also convened regularly without the presence of Management Board members.

Corporate strategy; coronavirus pandemic; Cypress acquisition and (re-)financing

The Infineon Supervisory Board remains committed to providing the Management Board with intensive support in the development and implementation of corporate strategy. For this reason, in addition to the regular meetings of the Strategy and Technology Committee, a meeting of the full Supervisory Board was again held during the fiscal year under report for the exclusive purpose of discussing strategic topics – this time at Infineon's Villach site in Austria. Discussions at this strategy meeting covered a broad range of topics, including the changed market and geopolitical conditions, Infineon's core strategy, the significance of the acquisition and integration of Cypress, Infineon's financial resilience and its dividend strategy.

Further information

As mentioned above, the wide-ranging impact of the coronavirus pandemic called for additional extraordinary meetings of the full Supervisory Board. These meetings not only focused on the current business situation and development, but also on the longer-term strategic implications of the pandemic for the world economy, the semiconductor market, and, above all, Infineon's target markets.

In addition to the pandemic, the 2020 fiscal year was largely shaped by the successful completion of the strategically crucial acquisition of the US semiconductor company Cypress Semiconductor Corporation, which had been announced back in early June 2019. This acquisition has enabled Infineon to further strengthen its focus on key growth drivers and global mega-trends, significantly expand its technology and product portfolio, and move into the top ten of the world's largest semiconductor manufacturers. A major component of the acquisition was to negotiate precisely tailored financing arrangements that provided sufficient flexibility for long-term refinancing measures. Altogether, some 30 percent of the acquisition was to be financed by an injection of fresh equity. With the placement of new shares and the issuance of a hybrid bond during the 2019 fiscal year, Infineon had already achieved its principal financing goals prior to the closing of the acquisition. During the 2020 fiscal year, the targeted percentage of equity was reached by means of another highly successful share capital increase. The stronger resulting capital structure, alongside the confirmation of Infineon's investment-grade rating, provided the basis for covering Infineon's remaining refinancing requirements in the form of debt instruments. An important milestone in this respect was the first Eurobond issue under the newly established European Medium Term Notes (EMTN) bond program. The clear display of support from investors in implementing these equity and debt capital measures demonstrates the confidence of the capital markets in Infineon's prospects going forward. The Supervisory Board closely monitored the implementation of these refinancing measures, primarily via its Investment, Finance and Audit Committee.

Combined Management Report

Management Board matters

Management Board and

Supervisory Board Report of the Supervisory Board

New Management Board compensation system

The Act Implementing the Second Shareholder Rights Directive (ARUG II) came into force on 1 January 2020. Furthermore, the Government Commission on the German Corporate Governance Code adopted a new version of the Code (DCGK), which became effective in March 2020. These two factors have resulted in changed requirements with regard to Management Board compensation. In this context, supported by an external, independent compensation expert, the Supervisory Board deliberated on the new regulatory framework at great length. Based on the preparatory work and recommendation of its Executive Committee, the Supervisory Board resolved to introduce a new system of compensation for the Management Board at its meeting held on 20 November 2020. The new system will be submitted to the Annual General Meeting 2021 for approval in accordance with Section 120a of the German Stock Corporation Act.

Apart from taking into account the new regulatory requirements, the revised compensation system is designed to reflect Infineon's strategic objectives even more strongly than previously in the structure of Management Board compensation, to integrate sustainability targets, to continue to ensure commensurate and at the same time motivating compensation, and finally to synchronize the target structures of the Management Board with those of the workforce. The main changes can be summarized as follows:

In addition to the fixed basic compensation and company pension plan, in future the system will comprise only a short-term incentive (STI) and a long-term incentive (LTI) component for variable compensation; the previous mid-term incentive (MTI) will no longer apply. This change will ensure that the proportion of long-term variable compensation (generally settled in the form of shares) is increased and exceeds that of short-term variable compensation. The option of the Supervisory Board to award a "special bonus" amounting to up to 30 percent of the fixed basic compensation of Management Board members has been removed and will not be replaced. Fringe benefits, however, remain largely unchanged. In the case of the STI, the existing financial targets Return on Capital Employed (RoCE) and Free Cash Flow (FCF) are to be supplemented by the addition of a third target, namely the Segment Result Margin (SRM), which already serves as a key performance indicator for Infineon. The SRM was also previously taken into account in the STI target structure relevant for employees. The Supervisory Board's option to raise or lower the amounts paid out for the STI at its discretion by up to 50 percent is being replaced by a "criteria-based STI modifier". Accordingly, the Supervisory Board will define criteria for assessing the collective performance of the Management Board each fiscal year on the basis of a fixed catalog. At the end of each fiscal year, the Supervisory Board can then either reduce or increase the degree of target achievement for the STI by up to 30 percent – depending on the performance of the Management Board and also to take account of any exceptional, unforeseeable developments.

> The LTI will be converted into an exclusively performance-based "Performance Share Plan" (PSP); the previous allocation of half of the performance shares not based on actual performance will be discontinued. The previous financial performance criterion, i.e. the outperformance of the Philadelphia Semiconductor Index by the Infineon share price, will be replaced by the criterion of a relative Total Shareholder Return (TSR), which is defined as Infineon's share price performance over a four-year period, as compared to a predefined peer group consisting of Infineon's major international competitors. The TSR target accounts for 80 percent of the overall target achievement. It will be supplemented by non-financial environmental, social and governance (ESG) targets, which will account for the other 20 percent of LTI target achievement. ESG targets may include, for example, contributions to global climate protection or the furthering of diversity at Infineon that have a positive impact on innovation, employee commitment and financial performance. The transparent linking of ESG targets to business strategy and current market requirements will help create incentives to manage Infineon on a sustainable basis in the best interests of its stakeholders. The ESG targets are therefore important in that they align the interests of both the Management Board and other stakeholders and contribute to the long-term sustainable success of the Group as a whole.

Management Board and

Supervisory Board Report of the Supervisory Board

> The Management Board compensation system will also include "Share Ownership Guidelines", which will require Management Board members to build up a minimum holding of Infineon shares over a period of generally five years and keep them for up to two years after leaving office. The minimum holding is equivalent to 150 percent of fixed basic compensation for the Chairman and 100 percent of fixed basic annual compensation for the other members of the Management Board.

> As a final point, the new Management Board compensation system will introduce market-standard malus and clawback clauses that allow the Supervisory Board to withhold or reclaim variable compensation components in certain cases.

The details of the new Management Board compensation system will be set out in a proposed resolution to the Annual General Meeting 2021 for approval in accordance with Section 120a of the German Stock Corporation Act.

The new compensation system will apply to all members of Infineon's Management Board who are appointed to their functions subsequent to the resolution passed by the Supervisory Board on 20 November 2020. For the members of the Management Board already in office at that time, the compensation system will, in principle, apply with effect from 1 October 2021 (and thus from the 2022 fiscal year). The regulations relating to the LTI, on the other hand, are to be applied as soon as the next allocation is made on 1 April 2021 (and thus for the 2021 fiscal year). The rationale for the early implementation of the new LTI regulations is, firstly, that the PSP for employees is to be converted with effect from 1 April 2021 and that it is therefore desirable to synchronize that change with the Management Board's LTI. Secondly, this procedure ensures that no further MTI tranche will need to be allocated in the 2021 fiscal year, as the MTI is no longer a component of the revised compensation system and is now incorporated in the LTI. With the implementation of the new compensation system, the Supervisory Board, on Infineon's behalf, intends to agree corresponding modifications to the service contracts of the current Management Board members. In this context, it is also planned not only to reflect the new compensation structure, but also – for the first time in several years – to adjust the amount of compensation that Management Board members receive. In doing so, the Supervisory Board will take into account the requirements of stock corporation law, according to which the amounts must be deemed appropriate in relation to the Management Board member's duties and performance as well as to the company's overall situation when determining each individual Management Board member's total compensation, and may not exceed the usual level of compensation without specific reasons.

Other compensation-related topics

A tranche of performance shares became due for settlement again at the beginning of October 2020. As the specified performance hurdle was not achieved, only 50 percent of the tranche allocated in the 2016 fiscal year needed to be fulfilled at the end of the four-year holding period. As planned, shares were allocated to settle this obligation. Own shares held by the Company were allocated for this purpose.

Further details of Management Board compensation – particularly the amounts paid to each individual member in the 2020 fiscal year – are available in the detailed Compensation Report. D p. 130 ff.

Litigation

The Supervisory Board was regularly provided with detailed information regarding major legal disputes during the 2020 fiscal year, which it then discussed at length with the Management Board. These included in particular Infineon's appeal, brought before European courts, against the antitrust fine imposed by the EU Commission in 2014, subsequent proceedings relating to that appeal and the dispute with the insolvency administrator of Qimonda AG pertaining to alleged residual liability claims ("Differenzhaftungsansprüche").

Combined Management Report

Supervisory Board topics

New composition of the Supervisory Board; onboarding; competency profile and catalog of objectives

The Supervisory Board mandates of all employee representatives and six of the eight shareholder representatives expired at the close of the last Annual General Meeting, which was held on 20 February 2020. The (partial) new composition of the Supervisory Board since that date strikes a good balance between continuity and renewal, reflects a well-balanced competency profile (further strengthened by the members elected, particularly in the areas of finance and digitalization) and, with an equal number of women and men on the Supervisory Board, sets a clear signal in terms of diversity.

Following the Annual General Meeting 2020, the composition of the Supervisory Board's committees was changed. The election of Dr. Eichiner as Chairman of the Audit Committee and of Dr. Spiesshofer as Chairman of the Strategy and Technology Committee are especially worth mentioning. The composition of the various committees is described in detail in the Statement on Corporate Governance.

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New members of the Supervisory Board receive support in the form of an onboarding process, which includes a series of workshops covering a broad range of topics such as the individual segments of Infineon, the underlying and key elements of corporate strategy, the target business model and investment planning as well as Infineon's manufacturing strategy and life cycle management.

The basis for the activities of the Supervisory Board's Nomination Committee, and therefore the proposals for election at the Annual General Meeting, are the competency profile and the catalog of objectives for the composition of the Supervisory Board. With respect to the new version of the German Corporate Governance Code (DCGK), which came into effect in March 2020, the Supervisory Board resolved to adjust its competency profile and catalog of objectives at its meeting in August 2020. In particular, the requirements for the independence of shareholder representatives on the Supervisory Board were revised in line with the new version of the Code.

Dialog with investors

Also at its meeting held in August 2020, the Supervisory Board approved new guidelines for its communication with investors. In accordance with the DCGK, the Supervisory Board's rules of procedure already provided for the Chairman of the Supervisory Board to be able to hold discussions with investors on topics specific to the Supervisory Board. Now, however, the guidelines set out more specific rules regarding the format of discussions, parties with whom discussions may be held and the selection of topics.

Further information

Committee work

The committees are responsible for drawing up resolutions and preparing other major projects and topics that need to be dealt with by the full Supervisory Board. Moreover, the Supervisory Board has delegated certain decision-making powers to its committees, to the extent permitted by German law. The chairpersons of each committee are required to report on committee meetings at the next meeting of the full Supervisory Board.

Mediation Committee

The Mediation Committee did not need to convene during the 2020 fiscal year.

Nomination Committee

The Nomination Committee convened four times during the 2020 fiscal year, during which it deliberated extensively on succession planning for the Supervisory Board, including long-term aspects. In preparation for the election of six shareholder representatives at the Annual General Meeting 2020, the Nomination Committee held in-depth discussions concerning the re-election of Supervisory Board members and the suitability of new candidates. In its search for and assessment of new members, the Nomination Committee referred to the competency profile and the catalog of objectives decided on by the Supervisory Board for its own composition as a basis. It also drew on the support of a well-known external human resources consultant to reach its decisions.

Combined Management Report

Executive Committee

The Executive Committee held one ordinary and five extraordinary meetings during the fiscal year under report.

At the ordinary meeting, the Executive Committee focused primarily on preparing the Supervisory Board's resolution to determine the level of variable compensation for Management Board members. The work performed involved in particular determining the degree to which targets for the 2019 fiscal year had been achieved and setting new targets for the 2020 fiscal year.

The main subject of the extraordinary meetings was the revision of the compensation system for Management Board members, the key elements of which are described above.

Investment, Finance and Audit Committee

The Investment, Finance and Audit Committee held four ordinary and two extraordinary meetings during the 2020 fiscal year.

Its activities centered on monitoring the financial reporting process, reviewing the half-year and quarterly financial statements, conducting the preliminary audit of the Separate Financial Statements, Consolidated Financial Statements and Combined Management Report for Infineon Technologies AG and the Infineon Group, and discussing the audit reports with the auditor. The Committee also examined the financial and investment budget. Moreover, it received regular reports on Infineon's internal control, internal audit, risk management and compliance management systems and deliberated in depth on their overall effectiveness. The Committee was also provided with continuous updates concerning significant legal disputes.

The Committee's recommendation to the full Supervisory Board to propose to shareholders at the Annual General Meeting that KPMG AG Wirtschaftsprüfungsgesellschaft, Munich, ("KPMG") be elected as Company and Group auditor was based on a Declaration of Independence obtained from KPMG as well as an analysis of the non-audit services provided by KPMG. There were no indications of conflicts of interest, grounds for exclusion, or other lack of independence on the part of the auditor. The recommendation was also based on the Committee's confirmation that it was free from undue influence by third parties and that it had not been subject to any restriction regarding the selection of auditors within the meaning of section 16, paragraph 6 of the EU Statutory Audit Regulation. The Committee also considered the fee arrangements and issued contracts for the relevant audit engagements. Supplementary areas for audit emphasis were also defined.

Further information

The most important single project arising for the Committee during the 2020 fiscal year involved monitoring the step-by-step refinancing arrangements made for the acquisition of Cypress, in particular the discussion of a possible further share capital increase, which the Committee ultimately approved on 26 May 2020 after holding two extraordinary meetings on the topic.

The representatives of the auditor attended all the ordinary meetings of the Investment, Finance and Audit Committee and reported in detail on the audit procedures performed.

Strategy and Technology Committee

The Supervisory Board's Strategy and Technology Committee convened twice during the fiscal year under report. It received detailed reports from the Management Board regarding the acquisition and integration of Cypress. Other topics included life cycle management, the development of the Chinese market and the transformation of the automotive sector.

Supervisory Board compensation

In addition to the resolution on the Management Board compensation system, the Act Implementing the Second Shareholder Rights Directive (ARUG II) also requires a resolution on the Supervisory Board compensation system to be submitted to shareholders at the Annual General Meeting 2021. In view of this fact, the Supervisory Board deliberated at length on the current Supervisory Board compensation system Business focus and strategy

Combined Management Report

and came to the conclusion that its structure, which dates from 2016, is no longer in line with the market in some respects and needs to be revised. In particular, the proposed changes are intended to take account of the recommendation contained in the DCGK, according to which the additional time commitment required for certain special functions on the Supervisory Board should be adequately reflected in the level of compensation. The Management Board and the Supervisory Board will therefore present a revised Supervisory Board compensation system for approval at the Annual General Meeting 2021, whereby the principal changes compared to the current system are as follows:

- > Whereas the fixed basic compensation and the function-based allowance for the Chairman of the Supervisory Board are to be increased only slightly, it is planned to raise the function-based allowance for the committees and for the Chairs of the Investment, Finance and Audit Committee and the Strategy and Technology Committee more significantly to a level in line with today's market.
- The current threshold clause, according to which only the highest function-based allowance is paid if more than one function is performed, is to be deleted. The rationale for the change is that working on several committees results in an additional time commitment, which should be compensated accordingly. Conversely, only paying a function-based allowance if at least three committee meetings have taken place during a fiscal year ensures that only relevant additional time commitments are compensated. In addition, the function-based allowances for work on committees are capped at 100 percent of the fixed basic compensation. As a result, the compensation for a member of the Supervisory Board will be limited in future to €200,000, that of the Chair of the Supervisory Board to €300,000 and that of the Chair's deputy to €230,000.
- > It is also planned to reduce the attendance fee for extraordinary meetings held in the form of telephone or video conference calls from €2,000 to €1,000.

The changes are due to take effect from the beginning of the 2022 fiscal year.

Corporate Governance

Declaration of Compliance 2020

In the Declaration of Compliance issued in November 2020, the Management Board and the Supervisory Board jointly declared that all recommendations of the DCGK contained in the version dated 7 February 2017 were being complied with in the period since the previous Declaration of Compliance issued in November 2019 and that currently all recommendations of the DCGK in the version dated 16 December 2019 have been complied with and will continue to be complied with in future. As a precautionary measure, the Management Board and the Supervisory Board additionally declared that until the Supervisory Board's resolution on the new Management Board compensation system on 20 November 2020, the new Code recommendations on management board compensation in force since 20 March 2020 have not been fully complied with. However, all recommendations will be complied with as soon as the new compensation system comes into effect.

The actual wording of the Declaration of Compliance 2020 as well as all previous Declarations of Compliance are available on the Infineon website.

Self-assessment by the Supervisory Board

The Supervisory Board regularly assesses how effectively it, as a corporate body, and its related committees perform their duties. The most recent comprehensive self-assessment took place in summer 2019. The Supervisory Board subsequently discussed the results in customary detail. No noteworthy shortcomings were identified and no indications in this respect have emerged in the meantime. The next assessment is scheduled for summer 2021.

Examination of potential conflicts of interest

The members of the Management Board and the Supervisory Board are required to disclose any conflicts of interest to the Supervisory Board without delay. No conflicts of interest were disclosed by members of either the Management Board or the Supervisory Board during the 2020 fiscal year.

Business focus and strategy

Combined Management Report

Consolidated Financial Statements

Prior to members of the Management Board assuming sideline activities, particularly supervisory board mandates outside the company, the DCGK requires that permission be given by the Supervisory Board. No conflicts of interest were discernible in the mandates assumed. In fact, they were all in the interests of Infineon.

Further information on the topic of corporate governance is available in the Statement on Corporate Governance, which also includes the Corporate Governance Report. www.infineon.com/declaration-on-corporate-governance

Rules of procedure for the Supervisory Board and the Management Board

In August 2020, prompted by the coming into force of ARUG II and the revised version of the DCGK, the Supervisory Board resolved to revise the rules of procedure for the Supervisory Board, its Investment, Finance and Audit Committee and the Management Board. The revision was also used to modernize the lists of measures requiring approval. Firstly, the role of the Investment, Finance and Audit Committee was enhanced in the area of debt-related measures. Secondly, the thresholds for approvals, which date back to 2011, were partially raised to take into account the significantly increased size of the company, not least due to the acquisition of Cypress.

All rules of procedure are available on the Infineon website.

www.infineon.com/cms/en/about-infineon/investor/corporate-governance/articles-of-association/

Related party transactions

A further consequence of ARUG II is the introduction of new requirements with respect to related party transactions. Among other things, publicly listed companies such as Infineon now require the approval of the Supervisory Board or one of its committees before entering into certain transactions with related parties. ARUG II stipulates that a suitable internal procedure be put in place to identify related party transactions requiring prior approval in order to deal with them in line with current legislation. Infineon has implemented a suitable procedure in the form of mandatory guidelines that apply worldwide throughout the Group. Particularly for any resolutions requiring approval, the Supervisory Board has delegated responsibility in this area to its Investment, Finance and Audit Committee.

Separate and Consolidated Financial Statements

KPMG audited the Separate Financial Statements of Infineon Technologies AG and the Consolidated Financial Statements as of 30 September 2020 as well as the Combined Management Report for Infineon Technologies AG and the Infineon Group, and issued unqualified audit opinions thereon.

The Half-Year Financial Report was also reviewed by KPMG. No issues were identified that might indicate that the condensed Interim Group Financial Statements and Interim Group Management Report were not prepared in accordance with the applicable provisions in all material respects.

KPMG has audited the Separate Financial Statements of Infineon Technologies AG and the Consolidated Financial Statements of the Group and reviewed the Interim Financial Statements of the Group since the 1999 fiscal year (short fiscal year from 1 April 1999 to 30 September 1999). Prof. Dr. Andrejewski signed the auditors' report for the first time for the 2019 fiscal year (1 October 2018 to 30 September 2019) and Mr. Pritzer for the first time for the 2017 fiscal year (1 October 2016 to 30 September 2017).

At the meeting of the Investment, Finance and Audit Committee held on 6 November 2020 and continued in a conference call on 16 November 2020, thorough discussions were held with the auditor regarding the Separate Financial Statements, the Consolidated Financial Statements, the Combined Management Report, the appropriation of profit, and the auditor's findings. The Committee deliberated at considerable length on the key audit matters presented in the auditor's report as well as on the related audit procedures performed by the auditor. Based on the insights gained in the course of these deliberations, the Investment, Finance and Audit Committee resolved to propose to the Supervisory Board that the financial statements drawn up and presented by the Management Board be approved and the proposed appropriation of profit agreed to.

Management Board and Supervisory Board Report of the Supervisory Board

The Separate Financial Statements, the Consolidated Financial Statements, the Combined Management Report, the Management Board's proposal for the appropriation of unappropriated profit (all prepared by the Management Board) and KPMG's long-form audit reports were all made available to the Supervisory Board at the meeting held on 20 November 2020. At this meeting, the Chairman of the Investment, Finance and Audit Committee reported in considerable depth on the corresponding recommendations of the Committee. In addition, all material issues relevant to the financial statements and the audit, including the key audit matters, were exhaustively discussed with the auditor and closely examined by the Supervisory Board. The examination also included the proposal to pay a dividend of €0.22 per entitled share.

The Supervisory Board concluded that it has no objections to the financial statements and the audits performed by the auditor. In its opinion, the Combined Management Report complies fully with legal requirements. The Supervisory Board also concurs with the assertions regarding Infineon's future development contained therein. The Supervisory Board therefore concurred with the results of the audit and approved the Separate Financial Statements of Infineon Technologies AG and the Consolidated Financial Statements of Infineon. The Separate Financial Statements were accordingly adopted. The Supervisory Board also approved the Management Board's proposal for the appropriation of unappropriated profit.

The Investment, Finance and Audit Committee and the full Supervisory Board also deliberated on the combined separate Non-Financial Report for the year ended 30 September 2020 drawn up by the Management Board. KPMG performed a "limited

assurance" review and issued an unqualified statement thereon. The documents were carefully examined by the Investment, Finance and Audit Committee at its meeting held on 6 November 2020, which was continued in a conference call on 16 November 2020, and by the Supervisory Board at its meeting held on 20 November 2020. The Supervisory Board acknowledged and approved the combined separate Non-Financial Report drawn up by the Management Board.

The Supervisory Board wishes to thank the entire staff and the Board of Management of Infineon once again for their tremendous commitment and outstanding achievements during a fiscal year that has been challenging in all respects.

Neubiberg, November 2020

Consolidated Financial Statements

On behalf of the Supervisory Board

Dr. Wolfgang Eder Chairman of the Supervisory Board

Business focus and strategy

Combined Management Report

Business focus and strategy Business focus Combined Management Report

Consolidated Financial Statements

Further information

Business focus and strategy



Business focus

We want to continue to develop, grow and to create value for our customers and our shareholders as well as for our employees and for society. The coronavirus pandemic has put the brakes on for the moment, but cannot stop us. In the past few years, our strategy has been guided by global megatrends, which will continue to shape the world in the future: demographic and social change, climate change and scarce resources, urbanization and digital transformation. From these megatrends, we derive our focus on the following growth areas: energy efficiency, mobility, security and the IoT & big data. In these markets, we orient ourselves to structural drivers; areas which are expected to see disproportionate growth in the long term as a result of these trends or which have major innovation potential. The coronavirus has not altered the underlying assumptions. Partially it is acting as a catalyst that will speed up changes in society and in the economy.

21

Combined Management Report

Demographic and social change

According to the United Nations, around 9.7 billion people will be living on our planet by 2050, two billion more than today. Rapid population growth and the desire for a good life are two of the factors leading to an increase in energy consumption. This makes it necessary to produce, store, transmit and use energy more efficiently. Rising demand for resources is also pushing existing concepts for infrastructure, industry and communication to their limits. Microelectronics play a decisive role in supplying energy to the growing and evolving population and in creating comfortable spaces in which to live.

Climate change and scarce resources



Climate change is looming ever larger in the public consciousness. Our actions have a significant impact on our environment. Efficient use of resources is therefore of fundamental importance. Developing energy-efficient products is one of the key elements to saving energy and tackling climate change. Our goal is to make "more from less". Our semiconductors feed renewable energy into electricity grids with minimum loss, reduce electricity consumption in computers, secure our digital data traffic and power our cars in a more energy-efficient way. They make our evervdav lives more comfortable. while at the same time minimizing the environmental impact of our energy consumption.

Urbanization

More and more people are crowding into the cities from rural areas. In the short-term, the coronavirus pandemic has the potential to interrupt this trend. However, in the long term, major cities and metropolitan regions will continue to grow and act as magnets for migration, with the result that the trend towards urbanization will resume. Rapid urbanization places huge demands on infrastructure and on related services. How should a major city be designed in order to guarantee an adequate quality of life for everyone when people are living in such close proximity? One possible solution is the "Smart City" model. In the cities of the future, all aspects of public life will be intermeshed and connected with one another. This will also be true of suburban areas. An intelligent power grid (Smart Grid) can efficiently manage energy requirements, sustainable mobility solutions like the Smart Car and expansion of the rail network will help manage the increasing volume of traffic, and digital and intelligent solutions in the Smart Home can enhance the quality of life. Our products are our contribution to the further development of energy infrastructure, traffic and transportation systems and residential spaces. The objective is to make metropolises more efficient, greener and more livable.

Digital transformation

Digitalization is permeating more and more of our lives and the coronavirus pandemic has accelerated this trend. New digital communication technologies have an impact on our everyday life, alter our lifestyle and give rise to new patterns of behavior. The digital transformation also allows for better use of resources. Resource use can be monitored and tracked and thus optimized. Meanwhile, humans and machines are producing enormous amounts of data. Big data is an extremely valuable raw material. We are voluntarily revealing more and more sensitive information about ourselves. This makes it necessary for users to be able to communicate with one another securely and without the risk of misuse or theft of data. Safeguarding electronic devices and infrastructures thus takes the highest priority and makes the digital transformation possible. Meeting this increased need for security represents one of the core competencies of Infineon.

Growth drivers

In each of the growth areas we address in the semiconductor market – energy efficiency, mobility, security, and the IoT & big data – there are numerous application fields with high growth potential for our semiconductor business. Driven by increasing demand for energy and the setting of global CO_2 reduction goals, the need to generate, transmit, store and use energy more efficiently is growing. The rising level of traffic and transportation makes sustainable, intelligent mobility solutions indispensable. In a highly digitalized world, the number of interconnected objects is increasing and the demand for secure processing, transmission and storage of data is rising. We serve all these application areas with our solutions and systems, helping us achieve sustainable growth.

Energy efficiency

A new mindset on climate protection depends entirely on a new mindset on energy transformation. An energy transformation will only be viable if we take sustainable and climate-friendly action everywhere, from the generation of electricity to its consumption. Microelectronics play a decisive role here, helping to provide a constantly growing population with energy in an efficient and environmentally friendly manner. For environmental reasons, it will no longer be possible in the future to meet the rising demand for electric energy using fossil fuels to the same extent as today. This means that renewable energy sources, which do not emit CO_2 into the environment, are becoming more and more important. One important thing here is the use of wind power and photovoltaic (PV) energy. The fluctuating availability of energy from these sources can be balanced out by using storage facilities, but calls for holistic management of the power grid.

Megatrends	Demographic and social change	Climate change and scarce resources	Urbanization	Digital transformation
Growth areas	Energy Efficiency	Mobility	Security	IoT & Big Data
Growth drivers	 Power generation from renewable energy sources Energy transfer Energy storage Usage of electricity 	 Electro-mobility Charging infrastructure for electro-mobility Safe automated driving Passenger and freight transport 	 > Security for mobile devices > Secure authentication for the IoT > Security for industrial applications (smart factories) > Security for connected vehicles > Integrity of devices 	 Human-machine interaction Collaborative robots Smart home Data center Mobile communications
Profiting segments	Industrial Power Control, Power & Sensor Systems	Automotive, Industrial Power Control, Power & Sensor Systems	Connected Secure Systems, Automotive	Power & Sensor Systems, Connected Secure Systems

C01 Our growth areas and growth drivers are derived from megatrends in society

Combined Management Report

Power generation from renewable energy sources

In Germany, over 40 percent of electric power comes from renewable energy. In the context of the European support measures put in place as a result of the coronavirus pandemic, this percentage is expected to increase significantly over the next few years, not only in Germany, but throughout Europe. Germany has, for example, increased its target for offshore wind farms to 20 gigawatts. Infineon benefits from the fact that wind turbines and photovoltaic power plants require multiple power semiconductors per gigawatt of electricity generated, compared with conventional power plants. In contrast to coal-fired, gas or nuclear power plants, there is no turbine whose consistent movement can generate a constant alternating current of 50 hertz. Therefore, the electricity generated cannot be fed directly into the grid. Instead, power electronic systems are required for conversion and protection. Infineon supplies all major manufacturers of wind power turbines and PV inverters.

Wind

When it comes to energy generation from wind, two trends in particular drive demand for semiconductors. First of all, older low-performance wind power turbines are being replaced by modern high-performance ones, a process referred to as "repowering". Secondly, ever-stronger turbines are being used in initial installations. The performance of wind power turbines rose from around 50 kilowatts to up to 150 kilowatts in the 1980s, to an average of 1 megawatt in the early 2000s, and today has reached an average of 3 megawatts for onshore turbines and 5 to 6 megawatts for turbines in offshore wind farms. Recently, a project for an offshore wind turbine with a record power rate of 14 megawatts was launched. This is due to be connected to the grid in 2024. The higher the power rate, the higher the value of integrated power semiconductors. Offshore wind farms in particular present major challenges for the robustness and reliability of the components used, since they have to function in a harsh environment, at high humidity levels and in saline air, as well as needing to be low-maintenance.

Photovoltaics

In photovoltaics, Infineon is broadly-based internationally and has been cooperating for years with the world's leading manufacturers of PV inverters. We are benefiting, for example, from the growth of Chinese inverter manufacturers, both with regard to



domestic expansion of photovoltaics in China and to the export of PV inverters to other regions. We are also working closely with leading European manufacturers and we support innovative American companies with our products. Efficient conversion and low system costs contribute to reducing electricity generation costs in openspace photovoltaic plants and to creating grid parity compared with conventionally generated electricity. Using our SiC transistors enables manufacturers of PV inverters to achieve better systems performance in terms of efficiency, size and cost when compared with Si-based solutions.

High-voltage direct current transmission (HVDC)

HVDC systems are playing a key role globally by providing reliable low-loss energy transmission over long distances. They are also used for the grid connection of offshore wind farms. It is to be expected that future growth in the use of renewable energy will result in a rise in demand for efficient transmission routes. The semiconductor products for HVDC applications must satisfy particular requirements: robustness, short-circuit resistance and dynamic performance. We have developed an IGBT/diode chipset specifically for this purpose.

Energy storage

As a result of the energy transformation, 55 percent to 60 percent of Germany's electricity should come from renewable energy by 2035 and 80 percent by 2050. The use of renewable energies is linked with specific requirements on the entire energy supply chain. Electric power generation through wind and sun does not take place centrally in a small number of power plants, but rather decentrally at many different locations. In addition, fluctuating power generation does not always match the demand. Conventional power plants still have to substitute or supplement renewable energy sources. This makes temporary energy storage necessary in the long run. With its semiconductors, Infineon provides the essential power components and subsystems for efficient energy storage.

Hydrogen

Over the course of the next decade, hydrogen will play a crucial role in energy supply. In the "National Hydrogen Strategy" unveiled this year by the German Federal Government, very specific targets have been set for the first time for the expansion of capacity by 2030. Even if many problems are still to be solved, we see great potential in the production of hydrogen from renewable energy, as well as in the use of hydrogen in fuel cells and the conversion of hydrogen into synthetic fuels. In the long term, green hydrogen has the potential to become a key growth driver for Infineon.

Using electrical energy

Power supply

A power supply for electric devices consists essentially of two stages. First, the power unit converts the grid alternating current (AC) into generally much lower direct current (DC), a process referred to as AC-DC conversion. Depending on usage, in a second step the voltage of this direct current is precisely adapted at the point of load to fit the respective requirements, for example for a server's processors. This second stage is referred to as DC-DC conversion. The devices in question usually have several DC-DC converters. Growth in the area of power supply depends on the power and complexity of the devices and, above all, on an increase in the number of units.

AC-DC conversion

In the medium term, we expect the highest unit growth in the area of AC-DC conversion to come from servers and telecommunications infrastructure. The high level of power required here means that the number of power semiconductors needed for power supplies is similarly high. Demand for computing power and DRAM/Flash memory has been boosted substantially by the coronavirus pandemic. Demand will remain high due to people working from home and on the move, video streaming, social networks and, increasingly, machine learning. IoT and Industry 4.0 will accelerate this trend in the future. In addition, we see growth opportunities for our business in the following areas: compact chargers, fast-charging features, and solutions for the wireless charging of smartphones, tablets and light laptops (portables).

> Wireless charging

The number of devices, which can be charged wirelessly, is constantly increasing. Wireless charging gives users the chance to charge their devices almost on the side, wherever they are, in the car, at home or in a public place. A charging station can also be used for the wireless recharging of several devices at a time.



User acceptance will continue to increase as the opportunities for fast charging grow. Wireless charging has advantages in terms of space and design, especially for small devices, as there is no need for a charging port. Following on from the smartphone, wireless charging will also apply to many other devices. Using electromagnetic fields, energy will be transported from the charging station to the device and the battery will be recharged without requiring a physical connection. In practice, the process is much less efficient than charging with a cable, but in the last few years wireless recharging has continued to improve so that it is now closer to the efficiency rate of cable charging.

> USB power delivery (USB PD)

USB ports are widely used around the world: for example, in laptops, planes, and in numerous public places as wall sockets. They are used primarily for the transmission of data, but can also supply power to a limited extent to connected devices. The USB PD standard was created to increase significantly the maximum power that can be transmitted. Behind the standard lies the idea of a universal power supply for various devices, in which the power supply on offer is more flexible, while allowing data to be transmitted through the cable at the same time. This means that devices such as laptops, which require more power than a smartphone, can be supplied with power and charged via this interface. USB PD has the potential to become the new universal charging standard.

DC-DC conversion

As with AC-DC conversion, rising demand for more computing power and storage capacity is also driving demand for DC-DC conversion. Special processors such as KI accelerators, FPGAs, ASICs and GPUs require high power at very low voltages. In addition, energy requirements change considerably depending on load and at extremely short notice. As a result, the electronic systems are supplied with higher voltages, which are then precisely stepped down to the required low voltage directly in the processor. The same applies to PCs and communication devices, which sometimes require a large number of different voltages. This voltage conversion system is known as point of load. Requirements placed on dynamics, efficiency and stand-by consumption are increasing all the time. Customers are looking for simple, reliable



high-performance solutions, necessitating the change to digital regulation of point of load systems and driving the trend towards all-in-one solutions.

Drives and automation

Electric drives are at the heart of a large number of systems, such as cranes, conveyor belts, automation systems and robots. We find them wherever something moves or is transported. According to the European Commission, electric motors account for almost 50 percent of the electricity consumed in Europe. Accordingly, there is great potential for savings if efficiency is improved. More efficient motors will bring up to 57 terawatt-hours of annual energy savings in the EU by 2020.

> Industrial automation

One way to reduce the energy consumption of an electric motor is to use an electronic control unit for speed control, which adapts performance to the load required at that time. Electronically controlled motors are also a key element in automation. Without them, it would be impossible to coordinate the various motion sequences efficiently. The market penetration of speed-controlled motors will increase. A respective motor control unit requires a large number of the power semiconductors we supply. The

Combined Management Report

number and value of these power semiconductors depend on the power range of the motor. Industry 4.0 will trigger a new investment cycle, not only for automation in factories, but also for general transport and handling systems as well as for collaborative robots (see "Internet of Things & big data" in this chapter, D p. 30 ff.).

> Home appliances

New EU regulations will place stricter energy efficiency requirements on home appliances in the European market from 2021. The new rules are intended, among other things, to create incentives to design products which are more efficient and have longer service lives. As a result, the manufacturers of major home appliances are turning to highly-efficient motors with modern variable-speed control. These motors are significantly more energy-efficient, low-noise and have longer service lives than uncontrolled motors. Examples include washing machines (drums and water pumps), dishwashers, refrigerators (compressors) and air-conditioning systems (fans, compressors).

> Battery-powered devices

In battery-powered devices, efficiency is particularly important so that a battery charge lasts a long time. As a result, more and more brushless direct current (BLDC) motors are being used. In BLDC motors, all the commutation is electronic, depending on rotor position, rotor rotation speed and torque. This calls for the appropriate power semiconductors and also, depending on the configuration, for components for diagnostic and security functions. This type of motor requires high-performance electronic control units, compared with conventional motors. In addition to their high levels of energy efficiency, BLDC motors are particularly well-suited for use in battery-powered systems due to their low power-to-weight ratio. Examples include cordless home appliances such as robot vacuum cleaners, cordless screwdrivers and electronic lawnmowers. In addition to the motors, batteries are also becoming more and more efficient, enabling longer operating times, which is continuing to drive forward the transition from wired devices to battery-powered devices. Furthermore, all the examples cited also require additional power semiconductor components for the chargers. With battery-powered devices, we benefit both from unit growth and from the higher number of semiconductor components used.

Mobility

Global population growth and increasingly global value chains as well as urbanization are driving demand for all types of transportation, ranging from mass transportation, such as buses and trains, to vehicles for private use, such as cars, eBikes and eScooters. Cities in particular are confronted with the challenge of making transportation cheaper, more efficient and more sustainable.

Electro-mobility

The automotive industry is working continuously to reduce pollutant emissions. European Commission rules require, for example, a reduction in average fleet emissions from new cars to 81 grams of CO_2 per kilometer by 2025. The reduction target for 2030 is 59 grams of CO_2 per kilometer, a reduction of 37.5 percent compared with 95 grams of CO_2 per kilometer in 2021. This will increase demand for semiconductors. The optimization of the combustion engine alone will not be enough to fulfill legal requirements and to satisfy customer demand for sustainable mobility. Instead, systems consuming energy in the vehicle will increasingly have to be made more efficient, while hydraulic or mechanical solutions will need to be replaced by more efficient electromechanical systems based on semiconductors.

In order to reduce the fleet average to the mandated CO₂ target value, many vehicle manufacturers are expanding their product ranges to include models such as hybrid vehicles or pure electric vehicles. These vehicles have a significantly higher semiconductor content than conventional ones. Infineon offers a wide range of power semiconductor components for these vehicles. While the current average semiconductor content of a car with a conventional combustion engine is US\$457, the amount in mild-hybrid vehicles is US\$572 and for full or plug-in hybrid vehicles as well as pure electric vehicles, it is US\$834. Here, power semiconductors make up approximately three-quarters of the additional semiconductor content per vehicle. In CO2

Also of interest are vehicles known as mild-hybrid vehicles, which use 48 volt technology in addition to the 12 volt onboard network. On the one hand, these vehicles can recover a certain amount of braking energy. On the other hand, pollutant emissions can be reduced by more efficient systems. Mechanical functions are increasingly being replaced by electric functions. The 48 volt part of the onboard network handles the power supply for high-power consumers such as the electric turbocharger, electric power steering and electronic stability control.

Charging infrastructure for electro-mobility

The steadily increasing number of electric vehicles also makes an appropriate charging infrastructure necessary. A well-developed network of charging stations increases the incentive to buy an electric vehicle. To promote acceptance of electro-mobility, most countries are continuing to expand their networks of publicly accessible charging stations. In Germany, for example, within the next few years all service stations should be equipped with fast charging stations. Depending on the system topology, the charging stations use different types of power semiconductors.

Safe automated driving

"Vision Zero" describes one of the major objectives of the automotive industry: vehicles should become so safe that there are no longer any serious or fatal accidents. Around 90 percent of such accidents today are attributable to human error. Active safety systems can either completely prevent an accident or at least significantly reduce its consequences by directly intervening in the driving process. Examples of such systems include pedestrian detection, adaptive cruise control and blind spot detection. These functions are no longer reserved for luxury cars, but have become standard features in mid-range vehicles.

Active safety systems are increasingly developing into driver assistance systems. By supporting the driver with the tasks of driving, they increase both comfort and road safety. Among other things, they assist in critical situations or help correct a driver error when appropriate: for example, with automatic emergency braking maneuvers. The main systems for partially and fully automated driving comprise, firstly, sensors (such as radar, and interior and exterior cameras), secondly, a central high-performance computer to evaluate sensor data and determine the driving strategy (in a sense, the system's intelligence). The third element is the actuators (steering, brakes, engine control and transmission). A high level of reliability is required of these electronic assistance systems in vehicles. Inl CO3





Sources: Infineon; IHS Markit, Automotive Group: Alternative Propulsion Forecast. July 2020;

Strategy Analytics: Automotive Semiconductor Demand Forecast 2018-2027 and Automotive Sensor Demand 2018-2027. July 2020.

C03 Automated driving: Additional semiconductor demand per vehicle by level of automation at the given years



Combined Management Report

29

Unlike humans, they are expected to be 100 percent reliable. Functional safety and the quality of products, software and systems are therefore very important, placing challenges on the entire industry. For Infineon, this falls under the umbrella of reliability or "dependability" and the company has a significant competitive lead in this field.

Passenger and freight transportation

Sustainable and optimally networked mobility within metropolitan areas as well as between large cities is one of the key topics of the 21st century. Today more than ever, rapid and reliable public transportation determines the quality of life in many regions and cities worldwide and the ability of those regions and cities to compete with others. The trend towards electric trains has been with us for some time and is set to continue. Our components are used not only in local passenger trains, metro trains and trams, but also in high-speed trains. Electrification is also becoming increasingly common for the locomotives of freight trains, as well as for buses, trucks, construction equipment and farm machinery. Power electronics also play a key role here.



Security

The increasing degree of interconnection between humans, machines and devices demands greater IT security: from the manufacturing industry and Smart Home applications to information and communication technologies. We provide our customers with robust, future-oriented embedded security hardware for electronic devices, computer systems, network components and industrial facilities. These security technologies make it possible to authenticate people and machines, protect confidential data and detect unauthorized changes to networked machines and devices. In industry, this trend is already evident. With increasing digitalization, the desire for reliable IT security, which is easy to use, is growing.

Security for mobile devices

The development of smartphones and wearables, the mobile internet and Near Field Communication (NFC) technology has made it possible to integrate payment services into today's mobile devices. In times of the coronavirus pandemic, people are particularly valuing this function. Cashless payment is just one of many of the functions of mobile end devices requiring the storage and processing of sensitive data. Travelers on public transportation, for example, enjoy the convenience of using mobile tickets instead of coins or physical tickets. These applications require special security solutions such as a security chip called a Secure Element (SE). The SE can either be built into the smartphone (which is referred to as an embedded SE (eSE)) or integrated into the SIM card.

Secure authentication for the Internet of Things

Security plays a key role in the IoT. The rising number of hacking attacks underlines the need for appropriate precautions. In order to secure electronic systems, it is important only to connect authorized and authenticated devices with one another and to protect them against cyber-attacks and manipulation. This means that security must be integrated into every end-point whenever possible. The electronic components central to security are typically assembled on the printed circuit board, which is why these components are referred to as embedded security.

Combined Management Report

Security for industrial applications (smart factories)

In the era of Industry 4.0, companies are using the latest technologies to make their manufacturing faster and more cost-effective, to reduce rejection rates or to minimize disruptions and downtime through predictive maintenance. The networking and digitalization of factories, however, create points of attack for hackers. To protect themselves, companies must therefore take security into account from the very beginning of Industry 4.0 projects. A combination of software-based and hardware-based security solutions can protect connected machines and communication nodes. Examples are the OPTIGA[™] TPM chips from Infineon, which can be integrated into routers, industrial PCs or complex control units and which serve to identify devices to communicating partners in the network. They thus authenticate themselves in the network while securing transmission of the data. At the same time, they also help to protect the devices against manipulation, for example by helping to secure software updates. They act in a way like vaults for the encryption certificates.

Security for connected vehicles

The ever-increasing connectedness of vehicles creates opportunities for many new services, but also carries the risk of unauthorized access. This makes it necessary to guarantee the secure exchange of data both between the various onboard systems and with other vehicles and the infrastructure. Vehicle safety and personal safety on the one hand and data security and IT security on the other hand can no longer be considered in isolation from each other. The vehicle is becoming a networked computer on four wheels and part of the IoT. The demand for data security and IT security in the vehicle is rising. We see our opportunity here in the hardware-based security provided by our security controllers – either as a separate component or integrated into our automotive microcontrollers.

Integrity of devices

The integrity of devices has to be ensured as they become increasingly interconnected. In principle, this means that no unauthorized modifications can be made to programs and data by third parties. A Trusted Platform Module (TPM) can be implemented here. This special security chip can protect keys, passwords and digital certificates and store them separately from the CPU. In this way, sensitive information and security-critical data are locked away in a "data vault". At the same time, the integrity of the data can be checked, making it possible to detect attacks promptly and ensure the correct functioning of a system.

Internet of Things & big data

The IoT has the potential to change radically the way in which companies and consumers interact with one another and with the infrastructure surrounding them. The IoT connects the real and the digital world. A wide variety of physical things – ranging from smartphones, watches and cameras to cars and computers and even to home appliances and industrial equipment – are equipped with embedded electronic systems, software and sensors. The possibilities are huge: greater convenience and security in the smart home, higher productivity together with better ecology in farming, higher productivity in manufacturing, new services and support for older people. It is clear from these examples that the IoT and big data can be useful to humans and for the future of our planet.



30

Our semiconductor solutions drive the IoT. Sensors record mostly analog environmental information and transform it into digital data, microcontrollers process this data and generate control signals, actuators convert the control signals into actions (in most cases motion, but also light or heat), security solutions protect the integrity of devices and data, and connectivity components are the link between the real and the digital world.

Human-machine interaction

Human-machine interaction is concerned with how humans and systems interact and communicate with one another. For a long time now, the focus has no longer been on traditional industrial machines but on computers, digital systems and devices for the IoT: i.e. the connection between the real and the digital world. More and more devices are connected and perform their tasks automatically. The operation of all these machines, systems and devices has to be as intuitive as possible, as if the user were communicating with a person.



 $\mathsf{Sense} \rightarrow \mathsf{Sensors} \qquad \mathsf{Compute} \rightarrow \mathsf{Microcontrollers}, \mathsf{Memories} \qquad \mathsf{Actuate} \rightarrow \mathsf{Power semiconductors} \qquad \mathsf{Connectivity} \rightarrow \mathsf{Wi-Fi}, \mathsf{BT}, \mathsf{BLE}, \mathsf{USB/USB-C}$

C04 We are linking the real and the digital world

Collaborative robots

The field of robotics has been attracting attention for some years. In addition to the continuing development of conventional industrial robots, more and more areas of industry are using collaborative robots (cobots). Cobots work together with humans in the manufacturing process and are no longer separated from their human colleagues by protective equipment as the typical industrial robot is. They are therefore required to meet high standards of safety and reliability given that they have to be able to perceive their surroundings well enough to work effectively together with humans without endangering them. Cobots will be able to relieve and support humans performing hard and dangerous tasks. In the long term, cobots will support elderly people in living more independent lives, helping to master the challenge of an aging population. As cobots develop, the trend will be towards intuitive robot programming and self-learning robots. Infineon offers not only the necessary sensors, microcontrollers, connectivity solutions and power semiconductors, but also provides numerous start-ups in this market with know-how in the area of motor control, sensor systems and security.

Smart home

"Smartification" is also finding its way into the home. While the primary issue in an industrial setting is increasing productivity, applications in a private setting are usually focused on convenience. Controlling devices remotely is not the only feature of a smart home. Various devices also work with the internet to provide greater convenience, better energy efficiency and a higher level of security. The Infineon portfolio of micro-controllers, sensors, power semiconductors, connectivity solutions and security controllers offers the right solutions for a connected home.



Mobile communication infrastructure

Potential applications are increasing significantly as a result of the advent of the new mobile phone standard 5G. The network providers are expanding their infrastructure so that they are prepared for the increase in data volume and so that they can offer their customers good network coverage, high data transmission rates and short latency periods. The migration of network architecture to smaller and more numerous cell sites enables, among other things, the use of higher frequency ranges and better exploitation of available frequency spectrum. Our radio-frequency components are used both for communication between mobile devices and the base station and for wireless backhaul from local networks to the core network.

32

Group strategy

In recent years, we have established a stable foundation for success in our target markets. Our strategy is to further strengthen our core business and to tap into new growth markets. We have built and systematically expanded the technical expertise required over many years. Since good ideas do not turn into innovations until they are successful in the market, we have also developed the right concepts for implementing our value-creation strategy.

At the heart of our implementation is our strategic "Product to System" approach, through which we focus our entire value chain on achieving success for the customer. This approach is supported by other elements: a broad-based culture of innovation, constant pursuit of technology leadership, a high level of quality awareness, in-house production that differentiates us from our competitors and a sales strategy tailored to the various markets. We are therefore able to offer our customers leading products with the highest quality and delivery reliability, enabling us to achieve profitable growth and to grow faster than the market. All this promotes our goal of achieving and securing a leading position in the markets and applications we are active in, while at the same time successfully addressing issues relating to the future.

Within these strategic guidelines, the acquisition of Cypress is enabling us to grow faster than we would organically. Our primary objective is to broaden our scope. By combining complementary product portfolios, we are strengthening and expanding our core business and can service an even wider range of applications. Thus, we can differentiate ourselves more from our competitors and increase our growth potential. Cypress has an extensive portfolio of microcontrollers, as well as software and connectivity solutions. By combining these with our power semiconductors, sensors and security solutions, we can offer our customers comprehensive system solutions with better performance and ensure a faster time to market.

Thinking and acting long term not only extends to our direct business. In addition to a greater understanding of our customers' systems, the optimization of our products

and solutions, and achieving an adequate return in line with our objectives, it is also crucial that we incorporate sustainability into the management of our business and engage responsibly with society. Making life greener is part of our mission. Therefore, this year we have set ourselves the target of becoming carbon-neutral by 2030.

Strategic guideline: Strengthening our core business and tapping into new growth markets

With our strategic focus on the megatrends referred to above, we are ensuring longterm growth for Infineon, D p. 23 ff. We concentrate on markets with strong structural growth. The way we act in the individual markets depends on our competitive position, which we analyze in terms of technologies, products and application understanding. Here we look at three categories: firstly, our core business, secondly adjacent, complementary business, and thirdly new options both in terms of products and applications as well as in terms of markets.





Our core business includes all those areas in which we have a full understanding of the applications or where we master the underlying technologies and in which we can therefore offer an extensive differentiating product portfolio. In our core business, we want at least to grow with the market and thereby maintain or even strengthen our leading positions ("grow in scale"). One example is our power semiconductors, which are used in the generation, transmission, storage and use of electric power. We understand how these systems are used to convert and control electric power and we supply particularly compact and energy-efficient MOSFETs and IGBTs for this purpose. As the undisputed global market leader in this area, our broad technology and product portfolio lets us actively shape the transition of certain applications to new semiconductor materials such as SiC and GaN, offering our customers the optimal solution and showing them new ways of being successful. Our high-volume manufacturing means that we can achieve economies of scale and enables us to provide manufacturing capacity for individual customer projects and to grow together with our customers. In CO6

The greatest growth potential is to be found in markets that are adjacent to our core business which we have not yet addressed at all or which we have only partly been active in. We can, for example, adapt existing technologies and products for additional applications at a reasonable effort and thus increase potential sales. In the

CO6 Worldwide discrete power semiconductors and modules market share 2019



Source: Based on or includes content supplied by Omdia: Power Semiconductor Market Share Database 2020. September 2020.

application fields we are already active in, we can also use our system understanding to increase revenue with a broader portfolio of products and solutions ("grow in scope"). The core business mentioned above should not therefore be seen as a static portfolio of activities. Instead, the adjacent business becomes part of our core business in the medium term, the core grows and the boundaries shift, because when we make progress in specific markets in terms of technology, products and application understanding, the classification of these markets changes accordingly. To return to the example of power semiconductors: "Power" is one of our original core competencies, but here too we continue to develop. We are expanding our portfolio so that we can offer our customers an increasing degree of "Intelligence" in addition to power semiconductors. Specifically, this means that we have focused on complementing our range of efficient power transistors with additional components, increasingly using digital solutions. The products required for intelligent control of switches tend to be more complex and higher-end because they incorporate greater functionality. In the context of increasingly complex systems and shorter development times, many customers appreciate this greatly, as it enables them to reduce their development costs and development risk significantly.

Technological progress also paves the way for completely new application areas for which commercialization has not yet started on a wide scale. Sometimes innovations in semiconductor technology provide the momentum for new applications, while sometimes groundbreaking concepts on the customer side require the development of suitable semiconductor solutions. By becoming involved in these new business areas at an early stage, we want to secure a good starting position in highly promising future markets. Take the example of smart buildings: Sensors are the sensing organs of a building. They actively perceive their surroundings by "hearing", "seeing", "smelling" and "feeling". Our sensors can be used in new applications, such as predictive maintenance of smart buildings. To identify system failures, such as in an air-conditioning system, before they occur, our sensors measure various parameters and data points. These measurements provide information about whether the relevant system is operating properly or whether it might break down soon. The ability to monitor the

state of these devices and systems and to predict outages before they actually occur, but also not to replace the devices or systems too early, means that smart buildings offer significant potential for cost savings and greater convenience for residents. Intelligent control and monitoring of systems can of course also be used in many other areas, especially in industry.

We will continue to supplement our organic growth in the future with selective acquisitions. These need to fulfill three criteria. The acquisitions must be a) strategically beneficial across our three growth categories (core business, adjacent business, new options), b) financially sound and c) a good cultural fit. A purchase must strengthen Infineon's market position in accordance with our strategic focus, usefully complementing our range of competencies. The corporate culture of any potential acquisition target must be a good fit with Infineon's culture, possibly adding valuable elements. Following the transformational acquisition of Cypress, we are currently not planning any more major acquisitions.

Strategic guidelines: Factors for successful implementation

Our strategic "Product to System" approach shapes our actions

Our strategic "Product to system" approach goes well beyond thinking in terms of technologies and products. This approach was also a key element in developing the strategic guideline on strengthening our core business and tapping into new and adjacent growth markets described above. We want to understand what the markets are demanding and how they are changing. Only then will we be able to understand how we in turn can change the markets ourselves. We therefore look not only at the direct sales opportunities for our products, but also at our customers' success factors and at trends in the end markets. We want to recognize at an early stage when the foundation of our business is changing. Only then can we take appropriate action, ensure sustainable differentiation in growth applications and increase earnings.

C07 System know-how and services are becoming more and more a differentiating factor



For this to succeed, we have to understand the environment in which our customers' products are used, how those products are embedded in larger systems, with which other devices the products interact, what requirements they have to fulfill and what function they are intended to perform. Looking at our products in these systems, we have to consider which other active and passive components and control concepts they use and what capabilities our customers contribute to the value creation process. Equipped with this knowledge, we can make the most of our competencies. We want to translate the technologically possible into marketable products that provide the greatest possible benefit to our customers. Sensor systems, for example, not only capture information about their surroundings, but also interpret and process the data they gather in order to initiate a particular action. Digital control loops in power supplies enable higher energy efficiency at both high and low load levels.
Connectivity enables devices to be connected. Security controllers must be capable of distinguishing between authorized and unauthorized access. In addition to the hardware components involved, software is also always required to a greater or lesser extent. System understanding therefore also means software understanding. As the range of services provided is increasingly becoming a differentiating factor, we have expanded our range to include a respective ecosystem. For many small customers without expertise in mounting semiconductor components, an ecosystem offers crucial value added, as it can significantly reduce their development time.

The basic idea is that we continue to expand our competence portfolio, thereby increasing our potential for differentiation and helping shape semiconductor trends and, however, it is best to always be one-step ahead. Technology know-how has invariably been the foundation of our business model, whether in the form of discrete components, integrated solutions or mixed-signal components, which combine analog and digital functionality. Our broad portfolio ranges from individual components to solutions with basic firmware and driver software. This enables us to provide targeted support to our customers using totally different approaches. Some customers want to differentiate themselves from their competitors by using their own software, purchasing only the necessary hardware from us. We go one step further with automotive microcontrollers and security controllers, which we supply with special firmware that supports the basic functionality of the hardware and cannot be modified. More extensive functions can then be implemented using additional program code. The second generation of our iMOTION[™] digital motor control platform was developed, for example, for use in household appliances and comes with a development kit as standard that reflects the priorities of our customers in this market: lower system costs, compact design, reduced development costs, shorter development time and a high level of reliability. The iMOTION[™] component already contains all the algorithms required to control an electric motor. Only a small number of application-specific parameters need to be defined in order to complete the programming. Since we think in terms of systems, we can support all these different approaches and understand how to create added value. To generate even more of it for our customers in the digital age, in the future iMOTION[™] will be expanded to include security and connectivity components. It is not always the most sophisticated solution that provides the greatest

value added to the customer. Sometimes standard components may be the right fit. Nevertheless, system understanding creates a competitive advantage because it gives us the ability to cooperate with our customers and develop better products.

In recent years, we have intensified our activities in the area of software, not only in strategic partnerships and our own software development, but also as a result of the acquisition of Cypress. The acquisition means that now, for the first time, we have an entire ecosystem comprising software components and a development environment as well as reference designs, product support, blogs, a developer community and online tutorials. A key element of this successful ecosystem is the ModusToolbox[™] development environment. This includes reusable firmware, which makes it significantly easier for engineers to program Wi-Fi and Bluetooth components.

Our own progress in the area of software is also becoming increasingly visible, benefiting our customers. We combine our software with our hardware expertise. The second generation of our successful automotive microcontroller family AURIX[™] can, for example, be used for radar signal pre-processing in combination with our radar sensor ICs. We have implemented this digital pre-processing of data in hardware, as this is considerably more effective. However, we were only able to do this because we mastered and integrated the underlying algorithms.

Quality leadership and technology leadership create added value for customers

Customers choose Infineon because we stand for the highest levels of quality, for reliability and for technological leadership. The satisfaction of our customers attests to the fact that this rigorous approach to quality is a successful strategy. In the 2020 fiscal year, Infineon was once again recognized by many leading manufacturers in the automotive industry. For the sixth year in a row, we achieved an impeccable quality record for our deliveries to Toyota's Hirose plant. As a result, the car manufacturer presented us for the third consecutive time with the Honor Quality Award, the plant's highest award for quality. Infineon is the first non-Japanese semiconductor company to achieve this.

In order to fulfill the promise of technological leadership, our engineers anticipate many challenges before our customers are affected by them. We meet the high quality requirements of the automotive industry and we are constantly improving efficiency when dealing with electricity. We also deliver solutions for the world's challenging security projects. Cooperating closely with our customers helps us make targeted use of this specific expertise and identify future trends at an early stage.

Furthermore, we systematically use our strong technological position to expand our expertise, strengthen our core business and grow in scope: for example, whenever the requirements of our markets change or when we see long-term growth potential in an adjacent business area. As one of the market leading companies, we began researching new materials for power semiconductors at an early stage. SiC and GaN are particularly well suited for use in power electronics. Here we are advancing into new areas of performance and efficiency. These components are typically more expensive than Si-based products, but thanks to new system architectures, they also open the door to many new types of customer benefit, such as a smaller form factor, greater efficiency and lower system costs. Realizing these benefits often goes hand in hand with higher research and development costs for our customers. Therefore, we support the introduction of these new technologies in two ways. On the one hand, we work closely together with our highly innovative customers, while on the other hand we provide less technology-oriented customers with appropriate solutions that make the switch easy to implement: for example, compatible control components. Given the increasing relevance of SiC to certain power semiconductor applications, we acquired SiC specialist Siltectra in November 2018. The company has developed an innovative method known as Cold Split technology to process crystal material efficiently and with minimal loss of material. Infineon will use the Cold Split technology for the efficient separation of SiC boules and to split SiC wafers.

The increased number of SiC chips will significantly simplify the ramp-up of our SiC production, especially with regard to the further expansion of renewable energy sources and the increasing use of SiC in the power train of electric vehicles. We have now established all the prerequisites for future success in the growing SiC market: access to high-quality wafers, leading technology at the product level (Trench SiC MOSFET), module expertise and system understanding.

Based on our technology leadership in transistors, we also want to strengthen our position in solutions for their control and to expand our product portfolio. As the number one in MOSFETs and IGBTs, we see interesting opportunities for growing at a faster rate than before in this area. This approach is exemplary of the strategy outlined above – that of starting from a strong core business to penetrate adjacent markets.

Many years ago, we deliberately blazed new trails in the field of sensor technologies, in the knowledge that capturing environmental data would become increasingly important in our target markets. Today we have a comprehensive portfolio of sensors for a wide variety of systems in the car, for mobile end devices, consumer electronics and the IoT. MEMS microphones in particular are experiencing a boom. Wireless headphones are current trends. Traditionally, audio quality and comfort were key factors in customers' purchasing decisions. Now, the focus is increasingly on noise cancellation. This is where our MEMS microphones use one microphone for speech and two microphones for ambient noise. Up to six microphones are therefore used for a stereo in-ear headset. That is the reason for the rapid growth of the market for compact, highly functional MEMS microphones.

Combined Management Report

Strategic differentiation through in-house manufacturing

All our actions are designed to create, on the one hand, value added for the customer and, on the other hand, differentiation for us. This also applies to manufacturing. We manufacture in-house when doing so means we can differentiate ourselves from the competition through lower cost and/or higher performance. Typically, this is the case for power components and sensors. On the other hand, when it comes to standard technologies where the intellectual property right lies in the design and software, we work primarily with contract manufacturers. This is predominantly the case for highly integrated products, such as microcontrollers, connectivity components, security ICs and memory ICs. This enables us to make the most effective use of our capital employed and to optimize our investment in research and development.

Our outstanding manufacturing methods and our process and manufacturing expertise give us a strategic advantage in many application areas, such as power electronics and sensor technologies, enabling us to offer differentiating components. This applies to the MEMs microphones mentioned above. MEMS microphones consist of two semiconductors: a MEMS membrane and an ASIC. To manufacture a microphone module, these two chips are mounted in a housing with an opening through which the acoustic signal enters. To date, Infineon was a leader in highly-functional MEMS microphones with "dual backplate" technology. Now, with our "sealed dual membrane" technology, we have taken another revolutionary innovative step.

With our 300-millimeter thin-wafer manufacturing technology for power semiconductors, we have achieved a breakthrough. As pioneers of this technology, the scale of manufacturing we have now reached is enabling us to achieve significant economies of scale. Compared with manufacturing on 200-millimeter wafers, we benefit here from lower cost with equal productivity and a lower capital outlay. We have taken a further step to extend our lead. The new factory on the Villach (Austria) site is cooperating with the 300-millimeter manufacturing facility in Dresden (Germany) to create virtual manufacturing across the two sites with synergies and flexibility. In line with our "One Virtual Fab" concept, we plan to use the same processes, equipment, and automation and digitization concepts in Villach and Dresden. This creates cost advantages, but it also benefits the customer, as we can rapidly shift production volumes between the sites. By expanding our manufacturing capacity, we are sending a strong signal to our customers that Infineon is the ideal partner for future growth.

Key aspects of the focus of our manufacturing landscape include not only innovative strength and delivery capability, but also quality and productivity. Leading manufacturing technologies and process expertise in in-house manufacturing as well as outsourcing in areas with little differentiation. Our manufacturing strategy ensures growth, competitiveness and flexibility.

Innovation drives differentiation

Innovation is one of the fundamental success factors in the semiconductor industry and is the basis on which we differentiate ourselves from the competition. Infineon has shown time and again that our technological and product innovation enables us to grow faster than the market. However, the challenges are becoming greater. In the attractive markets we address, competition is increasing and we require an everbroader technology portfolio to remain competitive in these markets in all applications. In addition, development costs are increasing disproportionately with each further step, as the technologies gradually approach physical limits. This fact underlines the importance of economies of scale and the relationship between technology leadership and size. Previous formulas for success fall short under these conditions and have to be either expanded or replaced.

This is why innovation and system thinking ideally complement one another. We consider what the key factors are and how we can combine several innovative steps, which may sometimes appear rather small, to form a greater whole that will in turn provide an additional and noticeable benefit to the customer. Our commitment to innovation today covers all areas of our company: logistics, operations, technology, products, system solutions and cooperation with our customers. We focus on different aspects, depending on market demands. Within the company, the focus is on innovation in our business activities and on continuous improvement, with the aim

38

Combined Management Report

of becoming leaner and faster. The key to success is collaboration across organizational boundaries and the resultant creation of a working environment that helps us expand our innovative expertise. In parallel with a structured innovation process, we have successfully established new concepts which do not take a hierarchical approach but are based on the initiative of our employees and therefore provide the necessary freedom to act.

The digital transformation plays a crucial role here. As a global semiconductor manufacturer, we benefit from the digital transformation in two ways: as a user and as a provider of digital solutions. We are making good progress in well over 100 digitization projects. We are, for example, connecting our sites and organizing our global supply chains in accordance with Industry 4.0 in a virtual manufacturing network. In sales and marketing, we are using new methods for analyzing big data to improve our cross-selling and, as a result, we can provide more targeted solutions for our customers' needs. With initiatives such as these, we are building our digital expertise and becoming even more competitive. We are taking an exploratory approach to make best use of the potential of the digital transformation. This way, we gather experience based on specific use cases and work towards solutions in an iterative process.

The IoT and big data are constantly bringing new players to the electronics marketplace and they call for a strong partnership across a variety of competence areas. In this dynamic environment, joint innovation is the key to corporate success. One example is our Silicon Valley Innovation Center, a start-up center for innovations. It provides a platform on site for investigating new ideas and fast learning. We also operate co-innovation spaces, the first of which we opened in Singapore. With our experience and expertise, we support the typical skill set of start-ups trying out new technologies and applications and bringing some of them to the market. This way, both sides benefit. This approach also lets us accelerate our own innovation processes and penetrate further into new and adjacent markets. One example of this is our collaboration on the development of a radar-based blood pressure sensor. The aim is to jointly develop a wearable, non-invasive blood pressure sensor based on the XENSIV™ 60 gigahertz radar chipset. This enables continuous and precise measurements for the first time. The new technology has the potential to change the market for wearable cardiovascular monitoring devices in the long term.

Flexible marketing approaches enable Infineon to adapt to rapidly changing markets

To reach more customers, we will be even more flexible in the future and we will develop new approaches. Historically, Infineon has grown through close collaboration with key customers. With these customers, we have successfully defined products that then enabled us to penetrate the wider market. We reach many of our smaller customers through distributors. We will further exploit the great potential of the distribution channel with standardized but configurable products for the wider market. Here, we have made good progress in recent years, because we have focused on short-notice availability, continuous targeted adjustment of the product portfolio and close partnership with distributors.

Digitalization and the IoT are creating new business models. Manufacturers generally concentrate on making devices smart with the best possible sensing and data processing capability. They have neither the ability nor the desire to deal with the underlying semiconductor technology. For these customers, we offer "make it easy" solutions using, for example, optimized product combinations, reference designs and basic software. Here, in particular, our system understanding makes a difference.

At the same time, we are engaging in networks consisting of distributors, development service providers and manufacturing service providers. These networks enable smaller companies and start-ups to develop jointly and to manufacture electronics for new functions and new end devices. This broad sales strategy lets us maximize revenue from existing technologies, while at the same time increasing the return on our investment in research and development.

Combined Management Report

Strategic development and ensuring long-term growth potential – acquisition of Cypress

The acquisition of Cypress is a major groundbreaking step in Infineon's strategic approach. Our focus on structural growth drivers is strengthened and the base of our business model widened. By combining complementary product portfolios, we can offer our customers comprehensive solutions to connect the real world with the digital world, thus tapping into new growth markets. Cypress has an extensive portfolio of microcontrollers, memories, connectivity solutions and software. When these are combined with our power semiconductors, sensors and security solutions, we are able to offer our customers even more extensive and forwardlooking system solutions in the areas of automotive, industrial, communication and IoT applications.

The complementary nature of our product ranges means that we can differentiate ourselves even more strongly from the competition in our core applications with our strategic "Product to System" approach and we can thus service adjacent business areas. The advantage of our system solutions to the customer is that the relevant parts come from a single source. They are compatible with each other and rounded off with software solutions. For our customers, this means shorter product development times and a good cost-benefit ratio for their products.

Progress in microelectronics and the increasing networking of devices are driving the rapid growth of the IoT. This market differs radically from the markets in which Infineon grew historically, due to its high level of fragmentation of customers and solutions. The challenge is to be able to offer this wide-ranging clientele the service it expects and to do so with an effective capital outlay. The new way to acquire customers is digitally, with a global support structure.

Over the years, Cypress has established an efficient ecosystem of software components, a development environment, reference designs and a broad-based marketing structure, which we are now broadening further with Infineon's products and solutions. Ecosystems have a strong networking effect and through them, we learn to understand our customers better. As a result, we better understand their needs, recognize trends and can continue to develop our products and services on this basis. With the combination of the two companies, the market we can address has expanded. We are accelerating our growth in markets adjacent to our core business and we are advancing into new areas of application. One example of this is household appliances. Traditionally, Infineon has produced semiconductors for this market to drive motors. Innovative new products can connect to the internet to enable intelligent energy management. Here, the product portfolios of Infineon and Cypress complement each other perfectly, as demonstrated by two examples. The first is that IGBTs and driver ICs from Infineon and microcontrollers from Cypress can be used to control motors. The second is where MEMS microphones from Infineon are used for the voice control, for instance, of smart speakers, while microcontrollers and connectivity from Cypress are used for the connection to the internet.

With the acquisition, we are further strengthening our market position. We have become the eighth largest semiconductor manufacturer. A leading market position is the prerequisite for profitability and innovation and thus for continuing growth. In the area of microcontrollers, we are now the third largest vendor (III CO8), while we are the market leader for semiconductors in automotive applications with a market share of 13.4 percent (see the chapter "The segments", D p. 58). Given the increasing importance of driver assistance systems and new electronic architectures in particular, our expanded portfolio of microcontrollers and NOR flash memory ICs, which are used as program memory, offers great potential. Other areas of application are in the field of infotainment. We can offer products for new applications such as digital display systems, human-machine interaction and connectivity solutions for home entertainment. These are areas that will grow very fast over the next few years.

C08 Worldwide microcontroller market share 2019



Source: Based on or includes content supplied by Omdia: Annual 2001 – 2019 Semiconductor Market Share Competitive Landscaping Tool – Q4 2019 v2. March 2020.

The strategy we have described is also reflected in the financial attractiveness. We anticipate the Cypress transaction will already start to be accretive to the adjusted earnings per share from the 2021 fiscal year onwards. Contributing to this, first of all, will be expected cost synergies of around €180 million per year, which should be generated until the middle of the 2023 fiscal year. More significant in terms of value creation, however, will be revenue synergies resulting from our strategic "Product to System" approach. From fiscal 2028 onwards, we estimate that these will amount to more than €1.5 billion per year. The revenue synergies will have built up continuously up to this point. As Cypress is less capital-intensive due to its higher proportion of external manufacturing, there will also be an improvement in free cash flow generation.

Sustainable growth: Optimized manufacturing processes, efficient products and binding carbon emissions targets

To be successful in the long term, economic success must go hand in hand with environmental and social commitment. Our "making more from less" approach has shaped our actions for a long time. A key factor in arriving at greater sustainability and solving climate challenges is technologies that achieve more with fewer resources and save emissions at the same time. By fully adopting this approach, also in our manufacturing, Infineon excluding Cypress has consumed 31 percent less water and 53 percent less electricity and produced 66 percent less waste in its frontend factories than the global average of semiconductor companies organized in the World Semiconductor Council. We work constantly on avoiding direct emissions and on continuing to reduce the energy requirements of our facilities and processes.

Through good resource management, our products and solutions make an active contribution to climate protection. During their service life, they contribute to savings of around 56 million tons of CO₂ equivalents (excluding Cypress). We know, however, that we can do even more. This is why, this year for the first time, we have set binding CO₂ reduction targets for our company. We aim to become carbon-neutral by 2030. This target relates to Infineon's own footprint for greenhouse gases and includes not only direct emissions, but also indirect emissions from electricity and heat.

Long-term financial targets underline our growth ambitions

In the coming years, structural trends will drive our growth, in particular electromobility, automated driving, renewable energy, manufacturing automation, mobile phone standard 5G, data centers, IoT and a steadily increasing number of batterypowered devices. Thanks to our leading technologies, our understanding of applications and systems, and our differentiating expertise in manufacturing, we have achieved an outstanding position in these markets. We want to take advantage of the resulting opportunities and continue to outgrow the respective markets, increasing our profitability step by step. We make consistent investments for this purpose. Our long-term financial targets reflect this aspiration. They apply through the cycle and are based on a stable macroeconomic environment.

Target 1: Average annual revenue growth of more than 9 percent over the cycle

We hold leading positions in our core markets and have expanded systematically over the years into adjacent markets. Our four segments focus on the megatrends referred to above. Our strategic "Product to System" approach is gaining even greater impetus due to our integration of Cypress' product portfolio. As a result, we can use our extensive technological and product expertise to develop better solutions and thus create significant added value for our customers. We expect to achieve revenue growth in the future of more than 9 percent (9%+) over the cycle.

Target 2: 19 percent Segment Result Margin over the cycle

Growth is only one prerequisite for sustainable success. Another criterion is profitability. When we work profitably on a sustainable basis, it means that our development focus is on designs, which will be of the greatest use to our customers, who in turn will adequately honor them. Even in difficult market phases, we want to continue to drive our development tasks at the same pace. Here, we are relying on economies

of scale and the cost advantages from the increasing share of 300-millimeter wafers in our total manufacturing volume, and also on a disproportionately lower increase in functional costs. Last but not least, technology leadership and our strategic "Product to System" approach also enable us to maintain a higher degree of differentiation.

The integration of Cypress and the related cost synergies will sustainably improve our profitability. We are setting ourselves the target of achieving a Segment Result Margin of 19 percent over the cycle.

Target 3: Investments amounting to 13 percent of revenue over the cycle

Our planning is geared towards providing the necessary manufacturing capacity for our expected growth. In the area of power semiconductors, one of the factors differentiating Infineon from the competition is that we manufacture our own products. To generate growth in this field, we are planning to expand our 300-millimeter production. In the area of microcontrollers, connectivity components, security ICs and memory ICs from the Infineon and Cypress portfolios, we will continue to work together in the future primarily with our manufacturing partners. Together, we can now set our investment rate target at 13 percent of revenue over the cycle. In addition to this, we will be making investments we have previously announced in manufacturing and research facilities and office buildings, including the new 300-millimeter manufacturing facility on the Villach site in Austria.

Capital structure targets demonstrate our long-term reliability

The long-term stability of Infineon is of great importance from a variety of perspectives. It is important to our customers that we remain a trusted partner and reliable supplier for many years to come. Our debt providers need to be certain that we can repay principal and interest over a long period of time, while our shareholders want to achieve an attractive return over the long term. As an employer, we want to offer also our employees this kind of long-term reliability, even well beyond their working lives through retirement benefits. We therefore attach great importance to solid credit-worthiness. An investment grade rating is and remains a key element of Infineon's conservative financial policy. From our desire to maintain this rating, we derive our medium-term and long-term capital structure targets, even after the transformative acquisition of Cypress. Following the transaction, the rating agency S&P Global Ratings (S&P) lowered Infineon's rating by one notch to its current level of BBB– with a stable outlook, still representing an investment grade rating.

Infineon's capital structure targets consist of a gross cash target and a gross debt target. Our gross cash target is €1 billion plus at least 10 percent of revenue. The fixed base amount of €1 billion provides a solid liquidity reserve for contingent liabilities and pension liabilities, unrelated to revenue. The additional amount of at least 10 percent of revenue means that we always have access to sufficient cash to be able to finance our operating business and investments throughout all phases of the semiconductor cycle. We have retained the cash target after the acquisition of Cypress and took it into account when we devised the financing structure.

The upper limit on our gross financial debt is two times Earnings Before Interest, Tax, Depreciation and Amortization (EBITDA). As a result of the acquisition of Cypress, we exceeded our gross debt target, but only to the extent that this was compatible with retaining our investment grade rating. Infineon's medium-term target after the acquisition is to de-lever to or below the target upper limit.

Further to the refinancing steps taken in the 2019 fiscal year (with the capital increase in June and the issue of a €1.2 billion hybrid bond in two tranches in October) and within two months of the completion of the acquisition, we completed further key refinancing measures. First was a capital increase of a bit more than €1.0 billion in May 2020 by way of an accelerated bookbuilding process. The entire planned equity portion of the refinancing of the Cypress acquisition was thus completed. In June 2020, Infineon issued corporate bonds with a volume of €2.9 billion under its newly established EMTN program (European Medium Term Notes). The bonds were issued in four tranches with maturities of three, six, nine and twelve years at attractive financing conditions. As a result, the bridge facility of the acquisition financing could be fully repaid and the maturity profile was improved significantly.

Further refinancing steps will relate to the term loans, which were deliberately raised in US dollars as part of the acquisition financing, as Cypress is a US company with US dollars as its functional currency and will be included in the Group statement of financial position of Infineon. In September 2020, Infineon repaid a portion (US\$555 million) of the term loans due 2022 early.

Human Resources strategy

Our Human Resources strategy makes a decisive contribution to ensuring Infineon's ability to achieve its growth and profitability targets and successfully navigate through varying economic phases and challenges. We also see it as our responsibility to contribute to solve the major challenges currently facing society. During the previous fiscal year, Infineon continued to evolutionary develop and roll out its HR strategy on a worldwide basis. Accordingly, our HR understanding is "People create value. HR fosters people engagement". Our overriding objective is to foster our employees' engagement and to take the necessary measures to achieve this. When employees are enthusiastic about their job and possess the required skillsets and opportunities for further development, they not only display higher levels of work performance, creativity, productivity and innovation, it also enhances their personal sense of achievement.

The coronavirus pandemic has necessitated swift but well-considered action in the field of HR. The health of our employees takes the highest priority. At the same time, however, we need to ensure business continuity. With this mind, wide-ranging flexibility concepts already in place at Infineon are being put to good use and will continue to be developed with a view to tackling the challenges that are likely to arise in the "new normal" after the pandemic. The digitalized solutions we have introduced over the past few years are helping us to take the next steps forward, together with our employees.

In order to remain innovative, competitive and successful going forward, Infineon is in constant search of the most highly talented individuals. This is a challenge in itself, as talented people in the STEM fields (science, technology, engineering and mathematics) are in great demand on the labor market. One of Infineon's great advantages is its positive brand and employer image, which helps us in our efforts to recruit and retain talents. The fact that we manufacture future-oriented products and create value for society makes our company highly attractive to potential employees.

43

To strengthen a positive employee experience and the resulting high level of engagement, it is also important to continuously develop employees and managers. We have geared our learning methods towards digitalization and offer the right formats for the relevant content. We provide our employees with a wide range of high-quality training courses in various languages, many of which are virtual and can be accessed from anywhere and at any time.

We also define ourselves through a motivating working environment and in the way we cooperate with each other, embracing a distinctive feedback culture, actively practiced leadership principles and worldwide interaction with colleagues from over 100 nations. We are proud of this diversity and will continue to cultivate it with the aim of taking in additional dimensions of diversity going forward. We see diversity as the natural participation of everyone concerned and a key factor for our enduring success. The perception that skills and behavior complement each other is an essential part of our recruitment and organizational development strategy. Our interim target of having 15 percent women in leadership positions, which we set for the 2020 fiscal year, has already been accomplished one year earlier than planned. Ensuring we achieve continual progress in this respect will remain a key focus of our HR work. Regularly conducted pulse checks of our employees worldwide enable us to keep our finger on the pulse of their needs and introduce the necessary measures as required.

Ease of use, efficiency and a pro-active approach to development are key points of focus in ongoing HR services and support work. The expectations of the younger generation differ significantly from those of previous generations and present us with new challenges. The digital transformation of HR at Infineon has enabled us to take a decisive step towards meeting these expectations. During the 2020 fiscal year, we successfully completed a project involving the comprehensive global transformation of HR. It included for example a continuous, flexible target management, succession planning for key positions, offering of a basic range of opportunities to acquire new skills in the context of digitalization, and a globally harmonized, simplified salary planning process. We are deploying these innovative, user-oriented processes and tools with the aim of encouraging our employees to take responsibility for their own personal development. At the same time, in their capacity as coaches and supporters of their employees, our managers are continuously guided by the leadership principles rolled out during the 2019 fiscal year.



In addition to all the above-mentioned topics, the successful integration of Cypress remains a high priority. HR is playing a significant role in integrating more than 6,000 employees worldwide – strategically, financially and culturally.

People are the main focus of our activities, as dedicated, healthy, successful employees are key to maintaining and improving our market-leading position, thereby creating a successful future for us all.

Further information, including detailed statistics, is available in the 2020 Sustainability Report and in the 2020 Human Resources Report.

 \Box www.infineon.com/csr_reporting \Box www.infineon.com/hrreport

Combined Management Report

46

Combined Management Report

Our Group

- Business model and finances 46 Business model 48 Review of the semiconductor industry
 - 50 2020 fiscal year
- 53 The segments
 - 55 Automotive
 - 60 Industrial Power Control
 - 65 Power & Sensor Systems
 - 70 Connected Secure Systems
- 76 Research and development 83 R&D sites
- 84 Manufacturing 88 Manufacturing sites
- 89 Internal management system
- 92 Sustainability at Infineon
- The Infineon share 93

Our 2020 fiscal year

- 96 Group performance 96 Review of results of operations
 - 101 Review of financial condition
 - 103 Review of liquidity
- 107 Report on outlook, risk and opportunity 107 Outlook
 - 110 Risk and opportunity report
- 123 Overall statement on Infineon's financial condition
- 124 Infineon Technologies AG
- 126 Corporate Governance
 - 126 Information pursuant to section 289a, paragraph 1, and section 315a, paragraph 1, of the German Commercial Code (HGB)
 - 130 Statement on Corporate Governance pursuant to section 289f, 315d of the German Commercial Code (HGB)/Corporate Governance Report
 - 130 Compensation report

This report combines the Group Management Report of Infineon ("Infineon" or "Group") - comprising Infineon Technologies AG (hereafter also referred to as "the Company") and its consolidated subsidiaries - and the Management Report of Infineon Technologies AG.

The Combined Management Report contains forward-looking statements about the business, financial condition and earnings performance of Infineon. These statements are based on assumptions and projections based on currently available information and present estimates. They are subject to a multitude of uncertainties and risks. Actual business development may therefore differ materially from what has been expected. Beyond disclosure requirements stipulated by law, Infineon does not undertake any obligation to update forward-looking statements.

With effect from 1 April 2020, the name of the segment changed from "Power Management & Multimarket" to "Power & Sensor Systems". The name change had no impact on our organizational structure or strategy, or on the scope of our business.

As a result of the acquisition of Cypress, we have not only substantially expanded our product portfolio and the number of applications we address, but also significantly broadened our competence and know-how. As a result, the name of the segment was changed with effect from 1 August 2020 from "Digital Security Solutions" to "Connected Secure Systems".

Business focus and strategy

Combined Management Report Business model and finances Business model Consolidated Financial Statements

Further information

Business model and finances



Business model

With 46,665 employees worldwide, Infineon is a leading global provider of semiconductors (source: Based on or includes research from Omdia: *Annual 2001 – 2019 Semiconductor Market Share Competitive Landscaping Tool – Q4 2019 v2.* March 2020). Semiconductors connect the real world and the digital world: They enable intelligent mobility, efficient energy management and the secure collection and transmission of data. Infineon designs, develops, manufactures and markets a large number of semiconductor and system solutions, focusing on automotive, industrial and consumer electronics as well as on radio-frequency applications, mobile devices and hardwarebased security. Its products range from standard components to customer-specific solutions for components and systems, all the way to special components for digital, analog and mixed-signal applications.

Combined Management Report Business model and finances Business model

On 16 April 2020, Infineon acquired Cypress Semiconductor Corporation (Cypress) based in San José, California (USA) for €8,254 million. Cypress is an US-american semiconductor company. In the 2019 fiscal year (year ended 30 December 2019), Cypress generated revenue of US\$2,205 million. At the end of the 2019 fiscal year, Cypress had 5,871 employees. As a result of the acquisition, Infineon's product spectrum was expanded to include an additional differentiated portfolio of microcontrollers, memory products, software and connectivity solutions. The various product lines were integrated into Infineon's segments as follows:

C10 Allocation of Cypress business units into the segments of Infineon



Infineon divides its activities into four segments, each of which derive their strategic focus from the Group strategy. All the Group's activities relate to one of the higherlevel growth drivers - energy efficiency, mobility, security and IoT & big data. The segments are each responsible for particular areas that reflect their core competencies. The Automotive segment is responsible for the semiconductor business for automotive electronics and for activities with memory products. The Industrial Power Control segment concentrates on power semiconductors primarily used in industrial applications, while the Power & Sensor Systems segment addresses more consumer-oriented applications and power supplies in general. In addition, activities in the area of radio frequency and sensor-based applications (including the recording of sensor data and interaction with machines and devices) fall within the sphere of responsibility of the Power & Sensor Systems segment. Activities relating to traditional and new security applications, microcontrollers for non-automotive electronic applications and connectivity solutions are bundled in the Connected Secure Systems segment.

Our manufacturing landscape covers both phases of semiconductor manufacturing: frontend and backend. In frontend manufacturing, the Si disks, also known as wafers, are processed. Optical, physical and chemical methods are used to implement transistors and their connections with each other, thus determining the function of the chip. The wafers are dispatched from the frontend site to a backend site, where the remaining processing steps take place in backend manufacturing. These steps include sawing the wafer into individual chips, testing and packaging. Finally, the chips are dispatched to the distribution centers. At the end of the 2020 fiscal year, Infineon operated eight frontend sites and 14 backend sites.

Business focus and strategy

Combined Management Report Business model and finances Review of the semiconductor industry

Review of the semiconductor industry

Review of the semiconductor industry in the 2020 fiscal year (in euros)

Global semiconductor revenue in the 2020 fiscal year was €383.194 billion (source: WSTS, (World Semiconductor Trade Statistics): *Semiconductor Industry Blue Book History.* 27 October 2020). This is an increase of 3.3 percent compared with the figure for the previous fiscal year of €371.030 billion. Semiconductor revenue therefore proved very resilient, despite the coronavirus pandemic and the resulting economic decline. Demand for microprocessors saw a particularly positive trend. Following the sharp decline in revenue in the 2019 calendar year, revenue from memory chips (mainly from DRAM and flash memory products) also increased somewhat faster than the market relevant for Infineon excluding DRAM and NAND flash memory chips and microprocessors, which improved by 2 percent in the previous fiscal year. Infineon's revenue in the previous fiscal year rose by 7 percent, taking into account the acquisition of Cypress. Without consideration of Cypress, the revenue would have declined by 4 percent.

Review of the semiconductor industry in the 2019 calendar year (in US dollars)

In the 2019 calendar year, global semiconductor revenue was US\$428.397 billion. Compared with the figure for 2018, of US\$485.052 billion, this was a decrease of 11.7 percent (source: Omdia: *Annual Competitive Landscaping Market Share Tool, Q2 2020.* August 2020). The decrease in revenue was mainly the result of significantly lower revenue in the area of memory chips, especially DRAM and NAND flash, markets in which Infineon is not active. The DRAM market saw a decline in revenue of 37.2 percent and the NAND flash market a decline of 24.6 percent, whereas semiconductor revenue in the NOR flash market, a product category we serve as a result of our acquisition of Cypress, fell by only 7.1 percent.

As a consequence of the sharp decline in revenue from DRAM and NAND flash memory chips, Intel replaced Samsung as leader in the list of the biggest semiconductor companies again in the 2019 calendar year. Intel's revenue increased by 1.3 percent from US\$69.895 billion to US\$70.785 billion. Its share of the total market was 16.5 percent. At Samsung, on the other hand, revenue fell by 29.7 percent, from US\$74.644 billion to US\$52.511 billion. This represents a market share of 12.3 percent. The order of the companies ranked 3 to 7 remained unchanged: SK Hynix, Micron Technology, Broadcom, Qualcomm and Texas Instruments.

For Infineon, the revenue figure calculated by Omdia for the 2019 calendar year was US\$8.891 billion. As a result of the contribution to revenue made by Cypress (US\$2.164 billion), aggregated revenue was US\$11.055 billion. This means that Infineon rose from 11th place in the 2018 calendar year to 8th place in 2019. Of the 20 largest semiconductor companies, the following are direct competitors of Infineon: Samsung (only in security ICs; the revenue from those accounts for about 1 percent of Samsung's revenue), Texas Instruments, STMicroelectronics, NXP, Renesas and Analog Devices. Apple was included for the first time in the top 20 semiconductor manufacturers, replacing ON Semiconductor, a direct competitor of Infineon. Due to the acquisition of Cypress and its connectivity business, Broadcom and Qualcomm are now also Infineon's competitors.

C11 Top 20 semiconductor manufacturers for 2019 calendar year Revenue in billion USS



Source: Based on or includes content supplied by Omdia: *Annual Competitive Landscaping Market Share Tool, Q2 2020.* August 2020. Foundries and subcontractors are not included in this market research.

In July 2020, Analog Devices, an American company specializing in analog and mixed signal components, announced its acquisition of American competitor Maxim Integrated by way of a share exchange agreement for around US\$21 billion. The completion of

48

Combined Management Report Business model and finances Review of the semiconductor industry

the transaction is expected at the end of the 2021 calendar year. Infineon is only in competition with the two companies in a few product categories.

In September 2020, US graphics processor manufacturer nVidia announced that it was to acquire microprocessor core chip designer Arm from the Japanese group Softbank for around US\$40 billion. Completion of the transaction is expected to take place at the end of the 2021 calendar year. nVidia is not a competitor of Infineon. Infineon is a licensee of Arm.

In October 2020, US server processor and graphics processor manufacturer AMD announced that it was to acquire US manufacturer of programmable logic chips Xilinx in an all-stock transaction for around US\$35 billion. Completion of the transaction is expected to take place at the end of the 2021 calendar year. Neither of the two companies is a competitor of Infineon.

In October 2020 Intel and SK Hynix have announced that SK Hynix will acquire Intel's NAND memory business for US\$9 billion. This transaction has no effect on Infineon.

The 20 largest semiconductor companies accounted for 73.1 percent of global semiconductor revenue in the 2019 calendar year (2018: 75.1 percent). The remaining 26.9 percent (2018: 24.9 percent) was spread over more than 1,500 other semiconductor companies. The semiconductor industry is therefore highly fragmented. The consolidation process is more or less advanced, depending on the product category.

China has played the dominant role for years in terms of regional semiconductor sales. In the 2019 calendar year, China increased its share of the global semiconductor market still further to 50 percent, compared with 48 percent in 2018 and 47 percent in the 2017 calendar year. In China, contract manufacturers known as EMS (Electronic Manufacturing Services) play a special role. These companies assemble electronic products predominantly for Western customers. This business model applies particularly to consumer durables and to IT and telecommunications products such as servers, PCs, laptops, tablets and mobile telephones. Most of the semiconductors delivered to and mounted in China are re-exported as part of a finished product. In C12

In terms of purchasing volume, the 20 largest semiconductor buyers accounted for US\$189 billion, equivalent to a share of 44.1 percent (2018: US\$209 billion with a share of 43.1 percent). For most companies, the purchasing volume fell in 2019, but Chinese company Huawei bucked the trend and purchased significantly more. Consequently, Huawei replaced Samsung from position 2 in the ranking. Despite the substantial reduction in vehicle production in the 2019 calendar year, Continental remained in 13th position and Bosch remained in 12th position. In contrast, there was no decline in investment from data centers. This is reflected in the purchasing volumes of data center operators Alphabet and Amazon, which stayed the same or increased. Alphabet rose from 18th position to 14th, while Amazon rose from 19th to 15th place. III C13



Source: Based on or includes content supplied by Omdia: Application Market Forecast Tool. September 2020.



Source: Based on or includes content supplied by Omdia: OEM Semiconductor Spend Tracker - World + Regions - H1 2020. July 2020.

C13 Top 20 semiconductor consumer in 2019 calendar year Purchasing volume in billion US\$

Business focus and strategy

Combined Management Report Business model and finances 2020 fiscal year

2020 fiscal year

- Business performance impacted by coronavirus pandemic
- > Revenue increased due to contribution from Cypress
- > Dividend of 22 cents per share planned

Revenue up by 7 percent; Segment Result Margin of 13.7 percent achieved

Infineon generated **revenue** of €8,567 million in the 2020 fiscal year, an increase of 7 percent compared to the previous year's figure of €8,029 million. The revenue figure for the 2020 fiscal year includes €857 million recognized for Cypress in the period since its the first-time consolidation in mid-April. Excluding the contribution from Cypress, revenue would have fallen by €319 million. This decline was primarily due to the effects of the coronavirus pandemic, which hit particularly the automotive industry hard.

In the original outlook, Infineon's revenue growth in the 2020 fiscal year (excluding Cypress) was forecast at 5 percent, plus or minus 2 percentage points (see the chapter "Outlook", D p. 107). After a difficult 2019 fiscal year, early positive signs at the beginning of the 2020 fiscal year seemed to point to an improvement in the economic environment. However, following the outbreak of the coronavirus pandemic, the original outlook was withdrawn in March 2020 as the specific impact on revenue and earnings in the 2020 fiscal year could neither be reliably estimated nor quantified with sufficient accuracy. In many of Infineon's markets, especially the automotive industry, business was hampered by production stops and supply chain disruptions as well as by a significant decline in demand. In spring 2020, the number of vehicles produced fell drastically across all regions, driven by the simultaneous shock to both the supply and the demand side.

The acquisition of Cypress was completed on 16 April 2020. At that stage, revenue for the 2020 fiscal year and the combined company was estimated at €8.4 billion, plus or minus 5 percent. Within a few months, however, perceptible signs of recovery emerged, with some countries, such as China, even experiencing a V-shaped upswing, causing the growth rate to rise above pre-crisis levels. In conjunction with the publication of results for the third quarter, the outlook was therefore adjusted slightly upwards. At that stage, revenue for the full 2020 fiscal year was estimated at around €8.5 billion. At that level, the Segment Result Margin was expected to come in at about 13 percent. In the final analysis these figures were even slightly exceeded.

The various segments developed at differing rates, with Automotive remaining the highest-selling segment. Based on segment revenue of €3,542 million (2019: €3,503 million), it contributed 41 percent of Infineon's total revenue. Compared to previous year's figures, however, revenue only grew by 1 percent. The Power & Sensor Systems segment recorded revenue of €2,650 million (2019: €2,445 million), corresponding to a growth rate of 8 percent. Both segments included revenue contributions from Cypress. Revenue generated by the Industrial Power Control segment totaled €1,406 million and was therefore at a similar level to the previous year (2019: €1,418 million). The revenue of the segment Connected Secure Systems was significantly impacted by the acquisition of Cypress and increased by almost 50 percent, amounting to €953 million (2019: €642 million). Further details on the performance of the segments can be found in the chapter "The segments". D p. 53 ff.

C14 Revenue by segment in the 2020 fiscal year



Business focus and strategy

Combined Management Report Business model and finances 2020 fiscal year

The favorable development of the US dollar exchange rate to the euro, which averaged 1.12 for the year compared to 1.13 one year earlier, had a positive impact (see the chapter "Review of results of operations", \square p. 97).

The **Segment Result Margin** of 13.7 percent was therefore down on the previous year's figure of 16.4 percent, but still slightly higher than the most recent forecast of around 13 percent, as adjusted in the third quarter.

Key performance indicators for Group down on previous year

Net income decreased to \leq 368 million (see the chapter "Review of results of operations", \square p. 100), representing a decline of \leq 502 million compared to previous fiscal year's figure of \leq 870 million. The resulting **earnings per share** for the 2020 fiscal year amounted to \leq 0.26 (basic and diluted), 65 percent lower than the previous fiscal year's figure of \leq 0.75 (basic and diluted). **Adjusted earnings per share (diluted)** for the period under report amounted to \leq 0.64 (2019: \leq 0.89). For details of the calculation of adjusted earnings per share, see the chapter "Review of results of operations", \square p. 100.

The **Return on Capital Employed (RoCE)** decreased from 12.2 percent to 3.0 percent year-over-year. **Operating income from continuing operations after tax** fell by €452 million to €473 million (2019: €925 million). The decline in operating income was mainly due to higher idle costs and increased depreciation and amortization as well as expenses arising from the recognition of fair value adjustments identified in conjunction with the purchase price allocation relating to the acquisition of Cypress (see the chapter "Review of results of operations", **D** p. 98). At the same time, **capital employed** increased by €8,228 million to €15,827 million as of 30 September 2020 (30 September 2019: €7,599 million), also driven by the recognition of fair value adjustments as well as goodwill. For a definition of, and details relating to, the calculation of RoCE, see the chapters "Internal management system", **D** p.90 f., and "Review of financial condition", **D** p. 103.

Combined Management Report Business model and finances 2020 fiscal year

Free cash flow from continuing operations (for definition see the chapter "Internal management system", \square p. 90) was a negative amount of €6,727 million (2019: positive €39 million). The figure reported for the 2020 fiscal year was influenced primarily by the net purchase price payment (i.e. net of cash and cash equivalents acquired) amounting to €7,433 million used to acquire Cypress. Excluding cash used in conjunction with the acquisition of Cypress, free cash flow was a positive amount of €911 million. Investments in property, plant, and equipment, in other intangible assets and in other assets resulted in cash outflows totaling €1,099 million.

The **gross cash position** (for definition see the chapter "Internal management system", \square p. 91) decreased by €552 million compared to previous year's figure, coming in at €3,227 million at the end of the reporting period. The change related primarily to the payment of the purchase price for Cypress and the related financing measures, including the issue of a hybrid bond in October 2019, the share capital increase implemented in May 2020, and financial debt raised. Cash used for investments and to pay the dividend for the 2019 fiscal year and the premature repayment of a part of bank loans from the acquisition financing also contributed to the decline of the gross cash position.

Dividend payment of €0.22 per share planned

Our dividend policy is aimed at allowing our shareholders to participate appropriately in the success of the business and even in the event of flat or declining earnings, the aim as a matter of principle is to pay at least an unchanged dividend. However, in view of the serious impact and ongoing risks of the coronavirus pandemic and with a view to retaining Infineon's financial flexibility, it is intended in these exceptional circumstances to deviate from the aforementioned principle: a proposal will be put forward at the coming Annual General Meeting to pay a dividend of €0.22 per share for the 2020 fiscal year, €0.05 per share less than one year earlier.





1 Proposal to the Annual General Meeting to be held on 25 February 2021.

Business focus and strategy

Combined Management Report The segments Consolidated Financial Statements

Further information



Infineon comprises four segments, each of which derive their strategic focus from the Group strategy. All the Group's activities relate to one of four key growth areas – energy efficiency, mobility, security and IoT & big data. The segments are each responsible for particular areas that reflect their core competencies. The Automotive segment is responsible for the semiconductor business for automotive electronics and for activities with memory products. The Industrial Power Control segment concentrates on power semiconductors primarily used in industrial applications and renewable energy,

while the Power & Sensor Systems segment addresses more consumer-oriented applications and power supplies in general. In addition, activities in the area of radio frequency and sensor-based applications (including the recording of sensor data and interaction with machines and devices) fall within the sphere of responsibility of the Power & Sensor Systems segment. Activities relating to traditional and new security applications, microcontrollers for non-automotive electronic applications and connectivity solutions are bundled in the Connected Secure Systems segment. In the areas of power semiconductors, hardware-based security, radio frequency and embedded control, Infineon has always continually developed and deepened its knowledge of its traditional core competencies, enhancing them by adding adjacent areas such as sensor technologies. As a result of the acquisition of Cypress, we have greatly strengthened our position in the area of embedded control. Contributing to this are the extensive portfolio of microcontrollers and different types of memory for specific applications. Furthermore, with connectivity we have acquired a new competence, which is indispensable for the IoT growth market. Combining this in turn with our security know-how takes us to a new level.

Our markets are converging more and more, so that a strict organizational demarcation is not appropriate. Technologies and products are increasingly being used across the segments in line with our strategic "Product to System" approach. Digital transformation in particular requires flexible and innovative approaches. Teams from various organizational units work together on an application-oriented and expertise-specific basis. In such cases, one segment takes responsibility for the overall system and develops the roadmap for the application, while responsibility for the technologies and products required remains in the established organizational units. Similarly, the segments collaborate on technology development. High-voltage power semiconductors for electro-mobility are, for example, a core topic in the area of automotive electronics, so it follows that the Automotive segment assumes the responsibility here. On the other hand, it is the Industrial Power Control segment that takes on responsibility for fundamental developments in IGBT technology, IGBT module housing technology and SiC technology.

C16 Core competencies in the segments

Core competencies	Automotive	Industrial Power Control	Power & Sensor Systems	Connected Secure Systems
Sensor technologies	\checkmark		\checkmark	
Radio frequency	\checkmark		\checkmark	
Embedded control	\checkmark			\checkmark
Control of power semiconductors	\checkmark	\checkmark	\checkmark	\checkmark
Power semiconductors	\checkmark	\checkmark	\checkmark	
Memories for specific applications	\checkmark			
Connectivity				\checkmark
Security	\checkmark			\checkmark
Software	\checkmark			\checkmark
Differentiating in-house manufacturing	\checkmark	\checkmark	✓	

Business focus and strategy

Combined Management Report The segments Automotive Consolidated Financial Statements

Automotive

The Automotive segment shapes the future of mobility with products and solutions to make cars clean, safe and smart. We cover all application areas in the vehicle: powertrain and energy management, connectivity and infotainment, body and comfort electronics, safety and security. Our range of products and solutions helps navigating the transition from internal combustion engines to hybrid or electric drives, as well as enabling an ever-increasing degree of automated driving, electric-electronic (E/E) vehicle architecture and greater connectivity, digitization and higher level of security in vehicles. We also offer our customers innovative solutions in the areas of safety, the digital cockpit, infotainment, comfort and lighting technology. In addition to sensors, microcontrollers, high-performance memory for specific applications and power semiconductors based on Si and SiC, our product portfolio also comprises components for human-machine interaction and vehicle connectivity. Infineon is the world market leader in semiconductor solutions for cars (source: Strategy Analytics: Automotive Semiconductor Vendor Market Shares. April 2020).

Applications 🗋 p. 236

€3,542

SEGMENT RESULT

€155

Business focus and strategy

Combined Management Report The segments Automotive

Strategic focus

The automotive industry is currently experiencing a profound upheaval. The car of the future will be a pure electric vehicle and autonomous, fully connected and always online. Even if this will not yet apply to every newly produced car by the end of the current decade, we are still seeing an acceleration in structural change compared with previous decades. The reasons for this are the desire for cars, which are ever-safer, ever-smarter and increasingly connected and the need for compliance with everstricter emission standards and therefore for sustainable mobility. This is evident from automotive megatrends: electro-mobility, automated driving, connectivity and security. The greatest contribution to this process will come from vehicle electronics and consequently from semiconductor solutions. We are contributing to the change and want to benefit disproportionately from this trend. Our acquisition of Cypress will support this aspiration. We now have a broad product portfolio of automotive semiconductor solutions. With a high level of system expertise, Infineon can handle a wide range of automotive applications. These now also include digital instrument clusters and infotainment applications, which complement our existing range of powertrain, assistance systems, safety, comfort electronics and security. Infineon has an extensive portfolio of microcontrollers for the automotive industry. In addition, it has a leading position in memory ICs for specific applications, which are indispensable for the data processing for driver assistance systems and automated driving as well as for digital instrument clusters and infotainment applications. Infineon supports the trend towards increasing connectivity. This includes both the communication between various control units within the vehicle (for example, via CAN, CAN FD and FlexRay[™]) as well as the communication with other vehicles (vehicle-to-vehicle) and with the cloud (vehicle-to-infrastructure). This furthermore includes the connection of mobile devices via Wi-Fi and Bluetooth for in-cabin infotainment. In the area of human-machine interaction, switches and knobs will increasingly be replaced by touch pads. Human-machine interaction also includes head-up displays.

In the traditional applications, our growth will be driven by new functions in the areas of connectivity, lighting technology, comfort and safety on the one hand, and on the other by continuing electrification of various vehicle functions. This means that the number of electronic components per vehicle and therefore the value of the semiconductor content per vehicle will increase. The two megatrends electro-mobility and automated driving have the effect of further increasing the average semiconductor demand per vehicle. Even if it will take some time for autonomous driving to be introduced and to become widespread, driver assistance systems are in high demand and the strong growth they have already shown looks set to continue in the coming years. Driver assistance systems not only ensure greater driving comfort, but also contribute to the implementation of "Vision Zero", the global project that seeks one day to achieve its aim of road traffic without fatalities.

We are benefiting from the trend towards automated driving with, on the one hand, our 77 gigahertz radar sensor ICs, which are used in emergency braking systems and increasingly in lane change assistance systems. On the other hand, we also provide

dedicated microcontrollers, which undertake a significant part of the radar signal processing. Our optimized radar system solutions enable faster time-to-market for our customers. Our microcontrollers are not only used in radar-based, but also in camera-based driver assistance systems and in sensor fusion systems up to Level 2+. The intermediate level 2+, which was retrospectively defined, includes those functions which are part of Level 3 except for the function of the complex hand-over of vehicle control between the vehicle and the driver.



Our 77 gigahertz radar sensor IC RXS8156PLA is used primarily in emergency braking assistance systems and lane change assistance systems.

56

Business focus and strategy

Combined Management Report The segments Automotive



For electro-mobility, Infineon has an extensive range of power semiconductors and control ICs with the corresponding packaging and connection technologies. Infineon also offers battery management solutions for the efficient charging and monitoring of battery systems. Infineon's semiconductor solutions are suitable for all types of electric vehicles: pure electric vehicles, plug-in hybrid vehicles and mildhybrid vehicles with 48-volt technology. Our portfolio also covers semiconductor solutions for electric vehicles based on emerging hydrogen technology. In the area of power electronics, we are the undisputed market leader for Si-based semiconductor solutions in the automotive market. We are

also expanding our portfolio to include semiconductors based on SiC and GaN, which offer additional potential for improvements in efficiency and power density.

Our product portfolio meets the high quality and reliability requirements of the automotive industry. In the case of automated driving, the greater the trust in the technological innovations, which are replacing the driver of the vehicle, the greater the acceptance and the earlier higher levels of automation will be achieved in vehicles – in private vehicles, taxis and buses, in utility and construction vehicles, in agricultural machinery and in public transport such as trains and trams. The prerequisite for gaining that trust is the reliability of the vehicles and thus the reliability of the systems, components and semiconductor solutions built into them. They must all be fault-

tolerant, must not fail and must ensure a minimum function if there are unexpected disruptions, and all this must apply for the service life of the vehicle. For some time now, Infineon has provided concepts and solutions for reliability at the component and subsystem level and pursues an integrated approach here: our semiconductor solutions – sensors, microcontrollers, memory, power electronics, power management ICs and security ICs – enable systems to meet the high functional safety requirements set out in ISO 26262. The microcontrollers of our AURIX[™] family are used in, for example, steering and brakes and as host controllers that contribute towards the functional safety of central control units. Other semiconductor solutions ensure both internal and external data communication.

How Cypress brings us forward

- Microcontrollers in the TRAVEO[™] family are designed for digital instrument clusters and head-up displays.
 - The SEMPER[™] NOR Flash memory ICs are suitable for data and event logging in the area of automated driving.
 - In the area of human-machine interaction, we are replacing switches and knobs with touch pads.

57

Combined Management Report The segments Automotive

Market position

In the 2019 calendar year, vehicle production slumped by about 6 percent (source: IHS Markit: *Light Vehicle Production Forecast.* October 2020). This led to a decline in the automotive semiconductor market of 1.3 percent, from US\$37.668 billion in 2018 to US\$37.186 billion in the 2019 calendar year (source: Strategy Analytics). All regions saw a decrease in production except North America (plus 0.2 percent compared with 2018). The biggest falls in production were to be seen in China (minus 2.5 percent) and Japan (minus 3.9 percent). Europe remained by far the most important region, with a market size of US\$12.892 billion and share of 34.7 percent of the global market, **in** C17.

Power semiconductors and controllers are the two largest product categories. Together they account for around half of all semiconductors in the automotive sector. Infineon is the market leader for power semiconductors, with a market share of 25.5 percent. In the case of controllers, Infineon grew organically by one percentage point, and additionally a contribution of 6.1 percentage points from Cypress. Infineon therefore now has a market share of 16.2 percent and is in third position. The gap between Infineon and the two frontrunners NXP (with a market share of 27.2 percent) and Renesas (with a market share of 27.0 percent) was reduced, while the gap between Infineon and Texas Instruments (with a market share of 9.8 percent) increased. In the case of sensors, Infineon remains the second largest manufacturer behind Bosch. The gap between them of 3.0 percentage points in 2018 was reduced in the 2019 calendar year to 0.6 percentage points.

For the first time and with a market share of 13.4 percent (11.2 percentage points contributed by Infineon; 2.2 percentage points contributed by Cypress), Infineon was the world's largest automotive semiconductor manufacturer, **u** C18. The five largest market players together accounted for 49.1 percent of the market (2018: 47.7 percent).

In all regions, Infineon (including Cypress) was in at least third position, **II** C19. Infineon was the market leader in Europe, the most important region, and in China, the fastest-growing region in the past seven years, as well as in Korea. In Japan, Infineon was able to buck the trend and grow, increasing its market share (excluding Cypress) from 7.3 percent to 8.0 percent. Cypress' market share remained stable at 3.7 percent. With a combined market share of 11.7 percent, Infineon overtook Toshiba and moved into third position for the first time.

C17 World market for automotive semiconductors in 2019 US\$37.186 billion (minus 1.28% compared with 2018)



Source: Strategy Analytics: Automotive Semiconductor Vendor Market Shares. April 2020.

C18 Market share for automotive semiconductors in 2019



Source: Strategy Analytics: Automotive Semiconductor Vendor Market Shares. April 2020. Comparability limited due to differing reporting period (fiscal year-end) and currency.



Source: Strategy Analytics: Automotive Semiconductor Vendor Market Shares. April 2020.

Business focus and strategy

Combined Management Report The segments Automotive

Review of the Automotive segment in the 2020 fiscal year

In the Automotive segment, Infineon generated revenue in the 2020 fiscal year of €3,542 million (including the contribution to revenue made by Cypress from 16 April 2020 onwards), an increase of 1.1 percent compared with the figure for the previous fiscal year of €3,503 million. The segment contributed 41 percent of Infineon's Group revenue.

In the 2020 fiscal year, the Segment Result was €155 million, a decrease of 61.6 percent compared with the Segment Result for the previous fiscal year of €404 million. Based on revenue, the Segment Result Margin was 4.4 percent (previous year: 11.5 percent). III C20

Even at the beginning of the fiscal year, available manufacturing capacity was not being fully utilized. The slump in revenue caused by the coronavirus pandemic in the second half of the fiscal year exacerbated the situation, resulting in significant idle costs, which had a negative impact on the Segment Result. The business activities of Cypress made a positive contribution to the Segment Result.

Car production has seen the worst slump in its history in the 2020 calendar year. Global vehicle production fell by around 20 percent compared with the prior-year period (source: IHS Markit). However, this decline was compensated by a higher demand for semiconductors due to the trend towards driver assistance systems, increasing electrification and more comfort features. This was reflected in the increase in the average value of the semiconductor content per vehicle from US\$417 in the 2019 calendar year to US\$457 in the 2020 calendar year, **II** C02 on **D** p. 28. Despite the significant decrease in global vehicle production, our revenue from 77 gigahertz radar sensor ICs, for example, remained stable. This underlines the fact that more vehicles are being fitted with driver assistance systems (in this case, emergency brake assistants and distance control).

Initially, the production of electric vehicles was affected by the decline in vehicle production in general. However, in the middle of the year, this trend reversed. Due to purchase incentive schemes in many European countries, which came into force towards the middle of the year and which particularly promote electric vehicles, the

number of plug-in hybrid and pure electric vehicles sold there increased significantly. Therefore, in the first nine months of 2020, these types of vehicles comprised around 7 percent of all registered vehicles. This represents more than double the number of such vehicles registered in the prior-year period. The picture was different for electric vehicles in China. There, following reductions in promotional measures from July 2019, there was a substantial decline in production. This continued during the beginning of the 2020 fiscal year. The market for electric vehicles in China recovered only in the second half of the 2020 fiscal year. As a result of these developments, Europe was gaining in importance. This trend is likely to continue in the 2021 calendar year due to the EU's 95 gram CO₂ per kilometer emissions regulation.

We want to benefit even more strongly from the growth in electro-mobility in the future. In the previous year, we expanded our product range for electric vehicles to include for example a new sensing and balancing IC for battery management systems. This IC can be used not only in high-voltage battery systems in plug-in hybrid and pure electric vehicles, but also in 48-volt battery systems in mild-hybrid vehicles.

Our system understanding, commitment to quality, and excellent support add value to our customers and help grow their business. Thus, in August 2020, Japanese car automotive supplier Denso presented Infineon with two awards. The first was a prize for top-quality products that advance automotive innovation and the mobility of the future. The second award was received by Infineon in America for being Business Partner of the Year, delivering exceptional quality, performance, design support and partnership activities in that region.



Business focus and strategy

Combined Management Report The segments Industrial Power Control

Industrial Power Control

The Industrial Power Control segment specializes in semiconductor solutions for the intelligent management and efficient conversion of electric energy along the entire conversion chain: generation, transmission, storage and use. The product portfolio comprises mainly IGBT power transistors, driver ICs to control them, and components based on SiC. We offer the products in various form factors and with different levels of functionality. The segment's broad application spectrum includes motor control units for industrial manufacturing and building technology, inverters for photovoltaic and wind power systems, home appliances, traction, electric utility vehicles such as buses, construction and agricultural vehicles, systems for high-voltage direct current transmission and energy storage, industrial power supplies and the charging infrastructure for electric vehicles. Our focus is on integration and digitization. Wireless communication solutions are also enabling us to implement numerous innovative applications in the growth area of Industry 4.0.

Applications 🗅 p. 237



Combined Management Report The segments Industrial Power Control

Strategic focus

Power semiconductors are a key element in the products and systems of our customers, largely determining the function, efficiency, size, weight and cost of the systems. The products in our Industrial Power Control segment provide the foundation for the efficient generation, storage and almost lossless transmission of electric energy on the one hand and the reduction of losses on consumption on the other. Our core business consists of discrete IGBTs and IGBT modules and the driver ICs associated with them. We want to continue to strengthen this core. We are constantly refining our existing products, complementing them to create complete solutions for the customer. We leverage our economies of scale in research and development as well as in manufacturing and are therefore able to achieve a broad portfolio optimized for both cost and performance. In addition, we develop products, which provide the opportunity for long-term differentiation.



Two examples of this:

- > The PrimePACK[™] module, which combines IGBT5 chip technology with the .XT bonding technology. While the IGBT5 chip technology allows higher power densities with lower static and dynamic losses, the .XT bonding and connection technology in the modules ensures a longer service life through improved thermal load cycling capability. This provides our customers with significant added value for high-power inverters in wind and photovoltaic applications and in industrial drives.
- > The products in the iMOTION™ family which are basically application-optimized microcontrollers – enable easy-to-implement intelligent motor control. Infineon offers reference designs for these compact products, including connectivity solutions and components for human-machine interaction.

We are strengthening our core products by using new materials (see the chapter "Research and development", D p. 78 f.). The Easy module family is an important

success factor here for fast market entry. It offers our customers a flexible, easily scalable module solution, which is particularly effective in applications such as photovoltaics, industrial automation and the charging infrastructure for electric vehicles. In addition to the modules, we are strengthening the volume production of our extensive product portfolio of discrete SiC MOSFET components. With our SiC products, customers can count on Infineon delivering the reliability for which it is known, as well as providing support to develop systems based on this new material.



Combined Management Report The segments Industrial Power Control

The Industrial Power Control segment uses the expertise acquired in the application of discrete IGBTs and IGBT modules to unlock additional growth potential in adjacent product areas, such as Intelligent Power Modules (IPMs). The functional integration of drivers and power switches into our CIPOS[™] IPMs helps our customers increase the efficiency of drives for small motors and therefore meet new energy efficiency standards for home appliances and for industrial applications. These integrated products also enable a significant reduction in system size and development cost. We develop special control algorithms for the products in the iMOTION[™] family mentioned above. Customers only need to adjust a few parameters within the algorithms to find efficient solutions to their problems. Products in the iMOTION[™] family are used in all types of home appliances, from hairdryers and washing machines to air conditioning units.

Looking across the segments, the Industrial Power Control segment benefits from the range of microcontrollers and connectivity and security solutions on offer in the Connected Secure Systems segment. This opens the door to new markets and additional growth potential in the application areas for which the Industrial Power Control segment is responsible.

With this expanded range, we can address a larger proportion of the semiconductor value in an application, which will enable us to continue to grow in our existing markets, while we can also offer our customers easy-to-use applications. Understanding the newly acquired products and markets also enables us to expand the scope of our operations. We can see potential for synergies, particularly in the areas of home appliances and factory automation (and here especially in robotics and driverless transport systems).

How Cypress brings us forward

- We combine microcontrollers and connectivity solutions with power components, taking products from our different segments to create new system solutions.
 - Automated guided vehicles, collaborative robots, air conditioning systems and home appliances will benefit from our expanded product portfolio.
 - We want to address a larger part of the semiconductor value in an application and offer our customers ready-to-use solutions.

Combined Management Report The segments Industrial Power Control

Market position

Following a sharp rise in the 2018 calendar year, the global power semiconductor market saw a correction in the 2019 calendar year. Whereas Infineon was able to win market share in virtually all product categories in the 2018 calendar year, there was something of a counterreaction in the 2019 calendar year. Infineon's revenue in some product categories fell faster than the market.

The world market for discrete IGBT power transistors reached US\$1.439 billion in the 2019 calendar year (source: Omdia). This was an increase of 3.1 percent compared with the figure for 2018 of US\$1.396 billion. Infineon's revenue in this area fell by 4.5 percent. With a market share of 32.5 percent, Infineon continued to be the clear market leader (2018: 35.1 percent), **II** C21. The five largest market players together accounted for 63.9 percent of the market (2018: 63.2 percent).

The world market for Intelligent Power Modules (IPMs) reached US\$1.586 billion in the 2019 calendar year (source: Omdia). This was a decrease of 4.6 percent compared with the figure for 2018 of US\$1.661 billion. Infineon's revenue in this area fell by 9.4 percent. With a market share of 11.5 percent, Infineon remained in third position (2018: 12.1 percent), **m** c22. The five largest market players together accounted for 76.9 percent of the market (2018: 79.7 percent).

The world market for IGBT modules reached US\$3.305 billion in the 2019 calendar year (source: Omdia). This was an increase of 6.3 percent compared with the figure for 2018 of US\$3.108 billion. Infineon's revenue in this area increased by 8.0 percent. With a market share of 35.6 percent, Infineon continued to be the clear market leader (2018: 35.1 percent), <u>in C23</u>. The five largest market players together accounted for 68.8 percent of the market (2018: 68.1 percent).

C21 Market share for discrete IGBTs in 2019



Source: Based on or includes research from Omdia: *Power Semiconductor Market Share Database 2020*. September 2020. Comparability limited due to differing reporting period (fiscal year-end) and currency.

C22 Market share for IPMs in 2019



Source: Based on or includes research from Omdia: *Power Semiconductor Market Share Database 2020*. September 2020. Comparability limited due to differing reporting period (fiscal year-end) and currency.

C23 Market share in IGBT modules in 2019



Source: Based on or includes research from Omdia: *Power Semiconductor Market Share Database 2020*. September 2020. Comparability limited due to differing reporting period (fiscal year-end) and currency.

Business focus and strategy

Combined Management Report The segments Industrial Power Control

Review of the Industrial Power Control segment in the 2020 fiscal year

In the Industrial Power Control segment, Infineon generated revenue in the 2020 fiscal year of €1,406 million. The acquisition of Cypress had no effect on revenue in this segment. With a decrease of 0.8 percent, the revenue figure remained virtually unchanged from the figure for the previous fiscal year of €1,418 million. The segment contributed 17 percent to Infineon's Group revenue.

In the 2020 fiscal year, the Segment Result was €256 million. This was an increase of 2.0 percent compared with the figure for the previous fiscal year of €251 million. Based on revenue, the Segment Result Margin was 18.2 percent, compared with 17.7 percent in the 2019 fiscal year.

The decrease in market demand in some areas led over the course of the full fiscal year to underutilization of available capacity in parts of the manufacturing landscape, which resulted in an increase in idle costs compared with the previous fiscal year.

In contrast, Infineon was able to reduce operating expenses as a result of cost-saving measures introduced at the beginning of the fiscal year and intensified as a result of the coronavirus pandemic. In all, the Segment Result increased by €5 million with revenue virtually unchanged.

C24 Revenue and Segment Result of the Industrial Power Control segment € in millions



The target markets that are relevant to us were affected differently by the coronavirus pandemic. Accordingly, the Industrial Power Control segment weathered the crisis fairly well.

The drives business, the segment's largest field of application, was adversely affected by the crisis in several ways. First, there was no motivation to boost investment in factory automation. Secondly, the significant drop in the price of oil in the middle of the fiscal year led to a near halt in investment in the oil and gas industry.

We again saw encouraging growth in the area of renewable energy, which accounts for over 20 percent of the segment's revenue. This growth compensated for the decline in revenue from drives. Revenue from products for PV inverters increased by around 37 percent, while revenue from wind power products rose by more than 13 percent.

In home appliances, the trend towards inverterized motor control systems continues. As a result of energy efficiency regulations, we expect demand for inverterized home appliances, especially air conditioning units and washing machines, to remain high over the coming years. However, in China, our most important market in this area, the coronavirus pandemic has led to a decline in construction activity, which has temporarily dampened demand. As a result, we saw a slight decrease in revenue from home appliances.

Revenue from traction remained virtually unchanged until the middle of the year, after which there was a growing downward trend. Passengers are using public transport significantly less than usual due to the coronavirus pandemic. In many regions, plans to increase transport capacity were postponed. Infrastructure projects were put on hold, especially in the key region of China.

On the product side, we have continued to expand our portfolio of SiC components. Among these additions was the first product family of 1,700 volt CoolSiC[™] MOSFETs. They are targeting auxiliary power supplies in three-phase conversion systems such as motor drives, renewables, charging infrastructure and HVDC systems.

Business focus and strategy

Combined Management Report The segments Power & Sensor Systems Further information

Power & Sensor Systems

The Power & Sensor Systems segment encompasses a large selection of technologies relating to power semiconductors, radio frequency and sensors. We use these technologies to make electronic devices like power supplies, power tools, lighting systems, mobile devices and industrial and consumer applications smaller, lighter and more energy-efficient, as well as to develop new functionalities. We are drawing on the next generation of new, innovative solutions based on Si, SiC and GaN for applications in the areas of 5G, big data and renewable energy. Our portfolio of products for power supplies, comprising control ICs, drivers and MOSFET power transistors, addresses the two key requirements of the market: conversion efficiency and power density. Infineon is the clear market leader in the global MOSFET market, **LL** C25. Our high-precision sensor solutions give IoT devices "human senses", enabling them to react intuitively to their surroundings. Our product portfolio is rounded off with audio amplifiers, which serve as a basis for smart speakers and other audio applications that demand excellent sound performance.

Applications 🗅 p. 238



Combined Management Report The segments Power & Sensor Systems

With effect from 1 April 2020, the name of the segment changed from "Power Management & Multimarket" to "Power & Sensor Systems". The change of name signifies the increasing importance of our sensor portfolio, since megatrends such as digitalization, "smart everything" and the IoT are driving demand for our sensors. For some years now, we have also been evolving from being a leading provider of components into a leading provider of system solutions, which is very much in line with our strategic "Product to System" approach. The new name reflects our aspiration to offer customers an integrated portfolio as well as systems expertise. The name change had no impact on our organizational structure or strategy, or on the scope of our business.

Strategic focus

The trend for all types of power supplies continues unabatedly: high efficiency levels, increasing performance and smaller form factor. Power density in particular



Power transistors in the CoolMOS™ family are designed for voltages in excess of 500 volts and are used in power supplies in data centers and base stations.

is becoming a decisive factor. Our concepts in the area of digital power management – the shift from analog control loop to digital control loop in power supplies – take this trend into account, with technology that does more, consumes less and is available to all.

The power transistors in the CoolMOS[™] and OptiMOS[™] families cover the full voltage range: low voltages (up to 40 volts), medium voltages (40 to 500 volts) and higher voltages (over 500 volts). Together with the relevant control ICs and drivers, they form the core of the power semiconductor business in this segment. Examples of application areas are power conversion for data centers, telecommunication facilities, cellular infrastructure and battery-powered devices.

Battery-powered devices are also among the fastest-growing applications for this product group of MOSFET power transistors. Of particular interest are applications with brushless direct current (BLDC) motors, which are increasingly replacing conventional motors. Here we have shown that we can use existing products to serve new applications such as eScooters. In addition, Infineon is continually expanding its product portfolio for digital load control and is focusing on technologically adjacent markets, such as point-of-load controllers for data centers and Class D audio amplifiers.

With USB controllers from Cypress, we are not only expanding our communications expertise, we are also significantly strengthening our position in the area of chargers and adapters. We are now able to offer complete solutions comprising USB controllers and AC-DC conversion. In particular, the new USB PD standard, which allows the charging of devices up to 100 watts, has the potential to become the universal worldwide charging plug for small devices.



Combined Management Report The segments Power & Sensor Systems Consolidated Financial Statements Fu

Both in research and development and in manufacturing, we benefit from economies of scale, strengthening our market position. One way we do this is to supplement our core portfolio of Si-based power semiconductors with switches based on the new materials SiC and GaN.

Infineon has a strong foundation in the sensor technologies business due to technologies such as radar, time-of-flight for 3D camera applications and MEMS. MEMS microphones are no longer used exclusively in smartphones. In the previous fiscal year, we generated significant revenue for the first time from special MEMS microphones for wireless earphones. These "sealed dual membrane" microphones allow active noise cancellation in earbuds. In addition to smartphones and their accessories, we are also benefiting from the networking of intelligent devices such as smart speakers, smart homes and wearables. These devices are controlled by voice or gesture.

In the area of radio frequency, the company offers components that can be used, for example, to amplify the signal in cell phones or to communicate between the cell phone and the base station. New requirements regarding beam forming to improve data transmission are opening up new opportunities here.



How Cypress brings us forward

- With our USB controllers and power semiconductors for AC-DC and DC-DC conversion, we can offer our customers new and extensive solutions for adapters and chargers.
 - We combine microcontrollers and connectivity solutions with sensors and power semiconductors, taking products from our different segments to create new system solutions.
 - Mobile devices such as fitness trackers, smart watches, smart speakers and other battery-powered devices will benefit from our expanded product portfolio.

Combined Management Report The segments Power & Sensor Systems

Market position

The world market for MOSFET power semiconductors, comprising standard MOSFETs, protected MOSFETs, SiC MOSFETs and GaN transistors, reached US\$8.097 billion in the 2019 calendar year. This was a decrease of 3.5 percent compared with the figure for 2018 of US\$8.391 billion (source: Omdia). Infineon's revenue in this area declined by 10.6 percent. With a market share of 24.6 percent, Infineon continued to be the clear market leader (2018: 26.5 percent), III C25. The five largest market players together accounted for 59.8 percent of the market (2018: 59.5 percent).

The world market for power semiconductor ICs, comprising power management ICs, voltage monitoring ICs, drivers and voltage regulators, as well as controllers for switch-mode power supplies, power factor correction and battery management, reached US\$24.409 billion in the 2019 calendar year (source: Omdia). This was a decrease of 4.0 percent compared with the figure for 2018 of US\$25.438 billion. Infineon's revenue in this area fell by 9.3 percent. With a market share of 7.7 percent, Infineon was in second position (2018: second position with a market share of 8.1 percent), **III** C26. The five largest market players together accounted for 42.8 percent of the market (2018: 44.3 percent).

The world market for MEMS microphones reached 5.374 billion units in the 2019 calendar year (source: Omdia). This was an increase of 16.3 percent compared with the figure for 2018 of 4.619 billion units. Units sold by Infineon rose by 36.8 percent. With a market share of 43.5 percent, Infineon was in first position for the first time ever (2018: second position with a market share of 37.0 percent), **m** c27. The five largest market players together accounted for 95.8 percent of the market (2018: 93.7 percent).

Contributing to the increase in units sold was the launch of the new and highly successful "sealed dual membrane" technology in autumn 2019. The first application for our microphones based on this technology was wireless earphones with active noise cancellation. Our other MEMS microphones were mainly used in smartphones and tablets.

C25 Market share for MOSFETs in 2019



Source: Based on or includes research from Omdia: *Power Semiconductor Market Share Database 2020*. September 2020. Comparability limited due to differing reporting period (fiscal year-end) and currency.

C26 Market share for power ICs in 2019



Source: Based on or includes research from Omdia: *Power Semiconductor Market Share Database 2020*. September 2020. Comparability limited due to differing reporting period (fiscal year-end) and currency.

C27 Market share of MEMS microphones die suppliers in 2019 (by units)



Source: Based on or includes research from Omdia: *MEMS Microphone Dice Market Shares 2020; preliminary v1.1.* October 2020. Comparability limited due to differing reporting period (fiscal year-end).

Business focus and strategy

Combined Management Report The segments Power & Sensor Systems

Review of the Power & Sensor Systems segment in the 2020 fiscal year

In the Power & Sensor Systems segment, Infineon generated revenue in the 2020 fiscal year of €2,650 million (including the contribution to revenue made by Cypress from 16 April 2020 onwards), an increase of 8.4 percent compared with the figure for the previous fiscal year of €2,445 million. The segment contributed 31 percent of Infineon's Group revenue.

In the 2020 fiscal year, the Segment Result was €636 million, an increase of 8.7 percent compared with the figure for the previous fiscal year of €585 million. The Segment Result Margin in relation to revenue remained virtually unchanged at 24.0 percent (previous year: 23.9 percent).

A fall in market demand in some areas led over the course of the fiscal year to underutilization of available capacity in parts of the manufacturing landscape, which resulted in an increase in idle costs compared with the previous fiscal year. However, costsaving measures introduced at the beginning of the fiscal year and intensified as a result of the coronavirus pandemic could compensate this effect.

C28 Revenue and Segment Result of the Power & Sensor Systems segment € in millions



The expansion of data centers and the 5G cellular infrastructure continued during the previous fiscal year. In the area of data centers, there was strong demand especially in the second half of the fiscal year as a result of the lockdowns imposed to fight the coronavirus pandemic. Many data center operators adjusted their computing and storage capacity to meet the increase in demand for digital services, such as video streaming, virtual conferences, online shopping, working from home and home-schooling. In the area of 5G cellular infrastructure, the expansion, which had started in the previous year, continued. 5G base stations were installed above all in China and also in the USA, Korea and Japan. Our components for the power stages benefited from both trends.

In the area of sensor technologies, we also saw an encouraging demand trend. Our MEMS microphone business ensured revenue growth. Although sales of smartphones declined, we benefited from additional applications and from the increase in voicecontrolled applications, which also require MEMS microphones. Examples of this are smart speakers and remote controls for smart home devices. However, the biggest contributor to revenue growth was wireless earphones with active noise cancellation.

Our 3D time-of-flight sensors were in greater demand with smartphone and automotive customers. In contrast, our 24 gigahertz radar sensor ICs generated less revenue than in the prior year. These are used mainly in blind spot detection systems and were impacted by the decline in car production.

Our business with battery-powered devices did well while the business with LED and conventional lighting systems saw weaker performance than in the previous year.

In the course of the fiscal year, we significantly expanded our portfolio of SiC products. The 650 volt CoolSiC[™] power switch is responding to the desire of our customers for energy efficiency, power density and robustness in a large number of applications. Areas which will benefit from the new components launched in February are switchmode power supplies used in servers, telecommunications and industry, as well as solar energy systems, energy storage systems, motor drives and charging systems for electric cars.

Business focus and strategy

Combined Management Report The segments Connected Secure Systems

€953 SEGMENT RESULT

€122

Connected Secure Systems

The Connected Secure Systems segment provides comprehensive systems for a secure, connected world, based on reliable, game-changing microcontrollers, and wireless connectivity solutions and security solutions. In particular, microcontroller solutions, Wi-Fi and Bluetooth solutions, and combined connectivity solutions (known as combo chips) have been developed, along with hardware-based security technologies and an efficient software environment for the programming and configuration of the microcontrollers and connectivity components, which cover many application areas: credit and debit cards, electronic passports, national identity cards, consumer electronics, IoT and connected home appliances, IT equipment, cloud security and connected vehicles. With our technologies in the areas of computing, connectivity and security, we are contributing significantly towards ensuring that current and future connected systems are reliably protected, since communication and data security are two sides of the same coin.

Applications 🗅 p. 239

Business focus and strategy

Combined Management Report The segments Connected Secure Systems

Increasing digitalization unlocks new opportunities, but increases the risk of hacker attacks if suitable countermeasures are not taken. With our expanded product portfolio, we have strengthened our position and confirm our strategy, which is to support our customers in the best way we can by providing easy-to-use solutions for system integration and ensuring a short time-to-market.

As a result of the acquisition of Cypress, we have not only substantially expanded our product portfolio and the number of applications thereby possible, but also significantly broadened our competence and know-how. As a result, the name of the segment was changed with effect from 1 August 2020 from "Digital Security Solutions" to "Connected Secure Systems". The expertise we now have on board in the areas of security, embedded control and connectivity provides us with the essential building blocks we need to be successful in the area of IoT.

In addition to its role as an independent business unit, the Connected Secure Systems segment fulfills a second important function within the Group. As a competence center it is supporting the other three segments to integrate security and connectivity as functions in their system solutions and thus to create additional potential differentiation between them and their competitors. The segment provides the portfolio of industrial microcontrollers and software, so that the other segments can offer complete solutions.

Strategic focus

The digital transformation covers more and more areas of our daily lives and not only as a result of the coronavirus pandemic – security is becoming a key aspect of many applications. The integration of security solutions therefore become an indispensable feature of intelligent devices, connected vehicles, companies and Industry 4.0 factories in order to defend them against attacks – whether that is theft, fraud or manipulation. We carry over our core competence in traditional smartcard applications, payment cards and governmental identification documents into the fast-growing area of embedded security applications. Our business is therefore changing from these traditional applications to security solutions with a chip, which functions as a highly reliable anchor for security. Software is becoming an increasingly important element of the solution we provide. We offer our customers solutions for secure authentication, encryption and protection against unauthorized access, all the way to complete system solutions in the area of payment. For example, the SECORA™ Pay portfolio comprises easy-to-integrate solutions for contactless payment cards and mobile devices. With SECORA™ Connect, the product family is expanded to include a solution for coin cell-powered, connected smart wearables such as smart watches. The solution combines a security module (Secure Element) with a system-in-package NFC antenna and lets device manufacturers easily integrate and manage payment applications as well as ticketing and access solutions. The basis for this is the secure digitization of credit or debit cards, referred to as tokenization, in the smartphone or smart watch.

Embedded security applications open up the possibility of addressing structural growth drivers and advancing into new application areas, including for example authenticating IoT devices and connecting vehicles, but also protecting smart factories in industry. Growth in this area is being driven by increasing data exchange. Cars, for example, send real-time traffic information to the cloud or receive updates from the manufacturer "over the air", meaning that the software can be updated quickly and cost-effectively. The senders and recipients of these data, whether these are the car manufacturers or individual systems in the car, are authenticated using cryptographic keys. OPTIGA™ TPM stores this sensitive information much in the same way as a physical safe would, providing particularly high levels of protection against data-technical and physical attacks. The Trusted Platform Module (TPM) secures all the major communication channels in the car, such as the central gateway, the telematic unit and access to the infotainment system. The OPTIGA™ TPM can therefore be regarded as a successful example of our strategic "Product to System" approach and of collaboration across segment boundaries.
Combined Management Report The segments Connected Secure Systems

One of the aims of Infineon's strategy is to be the leading provider of security solutions. The segment generates a significant proportion of its revenue from products in which the security controller is bundled with software, such as firmware, driver software or hardware-near application software. Infineon's software and system expertise means that it can provide reference designs and easy-to-integrate security modules.

Following the acquisition of Cypress and the expansion of our product and competence portfolio, new opportunities for growth are opening up, especially in IoT. In line with our strategic "Product to System" approach, we are for example incorporating security functions into special microcontrollers. This means that we are expanding our portfolio of what have until now been specialized security ICs to include microcontrollers enhanced with security functions. These are not quite at the same level as dedicated security ICs, but they are cheaper and meet the security requirements of many applications. This enables us to adapt even more specifically to the level of security desired by the customer. These are new features that differentiate us from our competitors and therefore provide us with growth opportunities.

Our product range now also includes hardware and software for connectivity solutions, developed by Cypress specifically for IoT applications. The portfolio comprises components for Wi-Fi, Bluetooth and Bluetooth Low Energy transmission standards. Together with industrial microcontrollers, these can be included in complete solutions for customers in the Industrial Power Control and Power & Sensor Systems segments. In combination with our portfolio of security solutions, we are also able to provide customer-specific security functions for the controllers and connectivity components. We offer tailor-made solutions to achieve the level of security required in the best way possible with the least complex system and the fastest implementation. In addition, our solutions are more compact. Cypress has had years of experience in software development and system know-how and it is precisely this that enables us to develop reference designs even more quickly for easy-to-use and plug-and-play applications. This approach is important because in the future more and more customers will be from areas outside electronics and their expertise will not be in connecting their products to the internet. We want to be able to offer these customers turnkey reference designs, which are tailor-made for their specific projects. As far as possible, we provide all the necessary semiconductor components needed and the software required to control our components. The application software remains the customer's responsibility.



- We combine microcontrollers and connectivity components with security expertise to create new system solutions for the accelerated entrance into the IoT growth market.
 - Mobile health monitoring devices, remote control door locks and security cameras will benefit from our expanded product portfolio.
 - We now have access to a large developer community, a key component of which is the ModusToolbox[™] development environment.

ement Board and

Combined Management Report The segments Connected Secure Systems

Market position

The world market for security ICs (excluding NFC controller and excluding NFC embedded Secure Element) reached US\$2.77 billion in the 2019 calendar year (source: ABI Research: *Smart Card and Embedded Security IC Technologies*. October 2020). This was a decrease of 3.3 percent compared with the figure for 2018 of US\$2.87 billion. The trends in the three largest submarkets were very different: Security ICs for payment cards (US\$982 million; plus 2.5 percent); security ICs for SIM cards (US\$534 million; minus 9.9 percent); security ICs for governmental identification documents (US\$509 million; virtually unchanged).

Infineon was the market leader, with a market share of 26.3 percent (no figures are available for the previous year), III C29. The five largest market players together accounted for 87.5 percent of the market (likewise no figures are available for the previous year).

In the 2019 calendar year, 3.51 billion security ICs for payment cards were sold (source: ABI Research). Infineon was the market leader, with a market share of 47.6 percent (previous year: market leader with 44.1 percent), <u>in C30</u>. The four largest competitors together accounted for 91.4 percent of the market (2018: 90.8 percent). (The only statistics available for this market are by unit, not by value. Only the four largest competitors are disclosed.)

The world market for Wi-Fi ICs (only standalone ICs) reached 978 million units in the 2019 calendar year (source: ABI Research). This was a decrease of 1.4 percent compared with the figure for 2018 of 992 million units. Infineon could increase its sales in units in this business by 3.7 percent. This market is currently still determined by the end markets for routers, PCs, laptops and tablets. Infineon is either not represented or hardly represented in these markets, but focuses on IoT applications. With a market share of 9.8 percent, Infineon is in fifth position (2018: fifth position with 9.4 percent), **II** C31. The five largest market players together accounted for 66.5 percent of the market (2018: 66.0 percent).

C29 Market share for security ICs (excl. NFC controller; excl. NFC embedded Secure Element) in 2019



Source: ABI Research: Smart Card and Embedded Security IC Technologies. October 2020. Comparability limited due to differing reporting period (fiscal year-end) and currency.

C30 Market share for security ICs for payment in 2019



Source: ABI Research: Smart Card and Embedded Security IC Technologies. October 2020. Comparability limited due to differing reporting period (fiscal year-end) and currency.

C31 Market share for Wi-Fi ICs in 2019 (standalone ICs only)



Source: ABI Research: Wireless Connectivity Technology Segmentation and Addressable Markets Q3 2020 Update. July 2020. Comparability limited due to differing reporting period (fiscal year-end).

Business focus and strategy

Combined Management Report The segments Connected Secure Systems

Review of the Connected Secure Systems segment in the 2020 fiscal year

In the Connected Secure Systems segment, Infineon generated revenue in the 2020 fiscal year of €953 million, an increase of 48.4 percent compared with the figure for the previous fiscal year of €642 million, including the contribution to revenue made by Cypress from 16 April 2020 onwards. The segment contributed 11 percent of Infineon's Group revenue.

In the 2020 fiscal year, the Segment Result was €122 million, an increase of 58.4 percent compared with the figure for the previous fiscal year of €77 million. Based on revenue, the Segment Result Margin was 12.8 percent (previous year: 12.0 percent).

The Connected Secure Systems segment saw the greatest percentage increase in revenue of all the segments from the acquisition of Cypress, compared with its original business. The Segment Result was similarly affected, with the business activities of Cypress making a positive contribution to earnings. In contrast to this positive effect,

C32 Revenue and Segment Result of the Connected Secure Systems segment € in millions



the Segment Result in the segment's original business activities fell due to a decrease in economies of scale, which could not be fully offset by savings made in operating expenses.

Due to the crisis, international travel declined worldwide in the second half of the fiscal year. Consequently, there was a significant slowdown in demand for passports. However, this decline was offset by the rolling out of other national identity documents, with the result that in the area of governmental identification documents there was even a slight increase in revenue.

Due to the many local lockdowns and the switch to working from home, the use of public transport fell in many cities around the world. Therefore, we saw weaker demand for products in our transport and ticketing business.

There was growing acceptance of contactless payment, as many payment service providers raised their limit for payment without a PIN. Members of the public increasingly favored contactless payment to avoid infection at the point-of-sale terminal. The shift from purely contact-based cards to dual interface cards, accelerated by corona, meant that from the middle of the third quarter of the fiscal year there was a push for these cards in the area of payment systems, which led to supply bottlenecks, meaning that the full impact of this situation did not transpire.



Cashless payment is becoming more popular, not least because of coronavirus. The next step is the biometric card, which remains in the cardholder's hand throughout the transaction.

Combined Management Report The segments Connected Secure Systems

The next step in the development of contactless payment is the biometric card, which we announced in August. With these cards with an integrated fingerprint sensor, contactless payment will become even more convenient, secure and hygienic. During the entire contactless payment transaction, the card remains in the cardholder's hand. Even larger payment amounts will no longer require confirmation by entering a PIN or by means of a signature.

Revenue from embedded SIMs (eSIMs), which are used in vehicles to make automatic emergency calls, continued to increase. Demand for eSIMs in industry is also growing stronger, driven in particular by progress with Industry 4.0. Manufacturing machinery, tools and other technical devices are increasingly connected and can therefore be monitored or serviced and maintained remotely.

The businesses we took over on the acquisition of Cypress saw steady trends. Connectivity solutions in particular generated increased revenue. On the one hand, this was due to people spending more time at home, boosting sales of games consoles,



many different applications; for example for remote control via Bluetooth in consumer electronics.

consumer electronics, smart speakers, surveillance cameras, remote control door locks, PC accessories and office equipment. On the other hand, it was due to vehicles increasingly being equipped with Wi-Fi to connect mobile devices for in-cabin entertainment and for the retrieval of information during the journey. The level of business here was not as good as we would have expected before the outbreak of the coronavirus pandemic, but in the second half of the 2020 fiscal year we were able to achieve a slight increase in revenue in this business line despite the decline in vehicle production. The microcontroller business also saw various market trends. The areas of factory automation and home appliances performed worse than expected, but due to shelterin-place in many countries led to people investing more in equipment for their homes. As far as our microcontrollers are concerned, there was increased demand for health monitoring devices, remote control door locks, fitness trackers and also for the applications mentioned above. We are focusing in particular on those IoT applications, which require both microcontrollers and connectivity, not only because they offer growth prospects, but also because it is here that the smooth interaction between embedded control and Wi-Fi or Bluetooth connectivity comes into its own.



Business focus and strategy

Combined Management Report Research and development Consolidated Financial Statements



Research and development expenses were €1,113 million in the 2020 fiscal year compared with €945 million in the previous year. This increase of €168 million or 18 percent was disproportionate to revenue, which increased by 7 percent. In the 2020 fiscal year, we invested 13.0 percent of revenue in research and development, compared with 11.8 percent in the previous year. The first-time consolidation of Cypress contributed significantly to the increase in the research and development ratio, as Cypress invested proportionately more in research and development than Infineon. Capitalized development costs in the 2020 fiscal year were €158 million (previous year: €125 million).



Business focus and strategy

Combined Management Report Research and development

Amortization of capitalized development costs in the 2020 fiscal year was €56 million (previous year: €57 million). Subsidies and grants received for research and development decreased from €111 million in the 2019 fiscal year to €108 million in the 2020 fiscal year.

At the end of the 2020 fiscal year, we employed 9,262 people (20 percent of Infineon's total workforce) in research and development. At the end of the 2019 fiscal year, the corresponding figure was 7,755 (19 percent of the workforce). The increase was mainly due to the integration of Cypress. The number of research and development sites rose to 54 in 20 countries, compared with 37 research and development sites in 16 countries at the end of the 2019 fiscal year.

Principal research and development activities

The strategic "Product to System" approach is of crucial importance here once again, and in more than one respect. It helps us better adapt our components to requirements. We understand new trends early on and can develop innovative approaches, suggesting new approaches to our customers or presenting them with totally new possibilities. Particularly important is the opportunity to offer customers complete solutions and benefits in terms of system performance, system costs and development time. It also means that we are increasingly focusing on and building more expertise in software and system solutions. This strategy is receiving a tremendous boost by the integration of Cypress. Infineon is strengthened by complementary products, including a microcontroller portfolio, connectivity solutions and memory ICs for specific applications as well as a large software ecosystem.

Infineon's research and development activities accord with its strategy of securing and strengthening its core business and expanding its business in adjacent areas. They therefore concentrate on the one hand on continuing improvements to its power semiconductors, with a particular focus on the use of new materials such as SiC and GaN, and on the other on the digitization of products and systems. The main products here are microcontrollers, connectivity solutions and software and, to an increasing extent, artificial intelligence in edge computing. The ongoing development and expansion of our sensor range is a key factor in the area of the IoT. We address longer-term future-related topics in the fields of quantum computing and postquantum cryptography.

Patents

Another indication of Infineon's innovative power and long-term competitiveness is the number of our patents. In the 2020 fiscal year, we applied for around 1,700 patents worldwide, compared with around 1,800 patent applications in the previous year. As a result of our acquisition of Cypress, we have significantly expanded our portfolio in forward-looking areas by around 3,000 patents. We regularly review and streamline our patent portfolio. At the end of the 2020 fiscal year, the worldwide patent portfolio comprised around 29,000 patents and patent applications (previous year: around 27,000).

Research and development fields at Infineon¹

Power semiconductors

Development of power semiconductors is not restricted to individual components, but also encompasses power systems and therefore control components as well as software and complete solution for selected applications. Infineon covers a very wide range in the field of power electronics technologies and designs, with low-voltage and high-voltage power switches and power semiconductors based on Si or the new materials SiC and GaN. The high performance of our components is complemented by a constantly expanding platform of digital microcontrollers. Coordinated portfolios like this enable the customer to develop solutions within a short space of time with outstanding cost performance.

We see it as a clear advantage that our very broad portfolio of power components enables us to offer our customers the optimal solutions for their problems: Si, SiC, and GaN or combinations thereof.

1 The content of this section is voluntary, unaudited information, which was critically read by the auditor.

Combined Management Report Research and development

Consolidated Financial Statements

New materials

Manufacturing technologies and transistor architectures for power semiconductor components based on new materials are a key focus of our research and development activities. SiC, a compound of Si and carbon, and GaN, a compound of gallium and nitrogen, allow higher power densities and reduced switching losses, both leading to increased efficiency of power semiconductors and thus reduced losses.

SiC

The previous main applications for SiC were mostly photovoltaic inverters, industrial power supplies and the charging infrastructure for electric vehicles, where the system advantages of SiC are very evident. Now we are starting to see a much broader penetration of industrial applications, primarily in uninterruptible power supplies. There are also initial designs in the important market of variable-speed drives (servo motors, robotics), which benefit from the special properties of the new technology, allowing a cost-effective, high-performance implementation from a system point of view. The same applies to auxiliary units in trains. In the medium and long term, electric vehicles, i.e. passenger cars and delivery vehicles, offer huge potential. Applications here include main inverters for the drive train and onboard chargers.

In the 2017 calendar year, Infineon was one of the first manufacturers to bring a SiC MOSFET with trench technology to market. The trench architecture offers significantly more degrees of freedom in the realization of efficient, more robust transistors than technically less demanding planar architectures. It gave Infineon a competitive edge on the development front, which we want to sharpen with the second generation currently in development.

At the same time, we are expanding our product portfolio to include additional voltage classes. In the 2020 fiscal year, SiC MOSFETs with breakdown voltage of 650 volts and 1,700 volts were launched, and other products with higher breakdown voltages of up to 3,300 volts will gradually follow. In addition, there will be suitable packages, so that the SiC technology can achieve its best performance.

At the beginning of the 2019 fiscal year, we acquired Siltectra to address the high cost of the base material. the SiC wafer. An industrial scale-up of Siltectra's Cold Split technology is progressing according to plan. This technology enables crystalline materials to be split with minimum loss of material compared with conventional sawing techniques, which will make it possible to achieve a significant increase in yield related to the raw material of the wafers. The continuing development of the Cold Split technology is taking place in Villach (Austria) and at the Siltectra site in Dresden (Germany).

GaN

Compared to Si-based transistors, GaN transistors also have entirely new properties that can be used for example for power supplies. Devices, which are more efficient

and much more compact, can be built due to lower losses both when switching and when in the on-state. GaN's properties, which are very different from those of Si, make it possible to integrate high-voltage systems on a chip, which represents another step towards more compact solutions. These can be used, for example, for motor control units in robots. Another field of application is data centers, which have very high requirements in terms of energy efficiency and power density. Another promising area of application are DC-DC converter for medium voltage, where GaN excels with its low switching losses.



Business focus and strategy

Combined Management Report Research and development Consolidated Financial Statements F

In the previous fiscal year, we expanded our CoolGaN[™] family, comprising various 600-volt GaN power transistors, to include a 400-volt GaN power transistor. The new CoolGaN[™] 400-volt component is designed for Class D amplifiers in premium Hi-Fi audio systems. It features an integrated, very fast-switching diode and ultra-linear amplification. End consumers benefit from a fuller, more natural sound experience.

The development of the next generation of our GaN transistors has already started. This new architecture will enable more significant improvements in performance. Volume production of our GaN products will take place in Villach on a 150-millimeter wafer manufacturing line. The transition to volume production on 200-millimeter wafers is in the course of preparation.

Digitalization of products and systems

Another focus of our research and development activities, in addition to raw materials, is the digital control of power semiconductors. For MOSFET-based systems in the



field of AC-DC and DC-DC applications, the transition began several years ago. The same trend can now also be seen for IGBTbased applications. Infineon provides components for all stages of the digital control loop: microcontrollers, control ICs, driver ICs and power switches.

Microcontrollers

Microcontrollers are key elements of every system. In the automotive sector, the highly successful microcontrollers of the AURIX[™] family with their focus on the drive train and ADAS (advanced driver assistance systems) have been supplemented by the Cypress' TRAVEO[™]-family with their focus on infotainment and body functions. For industrial applications, Cypress' PSoC[™] family is added. Both TRAVEO[™] and PSoC[™] are product families, which build on ARM processor architecture and therefore reach a wide developer community. The success of the PSoC[™] family is also due to extensive software support and the efficient development environment of the ModusToolbox[™].

Sensor technologies and radio-frequency applications

Sensors capture the real, analog world. The signals measured are first digitalized. Then, the digital values are processed, transmitted and stored according to the requirements of the target application. Sensors also play an increasingly important role in operating machines and devices, referred to as human-machine interaction. Our MEMS microphones are an example of a highly successful market launch. Revenue from MEMS microphones increased significantly despite the pressures of the coronavirus pandemic, mainly due to the "sealed dual membrane" microphone, which was only launched onto the market in the 2019 fiscal year. This high-end microphone has a superb signal-to-noise ratio given its very small size and is used particularly in wireless headphones in the upper price range.

Building on our successful development work, we were able to strengthen our marketleading position for 77 gigahertz radar sensor ICs for use in cars (source: Yole, Status of the Radar Industry, Market and Technology Report 2020). The next generation, based on 28 nanometer CMOS technology, is already in the development phase.

Also in the field of radar, our 60 gigahertz radar chipset enables us to devise new consumer applications. Infineon has entered into an agreement with U.S. startup Blumio in San Francisco to co-develop a wearable, non-invasive blood pressure sensor in the 2021 calendar year. The new chipset enables continuous and precise measurements to be taken for the first time without an annoying cuff or cable.

79

Combined Management Report Research and development



An application for the 60 gigahertz technology, which is ready for the market, is human presence detection. We offer a complete system with radar sensors, microcontrollers and above all software, which makes it easy for our customers to integrate it into their end products. Examples of applications include controlling an air conditioning system so that it takes account of the number of people present and the use of access controls based on numbers. This latter application is already being used in Infineon's canteen at its headquarters in Neubiberg (Germany), so that the company can comply with the social distancing rules, which apply as a result of the coronavirus. The advantage of radar compared with a camera is that it preserves anonymity.

In the area of radio-frequency applications, we offer solutions for smartphones and cellular infrastructure. In addition to today's components (essentially, low-noise signal amplifiers, antenna switches and antenna tuners), we will introduce further products, including frontend antenna modules and 5G millimeter-wave products.

Connectivity solutions

Items added to our product portfolio as a result of the acquisition of Cypress include wireless connectivity solutions based on Wi-Fi and Bluetooth. This puts Infineon in a position to offer customers complete solutions for networked systems based on our strategic "Product to System" approach. Here the individual components are inter-operable and optimized.

Customers' needs in many applications are met in particular as a result of our ability to integrate Wi-Fi and Bluetooth technologies on "combo chips" and due to the possibility of fulfilling complex system requirements with highly-integrated dual stream 2x2 Wi-Fi components.

Cypress' Wi-Fi and Bluetooth solutions are already widely established in the different markets. The current main applications are in consumer products and IoT, including for example intelligent loudspeakers (smart speakers), fitness bracelets and printers, as well as in the automotive sector.

Our future development efforts under the umbrella of the Connected Secure Systems segment are focusing, on the one hand, on the next generation of integrated Wi-Fi, Bluetooth and Bluetooth Low-Energy (BLE) products and, on the other hand, on the incorporation of these new connectivity capabilities into our existing and future range of products and systems in the markets and applications we address.

Innovative memory solutions

Through its acquisition of Cypress, Infineon gained additional expertise in various memory technologies. The most important of these for Infineon are NOR Flash memory ICs, which have a wide range of potential applications in the automotive sector, industry and the communication infrastructure. A NOR Flash memory IC is used primarily as program memory and is therefore clearly distinguished from NAND Flash memory, which is used for (multimedia) data. Infineon's NOR Flash memory ICs offer immediate availability in the systems used, a sort of "instant on". In the previous fiscal year, SEMPER[™] Secure was added to the SEMPER[™] NOR Flash memory product family. SEMPER[™] Secure is based on an intelligent memory architecture and is the first memory solution to combine security against unauthorized memory access with the necessary functional security of the ASIL-B category (ASIL = Automotive Safety Integrity Level) set out in ISO 26262 in a single NOR flash component. The product family offers the level of security and reliability required by networked automotive, industrial and communications systems.

Combined Management Report Research and development

Quantum computers and post-quantum cryptography

The active use and precise manipulation of quantum mechanical effects in a few or individual particles is a basis for innovative components, which may be significant for future industrial products. Above all, the field of quantum computing is thought to have disruptive potential, as this new computing architecture will enable the solution of types of problems, which have until now hardly been accessible. Problems of such complexity occur, for example, in materials research, drug development, weather forecasting and logistics optimization. Infineon is a sought-after partner in this highly innovative field, bringing to the table in research networks both within and outside Germany, primarily, its expertise in planning, design and the manufacture of special



technologies and/or special components. Various approaches are currently being adopted due to the fact we are at an early stage of development. We expect universal quantum computers only to become available in 10 to 15 years. Infineon is participating both in the development of ion-trap quantum computers and in the investigation of electron spin qubits in semiconductor systems. The first prototypes have been developed and manufactured at our Villach (Austria) site; see photo.

Even if quantum computers are only available in some years' time, this already has practical consequences today. The service life of major systems or products, such as passports, industrial facilities, medical technology and cars, will potentially extend into the era of quantum computers, and these systems and products will still need to be secure then. Established encryption technologies such as RSA (Rivest Shamir Adleman Cryptography) and ECC (Elliptic Curve Cryptography) could be attacked with quantum computers. For this reason, Infineon is focusing on post-quantum cryptography, to start developing solutions now, which will be able to resist the compute power of quantum computers.

Software and system support

Software development is playing an increasingly important role in Infineon's research and development. It is a significant part of our strategic "Product to System" approach, which involves presenting the customer with comprehensive and easy-to-use solutions. Traditionally, we develop hardware-near software like firmware or drivers. In addition, for more and more applications we are now offering application-related program code. The second generation of our digital motor control platform iMOTION™, for example, includes a development kit which enables customers to achieve low system costs and short development times at high levels of reliability. Meanwhile, in some areas such as payment systems, we have acquired the expertise to provide all the software elements to build a software stack, from the operating system to the application software. The dynamic IoT market also offers great potential. Here especially, aspects which are important to the customer, such as short development times and low cost, are combined with a high level of IT security. To achieve this, you need not only individual software elements, but also a comprehensive software development environment.

Combined Management Report Research and development

The acquisition of Cypress means that for the first time we have acquired a complete ecosystem including the ModusToolbox[™] development environment, software components and an active developer community. The ModusToolbox[™] comprises, among other things, reusable firmware, which makes programming Wi-Fi and Bluetooth components significantly easier for the engineers. Whether a customer chooses a particular hardware manufacturer or not is increasingly dependent on the accompanying software on offer.

Another aspect of software development is the evaluation of sensor data. Our 60 gigahertz radar sensor IC is able, for example, to detect gestures or the number of people in a room. Our software pre-processes the raw data and provides the user with the desired analysis. In this and other processes, we also use artificial intelligence elements to train the systems and to derive greater insight from the measurements recorded by the individual sensors.

Developing our own software has other advantages. We can ensure the software and hardware are a perfect match, thus optimizing performance, energy efficiency and data security at the system level. We can generally differentiate our solutions from those of our competitors not only through our hardware but also through software we have written ourselves.

Artificial intelligence in edge computing

The expansion of the new development center in Dresden with its focus on artificial intelligence (AI) is proceeding according to plan. The number of employees there increased from 20 in the 2019 fiscal year to around 50 at the end of the 2020 fiscal year. One of its current development projects is looking at smart chips with embedded AI, intuitive sensor solutions and AI accelerators with extremely low electricity

consumption. These are used in the areas of keyword detection and gesture detection, object identification and classification as well as sensor fusion. Edge AI makes data processing with AI possible close to the sensor without communicating with the Cloud. The prerequisite for this is an understanding of the algorithms of neural networks, so that these can be implemented directly in special semiconductor components in integrated circuits: i.e. in hardware. This provides an enormous speed advantage at the same time as reduced electricity consumption when compared with a software-based solution. Our aim is to develop complete solutions based on our know-how in the area of sensors, AI accelerators, microcontrollers, chip design and software.

Al methods are also used to improve functionality in components. These allow rapid and efficient implementation of adaptive control loops for the most diverse applications. Al is a key area of our software expertise.

In this context, we are also of course concerned with the trustworthiness of Al-based solutions. Human well-being lies at the heart of all action. Respect of universal human rights, the rule of law and democratic freedoms in compliance with the OECD AI Principles provides the foundation for artificial intelligence based on ethical principles. These principles must be observed in all development and application stages. This is the only way to ensure that AI products are not detrimental to humans. Infineon is involved in various cross-company and politically coordinated initiatives, such as the "Learning Systems. Platform for Artificial Intelligence" launched by the German Federal Ministry for Education and Research (BMBF). Our colleague Wolfgang Ecker has been appointed to serve on the German Federal Parliament's "Artificial Intelligence" Enquete Commission. We are aware that today we do not know enough to do everything right. Therefore we will further adapt our actions as we learn more and more.

Business focus and strategy

Combined Management Report Research and development R&D sites

Consolidated Financial Statements

Further information

R&D sites



America

Canada

> Richmond, BC

USA

- > Andover, MA
- > Beaverton, OR
- > Chandler, AZ
- > Colorado Springs, CO
- > El Segundo, CA
- > Hazlet, NJ
- > Irvine, CA

- > Leominster, MA > Lexington, KY > Lynnwood, WA
- > Milpitas, CA
- > San Diego, CA
- > San José, CA
- > Warwick, RI

7	

Europe, Middle East, Africa

Austria Germany > Graz > Augsburg > Linz > Dresden > Villach > Duisburg > Erlangen Denmark > Langen > Herlev Martinsried France Neubiberg > Le Puy-Sainte-> Regensburg > Warstein

- Réparade
 - Ireland
 - > Cork > Dublin

>	Netanya
lt	aly
>	Padua
>	Pavia
R	omania
>	Bucharest
U	K

Israel



> Reigate

Ukraine

> Lviv



- > Hsinchu
- > Taipeh
- > Kulim > Melaka

> Ipoh

> Penang

Greater China

- > Chengdu
- > Shanghai
- > Xi'an

Japan

- > Nagoya
- > Sendai
- > Tokyo

Business focus and strategy

Combined Management Report Manufacturing Consolidated Financial Statements

Further information

84



In the 2020 fiscal year, our investments amounted to €1,099 million. This was a decrease of €352 million or 24 percent compared with the €1,451 million invested in the previous year. This decline was due mainly to weak demand as a result of the coronavirus pandemic. Investments as a proportion of revenue decreased from 18.1 percent in the 2019 fiscal year to 12.8 percent in the 2020 fiscal year. Of the total investments, €915 million related to property, plant and equipment (previous year: €1,295 million) and €184 million to other intangible assets including capitalized development costs (previous year: €156 million).



1 Property, plant and equipment and other intangible assets.

Combined Management Report Manufacturing Consolidated Financial Statements

By far the largest share of investments in property, plant and equipment was dedicated to manufacturing. Of this in turn, the largest part was made in frontend operations and the smaller part in backend operations.

In the second half of the 2020 fiscal year, Infineon integrated the Cypress sites into its manufacturing landscape: Austin (Texas, USA), which manages the testing facilities in Penang (Malaysia), Bangkok (Thailand) and Cavite (Philippines). As of 30 September 2020, there were 31,292 people employed in manufacturing-related functions (previous year: 28,981 employees). The increase was due mainly to the integration of Cypress.

Impact of the coronavirus pandemic on supply and manufacturing chains

The spread of the coronavirus pandemic presented great challenges for our supply and manufacturing chains. These included the restrictions imposed as a result of full or partial lockdowns, especially at our sites in Indonesia, Malaysia, the Philippines, Singapore, Mexico and the USA. Thanks to the introduction of comprehensive hygiene plans and, in part, to the classification as a systemically relevant industry we were given permission to continue our manufacturing or to resume operations after a short interruption. One of the reasons we were able to do so was that manufacturing in cleanrooms is very safe. In the end, however, it was thanks to the outstanding commitment of our workforce that we were able to maintain our manufacturing at such a high level. Logistics presented another challenge. Border closures and the slump in air traffic made transportation much more difficult and expensive. Overall, we managed to overcome the challenges of the pandemic and, for the most part, to avoid any impact on our customers.

The indirect impact of the coronavirus pandemic is more serious for us. The decline in global economic activity led to temporarily weak demand and as a result to underutilization of our manufacturing capacity. We were addressing this issue by, among others, introducing short-time work in Germany and Austria and reducing our investment budget.



Artificial intelligence and Industry 4.0

As a user of AI solutions, Infineon incorporates various methods of machine learning into the process of product development and manufacturing:

Digital twin: Simulations can realistically reproduce the dynamics of both electronic circuits and manufacturing plants. This makes it possible to predict the variation of critical parameters in their effect on the function of a chip or a production plant in the computer. Furthermore, Infineon uses AI components in the development of electronic components and their simulation, which continuously improve the parameter set of future simulations.

85

Business focus and strategy

Combined Management Report Manufacturing Consolidated Financial Statements

- Optimized production control: Infineon uses AI components to improve the production process. We apply mathematical optimization to the manufacturing sequence and develop advanced techniques, including simulations where AI agents assume control of the factory and independently test various processes. From the positive or negative feedback received, the agents learn which strategies are the most successful and are therefore able to optimize the stages of the process.
- > Real-time process data acquisition for each individual wafer or chip during the manufacturing process enables rapid improvements in productivity and quality using data analytics. Data analytics is also used for AI solutions in predictive maintenance. Time series evaluations can be used to predict machine downtime and to produce error analyses.

By using data analytics in conjunction with AI components, Infineon is not only optimizing the manufacturing processes, but is also ensuring the constant improvement of its own products. Artificial intelligence will thereby become another feature which will differentiate Infineon from its competitors in the market.

For years, Infineon has been investing in the automation and digitalization of its manufacturing sites. These efforts were recognized in the previous fiscal year when our factory in Singapore was included in the World Economic Forum's Global Lighthouse Network. The members of this network stand out because they have adopted advanced manufacturing technologies on an industrial scale. The implementation of Industry 4.0, with the digital, horizontal and vertical integration of the value chain came within the start of the Smart Factory Pioneer initiative in March 2017. The smart factory is a fast and agile manufacturing enterprise connecting and managing the 4M (Man, Machine, Material, Method) through solutions based on automation, IoT and big data technologies.

Investment focus areas in manufacturing in the 2020 fiscal year

1. One Virtual Fab: With the new factory on the Villach (Austria) site, we are establishing, in conjunction with our 300-millimeter manufacturing in Dresden (Germany), the concept of virtual manufacturing control spread over different locations. Villach and Dresden will use the same processes and plants, and automation and digitization concepts. The aim is to be able to move manufacturing volumes across the two sites in a flexible manner. Both Infineon and our customers will benefit, especially in phases of rapid growth.



In Villach, we began the construction of the building in 2018 and, depending on the macroeconomic situation, we currently plan to start manufacturing towards the end of the 2021 calendar year. The planned investments for the fully-equipped building and cleanroom facilities are around €1.6 billion. The expansion will generate significant economies of scale at the Villach site, improving our efficiency. Finally, the expansion of the manufacturing capacity for Si also makes it possible to increase the capacity for SiC and GaN technologies. Existing buildings and manufacturing lines can be reused for these compound semiconductors. This enables us to achieve capital-efficient capacity expansion.

- 2. Further ramp-up of volume production of our SiC MOSFETs in trench technology and SiC diodes on 150-millimeter wafers.
- 3. Expansion of the backend manufacturing capacity for IGBT modules. Based on the expected strong demand for IGBT modules for, among other things, hybrid and battery electric vehicles the groundbreaking took place in September 2019 for a new module manufacturing facility in Cegléd (Hungary). In February 2020, construction started on our new manufacturing facility at our largest backend site in Melaka (Malaysia).
- 4. Investment in our Malaysian frontend site in Kulim is focusing on MEMS microphone technology and our wafer backside processing technology.

As in prior years, investments were also made in the previous fiscal year in frontend and backend sites primarily in the following areas:

- adaptation and retooling of manufacturing lines in accordance with the modified product portfolio, in particular due to the start of volume production of new technologies and products;
- > equipment for innovative technologies and further improvements in quality;
- > increases in the level of automation, for example to improve wafer transport within the factory.





As a result of the cost position, it is planned to continue to operate the site in Temecula (USA) only until September 2021 and then to close it or sell it in the meantime. The products manufactured there will be transferred to other Infineon sites or outsourced to external partners.

In order to optimize the use of capital and increase flexibility, and in addition to our in-house frontend manufacturing in differentiating technologies, such as discrete power semiconductors and sensors, we are increasingly using external manufacturing partners for CMOS and CMOS derivate technologies. This applies primarily to technology nodes of 65 nanometers or smaller and to older generations of power semiconductors. The manufacturing of microcontrollers and connectivity chips from Cypress is mainly outsourced. In the backend area, particularly in assembly and testing, we are making increasing use of manufacturing partners for standardized package types, with an emphasis on stable partnerships.

Combined Management Report Manufacturing Manufacturing sites Consolidated Financial Statements

Manufacturing sites



AMERICA

Mexico

Tijuana
 Backend manufacturing

USA

- El Segundo, CA
 Regional headquaters
- Milpitas, CA
 Regional headquaters
 Austin, TX
- Frontend manufacturing
- Leominster, MA
 Backend manufacturing

> Mesa, AZ Erontend manufactu

- Frontend manufacturing
- San José, CA
 Backend manufacturing
- Temecula, CA
 Frontend manufacturing
- 1A ufacturing

Villach Frontend manufacturing Germany

Europe, Middle East, Africa

> Neubiberg

Austria

- Corporate headquarters > Dresden
- Frontend manufacturing
- Regensburg
 Frontend and backend
 manufacturing
- Warstein
 Backend manufacturing
- Corporate headquarters Regional headquaters Frontend and backend manufacturing

For definition frontend/backend manufacturing D p. 47 1 Penang is assigned to the Austin site. The Known Good Die (KGD) test takes place in Penang.

2 The site in Beijing will be closed by end of 2020 calendar year.





Asia Pacific

Singapore

 Regional headquaters;
 Backend manufacturing (test only)

Indonesia

Batam
 Backend manufacturing

Korea

Cheonan
 Backend manufacturing

Malaysia

- Kulim
 Frontend manufacturing
- Melaka
 Backend manufacturing
- Penang¹

Frontend manufacturing

Philippines

Cavite
 Backend manufacturing

Thailand

- > Bangkok
- Backend manufacturing

Greater China

- Shanghai Regional headquaters
- Beijing²
 Backend manufacturing
- Wuxi
 Backend manufacturing

Japan

Tokyo
 Regional headquaters

Backend manufacturing

Ungarn

> Cegléd

Combined Management Report Internal management system

Internal management system

The internal management system at Infineon is designed to assist in implementing the Group strategy, D p. 33 ff., and related long-term financial targets, D p. 41 f. Accordingly, performance indicators are used, which enable profitable growth and efficient employment of capital to be measured.

Overall, reaching our long-term financial targets gives rise to a sustainable increase in the value of the business, brought about by achieving a premium on the cost of capital in the long term.

In this context, growth, profitability and investments are all interdependent. Profitability is the prerequisite for being able to finance operations internally, which, put another way, means opening up potential opportunities for growth. Growth, in turn, requires continual investment in research and development as well as in manufacturing capacities. Growing at a commensurate rate allows Infineon to achieve leading market positions and to generate economies of scale that contribute to greater profitability. Employing financial resources efficiently is a critical factor in achieving these goals.

Infineon deploys a comprehensive controlling system to manage its business with respect to the strategic targets it has set itself. The system involves the use of financial and operating key performance indicators. Information for controlling purposes is derived from annual long-term planning, quarterly outlooks, actual monthly data and orders received per week. This knowledge enables management to base its decisions on sound information with respect to the current situation and future expected financial and operational developments. Sustainable business practices and the consideration of forward-thinking qualitative factors are important for Infineon's long-term success. As an enterprise very much aware of its responsibilities towards society, Infineon also takes account of non-financial factors, mainly in the fields of sustainability (see the report "Sustainability at Infineon" on our website \Box www.infineon.com/csr_reporting) and human resources. Although these factors are not used to manage business performance, they nevertheless help Infineon achieve its financial targets.

As part of the process of managing business performance, management also attaches great importance to ensuring that Infineon acts in strict compliance with all relevant legal requirements and, of equal importance, that its internal Corporate Governance Standards are complied with (see the chapter "Corporate Governance", D p. 126 ff.).

Performance indicators

Principal performance indicators

In order to measure its success in implementing its strategies, Infineon uses the following three overarching performance indicators:

- > Segment Result and Segment Result Margin to measure the operating profitability of its various businesses and of the portfolio as a whole,
- Free cash flow from continuing operations to measure the amount of cash generated or used excluding financing activities,
- > Return on Capital Employed (RoCE) to measure capital efficiency.

Segment Result is the key figure of the Group for measuring operating performance. Expressed as a percentage of revenue (Segment Result Margin), it measures profitability of revenue and shows how well operations are being managed. The activities of Infineon's segments are managed on the basis of Segment Result. Responsibility for optimizing Segment Result within the framework of Group strategy (as approved by the Management Board) rests with the management teams of the relevant segments, acting, however, in coordination with the Management Board.

Free cash flow from continuing operations enables us to measure how well operating profitability is being converted into cash inflows. This key figure also provides information on the efficient use of working capital and property, plant and equipment.

Business focus and strategy

Combined Management Report Internal management system

Infineon also compares the actual as well as the planned Return on Capital Employed (RoCE) against the cost of capital in order to ensure value creation.

The three performance indicators described above are also the cornerstones of the system for variable compensation within Infineon. Most variable salary components for employees and management are directly linked to these performance indicators.

Since all three performance indicators and especially Segment Result strongly correlate with revenue growth, the latter is not used as a key performance indicator in its own right but is covered by the three performance indicators indirectly.

Segment Result

Segment Result is defined as operating income (loss) excluding certain impairment losses (such as in particular impairment losses on goodwill), impact on earnings of restructuring and closures, share-based compensation expense, acquisition-related depreciation/amortization and other expenses, gains (losses) on sales of businesses, or interests in subsidiaries and other income (expense), including litigation costs (for a computation of the relevant figures see note 30 to the Consolidated Financial Statements, D p. 213 ff.). Court and legal fees arising in conjunction with licensing Infineon's patents are included in Segment Result, as is any related income. Segment Result is the indicator that Infineon uses to evaluate the operating performance of its segments (for an analysis of Group and individual segment performance in the 2020 fiscal year, see the chapters "The segments", D p. 53 ff., and "2020 fiscal year", D p. 50 ff.).

Free cash flow

An important key performance indicator for Infineon is the free cash flow figure, defined as net cash provided by or used in operating activities and net cash provided by or used in investing activities, both from continuing operations, after adjusting for cash flows related to the purchase and sale of financial investments. Free cash flow measures the ability to generate sufficient cash flows to finance day-to-day operations and fund required investments out of the ongoing business. It is Infineon's stated target to sustainably generate positive free cash flow. The consistent generation of free cash flow is of increasing importance in view of the significantly increased debt following the acquisition of Cypress (for an explanation of the development of free cash flow during the 2020 fiscal year, see the chapter "Review of liquidity", D p. 104 f.).

The main levers for generating free cash flow are profitability, the ability to manage working capital efficiently and the levels of investments.

Infineon manages net working capital levels by focusing continuously on optimizing levels of inventories, trade receivables and trade payables.

Effective investment management plays a key role with regard to managing free cash flow. Our stated strategy of managing investments systematically should be seen in this context. Free cash flow is managed by Infineon at Group level only and not at segment level.

Return on Capital Employed (RoCE)

RoCE =

The performance indicator RoCE measures the ability of capital to provide a return and is defined as the operating result after tax from continuing operations divided by capital employed. Capital employed consists of non-current assets and net working capital. RoCE shows the correlation between profitability and the capital resources required to run the business.

Operating result after tax from continuing operations

Capital employed

Business focus and strategy

Combined Management Report Internal management system

91

This key performance indicator describes how efficiently a company manages its resources. RoCE is also analyzed by Infineon at Group level only and not at segment level. A comparison of a company's RoCE and its weighted cost of capital provides information on the extent to which returns have been generated in excess of shareholders' and debt holders' expectations. Thus, RoCE serves as a tool for value-based management.

Apart from profitability, RoCE is also influenced by asset intensity, of both noncurrent assets and net working capital. Asset intensity describes the amount of assets necessary to generate a certain level of revenue (for an analysis of the derivation of and change in RoCE in the 2020 fiscal year, see the chapter "Review of financial condition", \Box p. 102 f.).

Other performance indicators

The principal performance indicators described above are supplemented by others that provide information about growth potential, cost efficiency by functional area and liquidity.

Growth and profitability performance indicators

Revenue growth is compared continuously with the rate of growth of relevant target markets. This ties in directly with our strategic target of profiting continuously from the growth of our target markets. A further indicator for future revenue growth is the number of design wins, whereby we regularly measure actual outcomes against targets.

As part of the process of analyzing operating profitability in detail, Infineon considers earnings and costs above the Segment Result line. This involves a review of gross profit, research and development expenses, selling, general administrative expenses and the ratio of these items to revenue. These performance indicators are used to manage the business at both Group and segment levels (for an analysis of changes in the fiscal year under report, see the chapter "Review of results of operations", D p. 98 f.).

Liquidity performance indicators

A rolling cash flow forecast helps ensure that Infineon has appropriate levels of liquidity at its disposal and an optimal capital structure. Liquidity is managed at Group level, not at segment level, using the following key performance indicators:

- > Gross cash position: Cash and cash equivalents plus financial investments.
- > Net cash position: Gross cash position less short-term and long-term financial debt.
- > Net working capital: Current assets less cash and cash equivalents, less financial investments, less assets classified as held for sale, less current liabilities excluding short-term financial debt, and current maturities of long-term financial debt, excluding liabilities classified as held for sale.
- > **Investments:** The total amount invested in property, plant and equipment and other intangible assets, including capitalized development costs.

For an analysis of changes in these key performance indicators during the 2020 fiscal year, see the chapter "Review of liquidity". D p. 103 ff.

Moreover, in order to avoid costs resulting from overcapacity and/or capacity bottlenecks, the key operational figures for capacity utilization and forecast capacity requirements are analyzed. The results of this analysis are used in determining investment requirements.

Actual and target values for performance indicators

The chapter "Outlook" contains a table showing the actual values achieved in the 2020 fiscal year for the key performance indicators, along with expectations for the 2020 and 2021 fiscal years. 🗅 p. 107.

Sustainability at Infineon

Sustainability activities are described in the separate report "Sustainability at Infineon".

In accordance with the stipulations of the German CSR Directive Implementation Act, Infineon Technologies AG is required to publish a non-financial report at both Company and Group level for the 2020 fiscal year. This report is published jointly for Infineon Technologies AG and the Group as a summarized separate non-financial report within the sustainability report. The information required by law is marked accordingly to distinguish it from the voluntary reporting according to the GRI standards. The entire report "Sustainability at Infineon" including the chapters of the Non-Financial Report have been subjected to a limited assurance audit by KPMG AG Wirtschaftsprüfungsgesellschaft, Munich (Germany), and has been certified without restrictions.

The separate report "Sustainability at Infineon" including the summarized Non-Financial Report is available on Infineon's website.

www.infineon.com/csr_reporting.

Combined Management Report The Infineon share

The Infineon share

Basic information on shares

Share types	Ordinary registered shares in the form of shares or American Depositary Shares (ADS) with a notional value of €2 each (ADS: shares = 1:1)
Share capital	€2,611,842,274 (as of 30 September 2020), €2,501,368,142 (as of 30 September 2019)
Shares issued ¹	1,305,921,137 (as of 30 September 2020), 1,250,684,071 (as of 30 September 2019)
Own shares	5,251,391 shares (as of 30 September 2020), 6,000,000 shares (as of 30 September 2019)
ISIN WKN	DE0006231004 623100
Ticker symbol	IFX (share), IFNNY (ADS)
Bloomberg Nasdaq IR Insight	IFX GY (Xetra trading system), IFNNY US IFX-XE, IFNNY-PK
Listings	Shares: Frankfurt Stock Exchange (FSE)
Market capitalization ²	€31,366 million (as of 30 September 2020)
Daily average shares traded on Xetra	7,697,741 (in the 2020 fiscal year)
Trading in the USA	ADS, over-the-counter trading on the OTC market (OTCQX)
Market capitalization ²	US\$36,731 million (as of 30 September 2020)
Daily average ADS traded	235,205 (in the 2020 fiscal year)
Index membership (selected)	DAX 30 TecDAX Dow Jones STOXX Europe 600 Dow Jones Euro STOXX TMI Technology Hardware & Equipment Dow Jones Germany Titans 30 MSCI Germany S&P-Europe-350 Dow Jones Sustainability World Index

Basic information on bonds and other financing instruments

1.500% Bond from 10 March 2015	€500 million	due on 10 March 2022, ISIN: XS1191116174
0.750% Bond from 24 June 2020	€750 million	due on 24 June 2023, ISIN: XS2194282948
1.125% Bond from 24 June 2020	€750 million	due on 24 June 2026, ISIN: XS2194283672
1.625% Bond from 24 June 2020	€750 million	due on 24 June 2029, ISIN: XS2194283839
2.000% Bond from 24 June 2020	€650 million	due on 24 June 2032, ISIN: XS2194192527
2.875% Hybrid Bond from 1 October 2019	€600 million	first reset date 1 January 2025, ISIN: XS2056730323
3.625% Hybrid Bond from 1 October 2019	€600 million	first reset date 1 January 2028, ISIN: XS2056730679
US Private Placement from 5 April 2016	US\$350 million	tranche with maturity 5 April 2024
US Private Placement from 5 April 2016	US\$350 million	tranche with maturity 5 April 2026
US Private Placement from 5 April 2016	US\$235 million	tranche with maturity 5 April 2028
Term loan from 3 June 2019	US\$555 million	tranche with maturity 3 September 2022
Term loan from 3 June 2019	US\$1,110 million	tranche with maturity 3 September 2023
Term loan from 3 June 2019	US\$1,110 million	tranche with maturity 3 June 2024
4.500% Convertible Bond from 23 June 2016	US\$216 million	due on 15 January 2022, ISIN: US232806AM17
Rating of S&P Global Ratings		since 16 April 2020: "BBB–", CreditWatch: "stable"

1 The number of shares issued includes own shares.

2 Own shares were not taken into consideration for calculation of market capitalization.

A full overview of other major indices in which the Infineon share is represented can be found on Infineon's website at www.infineon.com/cms/en/about-infineon/investor/infineon-share/#5 This reference is not part of the audited management report.

Share price development

The Infineon share finished the 2020 fiscal year at a closing price of €24.12, up 46 percent on the €16.51 recorded one year earlier.

The price of the Infineon share developed favorably during the first months of the 2020 fiscal year. Despite the far-reaching measures taken in China in January in response to the coronavirus pandemic, the value of the Infineon share initially continued to rise in January and through to mid-February, albeit subject to considerable fluctuation. The high of €22.86 during the first half-year was reached on 13 February. The rapid global spread of coronavirus, especially in northern Italy and many other European countries, caused a significant decline on stock markets around the world. The Infineon share price was also impacted by this development, falling in mid-March to a low of €10.68 for the 2020 fiscal year. The decline was, however, followed by a dynamic recovery that continued throughout the remainder of the period under report. The high of €24.67 for the 2020 fiscal year was reached on 14 September. Over the fiscal year as a whole, the price of the Infineon share rose in total by 46 percent. During the same period, the DAX rose by 3 percent, the Philadelphia Semiconductor Index (SOX) by 44 percent and the Dow Jones US Semiconductor Index by 45 percent. Infineon's share market capitalization also increased sharply by 53 percent from €20,552 million on 30 September 2019 to €31,366 million at the end of the 2020 fiscal year.

Following receipt of all the necessary approvals for Infineon's acquisition of Cypress Semiconductor Corporation in April 2020, the transaction was closed on 16 April. In conjunction with the refinancing of the acquisition, Infineon took advantage of the share price recovery after its low in mid-March and placed 55 million new shares with institutional investors on 26 May 2020 by way of an accelerated bookbuilding process. The number of shares in issue increased to 1,305,921,137 as of 30 September 2020, including 5,251,391 own shares. **C35** Development of the Infineon Technologies AG share compared to Germany's DAX Index, the Philadelphia Semiconductor Index (SOX) and the Dow Jones US Semiconductor Index for the 2020 fiscal year (daily closing prices)



Trading volumes and stock indices

Measured in units, the average volume of Xetra-traded Infineon shares increased by 5 percent in the 2020 fiscal year compared to one year earlier. An average of 7.7 million shares were traded daily in the 2020 fiscal year, compared to 7.3 million in the previous 12-month period. Measured in euros, the average daily trading volume rose by 13 percent, based on a daily average of €126.9 million in the 2019 fiscal year and €143.5 million during the year under report.

Business focus and strategy

Combined Management Report The Infineon share Consolidated Financial Statements

In the USA, the Infineon share is traded in the form of American Depositary Shares ("ADS") on the OTCQX International over-the-counter market under the ticker symbol "IFNNY". About 235,000 ADS were traded daily in this market in the 2020 fiscal year (previous year: approximately 307,000 daily). The number of ADS outstanding increased slightly from 38.9 million as of 30 September 2019 to 39.2 million at the end of the 2020 fiscal year.

In the DAX ranking, Infineon improved from 15th place in the previous fiscal year to 13th place, measured by market capitalization. In terms of the volume traded in euros on Xetra and on the Frankfurt trading floor during the last twelve months, Infineon also improved by two places from 13th at the end of the previous fiscal year to 11th place as of 30 September 2020. The Infineon share has been listed in the TecDAX since 25 September 2018. Compared to the end of the previous fiscal year, it remained in 3rd place measured by market capitalization as of 30 September 2020 and improved by one place from 4th to 3rd place in terms of volume traded.

Shareholder structure

As of 30 September 2020, four shareholders each held more than 3 percent of the Infineon shares issued. At the end of the 2019 fiscal year, three shareholders each held more than 3 percent of the Company's shares. The share capital held by retail shareholders amounted to 8.82 percent at the end of the 2020 fiscal year, compared with 9.96 percent one year earlier.

C36 Shareholder structure as of end 2020 fiscal year



Dividend

Our dividend policy is aimed at letting shareholders adequately participate in Infineon's economic development and, in general, at paying out at least an unchanged dividend even in the event of stagnating or declining earnings. However, the serious economic impact of and the ongoing risks posed by the coronavirus pandemic need to be taken into account and appropriate financial headroom should be maintained. In addition, the number of shares entitled to receive a dividend has increased by around 4 percent as a result of the capital increase undertaken in May 2020. A proposal will therefore be put forward to the forthcoming Annual General Meeting to distribute a dividend of €0.22 per share for the 2020 fiscal year, €0.05 less than for the previous year. The 55 million new shares issued in May 2020 are fully entitled to receive a dividend. The total dividend amount would therefore sum up to €286 million, compared with €336 million for 2019. Hence, the percentage decline of the total dividend amount is lower - compared with the percentage reduction of the dividend per share. At the Annual General Meeting held on 20 February 2020, a resolution was taken to pay a dividend €0.27 per share for the 2019 fiscal year, unchanged from the previous year. With the number of shares entitled to a dividend standing at 1,245,252,379 due to the capital increase in June 2019, a total amount of €336 million was distributed. In the previous fiscal year, the number of shares entitled to a dividend stood at 1,130,995,834 and the total sum transferred to shareholders amounted to €305 million.

Interested parties may participate in telephone conferences via a webcast broadcast in the Investor Relations section of the Infineon website. \square www.infineon.com/investor This reference is not part of the audited management report.

Retail investors can contact us by email (investor.relations@infineon.com) and by telephone (+49 89 234-26655).

Combined Management Report Group performance Review of results of operations

Group performance

Review of results of operations

The consolidated statement of Profit or Loss

€ in millions, except earnings per share	2020	2019
Revenue	8,567	8,029
Gross profit	2,776	2,994
Research and development expenses	(1,113)	(945)
Selling, general and administrative expenses	(1,042)	(865)
Other operating income and expenses, net	(40)	(23)
Operating income	581	1,161
Net financial result (financial income and expenses, net)	(148)	(72)
Income from investments accounted for using the equity method	(9)	(6)
Income tax	(52)	(194)
Income from continuing operations	372	889
Loss from discontinued operations, net of income taxes	(4)	(19)
Net income	368	870
Basic earnings per share (in euro)	0.26	0.75
Diluted earnings per share (in euro)	0.26	0.75
Adjusted earnings per share (in euro) – diluted	0.64	0.89

Revenue growth due to contribution from Cypress

Revenue grew by €538 million or 7 percent to €8,567 million in the 2020 fiscal year (2019: €8,029 million). The figure includes €857 million recognized for Cypress in the period since its first-time consolidation in mid-April 2020. Excluding the contribution from Cypress, revenue would have fallen by €319 million. This decline was primarily due to the effects of the coronavirus pandemic, which hit particularly the automotive industry hard.



Automotive remained Infineon's highest-selling segment. Based on segment revenue of €3,542 million (2019: €3,503 million), the Automotive segment accounted for 41 percent of Infineon's total revenue. However, despite the first-time consolidation of Cypress, the year-over-year revenue increase only amounted to 1 percent. The 2020 calendar year has seen the sharpest slump in automobile production ever recorded. Nevertheless, the two megatrends – electro-mobility as well as automated driving and driver assistance systems continued to determine the increasing average value of semiconductor content per vehicle, cushioning the impact of decline in demand.

Business focus and strategy

Combined Management Report Group performance Review of results of operations

Revenue generated by the Industrial Power Control segment totaled €1,406 million and was therefore at a similar level to the previous year (2019: €1,418 million). The target markets addressed by this segment were affected in different ways by the coronavirus pandemic and it fared relatively well in the crisis in total. In particular, renewable energy-related business developed positively, whereas revenue generated in the areas of electric drives, traction systems and household appliances declined.

Supported by the contribution from Cypress, the Power & Sensor Systems segment achieved revenue of €2,650 million (2019: €2,445 million), corresponding to a growth rate of 8 percent. The expansion of data centers and 5G mobile phone infrastructure continued during the period under report, also benefiting Infineon.

Revenue generated by the Connected Secure Systems segment rose by almost 50 percent to €953 million (2019: €642 million) on the back of the Cypress acquisition. However, based on Infineons' previous scope of business, revenue fell.

For further details on the performance of the various segments see the chapter "The segments". \Box p. 53 ff.

Positive impact of currency development on revenue growth

The majority of **revenue** in the 2020 fiscal year was generated in **foreign currencies**, with revenue denominated in US dollars accounting for the largest share. The average euro/US dollar exchange rate changed from around 1.13 in the previous fiscal year to 1.12 in the 2020 fiscal year, giving rise to positive currency effects.

Regional distribution of revenue largely unchanged compared to previous fiscal year

€ in millions, except percentages	20)20	20	19
Europe, Middle East, Africa	2,322	27%	2,430	30%
therein: Germany	1,056	12%	1,169	15%
Asia-Pacific (excluding Japan, Greater China)	1,291	15%	1,187	15%
Greater China ¹	3,174	37%	2,769	35%
therein: Mainland China, Hong Kong	2,472	29%	2,159	27%
Japan	765	9%	593	7%
Americas	1,015	12%	1,050	13%
therein: USA	845	10%	862	11%
Total	8,567	100%	8,029	100%

1 Greater China comprises Mainland China, Hong Kong and Taiwan.

The distribution of revenue by region remains more or less unchanged compared to the 2019 fiscal year. As in the previous fiscal year, Greater China was the largest region in revenue terms, accounting for 37 percent of total revenue generated, followed by the Europe, Middle East, Africa region with 27 percent.

China (comprising Mainland China and Hong Kong) accounted for €2,472 million or 29 percent of Infineon's global revenue and therefore the largest share at individual country level, followed by Germany at €1,056 million or 12 percent.

97

Business focus and strategy

Combined Management Report Group performance Review of results of operations

Gross margin declining due to effects of the purchase price allocation and idle costs

At €5,791 million, cost of goods sold during the fiscal year under report was €756 million or 15 percent higher than the previous year's figure of €5,035 million. Already at the beginning of the 2020 fiscal year, existing manufacturing capacities were not being fully utilized. During the second half of the fiscal year under report, the pandemic-related drop in revenue led to a significant increase in idle costs. Furthermore, additional costs were incurred in the 2020 fiscal year in connection with manufacturing capacity restrictions caused by the impact of the coronavirus pandemic. To minimize underutilization costs, a careful balancing act was undertaken in terms of supplying customers and managing inventory levels, for instance by continuously reassessing demand scenarios and adjusting the production program across the various segments and locations. Furthermore, short-time work was introduced at the German and Austrian sites. The raft of productivity and cost optimization measures initiated during the previous fiscal year were additionally stepped up over the course of the 2020 fiscal year.

Besides this, the cost of goods sold included expenses for the purchase price allocations relating to the acquisitions of International Rectifier (in the 2015 fiscal year) and Cypress totaling €288 million (2019: €42 million). The amount includes in particular higher depreciation and amortization on property, plant and equipment and other intangible assets, respectively, which were revalued to their fair value as part of the purchase price allocations as well as expenses arising on the consumption of inventories, which had also been revalued to their fair value. In addition, acquisition-related expenses amounting to €28 million (2019: €13 million) were included in the cost of goods sold.

Working in the opposite direction, the cost of goods sold was reduced by a non-recurring amount of €36 million resulting from a more differentiated allocation of centralized, manufacturing-related overheads across the entire value chain.

Gross profit (revenue less cost of goods sold) amounted to €2,776 million, 7 percent down on the €2,994 million recorded one year earlier.

The **gross margin** fell accordingly from 37.3 percent in the 2019 fiscal year to 32.4 percent in the 2020 fiscal year.

€ in millions, except percentages	2020	2019
Cost of goods sold	5,791	5,035
Change year-on-year	15%	7%
Percentage of revenue	67.6%	62.7%
Gross profit	2,776	2,994
Percentage of revenue (gross margin)	32.4%	37.3%

Operating expenses as percentage of revenue higher

Operating expenses (research and development expenses, selling, general and administrative expenses) increased by €345 million to €2,155 million year-over-year (2019: €1,810 million), corresponding to 25.2 percent of revenue (2019: 22.5 percent).

Research and development expenses

Research and development expenses, net of grants received for research and development projects and capitalized development costs, arose as follows:

€ in millions, except percentages	2020	2019
Research and development expenses, gross	1,379	1,181
Minus:		
Grants received	(108)	(111)
Capitalized development costs	(158)	(125)
Research and development expenses	1,113	945
Change year-on-year	18%	13%
Percentage of revenue	13.0%	11.8%

Combined Management Report Group performance Review of results of operations

Research and development expenses amounted to €1,113 million in the 2020 fiscal year, an increase of €168 million or 18 percent compared to the previous year's figure of €945 million, mainly reflecting the increased number of employees. A total of 9,262 people were employed in research and development functions at the end of the fiscal year under report (30 September 2019: 7,755 employees). The year-over-year increase was primarily due to the acquisition of Cypress. In addition, acquisition-related expenses amounting to €18 million are included in research and development expenses (2019: €2 million). As a percentage of revenue, research and development expenses increased from 11.8 percent to 13.0 percent year-over-year, influenced primarily by the first-time consolidation of Cypress, which spent proportionately more on research and development than Infineon.

The main research and development activities undertaken during the 2020 fiscal year are described in more detail in the chapter "Research and development". D p. 76 ff.

Selling, general and administrative expenses

€ in millions, except percentages	2020	2019
Selling, general and administrative expenses	1,042	865
Change year-on-year	20%	2%
Percentage of revenue	12.2%	10.8%

Selling, general and administrative expenses increased by €177 million or 20 percent to €1,042 million year-over-year. Also included in this figure are the earnings impact of the purchase price allocations and acquisition-related expenses relating to International Rectifier and Cypress, totaling €161 million (2019: €44 million). Furthermore, the number of employees rose by 1,429 to 6,111 during the fiscal year under report (30 September 2019: 4,682), primarily due to the acquisition of Cypress. The increase in selling, general and administrative expenses was held down by cost optimization measures initiated during the previous fiscal year.

Net amount of other operating income and expenses lower

The **net amount of other operating income and expenses** for the 2020 fiscal year finished at a negative amount of \notin 40 million (2019: negative \notin 23 million) and includes one-off income of \notin 20 million arising on the sale of non-current assets. Other operating expenses include, among others, acquisition related expenses amounting to \notin 45 million (2019: \notin 12 million).

Financial result negatively impacted by Cypress financing costs

The change in the **financial result** from negative €72 million to negative €148 million mainly reflects the higher interest expense incurred as well as the amortization of transaction costs relating to the financing of the acquisition of Cypress (see notes 3 and 17 to the Consolidated Financial Statements, D p. 162 ff. and p. 179 ff.). Furthermore, the financial result includes expenses arising on the fair-value measurement of interest rate hedges (see note 28 to the Consolidated Financial Statements, D p. 203 f.).

Effective tax rate down to 12.3 percent

The **income tax expense** for the 2020 fiscal year fell to €52 million (2019: €194 million), mainly attributable to the lower level of pre-tax income. Based on the income before tax amounting to €424 million (2019: €1,083 million), the effective tax rate for the reporting period was at 12.3 percent (2019: 17.9 percent).

As in the previous fiscal year, income tax expense for the 2020 fiscal year was affected by foreign tax rates, non-deductible expenses, tax-exempt income, tax credits and changes in valuation allowances on deferred tax assets.

Further details regarding income tax expense are provided in note 6 to the Consolidated Financial Statements. D p. 168 ff.

99

Business focus and strategy

Combined Management Report Group performance Review of results of operations

Net income and earnings per share down on previous year

After deducting income taxes and the result from discontinued operations, Infineon recorded net income of €368 million for the 2020 fiscal year (2019: €870 million).

The lower **net income** resulted in a corresponding decrease in **earnings per share**.

Both basic and diluted earnings per share for the 2020 fiscal year amounted to €0.26 (2019: €0.75).

The calculation of earnings per share in accordance with IFRS is presented in detail in note 8 to the Consolidated Financial Statements. D p. 171

Decrease in adjusted earnings per share

Earnings per share in accordance with IFRS are influenced by amounts relating to purchase price allocations for acquisitions (in particular Cypress and International Rectifier), by one-time expenses recorded within the financial result in conjunction with the acquisition of Cypress, and by other exceptional items. To enable better comparability of operating performance over time, Infineon computes the **adjusted earnings per share (diluted).** Adjusted net income and adjusted earnings per share (diluted) should not be seen as a replacement or superior performance indicator, but rather as additional information to the net income and earnings per share (diluted) determined in accordance with IFRS.

Adjusted earnings per share (diluted) decreased from €0.89 to €0.64 per share and were calculated as follows:

€ in millions (unless otherwise stated)	2020	2019
Income from continuing operations – diluted	372	889
Compensation claims of hybrid capital investors (after taxes) ¹	(35)	-
Income from continuing operations, attributable to shareholders of Infineon Technologies AG – diluted	337	889
Plus/minus:		
Impairments (reversal of impairments) (in particular on goodwill)	(11)	-
Impact on earnings of restructuring and closures, net	20	-
Share-based compensation	14	11
Acquisition-related depreciation/amortization and other expenses	540	114
Losses (gains) on sales of businesses, or interests in subsidiaries, net	(1)	1
Other income and expense, net	27	32
Acquisition-related expenses within financial result	49	27
Tax effects on adjustments	(126)	(30)
Revaluation of deferred tax assets resulting from the annually updated earnings forecast	(35)	(3)
Adjusted net income from continuing operations attributable to shareholders of Infineon Technologies AG – diluted	814	1,041
Weighted-average number of shares outstanding (in million) – diluted	1,266	1,165
Adjusted earnings per share (in euro) – diluted ²	0.64	0.89

1 Including the cumulative tax effects.

2 The calculation of the adjusted earnings per share is based on unrounded figures.

Combined Management Report Group performance Review of financial condition

Review of financial condition

€ in millions, except percentages	30 Septem- ber 2020	30 Septem- ber 2019	Change vear-on-vear
			Jean on Jean
Current assets	7,179	7,493	(4%)
Non-current assets	14,820	6,088	143%
Total assets	21,999	13,581	62%
Current liabilities	3,450	2,213	56%
Non-current liabilities	8,330	2,735	205%
Total liabilities	11,780	4,948	138%
Total equity	10,219	8,633	18%
Statement of Financial Position ratios:			
Return on assets ¹	1.7%	6.4%	
Equity ratio ²	46.5%	63.6%	
Return on equity ³	3.6%	10.1%	
Debt-to-equity ratio ⁴	68.8%	18.0%	
Inventory intensity ⁵	9.3%	12.5%	
RoCE ⁶	3.0%	12.2%	

1 Return on assets = Net income/Total assets

2 Equity ratio = Total equity/Total assets

3 Return on equity = Net income/Total equity

4 Debt-to-equity ratio = (Long-term and short-term financial debt)/Total equity

5 Inventory intensity = Inventories (net)/Total assets

6 Calculation see following section about RoCE in this chapter, \Box p. 102 f.

Current assets influenced by sale of financial investments and payment of purchase price for Cypress

Current assets went down by €314 million to stand at €7,179 million as of 30 September 2020, compared to €7,493 million one year earlier. Among others, this decrease was influenced by financial investments, which fell by €1,382 million to €1,376 million (30 September 2019: €2,758 million) due to disposals, whose proceeds were mainly used for paying the purchase price for Cypress. For further comments on the change in cash and cash equivalents see the chapter "Review of liquidity". D p. 103 ff.

Inventories developed in the opposite direction, increasing by €351 million to €2,052 million (30 September 2019: €1,701 million) due to the contribution from Cypress. Other current assets decreased by €240 million to €530 million compared to one year earlier. It should be noted that the previous year's figure included €210 million of positive fair values relating to hedging transactions concluded to hedge foreign currency risks in connection with the planned acquisition of Cypress.

Increase in non-current assets mainly due to purchase price allocation effects

Non-current assets increased by €8,732 million to stand at €14,820 million at the end of the reporting period (30 September 2019: €6,088 million). The change related primarily to goodwill, the carrying amount of which rose by €4,988 million compared to one year earlier. The purchase price allocation performed in connection with the acquisition of Cypress resulted in goodwill of €5,430 million as of the acquisition date (see note 3 to the Consolidated Financial Statements, D p. 163). At the same time, other intangible assets increased by €2,725 million to €3,621 million, mainly due to the effects of the purchase price allocation. Both of these balance sheet line items were reduced by negative currency effects as of 30 September 2020.

Additions to property, plant and equipment comprised capital investments amounting to €924 million on the one hand and items acquired in conjunction with the Cypress acquisition amounting to €588 million on the other. Investments related primarily to the manufacturing sites in Villach (Austria), Cegléd (Hungary) as well as Kulim and Melaka (both Malaysia) (see also the chapter "Manufacturing", D p. 84 ff.). On the contrary, depreciation and amortization amounted to €863 million.

A further reason for the increase in non-current assets was the first-time application of the new standard for leases, IFRS 16, with effect from 1 October 2019. The first-time application of this standard resulted in the recognition of right-of-use assets, the carrying amount of which amounted to €286 million as of 30 September 2020.

Business focus and strategy

Combined Management Report Group performance Review of financial condition

Gross financial debt up due to financing of acquisition of Cypress

Total liabilities stood at €11,780 million as of 30 September 2020 and were thus €6,832 million higher than one year earlier (30 September 2019: €4,948 million). The change was mainly due to the increase in gross financial debt, which went up by €5,477 million to €7,033 million (30 September 2019: €1,556 million). In connection with the acquisition of Cypress, term loans totaling US\$3.3 billion were taken out in April 2020. Part of these loans (US\$555 million) had already been repaid before the end of the fiscal year under report. On 24 June 2020, Infineon also issued non-subordinated, unsecured bonds in four tranches with a total nominal value of €2.9 billion under the EMTN program (European Medium Term Notes), which was established for this purpose. In addition, current financial debt included €329 million relating to convertible bonds taken over in conjunction with the Cypress acquisition.

Information on the composition and maturities of gross financial debt is provided in note 17 to the Consolidated Financial Statements. 🗅 p. 179 ff.



Other current liabilities increased by €375 million to €950 million compared to one year earlier (30 September 2019: €575 million), whereby a number of items had an offsetting effect. On the one hand, a financial liability which had arisen in connection with the foreign currency hedging of the acquisition of Cypress (option premium) was initially built up further in installments in the 2020 fiscal year and paid upon completion of the acquisition on 16 April 2020. This resulted in a decrease in current liabilities of €112 million compared with the previous year's reporting date (see note 28 to the Consolidated Financial Statements, p. 199). On the other hand, financial liabilities amounting to €66 million were recognized for interest rate hedges (negative fair values) relating to future refinancing measures. In addition, reimbursement obligations to customers increased by €236 million compared to the end of the previous fiscal year mainly due to the acquisition of Cypress.

The first-time application of the new standard for leases, IFRS 16, resulted in the recognition of non-current lease liabilities with a carrying amount of €235 million as of 30 September 2020.

Shareholders' equity up, mainly due to hybrid bond issue and share capital increase

Equity increased by $\pounds 1,586$ million to stand at $\pounds 10,219$ million at the end of the reporting period (30 September 2019: $\pounds 8,633$ million). One of the reasons for the increase was the issue of a perpetual hybrid bond to refinance the acquisition of Cypress. The hybrid bond was issued in two tranches with no fixed maturity date, each tranche with a nominal amount of $\pounds 600$ million (see note 21 to the Consolidated Financial Statements, \square p. 188 f.). In addition, a share capital increase against cash contributions upon the partial utilization of Authorized Capital was resolved during the 2020 fiscal year, which subsequently resulted in additional share capital and additional paid-in capital of $\pounds 1,062$ million (gross proceeds). Net income generated in the 2020 fiscal year amounting to $\pounds 368$ million also increased equity. These increases in equity were offset in particular by the dividend of $\pounds 336$ million paid for the 2019 fiscal year as well as negative currency effects of $\pounds 543$ million, which were recognized in other reserves.

The equity ratio as of 30 September 2020, based on total assets amounting to €21,999 million, was 46.5 percent (30 September 2019: 63.6 percent based on total assets amounting to €13,581 million).

RoCE pulled down by effects of purchase price allocation

For the 2020 fiscal year, operating income from continuing operations after tax decreased by €452 million to €473 million (2019: €925 million). Operating income fell mainly as a consequence of higher idle costs and increased depreciation and amortization

Combined Management Report Group performance Review of financial condition | Review of liquidity

Consolidated Financial Statements

as well as expenses for assets measured at fair value, which have been taken over in conjunction with the acquisition of Cypress (see the chapter "Review of results of operations", D p. 98 f.).

Capital employed also rose by €8,228 million to €15,827 million as of 30 September 2020 (30 September 2019: €7,599 million), mainly due to the recognition of fair value adjustments and goodwill.

As a result, the Return on Capital Employed (RoCE) fell from 12.2 percent to 3.0 percent.

RoCE for the 2020 and 2019 fiscal years is calculated as follows:

€ in millions, except percentage	2020	2019
Operating income	581	1,161
Plus/minus:		
Financial result excluding interest result ¹	(47)	(36)
Gain from investments accounted for using the equity method	(9)	(6)
Income tax	(52)	(194)
Operating income from continuing operations after tax $\textcircled{1}$	473	925
Assets	21,999	13,581
Plus/minus:		
Cash and cash equivalents	(1,851)	(1,021)
Financial investments	(1,376)	(2,758)
Assets classified as held for sale	_	(12)
Total current liabilities	(3,450)	(2,213)
Short-term financial debt and current maturities of long-term financial debt	505	22
Capital employed ②	15,827	7,599
RoCE ①/②	3.0%	12.2%

1 The financial result for the 2020 and 2019 fiscal year amounted to negative €148 million and negative €72 million, respectively, and included negative €101 million and negative €36 million, respectively, of net interest result.

Review of liquidity

Cash flow

€ in millions	2020	2019
Net cash provided by operating activities from continuing operations	1,817	1,603
Net cash used in investing activities from continuing operations	(7,172)	(2,488)
Net cash provided by financing activities from continuing operations	6,274	1,167
Net change in cash and cash equivalents from discontinued operations	(6)	(2)
Cash-relevant change in cash and cash equivalents	913	280
Effect of foreign exchange rate changes on cash and cash equivalents	(83)	9
Change in cash and cash equivalents	830	289

Increase in net cash provided by operating activities from continuing operations Net cash provided by operating activities from continuing operations in the 2020 fiscal year amounted to €1,817 million, an increase of €214 million compared to the previous fiscal year's figure of €1,603 million. Taking income from continuing operations before depreciation, amortization, impairment losses, interest and taxes amounting to €1,797 million as the starting point, changes in inventories, trade receivables and trade payables totaling €99 million were the main items contributing to the increase in net cash provided by operating activities from continuing operations. Cash outflows for interest and taxes totaled €180 million. The remaining change resulted from changes in provisions, other non-cash result and gains on the disposal of property, plant and equipment.

In the 2019 fiscal year, **net cash provided by operating activities from continuing operations** totaled €1,603 million. Taking income from continuing operations before depreciation, amortization, impairment losses, interest and taxes amounting to €2,070 million as the starting point, changes in inventories, trade receivables and trade payables totaling €277 million were the main items reducing net cash provided by operating activities from continuing operations. Cash outflows for interest and taxes totaled €167 million.

Combined Management Report Group performance Review of liquidity

Net cash used in investing activities from continuing operations influenced by payment of purchase price for Cypress

Net cash used in investing activities from continuing operations totaled €7,172 million in the 2020 fiscal year. The figure includes the net payment (i.e. net of cash and cash equivalents acquired) amounting to €7,433 million used to acquire Cypress. The net amount arising from the purchases and sales of financial investments resulted in a cash inflow of €1,372 million. In addition, a cash outflow resulted from investments in property, plant and equipment amounting to €915 million as well as investments of €184 million in other intangible and other assets.

In the previous fiscal year, net cash used in investing activities from continuing operations totaled €2,488 million, including €1,295 million invested in property, plant and equipment, €156 million in other intangible and other assets, and €123 million used for the acquisition of 100 percent of the shares in Siltectra. A further net amount of €924 million was used to purchase financial investments.

New financial debt, share capital increase and issuance of hybrid bond resulted in net cash provided by financing activities from continuing operations Net cash provided by financing activities from continuing operations totaled €6,274 million in the 2020 fiscal year. The figure includes net cash inflows of €4,443 million relating to new financial debt. In connection with the acquisition of Cypress, term loans totaling US\$3.3 billion were taken out in April 2020. A part of these loans (US\$555 million) had already been repaid before the end of the fiscal year under report. On 24 June 2020, Infineon also issued non-subordinated, unsecured bonds in four tranches with a total nominal value of €2.9 billion under the EMTN program (European Medium Term Notes) which was established for this purpose (see note 17 to the Consolidated Financial Statements, D p. 179 f.). The repayment of financial debt taken over from Cypress resulted in a cash outflow of €978 million. Besides this, a share capital increase implemented in May 2020 generated a net cash inflow of €1,040 million. The issue of a hybrid bond in two tranches in October 2019 resulted in a net cash inflow amounting to €1,184 million (see note 21 to the Consolidated Financial Statements, D p. 188 f.). An offsetting effect resulted from the disbursement of the dividend for the 2019 fiscal year amounting to €336 million.

In the 2019 fiscal year, net cash provided by financing activities from continuing operations totaled €1,167 million and was mainly influenced by net proceeds from the share capital increase implemented in June 2019 amounting to €1,524 million. Offsetting was the payment of dividends for the 2018 fiscal year amounting to €305 million.

Free cash flow

Infineon reports the free cash flow figure, defined as net cash provided by and/or used in operating activities and net cash provided by and/or used in investing activities, both from continuing operations, after adjusting for cash flows related to the purchase and sale of financial investments. Free cash flow serves as an additional performance indicator since Infineon holds part of its liquidity in the form of financial investments. This does not mean, however, that the free cash flow calculated in this way is available to cover other disbursements, as dividends, debt-servicing obligations and other fixed disbursements are not deducted. Free cash flow should not be seen as a replacement or superior performance indicator, but rather as an additional useful item of information over and above the disclosure of the cash flow reported in the Consolidated Statement of Cash Flows, and as a supplementary disclosure to other liquidity performance indicators and other performance indicators derived from the IFRS figures. Free cash flow only includes amounts from continuing operations and is derived as follows from the Consolidated Statement of Cash Flows:

€ in millions	2020	2019
Net cash provided by operating activities from continuing operations	1,817	1,603
Net cash used in investing activities from continuing operations	(7,172)	(2,488)
Purchases of (proceeds from sales of) financial investments, net	(1,372)	924
Free cash flow	(6,727)	39

Free cash flow negatively impacted by acquisition of Cypress

Free cash flow for the 2020 fiscal year finished at a negative amount of €6,727 million. The figure reported was influenced primarily by the net payment (i.e. net of cash and cash equivalents acquired) amounting to €7,433 million used to acquire Cypress. Excluding cash outflows in conjunction with the Cypress acquisition, free cash flow

Business focus and strategy

Combined Management Report Group performance Review of liquidity

was a positive amount of €911 million. Cash outflows in conjunction with the Cypress acquisition include the purchase price payment of €8,222 million already made as of 30 September 2020, less the acquired cash and cash equivalents of €789 million and other payments in connection with the acquisition totaling €205 million. Investments in property, plant and equipment as well as in other intangible assets and other assets resulted in cash outflows totaling €1,099 million.

Free cash flow in the previous fiscal year was a positive amount of €39 million. Net cash provided by operating activities from continuing operations amounting to €1,603 million exceeded the combined amount of cash used for investments in property, plant and equipment, other intangible assets and other assets (€1,451 million) and for the acquisition of Siltectra (€123 million). Payments in connection with the planned acquisition of Cypress reduced the free cash flow by €23 million.

Gross cash position and net cash position

The following table reconciles the gross cash position and the net cash position (i.e. after deduction of financial debt). Since some liquid funds are held in the form of financial investments, which, for IFRS purposes, are not considered to be "cash and cash equivalents", Infineon reports on its gross and net cash positions in order to provide investors with a better understanding of its overall liquidity situation. The gross and net cash positions are determined as follows from the Consolidated Statement of Financial Position:

€ in millions	30 Septem- ber 2020	30 Septem- ber 2019
Cash and cash equivalents	1,851	1,021
Financial investments	1,376	2,758
Gross cash position	3,227	3,779
Minus:		
Short-term financial debt and current portion of long-term financial debt	505	22
Long-term financial debt	6,528	1,534
Gross financial debt	7,033	1,556
Net cash position	(3,806)	2,223

The gross cash position as of 30 September 2020 decreased by \in 552 million to \in 3,227 million. The change related primarily to the payment of the purchase price for Cypress and the related financing measures, including the issue of a hybrid bond in two tranches in October 2019, the capital increase implemented in May 2020, and financial debt raised. Cash used for investments, to pay the dividend for the 2019 fiscal year and the premature repayment of a part of bank loans from the acquisition financing contributed to the decrease in the gross cash position.

Taking into account the financial resources available to Infineon – including internal liquidity on hand, net cash that can be generated, and available credit facilities (\notin 69 million; 2019: \notin 8,201 million; see note 17 to the Consolidated Financial Statements, \square p. 180) – Infineon assumes that it will be able to cover those capital requirements for the 2021 fiscal year that are currently expected. This includes the repayment of financial debt. Forecasted capital requirements also include other financial obligations, such as orders already placed for started or planned investments in property, plant and equipment (see note 24 to the Consolidated Financial Statements, \square p. 192). Investments planned for the 2021 fiscal year are discussed in the chapter "Outlook". \square p. 107 ff.

Infineon is party to a financing agreement that contains a number of customary market conditions, including change-of-control clauses and a debt coverage ratio stipulation that provides for a specific ratio of debt (adjusted) to earnings (adjusted) (see note 22 to the Consolidated Financial Statements, D p. 190).

Principles and structure of Infineon's treasury

The Infineon treasury's stated objective is to ensure financial flexibility based on a solid capital structure. Its primary goal is to ensure that sufficient cash funds are available to finance operating activities and planned investments throughout all phases of the business cycle. After the acquisition of Cypress, we continue to target a gross liquidity level of €1 billion, plus at least 10 percent of revenue.

Combined Management Report Group performance Review of liquidity

As a general rule, debt should only constitute a modest proportion of the financing mix to ensure that sufficient headroom is available at all times. The key objective is to maintain an investment grade rating. Infineon, which is currently rated by S&P Global Ratings as "BBB–" with stable outlook, has set itself the target of reducing the financial debt taken out in connection with the acquisition of Cypress to a maximum of twice the EBITDA over the mid-term. For further information on the nature, maturity, currency and interest rate structure of financial debt, see note 17 to the Consolidated Financial Statements. D p. 179 ff.

The treasury principles referred to are in place regarding all issues relating to liquidity and financing, such as banking policies and strategies, execution of financing agreements, liquidity and investment management worldwide, currency and interest rate risk management and the handling of external and intragroup cash flows.

In accordance with our treasury principles, we follow a centralized approach in which the Group Finance & Treasury department is responsible for all major tasks and processes worldwide relating to financing and treasury matters.

In the context of centralized liquidity management and where permitted by law and economically feasible, cash pooling structures are in place for liquidity management purposes in order to ensure the best possible allocation of liquidity within the Group and reduce external financing requirements. Liquidity accumulated at Group level is invested centrally by the Group Finance & Treasury department, based on a conservative approach to investments, in which preservation of capital is prioritized over return maximization. The Group Finance & Treasury department is also responsible for managing currency, interest rate and commodity price risks. We employ the following derivative financial instruments in our continuous operations for hedging purposes: forward foreign currency contracts to reduce exchange rate exposures (to the extent foreign currency cash flows are not offset within the Group) and commodity swaps to reduce price risks for expected purchases of gold. In order to hedge against most of the exchange rate risk associated with the purchase price obligation arising from the acquisition of Cypress completed on 16 April 2020, a transaction-dependent euro/US dollar foreign currency forward transaction ("Deal Contingent Forward") and a transaction-dependent euro/US dollar foreign currency option transaction ("Deal Contingent Option") were concluded in the 2019 fiscal year, which were used and closed out upon completion of the acquisition. In addition, transaction-dependent interest rate hedges ("Deal Contingent Forward Starting Interest Rate Swaps") in euros and US dollars were concluded in the first guarter of the 2020 fiscal year in order to be at least partially hedged against the risk of rising interest rates in the event of the acquisition of Cypress being completed and associated planned refinancing arrangements. Some of these hedges were used in connection with the issue of bonds in June 2020. Derivative financial instruments are not used for trading or speculation purposes. Further information regarding derivative financial instruments and the management of financial risks is provided in notes 28 and 29 to the Consolidated Financial Statements. D p. 202 ff. and p. 207 ff.

Furthermore, to the extent permitted by law, all financing activities and credit lines worldwide are arranged, structured and managed either directly or indirectly by the Group Finance & Treasury department in accordance with stipulated treasury principles.

A Treasury Committee has been established to consider current financial market developments and their potential impact on Infineon, and to coordinate key liquidity, hedging, and financing issues. The committee, which meets on a quarterly basis, comprises the CFO and representatives from the Finance & Treasury, Accounting and Financial Reporting, Controlling, and Tax departments.

Following the acquisition completion on 16 April 2020, the process was begun to integrate Cypress' financing and treasury activities into Infineon's core structures.

106

Combined Management Report Report on outlook, risk and opportunity Outlook

Outlook

Actual and target values for performance indicators

The following table and subsequent comments compare the actual and forecast values of Infineon's key performance indicators for the 2020 fiscal year and show the outlook for the 2021 fiscal year.

€ in millions, except percentages	Actuals FY 2019	Original outlook FY 2020 ¹	Actuals FY 2020	Outlook FY 2021
Principal performance indicators				
Segment Result Margin	16.4%	Around 13% (at a revenue level of €8.5 billion)	13.7%	Around 16.5% (at a revenue level of €10.5 billion)
Free cash flow from continuing operations	39	Significantly negative	(6,727)	More than €700 million
RoCE	12.2%	Significantly declining	3.0%	Around 6%
Selected supplementary performance indicators				
Revenue respectively change in revenue compared to previous year	6%	Around €8.5 billion	7%	Revenue increase to around €10.5 billion (plus or minus 5 percent)
Investments	1,451	Around €1.2 billion	1,099	Between €1.4 billion and €1.5 billion
Gross cash position	3,779 €1 billion +35%	In the range of €2.1 to €2.7 billion and therefore within the target range of €1 billion plus at least 10% of revenue ²	3,227 €1 billion +26%	In the range of €2.9 to €3.6 billion and therefore within the target range of €1 billion plus at least 10% of revenue

1 In the ad hoc announcement of 26 March 2020, the original forecast for the 2020 fiscal year was withdrawn. The adjusted forecast was published with the announcement of the results for the second quarter of 2020 and concretized in the course of the announcement of the results for the third quarter. The forecast presented here corresponds to the forecast last concretized in the third quarter of the previous fiscal year.

2 The cash inflows from the capital increase implemented in June 2019 are not included and without consideration of Cypress.

Comparison of original outlook and actual figures for the 2020 fiscal year Revenue growth for the 2020 fiscal year was originally forecasted at 5 percent, plus or minus 2 percentage points, (excluding the revenue contribution from Cypress). Including Cypress revenue, Infineon predicted a significant increase in Group revenue for the 2020 fiscal year. In light of the outbreak of the coronavirus pandemic and the fact that its impact could not, at that stage, be reliably assessed, the outlook was withdrawn on 26 March 2020 and adjusted to €8.4 billion, plus or minus 5 percent, in conjunction with the announcement of the results for the second quarter on 4 May 2020. This outlook included the contribution from Cypress, as the acquisition had been completed in the meantime. In its announcement of the results for the third quarter at the beginning of August, Infineon put a more precise figure of €8.5 billion on its expected revenue for the 2020 fiscal year. The actual amount of revenue generated was €8,567 million.

In conjunction with the adjustment to the revenue outlook, the expected Segment Result Margin was also adjusted at the beginning of May. Originally, a Segment Result Margin of 16 percent was forecasted (excluding Cypress). Including Cypress, it was assumed that the Segment Result Margin would be approximately at the level of the 2019 fiscal year. At the beginning of May, the outlook was initially reduced to 12 percent at the mid-point of the planned range of revenue (including Cypress). The figure was then adjusted upward to 13 percent at the beginning of August. In the end, this outlook was slightly exceeded, with the Segment Result Margin for the 2020 fiscal year coming in at 13.7 percent.

Free cash flow was originally expected to be in the range of €500 million to €700 million, excluding Cypress. Including the payment of the purchase price and other costs in connection with the acquisition of Cypress, it was forecasted that free cash flow would be clearly negative. In the outlook adjusted in May 2020, it was forecasted that free cash flow – excluding cash outflows related to the Cypress acquisition – would be between €100 million and €300 million. At the beginning of August, this outlook was adjusted to "more than €600 million". In the final analysis, free cash flow was a negative amount of €6,727 million. Excluding cash used in conjunction with the Cypress acquisition, free cash flow was a positive amount of €911 million.
Combined Management Report Report on outlook, risk and opportunity Outlook

Excluding Cypress, the Return on Capital Employed (RoCE) was forecasted to remain at a similar level to the 2019 fiscal year. Including Cypress it was expected to decrease sharply. This outlook was not subsequently adjusted during the 2020 fiscal year. The actual RoCE for the 2020 fiscal year was 3.0 percent, mainly reflecting the effects of the purchase price allocation. In line with expectations, it was therefore significantly lower than the previous year's figure of 12.2 percent.

At €1.1 billion, investments were below both the original outlook figure of around €1.3 billion (without Cypress) and below the figure forecasted at the beginning of August 2020 (including Cypress), which had been scaled down in a number of steps to around €1.2 billion.

Explanatory comments to the outlook for the 2021 fiscal year

The following forecasts are based on current business developments and Infineon's internal forecasts.

Assumed euro/US dollar exchange rate

As a globally operating organization, Infineon generates revenue not only in euros, but also in foreign currencies, predominantly US dollars. It also incurs expenses in US dollars and, to some extent, in currencies correlated to the US dollar, such as the Singapore dollar, the Malaysian ringgit and the Chinese renminbi. The impact of non-euro-denominated revenue and expenses does not entirely balance out. For this reason, fluctuations in exchange rates, particularly between the euro and the US dollar, influence the amounts reported for revenue and earnings. A stronger US dollar against the euro has a positive effect, whereas a weaker US dollar against the euro has an adverse effect on revenue and earnings. Excluding the effect of currency hedging instruments, the impact of a deviation of 1 cent in the actual exchange rate of the US dollar against the euro compared to the forecast rate would amount to a change in Segment Result of approximately €4 million per quarter or approximately €16 million per fiscal year compared to the forecast value. These figures are calculated on the assumption that the exchange rates of currencies correlated with the US dollar – in which costs arise for Infineon – change in line with the euro/US dollar exchange rate. In terms of revenue, the impact of exchange rates is limited primarily to the euro/US dollar rate, where a deviation of 1 cent in the actual exchange rate compared to the forecast rate would continue to have an impact on revenue of approximately €13 million per quarter or approximately €50 million per fiscal year. Planning for the 2021 fiscal year is based on an assumed average exchange rate of US\$1.15 against the euro.

Growth prospects for the global economy and the semiconductor market

The world economy grew by 2.4 percent in the 2019 calendar year. For the 2020 calendar year, in October 2019 experts at the International Monetary Fund (IMF) had forecasted that the growth rate would rise slightly to 2.7 percent. In light of the coronavirus pandemic and its negative consequences for the world economy, however, the IMF has revised its forecast and now expects the world economy to contract by 4.7 percent in the 2020 calendar year. For the 2021 calendar year, the experts predict that growth will resume and pick up by 4.8 percent. The assumption of economic recovery in the 2021 calendar is subject in particular to uncertainties surrounding the progression of the coronavirus pandemic, but also to various unresolved geopolitical conflicts.

Despite the global economic downturn, market analysts at Omdia expect the Infineon Reference Market (defined as the semiconductor market excluding DRAM and NAND flash memory chips and microprocessors) to develop relatively robustly and grow by 2.5 percent in US dollar terms in the 2020 calendar year, following a decline of 2.2 percent in the 2019 calendar year. Demand for semiconductors was positively impacted by the increase in data traffic and data volume, driven by the trend towards working from home and holding video conferences instead of taking business trips. This has resulted in growing demand for data and telecommunications servers as well as for computers and other electronic equipment. It has also contributed to the accelerated expansion of 5G networks. Based on the predicted recovery of the world economy, market analysts expect growth in the semiconductor market to accelerate to 5.4 percent in the course of the 2021 calendar year.

Combined Management Report Report on outlook, risk and opportunity Outlook

Revenue growth to around €10.5 billion, plus or minus 5 percent

Based on forecasts for the world economy and the semiconductor market segments relevant for Infineon, as described above, and an assumed average exchange rate of US\$1.15 to the euro, the Group forecasts revenue to reach around €10.5 billion, plus or minus 5 percent, for the 2021 fiscal year. The forecast includes Cypress figures for the first time for a full fiscal year. At the mid-point of the guided revenue range, year-on-year revenue growth would then amount to around €2 billion. The Automotive segment is expected to contribute more than 50 percent to this revenue growth. The Power & Sensor Systems and Connected Secure Systems segments are forecast to contribute the remaining part of the additional revenue growth with an equal share each. Industrial Power Control revenue is expected to increase slightly.

Segment Result Margin of around 16.5 percent expected

Based on the forecast changes in revenue described above, in the 2021 fiscal year the Segment Result Margin is expected to come in at around 16.5 percent at the mid-point of the planned range for revenue growth.

Free cash flow from continuing operations

Infineon expects to achieve free cash flow of more than €700 in the 2021 fiscal year.

RoCE

Return on Capital Employed (RoCE) decreased in the 2020 fiscal year to 3.0 percent mainly due to effects of the purchase price allocation after the acquisition of Cypress. For the 2021 fiscal year it is forecast the RoCE to be at around 6 percent.

Gross cash position

The gross cash position is expected to finish the 2021 fiscal year at a level between €2.9 billion and €3.6 billion. This excludes potential further pre-payments of term loans incurred for the acquisition of Cypress. The redemption of convertible bonds that were originally issued by Cypress depends on conversions initiated by the

holders of such bonds; therefore the timing of redemptions cannot be influenced by Infineon. The upper limit for gross financial debt has been set at a maximum of twice the level of operating income before interest, tax, depreciation and amortization (EBITDA). The acquisition of Cypress has caused Infineon to exceed its gross debt target, but only to an extent compatible with maintaining its investment-grade rating. Infineon's medium-term target after the acquisition is to reduce financial debt to, or below, the maximum target level.

Investments and depreciation/amortization

Investments (defined by Infineon as the sum of investments in property, plant and equipment, and other intangible assets including capitalized development costs) are expected to total between €1.4 billion and €1.5 billion in the 2021 fiscal year. About one guarter of this amount will be attributable to buildings for manufacturing purposes, including their infrastructure as well as office buildings, in order to create the conditions to profit from the next market upturn and make full use of structural growth potential. In the 2021 fiscal year, investments planned for frontend manufacturing will address structural adjustments as well as quality and innovation issues. In addition, 300-millimeter capacities will be further expanded in order to continue meeting the expected growth in demand from our customers in the medium term. The largest single project remains the construction of the cleanroom for the new 300-millimeter manufacturing facility in Villach (Austria). Depending on the macroeconomic situation, manufacturing at the facility is currently expected to start towards the end of the 2021 calendar year. Investments in structural measures and capacity expansions for backend facilities will be significantly lower than the amount being invested in frontend facilities.

In the 2020 fiscal year, investments totaled €1,099 million, comprising €915 million for property, plant and equipment and €184 million for capitalized development costs and other intangible assets. In the 2021 fiscal year, investments in capitalized development costs and other intangible assets are expected to be slightly higher than in the year under report.

Business focus and strategy

Combined Management Report Report on outlook, risk and opportunity Outlook | Risk and opportunity report Consolidated Financial Statements

Depreciation and amortization are predicted to be between €1.5 billion and €1.6 billion. Approximately €500 million of that amount relates to depreciation and amortization resulting from purchase price allocations, mainly in connection with the acquisition of Cypress and, on a smaller scale, the acquisition of International Rectifier.

Overall statement on the expected development

Based on forecasts for the world economy and the semiconductor market in the 2021 calendar year, Infineon expects revenue increase to around €10.5 billion, plus or minus 5 percent. At the mid-point of the planned range of revenue growth, the Segment Result Margin is expected to be around 16.5 percent. Investments are set to increase to an amount between €1.4 billion to €1.5 billion. Depreciation and amortization are expected to total between €1.5 billion and €1.6 billion. Free cash flow from continuing operations should amount to more than €700. The Return on Capital Employed (RoCE) is predicted to reach around 6 percent.

Risk and opportunity report

Risk policy: Underlying principles of our risk and opportunity management Effective risk and opportunity management is central to all of our business activities and supports the implementation of our strategic goals and growth drivers. The spread of the coronavirus pandemic led to a significant deterioration in global growth and thus to a new significant risk for Infineon. Infineon's risk and opportunity profile is still characterized by periods of rapid growth, followed by periods of significant market decline, a substantial need for capital investment in order to achieve and sustain our market position and an extraordinarily rapid pace of technological change. Gaining a leading edge through technological innovation also has a legal dimension. Against this background, Infineon's risk policy is aimed firstly at taking advantage of identified opportunities as quickly as possible in a way most appropriate to growing the value of the business, and secondly at pro-actively mitigating risks – particularly those capable of posing a threat to Infineon's going-concern status – by adopting appropriate countermeasures. Risk management at Infineon is therefore closely linked to corporate planning and the implementation of our business strategies. Ultimate responsibility for risk management lies with the Infineon Management Board.

Coordinated risk management and control system elements are in place that enable us to pursue our stated risk policy in practice. Alongside the "Risk and Opportunity Management System" and the "Internal Control System with respect to Financial Reporting Processes" described below, it also includes the related forecasting, management and internal reporting processes as well as the Compliance Management System.

110

Business focus and strategy

Combined Management Report Report on outlook, risk and opportunity Risk and opportunity report

Risk and Opportunity Management System

Infineon's centralized risk management system is based on a Group-wide, management-oriented Enterprise Risk Management (ERM) approach, which aims to cover all relevant risks and opportunities. The approach is based on the "Enterprise Risk Management – Integrated Framework" developed by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The objective of the system is the early identification, assessment and management of risks that could have a significant influence on Infineon's ability to achieve its strategic, operational, financial, legal and compliance targets. We therefore define risk/opportunity as the occurrence of future uncertainties that could result in either a negative or a positive variance from plan. We incorporate all relevant organizational units within the Group in this analysis, thus covering all segments, significant centralized functions and regions.

Responsibility for processes and systems relating to Risk and Opportunity Management rests with the Risk Management and Internal Control System (ICS) function within the Corporate Finance department and with designated Risk Officers working at segment, corporate function and regional levels. Responsibility for the identification, measurement, management and reporting of risks and opportunities lies with the management of the organizational unit concerned.

In organizational terms, the Risk and Opportunity Management System is structured in a closed-loop, multiple-stage process, which stipulates the manner and criteria to be applied to identify, measure, manage and report on risks and opportunities and defines how the system is to be monitored as a whole. Major components of the system are a quarterly analysis of risks and opportunities, reporting by all consolidated entities, an analysis of the overall situation at segment, regional and Group level, reporting to the Management Board on the risks and opportunities situation as well as major management measures undertaken. The Management Board, in turn, reports regularly to the Supervisory Board's Investment, Finance and Audit Committee. Where necessary, standard processes are supplemented by the ad-hoc reporting of any major risks identified between regular reporting dates. Risks and opportunities are measured cumulatively over the multi-year planning horizon on a net basis, i.e. after taking into account any existing risk mitigation or hedging measures. The time periods and the measurement categories used are closely linked to our short- and medium-term business planning and entrepreneurial targets.

All relevant risks and opportunities are assessed uniformly across the Group in quantitative or qualitative terms, based on the dimensions **degree of impact** on operations, liquidity, earnings, cash flows and reputation on the one hand and **likelihood of occurrence** on the other.

The scales used to measure these two factors (degree of impact and likelihood of occurrence, measured cumulatively over the multi-year planning horizon) and the resulting risk assessment matrix are depicted in graph **LL** C40.

Based on the potential degree of impact on operations, liquidity, earnings, cash flows and reputation as well as the estimated probability of occurrence, a risk is classified as "high", "medium" or "low".



Business focus and strategy

Combined Management Report Report on outlook, risk and opportunity Risk and opportunity report

All risks and opportunities reported for Infineon are reviewed for possible correlation and cumulative effects, and analyzed using an Infineon-specific categorization model. Risk and opportunity analysis and new developments in risk management culture are supplemented by interdisciplinary workshops held at segment, corporate and regional levels. Important information relevant for Infineon's Risk and Opportunity Management System is available to all employees via our intranet system, including access to ERM tools and ERM guidelines, containing job descriptions for all functions involved in the process as well as all information necessary for reporting purposes.

Risk and Opportunity Managers are designated at appropriate hierarchical levels to manage and monitor identified risks and opportunities. They are responsible for formally determining a set of appropriate strategies (in case of risk avoidance, mitigation, transfer to other parties or acceptance). Working closely with corporate functions and individual managers, the Risk and Opportunity Managers are also responsible for defining and monitoring measures aimed at implementing the adopted management strategy. In order for our system to be successful, it is essential that risks and opportunities are managed and monitored pro-actively and with a great deal of commitment.

Compliance with the ERM approach is monitored by the corporate Risk Management and ICS departments using procedures incorporated in business processes. Group Internal Audit also performs tests for compliance with legal requirements and Infineon guidelines and, where appropriate, rules relating to Risk and Opportunity Management and recommends corrective measures.

The Supervisory Board's Investment, Finance and Audit Committee oversees the effectiveness of the Risk Management System. As part of the statutory audit, the external Group auditor also examines our early warning system pursuant to section 91, paragraph 2, of the German Stock Corporation Act to ascertain its suitability to detect risks that could pose a threat to Infineon's going-concern status and reports thereon annually to the Chief Financial Officer (CFO) and the Investment, Finance and Audit Committee of the Supervisory Board.

Internal Control System with respect to the financial reporting process The principal focus of the Internal Control System (ICS) is on the financial reporting process, with the aim of monitoring the proper maintenance and effectiveness of accounting systems and financial reporting. The primary objective of the ICS is to minimize the risk of misstatement in Infineon's internal and external reporting and to ensure with a reasonable amount of certainty that the Consolidated Financial Statements comply with all relevant regulations. Appropriate controls must therefore be in place throughout the organization to ensure compliance. Clear lines of responsibility are assigned to each of the processes.

The ICS is based on the "Internal Control – Integrated Framework" developed by the "Committee of Sponsoring Organizations of the Treadway Commission (COSO)" and is an integral part of the accounting process in all relevant legal entities and corporate functions.

The system monitors compliance with stated principles and stipulated procedures based on preventive and detective controls. Among other things, we regularly check that:

- > Group-wide financial reporting, measurement and accounting guidelines are continually updated and adhered to,
- > intragroup transactions are fully accounted for and properly eliminated,
- issues relevant for financial reporting and disclosures in connection with agreements entered into are recognized and appropriately presented,
- processes and controls are in place to explicitly guarantee the completeness and correctness of the year-end financial statements and financial reporting,
- > processes are in place for the segregation of duties and for the dual control principle in the context of preparing financial statements, as well as for authorization and access rules for relevant IT accounting systems.

Business focus and strategy

Combined Management Report Report on outlook, risk and opportunity Risk and opportunity report

Assessment of effectiveness

We systematically assess the effectiveness of the ICS with regard to the corporate accounting process. An annual risk analysis is initially performed and the defined controls are revised, as and when required. The assessment involves identifying and updating significant risks relating to accounting and financial reporting in the relevant legal entities and corporate functions. The controls defined for identifying risks are documented in accordance with Group-wide guidelines. Regular random tests are performed to assess the effectiveness of these controls. The tests constitute the basis for assessing the appropriateness of design and the effectiveness of the controls. The results are documented and reported in a global IT system. Any deficiencies identified are remedied with due consideration given to their potential impact.

Furthermore, in a Representation Letter, all legal entities, segments and relevant corporate functions confirm that all business transactions, all assets and liabilities and all income and expense items have been recognized in the financial statements.

At the end of the annual cycle, the material legal entities review and confirm the effectiveness of the ICS with regard to the accounting and financial reporting process. The Management Board and the Investment, Finance and Audit Committee of the Supervisory Board are regularly informed about any significant control deficiencies and the effectiveness of the internal controls.

Both the Risk and Opportunity Management System and the Internal Control System are continuously developed and expanded to ensure compliance with internal and external requirements. Regular improvements made to these systems contribute to the continuous monitoring of the relevant risk areas including the responsible organizational units.

Since the acquisition of Cypress in April 2020, the integration of Cypress' internal control procedures into the Infineon ICS has proceeded in the course of amalgamating the legal entities and processes.

Significant risks

In the following section, we describe risks that could have a significant or materially impact on Infineon's operations, liquidity, earnings, cash flows and reputation and which have therefore been allocated to the risk classes "high" or "medium". Unless otherwise stated, the risks described apply to all segments. Depending on the potential degree of impact and the estimated likelihood of occurrence, the risk class is shown in parentheses for each risk (e.g. "RC: high").

Cypress-related risks have been integrated in the significant risks described and only the potential risks arising in connection with the acquisition and integration are presented separately in the section "Risks arising in connection with the acquisition and integration of Cypress". D p. 118 f.

Strategic risks

Risks arising from the coronavirus pandemic (RC: high)

The rapid spread of the coronavirus pandemic and the associated COVID 19 disease has led to a significant deterioration in conditions for the global economy and also had a negative impact on Infineon's business and earnings during the fiscal year under report. The coronavirus pandemic poses significant risks to supply chains as well as to the production and sale of Infineon's products. These risks are caused, for instance, by restrictions on the business activities of suppliers, customers, and Infineon itself, by restrictions imposed by authorities due to regional, national, or international regulations, and by the lack of availability of key employees. For example, Infineon experienced the temporary stoppage of production by various authorities around the world, which affected not only Infineon's production facilities, but also those of its international suppliers and customers. This turn of events has had and continues to have an impact on the availability of raw materials and components and on Infineon's sales volume, with the situation potentially worsening the longer the pandemic lasts.

Furthermore, the travel restrictions imposed worldwide due to the pandemic could delay the integration of Cypress or make it more difficult and costly than Infineon had hitherto expected. The coronavirus pandemic as well as any other pandemic,

Business focus and strategy

Combined Management Report Report on outlook, risk and opportunity Risk and opportunity report

epidemic or outbreak of infectious disease could have a materially adverse effect on business operations, financial condition, liquidity, cash flows and earnings of the Group.

Unsettled political and economic climate (RC: high)

As a globally operating company, our business is highly dependent on global economic developments. A worldwide economic downturn – particularly in the markets we serve – may result in us not achieving our forecasted revenue and contribution to earnings. Risks can also arise due to political and social changes, in particular when those changes occur in countries in which we manufacture and/or sell our products.

Trade and customs disputes as well as trade restrictions, particularly those imposed by the US government, could constrain global trade, thereby dampening global economic growth. Such developments can be triggered by political tensions and/or trade conflicts between individual countries or regions, which – as a result of short-term and sometimes unforeseeable decisions – could have a significant impact on Infineon's revenue and earnings.

Our dependence on the Chinese market remains unchanged. This risk includes the possibility of lower external demand and hence a decline in manufacturing capacity utilization levels. There is also a risk that an increased volume of previously imported semiconductors will be manufactured in China and that a greater volume of those manufactured in China will be exported.

The government debt situation worldwide has worsened considerably as a result of the economic stimulus programs launched to mitigate the consequences of the coronavirus pandemic. The final terms of the United Kingdom's exit from the European Union (Brexit) also remain unclear.

Regardless of our assessment of potential scenarios and outcomes within this complex set of risks, these developments could have an adverse impact on Infineon's business operations, financial condition, liquidity, cash flows and earnings.

Cyclical market and sector development (RC: high)

The worldwide semiconductor market is dependent on global economic growth and hence subject to fluctuations. Our target markets are exposed to the risk of short-term market fluctuations. As a result, our own forecasts of future business developments are subject to a high degree of uncertainty. It is possible, for instance, that future market downturns will follow another pattern, for example an L-shape with longer periods of stagnant growth. The absence of market growth or its decline would make it considerably more difficult to attain our own growth targets. In the event that we are unprepared for market fluctuations, or our response to any such fluctuations turns out to be inappropriate, this could have a sustained materially adverse impact on Infineon's operations, financial condition, liquidity, cash flows and earnings.

Increased market competition and commoditization of products (RC: high)

The rapid pace of technological change in the market also results in a greater replaceability of products. Due to the resulting aggressive pricing policies, we may be unable to achieve our long-term strategic goals of gaining and/or maintaining market share and of product pricing. Moreover, accelerating M&A (Merger and Acquisition) activity within the semiconductor industry could result in even tougher competition. Potential benefits for competitors in this market include improved cost structures and more effective sales channels. Overall, this situation could have an adverse impact on Infineon's earnings.

Operational risks

Data and IT systems security (RC: high)

The reliability and security of Infineon's information technology systems are of crucial importance. At the same time, the world has seen a general rise in the level of threats to data security. This applies to the deployment of IT systems to support business processes on the one hand and internal and external communications on the other. Despite the array of precautionary measures put in place, any major disruption to these systems could result in risks relating to the confidentiality, availability and reliability of data and systems used in development, manufacturing, selling or administration functions, which, in turn, could have an adverse impact on our reputation, competitiveness and operations.

114

Business focus and strategy

Combined Management Report Report on outlook, risk and opportunity Risk and opportunity report

Potential virus attacks, in particular on IT systems used in manufacturing processes, present additional risks that could result in production downtime and supply bottlenecks.

Increasingly dynamic markets (RC: high)

The accelerating pace of events in the markets in which we operate, increased demands for flexibility by our customers, and short-term changes in order volumes could result in rising costs due to the underutilization of manufacturing capacities, higher inventory levels and unfulfilled commitments to suppliers.

Thus, despite the fact that manufacturing processes and sites have become even more flexible, fluctuations in capacity utilization levels and purchase commitments, coupled with idle costs at manufacturing sites, nevertheless pose risks related to our cost position. These risks could possibly jeopardize our ability to achieve growth and profitability targets that are based on cycle averages.

The situation is exacerbated by the fact that our products are highly dependent on the degree of success achieved by individual customers in their own markets. Furthermore, there is a risk of losing future business and design wins if we are unable to deliver volumes over and above our contractual obligations if called upon by customers to do so. In the case of unexpectedly high demand, we therefore face the challenge of having to deliver increased volumes that require an appropriate level of upfront investment. This could have an adverse impact on our planned investment ratio and, ultimately, on Infineon's financial condition and earnings.

Dependence on the success of specific customers may also grow if they account for an above-average share of Infineon's revenue and earnings. This situation could be driven by an exceptionally strong performance by a particular customer, resulting, for instance, from exceptional demand for its products or from consolidation trends, in particular those affecting our first- and second-tier customers.

Product quality trends (RC: medium)

Product quality assurance is a key success factor for our business. Potential quality risks – for example due to high utilization levels – can affect yield fluctuations and hence our ability to supply customers. Shortfalls in product quality can lead to product recalls and potential costs related to liability claims. In addition, quality risks could also damage Infineon's reputation and thus have an adverse impact on future earnings.

Product development delays (RC: medium)

The ever-increasing complexity of technologies and products, shorter development cycles and higher customer expectations can cause a great deal of tension in the field of product development. Buffer times built into processes to compensate for potential delays are reduced accordingly. In the event of being unable to execute our development plans at the desired quality levels, the outcome could be development delays and increased development costs, which could have an adverse impact on Infineon's operations, financial condition, liquidity, cash flows and earnings.

Manufacturing cost trends – raw material prices, cost of materials and process costs (RC: medium)

Our medium- and long-term forecasts are based on expected manufacturing cost trends. In this context, measures aimed at optimizing manufacturing costs for raw materials and supplies, energy, labor and automation, as well as for bought-in services from external business partners, may not be feasible to the extent envisaged.

Moreover, our dependence on various components (such as wafer substrates) and raw materials (such as gold and copper) used in manufacturing, as well as our energy requirements expose us to substantial price risks. We are also dependent on supplies of the so-called rare earths required for selected manufacturing processes in conjunction with production process integration. At the time of writing, financial instruments are in place to hedge our price risk exposure for gold wire during the 2021 fiscal year,

115

Business focus and strategy

Combined Management Report Report on outlook, risk and opportunity Risk and opportunity report

based on planned volume requirements. The prices of raw materials and energy have recently been subject to significant fluctuation and there is no reason to assume the situation will change in the near future. If we are unable to offset cost rises or pass them on to customers via price adjustments, it could have an adverse impact on earnings.

Determining and adjusting manufacturing volumes (RC: medium)

Frontend and backend manufacturing processes need to be optimally synchronized to enable Infineon to develop competitive, high-quality products designed to provide customized technological solutions. In view of the rapid pace of technological change and increasingly stringent customer requirements, coordination processes need to become increasingly sophisticated. Failure to continue making progress in this area could result in quality problems, product development or market maturity delays as well as higher R&D expenses and hence adversely impact Infineon's earnings.

One risk that semiconductor companies operating in-house manufacturing facilities typically face is that of delays in the ramping-up of production volumes at new manufacturing sites or in the transfer of technology. One good example is in the Automotive segment, where customers' product approval and testing processes can be conducted over an extended period of time, thus influencing our global manufacturing strategy as well as short- and medium-term capacity utilization. Failure to anticipate these changes in the manufacturing process in good time could result in capacity shortages and hence lower revenue on the one hand as well as costs incurred due to underutilization on the other.

Dependence on individual manufacturing sites (RC: medium)

Our South East Asian manufacturing sites are of critical importance for our production. If, for example, political upheavals or natural disasters in the region were to impede our ability to manufacture at these sites on the planned scale or to export products manufactured at those sites, it would have an adverse impact on our financial condition, liquidity and earnings. Our current manufacturing capacities in this region are, to a large extent, not insured against political risks such as expropriation of assets. The transfer of manufacturing capacities from these sites would, therefore, not only involve a great deal of time and technical effort, Infineon would also be required to bear the necessary cost of investment.

Dependence on individual suppliers (RC: medium)

We cooperate with numerous suppliers who provide us with materials and services, or who manage parts of our supply chain. We do not always have alternative sources for some of these suppliers and therefore depend on their ability to deliver products of the required quality. The acquired Cypress business relies significantly on independent contractors and subcontractors to manufacture its products, which includes wafer fabrication, assembly, packaging and testing. Failure of one or more these suppliers to meet their obligations to Infineon could have an adverse impact on Infineon's operations, liquidity and earnings.

Need for qualified staff (RC: medium)

One of the key factors in our success is the availability of sufficient numbers of qualified employees at all times. There is, however, a general risk of losing qualified staff or not being able to recruit, train and retain adequately qualified staff within the business. A lack of technical or management staff could, among other things, restrict future growth and hence adversely impact Infineon's liquidity and earnings.

Financial risks

Currency risks (RC: medium)

Our involvement and participation in various regional markets around the world creates cash flows in a number of currencies other than the euro – primarily in US dollars. A significant share of revenue on the one hand and of operating costs and investments on the other is denominated in US dollars and correlated currencies. For the most part, Infineon generates a US dollar surplus from these transactions. The integration of Cypress-related business will increase this surplus.

Business focus and strategy

Combined Management Report Report on outlook, risk and opportunity Risk and opportunity report

Specified currency risks are hedged Group-wide by means of derivative financial instruments. These hedges are based on forecasts of future cash flows, the occurrence of which is uncertain. Under these circumstances, exchange rate fluctuations could – despite hedging measures – also have an adverse impact on earnings.

Risk of default by banking partners (RC: medium)

The relatively high level of our holdings of liquid funds (gross cash position) exposes us to the potential risk of a default by one or more of the banking partners with whom we do business. We mitigate this risk – which could still arise despite various state-insured deposit protection mechanisms – by a combination of risk avoidance analyses and risk-spreading measures. The failure of these measures could have a materially adverse impact on Infineon's financial condition and liquidity situation.

Further information regarding the management of financial risks is provided in note 29 to the Consolidated Financial Statements. D p. 207 ff.

Legal and compliance risks

Qimonda insolvency (RC: medium)

Due to the insolvency proceedings of Qimonda and the related action of the insolvency administrator, we are exposed to potential risks, which are described in detail in note 25 to the Consolidated Financial Statements. \square p. 193 f.

Provisions are recognized in connection with these matters as of 30 September 2020. The provisions reflect the amount of those liabilities that management believes are probable and can be estimated with reasonable accuracy at that time. There can be no assurance that these provisions will be sufficient to cover all liabilities that may be incurred in conjunction with the insolvency proceedings relating to Qimonda.

Intellectual property rights and patents (RC: medium)

As with many other companies in the semiconductor industry, from time to time allegations are made against us that we have infringed other parties' protected rights. Regardless of the prospects of success of such claims, substantial legal defense costs can arise.

Whilst we often benefit from cross-licensing arrangements with major competitors, no such opportunities exist to safeguard against risks of this nature in the case of companies specializing in the exploitation of patent rights.

We cannot rule out that patent infringement claims will be upheld in a court of law, thus resulting in significant claims for damages or restrictions in selling the products concerned. Any such outcome could in turn have an adverse impact on Infineon's financial condition, liquidity and earnings.

Further information regarding litigation and government inquiries is provided in note 25 to the Consolidated Financial Statements. D p. 192 ff.

Impact of our global operations (RC: medium)

Our global business strategy requires the maintenance of R&D locations and manufacturing sites throughout the world. The location of such facilities is determined by market entry hurdles, technology and cost factors. Risks could, therefore, arise if adverse economic and geopolitical crises were to affect our regional markets and if country-specific legislation and regulations were to influence investment activities and the ability to trade freely. Differing practices in the way tax, judicial and administrative regulations are interpreted could have a negative impact on operations. We could also be exposed to the risk of fines, sanctions and reputational damage.

Asian markets are particularly important to our long-term growth strategy. Our operations in China are influenced by a legal system that may be subject to change. One example is the fact that local regulations could make it mandatory to enter into partnerships with local companies. These circumstances could lead on the one hand to Infineon's intellectual property no longer being sufficiently protected and on the other to intellectual property developed by Infineon in China not being freely transferable to other countries and locations, thus impairing our financial condition and earnings performance.

Combined Management Report Report on outlook, risk and opportunity Risk and opportunity report

Acquisitions and cooperation arrangements (RC: medium)

In order to develop or expand our business, we may seek to acquire other businesses or enter into various forms of cooperation arrangements. In the case of acquisitions, there is a risk that these activities prove to be unsuccessful, particularly regarding the integration of people and products in existing business structures. These issues could adversely impact our financial condition and earnings performance.

In the case of acquisitions or portfolio decisions, there is a risk of non-compliance with antitrust regulations due to lack of knowledge or failure to make the people involved in such transactions adequately aware of the issues. This could result in high levels of cost (e.g. significant time spent by management, assignment of attorneys) and fines. Infineon's reputation could also suffer under these circumstances.

Tax, fair trade and capital market regulations can all entail additional risks. In order to mitigate these risks, we rely upon the advice of both in-house and external experts and provide suitable training to our employees.

Risks arising in connection with the acquisition and integration of Cypress (RC: medium)

Due to the size and significance of the Cypress acquisition, the main risks that could have a negative impact on Infineon's current or future business, liquidity and share price or dividend payments are described below.

The list of risks highlighted below does not purport to be exhaustive. Moreover, the order in which they are presented does not imply any attribution of value to the risks concerned.

Risks arising from financing the acquisition

In connection with the Cypress acquisition, on 3 June 2019 Infineon entered into an agreement for a syndicated credit facility with various international banks in two currencies with a volume of €6.6 billion bridge facility and US\$3.3 billion term loan.

Following Infineon's capital increase on 18 June 2019 and the issuance of a hybrid bond in two tranches on 1 October 2019, a total amount of €2.7 billion out of the syndicated loans previously agreed by Infineon were canceled. On completion of the acquisition on 16 April 2020, the remaining amounts of €3.9 billion and US\$3.3 billion were fully drawn down. Further important refinancing measures were then implemented within two months. Initially, in May 2020, a capital increase with a volume of a bit more than €1.0 billion took place as part of an accelerated bookbuilding process, whereby the entire planned equity portion of the refinancing of the Cypress takeover could be completed. In June 2020, Infineon issued corporate bonds in four tranches with a volume of €2.9 billion in total under the newly established EMTN program (European Medium Term Notes). With the proceeds from both measures, the bridge facility for acquisition financing could be completely replaced. In addition, early partial repayment of the term loan with an amount of US\$555 million from available liquidity took place in September 2020. As of 30 September 2020, term loans totaling just under US\$2.8 billion with staggered maturities in 2022, 2023 and 2024 years are still outstanding under the credit facility agreement.

The credit facility agreement contains certain obligations, restrictions and covenants that are based on customary market conditions and which may limit Infineon's operational flexibility.

Non-achievement of strategic or operational targets and integration-related risks

The strategic and operational targets we have set with respect to the acquisition and integration of Cypress are based on assumptions and estimates that may subsequently prove to be incorrect. These include the financial and operational performance of Cypress and the synergy and innovation potential of the two companies as well as future economic developments and market changes.

In the event of unexpected integration difficulties, the weaker-than-expected growth of Cypress-related business or other unforeseen deviations in business development, we could possibly be forced to recognize an impairment loss on non-current assets and/or on goodwill arising on the acquisition of Cypress.

118

Business focus and strategy

Combined Management Report Report on outlook, risk and opportunity Risk and opportunity report

In particular, the possible loss of key employees could also have a negative impact. As a prerequisite for the successful integration and implementation of a joint strategy, we need managers and talented employees from both Infineon and Cypress. If, for instance, we are unable to retain employees due to potential uncertainties regarding jobs, locations or culture, the benefits of integration and the ability to exploit the respective strengths of the two companies may be impaired.

Measures to implement our risk management strategy

At a strategic risk level, we endeavor to mitigate the typical risks that arise in the semiconductor sector due to economic and demand fluctuations and the risks related to Infineon's operations, financial condition, liquidity and earnings by closely monitoring changes in early warning indicators as well as by developing specific response strategies appropriate to the current position within the economic cycle. This can be done, for instance, by rigorously adjusting capacities and inventory levels at an early stage, initiating cost-saving measures and making flexible use of external manufacturing capacities at both frontend and backend facilities.

At an operational level, we have adopted various quality management strategies aimed at avoiding quality risks (such as "Zero Defects" and "Six Sigma") in order to prevent or solve problems and to improve our business processes. Our Group-wide quality management system has been certified on a worldwide basis in accordance with ISO 9001 and ISO/TS 16949 for a number of years and also encompasses supplier development. Our processes and initiatives to ensure continuous quality improvement in corporate procedures are aimed at identifying and eliminating the reasons for quality-related problems at an early stage.

A structured project management system is in place to handle development projects, including customer-specific projects. Clear project milestones and verification procedures required to be carried out during a project as well as clearly defined limits of authority help us identify potential project risks at an early stage and counter these risks with specific measures.

We seek to minimize procurement-related risks through appropriate purchasing strategies and techniques, including constant product and cost analysis ("Best Cost Country Sourcing" and "Focus-on-Value"). These programs include cross-functional teams of experts who are responsible for standardizing purchasing processes with respect to materials and technical equipment.

In response to the general increase in threats to data security and the high degree of professionalism meanwhile applied in the area of cybercrime, we have initiated an information security program to further improve protection against hacking attacks and related risks to our IT systems, networks, products, solutions and services. Information security is achieved primarily with the aid of Infineon's systematically applied global Information Security Management System (ISMS), the prime objectives of which are to identify and measure all potential IT risks and to ensure that effective processes and tools are in place to minimize and avoid risk. The ISMS covers all areas of Infineon's business and is certified to the globally recognized ISO/IEC 27001 norm. All relevant risk areas are continuously monitored and optimized in conjunction with regular internal and external audits.

We minimize legal risks relating to intellectual property rights and patents by pursuing a well-defined patent strategy, including thorough patent research and the selective development and registration of Infineon patents as well as precautionary protective measures in the form of agreements with major competitors. However, no such opportunities exist to safeguard against risks of this nature in the case of companies that specialize in exploiting patent rights.

We have established a Group-wide compliance management system with the aim of managing compliance-related risks on a systematic, comprehensive and sustainable basis. Under this system, major preventive procedures are continuously developed, other elements of the system revamped or strengthened, and appropriate responses established for possible or actual incidences of non-compliance with internal or external regulations. The Compliance Officer reports to the Chief Financial Officer and to the Investment, Finance and Audit Committee of the Supervisory Board on a quarterly basis.

Business focus and strategy

Combined Management Report Report on outlook, risk and opportunity Risk and opportunity report

In certain cases, insurance policies have been taken out to protect against potential claims and liability risks, with the aim of avoiding or at least minimizing any adverse impact on Infineon's financial condition and liquidity.

Overall statement by Group management on the risk situation

The overall risk assessment is based on a consolidated view of all significant individual risks. The overall risk situation is essentially unchanged from the previous year. We are not currently aware of any individual risks capable of jeopardizing Infineon's going-concern status.

Opportunities

The principal opportunities are described in the following section. The list is not exhaustive and represents only a cross-section of the opportunities available. Our assessment of these opportunities is subject to continuous change, reflecting the fact that our business, our markets and the technologies we deploy are continuously subject to new developments, bringing with them fresh opportunities, causing others to become less relevant or otherwise changing the significance of an opportunity from our perspective. Depending on the potential degree of impact and the estimated probability of occurrence, each of these opportunities is assigned to an "opportunity class" (OC) in the same way that risks are allocated to a risk class. These classifications are shown in parentheses (e.g. "OC: medium").

The main potential opportunities arising in connection with the acquisition of Cypress are outlined below at "Opportunities arising in connection with the acquisition and integration of Cypress".

Opportunities arising in connection with the acquisition and integration of Cypress (OC: medium)

The products and technologies of Infineon and Cypress complement each other excellently and set standards in their respective fields. In addition to our current range of power semiconductors, sensors and microcontrollers for automotive and security applications, we will be able to offer connectivity, multi-purpose microcontrollers for industrial and IoT applications, together with software, as well as memories for specialty applications ("grow in scope").

The resulting comprehensive portfolio enables Infineon to offer the complete system solutions that are needed to link the real with the digital world. The key to success is ensuring secure connectivity for energy-efficient devices. Advances in functional integration mean that a whole host of relevant applications is currently in an early phase of growth.

We are pushing ahead with our "Product to System" strategy in order to strengthen and expand core business by growing in both related and new fields. To cite two examples, firstly, the combination of Infineon's security expertise with Cypress's connectivity know-how will accelerate entry into new IoT applications in the industrial segment. Secondly, in the field of automotive semiconductors, the expanded portfolio of microcontrollers and NOR flash memories offers great potential, especially in light of their growing importance for driver assistance systems and new electronic architectures in vehicles.

Quite apart from their product portfolios, the two companies also complement each other in further aspects. We also see an excellent match in terms of geographical focus and sales channels, with Infineon gaining wider market access through Cypress, particularly in Japan, as well as via distributors. Infineon will also be adding to its R&D presence in Silicon Valley. Due to its product portfolio, the manufacturing strategy of Cypress is focused to a far greater extent on contract manufacturing. The combination of the two companies will help our business diversify, make it more robust and enable us to generate additional cost synergies.

New technologies and materials (OC: medium)

We are constantly striving to develop new technologies, products and solutions and to improve on existing ones, both separately and in collaboration with customers. We therefore continually invest in research and development relating to the use of new technologies and materials. Those in current use may well lose their predominance in the foreseeable future, such as Si, which is reaching its physical limits in some applications.

120

Business focus and strategy

Combined Management Report Report on outlook, risk and opportunity Risk and opportunity report

We see numerous opportunities for working with new materials, such as those associated with SiC or GaN, to develop more powerful and/or lower-cost products. These materials could well have a positive influence on our ability to attain our strategic growth and profitability targets.

Strategic approach "Product to System" (OC: medium)

With the "Product to System" strategic approach, we seek to identify additional benefits for our customers on a system level from within our broad portfolio of technologies and products. This strategy enables us to exploit further revenue growth potential and thereby achieve our growth and margin targets. This approach also enables us to reduce customers' development costs and shorten the lead times required to bring their products to market.

Support for change in energy policies and consideration of climate change issues (OC: medium)

Population growth and increasing industrialization in all parts of the world are resulting in an ever-greater global demand for energy. Electric power is becoming the most important energy carrier of the 21st century and renewables are playing a key role in reducing carbon emissions. The long-term objective is to achieve global decarbonization by the end of the century, as resolved at the Climate Change Conference held in Paris (France) in December 2015. As part of its Green Deal concept, the European Union is planning to become climate-neutral by 2050.

Infineon's semiconductors enable electric power to be generated from renewable energy sources. They offer efficiency gains at all stages of the energy industry's valueadded chain, whether in generation, transmission, or above all in the use of electric power. They form the basis for the intelligent and efficient use of electric power, for instance in industrial applications, power supplies for computers, consumer electronics and vehicles.

Digitalization (OC: medium)

The trend towards digitalization offers substantial business potential for Infineon. This is partially reflected in the optimization of internal processes, for example for our interconnected manufacturing capabilities on a global scale. At the same time, our portfolio of sensors, microcontrollers, power semiconductors, security controllers and specific software puts us in an excellent position to exploit growing market potential. Our "Product to System" strategic approach makes us ideally placed to penetrate and develop the markets involved. Good examples already visible today include automated driving, voice and gesture control for devices and machines, the advancing development of the IoT and "big data".

Ability to meet supply requirements with available capacities (OC: medium)

Our in-house manufacturing capacities, together with those of our external partners, provide us with sufficient flexibility to meet demand. In particular, the further expansion of 300-millimeter manufacturing in Dresden (Germany), the second manufacturing module in Kulim (Malaysia) and the construction of a second, fully automated 300-millimeter factory at the Villach site (Austria) will help meet growing demand for power semiconductors.

The availability of additional capacities, combined with the pro-active strategic and operational planning of internal and external resources, enable us to meet rising demand from both existing and new customers in the event of a market upturn. In the 2020 fiscal year, we benefited from our strategy of differentiating in-house production and were able to meet the strong demand for MOSFETs for data centers and for 5G mobile communications infrastructure as well as for MEMS microphones for ear buds at short notice.

Market access and activities in China (OC: medium)

Infineon generates more revenue in China than in any other country. Accordingly, developments and growth opportunities in China are of the utmost importance to the Group and relate to the following markets that we serve:

121

Business focus and strategy

Combined Management Report Report on outlook, risk and opportunity Risk and opportunity report

Vehicle production in China is still expanding, albeit at a slower pace. At the same time, rapid growth in the production of plug-in hybrid and all-electric vehicles has turned China into the world's largest market for electro-mobility. For this reason, during the 2018 fiscal year Infineon and SAIC Motor (China's largest car manufacturer) established SIAPM, a joint venture that offers power semiconductor solutions for electric vehicles. Volume production has already commenced. The joint venture strengthens our position in China, whilst also offering additional potential for Infineon's future global business.

China is the world's largest market for trains and, with CRRC (an Infineon customer) home to the world's largest train manufacturer by far. The continued expansion of the country's rail network and the growing volume of international infrastructure projects both represent growing business opportunities for Infineon.

At the G20 summit held in Hangzhou (People's Republic of China) in September 2016, China ratified the Paris Agreement, thereby giving its formal commitment to reducing carbon emissions. As a consequence, the importance of expanding renewable energy sources in China increased enormously. Our presence in this market, alongside our collaboration with leading companies in the wind and solar power sectors, will create further opportunities for long-term growth.

Our success in positioning Infineon in China as an integral part of Chinese industry (and hence of Chinese society) could well open up a multitude of new opportunities that is highly likely to have a positive impact on the growth and profitability of our business.

Further growth of semiconductor content in vehicles (OC: medium)

We expect semiconductor content per vehicle to continue growing. The primary driving force behind this trend is the rising demand for electro-mobility, active safety features and driver assistance systems.

We are also convinced that current global carbon emissions targets cannot be achieved without further electrification. The need for increased efforts in this field is relevant not only for electro-mobility (i.e. hybrid, plug-in hybrid and all-electric vehicles), but also for power units in vehicles with combustion engines. IT security within the vehicle is also further gaining in importance. Our expertise in the field of security controllers makes us extremely well positioned to exploit opportunities in this area.

Growth from mobile applications (OC: medium)

The ongoing trend towards increased mobility is also reflected in the unbroken high demand for smartphones and tablets. We benefit from this development in two ways. Firstly, through the components we supply for mobile devices (MEMS microphones, TVS diodes, GPS signal amplifiers, CMOS-RF switches) and secondly, through power semiconductors, which form the key components for energy-efficient chargers (highvoltage and low-voltage power transistors, driver ICs and control ICs).

Security applications (OC: medium)

The trend towards electronic identity documents continues to have a positive impact on Connected Secure Systems segment revenue. Paper-based documents are increasingly being replaced by chip-based versions, due to the higher level of security they offer. New markets are also emerging in conjunction with the IoT and the Industrial Internet ("Industry 4.0"). The authentication of devices is playing an increasingly important role in both of these fields, for which Infineon offers the corresponding security chips.

Liquidity position (OC: medium)

Our current liquidity position, which we describe in the chapter "Review of liquidity", p. 103 ff., enables us to obtain and, if necessary make use of favorable refinancing conditions.

Overall statement on Infineon's financial condition

The 2020 fiscal year was marked by two significant events: the outbreak of the coronavirus pandemic just before the end of the six-month period and the completion of the acquisition of Cypress in April 2020.

The ongoing pandemic has triggered an unprecedented crisis. For the semiconductor industry, it came just as the first signs of improved economic conditions were emerging after a difficult 2019 fiscal year. Infineon has stood up well as the crisis has unfolded and, thanks to its solid underlying strength, has achieved a highly respectable result within an extremely challenging environment.

The acquisition of Cypress, which was completed on 16 April 2020, has also contributed to this. Bringing the product portfolios and areas of expertise of Cypress and Infineon together opens up a great deal of potential. The combination of microcontrollers, sensors, connectivity devices, power semiconductors, specialty application memories and security solutions including software as well as a suitable development environment for all programmable components has created a comprehensive portfolio for IoT applications, for automated driving and for the development of products that consume less energy. Moreover, during the second half of the 2020 fiscal year, the former Cypress lines of business already made significant contributions in terms of securing revenue and profitability as well as generating cash flows for the Group.

Taking all factors into account, we have successfully weathered the impact of a severe economic slump that in many countries has given rise to the worst recession in the post-war era. Infineon's business proved to be very resilient thanks to its consistent focus on the structural growth drivers in the areas of energy efficiency, mobility, security, IoT and "big data". The success of this strategy is also apparent in the results of operations we are able to report.

Revenue generated in the 2020 fiscal year totaled €8,567 million, 7 percent up yearon-year. The Segment Result totaled €1,170 million for the 2020 fiscal year, 11 percent down on the €1,319 million reported one year earlier. The Segment Result Margin for the 2020 fiscal year came in at 13.7 percent. As expected, the acquisition of Cypress had a major impact on free cash flow, causing it to deteriorate to a negative amount of €6,727 million. Excluding cash used in conjunction with the acquisition of Cypress, however, free cash flow was a positive amount of €911 million.

The **Return on Capital Employed (RoCE)** decreased from 12.2 percent to 3.0 percent year-on-year. Operating income fell, mainly as a consequence of higher idle costs and increased depreciation and amortization and expenses resulting from the recognition of fair value adjustments identified in conjunction with the purchase price allocation performed for the acquisition of Cypress. **Capital employed** also increased, mainly due to the recognition of fair value adjustments and goodwill.

Following the acquisition of Cypress, an exciting "Year 1" lies ahead of us. We are seeing signs of recovery in some of our target markets, but no broad upturn until now. Market conditions remain challenging and reflect a high degree of macroeconomic uncertainty. For the 2021 calendar year, the experts at the International Monetary Fund (IMF) predict a growth in the global economy of 4.8 percent. The assumption of economic recovery in the 2021 calendar is subject, in particular, to uncertainties surrounding the progression of the coronavirus pandemic, but also to various still unresolved geopolitical conflicts. Market analysts at Omdia expect the Infineon reference market (defined as the semiconductor market excluding DRAM and NAND flash memory chips and microprocessors) to grow by 5.4 percent in the course of the 2021 calendar year. Based on these expectations, and an assumed average exchange rate of US\$1.15 to the euro, we forecast revenue to grow to around €10.5 billion, plus or minus 5 percent, for the 2021 fiscal year. At this level of revenue, we expect a Segment Result Margin of around 16.5 percent at the mid-point of the planned range for revenue growth (see chapter "Outlook", D p. 107 ff.).

Combined Management Report Infineon Technologies AG

Infineon Technologies AG

In addition to reporting on Infineon as a whole, in the following section we also provide information on the performance of Infineon Technologies AG.

Infineon Technologies AG is the parent company of Infineon and performs the Group's management and corporate functions. It is responsible for key functions such as Group-wide Finance and Treasury, Investor Relations, Tax and Accounting, Corporate Compliance, Human Resources, strategic and product-oriented research and development activities and also Corporate and Marketing Communication worldwide. Furthermore, it manages supply chain processes throughout the Group. Infineon Technologies AG also has its own manufacturing facilities, located in Regensburg and Warstein (both in Germany).

Unlike the Consolidated Financial Statements, which are prepared in accordance with International Financial Reporting Standards ("IFRS"), Infineon Technologies AG's Separate Financial Statements are prepared in accordance with the provisions of the German Commercial Code ("HGB"). The complete Separate Financial Statements are published separately.

Earnings position

Statement of income of Infineon Technologies AG in accordance with the German Commercial Code (condensed)

€ in millions	2020	2019
Revenue	5,346	5,483
Cost of goods sold	(3,745)	(3,802)
Gross profit	1,601	1,681
Research and development expenses	(1,091)	(1,069)
Selling expenses	(370)	(292)
General and administrative expenses	(198)	(178)
Other income (expense), net	(2)	(63)
Result from investments, net	270	64
Interest result	(141)	(15)
Other financial result	(216)	(129)
Income tax	(3)	(16)
Income after taxes/net loss	(150)	(17)
Transfers from retained earnings	437	355
Unappropriated profit at the end of year	287	338

The gross profit decreased by 4.8 percent year-on-year, resulting in a gross margin of 29.9 percent for the 2020 fiscal year. Infineon Technologies AG reported a net loss of €150 million for the 2020 fiscal year, whereby earnings were negatively impacted by non-recurring interest and financial expenses incurred in connection with the acquisition of Cypress and, working in the opposite direction, by a rise in the result from investments. After transferring a total of €437 million from revenue reserves, unappropriated profit amounted to €287 million.

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Net assets and financial position

Statement of financial position of Infineon Technologies AG in accordance with the German Commercial Code (condensed)

€ in millions	ber 2020	ber 2019
Intangible assets, property, plant and equipment	692	778
Financial assets	12,266	6,337
Non-current assets	12,958	7,115
Inventories	1,207	1,142
Receivables and other assets	1,659	886
Cash and cash equivalents, marketable securities	2,587	3,592
Current assets	5,453	5,620
Prepaid expenses	116	52
Active difference resulting from offsetting	2	1
Total assets	18,529	12,788
Share capital	2,601	2,489
Capital reserves	3,515	2,553
Retained earnings	3,116	3,549
Unappropriated profit	287	338
Shareholders' equity	9,519	8,929
Special reserve with an equity portion	1	1
Provisions for pensions and similar commitments	304	225
Other provisions	725	586
Provisions	1,029	811
Bonds	4,634	504
Trade payables	341	400
Liabilities to affiliated companies	2,125	1,131
Other liabilities	878	1,005
Liabilities	7,978	3,040
Deferred income	2	7
Total liabilities and shareholders' equity	18,529	12,788

Total assets increased by 44.9 percent from €12,788 million as of 30 September 2019 to €18,529 million as of 30 September 2020. Non-current assets went up €5,843 million

year-on-year due to a share capital increase at an affiliated company. By contrast, current assets decreased by €167 million. Cash and cash equivalents and marketable securities totaled €2,587 million at the end of the reporting period (30 September 2019: €3,592 million) and accounted for 47.4 percent of current assets. Receivables and other assets increased by a total of €773 million due to the internalization of the corporate finance and liquidity management function from Infineon Technologies Finance GmbH, Neubiberg (Germany), following that entity's merger with Infineon Technologies AG.

The increase in equity (€590 million) was mainly attributable to the share capital increase amounting to €1,062 million implemented during the 2020 fiscal year. The net loss of €150 million and the dividend payment of €336 million for the 2019 fiscal year had an offsetting effect.

Provisions for pensions and similar commitments increased by a total of \notin 79 million due to the reduction in the average market interest rate for the past ten years used to measure obligations. The positive development of the fair value of the plan assets had an offsetting effect. Other provisions increased by a total of \notin 139 million, relating mainly to provisions for unrealized fair value measurement losses on interest rate hedging contracts amounting to \notin 66 million (2019: \notin 0 million) and for reimbursement obligations to customers amounting to \notin 64 million (2019: \notin 0 million). Liabilities rose by \notin 4,938 million from \notin 3,040 million at the end of the previous fiscal year to \notin 7,978 million as of 30 September 2020. The increase resulted from the transfer of the corporate finance and liquidity management function to the Company following the merger with Infineon Technologies Finance GmbH and from two hybrid bonds totaling \notin 1,200 million as well as four bonds totaling \notin 2,900 million.

The equity ratio compared to the end of the reporting period was 51.4 percent, compared to 69.8 percent one year earlier.

For information on own shares, please refer to the comments relating to section 160, paragraph 1, no. 2 of the German Stock Corporation Act (AktG) provided in the Separate Financial Statements of Infineon Technologies AG.

Lttps://www.infineon.com/cms/en/about-infineon/investor/reports-and-presentations/#annual-reports

Business focus and strategy

Combined Management Report Consolidat Infineon Technologies AG Corporate Governance Information pursuant to the German Commercial Code (HGB) Further information

German Commercial Code (HGB)

Corporate Governance

Dividend

In accordance with the German Stock Corporation Act (Aktiengesetz), the amount of the dividend available for distribution to shareholders is based on the level of unappropriated profit (Bilanzgewinn) recorded by the ultimate parent, as determined in accordance with the German Commercial Code (HGB).

Infineon Technologies AG reported unappropriated profit of €287 million in its financial statements for the 2020 fiscal year. With regards to the 2020 fiscal year, a proposal will be made to use €287 million out of the unappropriated profit of Infineon Technologies AG for paying a dividend of €0.22 per dividend-entitled share. The disbursement of the proposed dividend is subject to approval by the shareholders.

The Company paid a dividend of €0.27 per share (€336 million in total) for the 2019 fiscal year.

For information regarding Infineon's long-term dividend policy, see "Dividend" in the chapter "The Infineon Share". 🗅 p. 95

Expected developments, together with associated material risks and opportunities

The expected developments, together with the associated material risks and opportunities of Infineon Technologies AG, are very similar to those of the Group. Moreover, it is assumed that the result from investments will play a major role in Infineon Technologies AG's earnings performance. As a general rule, Infineon Technologies AG participates in the risks of its subsidiaries and equity investments on the basis of the relevant shareholding. As the parent company, Infineon Technologies AG is integrated in Infineon's overall risk management system and internal control system. For more information on this topic, together with the associated material risks and opportunities of Infineon Technologies AG, see the chapter "Risk and opportunity report". D p. 110 ff.

Most transactions within Infineon involving derivative financial instruments are handled by Infineon Technologies AG. The comments provided in "Principles and structure of Infineon's treasury" within the chapter "Review of liquidity", D p. 105 f., regarding the nature and scope of transactions involving derivative financial instruments and hedged risks also apply to Infineon Technologies AG. Reference is also made to the Notes to the Separate Financial Statements of Infineon Technologies AG.

L https://www.infineon.com/cms/en/about-infineon/investor/reports-and-presentations/#annual-reports

Information pursuant to section 289a, paragraph 1, and section 315a, paragraph 1, of the German Commercial Code (HGB)

Structure of the subscribed capital

The share capital of Infineon Technologies AG stood at €2,611,842,274 as of 30 September 2020. This sum is divided into 1,305,921,137 non-par registered shares, each of which represents a notional portion of the share capital of €2 per share. Each share carries one vote and gives an equal right to the profit of the Company based on the profit appropriation resolved by shareholders at the Annual General Meeting.

The Company held 5,251,391 of the above-mentioned issued shares as own shares as of 30 September 2020 (30 September 2019: 6 million shares). Own shares held by the Company on the date of the Annual General Meeting do not carry a vote and are not entitled to participate in profit.

Restrictions on voting rights or the transfer of shares

Restrictions on the voting rights of shares may, in particular, arise as a result of the regulations of the German Stock Corporation Act (Aktiengesetz – "AktG"). For example, pursuant to section 136 AktG shareholders are prohibited from voting under certain circumstances and, pursuant to section 71b AktG, Infineon Technologies AG has no voting rights from its own shares. Furthermore, non-compliance with the notification requirements pursuant to section 33, paragraphs 1 or 2 of the German Securities Trading Act (Wertpapierhandelsgesetz – "WpHG") and to section 38, paragraph 1 or section 39, paragraph 1, WpHG can, pursuant to section 44 WpHG, have the effect that certain rights (including the right to vote) may, at least temporarily, not exist. We are not aware of any contractual restrictions on voting rights or the transfer of shares.

Pursuant to section 67, paragraph 2, AktG, rights and obligations arising from shares in relation to Infineon Technologies AG exist only for and from the parties entered in the share register. In order to be recorded in the share register of Infineon Technologies AG, shareholders are required to submit to Infineon Technologies AG the number of shares Combined Management Report Corporate Governance

Information pursuant to the German Commercial Code (HGB)

held by them and their name or company name, their postal and electronic address and, where applicable, their registered office and their date of birth. Pursuant to section 67, paragraph 4, AktG, Infineon Technologies AG is entitled to request information from the party listed in the share register regarding the extent to which shares, to which the entry in the share register relates, are actually owned by the registered party and, if it does not own the shares, to receive the information necessary for the maintenance of the share register in relation to the party for whom the shares are held. Section 67, paragraph 2, AktG stipulates that the shares concerned do not confer voting rights until such time as the information requested has been supplied in the appropriate manner.

Direct or indirect shareholdings exceeding 10 percent of the voting rights

Section 33, paragraph 1, WpHG requires each shareholder whose voting rights reach, exceed or, after exceeding, fall below 3, 5, 10, 15, 20, 25, 30, 50 or 75 percent of the voting rights of a listed corporation to notify such corporation and the German Federal Financial Supervisory Authority (Bundesanstalt für Finanzdienstleistungsaufsicht – "BaFin") immediately. As of 30 September 2020, we have not been notified of any direct or indirect shareholdings reaching or exceeding 10 percent of the voting rights. The shareholdings notified to us as of 30 September 2020 are presented in the Notes to the Separate Financial Statements of Infineon Technologies AG under the information pursuant to section 160, paragraph 1, No. 8 AktG.

Shares with special rights which confer control rights

No shares conferring special control rights have been issued.

Nature of control over voting rights when employees participate in the Company's capital and do not exercise their control rights directly Employees who participate in the capital of Infineon Technologies AG exercise their control rights directly in accordance with the applicable laws and the Articles of Association, just like other shareholders.

Statutory regulations and Articles of Association provisions governing the appointment and dismissal of Management Board members and amendments to the Articles of Association

Section 5, paragraph 1, of the Articles of Association stipulates that the Management Board of Infineon Technologies AG shall consist of at least two members. The Management Board currently comprises four members. Management Board members are appointed and dismissed by the Supervisory Board in accordance with section 84, paragraph 1, AktG. As Infineon Technologies AG falls within the scope of the German Co-Determination Act (Mitbestimmungsgesetz – "MitbestG"), the appointment or dismissal of Management Board members requires a two-thirds majority of the votes of the Supervisory Board members (section 31, paragraph 2, MitbestG). If the required majority is not achieved at the first ballot, the appointment may be approved on a recommendation of the Mediation Committee at a second ballot by a simple majority of the votes of the Supervisory Board members (section 31, paragraph 3, MitbestG). If the required majority is still not achieved, a third ballot is held in which the Chairman of the Supervisory Board has two votes (section 31, paragraph 4, MitbestG). If the Management Board does not have the required number of members, in urgent cases, the local court ("Amtsgericht" of Munich) makes the necessary appointment upon petition of a party concerned pursuant to section 85, paragraph 1, AktG.

Pursuant to section 84, paragraph 1, sentence 1, AktG, the maximum term of appointment for Management Board members is five years. Re-appointment or an extension of the term of office, in each case for a maximum of five years, is permitted (section 84, paragraph 1, sentence 2, AktG). Section 5, paragraph 1, of the Articles of Association and section 84, paragraph 2, AktG stipulate that the Supervisory Board may appoint a chairman and a deputy chairman to the Management Board. The Supervisory Board may revoke the appointment of a Management Board member and the Chairman of the Management Board for good cause (section 84, paragraph 3, AktG).

Pursuant to section 179, paragraph 1, AktG, responsibility for amending the Articles of Association rests with the Annual General Meeting. However, section 10, paragraph 4, of the Articles of Association gives the Supervisory Board the authority to amend the Articles of Association insofar as any such amendment relates merely to the wording, such as changes in the share capital amount resulting from a capital increase out of

Business focus and strategy

Combined Management Report Consolidat Corporate Governance Information pursuant to the German Commercial Code (HGB)

Consolidated Financial Statements

128

conditional or authorized capital or a capital decrease by means of cancellation of own shares. Unless the Articles of Association provide for another majority, section 179, paragraph 2, AktG stipulates that resolutions of the Annual General Meeting regarding the amendment of the Articles of Association require a majority of at least three quarters of the share capital represented. Section 17, paragraph 1, of the Articles of Association of Infineon Technologies AG provides in principle for resolutions to be passed with a simple majority of the votes cast and, when a capital majority is required, with a simple majority of the capital unless a higher majority is required by law or in accordance with other stipulations contained in the Articles of Association.

Powers of the Management Board, in particular with respect to the issuing or buying back of shares

The power of the Management Board to issue shares derives from section 4 of the Articles of Association, in conjunction with applicable legal provisions. Further information relating to the Company's existing Authorized and Conditional Capital can be found in note 21 to the Consolidated Financial Statements. D p. 188

Authorization to issue convertible bonds and/or bonds with warrants

The Annual General Meeting held on 20 February 2020 authorized the Management Board, in the period through 19 February 2025, either once or in partial amounts, to issue convertible bonds and/or bonds with warrants (referred to collectively as "bonds") of an aggregate nominal amount of up to €4,000,000,000, to guarantee such bonds issued by subordinated Group companies of the Company and to grant bond creditors and/or bondholders conversion or option rights to up to 130,000,000 no-parvalue registered Company shares, representing a notional portion of the share capital of up to €260,000,000 in accordance with the relevant terms of the bonds. With the approval of the Supervisory Board, the Management Board is authorized to exclude the right of shareholders to subscribe to the bonds,

if the issue price is not substantially lower than the bonds' theoretical market value as determined in accordance with accepted valuation methods, in particular those based on financial mathematics. However, this right of exclusion only applies insofar as the aggregate value of the shares to be issued to service the conversion or option rights established on this basis does not exceed 10 percent of the share capital, either at the time the resolution concerning this authorization was passed by the Annual General Meeting, at the time of this authorization becoming effective, or at the time it is exercised;

- > in order to exclude fractional amounts resulting from a given subscription ratio from the subscription rights of the shareholders to the bonds, or insofar as any such action is necessary in order to grant holders of conversion or option rights arising from bonds that have already been or will in future be issued by the Company or its subordinated Group companies subscription rights to that extent to which they would be entitled after exercising their rights, or after the fulfillment of any conversion or option obligations;
- insofar as bonds are issued in return for a capital contribution in kind, provided that the value of any such capital contribution in kind is appropriate in relation to the market value of the bonds.

Even if the dilution protection regulations are applied, the conversion or option price must equal at least 80 percent of the arithmetic mean of the closing prices of the Company's share in XETRA trading on the Frankfurt Stock Exchange (or comparable successor system). Further details – including the conditions under which the conversion or option price may be reduced – are set out in the authorization.

Subject to the requirements resolved by the shareholders at the Annual General Meeting, the Management Board is authorized to determine the further details of the bond issue, including terms and conditions.

Authorization to acquire own shares

A resolution passed by the Annual General Meeting on 22 February 2018 authorizes Infineon Technologies AG, in the period through 21 February 2023, to acquire its own shares, within the statutory boundaries, in an aggregate amount not exceeding 10 percent of the share capital at the time the resolution was passed or – if the latter amount is lower – of the share capital in existence at the time the authorization is exercised. The Company may not use the authorization for the purposes of trading in its own shares.

Business focus and strategy

Combined Management Report Consolidat Corporate Governance Information pursuant to the German Commercial Code (HGB)

Consolidated Financial Statements

129

The Management Board decides whether own shares are acquired through the stock exchange, by means of a public offer to purchase addressed to all shareholders, a public invitation to submit offers for sale, or via a bank or other entity that meets the requirements of section 186, paragraph 5 sentence 1, AktG. The authorization includes differentiating requirements – in particular with regard to the permissible purchase price – for each method of acquisition.

Infineon shares acquired or being acquired on the basis of this or an earlier authorization may – if not sold either via the stock exchange or by means of a public offer to purchase addressed to all shareholders – be used for all legally admissible purposes. The shares may also be canceled or offered to third parties in conjunction with business combinations or the acquisition of companies, parts of companies or participations in companies. Subject to the consent of the Supervisory Board, under specified circumstances the shares may also be sold to third parties in return for cash payment (including by means other than through the stock exchange or through an offer to all shareholders), used to meet the Company's obligations under convertible bonds and bonds with warrants and stock option plans, offered for sale or granted as a remuneration component to members of representative bodies and employees within the Group, and/or used to repay securities-backed loans. The subscription right of shareholders is excluded in all of the above cases (except when the shares are canceled). In addition, the subscription rights of shareholders are excluded in respect of fractional amounts in instances in which the shares are sold through a public offer addressed to all shareholders.

According to a resolution passed by the Annual General Meeting on 22 February 2018, the acquisition of Infineon Technologies AG shares may also be effected using equity derivatives. The total number of shares that can be acquired using derivatives may not exceed 5 percent of the Company's share capital, determined either at the time of this authorization becoming effective or at the time of its exercise through the use of the derivatives. The shares acquired through the exercise of this authorization are to be counted toward the acquisition threshold for the shares acquired in accordance with the authorization to acquire own shares as described above. The authorization stipulates other restrictions when derivatives are deployed, including their execution, term, servicing and acquisition price.

If own shares are acquired using derivatives in accordance with the requirements stipulated in the authorization, any right of the shareholders to conclude such derivative transactions with the Company will be excluded in analogous application of section 186, paragraph 3, sentence 4, AktG. The shareholders have no right to conclude derivative transactions with the Company.

Shareholders have a right to sell their Infineon shares in this connection only insofar as the Company is required to accept the shares under the derivative transactions. No other right to sell shares shall apply in this connection.

The use of own shares, acquired through derivatives, is governed by the same rules as those applicable for the direct acquisition of own shares.

Significant agreements that are subject to the condition of a change of control as a result of a takeover bid and compensation agreements with Management Board members or employees in the event of a takeover bid Various financing agreements with lending banks and capital market creditors contain defined change-of-control clauses that give creditors the right to demand early repayment. These clauses reflect standard market practice. In addition, one financing agreement stipulates that in the event of a change of control, Infineon Technologies AG may be required to provide collateral in the form of a guarantee or, optionally, as cash.

Furthermore, certain patent cross-licensing agreements, development agreements, subsidy agreements and approvals, supply contracts, joint venture agreements, and license agreements contain customary change-of-control clauses, which, in the event of a change of control at Infineon Technologies AG, make the continuation of the agreement dependent on the consent of the contracting party, grant special rights to the contracting party that may be unfavorable for Infineon, or even entitle the contracting party to terminate the agreement.

Business focus and strategy

Combined Management Report Consolidated Financial Statements Corporate Governance Information pursuant to the German Commercial Code (HGB) Statement on Corporate Governance/Corporate Governance Report

Compensation report

Further information

130

If a Management Board member leaves their position in connection with a defined change of control, that member is currently entitled to continued payment of the relevant annual remuneration for the entire remaining contract term. In accordance with a special contract termination right granted to Management Board members, the period of continued payment is capped at a maximum of 36 months in the event that the member resigns, or at a minimum of 24 months and a maximum of 36 months in the event is in the event of dismissal/termination of contract by Infineon Technologies AG. Further details are contained in the Compensation Report. D p. 130 ff.

The change-of-control clauses agreed with the Management Board members are intended to provide financial security to those members in the event of a change of control, with a view to preserving their independence in this situation.

The conditions of both the Performance Share Plan (open to participation by Management Board members, managers and other selected employees worldwide) and the Restricted Stock Unit Plan (additionally applicable to specified employees of Infineon) contain rules that are triggered in the event of a defined change of control. For the most part, these rules specify that the vesting periods that are envisaged by the relevant plans are aborted in the event of a change of control. The corresponding rule in the Performance Share Plan does not, however, apply to Management Board members, given that the service contracts take precedence.

Statement on Corporate Governance pursuant to sections 289f and 315d of the German Commercial Code (HGB)/ Corporate Governance Report

The Statement on Corporate Governance pursuant to sections 289f and section 315d of the German Commercial Code (HGB) including the Corporate Governance Report has been made publicly accessible. www.infineon.com/declaration-on-corporate-governance

Compensation report

This compensation report, which forms part of the Combined Management Report, explains the principles of the compensation system for the Management Board and Supervisory Board of Infineon Technologies AG as well as the level of compensation paid to the individual Management Board members and the Supervisory Board members.

In addition to statutory requirements, the compensation report is based primarily on the German Accounting Standard on Reporting on the Remuneration of Members of Governing Bodies (DRS 17). The compensation report also contains the model tables recommended by the German Corporate Governance Code (Deutscher Corporate Governance Kodex – "DCGK") in the version dated 7 February 2017 (DCGK 2017). This information is provided despite the fact that the DCGK was revised with effect from 20 March 2020 and accordingly, the recommendation to disclose the model tables no longer applies. For reasons of consistency and transparency, the model tables are to be continued until the changeover to the new compensation report stipulated in Section 162 of the German Stock Corporation Act and introduced in accordance with the Act Implementing the Second Shareholder Rights Directive (ARUG II). The new report becomes binding for Infineon Technologies AG for the first time for the fiscal year beginning on 1 October 2021.

Business focus and strategy

Combined Management Report Corporate Governance Compensation report

Management Board compensation

Compensation system

The Management Board compensation system - similar to the compensation paid to individual Management Board members – is defined and regularly reviewed by the full Supervisory Board on the basis of proposals made by the Executive Committee. In accordance with applicable legal requirements and the recommendations of the DCGK, the compensation paid to Management Board members is intended to reflect the typical level and structure of management board compensation at peer companies, as well as Infineon's economic position and future prospects. The duties, responsibilities and performance of each Management Board member are also to be considered, as is Infineon's wider pay structure. This includes considering Management Board compensation in relation to that of senior management and the workforce as a whole, including changes in the level of compensation over time. The compensation structure should be oriented towards furthering Infineon's sustainable, long-term development. The level of compensation should be set in a way that promotes the corporate strategy and the company's long-term development, with the option to impose a cap in the event of exceptional developments. Infineon aims to set compensation at a level that is competitive both nationally and internationally, so as to inspire and reward dedication and success in a dynamic environment.

Components of the Management Board compensation system

There were no changes to the Management Board compensation system in the 2020 fiscal year compared to the previous fiscal year.

As compensation for their services, all Management Board members receive a target annual income, which – based on target achievement of 100 percent – comprises approximately 45 percent fixed compensation and approximately 55 percent variable compensation components:

> **Fixed compensation:** The fixed compensation comprises a contractually agreed basic annual salary that is not linked to performance and is paid in twelve equal monthly installments.

> Variable (performance-related) compensation: The variable compensation comprises three components – an annual bonus (short-term incentive), a multiple-year bonus (mid-term incentive) and a long-term variable compensation component (long-term incentive).

The **short-term incentive ("STI")** is intended to reward performance over the preceding fiscal year, reflecting Infineon's recent progress. Assuming a 100 percent target achievement of the variable compensation components, the STI constitutes approximately 20 percent of target annual income. It is set by the Supervisory Board in a two-phase process:

- (i) At the beginning of each fiscal year, the target functions with respect to the two key performance indicators "free cash flow" and "Return on Capital Employed (RoCE)" are defined uniformly for all Management Board members. Underpinning the consistent approach taken to managing the business, the same target indicators supplemented by the Segment Result Margin are also used as the basis for determining the variable compensation components (bonus payments) for Infineon managers and employees. The two key performance indicators referred to above, which are described in more detail in the chapter "Internal management system", are equally weighted for the purposes of measuring the STI. D p. 89 ff.
- (ii) At the end of the fiscal year, the actual levels of target achievement and hence the amount of the STI payouts, are determined by the Supervisory Board by reference to the levels of target achievement for free cash flow and RoCE as reported in the audited financial statements.

An STI is paid only if the levels of target achievement reach at least the 50 percent threshold for both performance indicators (free cash flow, RoCE). If one of the two target thresholds is not achieved, no annual bonus is paid for the relevant fiscal year. If the thresholds are achieved, the arithmetic mean of the two target achievements is calculated and used as the percentage rate to determine the actual STI amount. A cap of 250 percent applies, meaning that the maximum amount that can be paid is two-and-a-half times the target STI (= 100 percent), regardless of an actual higher

131

Business focus and strategy

Combined Management Report Corporate Governance Compensation report

achievement level. In addition, the Supervisory Board may increase or reduce the amount to be paid in each case by up to 50 percent as it sees fit, based on the performance of the Management Board as a whole, Infineon's position, and any exceptional factors. A lower limit applies in this case such that the amount to be paid cannot be less than the amount that would be due given 50 percent target achievement. The upper limit for an upward adjustment is the cap of 250 percent.

If the term of office on the Management Board begins or ends during a fiscal year, the entitlement to STI is reduced on a pro rata monthly basis (by one twelfth for each full month missing from the complete STI tranche). Management Board members are not entitled to receive an STI bonus for the fiscal year in which they resign from office (unless the resignation is for a reason ("good cause") for which the member is not responsible) or if the contract of the member of the Board is terminated by the Company for good cause.

The **mid-term incentive ("MTI")** is intended to reward sustained performance by the Management Board that reflects Infineon's medium-term progress. In combination with the long-term incentive, the MTI therefore ensures compliance with the stock corporation law requirement that the structure of compensation is "oriented towards the company's sustainable development". Assuming a 100 percent target achievement of the variable components, the MTI constitutes approximately 20 percent of target annual income.

A new MTI tranche, each with a term of three years, commences every fiscal year. The incentive is paid in cash at the end of the three-year term. The amount of the payment is determined on the basis of actual RoCE and free cash flow figures during each three-year period. For these purposes, the target values for RoCE and free cash flow for each individual year of an MTI tranche correspond to the STI targets set each year in advance. The level of achievement for both the RoCE target and the free cash flow target must reach a threshold of 50 percent in each year of the relevant three-year period, otherwise it is deemed – for MTI purposes – to be zero for the year concerned. If the thresholds are exceeded, the level of target achievement determined for the STI applies for the relevant annual tranche of the MTI. The MTI to be paid at the end of the three-year period is determined by calculating the arithmetic mean of the three annual target achievement levels. Unlike the STI, the MTI is paid as calculated, even if the mean level of target achievement for the three-year period is below 50 percent. A cap of 200 percent applies, meaning that the maximum amount that can be paid is two times the target MTI (= 100 percent), regardless of the actual achievement level.

The Supervisory Board may increase or reduce the amount to be paid under the MTI in each case by up to 50 percent as it sees fit, based on the performance of the Management Board as a whole, Infineon's situation and any exceptional factors. When exercising its judgment in this respect, the Supervisory Board also takes into account the extent to which the three-year target for revenue growth and Segment Result (set each year by the Supervisory Board exclusively for this purpose) has been achieved and the degree of success achieved in complementing organic growth through M&A activities. Unlike the STI, there is no lower limit for the amount by which the Supervisory Board can adjust the MTI; for the upper limit, however, the cap applies (200 percent).

If the term of office commences during a fiscal year, the MTI tranche is reduced on a pro rata monthly basis (by 1/36 for each full month missing from the complete MTI tranche). Upon leaving Infineon, as a general rule, regulations ensure that Management Board members can only receive an MTI payment for the number of MTI tranches corresponding to their term of office, reduced on a pro rata basis as appropriate. MTI tranches already started are forfeited if the mandate or service contract of a Management Board member comes to an end before the due date, for instance if a member resigns from office (unless the resignation is for good cause for which the member is not responsible) or if the contract of the Board member is terminated by the Company for good cause.

The **long-term incentive ("LTI")** is intended to reward long-term and, similar to the MTI, sustained performance on the part of Management Board members and additionally to ensure that their interests are in line with those of the Company's shareholders regarding positive share price development. Assuming a 100 percent target achievement of the variable compensation components, the LTI constitutes approximately 15 percent of target annual income.

Business focus and strategy

Combined Management Report Corporate Governance Compensation report

With effect from the 2014 fiscal year, the LTI has been awarded in the form of performance shares. As well as being relevant for Management Board members, the LTI also applies to Infineon managers and selected Infineon employees worldwide. In their case, however, it is awarded on a voluntary basis and with minor differences attributable to specific circumstances.

The (virtual) performance shares are allocated as of 1 March for the fiscal year commenced on 1 October, initially on a provisional basis. The final allocation and transfer of (real) Infineon shares takes place four years later.

Performance shares are allocated provisionally on the basis of the contractually agreed "LTI allocation amount" in euros, agreed upon individually in the contract of each Management Board member. The number of performance shares is determined by dividing the LTI allocation amount by the average price of the Infineon share (Xetra closing price) during the nine months prior to the allocation date. The prerequisites for the definitive allocation of the – at that stage still virtual – performance shares are (i) that the Management Board member invests 25 percent of their individual LTI allocation amount in Infineon shares and (ii) that the holding period of four years applicable both for the member's own-investment and for the performance shares has come to an end. 50 percent of the performance shares are also performance-related; they are only allocated definitively if (iii) the Infineon share outperforms the Philadelphia Semiconductor Index (SOX) between the date of the performance shares' provisional allocation and the end of the holding period. If the conditions for the definitive allocation of performance shares – either of all or of only those that are not performance-related - are met at the end of the holding period, the Management Board member acquires a claim against the Company for the transfer of the corresponding number of (real) Infineon shares. Performance shares, which do not achieve the target, are forfeited. The value of the performance shares definitively granted to the Management Board member per LTI tranche at the end of the holding period may not exceed 250 percent of the relevant LTI allocation amount; the performance shares above this amount lapse (cap).

Management Board members may freely dispose of the shares transferred to them. The same also applies to Infineon shares acquired in conjunction with the own-investment requirement at the end of the holding period. At the end of the holding period, the Supervisory Board has the right to provide a value-equivalent cash settlement to the Management Board member rather than actually transferring Infineon shares.

The LTI is reduced proportionately if the length of service of a Management Board member in the year in which the LTI is allocated is shorter than the fiscal year to which the LTI award relates. This situation usually arises when a Management Board member does not join the Board exactly at the beginning of a fiscal year or leave office exactly at the end of a fiscal year. The allocation amount is reduced in each case by one twelfth for each full month missing for the fiscal year in which the LTI is allocated.

The allocation amount is also reduced proportionately in the case of a so-called "good leaver", i.e. a Management Board member leaving office without any fault on their part, for instance in the event of reaching the stipulated age limit. The group of "good leavers" also includes cases in which a Management Board member fulfills their contract properly up to the end of the agreed term and leaves the Company only because the contract has not been extended. By contrast, if a Management Board member resigns from office (unless the resignation is for good cause for which the member is not responsible) or if a contract of a Management Board member is terminated by the Company for good cause (a so-called "bad leaver"), all performance shares not yet definitively allocated are forfeited when the Management Board member leaves office.

The Supervisory Board is required to define suitable alternative LTI instruments of commensurate value if it is impossible or not desired by the Supervisory Board to offer an LTI on the basis of the Performance Share Plan.

Additionally, the Supervisory Board has the option – always based on its own best judgment – to grant a special bonus, among other things for exceptional achievements of the Management Board or its individual members. In each case, however, the bonus is capped at a maximum of 30 percent of the fixed compensation of the Management Board member concerned. Combined Management Report Corporate Governance Compensation report

134

Management Board compensation in the 2020 fiscal year in accordance with German Accounting Standard 17 (DRS 17)

Total compensation

Total compensation to Management Board members pursuant to DRS 17 and benefits to individual members of the Management Board – also presented pursuant to DRS 17 – are shown in the following table:

	Dr. Reinhard Ploss Chief Executive Officer		Dr. Sven Schneider Chief Financial Officer since 1 May 2019		Dr. Helmut Gassel Management Board member		Jochen Hanebeck Management Board member		Total Management Board	
in€	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019 ³
Fixed compensation										
Basic annual salary	1,240,000	1,240,000	825,000	343,750	750,000	750,000	750,000	750,000	3,565,000	3,083,750
Fringe benefits	37,211	39,492	55,750	23,876	70,893	69,756	34,476	35,143	198,330	168,267
Total fixed compensation	1,277,211	1,279,492	880,750	367,626	820,893	819,756	784,476	785,143	3,763,330	3,252,017
Variable compensation										
Single-year variable compensation (STI)	477,950	491,700	325,875	139,688	295,460	303,960	295,460	303,960	1,394,745	1,239,308
Multi-year variable compensation										
Mid Term Incentive (MTI) ¹										
2017 – 2019 tranche	-	143,040	-	-	-	91,784	-	91,784	-	326,608
2018–2020 tranche	159,317	163,900	-	-	98,487	101,320	98,487	101,320	356,291	366,540
2019–2021 tranche	159,317	163,900	108,625	46,563	98,487	101,320	98,487	101,320	464,916	413,103
2020 – 2022 tranche	159,317	-	108,625	-	98,487	-	98,487	-	464,916	-
Long Term Incentive (LTI)										
Performance Share Plan ²	290,050	289,287	264,125	-	165,725	165,315	165,725	165,315	885,625	619,917
Total variable compensation	1,245,951	1,251,827	807,250	186,251	756,646	763,699	756,646	763,699	3,566,493	2,965,476
Total compensation	2,523,162	2,531,319	1,688,000	553,877	1,577,539	1,583,455	1,541,122	1,548,842	7,329,823	6,217,493

1 The values include the annual MTI tranche granted in the respective fiscal year based on the fulfilment of the plan requirements.

2 The figures for the active Management Board members in the 2020 fiscal year were based on a fair market value per performance share amounting to €12.50 (2019: €13.79), which was calculated using a Monte-Carlo simulation model

taking account of the value-reducing cap. In view of the fact the annual allocation for the 2019 fiscal year had already taken place before the start of Dr. Schneider's term of office, performance shares for the 2019 fiscal year were allocated together

and in accordance with the conditions of the allocation for the 2020 fiscal year. 6,214 performance shares were allocated to Dr. Schneider on 1 March 2020 for the months May to September 2019.

3 The previous year's figure was adjusted for the remuneration of Dominik Asam. For further details, see "Payments to former Management Board members in the 2020 fiscal year". D p. 140

Management Board members did not to receive any loans from the Company or benefits from third parties in the 2020 and 2019 fiscal years, whether promised or actually paid, for their board activities at Infineon.

Business focus and strategy

Combined Management Report Corporate Governance Compensation report 135

Fringe benefits

In accordance with their service contracts, Management Board members are entitled to a chauffeur-driven company car, which may also be used for private purposes. Operating and maintenance costs for the company car and chauffeur are borne by the Company. Any taxes arising on the fringe benefit related to private usage are borne by the individual Management Board members themselves.

The Company also maintains accident insurance policies for Management Board members in the case of death (€3 million) and invalidity (€5 million).

Other fringe benefits relate mainly to statutory obligations such as the payment of inventor's compensation or general benefits and/or discounts available to all Infineon employees.

Share-based compensation

As described in the section "Management Board compensation", the contractually agreed LTI is granted to Management Board members by the Company in the form of performance shares, D p. 132 f. The average price of the Infineon share relevant for the number of performance shares granted for the 2020 fiscal year was €18.10 (2019: €20.02).

A fair market value of €12.50 (2019: €13.79) per performance share granted in the 2020 fiscal year was determined, taking account of the 250 percent cap set on the LTI allocation amount as well as the performance hurdle.

The following table shows the number of performance shares awarded to Management Board members in the 2020 fiscal year:

					Performance Share Plan			
_		Virtual performance shares outstanding at the beginning of the fiscal year	Virtual performance shares newly granted in the fiscal year	Fair value grant date	Virtual performance shares exercised in the fiscal year ¹	Virtual performance shares expired in the fiscal year ²	Virtual performance shares outstanding at the end of the fiscal year	Total expense for share-based compensation
Management Board member	Fiscal year	Number	Number	in €	Number	Number	Number	in €
Dr. Reinhard Ploss	2020	103,148	23,204	290,050	17,282	17,282	91,788	182,577
Chief Executive Officer	2019	125,160	20,978	289,287	42,990	-	103,148	188,878
Dr. Sven Schneider ³	2020	-	21,130	264,125	-	-	21,130	59,802
Chief Financial Officer from 1 May 2019	2019	-	-	-	-	-	-	-
Dr. Helmut Gassel	2020	40,070	13,258	165,725	-	-	53,328	104,328
Management Board member	2019	28,082	11,988	165,315	-	-	40,070	107,929
Jochen Hanebeck	2020	40,070	13,258	165,725	-	-	53,328	104,328
Management Board member	2019	28,082	11,988	165,315	-	-	40,070	107,929
Total	2020	183,288	70,850	885,625	17,282	17,282	219,574	451,035
	2019 ⁴	181,324	44,954	619,917	42,990		183,288	404,736

1 The share price of the virtual performance shares exercised on 1st October 2019 amounted to €15.68.

2 The expiration of the virtual performance shares in the 2020 fiscal year resulted from the cap. The finally allocated performance shares may not exceed 250 percent of the respective LTI allocation amount.

3 In view of the fact the annual allocation for the 2019 fiscal year had already taken place before the start of Dr. Schneider's term of office, performance shares for the 2019 fiscal year were allocated together and in accordance with

the conditions of the allocation for the 2020 fiscal year. 6,214 performance shares were allocated to Dr. Schneider on 1 March 2020 for the months May to September 2019.

4 The previous year's figure was adjusted for the remuneration of Dominik Asam. For further details, see "Payments to former Management Board members in the 2020 fiscal year". 🗅 p. 140

Business focus and strategy

Combined Management Report Corporate Governance Compensation report Consolidated Financial Statements Fu

Further details regarding the LTI tranche, which vested on 1 October 2020 and the performance shares awarded to Management Board members on 1 March 2020 for the 2020 fiscal year are provided in note 23 to the Consolidated Financial Statements.

🗅 p. 191

Special bonuses

The Supervisory Board did not award any special bonuses to Management Board members during the 2020 fiscal year.

Other awards and benefits

In the 2009 fiscal year, the Company entered into a restitution agreement with each of the then active Management Board members. Dr. Ploss is the only current Management Board member affected by the agreement. These agreements stipulate that the Company covers all costs and expenses of any legal, governmental, regulatory and/or parliamentary proceedings and investigations as well as arbitration proceedings in which Management Board members are involved in conjunction with their activities on behalf of the Company. However, the agreements specifically exclude any restitution of costs in conjunction with section 93, paragraph 2, AktG.

Compensation of the Management Board in the 2020 fiscal year in accordance with DCGK 2017 (voluntary disclosure)

Compensation granted

The following table shows the value of compensation granted for the 2019 and 2020 fiscal years, including fringe benefits, as well as the minimum and maximum values that can be achieved for the 2020 fiscal year.

Unlike in the disclosures in accordance with DRS 17, the STI is disclosed in the following table at the target value (i.e. the value in the event of 100 percent target achievement). In a deviation from DRS 17, the MTI is disclosed at the target value for an "average probability scenario" at the grant date. For these purposes, Infineon assumes 100 percent target achievement on a scale ranging from 0 to 200 percent. In addition,

the pension expense, i.e. the service cost pursuant to IAS 19 (see "Commitments to Management Board members upon termination of their Board activities" in this chapter, D p. 139 f.) is included in total compensation.

Compensation granted to Management Board members (total compensation and compensation components), as well as the minimum and maximum values that can be achieved are shown in the following table:

		Chief Execu	tive Officer	
in €	2020	2019	2020 (min.)	2020 (max.)
Fixed compensation				
Basic annual salary	1,240,000	1,240,000	1,240,000	1,240,000
Fringe benefits	37,211	39,492	37,211	37,211
Total fixed compensation	1,277,211	1,279,492	1,277,211	1,277,211
Variable compensation				
Single-year variable compensation (STI)	550,000	550,000	-	1,375,000
Multi-year variable compensation				
Mid Term Incentive (MTI)				
2019–2021 tranche	-	550,000	-	-
2020–2022 tranche	550,000	-	-	1,100,000
Long Term Incentive (LTI)				
Performance Share Plan ¹	290,050	289,287	145,025	1,050,000
Total variable compensation	1,390,050	1,389,287	145,025	3,525,000
Pension expense	368,802	356,108	368,802	368,802
Total compensation (DCGK)	3,036,063	3,024,887	1,791,038	5,171,013

1 The figures of the active Management Board members in the 2020 fiscal year were based on a fair market value per performance share amounting to €12.50 (2019: €13.79), which was calculated using a Monte-Carlo simulation taking into account the value-decreasing cap.

Dr. Reinhard Ploss	

Combined Management Report Corporate Governance Compensation report

	Chi	Dr. Sven Schneider ¹ Chief Financial Officer since 1 May 2019				Dr. Helmut Gassel Management Board member				Jochen Hanebeck Management Board member			
in€	2020	2019	2020 (min.)	2020 (max.)	2020	2019	2020 (min.)	2020 (max.)	2020	2019	2020 (min.)	2020 (max.)	
Fixed compensation													
Basic annual salary	825,000	343,750	825,000	825,000	750,000	750,000	750,000	750,000	750,000	750,000	750,000	750,000	
Fringe benefits	55,750	23,876	55,750	55,750	70,893	69,756	70,893	70,893	34,476	35,143	34,476	34,476	
Total fixed compensation	880,750	367,626	880,750	880,750	820,893	819,756	820,893	820,893	784,476	785,143	784,476	784,476	
Variable compensation													
Single-year variable compensation (STI)	375,000	156,250	_	937,500	340,000	340,000	_	850,000	340,000	340,000	_	850,000	
Multi-year variable compensation													
Mid Term Incentive (MTI)													
2019 – 2021 tranche	-	156,250	-	-	-	340,000	-	-	-	340,000	-	-	
2020 – 2022 tranche	375,000	_	-	750,000	340,000		_	680,000	340,000		-	680,000	
Long Term Incentive (LTI)													
Performance Share Plan ²	264,125	-	132,062	956,250	165,725	165,315	82,862	600,000	165,725	165,315	82,862	600,000	
Total variable compensation	1,014,125	312,500	132,062	2,643,750	845,725	845,315	82,862	2,130,000	845,725	845,315	82,862	2,130,000	
Pension expense	294,037	114,134	294,037	294,037	106,961	98,324	106,961	106,961	129,139	114,234	129,139	129,139	
Total compensation (DCGK)	2,188,912	794,260	1.306.849	3.818.537	1.773.579	1.763.395	1.010.716	3.057.854	1,759,340	1.744.692	996.477	3.043.615	

1 In view of the fact the annual allocation for the 2019 fiscal year had already taken place before the start of Dr. Schneider's term of office, performance shares for the 2019 fiscal year were allocated together and in accordance with the conditions of the allocation

for the 2020 fiscal year. 6,214 performance shares were allocated to Dr. Schneider on 1 March 2020 for the months May to September 2019. This was taken into account accordingly when determining the maximum compensation.

2 The figures of the active Management Board members in the 2020 fiscal year were based on a fair market value per performance share amounting to €12.50 (2019: €13.79), which was calculated using a Monte-Carlo simulation taking into account the value-decreasing cap.

Compensation received by Management Board members ("Zufluss")

Since the compensation granted to Management Board members for the 2020 fiscal year did not coincide fully with amounts disbursed in a particular fiscal year, the following separate table shows the amounts flowing to (i.e. received by) Management Board members for the 2020 fiscal year ("Zufluss").

Accordingly, the fixed compensation and the STI are disclosed as amounts received by Management Board members for the relevant fiscal year concerned. The MTI is disclosed as received by Management Board members in the fiscal year, in which the plan term of the relevant MTI tranche ends. Accordingly – in addition to the fixed compensation granted for 2020 and the STI – the MTI tranche for 2018–2020 is also disclosed as received by Management Board members for the 2020 fiscal year. Sharebased payments are disclosed as received by Management Board members on the basis of the relevant time and value for German tax law purposes. The performance shares awarded on 1 October 2016, which were definitively granted to Management Board members after the end of the 2020 fiscal year and transferred in the form of real Infineon shares (see "Components of the Management Board compensation system" in this chapter, \Box p. 131 ff.) are not disclosed as received until the 2021 fiscal year. The amount disclosed as received for the pension expense (i.e. the service cost pursuant to IAS 19) corresponds to the amounts granted (see previous table), even though it does not constitute an actual receipt in the strict sense of the word. Combined Management Report Corporate Governance Compensation report

138

The total compensation received by individual members of the Management Board for the 2020 fiscal year – analyzed by component – is shown in the following table:

	Dr. Reinha Chief Execut	Dr. Reinhard Ploss Chief Executive Officer		Dr. Sven Schneider Chief Financial Officer since 1 May 2019		Dr. Helmut Gassel Management Board member		Jochen Hanebeck Management Board member	
in €	2020	2019	2020	2019	2020	2019	2020	2019	
Fixed compensation									
Basic annual salary	1,240,000	1,240,000	825,000	343,750	750,000	750,000	750,000	750,000	
Fringe benefits	37,211	39,492	55,750	23,876	70,893	69,756	34,476	35,143	
Total fixed compensation	1,277,211	1,279,492	880,750	367,626	820,893	819,756	784,476	785,143	
Variable compensation									
Single-year variable compensation (STI)	477,950	491,700	325,875	139,688	295,460	303,960	295,460	303,960	
Multi-year variable compensation									
Mid Term Incentive (MTI)									
2017 – 2019 tranche	-	569,760	-	-	-	365,596	-	365,596	
2018–2020 tranche	533,500	-	-	-	329,800	-	329,800	-	
Long Term Incentive (LTI)									
Performance Share Plan	-	-	-	-	-	-	-	-	
due in the 2019 fiscal year	-	859,370	-	-	-	-	-	-	
due in the 2020 fiscal year	270,905	_	-	-	-	-	-	-	
Total variable compensation	1,282,355	1,920,830	325,875	139,688	625,260	669,556	625,260	669,556	
Pension expense	368,802	356,108	294,037	114,134	106,961	98,324	129,139	114,234	
Total compensation (DCGK)	2,928,368	3,556,430	1,500,662	621,448	1,553,114	1,587,636	1,538,875	1,568,933	

Business focus and strategy

Combined Management Report Corporate Governance Compensation report

Commitments to Management Board members upon termination of their Board activities

Benefits and pension entitlements in the 2020 fiscal year

In accordance with the Management Board compensation system in place since 2010, the Management Board members have, in the meantime, all received a defined contribution pension commitment, which is essentially identical to the Infineon pension plan applicable to all employees. The Company has accordingly set up a personal pension account (basic account) for each beneficiary and makes annual pension contributions to it. The Company adds annual interest to the balance in the basic account using the highest statutory interest rates valid for the insurance industry (guaranteed interest rates) until disbursement of the pension begins and may also award surplus credits. Ninety-five percent of any income earned over and above the guaranteed interest rate is credited to the pension account, either at the date on which disbursement of the pension begins or, at the latest, when the beneficiary reaches the age of 60. The balance of the basic account when disbursement of the pension begins (due to age, invalidity or death) – increased by an adjusting amount in the event of invalidity or death – constitutes the retirement benefit entitlement and is paid out to the Management Board member or his or her surviving dependents in twelve annual installments, or, if so requested by the Management Board member, in eight annual installments, as a lump sum or as a life-long pension. In addition to the defined contribution pension plan that has been in place for Dr. Ploss since 1 January 2016, a fully vested fixedamount pension entitlement of €210,000 p.a. also exists for his Board activities up to 31 December 2015, which will not increase in future.

If the entitlements of Management Board members (i) have not yet legally vested or (ii) have legally vested, but are not protected by the state pension insurance scheme (Pensionssicherungsverein), the Company maintains pension reinsurance policies in favor of, and pledged to, the Management Board members concerned. The plan rules applicable to Management Board members are as follows:

- > Dr. Gassel and Mr. Hanebeck have statutorily vested pension entitlements as a result of their previous periods of employment in senior management positions with Infineon. Their service contracts specifically state that the amounts made available to cover their vested pension entitlements represent a continuation of those vested entitlements and are, therefore, not subject to any separate vesting arrangements. The Company makes a fixed annual pension contribution on behalf of Dr. Gassel and Mr. Hanebeck for each full fiscal year of service on the Board, equivalent to 30 percent of the relevant agreed basic annual salary. The Supervisory Board is not required to decide each time on the amount to be contributed. The pension contributions for the 2020 fiscal year for Dr. Gassel and Mr. Hanebeck amounted in each case to €225,000.
- The defined contribution pension commitment in place for Dr. Ploss is also based on a fixed contribution amount of 30 percent of the relevant agreed basic annual salary. The pension contribution made by the Company for the 2020 fiscal year amounted to €372,000.
- The corresponding contribution for Dr. Schneider also amounts to 30 percent of the relevant agreed basic annual salary. The pension contribution made by the Company for the 2020 fiscal year amounted to €247,500.

The amounts credited to the pension entitlement accounts of Management Board members – in line with the plan rules applied to Infineon employees – are paid out on or after reaching the age of 67, provided the service contract arrangements have also ended. Upon request, amounts can be paid out at an earlier time if the service contract arrangements end on or after reaching the age of 60 or, in the case of commitments made from 2012 onwards, on or after reaching the age of 62. If the beneficiaries elect to have their pension paid out in monthly installments, the pension amount is adjusted automatically each year in accordance with the Infineon pension plan. Business focus and strategy

Combined Management Report Corporate Governance Compensation report

Alongside the annual retirement entitlements and related benefit amounts, the following table shows the present values of pension entitlements earned to date and the service cost in accordance with IFRS. The present value of pension and benefit entitlements is particularly dependent on changes in the discount rate required to be applied (30 September 2020: 0.95 percent, 30 September 2019: 0.59 percent).

Pension entitlements

in €	Fiscal year	Pension entitlements (annual) as of beginning of pension period	Benefit amounts determined for the relevant fiscal year	Present value of pension and benefit entitlement	Original service cost (earned in the current year)
Dr. Reinhard Ploss ¹	2020	-	372,000	2,474,927	368,802
Chief Executive Officer		210,000	-	5,279,415	-
	2019	-	372,000	1,393,462	356,108
		210,000	-	5,596,191	-
Dr. Sven Schneider	2020	-	247,500	393,029	294,037
Chief Financial Officer since 1 May 2019	2019		103,125	125,547	114,134
Dr. Helmut Gassel	2020	-	225,000	2,653,885	106,961
Management Board member	2019	_	225,000	2,575,231	98,324
Jochen Hanebeck	2020	-	225,000	3,279,840	129,139
Management Board member	2019	-	225,000	3,219,373	114,234
Total	2020	210,000	1,069,500	14,081,096	898,939
	2019 ²	210,000	925,125	12,909,804	682,800

1 The upper line for Dr. Ploss in the 2020 fiscal year respectively 2019 shows the contribution amount, the present value and the service cost relating to the defined contribution pension commitment additionally granted to him with effect from 1 January 2016. The second line in the 2020 fiscal year respectively 2019 shows the pension entitlement and the present value of his fixed amount pension plan.

2 The previous year's figure was adjusted for the remuneration of Dominik Asam. For further details, see "Payments to former Management Board members in the 2020 fiscal year". 🗅 p. 140

Early termination of service contracts

The service contracts of Management Board members include a change-of-control clause, which stipulates the terms that apply when the activities of a Management Board member are terminated in the event of a significant change in Infineon's ownership structure. A change of control for the purposes of this clause occurs when a third party, individually or together with another party, holds at least 50 percent of the voting rights in Infineon Technologies AG as defined in section 30 of the German Securities Acquisition and Takeover Act (Wertpapiererwerbs- und Übernahmegesetz – "WpÜG"). Management Board members have the right to resign and terminate their service contracts within twelve months of the announcement of such a change of control and any who choose to do so are entitled to continued payment of their annual remuneration through to the end of the originally agreed duration of their contract for a maximum of 36 months. If Infineon Technologies AG removes a Management Board member or terminates their contract within twelve months of the announcement of a change of control, the Management Board members concerned are entitled to continued payment of their annual remuneration through to the end of the originally agreed duration of their contract, subject to a minimum period of 24 months and a maximum period of 36 months.

The Management Board service contracts otherwise contain no promises of severance pay for situations in which contracts are terminated early.

Payments to former Management Board members in the 2020 fiscal year

Total compensation (primarily pension benefits) of €2,211,263.52 (2019: €2,007,096.87) was paid to former Management Board members in the 2020 fiscal year. As of 30 September 2020, accrued pension liabilities for former Management Board members amounted to €76,593,563 (2019: €81,187,076).

Since Mr. Asam was no longer a Management Board member during the 2020 fiscal year, his total compensation was no longer included in the total compensation of Management Board members in accordance with German Accounting Standard 17 (DRS 17). Mr. Asam received a fixed compensation of €412,500 and fringe benefits of €23,056 in the 2019 fiscal year. Additionally a post-employment non-competition clause was agreed with Mr. Asam for a period of 18 months. As compensation, Mr. Asam received a one-time amount of €150,000 in the 2020 fiscal year.

Business focus and strategy

Combined Management Report Corporate Governance Compensation report

Revision of the Management Board compensation system

The Act Implementing the Second Shareholder Rights Directive (ARUG II) came into force on 1 January 2020. Furthermore, the Government Commission on the German Corporate Governance Code adopted a new version of the DCGK, which became effective on 20 March 2020. The Supervisory Board deliberated on this matter at length with the support of an external independent compensation expert. Based on the preparatory work of its Executive Committee and its recommendation, the Supervisory Board intends to resolve on a new Management Board compensation system at its meeting on 20 November 2020, which will be submitted to the 2021 Annual General Meeting for approval in accordance with Section 120a, German Stock Corporation. It is intended to convert the compensation of active Management Board members to the new compensation system over the course of the 2021 calendar year. The service contracts will then be adjusted accordingly.

Supervisory Board compensation

Compensation structure

The compensation due to the Supervisory Board (total compensation) is governed by section 11 of the Company's Articles of Association and comprises the following:

- > A fixed compensation (basic remuneration) of €90,000. This amount applies to each Supervisory Board member and is payable within one month of the end of each fiscal year.
- > Allowances in recognition of the additional work involved in performing certain functions within the Supervisory Board: The Chairman of the Supervisory Board receives an allowance of €90,000, each Vice chairman receives an allowance of €30,000, the Chairman of the Investment, Finance and Audit Committee and the Chairman of the Strategy and Technology Committee each receive an allowance of €25,000 and each member of a Supervisory Board committee receives an allowance of €15,000 with the exception of the Nomination Committee and the Mediation Committee. The allowance is payable only if the body to which the Supervisory

Board or committee member belongs has convened or passed resolutions in the fiscal year concerned. A Supervisory Board member performing more than one of the functions indicated receives only the highest single allowance payable to a member performing the functions concerned. The allowance is paid to the relevant holder of office within one month of the end of the fiscal year.

> A meeting attendance fee of €2,000 per meeting of the Supervisory Board or one of its committees that is attended in person. The meeting attendance fee is paid only once if more than one meeting of the relevant committees takes place on a given day.

In the event that a member, during a fiscal year, joins (or leaves) the Supervisory Board or one of its committees, or takes on a Supervisory Board function for which an allowance is paid, the relevant compensation components are disbursed on a pro rata basis, i.e. payment of one twelfth of the relevant annual compensation component for each (started) month of membership or exercise of function.

Moreover, Supervisory Board members are reimbursed for all expenses incurred in connection with the performance of their Supervisory Board duties and for any value-added tax payable by them in this connection. The Company also pays Supervisory Board members any value-added tax incurred on their total compensation (including meeting attendance fees).

Review of the Supervisory Board compensation system

In light of the changes brought about by ARUG II, Section 113, paragraph 3, AktG also requires the Supervisory Board compensation system to be submitted for approval at the Annual General Meeting. The Management Board and Supervisory Board have come to the conclusion that the current Supervisory Board compensation system is no longer in line with the market in some respects and will therefore propose changes at the 2021 Annual General Meeting.

Combined Management Report Corporate Governance Compensation report

Compensation of the Supervisory Board for the 2020 fiscal year

The total compensation (including meeting attendance fees) paid to the individual members of the Supervisory Board in the 2020 fiscal year comprises the following (these figures do not include value-added tax at 16 percent or – in case of members being located outside of Germany – the withholding tax, the solidarity surtax as well as other taxes):

Supervisory Board compensation

	Fiscal year	Fixed com- pensation	Allowance for specific	Meeting attendance	Total com- pensation
Supervisory Board member, in €			functions	fees	
Peter Bauer ¹	2020	37,500	10,417	6,000	53,917
	2019	90,000	25,000	24,000	139,000
Xiaoqun Clever ^{2, 3}	2020	60,000	10,000	8,000	78,000
	2019				-
Johann Dechant	2020	90,000	30,000	38,000	158,000
	2019	90,000	30,000	32,000	152,000
Dr. Herbert Diess ¹	2020	37,500	-	4,000	41,500
	2019	90,000		10,000	100,000
Dr. Wolfgang Eder ³	2020	90,000	90,000	30,000	210,000
	2019	90,000	27,500	38,000	155,500
Dr. Friedrich Eichiner ^{2, 3}	2020	60,000	16,667	8,000	84,667
	2019	-	-	-	-
Annette Engelfried	2020	90,000	15,000	30,000	135,000
	2019	90,000	15,000	30,000	135,000
Peter Gruber	2020	90,000	15,000	22,000	127,000
	2019	90,000	15,000	24,000	129,000
Gerhard Hobbach ¹	2020	37,500	6,250	6,000	49,750
	2019	90,000	15,000	22,000	127,000
Hans-Ulrich Holdenried ³	2020	90,000	15,000	22,000	127,000
	2019	90,000	15,000	24,000	129,000
Prof. Dr. Renate Köcher ¹	2020	37,500		4,000	41,500
	2019	90,000	-	14,000	104,000
Dr. Susanne Lachenmann	2020	90,000	15,000	20,000	125,000
	2019	90,000	15,000	22,000	127,000
Géraldine Picaud ³	2020	90,000	-	10,000	100,000
	2019	90,000	-	16,000	106,000

Supervisory Board member, in €	Fiscal year	Fixed com- pensation	Allowance for specific functions	Meeting attendance fees	Total com- pensation
Dr. Manfred Puffer ³	2020	90,000	-	18,000	108,000
	2019	90,000	-	22,000	112,000
Melanie Riedl ²	2020	60,000	-	16,000	76,000
	2019	_	-	_	-
Jürgen Scholz	2020	90,000	15,000	22,000	127,000
	2019	90,000	15,000	26,000	131,000
Kerstin Schulzendorf	2020	90,000	-	16,000	106,000
	2019	90,000		18,000	108,000
Dr. Ulrich Spiesshofer ^{2,3}	2020	60,000	16,667	8,000	84,667
	2019			_	-
Margret Suckale ^{2,3}	2020	60,000	_	10,000	70,000
	2019	-	-	-	-
Dr. Eckart Sünner ¹	2020	37,500	10,417	8,000	55,917
	2019	90,000	84,583	34,000	208,583
Diana Vitale	2020	90,000	10,000	28,000	128,000
	2019	90,000		22,000	112,000
Total	2020	1,477,500	275,418	334,000	2,086,918
	2019	1,440,000	257,083	378,000	2,075,083

1 Joined as Supervisory Board member until 20 February 2020. The compensation for the 2020 fiscal year therefore was awarded on a pro rata basis.

2 Joined as Supervisory Board member since 20 February 2020. The compensation for the 2020 fiscal year therefore was awarded on a pro rata basis.

3 The shareholder representatives on the Supervisory Board have waived their entitlement to attendance fees for certain meetings. The Company will donate the attendance fee saved to a charitable institution.

Supervisory Board members did not receive any loans from Infineon in either the 2020 or 2019 fiscal years.

Neubiberg, 20 November 2020

Management Board

Dr. Reinhard Ploss Dr. Sven Schneider Jochen Hanebeck Dr. Helmut Gassel

Combined Management Report

Consolidated Financial Statements



Consolidated Financial Statements

- 144 Consolidated Statement of Profit or Loss
- 144 Consolidated Statement of Comprehensive Income
- 145 Consolidated Statement of Financial Position
- 146 Consolidated Statement of Cash Flows
- 147 Consolidated Statement of Changes in Equity
- 148 Notes to the Consolidated Financial Statements
Consolidated Statement of Profit or Loss

for the fiscal years ended 30 September 2020 and 2019

€ in millions	Notes	2020	2019
Revenue	4	8,567	8,029
Cost of goods sold	4	(5,791)	(5,035)
Gross profit		2,776	2,994
Research and development expenses	4	(1,113)	(945)
Selling, general and administrative expenses	4	(1,042)	(865)
Other operating income		76	56
Other operating expenses		(116)	(79)
Operating income		581	1,161
Financial income	4	29	26
Financial expenses	4	(177)	(98)
Loss from investments accounted for using the equity method	5	(9)	(6)
Income from continuing operations before income taxes		424	1,083
Income tax	6	(52)	(194)
Income from continuing operations		372	889
Loss from discontinued operations, net of income taxes	7	(4)	(19)
Net income		368	870
Attributable to:			
Shareholders and hybrid capital investors of Infineon Technologies AG		368	870
Basic earnings per share (in euro) attributable to shareholders of Infineon Technologies AG: ¹			
Basic earnings per share (in euro) from continuing operations	8	0.26	0.77
Basic earnings (loss) per share (in euro) from discontinued operations	8	-	(0.02)
Basic earnings per share (in euro)	8	0.26	0.75
Diluted earnings per share (in euro) attributable to shareholders of Infineon Technologies AG: ¹			
Diluted earnings per share (in euro) from continuing operations	8	0.26	0.77
Diluted earnings (loss) per share (in euro) from discontinued operations	8	-	(0.02)
Diluted earnings per share (in euro)	8	0.26	0.75

Consolidated Statement of Comprehensive Income

for the fiscal years ended 30 September 2020 and 2019

€ in millions	Notes	2020	2019
	21		
Net income		368	870
Actuarial gains (losses) on pension plans and similar commitments ¹		21	(153)
Total items not expected to be reclassified to profit or loss in the future		21	(153)
Currency translation effects		(543)	85
Net change in fair value of hedging instruments		(213)	155
Cost of hedging		42	(42)
Total items expected to be reclassified to profit or loss in the future		(714)	198
Other comprehensive income (loss), net of tax		(693)	45
Total comprehensive income (loss), net of tax		(325)	915
Attributable to:			
Shareholders and hybrid capital investors of Infineon Technologies AG		(325)	915

1 Contains gains from investments accounted for using the equity method in the 2020 fiscal year of €0 miillion (2019: losses €2 million).

144

1 The calculation of earnings per share is based on unrounded figures.

Consolidated Statement of Financial Position

as of 30 September 2020 and 2019

€ in millions	Notes	30 Septem- ber 2020	30 Septem- ber 2019
ASSETS			
Cash and cash equivalents		1,851	1,021
Financial investments	9	1,376	2,758
Trade receivables	10	1,196	1,057
Inventories	11	2,052	1,701
Current income tax receivables	6	77	83
Contract assets	12	97	91
Other current assets	13	530	770
Assets classified as held for sale		-	12
Total current assets		7,179	7,493
Property, plant and equipment	14	4,110	3,510
Goodwill	15	5,897	909
Other intangible assets	14	3,621	896
Right-of-use assets	16	286	-
Investments accounted for using the equity method	5	87	29
Non-current income tax receivables	6	1	-
Deferred tax assets	6	627	599
Other non-current assets	28	191	145
Total non-current assets		14,820	6,088
Total assets		21.999	13.581

€ in millions	Notes	30 Septem- ber 2020	30 Septem- ber 2019
LIABILITIES AND EQUITY			
Short-term financial debt and current portion of long-term financial debt	17	505	22
Trade payables		1,160	1,089
Current provisions	18	436	383
Current income tax payables	6	340	144
Current leasing liabilities	16	59	-
Other current liabilities	19	950	575
Total current liabilities		3,450	2,213
Long-term financial debt	17	6,528	1,534
Pension plans and similar commitments	20	739	733
Deferred tax liabilities	6	293	20
Non-current provisions	18	313	283
Non-current leasing liabilities	16	235	-
Other non-current liabilities	28	222	165
Total non-current liabilities		8,330	2,735
Total liabilities		11,780	4,948
Equity:	21		
Ordinary share capital		2,612	2,501
Additional paid-in capital		6,462	5,494
Hybrid capital		1,203	-
Retained earnings		435	421
Other reserves		(460)	254
Own shares		(33)	(37)
Total equity		10,219	8,633
Total liabilities and equity		21.999	13.581

Consolidated Statement of Cash Flows

for the fiscal years ended 30 September 2020 and 2019

€ in millions Notes	2020	2019
27		
Net income	368	870
Plus: loss from discontinued operations, net of income taxes	4	19
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization 14, 16	1,260	945
Income tax 6	52	194
Net interest result 4	101	36
Gains on disposals of property, plant and equipment	(22)	(11)
Loss from sale of RF power business	-	1
Dividends received 5	2	-
Impairment charges/reversals of impairments 14, 15, 30	12	6
Other non-cash result	56	16
Change in trade receivables 10	46	71
Change in inventories 11	124	(239)
Change in trade payables	(71)	(109)
Change in provisions 18	65	(25)
Change in other assets and liabilities	-	(4)
Interest received 4	17	25
Interest paid 4	(129)	(67)
Income tax paid 6	(68)	(125)
Net cash provided by operating activities from continuing operations	1,817	1,603
Net cash used in operating activities from discontinued operations	(6)	(2)
Net cash provided by operating activities	1,811	1,601

€ in millions	Notes	2020	2019
Purchases of financial investments	9	(6,045)	(3,760)
Proceeds from sales of financial investments	9	7,417	2,836
Acquisitions of businesses, net of cash acquired	3	(7,433)	(123)
Proceeds from sales of businesses and interests in subsidiaries, net of cash disbursed		(1)	_
Investments in related companies	3	(44)	(5)
Purchases of other intangible assets and other assets	14	(184)	(156)
Purchases of property, plant and equipment	14	(915)	(1,295)
Proceeds from sales of property, plant and equipment and other assets		33	15
Net cash used in investing activities from continuing operations		(7,172)	(2,488)
Net cash used in investing activities from discontinued operations		-	_
Net cash used in investing activities		(7,172)	(2,488)
Net change in related party financial receivables and payables	26	-	(14)
Proceeds from issuance of long-term financial debt	17	9,815	1
Repayments of long-term financial debt	17	(5,372)	(23)
Payments for leasing liabilities	16	(63)	-
Payments for financing-related derivatives	4	-	(41)
Deposits for financing-related derivatives	4	25	19
Proceeds from issuance of ordinary shares	21	1,043	1,530
Cash outflows due to changes of non-controlling interests		(2)	-
Dividend payments	21	(336)	(305)
Proceeds from hybrid capital	21	1,184	-
Cash outflow to hybrid capital investors	21	(20)	-
Net cash provided by financing activities from continuing operations		6,274	1,167
Net cash provided by financing activities from discontinued operations	-	-	
Net cash provided by financing activities		6,274	1,167
Net change in cash and cash equivalents		913	280
Effect of foreign exchange rate changes on cash and cash equivalents		(83)	9
Cash and cash equivalents at beginning of period		1,021	732
Cash and cash equivalents at end of period		1,851	1,021

Consolidated Statement of Changes in Equity

for the fiscal years ended 30 September 2020 and 2019

Notes		Ordinary share	es issued	Additional	Hybrid capital	Retained		Other reserves		Own shares	Total equity
€ in millions, except for number of shares		Shares	Amount	capital		(accumulated deficit)	Foreign currency translation adjustment	Hedges	Cost of hedging		
	21										
Balance as of 30 September 2018		1,136,995,834	2,274	4,486	_	(333)	59	(3)	-	(37)	6,446
Effects from the transition to IFRS 9 and IFRS 15		_	-	-	_	37	_	_	-	_	37
Balance as of 1 October 2018		1,136,995,834	2,274	4,486	_	(296)	59	(3)	-	(37)	6,483
Net income		_	_	-	_	870	_	_	-	_	870
Other comprehensive income (loss), net of tax		-	-	-	-	(153)	85	155	(42)		45
Total comprehensive income (loss), net of tax		-	-	-	-	717	85	155	(42)	-	915
Dividends		-	-	(305)	-	-	-	-	-	-	(305)
Issuance of ordinary shares:											
Exercise of stock options		914,314	1	4	-	-	-	-	-	-	5
Share-based compensation	23	-	-	10	-	-	-	-	-	-	10
Capital increase		112,773,923	226	1,299	-	-	-		-	_	1,525
Balance as of 30 September 2019		1,250,684,071	2,501	5,494	-	421	144	152	(42)	(37)	8,633
Balance as of 1 October 2019		1,250,684,071	2,501	5,494		421	144	152	(42)	(37)	8,633
Net income		_	-	-	39	329		_	-	_	368
Other comprehensive income (loss), net of tax			-	-	_	21	(543)	(213)	42		(693)
Total comprehensive income (loss), net of tax		_	_	-	39	350	(543)	(213)	42	_	(325)
Dividends			-	-	_	(336)		_	-	_	(336)
Issuance of ordinary shares:											
Exercise of stock options		237,066	1	1	-	-	-	-	-	-	2
Emission hybrid capital		-	-	-	1,184	-	-	-	-	-	1,184
Compensations to hybrid capital investors		-	-	-	(20)	-	-	-	-	-	(20)
Share-based compensation	23		_	11	_	-			-		11
Capital increase		55,000,000	110	934	-	-	-	-	-	-	1,044
Purchase of own shares		-	-	-	-	-	-	-	-	4	4
Other changes in equity			-	22	-	-			-	-	22
Balance as of 30 September 2020		1,305,921,137	2,612	6,462	1,203	435	(399)	(61)	-	(33)	10,219

Consolidated Financial Statements Fun Notes to the Consolidated Financial Statements

Further information

Notes to the Consolidated Financial Statements

The Infineon Group ("Infineon") comprising Infineon Technologies AG ("the Company") and its direct and indirect subsidiaries design, develop, manufacture and market a broad range of semiconductors and related system solutions. The focus of activities is on applications for automotive electronics, industrial electronics, entertainment and household electronics, information and communications infrastructure as well as hardware-based security. The product range includes standard, application-specific and customer-specific components as well as system solutions for power, digital, analog, high frequency and mixed-signal applications. Research and development sites, manufacturing facilities, investments and customers are located mainly in Europe, Asia and North America.

Infineon Technologies AG is a listed company under German law and the ultimate parent company of Infineon. The principal office of the Company is Am Campeon 1–15, 85579 Neubiberg (Germany). The Company is registered in the Commercial Register of the District Court of Munich (Germany) under the number HRB 126492.

1 Basis of the Consolidated Financial Statements

The Consolidated Financial Statements, prepared by Infineon Technologies AG as ultimate parent company for the year ended 30 September 2020, have been prepared in accordance with International Financial Reporting Standards ("IFRS") and related interpretations effective as of 30 September 2020 as issued by the International Accounting Standards Board ("IASB") to the extent to which the IFRS and interpretations have been endorsed by the European Union ("EU"). The Consolidated Financial Statements also comply with the supplementary requirements set out in section 315e, paragraph 1, of the German Commercial Code ("Handelsgesetzbuch" or "HGB"). The aforementioned standards were complied with in full.

The Consolidated Statement of Profit or Loss is presented using the cost of sales method.

The fiscal year end for both Infineon and the Company is 30 September of each year.

The Group's reporting currency is the euro ("€").

Deviations between amounts presented are possible due to rounding. Negative amounts are presented in parentheses.

The Company's Management Board presented the Consolidated Financial Statements on 20 November 2020.

Financial reporting rules applied for the first time

The IASB has issued the following Standards or amendments to Standards, which are required to be applied in the Consolidated Financial Statements for the year ended 30 September 2020:

Standard/	amendment/interpretation	Effective date	Impact on Infineon
IAS 19	Plan amendment, curtailment or settlement (Amendments to IAS 19)	1 January 2019	none
IAS 28	Long-term interests in associated companies and joint ventures (Amendments to IAS 28)	1 January 2019	none
IFRS 9	Prepayment features with negative compensation (Amendments to IFRS 9)	1 January 2019	none
IFRS 16 Leases		1 January 2019	see explanations below the table
IFRIC 23	Uncertainty over Income Tax Treatments	1 January 2019	immaterial
	Annual IFRS improvement cycle 2015–2017 – Amendments to IFRS 3 and IFRS 11 as well as IAS 12 and IAS 23	1 January 2019	none

IFRS 16 "Leases"

IFRS 16 "Leases" introduced a standardized accounting model by which leases are to be recorded in the balance sheet of the lessee. IFRS 16 replaces all previous standards and lease accounting interpretations including IAS 17, IFRIC 4, and SIC 15 and SIC 27. This means that in future all assets and liabilities arising from a leasing agreement must be recognized by the lessee, unless it is a short-term lease (duration of twelve months or less) or a lease for a low-value asset (each may be elected by the lessee).

Combined Management Report

The distinction between finance and operating leases is still required in the accounts of the lessor and therefore does not differ significantly from IAS 17 "Leases". Infineon applies the new standard since 1 October 2019 using the modified retrospective approach. Accordingly, the previous periods were not adjusted.

At Infineon leases which were previously classified as operating leases were mainly affected by the first-time application. Short-term lease agreements with a duration of not more than twelve months (unless they did contain a purchase option) and leases in which the underlying asset was of low value are not recognized in accordance with the exemption allowed by IFRS 16. As a general rule, leased assets with a value of up to €5,000 were defined as a low-value asset. Contractual relationships which were not previously classified as leases under IAS 17 "Leases" in conjunction with IFRIC 4 "Determining whether an agreement contains a lease" were not reassessed against the IFRS 16 definition of a lease. After 1 October 2019, all new leasing contracts were subject to IFRS 16.

Infineon recognized as leases the following categories of leases, previously recognized as operating leases, according to the definition of the new standard following the transition to IFRS 16 as of 1 October 2019: real estate, technical equipment, vehicles and other leased assets. When IFRS 16 is first applied to operating leases, the value of the right-of-use asset is generally measured using the amount of the discounted lease liability. The average incremental borrowing rate (1.7 percent) prevailing at the time of the first application of IFRS 16 has been used. In the case of deferred lease liabilities, the value of the right-of-use asset shall be adjusted by the amount of lease payments paid in advance or the deferred lease liability. The valuation of the right-of-use asset at the point of first-time application does not take into account the initial direct costs.

As a result of the first-time application, right-of-use assets amounting to €255 million and lease liabilities in the amount of €262 million were recognized in the Consolidated Statement of Financial Position as of 1 October 2019 (see note 16, D p. 178). The difference of €7 million between these two closing balances relates to advance lease payments as well as deferred lease liabilities.

The following table represents the reconciliation to lease liabilities as of 1 October 2019:

€ in millions	Total
Non-discounted minimum lease payments from operating leases as of 30 September 2019	250
Short-term leases with a term of twelve months or less (short-term leases)	(4)
Leases of low-value assets (low-value leases)	(1)
Leases that were concluded but not started as of 1 October 2019	(22)
Variable lease payments	(1)
Sufficiently secure extension and termination options	62
Gross lease liabilities as of 1 October 2019	284
Discounting	(22)
Present value of lease liabilities due to first time application of IFRS 16 as of 1 October 2019	262

Financial reporting rules issued not yet applied

The following new or amended Standards have been issued by the IASB and will be relevant to Infineon from today's perspective. They have not been applied in the Consolidated Financial Statements as of 30 September 2020 since they are not yet mandatory or, alternatively, have not yet been endorsed by the EU. The new or amended Standards are applicable for fiscal years beginning on or after their respective effective date. As a general rule, they are not applied before their effective date, even if this is permitted for certain standards.

Standard/a	mendment/interpretation	Effective date	Expected impact on Infineon
IAS 16	Property, plant and equipment — income before intended use (changes to IAS 16)	1 January 2022	immaterial
IAS 1 and IAS 8	Definition of material (amendments to IAS 1 and IAS 8)	1 January 2020	none
IAS 1	Classification of liabilities as current or non-current (amendments to IAS 1)	1 January 2023	none
IAS 37	Onerous contracts — costs of fulfilling a contract (amendments to IAS 37)	1 January 2022	immaterial
IFRS 3 Definition of a business (amendments to IFRS 3)		1 January 2020	none
IFRS 3	References to the conceptual framework	1 January 2022	none
IFRS 16	COVID-19-related rent concessions (Amendment to IFRS 16)	1 June 2020	immaterial
IFRS 17	Insurance contracts including amendments to IFRS 17	1 January 2023	none
IFRS 4	Extension to the temporary exemption from applying IFRS 9 (amendments to IFRS 4)	1 January 2021	none
	Interest rate benchmark reform (amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16) – Phase 2	1 January 2021	none
	Annual IFRS improvement cycle 2018–2020	1 January 2022	none
	Revision to the conceptual framework and amendments to references to the conceptual framework in IERS Standards	1 January 2020	none

2 Summary of significant accounting policies

Basis of consolidation

The Consolidated Financial Statements presented here include the individual financial statements of Infineon Technologies AG and its direct and indirect subsidiaries on a consolidated basis. A subsidiary is defined as an entity which, directly or indirectly, is controlled by Infineon Technologies AG.

Control exists when Infineon is subjected to variable returns arising from its engagement with the subsidiary or has a right to such, and has the ability to influence these returns as a result of its power over the subsidiary. Power means that Infineon has existing rights that give Infineon the ability to direct the relevant activities of the subsidiary, that is the activities that significantly affect the aforementioned returns.

An entity is included in the Consolidated Financial Statements from the date on which Infineon acquires control. Upon first-time consolidation of an entity, the acquired assets and assumed liabilities are basically measured on the basis of their fair value at the acquisition date. Any excess of consideration paid (purchase price) over the share of the fair value of acquired assets, liabilities and contingent liabilities is recognized as goodwill. Any excess of Infineon's share of the fair value of items acquired over consideration paid is recognized as a gain.

The financial statements of entities included in the Consolidated Financial Statements are prepared using uniform valuation and accounting policies.

The balance sheet effects of intragroup transactions as well as gains and losses arising from intragroup business relationships are eliminated on consolidation.

A list of subsidiaries of Infineon Technologies AG is provided in note 31. D p. 220 ff.

In the absence of control over an entity, but the entity is a joint venture or an associated company, these entities are included in the consolidated financial statements using the equity method (see note 5, 🗅 p. 166 f.).

151

Functional currency and foreign currency translation

The functional currency of Infineon Technologies AG is the euro.

Foreign currency transactions of subsidiaries are translated into the functional currency of the relevant entity using the spot rate prevailing at the transaction date. Monetary foreign currency assets and liabilities are translated at the spot rate prevailing at the reporting date. Exchange rate gains and losses from the translation of foreign currency transactions are recognized in the Consolidated Statement of Profit or Loss.

The assets and liabilities of subsidiaries with functional currencies other than the euro are translated into euros using the spot rate at the end of the reporting period. Income and expenses of these entities are translated using the average spot rate of the reporting period. All currency translation differences resulting from the consolidation are recognized directly in equity and presented as "Other reserves".

The euro/US dollar exchange rate is particularly significant for the preparation of the Consolidated Financial Statements. As of 30 September 2020, this was 1.1708 (previous year: 1.0935) and the average for the 2020 fiscal year was 1.1238 (previous year: 1.1252).

Recognition and measurement principles

The following table summarizes the main measurement principles used in the preparation of the Consolidated Financial Statements:

Balance sheet item	Measurement principle		
ASSETS			
Cash and cash equivalents	Fair value/amortized cost		
Financial investments	Fair value/amortized cost		
Trade receivables	Unconditional right to consideration/amortized cost		
Inventories	Lower of acquisition or production cost and net realizable value		
Contract assets	Right to consideration/impairment in accordance with IFRS 9		
Property, plant and equipment	Amortized acquisition or production cost		
Goodwill	Impairment-only approach		
Other intangible assets	Amortized acquisition or production cost		
Right-of-use assets	Amortized present value of outstanding lease payments		
Other assets (current and non-current):			
Other financial assets:			
At amortized cost	Fair value/amortized cost		
At fair value through profit or loss	Fair value through profit or loss		
Designated hedging instruments	Fair value through other comprehensive income		
Remaining other assets	Amortized cost		

Balance sheet item	Measurement principle		
LIABILITIES AND EQUITY			
Financial debt (short-term and long-term)	Fair value/amortized cost		
Trade payables	Fair value/amortized cost		
Provisions:			
Pensions	Projected unit credit method		
Other provisions (current and non-current)	Expected settlement amount		
Leasing liabilities (current and non-current)	Amortized present value of outstanding lease payments		
Other liabilities (current and non-current):			
Other financial liabilities:			
Measured at fair value through profit or loss	Fair value through profit or loss		
Designated hedging instruments	Fair value through other comprehensive income		
Other financial liabilities	Fair value/amortized cost		
Remaining other liabilities	Fair value/amortized cost		
Own shares	Acquisition cost		
Hybrid bonds	Acquisition cost		

Cash and cash equivalents

Cash and cash equivalents represent cash and all financial resources with a maturity at acquisition date of three months or less. Cash equivalents partly include investments in money market funds. The valuation is recorded at amortized cost or at fair value through profit or loss.

Financial instruments

Financial instruments are initially recognized at their fair value. Transaction costs directly attributable to the acquisition or issuance of financial instruments are only included in the carrying amount if the financial instruments are not measured at fair value through profit or loss.

Trade receivables are recognized based on the amount to which Infineon has an unconditional right to receive. With the exception of matters which result in a partial refund of the purchase price to the customer, this corresponds to the transaction price determined in accordance with IFRS 15. The subsequent measurement of trade receivables is carried out at amortized cost.

Purchases and sales of financial assets are recognized on the settlement date.

Financial assets are derecognized when the rights to receive payments from the investments have expired, or have been transferred and Infineon has transferred all risks and rewards associated with ownership. Financial liabilities are derecognized when they are extinguished, that is when the contractual obligation is discharged, canceled or expired.

Financial assets

> Classification and measurement of financial assets

Upon initial recognition, financial assets are classified for subsequent measurement either as at amortized cost, fair value through other comprehensive income or fair value through profit or loss. This classification depends on the characteristics of the contractual cash flows of the financial assets, and Infineon's business model for managing its financial assets.

Infineon's business model for managing financial asset portfolios reflects how the Company controls its financial assets in order to generate cash flows. Depending on the business model, cash flows arise from the receipt of contractual cash flows, the sale of financial assets or both.

In order for a financial asset in the form of a debt instrument to be classified and measured at amortized cost or at fair value through other comprehensive income, cash flows may only arise from the repayment of principal and interest payments on the outstanding principal amount. This assessment is referred to as a cash flow- or SPPI test ("solely payments of principal and interest") and is carried out at the level of the individual financial instrument.

On this basis, Infineon's financial asset measurement categories are as follows:

Financial assets measured at amortized cost include all assets whose contractual provisions result in cash flows at fixed times that represent only interest and principal repayments of the outstanding principal amount, provided that those assets are held with the intention of collecting the contractual cash flows expected over their respective duration. In subsequent periods, financial assets measured at amortized cost are measured using the effective interest method. Interest income, currency gains and losses, impairments, and gains or losses from the derecognition of such financial assets are recognized through profit or loss.

At the reporting date, Infineon did not hold any financial assets with the intention to collect contractual cash flows and also to sell them. Therefore, there was no allocation of financial assets in the form of debt instruments to the category "fair value through other comprehensive income".

Financial assets in the form of debt instruments that are measured at fair value through profit or loss include all financial assets at Infineon whose cash flows are not exclusively interest payments and principal repayments.

At Infineon, financial assets in the form of equity instruments are consistently measured at fair value through profit or loss.

Net gains and losses, including interest and dividend income, from financial assets that are measured at fair value through profit or loss (debt and equity instruments) are recognized in the Consolidated Statement of Profit or Loss.

"Designated hedging instruments (cash flow hedges)" also belong to financial assets.

> Impairment of financial assets

Infineon determines an impairment charge for expected credit losses for financial assets in the form of debt instruments that are measured at amortized cost or at fair value through other comprehensive income. The calculation of the expected future credit losses is generally determined by multiplying the probability of default by the carrying amount of the financial asset (exposure at default) and the expected loss ratio (loss given default).

Infineon determines impairments for expected credit losses primarily for cash and cash equivalents, financial investments, trade receivables, and contract assets. The expected credit losses are adjusted at each reporting date to reflect changes in credit risk since the instrument was first recognized.

For cash and cash equivalents and financial investments measured at amortized cost, Infineon determines credit losses expected in the next twelve months (twelve-month credit loss) in accordance with the general approach. Due to their short-term maturity, this corresponds to the expected credit losses over the entire term. Infineon rates the credit risk for cash and cash equivalents and financial investments as low. Infineon assumes that a financial asset has a low credit risk if it has an investment grade rating or a corresponding internal investment grade rating. In order to assess whether there has been a significant increase in credit risk since initial recognition, Infineon considers appropriate and robust information that is relevant and available without disproportionately high levels of effort. This includes both quantitative and qualitative information and analyses, which are based on the Company's historical experience and a sound credit assessment as well as forward-looking information. Macroeconomic information is taken into account in the internal rating model (information on Infineon's financial risk management is included in note 29, D p. 207 ff.). Irrespective of the above analysis, a significant increase in credit risk is assumed if a debtor is more than 30 days overdue with the settlement of a contractual payment.

154

For trade receivables and contract assets, Infineon recognizes credit losses that are expected over the entire term using a simplified procedure. The estimate of expected credit losses on trade receivables and contract assets is based primarily on the analysis of customer financial data, ratings, credit default spreads, past payment behavior of customers and forward-looking Information.

In the case of objective indications that expected future cash flows are affected, a financial asset is classified as impaired (with impaired creditworthiness) and adjusted to its individual value. As a rule, this is the case for financial assets (unless it is a trade receivable) no later than 90 days after the due date. For trade receivables, the impaired creditworthiness is not determined automatically in the event of a payment overdue by more than 90 days, but always on the basis of the individual assessment of credit management.

A default event occurs when Infineon concludes that the other party would most likely not be able to meet the payment obligations, or not in full.

Financial assets are partly or completely written off, together with previously recognized impairments, if there is no reasonable expectation of repayment. This is generally the case when Infineon finds that the debtor does not have assets or revenue sources that could generate sufficient cash flows to repay the amounts subject to derecognition. Even when financial assets are written off, Infineon continues to conduct enforcement measures to recover them. Amounts recovered are recognized in profit or loss.

Financial liabilities

Infineon classifies financial liabilities into the following categories: "Financial liabilities measured at fair value through profit and loss" and "Other financial liabilities". Furthermore, "Designated hedging instruments (cash flow hedges)" belong to financial liabilities.

Liabilities measured at fair value through profit or loss by Infineon include derivatives to hedge currency risks for which hedge accounting is not applied, as well as conversion rights from convertible bonds that were acquired in the course of the acquisition of Cypress (see note 3, \Box p. 162 ff.).

Upon acquisition, other financial liabilities are measured at fair value after deduction of transaction costs. In subsequent periods, they are measured at amortized cost using the effective interest method. The liabilities are derecognized when the contractual obligations are discharged, canceled or expired.

Designated hedging instruments (cash flow hedges)

Certain derivative financial instruments are used to hedge foreign currency and interest risks or risks of commodity price changes (such as gold prices) for firm commitments as well as expected and highly probable future transactions in order to minimize the associated risk (cash flow hedges).

Derivative financial instruments are measured at their fair value and included in "other current assets" or "other current liabilities".

The effective portion of changes in the fair value of derivative financial instruments, determined in accordance with IFRS 9, that are designated as cash flow hedges and are part of hedging relationships that meet the criteria for hedge accounting is recognized directly in equity. The gain or loss relating to the ineffective portion is

recognized in profit or loss. Amounts accumulated in equity are recycled in profit or loss in the periods in which the underlying hedged item affects profit or loss, or, if the expected transaction subsequently results in the recognition of a non-financial asset, included in the acquisition cost upon initial recognition.

In accordance with the provisions of IFRS 9, in the case of foreign currency derivatives, the currency base spread (cost of hedging) is split from the designated hedging instrument and recognized in equity as a separate component within "other reserves".

When a hedging instrument expires or is sold, or when a hedging relationship no longer meets the criteria for hedge accounting, any cumulative gain or loss existing at that time remains in equity until the underlying transaction actually occurs. When a forecasted transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to profit or loss.

Hybrid bonds

The recognition of a hybrid bond depends on the specific form of the instrument. A hybrid bond is measured and recognized in equity when certain conditions are jointly met. These include, but are not limited to, the fact that the hybrid bond has no final maturity date, that investors have no rights of termination, and that distributions are made at Infineon's discretion. In this case, discounts, transaction costs, tax effects and the remuneration of hybrid investors are deducted directly from equity.

Inventories

Inventories are measured at the lower of historical acquisition or fully absorbed production cost – calculated using the weighted-average method – and net realizable value. Net realizable value corresponds to realizable sale proceeds under normal business conditions less estimated expected costs to complete and sell. Production cost comprises costs of material, production wages and an appropriate portion of attributable overheads, along with attributable depreciation and amortization on property, plant and equipment and other intangible assets. Overhead mark-ups are determined on the basis of normal capacity utilization levels.

Write-downs to net realizable value are recorded on inventories using a consistent approach throughout Infineon and are determined at product level for technically obsolete and slow-moving inventories on the basis of the amount of revenues expected to be generated by the relevant product.

Inventories include an asset resulting from sales with a right of return, representing Infineon's right to recover products from customers upon payment of the reimbursement obligation (see "Revenue recognition", D p. 159 f.). The valuation is made by reference to the previous book value of the products.

Contract assets

Contract assets are recognized if Infineon has fulfilled its performance obligations arising from contracts with customers and an unconditional entitlement to customer consideration does not yet exist.

At Infineon, contract assets result from revenue arising from over time revenue recognition for certain types of contracts, as well as from sales to some customers for whom Infineon maintains a consignment warehouse and where revenue is recorded at the time of delivery to the consignment warehouse, whereas the invoice is only issued at the time of withdrawal of product by the customer.

Valuation adjustments for expected credit losses on contract assets are determined in accordance with the measurement method for trade receivables (see "Financial instruments", D p. 152 ff.).

Property, plant and equipment

Property, plant and equipment are measured at amortized acquisition or construction cost, and its value is reduced by depreciation and considering any impairment. Depreciation on property, plant and equipment is recorded using the straight-line method. Land, property rights and construction in progress are not depreciated on a scheduled basis. Depreciation on property, plant and equipment is based on the following useful lives, as applied consistently throughout Infineon:

	Years
Buildings	25
Technical equipment and machinery	3 - 10
Other plant and office equipment	1 - 10

Other intangible assets

Other intangible assets consist of capitalized development costs and purchased intangible assets; for example licenses, technologies and customer relationships. These assets have finite useful lives and are valued at their amortized acquisition or production costs with amortization recorded using the straight-line method over their expected economic life.

Amortization of other intangible assets is based on the following useful lives:

	Years
Capitalized development costs	3 - 10
Customer relationships	1 - 12
Technologies	1 - 12
Licenses and similar rights	3 – 5
Other intangible assets	3 - 12

Infineon did not hold any intangible assets with indefinite useful lives in either the 2020 or the 2019 fiscal year.

Recoverability of property, plant and equipment and other intangible assets

Infineon reviews non-current assets, including property, plant and equipment and other intangible assets for possible impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Regardless of whether an indication of impairment exists, other intangible assets including capitalized development costs not yet subject to amortization undergo an annual impairment test (see also "Research and development expenses", D p. 160).

The recoverability of an asset is measured by comparing its carrying amount with its recoverable amount. To the extent it is not possible to determine the recoverable amount of an individual asset, the book value of the cash generating unit to which the asset is allocated is compared to its recoverable amount.

A cash generating unit ("CGU") represents the smallest identifiable group of assets that generates cash inflows from continuing activities and that are largely independent of the cash inflows from other assets or group of assets.

The recoverable amount of an asset is defined as the higher of its fair value less costs to sell and its value in use. The value in use is calculated based on discounted future cash flows. Considerable management judgment is necessary to estimate future cash flows.

If an asset or CGU is considered to be impaired, the impairment recognized is measured as the amount by which the carrying value exceeds the recoverable amount.

Combined Management Report

If the recoverable amount of a CGU is less than the carrying value, the impairment is allocated pro rata to the assets recorded within the scope of IAS 36 therein. An impairment loss recognized in prior periods for an asset is reversed insofar as, since the last impairment, a change in the underlying assumptions has occurred, which leads to a lower impairment requirement. The maximum possible reversal of an impairment loss is that which would lead to the carrying amount that would have been determined (net of scheduled depreciation and amortization) if no impairment loss had been recognized for that asset in prior years.

Goodwill

Goodwill acquired in a business combination is the excess of the consideration transferred for the acquisition of control over the business over the net fair value of acquired, separately identifiable, assets and assumed liabilities as of the date of acquisition. Goodwill is allocated to the CGUs or groups of CGUs that will benefit from the synergies generated by the business combination.

Acquired goodwill is only impaired if there is evidence of impairment. Its value is tested at Infineon at the operating segment level for possible impairment annually as of 30 June and, additionally, whenever there are events or changes in circumstances that indicate that the carrying amount may not be recoverable. The recoverable amount is the higher of the fair value less costs to sell and the value in use. If the carrying amount of the respective operating segment to which the goodwill is allocated exceeds the recoverable amount of this CGU, the goodwill is impaired accordingly. The reversal in subsequent periods of such impairments is not permitted.

Leases (IAS 17; relevant until 30 September 2019)

Infineon is a lessee of property, plant and equipment that was classified as operating and finance leases according to IAS 17 "Leases". In the case of operating lease contracts, rental costs were allocated on a straight-line basis over the term of the lease.

Leases (IFRS 16; relevant since 1 October 2019)

IFRS 16 defines a lease as a contract that conveys the right to use an identifiable asset over a specified period of time in exchange for consideration.

At the beginning of a lease Infineon capitalizes a right of use and recognizes as a liability a corresponding leasing liability, each using the present value of the outstanding lease payments. Rights of use are amortized on a straight-line basis over the expected useful life (see "Property, plant and equipment"), or over the duration of the contract if shorter. In subsequent valuations, leasing liabilities are measured at the current value of the outstanding lease payments using the effective interest method and are presented as lease liabilities (short and long-term).

The costs associated with leasing agreements with a term of not more than twelve months (provided they do not contain an option to purchase), as well as leasing agreements in which the value of the underlying asset in the leasing contract is small, are recorded in the profit or loss on a straight-line basis in the functional costs. As a general rule, leased assets with a value of up to \in 5,000 are defined as a low-value asset.

Defined benefit pension plans

The net pension obligation recognized in respect of defined benefit pension plans comprises the present value of the defined benefit obligation (DBO) at the end of the reporting period less the fair value of the plan assets. The present value of the DBO and the resulting pension expense are determined annually in accordance with IAS 19

"Employee Benefits" for each separate plan by independent, qualified actuaries using the projected-unit-credit method. The calculation is subject to, among other things, assumptions on increases in salaries, future developments in pensions as well as the life expectancy of the beneficiaries. As of the balance sheet date, the obligations are discounted using discount rates determined on the basis of market yields of high-grade, fixed-interest corporate bonds from issuers carrying a very high credit rating.

All items of income and expense relating to defined benefit plans, with the exception of the net interest result, are recognized on a net basis in the functional costs within the operating result. The net interest result arising from the multiplication of the net pension obligation (pension obligation less plan assets) by the discount rate is presented as financial expense. Actuarial gains and losses arising from changes to actuarial assumptions and estimates as well as the difference between the normalized and actual return on plan assets are recognized directly in equity and recorded in the Consolidated Statement of Comprehensive Income in the periods in which they arise. Past service costs are recognized immediately in profit or loss.

Provisions

Provisions are recognized for present legal and/or constructive obligations arising from past events that are likely to result in a future outflow of resources, the amount of which can be reliably estimated.

With regard to legal proceedings and litigation, for example those connected with the Qimonda insolvency, Infineon regularly assesses the probability of an unfavorable outcome. Infineon records provisions and liabilities, including provisions for significant legal costs, for those obligations and risks relating to legal disputes which it assesses at the relevant reporting date are likely to occur. That is where, from Infineon's perspective at the date of assessment, there is compelling evidence which indicates an obligation or risk, and the obligation or risk can be quantified with reasonable accuracy

at the time of assessment. As soon as additional information is available, the affected estimates are reviewed and, where necessary, provisions for these proceedings are revised.

Provisions are measured at their expected settlement amount. The amount recognized for a provision is the best estimate of the expenditure required to settle the present obligation. Estimates of outcomes and financial effects are dependent upon the judgment of management, supplemented by experience gained from similar transactions and, where appropriate, the assessment of independent experts. If the circumstances to be assessed encompass a large number of possible outcomes, the obligation is estimated by weighting all possible outcomes by their associated probabilities (expected value method).

Where cash flows are expected to arise after the next twelve months, the expected settlement amount corresponds to the present value of the expected cash outflows. Discounting is only carried out if the interest effect is significant.

If the obligation decreases because of a change in the estimate, the provision is adjusted accordingly and the resulting income recognized in the same functional area of the Consolidated Statement of Profit or Loss in which the original charge was recognized.

Contingent liabilities

Contingent liabilities are either possible obligations whose actual existence is dependent on the occurrence of one or more uncertain future events not wholly within the control of Infineon, or they are present obligations that will probably not result in the outflow of resources or whose outflow of resources cannot be quantified reliably. Contingent liabilities are not recognized in the Statement of Financial Position, instead they are disclosed and described in the Notes to the Consolidated Financial Statements (see note 24, D p. 192, and note 25, D p. 192 ff.).

Revenue recognition

Infineon generates revenues mainly from the sale of semiconductor products and related system solutions. Revenue is recognized when control over the products is transferred to the customers in accordance with IFRS 15 (power of disposal), and where the receipt of consideration from the customer is probable. Typically, Infineon's customer contracts only contain one performance obligation which is fulfilled either over a period of time or at a specific point in time. For sales of customer-specific products with no alternative use for Infineon, for which Infineon has a legal right to payment for services rendered prior to delivery, revenue is recognized over time. Performance progress is determined using an input-based method and is based on the ratio of costs already incurred to the estimated total cost. Where revenue from the sale of products is not realized on an over time basis, revenue is generally recognized upon delivery, since customers cannot derive material benefits from the products before this point in time. The recognition of revenue for deliveries into consignment warehouses depends on the individual contractual arrangement. If, due to the lack of a contractual obligation on the part of the customer, the power of control initially remains with Infineon, revenue is recognized when the products are taken from the consignment warehouse by the customer. Earlier revenue recognition at the point of delivery into the consignment warehouse takes place in cases where the customers have contractual power of control over the products at the point of delivery. Accordingly, in such cases a contract asset is recorded.

Invoices for sales of product are issued at the time of delivery or withdrawal by the customer from the consignment warehouse, and have a short payment term. The amount of revenue corresponds to the expected transaction price to be received by the customer.

The transaction price can include variable components such as rebates or discounts. Infineon can reliably estimate these in accordance with the contractual agreements and historical experience. Variable consideration is only taken into account in so far as it is highly probable that there will be no significant reversal of the revenue. If Infineon expects that the consideration received from the customer is to be reimbursed due to subsequent discounts, a reimbursement obligation is recognized, which is disclosed as other current liabilities.

Infineon recognizes revenue for deliveries to distributors by using the "sell in" method, that is when a product is sold to the distributor, to the extent that revenue has not already been recognized on an over time basis. The transaction price for sales to distributors in particular contains variable components. Distributors can, in accordance with established business practices in the semiconductor industry, under certain circumstances apply for price protection. This allows distributors to receive a credit (debit) note for unsold products held in inventory, where Infineon has reduced (increased) the standard list price of certain products. In addition, in certain cases and for certain products, distributors may request a ship and debit credit note for price adjustments. As with all product sales, Infineon recognizes revenue based on the transaction price and, in the period in which relevant sales are realized, records a reimbursement obligation for the consideration to be reimbursed to the customer, which is included in other current liabilities. The determination of the transaction price in the case of ship and debit is based on rolling historical price trends in the difference between contract prices and standard list prices to the distributors. The determination of the transaction price in the case of price protection takes into account current list prices and the relevant distributors' inventory on hand. The availability of detailed distributor inventory data, the transparency of pricing for standard products and the long distributor pricing history enable Infineon to reliably estimate the adjustments for price protection and ship and debit credit notes at the end of the reporting period.

Distributors can, subject to certain conditions, return a limited amount of inventory (stock return) or request scrap allowances. The estimation of the transaction price is based on the expected stock returns in accordance with the contractual agreement, combined with historical experience. Distributor scrap allowances are taken into account when determining the transaction price based on the contractual agreement and, upon submission of a valid claim, are granted up to a certain maximum based

Business focus and strategy

Combined Management Report

Further information

160

on turnover in a given period. Infineon monitors such product returns on an ongoing basis and adjusts estimate assumptions accordingly. In the case of both stock return and scrap allowances, the consideration to be refunded to the customer is recognized as a reimbursement obligation within other current liabilities. Other returns are only permitted for quality defects within the ordinary warranty period.

The additional costs of a contract initiation are immediately recognized as an expense as soon as they arise, providing the otherwise resulting depreciation period would not exceed one year. Costs of the performance of the contract are capitalized at the earliest when an expected, specifically identifiable contract exists.

Cost of goods sold

Cost of goods sold includes the manufacturing costs of products sold during the reporting period. In addition, cost of goods sold contains idle costs, inventory risks, the cost of warranty cases, as well as the amortization of capitalized development costs. Recognized foreign currency effects as well as changes in the fair value of undesignated derivative financial instruments that are connected to the operating business are recognized in cost of goods sold.

Research and development expenses

Costs of research activities are expensed as incurred. Costs for development activities, the results of which lead to a plan or design for the production of new or substantially improved products or process improvements, are capitalized if the development costs can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable and Infineon intends, and has sufficient resources, to complete development and use or sell the asset. The costs capitalized include the cost of materials, direct labor and directly attributable general overhead expense that serves to prepare the asset for use. Such capitalized costs are presented as internally generated intangible assets within "Other intangible assets" (see note 14, D p. 174 ff.). Development costs, which do not fulfill the criteria

for capitalization, are expensed as incurred. Capitalized development costs are stated at cost less accumulated amortization and impairment charges. After the completion of the development phase and following the ramp-up of production, internally generated intangible assets are amortized as part of cost of goods sold over a period of three to ten years.

Grants

Grants are recognized when it is reasonably assured that Infineon will comply with the conditions attached to the grant, and it is reasonably assured that the grant will be received. Investment-related grants are deducted from the purchase and production cost of the related asset and thereby reduce depreciation and amortization expense in future periods.

Grants that are related to expenses are presented as a reduction of the related expense in the Consolidated Statement of Profit or Loss (see note 4, Dp. 165).

Current and deferred taxes

The current tax expense is calculated in accordance with taxation provisions in force at the end of the reporting period.

Deferred taxes are calculated on temporary differences between the tax base and the book value of assets and liabilities, and on tax losses available for carry-forward and tax allowances. By contrast, no deferred tax is recognized on initial recognition of goodwill arising in connection with a business combination. Similarly, deferred taxes are not recognized on the initial recognition of an asset or liability in connection with a transaction that is not a business combination and which, at the time of the transaction, affects neither the pre-tax income according to IFRS nor taxable profit. Deferred tax assets and liabilities are measured using applicable tax rates and laws that have been enacted by the end of the reporting period or are about to be enacted, and are to be applied when the related deferred tax asset is realized or the deferred tax liability is settled.

Deferred tax assets in respect of deductible temporary differences, tax loss carryforwards and tax allowances which exceed deferred tax liabilities in respect of taxable temporary differences, are only recognized to the extent that it is probable that the relevant Group entity can generate sufficient taxable profit to realize the corresponding benefit. Infineon reviews deferred tax assets for impairment at every reporting date. The assessment requires management to make assumptions about future taxable profits as well as other positive and negative influencing factors. This assessment also takes into account insights from the company five-year plan as approved in the most recent fiscal year.

Deferred tax assets and liabilities are netted to the extent they relate to the same tax authority and to the same taxpayer or a group of different taxpayers who are jointly assessed for income tax purposes.

Taxes are recognized in the Consolidated Statement of Profit or Loss, with the exception of income taxes relating to items recognized directly in equity or in other comprehensive income.

Tax liabilities are recognized as short-term in accordance with IAS 1.69(d), as they are due immediately and Infineon generally has no option of deferring their due date.

For uncertain tax positions a current tax liability is recorded or, in case of a tax loss carried forward or a tax allowance, the respective deferred tax asset is reduced accordingly. IFRIC 23 clarifies the recognition and valuation requirements of IAS 12 where there is uncertainty about tax treatment. Estimates and assumptions must be made for the recognition and valuation, for example whether an assessment is made separately or together with other uncertainties, whether a probable or expected value is used for the uncertainty, and whether changes have occurred compared to the previous period. The detection risk for the recognition of uncertain tax positions

is not significant. Recognition assumes that the tax authorities investigate the matters in question and that they have all relevant information.

Estimates and assumptions

The preparation of financial statements in accordance with IFRS requires management to make estimates and assumptions that have an impact on the presented amounts and the associated disclosures.

Estimates and assumptions undergo regular review and must be adjusted where appropriate.

Although these estimates and assumptions are applied by management to the best of its knowledge based on current events and circumstances, actual events may result in deviations from these estimates. This applies in particular against the background of the coronavirus pandemic, which is causing distortions in global supply chains, markets and general economic trends. Developments in the wake of the pandemic are dynamic, so it cannot be ruled out that the actual results deviate significantly from the estimates and assumptions made in the preparation of these Consolidated Financial Statements, or that the estimates and assumptions made will have to be adjusted in future periods and this will have a significant impact on Infineon's financial position, results of operations and cash flows.

Areas containing estimates and assumptions and that are consequently most likely to be affected when actual results vary from estimates and assumptions are:

- > Recognition and measurement at fair value of acquired assets resulting from the Cypress purchase price allocation (see note 3, 🗅 p. 162 ff.),
- > recognition and recoverability of deferred tax assets as well as uncertain tax positions (see "Current and deferred taxes", D p. 160 f., and note 6, D p. 168 ff.),

162

- > valuation of inventory (see "Inventories", D p. 155, and note 11, D p. 173),
- revenue recognized over time as well as revenue where the transaction price includes a variable component (see "Revenue recognition", D p. 159 f., and note 12, D p. 173),
- > the recoverability of non-financial assets, in particular goodwill (see note 14,
 □ p. 174 ff., and note 15, □ p. 176 f.),
- recognition and valuation of provisions (see "Provisions", p. 158, note 18, p. 181, and note 25, p. 192 ff.) and
- valuation of defined benefit pension plans (see "Defined benefit pension plans",
 p. 157 f., and note 20, p. 182 ff.).

All assumptions and estimates are based on the circumstances and assessments as of the balance sheet date, and taking into account knowledge gained up to the approval by the Management Board of the Consolidated Financial Statements on 20 November 2020.

3 Acquisitions

Acquisition of 100 percent of the shares in Cypress Semiconductor Corporation

On 16 April 2020 Infineon acquired 100 percent of the shares of Cypress Semiconductor Corporation (Cypress) based in San José, California (USA).

With the acquisition of Cypress, Infineon is strengthening its focus on structural growth drivers and serving an even broader range of applications. Cypress has a differentiated portfolio of microcontrollers, memories for specific applications as well

as software and connectivity solutions that are complementary to Infineon's existing portfolio of power semiconductors, sensors, and security solutions. The combination enables totally new solutions for high-growth applications such as electric drives, battery-powered devices, power supplies and household devices. In automotive semiconductors, the expanded portfolio of microcontrollers and NOR flash memory ICs offers great potential, particularly in the areas of driver assistance systems, digital display systems and infotainment. The combination of Infineon's security expertise and Cypress' connectivity know-how will accelerate entry into new IoT applications in the industrial and consumer segments.

The fair values of each major class of considerations at the acquisition date are summarized below:

€	in	mil	lions	

Cash	8,219
Obligation from the conversion of granted share-based payments into fix cash-settled grants	172
Realized gains from hedging transactions (see note 28, 🗅 p. 203)	(137)
Total consideration transferred (purchase price)	8,254

As a result of the purchase price allocation which, is for the most part based on the fair values of the assets acquired and liabilities assumed, besides inventories and property, plant and equipment, especially intangible assets such as technologies, customer relations and brands as well as a goodwill were recognized. The main assumptions made in the context of the purchase price allocation concerned the development of revenue and margins in the business planning of the acquired business, the expected synergies and the cost of capital.

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The following table shows the preliminary allocation of the purchase price to acquired assets and assumed liabilities as of the acquisition date:

entimations	
Cash and cash equivalents	789
Trade receivables	189
Inventories	525
Current income tax receivables	8
Contract assets	1
Other current assets	87
Property, plant and equipment	588
Other intangible assets	3,108
Right-of-use assets	39
Investments accounted for using the equity method	32
Non-current income tax receivables	13
Deferred tax assets	9
Other non-current assets	67
Total assets	5,455
Short-term financial debt and current portion of long-term financial debt	1,335
Trade payables	162
Current provisions	24
Current income tax payables	215
Current leasing liabilities	10
Other current liabilities	427
Pension plans and similar commitments	20
Deferred tax liabilities	361
Non-current provisions	6
Non-current leasing liabilities	30
Other non-current liabilities	41
Total liabilities	2,631
Net assets acquired	2,824
Goodwill	5,430
Consideration transferred (purchase price)	8,254
Paid in cash as of 30 September 2020	8,222

The goodwill of €5,430 million arising from the Cypress acquisition, which is originally denominated in US dollars, is primarily attributable to synergies, expected cost benefits from economies of scale, revenues from the future technology and customer portfolio, and the know-how of the workforce. Goodwill is not deductible for tax purposes.

Due to the on-going operational integration of Cypress into the existing Group and any possible resulting findings about circumstances that already existed at the date of acquisition, with regard to property, plant and equipment, other intangible assets, current and deferred tax and contingent liabilities the amounts initially recognized may be subject to adjustments and should be considered to be provisional.

The costs associated with the acquisition for the implementation of the business combination, mainly legal expenses, bank commissions and other consulting expenses, were recognized in other operating expenses and amounted to \notin 41 million. The transaction costs directly attributable to the loans contracted on completion of the Cypress acquisition (see note 17, \square p. 179 f.) amounted to \notin 32 million. These are allocated over the term of the loans using the effective interest method and were recognized in financial expenses in the amount of \notin 22 million in the 2020 fiscal year.

The gross carrying amount of trade receivables acquired at the date of acquisition was €189 million and was essentially in line with fair value.

Cypress's revenue and earnings, which have been included in the Consolidated Statement of Profit or Loss for the reporting period since the date of acquisition, were as follows:

€ in millions

Revenue	857
Income after tax	(189)

Combined Management Report

Cypress' result after tax was significantly impacted by acquisition-related depreciation **4** No

and amortization, in particular of other intangible assets identified as part of the purchase price allocation, and other expenses (see also segment reporting in note 30, \square p. 215).

If Cypress had already been acquired and consolidated as of 1 October 2019, Infineon would have recorded revenue of €9,596 million in the Consolidated Statement of Profit or Loss for the 2020 fiscal year. Net income would have been €230 million. This includes in particular, amortization of other intangible assets identified as part of the purchase price allocation, which, according to assumptions, would have also been effective as of 1 October 2019, and acquisition-related financing costs were also taken into account.

Cypress' business units have been fully integrated into the existing Automotive, Power & Sensor Systems and Connected Secure Systems segments.

Acquisition of 15 percent of the shares in pmdtechnologies ag

On 12 November 2019, Infineon acquired 15 percent of the shares in pmdtechnologies ag (pmd), which is based in Siegen (Germany). The shares are accounted for using the equity method in the consolidated financial statements (see note 5, p. 166 ff.). The purchase price was €44 million.

pmd develops CMOS-based 3D time-of-flight (ToF) image sensor technologies and associated algorithms and software. In addition, pmd provides engineering services for the coordination of the individual components of ToF camera systems. Infineon and pmd have already been cooperating for several years in the field of ToF for automotive and smartphone applications. With the acquisition of shares, Infineon strengthens its long-term cooperation with pmd.

4 Notes to the Consolidated Statement of Profit or Loss

Revenue

Breakdowns of revenue by segments, product groups and geographic areas are disclosed in note 30. D p. 214 and p. 216

The aggregate amount of the transaction prices of the unsatisfied and partially unsatisfied performance obligations, arising from contracts with customers within the meaning of IFRS 15 with expected original durations of more than one year, was as follows as of 30 September 2020 and 2019:

Revenue expected in (€ in millions)	Total	Less than 1 year	1 year and after
As of 30 September 2020	216	55	161
As of 30 September 2019	113	19	94

Infineon refrains from disclosing the remaining performance obligations arising from contracts with customers within the meaning of IFRS 15 with original expected durations of one year or less.

Cost of materials and purchased services as well as personnel expense

The Consolidated Statement of Profit or Loss (continuing and discontinued operations) includes the following expenses for purchased services, materials and personnel.

Expenses for materials and purchased services comprised the following in the 2020 and 2019 fiscal years:

€ in millions	2020	2019
Cost of raw materials, supplies and purchased goods	1,712	1,816
Cost of purchased services	1,975	1,653
Total (continuing and discontinued operations)	3,687	3,469

Personnel expenses comprised the following in the 2020 and 2019 fiscal years:

€ in millions	2020	2019
Wages and salaries	2,476	2,154
Social insurance levies, pension plans and similar commitments	440	399
Total (continuing and discontinued operations)	2,916	2,553

The average number of employees by geographic region was as follows for the 2020 and 2019 fiscal years:

	2020	2019
Europe	18,894	18,365
therein: Germany	12,201	11,896
Asia-Pacific (excluding Japan, Greater China)	17,818	16,826
Greater China ¹	2,218	2,087
therein: Mainland China, Hong Kong	1,967	1,927
Japan	432	203
Americas	4,438	3,943
therein: USA	2,877	2,016
Total	43,800	41,424

1 Greater China comprises Mainland China, Hong Kong and Taiwan.

Grants

Infineon has received grants from various governmental institutions under government business development programs including grants for the construction of manufacturing facilities, for research and development activities, and employee development. Grants included directly in profit or loss in the Consolidated Financial Statements during the 2020 and 2019 fiscal years were as follows:

€ in millions	2020	2019
Included in the Consolidated Statement of Profit or Loss in:		
Cost of goods sold	40	58
Research and development expenses	108	111
Selling, general and administrative expenses	4	2
Total	152	171

Of the grants totaling €152 million (2019: €171 million) included in the Consolidated Statement of Profit or Loss in the 2020 fiscal year, €132 million (2019: €124 million) related to expenses from previous years.

In the 2020 fiscal year, investment grants of €21 million (2019: €46 million) were deducted from acquisition or construction costs for property, plant and equipment and intangible assets. In the 2020 fiscal year, Infineon received investment grants of €30 million (2019: €24 million).

For compliance with the conditions attached to the grants received and potential repayment requirements in case of nonfulfillment, see note 24. D p. 192

Financial Income and expenses

Financial income comprised the following in the 2020 and 2019 fiscal years:

€ in millions	2020	2019
Interest income	29	26
Total	29	26

Financial expenses comprised the following in the 2020 and 2019 fiscal years:

€ in millions	2020	2019
Interest expenses	(130)	(62)
Other financial expenses	(47)	(36)
Total	(177)	(98)

Financial expenses included other financial expenses of €25 million in the 2020 fiscal year, as well as interest expenses of €1 million in connection with interest rate derivatives concluded to hedge future refinancing measures.

Further information on Infineon's financial income and expenses is contained in note 28. D p. 202

5 Investments accounted for using the equity method

The investments accounted for using the equity method comprise the shares in the joint ventures and associated companies listed below.

Joint Ventures

Infineon Technologies Bipolar GmbH & Co. KG

Infineon Technologies Bipolar GmbH & Co. KG (Bipolar) located in Warstein (Germany) develops and manufactures bipolar power semiconductors. Infineon accounts for the 60 percent interest using the equity method as Infineon lacks controlling influence due to certain contractual participation rights of the co-shareholder.

The investment in Bipolar is allocated to the Industrial Power Control segment.

SAIC Infineon Automotive Power Modules (Shanghai) Co., Ltd.

SAIC Infineon Automotive Power Modules (Shanghai) Co., Ltd. (SIAPM), registered in Shanghai (People's Republic of China), offers power semiconductor solutions for electric vehicles in Mainland China. Volume production is running at Infineon's site in Wuxi (People's Republic of China). Infineon holds 49 percent of the company's shares.

The investment in SIAPM is allocated to the Automotive segment.

Summarized financial information

As of 30 September 2020 and 2019, the carrying amount of joint ventures accounted for using the equity method was €21 million and €29 million, respectively. The pro rata results from joint ventures accounted for using the equity method were allocated to the segments as follows for the 2020 and 2019 fiscal years:

€ in millions	2020	2019
Segment Automotive	-	(8)
Segment Industrial Power Control	(8)	2
Total gain (loss) from joint ventures accounted for using the equity method	(8)	(6)

Combined Management Report

For the 2020 and 2019 fiscal years, Infineon's proportion of selected items from the statement of comprehensive income of the joint ventures accounted for using the equity method were aggregated as follows:

€ in millions	2020	2019
Income (loss) for the year, net of tax	(8)	(6
Other comprehensive income (loss) for the year, net of tax	-	(2
Total comprehensive income (loss) for the year, net of tax	(8)	(8

The result of the joint ventures accounted for using the equity method is not part of the segment result (see note 30, \square p. 215).

Associates

pmdtechnologies ag

pmdtechnologies ag (pmd) which is based in Siegen (Germany) develops CMOS-based 3D time-of-flight (ToF) image sensor technologies and associated algorithms and software. In addition, pmd provides engineering services for the coordination of the individual components of ToF camera systems.

The 15 percent stake held by Infineon since 12 November 2019 is accounted for by using the equity method, because Infineon has significant influence over pmd due to the right to hold a supervisory board position in combination with comprehensive minority rights and certain contractual rights in the context of development cooperation.

The investment in pmd is assigned to the Power & Sensor Systems segment.

Deca Technologies Inc.

Deca Technologies Inc. (Deca), based in George Town (Cayman Islands), licenses its intellectual property (IP) to customers and provides engineering services. Infineon has held 43 percent of the shares of the company since the acquisition of Cypress on 16 April 2020.

The investment in Deca is allocated to the Automotive segment.

SkyHigh Memory Limited

SkyHigh Memory Limited (SkyHigh), based in Hong Kong (People's Republic of China), designs, develops and markets high-performance non-volatile flash memory for the core markets of automotive, communications, digital consumers, as well as industry and medical. Infineon has held 40 percent of the shares of the company since the acquisition of Cypress on 16 April 2020.

The investment in SkyHigh is allocated to the Automotive segment.

Summarized financial information

As of 30 September 2020, the carrying amount of associates accounted for using the equity method was €66 million. The pro rata results from associates accounted for using the equity method were allocated to the segments as follows for the 2020 fiscal year:

€ in millions	2020
Segment Automotive	-
Segment Power & Sensor Systems	(1)
Total gain (loss) from associates accounted for using the equity method	(1)

For the 2020 fiscal year, Infineon's proportion of selected items from the statement of comprehensive income of the associates accounted for using the equity method were aggregated as follows:

€ in millions	
Income (loss) for the year, net of tax	(1)
Other comprehensive income (loss) for the year, net of tax	-
Total comprehensive income (loss) for the year, net of tax	(1)

Due to the acquisition of the associates during the fiscal year, information for the previous year is not applicable. The result of the associates accounted for using the equity method is not part of the segment result (see note 30, \Box p. 215).

6 Income tax

Income tax from continuing operations for the fiscal years ending 30 September 2020 and 2019 amounts to:

€ in millions	2020	2019
Current tax expense	(94)	(135)
Deferred tax income (expense)	42	(59)
Income tax	(52)	(194)

Current tax expense included tax income of €46 million (2019: €26 million tax income) relating to prior fiscal years.

Included within deferred tax income was an amount of €63 million (2019: €3 million tax expense) from the creation and reversal of temporary differences.

The German combined statutory tax rate for Infineon Technologies AG was 28 percent for the 2020 and 2019 fiscal years. This is based on a corporate income tax rate of 15 percent, plus a solidarity surcharge of 5.5 percent and a trade tax rate of 12 percent.

Taxable income earned by foreign subsidiaries is determined on the basis of the tax laws applicable in the relevant countries and is taxed based on the respective country specific tax rates. The reconciliation of income taxes from continuing operations for the fiscal years ended 30 September 2020 and 2019, based on the German combined statutory income tax rate of 28 percent (2019: 28 percent) is as follows:

€ in millions	2020	2019
Expected income tax expense	(118)	(303)
Tax rate differential	33	57
Effects due to changes in tax rates	(5)	-
Effects from the difference between local and functional currency	(14)	(11)
Prior year taxes	50	20
Non-deductible expenses	(27)	(22)
Tax-exempt income	33	37
Change in permanent balance sheet effects	(23)	7
Change in valuation allowance on deferred tax assets	(10)	(53)
Change in available tax credits	47	75
Other	(18)	(1)
Actual income taxes	(52)	(194)

"Effects due to changes in tax rates" resulted from a change in the applicable tax rate in Singapore.

The category "Other" includes a deferred tax expense of €20 million (2019: €0 million) as a result of outside basis differences in shares of subsidiaries.

In the 2020 fiscal year, the tax expense from the valuation allowances or non-recognition of deferred tax assets for tax loss carry-forwards amounted to €1 million (2019: €21 million), for tax credits to €46 million (2019: €57 million), and from temporary differences to €0 million (2019: €7 million). A write-up of deferred tax assets for tax loss carry-forwards of €37 million was recorded (2019: €8 million). With respect to the deferred tax assets for temporary differences the write-up amounted to €0 million in the 2020 fiscal year (2019: €1 million) and for tax credits €0 million (2019: €23 million).

Combined Management Report

The utilization of tax loss carry-forwards, tax credits and temporary differences for which deferred tax assets had not previously been recorded resulted in current tax income of €5 million in the 2020 fiscal year (2019: €6 million).

Deferred tax assets and liabilities as of 30 September 2020 and 2019 comprised the following:

	30 Septen	30 September 2020 30 Septe		ber 2019	Change	
€ in millions	Deferred tax assets	Deferred tax liabilities	Deferred tax assets	Deferred tax liabilities	Total	therein through profit or loss
Intangible assets	39	(740)	39	(206)	(534)	22
Property, plant and equipment	162	(129)	152	(17)	(102)	(34)
Provisions, pension plans and similar commitments	273	(173)	161	(170)	109	33
Tax loss carry-forwards	606	-	393	_	213	19
Unused tax credits and excess foreign tax credits	184	_	123		61	(11)
Other	166	(54)	143	(39)	8	13
Total deferred taxes	1,430	(1,096)	1,011	(432)	(245)	42
Netting	(803)	803	(412)	412	-	-
Total	627	(293)	599	(20)	(245)	42

In Germany, Infineon Technologies AG accumulated corporate income tax loss carry-forwards of €1.5 billion and trade tax loss carry-forwards of €2.7 billion as of 30 September 2020 (30 September 2019: €1.5 billion and €2.6 billion, respectively).

In other jurisdictions, corporate income tax loss carry-forwards amounted to €717 million (30 September 2019: €31 million) and local income tax loss carry-forwards amounted to €287 million (30 September 2019: €26 million). Additionally, there were

unused tax credits and excess foreign tax credits of €596 million (30 September 2019: €413 million).

Infineon assessed the need for a valuation allowance of its deferred tax assets. Based on the results of such assessment, considering all positive and negative factors and information relating to the foreseeable future based on business plans, Infineon recognized deferred tax assets, after netting, of €627 million as of 30 September 2020 (30 September 2019: €599 million).

Deferred tax assets in the amount of €408 million were recognized for legal entities which have incurred tax losses this fiscal year. In the prior fiscal year, those entities recorded deferred tax assets in the amount of €345 million. Such tax losses primarily incurred due to extraordinary items with respect to the acquisition of Cypress this fiscal year. It is expected that these legal entities based on company forecast incur positive taxable results in the next years. Special considerations are given to unforeseen items that could impact these results.

No deferred taxes were recorded for the following items (gross amounts):

€ in millions	2020	2019
Tax loss carry-forwards (corporate tax and corporate tax-like loss carry-forwards)	58	98
Tax loss carry-forwards (local income tax, particularly German trade tax and US state taxes)	1,129	1,219
Tax credits	412	290
Temporary differences	651	547

Of the corporate tax-like loss carry-forwards, for which no deferred tax assets were recognized, €18 million (2019: €0 million), of the local income tax loss carry-forwards €5 million (2019: €0 million) and of tax credits €0 million (2019: €2 million) will expire in the next five years.

The change in the net amount of deferred tax assets and liabilities is as follows:

€ in millions	2020	2019
Deferred taxes, net as of the end of the previous fiscal year	579	639
Deferred tax income (expense), recognized through income statement:		
From continuing operations	42	(59)
From discontinued operations	-	1
Change of deferred taxes, recognized directly in equity:		
Deferred tax arising from business acquisitions	(352)	(7)
Deferred taxes recognized directly in equity	27	-
Deferred taxes recognized in other comprehensive income	20	11
Foreign currency translation	21	-
Adjustment on initial application of IFRS 9 and IFRS 15	(3)	(6)
Deferred taxes, net as of the end of the fiscal year	334	579

In connection with investments in subsidiaries there were taxable temporary differences of €544 million (2019: €610 million) for which no deferred taxes have been recognized because the timing of the reversal can be controlled and it is not probable that the temporary differences will reverse in the foreseeable future.

Including the items recognized directly in equity, in other comprehensive income and the expense/benefit from continuing and discontinued operations, the income tax consisted of the following:

€ in millions	2020	2019
Income taxes from continuing operations	(52)	(194)
Income taxes from discontinued operations	-	6
Income taxes recognized directly in equity	25	(3)
Income taxes recognized in other comprehensive income	21	18
Income taxes	(6)	(173)

The increase of income taxes recognized in other comprehensive income mainly resulted from tax effects of &27 million (2019: &7 million) from realized and non-realized gains and losses from hedges offset by taxes on actuarial gains and losses arising from pension commitments of &6 million (2019: increase &15 million). Income taxes recognized directly in equity were the result of tax effects in connection with the capital increase, the issuance and compensation in connection with hybrid capital as well as tax effects from reversal of valuation allowances on deferred tax assets resulting from capital measures in prior years.

7 Disposals and discontinued operations

Qimonda – discontinued operations

On 23 January 2009, Qimonda AG ("Qimonda"), a majority-owned company, filed an application at the Munich Local Court to commence insolvency proceedings. On 1 April 2009, the insolvency proceedings formally opened. Insolvency proceedings were also opened for further domestic and foreign subsidiaries of Qimonda. Some of these insolvency proceedings have already been completed. The impacts of these proceedings are reported as discontinued operations in Infineon's Consolidated Statement of Profit or Loss and Consolidated Statement of Cash Flows, to the extent that the underlying events occurred before the commencement of insolvency proceedings.

The current risks and provisions relating to Qimonda's insolvency are described in note 25 "Proceedings in relation to Qimonda". D p. 193 f.

In the 2020 and 2019 fiscal years, adjustments to individual provisions arose as a result of recent developments in connection with the insolvency of Qimonda, as well as subsequent income from other discontinued operations.

Loss from discontinued operations, net of income taxes

€ in millions	2020	2019
Qimonda's share of discontinued operations, net of income taxes	(4)	(24)
Others business' share of discontinued operations, net of income taxes	-	5
Loss from discontinued operations, net of income taxes	(4)	(19)

8 Earnings per share

Basic earnings per share are calculated by dividing net income by the weighted average number of shares outstanding during the reporting period. The calculation of the diluted earnings per share is based on the assumption that all potentially dilutive instruments are converted into ordinary shares, resulting in a corresponding increase in the number of shares.

The hybrid bond issued in the 2020 fiscal year is classified as equity (see note 21, p. 188 f.). The related hybrid investors' remuneration entitlement (after tax) represents payments for a component of equity that reduces the earnings available to shareholders for distribution and was therefore taken into account in determining earnings per share (undiluted and diluted). Basic and diluted earnings per share are calculated as follows for the fiscal years ended 30 September 2020 and 2019:

€ in millions (unless otherwise stated)	2020	2019	
Net income – basic and diluted	368	870	
Remuneration entitlement of hybrid capital investors ¹	35	-	
Net income attributable to shareholders of Infineon Technologies AG – basic and diluted	333	870	
thereof from continuing operations	337	889	
thereof from discontinued operations	(4)	(19)	
Weighted-average number of shares outstanding (in millions):			
– Ordinary share capital	1,269.8	1,169.4	
– Adjustment for own shares	(5.3)	(6.0)	
Weighted-average number of shares outstanding – basic	1,264.5	1,163.4	
Adjustments for:			
– Effect of share-based compensation	1.0	1.4	
Weighted-average number of shares outstanding – diluted	1,265.5	1,164.8	
Basic and diluted earnings per share ² (in euro):			
Earnings per share (in euro) from continuing operations	0.26	0.77	
Earnings per share (in euro) from discontinued operations, net of income taxes	-	(0.02)	
Earnings per share (in euro) – basic and diluted	0.26	0.75	

1 Including the cumulative tax effect.

2 The calculation of earnings per share is based on unrounded figures.

9 Financial investments

Financial investments comprise fixed-term deposits with banks and investment funds. Fixed-term deposits with banks are measured at amortized cost and are categorized as financial assets. Investment funds are measured at fair value through profit or loss and categorized as financial assets (for valuation see note 28, \Box p. 198).

Financial investments as of 30 September 2020 and 2019 comprised the following (see note 2, 🗅 p. 152 ff., and note 28, 🗅 p. 198):

€ in millions	30 Septem- ber 2020	30 Septem- ber 2019
Fixed-term bank deposits	600	571
Investment funds	777	2,187
Financial investments, gross	1,377	2,758
Loss allowances	(1)	-
Financial investments, net	1,376	2,758

The impairment losses on financial investments that are measured at amortized cost changed as follows during the 2020 and 2019 fiscal years:

€ in millions	2020	2019
Allowances at beginning of the fiscal year	-	2
Revaluation of allowances, net	1	(2)
Allowances at end of the fiscal year	1	-

Information on Infineon's credit risk management is contained in note 29. D p. 210 f.

10 Trade receivables

Trade receivables result from contracts with customers that are due within one year. As of 30 September 2020 and 2019 they consisted of the following:

€ in millions	30 Septem- ber 2020	30 Septem- ber 2019
Trade receivables, third parties	1,192	1,059
Trade receivables, related parties	9	5
Trade receivables, gross	1,201	1,064
Loss allowances	(5)	(7)
Trade receivables, net	1,196	1,057

In conjunction with the integration of Cypress, the presentation of reimbursement obligations to customers was aligned with the approach previously used by Cypress. Instead of netting reimbursement obligations against trade receivables, they are now reported within other current liabilities (see note 19, 🗅 p. 181 f.). For better comparability, the previous year's figures were adjusted.

Changes in the allowances for trade receivables in the 2020 and 2019 fiscal year were as follows:

€ in millions	2020	2019
Allowances at beginning of the fiscal year	7	7
Current year's allowance, net of reversals	(2)	-
Usage of loss allowances, net	-	-
Allowances at end of the fiscal year	5	7

Information about Infineon's credit risk management is contained in note 29. 🗅 p. 211

11 Inventories

Inventories as of 30 September 2020 and 2019 consisted of the following:

€ in millions	30 Septem- ber 2020	30 Septem- ber 2019
Raw materials and supplies	215	205
Work in progress	1,341	1,093
Finished goods and merchandise	496	403
Total	2,052	1,701

Cost of goods sold consisted mainly of inventory-related expenses in the 2020 and 2019 fiscal years.

As of 30 September 2020 and 2019 finished goods and merchandise contained an asset resulting from sales with a right of return of €13 million and €7 million, respectively.

Inventory write-downs as of 30 September 2020 and 2019 amounted to €252 million and €198 million, respectively.

12 Contract assets

In the 2020 fiscal year, contract assets increased by €6 million to €97 million (1 October 2019: €91 million). The increase resulted from an increase in contract assets relating to revenue recognized over time.

13 Other current assets

Other current assets as of 30 September 2020 and 2019 consisted of the following:

€ in millions	2020	2019
VAT and other receivables from tax authorities	167	171
Prepaid expenses	92	92
Grants receivables	71	88
Derivative financial instruments (see note 28, 🗅 p. 202 ff.)	3	215
Other	197	204
Total	530	770

174

14 Property, plant and equipment and other intangible assets

The development of property, plant and equipment as well as other intangible assets for the years ended 30 September 2020 and 2019 was as follows:

Cost								Depreciation/amortization						Carrying amount	
€ in millions	1 October 2019	Additions	Additions through business combi- nations ¹	Disposals	Reclassi- fication	Foreign currency effects	30 Sep- tember 2020	1 October 2019	Depre- ciation/ amor- tization	Disposals	Impair- ments/ reversals of impair- ments	Foreign currency effects	30 Sep- tember 2020	30 Sep- tember 2020	30 Sep- tember 2019
Property, plant and equipment															
Land, land rights and buildings	1,660	54	278	(1)	36	(31)	1,996	(885)	(55)	1	11	7	(921)	1,075	775
Technical equipment and machinery	9,652	285	299	(84)	228	(52)	10,328	(7,602)	(698)	84	_	27	(8,189)	2,139	2,050
Other plant and office equipment	1,311	78	-	(50)	19	(9)	1,349	(1,151)	(110)	50	-	7	(1,204)	145	160
Payments on account and construction in progress	525	507	11	(1)	(283)	(6)	753	-	_	_	(2)		(2)	751	525
Total property, plant and equipment	13,148	924	588	(136)	_	(98)	14,426	(9,638)	(863)	135	9	41	(10,316)	4,110	3,510
Other intangible assets															
Capitalized development costs	894	158	-	(18)	-	(1)	1,033	(351)	(56)	18	(4)	-	(393)	640	543
Customer relationships	406	-	998	-	-	(83)	1,321	(276)	(131)	-	-	11	(396)	925	130
Technologies	338	-	2,011	_	-	(159)	2,190	(188)	(125)	-	-	17	(296)	1,894	150
Licenses and similar rights	260	26	3	(12)	-	(1)	276	(192)	(23)	12	-	2	(201)	75	68
Remaining other intangible assets	18	-	96	-	-	(9)	105	(13)	(6)	-	-	1	(18)	87	5
Other intangible assets	1,916	184	3,108	(30)	_	(253)	4,925	(1,020)	(341)	30	(4)	31	(1,304)	3,621	896

1 The amounts shown under "Additions through business combinations" resulted exclusively from the acquisition of Cypress.

		Cost						Depreciation/amortization					Carrying amount		
€ in millions	1 October 2018	Additions	Additions through business combi- nations	Disposals	Reclassi- fication	Foreign currency effects	30 Sep- tember 2019	1 October 2018	Depre- ciation/ amor- tization	Disposals	Impair- ments/ reversals of impair- ments	Foreign currency effects	30 Sep- tember 2019	30 Sep- tember 2019	30 Sep- tember 2018
Property, plant and equipment															
Land, land rights and buildings	1,593	43	-	(4)	23	5	1,660	(822)	(63)	3	-	(3)	(885)	775	771
Technical equipment and machinery	8,845	627	1	(118)	282	15	9,652	(7,069)	(635)	114	-	(12)	(7,602)	2,050	1,776
Other plant and office equipment	1,248	103	-	(68)	24	4	1,311	(1,109)	(106)	67	-	(3)	(1,151)	160	139
Payments on account and construction in progress	352	502	-	(1)	(329)	1	525	_	-	-	-	_	-	525	352
Total property, plant and equipment	12,038	1,275	1	(191)		25	13,148	(9,000)	(804)	184	_	(18)	(9,638)	3,510	3,038
Other intangible assets															
Capitalized development costs	769	125	-	-	-	-	894	(294)	(57)	-	_	_	(351)	543	475
Customer relationships	396	-	-	(1)	-	11	406	(229)	(43)	1	-	(5)	(276)	130	167
Technologies	288	-	35	-	_	15	338	(151)	(28)	-	_	(9)	(188)	150	137
Licenses and similar rights	227	31	-	(1)	-	3	260	(180)	(12)	1	-	(1)	(192)	68	47
Remaining other intangible assets	18	-	-	-	-	-	18	(12)	(1)	-	-	-	(13)	5	6
Other intangible assets	1.698	156	35	(2)	_	29	1.916	(866)	(141)	2	_	(15)	(1.020)	896	832

Combined Management Report

Further information

Depreciation on property, plant and equipment is presented in the Consolidated Statement of Profit or Loss mainly in cost of goods sold. Amortization of intangible assets is mainly presented in cost of goods sold or selling, general and administrative expenses. Impairments on property, plant and equipment and other intangible assets are reported under other operating expenses.

Property, plant and equipment of €182 million as of 30 September 2020 (30 September 2019: €186 million) served mainly as collateral for the existing financing arrangements of MoTo Objekt CAMPEON GmbH & Co. KG ("MoTo"), which were repaid on 16 October 2020 (see note 17, 🗅 p. 180).

15 Goodwill

Changes in goodwill during the 2020 and 2019 fiscal years were as follows:

€ in millions	2020	2019
Cost		
Balance at the beginning of the fiscal year	909	764
Additions through business combinations	5,430	95
Foreign currency effects	(442)	50
Balance at the end of the fiscal year	5,897	909
Accumulated impairments and other changes		
Balance at the beginning of the fiscal year	-	-
Balance at the end of the fiscal year	-	-
Carrying amount		
Balance at the beginning of the fiscal year	909	764
Balance at the end of the fiscal year	5,897	909

The amounts shown in the 2020 fiscal year under "acquisitions through business combinations" resulted exclusively from the acquisition of Cypress.

Infineon carried out the annual goodwill impairment test at the operating segment level as of 30 June 2020.

Infineon determines the recoverable amount of a particular cash generating unit to which goodwill has been allocated on the basis of its value in use. The value in use is measured by estimating the present value of future cash flows that will be generated by the continuing operations of the CGU discounted using an appropriate discount rate.

Cash flows, including the underlying parameters such as revenue growth and gross margin, are projected based on past experience, current operating results and the five-year business plan approved in the fiscal year just ended. The plan is calculated bottom-up based on certain central assumptions applied consistently throughout Infineon. The average revenue growth rates over the planning period are between 8.0 percent and 21.7 percent, which is partly higher than the average historical growth rates of the sectors in which the relevant segments operate, in particular because the segments benefit to varying degrees from the businesses acquired along with Cypress and the related revenue and costs synergies. Investments to increase capacity for which no cash outflow has taken place are not taken into account. Cash flows for periods beyond the planning horizon are estimated using a terminal value.

The discount rate for future cash flows is based on the after-tax weighted average cost of capital ("WACC") for the CGU in question. The Capital Asset Pricing Model ("CAPM") is used to calculate the cost of equity. The relevant pre-tax WACC used to discount future pre-tax cash flows in line with IAS 36, is derived from estimated future after-tax cash flows and the after-tax WACC using a typical tax rate for each reporting segment. The risk-free interest rate is derived using the Svensson method taking into account risk premiums, and the beta factor and debt ratio are derived from a group of companies comparable to the operating segment. In this way the discount rate derived reflects the current market rate of return as well as the specific risks attached to the respective operating segment.

The following table shows the allocation of the carrying amount of goodwill to the segments, as well as the valuation parameters used:

	Book value of al € in m	located goodwill illions	Pre-tax ir	< WACC ¹ 1 %	After-ta in	x WACC ¹ %	Terminal growth rate ¹ in %	
Segment	2020	2019	2020	2019	2020	2019	2020	2019
Automotive	1,402	52	10.9	11.7	8.6	8.9	1.5	1.5
Industrial Power Control	226	100	11.9	12.1	9.1	9.2	1.5	1.5
Power & Sensor Systems	1,679	755	12.3	13.2	9.5	10.1	1.5	1.5
Connected Secure Systems	2,588	n/a	10.7	n/a	8.7	n/a	1.5	n/a
Corporate	2	2						
Total	5,897	909						

1 Valuation parameters as of 30 June 2020 and 2019.

As a result of the impairment tests carried out, Infineon concluded that none of the operating segments gave rise to an impairment of goodwill in the year under report.

Business planning is affected, among other things, by uncertainties regarding the assessment of markets and the macroeconomic environment and is based to a large extent on the assumption that the revenue and cost synergies expected from the acquisition of Cypress will be successfully realized. Therefore, sensitivity analyses were carried out at segment level, taking into account changes considered possible

in the main assumptions. Even taking these changes into account, no impairment on goodwill was observed as a result of the sensitivity analyses at segment level.

In addition, as of the reporting date, there was no indication that the recoverable amount of a segment to which goodwill had been allocated could have fallen below the book value.

16 Leases

Infineon has applied the new IFRS 16 "Leases" standard since 1 October 2019. For information on the effects of the first-time application of IFRS 16 on the Group's financial position, results of operations and cash flows as of the first-time application date as well as in the 2020 fiscal year, please refer to note 1. D p. 148 ff.

The change in the rights of use in the 2020 fiscal year was as follows:

€ in millions	1 October 2019	Additions	Additions through business combi- nations ¹	Depreciation	Other changes ²	30 Septem- ber 2020
Land, land rights and buildings	240	66	32	(48)	(23)	267
Technical equipment and machinery	5	-	7	(2)	(1)	9
Other plant and office equipment	10	9	_	(6)	(3)	10
Total	255	75	39	(56)	(27)	286

1 The amounts shown under "Additions through business combinations" resulted exclusively from the acquisition of Cypress. 2 Other changes for land, land rights and buildings include impairments amounting to €11 million.

The allocation of discounted and undiscounted lease liabilities by maturity as of 30 September 2020 was as follows:

€ in millions	Discounted lease liabilities	Undiscounted lease liabilities
Due within one year	59	60
Due after one year to five years	159	172
Due after more than five years	76	85
Total	294	317

The Consolidated Statement of Profit or Loss includes the following amounts in the 2020 fiscal year, which are attributable to leases:

€ in millions	2020
Depreciation	56
Impairment	11
Interest expenses	5
Expenses for short-term leases with a term of twelve month or less	1
Expenses for low-value leases	1
Total	74

The Consolidated Statement of Cash Flows includes the following amounts in the 2020 fiscal year, which are attributable to leases:

€ in millions	2020
Payments for short-term leases and low-value leases	2
Payments for leasing liabilities	63
Interest payments	4
Total	69

Due to the requirements of IFRS 16, the following future lease payments have not been included in the valuation of lease liabilities:

€ in millions	
	options
Due within one year	1
Due after one year to five years	11
Due after more than five years	58
Total	70

179

In addition, there are future payment obligations for leases that have not been started but have already been contracted, as well as for short-term leases with a term of twelve months or less, which are immaterial.

The leasing contracts concluded relate mainly to the rental of office and storage space, IT equipment, other operating and office equipment as well as vehicles for selected employees.

Infineon's leases have no material impact on covenants connected to debt financing instruments. In addition, lease liabilities are not part of the net cash position measure used for capital market reporting purposes.

The leasing contracts, in which Infineon subleases and acts as a lessor, are not material from the Group's point of view.

The expected future minimum non-discounted lease payments from operating leases for land and buildings owned by Infineon and in which Infineon acts as lessor are as follows:

€ in millions	30 Septem- ber 2020	30 Septem- ber 2019
Due within one year	19	20
Due after one year to five years	60	62
Due after more than five years	2	15
Total	81	97

17 Financial debt

Financial debt as of 30 September 2020 and 2019 consisted of the following:

€ in millions	30 Septem- ber 2020	30 Septem- ber 2019
Short-term financial debt and current portion of long-term financial debt, weighted average interest rate: 2.01% (2019: 1.60%)	176	22
Convertible bonds, weighted average interest rate 4.50%	329	-
Short-term financial debt and current portion of long-term financial debt	505	22
Loans payable to banks:		
Unsecured loans, weighted average interest rate 1.06% (2019: 1.15%), due 2021–2023	6	11
Secured term loans, weighted average interest rate 2019: 2.03%, due 2020	-	172
Bond €500 million, coupon 1.50%, due 2022	499	498
Bond €750 million, coupon 0.75%, due 2023	746	-
Bond €750 million, coupon 1.125%, due 2026	743	-
Bond €750 million, coupon 1.625%, due 2029	740	-
Bond €650 million, coupon 2.00%, due 2032	636	-
Term loans US\$2,775 million, weighted average interest rate 1.66%, due 2022–2024	2,361	-
USPP notes US\$935 million, weighted average interest rate 4.09%, due 2024–2028	797	853
Long-term financial debt	6,528	1,534
Total	7,033	1,556

In June 2019 Infineon Technologies AG concluded the financing for the acquisition of Cypress (see note 3, D p. 162 ff.) with various national and international banks. It was unsecured, non-subordinated and comprised:

- > a bridge facility of €6,600 million with maturity of up to two years and nine months from the date of the loan commitment, and
- > three term loan tranches, each amounting to US\$1,110 million, with maturities of three, four and five years.
Combined Management Report

As a result of the capital increase with a volume of $\leq 1,545$ million in June 2019 and the issue of a hybrid bond with two tranches and a total nominal value of $\leq 1,200$ million in October 2019 (see note 21, \square p. 188 f.), the bridge financing was reduced to ≤ 3.893 million.

After the acquisition of Cypress was completed in April 2020 the remaining credit lines were drawn. Shortly thereafter the bridge financing was fully repaid by the proceeds of the accelerated capital increase in May 2020 (see note 21, \Box p. 187) and the bonds issue described below.

On 24 June 2020, Infineon Technologies AG issued non-subordinated, unsecured bonds with four tranches and a total face value of €2,900 million under its EMTN program (European Medium Term Notes), which was established for this purpose on 10 June 2020:

- > a tranche with a nominal value of €750 million, a coupon of 0.75 percent per year and due in 2023;
- > a tranche with a nominal value of €750 million, a coupon of 1.125 percent per year and due in 2026;
- > a tranche with a nominal value of €750 million, a coupon of 1.625 percent per year and due in 2029 as well as
- > a tranche with a nominal value of €650 million, a coupon of 2.00 percent per year and due in 2032.

The bonds are listed on the Luxembourg Stock Exchange.

On 28 September 2020, a portion of the term loan tranche relating to the acquisition of Cypress of US\$555 million, which was due in 2022 was repaid. As of 30 September 2020, there were term loan tranches totaling US\$2,775 million still outstanding.

The bonds with a nominal amount of €2,900 million and the term loan tranches with a total nominal value of US\$2,775 million are recognized at amortized cost after the deduction of directly attributable transaction costs.

In addition, the short-term financial debt included €329 million of convertible bonds acquired as a result of the Cypress acquisition, which are still outstanding and for which the holders of the bonds can determine the date of conversion. The conversion rights of these bonds can only be exercised against cash payment. The convertible bonds minus conversion rights are recorded at amortized cost. The conversion rights are measured at fair value through profit or loss (see note 28, p. 201).

On 16 October 2020, the secured loans of MoTo Objekt CAMPEON GmbH & Co. KG, reported as short-term financial debt as of 30 September 2020 in the amount of €171 million, were repaid.

The total lines of credit as of 30 September 2020 and 2019 are summarized in the following table:

	30	September 202	20	30 September 2019		
Term, € in millions	Aggregate facility	Drawn	Available	Aggregate facility	Drawn	Available
Short-term	245	176	69	102	22	80
Long-term	2,376	2,376	-	8,303	182	8,121
Total	2,621	2,552	69	8,405	204	8,201

As of 30 September 2019 this included the credit lines to finance the acquisition of Cypress.

Amounts of financial debt and interest maturing in the coming years were as follows:

	30 September 2020		30 September 2019	
€ in millions	Financial debt	Interest	Financial debt	Interest
Due within one year	505	121	21	46
Due after one year to five years	3,925	330	1,002	155
Due after more than five years	2,650	203	535	63
Total	7,080	654	1,558	264

18 Provisions

Current and non-current provisions as of 30 September 2020 consisted of the following:

€ in millions	1 October 2019	Addition	Acquisi- tions through business combi- nations ¹	Usage	Reversal	30 Sep- tember 2020
Obligations to employees	374	332	19	(288)	(17)	420
Warranties	26	19	5	(7)	(3)	40
Provisions related to Qimonda (see note 7, D p. 170 f., and note 25, D p. 194)	205	6	_	(5)	_	206
Other	61	27	6	(9)	(2)	83
Total provisions	666	384	30	(309)	(22)	749
thereof current	383					436
thereof non-current	283					313

1 The amounts shown under "Additions through business combinations" resulted exclusively from the acquisition of Cypress.

Obligations to employees included, among others, costs of variable compensation, outstanding vacation and flextime, service anniversary awards, other personnel costs and social security costs.

Provisions for warranties mainly represented the estimated future cost of fulfilling contractual requirements associated with products sold.

Other provisions comprised provisions for litigations (other than those relating to Qimonda), restructuring, asset retirement obligations and miscellaneous other liabilities.

Of the total provisions as of 30 September 2020 and 2019, a cash outflow of €436 million and €383 million, respectively, was expected to occur within one year. For the non-current provisions a cash outflow was expected to occur after more than one year. Besides the provisions in connection with Qimonda, €44 million and €38 million as of 30 September 2020 and 2019, respectively, of non-current provisions were attributable to length-of-service related anniversary awards.

19 Other Current Liabilities

Other current liabilities as of 30 September 2020 and 2019 consisted of the following:

€ in millions	2020	2019
Reimbursement obligations	405	169
Payroll and similar obligations to employees	221	132
Accrued interest expense	96	21
Other financial liabilities relating to interest hedging of future refinancing measures (see note 28, D p. 203 f.)	66	_
Other financial liabilities in connection with foreign currency hedging of the acquisition of Cypress (see note 28, \Box p. 199)	_	112
Other	162	141
Total	950	575

Combined Management Report

In the course of the integration of Cypress, the balance sheet treatment of reimbursement obligations to customers was aligned with the Cypress approach (see note 10, \square p. 172). Reimbursement obligations are now disclosed as part of other current liabilities. For better comparability, the previous year's figures were adjusted.

20 Pension plans

Defined benefit pension plans

Infineon's employee benefit plans consist of domestic and foreign defined benefit and defined contribution pension plans providing retirement, disability and surviving dependents' benefits. For Infineon, the significant benefit plans in Germany pertain to Infineon Technologies AG, and among the foreign benefit plans to Infineon Technologies Austria AG.

In Germany, Infineon primarily offers defined contribution benefits which provide for the employees when they reach retirement age, or in the event of disability or death. The statutory framework is provided by the Company Pension Act (in German: Betriebsrentengesetz or "BetrAVG") and by employment law in general. With the Infineon pension plan new entrants receive a defined contribution benefit, which is funded by Infineon. Payments by the Infineon pension plan are generally made in twelve annual installments. For active employees who were entitled to benefits in the form of an annuity before the Infineon Pension Plan came into force, this commitment was transferred into the Infineon Pension Plan and thereby the possibility of an annuity is guaranteed. Together with former employees whose pension benefit obligations were not transferred into the Infineon Pension Plan, this group makes up the largest part of the obligation at this time. A corresponding provision is recorded for the German defined benefit pension plans, which are partly backed by plan assets. Individual agreements are in place for the members of the Management Board, which are backed by plan assets (detailed in the chapter "Compensation report" in the Combined Management Report, D p. 130 ff.). The major portion of the plan assets is managed by a pension trust in the legal form of a registered association. This is composed of executives of Infineon Technologies AG and the investment strategy is defined by Infineon Technologies AG.

The benefit obligation of some foreign plans is measured according to the income in the last month or year of service, others are dependent on average income over the service period. Foreign pension plans are managed by country-specific external pension funds or other pension schemes. The liabilities arising from foreign defined benefit pension plans are partly covered by plan assets. The management of existing foreign plan assets is performed by the respective pension scheme.

The valuation date of both the German and foreign pension plans is 30 September.

The Group-defined benefit pension plans are exposed to risks arising from changes to actuarial assumptions such as interest rates, salary and pension trends, investment risks and longevity risks. A lower discount rate leads to higher pension liabilities. Equally lower than expected growth in plan assets could lead to a deterioration of the funded status, or require the payment of additional contributions.

183

The development of Infineon's German (domestic) and non-German (foreign) pension plans and the plan assets as of 30 September 2020 and 2019 is presented in the following table:

	2020			2019		
€ in millions	Domestic plans	Foreign plans	Total	Domestic plans	Foreign plans	Total
Change in defined benefit obligations taking into account future salary increases:						
Present value at beginning of year	(1,219)	(197)	(1,416)	(987)	(167)	(1,154)
Current service cost	(32)	(6)	(38)	(26)	(4)	(30)
Past service income (cost)	-	-	-	-	1	1
Interest cost	(7)	(4)	(11)	(17)	(5)	(22)
Actuarial gains (losses) for:						
Experience adjustments	(58)	(5)	(63)	(2)	(1)	(3)
Adjustments to demographic assumptions	-	1	1	_	(1)	(1)
Adjustments to financial assumptions	81	(5)	76	(200)	(26)	(226)
Effects from acquisitions	-	(20)	(20)	_		-
Plan settlements	-	-	-	-	3	3
Benefits paid by Infineon	22	9	31	19	6	25
Employee contributions	(4)	-	(4)	(6)		(6)
Foreign currency effects	-	6	6	-	(3)	(3)
Present value of defined benefit obligation at end of year	(1,217)	(221)	(1,438)	(1,219)	(197)	(1,416)
Change in fair value of plan assets:						
Fair value of plan assets at beginning of year	600	83	683	534	68	602
Expected return on plan assets	4	2	6	10	2	12
Actuarial gains (losses)	10	1	11	52	11	63
Acquisitions	-	3	3	-	-	-
Contributions from Infineon	18	8	26	17	6	23
Employee contributions	4	-	4	6	-	6
Benefits paid	(22)	(9)	(31)	(19)	(6)	(25)
Foreign currency effects	-	(3)	(3)	-	2	2
Fair value of plan assets at end of year	614	85	699	600	83	683
Net pension liability	(603)	(136)	(739)	(619)	(114)	(733)
thereof: Infineon Technologies AG	(552)	-	(552)	(572)		(572)
thereof: Infineon Technologies Austria AG	-	(64)	(64)		(70)	(70)

184

Pension obligations are reported in the Consolidated Statement of Financial Position under "Pension plans and similar commitments". D p. 145

Since no asset ceilings applied, the funded status of the Infineon pension plans corresponded to the amounts reported in the Consolidated Statement of Financial Position as of 30 September 2020 and 2019.

The funding of the defined benefit obligations as of 30 September 2020 and 2019 was as follows:

	30	September 20	20	30 September 2019			
€ in millions	Domestic plans	Foreign plans	Total	Domestic plans	Foreign plans	Total	
Plans that are wholly unfunded	9	104	113	13	100	113	
Plans that are wholly or partly funded	1,208	117	1,325	1,206	97	1,303	
Total	1,217	221	1,438	1,219	197	1,416	

Actuarial assumptions

The weighted-average assumptions used in calculating the actuarial values for the pension plans were as follows:

	30 Septen	nber 2020	30 September 2019	
in %	Domestic plans	Foreign plans	Domestic plans	Foreign plans
Discount rate at the end of the fiscal year	1.0	2.0	0.6	2.0
Rate of salary increase	2.0	4.6	2.0	4.0
Projected future pension increases	1.8	2.1	1.8	2.0

In order to determine the present value as of the balance sheet date, the calculation of the discount factor was adjusted as the Willis Towers Watson RATE:Link approach was applied for the first time as of 30 June 2020. The RATE:Link method continues to be based on high-grade fixed-interest corporate bonds from issuers carrying a very high credit rating, with the same maturity and in the same currency as the pension obligations to be assessed.

The effect of the adjustment to the estimation procedure as of 30 September 2020 was €75 million, which was recognized as actuarial gain in the Consolidated Statement of Comprehensive Income.

The 2018 G mortality tables by Dr. Klaus Heubeck were used for Germany as in the previous year, and for Austria the AVÖ 2018-P tables were applied.

Sensitivity analysis

The following sensitivity analysis table shows how the present value of all defined benefit pension obligations would be affected by changes in the aforementioned actuarial assumptions. In each case, they reflect the effect of changes in one actuarial assumption while all other assumptions remain constant.

	30	September 20	20	30 September 2019		
€ in millions	Domestic plans	Foreign plans	Total	Domestic plans	Foreign plans	Total
Present value of defined benefit pension plans with:						
a 50 basis points higher discount rate	1,116	206	1,322	1,127	185	1,312
a 50 basis points lower discount rate	1,333	236	1,569	1,322	214	1,536
a 50 basis points higher expected rate of salary increase	1,224	138	1,362	1,232	204	1,436
a 50 basis points lower expected rate of salary increase	1,206	127	1,333	1,205	194	1,399
a 50 basis points higher expected rate of pension increase	1,266	75	1,341	1,240	204	1,444
a 50 basis points lower expected rate of pension increase	1,169	65	1,234	1,200	194	1,394
Increase in life expectancy by one year	1,258	136	1,394	1,250	203	1,453

Investment strategy

The pension plans' assets are invested with several fund managers. The investment guidelines require a mix of active and passive investment management programs covering different asset classes. Taking the duration of the underlying liabilities into account, a portfolio of investments of plan assets in equity, debt and other securities

as well as real estate and reinsurance policies is targeted to maximize the total long-term return on assets for a given level of risk. Investment risk is monitored on an ongoing basis through periodic portfolio reviews, by coordination with investment managers and annual liability measurements. Investment policies and strategies are periodically reviewed as part of detailed studies of assets and liabilities by independent investment advisors and actuaries to ensure the objectives of the plans are met, taking into account any changes in benefit plan structure, market conditions or other material items. The aim is to optimize the risk-return profile of plan assets against the liabilities, using a diversified portfolio of investments within a defined risk budget and to thereby increase the funding ratio in the long term.

Plan asset allocation

As of 30 September 2020 and 2019 the allocation of invested plan assets to the major asset categories was as follows:

	30 Septen	nber 2020	30 September 2019		
€ in millions	Quoted in an active market	Not quoted in an active market	Quoted in an active market	Not quoted in an active market	
Government bonds	208	1	170	12	
Corporate bonds	117	-	141	13	
Equity securities	213	-	209	-	
Cash and cash equivalents	19	-	12	2	
Reinsurance policies	-	36	-	35	
Property	5	30	6	30	
Other	44	26	28	25	
Total	606	93	566	117	

Government and corporate bonds are traded in liquid markets and the majority of them have an investment grade rating. The geographical allocation of the equity component of plan assets is predominantly based on the MSCI World Index. As a matter of policy Infineon's pension plans do not invest in shares or debt instruments Combined Management Report

Further information

of Infineon. The position "Other" in the table above comprises exchange-traded commodities (ETC) and other investment funds. The market value of the ETC held domestically was €33 million as of 30 September 2020 (previous year: €28 million).

The market value of the land and real estate leased to Group companies by the legally independent pension trust amounted to €30 million as of both 30 September 2020 and 2019.

The actual return on plan assets in the fiscal year ended 30 September 2020 was €17 million (30 September 2019: €74 million).

Amounts recognized in the Consolidated Statement of Profit or Loss and in the Consolidated Statement of Comprehensive Income

The expenses and income of defined benefit plans for the 2020 and 2019 fiscal years comprised the following:

		2020		2019		
€ in millions	Domestic plans	Foreign plans	Total	Domestic plans	Foreign plans	Total
Current service cost	(32)	(6)	(38)	(26)	(4)	(30)
Past service (cost) benefit	-	-	-	-	1	1
Interest cost	(7)	(4)	(11)	(17)	(5)	(22)
Expected return on plan assets	4	2	6	10	2	12
Curtailment gain recognized	-	-	-	-	3	3
Pension cost	(35)	(8)	(43)	(33)	(3)	(36)

Service costs were recorded within cost of goods sold to the extent that they relate to production employees, otherwise they are recorded as research and development or selling, general and administrative expenses. Interest costs and expected return on plan assets were recorded net as part of financial expense.

Actuarial gains before taxes of €25 million and losses of €167 million for the 2020 and 2019 fiscal years, respectively, had been recognized outside profit and loss in other comprehensive income.

As of 30 September 2020 and 2019, cumulative actuarial losses amounted to €542 million and €567 million, respectively.

In the 2021 fiscal year, payments of €33 million are expected to be made to plan assets which relate to benefits paid directly to pension recipients by the Group companies.

The weighted average duration of defined benefit plans was around 18 and 17 years as of 30 September 2020 and 2019, respectively.

The following table shows the expected disbursements for defined benefit plans for the next ten fiscal years as of 30 September 2020 and 2019:

€ in millions	30 Septem- ber 2020	30 Septem- ber 2019
Due within one year	40	32
Due after more than one year to five years	177	152
Due after more than five years up to ten years	303	275
Total	520	459

Defined contribution plans

In connection with defined contribution plans, fixed contributions are made to external insurance providers or funds. Infineon has no further performance obligations or risks with regard to these pension plans in excess of the fixed contributions paid. Additionally, the Group makes contributions to government pension schemes. Expenses for defined contribution plans amounted to €212 million and €203 million in the fiscal years ended 30 September 2020 and 2019, respectively.

21 Equity

Ordinary share capital

The ordinary share capital of Infineon Technologies AG increased during the 2020 fiscal year by €110,474,132. Firstly, the Management Board, with the approval of the Supervisory Board, decided on 26 May 2020 to increase capital against cash contributions, taking advantage partly of the authorized capital. The capital increase was entered in the Commercial Register on 27 May 2020 and was thus effective. The share capital of the Company was thereby increased with the exclusion of the subscription rights of the existing shareholders by issuing 55,000,000 new registered no par value shares in return for cash consideration as part of an accelerated bookbuilding process. The shares were allocated at a placement price of €19.30 per share, and resulted in gross issue proceeds of €1,062 million. They are eligible to a share of profits from 1 October 2019 on. Secondly, 237,066 new shares were issued (2019: 914,314) as a result of the final exercise of stock options by employees as part of the Stock Option Plan 2010 (see note 23, D p. 191 f.). As part of the Performance Share Plan and Restricted Stock Unit Plan (see note 23, D p. 191 f.), Infineon transferred a total of 748,609 own shares to employees and members of the Management Board in the first half of the 2020 fiscal year. As of 30 September 2020, the share capital amounted to €2,611,842,274 and was fully paid in. It was divided into 1,305,921,137 no par value registered shares, each representing €2 of the Company's ordinary share capital. Each share grants the

holder one vote and an equal portion of the profits in the form of a dividend as resolved by the Annual General Meeting. As of 30 September 2020, of the above-mentioned total number of issued shares, the Company held 5,251,391 own shares (30 September 2019: 6 million). Own shares held by the Company as of the date of the Annual General Meeting carry no voting rights and are not entitled to dividend.

Additional paid-in capital

Additional paid-in capital increased by €968 million in the 2020 fiscal year. Based on gross issue proceeds of €1,062 million from the issue of 55,000,000 new shares on 27 May 2020 as described above, less €110 million related to the ordinary share capital, and less €18 million directly attributable third party costs (net of tax) incurred in connection with the capital increase, an amount of €934 million was recognized as an increase in additional paid-in capital. Tax effects of €22 million increased the additional paid-in capital. The pro rata costs for share-based compensation led to an increase in additional paid-in capital of €14 million in the 2020 fiscal year. The exercise of stock options by employees increased additional paid-in capital by €1 million. Due to the transfer of own shares to employees and members of the Management Board, additional paid-in capital was reduced by €4 million.

Additional paid-in capital reported in the Consolidated Statement of Financial Position increased by €1,008 million in the 2019 fiscal year. Based on gross issue proceeds of €1,545 million from the issue of 112,773,923 new shares on 18 June 2019 as described above, less €226 million not related to the ordinary share capital, and less €20 million directly attributable third party costs (net of tax) incurred in connection with the capital increase, an amount of €1,299 million was recognized as an increase in additional paid-in capital. As a result of employee exercise of stock options, additional paid-in capital increased by a further €4 million. The pro rata costs for share-based compensation led to an increase in additional paid-in capital of €10 million in the 2019 fiscal year. The dividend of €305 million paid in February 2019 reduced additional paid-in capital.

Authorized share capital

As of 30 September 2020, the Company's Articles of Associations provided for two authorized share capitals amounting to up to €670,000,000:

- > Section 4 paragraph 4 of the Articles of Association provides that the Management Board is authorized, with the approval of the Supervisory Board, to increase the share capital in the period until 19 February 2025 once or in several partial amounts by a total of up to €640,000,000 through the issue of new no par value registered shares, against contributions in cash or in kind (Authorized Capital 2020/I). The new shares participate in profits from the beginning of the fiscal year of their issue. To the extent legally permissible, the Management Board may, with the approval of the Supervisory Board, and contrary to section 60 paragraph 2 of the German Stock Corporation Act, stipulate that the new shares participate in the profits from the beginning of an already ended fiscal year for which no resolution of the Annual General Meeting on the use of the distributable profit has yet been made at the time of their issue. The originally authorized capital 2020/I, of €750,000,000 was reduced to €640,000,000 by the capital increase of €110,000,000 as decided by the Management Board and the Supervisory Board on 26 May 2020 and entered in the Commercial Register on 27 May 2020. Within the framework of the Authorized Capital 2020/I, the Management Board is authorized, with the approval of the Supervisory Board, to exclude the subscription rights of the shareholders in certain cases. In accordance with German law, cash capital increases with subscription rights excluded pursuant to section 186, paragraph 3, sentence 4, of the AktG, are not permitted to exceed 10 percent of a company's share capital – either at the time of the resolution of the authorization in the Annual General Meeting, or at the effective date of the authorization, or its exercise. The capital increase of 26/27 May 2020 utilized around 4 percent of this framework. For share capital increases against contributions in kind or a combination of cash contributions and contributions in kind, the authorization further provides an upper limit of 10 percent of the share capital in place at the date of the authorization in the Annual General Meeting.
- Section 4, paragraph 7, of the Articles of Association provides that the Management Board is authorized, with the approval of the Supervisory Board, to increase the share capital in the period up to 17 February 2021 either once or in partial amounts by a total of up to €30,000,000 by issuing new no par value registered shares against contributions in cash for the purpose of increasing the issue to employees of the Company or its Group companies (Authorized Capital 2016/I). The subscription rights of the shareholders are excluded in relation to these shares. The shares may be issued in such a manner that the contribution to be paid on such shares is covered by the portion of the profit for the year that the Management Board and Supervisory Board could transfer to retained earnings in accordance with section 58, paragraph 2, AktG.

Conditional capital

As of 30 September 2020, the Company's Articles of Associations provided for a conditional capital amounting to up to €260,000,000:

Pursuant to section 4, paragraph 6, of the Articles of Association the share capital is conditionally increased by up to €260,000,000 through the issue of up to 130,000,000 new no par value registered shares for the granting of shares to creditors or of the holders of warrants or convertible bonds, which due to the authorization by the Annual General Meeting on 20 February 2020 are issued by the Company or a subsidiary company (Conditional Capital 2020/1).

Hybrid capital

Infineon Technologies AG issued a perpetual hybrid bond on 1 October 2019 to refinance the acquisition of Cypress (see note 3, P. 162 ff.). The hybrid was issued as a dual-tranche bond with a principal amount of €600 million per tranche. Tranche 1 has a non-call period from issuance of 5.25 years and a fixed coupon of 2.875 percent until the first reset date. Tranche 2 has a non-call period from issuance of 8.25 years and a fixed coupon of 3.625 percent until the first reset date. The issue price for tranche 1 was 99.385 percent of the principal amount, the issue price for tranche 2 was 99.121 percent of the principal amount, each with the deduction of a discount.

Combined Management Report

189

The hybrid bond is an equity instrument under IAS 32. The term is not contractually limited; the bond has no final maturity date. The hybrid bond can only be canceled by Infineon subject to certain conditions. The investors have no cancellation rights and cannot trigger a premature repayment liability for Infineon. Distributions are at Infineon's sole discretion.

The proceeds of $\[ensuremath{\in}1,184\]$ million were received by Infineon on 1 October 2019. The discounts and transaction costs totaling $\[ensuremath{\in}16\]$ million as well as any related income taxes of $\[ensuremath{\in}2\]$ million were recognized directly in equity. Hybrid capital investors' remuneration rights amounted to $\[ensuremath{\in}39\]$ million in the 2020 fiscal year. Of this amount, $\[ensuremath{\in}20\]$ million was paid to hybrid capital investors on 1 April 2020 (see "retained earnings" below). For the purpose of calculating earnings per share, net income $\[ensuremath{\in}368\]$ million attributable to the shareholders of Infineon Technologies AG were reduced by the remuneration entitlement of hybrid capital investors of $\[ensuremath{\in}35\]$ million (net of tax) to $\[ensuremath{\in}333\]$ million (see note 8, $\[ensuremath{D}\]$ p. 171).

Retained earnings

The following table shows a reconciliation of retained earnings as of 30 September 2020 and 2019:

€ in millions

As of 1 October 2018	(296)
Net income attributable to shareholders of Infineon Technologies AG	870
Actuarial losses on pension plans and similar commitments net of tax of €16 million	(153)
As of 30 September 2019	421
Net income attributable to shareholders of Infineon Technologies AG	368
Dividends to shareholders of Infineon Technologies AG	(336)
Compensations to hybrid capital investors	(20)
Accrued compensations to hybrid capital investors	(19)
Actuarial gains on pension plans and similar commitments net of tax of €6 million	21
As of 30 September 2020	435

Since the 2020 fiscal year, the distribution was made from retained earnings provided that, at the end of the fiscal year, to the extent it covers the distribution in the following year.

Dividends

For the 2019 fiscal year, a cash dividend of €0.27 per share (total amount: €336 million) was paid. For the 2018 fiscal year, a cash dividend of €0.27 per share (total amount: €305 million) was paid.

With regard to the 2020 fiscal year, a dividend of €0.22 for each share entitled to a dividend shall be proposed to be paid from the €287 million of distributable profits of Infineon Technologies AG. This would result in an expected distribution of approximately €286 million. The payment of this dividend depends on the approval of the Annual General Meeting on 25 February 2021.

Other reserves

Changes in other reserves during the 2020 and 2019 fiscal years were as follows:

		2020			2019		
€ in millions	Pre-tax	Тах	Net of tax	Pre-tax	Tax	Net of tax	
Foreign currency translation differences	(543)	_	(543)	85	_	85	
Unrealized gains (losses) resulting from hedge accounting	(71)	_	(71)	146	9	155	
Realized gains (losses) resulting from hedge accounting ¹	(170)	28	(142)	_	_	_	
Cost of hedging ¹	42	-	42	(42)	-	(42)	
Total	(742)	28	(714)	189	9	198	

1 In the 2020 fiscal year, realized gains from the deal contingent forward and the deal contingent option, after deducting the costs of the hedge, were recognized in the amount of €137 million (before taxes) when measuring the consideration transferred in connection with the acquisition of Cypress (see "Derivative financial instruments and hedging" in note 28, D p. 203 ff.).

22 Capital management

Infineon's main capital management objective is to ensure financial flexibility on the basis of a solid capital structure. As with comparable companies in the semiconductor industry, it is of prime importance that sufficient cash funds are available to finance operating activities and planned investments throughout all phases of the business cycle. On the other hand, debt should only constitute a modest portion of the financing mix.

Infineon is not subject to any statutory capital requirements, nor are any such defined in the Articles of Association.

Capital management as well as the corresponding targets and definitions are based on indicators determined on the basis of the consolidated IFRS financial statements. Gross cash is defined as the total of cash, cash equivalents and financial investments. Gross financial debt comprises short-term and long-term financial debt. Infineon defines EBITDA as earnings (loss) from continuing operations before interest, taxes and depreciation and amortization. The gross cash position decreased from €3,779 million as of 30 September 2019, to €3,227 million as of 30 September 2020 (for details see the chapter "Review of liquidity" in the Combined Management Report, D p. 105). Based on revenues of €8,567 million, the ratio of gross cash to revenue as of 30 September 2020 was €1 billion, plus an additional 26.0 percent of revenue. Cypress has been included in the revenues of the 2020 fiscal year since 16 April 2020 (see note 3, D p. 163 f.). For the previous year, the ratio of gross cash to revenue was €1 billion plus an additional 34.6 percent of revenue, including the net proceeds of the capital increase in June 2019 to finance the Cypress acquisition of €1,524 million.

With gross financial debt of €7,033 million as of 30 September 2020 (30 September 2019: €1,556 million) following the financing of the Cypress acquisition, and EBITDA of €1,785 million for the 2020 fiscal year (2019: €2,064 million), the gross debt to EBITDA ratio was 3.9 as of 30 September 2020 (30 September 2019: 0.8). Cypress has been included in the EBITDA of the 2020 fiscal year since 16 April 2020. Infineon continues to have sufficient financial flexibility to ensure that in addition to financing its planned investments it is also able to pay regular dividends (see note 21, D p. 189).

The USPP notes totaling US\$935 million issued in April 2016 contain a number of standard covenants, including change of control clauses as well as the compliance with a debt coverage ratio, which provides for a certain relationship between the size of debt (adjusted) and earnings (adjusted).

In the 2020 fiscal year Infineon has met the minimum requirements of all covenants. Should Infineon not comply with the covenants attached to the USPP notes, then all USPP notes outstanding as of 30 September 2020 amounting to US\$935 million (see note 17, \Box p. 179) could become immediately repayable.

23 Share-based compensation

The Company makes use of the Stock Option Plan 2010, the Performance Share Plan from the 2014 fiscal year, and the Restricted Stock Unit Plan from the 2017 fiscal year, in order to provide share-based compensation.

Performance share plan

A new Long Term Incentive Plan (LTI) consisting of a "performance share" plan was developed for the Management Board and selected senior executives as a successor to the Stock Option Plan 2010.

Under this plan, (virtual) performance shares are initially provisionally granted on 1 March (up to the 2017 fiscal year: on 1 October) of the fiscal year according to a pre-determined LTI grant amount in euro. With the granting of a virtual performance share, the participant in the plan acquires the right to receive (real) Infineon shares once a personal investment in Infineon shares – depending on position and LTI grant amount – has reached a four-year holding period.

50 percent of the performance shares are performance-related, 50 percent are not dependent on performance. The performance-related shares are only finally granted if the Infineon share outperforms the Philadelphia Semiconductor Index (SOX) during the period between the date of the provisional allocation and the end of the holding period. If at the end of the holding period the requirements for an allocation of performance shares – either all or only those that are not performance related – are fulfilled, then the entitlement to the transfer of the corresponding number of (real) Infineon shares is acquired. The value of the performance shares ultimately assigned to members of the Management Board may not exceed 250 percent of the respective LTI grant amount; above this cap performance shares are forfeited.

The fair value of the performance shares at the date of allocation was determined by an external expert using a recognized financial-mathematical method (Monte Carlo simulation model for the prediction of share price and index developments). The fair value of the instruments granted is determined taking into account future dividends as well as the payment cap.

The following is an overview of the allocations made:

Tranche	End of the waiting period	Average share price of the nine months before grant in €	Number of performance shares out- standing as of 30 Septem- ber 2020	Fair value per performance share in €
Fiscal year 2020: Employees	29 February 2024	18.10	1,044,146	12.95
Fiscal year 2020: Management Board	29 February 2024	18.10	70,850	12.50
Fiscal year 2019: Employees	28 February 2023	20.02	749,482	14.20
Fiscal year 2019: Management Board	28 February 2023	20.02	44,954	13.79
Fiscal year 2018: Employees	28 February 2022	21.48	657,434	15.76
Fiscal year 2018: Management Board	28 February 2022	21.48	41,896	15.25
Fiscal year 2017: Employees	30 September 2020	13.01	864,358	11.86
Fiscal year 2017: Management Board	30 September 2020	13.01	61,874	11.25

The tranche due in October 2020 for the 2017 fiscal year was settled with shares. As the planned performance target was not reached as of 30 September 2020, only 50 percent of the tranche was to be settled (non-performance shares). In October 2020, 460,985 Infineon shares were issued to eligible Management Board members and employees from the holding of own shares.

Stock Option Plan 2010

The 2010 stock option plan expired in December 2019.

Restricted Stock Unit Plan

In the 2017 fiscal year, Infineon introduced the Restricted Stock Unit Plan (RSUP), addressing Infineon US employees and based on local market conditions. Restricted stock units are measured at the respective fair value at their grant dates. As of 30 September 2020, 0.7 million restricted stock units (30 September 2019: 0.5 million) with fair values between €17.31 and €20.99 depending on the tranche were outstanding. The tranches due in February and March 2020, respectively, were fulfilled in shares. 180,301 Infineon shares were issued to eligible employees from the holding of own shares.

Costs for share-based compensation

The costs for share-based compensation amounted to €14 million in the 2020 fiscal year (2019: €11 million).

24 Other financial commitments

In addition to provisions and liabilities, there were other financial obligations that were not recognized in the Consolidated Statement of Financial Position. These result in particular from unconditional purchase commitments, which are explained in more detail below.

Contracts already entered into for commenced or planned investments in property, plant and equipment (purchase commitments) as of 30 September 2020 amounted to €435 million (30 September 2019: €660 million).

In the course of its investing activities, Infineon also receives government grants related to the construction and financing of certain of its manufacturing facilities. Grants are also received for selected research and development projects. Certain of these grants have been received contingent upon Infineon complying with certain projectrelated requirements, such as creating a specified number of jobs over a defined

period of time. From today's perspective, Infineon expects to comply with these requirements. Nevertheless, should such requirements not be met, as of 30 September 2020, a maximum of €200 million (30 September 2019: €163 million) of subsidies already received could be refundable.

Infineon, through certain sales and other agreements may, in the normal course of business, be obligated to indemnify its counterparties under certain conditions for warranties, patent infringement or other matters. The maximum amount of potential future payments under these types of agreements is not predictable with any degree of certainty, since the potential obligations are contingent on events that may or may not occur in the future, and depend on certain facts and circumstances specific to each agreement. Historically, payments made by Infineon under these types of agreements have not had a material adverse effect on Infineon's financial condition, liquidity position and results of operations.

25 Legal risks

Litigation and government inquiries

Smart card chips antitrust litigation

In October 2008, the EU Commission initiated an investigation into the Company and other manufacturers of chips for smart cards for alleged violations of antitrust laws. In September 2014, the EU Commission imposed a fine of €83 million on Infineon, which in July 2020 was reduced to €76.9 million by the General Court of the European Union.

Two class actions for damages of an unspecified amount in connection with the EU Commission investigative proceedings have been filed in Canada: The first action was filed in the state of British Columbia in July 2013, and the second in the state of Quebec in September 2014. The actions followed the press reports on the investigation and subsequent decision of the EU Commission. No dates have been set for court proceedings.

192

Combined Management Report

In July 2019, a direct customer filed a lawsuit against Infineon Technologies UK Limited and several Renesas entities in London (United Kingdom) relating to the aforementioned EU antitrust case. In August 2020, an indirect customer has also informed the Company of alleged damages relating to the aforementioned EU antitrust case.

Any further statements about these matters by the Company could seriously compromise the Company's position in these disputes.

Proceedings in relation to Qimonda

All significant assets, liabilities and business activities attributable to the memory business (Memory Products) were carved out from Infineon and transferred to Qimonda in the form of a contribution in kind with economic effect from 1 May 2006. Qimonda filed an application at the Munich Local Court to commence insolvency proceedings on 23 January 2009. On 1 April 2009, the insolvency proceedings formally opened. The insolvency of Qimonda has given rise to various disputes between the insolvency administrator and Infineon.

Alleged activation of a shell company and liability for impairment of capital

The insolvency administrator filed a request for declaratory judgment in an unspecified amount against Infineon Technologies AG and, by way of third party notice, Infineon Technologies Holding B.V. and Infineon Technologies Investment B.V., at Regional Court Munich I in November 2010. This requested that Infineon be deemed liable to make good the deficit balance of Qimonda as it stood when the insolvency proceedings in respect of the assets of Qimonda began, i.e., to refund to Qimonda the difference between the latter's actual business assets when the insolvency proceedings began and its share capital (in German: "Unterbilanzhaftung"). The insolvency administrator contended that the commencement of operating activities by Qimonda amounted to what is considered in case law to be the activation of a shell company (in German: "Wirtschaftliche Neugründung"), and that this activation of a shell company was not disclosed in the correct manner. On 6 March 2012, with respect to another matter, the German Federal High Court issued a ruling on principle that any liability resulting from the activation of a shell company only depends on the situation at the date of the activation of a shell company and not, as asserted by the insolvency administrator, on the situation at the date on which insolvency proceedings are opened.

In addition to the request for declaratory judgment against Infineon in an unspecified amount, on 14 February 2012 the insolvency administrator also lodged a request for payment based on an alternative claim (in German: "Hilfsantrag"), as well as making other additional claims. In conjunction with this alternative claim, the insolvency administrator has requested the payment of at least €1.71 billion plus interest in connection with the alleged activation of a shell company. On 15 June 2012, the insolvency administrator increased his request for the payment of 14 February 2012 on the grounds of activation of a shell company to at least approximately €3.35 billion plus interest. Furthermore, the insolvency administrator continues to base a substantial part of his alleged payment claims, as already asserted out of court against Infineon in August 2011 for an unspecified amount, on liability for impairment of capital (in German "Differenzhaftung"). This claim is based on the allegation that, from the very beginning, the carved-out memory products business had a negative billion euro value. The insolvency administrator therefore asserts that Infineon is obliged to make good the difference between this negative value and the lowest issue price (in German: "geringster Ausgabebetrag") of the subscribed stock. Additionally, the insolvency administrator has asserted a claim for repayment of allegedly unjustly charged consultancy fees in an amount of €10 million in connection with the flotation of Qimonda.

The alleged impairment of capital runs contrary to two valuations prepared as part of the preparatory documentation for the capital increase by independent auditing companies, one of which had been engaged by Infineon and the other of which was acting in the capacity of a court-appointed auditor of contributions in kind and post-formation acquisitions. The auditing company engaged by Infineon concluded in its valuation that the business area contributed had a value of several times the lowest issue price of the shares issued, while the court-appointed auditor of contributions in kind and post-formation acquisitions confirmed to the court that the lowest issue price of the shares issued was covered – as legally required – by the value of the contributions in kind. Additionally, in the course of its defense against the claims asserted by the insolvency administrator, Infineon has commissioned several expert opinions, all of which arrived at the same conclusion that the objections raised by the insolvency administrator against the valuation of the contribution in kind are not valid.

Combined Management Report

The legal dispute has, in the meantime, focused on the claims asserted for alleged lack of value. On 29 August 2013, the court appointed an independent expert to clarify the valuation issues raised by the insolvency administrator and to address technical matters.

The legal dispute is being pursued with great effort by both parties, and many extensive written submissions have already been exchanged between the parties. Both sides have engaged numerous specialists and experts who are supporting the respective parties with assessments and opinions.

On 21 September 2018, in consultation with the parties, the independent expert appointed by the court presented an interim report on his preliminary assessment of the value of the contribution in kind. The Company is in principle prepared to conduct discussions about an out of court settlement of the legal dispute on the basis of the interim report.

The parties are exchanging further written submissions. It is not clear at this stage if the legal dispute can be resolved with an out of court settlement, and, if this is not the case, when a first-instance court decision would be reached.

Residual liability of Infineon as former shareholder of Qimonda Dresden GmbH & Co. OHG

Infineon was a shareholder with personal liability of Qimonda Dresden until the carve-out of the memory business; as a result certain long-standing creditors have residual liability claims against Infineon. These claims can only be exercised by the insolvency administrator acting in the name of the creditors concerned. In the mean-time, settlements have been concluded with most of the major liability creditors.

Liabilities, provisions and contingent liabilities relating to Qimonda

Infineon recognizes provisions and liabilities for such obligations and risks, which it assesses at the end of each reporting period, are more likely than not to be incurred (that is where, from Infineon's perspective at the end of each reporting period, the probability of having to settle an obligation or risk is greater than the probability of not having to) and the obligation or risk can be estimated with reasonable accuracy at this time.

As described above, Infineon faces certain risks in connection with the insolvency proceedings relating to the assets of Qimonda and that entity's subsidiaries. In consideration of the interim report from the court-appointed expert, Infineon recorded provisions relating to Qimonda of €206 million in total as of 30 September 2020. This comprises mainly provisions for the still pending legal dispute over the alleged activation of a shell company and liability for impairment of capital including legal costs. As of 30 September 2019, provisions relating to Qimonda amounted to €205 million.

There can be no certainty that the provisions recorded for Qimonda will be sufficient to cover all of the liabilities that could ultimately be incurred in relation to the insolvency of Qimonda and, in particular, the matters discussed above. In addition, it is possible that liabilities and risks materialize that are currently considered to be unlikely to do so, and accordingly represent contingent liabilities that are not included in provisions. Should the alleged claims relating to the activation of a shell company and liability for impairment of capital prove to be valid, substantial financial obligations above the provisions already recorded could arise for Infineon, which could have a material adverse effect on its business and its financial condition, liquidity position and results of operations.

Other

Infineon is also involved in various other legal disputes and proceedings in connection with its existing or previous business activities. These can relate, in particular, to products, services, patents, export control and environmental issues and other matters.

Based on its current knowledge, Infineon does not believe that the ultimate resolution of these other pending legal disputes and proceedings will have a material adverse effect on Infineon's financial condition, liquidity position and results of operations. However, future revisions to this assessment cannot be ruled out and any reassessment of the miscellaneous legal disputes and proceedings could have a material adverse effect on the financial condition, liquidity position and results of operations, particularly in the period in which reassessment is made.

Furthermore, in connection with its existing or previous business operations, Infineon is also exposed to numerous legal risks which have until now not resulted in legal disputes. These include risks related to product liability, environment, capital market, anti-corruption, competition and antitrust legislation as well as export control and other compliance regulations. Claims could also be made against Infineon in connection with these matters in the event of breaches of law committed by individual employees or third parties.

As part of an audit finding relating to the tax treatment of losses from the repurchase of convertible bonds in the 2011 and 2012 fiscal years, as of 30 September 2020 and 2019, there was a contingent liability of €55 million for withholding tax payables. Suspension of enforcement has been granted under the current appeal procedure. Infineon expects that there is sufficient likelihood of winning any potential appeal or legal action.

Provisions and contingent liabilities for legal proceedings and other uncertain legal issues

Provisions relating to legal proceedings and other uncertain legal issues are recorded when it is probable that a liability has been incurred and the associated amount can

be reasonably estimated. To the extent that liabilities arising from legal disputes and other uncertain legal positions are not probable or cannot be reliably estimated, then they qualify as contingent liabilities.

Any potential liability is reviewed again as soon as additional information becomes available and the estimates are revised if necessary. Provisions with respect to these matters are subject to future developments or changes in circumstances in each of the matters, which could have a material adverse effect on Infineon's financial condition, liquidity position and results of operations.

A settlement or adverse judicial decision in any of the matters described above could result in significant financial liabilities for Infineon and other adverse effects, and these in turn could have a material adverse effect on its business and financial condition, liquidity position and results of operations. Irrespective of the validity of the allegations and the success of the aforementioned claims and other matters described above, Infineon could incur significant costs in the defense of these matters.

26 Transactions with related companies and persons

Infineon has transactions in the normal course of business with joint ventures, associates and other related companies (collectively "related companies"). The related companies are disclosed in note 31, D p. 220 ff. Related persons are persons in key management positions, in particular members of the Management and Supervisory Board (see note 31, D p. 217 f.) and their close relatives (collectively "related persons").

Related companies

Infineon purchases certain raw materials and services from and sells certain products and services to related companies. These purchases from and sales to related companies are generally effected at arm's length.

Related companies receivables and payables as of 30 September 2020 and 2019 consisted of the following:

	30 September 2020			30 September 2019			
€ in millions	Joint ventures	Associates	Other related companies	Joint ventures	Associates	Other related companies	
Trade and other receivables	4	5	-	5	-	-	
Financial receivables	32	-	1	32		1	
Trade and other payables	9	-	1	10	-	1	
Financial payables	-	-	1	-	-	-	

Sales and service charges to and products and services received from related companies in the 2020 and 2019 fiscal years consisted of the following:

		2020			2019		
€ in millions	Joint ventures	Associates	Other related companies	Joint ventures	Associates	Other related companies	
Sales and service charges	29	5	2	40	-	2	
Products and services received	75	_	17	83	_	16	

As of 30 September 2020, sales and services relationships with related companies resulted in purchase commitments of €4 million (30 September 2019: €7 million).

Related persons

Members of the Management Board active in the 2020 fiscal year received fixed nonperformance-related compensation for their services of €3.8 million (2019: €3.7 million). In addition, the members of the Management Board received variable performancerelated compensation for their services in the 2020 fiscal year of €3.6 million (2019: €2.3 million). This comprised a Short Term Incentive of €1.4 million (2019: €1.2 million), and a Mid Term Incentive of €1.3 million (2019: €1.1 million). Furthermore, the Management Board received a Long Term Incentive (LTI) which, since 2014, takes the form of performance shares. The expense resulting from the LTI amounted to €0.9 million (2019: €0.6 million). The compensation granted to active members of the Management Board amounted to €7.3 million in the 2020 fiscal year (2019: €6.7 million).

The compensation of the members of the Supervisory Board of Infineon Technologies AG in the 2020 fiscal year, including attendance fees, amounted to €2.1 million (2019: €2.1 million). Employee representatives in the Supervisory Board who are employed by Infineon also receive a salary for their activities as employees.

Former members of the Management Board received payments (in particular pension payments) of €2.2 million in the 2020 fiscal year (2019: €2.0 million).

As of 30 September 2020, pension obligations for former members amounted to €76.6 million (30 September 2019: €81.2 million).

Disclosure of the individual remuneration of the members of the Management Board and the Supervisory Board as required by section 315e, paragraph 1, in connection with section 314, paragraph 1, no. 6a, sentences 5 to 8, of the German Commercial Code (version before ARUG II), is provided in the Compensation report which is part of the Combined Management Report. D p. 130 ff.

In the 2020 and 2019 fiscal years there were no significant transactions between Infineon and related persons which fall outside of the scope of the existing employment, service or appointment terms, or of the contractual arrangements for their remuneration.

27 Supplemental cash flow information

Cash and cash equivalents reported as of 30 September 2020 and 2019 totaling €1,851 million and €1,021 million, respectively, included €77 million and €66 million, respectively, which were subject to legal transfer restrictions and so were not available for general use by Infineon. This amount represented cash and cash equivalents of consolidated companies located in countries where the transfer of cash is legally restricted, for example China.

The reconciliation below shows changes in those financial liabilities and hedging transactions for which payments received and made are shown under cash flows from financing activities in the statement of cash flows.

	Starting balance	Cash-effective	tive Non-cash effective changes				Ending balance
€ in millions		changes	Acquisitions ¹	Currency effects	New leases	Other changes	
The 2020 fiscal year							
Short-term and long-term financial debt	1,556	4,443	1,335	(306)	-	5	7,033
Related party financial payables	_	1	-	-	-	_	1
Leasing liabilities ²	262	(63)	40	(8)	63	_	294
Total	1,818	4,381	1,375	(314)	63	5	7,328
The 2019 fiscal year							
Short-term and long-term financial debt	1,532	(22)	_	47	_	(1)	1,556
Related party financial payables	1	(1)	-	-	-	-	-
Total	1,533	(23)	_	47	-	(1)	1,556

1 Amounts shown for the 2020 fiscal year as "Acquisitions" related to financial debt acquired in connection with the acquisition of Cypress.

2 Starting balance adjusted in connection with first time application of IFRS 16 "Leases" (see note 1, 🗅 p. 149).

Further information

28 Additional disclosures on financial instruments

The following tables present the carrying amounts and the fair values of financial instruments by their respective classes and a breakdown by category of financial instruments as of 30 September 2020 and 2019 according to IFRS 9:

	Carrying amount	Carrying amount Categories of financia		Designated hedging	Fair value
Financial assets, € in millions		At fair value through profit or loss	At amortized cost	(cash flow hedges)	
As of 30 September 2020					
Current assets:					
Cash and cash equivalents	1,851	1,524	327	-	1,851
Financial investments	1,376	777	599	-	1,376
Trade receivables	1,196	-	1,196	-	1,196
Other current assets	257	2	254	1	257
Non-current assets:					
Other non-current assets ¹	154	98	56	-	154
Total	4,834	2,401	2,432	1	4,834
As of 30 September 2019					
Current assets:					
Cash and cash equivalents	1,021	73	948	-	1,021
Financial investments	2,758	2,187	571	-	2,758
Trade receivables ²	1,057	-	1,057	-	1,057
Other current assets	558	2	343	213	558
Non-current assets:					
Other non-current assets ¹	107	55	52	-	107
Total	5,501	2,317	2,971	213	5,501

1 As of 30 September 2020, other non-current assets, which are measured at amortized cost, included €1 million (previous year: €1 million) from an agreement related to the residual liability of Infineon as former shareholder of Qimonda Dresden GmbH & Co. OHG (see note 25, 🗅 p. 194), which are deposited in escrow in order to secure potential claims against Infineon.

2 In conjunction with the integration of Cypress, the presentation of reimbursement obligations to customers was aligned with the approach previously used by Cypress (see note 10, 🗅 p. 172). Instead of netting reimbursement obligations against trade receivables, they are now reported within other current liabilities. For better comparability, the previous year's figures were adjusted.

198

	Carrying amount	1t Categories of financial liabilities		Not assignable to any IFRS 9 measurement category		Fair value
Financial liabilities, € in millions		At fair value through profit or loss	Other financial liabilities (amortized cost	Designated hedging instruments (cash flow hedges)	Others	
As of 30 September 2020						
Current liabilities:						
Short-term financial debt and current portion of long-term financial debt	505	139	366			509
Trade payables	1,160		1,160	-	_	1,160
Current leasing liabilities	59			-	59	-
Other current liabilities	845	2	777	66	_	845
Non-current liabilities:						
Long-term financial debt	6,528		6,528		_	6,783
Non-current leasing liabilities	235		_	-	235	-
Other non-current liabilities	77	-	77	-	-	77
Total	9,409	141	8,908	66	294	9,374
As of 30 September 2019						
Current liabilities:						
Short-term financial debt and current portion of long-term financial debt	22		22			21
Trade payables	1,089		1,089		-	1,089
Other current liabilities ¹	470	3	467	-		470
Non-current liabilities:						
Long-term financial debt	1,534		1,534	-		1,608
Other non-current liabilities	63		63	_		63
Total	3,178	3	3,175	_	-	3,251

1 In conjunction with the integration of Cypress, the presentation of reimbursement obligations to customers was aligned with the approach previously used by Cypress (see note 10, D p. 181 f.). Instead of netting reimbursement obligations against trade receivables, they are now reported within other current liabilities. For better comparability, the previous year's figures were adjusted. In the 2019 fiscal year, other current liabilities included €112 million in option premiums to be paid upon completion of the acquisition of Cypress as other financial liabilities (see "Derivative financial instruments and hedging activities" below, D p. 202 ff.). This liability was built up in installments in the 2020 fiscal year and a total of €141 million was paid upon completion on 16 April 2020.

In the 2020 and 2019 fiscal years, there were no reclassifications between the categories of financial instruments.

For assets allocated to the category "At amortized cost", which are measured at amortized cost, it is assumed that the fair values correspond to their carrying amounts. The same assumption applies to liabilities resulting from trade payables and other current liabilities categorized as "Other financial liabilities (amortized cost)".

The fair value of current and non-current financial debt that are measured at amortized cost is based either on quoted prices as of the reporting date (level 1) or is determined based on expected future cash flows discounted using a current market interest rate (level 2). As of 30 September 2020 and 2019 respectively fair values of non-current financial debt, which were allocated to level 1, amounted to €3,521 million and €518 million, respectively. Fair values for level 2 were €3,262 million and €1,089 million.

Financial instruments measured at fair value are allocated to the following measurement levels in accordance with IFRS 13. The allocation to the different levels is based on the market proximity of the valuation parameters used in the determination of the fair values:

- > Level 1: quoted prices (unadjusted) in active markets for identical assets and liabilities,
- Level 2: valuation parameters whose prices are not the ones considered in Level 1, but which can be observed either directly or indirectly for the assets or liabilities,
- > Level 3: valuation parameters for assets and liabilities, which are not based on observable market data.

The allocation to the levels as of 30 September 2020 and 2019 was as follows:

	Fair value	Fair v	Fair value by category			
E in millions		Level 1	Level 2	Level 3		
30 September 2020						
Current assets:						
Cash and cash equivalents	1,524	1,524	-	-		
Financial investments	777	777	_	-		
Other current assets	3	_	3	-		
Non-current assets:						
Other non-current assets	98	81	_	17		
Total	2,402	2,382	3	17		
Current liabilities:						
Short-term financial debt and current portion of long-term financial debt	139		139	_		
Other current liabilities	68		68	-		
Total	207	-	207	-		
20.0						
So September 2019						
Lurrent assets:						
Cash and cash equivalents		13		-		
Financial investments	2,187	2,187	-	-		
Other current assets	215		5	210		
Non-current assets:						
Other non-current assets	55	38	_	17		
Total	2,530	2,298	5	227		
Current liabilities:						
Other current liabilities	3	-	3	-		
Total	3	_	3	-		

Cash equivalents partly included investments in money market funds.

Other current assets and liabilities contained derivative financial instruments, including cash flow hedges. Their fair value was determined by discounting future cash flows according to the discounted cash flow method. Where possible, valuation parameters observed on the reporting date in the relevant markets (such as currency rates, interest rates, or commodity prices) drawn from reliable external sources were used (level 2). In case fair values were estimated on the basis of non-observable input factors, they were assigned to level 3 of the fair value category.

The determination of the fair values of the Deal Contingent Forward and Deal Contingent Option designated as cash flow hedges to partly hedged exchange rate risks arising from the purchase price obligation relating to the acquisition of Cypress (see note 3, D p. 162 ff., and hereinafter "Derivative financial instruments and hedging activities", D p. 202 ff.) were based on factors observable in markets such as forward prices, interest rate curves and volatilities. In addition, the probability of occurrence of the planned acquisition was taken into account as a non-observable factor.

The determination of the fair values of the Deal Contingent Forward Starting Interest Rate Swaps connected with the planned refinancing measures (see hereinafter "Derivative financial instruments and heging activities", D p. 202 ff.) were based on factors

observable in markets such as interest rate curves and US dollar spot rate. In addition, the probability of occurrence of the planned acquisition was taken into account as a non-observable factor.

Short-term financial debt included the conversion rights from convertible bonds acquired in the course of the Cypress acquisition (see note 17, D p. 179 ff.), which can be exercised against cash payment by bondholders until the maturity of the instruments. The fair value of the conversion rights was determined by discounting future cash flows according to the discounted cash flow method. Valuation parameters observed on the reporting date in the relevant markets such as interest rates and US dollar spot rate were used from reliable external sources (level 2).

Other non-current assets include equity investments and investments in funds. Where these are traded on an active market, the fair value is based on the actual market price (level 1). For equity investments where no market price from an active market is available, the fair value is determined by considering existing contractual arrangements based on externally observable dividend policy (level 3).

The following table shows the reconciliation of financial instruments classified as level 3 (before tax):

€ in millions	30 September 2019	Acquisitions (including additions)	Sales (including disposals)	Unrealized losses recognized in profit or loss ²	Realized losses recognized in profit or loss ²	Gains (losses) recognized in equity	Reclassification to Level 2	30 September 2020
Equity investments	17	-	-	-	-	-	-	17
Deal Contingent Forward	91	-	(98)	-	-	7	-	-
Deal Contingent Option ¹	119	29	(181)	_	1	32	-	-
Deal Contingent Forward Starting Interest Rate Swaps	-	(11)	5	(10)	-	(97)	113	-
Total	227	18	(274)	(10)	1	(58)	113	17

1 The additions to the deal contingent option are due to the subsequent valuation of the option premium to be paid upon completion of the Cypress acquisition and the associated exercise of the option. 2 These are gains within financial income or losses within financial expenses. Combined Management Report

With the completion of the acquisition of Cypress and the lapse of the commencement conditions, the deal contingent forward starting interest rate swaps classified in level 3 were continued as forward starting interest rate swaps and accordingly reclassified to level 2.

A hypothetical change in the material non-observable valuation parameters at the balance sheet date of \pm 10 percent would have resulted in a theoretical reduction in fair values of \notin 1 million or an increase of \notin 1 million (previous year: \notin 25 million).

The net gain or loss on financial instruments (including interest income and expense) within continuing operations in the Consolidated Statement of Profit or Loss amounted to the following as of 30 September 2020 and 2019:

€ in millions	2020	2019
Financial assets measured at amortized cost	(42)	149
therein interest income	28	26
therein impairment losses (2019: gains)	(1)	2
thereof foreign currency exchange	(70)	122
Financial assets measured at fair value through profit and loss	(15)	(26)
Financial liabilities measured at amortized cost	(18)	(180)
therein interest expenses	(120)	(52)
thereof foreign currency exchange	107	(123)
thereof other financial expenses	(5)	(5)
Financial liabilities at fair value through profit or loss	(3)	-
Financial assets or liabilities measured at fair value through profit and loss – held for trading	(40)	(5)
thereof foreign currency exchange	(40)	(5)
Total	(118)	(62)

Interest expense on financial liabilities measured at amortized cost mainly included interest on financial debt and effects from using the effective interest method.

Infineon does not net financial instruments. Infineon conducts derivative transactions according to the global netting agreement (Master Agreement) of the International Swaps and Derivatives Association (ISDA) and other comparable national framework agreements. Under the terms of these agreements, any netting arising from the occurrence of certain future events would have had no material effect on the balance sheet presentation of these financial instruments.

Derivative financial instruments and hedging activities

Infineon holds derivative financial instruments exclusively for hedging purposes. This includes the use of forward exchange contracts, foreign currency options, interest- and commodity swaps. The objective is to reduce the impact of exchange rate, interest and commodity price fluctuations on future net cash flows.

The nominal values and fair values of Infineon's derivative instruments as of 30 September 2020 and 2019 that were not designated as cash flow hedges were as follows:

	30 September 2020		30 September 2019	
€ in millions	Nominal value	Fair value	Nominal value	Fair value
Forward exchange contracts sold	144	(2)	134	(3)
Forward exchange contracts purchased	151	2	150	2
Total		-		(1)

Foreign exchange derivatives are entered into by Infineon to offset the exchange risk from anticipated cash receipts from operating activities. In connection with the acquisition of Cypress, foreign currency derivatives were acquired in the 2020 fiscal year to hedge the current business, which have been redesignated as cash-flow hedges. As part of the hedging, only the spot element of the forward exchange contracts was designated as a hedging instrument. The forward elements of a forward exchange contract were excluded from the designation of the hedging instrument.

Further information

The economic connection was proven by means of a regression analysis. These foreign currency derivatives expired in full as of 30 September 2020.

As of 30 September 2020 and 2019, Infineon held the following instruments, which were designated as cash flow hedges and were used to hedge against exchange rate, interest and commodity price changes.

€ in millions (except otherwise stated, exchange rates, interest rates and prices)		
30 September 2020		
Hedging of interest risks		
Forward Starting Interest Rate Swaps		
Nominal value (US dollar)	750	
Average interest rate	1.9548%	
Hedging of other risks		
Commodity swaps		
Nominal value	15	
Average price (US dollar/ounce)	1,765	
30 September 2019		
Hedging of foreign exchange risks		
Deal Contingent Forward		
Nominal value	3,300	
Average forward rate (Euro/US dollar)	1.1199	
Deal Contingent Option		
Nominal value	3,300	
Average forward rate (Euro/US dollar)	1.1506	
Hedging of other risks		
Commodity swaps		
Nominal value	30	
Average price (US dollar/ounce)	1,364	

In order to hedge the majority of the foreign currency risks arising from the purchase price obligation of the acquisition of Cypress, a transaction-dependent euro/US dollar foreign currency forward (deal contingent forward) and a transaction-dependent euro/US dollar foreign currency option (deal contingent option), each with a nominal value of €3.3 billion, were concluded in the previous year and were accounted for as cash flow hedges. With the completion of the acquisition of Cypress on 16 April 2020, the deal contingent forward and deal contingent option became due. The amounts from these hedging relationships previously included in other reserves of €137 million were taken into account in full in the calculation of the consideration transferred (see note 3, D p. 162 ff.). This amount includes the option premium of €141 million paid in connection with the exercise of the deal contingent option. No hedge ineffectiveness was recorded in the Consolidated Statement of Profit or Loss for these hedging relationships.

In view of planned future refinancing measures, in December 2019 Infineon partially hedged against the risk of rising interest rates with transaction-dependent interest rate hedging transactions (deal contingent forward starting interest rate swaps) with a total nominal volume of €2,025 million and US\$750 million, which were accounted for as cash flow hedges. At the inception of the hedging transaction, and on a continuing basis, Infineon verified the existence of an economic relationship between the hedged item and the hedging instrument (critical term). For the above-mentioned hedging transactions, the hedge ratio was 1:1. As part of the hedging, the swap rates were designated in their volume to 100 percent. On the other hand, the deal contingency component implied in the swap rates was excluded from the designation of the hedging instrument and was recognized directly in the Consolidated Statement of Profit or Loss over the term of the hedges until the date of the planned refinancing measures. In the 2020 fiscal year no material ineffectiveness was recognized in the Consolidated Statement of Profit or Loss from the aforementioned interest rate swaps. Ineffectiveness is caused mainly from adjustments for the default risk arising from the counter-party and the Company, which are not offset by the changes in value of the secured future refinancing measures. When the refinancing measures are concluded, the effective part of the hedge will be recognized as interest expense over the term of the instruments.

The interest rate swaps were, upon initial recognition, each recorded at market price, calculated using the valuation model on the transaction date. The transaction price of the interest rate swaps deviated from the market price, since they were concluded with a premium to market price due to their dependence on the conclusion of the acquisition of Cypress. The deviations of the market price from the transaction price were capitalized as a so-called "day one loss" and were recognized directly in the Consolidated Statement of Profit or Loss over the term of the hedges until the date of the planned refinancing measures.

The development of the day one loss was as follows:

€ in millions	
Balance as of 1 October 2019	-
Addition from new transactions	11
Reversal through profit or loss in the period	(10)
Balance as of 30 September 2020	1

When the bonds were issued on 24 June 2020 (see note 17, \Box p. 179 f.), interest rate swaps with a nominal value of \in 1,525 million were due. The amount of minus \in 36 million from this hedge, previously recognized in the other reserves, are recognized in interest expense over the term of the individual tranches of the bonds.

As a result of developments in the capital markets resulting from the coronavirus pandemic, interest rate swaps with a nominal value of €500 million were no longer designated as cash flow hedges, since the occurrence of the hedged transaction was considered unlikely. In this context, losses of €11 million were reclassified from other reserves into the Consolidated Statement of Profit or Loss.

The following table shows the effects of the deal contingent forward, the deal contingent option, and the deal contingent forward starting interest rate swaps as of 30 September 2020 and 2019 on the items in the Consolidated Statement of Financial Position and the Consolidated Statement of Profit or Loss (before tax):

€ in millions	Deal Contingent Forward	Deal Contingent Option	Forward Starting Interest Rate Swaps	Total
30 September 2020				
Other current assets	-	-	1	1
Other reserves	-	-	(98)	(98)
Therein hedge reserve	-	-	(98)	(98)
Other current liabilities	-	-	66	66
Financial expense			26	26
30 September 2019				
Other current assets	91	119	-	210
Other reserves	91	7	-	98
Therein hedge reserve	56	84	-	140
Therein cost of hedging reserve	35	(77)	-	(42)
Other current liabilities		112	-	112

To hedge the price risks of highly probable gold purchases in the 2021 fiscal year, Infineon entered into swaps, which are designated as cash flow hedges. The designated hedged items and the hedging instruments were subject to the same risk. The economic connection was proven by means of a regression analysis. Due to the execution of only highly effective hedging transactions, Infineon assumes that significant ineffective elements will normally not be generated. Infineon applies a hedging ratio of 1:1. Ineffectiveness can be caused mainly from the impact of the credit risks arising from the counter-party and the Company on the fair value of the swap, that is not reflected in the change in the fair value of hedged cash flows attributable to changes in raw material prices. As in the previous year, no hedge ineffectiveness was recorded in the Consolidated Statement of Profit or Loss for these hedging relationships. As in the previous year, no gains or losses were transferred from other reserves to profit or loss as a result of cash flow hedges for future raw material purchases being canceled following the decision that the occurrence of the hedged transaction had become unlikely.

The amounts related to positions designated as hedged items were as follows as of 30 September 2020 and 2019:

€ in millions	Change in the value of the hedged item used to determine ineffectiveness	Hedge reserve (before taxes)	Cost of hedging reserve (before taxes)
	increctiveness		
30 September 2020			
Hedging of foreign exchange			
Deal Contingent Forward	(98)	-	-
Deal Contingent Option	(75)	-	-
Hedging of interest risks			
Forward Starting Interest Rate Swaps	99	(98)	-
Hedging of commodity price risks	(1)	1	-
Total		(97)	-
30 September 2019			
Hedging of foreign exchange			
Deal Contingent Forward	(56)	56	35
Deal Contingent Option	(67)	84	(77)
Hedging of commodity price risks	(3)	3	-
Hedging of commodity price risks	(3)	3	

In the 2020 and 2019 fiscal years, no balances remained in other comprehensive income for which hedge accounting is no longer applied.

The relevant amounts of the derivative financial instruments designated as hedging instruments as of 30 September 2020 and 2019 (before tax) were as follows:

€ in millions	Carrying amount	Changes in fair value for the measurement of the ineffective- ness in the reporting period	Changes in fair value of the hedging instrument recognized in other comprehensive income	Changes in fair value of cost of hedging recognized in other comprehensive income (loss)	Amount reclassified from hedge reserve to the Statement of Profit or Loss	Amount reclassified from the hedge reserve to the State- ment of Profit or Loss from hedging relationships for which the underlying transaction is no longer expected	Amount reclassified from the hedge reserve to the cost of non-financial assets	Amount reclassified from the cost of hedging reserve to the cost of non-financial assets	Line item of the Statement of Financial Position or the Statement of Profit or Loss affected by the reclassification
30 September 2020									
Other current assets:									
Hedging of foreign exchange									
Deal Contingent Forward	-	98	(56)	(35)	-	-	70	28	Goodwill
Deal Contingent Option	-	39	(84)	77	-	-	181	(142)	Goodwill
Hedging of commodity price risks	1	1	(2)	-	-	-	(5)	-	Inventories
Other current liabilities									
Hedging of interest risks	66	(99)	(98)	-	(1)	(11)	-	-	Financial expense
Total	67	39	(240)	42	(1)	(11)	246	(114)	
30 September 2019									
Other current assets:									
Hedging of foreign exchange									
Deal Contingent Forward	91	91	56	35	-	-	-	-	-
Deal Contingent Option	119	7	84	(77)			-	-	-
Hedging of commodity price risks	3	3	6	-			-	-	-
Total	213	101	146	(42)	-	-	-	-	

207

The following table shows the reconciliation for the reserve for cash flow hedges (before taxes) by risk category:

€ in millions	Hedging of foreign exchange risk	Hedging of interest risks	Hedging of commodity price risks	Total
30 September 2019	98	-	3	101
Change in fair value	39	(99)	(7)	(67)
Amount reclassified to the Consolidated Statement of Profit or Loss	_	1	_	1
Amount reclassified to non-financial items	(137)	_	5	(132)
30 September 2020	-	(98)	1	(97)

29 Financial risk management

Infineon's activities are exposed to a variety of financial risks: market risk (including foreign exchange risk, interest rate risk and price risk), credit risk, financing and liquidity risk. Infineon's financial risk management seeks to minimize potential adverse effects on its profitability and liquidity. Infineon uses derivative financial instruments to hedge certain risks to which it is exposed. Financial risk management is carried out by the central Finance & Treasury (FT) department in accordance with policies approved by the Chief Financial Officer. The FT department identifies, evaluates and hedges financial risks in close cooperation with the operating units. The FT department's policies contain principles for overall risk management as well as guidance covering specific areas such as foreign exchange risk, interest rate risk, credit risk, the use of derivative and non-derivative financial instruments, and the investment of excess liquidity. The coronavirus pandemic and the related measures to contain the virus can have a direct and indirect effect on financial risks. The course of the spread of the coronavirus and the impact on Infineon's risk position is continually monitored and is taken into account in the methods, models and processes used to control financial risks. Possible longer-term effects on Infineon as a consequence of the spread of the coronavirus and the associated volatility in the financial markets are currently not foreseeable.

Market risk

Market risk is defined as the risk of losses resulting from adverse changes in the market prices of financial instruments, including those related to foreign exchange rates, interest rates and other price risks.

Infineon is exposed to various market risks in the ordinary course of business, primarily resulting from changes in foreign exchange rates and interest rates. Infineon enters into a range of derivative financial transactions with various counterparties to limit such risks. Derivative instruments are used only for hedging purposes and not for trading or speculative purposes.

Foreign exchange risk

Foreign exchange risk within the meaning of IFRS 7 is the risk arising from changes to foreign exchange rates. Accordingly, foreign exchange risks are associated with financial instruments that are denominated in a foreign currency that does not correspond to the functional currency, and the foreign currency represents the relevant risk variable. Risks arising from the translation into Infineon's reporting currency are not risks within the meaning of IFRS 7.

Although Infineon prepares the Consolidated Financial Statements in euros, a varying but significant portion of its revenue as well as cost of goods sold, research and development and product distribution costs are denominated in currencies other than the euro, primarily the US dollar. Fluctuations in the exchange rates of these currencies compared to the euro had an effect on the results of Infineon in the 2020 and 2019 fiscal years.

Further information

208

The Management Board has established policies that require Infineon's individual legal entities to manage the foreign exchange risk with respect to their functional currency. Group entities prepare a monthly rolling cash flow forecast by currency in order to determine foreign exchange risks. The net foreign exchange positions determined in these forecasts are required to be hedged, usually by entering into internal hedging contracts. Infineon's policy with respect to limiting short-term foreign currency exposure is to hedge at least 75 percent of its estimated net cash flow for the following two months, at least 50 percent of its estimated net cash flow for the third month and, depending on the nature of the underlying transactions, a portion for the periods thereafter. Part of the foreign currency risk cannot be mitigated due to differences between actual and forecasted amounts. Infineon calculates this remaining risk based on net cash flows considering items in the Statement of Financial Position, actual orders received or placed and all other planned cash receipts and payments.

In order to hedge the majority of the foreign currency risks arising from the purchase price obligation of the acquisition of Cypress, Infineon entered into a transaction-dependent euro/US dollar foreign currency forward transaction (Deal Contingent Forward) and a transaction-dependent euro/US dollar foreign currency option transaction (Deal Contingent Option) in the 2019 fiscal year, and accounted for them as cash flow hedges. With the completion of the acquisition of Cypress on 16 April 2020, the deal contingent forward and deal contingent option became due (see note 28, \Box p. 198 ff.).

For the net result related to foreign currency derivatives and foreign currency transactions included within net income see note 28. D p. 202

Foreign exchange risk at Infineon arises predominantly from US dollar positions. The following table shows the net risk as of 30 September 2020 and 2019:

€ in millions	30 Septem- ber 2020	30 Septem- ber 2019
Euro/US dollar	34	67
Euro/Japanese yen	(86)	(60)
Euro/Singapore dollar	(70)	(15)
Euro/Malaysian ringgit	(48)	(37)
Euro/British pound	(7)	(2)
Financial position exposure	(177)	(47)
Euro/US dollar	(144)	(124)
Euro/Japanese yen	37	26
Euro/Singapore dollar	24	32
Euro/Malaysian ringgit	57	64
Euro/British pound	9	2
Forward exchange contracts	(17)	-
Net exposure	(194)	(47)

The following table shows the effects on profit or loss for the 2020 and 2019 fiscal year and equity as of 30 September 2020 and 2019 of a \pm 10 percent shift in exchange rates. The assumed exchange rate changes relate only to financial instruments within the meaning of IAS 32.

	Profit	or Loss	Equity		
€ in millions	plus 10%	minus 10%	plus 10%	minus 10%	
30 September 2020	18	(22)	6	(7)	
Euro/US dollar	10	(12)	6	(7)	
Euro/Japanese yen	5	(6)	-	-	
Euro/Singapore dollar	4	(5)	-	-	
Euro/Malaysian ringgit	(1)	1	-	-	
30 September 2019	4	(5)	(395)	712	
Euro/US dollar	5	(6)	(395)	712	
Other	(1)	1	-	-	

Combined Management Report

209

Interest rate risk

In accordance with IFRS 7, interest rate risk is defined as the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in interest rates.

Infineon is exposed to interest rate risk through its financial assets and debt instruments resulting from bond issuances and debt financing. Due to the cyclical nature of its core business and the need to maintain high operational flexibility, Infineon holds a relatively high level of liquid financial assets that are invested in short-term fixed-interest instruments. These investments generally have a contract duration of between one and twelve months in order to achieve short-term interest rate returns. The risk to these assets of changing interest rates is not material in the current period of low or zero interest rates.

To reduce the net remaining risks caused by changes in interest rates, Infineon is able to make use of interest rate derivatives in order to align the fixed interest periods of assets and liabilities.

Interest rate risks related to planned future refinancing measures were partially hedged by interest rate derivatives designated as cash flow hedges (see note 28, D p. 203 f.).

IFRS 7 requires a sensitivity analysis showing the effect of possible changes in market interest rates on profit or loss and equity. Infineon prepares this using the iteration method.

Changes in market interest rates affect interest income and expenses from variableyield financial instruments as well as from fixed-yield financial instruments that are measured at fair value through profit or loss, and also affect equity due to the hedge accounting designated interest-rate hedging instruments. An increase or decrease in interest rates of 100 basis points would have increased net interest expense by €0 million in the 2020 fiscal year (previous year: €22 million), or decreased by €18 million

(previous year: €22 million), based on net holdings of minus €288 million (2019: €2,187 million). The effect from the hedge accounting designated hedging instruments (see note 28, D p. 203 f.) would have increased equity as of 30 September 2020 by €53 million (30 September 2019: €0 million), or decreased by €59 million (30 September 2019: €0 million).

As in the previous year, Infineon did not hold any fixed-rate financial assets that are measured at fair value through profit or loss. Furthermore, as in the previous fiscal year, Infineon did not hold any fixed-interest financial assets that were measured at fair value through equity.

Other price risk

According to IFRS 7, other price risk is defined as the risk that the fair value or future cash flows of a financial instrument could fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), irrespective of whether those changes are caused by factors specific to the individual financial instrument or its issuer, or by factors affecting all similar financial instruments traded in the market.

In the 2020 fiscal year Infineon held financial instruments that are exposed to market price risks. A change in the relevant market prices would have had no significant impact on the result of the 2020 and 2019 fiscal years.

Additionally, Infineon is exposed to price risks with respect to raw materials upon which it is dependent. Infineon seeks to minimize these risks through its procurement policy (including the use of multiple sources, where possible) and its operating procedures. In line with these measures, Infineon concluded additional financial derivative contracts for certain commodity supplies (gold) for the following fiscal year in order to mitigate the remaining risk arising from the fluctuation of commodity prices (see note 28, **D** p. 205). A change in relevant market prices of ± 10 percent would have increased or decreased equity by €2 million in the 2020 fiscal year (30 September 2019: €3 million).

Credit risk

Credit risk arises when a customer or other counterparty of a financial instrument fails to discharge its contractual obligations. Infineon is exposed to this risk as a consequence of its ongoing operations, its financial investments and certain financing activities. Infineon's credit risk arises primarily from cash and cash equivalents, financial investments, trade receivables and derivative financial instruments. Excluding the impact of any collateral received, the carrying amount of financial investments, cash and cash equivalents and trade receivables corresponds to the maximum credit risk.

Worldwide foreign exchange and interest hedging contracts as well as the investment of liquid assets in cash equivalents and financial investments are entered into with major financial institutions worldwide that have high credit ratings. Infineon assesses the creditworthiness of banks using a methodology that establishes investment limits for individual banks that are updated on a daily basis based on current ratings (S&P, Moody's or Fitch) and credit default swap premiums. Possible breaches of stipulated investment thresholds result in immediate notification and the requirement to reduce the risk. This methodology is also used to identify a significant increase in credit risk in the context of the recognition of expected credit losses within the meaning of IFRS 9 at the balance sheet date.

Infineon applies the general impairment model in accordance with IFRS 9 for cash and cash equivalents as well as financial investments. Since Infineon invests exclusively in high-quality financial assets from issuers with a rating of at least investment grade in order to minimize default risk, Infineon assumes that its financial assets carry low credit risk arising from the creditworthiness of its contract parties, so that any impairment loss recorded at first-time recognition is limited to the twelve-month expected credit losses. Infineon considers low credit risk to be an internal credit rating "Holding Quality 1". A change in the internal rating from "Holding Quality 1" to "Holding Quality 0" indicates a significant increase in credit risk. The impairment is calculated using

a weighted-probability method. The impairment is calculated as a measure of the probability of default based on the exposure at the balance sheet date, the loss ratio for that exposure, and the credit default swap spread.

The following table provides information on the credit risk for cash and cash equivalents measured at amortized cost, as well as financial investments as of 30 September 2020 and 2019:

€ in millions		At amortized cost		
Infineon rating	External rating	Basis for the determina- tion of the loss allowance		
30 September 2020				
Holding Quality 1	A to BBB	926		
Holding Quality 0	-	-		
Total		926		
30 September 2019				
Holding Quality 1	A to BBB	1,372		
Holding Quality 0	BBB	147		
Total		1,519		

Expected 12-month credit losses for cash and cash equivalents and financial investments amounted to €1 million as of 30 September 2020 (previous year: €0 million). Expected lifetime credit losses on non-impaired financial assets totaled €0 million in the 2020 fiscal year (previous year: €0 million). As in the previous year Infineon had no financial assets that were overdue or impaired as of 30 September 2020. There was no reclassification between the impairment levels in the 2020 and 2019 fiscal years.

210

As in the previous year, Infineon spread its cash investments over more than ten banks as of 30 September 2020. As of 30 September 2020, no financial institution was responsible for more than 22 percent (30 September 2019: 12 percent) of Infineon's cash investments. This gave rise to a maximum risk of €160 million (30 September 2019: €139 million) in the event of the default of a single financial institution assuming no deposit insurance scheme is in place. Infineon also held derivative financial instruments with a positive fair value of €2 million at 30 September 2020 (30 September 2019: €215 million). In addition, to spread the risk of investment, investments were made in money market funds with the best rating, and in money market investment funds.

Infineon manages the credit risk with respect to trade receivables through a comprehensive credit evaluation for all major customers, the use of credit limits and monitoring procedures. New customers are evaluated for creditworthiness in accordance with Infineon guidelines. Credit limits are also in place for individual customers and creditworthiness and credit limits are constantly monitored. A further measure taken to reduce credit risk is the use of reservation of title clauses. However, despite continuous monitoring, Infineon cannot fully exclude the possibility of a loss arising from the default of one of its contract parties.

Infineon assigns trade receivables to different risk classes based on external ratings, the analysis of customer balance sheet figures, default probabilities (credit default swaps), customer payment behavior and country risks. The simplified method is used to determine the expected losses from trade receivables. The expected losses over the entire term of the trade receivables are determined. The allowance is calculated for each customer using a weighted-probability method. In calculating the expected credit losses, for each customer Infineon takes into account a forward-looking probability of default provided by a credit rating agency. Individual allowances are recorded based on case-by-case facts or other risk indicators.

The following table provides information about the credit risk for trade receivables from third parties as of 30 September 2020 and 2019:

€ in millions		At amortized cost			
Infineon rating	Risk class	External credit rating	Basis for the c of the value	letermination adjustment	
			30 September 2020	30 September 2019 ¹	
1	low risk	A – to AAA	256	273	
2	average risk	BBB to BBB+	470	422	
3	above average risk	BB+ to BBB –	296	223	
4	increased risk	BB- to BB	109	75	
5	high risk	C to B+	48	26	
-	individual	none	4	6	
-	others	none	9	34	
Total			1,192	1,059	

1 In conjunction with the integration of Cypress, the presentation of reimbursement obligations to customers was aligned with the approach previously used by Cypress (see note 10, D p. 172). Instead of netting reimbursement obligations against trade receivables, they are now reported within other current liabilities. For better comparability, the previous year's figures were adjusted.

As of 30 September 2020, expected credit losses on trade receivables (see note 10, □ p. 172) amounted to €1 million for all risk classes (30 September 2019: €1 million). The individual allowances on trade receivables (no rating) amounted to €4 million in the 2020 fiscal year (2019: €6 million).

Developments in the wake of the coronavirus pandemic are very dynamic, so it cannot be ruled out that the actual credit losses deviate significantly from the expected credit losses recognized based on current estimates and assumptions, or that the affected estimates and assumptions will have to be adjusted in future periods and this could have a significant impact on Infineon's expected credit losses.

Financing and liquidity risk

Financing and liquidity risk is the risk that an entity will encounter difficulties in meeting obligations associated with financial liabilities.

Liquidity risk could arise from a potential inability of Infineon to meet maturing financial obligations. Infineon's liquidity management provides that sufficient levels of cash and other liquid assets are available as well as ensuring the availability of funding through adequate levels of committed credit facilities.

The following table discloses the maturity profile for non-derivative financial liabilities and a cash flow analysis for derivative financial instruments with negative fair values. The table shows the undiscounted contractually agreed cash flows that result from the respective financial liability. Cash flows are recognized at the date when Infineon becomes a contractual partner to the financial instrument. Amounts in foreign currencies were translated using the closing rate at the reporting date. The value of financial instruments with variable interest payments is determined using the interest rate from the last interest fixing date before 30 September 2020 and 2019. The cash outflows of financial liabilities that can be repaid at any time are assigned to the period in which the earliest redemption is possible.

	Due in the fiscal year								
€ in millions	Total	2021	2022	2023	2024	2025	Beyond 2025		
30 September 2020									
Non-derivative financial liabilities	10,054	2,624	1,165	1,846	1,362	92	2,965		
Derivative financial liabilities:									
Cash outflow	229	229	-	-	-		-		
Cash inflow 1	(161)	(161)	-	-	-	-	-		
Total	10,122	2,692	1,165	1,846	1,362	92	2,965		
	Total	2020	2021	2022	2023	2024	Beyond 2024		
30 September 2019									
Non-derivative financial liabilities	3,272	1,456	242	554	41	381	598		
Derivative financial liabilities:									
Cash outflow	156	156	-	-	-		-		
Cash inflow ¹	(153)	(153)	_	-	-	_	-		
Total	3,275	1,459	242	554	41	381	598		

1 Cash inflows from derivative financial liabilities that arise upon settlement of the instrument.

Future cash flows from derivative financial instruments (see note 28, D p. 202 ff.) may differ from the amounts shown in the table, since exchange rates or relevant factors are subject to change.

30 Segment reporting

Identification of segments

The basis for identifying the reporting segments is the differences between the products and applications. In the 2020 fiscal year Infineon's business was structured into the four operating segments Automotive, Industrial Power Control, Power & Sensor Systems and Connected Secure Systems. In addition, Infineon differentiates Other Operating Segments as well as Corporate and Eliminations. Cypress's businesses have been fully allocated to the existing segments. The Automotive and Connected Secure Systems segments accounted for the largest share of contribution of revenue from Cypress, with around 50 percent and around 40 percent respectively. Around 10 percent was allocated to the Industrial Power Control segment by the first-time consolidation of Cypress.

Automotive

The Automotive segment designs, develops, manufactures and markets semiconductor products use in the automotive industry, and also memory products for specific applications for automotive, industrial, information, telecommunications and consumer electronics.

Industrial Power Control

The Industrial Power Control segment designs, develops, manufactures and markets semiconductor products for the conversion of electrical energy for small, medium and high-power applications. The products are used in the manufacturing, the low-loss transmission, the storage and the efficient use of electrical energy.

Power & Sensor Systems

With effect from 1 April 2020, the name of the Power Management & Multimarket segment changed to Power & Sensor Systems. The name change has no impact on the structure of the organization, the strategy or the scope of business. The Power & Sensor Systems segment designs, develops, manufactures and markets semiconductors for energy-efficient power supplies, mobile devices, mobile phone network infrastructures, human-machine interaction as well as applications with special demands on their robustness and reliability.

Connected Secure Systems

With effect from 1 August 2020, the name of the Digital Security Solutions segment changed to Connected Secure Systems. The name change reflects the integration of Cypress' IoT, Compute & Wireless business unit, and the associated expansion of its product portfolio and business scope. The Connected Secure Systems segment designs, develops, manufactures and markets semiconductor-based security solutions for networked devices, card-based applications, and government documents; microcontrollers for industrial, entertainment, and household applications; components for connectivity solutions; and a customer support ecosystem consisting of software, services, and development platforms.

Other Operating Segments

Other Operating Segments comprise the remaining activities of divested businesses, and other business activities. Since the sale of the Wireless mobile phone business, supplies to Intel Mobile Communications are included in this segment. Also included are supplies of LDMOS wafers and related components, as well as packaging and test services for Cree, Inc., since the sale of the major part of Infineon's Radio Frequency Power Components business.

Corporate and Eliminations

Corporate and Eliminations reflects the elimination of intragroup revenue and profits/losses to the extent that these arise between the segments.

Combined Management Report

214

Similarly, certain items are included in Corporate and Eliminations, which are not allocated to the other segments. These include certain corporate headquarters costs and selected topics, which are not allocated to the segments since they arise from corporate decisions and are not within the direct control of segment management.

Furthermore, raw materials and supplies are not under the control or responsibility of the operating segment management and are therefore allocated to corporate functions. Work in progress and finished goods are allocated to the operating segments.

Chief Operating Decision Maker, definition of Segment Result and allocation of assets and liabilities to the individual segments

The Management Board, as joint Chief Operating Decision Maker, decides how resources are allocated to the segments.

Based on revenue and Segment Result, the Management Board assesses performance and defines operating targets and budgets for the segments.

Segment Result is defined as operating income (loss) excluding certain impairment losses (in particular goodwill impairments), impact on earnings of restructuring measures and closures, share-based compensation, acquisition-related depreciation/ amortization and other expenses, gains (losses) on sales of businesses, or interests in subsidiaries and other income (expense), including litigation costs.

Decisions relating to financing and the investment of cash funds are taken at a Group level and not at a segment level. For this reason, financial income and financial expense (including interest income and expense) are not allocated to the segments.

Neither assets, liabilities nor cash flows per segment are reported to the Management Board, nor is segment performance assessed on this basis.

The exception to this approach is certain inventory information which is regularly analyzed at a segment level. Infineon also allocates depreciation and amortization expense to the operating segments based on production volume and products produced using standard costs.

		Product category								
	То	tal	Power semic	conductors	Embedded C Connect	Control & ivity	RF & sens	sors	Memorie specific app	es for lications
€ in millions	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019
Revenue from contracts with customers:										
Automotive	3,542	3,503	1,864	2,218	876	668	551	617	251	-
Industrial Power Control	1,406	1,418	1,406	1,418	-	-	-	-	-	-
Power & Sensor Systems	2,650	2,445	1,921	1,883	99	-	630	562	-	-
Connected Secure Systems	953	642	-	-	953	642	-	-	-	-
Subtotal	8,551	8,008	5,191	5,519	1,928	1,310	1,181	1,179	251	-
Other Operating Segments	16	21								
Corporate and Eliminations	-	_								
Total	8,567	8,029								

Segment information

There were limited levels of trading relationships between the operating segments during the 2020 and 2019 fiscal years. Costs are recharged in general without impact on profit or loss.

€ in millions	2020	2019
Segment Result:		
Automotive	155	404
Industrial Power Control	256	251
Power & Sensor Systems	636	585
Connected Secure Systems	122	77
Other Operating Segments	3	4
Corporate and Eliminations	(2)	(2)
Total	1,170	1,319

The following table provides the reconciliation of Segment Result to income from continuing operations before income taxes:

€ in millions	2020	2019
Segment Result:	1,170	1,319
Plus/minus:		
Reversal of impairments (impairments) (in particular on goodwill)	11	-
Impact on earnings of restructuring and closures, net	(20)	
Share-based compensation	(14)	(11)
Acquisition-related depreciation/amortization and other expenses	(540)	(114)
Gains (losses) on sales of businesses, or interests in subsidiaries, net	1	(1)
Other income and expense, net	(27)	(32)
Operating income	581	1,161
Financial income	29	26
Financial expenses	(177)	(98)
Gain (loss) from investments accounted for using the equity method	(9)	(6)
Income from continuing operations before income taxes	424	1,083

Of the €540 million (2019: €114 million) "Acquisition-related depreciation/amortization and other expenses" incurred in the 2020 fiscal year, €316 million (2019: €56 million) was attributable to cost of goods sold, €18 million (2019: €2 million) to research and development expenses, €161 million (2019: €44 million) to selling, general and administrative expenses and €45 million (2019: €12 million) to other operating income/expenses.

€ in millions	2020	2019
Depreciation and amortization:		
Automotive	495	458
Industrial Power Control	181	159
Power & Sensor Systems	226	191
Connected Secure Systems	62	46
Other Operating Segments	3	4
Depreciation and amortization allocated to the segments	967	858
Depreciation and amortization not allocated to the segments	293	87
Total depreciation and amortization	1,260	945

€ in millions	30 Septem- ber 2020	30 Septem- ber 2019
Inventories:		
Automotive	975	551
Industrial Power Control	251	201
Power & Sensor Systems	449	338
Connected Secure Systems	190	26
Other Operating Segments	3	2
Corporate and Eliminations	184	583
Total	2,052	1,701
Impairment losses on assets in the 2020 fiscal year amounted to €5 million (2019: €6 million) in the Automotive segment, €5 million (2019: €0 million) in the Power & Sensor Systems segment, and €13 million (2019: €0 million) in Corporate and Eliminations. Also allocated to Corporate and Eliminations in the 2020 fiscal year was €11 million (2019: €0 million) of reversal of impairments to assets.

Entity-wide disclosures in accordance with IFRS 8

Revenue for the 2020 and 2019 fiscal years by region were as follows:

€ in millions	2020	2019
Revenue:		
Europe, Middle East, Africa	2,322	2,430
therein: Germany	1,056	1,169
Asia-Pacific (excluding Japan, Greater China)	1,291	1,187
Greater China ¹	3,174	2,769
therein: Mainland China, Hong Kong	2,472	2,159
Japan	765	593
Americas	1,015	1,050
therein: USA	845	862
Total	8,567	8,029

1 Greater China comprises Mainland China, Hong Kong and Taiwan.

In the course of the 2020 fiscal year, Infineon adjusted its reporting to reflect the common geographical names for the sub-regions of China. Accordingly, instead of the former term "China", the term "Mainland China, Hong Kong" is now used.

The allocation of revenues from external customers to geographic areas is based on the customers' locations. The average number of employees by geographic region is provided in note 4. \square p. 165

No single customer accounted for more than 10 percent of Infineon's revenue during the 2020 and 2019 fiscal year.

Non-current assets as of 30 September 2020 and 2019, by region, were as follows:

€ in millions	30 Septem- ber 2020	30 Septem- ber 2019
Non-current assets:		
Europe	3,627	3,068
therein: Germany	2,495	2,413
Asia-Pacific (excluding Japan, Greater China)	1,182	1,074
Greater China ¹	73	51
therein: Mainland China, Hong Kong	67	50
Japan	14	2
Americas	9,137	1,183
therein: USA	9,124	1,175
Total	14,033	5,378

1 Greater China comprises Mainland China, Hong Kong and Taiwan.

Non-current assets do not include financial instruments, deferred tax assets and assets from employee benefits.

Management Board and Supervisory Board

Management compensation in the 2020 fiscal year

As required by section 314, paragraph 1, no. 6a, sentences 5 to 8, German Commercial Code (version before ARUG II), the remuneration of the individual members of the Management Board and the Supervisory Board is disclosed in the Compensation report, D p. 130 ff., which is part of the Combined Management Report.

Management Board

The Management Board members during the 2020 fiscal year were as follows:

Name	Position	Membership of Supervisory Boards and other comparable governing bodies of domestic and foreign companies (as of 30 September 2020)
Dr. Reinhard Ploss	Chief Executive Officer, Labor Director	 Supervisory Board member Infineon Technologies Austria AG, Austria (Chairman) Futurium gGmbH, Germany
		Member of the Board of Directors Infineon Technologies Americas Corp., USA
Dr. Sven Schneider	Chief Financial Officer	Supervisory Board member Infineon Technologies Austria AG, Austria
		 Member of the Board of Directors Infineon Technologies China Co., Ltd., People's Republic of China Infineon Technologies Asia Pacific Pte., Ltd., Singapore Infineon Technologies Americas Corp., USA
Dr. Helmut Gassel	Chief Marketing Officer	 Member of the Board of Directors Infineon Technologies Asia Pacific Pte., Ltd., Singapore (Chairman) Infineon Technologies Japan K.K., Japan (Chairman) Infineon Technologies China Co., Ltd., People's Republic of China Infineon Technologies Americas Corp., USA (Chairman)
Jochen Hanebeck	Chief Operations Officer	Supervisory Board member > Infineon Technologies Austria AG, Austria

31 Additional information in accordance with HGB

Information pursuant to section 161 Stock Corporation Act (AktG)

The Declaration of Compliance prescribed by section 161 AktG was drawn up by the Management Board and the Supervisory Board and made permanently available to the public on Infineon's website.

www.infineon.com/cms/en/about-infineon/investor/corporate-governance/#corporate-governance

Accounting fees pursuant to section 314, paragraph 1, no. 9 HGB Year-end audit fees

At the Annual General Meeting held on 20 February 2020, the shareholders elected KPMG AG Wirtschaftsprüfungsgesellschaft ("KPMG"), Munich, as auditor for the 2020 Separate Financial Statements and the Consolidated Financial Statements of Infineon Technologies AG. The audit fees charged by KPMG in the 2020 fiscal year amounted to €3.4 million for the audit of the Consolidated Financial Statements and various Separate Financial Statements including an integrated audit review of the Interim Financial Statements.

Fees for other advisory services

In addition to the amounts described above, KPMG charged an aggregate of €0.5 million in the 2020 fiscal year for other audit services which mainly included the provision of a comfort letter as well as the audit of the disclosures in the Sustainability Report.

Fees for tax advisory services

In addition to the amounts described above, KPMG charged €21 thousand in the 2020 fiscal year for tax consulting services in connection with the assessment of individual items.

Fees for other services

Fees of €0.1 million were charged by KPMG to the Company in the 2020 fiscal year for other services. These mainly included quality assurance during the implementation of regulatory requirements, and IT system changes.

Further information

The Supervisory Board

The Supervisory Board members during the 2020 fiscal year, the Supervisory Board position held by them, their occupation, and their membership of other supervisory and governing bodies are as follows:

Name	Position	Membership of other Supervisory Boards and other comparable governing bodies of domestic and foreign companies (as of 30 September 2020)
Dr. Wolfgang Eder Chairman	Member of various supervisory bodies	Supervisory Board member > voestalpine AG, Austria
Johann Dechant ¹ Deputy Chairman	Vice-Chairman of the Joint Works Council and Chairman of the Works Council Regensburg, Infineon Technologies AG	Member of the Administrative Board SBK Siemens-Betriebskrankenkasse, Germany
Xiaoqun Clever	Management Consultant – LuxNova Suisse GmbH	Supervisory Board member Capgemini SE, France Amadeus IT Group SA, Spain
		Member of the Advisory Board Maxingvest AG, Germany
		Member of the Administrative Board Cornelsen Group, Germany
		Member of the Board of Directors > BHP Group Plc., Australia
Dr. Friedrich Eichiner	Member of various supervisory bodies	Supervisory Board member Festo AG, Germany (Chairman) Festo Management SE, Germany (Chairman) Allianz SE, Germany
Annette Engelfried ¹	Labor union secretary IG Metall district management, Berlin- Brandenburg-Saxony	 Supervisory Board member Infineon Technologies Dresden Verwaltungs GmbH, Germany Siemens Gamesa Renewable Energy Management GmbH, Germany
Peter Gruber ¹ Representative of Senior Management	Chief Financial Officer Operations, Infineon Technologies AG	Supervisory Board member > Infineon Technologies Dresden Verwaltungs GmbH, Germany
Hans-Ulrich Holdenried	Independent Management Consultant	Member of the Advisory Board > Bridge imp GmbH, Germany

Name	Position	Membership of other Supervisory Boards and other comparable governing bodies of domestic and foreign companies (as of 30 September 2020)
Dr. Susanne Lachenmann ¹	Leading Development Engineer	
Géraldine Picaud	Chief Financial Officer, LafargeHolcim Ltd., Switzerland	Member of the Board of Directors Holcim Group Services Ltd, Switzerland Holcim Technology Ltd, Switzerland Lafarge Maroc SA, Morocco LafargeHolcim Maroc SAS, Morocco LafargeHolcim Maroc Afrique SAS, Morocco Huaxin Cement Co., Ltd., People's Republic of China
Dr. Manfred Puffer	Independent Management Consultant	Supervisory Board member > Athora Lebensversicherung AG, Germany > Nova KBM Bank, Slovenia > EVO Finance, Spain > Oldenburgische Landesbank AG, Germany
		Member of the Board of Directors > Athene Holding Ltd., Bermuda > Catalina Holdings (Bermuda) Ltd., Bermuda
Melanie Riedl ¹	Analysis Engineer and Vice Chairwoman of the Works Council Campeon	
Jürgen Scholz ¹	First authorized agent of IG Metall Regensburg	Supervisory Board member > Krones AG, Germany Member of the Administrative Board > BKK of BMW AG, Germany
Kerstin Schulzendorf ¹	Expert in the frontend-manufacturing, Infineon Technologies Dresden GmbH & Co. KG	
Dr. Ulrich Spiesshofer	Manager and Investor	
Margret Suckale	Member of various supervisory bodies	Supervisory Board member > HeidelbergCement AG, Germany > Deutsche Telekom AG, Germany > DWS Group GmbH & Co. KGaA, Germany
Diana Vitale ¹	Deputy Chairwoman of the Infineon Works Council, Warstein, Infineon Technologies AG	

1 Employee representative

Further information

Supervisory Board committees

Mediation Committee
Dr. Wolfgang Eder (Chairman)
Johann Dechant
Hans-Ulrich Holdenried
Jürgen Scholz
Executive Committee
Dr. Wolfgang Eder (Chairman)
Johann Dechant
Hans-Ulrich Holdenried
Diana Vitale
Investment, Finance and Audit Committee
Dr. Friedrich Eichiner (Chairman)
Johann Dechant
Dr. Wolfgang Eder
Annette Engelfried
Strategy and Technology Committee
Dr. Ulrich Spiesshofer (Chairman)
Xiaoqun Clever
Dr. Wolfgang Eder
Peter Gruber
Dr. Susanne Lachenmann
Jürgen Scholz
Nomination Committee
Dr. Wolfgang Eder (Chairman)
Dr. Manfred Puffer
Margret Suckale

The business address of each member of the Supervisory Board is: Infineon Technologies AG, Am Campeon 1–15, D-85579 Neubiberg (Germany).

Further information

220

GRI 102-45

Subsidiaries, joint ventures and other companies (not consolidated) as of 30 September 2020

Name of company Registered office Share-holdings thereof Infineon Equity Net result Footnote in % **Technologies AG** (€ in millions) (€ in millions) Fully consolidated subsidiaries: 14, 24 5200 Ben White Condominiums Association. Inc. Austin, Texas, USA 0 n.a. n.a. n.a. 15 AgigA Tech (Chengdu) LLC Chengdu, People's Republic of China 100 0 (0.02) (0.05)8 AgigA Tech (Mauritius) LLC Ebène, Mauritius 100 0 1.73 (0.02)14 AgigA Tech, Inc. Wilmington, Delaware, USA 100 0 8.16 (2.34)Cirrent, LLC 0 14 Wilmington, Delaware, USA 100 n.a. n.a. 15 0 CYLand Corp. General Trias, Philippines 40 1.47 (0.04)15 100 0 1.32 Cypress Innovates G.K. Kawasaki, Japan 27.51 14 Cypress International, LLC Wilmington, Delaware, USA 100 0 n.a. n.a. 14 0 2.09 Cypress Manufacturing, Ltd. George Town, Cayman Islands 100 58.56 14 Cypress Semiconductor (Canada), Inc. 100 0 (0.02) 0.02 Kanata, Ontario, Canada 7 Cypress Semiconductor (France) SAS 100 0 4.13 0.13 Boulogne-Billancourt, France 15 Cypress Semiconductor (Malaysia) Sdn. Bhd. Melaka, Malaysia 100 0 6.35 0.66 Cypress Semiconductor (Mauritius) LLC Ebène, Mauritius 100 0 0.20 (1.03)8 15 Cypress Semiconductor (Scandinavia) AB Stockholm, Sweden 0 0.68 0.11 100 7 0 1.68 Cypress Semiconductor (Switzerland) Sàrl 100 23.20 Lausanne, Switzerland 15 Cypress Semiconductor (Thailand) Limited Nonthaburi, Thailand 100 0 80.72 (1.74)6 Cypress Semiconductor (UK) Limited Bristol, Great Britain 100 0 4.90 0.24 14 Cypress Semiconductor Corporation Wilmington, Delaware, USA 1,793.86 34.53 100 0 3 Cypress Semiconductor Gebze Teknoloji ve Gelistirme (in liquidation) 0 0.00 Gebze, Turkey 100 0.13 7 Cypress Semiconductor GmbH Munich, Germany 100 0 7.27 0.53 14 Cypress Semiconductor Hong Kong Private Limited Hong Kong, People's Republic of China 100 0 0.40 0.05 7 0 Cypress Semiconductor International Sales B.V. Amsterdam, The Netherlands 100 5.97 0.06 14 Cypress Semiconductor International, Inc. Wilmington, Delaware, USA 100 0 349.15 (33.27)7 Cypress Semiconductor Ireland Limited Cork, Ireland 100 0 2.75 0.73 7 Cypress Semiconductor Italia S.r.l. Basiglio (Milan), Italy 100 0 0.34 0.09 15 0 0.28 Cypress Semiconductor Korea Ltd. Seoul, Republic of Korea 100 3.50 15 Cypress Semiconductor México, S. de R.L. de C.V. Guadalajara, Mexico 100 0 (0.02) (0.02)14 Cypress Semiconductor Philippines Headquarters, Ltd. George Town, Cayman Islands 100 0 5.69 0.01

Name of company	Registered office	Share-holdings in %	thereof Infineon Technologies AG	Equity (€ in millions)	Net result (€ in millions)	Footnote
Cypress Semiconductor Singapore Pte. Ltd.	Singapore, Singapore	100	0	5.25	0.51	15
Cypress Semiconductor Technology (Shanghai) Co. Ltd.	Shanghai, People's Republic of China	100	0	3.92	1.34	15
Cypress Semiconductor Technology India Private Limited	Bangalore, India	100	0	27.04	3.34	8
Cypress Semiconductor Technology Ltd.	George Town, Cayman Islands	100	0	186.30	0.30	14
Cypress Semiconductor Ukraine LLC	Lviv, Ukraine	100	0	1.36	0.13	15
Cypress Semiconductor World Trade Corp.	George Town, Cayman Islands	100	0	n.a.	n.a.	14
Hitex GmbH	Karlsruhe, Germany	100	100	2.16	0.00	9, 18, 19
IFX LLC	Wilmington, Delaware, USA	100	0	0.00	0.00	9
Infineon Integrated Circuit (Beijing) Co., Ltd.	Beijing, People's Republic of China	100	0	16.56	1.87	15
Infineon Semiconductors (Shenzhen) Co., Ltd.	Shenzhen, People's Republic of China	100	0	n.a.	n.a.	17
Infineon Semiconductors (Wuxi) Co., Ltd.	Wuxi, People's Republic of China	100	0	42.03	0.53	15
Infineon Technologies (Advanced Logic) Sdn. Bhd.	Melaka, Malaysia	100	0	36.35	4.62	9
Infineon Technologies (Kulim) Sdn. Bhd.	Kulim, Malaysia	100	0	304.51	52.30	9
Infineon Technologies (Malaysia) Sdn. Bhd.	Melaka, Malaysia	100	0	296.77	50.96	9
Infineon Technologies (Wuxi) Co., Ltd.	Wuxi, People's Republic of China	100	0	134.28	11.46	15
Infineon Technologies (Xi'an) Co., Ltd.	Xi'an, People's Republic of China	100	0	7.76	0.37	15
Infineon Technologies 2. Vermögensverwaltungsgesellschaft mbH	Neubiberg, Germany	100	0	0.02	0.00	11
Infineon Technologies Americas Corp.	Wilmington, Delaware, USA	100	0	2,562.39	350.50	9
Infineon Technologies Asia Pacific Pte Ltd	Singapore, Singapore	100	0	568.53	149.71	9
Infineon Technologies Australia Pty Limited	Bayswater, Australia	100	0	1.30	0.06	9
Infineon Technologies Austria AG	Villach, Austria	100	0.004	1,022.87	248.14	9
Infineon Technologies Cegléd Kft.	Cegléd, Hungary	100	0	16.11	0.80	9
Infineon Technologies Center of Competence (Shanghai) Co., Ltd.	Shanghai, People's Republic of China	100	0	3.41	0.09	15
Infineon Technologies China Co., Ltd.	Shanghai, People's Republic of China	100	0	187.30	12.68	15
Infineon Technologies Denmark ApS	Herlev, Denmark	100	0	4.50	(0.98)	9
Infineon Technologies Dresden GmbH & Co. KG	Dresden, Germany	100	100	237.82	13.55	9, 22
Infineon Technologies Dresden Verwaltungs GmbH	Neubiberg, Germany	100	0	0.09	0.00	9, 18, 19
Infineon Technologies Epi Services, Inc.	Wilmington, Delaware, USA	100	0	4.86	3.76	9
Infineon Technologies Finance B.V.	Rotterdam, The Netherlands	100	100	n.a.	n.a.	17
Infineon Technologies France S.A.S.	St. Denis, France	100	0	9.20	0.73	9
Infineon Technologies Holding Asia Pacific Pte. Ltd.	Singapore, Singapore	100	0	2,922.54	8.16	9
Infineon Technologies Holding B.V.	Rotterdam, The Netherlands	100	100	4,418.34	434.76	9

Name of company	Registered office	Share-holdings in %	thereof Infineon Technologies AG	Equity (€ in millions)	Net result (€ in millions)	Footnote
Infineon Technologies Hong Kong Ltd.	Hong Kong, People's Republic of China	100	0	2.13	0.38	9
Infineon Technologies India Private Limited	Bangalore, India	100	0	11.63	2.47	8
Infineon Technologies Investment B.V.	Rotterdam, The Netherlands	100	0	0.12	(0.01)	5
Infineon Technologies Ireland Limited	Dublin, Ireland	100	100	14.07	30.56	9
Infineon Technologies Italia s.r.l.	Milan, Italy	100	0	5.07	2.06	9
Infineon Technologies IT-Services GmbH	Klagenfurt, Austria	100	0	9.98	5.35	9
Infineon Technologies Japan K.K.	Tokyo, Japan	100	0	36.12	7.60	9
Infineon Technologies Korea Co., LLC	Seoul, Republic of Korea	100	0	9.53	4.89	9
Infineon Technologies Linz GmbH & Co KG	Linz, Austria	100	0	5.36	5.32	9
Infineon Technologies LLC	Wilmington, Delaware, USA	100	0	n.a.	n.a.	17
Infineon Technologies Maasstad C.V.	Rotterdam, The Netherlands	100	0	24.73	4.73	9
Infineon Technologies Memory Solutions Holdings Inc.	Wilmington, Delaware, USA	100	0	n.a.	n.a.	17
Infineon Technologies Memory Solutions Israel Ltd.	Netanya, Israel	100	0	55.42	4.13	6
Infineon Technologies Memory Solutions Japan G.K.	Kawasaki, Japan	100	0	n.a.	n.a.	17
Infineon Technologies Memory Solutions Malaysia Sdn. Bhd.	Kuala Lumpur, Malaysia	100	0	n.a.	n.a.	17
Infineon Technologies Newport Holding Limited	Bristol, Great Britain	100	0	18.39	83.24	9
Infineon Technologies Nordic AB	Kista, Sweden	100	0	4.95	0.22	9
Infineon Technologies Philippines, Inc.	Muntinlupa City, Philippines	100	0	0.39	0.21	9
Infineon Technologies Power Semitech Co., Ltd.	Cheonan, Republic of Korea	100	100	53.17	3.17	9
Infineon Technologies Reigate Limited	Bristol, Great Britain	100	0	15.27	7.34	9
Infineon Technologies Romania & Co. Societate in Comandita	Bucharest, Romania	100	0	4.45	1.79	9
Infineon Technologies Shared Service Center, Unipessoal Lda.	Maia, Portugal	100	100	3.50	0.62	9
Infineon Technologies Taiwan Co., Ltd.	Taipei, Taiwan	100	0	7.17	1.09	9
Infineon Technologies UK Limited	Bristol, Great Britain	100	0	4.45	1.12	9
Infineon Technologies US HoldCo Inc.	Wilmington, Delaware, USA	100	0	2,205.60	146.91	9
Infineon Technologies US InterCo LLC	Wilmington, Delaware, USA	100	0	1,503.88	136.15	9
Infineon Technologies US Investment LLC	Wilmington, Delaware, USA	100	0	(0.05)	(0.05)	9
Infineon Technologies Vermögensverwaltungsgesellschaft mbH	Neubiberg, Germany	100	100	125.22	0.00	9, 18, 20
Innoluce B.V.	Nijmegen, The Netherlands	100	0	3.00	1.67	5

Name of company Registered office Share-holdings thereof Infineon Equity Net result Footnote in % **Technologies AG** (€ in millions) (€ in millions) 9 International Rectifier HiRel Denmark ApS Herlev, Denmark 100 0 1.07 0.25 9 International Rectifier HiRel Products, Inc. Wilmington, Delaware, USA 100 0 118.05 55.25 9 100 0 (0.08) International Rectifier Japan Co., Ltd. Tokyo, Japan 7.62 9 International Rectifier Mauritius, Inc. (in liquidation) Curepipe, Mauritius 100 0 0.00 0.00 9, 18, 19 MOLSTANDA Vermietungsgesellschaft mbH Neubiberg, Germany 100 6 133.40 0.00 9, 23 MoTo Objekt CAMPEON GmbH & Co. KG 93 100.52 23.82 Neubiberg, Germany 0 15 0 2.61 Nihon Cypress G.K. Kawasaki, Japan 100 19.23 9 PT Infineon Technologies Batam Batam, Indonesia 100 0 17.90 2.83 14 0 (4.46)**Ramtron International Corporation** Wilmington, Delaware, USA 100 33.27 9 Rectificadores Internacionales, S.A. de C.V. 0.90 Tijuana, Mexico 100 0 9.67 10 SILTECTRA GmbH Dresden, Germany 100 0 2.95 0.16 14 Wilmington, Delaware, USA Spansion Inc. 100 0 2,623.33 0.00 14 Wilmington, Delaware, USA 0 117.40 0.09 Spansion International AM, Inc. 100 14 Spansion International IP, Inc. George Town, Cayman Islands 100 0 42.48 (75.06) 14 Wilmington, Delaware, USA 100 0 (44.91) 0.50 Spansion International Trading, Inc. 14 Spansion LLC Wilmington, Delaware, USA 100 0 2,276.73 25.91 Associated companies: 15 Deca Technologies Inc. George Town, Cayman Islands 42.5 0 41.39 (16.11)15 15 15 42.38 (10.12)pmdtechnologies ag Siegen, Germany 16 SkyHigh Memory Limited Hong Kong, People's Republic of China 40 0 3.75 8.89 Joint ventures: 5 Infineon Technologies Bipolar GmbH & Co. KG 60 60 52.33 1.28 Warstein, Germany 15 SAIC Infineon Automotive Power Modules (Shanghai) Co., Ltd Shanghai, People's Republic of China 49 25 (0.38) (18.30)

Name of company

Registered office

Share-holdings

thereof Infineon

Equity

Net result

Technologies AG (€ in millions) (€ in millions) in % Other companies (not consolidated):1 9 **CHiL Semiconductors Corporation** Wilmington, Delaware, USA 100 0 0.00 0.00 0 21 Wilmington, Delaware, USA **Enovix Corporation** n.a. n.a. n.a. 9 EPOS embedded core & power systems GmbH & Co. KG Duisburg, Germany 100 100 1.04 0.36 9 EPOS embedded core & power systems Verwaltungs GmbH Duisburg, Germany 100 100 0.07 0.00 21 Futurium gGmbH Berlin, Germany n.a. n.a. n.a. n.a. 9 0 Hitex (UK) Limited Coventry, Great Britain 100 1.97 0.32 5 Infineon Technologies Bipolar Verwaltungs GmbH Warstein, Germany 60 60 0.03 0.00 9 0 0.02 Infineon Technologies Campeon Verwaltungsgesellschaft mbH Neubiberg, Germany 100 0.09 9 (0.01)Infineon Technologies Delta GmbH Neubiberg, Germany 100 100 0.02 9 Infineon Technologies Gamma GmbH Neubiberg, Germany 100 100 0.01 (0.01)9,18 Infineon Technologies Holding GmbH Neubiberg, Germany 100 100 0.13 0.00 0 0.04 9 Infineon Technologies Iberia, S.L.U. Madrid, Spain 100 0.14 Infineon Technologies Linz Verwaltungs GmbH Linz, Austria 100 0 0.12 0.00 9 9 Infineon Technologies Mantel 26 AG 100 0.04 (0.01)Neubiberg, Germany 100 9,18 Infineon Technologies Mantel 27 GmbH 100 100 0.00 Neubiberg, Germany 0.03 9,18 Infineon Technologies Mantel 29 GmbH 100 0.00 Neubiberg, Germany 100 0.03 13 Infineon Technologies Memory Solutions Germany GmbH Neubiberg, Germany 100 100 0.02 0.00 9 Infineon Technologies Polska Sp. z o.o. Warsaw, Poland 100 0 0.09 0.02 15 Infineon Technologies Romania s.r.l. 100 0 0.05 0.01 Bucharest, Romania 15 0.02 Infineon Technologies RUS LLC Moscow, Russian Federation 100 0 0.18 15 Infineon Technologies South America Ltda São Paulo, Brasil 100 0 0.07 0.00 12 Infineon Technologies Vietnam Company Ltd. Hanoi, Vietnam 100 0 0.06 (0.02)21 0 Inventek LLC Billerica, Massachusetts, USA n.a. n.a. n.a. 9 IR International Holdings China, Inc. Wilmington, Delaware, USA 100 0 0.00 0.00 9 IR International Holdings, Inc. Wilmington, Delaware, USA 100 0 0.00 0.00 15 KAI Kompetenzzentrum Automobil- und Industrieelektronik GmbH Villach, Austria 0 0.19 100 0.28 15 24 KFE Kompetenzzentrum Fahrzeug Elektronik GmbH Lippstadt, Germany 24 1.33 (0.39) 4 Merus Audio (Hong Kong) Ltd. (in liquidation) Hong Kong, People's Republic of China 100 0 0.00 0.00 21 Metawave Corporation Dover, Delaware, USA 0 n.a. n.a. n.a. 0 21 MicroLinks Technology Corp. Kaohsiung, Taiwan n.a. n.a. n.a. 13 MOTEON GmbH Neubiberg, Germany 100 100 0.02 0.00

Footnote

Name of company Registered office Share-holdings thereof Infineon Equity Net result Footnote in % **Technologies AG** (€ in millions) (€ in millions) 9 **OSPT IP Pool GmbH** Neubiberg, Germany 100 100 0.01 (0.01)17 PT Infineon Technologies Indonesia Jakarta, Indonesia 100 0 n.a. n.a. 9 0 0.00 R Labco, Inc. Wilmington, Delaware, USA 100 0.00 21 Rapt Touch Ireland Ltd. Dublin, Ireland 0 n.a. n.a. n.a. 21 Schiltron Corporation Wilmington, Delaware, USA 0 n.a. n.a. n.a. Schweizer Electronic AG 9 9 15 Schramberg, Germany 55.43 (2.76)21 0 Silicon Alps Cluster GmbH Villach, Austria n.a. n.a. n.a. 21 TTTech Auto AG Vienna. Austria n.a. n.a. n.a. n.a. 21 Virtual Vehicle Research GmbH Graz, Austria n.a. n.a. n.a. n.a. 21 XMOS Limited Bristol, Great Britain n.a. 0 n.a. n.a. Qimonda AG and its subsidiaries:² 2 Celis Semiconductor Corp. Colorado Springs, Colorado, USA 17 0 0.00 0.00 2 Itarion Solar Lda. Vila do Conde, Portugal 40 0 0.00 0.00 2 Qimonda (Malaysia) Sdn. Bhd. (in liquidation) Melaka, Malaysia 77 0 0.00 0.00 2 Qimonda AG (in insolvency) Munich, Germany 77 28 0.00 0.00 2 Qimonda Asia Pacific Pte. Ltd. 77 0 0.00 Singapore, Singapore 0.00 2 Qimonda Belgium BVBA (in insolvency) Leuven, Belgium 77 0 0.00 0.00 2 Qimonda Beteiligungs GmbH (in insolvency) Munich, Germany 77 0 0.00 0.00 2 Qimonda Bratislava s.r.o. (in liquidation) Bratislava, Slovakia 77 0 0.00 0.00 2 Qimonda Dresden GmbH & Co. OHG (in insolvency) 77 0 0.00 Dresden, Germany 0.00 2 Qimonda Dresden Verwaltungsgesellschaft mbH (in insolvency) Dresden, Germany 77 0 0.00 0.00 77 2 Qimonda Europe GmbH (in liquidation) Munich, Germany 0 0.00 0.00 2 77 0 Qimonda Finance LLC (in insolvency) Wilmington, Delaware, USA 0.00 0.00 2 Qimonda Flash Geschäftsführungs GmbH (in liquidation) Dresden, Germany 77 0 0.00 0.00 2 Qimonda Flash GmbH (in insolvency) Dresden, Germany 77 0 0.00 0.00 2 Qimonda France SAS (in liquidation) St. Denis, France 77 0 0.00 0.00 2 77 0 0.00 Qimonda Holding B.V. (in insolvency) Rotterdam, The Netherlands 0.00 2 Qimonda International Trade (Shanghai) Co. Ltd. Shanghai, People's Republic of China 77 0 0.00 0.00 2 Qimonda Investment B.V. Rotterdam, The Netherlands 77 0 0.00 0.00 Qimonda IT (Suzhou) Co., Ltd. (in liquidation) Suzhou, People's Republic of China 77 0 0.00 2 0.00 Qimonda Italy s.r.l. (in liquidation) 2 77 0 Padua, Italy 0.00 0.00

226

Name of company	Registered office	Share-holdings in %	thereof Infineon Technologies AG	Equity (€ in millions)	Net result (€ in millions)	Footnote
Qimonda Korea Co. Ltd. (in liquidation)	Seoul, Republic of Korea	77	0	0.00	0.00	2
Qimonda Licensing LLC	Fort Lauderdale, Florida, USA	77	0	0.00	0.00	2
Qimonda Memory Product Development Center (Suzhou) Co. (in liquidation)	Suzhou, People's Republic of China	77	0	0.00	0.00	2
Qimonda North America Corp. (in insolvency)	Wilmington, Delaware, USA	77	0	0.00	0.00	2
Qimonda Richmond LLC (in insolvency)	Wilmington, Delaware, USA	77	0	0.00	0.00	2
Qimonda Solar GmbH	Dresden, Germany	77	0	0.00	0.00	2
Qimonda Taiwan Co. Ltd. (in liquidation)	Taipei, Taiwan	77	0	0.00	0.00	2
Qimonda UK Ltd. (in liquidation)	High Blantyre, Scotland	77	0	0.00	0.00	2

1 Certain subsidiaries were not consolidated due to immateriality.

2 On 23 January 2009 Qimonda AG applied to the Munich District Court for insolvency proceedings to be opened. Insolvency proceedings were formally opened on 1 April 2009. The equity and earnings of Qimonda AG and its subsidiaries are not disclosed due to the substantial and ongoing restriction of Infineon's rights as a result of Qimonda AG's insolvency. Additionally, Qimonda and its subsidiaries are not included in the Company's consolidated financial statements. In addition, the list of subsidiaries held by Qimonda AG was based on information from 30 September 2010, since Infineon had not received any further information from the insolvency administrator of Qimonda AG with respect to the insolvency or liquidation of Qimonda companies. Since all Qimonda-related investments were written down in full in previous years, this has no effect on Infineon's net assets, financial position and results of operations.

- 3 Equity and net result as of 31 December 2016.
- 4 Equity and net result as of 30 September 2017 (period from 2 June 2017 until 30 September 2017).
- 5 Equity and net result as of 30 September 2018.
- 6 Equity and net result as of 30 December 2018.
- 7 Equity and net result as of 31 December 2018.
- 8 Equity and net result as of 31 March 2019.
- 9 Equity and net result as of 30 September 2019.
- 10 Equity and net result as of 30 September 2019 (period from 1 January 2019 until 30 September 2019).
- 11 Equity and net result as of 30 September 2019 (period from 11 January 2019 until 30 September 2019).
- 12 Equity and net result as of 30 September 2019 (period from 12 April 2019 until 30 September 2019).
- 13 Equity and net result as of 30 September 2019 (period from 22 May 2019 until 30 September 2019).
- 14 Equity and net result as of 29 December 2019.
- 15 Equity and net result as of 31 December 2019.
- 16 Equity and net result as of 31 December 2019 (period from 14 December 2018 until 31 December 2019).
- 17 The entity was founded in the 2020 fiscal year.

18 Control and profit transfer agreement.

19 Exemption pursuant to Section 264, paragraph 3, German Commercial Code from the obligations to disclose the annual financial statements pursuant to Section 325 German Commercial Code.

20 Exemption pursuant to Section 264, paragraph 3, German Commercial Code from the preparation of a management report and from the audit obligation pursuant to section 264 et seq. German Commercial Code and from the obligations to disclose the annual financial statements pursuant to Section 325 German Commercial Code.

21 Because criteria pursuant to Section 285, No. 11, German Commercial Code are not met, investments in the affiliate are not dis-closed.

- 22 Exemption pursuant to Section 264b German Commercial Code from the obligations to prepare a management report as well as notes and from the obligations to disclose the annual financial statements.
- 23 Exemption pursuant to Section 264b German Commercial Code from the obligations to prepare a management report and to dis-close the annual financial statements.

24 Non-stock entity. Concept of ownership in percent does not apply.

Neubiberg, 20 November 2020

Infineon Technologies AG

Dr. Reinhard Ploss

Dr. Sven Schneider Dr. Helmut Gassel

Jochen Hanebeck

Management Board and Supervisory Board Further information Responsibility Statement by the Management Board

Further information

Responsibility Statement by the Management Board

To the best of our knowledge, and in accordance with the applicable reporting principles, the Consolidated Financial Statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the Group, and the Combined Management Report includes a fair review of the development and performance of the business and the position of the Group, together with a description of the principal opportunities and risks associated with the expected development of the Group.

Neubiberg, 20 November 2020

Infineon Technologies AG

Dr. Reinhard Ploss Dr. Sven Schneider Dr. Helmut Gassel Jochen Hanebeck

Consolidated Financial Statements

For the Consolidated Financial Statements and Group Management Report we have issued an unqualified auditor's report. The English language text below is a translation of the auditor's report. The original German text shall prevail in the event of any discrepancies between the English translation and the German original. We do not accept any liability for the use of, or reliance on, the English translation or for any errors of misunderstandings that may derive from the translation.

Independent Auditor's Report

To Infineon Technologies AG, Neubiberg

Report on the Audit of the Consolidated Financial Statements and of the Group Management Report

Opinions

We have audited the consolidated financial statements of Infineon Technologies AG, Neubiberg, and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at 30 September 2020, and the consolidated statement of operations, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the financial year from 1 October 2019 to 30 September 2020, and notes to the consolidated financial statements, including a summary of significant accounting policies. In addition, we have audited the combined management report of Infineon Technologies AG and of the Group (hereinafter: the "group management report") for the financial year from 1 October 2019 to 30 September 2020. In accordance with German legal requirements, we have not audited the content of those components of the group management report specified in the "Other Information" section of our auditor's report.

In our opinion, on the basis of the knowledge obtained in the audit,

> the accompanying consolidated financial statements comply, in all material respects, with the IFRSs as adopted by the EU, and the additional requirements of German commercial law pursuant to Section 315e (1) HGB [Handelsgesetzbuch: German Commercial Code] and, in compliance with these requirements, give a true and fair view of the assets, liabilities, and financial position of the Group as at 30 September 2020, and of its financial performance for the fiscal year from 1 October 2019 to 30 September 2020, and > the accompanying group management report as a whole provides an appropriate view of the Group's position. In all material respects, this group management report is consistent with the consolidated financial statements, complies with German legal requirements and appropriately presents the opportunities and risks of future development. Our opinion on the group management report does not cover the content of those components of the group management report specified in the "Other Information" section of the auditor's report.

Pursuant to Section 322 (3) sentence 1 HGB, we declare that our audit has not led to any reservations relating to the legal compliance of the consolidated financial statements and of the group management report.

Basis for the opinions

We conducted our audit of the consolidated financial statements and of the group management report in accordance with Section 317 HGB and EU Audit Regulation No 537/2014 (referred to subsequently as "EU Audit Regulation") and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). Our responsibilities under those requirements and principles are further described in the "Auditor's Responsibilities for the Audit of the Consolidated Financial Statements and of the Group Management Report" section of our auditor's report. We are independent of the group entities in accordance with the requirements of European law and German commercial and professional law, and we have fulfilled our other German professional responsibilities in accordance with these requirements. In addition, in accordance with Article 10 (2)(f) of the EU Audit Regulation, we declare that we have not provided non-audit services prohibited under Article 5 (1) of the EU Audit Regulation. We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinions on the consolidated financial statements and on the group management report.

Key Audit Matters in the Audit of the Consolidated Financial Statements

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements for the fiscal year from 1 October 2019 to 30 September 2020. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, we do not provide a separate opinion on these matters.

Identification and measurement of the assets acquired and liabilities assumed in the course of acquiring Cypress Semiconductor Corporation ("Cypress")

Please refer to note 2 in the notes to the consolidated financial statements for information on the accounting policies applied. Information on the acquisition of Cypress can be found under note 3.

The financial statement risk

The Infineon Group acquired all outstanding shares in Cypress on 16 April 2020. The total consideration transferred equaled EUR 8,254 million. Taking into account the acquired net assets of EUR 2,824 million, goodwill amounted to EUR 5,430 million.

The identifiable assets acquired and liabilities assumed in the context of the purchase price allocation were generally recognized at fair value pursuant to IFRS 3 on the date of acquisition. The identified assets include especially intangible assets such as technologies, customer relationships and trademarks, as well as property, plant and equipment and inventories. The Company engaged an external expert to identify and measure the assets acquired and the liabilities assumed.

The identification and measurement of assets acquired and liabilities assumed is complex and based on assumptions of the Management Board that require judgement. The significant assumptions include revenue and margin performance in the acquired operation's corporate planning, synergy expectations and the cost of capital.

There is the risk for the consolidated financial statements that the assets acquired and liabilities assumed are identified improperly or measured inaccurately. There is also the risk that the disclosures in the notes to the consolidated financial statements are not complete and appropriate.

Our audit approach

With the involvement of our own valuation specialists, we assessed the appropriateness of key assumptions as well as the identification procedures and valuation methods. To that end, we first gained an understanding of the acquisition by consulting employees of Infineon's finance department and through an evaluation of the relevant agreements.

We assessed the competency, skills and objectivity of the independent expert engaged by the Company. Furthermore, we assessed the process of the identification of the assets acquired and liabilities assumed in terms of conformity with the requirements of IFRS 3 using our knowledge of Cypress's business model. We investigated the valuation methods used for their compliance with the accounting policies.

We discussed the expected revenue and margin performance with the external expert engaged by the Company as well as with Infineon's finance department. We also examined the consistency of assumptions with external market assessments for peer group companies. The synergy expectations were discussed by the external expert with the Infineon staff responsible for planning, and it was assessed as to what extent the regular market participants could also achieve these results. We assessed these estimates and the corresponding rationales. We compared the assumptions and data underlying the cost of capital, in particular the risk-free rate, the market risk premium and the beta factor with our own assumptions and publicly available data. The royalty rates and terms used to appraise intangible assets were examined in terms of their appropriateness by interviewing the external expert and comparing these with our own analyses. To assess computational accuracy, we verified selected calculations based on risk criteria and compared these with the results of our own calculations. Management Board and Supervisory Board Combined Management Report

Finally, we assessed whether the disclosures in the notes regarding the acquisition of Cypress are complete and appropriate.

Our observations

The approach used for identifying and measuring the assets acquired and liabilities assumed is appropriate and in line with the accounting policies to be applied. The key assumptions and data are appropriate and they are completely and properly presented in the notes to the consolidated financial statements.

Impairment testing of goodwill

Please refer to note 2 in the notes to the consolidated financial statements for information on the accounting policies applied and the assumptions used. Information on the value of goodwill can be found under note 15. Please refer to note 3 for information on the acquisition of Cypress Semiconductor Corporation.

The financial statement risk

The consolidated financial statements of Infineon Technologies AG reported goodwill in the amount of EUR 5,897 million as at 30 September 2020. At 27% of the balance sheet total, goodwill accounts for a considerable share of total assets. Goodwill rose by EUR 5,430 million in the 2020 fiscal year upon completion of the acquisition of Cypress Semiconductor Corporation. In accordance with IAS 36, acquired goodwill is to be assigned to cash-generating units and was allocated to the existing operating segments Automotive (ATV), Industrial Power Control (IPC), Power & Sensor Systems (PSS) and Connected Secure Systems (CSS). This allocation requires judgement. Infineon tests goodwill for impairment in accordance with IAS 36 at the operating segment level annually as at 30 June, as well as in cases where events or changes to the prevailing conditions provide indications that the recoverable amount may have fallen below the carrying amount. The recoverable amount is the higher of fair value less costs of disposal and value in use. Goodwill is impaired if the carrying amount of the operating segment to which the goodwill is allocated exceeds the recoverable amount of this unit. Infineon determines the recoverable amount of the respective cash-generating unit to which goodwill was allocated according to value in use.

Impairment testing of goodwill is complex and based on a range of assumptions that require judgement. Such judgement includes, among other elements, the assumptions found in the adopted corporate planning for a period of five years, such as revenue growth and gross margins, assumed long-term growth rates in perpetuity and the underlying discount rates.

Considering the sharp rise in goodwill and the discretionary judgement of the assumptions underlying impairment testing, there is the risk for the consolidated financial statements that a required impairment was not recognized. There is also the risk that the related disclosures in the notes are not appropriate.

Our audit approach

We verified the allocation of goodwill from the acquisition of Cypress Semiconductor Corporation to the Automotive (ATV), Industrial Power Control (IPC), Power & Sensor Systems (PSS) and Connected Secure Systems (CSS) operating segments and, based on the expected synergy effects from acquisition for the operating segments to which goodwill was allocated, we assessed this allocation with the involvement of our valuation specialists. When assessing the impairment test, we also assessed the appropriateness of key assumptions. We assessed the Company's calculation method and selected assumptions in terms of their appropriateness with the help of our valuation specialists. For this purpose, we checked that corporate planning was updated for the next five years and adopted by the Management Board. Using elements selected on the basis of risk, we had the staff responsible for preparing corporate planning explain to us in particular revenue and gross margin performance, as well as the long-term growth rates assumed in perpetuity. In this context, revenue performance in particular was critically reviewed and assessed based on publicly available market estimates and information to determine whether the revenue performance used for measurement is within a reasonable range. We also confirmed the accuracy of the Company's previous forecasts by comparing the budgets of previous fiscal years with actual results and by analysing deviations.

We checked how the discount rates used were derived and their amounts. For this purpose, we compared the assumptions and data underlying the discount rates, in particular the risk-free interest rate, the market risk premium and the beta factor with our own assumptions and publicly available data.

To ensure the computational accuracy of the valuation method used, we verified the Company's calculations on the basis of selected risk-based elements.

In order to take account of the existing forecast uncertainty and the earlier cut-off date selected for impairment testing, the Company examined the effects of possible changes in the discount rates, revenue and gross margin performance and the long-term growth rate in perpetuity on the value in use by calculating alternative scenarios and comparing these with its own reported figures (sensitivity analysis). We have assessed this analysis. In order to take into account the earlier cut-off date for impairment testing, we also assessed the impact of events until 30 September 2020 on impairment testing.

Finally, we assessed whether the disclosures in the notes regarding impairment testing of goodwill are appropriate.

Our observations

The allocation of goodwill from the acquisition of Cypress Semiconductor Corporation to the Automotive (ATV), Industrial Power Control (IPC), Power & Sensor Systems (PSS) and Connected Secure Systems (CSS) operating segments is appropriate.

The calculation method used for impairment testing of goodwill is appropriate and in line with the accounting policies to be applied.

The Company's assumptions used for measurement are appropriate.

The related disclosures in the notes are appropriate.

Other Information

The Management Board and the Supervisory Board, respectively, are responsible for the other information. The other information comprises the following components of the group management report, whose content was not audited:

- > the separate combined non-financial report of the Company and the Group, which is referred to in the group management report,
- > the combined corporate governance statement for the Company and the Group referred to in the group management report, and
- > information extraneous to management reports and marked as unaudited.

The other information also includes the remaining parts of the annual report.

The other information does not include the consolidated financial statements, the group management report information audited for content and our auditor's report thereon.

Our opinions on the consolidated financial statements and on the group management report do not cover the other information, and consequently we do not express an opinion or any other form of assurance conclusion thereon.

In connection with our audit, our responsibility is to read the other information and, in doing so, to consider whether the other information

- > is materially inconsistent with the consolidated financial statements, with the group management report information audited for content or our knowledge obtained in the audit, or
- > otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Management and the Supervisory Board for the Consolidated Financial Statements and the Group Management Report

The Management Board is responsible for the preparation of consolidated financial statements that comply, in all material respects, with IFRSs as adopted by the EU, and the additional requirements of German commercial law pursuant to Section 315e (1) HGB and that the consolidated financial statements, in compliance with these requirements, give a true and fair view of the assets, liabilities, financial position, and financial performance of the Group. In addition, the Management Board is responsible for such internal control as they have determined necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the Management Board is responsible for assessing the Group's ability to continue as a going concern. They also have the responsibility for disclosing, as applicable, matters related to going concern. In addition, they are responsible for financial reporting based on the going concern basis of accounting unless there is an intention to liquidate the Group or to cease operations, or there is no realistic alternative but to do so.

Furthermore, the Management Board is responsible for the preparation of the group management report that, as a whole, provides an appropriate view of the Group's position and is, in all material respects, consistent with the consolidated financial statements, complies with German legal requirements, and appropriately presents the opportunities and risks of future development. In addition, the Management Board is responsible for such arrangements and measures (systems) as they have considered necessary to enable the preparation of the group management report that is in accordance with the applicable German legal requirements, and to be able to provide sufficient appropriate evidence for the assertions in the group management report.

The Supervisory Board is responsible for overseeing the Group's financial reporting process for the preparation of the consolidated financial statements and of the group management report.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements and of the Group Management Report

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and whether the group management report as a whole provides an appropriate view of the Group's position and, in all material respects, is consistent with the consolidated financial statements and the knowledge obtained in the audit, complies with the German legal requirements and appropriately presents the opportunities and risks of future development, as well as to issue an auditor's report that includes our opinions on the consolidated financial statements and on the group management report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Section 317 HGB and the EU Audit Regulation and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer (IDW) will always detect a material misstatement. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements and this group management report.

We exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- > identify and assess the risks of material misstatement of the consolidated financial statements and of the group management report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinions. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls.
- > obtain an understanding of internal control relevant to the audit of the consolidated financial statements and of arrangements and measures (systems) relevant to the audit of the group management report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of these systems.
- v evaluate the appropriateness of accounting policies used by the Management Board and the reasonableness of estimates made by the Management Board and related disclosures.

- > conclude on the appropriateness of the Management Board's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in the auditor's report to the related disclosures in the consolidated financial statements and in the group management report or, if such disclosures are inadequate, to modify our respective opinions. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to be able to continue as a going concern.
- vevaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements present the underlying transactions and events in a manner that the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the Group in compliance with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to Section 315e (1) HGB.
- > obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express opinions on the consolidated financial statements and on the group management report. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our opinions.
- > evaluate the consistency of the group management report with the consolidated financial statements, its conformity with [German] law, and the view of the Group's position it provides.

Management Board and Supervisory Board

perform audit procedures on the prospective information presented by the Management Board in the group management report. On the basis of sufficient appropriate audit evidence we evaluate, in particular, the significant assumptions used by the Management Board as a basis for the prospective information, and evaluate the proper derivation of the prospective information from these assumptions. We do not express a separate opinion on the prospective information and on the assumptions used as a basis. There is a substantial unavoidable risk that future events will differ materially from the prospective information.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with the relevant independence requirements, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, the related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter.

Further Information pursuant to Article 10 of the EU Audit Regulation

We were appointed as group auditors at the shareholders' meeting held on 20 February 2020. We were engaged by the Supervisory Board on 4 May 2020. We have been the group auditor of Infineon Technologies AG without interruption since fiscal year 2000.

We declare that the opinions expressed in this auditor's report are consistent with the additional report to the Audit Committee pursuant to Article 11 of the EU Audit Regulation (long-form audit report).

German Public Auditor Responsible for the Engagement

The German Public Auditor responsible for the engagement is Michael Pritzer.

Munich, 20 November 2020

KPMG AG Wirtschaftsprüfungsgesellschaft

Andrejewski Wirtschaftsprüfer (German Public Auditor) Pritzer Wirtschaftsprüfer (German Public Auditor)

Applications and product range

Automotive

Applications

Assistance systems and safety systems

- ABS (Anti-blocking system)
- > Airbag
- > Automatic parking
- > Blind spot detection
- > Cruise control
- > Distance control
- > Electronic chassis control
- > Electronic power steering
- > Emergency braking assistant
- > ESP (Electronic Stability Program)
- > Lane departure warning system
- > Tire pressure monitoring system

Comfort electronics

- > Air conditioning
- > Body control units
- > Door electronics
- > Electronic seat adjustment
- Hatch door
- > Lighting
- > Power window
- > Steering
- > Sunroof
- > Suspension
- > Windshield wipers

Infotainment

- > Connectivity for in-cabin infotainment
- > Digital instrument cluster

Powertrain

- > Battery charging control
- > Battery management
- > Combustion engine control
- > Electric motor control
- > Generator control
- > Start-stop system
- > Transmission control

Security

- > Communication
 - Car-to-car
 - Car-to-infrastructure
- > Original spare parts authentication
- Protection against manipulation (e.g. odometer)
- > Protection against software manipulation
- > Tachograph

- 32-bit automotive microcontrollers for powertrain, safety and driver assistance systems
- > 3D ToF sensors
- > Discrete power semiconductors
- > IGBT modules
- > Industrial microcontrollers
- > Magnetic and pressure sensors
- > Memories (NOR-flash, SRAM, nvSRAM, F-RAM)
- > Power ICs
- > Radar sensor ICs (77 GHz)
- > SiC diodes, SiC MOSFETs and SiC modules
- > Transceivers (CAN, CAN FD, LIN, Ethernet, FlexRay™)
- > Voltage regulators

Industrial Power Control

Applications

Energy generation

- > Photovoltaic systems
- > Wind power turbines

Energy storage

- > Home usage
- > Grid stability
- > Urban district
- > Wall box

Energy transmission

- > FACTS (Flexible AC Transmission Systems)
- > Offshore wind farm HVDC transmission lines
- > Overland HVDC transmission lines

Home appliances

- > Air conditioners
- > Dishwashers
- > Induction cooktops
- > Microwave ovens
- > Refrigerators
- > Vacuum cleaners
- > Washing machines

Industrial drives¹

- > Air conditioning technology
- > Automation technology
- > Drives technologies
- > Elevator systems
- > Escalators

- > Materials handling
- > Oil derricks
- > Pipelines
- > Rolling mills

Industrial power supplies

- > Auxiliary power supplies
- Battery chargers
- > Charging stations for electric vehicles
- > Home energy storage
- > Uninterruptable power supplies

Industrial robotics

Industrial vehicles

- > Agricultural vehicles
- > Construction vehicles
- > Electric delivery vehicles
- > Forklifts
- > Hybrid busses

Traction

- > High-speed trains
- > Locomotives
- > Metro trains
- > Trams

1 Including motors, compressors, pumps and fans.

- > Bare die business
- > Discrete IGBTs
- > Driver ICs
- > IGBT modules (low-power, medium-power, high-power)
- > IGBT module solutions including IGBT stacks
- > Intelligent IGBT modules with integrated control unit, driver and switch
- > SIC diodes, SiC MOSFETs, SiC modules

Power & Sensor Systems

Applications

Audio amplifiers

- > Battery-powered loudspeakers
- > Smart speakers

Automotive electronics

- > Blind spot detection
- > In-cabin USB PD charging
- > Onboard charger
- > Power train for low-speed electric vehicles

BLDC motor

- > Battery-powered gardening equipment, e.g.
 - Hedge trimmers
 - Lawn mowers
- Battery-powered home appliances, e.g.
 Vacuum cleaners
- > Battery-powered power tools, e.g.
 - Cordless screwdrivers
 - Drills
 - Power saws
- > eBikes
- > eScooters
- > Multi-copters

Cellular communications infrastructure

> Base stations

Charging stations for electric vehicles

HiRel

- > Aerospace systems
- > Aviation technologies
- > Defense technologies
- > Oil and gas exploration
- > Submarine telecommunications

Human-machine interaction

Internet of Things

- > Communications
- > Sensors
- > Smart speakers
- > Voice control

LED and conventional lighting systems

Mobile devices

- > Activity trackers
- Navigation devices
- > Smartphones
- > Tablets
- > Wearables for health

Power management

- > Consumer electronics
- > Data centers
- > Home appliances
- > Mobile devices
- > PCs and notebooks
- > Servers
- > Telecommunication technology

- > 3D ToF sensors
- > Chips for gas sensors
- > Chips for MEMS microphones
- > Chips for pressure sensors
- > Control ICs for power switches
- > Customized chips (ASICs)
- Discrete low-voltage, mid-voltage and high-voltage power MOSFETs (Si-based)
- > GaN power switches
- > GPS low-noise amplifier
- > Low-voltage and high-voltage driver ICs
- > Radar sensor ICs (24 GHz, 60 GHz)
- > RF antenna switches
- > RF power transistors
- > SiC diodes, SiC MOSFETs
- > TVS (transient voltage suppressor) diode
- > USB controller

Connected Secure Systems

Applications

Authentication

- > Accessories
- > Brand protection
- Game consoles
- > Industrial control systems
- > Printer cartridges

Automotive

- > Connected vehicles, e.g.
 - eCall
 - Car-to-car communications
 - Car-to-infrastructure communications
- > Electronic toll collection (Toll Collect)
- > In-cabin infotainment
- > Protection against manipulation (e.g. tachograph)

Consumer electronics

- > Smart watches and fitness trackers
- > Game consoles
- > Remote control

Government identification documents

- > Driver's licenses
- > Healthcare cards
- > National identity cards
- > Passports
- > Social insurance cards

Internet of Things

- > Industry 4.0
- > IT equipment
- > Smart City
- > Smart Home

Mobile communications

- Embedded SIM (machine-to-machine communication)
 - Consumer applications
 - IoT applications
- > SIM cards

Payment systems

- > Credit/debit cards
- > Mobile payment
- > NFC-based contactless payment

Ticketing, access control

Trusted Computing

- > Connectivity solutions (Wi-Fi, Bluetooth, BLE)
- > Embedded security controllers
- Microcontroller for consumer electronics and industrial applications
- Security controllers (contact-based, contactless, dual-interface)

Chart overview

		Page
C01	Our growth areas and growth drivers are derived	22
	from megatrends in society	23
C02	Additional semiconductor demand per vehicle raised by electro-mobility	28
C03	Automated driving: Additional semiconductor demand per vehicle by level of automation at the given years	28
C04	We are linking the real and the digital world	31
C05	Strategic growth model	33
C 06	Worldwide discrete power semiconductors and modules market share 2019	34
C07	System know-how and services are becoming more and more a differentiating factor	35
C 08	Worldwide microcontroller market share 2019	40
C09	Infineon Leadership Principles	44
C10	Allocation of Cypress business units into the segments of Infineon	47
C11	Top 20 semiconductor manufacturers for 2019 calendar year	48
C12	Global semiconductor sales 2019 by region (total market size US\$428 billion)	49
C13	Top 20 semiconductor consumer in 2019 calendar year	49
C14	Revenue by segment in the 2020 fiscal year	50
C15	Dividend per share for the 2010 to 2020 fiscal years	52
C16	Core competencies in the segments	54
C17	World market for automotive semiconductors in 2019	58
C1 8	Market share for automotive semiconductors in 2019	58
C19	Market share of Infineon for automotive semiconductors by region in 2019	58
C20	Revenue and Segment Result of the Automotive segment	59

		Page
C21	Market share for discrete IGBTs in 2019	63
C22	Market share for IPMs in 2019	63
C23	Market share in IGBT modules in 2019	63
C24	Revenue and Segment Result of the Industrial Power Control segment	64
C25	Market share for MOSFETs in 2019	68
C 26	Market share for power ICs in 2019	68
C27	Market share of MEMS microphones die suppliers in 2019 (by units)	68
C 28	Revenue and Segment Result of the Power & Sensor Systems segment	69
C29	Market share for security ICs (excl. NFC controller;	
	excl. NFC embedded Secure Element) in 2019	73
C30	Market share for security ICs for payment in 2019	73
C31	Market share for Wi-Fi ICs in 2019 (standalone ICs only)	73
C32	Revenue and Segment Result of the Connected Secure Systems segment	74
C33	R&D expenses	76
C34	Investments	84
C35	Development of the Infineon Technologies AG share compared	
	to Germany's DAX Index, the Philadelphia Semiconductor	
	for the 2020 fiscal year (daily closing prices)	94
C36	Shareholder structure as of end 2020 fiscal year	95
C37	Revenue by segment	96
C38	Revenue by segment in the 2020 fiscal year	96
C39	Financial debt by currencies	102
C40	Risk assessment matrix	111
<u><u></u><u></u><u></u><u></u><u></u><u></u><u></u><u></u><u></u><u></u><u></u><u></u><u></u><u></u><u></u><u></u><u></u><u></u><u></u></u>		

Further information List of abbreviations Financial calendar

List of abbreviations

AC-DC	alternating current to direct current conversion
AI	artifical intelligence
ASIC	application-specific integrated circuit
ASIL	automotive safety integrity level
BLDC	brushless direct current
BLE	Bluetooth Low Energy
BT	Bluetooth
CMOS	complementary metal-oxide-semiconductor
CPU	central processing unit
DC-DC	direct current to direct current conversion
FHEV	full hybrid electric vehicles
FPGA	field programmable gate array
GaN	gallium nitride
GPU	graphics processing unit
НМІ	human-machine interaction
HVDC	high-voltage DC transmission
IC	integrated circuit
IGBT	insulated gate bipolar transistor
ΙοΤ	Internet of Things
IPM	intelligent power module
LED	light-emitting diode
MEMS	micro-electromechanical system
MOSFET	metal-oxide-semiconductor field-effect transistor
NFC	near-field communication
PHEV	plug-in hybrid electric vehicles
PMIC	power management IC
PSoC	programmable system-on-chip
RF	radio frequency
Si	silicon
SiC	silicon carbide
ToF	time-of-flight
ТРМ	trusted platform module
USB (USB-PD)	universal serial bus (universal serial bus standard power delivery)
Wi-Fi	wireless fidelity

Financial calendar

Thursday, 4 February 2021¹ Publication of first quarter 2021 results

Thursday, 25 February 2021 Annual General Meeting 2021 (virtual) (Start 10:00 a.m. CET)

Tuesday, 4 May 2021¹ Publication of second quarter 2021 results

Tuesday, 3 August 2021¹ Publication of third quarter 2021 results

Wednesday, 10 November 2021¹ Publication of fourth quarter and fiscal year 2021 results

1 preliminary

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Note

The following were brand names of Infineon Technologies AG in the 2019 fiscal year: Infineon, the Infineon logo, AURIX[™], CIPOS[™], CoolGaN[™], CoolMOS[™], CoolSiC[™], EZ-PD[™], iMOTION[™], ModusToolbox[™], OPTIGA[™], OptiMOS[™], PrimePACK[™], PSoC[™], SECORA[™], SEMPER[™], TRAVEO[™], XENSIV[™]

Forward-looking statements:

This report contains forward-looking statements about the business, financial condition and earnings performance of the Infineon Group. These statements are based on assumptions and projections resting on currently available information and present estimates. They are subject to a multitude of uncertainties and risks. Actual business development may therefore differ materially from what has been expected. Beyond disclosure requirements stipulated by law, Infineon does not undertake any obligation to update forward-looking statements.

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